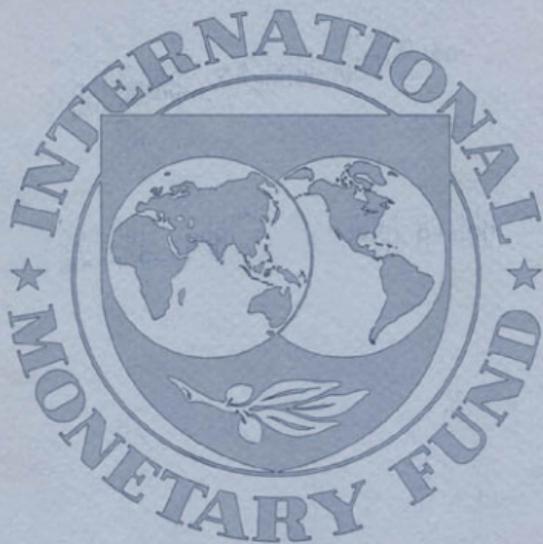


ANNUAL REPORT 1978
INTERNATIONAL MONETARY FUND



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INTERNATIONAL MONETARY FUND

ANNUAL REPORT

OF THE
EXECUTIVE BOARD FOR THE
FINANCIAL YEAR ENDED APRIL 30, 1978

WASHINGTON, D.C.

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The following symbols have been used throughout this Report:

- (. . .) indicate that data are not available;
- (—) indicates that the figure is zero or less than half the final digit shown, or that the item does not exist;
- (–) is used between years or months (e.g., 1970–78 or January–June) to indicate the years or months covered, including the beginning and ending years or months;
- (/) is used between years (e.g., 1977/78) to indicate a fiscal year.

“Billion” means a thousand million.

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

The classification of countries employed in the Report is indicated in Tables 1 and 2 on pages 4 and 11.

International Monetary Fund

J. de Larosière

Managing Director and Chairman of the Executive Board

William B. Dale

Deputy Managing Director

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Jacques Henri Wahl	Denis Samuel-Lajeunesse	S. D. Deshmukh	Warnasena Rasaputram
Masanao Matsunaga	Rei Masunaga	Frede Hollensen	Matti Vanhala
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Senior Officers

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Bureau of Statistics	Werner Dannemann, <i>Director</i>
Office in Europe (Paris)	Aldo Guetta, <i>Director</i>
Office in Geneva	Fernando A. Vera, <i>Director</i>
Information Office	Jay H. Reid, <i>Director</i>
Chief Editor	Norman K. Humphreys

August 7, 1978

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LETTER OF TRANSMITTAL
TO THE BOARD OF GOVERNORS

August 7, 1978

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, 1978, in accordance with Article XII, Section 7(a) of the Articles of Agreement of the International Monetary Fund and Section 10 of the Fund's By-Laws. In accordance with Section 20 of the By-Laws, the administrative budget of the Fund approved by the Executive Board for the financial year ending April 30, 1979 is presented in Appendix VI and the audited financial statements of the General Resources Account, the Special Drawing Rights Department, the Subsidy Account, the Trust Fund, and the Staff Retirement Fund for the year ended April 30, 1978, together with the reports of the External Audit Committee thereon, are presented in Appendix VIII.

Yours sincerely,

/s/

J. DE LAROSIÈRE

Chairman of the Executive Board

Chairman of the Board of Governors
International Monetary Fund

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Chapter 1

Developments in the World Economy

General Survey

The period since the previous Annual Report—the third year of recovery from the most severe recession in four decades—has been one in which world economic developments were again unsatisfactory in some important respects. World output and trade continued to increase, but the pace of domestic expansion in the industrial world, which had been satisfactory during the first year or so of the recovery period, became slow and uneven, contrary to earlier expectations. The slowdown was general among industrial countries other than the United States. Historically high levels of unemployment persisted—especially in Europe—and the growth of world trade slowed. Despite some easing of inflation in industrial Europe and Japan, unduly high rates of inflation continued to mar the economic performances of many countries, both in the industrial group and (even more so) among the primary producers. Mainly because of marked inequalities in rates of growth and inflation, especially as between the United States and several other large industrial countries, international payments relationships featured a maldistribution of current account balances among major industrial countries and were marked by periods of disturbing instability of exchange markets.

These circumstances presented a number of serious hazards. The combination of slow growth of world trade and high unemployment appeared to be generating increased resort to protectionist actions and danger that these might escalate. The prevailing conditions thus threatened to create an environment unfavorable to the trading interests of all countries. Such an environment could be frustrating to the aspirations of primary producing countries, both developed and developing; the economies of those countries are highly dependent on markets in the industrial world and on the maintenance of access to such markets. For the industrial countries themselves, whose basic problems could

only be worsened by protectionism, the slack in aggregate demand meant low capacity utilization, inadequate profits for business enterprises, and weak investment trends, as well as high unemployment. Yet, in the prevailing inflationary environment, the authorities of the industrial countries were fearful of expansionary policies that might revive price pressures of the type that had left the present legacy of cost-push momentum. It is noteworthy that shifts in fiscal positions of industrial countries after 1975 were predominantly contractionary until late 1977, and that monetary policies were also generally restrained or cautious, notwithstanding the sluggishness of demand.

For a considerable number of countries, a further barrier to the use of expansionary policies was—and is—weakness of the external position. Some of the major sources of difficulty in balance of payments management, to be sure, were mitigated during 1976 and 1977. By mid-1978, the concentration of current account surpluses in a small group of major oil exporting countries, for example, had been greatly reduced through the rise in their purchases of foreign goods and services. In general, current account deficits of the non-oil primary producing countries had declined considerably from the alarming levels reached under the combined influence of the 1973–74 oil price increase and the international recession of 1974–75; and financing for the reduced aggregate deficit of those countries was proving more readily available than had been widely feared two or three years earlier. Some of the most serious external payments problems among the industrial countries had also been eliminated or brought under control. However, other serious imbalances within the group of industrial countries had arisen (most notably, through the wide swing of the U.S. current account balance into deficit and the emergence of a large Japanese surplus), and there remained a good many individual countries throughout the world—especially, e.g., in Africa, southern Europe, and parts of Latin

America and the Caribbean—whose external adjustment problems were severe.

In these difficult circumstances, delineated more fully in the following two sections of this chapter, the need for an effectively coordinated strategy of policies to restore satisfactory growth and price stability and to improve the functioning of the international adjustment process was becoming progressively clearer. The interdependence of the various national economies is such that the authorities in each of them must take adequate account of conditions and policies in the others when formulating their programs. The gradual evolution of a consensus among international financial officials regarding an appropriate strategy for doing so, in the interests of their common objectives, is outlined in the concluding section of this chapter.

The capacity of the Fund to participate effectively in the solution of international adjustment problems has been enhanced by actions taken—or completed—during the past year. In this context, an important step was the coming into effect on April 1, 1978 of the Second Amendment of the Articles of Agreement. That Amendment has brought about a modernization of the Articles that should improve the operation of the Fund in current conditions and permit its adaptation to future conditions.

The entry into force of the Second Amendment has significance for the evolution of the international monetary system in at least three respects. First, it establishes a legal structure that accommodates the changes in the system that have already taken place, including the adoption by countries of a wide variety of exchange arrangements. Second, it establishes objectives for members of the Fund that will help to determine directions of change in the coming years. For example, the Articles attach importance to fostering orderly economic growth with reasonable price stability as a means of achieving a stable system of exchange rates, and they also express the objective of making the special drawing right the principal reserve asset in the international monetary system. Third, the Second Amendment provides a framework within which practical procedures and policies can be devised to deal with the problems of the international monetary system as it is today. In particular, the Second Amendment made it possible to bring into force the principles and procedures for Fund surveillance over exchange rate policies endorsed by the Interim Committee and approved by the Executive Board in April 1977.

* * * *

Some of the main features of the revised Articles and their implications for the international monetary system are discussed in Chapter 2. The first half of

the chapter analyzes the operation of the exchange rate system in the context of the amended Article IV and the Executive Board's decision on "Surveillance over Exchange Rate Policies." The factors that have given rise to the increased exchange rate variability since the breakdown of the par value system are analyzed, as are some of the problems associated with that variability. It is observed that, while there has been an undesirable degree of market volatility, the cumulative changes in exchange rates that have occurred over the past two years have generally been in a direction helpful to the adjustment process. With reference to Fund surveillance of exchange rates, it is pointed out that appraisal of exchange rate policy is necessarily a judgmental matter and that a case-by-case approach will be followed.

The second half of Chapter 2, devoted to international liquidity, includes a description of the magnitude and distribution of recent large increases in reserves, and especially of official holdings of foreign exchange. There is also a discussion of the causes of these changes and the mechanisms through which they have occurred, with an emphasis on the highly elastic nature of the supply of reserves resulting from financial intermediation in international capital markets. The adequacy of existing reserves is appraised; the Fund's role in providing liquidity is explored; and consideration is given to the objective (stated in the amended Articles) of making the SDR the principal reserve asset in the international monetary system.

The coming into effect of the Second Amendment has required reviews of some major aspects of the Fund's operations and extensive revisions of the By-Laws, Rules and Regulations, and general decisions. A number of these matters are summarized in Chapter 3, which also reports on various other principal developments during the past year with respect to activities of the Fund. Among such developments were the following: quota increases under the Sixth General Review of Quotas (most of which had come into effect by the end of May 1978), together with discussions in the Executive Board and the Interim Committee relating to the Seventh General Review of Quotas; further consideration of the role of the SDR in the monetary system and of its characteristics, giving attention to the question of a further allocation of SDRs to participants, to the method of determining the value of the SDR, to the interest rate on it, and to its wider use; the establishment of a supplementary financing facility (to become effective upon completion of the necessary borrowing agreements) to meet demands for the Fund's resources from members experiencing payments imbalances that are large in relation to their economies and their Fund quotas; the adoption of a new schedule of charges on

currency holdings; the conduct of a continuing series of gold sales by means of public auctions, together with completion of a distribution of gold to members; and a net contraction of Fund credit equivalent to almost SDR 2 billion, stemming from large-scale repurchases made by several industrial and developing countries and from a marked reduction in the amount of balance of payments assistance provided by the Fund (especially for compensatory financing) compared with that of the preceding few years.

Domestic Activity and Policies

Industrial Countries

Output and prices.—The year 1977 was a period of relatively slow and uneven expansion of production in the industrial countries. Following the severe international recession of 1974–75, economic recovery proceeded satisfactorily in its initial phase and real gross national product (GNP) increased by about 5½ per cent from 1975 to 1976 (Table 1). The second half of 1976, however, was marked by an unexpected slowdown, and the pickup that followed this worrisome pause proved to be generally weak and short-lived (Chart 1). By the second half of 1977, the European industrial countries had lost virtually all of their previous upward momentum; only the United States, among the larger industrial countries, was achieving a rate of output expansion sufficient to reduce economic slack.

For 1977 as a whole, real GNP in the industrial countries as a group was only about 3½ per cent higher than in 1976. A disproportionate share of this rise was centered in the United States, where output growth amounted to some 5 per cent. Among European countries, some of which were restraining aggregate demand for stabilization purposes, the average increase from 1976 to 1977 was only 2 per cent; and rates of expansion in Japan (5 per cent) and Canada (2½ per cent) were also, in each case, well below the estimated medium-term rate of growth in potential output.

According to preliminary and incomplete information, the rate of growth of real GNP in the industrial world for the first half of 1978 was at a pace similar to that of 1977. The latest semiannual advance differed from the ones immediately preceding it chiefly with respect to its geographic composition. Output rose less rapidly in the United States and more rapidly in most of the European countries than in either half of 1977. (See Chart 1.)

Shifts in the net foreign balance on goods and services had a noticeable impact on growth rates in

some of the major industrial countries in 1977, as in 1976, and became a principal source of imbalance in international payments (as discussed later in this chapter). The United States was the only large industrial country in which the growth of domestic demand exceeded that of real GNP in both 1976 and 1977. During each of those years, domestic demand equivalent to about ½ of 1 per cent of real GNP was supplied through a deterioration in the foreign balance on goods and services. In Japan, on the other hand, the growth of real GNP was boosted substantially in 1976 and 1977 by an increase in the foreign balance. Japan's domestic demand rose in real terms by only about 4 per cent in each of those years, and the remainder of the rise in current production—which averaged about 5½ per cent per annum—was delivered to foreign markets. In the Federal Republic of Germany, the foreign sector also contributed to the overall growth rate in 1976, but that contribution—about ½ of 1 per cent of GNP—virtually disappeared in 1977. In the other major industrial countries (Canada, France, Italy, and the United Kingdom), improvements of foreign balances supported growth of output in 1977, although only Italy and the United Kingdom (as a product of their stabilization programs) had a growth of domestic demand below that of real gross product in both 1976 and 1977.

A basic factor in the slow and uneven pace of economic recovery in the industrial world has been the disappointing behavior of private fixed investment. Among the major industrial countries except the United States, the increase in private nonresidential investment from 1976 to 1977 averaged only about 3 per cent; and no significant acceleration was apparent in the first half of 1978. In the main, the substantial margins of excess industrial capacity still prevailing in these countries may be expected to continue to exert a discouraging influence on private investment demand for some time to come.

In most of the industrial countries, levels of private fixed investment during 1977 and the first half of 1978 were very low in a medium-term perspective. To an important extent, this weakness of investment demand was a straightforward cyclical phenomenon that would be reversed during an extended period of improved economic performance. However, although evidence bearing on the issue remains ambiguous and uncertain, part of the problem is commonly believed to be more deep-seated. Clearly, there exists a widespread view among public officials and business executives of the industrial countries that the current weakness of investment demand derives at least in part from an impairment of the profit position (and hence of incentives to invest) caused by a variety of adverse structural changes

Table 1. Industrial Countries: Changes in Output and Prices, 1962-77
(Percentage changes)

	Annual Average 1962-72 ¹	Change from Preceding Year					Change from Preceding Half Year ²			
							1976		1977	
		1973	1974	1975	1976	1977	First Half	Second Half	First Half	Second Half
Real GNP										
Canada	5.5	7.5	3.6	1.3	5.5	2.7	8.9	0.8	3.7	2.5
United States	3.9	5.5	-1.4	-1.3	6.0	4.9	6.4	3.5	5.6	5.0
Japan	10.3	9.8	-1.3	2.5	6.0	5.3	7.7	3.2	7.0	3.7
France	6.0	5.4	2.3	0.1	5.2	3.0	6.5	2.7	3.9	1.6
Germany, Fed. Rep.	4.5	4.9	0.4	-2.5	5.7	2.4	7.6	3.0	2.7	1.2
Italy	4.6	6.9	4.2	-3.5	5.7	1.7	9.1	4.1	3.2	-3.6
United Kingdom ³	2.9	6.5	-1.6	-1.5	2.4	0.8	4.7	2.9	-0.7	1.7
Other countries ⁴	4.6	4.7	3.7	-1.9	3.6	1.8	5.1	2.9	1.6	1.2
All industrial countries	4.6	6.1	0.1	-0.9	5.4	3.7	6.7	3.2	4.4	3.2
Of which,										
Seven larger countries ⁵	4.6	6.2	-0.3	-0.7	5.6	4.0	6.9	3.2	4.7	3.5
European countries	4.5	5.5	1.7	-1.8	4.6	2.1	6.5	3.1	2.0	0.8
GNP deflator										
Canada	3.6	9.2	15.3	10.7	9.7	6.9	9.7	8.0	6.3	6.9
United States	3.5	5.8	9.6	9.6	5.5	5.5	4.9	4.9	5.7	5.7
Japan	4.9	11.6	20.7	7.4	6.5	6.3	7.3	7.1	7.0	4.1
France	4.4	7.6	11.6	12.9	9.7	8.8	9.8	9.9	8.1	9.2
Germany, Fed. Rep.	4.0	6.1	6.9	7.1	3.2	3.7	2.6	3.9	2.8	5.3
Italy	5.0	11.9	18.3	17.2	18.3	18.3	22.0	21.1	20.1	12.6
United Kingdom ³	5.2	7.0	15.1	28.2	14.9	14.0	10.2	14.2	13.1	14.7
Other countries ⁴	5.2	7.9	9.6	11.8	6.9	7.1	7.2	7.0	6.9	7.4
All industrial countries	4.1	7.3	11.9	10.9	7.2	6.9	6.8	6.9	6.9	6.5
Of which,										
Seven larger countries ⁵	4.0	7.3	12.2	10.8	7.2	6.9	6.7	6.9	6.9	6.4
European countries	4.9	7.7	11.1	13.7	9.0	8.7	8.5	9.2	8.3	8.6

Sources: National statistical publications, IMF Data Fund, and Fund staff estimates.

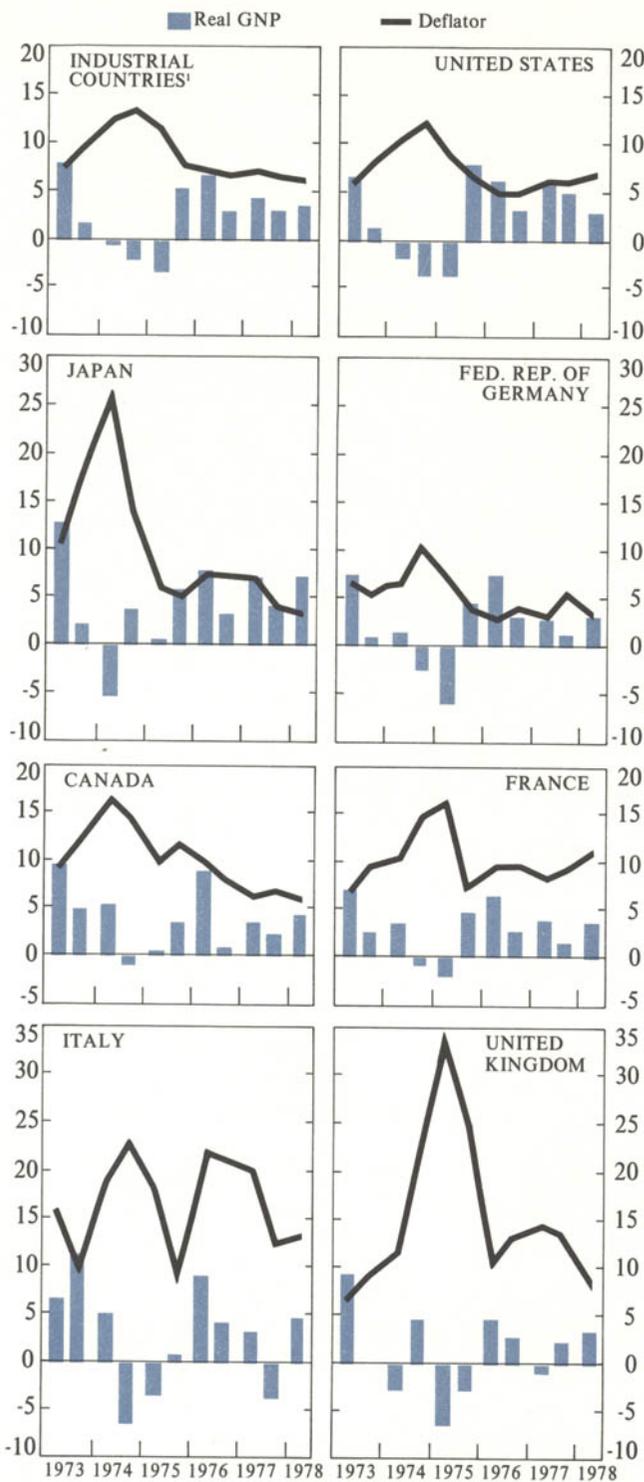
¹ Compound annual rates of change.² Seasonally adjusted changes, at annual rate.³ GDP (at market prices).⁴ Includes Austria, Belgium, Denmark, the Netherlands, Norway, Sweden, and Switzerland.⁵ As listed separately above.

that have added significantly to business costs. Although it is difficult to establish either meaningful methods of measuring profits or standards of reference regarding the incentives they are presumed to furnish, this view appears to have a good deal of validity.

Among the negative factors or uncertainties widely believed to be clouding the outlook for profits are the following: higher inflation and greater instability of domestic price levels, as well as of exchange rates; the large increases during the 1970s in costs of energy, with attendant technological obsolescence; the cost-raising effects of new laws or regulations intended to protect the quality of the environment; a tendency for conflicting claims on the national product to be resolved through accommodation of wage demands; and an apprehension of increased government intervention in wage-price determinations or of further increases in tax burdens. Net effects of these factors are extremely difficult to measure objectively and reliably, but all of them are perceived as causing reductions in the profitability of investment.

Whether or not the share of profits in total income generated by current production has been squeezed in recent years is itself a complex question, in part because of uncertainties relating to the measurement of capital consumption allowances in the calculation of net income, especially during a period of high and variable rates of inflation. However, data available for the seven major industrial countries on ratios of compensation of employees to total value added in manufacturing clearly suggest a squeeze on profits from the middle or late 1960s to the mid-1970s, only partially relieved in more recent years. These ratios tended to rise over the decade ending in 1975, suggesting a distinct decline in the residual (including gross profits before direct taxes) of income shares other than employee compensation. While the ratios of employee compensation to total value added have fallen back since the recession trough in 1975, indicating some substantial degree of cyclical restoration of profit margins, these ratios generally remain higher than they were in the late 1960s, implying a lower share for profits (as the

Chart 1. Semiannual Changes in Output and Prices in Industrial Countries, First Half 1973–First Half 1978
(Percentage changes in real GNP and GNP deflators from the preceding half year, seasonally adjusted, at annual rates)



¹ Include, in addition to the countries shown separately in the chart, Austria, Belgium, Denmark, the Netherlands, Norway, Sweden, and Switzerland.

major component of a residual in which they are not adequately distinguishable).

The slack demand conditions resulting from the international recession of 1974–75 and the generally slow pace of the subsequent recovery have been accompanied by a marked reduction of inflation in the industrial countries. The overall rate of price increase in those countries—as measured by a weighted average of GNP deflators—dropped from a peak annual rate of 13½ per cent in the second half of 1974 to 7 per cent in 1977 and to an annual rate of 6 per cent in the first half of 1978. This decline, although representing a substantial improvement, leaves the price situation still unsatisfactory. Inflation rates of the order of magnitude now prevailing in most of the industrial countries—well above the standards of the 1960s and early 1970s—are still much too high to be considered acceptable.

The degree to which this is true varies from country to country. Despite a marked convergence of inflation rates over the past few years, price increases in the first half of 1978 ranged from an annual rate of about 1 per cent in Switzerland and 3 per cent in the Federal Republic of Germany to 13 per cent in Italy. Moreover, recent changes in rates of increase have lacked uniformity, even as to direction. Decelerations in a number of countries have been mixed with accelerations in a few others, among which the U.S. experience is by far the most notable.

In the United States, where demand expansion remained relatively vigorous during 1977, price changes showed a renewed upward tilt in the first half of 1978. In part, this reflected some special influences, such as the effect of severe winter weather on food prices, increases in payroll taxes for employers and in the minimum wage, and the impact of the turn-of-the-year depreciation of the dollar. However, as indicated in the following discussion of labor market conditions, there is also a possibility that demand in the United States may be pressing more closely against capacity than would be suggested by conventional measures of slack in the economy.

With respect to the industrial countries other than the United States, inflation generally continued to subside in the recent period, with the increase in their combined GNP deflator slowing from an annual rate of 8 per cent in the first half of 1977 to about 6 per cent in the first half of 1978. A considerable part of the change stemmed from a marked deceleration of price increases in the two countries—Italy and the United Kingdom—where they have been the highest, although several other countries also experienced a reduction in rates of inflation. In some instances, currency appreciations—which significantly lowered the national-currency denominated costs of internationally traded goods—

were an important contributing factor. Declines in the prices of many primary products, or decelerations in their rates of advance, worked in the same direction, as did declines in rates of wage increase in some countries (e.g., Sweden). Weak demand conditions in markets for both goods and labor were, of course, a pervasive underlying influence.

Utilization of resources.—Three years after the trough of the 1974–75 recession, the industrial countries continue to be burdened by a substantial underutilization of resources, particularly outside the United States. The degree of such underutilization is very difficult to measure accurately, especially during a period such as that of the past few years, when marked changes in both cyclical influences and structural factors of various types have been occurring simultaneously. However, the Fund staff has made estimates of “gaps” between actual and potential output in the manufacturing sectors of the seven largest economies (Chart 2). According to these estimates, the average degree of underutilization for the seven countries as a group was of the order of 10–11 per cent in the second half of 1977 (with pre-

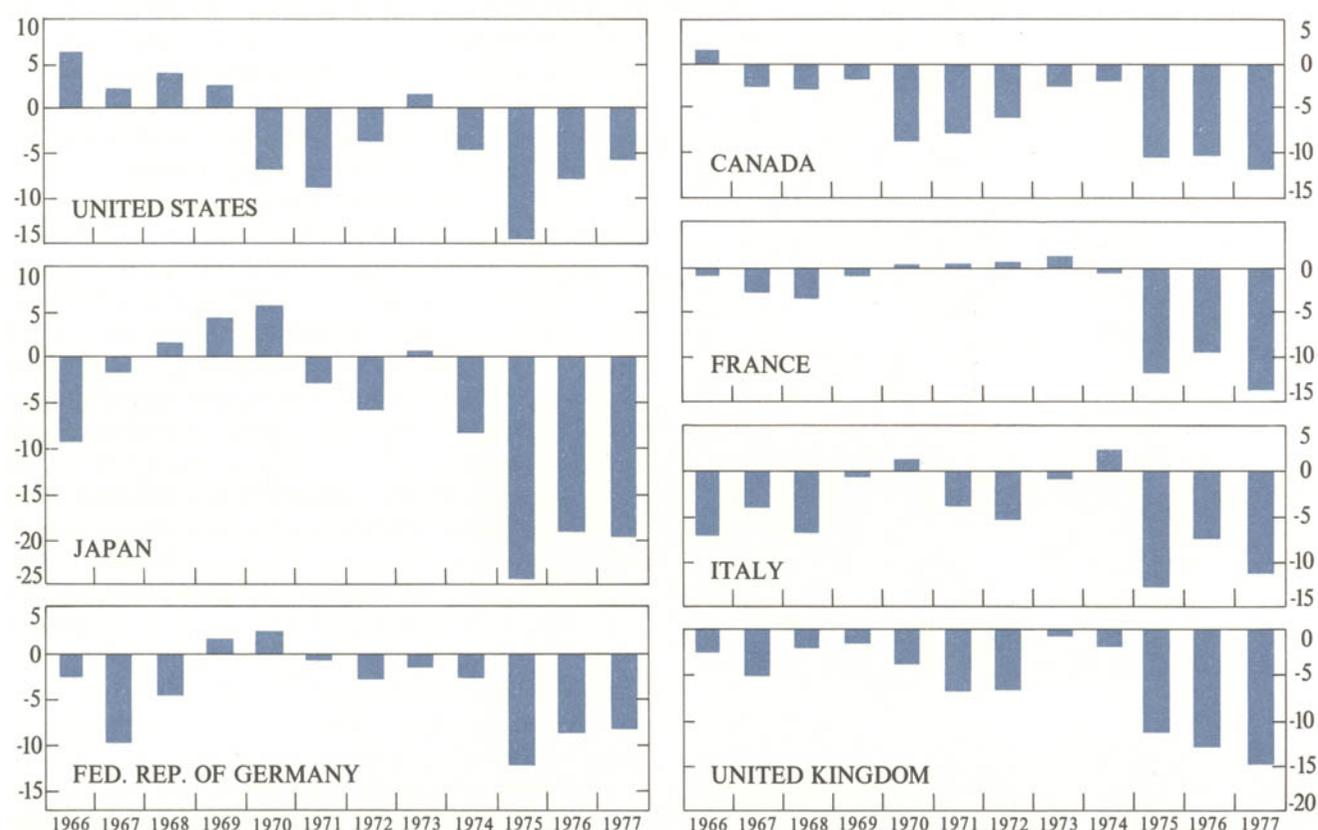
liminary data indicating little change in the first half of 1978).¹ Such a gap, while noticeably smaller than that prevailing during 1975, has shown no further improvement since the first half of 1976.

For the United States, the estimated gap in the second half of 1977 was less than one third of its size in the first half of 1975, and indicated that resource utilization in the manufacturing sector as a whole was only about 5 per cent short of potential. For the six largest industrial countries other than the United States, however, the gaps remained large, ranging from about 9 per cent (the Federal Republic of Germany) to about 20 per cent (Japan), the average being about 15 per cent compared with 3 per cent over the two decades prior

¹ Apart from the roughness of these estimates, for reasons indicated above, it may be noted that the estimates reveal nothing, of course, about the utilization of capacity within industrial subgroups of the manufacturing sector—a matter of importance in any analysis of the current or prospective degree of pressure on resources. But the size of gaps shown by the estimates is all the more impressive in that potential output is defined in terms of a “normal” intensity of use of capital and labor sustainable over a long period of time, rather than in terms of the high intensity of such use at the peak of the cycle (as in most published indices of capacity utilization).

Chart 2. Major Industrial Countries: Output Gaps in Manufacturing, 1966–77¹

(As a percentage of potential output)



¹ Difference between actual and potential output.

to 1974. It should also be noted that these gap estimates are premised on marked decelerations in the estimated rates of growth of potential output in most of the six countries. For the group as a whole, potential output in manufacturing is estimated to be increasing currently by some 4 per cent a year, compared with 6 per cent at the beginning of the decade. Much of this deceleration is due to the slower rate of capital accumulation.

The indication of substantial slack in manufacturing capacity is buttressed, at the economy-wide level, by available unemployment data. Reported unemployment in the major industrial countries increased by 2 per cent of their combined labor force from 1973 to 1975, and subsequent progress toward reducing it has been disappointing for the group as a whole. Trends in unemployment rates among individual countries, however, have shown significant differences—explicable, for the most part, by reference to cyclical considerations. In the United States, the unemployment rate was reduced from a peak of 9 per cent in May 1975 to about 6 per cent in the first half of 1978. In most of the other industrial countries, unemployment rates in 1977 were either about the same as or higher than in the recession year 1975, and showed little or no improvement in the first half of 1978.

In comparisons of recent unemployment rates with those prevailing during the 1960s or earlier, interpretation requires allowance for various structural changes in labor markets. A number of such changes have involved primarily the supply side of the market, operating in the first instance through shifts in labor force participation rates. These rates have risen in most industrial countries because of such factors as increasing participation of women and the associated drift toward multiple income-earner families (doubtless accelerated by the downward pressure on real incomes of households arising from the inflation and recession of the middle 1970s); the improved benefits and reduced opprobrium attaching to unemployment, which have tended to raise both unemployment (by decreasing the opportunity costs of being unemployed) and labor force participation (e.g., by inducing persons who would otherwise withdraw from the labor force to remain in it); and job-creating and job-preserving programs recently introduced by many governments (which have had the secondary effect of attracting into the labor force individuals who would not otherwise actively seek employment). These factors, in combination with medium-term and long-term changes in the age-sex composition of the labor force, have altered the relationship between unemployment and job vacancies in most of the major industrial economies, so that a relatively greater “excess” demand for labor (i.e., a larger number of vacancies) appears to be associated with any given

unemployment rate today than 10–15 years ago. This means, of course, that a given demand for labor is now accompanied by higher unemployment than formerly, and that proximity to full (noninflationary) utilization of manpower resources must be judged accordingly.

With respect to the United States, for example, a computation that adjusts the “full employment” standard generally used in the late 1950s and early 1960s for just one set of structural factors—i.e., the subsequent changes in the age-sex composition of the labor force—yields an estimate of 4.9 per cent for the unemployment rate that would correspond currently to the 4 per cent rate formerly associated with “full employment.” Adjustment for some of the other factors mentioned above would indicate a further substantial narrowing of the margin between the present U.S. unemployment rate and one that would imply considerable tightness in the labor market.

The high unemployment rates of the past few years have not resulted from abnormally slow growth of employment. Although differences among countries have been considerable, the average rate of increase in employment for the industrial countries as a group has been quite high—1½ per cent per annum since 1975, compared with about 1 per cent throughout the 1960s and the early 1970s. Only a marked acceleration of labor force growth since 1975 has prevented these increases in employment from cutting sharply into the average unemployment rate. Generally speaking, the recent faster growth of the labor force has stemmed from rising labor force participation rates (reflecting various structural shifts and other factors, as noted above), rather than from any acceleration in growth of the working-age population.

The pace of recent increases of employment in the industrial countries is perhaps surprising in relation to the corresponding pace of growth in real output, since it has involved a substantial reduction of productivity gains. As measured by real GNP per person employed, the overall gain in productivity for the seven major industrial countries dropped to slightly less than 1½ per cent per annum from 1973 to 1977, compared with an average increase of 3¾ per cent for the period 1960–73.

In view of the sluggish pace of output growth, the poor record of productivity gains since 1973 can be explained at least in part as a cyclical phenomenon. Employment declined less than output from 1973 to 1975, as is usual during a cyclical downturn, reflecting the natural propensity of employers to limit the various costs associated with the dismissal and hiring of employees; and, except for a characteristic rebound in productivity during the initial cyclical recovery of 1976, subsequent productivity gains have been weak in rela-

tion to pre-1973 trends. It remains unclear, however, to what extent this weakness may still be cyclical (reflecting underutilization of already-employed workers) and to what extent it may reflect more enduring changes.

In this context, there seems to be a difference between the United States and most of the other industrial countries. In the case of the United States, there are grounds for presuming that noncyclical factors contributed importantly to the weakening of the productivity trend, although cyclical factors also played a part. During the period since 1975, above-average employment gains were especially pronounced in the United States, where they outpaced the growth of the labor force by a considerable margin and were unusually large in relation to the change in output. It is implausible to suppose that such strong employment gains could have occurred while any substantial redundancy in the employed labor force still prevailed, and it is thus difficult to attribute the weakness of U.S. productivity gains over the past several years primarily to cyclical factors.

In industrial Europe and Japan, there may be greater scope for acceleration of productivity gains if the expansion of demand and output can be stepped up. In the major European industrial countries, the recovery of employment was negligible during 1977 and the first half of 1978, so that even a small increase in growth of the labor force was not absorbed. For these countries, there can be no presumption that most of the underutilization of employed labor that characterized the recession period has been worked off; hence, stronger productivity gains might occur in response to an accelerated expansion of demand.

*Stance of policies.*²—One reason for the lack of buoyancy in the industrial world during the past two years is to be found in the predominance of contractionary shifts in fiscal positions. (This is illustrated in Chart 3 by reference to estimates on a cyclically adjusted basis prepared by the Fund staff.) A partial reversal of these shifts, however, appeared to be in process in late 1977 and early 1978.

During 1976, most industrial countries withdrew significant portions of the fiscal stimulus that had been injected during the previous year to counter the recession. In that general swing toward less stimulus, the largest shifts occurred in countries that had particularly high rates of inflation (Italy, France, and the United Kingdom).

² This subsection is confined mainly to comments on fiscal and monetary policies. As discussed in the 1977 Annual Report (page 5), the complexity of current problems has led to an unusual degree of reliance on measures supplementary to these policies. Such measures embrace the wide variety of efforts being made by the industrial countries with respect to incomes policy, labor market policy, and various policies aimed at "structural" problems involving supply conditions, cost pressures, and levels of saving and investment.

Tendencies toward contractionary changes in fiscal positions continued to predominate during 1977, although the pattern that emerged in that year was somewhat mixed. Another characteristic of fiscal policy in the industrial world during 1977 was that it proved, on balance, less stimulative (or more contractionary) than intended by the authorities at the beginning of the year.

Toward the end of 1977 and in the early part of 1978, some shift in the orientation of fiscal policy appears to have taken place. In most of the *major industrial countries*, more expansionary stances have now been adopted.³

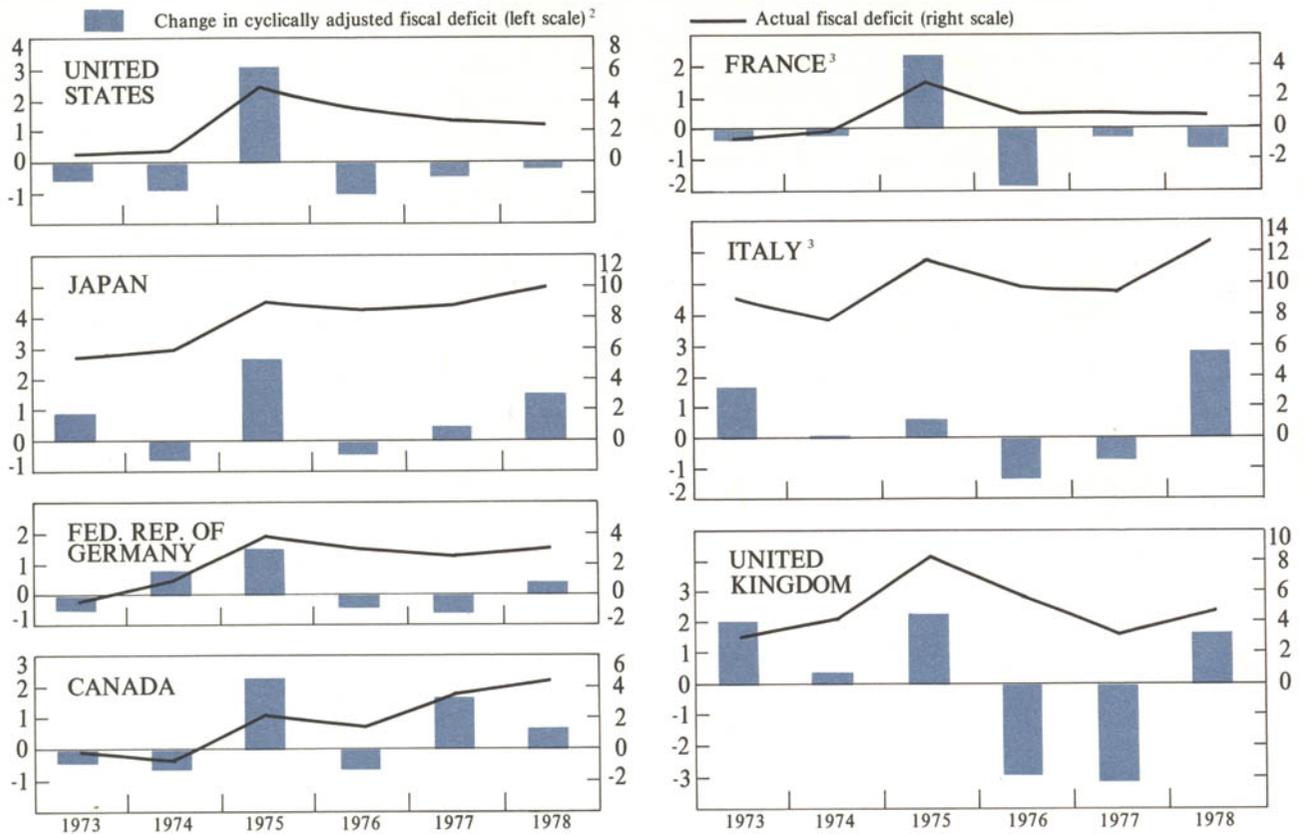
In the United States, the Administration proposed soon after the turn of the year a \$25 billion tax-reduction package (effective for the most part on October 1, 1978) that would serve to offset inflation-induced tax increases, as well as the large increases in social security taxes scheduled to start in 1979. Subsequently, the Administration cut the size of the proposed tax reduction in response to renewed difficulty in controlling inflation. At mid-year, the prospect was that the federal fiscal position on a cyclically adjusted basis would be little changed in 1978 (compared with 1977), and that on current plans there would again be little change in 1979.

In the Federal Republic of Germany, the fiscal program being followed during the first half of 1978 would imply for the full year an expansionary impulse equivalent to ½ of 1 per cent of GNP for the central government alone and 1 per cent for the government sector as a whole (including the Länder and municipalities). In Japan, the cyclically adjusted deficit of the central government is expected to increase from 1977 to 1978 by 1½ per cent of GNP and that of the entire general government sector by more than 2 per cent. Larger shifts in fiscal policy, also in the direction of relaxation, are being undertaken by Italy and the United Kingdom. In a number of the industrial countries, the actual size of the budget deficit (Chart 3) has been an independent source of concern to the authorities.

Monetary policies in the major industrial countries, like fiscal policies, were generally restrained or cautious during 1976, and this posture was carried over into 1977. Where targets for the expansion of monetary aggregates were announced, as in the United States, the United Kingdom, the Federal Republic of Germany, France, and Canada, they typically implied an extension of somewhat smaller increases in these aggregates

³ The stance of policies in the major industrial countries as described in the following passages may be affected significantly in some cases, especially for the period beyond 1978, by the policy initiatives or objectives announced by these countries in the communiqué issued after the summit conference in Bonn on July 16–17.

Chart 3. Major Industrial Countries: Fiscal Developments, 1973–78¹
(Deficit or change in deficit as a percentage of GNP)



¹ The estimates relate only to central government and social security transactions.

² A positive change is expansionary and a negative change is contractionary.

³ Excluding social security transactions.

than in the projected nominal value of GNP, so as to maintain or induce (in the absence of substantial unexpected changes in velocity) some downward pressure on rates of increase in prices.

During the course of 1977, however, as the pace of activity outside the United States faltered, the situation changed; monetary conditions became easier and policies more accommodative than had been envisaged at the start of the year. In nearly all of the larger industrial countries, monetary aggregates increased more rapidly in the second half of 1977 than in the first, despite the concurrent slowing of advances in nominal GNP. Reflecting this combination of accelerated monetary expansion and weakness of credit demands, interest rates receded everywhere except in the United States. (See Chart 4.)

The general easing of monetary conditions in 1977 varied considerably among countries, however. In Canada, France, and Italy, monetary policies remained, on the whole, cautious, whereas they were relaxed in the Federal Republic of Germany and Japan in view

of the strong external positions and relatively low rates of inflation in those countries. German interest rates, already among the lowest in the industrial world, declined during the last three quarters of 1977; and German monetary expansion, after being kept within narrow limits until about mid-1977, proceeded at a rate in the second half of the year well above the Bundesbank's target. In Japan, the discount rate was reduced progressively from 6½ per cent to 3½ per cent, and the window-guidance credit ceilings were substantially eased. Increases in net foreign assets hampered domestic monetary management in the Federal Republic of Germany and were particularly troublesome in the case of the United Kingdom, where, in the face of heavy demand for sterling, an effort was made to maintain exchange rate stability and to safeguard the position of those sectors of the economy that are vulnerable to international competition. Official sales of sterling led to large declines in interest rates, and fears developed toward the end of 1977 that, if such sales continued, the inflows of funds would threaten

the Government's money supply policy. As in the Federal Republic of Germany and the United Kingdom, rates of monetary expansion in the United States exceeded the target ranges, but the U.S. "overrun" occurred in tandem with sharply rising interest rates.

Contrasting monetary trends continued to characterize the situation among major industrial countries in the first half of 1978. In Japan, relaxation of credit conditions continued, facilitated by further reductions in the rediscount rate, deposit rates, and lending rates in March. In the Federal Republic of Germany, although the Bundesbank set a target rate of increase in central bank money for 1978 (over 1977) equivalent to the original target for 1977 (8 per cent), another overrun of the new target rate during the first several months of 1978 was accompanied by continuing declines in long-term interest rates and by short-term rates below those of late 1977. In the United States, on the other hand, both short-term and long-term rates showed sub-

stantial further increases during the first six months of 1978. Yields on Canadian financial assets moved upward in broadly parallel fashion. French monetary conditions remained rather firm through the first quarter of 1978, but eased appreciably in the second quarter. In the United Kingdom, interest rates turned upward toward the end of the first quarter and rose more strongly in the second as action was taken by the authorities to arrest an excessive rise in the money supply and to counter a waning of confidence in sterling. In Italy, interest rates were stabilized in the first half of 1978 after falling fairly steadily during the latter part of 1977.

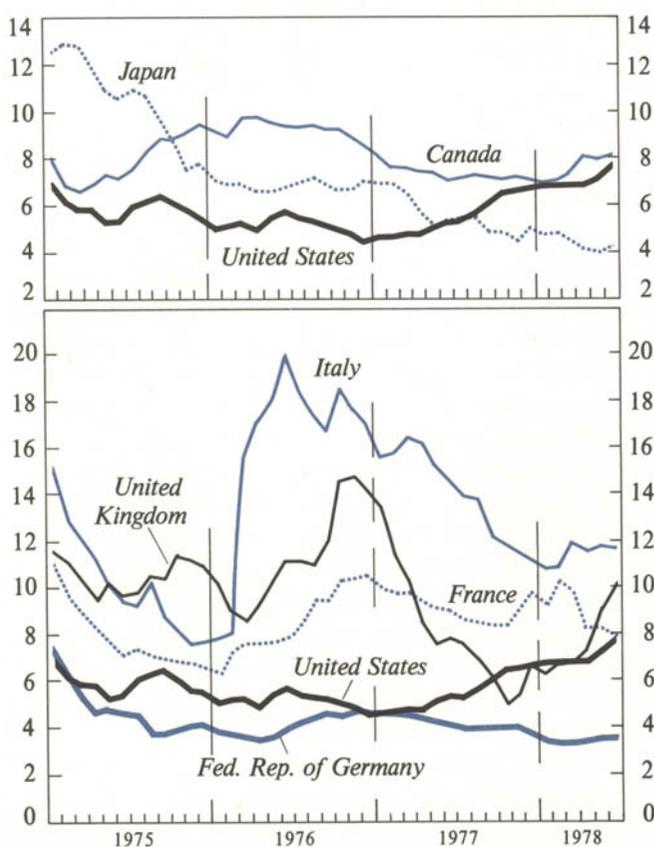
In most of the *smaller industrial countries*, economic policymaking during 1977 was focused increasingly on their external positions, which were adversely affected—along with domestic employment—by low export growth in a world trade environment of unexpectedly weak demand from major trading partners. The majority of these countries were deeply concerned about inflation and unemployment, and some of them faced difficult conflicts between domestic objectives and deteriorating external positions, leading them to make major exchange rate adjustments. In early 1978, the cautious policies pursued by the smaller industrial countries appeared to be restraining inflation and/or bringing about some improvement in external payments, accompanied by continued sluggishness of domestic demand.

Within the constraint imposed by the need to avoid exacerbating the external position, and by the prevalence of public sector deficits that were already large, fiscal policies of the smaller industrial countries in the first half of 1978 were aimed primarily at the problem of alleviating the unemployment situation. Monetary policies remained tied mainly to external considerations, their primary function being either to maintain the exchange rate vis-à-vis currencies of major trading partners or to ensure—in conjunction with official borrowing in some instances—a capital inflow sufficient to finance the current account deficit.

Given the difficult choices between pursuit of external adjustment and domestic employment objectives, the smaller industrial countries except Switzerland have resorted to some form of incomes policy. The emphasis placed on such policy, however, differs considerably among countries. In Denmark, a restrictive incomes policy is crucial to the external adjustment efforts. In Sweden, which resorted to devaluation, the unions—recognizing the importance of the Government's strategy to improve the country's competitive position—have agreed to modest contractual wage increases over a 21-month period extending through October 1979. In Austria, Belgium, and the Netherlands, where the close link of the currencies to the deutsche mark appears

Chart 4. Major Industrial Countries: Short-Term Interest Rates, 1975–June 1978¹

(In per cent per annum)



¹ The rates shown are monthly averages of daily rates on money market instruments of about 90 days' maturity (the call money rate for Japan).

to have contributed considerably to the containment of domestic price pressures, the role of incomes policy may be characterized as supportive of fiscal and monetary policies.

Primary Producing Countries

Information on the current economic situation in many of the primary producing countries is much less complete than that available for the industrial world. Moreover, it is less susceptible to meaningful aggregation or averaging, because of the large number and diversity of the countries classified as primary producers. Nevertheless, some observations with respect to major features of recent domestic developments in this group of countries may be offered on the basis of the estimates of output and prices summarized in Table 2.

Non-oil developing countries.—During the past several years, the average rate of growth in output has been relatively well sustained in the non-oil developing

countries as a group. It dipped only to about 4 per cent in 1975 and approached 5 per cent both in 1976 and in 1977. That pace—which is expected to be roughly maintained in 1978—was 2 percentage points below the peak rate of 1973 and more than 1 percentage point short of the average achieved during the period 1967–72, under reasonably balanced cyclical conditions in the industrial countries (i.e., the main trading partners).

Such a shortfall has meant, of course, a relatively sizable cut in per capita gains in real income. This reduction has been compounded by the adverse cumulative shift in the terms of trade of the non-oil developing countries that has occurred (with short-term swings in both directions) since the late 1960s. In these circumstances, which have tightened the squeeze on national saving, it has been difficult for many of the developing countries to maintain earlier rates of expansion of investment, even with the aid of enlarged inflows of foreign resources. Nevertheless, it would appear that growth and investment have been remarkably well sustained in the face of the extended weakness

Table 2. Primary Producing Countries: Changes in Output and Prices, 1967–77

(Percentage changes)

	Annual Average 1967–72 ¹	Change from Preceding Year				
		1973	1974	1975	1976	1977
Real GDP						
Major oil exporting countries ²	9.0	10.7	8.0	0.1	12.9	6.3
More developed primary producing countries	6.1	6.4	4.4	2.0	3.1	2.7
Europe ³	6.5	7.3	4.9	2.4	3.7	3.3
Australia, New Zealand, South Africa	5.1	4.6	3.4	1.2	2.1	1.4
Non-oil developing countries ⁴	6.1	7.3	5.3	4.1	4.8	4.9
Africa	5.0	2.2	5.6	2.3	4.2	2.2
Asia	4.8	7.9	2.7	6.1	5.8	6.4
Latin America and the Caribbean	6.8	8.1	7.7	2.6	4.5	4.3
Middle East	8.8	4.8	-1.0	8.4	2.1	6.7
Consumer prices						
Major oil exporting countries ²	8.0	11.3	17.0	19.0	16.2	15.0
More developed primary producing countries	6.0	11.8	16.7	16.9	15.1	17.8
Europe ³	6.8	13.5	18.6	18.2	16.1	20.8
Australia, New Zealand, South Africa	4.6	9.3	13.6	14.6	13.3	12.2
Non-oil developing countries ^{4, 5}	10.1	22.1	33.0	32.9	32.3	31.5
Africa	4.8	9.3	18.6	16.4	18.8	25.0
Asia	5.4	14.9	27.8	11.5	1.5	8.8
Latin America and the Caribbean ⁵	15.9	30.8	40.9	54.6	62.7	51.6
Middle East	4.3	12.7	21.8	20.3	17.4	24.2

¹ Compound annual rates of change.

² Comprise Algeria, Indonesia, Iran, Iraq, Kuwait, Libya, Nigeria, Oman, Qatar, Saudi Arabia, the United Arab Emirates, and Venezuela.

³ Comprise Finland, Greece, Iceland, Ireland, Malta, Portugal, Romania, Spain, Turkey, and Yugoslavia.

⁴ Include all Fund members not mentioned above, or in Table 1, plus certain essentially autonomous dependent territories (Hong Kong and the Netherlands Antilles) for which adequate statistics are available. The regional subgroups correspond to the groupings shown in *International Financial Statistics*.

⁵ Excluding Argentina, Chile, and Uruguay, the figures for non-oil developing countries in the last four columns would be 25 per cent, 17 per cent, 16 per cent, and 22 per cent, respectively; with a similar exclusion, the Latin America and Caribbean figures in the same columns would be 25 per cent, 22 per cent, 28 per cent, and 34 per cent, respectively.

of demand in major industrial centers. Factors contributing to this result have included the expansion of exports (especially from countries with relatively dynamic manufacturing sectors), increased agricultural output, and financial support provided directly or indirectly through the surpluses of the oil exporting countries.

Growth of real gross domestic product (GDP) has been particularly notable in the Asian countries, where in each of the past three years it actually exceeded the average for the period 1967–72. The achievement of such a relatively favorable result, while assisted by more favorable agricultural conditions on the Indian subcontinent, was attributable in no small measure to pursuit of prudent economic policies by a number of Asian countries in adjustment to the upsurge of export earnings and import prices in 1973 and 1974.

In developing areas outside Asia, however, rates of output expansion in 1977 lagged behind the 1967–72 averages. Shortfalls from their respective averages for 1967–72 were especially marked in Africa and in the Latin American and Caribbean area, where the gaps were of the order of 2–3 percentage points. Growth of output in Latin America and the Caribbean was maintained at about 4½ per cent in 1977 despite the lack of buoyancy in world markets and a sharp slowdown (from 9 per cent in 1976 to 5 per cent in 1977) in Brazil, whose economy is by far the largest in the area; improved growth rates were recorded in most of the other countries. Among the African non-oil countries, economic performance in 1977 continued to be strongly affected by weak demand conditions in the main industrial markets for their primary export commodities, by weather conditions, and in some cases by political strife and border and port closures. The average of these countries' estimated rates of output growth in 1977, at just over 2 per cent (compared with about 4 per cent in 1976), was lowest among the major regional groups listed in Table 2. However, a number of African countries are pressing ahead with public sector investments intended to promote larger GDP increases in 1978, and some improvement in agricultural production seems likely to contribute to attainment of that goal.

In the Middle Eastern area, the average growth rate for the non-oil countries in 1977 was nearly 2 percentage points higher than the average for all non-oil developing countries, even though the larger economies in the area were subject to constraints stemming from efforts to deal with inflationary pressures and from burdensome obligations of external debt servicing. In the recent past, certain of the countries confronted with such difficulties have taken steps toward price stabilization and maintenance of realistic exchange rates, and

these steps should contribute to a still better growth performance in 1978.

With respect to domestic prices, the record of the non-oil developing countries in recent years has been one of relatively high rates of increase. As measured by consumer price indices, the average rate of inflation in these countries rose to some 33 per cent in 1974 and remained above 30 per cent in every subsequent year through 1977. In considerable part, the maintenance of such a high average after 1974 reflected the extraordinary rates of inflation prevailing in several South American countries; exclusive of those countries, the average rate dropped from about 25 per cent in 1974 to 16–17 per cent in 1975 and 1976. However, inflation accelerated again in 1977, when the average rise in consumer prices (with the same exclusion of countries having highly atypical rates of inflation) again exceeded 20 per cent.

This faster price increase in 1977, like the subsidence of inflation from 1974 to 1976, was a widespread development. Of the 88 non-oil developing countries for which consumer price indices are available, 51 showed higher rates of increase in 1977 than in 1976, while only 23 showed lower rates and 14 remained approximately unchanged. This record contrasted sharply with the two intervening years of predominantly decelerating inflation.

The causes of the recent acceleration of inflation in the non-oil developing countries were doubtless multiple and complex in detail. Nevertheless, some widely prevalent influences can be identified. Important among these were the immediately preceding buoyancy of export earnings (stemming mainly from an increase in primary commodity prices), rising costs of imports, and rates of monetary expansion out of line with the pace of advances in real economic activity (partly, in some cases, because of the impact of the surge in foreign exchange receipts on domestic bank liquidity).

By early 1978, a reversal or slackening of the main factors behind the 1977 flare-up of inflation appeared to be in process. Prices of primary commodities had declined from their peak reached about the middle of 1977, and the decline was affecting the growth of export earnings of the non-oil developing countries. This development, combined with the tendency of an increasing volume of imports to absorb domestic demand pressures, was exerting a dampening effect on domestic price movements. At the same time, the numerous stabilization programs being implemented by the authorities of developing countries were helping to dissipate inflationary pressures generated by the 1976–77 bulge in primary commodity prices and export earnings. In a number of countries, deceleration of growth in the

monetary base because of a deterioration of the external payments balance and a marked slowdown in net acquisitions of foreign assets by the monetary authorities limited the need for other actions to implement a more restrained monetary policy. Nevertheless, inflation continues at high rates in many of the non-oil developing countries, constituting a hazard to economic management.

More developed countries.—Since the 1974–75 recession, recovery of activity in the more developed group of primary producing countries has been markedly slower on average than in either the industrial countries or the non-oil developing countries. Total output in this group (Table 2) rose by only 3 per cent annually in 1976 and 1977—half the prerecession rate—and developments in the early months of 1978 suggested an even slower rise.

The inflation record in recent years has also been disappointing. From 1974 to 1976, only a slight deceleration of consumer price increases was achieved, and in 1977 the average rate for the group as a whole went up to 18 per cent—a little higher than in 1974 and three times the pre-1973 average (Table 2). With only one exception, 1977 rates of inflation in this group of countries were in double digits, and in four of them the rate ranged upward from 25 per cent. For 1978, however, some reduction in the average rate of consumer price increases is presaged by the introduction of new stabilization programs in several of the countries.

The persistence of inflation has been a principal factor behind the poor average growth record of the more developed primary producing countries in recent years. To combat it, restrictive fiscal and monetary policies have been necessary; and these have curbed demand and contributed to the slowing of economic expansion in a number of cases. Another important reason for the restrictive policy measures and the slow growth—and one closely interrelated with the high rate of inflation—has been the prevailing weakness in the external accounts of many countries in this group (discussed in a later section). The external weakness has resulted not only from the effects of domestic inflation upon trade balances but also from four years of deterioration in the terms of trade since 1973 and from the difficult trading environment of this period.

Although nearly all of the more developed primary producers continue to experience higher inflation and lower growth rates than they did 5–10 years ago, those countries which were first to adopt stabilization programs have been in relatively favorable positions in charting their courses for 1978. In contrast, the countries that earlier opted to postpone adjustment—through increased reliance on foreign financing—are now facing still slower growth in 1978, under the

burden of deflationary measures adopted in recent months.

Countries in the first group—including Australia, New Zealand, South Africa, and Finland—tightened their fiscal and monetary policies during late 1975 and early 1976 in response to deteriorating current account balances and an upsurge in inflation, and they also supported these policies through the implementation of incomes policies. Because of both shifts in policy stance and unfavorable external conditions, growth of output has been low in these four countries and unemployment has increased sharply. In the first half of 1978, the rate of inflation decelerated considerably, although improvement of growth in output was not yet apparent.

Countries of the second group—mainly in southern Europe—experienced very high rates of inflation in 1977 and face decelerating rates of output growth in 1978 during the process of adjustment. Outside either group are Greece, Ireland, and Yugoslavia, which have inflation rates below the average for more developed primary producers, are enjoying relatively satisfactory growth rates, and have been relatively free of balance of payments constraints (although Yugoslavia's current account balance deteriorated in 1977).

Major oil exporting countries.—Following the sharp rise in oil prices four years ago, the oil exporting countries have undergone several changes in policy orientation. They first adopted highly expansionary fiscal and monetary policies in an attempt to achieve rapid development of their economies, but then found it necessary during late 1975 and 1976 to shift these policies toward restraint in order to reduce demand pressures and combat inflation. At the same time, several countries undertook a variety of measures—including expansion of port capacity—to improve the supply of goods and services.

Through mid-1978, the demand management policies of the oil exporting countries remained generally cautious. However, the policies of individual countries have become more diverse, reflecting the considerable differences in their economic positions, particularly as to the balance of payments, and in their policy objectives. In some of the more highly absorptive countries, policies are being aimed at restraining demand pressures, not only in order to reduce inflation or maintain domestic financial stability but also to contain mounting current account and overall balance of payments deficits. The current account positions of four of the seven countries in this subgroup had moved into deficit by 1977 and substantially higher deficits are expected for 1978.

As a result of the tightening of financial policies and efforts on the supply side, inflationary pressures started to abate in 1976. Reflecting also smaller increases in

import prices, the average rise in consumer prices declined from 19 per cent in 1975 to about 15 per cent in 1977. In the countries characterized by limited absorptive capacity in relation to their current export earnings (Saudi Arabia, Kuwait, the United Arab Emirates, Qatar, and the Socialist People's Libyan Arab Jamahiriya), the decline in the average rate of inflation was substantially sharper in 1977—from 22 per cent in 1976 to 11 per cent. The overall inflation rate of the oil exporting countries declined further in the first half of 1978.

Changes in total output of the major oil exporting countries in recent years have been influenced to a large extent by movements in output of crude oil, which now accounts for about two fifths of total GDP. Because of the recovery of such output from the depressed level of 1975, real GDP rose by about 13 per cent in 1976, following a negligible increase in 1975. (See Table 2.) With only a small increase in oil production in 1977, the rate of growth in real GDP is estimated to have declined to about 6 per cent. It fell further in the first half of 1978 as oil output declined substantially.

The rate of expansion in the non-oil sectors of the oil exporting countries has been rapid in recent years. However, the annual rate of growth of their total non-oil GDP in real terms declined from an average of over 12 per cent in 1974–76 to about 10 per cent in 1977 because of the prevalence of tighter demand management policies as well as other factors. The slowdown

was concentrated in the Middle Eastern oil exporting countries.

International Trade and Payments

An Overview

One of the serious consequences of the faltering pace of recovery from the international recession has been a disappointing growth in the volume of world trade in 1977 and the first half of 1978. The 1976–77 increase in total world trade was only 5 per cent in real terms, compared with 12 per cent in the previous year and an average of some 9 per cent over the decade ending in 1972. (See Table 3 and Chart 5.)

One identifiable factor in the reduced vigor of world trade in 1977 was the geographic pattern of recent domestic growth rates in the industrial countries. Slow growth predominated among countries having high ratios of imports to domestic production, while the trade effects of faster growth in the United States were blunted by that country's relatively low ratio of imports to production. On an import-weighted basis, the real GNP of the industrial countries as a group increased by less than 3 per cent in 1977, compared with 5 per cent in 1976.

However, the deceleration of international trade expansion from 1976 to 1977 was quite disproportionate to the concurrent deceleration of growth in output. In

Table 3. World Trade Summary, 1962–77¹
(Percentage changes in volume and in unit value of foreign trade)

			Annual Average 1962–72 ²	Change from Preceding Year				
				1973	1974	1975	1976	1977
World trade ³	Volume		9	13	5½	–5	12	5
	Unit value (U.S. dollar terms)		2½	23½	40½	9	1½	9
			2	12½	39½	8	7	7½
Volume of trade	Imports	Industrial countries	9½	12½	1½	–7½	14½	5
		Other developed countries	8½	16½	9½	–7	5½	1½
		Major oil exporters	9	21½	37½	43½	19	13
		Other developing countries	5½	14	8½	–6½	4	5
	Exports	Industrial countries	9	14	8	–4½	10½	4½
		Other developed countries	8	3	2	1	12	7
		Major oil exporters	9	12½	–1	–11½	14	—
		Other developing countries	6½	8	5	1	13½	6½
Unit value of trade in SDR terms ⁴	Imports	Industrial countries	2	11½	39	7½	6	7½
		Other developed countries	2	10½	41½	9½	6	6½
		Major oil exporters	2	11	28	10	7	7
		Other developing countries	2	12½	48½	10	8	7
	Exports	Industrial countries	2	9	23½	11	5½	7½
		Other developed countries	2	23	24	2½	5½	5
		Major oil exporters	3	27½	204	4	12	8
		Other developing countries	1½	24	36½	–4	13½	10

Sources: National economic reports, IMF Data Fund, and Fund staff estimates.

¹ For classification of countries in groupings shown here, see Tables 1 and 2.

² Compound annual rates of change.

³ Sum of the groupings shown separately; based on approximate averages of growth rates for world exports and world imports.

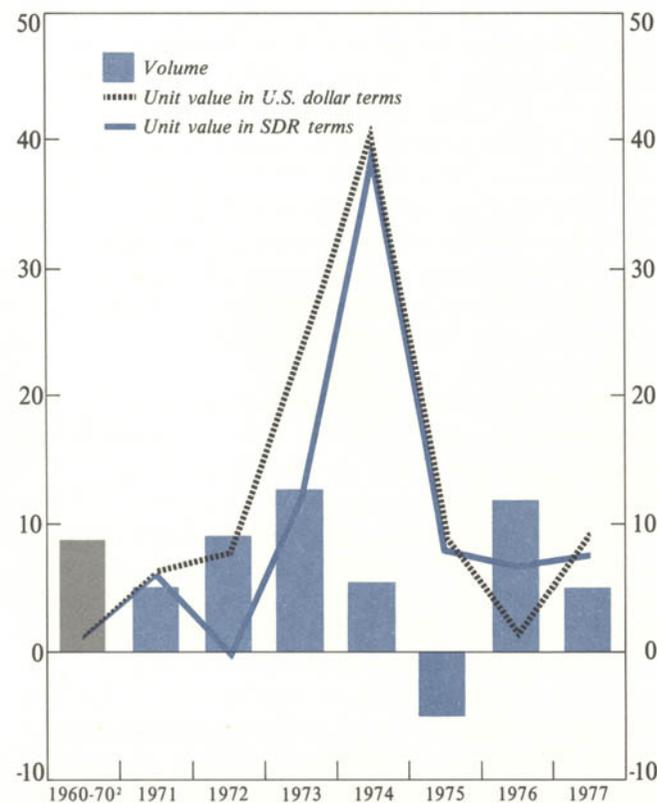
⁴ For years prior to 1970, an imputed value of US\$1.00 has been assigned to the SDR.

the main, this difference can be considered a reflection of normal cyclical relationships between trade and production in the industrial countries. As usual in the early stages of a cyclical recovery, the volume of their imports had risen much faster than production in 1976, and a substantial decline in the marginal ratio of the change in imports to that in output was inevitable as the pace of growth in output moderated. It is possible that some part of the difference between the ratios for 1976 and 1977 may also reflect structural influences, but any such hypothesis remains to be tested in a period of fuller cyclical recovery.

Weakness of import demand in the industrial countries was reinforced by that in the primary producing countries, where the slow pace of import growth established by many countries in dealing with their balance of payments difficulties of 1974–75 was continued in 1977. The only significant element of buoyancy—but one not carrying great weight in the world trade aggregate—was the strong further growth of imports into the major oil exporting countries. Except for that group, whose export volume was almost unchanged in 1977 (for reasons noted in a following section), the

Chart 5. World Trade, 1960–77¹

(Annual percentage changes)



¹ Based on averages for world exports and world imports.

² Compound annual rates of change.

major groups of countries distinguished in Table 3 shared fairly evenly in the relatively weak growth of export markets in 1977. Developments in the first half of 1978 have not suggested the emergence of a more buoyant trend in world trade.

In general, foreign trade prices continue to reflect the considerable degree of inflation still prevalent in most countries. For world trade as a whole, the average price rise from 1976 to 1977, expressed in SDRs, was about 7½ per cent—substantially the same as in the previous year.⁴ The comparative stability in the overall rate of increase in world trade prices during the past two years, however, was not a reflection of uniform trends in prices of various classes of goods moving in international trade. Widely disparate rates of change in the export prices of various groups of countries were observable in 1976, but a tendency toward convergence was evident in 1977. In that year, the average increase in (SDR) export prices of the industrial countries was somewhat higher than in 1976 (reflecting, inter alia, the rise in manufacturing unit labor costs associated with recently poor productivity gains), while the export prices of both the major oil exporting countries and the non-oil developing countries rose less rapidly than in the previous year. Even so, the latter group of countries experienced a further recovery in its terms of trade, which had deteriorated severely during the recession. (See Table 4.)

The 1976 and 1977 terms of trade gains of the non-oil developing countries reflected a sharp bulge in primary commodity prices, centered predominantly in movements of prices for beverage crops (coffee, cocoa, and tea). This upswing reached a peak in the first half of 1977, however, and commodity prices—especially for the beverage products—have tended downward since then (Chart 6). It seems quite likely, therefore, that renewed deterioration of the terms of trade of the non-oil developing countries will be a feature of 1978 world trade and payments developments. The major oil exporters comprise another group of countries whose terms of trade are destined to deteriorate in 1978, because of the continuation of the present price freeze of the Organization of Petroleum Exporting Countries through the end of the year. The corresponding terms of trade gains will accrue mainly, of course, to the industrial countries.

During 1976 and early 1977, when the overall index of prices for primary commodities surged upward, market prices of primary products other than beverage crops were not, in general, consistently buoyant. Aver-

⁴ Measured in terms of U.S. dollars, the global rate of increase in foreign trade prices accelerated sharply during the past two years, from 1½ per cent in 1976 to 9 per cent in 1977, reflecting the swing from effective appreciation of the dollar in the former year to effective depreciation in 1977.

Table 4. Terms of Trade Developments, 1962-77¹
(Percentage changes)

	Annual Average 1962-72 ²	Change from Preceding Year				
		1973	1974	1975	1976	1977
Industrial countries	—	-2	-11	3	-1	—
Primary producing countries						
More developed countries	—	11	-12	-6	-½	-2
Major oil exporters	1	15	137	-5	5	1
Non-oil developing countries	-½	10	-8	-13	5	3
Reference: World trade prices (in U.S. dollars) for major commodity groups ³						
(a) Manufactures	3	17	22	12	1	9
(b) Petroleum	4	40	226	5	6	9
(c) Non-oil primary commodities (market prices)	2½	55	28	-18	12	20

Sources: National economic reports, the United Nations, and Fund staff estimates.

¹ Based on foreign trade unit values; for classification of countries in groupings shown here, see Tables 1 and 2.

² Compound annual rates of change.

³ As represented, respectively, by: (a) the United Nations' export unit value index for the manufactures of the developed countries; (b) the petroleum export unit values of the major oil exporting countries; and (c) the *International Financial Statistics* index of market quotations for non-oil primary commodities.

age food prices, which have a heavy weight in the overall commodity price index plotted in Chart 6, actually declined in both 1976 and 1977, despite a temporary rise in the first half of 1977. Market prices of agricultural raw materials increased by 24 per cent in 1976, but by only 3 per cent in 1977, when they dropped sharply in the second half. Metals prices showed a steadier average trend during 1976 and 1977 than the other groups mentioned, but their increase was only about 6-7 per cent a year (in terms of U.S. dollars). Like prices for other groups of primary commodities, those for metals were soft in the second half of 1977, and little strengthening was apparent in the first six months of 1978. During the latter period, the only major primary commodity group showing sizable price increases was food, where strong demand for wheat and flour resulted in markedly higher prices despite the large 1977-78 crops; measures taken by the U.S. Government to raise producer prices for cereals also may have begun to affect prices of these products.

The world trade volume and price changes outlined above affected different groups of countries in different ways, depending on the composition of their trade. These differential effects were the main influences governing shifts in the global pattern of current account balances in 1977 and will be the main factors in 1978, although changes in international service transactions and private transfers are also important for many individual countries and for certain of the major groups.

In 1977, net changes in current account balances for the major groups of countries shown in Table 5 were relatively small, consisting of a moderate decline in the collective current account surplus of the major oil ex-

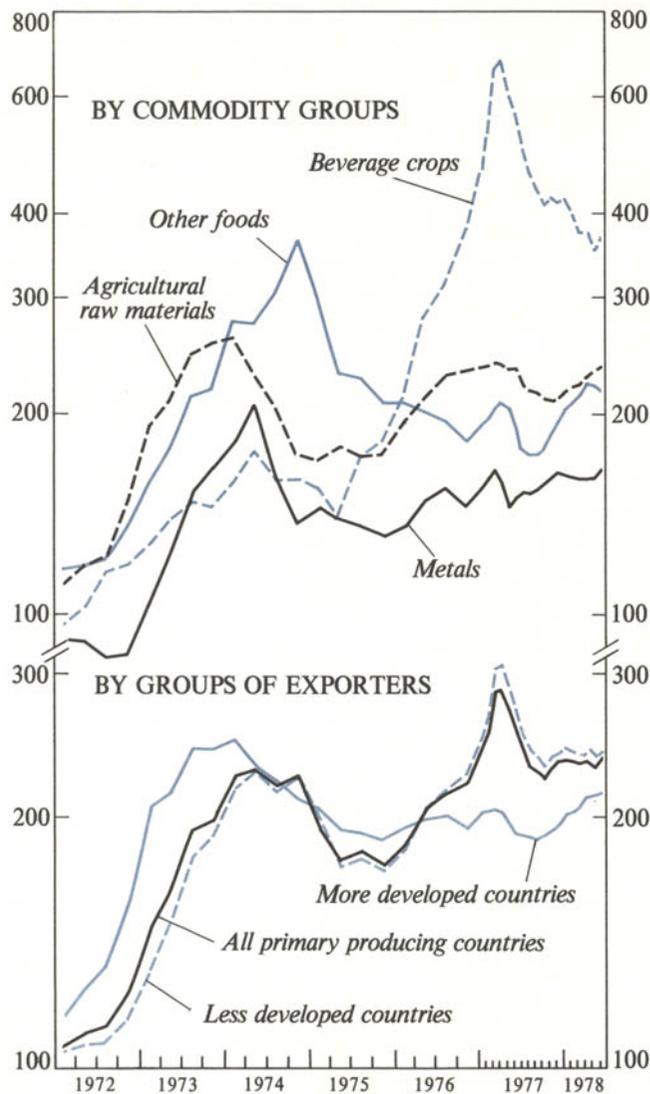
porting countries, a slight shrinkage in that of the industrial countries, and some decrease in the deficit of the non-oil developing countries, with little change for the more developed primary producing countries. These shifts in consolidated group balances in 1977, however, were dwarfed by some of the shifts among individual countries in the industrial group.

For 1978, according to the estimates summarized in the same table, changes in current account balances of the four groups of countries will be generally greater than in 1977, and not all in the same direction. A sizable further decline in the surplus of the major oil exporters, from \$35 billion in 1977 to about \$20 billion in 1978, is in the making, along with a rebound in the current account deficit of the non-oil developing countries. The counterparts are expected to be a rise of \$13 billion in the combined surplus of the industrial countries and a long-postponed reduction in the deficit of the other developed countries.

The 1978 pattern that would result from the projected changes is, in broad outline, essentially the same as the one prevailing during 1976 and 1977. However, relative magnitudes of the various balances have been changing and the singular concentration of surpluses in the oil exporting countries that emerged in 1974 (when their combined current account surplus jumped to \$68 billion) has been greatly reduced. The most serious imbalances in the pattern of current account surpluses and deficits now appear to be those among individual countries within the industrial world, rather than those among major groups of countries. Attesting to this emergent change in the nature of the international adjustment problem is the likelihood that the three largest current account surpluses among the

Chart 6. Indices of Prices of Commodities, Except Oil, Exported by Primary Producing Countries, 1972–June 1978

(Expressed in U.S. dollars; 1968–70 = 100)



industrial countries in 1978 will exceed the aggregate surplus of the major oil exporting countries.

From the standpoint of capital flows and international financing, the projected 1978 pattern of current account balances indicates that the industrial countries as a group are placing abroad, through capital investment or official transfers, a larger part of their own national savings than they did in the previous two years, when the bulk of the net financial outflow from the industrial countries as a group represented intermediation of funds flowing indirectly from the oil exporting countries to the non-oil primary producing countries. If the latter countries are to sustain their inflows of external resources to facilitate development, they may have to

depend more heavily in the future, as they did before 1973, on financial flows originating in the industrial countries.

International capital movements, particularly among the industrial countries, were seriously affected during late 1977 and early 1978 by the outbreak of disorderly conditions in the foreign exchange markets. At times, speculative short-term capital movements, including many not identified as such in official balance of payments statistics, contributed strongly to those conditions. Although (as indicated later) the exchange markets regained a calmer tone during the second quarter of 1978, these striking developments pointed up the need for policy changes to achieve more stable conditions in the domestic economy—which would lead to a better equilibrium of current account positions and, in turn, to greater exchange market stability. Meanwhile, until this better equilibrium is achieved, national authorities face the need to secure a satisfactory adaptation of capital flows to the current account balances as they evolve.

The following sections review more specifically the recent history of international adjustment problems and progress in each of four major groups of countries, beginning with the industrial group and continuing with three groups of primary producing countries.

Industrial Countries

Current account balances.—After a downward shift of \$19 billion in 1976, the aggregate current account surplus of the industrial countries showed little further overall change in 1977. The surplus for that year was about \$½ billion, compared with roughly \$7 billion in 1976. (These balances, as shown in Tables 5–7, are defined in terms of goods, services, and private transfers; current account balances inclusive of official transfers are also shown in Table 7.)⁵

The large downswing in 1976 was mainly cyclical in origin, reflecting the response of import demand in the industrial countries to the initial rebound of economic activity from the recession trough. Relatively little additional cyclical change was included in the small further decline in 1977, so far as the aggregate balance

⁵ The levels of all these balances for the industrial countries as a group, and of the U.S. current account balances shown in Table 7, have been revised considerably, compared with corresponding figures in previous Annual Reports, by a change in the definitions underlying the official U.S. balance of payments statistics (used in these compilations) to include reinvested earnings of direct investment enterprises among current account transactions. As a counterpart, net capital outflows from the United States and from the industrial countries as a group are increased by the same amounts (approximately \$6 billion a year for the period covered in Tables 6 and 7) to include the reinvestments of the earnings in question.

Table 5. Payments Balances on Current Account, 1973-78¹
(In billions of U.S. dollars)

	1973	1974	1975	1976	1977	1978 ²
Major oil exporting countries	7	68	35	41	35	20
Industrial countries	19	-4	26	7	1	14
More developed primary producing countries	1	-15	-15	-14	-13	-11
Non-oil developing countries	-11	-30	-38	-25	-22	-30
Total ³	16	19	8	9	1	-7

¹ On goods, services, and private transfers. For classification of countries in groups shown here, see Tables 1 and 2.

² Fund staff projections.

³ Reflects errors, omissions, and asymmetries in reported balance of payments statistics, plus balance of listed groups with other countries.

of the whole group of industrial countries was concerned. Nevertheless, differences in cyclical conditions within the industrial group were among the most important determinants of shifts in the distribution of current account surpluses and deficits among the individual industrial countries themselves, and some of these shifts were quite large.

Several of the major shifts in 1977 were in the direction of rectifying some of the more serious imbalances. In particular, the U.K. and Italian balances swung sharply from deficit into surplus, and France's deficit was considerably reduced. For these three countries, the combined improvement from 1976 to 1977 was about \$11 billion. Other major changes, however, cannot be considered appropriate from the standpoint of external payments adjustment and exchange rate stability. The U.S. current account balance underwent a very large downward swing, from a surplus of nearly \$9 billion in 1976 to a deficit of \$11 billion,⁶ while the Japanese surplus, already sizable in 1976, rose by \$7 billion, to more than \$11 billion. Both of these changes, as they became apparent during the course of 1977, undoubtedly contributed to the disturbances in exchange markets that characterized much of the period from September 1977 to April 1978. The absence of a significant downward adjustment in the current account surplus of the Federal Republic of Germany in 1977 must also be viewed as inadequate from the standpoint of international payments adjustment. In addition, the sizable increase in the deficit of the smaller industrial countries as a group signified the emergence of serious adjustment problems for some of its members.

The 1977 pattern of current account balances that resulted from these swings was one characterized by sharp contrast between countries with surpluses (including Switzerland, as well as Japan and the Federal Republic of Germany) and the United States, with its

deficit. The other major industrial countries had positions closer to balance. However, relatively large current account deficits were recorded by a majority of the smaller industrial countries (Austria, Denmark, Norway, and Sweden).

For 1978, the distribution of current account balances among the industrial countries is not expected to change substantially. A large U.S. deficit and a large Japanese surplus are again occurring, and the surpluses of the Federal Republic of Germany and Switzerland seem to be persisting, along with the more nearly balanced positions of the majority of other industrial countries.

An important part of the adverse swing in the U.S. current account balance in 1977 can be explained by the change in the cyclical position of the U.S. economy in relation to the other industrial economies. Changes in relative cyclical positions in 1978 may begin to reverse themselves in the course of 1978, but the favorable effect on the U.S. current account balance for the year as a whole is likely to be small. One of the negative factors operative in 1977—the marked increase in the proportion of U.S. oil consumption supplied by imported petroleum—will be suppressed in 1978 by enlargement of crude petroleum production in Alaska. On the other hand, the rise in sales of manufactures to the United States by some of the non-oil developing countries may well continue. Although the effective depreciation of the U.S. dollar over the months around the turn of the year will eventually work toward reducing the U.S. current account deficit, during 1978 its net effects on trade volume may be expected to be temporarily offset by adverse terms of trade effects associated with the exchange rate depreciation. All in all, there is thus little chance of a major improvement in the U.S. current account balance for 1978 as a whole, but progress in that direction should begin to emerge before the end of the year.

The three major surplus countries—Japan, the Federal Republic of Germany, and Switzerland—together

⁶ See footnote 5.

Table 6. Global Balance of Payments Summary, 1974-77

(In billions of U.S. dollars)

		Balance on				Capital Account Balance ¹	Change in Liabilities to Foreign Official Agencies ²	Balance Financed by Transactions in Reserve Assets
		Trade	Services and private transfers	Current account excluding official transfers				
Industrial countries ³	1974	-9.4	5.5	-3.9	-10.8 ⁴	18.3	3.6	
	1975	22.2	3.8	26.0	-26.4 ⁴	5.3	4.8	
	1976	-3.0	9.8	6.8	-11.5 ⁴	15.5	10.7	
	1977	-8.0	8.6	0.6	-3.8 ⁴	37.9	34.7	
Major oil exporters ³	1974	82.1	-14.3	67.8	-24.9	0.1	43.0 ⁵	
	1975	53.1	-18.4	34.7	-17.5	-0.2	17.0 ⁵	
	1976	65.2	-24.3	40.9	-22.9	—	18.0 ⁵	
	1977	62.3	-26.9	35.4	-18.4	—	17.0 ⁵	
Other primary producing countries ³	1974	-41.4	-3.0	-44.4	41.5	1.9	-1.1	
	1975	-47.6	-4.8	-52.4	46.7	4.0	-1.6	
	1976	-31.9	-7.0	-38.9	45.4	5.8	12.3	
	1977	-28.2	-7.1	-35.2	46.7	0.1	11.6	
More developed areas	1974	-19.2	4.7	-14.5	10.0	0.6	-3.9	
	1975	-18.9	4.1	-14.8	10.0	2.4	-2.4	
	1976	-16.0	2.3	-13.7	11.6	2.8	0.7	
	1977	-15.2	2.0	-13.3	12.4	0.8	—	
Less developed areas	1974	-22.2	-7.8	-29.9	31.4	1.4	2.8	
	1975	-28.7	-8.9	-37.7	36.8	1.6	0.8	
	1976	-15.9	-9.4	-25.2	33.8	3.1	11.6	
	1977	-12.9	-9.0	-22.0	34.3	-0.8	11.6	
In Africa	1974	0.7	-3.2	-2.6	2.8	0.2	0.4	
	1975	-2.5	-3.5	-6.0	5.4	0.4	-0.2	
	1976	-1.6	-3.6	-5.2	4.8	0.5	0.1	
	1977	-1.7	-4.5	-6.2	6.8	0.1	0.6	
In Asia	1974	-9.9	0.4	-9.6	11.1	1.0	2.6	
	1975	-9.4	0.9	-8.5	9.3	0.7	1.6	
	1976	-3.6	0.5	-3.1	8.5	0.3	5.7	
	1977	-3.3	1.1	-2.2	7.1	-0.3	4.6	
In the Middle East	1974	-6.1	1.6	-4.5	4.4	0.1	-0.1	
	1975	-8.1	1.3	-6.8	7.6	—	0.8	
	1976	-7.7	2.4	-5.2	5.5	0.4	0.6	
	1977	-9.4	4.2	-5.1	7.1	-0.1	1.9	
In Latin America and the Caribbean	1974	-6.8	-6.5	-13.3	13.2	—	-0.1	
	1975	-8.7	-7.7	-16.4	14.5	0.5	-1.4	
	1976	-3.0	-8.7	-11.7	15.1	1.9	5.2	
	1977	1.4	-9.9	-8.4	13.4	-0.4	4.5	
Total, all countries ⁶	1974	31.3	-11.9	19.5	5.8	20.3	45.5	
	1975	27.7	-19.4	8.4	2.8	9.1	20.2	
	1976	30.3	-21.4	8.8	11.0	21.2	41.0	
	1977	26.1	-25.4	0.8	24.6	37.9	63.3	

Sources: Data reported to the International Monetary Fund and Fund staff estimates.

¹ This balance is computed residually as the difference between the balance financed by transactions in reserve assets and the sum of the current account balance and the change in liabilities to foreign official agencies; it includes net errors and omissions, as well as reported capital movements, government transfers, and gold monetization. (See also footnote 2.)² The concept of "liabilities to foreign official agencies" used in this table encompasses use of Fund credit and short-term balance of payments financing transactions in which the liabilities of the borrowing country are presumably treated as reserve assets by the creditor country.³ For classification of countries in groups shown here, see Tables 1 and 2.⁴ See footnote 6.⁵ The dividing line between capital movements and reserve asset changes is uncertain for some oil exporting countries. The data used here are based on estimated changes in official holdings of bank deposits and other money market assets, together with oil facility loans to the Fund and investments in World Bank bonds.⁶ Global balance of payments aggregations inevitably contain many asymmetries arising from discrepancies of coverage or classification, timing, and valuation in the recording of individual transactions by the countries involved. A major area of asymmetrical classification during recent years concerns the recording of official claims placed in Eurocurrency markets. These transactions, although treated as changes in reserve assets by the investing countries, are recorded as capital inflows by the recipient countries (mainly, the industrial countries). Had such transactions been recorded symmetrically, the global summations would show both a larger net capital outflow and a larger aggregate change in liabilities to foreign official agencies. If identified Eurocurrency reserve placements (shown in terms of SDRs in Table 15 of this Report) were assumed to have been placed in industrial countries, then the adjusted net capital outflows from those countries would amount to \$26.2 billion, \$33.8 billion, \$18.7 billion, and \$25.2 billion over the years 1974, 1975, 1976, and 1977, respectively.

Table 7. Industrial Countries: Balance of Payments Summaries, 1974-77

(In billions of U.S. dollars)

		Balance on			Capital Account Balance			Change in Liabilities to Foreign Official Agencies ³	Balance Financed by Transactions in Reserve Assets	Memo: Current Account Including Official Transfers
		Trade	Services and private transfers	Current account excluding official transfers	Total ¹	Long-Term capital and official transfers	Other ²			
United States ⁴	1974	-5.3	13.5	8.1	-17.0	-13.5	-3.4	10.3	1.4	1.7 ⁵
	1975	9.1	13.4	22.4	-27.1	-23.6	-3.6	5.3	0.5	18.5
	1976	-9.4	18.1	8.7	-19.3	-18.7	-0.6	13.1	2.5	4.3
	1977	-31.1	20.0	-11.1	-24.2	-16.7	-7.6	35.5	0.2	-15.2
United Kingdom	1974	-11.7	4.2	-7.5	4.6	3.6	1.0	3.1	0.3	-8.2
	1975	-6.5	3.7	-2.8	2.7	0.2	2.6	-1.3	-1.4	-3.7
	1976	-5.7	5.6	-0.1	-0.8	-0.8	—	-0.5	-1.4	-1.5
	1977	-2.4	4.6	2.2	11.9	3.2	8.6	2.6	16.7	0.4
Canada	1974	1.9	-3.4	-1.5	1.5	1.1	0.4	—	—	-1.5
	1975	-0.4	-4.2	-4.6	4.2	3.5	0.7	—	-0.4	-4.7
	1976	1.4	-5.5	-4.1	4.6	8.0	-3.3	—	0.6	-4.1
	1977	3.0	-6.9	-3.9	2.5	4.0	-1.5	—	-1.3	-4.0
France	1974	-3.9	-1.0	-4.8	4.5	-1.3	5.8	0.3	-0.1	-5.9
	1975	1.5	-0.4	1.1	2.4	-2.1	4.6	0.5	4.0	—
	1976	-4.7	-0.3	-5.0	2.2	-2.6	4.9	-0.1	-2.8	-6.0
	1977	-2.7	0.9	-1.8	2.0	-0.8	2.8	—	0.1	-3.2
Germany, Fed. Rep.	1974	22.2	-9.6	12.6	-13.2	-5.1	-8.2	0.1	-0.5	9.8
	1975	17.7	-10.0	7.7	-8.5	-10.5	2.0	-0.2	-1.0	4.1
	1976	16.7	-9.0	7.7	-4.3	-3.9	-0.3	0.3	3.8	3.9
	1977	19.3	-11.3	8.0	-3.3	-9.1	5.9	-0.3	4.4	3.8
Italy	1974	-8.5	1.7	-6.8	2.2	2.1	0.1	5.3	0.7	-8.0
	1975	-1.1	1.9	0.7	-3.4	-0.3	-3.1	1.0	-1.7	-0.6
	1976	-4.0	2.3	-1.7	1.4	-1.1	2.5	2.6	2.3	-2.9
	1977	0.1	3.4	3.6	2.0	-0.7	2.6	-0.6	5.0	2.1
Japan	1974	1.4	-5.9	-4.5	5.7	-5.0	10.7	—	1.2	-4.7
	1975	5.0	-5.4	-0.4	-0.2	-0.7	0.5	—	-0.6	-0.7
	1976	9.9	-6.0	3.9	-0.1	-1.2	1.1	—	3.8	3.7
	1977	17.3	-6.2	11.1	-4.6	-3.4	-1.2	—	6.2	10.9
Other industrial countries ⁶	1974	-5.6	6.1	0.5	0.8	-1.5	2.2	-0.8	0.5	-0.3
	1975	-3.0	4.9	1.9	3.4	-2.7	6.1	0.1	5.4	0.3
	1976	-7.2	4.5	-2.6	4.7	-5.9	10.6	—	2.0	-3.7
	1977	-11.6	4.0	-7.5	10.0	3.3	6.7	0.9	3.3	-9.0
Total, industrial countries	1974	-9.4	5.5	-3.9	-10.8 ⁷	-19.5	8.7	18.3	3.6	-17.2 ⁵
	1975	22.2	3.8	26.0	-26.4 ⁷	-36.2	9.9	5.3	4.8	13.2
	1976	-3.0	9.8	6.8	-11.5 ⁷	-26.2	14.8	15.5	10.7	-6.3
	1977	-8.0	8.6	0.6	-3.8 ⁷	-20.2	16.3	37.9	34.7	14.1

Sources: Data reported to the International Monetary Fund and Fund staff estimates.

¹ See Table 6, footnote 1.² Includes recorded net movements of short-term capital, net errors and omissions, and gold monetization.³ See Table 6, footnote 2.⁴ The data in columns 2, 3, 4, 5, and 9 shown here for the United States differ substantially from comparable estimates included in previous Annual Reports because they reflect a recently adopted change in the official presentation of U.S. balance of payments estimates which now include an allowance for the net undistributed earnings of direct investment enterprises as a component of investment income flows in the current account, with an offsetting entry for the reinvestment of those earnings in the capital account.⁵ Includes the effect of a revision of the terms of the disposition of economic assistance loans made by the United States to India and repayable in rupees, and of rupees already acquired by the U.S. Government in repayment of such loans. The revision has the effect of increasing U.S. Government transfer payments by about \$2 billion, with an offset in net official loans.⁶ Austria, Belgium-Luxembourg, Denmark, the Netherlands, Norway, Sweden, and Switzerland.⁷ See Table 6, footnote 6.

showed a current account surplus of \$22½ billion in 1977. Their combined balance, like the negative balance of the United States, is unlikely to shrink in 1978. In Japan, the surplus grew strongly in the early part of the year. Although it is expected to decline in the second half as a result of stronger domestic demand, the trade-volume effects of the recent exchange appre-

ciation, and import liberalization measures taken by the Japanese Government, this decline is unlikely to compensate for the earlier rise. In all three of the major surplus countries, weakness of domestic demand has tended to inhibit import growth in recent years, but does not fully explain the remarkable ability of exporters in these countries to gain market shares. For

the Federal Republic of Germany, in particular, cyclical factors do not appear to have contributed to the strength of the current account, as the level of domestic demand has been weaker in that country's major European trading partners than in the Federal Republic itself.

With respect to France, Italy, and the United Kingdom, the major improvements of current account positions recorded in 1977 resulted mainly or in considerable part from stabilization policies and low rates of economic growth. In all three countries, the improvements are expected to be maintained or increased in 1978, with the French and Italian changes continuing to reflect depressed domestic demand conditions. In the case of the United Kingdom, the expansion of North Sea oil production is the main factor behind the strengthening of the current account. Although deterioration of the U.K. balance on non-oil transactions has been arrested, that balance has not improved significantly even under conditions of slack domestic demand.

Most of the smaller industrial countries are expected to remain in substantial deficit on current account in 1978. However, stabilization policies have been implemented by the countries with the weaker balances, and deficits lower than those of 1977 are expected in Austria, Denmark, Norway, and Sweden.

Capital flows.—Net outflows of capital (including official transfers) from the industrial countries to non-oil primary producing countries changed only moderately from 1976 to 1977, in line with the small change in the balance of current account transactions between these two sets of countries. However, the small net outflow shown in the consolidated capital account balances of the industrial countries in Tables 6 and 7 masks a complex network of financial flows⁷ in which large aggregate net outflows of capital and official transfers from the industrial countries to the non-oil primary producing countries are financed in considerable part through receipts of capital and reserve placements from the oil exporting countries, as well as through placements of reserves held by the non-oil primary producing countries themselves. For reasons explained in footnote 6 to Table 6, changes in the foreign exchange reserves of the reserve holding countries are by no means fully reflected in changes in liabilities to foreign official agencies as reported by the reserve currency countries—most of the difference being asymmetrically reported as capital inflows by countries in which Eurocurrency banking operations are conducted. With allowance for this peculiarity in the summations of national balance of payments statistics, the total net outflow of capital (and official transfers) from the in-

dustrial countries to other areas would be estimated at some \$19 billion in 1976 and \$25 billion in 1977, instead of the \$11.5 billion and \$3.8 billion, respectively, shown in the balance of payments summaries. These flows, together with a large capital outflow from the major oil exporting countries (much of which was also channeled to ultimate borrowers through financial institutions and markets in the industrial countries), represented the main sources of funds obtained by the non-oil primary producing countries to finance their current account deficits and additions to reserves.

Shifts in capital account balances among industrial countries from 1976 to 1977 were more striking than the changes in the net outflow from the group as a whole. Moreover, some of these shifts were ill-matched with concomitant swings in the current accounts of the respective countries, and this circumstance was an important factor in generating the exchange market pressures that emerged during the latter part of 1977. In particular, the rise in U.S. capital outflows,⁸ coinciding as it did with the exceptionally unfavorable 1976–77 swing in the U.S. current account balance, led to both a large increase in U.S. liabilities to foreign official agencies and a marked decline in the exchange value of the dollar. For Japan and the Federal Republic of Germany, total net outflows of capital and official transfers in 1977 were equivalent to less than one half of the respective current account surpluses; and in each case, sizable increases in reserves and sharp appreciation of the exchange rate resulted from these payments relationships. For Germany, however, it may be noted that the long-term component of the net capital outflow in 1977, together with official transfers, could have financed that year's current account surplus if there had not been inward movements of short-term capital.

In the United Kingdom, the relatively moderate swing into surplus on current account was accompanied by a surge of net capital inflows, which rose to \$12 billion in 1977 (inclusive of balance of payments errors and omissions), compared with a negligible net amount in 1976. The result was an unprecedented rise in U.K. reserves, as well as a temporary appreciation of the effective exchange rate for the pound sterling.

Among the other industrial countries, differences between capital account and current account balances in 1977 were generally neither wide nor radically changed from the previous year. Canada, France, Italy, and the smaller industrial countries as a group were all net borrowers in international markets, and a substantial part of the external borrowing by a number of

⁷ Involving changes in reserves and in liabilities to foreign official agencies, as well as flows of funds recorded in the capital accounts of countries' balance of payments statistics.

⁸ Including the "errors and omissions" component of the balance of payments, in which changes often reflect unidentified capital movements.

these countries (including Canada, France, Austria, Denmark, Norway, and Sweden) was done by public or semipublic agencies or enterprises, or by the governments themselves.

Some of the principal capital movements among the industrial countries during 1977 were unevenly distributed through the year. During the first three quarters, current account surpluses and deficits of the individual countries were financed, on the whole, without sizable exchange rate movements or disorderly market conditions. In that period, the U.S. current account deficit was much lower than it became toward the end of the year, and several factors tended to dampen the outflow of U.S. banking and portfolio capital and to encourage capital inflows. Improvements in the external balances of a number of countries that had been heavy borrowers in the U.S. market during recent years led to sharp reductions in foreign demands for U.S. bank and portfolio capital; at the same time, relatively strong demands for credit in the U.S. market, together with a progressive shift of interest rate differentials in favor of the United States (Chart 4), had a further dampening effect on the net outflow of funds. Prior to the fourth quarter, these factors were sufficient to permit the U.S. current account deficit inclusive of official transfers to be offset by capital inflows and large purchases of U.S. dollars by the U.K. authorities, with little change in the effective exchange rate for the U.S. dollar. During the first three quarters, the United Kingdom and Italy, both recovering from severe balance of payments difficulties, accounted for the great bulk of all reserve accumulations by industrial countries.

In the last quarter of 1977, however, as the U.S. current account deficit rose and its magnitude and implications came to be more widely recognized, active downward pressure on the value of the U.S. dollar came rapidly into play. This led to large outflows of banking funds from the United States, as well as to sharply reduced inflows of foreign investments, and to massive interventions in the exchange markets by foreign authorities, whose acquisitions of dollar reserves thus assumed a greatly expanded role in the financing of the U.S. deficit on current account. In the October–December period, more than two thirds of the reserve increases accruing to industrial countries were acquired by the Federal Republic of Germany, Japan, and Switzerland. The disorderly market conditions and relatively sharp changes in exchange rates that occurred in these circumstances extended into the early months of 1978.

Exchange rate developments.—Changes in exchange rates among the major currencies during 1977 and the first half of 1978 are traced, against the background of the two preceding years, in the monthly indices of

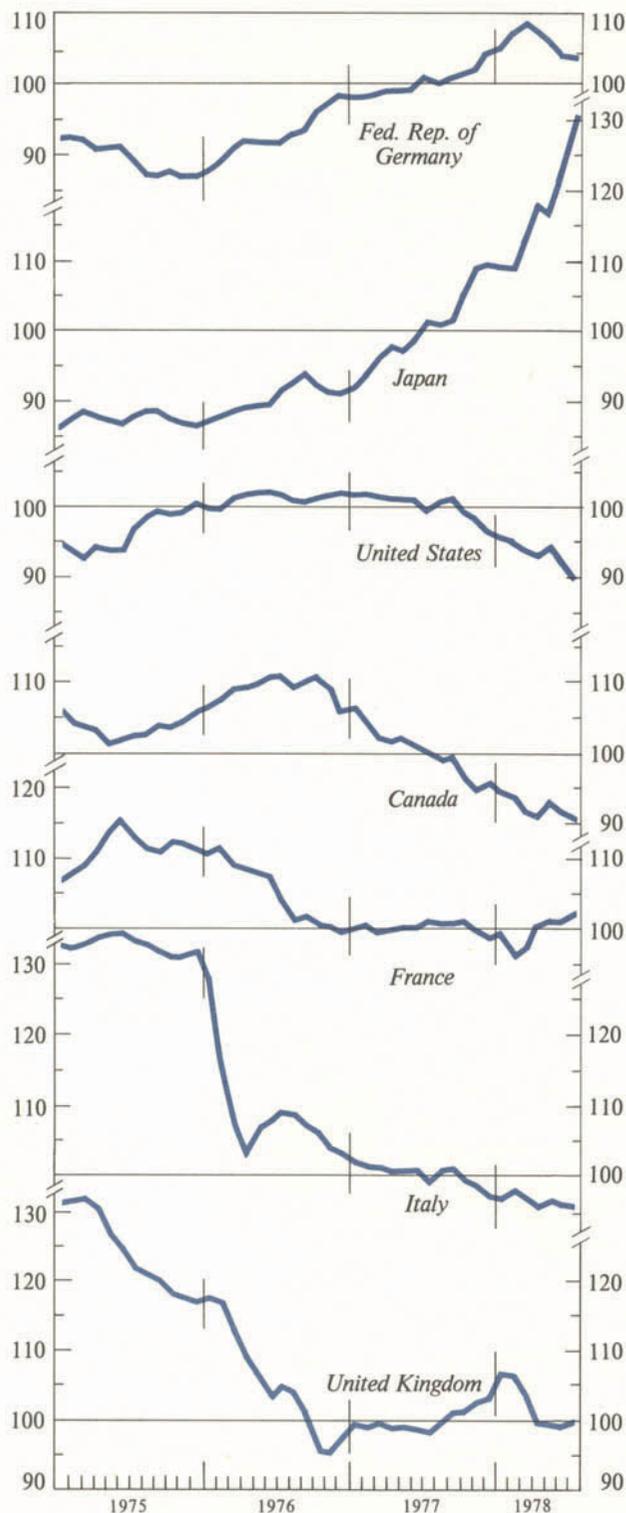
effective exchange rates (based on the “MERM” indices published in *International Financial Statistics*) for currencies of each of the major industrial countries shown in Chart 7. In general, the largest changes of the past year and a half or two years have all been of a kind—in direction, if not in degree—conducive to reduction of existing current account balances. The currencies of countries with strong current account positions—notably, the Federal Republic of Germany, Japan, and Switzerland—have appreciated greatly, while the currency of the major deficit country—the United States—has undergone considerable effective depreciation, even though the currency of its largest single trading partner—Canada—has depreciated substantially against the U.S. dollar. Effective rates for the currencies of the major industrial countries whose external positions were most nearly balanced in 1977 (France, Italy, and the United Kingdom) were relatively stable during 1977 and the first half of 1978, following the sharp declines in value that they had undergone during 1976.

In retrospect, it can be said that what was disturbing about the major exchange rate changes over the last few months of 1977 and the early months of 1978 was not so much the nature of the realignment that took place, but the speed with which it occurred and the disorderly and uncertain exchange market conditions that characterized the period. Large day-to-day movements in the rates occurred frequently, with changes of sometimes as much as several percentage points, in reflection of rumors, misunderstandings, and other erratic influences. These characteristics of the market, together with a belief shared by various national authorities that market forces were causing excessively rapid movements of the exchange rates of their currencies against the U.S. dollar, underlay the massive official interventions mentioned above.

With respect to the yen and the deutsche mark, appreciation against the U.S. dollar, although particularly rapid during the last quarter of 1977 and the first quarter of 1978, had been proceeding since mid-1976. The depreciation of the dollar after September 1977 occurred despite interest rate differentials highly favorable to the United States (Chart 4) and the adoption by both Japan and the Federal Republic of Germany of measures to discourage capital inflows. Early in January, the U.S. authorities announced that the swap network between the Federal Reserve System and a number of foreign central banks would “henceforth be utilized actively” to counter disorderly market conditions, and that a new swap line had been established between the U.S. Treasury and the Bundesbank. Subsequently, market conditions led to heavier interventions by the U.S. authorities, and the central banks

Chart 7. Major Industrial Countries: Effective Exchange Rates, 1975–July 1978¹

(Indices, 1977 = 100)



¹ "MERM" indices as reported in *International Financial Statistics*.

of Japan and the Federal Republic of Germany continued their intervention policies. In March, it was announced that the swap facility existing between the Bundesbank and the U.S. Federal Reserve System had been doubled to the equivalent of \$4 billion, that the U.S. Treasury had arranged for a sale of SDR 600 million to the Bundesbank for deutsche mark, and that the United States was prepared to draw on its reserve position in the Fund, if and when necessary, to acquire more foreign exchange.

During the April–July period of 1978, effective rates for major currencies other than the Japanese yen became notably steadier. As shown in Chart 7, the yen continued to appreciate rapidly through July. The deutsche mark fell back somewhat over the period. The effective rate for the U.S. dollar, after firming early in the second quarter, declined during June and July. The appreciation of the yen from April to the end of July amounted to some 15 per cent, while the depreciation of the U.S. dollar was almost 5 per cent and that of the deutsche mark 3 per cent. Effective rates for the currencies of other major industrial countries at the end of July differed from their respective April averages by less than 3 per cent.

The French franc experienced a sharp but temporary dip in February 1978, under the impact of anticipatory influences and subsequent reactions associated with national elections in March; otherwise, it has been steady since late 1976. The effective exchange rate for the Italian lira declined gradually during 1977 and the first half of 1978, but the cumulative movement was not large. The stability of the pound sterling through the first ten months of 1977 required massive purchases of foreign exchange by the U.K. monetary authorities, and their discontinuance of efforts to stabilize the rate was followed by a fairly sharp, but short-lived, appreciation of the effective rate around the turn of the year. Since mid-February, that rate has receded to about the level prevailing during the first three quarters of 1977.

The developments outlined above with respect to exchange rates of major industrial countries have had important implications, of course, for a number of other countries. Within the European common margins arrangement, the various currencies that participate with the deutsche mark have generally appreciated with that currency. Effective exchange rates for the Belgian franc and the Dutch guilder, for example, rose by 7–9 per cent from mid-1976 to June 1978, with consequent effects on the relative cost positions of the two countries in international trade. Such developments brought periods of tension within the "snake," forcing Belgium to raise domestic interest rates substantially for a time in order to maintain the agreed margins and leading to

exchange rate adjustments by members of the "snake" whose domestic developments made their authorities unable to keep their currencies in line with the deutsche mark. Sweden, Denmark, and Norway devalued twice during 1977, in April and in August, with Sweden leaving the "snake" on the latter occasion; and Norway devalued again in February 1978.

The differing movements of exchange rates for major currencies created problems of exchange rate management for many countries outside the industrial world. In this context, a number of countries faced the problem of reassessing the pattern of their external trading relationships; this problem was particularly difficult for countries where contrasting geographic distributions of exports and imports tended to magnify the impact of exchange rate movements for major currencies on import costs and on prices received by domestic exporters.

It is important that the marked changes in exchange rates for the U.S. dollar, the deutsche mark, and the yen over the past year and a half be viewed in perspective. Although the dollar depreciated by 27 per cent against the yen and 13 per cent against the deutsche mark from December 1976 to June 1978, it depreciated much less against most currencies and appreciated over the same period against some, such as the Canadian dollar and the Swedish krona, so that the decline in the effective rate for the U.S. dollar during these 18 months was only 9½ per cent. In large part, the major exchange rate changes compensated for previous and concurrent differences in rates of increase in domestic prices. Even after the recent rapid changes in exchange rates, the index of relative prices of German manufactures adjusted for exchange rate changes was about the same in the second quarter of 1978 as the average for 1973. Changes in corresponding relative prices for the United States (downward) and for Japan (upward) over the same period have not been large.

Major Oil Exporting Countries

Since the beginning of 1974, the large current account surplus of the major oil exporting countries, resulting from the sharp increase in the price of oil, has been a central feature of the global pattern of international payments. Most of the oil exporting countries, however, have rapidly expanded their imports of goods and services, with the result that their combined current account surplus has ceased, at least in 1978, to dominate the international payments picture. That surplus declined irregularly from \$68 billion in 1974 to some \$35 billion in 1977. The latter figure would have been considerably higher (by perhaps \$7–8 billion) under more normal conditions of activity in the industrial

world. However, given the probable course of developments in the industrial countries, the oil exporters' surplus is expected to show a large drop this year, to about \$20 billion—the most notable change in the projected global pattern of current account balances. (See Table 5.)

The main assumptions underlying this expected decline in the oil surplus are (i) a small decline in the volume of oil exports (for the second consecutive year), with the increase in world oil consumption again expected to be approximately matched by production increases in countries other than the major oil exporters; (ii) very little increase in the average export price of oil (because of a continued freeze in the price of the OPEC marker crude, in line with the results of the OPEC meetings of December 1977 and June 1978); (iii) a rise of some 16 per cent in the (U.S. dollar) value of merchandise imports; and (iv) a further increase of about \$1½ billion in the deficit on services and private transfers.

The current account surplus of the oil exporters is now concentrated among five countries of relatively low absorptive capacity—Saudi Arabia, Kuwait, the United Arab Emirates, Qatar, and the Socialist People's Libyan Arab Jamahiriya. These countries, producing about half of the entire group's oil exports, but having only about 3–4 per cent of its population, accounted for almost 90 per cent of the combined surplus in 1977. With the position of other oil exporters (as a group) shifting into deficit, they are expected to account for more than 100 per cent in 1978.

As pointed out in last year's Annual Report, available information on placements of the financial surpluses accruing to the oil exporters since 1974 indicates a trend toward diversification of investments and shifts into less liquid forms. This trend, which can be regarded as tending to increase the stability of international capital movements, continued in 1977, although at a reduced rate. The expected decline in new external investments of the oil exporters from 1977 to 1978 is likely to be smaller than the projected drop in their current account surplus because of an increase in new borrowings by oil exporting countries with high absorptive capacity.

Less Developed Primary Producing Countries

The past two years have witnessed a striking reduction of the current account deficit of the non-oil developing countries as a group, following an unprecedented bulge in that deficit during 1974 and 1975. From a peak of some \$38 billion in 1975, it dropped to \$25 billion in 1976 and to about \$22 billion in

1977 (Table 6). The decline was partly a reflection of cyclical developments in the industrial countries that became more favorable to expansion of exports of other countries after 1975, but also stemmed to an important extent from widespread efforts by non-oil developing countries to adjust their external payments positions in the wake of the difficulties resulting from the international recession and the 1973–74 change in the price of oil.

The initial reduction of the combined current account deficit of these countries in 1976, while reflecting a temporarily strong cyclical upswing in the volume of demand for their exports, as well as a favorable shift in their terms of trade, also owed a good deal to their achievement of a very moderate rate of growth in import volume (Table 3). The improvement in the terms of trade continued in 1977, although on a reduced scale and with a reversal of the favorable movement before midyear. Growth in the volume of exports slackened because of the hesitancy of market expansion in most of the industrial countries, and also because of domestic absorption of exportable goods in developing countries with high inflation, but remained a little stronger than the rise in imports. For 1978, however, the expansion of imports appears to be catching up with that of exports in terms of volume, and a partial reversal of the favorable shift in the terms of trade that occurred during 1976 and 1977 is pushing the trade deficit of the non-oil developing countries to a higher level. In addition, some increase in net payments for services—including interest payments on enlarged external debts—seems likely to contribute toward a larger current account deficit. The Fund staff projections summarized in Table 5 place this deficit at \$30 billion, compared with \$22 billion in 1977.

Financing of the projected deficit would not seem to require any increase in the net inflow of borrowed funds. Indeed, it could be accomplished with a slight reduction in such borrowing if present expectations regarding moderation of reserve increases should be borne out.

The rapid downward adjustment of the combined current account deficit of the non-oil developing countries from 1975 to 1977 was not accompanied by any commensurate decline in net inflows of capital and aid. On the contrary, aggregate external borrowing by this group of countries was maintained in 1976 at the previous year's level and decreased only moderately in 1977 (Table 8). In both years, net inflows of financial resources far exceeded the shrinking current account deficits, permitting sizable additions to official reserve assets.

These additions to reserves followed two years (1974 and 1975) in which the urgency of large current

account financing requirements had prevented any significant reserve accumulation, even in nominal terms, and during which inflation had eroded the real value of the reserves held. By the end of 1977, however, the accumulation of official reserves that resulted from two years of borrowing well in excess of the immediate requirements of current account financing had restored the average ratio of reserves to imports, for the non-oil developing countries as a group, to about the level prevailing for the period 1967–72.

Increases in reserves of the developing countries, it may be noted, provided one of the main sources of funds channeled through the international banking system during 1976 and 1977. Liabilities of reporting banks to non-oil developing countries rose rapidly in these years, and placements of official reserves in Eurocurrency deposits accounted for much of this increase. Since borrowers in the non-oil developing countries were also among the principal users of funds lent by the Eurobanking institutions, these countries, in effect, have collectively provided a considerable part of their combined external financing through their own placements of reserves in the form of Eurocurrency claims.

Table 8 summarizes, for the period 1974 through 1977, Fund staff estimates of the financial transactions by which the aggregate current account deficit of the whole group of non-oil developing countries was covered. Major shifts in sources of financial inflows are not expected for 1978, but there may be some slackening of reliance on bank financing, probably counterbalanced by increases in funds—both long-term loans and grants—obtained by governments of non-oil developing countries from official agencies of other governments and from international development lending institutions.

Although outstanding debt of the non-oil developing countries has leveled off in relation to their export earnings, the ratio of debt service payments to such earnings rose in 1977 (Chart 8) and may be expected to show another increase in 1978. The main factor is an upsurge of amortization payments, reflecting the shorter maturities of the bank loans so prominent in the recent financing pattern (Chart 9), together with the expiration of grace periods for amortization of many of the debts incurred in the wave of heavy borrowing after 1973.

Regional developments.—Developments in many of the non-oil developing countries have deviated significantly from the composite picture sketched in the foregoing overview. The breadth of the prevailing differences may be suggested in the following regional summaries.

Table 8. Non-Oil Developing Countries: Current Account Financing, 1974-77

(In billions of U.S. dollars)

	1974	1975	1976	1977
Current account deficit ¹	29.9	37.7	25.2	22.0
Financing through transactions that do not affect net debt positions	10.6 ²	11.3	10.2	11.7
Net unrequited transfers received by governments of non-oil developing countries	6.1 ²	6.5	5.7	6.9
Direct investment flows, net	4.4	4.8	4.5	4.8
Net borrowing and use of reserves ³	19.3 ²	26.4	15.0	10.3
Reduction of reserve assets (accumulation, —)	-2.8	-0.8	-11.6	-11.6
Net external borrowing ⁴	22.1 ²	27.2	26.6	21.9
Long-term from official sources, net ⁵	8.3 ²	10.2	8.7	10.0
Long-term by governments ⁵	5.4 ²	6.2	5.6	5.3
By other borrowers ⁵	2.9	4.0	3.1	4.7
Other long-term borrowing from nonresidents, net	7.8	10.8	15.0	13.1
From private banks abroad ⁵	5.7	7.7	10.6	9.4
Through suppliers' credits ⁵	0.5	0.8	1.3	1.2
Other sources ⁶	1.6	2.3	3.1	2.5
Use of reserve-related credit facilities, net ⁷	1.4	1.6	3.1	-0.8
Other short-term borrowing, net	4.3	6.2	2.9	
Residual errors and omissions ⁸	0.5	-1.8	-3.0	-0.5

Sources: Fund balance of payments records and Fund staff estimates.

¹ Balance on goods, services, and private transfers (with sign reversed).² Excludes the effect of a revision of the terms of the disposition of economic assistance loans made by the United States to India and repayable in rupees, and of rupees already acquired by the U.S. Government in repayment of such loans. The revision has the effect of increasing official transfers by about US\$2 billion with an offset in net official loans.³ I.e., financing through changes in net debt positions (net borrowing, less net accumulation—or plus net liquidation—of official reserve assets).⁴ Includes any net use of nonreserve claims on nonresidents, errors and omissions in reported balance of payments statements for individual countries, and minor deficiencies in coverage.⁵ Public and publicly guaranteed borrowing only.⁶ Including errors and residuals that arise from the mismatching of data taken from creditor and debtor records.⁷ Comprises use of Fund credit and short-term borrowing by monetary authorities from other monetary authorities.⁸ Errors and omissions in reported balance of payments statements for individual countries, plus minor omissions in coverage.

The *Asian region* was one featuring a predominance of strong overall balance of payments positions in 1977. Its aggregate external deficit on current account was reduced further below the 1974-75 level than that of any of the other major developing regions. As shown in Table 6, the Asian current account deficit was only about \$3 billion in 1976 and \$2 billion in 1977, compared with \$8½ billion in 1975 (and a peak of \$9½ billion in 1974). The marked reduction after 1975 reflected the adoption and implementation of relatively strong stabilization policies in a number of Asian countries at a comparatively early stage. These policies, with their moderating impact on domestic demand, and particularly on private investment, helped to check the import expansion, and their impact was supplemented by a strong revival of export growth in 1976, particularly for countries supplying substantial amounts of manufactured goods to international markets.

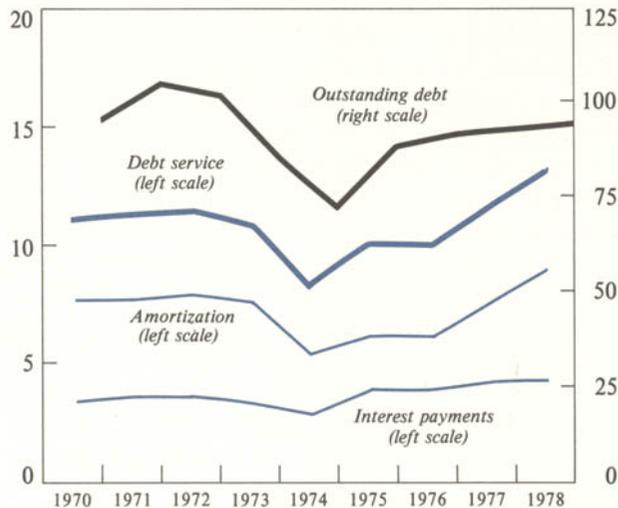
In 1977, a moderate deterioration in the capital account of the regional balance of payments resulted from fairly substantial reductions in long-term capital inflows. However, the change in the net balance on capital account roughly matched that in the current account, so that the overall balance of payments surplus of the Asian countries as a group changed very little from 1976 to 1977. Substantial overall balance of pay-

ments surpluses were again achieved by India, Korea, and Malaysia, although the Malaysian surplus was appreciably lower than in the previous year.

For 1978, a moderate upswing in the current account deficit of the Asian region is in prospect, probably involving reduced overall payments surpluses or increased deficits for nearly all the countries in the area. These changes, however, are unlikely to invalidate the characterization of the Asian region as one with relatively strong external payments positions. On the whole, the larger countries have coped well with the domestic monetary problems arising from their surpluses. Also, in formulating their economic policies, these countries have recognized the desirability of reducing their external surpluses. In general, they have opted for import liberalization, tariff reductions, and attempts to stimulate investment, rather than action to appreciate their exchange rates. Such decisions stemmed largely from a widespread view that the balance of payments surpluses were temporary, in some cases reflecting good crops due to favorable weather, cyclically favorable commodity prices, or short-term capital inflows. Reluctance to contemplate appreciation of exchange rates was rooted in concern about the future course of exports, which seemed uncertain in the face of faltering demand and rising protectionist tendencies in the industrial countries.

Chart 8. Non-Oil Developing Countries: Debt and Debt Service, 1970–78¹

(As a percentage of exports of goods and services)



Sources: IBRD Debtor Reporting System and Fund staff estimates.

¹ The debt and debt service ratios plotted in this chart relate only to medium-term and long-term external public, or publicly guaranteed, debt.

Most of the *Latin American and Caribbean countries* have also had considerable success with their stabilization and adjustment policies. In 1977, their combined deficit on current account amounted to \$8½ billion, down from \$11½ billion in 1976 and \$16½ billion in 1975 (Table 6). A substantial portion of the drop in 1977 reflected marked improvement in the terms of trade, arising to a considerable extent from an unprecedented increase in coffee prices during late 1976 and early 1977. Export values in various countries were further boosted by favorable prices for fishmeal, soybeans, and most of the region's agricultural raw material exports, as well as by a strong rise in import demand in the United States, which is the main trading partner for countries in the area. Although prices of most cereals, sugar, and meat remained depressed, and those for non-ferrous metals other than tin dropped further in world markets, the overall increase in export earnings in 1977 was on the order of 20 per cent. In contrast, imports of the Latin American and Caribbean oil importing countries remained sluggish, chiefly because of efforts to restrain domestic demand in order to curb inflation and improve the balance of payments.

The reduction of the aggregate current account deficit of the Latin American and Caribbean oil importing countries in 1977 was accompanied by a moderate decline in the capital inflow. Although official borrowing from governments and international organizations continued to rise, public sector borrowing from private

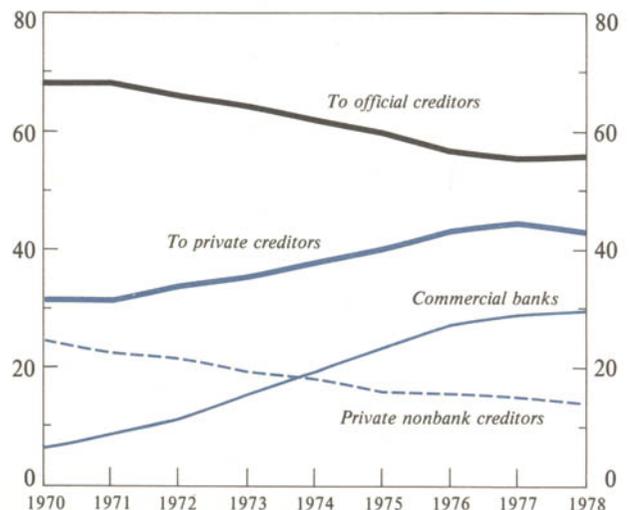
sources declined substantially. Private direct investment remained steady, but market borrowing by the private sector was reduced. Nevertheless, net capital inflows into the area exceeded the current account deficit by a wide margin, permitting a \$4½ billion accumulation of reserves. At year-end, reserve holdings of countries in the area totaled \$20 billion, equivalent to almost six months of imports at the 1977 rate.

An upswing in the current account deficit of these countries seems inevitable for 1978. With a decline in coffee prices playing a major role, the terms of trade have been moving unfavorably, and export earnings are not expected to keep pace with import expansion. Since virtually no change in the inflow of capital is anticipated, the area's overall balance of payments surplus will probably be reduced substantially, and the accumulation of reserves may slacken.

Positions of individual Latin American and Caribbean countries are mixed. Countries that have moved into relatively favorable balance of payments positions and made progress in controlling or moderating inflation—generally through application of more restrained credit and fiscal policies—include Argentina, Brazil, and Chile. Mexico also achieved a major adjustment in its external position in 1977, and has in place policies that should be instrumental in permitting a revival of economic activity without renewed deterioration of the overall balance of payments position. Guyana, Jamaica, and Peru, on the other hand, continue to face difficult

Chart 9. Non-Oil Developing Countries: Share of External Debt¹ Owed to Various Groups of Creditors, End 1970–End 1978

(As a percentage of total debt outstanding)



Sources: IBRD Debtor Reporting System and Fund staff estimates.

¹ Public and publicly guaranteed medium-term and long-term external debt.

situations, which they are taking steps to improve. In Central America, the authorities are expected to rely, as in the past, on cautious demand policies to limit the effect of the latest downswing in coffee prices on the overall balance of payments position.

The *African region* was the only one in which the combined current account deficit of non-oil countries increased from 1976 to 1977—from \$5 billion to \$6 billion. Among the countries of that area, the current account deterioration reflected in the group's aggregate balance was a pervasive, but by no means universal, experience.

In many African countries, economic and foreign trade performances were strongly affected by the weak trend of demand in industrial Europe, which is a particularly important market for those countries. Among the commodities for which demand and prices were weak in 1977 were copper (particularly important for Zaïre and Zambia), iron ore (Liberia and Mauritania), phosphates (Morocco, Senegal, and Togo), and sugar (Mauritius and Swaziland). On the other hand, export earnings of some African countries benefited greatly from the high coffee prices prevailing at the beginning of 1977. Weather conditions and political strife, accompanied by border or port closures, had substantial adverse effects in various parts of Africa.

Stabilization measures were adopted by some 20 African countries in 1977, mostly in connection with use of Trust Fund resources. These adjustment measures helped to hold down the aggregate trade deficit for the area. This achievement, however, was swamped by a sharp increase in net payments for external services.

Despite the predominance of enlarged current account deficits, total international reserves of the African non-oil countries rose by about \$½ billion (following two years of virtually unchanged holdings) as receipts from capital inflows and official transfers exceeded the imbalance on current account in 1977. The foreign borrowing that produced an overall balance of payments surplus for the African countries in that year raised their external debt substantially, but very unevenly. External debts have reached troublesome levels in a number of cases.

For 1978, sustained or rising economic activity in Africa, supported by rising public sector investments, appears to be resulting in a further expansion of imports. In the absence of strong demand expansion in industrial Europe, the opportunity for gains in the volume of exports is limited; and price trends for African export commodities during 1978 to date, though mixed, have not, on the whole, been favorable. A smaller rise in the value of exports than in that of imports is thus implied for 1978. There is cause for concern, therefore, that an increasing number of coun-

tries may experience external debt servicing problems and other financial pressures unless additional remedial measures are taken (particularly to reduce public sector deficits). With some exceptions, the African countries have not made much use to date of exchange rate changes to deal with their balance of payments problems.

The balance of payments positions of all the non-oil exporting countries of the *Middle Eastern region* are characterized by trade and current account deficits. Faced with a resource constraint, most of these countries have financed large and persistent public sector deficits through domestic credit creation and foreign borrowing, thus incurring heavy burdens of external debt servicing and generating domestic inflationary pressures that, in turn, have contributed to the current account deficits in their balances of payments. However, private remittances by workers in the neighboring oil exporting countries and increased official transfers have provided a major balance of payments support to these countries, so that there is an overall surplus for the group as a whole. In general, the smaller countries in the area account for a disproportionate share of this combined overall surplus.

More Developed Primary Producing Countries

The more developed primary producers include a number of countries whose adjustments of external positions since the disturbances of 1974 and 1975 were late or minimal through 1977. As a group, consequently, they have been slower to achieve any major reduction of their combined current account deficit than the other major groups of non-oil primary producing countries. Their deficit, after reaching a peak of nearly \$15 billion in 1975 under the adverse impact of the international recession and the oil price increase, still remained above \$13 billion in 1977 (Table 6). Although some of the countries in the group have made significant adjustments, others actually had larger negative balances on current account in 1977 than in 1975.

For the group as a whole, an important factor in this situation has been a strikingly unfavorable evolution of the terms of trade over the period since 1973 (Table 4). Unlike the terms of trade of the non-oil developing countries, those of the more developed group did not recover after 1975, but continued to worsen in each subsequent year. Consequently, although import expansion has been quite moderate in volume terms, improvement of the trade balance has been difficult, even with relatively strong gains in export volume. In effect, the more developed primary producing countries as a group have had to increase their real exports substantially to support even the moderate expansion of real imports that they have obtained.

Table 9. More Developed Primary Producing Countries: Current Account Financing, 1974-77

(In billions of U.S. dollars)

	1974	1975	1976	1977
Current account deficit ¹	14.5	14.8	13.7	13.3
Financing through transactions that do not affect net debt positions	2.1	1.0	1.3	1.9
Net unrequited transfers paid (—) or received (+) by governments				
of more developed primary producing countries	—0.2	—0.3	—0.2	0.1
Direct investment flows, net	2.3	1.3	1.5	1.8
Net borrowing and use of reserves ²	12.4	13.8	12.4	11.4
Reduction of reserve assets (accumulation, —)	3.9	2.4	—0.7	—
Net external borrowing ³	8.5	11.4	13.1	11.4
Long-term loans received by governments from official sources, net	0.5	0.5	1.0	0.9
Other long-term borrowing from nonresidents, net	6.4	8.8	8.4	8.6
<i>Public and publicly guaranteed borrowing from private banks abroad</i>	1.7	3.4	2.1	2.0
<i>Other sources</i> ⁴	4.7	5.4	6.3	6.6
Use of reserve-related credit facilities, net ⁵	0.6	2.4	2.8	0.8
Other short-term borrowing, net	0.7	0.9	0.8	
Residual errors and omissions ⁶	0.4	—1.2	0.1	1.1

Sources: Fund balance of payments records and Fund staff estimates.

¹ Balance on goods, services, and private transfers (with sign reversed).² I.e., financing through changes in net debt positions (net borrowing, less net accumulation—or plus net liquidation—of official reserve assets).³ Includes any net use of nonreserve claims on nonresidents, errors and omissions in reported balance of payments statements for individual countries, and minor deficiencies in coverage.⁴ Including errors and residuals that arise from the mismatching of data taken from creditor and debtor records.⁵ Comprises use of Fund credit and short-term borrowing by monetary authorities from other monetary authorities.⁶ Errors and omissions in reported balance of payments statements for individual countries, plus minor omissions in coverage.

Moreover, these countries have undergone a substantial impairment of their international financial positions. Their reserves were exceptionally high at the beginning of the period of difficulty (because of favorable terms of trade and strong exports during the preceding boom), and were used rather freely in the financing of the initial large deficits in 1974 and 1975. In addition, most of the countries in the group had good access to international capital markets, and a number of them drew freely on lines of credit there to provide the needed financing for the current account deficits (Table 9). Although their total external borrowing rose further after 1975 (unlike that of the less developed non-oil primary producing countries), they did not achieve any significant net rebuilding of reserves during 1976 and 1977 (as did the less developed countries).

The moderate pace of import expansion in the more developed primary producing countries since 1975 is partly attributable to restrictive fiscal and monetary policies applied by several members of the group in response to the external shocks and high inflation rates of the mid-1970s. As noted earlier, Australia, New Zealand, South Africa, and Finland all took relatively early and decisive action to control inflation and to reduce external imbalances; and they were successful to a considerable extent in achieving those aims, although at the expense of marked slowdowns in the growth of domestic output. Shifts back toward more growth-oriented policies have been inhibited by the weakness of foreign markets and in some cases also by shrinkages of capital inflows from abroad, which

have intensified balance of payments constraints on financial policy.

Among the other more developed primary producers, the current situation is rather different. Some of them, including Greece, Ireland, and Yugoslavia, have been relatively free of balance of payments constraints in recent years. On the other hand, three of the countries in southern Europe—Spain, Portugal, and Turkey—encountered severe balance of payments difficulties during this period, but did not adopt adjustment measures until their problems had become deep-seated. In these countries, the postponement of action was generally due to internal problems and political uncertainties. Meanwhile, the authorities concerned were confronted with high and accelerating rates of inflation, widening current account deficits, and rapidly rising external debts as reliance was placed increasingly on credits from international markets to balance the external accounts.

In Spain, the current account showed substantial improvement from 1976 to 1977, chiefly because of the stagnation of domestic demand, in part reflecting a tightening of monetary policy, and a marked increase in earnings from tourism. Devaluation of the Spanish peseta in July 1977 and the introduction of a major stabilization program in October of that year provided a basis for further adjustment of Spain's external position. During the early months of 1978, Portugal and Turkey also adopted major stabilization programs, and substantial reductions in their respective current account deficits are to be expected in 1978.

Primarily because of the long-postponed improve-

ments in the southern European countries, a fairly sizable drop in the aggregate current account deficit of the whole group of more developed primary producers is in prospect, as indicated by the 1978 estimates given in Table 5. Although the group includes a number of countries whose current account deficits will probably rise in 1978, nearly all of these upward changes are likely to be moderate. For the entire group, the net decline in the aggregate deficit now visualized (some \$2½ billion) would lower it to roughly \$11 billion.

Policy Strategy and the Adjustment Process

It was pointed out in the 1977 Annual Report that economic policies in the industrial countries, and in most other countries as well, were placing a primary emphasis on medium-term objectives. The central aim was to combat inflation and, where necessary, strengthen the external position over a period of a few years in the firm belief that such an approach would yield the best results for economic growth and employment in the longer run. At the same time, the approach being followed envisaged that, at least for the industrial countries as a group, rates of economic growth over the medium term would be sufficient to permit a gradual absorption of the prevailing slack in utilization of resources. It was felt that success in the pursuit of these objectives would contribute greatly to the smooth working of the international adjustment process.

By the end of 1977, it had become evident that this strategy, while still appropriate, had not been implemented as originally expected. The overall growth of output in the industrial countries since around the middle of 1976 had not proved sufficient to bring about even a moderate reduction in unemployment and excess industrial capacity in these countries as a group, or to foster a satisfactory expansion in world trade.

Conclusions of the Executive Board

In Executive Board discussions of this situation in the early part of 1978, drawing on discussions of the Fund's Interim Committee and Board of Governors in their September 1977 meetings, several conclusions or judgments were reached concerning the policies and conditions necessary for sustained improvement of the world economy.

1. A more effective and symmetrical functioning of the international adjustment process was called for. There was clearly a need for adequate stimulation of demand (and imports) by the surplus countries, without intensifying inflationary pressures, in order to support

and facilitate the necessary stabilization efforts by countries in relatively weak positions.

2. There was agreement on the need for greater emphasis on policies to stimulate economic growth. This need derived from the substantial underutilization of resources, including high levels of unemployment, prevalent in very many countries; the concurrent low rates of investment, with their detrimental impact on the growth of productive capacity; the slow growth of world trade, which was impairing the effectiveness of the international adjustment process; and the spread of protectionist trade measures, a particularly ominous development on the world economic scene.⁹ Together, these various manifestations of inadequate economic growth were viewed as presenting a very difficult and potentially dangerous situation. Dealing with it was complicated by a number of structural changes that have taken place or are now in process in many countries.

This conclusion on the need for more emphasis on policies to encourage growth was reached with full regard to the problem of inflation—to the importance of continuing to combat the unacceptably high rates of price increase prevailing in most member countries. Nothing would be gained, and problems could be made much worse, by jeopardizing progress on the inflation front. However, it was recognized that there were now quite a number of countries in which, because of the accumulation of economic slack and the blunting of inflationary expectations, the risks of exacerbating inflation would be minimal if cautious and well-designed policies of expansion were pursued.

3. The strategy of policy for the period ahead must reflect the major changes that had taken place since the time when a valid distinction could be made between (a) three countries in relatively strong positions—the United States, the Federal Republic of Germany, and Japan—that could lead the economic recovery and (b) a number of other countries that had to give overwhelming attention to balance of payments and inflation problems. Many of these latter countries had made substantial strides in dealing with their problems, although at the cost of a protracted slowing of economic growth, while the United States had lost strength on both the inflation and payments fronts.

Thus, the main guiding principle in any general strategy had to be that the roles of individual countries should be based on their relative positions in the international adjustment process and on their progress in reducing inflation. That is to say, countries should be expected to contribute to world economic growth in

⁹ This development has been described and analyzed in *The Rise in Protectionism*, prepared by the Trade and Payments Division of the Exchange and Trade Relations Department, IMF Pamphlet Series, No. 24 (Washington, 1978).

relation to both strength of the balance of payments and price performance—a proposition of particular importance because of the extraordinarily wide differences in the positions of member countries. In this regard, the unsatisfactory mixture of surpluses and deficits characterizing the current account pattern of the industrial countries was considered to be one of the most troublesome features of the world economic situation.

4. It could be assumed that a strategy so designed would also respond to the desirability of making a basic contribution to greater stability in exchange markets, beyond what can and should be achieved in this area by monetary policy and by exchange market intervention.

A Medium-Term Scenario

A general strategy reflecting the foregoing considerations has been translated by the Fund staff into a medium-term “scenario” of coordinated growth and balance of payments adjustment in the industrial countries. It shows how the economies of those countries might evolve over the period to 1980 if national policies were to follow an appropriate course.

This “desirable” scenario provides for a significantly higher average growth rate than that of recent years. It is based on the assumption that individual countries are able to expand domestic demand so as to achieve a rate of growth in real GNP judged to be appropriate from the standpoint of absorbing available slack without aggravating inflation, account being taken of the interdependence of the various countries through flows of foreign trade. Within this framework, the overall growth of real GNP in the industrial countries is placed at 4¾ per cent (on average) for the years 1979 and 1980, compared with the subpar rate of 3¾ per cent experienced in 1977 and now expected for 1978. Growth rates for individual countries have been selected on the basis of their respective rates of inflation, external positions, degrees of economic slack, and rates of growth in potential output. Because of the multiple criteria utilized, these selected growth rates for 1979–80 vary considerably from country to country. For the United States, a rate below the growth of 4½–5 per cent experienced in the recent period is considered a suitable objective in view of the much lesser degree of slack in that country and the prospects for domestic prices, and it would also have the effect of constraining the size of the U.S. current account deficit. For industrial countries other than the United States, the notional growth rates for 1979–80—though differing markedly among themselves—are in general significantly higher than actual rates for 1977 and projected

rates for 1978; realization of these notional rates would bring about only a gradual and moderate reduction in the large amount of available economic slack, but the continuing danger of rekindling inflationary pressures militates against more ambitious aims for real growth.

The staff scenario also embodies a pronounced improvement in the distribution of current account balances, with both the U.S. deficit and the major surpluses being sharply reduced. The chief sources of this improvement are (a) the impact on trade flows of the growth rates projected for 1978 and chosen for 1979–80; (b) the effects, still in the pipeline, of past changes in exchange rates and in relative prices—that is, effects that were not yet reflected in 1977 trade flows but might be expected to occur by about 1980; and (c) an assumed fall in the combined surplus of the major oil exporting countries from 1977 to 1980. Clearly, such an evolution of current account balances in the industrial countries would contribute greatly to the international adjustment process without placing excessive weight on further changes in exchange rates (which for purposes of the estimates in the scenario are assumed to change only in line with relative prices).

This scenario of coordinated growth and balance of payments adjustment was presented by the Fund’s Managing Director to the April 1978 meeting of the Interim Committee in Mexico City. As indicated above, it does not represent a forecast but rather is in the nature of a normative projection showing what the situation of the industrial countries might look like by 1980 if they were to pursue policies geared to appropriate and mutually consistent targets for economic growth. Indeed, staff calculations based on different scenarios with respect to economic growth over the medium term show that the quantitative effects of different cyclical patterns on current account balances can be very substantial, so that—depending on the policies pursued and the growth rates achieved—developments over the next two or three years could turn out to be much worse than those envisaged in the “desirable” scenario.

Of course, in view of the problems and uncertainties involved, countries could not expect to reach particular growth targets or objectives each and every year. It presumably would be more feasible for them to work toward their objectives in a medium-term framework, endeavoring without undue delay to compensate for any significant deviations so as to get back on a path consistent with the medium-term goals.

Regardless of the extent to which coordination of growth targets may play a role in the conduct of economic policy in the industrial countries over the next few years, it is of crucial importance that actual developments accord at least broadly with those en-

visaged in the "desirable" scenario discussed above—that is, that growth rates move higher, on average, and also undergo a marked convergence. It is to be stressed that achievement of this sort of pattern would be in the interest of the industrial countries themselves, as well as of the world economy. Without a development along such lines, these countries would not be able to establish the underlying conditions essential for national economic and financial stability or to contribute to better balance in the world economy. Exchange rate relationships would then be sharply affected by cyclical and other short-term factors, and the instability of exchange rates, in turn, would make it all the more difficult to attain satisfactory rates of economic growth.

Recent Policy Discussions

At the April meeting of the Interim Committee, a consensus was reached (as noted in the communiqué following the meeting) on "the general outlines of a coordinated strategy, containing mutually supportive and reinforcing elements, designed to promote non-inflationary growth of the world economy, leading to higher employment, a reduction of imbalances in international payments, and the conservation of energy." The Committee emphasized that the implementation of this strategy, covering the medium term through 1980, should take due account of the wide differences in current positions of individual countries and thus lead to a pattern of differentiated growth rates.

In view of the risk of reviving inflationary pressures, the Committee noted the utility of policies appropriate to counter the predominance of cost-push factors in the current inflation. The Committee suggested that, for countries where such factors were strong, fiscal stimulus provided through tax reductions might often be more appropriate than equivalent stimulus applied through domestic government spending unless such spending was investment oriented.

In giving attention to the special problems of the developing countries, the Interim Committee noted (inter alia) that the vulnerability of the economies of those countries to slow growth of markets in the industrial world or to reduced access to markets there was a source of widespread concern. The Committee stressed the desirability of measures on the part of the developed countries to assure continued expansion on an adequate scale of the flow of real resources to the developing countries—which would help to promote the adjustment process.

The Committee expressed concern about the risk of increasing resort to protectionist action of all kinds in

the wake of slow growth, low capacity utilization, and high unemployment. In this regard, the Committee stressed the importance of a successful completion of the Multilateral Trade Negotiations now under way.

The question of an appropriate general strategy of policy has also been a preoccupation of the Organization for Economic Cooperation and Development (OECD). At the June 1978 meeting of the OECD Council at the ministerial level, agreement was reached on a strategy—broadly similar to that outlined above—of "internationally concerted action by member countries to achieve more sustained economic growth, and on the respective responsibilities of individual member countries in contributing to faster growth, greater price stability, better payments equilibrium, and strengthened energy policies." Also noteworthy is the conclusion expressed in the Annual Report of the Bank for International Settlements (issued in June 1978) that "the potential consequences of near-stagnation are sufficiently dangerous to warrant a concerted international effort to put the world economy back on a more satisfactory path of development."

The problems in the world economy that have been the subject of so much concern in international financial institutions were confronted at the recent summit meeting held in Bonn, where leaders of the seven major industrial countries—Canada, the Federal Republic of Germany, France, Italy, Japan, the United Kingdom, and the United States—convened on July 16–17. In the communiqué issued at the end of the meeting, the governmental leaders announced agreement on "a comprehensive strategy covering growth, employment and inflation, international monetary policy, energy, trade, and other issues of particular interest to developing countries." They went on to declare that, "We are dealing with long-term problems, which will only yield to sustained efforts. This strategy is a coherent whole, whose parts are interdependent."

Particular concern was expressed about worldwide unemployment, and it was emphasized that improvement in growth was needed where that could be achieved without rekindling inflation. Improved growth, it was noted, would also reduce the extremes of balance of payments surpluses and deficits, reduce destabilizing exchange rate movements, and help to reduce protectionist measures.

The situation, it was indicated, called for "a program of different actions by countries that face different conditions" for the purpose of assuring steady noninflationary growth. In countries whose balance of payments position and inflation rate did not impose special restrictions, this program required a faster rise in domestic demand; where rising prices and costs were creating strong pressures, it would mean taking new measures

against inflation. For each of the summit countries, the communiqué set forth specific policy initiatives or objectives.

In the area of trade, the leaders of these seven countries charged their negotiators in the Tokyo Round, in cooperation with other participants, to resolve the outstanding issues and to bring about a successful conclusion of the detailed negotiations by December 15, 1978. It was recognized, they said, that the products of developing countries required better access to the markets of their own countries, and they stated that in the years ahead the developing countries could count on them for an increased flow of financial assistance and other resources for development. They looked forward to working even more closely with the developing countries, and called for "joint action on the basis of shared responsibility" in order to derive the mutually reinforcing benefits of economic progress.

With respect to international monetary policy, the erratic fluctuations of exchange markets in recent months were said to have had a damaging effect on confidence, investment, and growth throughout the world. Essentially, exchange rate stability could only be achieved by attacking the fundamental problems which had contributed to the present large balance of payments deficits and surpluses. Implementation of policies in the framework of a concerted program would help to bring about a better pattern of world payments

balances, leading to greater stability of exchange markets and, thereby, to improvement in confidence and in the environment for sustained economic growth. The leaders of the summit countries also stated that, although exchange rates needed to respond to changes in underlying economic and financial conditions among nations, their monetary authorities would continue to intervene to the extent necessary to counter disorderly conditions in the exchange markets and would maintain extensive consultations to enhance the effectiveness of these efforts. "We will support," they said "surveillance by the International Monetary Fund to promote effective functioning of the international monetary system."

If national authorities succeed in implementing a strategy around which the broad consensus outlined above has formed, prospects will be greatly enhanced for a more satisfactory rate of economic expansion throughout the world economy, within a pattern of differentiated growth rates among countries designed to reduce external payments imbalances and blunt the threat of rising protectionism without impeding further progress toward price stability. It should be emphasized, in accord with the Bonn communiqué, that such an improvement of basic underlying conditions would provide the essential foundation for greater stability of exchange markets, and that this stability would in turn help to achieve the higher growth rates desired and to improve the prospects for developed and developing countries alike.

Chapter 2

Developments in the International Monetary System

This chapter reviews some of the main features of the amended Articles of Agreement, compares the operation of the international monetary system as it is today with the objectives of the Articles, and suggests the role the Fund might play in dealing with current and prospective problems. The first half of the chapter deals with the operation of the exchange rate system, while the second half is concerned with international liquidity.

The Exchange Rate System

The world economy, as pictured in Chapter 1, is still some distance away from the kind of stability outlined in the objectives of the Articles, and this is reflected in the operation of the exchange rate system. Over recent years there have been substantial changes in the structure of exchange rates, and significant short-run fluctuations in rates during some periods. Exchange rate changes have generally reflected divergent trends in inflation rates and a wide range of short-term economic and political factors. There is widespread agreement that the increased flexibility of exchange rates has been an important part of the adjustment process but the size of exchange rate movements in recent years has created difficulties for members. As might be expected, members have differing views on the benefits of exchange rate flexibility. For example, many of the less developed countries that peg their exchange rates to some currency or combination of currencies, and some of the smaller members of the European common margins arrangement, do not share the attitude of some of the larger Fund members toward floating. These differing views are examined, and the first half of the chapter concludes with an analysis of exchange rates and the adjustment process, and a discussion of Fund surveillance.

Article IV and the State of the World Economy

The objectives for the exchange rate system under the Second Amendment, and the obligations associated with

them, are spelled out in the new Article IV on exchange arrangements. Considerable importance is placed on the need to promote stability by fostering orderly underlying economic and financial conditions, and each member undertakes to collaborate with the Fund and other members to assure orderly exchange arrangements and to promote a stable system of exchange rates. Such stability will not be easy to achieve or to maintain, and the Articles provide that the Fund shall exercise firm surveillance over the exchange rate policies of members and shall adopt specific principles for the guidance of members. These principles are to respect the domestic social and political policies of members, and in applying them the Fund is to pay due regard to the circumstances of members. In accordance with these requirements, the decision on "Surveillance over Exchange Rate Policies" was taken in April 1977, and both the surveillance principles and procedures became operational with the coming into effect of the Second Amendment. While surveillance over exchange rate policies can contribute to the effective working of the exchange rate system, the Articles emphasize that stability at the national level is a necessary condition for a stable international monetary system.

In the conduct of exchange rate policy itself, Article IV and the surveillance decision emphasize the significance for the international monetary system of exchange rates that promote adjustment. Section 1 of Article IV and principle A of the surveillance decision require that members "avoid manipulating exchange rates or the international monetary system in order to prevent effective balance of payments adjustment or to gain an unfair competitive advantage over other members." The obligation of ensuring orderly exchange arrangements is detailed in principle B of the surveillance decision, which states that "A member shall intervene in the exchange market if necessary to counter disorderly conditions which may be characterized inter alia by disruptive short-term movements in the exchange value of its currency." It is widely agreed that inappropriate exchange rate policies can impose costs. By discouraging exchange rate policies that give rise to rates

that impede adjustment or lead to disruptive short-term movements in rates, Fund surveillance over exchange rate policies can reduce these costs.

While substantial efforts have been and are being made to achieve greater stability, there is still a significant difference between the objectives of the amended Articles and the state of the world economy. With rates of inflation differing substantially from country to country, and with large current account imbalances persisting among a number of major countries, it is not surprising that exchange rates have at times been subject to major changes and substantial short-run fluctuations. Nevertheless, while many of the effects are not as yet evident, there is little doubt that the changes in exchange rates that have occurred over the past two years have on balance aided the external adjustment process. Further, there is a growing recognition that some measure of short-run exchange rate variability may be unavoidable.

Aggregate price indices for the various groups of countries show that the exchange rate system has been operating in recent years in the context of high and variable inflation. The average rate of inflation for the 14 industrial countries, as measured by the deflators of gross national product, was about 12 per cent in 1974, 11 per cent in 1975, and was still close to 7 per cent in 1976 and 1977. This may be compared with an average inflation rate for these countries in the period 1961–64 of about 2.5 per cent and in 1965–69 of 3.7 per cent. The inflation experience for other groups of countries over recent years has been even less encouraging, with average inflation rates in the non-oil developing countries, for example, having been roughly twice as high as in the industrial countries.

Of perhaps even greater relevance for the operation of the exchange rate system is the fact that the period 1973–77 has been one where rates of inflation, real output growth, and monetary expansion have differed substantially from country to country. It is the intercountry differentials in these variables, rather than their behavior within each national economy alone, that are fundamental in determining exchange rate and reserve changes. An indication of the size of recent and past intercountry inflation differentials can be obtained from Table 10, where a measure of the dispersion of inflation among the seven major industrial countries is computed for the years 1960–73 and 1974–77. Two observations can be made about the figures in Table 10. First, the dispersion of inflation among the major industrial countries has been much larger (by a factor of three) in the period of floating rates than during the period 1960–73. Second, the experience of the years since 1973 suggests that intervals of high average rates of inflation, which are also likely to be periods of large inflation differen-

Table 10. Seven Major Industrial Countries: Dispersion of Inflation Rates, 1960–70 Average and Annually for 1971–77

	Mean Rate of Inflation ¹	Dispersion of Inflation ²
1960–70 average	3.6	1.5
1971	5.5	1.9
1972	5.3	1.1
1973	8.6	1.9
1974	14.6	5.4
1975	12.9	5.5
1976	10.0	4.5
1977	9.8	4.5
1960–73 average	4.2	1.5
1974–77 average	11.8	5.0

Source: *International Financial Statistics*.

¹ The (unweighted) average of annual rates of change of consumer prices for the United States, Canada, Japan, France, the Federal Republic of Germany, Italy, and the United Kingdom.

² The measure of dispersion used is the standard deviation of inflation rates among the seven countries.

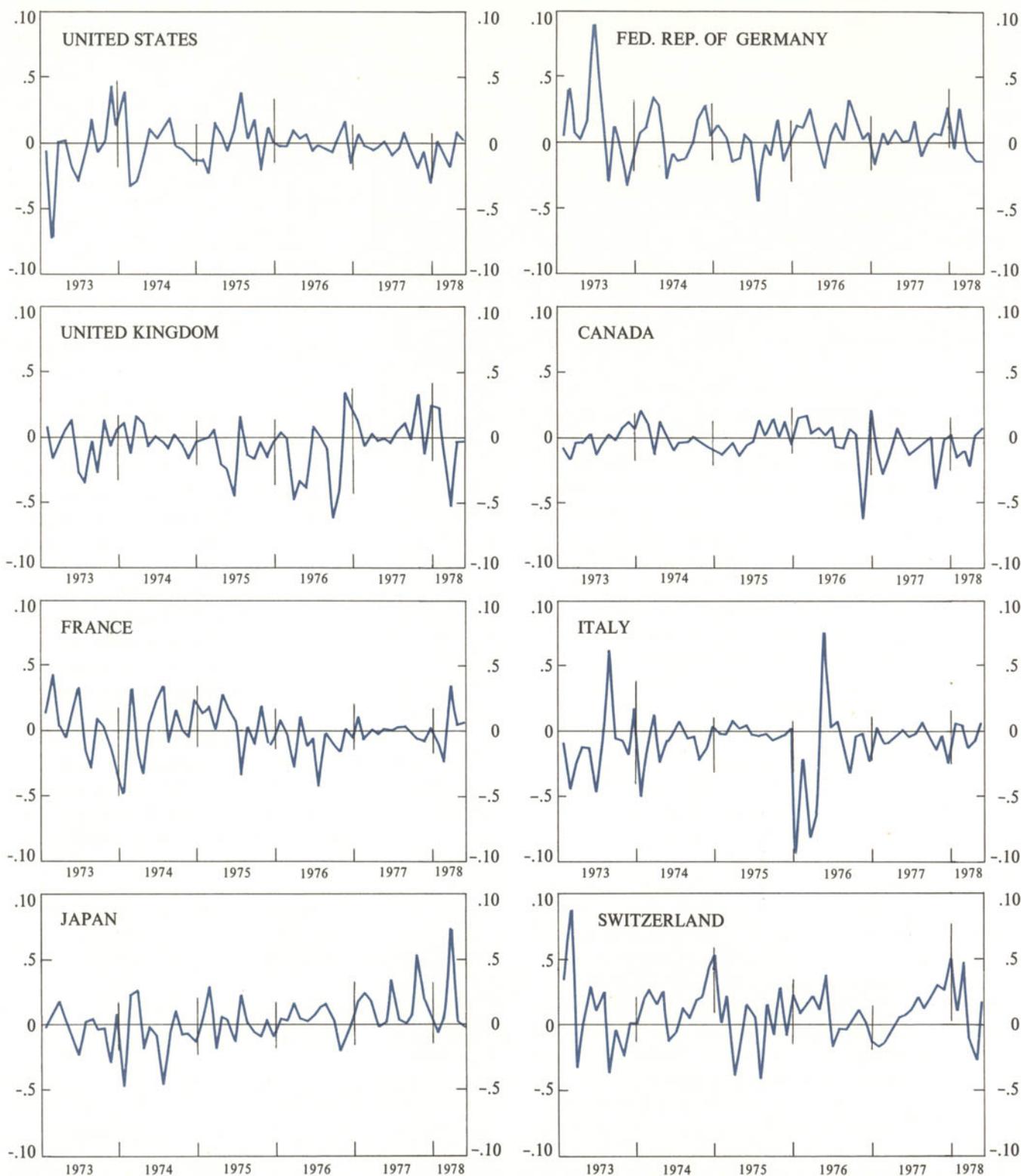
tials, carry a greater probability of large changes in the structure of exchange rates.

The existence of significant intercountry inflation differentials reflects, in part, the fact that demand-management policies and relative cyclical positions have often differed markedly from country to country. Since these divergencies have adverse consequences for the stability of exchange markets, there have from time to time been suggestions that countries coordinate their demand-management and other domestic policies. Until recently, attempts at coordination have achieved only limited success. As pointed out in Chapter 1, concern about the possibility of increasing resort to protectionist action, periods of instability of exchange markets, and widespread inflation and unemployment led the Interim Committee at its meeting in Mexico City to propose the general outlines of a coordinated strategy of growth and balance of payments adjustment, and this was followed by specific initiatives in July at the summit meeting in Bonn.

The Short-Run Variability of Exchange Rates

The structure of exchange rates can be expected to change when economic conditions, such as real incomes, prices, and the supply of money, change in different proportions in the countries involved. From time to time, however, some exchange rate changes have been very abrupt, reversible, and on occasion difficult to relate to variations in underlying economic conditions. Some indication of the extent of the short-term variability of the exchange rates of eight industrial countries over the period 1973–78 is shown in Chart 10, which

Chart 10. Eight Industrial Countries: Short-Run Variability in Effective Exchange Rates, 1973-78
 (Monthly percentage changes)¹



¹ Monthly percentage changes are measured using month-end data. The weights for calculating effective exchange rates are derived from the Fund's multilateral exchange rate model.

presents monthly percentage changes in effective exchange rates. It can be seen that most of the major currencies have been subject to marked short-run movements over the floating rate period, and that for several countries the size of these fluctuations increased in late 1977 and early 1978.

The influences operating on exchange markets are too numerous and diverse to permit a single explanation for recent exchange rate variability. It is possible, however, to identify some causal factors. For countries with well-developed money and capital markets, conditions in the financial markets are probably more important than those in the goods markets for determining short-run exchange rate movements. Indeed, the foreign exchange market can be thought of as an asset market, and the exchange rate between two currencies regarded as a relative asset price that moves with changes in the relative supply and demand for assets denominated in those currencies. As with other assets, current rates of return, risk factors, and expected future rates of return will be important in determining the current price, and when the factors affecting these returns and risks fluctuate substantially, so too will the current price, that is, the exchange rate. In other words, periods of rapidly shifting interest rate differentials, sudden imposition or relaxation of capital and exchange controls, and changing exchange rate expectations are apt to be periods of large short-term exchange rate variability, even when relative prices move only slowly.

The influence of exchange rate expectations or, more correctly, changes in exchange rate expectations are perhaps worthy of special note because of the many factors influencing these expectations, and because the factors themselves are subject to frequent change, especially in an environment of high inflation and irregular economic growth. While the factors affecting exchange rate expectations are not directly observable, it is known that they include, *inter alia*, monetary and fiscal policies, relative cyclical positions, current account and trade account imbalances, inflation differentials and relative competitive positions, political uncertainties, official intervention in the exchange market, and, of course, the change in the exchange rate itself. The reason changes in expectations are particularly important for exchange rate variability is that the current exchange rate may already fully reflect all publicly available information. Hence, it is only new and unexpected information that will cause market participants to change their evaluation of the future exchange rate, and thus the present exchange rate as well.

Official intervention and short-term capital movements also influence the size of short-term fluctuations in exchange rates, although considerable disagreement remains as to their effects on exchange rate stability.

Official intervention can smooth an otherwise disorderly market, but if the authorities attempt to counter movements of the exchange rate that reflect more fundamental factors, this can lead to very heavy capital movements, and ultimately to more abrupt exchange rate changes than would otherwise have taken place. The principal difficulty faced by the authorities in intervening in the market is, of course, that of distinguishing reversible short-term influences from those reflecting changes in underlying conditions.

The causes of short-term fluctuations in exchange rates under the present exchange rate system are thus many. The promising methods for controlling such fluctuations are, however, relatively few. Some degree of short-term variability is probably inevitable and represents the functioning of a market that is continually confronted with new information. There is, however, a need for measures that reduce the frequency and duration of disorderly market conditions. To the extent that unexpected changes in monetary and fiscal policies lead to short-term exchange rate changes, there is a potential contribution to be made by greater stability in the conduct of these policies. A number of industrial countries, including the United States, the Federal Republic of Germany, France, Canada, Switzerland, and the United Kingdom, have announced targets for money growth. Such targets are widely regarded as providing greater stability, although the way in which markets respond to short-run deviations of the monetary aggregates from the targets can, on occasion, lead to temporary fluctuations. Greater official intervention in exchange markets is another option, but the effects of past intervention are not well established. While intervention may well have prevented exchange rates from fluctuating even more than they did in 1977, intervention alone has not been able to offset the other factors making for high volatility, and it is not clear that it will be able to do so in the future, even if implemented on a larger scale. Restoration of greater exchange rate stability probably awaits both the restoration of economic stability at the national level and a significant reduction of the existing large current account imbalances among the industrial countries.

Differing Views on Exchange Rate Flexibility

Present exchange rate arrangements. At the time of the breakdown of the par value system in the early 1970s, it was recognized that, given the likely state of the world economy, members should be free to adopt any of a wide variety of exchange arrangements. Members have taken advantage of this freedom, legalized in the Second Amendment, and the resulting heterogeneity

of current arrangements makes it difficult to characterize the present system. In terms of the number of countries in various categories of exchange arrangements, the system looks closer to one of pegged than to one of floating rates. Pegging, however, takes on a different meaning when the major intervention currencies are themselves floating. On June 30, 1978, there were 95 members who pegged their currencies—63 to a single currency, 15 to the special drawing right, and 17 to some other composite of currencies. On the same date, members with floating currencies included 6 that maintained common margins, 5 that adjusted exchange rates for their currencies according to a set of indicators, and 27 that maintained other types of exchange arrangements, including regimes that are described as floating independently.

Compared with the period 1973–76, there were few recent changes in exchange arrangements. The members with a change in classification in their exchange arrangements in 1977 included Israel, Papua New Guinea, Peru, Portugal, Sweden, Sri Lanka, and Viet Nam. During the first half of 1978, changes in classification occurred for Argentina, Bahrain, Chile, Ghana, Guinea-Bissau, Iran, Jamaica, Peru, Thailand, the United Arab Emirates, and Viet Nam. The new classification for all of these currencies is shown in Appendix I, Table I.1.

While the great majority of Fund members are classified as having pegged rates, almost all of the largest trading countries are floating, or belong to a common margins arrangement, or are following a set of indicators. The extent to which trade is conducted across pegged or floating exchanges can be measured in several ways. One simple method is to measure exports in accordance with the exchange rate classification of the country of origin. When measured in this way, less than one fifth of all trade is carried out by members that are classified as having pegged rates.

Another, more realistic, approach is to measure the trade that is actually conducted at pegged and floating rates. For example, for those countries whose currencies are pegged to the U.S. dollar, only their trade with the United States, and with other members whose currencies are pegged to the U.S. dollar, will be conducted at fixed exchange rates; their trade with other countries (e.g., Canada, the United Kingdom, and members of the European common margins arrangement) will be carried out at floating rates, as the U.S. dollar fluctuates vis-à-vis other currencies. In the same way, members of the European common margins arrangement conduct trade both with countries that are inside the “snake” and with others that are outside it. Although the proportion varies for individual countries, the result is that, on average, less than one third of the total exports of

members of the “snake” is conducted at pegged rates and the rest is carried out at floating rates.

Analyzing world trade flows in this way shows that less than one fifth of all trade moves across pegged exchange rates—a proportion similar to that indicated by the simple method cited earlier. The similarity in the results arises from the fact that the floating-rate trade of members classified as having pegged rates happens to be roughly equal to the pegged-rate trade of members classified as not maintaining their rates against specific currencies or groups of currencies.

In principle, a measure of this kind should extend beyond trade to other international transactions, including services and capital flows. Similarly, it would be interesting to supplement the measure of trade flows with information on the currencies used for invoicing or for carrying out capital transactions. Unfortunately, there is not sufficient detailed information to make use of these more complex measures.

Choice of exchange rate policies. There are a number of considerations that affect both the choice between pegging and floating and the extent to which countries rely on exchange rate movements in the adjustment process. As indicated earlier, most of the less developed countries and some smaller developed countries accept one or another form of pegging. Among the developed countries three main factors seem to influence the attitude of country authorities on exchange rate policy, namely, the effect of exchange rate changes on domestic inflation and employment, the effect of exchange rate variability on the volume of foreign trade flows, and the effect of exchange rate uncertainty on domestic investment and the volume of exports.

In relatively open economies where money wages are strongly linked to the cost of living, the feedback from exchange rate changes to the domestic price level can be troublesome, especially when the country concerned is trying to break out of the so-called vicious circle of inflation and depreciation. It is difficult to persuade wage and salary earners to accept restraints on the rate of increase of earnings if the cost of living is rising rapidly. Similarly, the success of contractionary demand-management policy is often dependent on reducing the public's inflationary expectations, and this in turn can usually only be done by reducing the actual rate of inflation. Currency depreciation can cause difficulties owing to the presence of imported goods in the price index itself, and to the opportunity afforded by higher import prices to mark up the price of domestic goods. Considerations of this kind have sometimes led countries to intervene heavily in the exchange market to keep their rates from falling until the anti-inflationary program has shown some tangible results. More recently, particularly in the last quarter of 1977, when, in their

view, rate changes were excessive and erratic, some surplus countries with a good deal of economic slack intervened in the exchange market. This had the effect of lessening the impact on domestic output and employment of an exchange rate appreciation that potentially might have overshot a stable path.

The inelastic nature of import and export demand for certain important traded commodities can similarly act to reduce the perceived usefulness of exchange rate changes in some countries. Until recently this was viewed as a factor particularly relevant for a number of developing countries, but the increased share of petroleum in the value of imports has made it a concern for industrial countries as well. The views of various countries on this issue are often a direct reflection of the particular commodity composition of their imports and exports. In countries where both the original trade imbalance and the share of price-inelastic commodities in the country's foreign trade are large, the substitution effects of an exchange rate change will be too small to affect the trade balance much unless the exchange rate change itself is large. The difficulty is that such a large exchange rate change can produce significant changes in output and employment in those industries that produce, or compete with, the more price-elastic commodities.

Still other countries have been reluctant to allow the exchange rate to act as a major instrument of adjustment because they fear that a market-determined rate will show considerable variability, that this variability will be translated into exchange rate uncertainty, and that this uncertainty will adversely affect their trade and investment. This long-standing concern has come to the fore recently in conjunction with the sluggish behavior of private domestic investment in several industrial countries. To some extent this is attributed by some countries to exchange rate appreciations that have gone too far. More generally, it is held that, as a result of exchange rate uncertainty, producers in industries where a sizable proportion of total output is typically exported may be reluctant to undertake investment because they are uncertain about the profitability of future export sales. The association of low private investment and the volatility of exchange rates has led a number of countries to the view that the restoration of a sufficient degree of exchange rate stability is a necessary precondition for the resurgence of private domestic investment. The large degree of unused capacity and lower profit rates, however, are also clearly involved in the current investment climate, so that the independent effect of exchange rate uncertainty is difficult to evaluate.

A number of Fund members share the concerns outlined above but have been quite prepared to accept major movements in their exchange rates in response to

market forces. They have, however, engaged in very heavy intervention from time to time to prevent what they feared might prove to be excessive movements in their exchange rates. These countries do, nevertheless, share many of the views of other Fund members that consider that under existing conditions there is no alternative to a measure of exchange rate flexibility.

Those who stress the need for flexibility point out that attempts to maintain given exchange rates in a world characterized by inflation differentials must lead to distortions in prices, output, and employment, as well as to unsustainable payments imbalances. When it is recognized that the structure of exchange rates is probably inconsistent with underlying conditions, capital flows are induced that add to the pressure on rates. Sooner or later, these developments lead to changes in the pattern of exchange rates, which must be larger, and thus more disruptive, the longer they have been delayed. Thus, in the view of these countries, attempts to maintain a given pattern of exchange rates under changing conditions may well lead to less, rather than more, economic stability.

Special concerns of developing countries. Many developing countries have been disturbed by the way in which the exchange rate system has operated in recent years, but to a considerable extent this concern has been connected to the underlying factors that have led to changes in the structure and variability of exchange rates. For example, high and variable rates of inflation in recent years have been reflected in large and variable increases in import prices. After increasing at an average annual rate of 4.1 per cent during the period 1967-72, import prices in U.S. dollars of the non-oil developing countries increased by 11 per cent in 1975, by 2.7 per cent in 1976, and by 8.7 per cent in 1977. The record of import price increases faced by the oil exporting countries shows similar or higher rates. In the developing countries, such increases in import prices not only contribute to inflation but, because of their variable nature, can also cause complications for development strategies. Many of these countries, like smaller developed countries, rely heavily on imported capital and intermediate goods, and domestically produced goods are often not available to substitute for imported products. For the non-oil developing countries as a whole their terms of trade have registered only a minor deterioration since 1972, but this aggregate measure conceals the fact that some countries, such as the producers of copper and sugar, have experienced a sharp deterioration in recent years.

The short-run fluctuations in exchange rates in recent years have also caused problems for the less developed countries, despite the fact that most of them continue to peg their exchange rates. For those countries that

peg to a single currency—and most of the less developed countries are in this category—greater exchange rate variability between the intervention currency and other currencies is likely to result in an increase in variability in both the country's effective exchange rate and in the local currency price of its imports and exports. Increased short-run fluctuations among the major currencies also may mean that a less developed country's exchange rate (vis-à-vis countries with which it does an important part of its trade) responds to factors more closely associated with the external position of the country issuing its intervention currency than to its own domestic or balance of payments needs. Some less developed countries have attempted to minimize these problems by switching from a unitary peg to a peg based on a basket of currencies, but many countries find this solution administratively inconvenient, particularly when there is a single dominant currency used in trade and exchange transactions. In addition, a pegged rate is regarded in some less developed countries as providing, in their case, a viable framework for encouraging price stability, for fostering confidence in the authorities' financial policies, for helping their planning process, and for promoting investment. In brief, the choice of an appropriate peg has become a difficult one for less developed countries in today's exchange rate environment.

The increase in exchange rate fluctuations has also caused problems of portfolio management for the less developed countries, most of which hold nearly all of their foreign exchange reserves in a single currency. While the fluctuations in exchange rates have diminished the store-of-value function of some of the major currencies, the rise and variability in import costs have led to a demand for higher and more assured levels of reserves. Those less developed countries that peg to a single currency whose future value is uncertain may therefore face the dilemma that they need to hold larger working balances in that currency, yet they may also wish to diversify their reserves.

Exchange rate and other policies of adjustment. Many of the factors that give rise to different views among countries on the use of exchange rates for adjustment are institutional and structural in origin, and therefore likely to persist. It is evident, however, that those countries that are reluctant to use the exchange rate to adjust must be prepared to use other policies. Whatever is accomplished in this way, it is clear that if other policies, or combinations of policies, to bring about external adjustment are not effective within a reasonable period of time, then countries must be prepared to permit necessary exchange rate changes.

Exchange Rates and the Adjustment Process

The 1977 Annual Report noted that movements in exchange rates had played an effective role in dampening the impact of differential inflation rates on the competitive position of member countries, but had made only a limited contribution to eliminating the persistent current account imbalances. This fact was attributed to the reluctance of some countries to use the exchange rate as an instrument for external adjustment, and to the inadequate use of domestic policies that could have increased the effectiveness of the exchange rate as an adjustment instrument. Both of these barriers have been reduced somewhat during the past year, but the effects on current account positions are not yet evident.

In general, the changes in competitiveness that have occurred over the past two years have been in the direction required for the elimination of persistent current account imbalances. Some evidence in support of this view is presented for 14 industrial countries in Table 11, which shows the percentage change in the relative wholesale price of manufactured goods and the effective exchange rate between the second quarter of 1976 and the second quarter of 1978. This period includes the large change in the relationship of the U.S. dollar to the yen and the deutsche mark.

Table 11. Fourteen Industrial Countries: Exchange Rates and Relative Prices, Second Quarter 1976–Second Quarter 1978

(In per cent)

	Change in the Unadjusted Relative Wholesale Price of Manufactures	Change in the Effective Exchange Rate	Change in the Adjusted Relative Wholesale Price of Manufactures ¹
Austria	−3.7	9.6	5.5
Belgium	−10.4	7.4	−3.8
Canada	2.3	−16.1	−12.1
Denmark	0.6	−1.9	−1.3
France	2.4	−9.7	−7.5
Germany, Fed. Rep.	−9.1	14.0	3.6
Italy	20.9	−12.7	5.5
Japan	−10.6	27.7	14.2
Netherlands	−2.5	8.2	5.5
Norway	−3.0	−7.4	−10.2
Sweden	3.4	−13.7	−10.8
Switzerland	−11.5	14.3	1.2
United Kingdom	21.4	−8.6	11.0
United States	0.8	−8.9	−8.2

¹ Since the relationship is multiplicative rather than additive, the first two columns will not sum exactly to the third column.

The first notable feature of the statistics in Table 11 is that, with a few exceptions, exchange rates have moved to reduce the impact of differences in inflation

rates on the relative competitive positions of the industrial countries. This offset is particularly noticeable in the countries with rates of inflation that are significantly above or below average—namely, the United Kingdom, Italy, the Federal Republic of Germany, Belgium, Japan, and Switzerland. The third column in the table presents the percentage change in relative wholesale prices after adjustment for the change in the effective exchange rate. Significant improvements in price competitiveness are evident in the United States, France, Norway, Sweden, and Canada. Changes of this kind should be helpful in allowing these countries to reduce their current account deficits over time. The increase in the relative prices of manufactured goods of the Federal Republic of Germany and Japan is also likely to aid these countries in their attempts to reduce their current account surpluses.

There are a number of countries, however, where relative price developments do not appear to be warranted by current account developments. In the United Kingdom, the fact that the depreciation of the pound sterling was not larger had more to do with the coming on-stream of North Sea oil, the implementation of a Fund stabilization program, and a change in the direction of capital flows than with an abatement of inflation differentials. As a consequence, the price competitiveness of British manufactures has declined quite markedly over the period under study. The rate of inflation in Italy, relative to its competitors, has also outstripped the rate of depreciation over the last two years. This development, however, should be seen within a longer-run context because the rate of depreciation of the lira exceeded the relative rate of inflation in the earlier years of the float. The relative competitive position of Italian producers is thus actually stronger than it was in 1973.

Austria and the Netherlands have also experienced adverse movements in the adjusted relative price of manufactured goods over the period in question. In the case of the Netherlands, the availability of natural gas for exports and import substitution has greatly contributed to the strength of the guilder and to the impairment of the competitiveness of the traditional export industries. To the extent that gas will remain available for a long period, this represents a normal adjustment to a changed energy situation. It is the view of the Netherlands authorities, however, that natural gas reserves will dwindle rapidly in the 1980s, and that the deterioration in the competitive position of Dutch industry may cause a weakening of the export sector that might be difficult to reverse later.

Although exchange rate and relative price developments in the past two years have not been accompanied in some industrial countries by significant changes in current account positions, it cannot be concluded that exchange rate changes have little impact on current

account imbalances. Rather, the recent experience illustrates both the distinction between the long-run and short-run effects of relative price changes on the trade balance, and the large quantitative impact of demand-management policies in either supporting or frustrating the effect of these relative price changes.

There is considerable empirical evidence that relative price changes have a strong influence on the volume of imports and exports. Time is needed, however, for the requisite changes in demand and production to take place, so that only some fraction, say, one fourth to one half, of the ultimate volume effects will be observed over a period as short as a year. It is likely to take time for some consumers to switch from traditional suppliers with whom they may have long-term contracts to producers located in a country that has devalued its exchange rate. In addition it may be necessary for producers to set up new marketing networks in countries to which they have not previously exported. In contrast to these volume effects, exchange rate changes can affect a country's terms of trade rather rapidly. As a result of this asymmetry of timing, the trade balance generally deteriorates before it begins to move steadily in the expected direction.

Staff estimates of the short-run effects of exchange rate changes on the terms of trade for industrial countries indicate that the first few months following a depreciation are generally marked by a much faster rise in import prices in local currency than in export prices in local currency. Essentially, these changes in the terms of trade result from the fact that many countries do not face a given world price for their exports. When such world prices are of dominant importance, as they are for many less developed countries, changes in the terms of trade as a result of an exchange rate change are likely to be small. Changes in the terms of trade are generally more pronounced for industrial countries, the export products of which are differentiated from those of other countries.

Thus, while a country that imports products with prices fixed in terms of foreign currency experiences an immediate increase in the local-currency price of its imports following a depreciation, exporters may raise their prices in terms of local currency only partially or with a delay. On the import side, a switch from foreign-produced goods to those produced by the country with a depreciated exchange rate takes time if, as noted above, sources of supply are established and contracts are in effect. Production conditions may be affected fairly quickly by the increased cost of imported inputs, but wage responses to changes in import price rises may be slow depending on how rapidly import prices affect consumer prices and on the extent of indexation. Even after a period of one year following a depreciation of a

country's currency, a discrepancy between the rise in import and export prices has frequently been observed. Staff estimates show that such changes in the terms of trade often have a substantial effect on trade balances, at least for the major industrial countries.

Seen in the light of the preceding discussion, recent trade and current account developments appear less surprising. The "snake" currencies, the Swiss franc, the yen, and the pound sterling appreciated against the U.S. dollar and other currencies during 1977. These appreciations were generally associated with larger trade surpluses (or smaller trade deficits) for the appreciating currencies and larger trade deficits for the United States and some of the other depreciating countries during 1977, although other factors, including volume effects from earlier relative price changes, offset this to some extent. Given the sharp movement of exchange rates in 1977 and the early months of 1978, it would not be surprising if perverse effects of the terms of trade again dominated the initial volume effects and produced a widening of trade imbalances in the short run.

Staff estimates of the volume effects of an effective exchange rate change of 10 per cent for the 14 industrial countries indicate that the volume of imports and exports is always altered in the expected direction, but that the size of the response differs from country to country. For example, the response of the volume of imports in the 14 industrial countries to a change in the exchange rate of 10 per cent varies from 1 to 6 per cent. The response of the volume of exports varies from about 7 per cent in France, Japan, Sweden, and the United States to only 3 to 4 per cent in the remaining countries, where either export demand or supply is less price elastic, or the degree of openness of the economy leads to large feedbacks from exchange rate changes to domestic costs and prices. In calculating these figures it has been assumed *inter alia* that the authorities in each country offset any change in real output induced by the exchange rate change. The estimates refer to the volume effects that would be expected to take place over a period of three years. Perhaps less than one half of the volume effects cited above would occur within one year, but estimates on timing are subject to a considerable margin of error. It should also be noted that, as a practical matter, the authorities may not exactly offset any changes in real output induced by an exchange rate change, and divergence from these assumed conditions will affect the accuracy of the estimates.

The implication of those estimates is that, other things being equal, the exchange rate changes in 1977 and the early months of 1978 should lead to a substantial improvement in the pattern of trade balances among industrial countries during the next two to three years. For example, if changes in relative prices adjusted for ex-

change rates up to the middle of 1978 are considered, staff estimates suggest that by 1980 these will lead to a significant improvement in the U.S. trade balance, and a major reduction in the surpluses of Japan and the Federal Republic of Germany.

The second major factor that explains why exchange rate movements in 1977 were not associated with a narrowing of current account imbalances is that relative cyclical positions among the industrial countries had much greater influence over current accounts than relative price effects. While the external balance has been of concern to some of the industrial countries over the past two years, monetary and fiscal policies have generally been directed toward the control of unemployment and inflation. The current account developments that have occurred over the period, therefore, largely tend to reflect differing emphases given to price stability and employment, and differing degrees of effectiveness in reaching these domestic targets.

Calculations made by the staff (using a world trade model) reveal the overriding importance of cyclical factors for changes in trade and current account positions. The staff has estimated the trade balance effects of an increase of 1 per cent in the level of manufacturing output, maintained over a three-year period, for the 14 industrial countries. The increase in the level was assumed to come from an increase in domestic demand. The staff also estimated the appreciation of the effective exchange rate that would be necessary to produce a change in the trade balance equivalent to one resulting from an increase of 1 per cent in the level of manufacturing output. In brief, the results indicate that an increase of 1 per cent in manufacturing output maintained for three years has a strong negative effect on the trade balance in all 14 countries, ranging from 1½ to 3½ per cent of 1977 trade flows. By way of comparison, rather sizable exchange rate changes, in most cases of the order of 5 to 15 per cent, would be necessary to produce the same trade balance effects. Given the pattern of cyclical positions among the industrial countries in 1977, particularly the differences in economic activity in the Federal Republic of Germany and Japan and that in the United States, it would have been surprising indeed if there had been a close connection between exchange rate changes and changes in current account positions.

Turning now from the industrial countries to other country groups, it will be recalled from Chapter 1 that the surpluses of the oil exporting countries have been declining over the last two years, and are expected to have a further sharp fall in 1978. It is not suggested in Chapter 1 that these changes are related to the exchange rate policies being followed by these countries. Rather, the anticipated decline in 1978 was attributed to a small

decrease in the volume of oil exports (as increases in world oil consumption are being met from other sources), very little increase in the export price of oil, and a substantial rise in the volume and value of imports of both goods and services. While the current account deficits of the non-oil developing countries declined in 1976 and 1977, it is suggested in Chapter 1 that this total is likely to rise in 1978, as the expansion of imports catches up with that of exports in terms of volume, and there is a partial reversal in the present favorable shift in the terms of trade.

The Contribution of Fund Surveillance

The Fund has always concerned itself with situations in which the value of a currency is not compatible with a smooth working of the international adjustment process, or where disorderly conditions in exchange markets exist. The Fund now has both the obligation and the means through surveillance over member countries' exchange rate policies to make a greater contribution than before to the effective working of the exchange rate system.

An important weakness of the Bretton Woods system was not so much that some countries had undervalued or overvalued exchange rates but rather that there was not an adequate mechanism for encouraging members to adjust rates reasonably promptly. In such cases, misleading signals were being given not only to the domestic price system of the country itself but to the price systems of its trading partners and competitors as well, with adverse consequences for resource allocation. One of the tasks of Fund surveillance will be to identify exchange rate policies leading to inappropriate rates at an early stage, and thus to reduce the economic costs and international frictions associated with such rates. This accent on exchange rate flexibility reflects a recognition of the wide differences in economic policies followed by various countries and the need to reconcile divergent developments without resort to additional restrictions on international trade and capital flows.

A second weakness in the functioning of earlier exchange rate systems was the lack of symmetry in the adjustment process. Surplus countries were normally under less pressure to adjust than were deficit countries simply because increases in foreign exchange reserves, while involving economic costs, do not lead to the same degree of constraint as do exchange reserve losses or large-scale foreign borrowing. This asymmetry has often been a serious source of disagreement among countries, and it has frequently delayed the proper working of the international adjustment process. An important aim of Fund surveillance is to promote a

more equitable distribution of the adjustment burden, since seeking or maintaining an "unfair competitive advantage" is as serious a departure from the principles of exchange rate surveillance as maintaining an overvalued currency that prevents effective balance of payments adjustment.

Fund surveillance can also make a positive contribution in the limitation of disorderly conditions in exchange markets. In some cases, disorderly conditions develop because the authorities have for too long maintained an exchange rate that did not reflect underlying economic and financial conditions. Here, Fund surveillance can help by encouraging countries to make the needed exchange rate adjustments. In other cases, disorderly conditions in exchange markets may reflect uncertainties induced by a variety of short-run economic events and political developments. The role of Fund surveillance may then be to encourage countries to take action to restore more orderly conditions.

The many uncertainties surrounding the appraisal of exchange rate policies, and the need to take into account the economic and political constraints faced by each country, will mean that Fund surveillance over member countries' exchange rate policies, while firm, will have to proceed carefully. Appraisal of exchange rate policy is necessarily a judgmental matter, and it would be undesirable to apply mechanical formulas or techniques. At least initially, a case-by-case approach will be required, and the focus will have to be on those cases that are most conspicuously in conflict with the agreed exchange rate principles.

The Role of International Liquidity

The amended Articles of Agreement enjoin the Fund to oversee the international monetary system in order to ensure its effective operation (Article IV, Section 3(a)) and lay upon members the following obligation (Article VIII, Section 7):

Each member undertakes to collaborate with the Fund and with other members in order to ensure that the policies of the member with respect to reserve assets shall be consistent with the objectives of promoting better international surveillance of international liquidity and making the special drawing right the principal reserve asset in the international monetary system.

These objectives of the Articles of Agreement must be viewed in the context of current international monetary arrangements and exchange practices. In the past few years significant changes have occurred in the international monetary system: the role of exchange rates in balance of payments adjustment has become a more active one and the importance of national official mone-

tary institutions as lenders and borrowers in private international credit markets has grown. In addition, events in the international economy since 1972 have altered the distribution of balance of payments deficits and surpluses among countries. These developments have had implications both for the stock of international liquidity that countries desire to hold and for its composition. At the same time, the total stock of international liquidity has become highly responsive to the volume and the incidence of official intervention in the foreign exchange markets and to the amount of borrowing by governments and government agencies in private international financial markets. It is appropriate, therefore, to begin this survey of current developments in international liquidity with an analysis of movements in official holdings of international reserve assets in 1977.

Reserve Developments in 1977

Official holdings of foreign exchange assets, the largest part of total reserves reported in the Fund's *International Financial Statistics*, increased during 1977 by SDR 40 billion (25 per cent), to slightly more than SDR 200 billion at the end of the year (Table 12).¹ Expressed in U.S. dollars, the value of foreign exchange holdings rose even faster, by 30 per cent, since the largest part (more than four fifths) of these holdings is denominated in U.S. dollars, whose value in terms of SDRs declined by 4.4 per cent during the year. Holdings of Fund-related assets—SDRs and reserve positions in the Fund—remained approximately unchanged at SDR 26 billion, as a slight decline in SDR holdings

¹ The countries covered in reserves statistics are indicated in footnote 1 to Table 12.

was offset by an increase in reserve positions in the Fund. "Liquid reserves,"² that is, foreign exchange and Fund-related assets, amounted to SDR 227 billion at the end of 1977. They rose somewhat faster during 1977, by 21 per cent, than they did during 1976, when they advanced by 18 per cent, and also more rapidly than the value of world imports, which increased by 14 per cent from 1976 to 1977. Over a somewhat longer span, however, liquid reserves and world trade grew at similar rates; for instance, between 1973 and 1977 they both approximately doubled. The volume of countries' gold holdings increased marginally (by ½ of 1 per cent), reflecting the distribution to members of a portion of the Fund's gold; the market value of gold holdings increased much more, however, because the price of gold in terms of SDRs advanced by 18 per cent from the end of 1976 to the end of 1977.

During the first five months of 1978, foreign exchange reserves increased at a much slower rate—about 7 per cent per annum—than during the two preceding calendar years; at the end of May they stood at SDR 207 billion. Holdings of Fund-related assets declined by slightly more than SDR 1 billion, to about SDR 25 billion, chiefly owing to a reduction of aggregate reserve positions in the Fund.

Industrial countries, taken as a group, increased their holdings of foreign exchange by almost SDR 26 billion during 1977—a rate of increase of nearly 40 per cent. Foreign exchange holdings of the group of other developed countries remained virtually unchanged. The developing countries raised their holdings much less rapidly than did the industrial countries—by SDR 6 billion (at a rate of 12 per cent) for the group of major

² The concept of "liquid reserves" excludes official gold holdings.

Table 12. Official Holdings of Reserve Assets, End of Years 1970–77 and End of May 1978¹

(In billions of SDRs)

	1970	1971	1972	1973	1974	1975	1976	1977	May 1978
Liquid reserves									
Fund-related assets									
Reserve positions in the Fund	7.7	6.4	6.3	6.2	8.8	12.6	17.7	18.1	17.2
Special drawing rights	3.1	5.9	8.7	8.8	8.9	8.8	8.7	8.1	8.0
Subtotal, Fund-related assets	10.8	12.3	15.0	15.0	17.7	21.4	26.4	26.2	25.1
Foreign exchange	45.4	75.1	96.2	102.0	126.9	137.5	160.6	201.2	206.8
Total liquid reserves	56.2	87.3	111.2	117.0	144.6	158.9	187.0	227.4	232.0
Gold									
Quantity (<i>millions of ounces</i>)	1,057	1,026	1,017	1,017	1,016	1,015	1,010	1,012	1,013
Value (i) at SDR 35 per fine ounce	37.0	35.9	35.6	35.6	35.6	35.5	35.3	35.4	35.5
(ii) at London market prices	39.6	44.8	66.0	114.2	189.5	142.4	136.1	166.9	186.6

Source: *International Financial Statistics*.

¹ "Fund-related assets" comprise reserve positions in the Fund and SDR holdings of all Fund members. 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 the Netherlands Antilles, Switzerland, and Fund members except Romania, for which data are not published. Foreign exchange holdings for 1973 include official French claims on the European Monetary Cooperation Fund.

oil exporters and by SDR 8 billion (at a rate of 24 per cent) for the group of other developing countries. Further increases in foreign exchange holdings of industrial, other developed, and non-oil developing countries in the first five months of 1978, totaling SDR 10 billion, were partly offset by a decline of SDR 4 billion in the holdings of major oil exporting countries.

These group totals hide the fact that changes in official exchange holdings were quite unevenly distributed among countries. For 1977, the 11 member countries whose foreign exchange holdings increased by SDR 1 billion or more (Table 13) added SDR 37 billion to their aggregate holdings, accounting for nine tenths of the rise in the holdings of all countries covered in *International Financial Statistics*. The sevenfold increase in the foreign exchange reserves of the United Kingdom—by almost SDR 14 billion—accounted by itself for more than one third of the global growth. This rapid accumulation of foreign exchange holdings was, however, halted in October 1977 and, indeed, partly reversed in the first half of 1978. In Italy, too, the bulk of the year's increase of about SDR 4 billion occurred in the early part of the year, particularly in the second quarter, and the rate of growth was much more moderate in the last half of 1977. The official foreign exchange holdings of the Federal Republic of Germany and Japan rose particularly sharply during the fourth quarter of 1977 and the first quarter of 1978, when the two countries experienced large capital inflows. In both countries, this increase in foreign exchange holdings was partly reversed in the second quarter of 1978. Exchange market intervention in these four industrial countries accounted

for almost two thirds—SDR 25 billion—of the growth in the foreign exchange reserves of all countries in 1977.

Five oil exporting countries—Iran, Iraq, Libya, Kuwait (with an increase of SDR 0.9 billion), and Saudi Arabia—added the equivalent of SDR 8 billion to their foreign exchange holdings as their placement of funds in longer-term investments continued to fall short of net earnings on current account, but for the group of major oil exporters this rise was partly offset by substantial reductions in the holdings of some other oil exporting countries. Three other developing countries—Argentina, India, and Korea—augmented their foreign exchange holdings by the equivalent of SDR 4 billion, thus continuing the pattern set in 1976.

While these accretions of foreign exchange reserves are notable for their absolute magnitude, many countries experienced changes that, although much smaller in absolute terms, were large in relation to the size of the economies in question or to their foreign trade. Apart from the 11 countries already mentioned, 31 members increased their foreign exchange reserves in 1977 by more than one tenth of the value of their annual imports in 1976 and, among these, 12 members augmented them by more than one fourth of annual imports. Only 8 members reduced their holdings by more than one tenth of annual imports and only 1 member by more than one fourth.

Causes and Consequences of Reserve Changes

Movements in the global holdings of various reserve assets depend, broadly speaking, on changes over time in the demand for, and supply of, these assets. Changes in reserve positions in the Fund come about as a result of drawings outside the reserve tranche by member countries in balance of payments deficit. The volume of such drawings, and thus the supply of the asset in question, varies with world economic conditions and the availability of various credit facilities in the Fund. The use of Fund credit expanded very little during 1977, and as a consequence reserve positions in the Fund grew only marginally. The total of members' holdings of SDRs is determined largely by past allocations. To the extent, however, that the Fund's General Department can, through its operations with member countries, absorb a larger or smaller volume of SDRs, there is some choice, albeit a limited one, between holding SDRs or other assets not merely for individual members but for all members in the aggregate. These operations had resulted in an absorption by the General Department of SDR 1.2 billion at the end of 1977 and SDR 1.3 billion, or one seventh of the total allocation of SDR 9.3 billion, at the end of May 1978. Leaving aside this limited ele-

Table 13. Countries with Increases of SDR 1 Billion or More in Foreign Exchange Holdings, End 1976–End 1977

(Increments in billions of SDRs)

United Kingdom	13.8
Japan	4.6
Italy	3.8
Germany, Federal Republic of	3.3
Four industrial countries	25.4
Iran	2.5
Iraq	1.8
Saudi Arabia	1.5
Libya	1.3
Four oil exporting countries	7.0
India	1.6
Argentina	1.4
Korea	1.0
Three other developing countries	4.0
Subtotal	36.4
All other countries (net)	4.2
Total	40.6

Source: *International Financial Statistics*.

ment of choice, it is broadly correct to say that the outstanding volume of Fund-related reserve assets is not very responsive to changes in the aggregate demand for these assets but is determined largely by past SDR allocations and developments in outstanding Fund credit. As a result, aggregate holdings of these assets remained roughly unchanged during 1977.

The causes of changes in foreign exchange holdings are more difficult to describe. In principle, both demand and supply developments play a role in the determination of the overall volume and value of holdings. As was emphasized in last year's Annual Report (page 39), the supply of foreign exchange assets has become highly elastic as a result of increased financial intermediation in international capital markets and of the adoption of floating exchange rates for the currencies most widely used in international trade and finance. As is further discussed below, these developments have weakened the constraints that in an earlier period tended to check the growth of aggregate foreign currency reserves. In these circumstances, official claims on the United States increased in 1977 by \$34 billion (SDR 30.3 billion) and official Eurocurrency holdings rose in the same period by SDR 19 billion (Annex Table 15). In the present setting, changes in aggregate foreign exchange reserves can thus come about as a result of the balance of decisions by monetary authorities to increase or reduce their official holdings of foreign currencies.

In 1977, countries that increased their foreign exchange reserves by far outnumbered those that reduced them. Of 94 countries whose official exchange reserves changed by at least 1 per cent of the value of their imports in the preceding year, 72 experienced a rise and 22 a decline in holdings. For many countries, these changes were the consequence of an overall payments surplus or deficit occurring at a pegged exchange rate maintained within margins by intervention of the authorities. For some countries with floating currencies, the change in foreign currency reserves stemming from market intervention reflected the desire of the authorities to retard an unduly rapid or, in their view, excessive movement of the exchange rate, particularly where it was caused in part by large and potentially reversible short-term capital flows. For instance, this was the principal reason for the increase in the foreign exchange holdings of the Federal Republic of Germany and Japan, both of which started the year with ample reserves. In Italy and the United Kingdom, the need to rebuild badly depleted reserves and to provide for repayment obligations doubtless constituted an additional element in the increase in official currency reserves. The four oil exporting countries identified in Table 13 peg their exchange rates to the U.S. dollar or the SDR. The increase in their foreign exchange holdings resulted, of course,

from their substantial overall payments surpluses. Since the value of foreign trade of these countries has, however, also risen rapidly in recent years, the secular rate of increase in their demand for reserves is, no doubt, also relatively large. There was a substantial augmentation—for the second year in a row—in the foreign currency balances held by the authorities of Argentina, India, and Korea, all of which had very low reserves in relation to imports at the beginning of 1976. In May 1978, after Argentina's reserve holdings had reached a level equivalent to about one year's imports, the authorities introduced a policy under which the value of the peso was allowed to respond more flexibly to market forces.

These observations suggest that the large increase in aggregate official foreign exchange holdings in 1977 should not be viewed as part of a longer-run trend. The bulk of the increase was concentrated in a few countries; and, in most of these, it was the result of endeavors to rebuild depleted reserves or of intervention in the exchange markets prompted by the desire to prevent the emergence of disorderly market conditions caused by large short-term capital movements. Both of these motives should be presumed to result in temporary additions to foreign exchange holdings rather than in permanent upward trends. Several events in the first half of 1978 are evidence for this view, in particular the reversal of the rise in foreign exchange holdings of the United Kingdom and the Federal Republic of Germany, and the cessation of the growth in those of Japan and Korea. Moreover, the foreign exchange reserves of oil exporting countries as a group have declined in the first half of 1978, chiefly as a result of very rapidly increasing imports. This does not mean that official foreign exchange holdings should necessarily be expected to cease growing altogether. Although countries that have restocked their reserves in the past may cease accumulating foreign currencies, there are likely to be other countries with unusually low reserves that might be put into position to replenish them by an improvement in the balance of payments. Furthermore, the secular growth of demand for reserves is likely to absorb recent increases and thereafter to impart an upward trend to official reserve holdings.

What was said with respect to the causes of recent reserve changes may also throw light on their likely consequences for countries' policies, and thereby for world trade, economic activity, and prices. The rise in foreign exchange reserves was seen, by and large, to be part of the effect of financial and exchange market policies pursued in the countries acquiring these reserves. In designing these policies, the authorities will have taken account, at least to some extent, of their probable effects on foreign exchange reserves. While such anticipated

reserve movements would not, presumably, affect a country's chosen policies, deviations of reserve changes from the expected or planned amounts may do so. Such effects could, in principle, be expected in four areas: monetary policies; restrictions placed on trade, payments, and capital movements; attitudes with respect to foreign aid to less developed countries; and, of course, exchange market policies. In what follows, these potential effects are again discussed for the countries that accounted for the bulk of the global increase in foreign exchange reserves.

It is unlikely that the reserve accretion of 1977 would lead to a change in demand policies in the four industrial countries discussed earlier. It is true that reserve increases tend to create upward pressure on the monetary aggregates, and the authorities may face difficulties in attempting to offset these tendencies, particularly if they were protracted. In the short run, however, the monetary effects of unanticipated reserve movements can often be effectively countered by central bank operations in domestic asset markets, except perhaps when these disturbances are very large. For instance, there was some evidence in the United Kingdom of a substantial response of the money supply to the rapid rise in foreign assets, and in the Federal Republic of Germany the growth of the money supply exceeded its target rate. The reversal of reserve movements in these two countries in 1978 has removed the unwanted expansionary influence of the external accounts on the money supply.

In the oil exporting countries listed in Table 13, the bulk of foreign exchange earnings accrue directly to the public treasury. The sharp rise in recent years in the public income of these countries has, of course, led to considerable expansion in public expenditures. The rise in foreign exchange reserves has not, however, exerted a separate, and additional, expansionary influence. It is conceivable that reserve increases in some non-oil developing countries could subsequently give rise to a shift to more expansionary demand policies and that the automatic expansionary effect of reserve growth on the monetary aggregates cannot easily be offset. There is some evidence, for instance, that the rapid growth of reserves in Korea during 1977 has contributed to the high rate of expansion of the money supply.

Many of the industrial and non-oil developing countries whose reserves had increased particularly sharply in 1977 moved to liberalize imports and exchange control procedures, to reduce restrictions on payments for invisibles, or to reduce restrictions on capital outflows and to restrain capital inflows.³ In a few instances, import restrictions were imposed or intensified; but these

were limited in scope and motivated by protection of particular domestic industries or markets. Regarding the four industrial countries listed in Table 13, liberalization of trade and payments was most prominent in Japan, where the large current surplus provided ample scope for such action, but was also notable in Italy and the United Kingdom. Changes to promote capital outflows were made in the United Kingdom, as well as in the Federal Republic of Germany and Japan, where the authorities also acted to restrict, or lessen incentives for, the inflow of capital. The three non-oil developing countries shown in Table 13, Argentina, India, and Korea, liberalized imports and reduced payments restrictions. Argentina and India also lowered import tariffs. In general, there can be little doubt that the rapid growth in foreign exchange reserves has facilitated the liberalization of trade and payments in the countries concerned; in some instances, moreover, unexpectedly large or rapid reserve increases may well have given impetus to these policy changes. These impressions are reinforced by the converse observation that many countries that had balance of payments deficits and lost reserves in 1977 introduced new restrictions or tightened existing ones.

An increase in reserves of countries that are donors of development assistance could conceivably also have an effect on the attitudes of the authorities with respect to the amount of assistance extended. This potential influence is no doubt quite tenuous and expected to operate only after reserves have consistently risen for some time. In fact, the flow of official development assistance from the industrial countries listed in Table 13, the Federal Republic of Germany, Italy, Japan, and the United Kingdom, to non-oil developing countries increased only moderately—enough to prevent a decline in the ratio of such assistance to GNP for the group of four countries but not enough to cause an appreciable increase in this ratio for any of them. There was a somewhat larger rise in development assistance by the major oil producing countries as a group, from about US\$7 billion to US\$8–9 billion.

In the light of these observations, it may be concluded that, in present circumstances, the large recent increase in foreign exchange reserves (i) is not expected to have a substantial impact on world production, trade, and price levels through the expansion of demand in the countries to which it has accrued; (ii) has had some beneficial effects in prompting, or at least facilitating, a reduction in the level of restrictions on trade, current payments, and capital movements in a number of countries, although it has in some instances also induced an intensification of restrictions on the flow of capital into countries acquiring reserves; and (iii) may have facilitated a further increase in the flow of foreign assistance

³ See *Twenty-Ninth Annual Report on Exchange Restrictions, 1978* (Washington, 1978), Part I, Section II. The observations in the remainder of this paragraph are also based on this source.

from major oil exporting countries, but not from industrial countries, to non-oil developing countries.

The accumulation of foreign exchange reserves in 1977—larger in absolute terms, although not in relative terms, than any previous annual growth—was largely a side effect of the payments imbalances and exchange market policies of a few countries. It would not appear to be the beginning of a trend toward large reserve increases in the future. Indeed, to the extent that payments imbalances can be reduced, and exchange market policies arranged so as to support this objective, liquid reserves can be expected to increase only at the much more moderate rate required to satisfy the secular growth in demand.

The Adequacy of Reserves

The areas just discussed in connection with the consequences of increases in reserves also used to serve as a testing ground for assessing the adequacy of reserves. World reserves were said to be adequate if there were no symptoms of a global shortage or excess of reserves, and if there were no undue maldistribution of reserves among members. Symptoms of a shortage included the predominance of more deflationary policies, justified by balance of payments considerations, than were appropriate in the light of world demand; widespread resort to restrictions on trade and payments, as well as to interference with capital outflows for the purpose of improving the external balance; and, for countries that were foreign aid donors, undue restraints on this flow justified by balance of payments difficulties. It was also thought at the time that an excess of reserves could be recognized by the presence of more expansionary policies than might be warranted in view of the prevailing rates of inflation and by imposition or intensification of restrictions on capital inflows.

The ease or difficulty with which global reserves can be increased has varied from decade to decade. A dozen years ago, when the establishment of the SDR facility was being considered, the volume of global reserves was held to be determined by the availability of newly produced gold for monetary purposes, by Fund policies on credit tranche drawings, and by the deficits of reserve currency countries, particularly the United States. It was widely thought at the time that only small additions to reserves could be expected from increases in monetary gold and also generally concluded that the system should not continue to rely on U.S. deficits for its liquidity needs. This was the background that led to the view that allocations of SDRs were required to augment an inelastic supply of reserves in order to prevent a global shortage of liquidity. The situation today is very

different. The freedom and efficiency of private international capital markets is such that for creditworthy countries operating within their borrowing limits the supply of reserves is highly elastic. For these countries, which account for the bulk of international transactions, the quantity of reserves can adapt flexibly to changes in demand, and earlier tests of adequacy are thus less applicable.

Provision of International Liquidity: International Capital Markets and the Role of the Fund

In recent years the international capital markets, particularly the international banking system, have played a very active and effective part in recycling funds from countries with current account surpluses to countries in deficit. This intermediation has been both timely and substantial in scale, and it has helped to lighten the effect of the downturn in economic activity that was experienced by a large number of countries in the period 1974–76. For example, from 1974 onward, international bank lending has grown very rapidly in response to both supply and demand factors. On the supply side, the funds available increased partly as a result of weak loan demand in the industrial countries and partly because of increased placements by some oil exporting countries. At the same time, the demand for international credit rose because of the increased need for funds by many countries to finance current account deficits. In 1976 and again in 1977, a number of non-oil primary producing countries borrowed substantial sums in the international credit markets and used a portion of the funds raised to increase their holdings of international reserves.

In this context, it is important to note the heavy involvement of governments as both lenders and borrowers in the international capital markets in recent years. For example, at the end of 1977, nearly one third of the deposit liabilities of the Eurobanking system was held by central monetary institutions, and a substantial proportion of total Eurocurrency credit is extended to governments and government-guaranteed borrowers.

While the international capital markets have played an important role in channeling funds from surplus to deficit countries, reliance on this mechanism for providing balance of payments financing and reserves is not without its drawbacks. In the first place, a number of countries are not able to borrow readily in these markets, and their authorities understandably consider a system that places too heavy a reliance on private markets as being inequitable. Second, commercial banks generally do not find it practicable to apply conditions

with respect to macroeconomic performance that will promote effective international adjustment. Indeed, competitive pressures may sometimes lead banks to continue to lend until a point is reached where the borrower's credit is in question, and there can then be an abrupt decline in the availability of funds. Finally, the loans providing funds that borrowers can hold as reserves must be refinanced, and this can pose problems for the borrowing countries.

The Fund has an important role to play in the provision of international liquidity. As a supplier of unconditional liquidity, the Fund allocates a reserve asset that does not need to be refinanced. As a supplier of conditional liquidity, the Fund's position as an official organization and its long experience in lending under internationally agreed conditions give it certain advantages in dealing with international adjustment problems. Conditionality may, of course, pose problems for countries, even when the proposed steps to adjustment are ones that cannot be avoided. Some of the difficulties could be lessened if resort to the Fund came earlier, before the situation had worsened to the point where drastic action is required. To be encouraged to do this, however, members must find the resources of the General Department of the Fund available to them in sufficient volume to warrant the administrative and political effort that is often involved in the use of conditional liquidity. The Fund's resources have recently been supplemented by the quota increases resulting from the Sixth General Review of Quotas, which have raised the size of the Fund from somewhat more than SDR 29 billion to about SDR 39 billion. Moreover, discussion of quota increases under the Seventh General Review is now in progress.

Members' access to Fund credit can be, and has been, augmented not only through quota increases but also through the extension of special facilities outside the credit tranches. Considerations of the liquidity of the Fund, however, set fairly narrow limits to such extensions on the basis of given quotas, unless the Fund adds to its resources by borrowing from member countries. For instance, under the General Arrangements to Borrow, ten members and Switzerland have agreed to lend up to SDR 6.8 billion to the Fund. Again, under the oil facility of 1974-76, a number of oil exporting countries and several other members that were in a sufficiently strong balance of payments position to contribute to the program made available to the Fund the equivalent of SDR 6.9 billion. These oil facility resources were borrowed by oil importing countries having a balance of payments need because of the increased cost of petroleum.

To enable the Fund to respond adequately to the need for conditional balance of payments credit by

members temporarily experiencing payments imbalances that are large in relation to their economies and to their quotas, the Fund decided to establish the supplementary financing facility, under which 14 member countries and the Swiss National Bank will provide resources totaling approximately SDR 8.7 billion (about \$11 billion). At its meeting in April in Mexico City, the Interim Committee referred to the need of a number of members for prompt financial assistance on the scale envisaged by the supplementary financing facility and urged that all necessary steps be taken to bring it into operation at the earliest possible date.

The provision of conditional liquidity has always been the center of the Fund's contribution to the functioning of the international monetary system. The Fund is, however, also entrusted by the Articles of Agreement with important functions in connection with the surveillance of international liquidity in general and with making available one of the major reserve assets of the international monetary system. Article XXII enjoins each member that is a participant in the SDR Department to "facilitate the effective functioning of the Special Drawing Rights Department . . . with the objective of making the special drawing right the principal reserve asset in the international monetary system." To fulfill this role, the SDR must have characteristics that make it an attractive asset to be held in members' reserves along with balances of various currencies. Four important characteristics of the SDR are its valuation, its interest rate, the reconstitution provision, and the range of uses to which it can be put.

The value of the SDR is determined by a basket of 16 currencies. The original basket, which went into effect on July 1, 1974, reflected the relative importance of member countries in the export of goods and services over the five-year period 1968-72. In March 1978, the Fund decided to make certain changes in the basket of currencies with effect from July 1, 1978 (discussed in Chapter 3) and established a method for further adjustment, at five-year intervals, to changes in the relative importance of currencies over time, while ensuring continuity and reasonable predictability for the valuation of the SDR.

The interest rate of the SDR is determined in relation to the average of market rates on certain short-term financial assets in the five member countries with the largest quotas and the largest weights in the SDR valuation basket. At present, the quarterly SDR interest rate is set, unless the Executive Board decides otherwise, so as to be three fifths of the average combined market rate during a preceding six-week period. Recent discussion has recognized the merit of reducing this gap between the SDR rate and the rates that can be earned on holdings of major currencies, and the Interim Committee

agreed at its last meeting that the SDR rate should be "increased from 60 per cent to no more than 80 per cent of the weighted average of short-term interest rates" There is a strong connection running both ways between changes in the SDR interest rate and SDR allocations. Some members, for example, would have more enthusiasm for an SDR allocation if steps were taken to raise the SDR interest rate, while other members would support a rise in the interest rate on the SDR if a new allocation were forthcoming.

At present the reconstitution provision for the SDR requires members to maintain average daily holdings over a period of five years of 30 per cent of their net cumulative allocations. Proposals have been made for changing this provision, and these proposals are currently under consideration.

The Fund is at present studying additional uses of SDRs that might be permitted in accordance with the provisions of the amended Articles of Agreement. Widening the use of the SDR will serve the convenience of participants in the SDR Department and encourage the holding of reserves in this form.

In the analysis of reserve developments during 1977 earlier in this chapter, reference was made to two sources of demand for reserves, namely, (i) the secular increase in the desired holdings of liquid reserves for use in intervention in the foreign exchange markets by selling foreign currencies and (ii) the temporary acquisition, or disposal, of foreign exchange balances as a side effect of a chosen exchange rate policy. The demand component under (ii) must be expected to average to nil, since the exchange rate will tend, over the long run, to conform to underlying economic conditions. The permanent demand for reserves under (i) will continue to rise, however, as the value of international settlements increases. The question arises whether the entire incre-

ment of official liquid reserve holdings should take the form of national currency balances or whether at least part of it should be met through the allocation of SDRs.

With a highly elastic supply of international reserves available through the international capital markets, one hypothesis put forward is that a significant part of any SDR allocation could be expected to substitute for official holdings of foreign exchange. It has been proposed that there would be advantage in ensuring such substitution through explicit agreement by, for example, establishing a substitution account for U.S. dollars in which participants could, in effect, deposit dollars, receiving the equivalent in SDRs through allocation. Ownership would remain vested in the depositing participants and they would receive earnings from the account's investments. In this way, SDRs would in effect have replaced currencies in members' liquid reserve holdings. However, a number of difficult questions have been raised concerning this proposal and these will have to be considered further.

Another idea recently advanced for the purpose of strengthening the SDR as a reserve asset is to make it more dominant in the Fund's own financial operations. This objective could be fostered by requiring a proportion of quota increases resulting from the Seventh General Review of Quotas, and perhaps from subsequent reviews as well, to be paid in SDRs, with such a requirement being taken into account in deciding on the magnitude of future SDR allocations.

These questions relating to the allocation of SDRs and to the implementation of measures to enhance their attractiveness are presently under discussion. The Interim Committee has requested the Executive Board to pursue work on all these aspects of an SDR allocation and to submit appropriate proposals for consideration by the Committee at its next meeting in September 1978.

Statistical Annex

Table 14. Distribution of Reserves, End of Years 1950, 1960, and 1970-77¹

(In billions of SDRs)

	1950	1960	1970	1971	1972	1973	1974	1975	1976	1977
Industrial countries										
Austria	—	0.7	1.8	2.2	2.5	2.4	2.8	3.8	3.8	3.5
Belgium-Luxembourg	0.8	1.5	2.8	3.2	3.6	4.2	4.4	5.0	4.5	4.7
Canada	1.8	2.0	4.7	5.3	5.6	4.8	4.8	4.5	5.0	3.8
Denmark	0.1	0.3	0.5	0.7	0.8	1.1	0.8	0.7	0.8	1.4
France	0.8	2.3	5.0	7.6	9.2	7.4	7.2	10.8	8.4	8.4
Germany, Federal Republic of	0.2	7.0	13.6	17.2	21.9	27.5	26.5	26.5	30.0	32.7
Italy	0.7	3.3	5.4	6.3	5.6	5.3	5.7	4.1	5.7	9.6
Japan	0.6	1.9	4.8	14.1	16.9	10.2	11.0	10.9	14.3	19.1
Netherlands	0.5	1.9	3.2	3.5	4.4	5.4	5.7	6.1	6.4	6.6
Norway	0.1	0.3	0.8	1.1	1.2	1.3	1.6	1.9	1.9	1.8
Sweden	0.3	0.5	0.8	1.0	1.5	2.1	1.4	2.6	2.1	3.0
Switzerland	1.6	2.3	5.1	6.4	7.0	7.1	7.4	8.9	11.2	11.4
United Kingdom	4.8	5.1	2.8	8.1	5.2	5.4	5.7	4.7	3.6	17.3
United States	24.3	19.4	14.5	12.1	12.1	11.9	13.1	13.6	15.8	16.0
Total, industrial countries	36.8	48.5	65.8	88.8	97.5	96.0	97.9	104.1	113.5	139.4
Primary producing countries										
More developed countries										
Other European countries ²	1.5	2.3	5.6	8.0	11.7	13.4	12.4	11.1	11.8	12.9
Australia, New Zealand, South Africa	2.0	1.3	3.0	4.2	7.6	6.5	5.0	4.2	4.0	3.0
Subtotal, more developed primary producing countries	3.5	3.6	8.5	12.1	19.4	19.9	17.3	15.3	15.8	15.9
Less developed countries										
Major oil exporting countries ³	1.3	2.3	5.0	7.8	10.0	12.0	38.4	48.3	56.1	62.1
Other less developed countries										
Other Western Hemisphere ⁴	2.4	2.2	4.5	4.5	7.5	10.0	9.7	8.6	13.1	16.7
Other Middle East ⁵	1.1	0.7	1.6	2.0	2.7	3.6	3.9	4.4	5.0	6.3
Other Asia ⁶	3.7	2.7	5.8	6.3	7.8	8.8	10.5	11.3	16.3	19.3
Other Africa ⁷	0.5	0.9	2.0	1.7	1.9	2.2	2.4	2.4	2.6	3.0
Subtotal, other less developed countries	7.7	6.6	13.9	14.5	19.9	24.6	26.5	26.7	36.9	45.4
Subtotal, less developed countries ⁸	9.9	9.0	18.9	22.3	29.9	36.6	64.9	75.0	93.1	107.5
Total, primary producing countries	13.4	12.6	27.4	34.4	49.3	56.5	82.2	90.3	108.9	123.4
Total	50.2	61.2	93.2	123.2	146.8	152.6	180.2	194.5	222.4	262.8

Source: *International Financial Statistics*.

¹ Official reserves of Fund members except Romania, plus the Netherlands Antilles and Switzerland. In addition to the holdings covered in *IFS*, the figures for 1973 include official French claims on the European Monetary Cooperation Fund; those for 1950 and 1960 include amounts incorporated in published U.K. reserves in 1966 and 1967 from proceeds of liquidation of the U.K. official portfolio of dollar securities. For a number of countries (beginning in 1974, United States, in 1975, France, in 1976, Italy, Mexico, and Jordan, and in 1977, Australia, Costa Rica, Cameroon, Central African Empire, Chad, People's Republic of the Congo, and Gabon) stock reserve figures may differ from those published in national sources because of differences in valuation of gold, which in the *IFS* is valued at SDR 35 per ounce. Totals may not add to figures shown because of rounding and because some totals include unpublished data for component areas.

² Finland, Greece, Iceland, Ireland, Malta, Portugal, Spain, Turkey, and Yugoslavia.

³ Algeria, Indonesia, Iran, Iraq, Kuwait, Libya, Nigeria, Saudi Arabia, Venezuela, and, beginning in 1970, Oman and Qatar, and in 1973, the United Arab Emirates.

⁴ Argentina, Bolivia, Brazil, Central America, Chile, Colombia, the Dominican Republic, Ecuador, Guyana, Haiti, Jamaica, Mexico, Panama, Paraguay, Peru, Suriname, Trinidad and Tobago, Uruguay, and, beginning in 1970, the Bahamas, Barbados, and the Netherlands Antilles.

⁵ Cyprus, Egypt, Israel, Jordan, Lebanon, the Syrian Arab Republic, and, beginning in 1970, the People's Democratic Republic of Yemen and Bahrain, and in 1973, the Yemen Arab Republic.

⁶ Afghanistan, Burma, the Republic of China, India, Korea, Malaysia, Nepal, Pakistan, the Philippines, Singapore, Sri Lanka, Thailand, Viet Nam, and, beginning in 1970, Fiji, Lao People's Democratic Republic, and Western Samoa, in 1972, Bangladesh, and in 1973, Papua New Guinea.

⁷ African Fund members other than Algeria, Libya, Nigeria, and South Africa.

⁸ Includes residual.

Table 15. Composition of Reserve Change, 1970-77¹

(In billions of SDRs)

	1970	1971	1972	1973	1974	1975	1976	1977
Net annual transactions in reserves								
Gold								
Monetary gold	0.3	-0.1	0.2	—	—	—	-0.4	-0.3
Gold transactions (acquisitions —) by IMF, BIS, and European Fund	-2.2	-1.0	-0.5	—	—	—	0.2	0.4
Countries' gold reserves	-1.9	-1.1	-0.3	—	-0.1	—	-0.2	0.1
Special drawing rights								
Allocation of SDRs	3.4	3.0	3.0	—	—	—	—	—
IMF holdings of SDRs (increase —)	-0.3	-0.2	-0.1	0.1	0.1	-0.1	-0.1	-0.5
Countries' SDR holdings	3.1	2.8	2.8	0.1	0.1	-0.1	-0.1	-0.5
Reserve position in the Fund								
Use of IMF credit	-0.8	-1.9	-0.3	-0.1	2.7	3.7	5.2	0.5
IMF gold transactions (inflow +) ²	1.6	0.4	0.1	—	—	—	-0.1	-0.6
IMF transactions in SDRs (inflow +)	0.3	0.2	0.1	-0.1	-0.1	0.1	0.1	0.5
IMF surplus (increase —)	-0.1	—	—	—	—	—	—	—
Reserve position in the Fund	1.0	-1.3	—	-0.2	2.7	3.8	5.1	0.4
Official foreign exchange holdings								
Official claims on the United States ³	7.8	27.3	10.0	4.7	8.5	4.3	11.3	30.3
Other official claims	4.6	6.8	11.0	9.6	16.9	2.7	10.7	15.1
Official sterling claims on United Kingdom	0.5	1.7	0.7	0.3	2.7	-1.1	-2.2	-0.1
Official deutsche mark claims on Federal Republic of Germany	0.8	-0.4	0.4	0.7	-0.1	0.2	1.4	1.1
Official French franc claims on France	0.2	0.2	0.3	0.2	-0.2	—	-0.1	-0.2
Other official claims on other countries denominated in the debtor's own currency	... ⁴	0.1	-0.1	0.6	-0.4	1.3	0.9	0.6
Foreign exchange claims arising from swap credits and related assistance	-2.2	-0.7	—	0.4	1.2	-0.4	0.2	-0.3
Identified official holdings of Eurodollars ⁵	5.5	0.9	7.5	5.0	11.7	4.6	6.9	15.0
Identified official holdings of other Eurocurrencies	... ⁴	0.7	2.1	2.0	0.1	1.7	-0.2	4.0
Identified official claims on IBRD and IDA	0.1	—	—	0.1	0.4	0.8	0.7	-0.3
Residual ⁶	-0.3	4.2	0.2	0.3	1.5	-4.3	3.1	-4.7
Total official foreign exchange holdings	12.4	34.1	21.1	14.3	25.4	7.0	22.0	45.5
Effect of valuation changes on stock of reserves ⁷	—	-4.4	—	-8.5	-0.5	3.7	1.1	-4.9
Total reserve change	14.6	30.0	23.5	5.8	27.6	14.3	27.9	40.4

Sources: *International Financial Statistics* and Fund staff information and estimates.

¹ The official reserves covered in this table are described in Table 14, footnote 1. Table 16 provides comparable stock data concerning official holdings of foreign exchange. Note, however, that in some years changes in outstanding stocks do not coincide with the estimated transactions values recorded here because of changes in the relationship between the currency of denomination and the SDR. Footnote 1 to Table 16 notes these cases.

² Variations in IMF gold investments and gold deposits are excluded because they do not give rise to net creditor positions in the Fund.

³ Covers only claims of countries, including those denominated in the claimant's own currency.

⁴ The underlying stock data were not available prior to 1970; therefore, the value of transactions in these assets is included with the residuals until 1971.

⁵ See Table 16 for more details concerning these Fund staff estimates.

⁶ Table 16, footnote 4, provides details.

⁷ Countries' official holdings of foreign exchange are denominated in U.S. dollars or other national currencies. The value of most currencies has changed from time to time in relation to the SDR, the unit in which the figures in these annex tables are expressed. Such changes affect reserve stocks, which are calculated by converting the original currency figures into SDRs at the rates prevailing on each day in question. These valuation changes are shown in this line; the other changes shown in the table (except the grand total below) are thus solely those resulting from international transactions.

Table 16. Official Holdings of Foreign Exchange, by Type of Claim, End of Years 1970-77¹

(In billions of SDRs)

	1970	1971	1972	1973	1974	1975	1976	1977
Official claims on United States ²	23.8	46.6	56.7	55.4	62.8	68.9	79.2	103.8
Official sterling claims on United Kingdom	5.7	7.3	8.1	6.5	8.3	6.4	3.2	3.3
Official deutsche mark claims on Fed. Rep. of Germany	1.3	1.0	1.4	2.2	2.4	2.5	4.3	5.7
Official French franc claims on France	0.6	0.8	1.0	1.2	1.1	1.1	0.9	0.8
Other official claims on countries denominated in the debtor's own currency	0.9	1.0	0.9	1.6	1.5	2.7	3.8	4.6
Official foreign exchange claims arising from swap credits and related assistance	0.7	—	—	0.4	1.6 ³	1.3 ³	1.5 ³	1.2 ³
Identified official holdings of Eurocurrencies								
Eurodollars								
Industrial countries	5.1	3.4	5.6	7.3	6.5	7.0	7.9	14.7
Primary producing countries								
More developed countries	1.6	1.7	3.2	3.4	3.0	3.8	3.7	4.8
Less developed countries	3.8	5.4	9.2	10.3	22.8	27.7	34.0	38.5
<i>Western Hemisphere</i>	1.0	1.6	3.6	4.0	5.0	5.6	5.9	7.3
<i>Middle East</i>	0.6	1.1	1.9	2.3	12.0	16.7	19.1	20.6
<i>Asia</i>	1.1	1.1	2.0	2.7	3.0	3.5	5.9	7.8
<i>Africa</i>	1.1	1.6	1.7	1.3	2.8	2.0	3.1	2.9
Memorandum item: Major oil exporting countries	1.6	2.8	3.9	4.0	15.6	20.7	23.7	25.8
Total identified Eurodollars	10.5	10.4	18.0	21.1	32.3	38.5	45.6	58.0
Other Eurocurrencies	0.4	1.1	3.2	5.3	5.8	7.2	7.6	12.3
Total identified holdings of Eurocurrencies	10.9	11.6	21.2	26.4	38.0	45.7	53.1	70.3
Identified claims on IBRD and IDA	0.7	0.6	0.6	0.6	0.9	1.8	2.5	2.1
Residual ⁴	1.0	6.2	6.3	7.7	10.4	7.1	12.1	9.3
Total official holdings of foreign exchange	45.4	75.1	96.1	102.0	126.9	137.5	160.6	201.2

Sources: *International Financial Statistics* and Fund staff information and estimates.¹ The official foreign exchange reserves covered in this table are described in Table 14, footnote 1. Includes the estimated change in the value of holdings owing to the general realignment of currencies in 1971, the U.S. dollar devaluation in 1973, and the widespread floating of currencies since 1974.² Covers only claims of countries, including those denominated in the claimant's own currency.³ Comprises the double deposit arrangement between the Deutsche Bundesbank and the Bank of Italy.⁴ Part of this residual occurs because some member countries do not classify all the foreign exchange claims that they report to the Fund. It also includes asymmetries arising because data on U.S. and U.K. currency liabilities are more comprehensive than data on official foreign exchange as shown in *IFS*.

Chapter 3

Activities of the Fund

The principal developments during the year were as follows:

- The Second Amendment of the Articles came into effect on April 1, 1978, requiring review of some major aspects of the Fund's operations and extensive revisions in the Fund's By-Laws, Rules and Regulations, and general decisions.
- Almost all the quota increases that were proposed in February 1976, under the Sixth General Review of Quotas, came into effect shortly after the financial year ended on April 30, 1978. The Executive Board and the Interim Committee held a number of discussions in connection with the Seventh General Review of Quotas during the year.
- Further consideration was given to the role of the SDR in the international monetary system and the characteristics of the asset, including the question of a further allocation of SDRs, the method of valuing the asset, the interest rate on the SDR, and its wider use. The Executive Board decided to make certain changes in the basket of currencies that determines the value of the SDR and established a method for its further adjustment at intervals of five years.
- The Fund adopted a decision establishing a supplementary financing facility and agreed the terms and conditions on which the Fund could borrow in connection with financing transactions under the facility. The facility, which is designed to assist those members that can be expected to require balance of payments financing in larger amounts and for a longer period than could be available under the regular credit tranches, will become operative when a requisite amount of the loans committed to the Fund is actually in effect.
- The Fund adopted a new schedule of charges on its holdings of currency acquired under the credit tranches under which different rates of charge would apply to holdings below 200 per cent of quota and holdings in excess of 200 per cent of quota.
- The Fund decided that its buffer stock facility may be used by Fund members in connection with their financing of special stocks of sugar established under the 1977 International Sugar Agreement.
- The Executive Board initiated a discussion on the conditionality attaching to the use of the Fund's resources in the upper credit tranches.
- The first two years of a projected four-year period of gold sales was completed. The Fund completed the second of four annual distributions of gold to members and sold, for the benefit of developing countries, 12.5 million fine ounces to the market by means of public auctions. The Trust Fund made the first payments of the profits from these gold sales following the decision of the Executive Board that 104 developing countries were eligible to receive such profits. The Trust also made loans to 43 qualified members. Total disbursements by the Trust amounted to the equivalent of about SDR 1.1 billion.
- There was a marked reduction in the amount of balance of payments assistance provided by the Fund (excluding Trust Fund disbursements and gold sales) compared with the preceding few years; furthermore, large-scale repurchases were made by several industrial and developing countries, so that over the year there was a net contraction of Fund credit equivalent to almost SDR 2 billion.
- For the first time since 1971/72 the Fund recorded an overall surplus in its operations, after taking account of administrative expenses, and added the equivalent of SDR 27.5 million to its reserves.

Discussion by the Executive Board of a number of major policy issues, including some noted above, was guided by the views expressed in and the conclusions reached by the Interim Committee of the Board of Governors on the International Monetary System (the Interim Committee) and the Joint Ministerial Committee of the Boards of Governors of the Bank and the Fund on the Transfer of Real Resources to Developing Countries (the Development Committee).

During the financial year, both committees met in Washington, D.C., at the time of the 1977 Annual Meetings, and the Interim Committee subsequently met in Mexico City at the end of April 1978, when there was also a meeting of senior officials of members of the Development Committee. The press communiqués issued by the Interim Committee are reproduced in Appendix III.

Second Amendment of the Articles

The Second Amendment of the Articles of Agreement of the International Monetary Fund became effective on April 1, 1978, when the Fund informed its members that the Amendment had been accepted by 97 members exercising 83.97 per cent of the total voting power. The requirements for adoption of the Amendment were acceptances by two thirds of the membership having four fifths of the total voting power. The Amendment entered into force for all 133 countries that were members of the Fund on that date.

The effective date was two years after the Proposed Second Amendment was sent to the Board of Governors for its approval and 23 months after submission of the proposal to member countries for their acceptance. During that period the Executive Board and the staff devoted much time to work on extensive revisions in the Fund's By-Laws, Rules and Regulations, and other general decisions that were necessary in order to conform them to the extensive modifications of the Fund's Articles by the Second Amendment.

The amendments of the By-Laws that were endorsed by the Executive Board and adopted by the Board of Governors took effect on June 13, 1978. The revised Rules and Regulations that were adopted by the Executive Board and became effective on the date of the Second Amendment contain numerous new provisions, including those dealing with repurchases and charges, and with the procedures for exchanges of currency in connection with operations and transactions conducted through the General Resources Account. Numerous decisions have been revised already, and work is proceeding on many more.

Another legal instrument that was modified in order to make it conform to the provisions of the Second

Amendment is the General Arrangements to Borrow.

As a result of the Second Amendment coming into force, important changes have been made in the Fund's activities, including new exchange arrangements, the role of gold and the SDR, and the Fund's financial operations and transactions. A number of decisions taken by the Executive Board relating to these developments are described below.

Exchange Arrangements

Last year's Annual Report outlined the principles for the guidance of members with respect to their exchange rate policies and on procedures for Fund surveillance over those policies; developments in members' exchange rate arrangements have been discussed in Chapter 2. During the year, the Executive Board considered, in connection with the implementation of Article IV of the amended Articles, the guidance that should be given to members as to the nature of the initial notification that members must give to the Fund within 30 days of the date of the Second Amendment of the exchange arrangements that they intend to apply and the subsequent prompt notification to the Fund of any changes in their exchange arrangements.

The procedure decided upon by the Executive Board was that the Fund would communicate with each member, setting out as comprehensively as possible a description of the member's exchange arrangements, as known to the Fund, on the date on which the amended Articles came into effect. Members were asked to respond to these communications, within the required 30-day period, correcting and supplementing the description of exchange arrangements, as appropriate.

The Executive Board also took a decision regarding the procedures to be followed by each member in notifying the Fund "promptly of any changes in its exchange arrangements," as required by Article IV, Section 2(a) of the Fund Agreement. The decision, the text of which is reproduced in Appendix II, will be reviewed not later than one year after its adoption on March 23, 1978.

The Executive Board also agreed that the Fund would adapt its consultation procedures and practices to take account of surveillance of exchange rate policies required under Article IV, and that these consultations would encompass the procedures under Articles VIII and XIV. While the Board acknowledged that in most cases no major questions are likely to arise over the appropriateness of a member's exchange rate policies, some difficult issues may well arise in applying Article IV, and in those relatively few cases particular attention will be focused on whether the exchange rate policies of the members are consistent with the prin-

ciples agreed for the guidance of members' exchange rate policies.¹ This approach was endorsed by the Interim Committee in its communiqué issued after its meeting in Mexico City on April 29–30, 1978.

Gold

As a consequence of the amended Articles, the role of gold has been significantly reduced in importance in the Fund and the role of the special drawing right has been enhanced. These changes are in accord with the agreed objectives of gradually reducing the role of gold in the international monetary system and making the SDR the principal reserve asset of the system. Furthermore, the Fund is guided in all its policies and decisions after the Amendment regarding its operations and transactions in gold by the objective of promoting better international surveillance of international liquidity and avoiding the management of the price, or the establishment of a fixed price, in the gold market.

Members may no longer define for purposes of the Fund the exchange value of their currency in terms of gold; the official price of gold (SDR 35 per fine ounce) has been abolished, and members are free to trade in and account for gold at any price consistent with their domestic legislation. Members are no longer required to pay gold to the Fund in connection with any transaction or operation, and the Fund may accept gold from a member only by a decision that requires a majority of 85 per cent of the total voting power. Members that had accrued obligations to pay gold to the Fund at the date of the Second Amendment are now required to discharge such obligations with SDRs or in the currencies of other members prescribed by the Fund. As provided in Schedule B of the Articles, the Fund is continuing the sale of 50 million ounces of gold that was agreed upon in August 1975.²

Special Drawing Rights

The Second Amendment has provided for a number of significant changes in the characteristics and uses of the special drawing right, and the Executive Board has given considerable attention as to how these provisions can be applied. Under the Second Amendment, the value of the SDR is no longer expressed in gold, and the method of valuation of the SDR is determined by the Fund by a high majority of the total voting power.

¹ The principles that were agreed for the guidance of members' exchange rate policies were reproduced in Appendix II, *Annual Report, 1977*, pages 107–109.

² See *Annual Report, 1976*, pages 54–56.

Before the Second Amendment came into effect, the Executive Board reviewed the method of valuing the SDR that had been in effect since July 1, 1974, and took a new decision on its valuation.³ The decision, which came into effect on July 1, 1978, provided for certain changes in the list of currencies that determine the value of the SDR and established a method for further adjustment, at five-year intervals, that would accord with changes in the relative importance of currencies over time, while ensuring continuity and reasonable predictability for the valuation of the SDR.

The 16 countries whose currencies originally determined the value of the SDR from July 1, 1974 each had a share in world exports of goods and services in excess of 1 per cent on average over the five-year period 1968–72. The currencies used for this purpose from July 1, 1978 are those of the 16 member countries with the largest exports of goods and services for the period 1972–76. The new list of currencies includes those of Iran and Saudi Arabia in place of the currencies of South Africa and Denmark.

The amounts of each of the 16 currencies, which are summed to determine the value of one special drawing right, are as follows:

U.S. dollar	0.40
Deutsche mark	0.32
Japanese yen	21
French franc	0.42
Pound sterling	0.050
Italian lira	52
Netherlands guilder	0.14
Canadian dollar	0.070
Belgian franc	1.6
Saudi Arabian riyal	0.13
Swedish krona	0.11
Iranian rial	1.7
Australian dollar	0.017
Spanish peseta	1.5
Norwegian krone	0.10
Austrian schilling	0.28

These amounts were determined on June 30, 1978 on the basis of the average exchange rates for the three-month period ending on June 30, 1978. The share of each of these currencies in the value of the SDR corresponded on June 30, 1978 to the weights specified for each of them by the relative importance of the issuing country's share in world exports of goods and services, except that the U.S. dollar was given a weight of 33 per cent of the total to reflect both its

³ Executive Board Decision No. 5718-(78/46) G/S, adopted March 31, 1978 and reproduced in Appendix II.

commercial and financial importance.⁴ The calculation of the value of the SDR on the basis of the new basket was carried out so that on June 30, 1978 its value in terms of any currency was the same under the former and revised valuation basket.

The decision also provided for the revision of the list of currencies at five-year intervals, beginning on July 1, 1983, unless the Executive Board decides otherwise at that time. A revision of the list of currencies will be carried out so as to include the currencies of the 16 members with the largest exports of goods and services on average over a five-year period ending 18 months before the effective date of a revision, provided, however, that a currency included in the list will not be replaced by another currency unless the exports of goods and services of the country issuing the latter currency exceeded those of the country issuing the former by at least 1 per cent. The share for each currency in the total value of the SDR will be recalculated so as to be proportional to the sum, for each included currency, of the value of exports of goods and services of the issuing country and the value of balances of the currency held in the reserves of other members.

The Executive Board also reviewed the method of calculating the interest rate on the SDR, which is the average of short-term market interest rates in the five countries that at present have the largest quotas in the Fund, with quarterly adjustments reflecting interest rates during the six-week period ending on the fifteenth day of the month preceding the end of the quarter. The Executive Board decided to maintain that mode of calculation but, with effect from July 1, 1978, the weights for each of the five currencies included in the interest rate basket were changed so as to make them proportional to their initial shares in the new valuation basket.⁵

⁴ The currencies and the weights are as follows:

Currency	Weight	Currency	Weight
U.S. dollar	33 (33)	Belgian franc	4 (3½)
Deutsche mark	12½ (12½)	Saudi Arabian riyal	3
Japanese yen	7½ (7½)	Swedish krona	2 (2½)
French franc	7½ (7½)	Iranian rial	2
Pound sterling	7½ (9)	Australian dollar	1½ (1½)
Italian lira	5 (6)	Spanish peseta	1½ (1½)
Netherlands guilder	5 (4½)	Norwegian krone	1½ (1½)
Canadian dollar	5 (6)	Austrian schilling	1½ (1)

Figures in parentheses are the weights determined for the original basket in effect for the four years preceding July 1, 1978; as noted in the text, the Saudi Arabian riyal and Iranian rial have replaced, respectively, the Danish krone, which had a weight of 1½ per cent in the original basket, and the South African rand, which had a weight of 1 per cent. (See Executive Board Decision No. 5718-(78/46) G/S, adopted March 31, 1978 and reproduced in Appendix II.)

⁵ The financial instruments and new weights used in calculating the combined market interest rate are as follows:

The Executive Board discussed the question of the level of the interest rate on the SDR and, *ipso facto*, the rate of remuneration, in relation to the combined average of short-term market rates of interest. Under the amended Articles the rate of remuneration can be equal to or lower than the rate of interest on the SDR, provided that it does not fall below 80 per cent of the SDR rate. This issue was also discussed by the Interim Committee at its tenth meeting held in Mexico City on April 29–30, 1978. As noted in its communiqué, "The Committee agreed that in present circumstances the interest rate on the SDR should be increased from 60 per cent to no more than 80 per cent of the weighted average of short-term interest rates in the five member countries with the largest quotas, and asked the Executive Board to agree on a satisfactory formula for the rate of remuneration on this basis. Some members could support an increase in the interest rate only on the condition that an allocation of SDRs would be made." The Executive Board has continued its discussions in the light of the views of the Interim Committee but has not yet reached a conclusion on this matter.

The Executive Board discussed other aspects of the special drawing right including, in particular, the question of an allocation of SDRs, the related issue of combining an allocation of SDRs with a reduction in the amount of reserve currency outstanding through a Substitution Account administered by the Fund, the additional types of use of SDRs that might be permitted by the Fund in accordance with the provisions of the amended Articles, a review of the rules for designation and reconstitution, and the question of paying a proportion of quota increases in SDRs. The Interim Committee also examined these issues, and it agreed to request the Executive Board to pursue its work on these matters, and in some areas to submit appropriate proposals to or further reports for consideration by the Committee at its next meeting, which is scheduled to be held on September 24, 1978 in Washington.

Sixth General Review of Quotas

The entry into force of the Second Amendment was made a prerequisite to increases in Fund quotas as

	Per cent
Market yields for three-month U.S. Treasury bills	49 (47)
Three-month interbank deposits rate in Germany	18 (18)
Market yields for three-month U.K. Treasury bills	11 (13)
Three-month interbank money rate against private paper in France	11 (11)
Call money market rate (unconditional) in Japan	11 (11)
	<u>100 (100)</u>

Figures in parentheses are the former weights.

agreed under the Sixth General Review of Quotas. The Board of Governors Resolution of March 22, 1976 provided that the increase in a member's quota would not become effective until the member had consented to and paid the increase in quota in full. The Resolution also provided that no increase in quota would become effective before (1) the effective date of the Second Amendment or (2) the date of the Fund's determination that members having 75 per cent of the total of Fund quotas as of February 19, 1976 have consented to an increase in their quotas, whichever is the later of these dates. At the time of the entry into force of the Second Amendment on April 1, 1978, 86 members having 78.65 per cent of total quotas had consented to increases in their quotas.

Under the Resolution, members that had not consented to their increases at the time the Second Amendment came into effect had up to one month after the effective date of the amendment to consent, i.e., to May 1, 1978. As was permitted under the Resolution, the Executive Board decided to extend the period for consent and agreed the extension to June 12, 1978. As of that date, four members had not notified the Fund of their consent and a second extension for the period of consent to August 7, 1978 was agreed by the Executive Board.

A member increasing its quota under the Sixth General Review had the option to pay the entire increase in its own currency, or 25 per cent of the increase in SDRs or the currencies of other members specified—with their concurrence—by the Fund and the balance of the increase in the member's own currency. Eleven members elected to pay 25 per cent of the increase in quotas in other than their own currency; the total increase in quotas of these members amounted to SDR 1,940 million, of which SDR 219.5 million was paid in SDRs, SDR 265.5 million in the currencies of other members, and the remainder in the members' own currencies. Payments for the quota increases must be made within 60 days of the effective date of the Second Amendment, or of the date of consent if the member had consented after April 1, 1978.

Seventh General Review of Quotas

The Board of Governors Resolution on the Sixth General Review provided that "the seventh general review of quotas shall be completed by February 9, 1978." Early in February 1978, the Executive Board sent a message to the Board of Governors stating that, because of delays in the resolution of certain matters bearing on the subject, it had not yet been able to complete its work in connection with the Seventh

General Review of Quotas by the date specified in Resolution No. 31-2.

In the communiqué issued at the end of the Interim Committee meeting in April 1978, "the Committee reaffirmed its view that there was a need for an increase in total quotas under the Seventh Review that would be adequate to meet the expected need for conditional liquidity over the next five years and that would strengthen the available sources of balance of payments financing by enhancing the ability of the Fund to provide such financing without heavy recourse to borrowing and by furthering the process of international adjustment. Most members of the Committee were of the view that an increase of the order of at least 50 per cent of the quotas approved under the Sixth General Review would be appropriate in view of the present and prospective circumstances of the international economy. Most members of the Committee agreed that the Seventh Review should be mainly equiproportional, with at most a very small number of selective quota increases, in which case most members felt that the quota share of no developing country should be decreased except for one or two members whose quotas would remain unchanged.

"Some members suggested a limited increase in the first credit tranche if quota increases were more than a modest amount, but other members considered that the first credit tranche should be enlarged if the increases were not more than a modest amount.

"The Committee asked the Executive Board to give priority to these matters in its work in the coming months and to submit to the Board of Governors appropriate proposals, together with draft recommendations, for consideration by the Interim Committee at the time of the next Annual Meeting of the Board of Governors.

"Several members asked that the criteria for quota increases should be reconsidered after the Seventh General Review."

Since the Interim Committee meeting, the Executive Board has resumed its discussion of the main issues arising from the Seventh General Review of Quotas.

Operational Issues

The Second Amendment has led to a number of significant changes in the conduct of the Fund's financial operations and transactions, particularly those concerning the General Department. Of the many changes that have already been introduced, the following are among the most important:

1. *Exchanges of Currencies*

Under the amended Articles, members purchasing other members' currencies from the Fund can be certain that they will be able to use them, directly or indirectly, to meet their balance of payments need because of the assurance that the currencies are either freely usable or will be exchanged by the issuing members for such currencies. If the Fund specifies the use in a repurchase of a non-freely usable currency, the issuer of that currency must provide it, on the request of the repurchasing member at the time of the repurchase, in return for a freely usable currency that the member may select. All such exchanges must be made at an exchange rate that is in accordance with the Fund's principle of "equal value"—i.e., in terms of the SDR, the value of the currency received in the exchange must be the same whatever currency is being exchanged. The concept of freely usable currency also applies in the Special Drawing Rights Department in that such a currency must be provided, at the equal value rate of exchange, by a participant that has been designated to receive SDRs. The Fund has decided that initially the freely usable currencies will be the French franc, the deutsche mark, the Japanese yen, the pound sterling, and the U.S. dollar; additions to or deletions from this list of currencies may be made by the Fund after consultation with the member.

2. *Augmentation and Attribution*

The Executive Board decided that stand-by and extended arrangements, including such arrangements under the supplementary financing facility, that were entered into after the date of the Second Amendment shall no longer provide for any augmentation of rights to make purchases under the arrangements; formerly, a member that made a repurchase with respect to a drawing under a stand-by arrangement that was still in effect could redraw an amount equivalent to the repurchase. The Executive Board also decided that members shall be free to attribute reductions in the Fund's holdings of their currencies to any of their obligations to repurchase.⁶ This right had been granted to members in March 1977 and it was decided to retain the right after the Second Amendment came into effect.

3. *Repurchases*

The amended Articles provide for a largely new system of repurchases, including a new policy of early repurchases.⁷ A member is permitted to repurchase at

⁶ Reductions in holdings resulting from administrative expenditures shall be allocated to the first-maturing obligations.

⁷ See Executive Board Decisions No. 5703-(78/39) and No. 5704-(78/39), adopted March 22, 1978 and reproduced in Appendix II.

any time the Fund's holdings of its currency that are subject to charges (i.e., in general, Fund holdings in excess of a member's quota). Members are no longer required or entitled to make repurchases with respect to reserve tranche purchases made after the effective date of the Second Amendment. A member is obliged, however, to repurchase the outstanding amount of its currency that results from a purchase in the credit tranches and is subject to charges or from purchases under the compensatory financing facility or the buffer stock facility within five years after the date of the purchase, provided that the repurchase shall be made in equal quarterly installments during the period beginning three years and ending five years after the date of purchase unless the Fund approves a different schedule. Furthermore, the Fund has adopted certain guidelines on early repurchase under Article V, Section 7(b) of the amended Articles; the relevant decision is to be reviewed after one year from the date of its adoption. Under the guidelines, a member whose balance of payments and reserve position had improved sufficiently to justify repurchase under the expectation in Article V, Section 7(b) would be expected to have its outstanding purchases reduced by a specified amount. In general, the specified amount for the expected quarterly repurchase would be 1.5 per cent of the member's latest gross reserves plus (minus) 5 per cent of the increase (decrease) in gross reserves over the latest six-month period for which data are available. These amounts, calculated for early repurchases by members, are subject to various limits and qualifications—e.g., subject to a limit of 4 per cent of a member's latest gross reserves. The reduction in holdings would take place by means of a repurchase by a member or by sales of the member's currency by the Fund or by a combination of the two. The method employed would be at the option of the member.

4. *Excluded Facilities*

The amended Articles authorize the Fund to exclude from the reserve tranche (formerly the gold tranche) holdings of currency acquired under a "special policy" on the use of the general resources. This means that members may retain their reserve tranche while having purchases outstanding under such a policy. Prior to the First Amendment of the Articles, the Fund had excluded from the gold tranche holdings that had been acquired under the compensatory financing decision; under the Second Amendment, the Fund has decided that holdings resulting from use of the buffer stock facility and the oil facility for 1974 and 1975 are also to be excluded for the purpose of defining the reserve tranche. As a consequence, members retain the possibility of drawing their reserve tranches when

needed, even when they have outstanding drawings under these special policies. At the same time, charges will now be levied on holdings resulting from drawings under the special policies, even if the total holdings in the General Resources Account are less than the member's quota.

Transactions and Operations in the Special Drawing Rights Department

Overall activity in the Special Drawing Rights Department increased substantially and reached a record level in 1977/78 with total use of SDRs by participants amounting to SDR 3,212 million—more than twice as much as in any previous financial year. The main categories of use of SDRs increased sharply. Transfers by participants to other participants aggregated SDR 1,325 million, compared with SDR 436 million in 1976/77, and mainly took the form of transactions by agreement, which brought participants' holdings closer to net cumulative allocations or promoted reconstitution. Use of SDRs in designated transactions was also relatively high and largely reflected sales by the General Resources Account to participants that made purchases and used the SDRs immediately in transactions with designation.

Transfers to the General Resources Account amounted to SDR 1,887 million, against SDR 805 million in 1976/77. These transfers were accounted for mainly by repurchases (SDR 844 million) and in payment of charges (SDR 801 million). Total outflows of SDRs from the General Resources Account, at SDR 1,287 million, were about one third lower than total inflows, so that the SDR holdings of the General Resources Account increased by SDR 600 million, to reach SDR 1,371 million on April 30, 1978, the highest level at the end of any financial year. The main outflows of SDRs from the General Resources Account were in sales as part of participants' purchases, in acquisitions of SDRs specifically to promote reconstitution, and in the payment of remuneration to creditors in the General Resources Account.

Transfers of SDRs during the financial year resulted in a decline of SDR 812 million in the holdings of the industrial countries, reflecting mainly transfers of SDR 753 million by the Federal Republic of Germany in transactions by agreement; total SDR holdings of nonindustrial countries increased by SDR 212 million and the holdings of the General Resources Account rose by SDR 600 million. The distribution of SDR holdings on April 30, 1978 shows that the industrial countries as a group have made net use of SDR 95 million, while other developed and developing coun-

tries have made net use of SDR 927 million and SDR 349 million, respectively.

Transactions by Agreement

Until the Second Amendment came into effect, transactions by agreement fell into two categories: (i) those in which a participant used SDRs to obtain balances of its own currency from another participant and that were subject to the requirement of need, and (ii) those that were for the purpose of promoting reconstitution or to bring the holdings of both participants closer to their net cumulative allocations and exempt from the requirement of need. Under the amended Articles, participants are free to use their SDRs in agreement with other participants.

Transactions by agreement between participants amounted to SDR 927 million, an almost threefold increase from the previous year, and was the largest single category of transfers of SDRs in 1977/78. This development stemmed in part from the decision⁸ of the Fund of August 1976 to permit certain transactions between participants without the requirement of need—namely, to promote reconstitution and to bring holdings of the participants undertaking the transactions closer to their net cumulative allocations. As a result of this decision, members were able to acquire larger amounts of SDRs from other participants than they were able to obtain from the General Resources Account; participants could not acquire SDRs from the General Resources Account for the purpose of bringing holdings closer to their net cumulative allocations.

The major users of SDRs in these transactions by agreement were Canada (SDR 81 million), the Federal Republic of Germany (SDR 753 million), and the Netherlands (SDR 92 million). About one half of total transfers by agreement were made to Italy (SDR 467 million), which used these SDRs to repurchase its currency from the General Resources Account. The other major recipients of SDRs in transactions by agreement were Australia (SDR 100 million), Argentina (SDR 44 million), Chile (SDR 28 million), Israel (SDR 62 million), Mexico (SDR 20 million), and Turkey (SDR 28 million). The net effect of these transactions was to promote a more balanced distribution of SDRs among participants in relation to their allocations, since in almost all cases the users had SDR holdings above their allocations and the recipients had SDR holdings below their allocations. Details of all transactions by agreement are shown in Table 17.

⁸ Executive Board Decision No. 5185-(76/128) S, adopted August 25, 1976. (See *Annual Report, 1977*, page 103.)

Table 17. Use and Receipt of SDRs in Transactions by Agreement, Financial Year Ended April 30, 1978

(In millions of SDRs)

Participant	Use	Receipt
Argentina	—	43.6
Australia	1.0	100.0
Burma	—	0.6
Canada	81.0	—
Central African Empire	—	0.6
Chad	—	0.4
Chile	—	27.5
Denmark	—	6.8
Germany, Fed. Rep. of	753.3	—
Ghana	—	1.2
Greece	—	4.4
Haiti	—	1.5
Iceland	—	4.0
Indonesia	—	1.0
Israel	—	62.0
Italy	—	467.0
Jamaica	—	5.1
Kenya	—	15.2
Korea	—	16.7
Lao People's Dem. Rep.	—	0.1
Mexico	—	20.0
Morocco	—	4.6
Netherlands	92.1	34.2
Panama	—	2.0
Papua New Guinea	—	1.0
Peru	—	9.1
Philippines	—	16.7
South Africa	—	17.0
Sudan	—	6.2
Tanzania	—	2.6
Turkey	—	28.1
Uganda	—	5.5
Yugoslavia	—	16.5
Zaire	—	6.3
Total	927.4	927.4

Transactions with Designation

The use of SDRs in transactions with designation increased substantially as participants using the Fund's resources made purchases in SDRs and immediately used most of these SDRs in designated transactions to obtain foreign exchange. Sales of SDRs by the General Resources Account accounted for 38 per cent of total purchases that were not financed by borrowing. Thirteen participants used a total of SDR 398 million in transactions with designation, compared with seven participants using a total of SDR 119 million in this way in 1976/77; of this total, SDR 344 million (86 per cent) was purchased from the Fund's General Resources Account, and the balance of SDR 54 million was from the users' own holdings. The continued decline in the use of participants' own holdings in designated transactions reflected the low holdings of many participants, the need to maintain or restore SDR holdings to meet the reconstitution requirement, and the need to use SDRs for other purposes, particularly for

the payment of charges in the General Resources Account.

Twenty-eight participants were designated to provide currency; more than one third of the total amount was provided by the United Kingdom, and a further one third was accounted for by India, Italy, and the United States. Designated participants provided the equivalent of SDR 10 million in deutsche mark, SDR 5 million in French francs, and the balance of SDR 383 million in U.S. dollars. Details of all transactions with designation are shown in Table 18.

In December 1977, the Executive Board reviewed the rules for designation, and it was decided not to make any changes in these rules pending further consideration of various other related matters.

Table 18. Use and Receipt of SDRs in Transactions with Designation, Financial Year Ended April 30, 1978

(In millions of SDRs)

Participant	Use	Receipt
Afghanistan	—	2.0
Algeria	—	3.0
Argentina	—	19.7
Barbados	3.0	—
Burma	16.8	—
Burundi	—	1.0
Colombia	—	5.5
Congo, People's Rep. of the	3.1	—
Costa Rica	—	2.0
Ecuador	—	4.0
Egypt	41.0	—
El Salvador	—	3.0
Honduras	—	2.0
India	—	52.5
Indonesia	—	13.0
Iran	—	6.1
Iraq	—	6.0
Italy	—	42.0
Ivory Coast	—	2.0
Jamaica	35.7	—
Kenya	—	2.0
Korea	—	2.0
Madagascar	5.4	—
Malaysia	—	5.0
Nicaragua	—	1.0
Nigeria	—	4.0
Pakistan	52.0	—
Peru	7.5	—
Philippines	48.0	—
Romania	15.0	—
Rwanda	—	1.0
Sri Lanka	45.0	—
Thailand	—	3.0
Trinidad and Tobago	—	3.5
Turkey	102.2	—
United Kingdom	—	146.7
United States	—	44.4
Uruguay	—	1.8
Venezuela	—	10.0
Yugoslavia	—	10.0
Zaire	23.5	—
Total	398.1	398.1

Transactions and Operations Between Participants and the General Resources Account

Transactions and operations between participants and the General Resources Account again accounted for by far the largest movement of SDRs during the financial year. Total transfers by participants to the General Resources Account rose to SDR 1,887 million in 1977/78, which was more than twice the amount transferred in any previous financial year. The use of SDRs in repurchases by participants totaled SDR 844 million, compared with SDR 73 million in 1976/77, of which SDR 832 million was used in connection with the postponement of the discharge of repurchase obligations under Article V, Section 7(b) in effect prior to the Second Amendment, which had accrued and were payable in gold, and in the settlement of amounts accrued and payable in SDRs. The largest amounts of SDRs used in repurchases were by Italy (SDR 575 million) and the United Kingdom (SDR 130 million). Total transfers of SDRs to pay charges to the General Resources Account increased from SDR 709 million in 1976/77 to SDR 801 million in 1977/78, of which Italy and the United Kingdom accounted for SDR 303 million. Notwithstanding a sharp increase in total repurchases and a marked decline in purchases, average balances subject to charge were higher than in 1976/77; these balances, together with a slightly higher average rate of charges and the normal progression in the rates of charge, caused the increase in charges paid to the General Resources Account. A further inflow occurred toward the end of the year as a result of some participants paying 25 per cent of their quota increase in SDRs; these payments amounted to SDR 201 million. Other transfers of SDRs to the General Resources Account were in payment of interest on the Fund's holdings of SDRs (SDR 40 million) and reimbursement of the expenses of conducting the Special Drawing Rights Department (SDR 1 million).

A total of SDR 1,287 million was transferred to participants during the year by the General Resources Account, compared with SDR 495 million in 1976/77. Purchases of SDRs totaled SDR 662 million, comprising a single purchase by the United Kingdom of SDR 130 million, which was offset by the use of the same amount in a repurchase as mentioned above, and SDR 532 million purchased by 16 other participants. Transfers of SDRs to participants specifically to promote reconstitution totaled SDR 474 million, including SDR 310 million transferred to Italy. Payment of remuneration (SDR 122 million) and interest and transfer charges on Fund borrowings (SDR 29 million) accounted for the remaining transfers.

Reconstitution

The rules for reconstitution require participants to maintain their average daily holdings of SDRs at not less than 30 per cent of their average allocations over five-year periods ending on the final day of successive calendar quarters. All participants except Democratic Kampuchea, with which the Fund has been unable to communicate, met the rules for reconstitution during the financial year.

A total of 33 participants acquired SDR 467 million from the General Resources Account against currencies acceptable to the Fund to promote reconstitution, while one participant—Pakistan—acquired SDR 7 million for this purpose as part of a purchase. One participant—Italy—obtained SDR 310 million, but part of this amount was used in a subsequent repurchase. It should be noted that receipts of SDRs in transactions with designation, transactions by agreement, and purchases also serve the purpose of promoting reconstitution for a number of participants. Details of acquisitions of SDRs from the General Resources Account are shown in Table 19.

The rules for reconstitution were reviewed, and it was decided not to make any changes in these rules

Table 19. Acquisitions of SDRs for Reconstitution from the Fund's General Resources Account, January 1, 1972–April 30, 1978

(In millions of SDRs)

	Jan. 1, 1972–Apr. 30, 1973		Financial Years Ended April 30										Total Jan. 1, 1972–Apr. 30, 1978	
			1974		1975		1976		1977		1978			
	Number of Transactions	Amount	Number of Transactions	Amount	Number of Transactions	Amount	Number of Transactions	Amount	Number of Transactions	Amount	Number of Transactions	Amount	Number of Transactions	Amount
Against currencies of other members	38	85.2	64	112.8	70	95.6	88	293.0	93	401.8	75	467.2	428	1,455.6
In purchases	12	68.4	9	44.4	5	21.5	9	111.2	10	43.4	1	6.9	46	295.8
Total	50	153.6	73	157.2	75	117.1	97	404.2	103	445.2	76	474.0	474	1,751.4

pending further consideration of various other related matters, including the question of a further allocation, the rate of interest, and other characteristics of the SDR.⁹

BIS as a Holder of SDRs

The Bank for International Settlements (BIS) was prescribed as a holder of SDRs in January 1974. The Board of Governors Resolution under which this prescription was made was reviewed by the Executive Board in January 1977, and no change was proposed. As in preceding years, there were no transactions in SDRs between the BIS and participants during 1977/78.

Allocation of SDRs

No allocation of SDRs was made during the financial year, and therefore the total of SDRs allocated remains unchanged at SDR 9.3 billion. In June 1977 the Managing Director, after consultation with the Executive Board, reported to the Board of Governors that there was no proposal for a new allocation that he considered to be consistent with the applicable provisions of the Articles that had broad support among participants at that time. As noted above, the question of a new allocation remains under active consideration by the Executive Board.

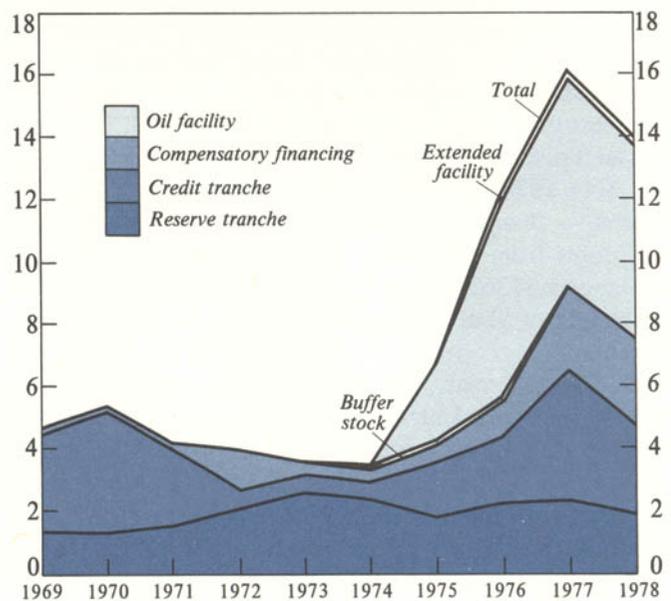
Transactions and Operations in the General Resources Account

The amount of the Fund's resources that represented outstanding purchases at the end of April 1978 totaled almost SDR 14 billion, about SDR 2 billion lower than the record amount outstanding at the end of the previous financial year. (See Chart 11.) Purchases totaled SDR 2.5 billion during the year, or about half the total of the preceding year, and repurchases amounted to almost SDR 4.5 billion, which was by far the largest amount on record. The totals for both purchases and repurchases were influenced by relatively large transactions between the Fund and the United Kingdom (with purchases amounting to SDR 1.25 billion and repurchases amounting to SDR 1.31 billion) and Italy (with purchases of SDR 90 million and repurchases of SDR 1.31 billion). A number of other countries also made repurchases and purchases during the year. To some extent purchases resulted from the decision permitting members to attribute repurchases freely to any outstanding obligations and members augmented their

⁹ The Report by the Executive Directors to the Board of Governors, adopted December 5, 1977, and the Resolution, adopted by the Board of Governors on January 4, 1978, are reproduced in Appendix II.

Chart 11. Use of Fund's Resources as at April 30, 1969-78

(In billions of SDRs)



drawing rights under stand-by arrangements by attributing repurchases to a purchase that had been made earlier under current arrangements. Nevertheless, the considerable net reduction in the outstanding use of the Fund's resources can be partly attributed to an improvement in members' external financial positions and the greater availability of funds from the international money and capital markets. In addition, the relatively large purchases that began in 1974 were reaching the three-year limit and repurchase commitments were beginning to fall due. This latter feature is part of the normal cycle of Fund activity.

The number of stand-by arrangements (18) that were approved in the year was about the same as in the previous two years, but the amount involved totaled SDR 1.29 billion, compared with SDR 4.7 billion for the preceding year. At the end of the financial year, 19 members had outstanding stand-by arrangements that would permit, provided that all performance criteria were met, purchases of SDR 5,075 million. As of the same date, about 10 per cent of outstanding purchases represented use of the Fund's resources in the upper credit tranches, considerably lower than a year earlier.

No new extended arrangements were concluded with the Fund last year and purchases in the reserve tranche (formerly the gold tranche) and under the compensatory financing facility were the smallest for a number of years. The relatively small total of drawings under the compensatory financing facility reflected not only the marked recovery in raw material prices but also the

fact that a number of members had made previous purchases under the facility up to 50 per cent of quota; to be entitled to further drawings, the member must satisfy the Fund that it has cooperated with the Fund in an effort to solve its balance of payments difficulties.

The Fund made a further distribution of about 6.09 million ounces of gold amounting to the equivalent of almost SDR 213.1 million to those countries that were members of the Fund on August 31, 1975.

The Trust Fund made two payments (in April 1978 and July 1978) to 104 developing countries that the Executive Board had decided were eligible to receive the profits from gold sales. These payments amounted to almost US\$363 million. The Trust also disbursed the equivalent of SDR 841 million in loans to 43 qualified members.

During the year, the nonindustrial countries purchased the equivalent of SDR 1,122 million from the General Resources Account and received the equivalent of SDR 76 million in gold sold by the Fund and the equivalent of about SDR 470 million from the Trust Fund in connection with the distribution of profits from gold sales and in loan disbursements. Total repurchases by the nonindustrial countries amounted to SDR 1,866 million during the financial year.

The industrial countries as a group reduced their indebtedness to the Fund by the equivalent of SDR 2,620 million; they received the equivalent of SDR 137.5

million in the direct distribution of gold and made purchases from the Fund totaling SDR 1,381 million.

Fund Liquidity

The volume of usable currencies held by the Fund more than doubled, to about SDR 11.2 billion over the year, which was the first clear improvement in the Fund's liquidity since 1974/75. (See Table 20.) The relatively large overall improvement in the Fund's liquidity was partly a consequence of the substantial volume of net repurchases of SDR 2 billion and also to the inflow of currencies and SDRs that arose from members paying the increase in their subscriptions to which they had consented under the Sixth General Review of Quotas (which amounted to SDR 2.7 billion). The increase in usable resources from this latter source continued strongly during the first two months of the new financial year, raising the Fund's holdings of usable currency to about SDR 14.5 billion by the end of June 1978. Moreover, with the entry into force of the Second Amendment, the Fund's holdings of the currencies of all members became usable in accordance with the Fund's policies; this made it possible to add to the total of usable currencies the equivalent of about SDR 1 billion in currencies that had not previously been used by the Fund or had been sold only on an irregular basis in limited amounts. The Fund's hold-

Table 20. Flow of Transactions in the General Resources Account and Resulting Stocks, Financial Years Ended April 30, 1974-78
(In millions of SDRs)

Type of Transaction	Financial Year Ended April 30				
	1974	1975	1976	1977	1978
Total purchases	1,058	5,102	6,591	4,910	2,503
Reserve tranche	607	981	1,324	161	136
Credit tranche	239	1,604	461	2,370	1,937
Buffer stock	—	—	5	—	—
Compensatory financing	212	18	828	1,753 ¹	322
Extended facility	—	—	8	190	109
Oil facility	—	2,499	3,966	437	—
Total repurchases	672	518	960	868	4,485
Gold sales for replenishment	—	—	—	411	452
In connection with auctions	—	—	—	201	239
For distribution	—	—	—	210	213
Outstanding borrowings	—	—	—	—	—
In connection with oil facility	—	2,499	6,465	6,702	6,329
Under the General Arrangements to Borrow	—	—	—	911	1,576
From Swiss National Bank	—	—	—	89	154
Holdings of the General Resources Account	—	—	—	—	—
Usable currencies ²	6,500	10,100	7,800	5,300	11,200
SDRs	499	510	461	771	1,371
Gold	5,370	5,370	5,370	4,959	4,507

¹ In addition, credit tranche purchases equivalent to SDR 39.56 million in the financial year ended April 30, 1976 were reclassified as having been made under the compensatory financing decision.

² Usable currencies represent the total of the Fund's holdings of currencies of all members listed in the currency budget at the end of each financial year, except for the currencies of members whose holdings by the Fund were in excess of quota.

ings of SDRs increased by SDR 600 million, to over SDR 1.3 billion. The Fund preserved its stock of usable currencies by increasing its total borrowing under the General Arrangements to Borrow (GAB) and from the Swiss National Bank by about SDR 730 million, to SDR 1.7 billion, in connection with the financing of purchases by the United Kingdom and Italy.

Including the Fund's gold holdings, the volume of usable assets increased from about SDR 11 billion at the end of the financial year 1976/77 to about SDR 17.0 billion a year later, and rose to about SDR 21.4 billion as of June 30, 1978.

The amount of usable assets of about SDR 17.0 billion (currencies, SDRs, and gold) at the end of the financial year was in better balance with the Fund's immediate liquid liabilities of about SDR 21 billion (outstanding reserve positions, including loan claims on the Fund, and undrawn balances under current stand-by and other arrangements) than at any time since the end of the 1973 financial year. While a relatively large proportion of the improvement in the Fund's liquidity stemmed from increases in quotas, which also increase members' drawing rights, the net improvement in liquidity from this source tends to diminish fairly quickly as members' use of the Fund's resources rises in line with their enlarged quotas. Also, as the distribution of payments imbalances can change rather substantially over a relatively short period of time, so the Fund's volume of usable currency can change relatively quickly, not only, for example, because some currencies that were formerly regarded as usable may not continue to be usable in view of a deteriorating external financial position of the issuers of the currency but also because the members may themselves need to purchase other usable currencies from the Fund, thereby compounding the fall in the Fund's liquidity. Over the last year, however, the distribution of payments imbalances changed in a manner that tended to improve the Fund's liquidity.

In this latter connection, it is noteworthy that the Fund's holdings of 11 creditor currencies totaled about 85 per cent of all usable currencies at the end of April 1978, with the U.S. dollar representing about 50 per cent of the total. In March 1978, the United States announced in a joint statement with the Federal Republic of Germany, regarding exchange market intervention policy to counter disorderly exchange matters, that the United States would draw on its reserve position in the Fund "if and as necessary to acquire additional foreign exchange."

Reserve Tranche (Gold Tranche) Purchases

Purchases in the reserve tranche, formerly the gold tranche, which had declined markedly in 1976/77, de-

creased further during the financial year 1977/78, from SDR 160.6 million to SDR 135.7 million, and were made by nine members with each purchase amounting to less than SDR 50 million. The relatively small amount of purchases in the reserve tranche was part of the general fall in demand for the Fund's resources during the year.

The Second Amendment provided for a change in concept of the "gold tranche," including renaming it the "reserve tranche," in order to emphasize a member's right to use the Fund's resources without prior challenge by the Fund. While the definition of the reserve tranche—i.e., a purchase that does not raise the Fund's holdings of the member's currency above the quota level—remains unchanged under the amended Articles, it is also possible to exclude holdings and thereby permit countries to preserve their reserve tranches, as explained earlier.

Credit Tranche Purchases and Stand-By Arrangements

Purchases in the credit tranches during the financial year amounted to SDR 1.94 billion, virtually all made under stand-by arrangements. The United Kingdom purchased the largest amount (SDR 1.25 billion, or 65 per cent of the total) in three installments, financed by borrowings under the GAB and from the Swiss National Bank. Italy's purchase of SDR 90 million was financed in the same manner. Other large purchases were made by South Africa (SDR 123 million) and Egypt (SDR 105 million).

Of the 18 stand-by arrangements totaling the equivalent of SDR 1.29 billion approved during the year, the largest amounts—SDR 300 million and SDR 250 million—were approved for Turkey and Zambia, respectively; arrangements were approved for Argentina (SDR 159.5 million), Spain (SDR 143.19 million), Sri Lanka (SDR 93 million), and Peru (SDR 90 million). Ten of the stand-by arrangements approved during the year permitted drawings in the first credit tranche; five were in the first and upper tranches, one (for Argentina) covered the enlarged second credit tranche, and two were exclusively in the upper tranches. Following the coming into force of the Second Amendment, the size of each of the credit tranches, which had been enlarged by 45 per cent (to 36.25 per cent of quota) in January 1976, reverted to 25 per cent of quota. Consequently, the stand-by arrangements for Turkey (six tranches) and Zambia (eight tranches) were based on the traditional size tranche in terms of quota, although both countries had increased their quotas under the Sixth General Review. The comparatively large amounts in terms of quotas that were

agreed for Turkey and Zambia reflected exceptional economic circumstances of these members and, in particular, the size of their balance of payments deficits in relation to their quotas. Stand-by arrangements for three members—Turkey, Jamaica, and Zambia—were for a period of two years, and that for Peru for a slightly longer period (November 18, 1977–December 31, 1979). With the exception of Korea, with an arrangement of about 7 months, all other arrangements were for 12 months.

In September 1977 and March 1978, the Executive Board adopted decisions modifying the texts of stand-by and extended arrangements to take account of the various aspects of the amended Articles—including the repurchase provisions—and the decisions regarding augmentation of drawing rights and attribution of reductions of holdings.¹⁰

Extended Fund Facility

No new arrangements were concluded during the year under the extended facility that was established in September 1974. The arrangements concluded with three members (Kenya, the Philippines, and Mexico) in previous years remained in effect during the past financial year. The only purchases under the extended arrangements were made by the Philippines, totaling the equivalent of SDR 108.75 million in two transactions under a three-year arrangement for SDR 217 million concluded on April 1, 1976. At the end of the financial year, about SDR 509 million remained available for purchases under the arrangements; on July 6, 1978 the arrangement for Kenya expired. In June 1978, the Executive Board approved an extended three-year arrangement with Jamaica for an amount equivalent to SDR 200 million.

Compensatory Financing Facility

The volume of purchases under the compensatory financing facility in 1977/78 declined from the all-time high of SDR 1.8 billion, purchased by 35 members in the previous year, to SDR 322 million, purchased by 9 members. All purchases were in amounts equivalent to less than SDR 100 million each. Since the amendment of the facility in December 1975 through the financial year ended April 30, 1978, purchases under the facility totaled the equivalent of almost SDR 2.7 billion.

¹⁰ Executive Board Decision No. 5546-(77/138), adopted September 14, 1977, and Executive Board Decision No. 5706-(78/39), adopted March 22, 1978. These changes have been discussed earlier in this chapter.

The decision on compensatory financing of export fluctuations permits purchases up to a maximum of 75 per cent of quota, provided that drawings will not be in excess of 50 per cent of quota in any 12-month period, and that requests for drawings beyond 50 per cent shall be met only if the Fund is satisfied that the member has been cooperating with the Fund in an effort to find appropriate solutions for its balance of payments difficulties.

As a result of the new quotas coming into effect, a number of members that had previously drawn up to 75 per cent of their smaller quota, e.g., Portugal, Romania, or Zaïre, would be able to request further purchases on the basis of the new quota if they are experiencing export shortfalls and have a balance of payments need. Since the date of the Second Amendment, repurchases with respect to drawings made under the decision will be in accordance with the repurchase provisions of the Second Amendment and the policy on early repurchase, rather than paragraph 7 of the decision.

Buffer Stock Facility

On January 1, 1978, the 1977 International Sugar Agreement, which had been adopted on October 7, 1977 by the United Nations Sugar Conference, provisionally entered into force. After examining the terms of the Agreement, which aims at stabilizing prices and export earnings through the joint working of export quotas and buffer stock operations, the Fund decided that its buffer stock facility may be used by Fund members in connection with their financing of special stocks of sugar to be established under the Agreement; these stocks are to be nationally owned but internationally controlled.

Financial assistance by the Fund for members in connection with the establishment of special stocks under the Agreement will not exceed the value of the special stocks calculated at the floor price under the Agreement, which at present is set at US\$0.11 per pound of sugar, or at the average market price on which these stocks were constituted if the market price is below the floor price. Such assistance by the Fund would be complementary to loans to be extended by the International Sugar Organization in connection with the recurrent cost of storage under the conditions specified in the Agreement.

This was the third occasion on which the Fund agreed to permit the use of its resources in connection with an international buffer stock. On June 23, 1976, the Executive Board decided to meet members' requests for financial assistance up to the full amount of their compulsory contributions to the buffer stock to be estab-

lished under the Fifth International Tin Agreement. On April 23, 1973, the Fund decided that it would provide financial assistance to members in connection with their loans to the International Cocoa Council.

Purchases from the Fund under the buffer stock financing facility may be made up to an amount equivalent to 50 per cent of a member's quota. No purchase, however, has been made under the buffer stock facility since 1975, because tin and cocoa prices have remained high, and the sugar buffer stock is still being established.

Supplementary Financing Facility

As mentioned in the 1977 Annual Report, the Interim Committee, at its meeting in Washington in April 1977, agreed that substantial demands for the Fund's resources could be expected from members that in the next several years were likely to experience payments imbalances that were large in relation to their economies and their Fund quotas. On August 29, 1977, the Executive Board adopted the decision establishing the supplementary financing facility.¹¹ The main features of the facility are as follows:

1. Members will use the facility only under a stand-by or extended arrangement reaching into the upper credit tranches and subject, therefore, to the usual policy conditions, phasing, and performance criteria.

2. A stand-by arrangement will normally cover a period of more than one year and could extend up to three years. An extended arrangement would usually be for as long as three years.

3. The amounts available to a member under a stand-by or extended arrangement will be apportioned between ordinary resources and supplementary financing, as follows:

a. A member will be able to draw under the supplementary financing facility the equivalent of 12.5 per cent of its quota along with the unused portion of its first credit tranche, and 30 per cent of its quota along with each of the upper credit tranches.

b. Purchases may be made beyond the upper credit tranches wholly with supplementary financing in special circumstances.

c. Under an extended arrangement, which permits drawings up to 140 per cent of quota, an equivalent amount of supplementary finance will be available.

4. Purchases made with supplementary financing will be subject to repurchase in equal semiannual installments that begin not later than three and one-half years, and are to be completed not later than seven years, after the purchase.

¹¹ See Executive Board Decision No. 5518-(77/130), adopted September 2, 1977 and reproduced in Appendix II.

5. Charges on holdings resulting from supplementary finance will be equal to the rate of interest paid by the Fund to its lenders, plus 0.2 per cent per annum for the first three and one-half years after a purchase. Thereafter, the margin over the interest rate to be paid by the Fund to its lenders will be 0.325 per cent per annum.

6. The decision establishing the supplementary financing facility will be reviewed not later than two years after its effective date or when the Seventh General Review of Quotas becomes effective. A report on the use of supplementary financing will be made one year after the facility has become effective.

7. The effective date of the decision would be the date on which borrowing agreements by the Fund and lenders to the supplementary financing facility are completed for a total of at least SDR 7.75 billion, including at least six agreements, each of which provides for an amount of not less than SDR 500 million.

The Interim Committee, at its meeting in Mexico City in April 1978, expressed its concern at the long delay in bringing into operation the supplementary financing facility. In view of the need of a number of members for prompt financial assistance on the scale envisaged in establishing the facility, the Committee urged that all necessary steps be taken to bring the facility into operation at the earliest possible date. As noted in the communiqué, "Committee members from developing countries asked the Executive Board to review the conditionality attaching to the facility and also to drawings under regular credit tranches, and called again for an examination, as early as possible, of the establishment of a subsidy related to the rates of charges that would be payable by low income countries." The Executive Board has begun an examination of the Fund's conditionality in the upper tranches.

Repurchases

The total of repurchases made in the financial year amounted to the equivalent of SDR 4,485 million, which was the largest amount of repurchases in any financial year in the Fund's history. Over half the total (SDR 2,619 million) was due to repurchases by Italy and the United Kingdom; of the remainder, the equivalent of SDR 600 million represented repurchases by Argentina and India, and a further SDR 51 million represented scheduled repurchases by 17 members made with respect to purchases made in 1974/75 under the oil facility. Voluntary repurchases were made by three members for an amount totaling the equivalent of SDR 124 million. The balance represented scheduled repurchases with respect to purchases having been made three or more years ago.

An unusually large proportion, about 50 per cent, of total repurchases represented repurchases incurred under the former Article V, Section 7(b) as of April 30, 1977, and reflected mainly the sharp rise in members' reserves in the 12 months preceding April 30, 1977. The administrative delay in the discharge of repurchase obligations incurred under Article V, Section 7(b) as of April 30, 1976 beyond the end of the financial year 1976/77 also contributed to the high level of repurchases in the financial year 1977/78. However, a number of countries, including the United Kingdom, Italy, and Argentina, made early repurchases, i.e., in advance of scheduled commitments or accrued obligations.

Four members repurchased the equivalent of SDR 702 million with respect to purchases made under their current stand-by arrangements, and Mexico and the Philippines repurchased the equivalent of SDR 93 million and SDR 39 million, respectively, and attributed these repurchases to purchases under their extended arrangements, thereby augmenting their drawing rights under those arrangements.

For purchases other than those under the oil facility, the Executive Board agreed to the requests of 25 members to schedule their repurchases, totaling SDR 746 million, over periods of up to five years from the date of purchase.

Since the end of the financial year 1972/73, repurchase obligations payable in gold, totaling the equivalent of SDR 507 million, have been postponed subject to successive reviews. Following the review made in December 1977, the Executive Board decided that payment of these amounts be further postponed until 60 days after the Second Amendment of the Articles came into effect. In connection with these and subsequently postponed repurchases, members paid SDRs to the Fund in amounts equivalent to their obligations payable in gold.

Operational Budget

In view of the relatively large holdings of SDRs by the General Resources Account and the continued rise in those holdings, the Fund, from about the end of the financial year 1976/77, included SDRs in the currency, now operational, budget on a regular basis for sales to participants. This change in emphasis as regards the sale of SDRs on a regular basis would tend to promote the role of the SDR as a means of payment, would conserve the Fund's holdings of usable currencies, and, prior to the Second Amendment coming into effect, also would redistribute somewhat the burden of meeting members' needs for the resources of the General Resources Account to include those members that were included in the designation plan but not in the budget

because arrangements had not been completed regarding the usability of their currencies in Fund transactions. The substitution of SDRs for currency is subject to agreement by the participants purchasing SDRs, and they are able to use SDRs immediately, if they so desire, to obtain currency through a transaction with designation. The amount of SDRs included for sales in the currency budgets in the last financial year averaged about SDR 300 million per budget, or 37 per cent of the total budgeted sales of currencies and SDRs; actual sales of SDRs through the budget amounted to 33 per cent of total sales.

While the main emphasis has been placed on sales of SDRs in financing purchases, the Fund also sold the currencies of several members whose balance of payments and reserve positions had improved and which wished to reduce their indebtedness to the Fund by having their currencies sold as well as through repurchase. As in the previous financial year, the Fund also agreed with certain creditor members, whose currencies were not generally usable in Fund transactions, on the sale of their currencies to the equivalent of the amount of gold distributed to these members.

In accordance with established practice, large individual transactions were not included in the budgets. The financing of the repurchase and subsequent purchase equivalent to SDR 610 million each by the United Kingdom was agreed on the basis of special consultations with Executive Directors.

The amended Articles impose a legal obligation on members to make their currencies usable in Fund transactions and operations (previously, the usability of a member's currency was normally a matter of collaboration with that member because the member had no obligation to convert its currency when sold by the Fund). The new arrangements in particular call on members in certain circumstances to make exchanges of their currencies when sold by the Fund and impose a new obligation on members to provide their currencies to other members to enable them to make repurchases with the currency from the Fund. Further, the operational budget has been formally provided for in the amended Articles, which prescribe that the Fund shall establish policies and procedures for the selection of currencies to be sold to members that take into account, in consultation with members, the balance of payments and reserve position of members and developments in their exchange markets, as well as the desirability of promoting over time balanced positions in the Fund.

Borrowing

Since 1973/74, the Fund has supplemented its own resources by substantial borrowing from some of its

members and Switzerland. Between late 1974 and early 1976, the Fund borrowed the equivalent of SDR 6.9 billion for the purpose of financing transactions under the oil facility for 1974 and 1975. In November 1976, Japan's commitment under the GAB was increased from about SDR 265 million to approximately SDR 1 billion. In late 1976 and early 1977 the Fund arranged, under the GAB, for the financing of the equivalent of almost SDR 2.9 billion of purchases to be made by the United Kingdom and Italy under their respective stand-by arrangements, and for loans from the Swiss National Bank for up to SDR 337.5 million for the same purpose. Finally, by April 30, 1978, the Fund had been advised by 14 member countries and the Swiss National Bank of their agreement in principle to lend to the Fund up to SDR 8.75 billion for the purpose of financing transactions under the supplementary financing facility. In total, then, since April 1974 the Fund has borrowed or made arrangements to borrow up to the equivalent of about SDR 18.9 billion, or about 65 per cent of total quotas just prior to quota increases under the Sixth General Review. At the end of April 1978, the total outstanding borrowing by the Fund was equivalent to SDR 8.1 billion, which amounted to 25 per cent of total quotas in effect at that date.

General Arrangements to Borrow and the Swiss National Bank

In accordance with the decisions adopted by the Executive Board regarding the financing of purchases under the stand-by arrangements for the United Kingdom and Italy, the Fund borrowed the equivalent of SDR 582.9 million under the GAB in connection with two of the purchases by the United Kingdom and SDR 82.5 million under the GAB for a purchase by Italy. Borrowings from the Swiss National Bank on the occasion of these purchases amounted to SDR 57.1 million and SDR 7.5 million, respectively.

In January 1978, the arrangements for the financing of purchases during the second year of the stand-by arrangement with the United Kingdom were reviewed and it was agreed not to propose changes in the prevailing arrangements. There had been a major improvement in the external position of the United Kingdom and the member would not in foreseeable circumstances be likely to make further purchases under the arrangements. A review of the financing under the stand-by arrangement with Italy was conducted in June 1978, and, in view of the improvement in the Fund's liquidity, it was decided that no further borrowings would be made in connection with the existing stand-by arrangement.

A number of provisions of the GAB were amended to make them conform to the new provisions of the Articles and to the decisions taken in light of the amended Articles. These amendments will come into effect only after they have been concurred in by each of the ten participants in the GAB.

The Ministers and Governors of the Group of Ten, who met in Mexico City in April 1978, noted that the GAB will remain valuable as a means of official financing through the Fund. They instructed their Deputies to examine the adequacy of the GAB and the role of these Arrangements.

Oil Facility

In the course of the year, the Fund repaid the equivalent of SDR 373 million to 13 lenders that had made loans to the Fund in connection with the oil facility. Some of the repayments were in advance of the original repayment schedules. In view of the "early" repurchases made with respect to drawings under the oil facility, the Fund consulted the lenders regarding their acceptance of early repayments of their loans to the Fund; almost all the lenders agreed to accept the early repayment. By April 30, 1978, the Fund had repaid the equivalent of SDR 574 million of indebtedness incurred in connection with the oil facility; the balance of indebtedness on that date amounted to the equivalent of SDR 6.3 billion. (See Appendix I, Table I.10.)

Supplementary Financing Facility

To be able to finance transactions under the supplementary financing facility on the scale envisaged, and without endangering its liquidity, the Fund decided to establish lines of credit from a group of industrial and oil exporting countries whose external positions are strong. On April 30, 1978, 14 Fund members and the Swiss National Bank had advised the Fund of their agreement in principle to lend the Fund a total of approximately SDR 8.75 billion for the purpose of financing transactions under the facility. The individual lenders and amounts are as follows:

(Expressed in millions of SDRs)

Abu Dhabi	150
Belgium	150
Canada	200
Germany, Federal Republic of	1,050
Guatemala	30
Iran	685
Japan	900

Kuwait	400
Netherlands	100
Nigeria	220
Qatar	100
Saudi Arabia	2,150
Swiss National Bank	650
United States	1,450
Venezuela	500

Participation in the financing of the facility remains open to other lenders whose external positions are strong.

In September 1977, the Fund agreed to pay the lenders an initial interest rate of 7 per cent per annum until June 30, 1978. Thereafter, the interest rate shall be determined every six months and shall be the average yield for each six-month period starting July 1, 1978 for U.S. Government securities with five years to run, rounded upward to the nearest $\frac{1}{8}$ of 1 per cent.

The creditors' loan claims on the Fund in connection with the facility will be highly liquid. They will be encashable on demand by the Fund if the creditor represents that it has a balance of payments need, and lenders will be able, without prior reference to the Fund, to transfer these claims to any other lender, any Fund member, or certain other official entities, at prices agreed between the transferor and transferee. As noted earlier, the facility will not become operative until a requisite amount of the loans committed to the Fund is actually in effect.

Gold Sales

In May 1978, the Fund completed the second year of its four-year gold sales program during which 50 million ounces, or one third of the Fund's gold holdings at the beginning of the period, are to be sold. One half of this amount, or 25 million ounces, is to be sold at the former official price (SDR 35 per fine ounce) directly to all countries that were members of the Fund as of August 31, 1975, and the other half is to be sold in public auctions for the benefit of developing countries. During the financial year, the Fund held 12 public auctions on behalf of the Trust Fund, and sold 6.3 million ounces; another 6.1 million ounces were sold directly to all eligible members at a price of SDR 35 per fine ounce. Total sales under the first two-year program—including sales in the May 1978 auction—amounted to 24.8 million ounces.

Gold Auctions

Initially, the Fund held its gold auctions every 6–9 weeks, with 780,000 fine ounces of gold offered at each

auction. Between March 1977 and May 1978, an auction was held on the first Wednesday of each month, at which 525,000 fine ounces of gold were offered. Following a further review in May 1978, the Fund decided to continue holding auctions on a monthly basis but reduced the amount on offer to 470,000 fine ounces.

The auctions have become a regular feature of the gold markets, and only two minor changes in auction procedures were adopted during the financial year: First, beginning with the July 1977 auction, the deposit was changed from a flat sum of \$50,000 to \$25,000, or \$10 per fine ounce, whichever was the higher sum, in order to provide the Fund better protection against the failure of a bidder to complete the transaction. Second, the Fund facilitated the making of bid deposits by accepting deposits made by wire transfers, in addition to those made by checks submitted with the bid.

Interest in the auctions continued to be substantial, particularly among professional gold market dealers, most of whom regularly participated in the sales. During the year, the number of bidders ranged from 14 to 24, and the amount of gold bid for ranged from 971,000 fine ounces to 3,104,000 ounces, except for one auction when the amount of gold bid for fell to 598,400 ounces. (See Table 21.) The Fund continued to alternate between the two basic pricing systems—the bid price method in which each bidder pays the price he actually bid, and the common price method in which all bidders pay a uniform price at which the seller can sell the total amount he wishes to award in the auction. As might be expected, auction prices over the last year have risen with prices in the major international gold markets; and the price at which the Fund sold gold has been close to prevailing market prices—sometimes somewhat above, sometimes somewhat below, the average fixing price of gold in London on the day of the auction.

The total proceeds of sales of gold during the year amounted to the equivalent of SDR 907 million, of which SDR 238 million represented the capital value of the gold sold and was added to the holdings of currency of the General Resources Account, and SDR 669 million represented profits that accrued to the Trust Fund. In connection with these sales of gold, the Fund first sold the gold in replenishment of its currency holdings, and the member whose currency was being replenished sold the gold, at the then official price, to the Trust Fund on whose behalf the gold was sold in the market. Accordingly, the Fund replenished, by the sale of gold, its holdings of currencies of 12 member countries. (See Appendix I, Table I.11.)

In May 1978 the Executive Board reviewed the gold sales policies and procedures and, in the light of experience with the sales and of the Second Amendment, decided on the terms and conditions for future auctions.

Table 21. Summary Statistics on Gold Auctions, June 2, 1976–May 3, 1978

Date (1)	Pricing Method (2)	Place of Delivery (3)	Ounces Bid (Thousands) (4)	Sub- scription Ratio ¹ (5)	Number of Bidders		Number of Bids		Price Range of Successful Bids (US\$ per fine ounce) (10)	Average Award Price (11)	Profits (In millions of U.S. dollars) (12)
					Total (6)	Suc- cessful (7)	Total (8)	Successful (9)			
June 2, 1976	Common	New York	2,320.0	2.97	30	20	220	59	126.00–134.00	126.00	67.10
July 14, 1976	Common	New York	2,114.0	2.71	23	17	196	56	122.05–126.50	122.05	64.00
Sept. 15, 1976	Bid	New York	3,662.4	4.70	23	14	380	41	108.76–114.00	109.40	53.82
Oct. 27, 1976	Bid	New York	4,214.4	5.40	24	16	383	37	116.80–119.05	117.71	60.25
Dec. 8, 1976	Common	London	4,307.2	5.52	25	13	265	33	137.00–150.00	137.00	75.35
Jan. 26, 1977	Common	New York	2,003.2	2.57	21	15	192	49	133.26–142.00	133.26	72.50
Mar. 2, 1977	Bid	New York	1,632.8	3.11	21	7	187	14	145.55–148.00	146.51	55.60
Apr. 6, 1977	Bid	New York	1,278.0	2.43	18	11	136	22	148.55–151.00	149.18	57.02
May 4, 1977	Bid	New York	1,316.4	2.51	17	14	107	38	147.33–150.26	148.02	56.37
June 1, 1977	Common	New York	1,014.0	1.93	14	13	75	35	143.32–150.00	143.32	53.87
July 6, 1977	Common	Paris	1,358.4	2.59	15	15	83	35	140.26–145.00	140.26	52.16
Aug. 3, 1977	Common	London	1,439.2	2.74	18	16	136	44	146.26–150.00	146.26	55.31
Sept. 7, 1977	Bid	New York	1,084.4	2.07	15	11	115	21	147.61–149.65	147.78	56.24
Oct. 5, 1977	Bid	New York	971.2	1.85	17	12	103	32	154.99–157.05	155.14	59.97
Nov. 2, 1977	Bid	London	1,356.4	2.58	18	7	90	21	161.76–163.27	161.86	63.29
Dec. 7, 1977	Common	New York	1,133.6	2.16	19	19	108	58	160.03–165.00	160.03	62.13
Jan. 4, 1978	Common	New York	984.4	1.88	19	19	103	64	171.26–180.00	171.26	67.68
Feb. 1, 1978	Common	Paris	598.4	1.14	17	17	76	62	175.00–181.25	175.00	69.65
Mar. 1, 1978	Bid	New York	1,418.0	2.70	19	16	127	76	181.13–185.76	181.95	72.92
Apr. 5, 1978	Bid	New York	1,367.0	2.60	21	15	122	30	177.61–180.26	177.92	70.78
May 3, 1978	Bid	London	3,104.0	5.91	24	17	192	36	170.11–171.50	170.40	66.83

¹ The ratio of total bids to the amount on auction, i.e., 780,000 ounces in the auctions from June 2, 1976 through January 26, 1977, and 525,000 ounces in subsequent auctions.

With three exceptions, the previous terms and conditions were maintained unchanged. As a result of the entry into force of the amended Articles, members may transact in gold at any price, and consequently official agencies of members are not restricted from participating in the auctions held from June 1978. A further consequence of the Second Amendment coming into effect is that the Fund is no longer able to replenish its currency holdings by the sale of gold, and will sell the gold directly on the market; the part of the proceeds equal to the capital value of gold sold is paid to the General Resources Account, and the profits paid to the Trust Fund. The Fund also reduced the amount to be offered in each auction to 470,000 fine ounces, in order to accommodate noncompetitive bids from members. The amount to be offered is to be reviewed after six auctions and adjusted, if necessary, in the light of gold sold in noncompetitive bidding.

The developing country members that the Executive Board has decided can participate in the direct distribution of profits from the gold sales also have an option, now that the Second Amendment has entered into effect, to submit noncompetitive bids for that part of 25 million fine ounces that corresponds to the member's share in Fund quotas on August 31, 1975. The Fund agreed that such bids can be submitted in one or more of the auctions held after May 1978 and before the end of May 1979. Members exercising the option will pay the average price of the relevant auction in currencies

acceptable to the Fund, and will receive gold at the same depository as competitive bidders. The amount of gold sold to noncompetitive bidders in an auction will be in addition to that awarded to competitive bidders, and will thus reduce the amount remaining to be sold in later auctions. Of the 104 developing countries that the Executive Board decided were eligible to participate in the direct distribution of profits, 40 countries have informed the Fund that they wish to retain the option. These members accounted for 14.6 per cent of Fund quotas at the end of August 1975; thus, they are entitled to submit noncompetitive bids up to a total of 3.7 million fine ounces. Members that retain the option, however, are not obligated to submit noncompetitive bids.

Gold Distribution

In connection with the second of four annual direct sales of gold to members at the former official price, the Fund sold during the financial year a total of 6,090,362 fine ounces (SDR 213.16 million) of 25 million ounces to be sold in the four-year period.¹² In addition, the Executive Board decided to return to members amounts of gold that had been held by the Fund under earmark for them by adding the earmarked

¹² Arrangements have not been completed with regard to the distribution to Democratic Kampuchea and the Republic of China.

amounts to members' shares in the second distribution and to transfer not less than the total amounts of gold so calculated. Accordingly, about 9,000 fine ounces of gold were returned from earmark.

The Executive Board agreed to requests of 11 members for postponement of their participation in the second gold distribution for balance of payments reasons. These members were Barbados, Bolivia, Lesotho, Madagascar, Morocco, Peru, the Philippines, Sudan, Uganda, Zaïre, and Zambia, of which 7 (Barbados, Lesotho, the Philippines, Sudan, Uganda, Zaïre, and Zambia) had also postponed the purchase of their shares in the first distribution. The total of postponed purchases amounted to 266,858.384 fine ounces (SDR 9.34 million), or 4.3 per cent of the total amount of gold to be distributed.¹³ The Executive Board had decided that the postponements were to continue until not later than 30 days after the entry into effect of the Second Amendment. Furthermore, the gold was sold directly in exchange for the members' own currency in accordance with the amended Articles, and no handling charges were levied. The balances so acquired by the Fund are subject to the repurchase provisions of the Articles and also bear the same rate of charge as holdings resulting from a purchase in the credit tranches. All such purchases that had been postponed had been completed by the first week of May 1978.

Of the gold sold in the second distribution before the Second Amendment came into effect, about 3.62 million fine ounces (SDR 126.5 million) were distributed directly to 32 members against payment of their own currencies, compared with direct sales of 3,497,030.293 fine ounces (SDR 122.4 million) to 30 members in the first distribution. Sales of gold to 82 members, totaling 2.38 million fine ounces (SDR 83.1 million) were, as in the first distribution, arranged indirectly through 12 creditor intermediaries¹⁴ in proportion to their creditor positions after the sales to them of their own shares in the distribution, and taking into account members' options for depositories and operational convenience. As noted earlier, all gold sold after the Second Amendment came into effect was sold for each member's own currency.

Charges and Remuneration

Following the changes that were approved in some of the Fund's schedules of charges and that took effect

¹³ Some members that postponed their purchases of the first distribution purchased their share in the course of the subsequent financial year.

¹⁴ Austria, Belgium, Brazil, Canada, France, the Federal Republic of Germany, Japan, the Netherlands, Norway, Sweden, the United States, and Venezuela.

from April 1, 1977,¹⁵ there were three further modifications in the Fund's structure of charges during the financial year. First, as noted above, at the beginning of September 1977, the Fund decided on the charges to be levied on members' purchases under the supplementary financing facility.

Second, in November 1977, the Fund made an adjustment to the method used in levying its charge on a stand-by arrangement. The Fund had previously levied a stand-by charge of $\frac{1}{4}$ of 1 per cent per annum on the full amount that could be drawn under the arrangement and the entire charge was payable for the whole period of the arrangement at the time the arrangement was entered into. As a member made purchases under the arrangement, the stand-by charge was credited against the service charge up to a maximum amount of $\frac{1}{2}$ of 1 per cent.

Because some stand-by arrangements may be for periods beyond two years, a member might have been placed in a position of having paid a stand-by charge of $\frac{3}{4}$ of 1 per cent for a three-year arrangement, but could only receive credit for $\frac{1}{2}$ of 1 per cent even though the full amount of the arrangement had been purchased. To avoid this situation, the Executive Board decided that the charge of $\frac{1}{4}$ of 1 per cent per annum is payable at the beginning of each 12-month period of a stand-by arrangement on that part of the total amount of the arrangement that has not been purchased. When the member makes a purchase under the arrangement, the amount of the stand-by charge is reduced, by a refund, in the proportion that the amount of the purchase bears to the total amount that can be purchased under the arrangement.

Third, in April 1978 the Fund adopted a schedule of charges applicable on balances acquired by the Fund under the regular credit tranches that would raise the Fund's holdings above 200 per cent of quota, after taking into account exclusions of certain balances acquired under a special policy, including purchases under the extended facility. Use of the Fund's resources in the credit tranches that raised holdings above 200 per cent of quota, after taking into account the excluded balances, could be regarded as exceptional use of the Fund's resources, for which a higher schedule of charges would be appropriate. Furthermore, a higher schedule should encourage members to repurchase the outstanding drawings as early as possible.

The new schedule was adopted broadly to maintain equity with the schedule of charges adopted in September 1977 in connection with use of the Fund's resources under the supplementary financing facility, which was linked to the interest rate at which the Fund borrowed for financing transactions under that facility. The Execu-

¹⁵ See *Annual Report, 1977*, pages 61-62.

tive Board decided in April 1978 that, for holdings acquired by the Fund as a result of purchases under stand-by arrangements taking effect not later than June 30, 1979 and that are in excess of 200 per cent of quota, the charge would be the average yield to constant maturity of U.S. Government securities in New York over the six months preceding the determination of the rate of charge, rounded upward to the nearest $\frac{1}{4}$ of 1 per cent, plus $\frac{1}{4}$ of 1 per cent. The rate shall be calculated on July 1, 1978 and at six-month intervals, and shall apply for the six months preceding the date of calculation. A similar schedule was adopted with respect to purchases under the extended facility, to the extent that such purchases under the facility exceeded 140 per cent of quota. The decision is to be reviewed not later than December 31, 1978, in order to determine whether there was a need to continue it, and, unless the Executive Board decides otherwise, the charge will be abrogated not later than June 30, 1979, except for members that have at that time drawings outstanding above 200 per cent of quota or that have arrangements outstanding that would permit drawings above that level.

The various schedules of charges currently in effect in the Fund are reproduced in Appendix I, Table 1.13.

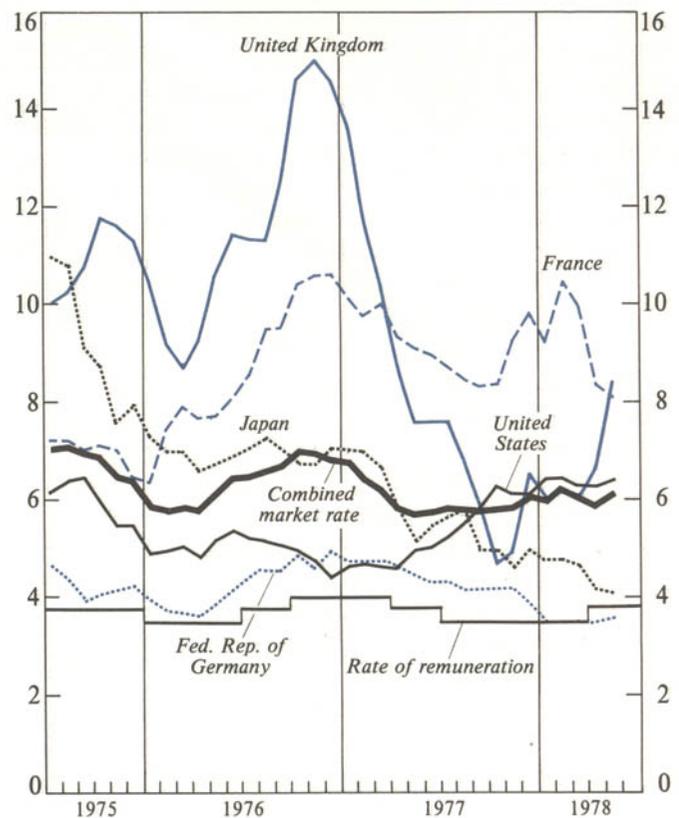
The method of calculating the rate of remuneration and the interest rate on the SDR remained unchanged during the year, but, as noted earlier, a review was made of both the form of calculation and the level of the SDR interest rate in connection with the discussion on the valuation of the SDR. As a result of that review, it was decided to maintain an interest rate basket for the SDR that was composed of interest rates in the United States, the Federal Republic of Germany, the United Kingdom, France, and Japan; the financial instruments from which these interest rates are taken in order to calculate the combined market interest rate are the same as in effect before the Second Amendment, and the fixed weights were adjusted as of July 1, 1978, in accordance with the new valuation basket.

The Fund reviewed the rate of remuneration each quarter. Rule I-10, in effect prior to the Second Amendment, provided that, unless the Executive Board decided otherwise, the rate of remuneration for each calendar quarter was three fifths of the weighted average of short-term market interest rates in the United States, the Federal Republic of Germany, the United Kingdom, France, and Japan, rounded to the nearest $\frac{1}{4}$ of 1 per cent. The combined market rate was based on short-term rates for the six-week period ending on the fifteenth day of the last month before the calendar quarter for which the rate of remuneration was determined.

The rate of remuneration and the interest rate on the SDR, which were fixed at 3.75 per cent per annum at the beginning of the financial year, fell to 3.5 per cent

per annum on July 1, 1977. The rates were increased to 3.75 per cent per annum on April 1, 1978 and remained at that level for the quarter starting July 1, 1978. (See Chart 12.)

Chart 12. Rate of Remuneration and Short-Term Interest Rates, July 1975–June 1978¹



¹ For the United Kingdom and the United States, the yield on three-month treasury bills; for France and the Federal Republic of Germany, the rate for three-month interbank deposits; and for Japan, the call money (unconditional) rate.

Income, Expenses, and Reserves

During the financial year ended April 30, 1978, the Fund's operational income from charges and the receipt of interest on holdings of SDRs in the General Resources Account rose by SDR 65.0 million (8 per cent), to a record high of SDR 839.6 million. Operational expense—the payment of remuneration on creditor positions and interest on the Fund's borrowing—increased to a lesser extent, by SDR 14.0 million (2 per cent), to SDR 741.6 million. As a result, net operational income increased by SDR 51.0 million in 1978, to SDR 98.0 million, compared with a total of SDR 47.1 million in 1977. Administrative and other expenses increased by SDR 5.2 million (8 per cent), to SDR 70.5 million. For the year as a whole, the Fund had a surplus of income

over expenses that amounted to SDR 27.5 million, compared with a deficit in the preceding year of SDR 18.2 million. The surplus of income over expense, which is the first since the 1971 financial year, was placed to the Special Reserve. Total reserves at April 30, 1978 amounted to SDR 714.0 million.

Income from charges levied by the Fund on its average holdings of members' currencies amounted to SDR 786.6 million, which was a rise of 8 per cent over the previous year. (See Table 22.) Several factors contributed to this increase—in particular, the increase in charges that was approved by the Executive Board with effect from April 1, 1977 and the progression in the rates of charge over the time that purchases remain outstanding. The average rate of charge, other than that applicable to the oil facility, increased from 4.26 per cent per annum in 1977 to 4.77 per cent per annum in 1978. However, while the total outstanding purchases subject to charges declined by SDR 1.4 billion from SDR 13.4 billion at April 30, 1977 to SDR 12.0 billion at April 30, 1978, the average daily balances on which charges are levied increased by SDR 800 million, from SDR 12.2 billion in 1977 to SDR 13.0 billion in 1978 (the large volume of repurchases took place largely at the end of the year and did not reduce the average daily balances for the year as a whole by any significant amount). Furthermore, the Second Amendment had a significant impact on the charges for the 1978 financial year as a whole, particularly as a result of the decisions to exclude from the reserve tranche balances acquired under the various facilities, so that approximately

SDR 570 million of additional balances of currency became subject to charges with effect from April 1, 1978.

Income from service charges on purchases decreased by SDR 11.9 million from that of 1977, to SDR 11.8 million, and was the result of a lower volume of purchases.

Interest received on holdings of SDRs in the General Resources Account increased by SDR 16.8 million (73 per cent), to SDR 39.8 million, and reflected an 87 per cent increase in the average daily balance of the Fund's holdings of SDRs, from SDR 597 million in 1977 to SDR 1,118 million in 1978. The average rate of interest earned by the Fund on its holdings of SDRs decreased from 3.85 per cent in 1977 to 3.56 per cent in 1978.

For the year as a whole, the average daily balances of net creditor positions on which the Fund pays remuneration and of loan claims on which interest is paid increased from SDR 13.0 billion in 1977 to SDR 13.8 billion in 1978. This increase is reflected in higher remuneration and interest costs, which rose by SDR 15.4 million (2 per cent), to SDR 738 million. Against this, the average rate of remuneration paid by the Fund on net creditor positions was lower at 3.56 per cent in 1978 than the average of 3.85 per cent paid in 1977.

The net increase in outstanding borrowing to SDR 8,059 million on April 30, 1978 reflected SDR 730 million borrowed under the General Arrangements to Borrow and under the agreement with the Swiss National Bank and repayments by the Fund of SDR 373 million borrowed under the 1974 and 1975 oil facility borrow-

Table 22. Summary of Average Rates of Periodic Charges and Remuneration, Financial Years Ended April 30, 1977 and 1978

(Balances and charges in millions of SDRs)

	1978		1977	
	Including the oil facility		Excluding the oil facility	
Income from charges on balances				
Average daily balances	13,007	12,209	6,630	5,472
Total charges for the period	786.6	727.3	316.0	232.7
Average annual rate	6.05	5.97	4.77	4.26
Remuneration and interest on borrowings, net of interest on SDR holdings				
Average daily balances	12,624	12,364	6,118	5,601
Net expense for the period	698.2	699.6	232.6	216.6
Average annual rate	5.53	5.66	3.80	3.87
Excess of average daily balances subject to periodic charges over average daily net creditor positions, net of SDR holdings	+383	-155	+512	-129
Spread between the combined average annual rate of charge and the combined average annual rate of expense	0.52	0.31	0.97	0.39
Excess of periodic charges over remuneration and interest net of interest on SDR holdings	+88.4	+27.7	+83.4	+16.1

ing agreements. Interest paid on all outstanding borrowing increased by SDR 41.4 million (8 per cent), to SDR 537.1 million in 1977/78. Of this amount, SDR 466 million was interest paid on amounts borrowed in connection with the oil facility (SDR 483 million in 1977) and SDR 72 million was interest paid on the GAB and other borrowing (SDR 13 million in 1977).

The combined average cost of all capital resources provided to the Fund declined from 5.66 per cent in 1977 to 5.53 per cent in 1978. This reduction is mainly attributable to the fall in the rate of remuneration (for which the average cost for the year was 3.56 per cent per annum), even though the cost of borrowing rose slightly (the average cost of which was 6.62 per cent per annum).

The reduction in the cost of resources, together with the rise in the average rate of charge, yielded an improved positive spread between the average annual rate of expense and average current rate of charge, from 0.31 per cent in 1977 to 0.52 per cent in 1978. A further contributing factor in the improvement over 1977 was that average balances on which the Fund received income exceeded average creditor and loan positions by about SDR 383 million, whereas in the previous year average creditor and loan balances exceeded average debtor balances by about SDR 155 million. This change resulted in an increase in income of about SDR 19 million over the preceding year.

The Subsidy Account

The Subsidy Account, which is administered by the Fund, was established by the Executive Board on August 1, 1975 to assist the Fund's most seriously affected (MSA) members to meet the cost of using the 1975 oil facility; 18 such members made use of this facility for a total of SDR 551.03 million (Table 23). The actual amount of subsidy payments to eligible members, prior to the Second Amendment, was calculated as a percentage per annum of the average daily balances of the Fund's holdings of currency in excess of quota that resulted from use of the oil facility for 1975 and that were outstanding during the year. Because the Fund's holdings of a member's currency relating to use of the oil facility have been excluded under Article XXX(c) since the effective date of the Second Amendment, and are thus subject to charges even though holdings are below quota, the subsidy has been calculated on average outstanding balances acquired under the 1975 oil facility for the 18 beneficiaries. The Executive Board amended its decision establishing the Subsidy Account accordingly.

Table 23. Subsidy Account: Total Use of 1975 Oil Facility by Most Seriously Affected Members and Subsidy Paid for the Years Ended April 30, 1977 and 1978¹

(In millions of SDRs)

Country	Total Use 1975 Oil Facility	Subsidy at 5 Per Cent for Year Ended	
		April 30, 1977	April 30, 1978
Bangladesh	40.47	2.00	2.02
Cameroon	11.79	0.59	0.59
Central African Empire	2.66	0.13	0.13
Egypt	31.68	1.57	1.58
Haiti	4.14	0.21	0.21
India	201.34	10.07	7.46
Ivory Coast	10.35	0.52	0.52
Kenya	27.93	1.39	1.40
Mali	3.99	0.20	0.20
Mauritania	5.32	0.26	0.27
Pakistan	111.01	5.55	5.55
Senegal	9.91	0.50	0.50
Sierra Leone	4.97	0.25	0.25
Sri Lanka	34.13	1.71	1.71
Sudan	18.30	0.92	0.92
Tanzania	20.61	1.03	1.03
Western Samoa	0.42	0.02	0.02
Yemen, People's Dem. Rep. of	12.02	0.60	0.60
Total	551.03	27.51	24.95

¹ Purchases began in July 1975 and continued until May 1976. The subsidy amounts shown are calculated on the average daily balances of the currency of the member held by the Fund that were outstanding for purchases under the 1975 oil facility during the year and subject to charges.

The Subsidy Account is funded by contributions from 24 members and Switzerland (Table 24). The table shows that contributions totaling SDR 160.5 million are anticipated over the life of the Account, and that contributions, either in whole or in part, from all members totaled some SDR 101.3 million as of June 30, 1978. During the financial year, Italy paid its contribution of SDR 8.6 million in full; Belgium paid SDR 2.24 million, two of its scheduled annual contributions; and Australia, Brazil, Finland, France, Japan, New Zealand, Saudi Arabia, Sweden, the United Kingdom, and Venezuela have made their annual donations.

Contributions are received either in U.S. dollars or in the member's own currency with immediate conversion into U.S. dollars. The funds have been invested in U.S. Treasury bills or notes, as far as possible, on dates appropriate to the payments requirements of the Subsidy Account.

The objective of the Subsidy Account is to reduce the effective rate of annual charge payable on drawings under the 1975 oil facility by about five percentage points per annum. For the financial year ended April 30, 1978, the Executive Board decided that the rate of subsidy would continue, as in the two previous years, to be 5 per cent, thus reducing the effective interest cost

Table 24. Subsidy Account: Contributions
(In millions of SDRs)

Contributor	Anticipated Total Contributions ¹	Contributions Received as of June 30, 1978
Australia	5.700	3.440
Austria	2.300	2.300
Belgium	5.600	2.240
Brazil	1.850	1.388
Canada	9.500	9.500
Denmark	2.200	0.960
Finland	1.600	0.800
France	12.900	7.527
Germany, Fed. Rep. of	13.700	6.841
Greece	0.600	0.150
Iran	6.000	4.500
Italy	8.600	8.600
Japan	10.300	4.363
Luxembourg	0.108	0.108
Netherlands	6.000	6.000
New Zealand	1.700	0.607
Norway	2.100	2.100
Saudi Arabia	40.000	19.810
South Africa	1.350	1.350
Spain	3.400	1.470
Sweden	2.800	2.100
Switzerland	3.285	3.285
United Kingdom	12.050	6.692
Venezuela	6.000	4.498
Yugoslavia	0.900	0.675
Total	160.543	101.304

¹ In some cases, subject to final agreement on amount or timing, parliamentary approval, and/or certain conditions. In some cases where contributions are being made in installments, budgetary approval will be required in each year that a contribution is to be made. SDR amounts may be subject to small adjustments owing to exchange rate changes.

to recipients from about 7.71 per cent to 2.71 per cent per annum. Such a rate involved payments by the Subsidy Account totaling SDR 13.8 million in 1976, SDR 27.5 million in 1977, and of SDR 25.0 million for the year ended April 30, 1978. (See Table 23.) The reduction in the amount of subsidy reflected repurchases made with respect to drawings under the oil facility, and also that some oil facility holdings fell below the quota level, and therefore paid no charges, until the Second Amendment came into effect.

The Executive Board also considered the question of expanding the list of beneficiaries by adding Grenada, Malawi, Morocco, Papua New Guinea, the Philippines, Zaïre, and Zambia. A change in the list of beneficiaries entitles the donor countries to withdraw the unused portion of their contributions should they so wish. The question of adding beneficiaries was proposed to the donor countries, together with a proposal that these seven additional members, all of whom are eligible to receive concessional finance from the Trust Fund on the criterion of low per capita income, should share proportionately any surplus funds held by the Subsidy Account, provided that such distribution did not result

in a rate of subsidy in excess of that received by the original beneficiaries. It was also suggested that any such distribution would take place only when it was determined that a surplus on the Account would result. Of the above-mentioned countries, Zambia had been added to the list of members eligible to receive Trust Fund assistance only for its second period, and it was proposed that Zambia would be eligible as a beneficiary under the Subsidy Account only in respect of charges paid in respect of Fund holdings of its currency pertaining to use of the 1975 oil facility from July 1, 1978. The donor countries agreed with these proposals, and the Executive Board decided that the seven member countries should be added to the list of beneficiaries on the proposed terms.

India, a beneficiary under the Subsidy Account resulting from use of the 1975 oil facility, incurred a repurchase obligation under Article V, Section 7(b) of the Articles in effect on April 30, 1977. A portion of this repurchase obligation fell due to be discharged after May 1, 1978. The discharge of the repurchase obligation had the effect of eliminating all outstanding holdings relating to India's use of the 1975 oil facility.

The Trust Fund

The Trust Fund, established by the Executive Board in May 1976 and administered by the Fund, provides additional balance of payments assistance on concessional terms to eligible developing members that qualify for assistance to carry out programs of balance of payments adjustment.¹⁶ The balance of payments assistance made available by the Trust Fund is in the form of loans to be provided with respect to two periods each of two years' duration; the first period ended on June 30, 1978. The final disbursements of loans with respect to the first period will be made toward the end of July 1978. It is therefore suitable to summarize the operations and administration of the Trust Fund for the first two-year period. The report of the Audit Committee for the year ended April 30, 1978 is reproduced in Appendix VIII.

The resources available to the Trust Fund's two periods are the profits realized from the sales of one half of the Fund's gold that was agreed at the Interim Committee meeting in September 1975 would be sold for the benefit of developing members (i.e., 12.5 million ounces in each period), income from investments and from the loans made, and other transfers to the Trust received during the period.

¹⁶ The establishment and operation of the Trust Fund were discussed in *Annual Report, 1977*, pages 66-67, and *Annual Report, 1976*, pages 60 and 111-117. The Trust Fund and Subsidy Account constitute arrangements that are separate from the Fund's own accounts and resources.

It was agreed by the Interim Committee that a portion of the profits realized from the sale of 25 million ounces at market prices would be paid directly to developing countries, and that the remainder would be used for balance of payments assistance. The Executive Board decided that 104 developing members, with quotas totaling 27.771 per cent of Fund quotas at August 31, 1975, are eligible to receive profits. The amount of profit paid to each eligible member is calculated on the basis of its share of Fund quotas at August 31, 1975 as a proportion of the total profits from sales of gold. The total available for the payment of profits for the first half of the gold sales program was US\$363 million out of total profits from the gold sales of about US\$1.3 billion. (See Appendix I, Table I.14.) The profits are paid through the Trust and the first payments were made in April 1978; it is planned that subsequent payments be made in July of each year. Some members of the Organization of Petroleum Exporting Countries have decided to make irrevocable transfers of their shares of the profits to the Trust Fund in order to increase the Trust's resources for loan assistance. Yugoslavia decided to make a similar transfer of one third of its share in profits, and Romania has decided to lend 10 per cent of its share of the profits.

The resources of the Trust Fund available for loans with respect to the first period amounted to about SDR 840 million (US\$1.023 billion). This includes SDR 50 million earned as income on investments pending disbursements, and SDR 1.1 million was earned as income to June 30, 1978 from loans made by the Trust. Against this was charged the administrative expense of conducting the business of the Trust Fund (including handling of gold auctions) of SDR 2 million and exchange valuation losses (arising from valuing the investments of the Trust, which are held in U.S. dollars, in SDRs) of SDR 59 million.

The temporary investments of the Trust's liquid assets were held throughout the first period in U.S. Government obligations, with the concurrence of the United States. The Trustee's investment practice has been, as far as possible, to invest funds as soon as they are available for investment with maturities matching the expected timing and amounts of Trust disbursements. The income from investments added over 5 per cent to the funds available for loan disbursements.

In light of the international character of the Trust Fund, and in view of the importance of maintaining the value of the Trust's liquid assets in terms of the SDR, which is the unit used for accounting for the Trust's assets, the Executive Board, as Trustee, has decided¹⁷ in principle that the investments of the Trust should

¹⁷ See Executive Board Decision No. 5812-(78/90) TR, adopted June 16, 1978 and reproduced in Appendix II.

be held in SDR-denominated assets or in a combination of currencies that would, to the maximum extent practicable, correspond to the composition of the SDR basket. The Executive Board decided in June 1978 that the Trust could consider placing SDR-denominated deposits with the Bank for International Settlements. This decision is subject to review in October 1978 and in the meantime arrangements shall be completed, to the extent feasible, with the authorities of the members whose currencies are included in the SDR basket as of July 1, 1978 and that issue obligations in their currencies that the Trust could hold, for the purpose of making possible the placing of investments in domestic currency with them in the proportions corresponding approximately to their share in the SDR basket.

A total of 43 of 61 eligible members qualified for loans during the first period. Eligible members could qualify for loans for the first period by either relying on a program already presented to the Fund or by presenting a program for 12 months satisfying the same criteria used in requesting a purchase from the Fund that fell in the first credit tranche. In October 1977, the Executive Board decided that a member could qualify for a loan in the first period if its program began not later than June 1, 1978 rather than December 1, 1977.

The Trust Instrument provides that loans to qualified members must be the same percentage of their quotas, subject to the limitation of need, that is assessed when a program is presented. In the first period the balance of payments need did not prove to be a limit for the loan disbursements to any qualified member, and thus all funds for the first period were disbursed in proportion to qualified members' quotas. The members and the total loan amounts for the first period are shown in Appendix I, Table I.15.

The Executive Board decided that, to the extent possible, the Trust shall disburse loans at half-yearly intervals, in January and July of each year. Three interim disbursements were made for a total of SDR 300 million to 35 countries. The final loan payments for the first period were made at the end of July for a total of about SDR 541 million, to 43 qualified members. The Executive Board agreed that all Trust disbursements are to be made in U.S. dollars, although the amounts of loans are denominated in SDRs.

The Trust Fund loans bear interest at a rate of ½ of 1 per cent per annum and are to be repaid in 10 semi-annual installments, beginning not later than the end of the first six months of the sixth year, and to be completed by the end of the tenth year after the date of disbursement. With these provisions, the loans have a grant content of about 50 per cent. The payments of interest were made half-yearly in currency specified by

the Fund (U.S. dollars) and amounted to SDR 1.1 million over the period.

The Executive Board has decided on a list of 59 members that are eligible for assistance for the Trust Fund's second period, July 1, 1978 through June 30, 1980; compared with the list for the first period, Guatemala, Mauritius, and Paraguay are excluded, and Zambia has been added. To qualify for a loan with respect to the second period, a member's program must begin not earlier than January 1, 1978 and not later than November 1, 1979. As of June 30, 1978, 5 members have already qualified for second-period loans.

Consultations with Member Countries

Before the entry into force of the Second Amendment of the Articles of Agreement on April 1, 1978, regular consultations with members were conducted under the provisions of Article VIII and Article XIV. Member countries maintaining restrictions on current international payments and transfers under Article XIV were required to consult annually with the Fund, while for members that have accepted the obligations of Article VIII, Sections 2, 3, and 4, the consultations were held regularly on a voluntary basis. In 1977/78, the Fund completed 94 regular consultations with member countries, of which 59 were under Article XIV and 35 under Article VIII.

During the financial year, Chile and Seychelles accepted the obligations of Article VIII, Sections 2, 3, and 4. On April 30, 1978, of a total membership of 134 countries, 46 had Article VIII status. These members are listed in Appendix I, Table I.16.

On April 29, 1977, the Executive Board adopted a decision by which it approved the document "Surveillance over Exchange Rate Policies."¹⁸ This document provided, inter alia, that following the entry into force of the Second Amendment, members shall consult with the Fund regularly under Article IV, and that the consultations under Article IV shall comprehend the regular consultations under Article VIII and Article XIV. In principle, such consultations shall take place annually and shall include consideration of the observance by members of their obligations under Article IV, Section 1, as well as of the principles set forth in the above-mentioned document of the Executive Board. Further, in March 1978, the Executive Board decided that regular consultations under Article IV would follow, generally, the same procedures that have been used for consultations under Article VIII and Article XIV, with

special adaptations to take account of the requirement for Fund surveillance over exchange rate policies. By June 30, 1978, consultations under the amended Article IV had been initiated with 30 member countries, of which 17 were availing themselves of Article XIV and 12 had accepted the obligations of Article VIII; one member country had yet to indicate its intentions with regard to Article VIII or Article XIV.

The provisions of Article IV of the Second Amendment should help to strengthen consultations as a major instrument by which Fund surveillance of members' policies is made effective. Regular consultations will continue to provide an opportunity for a detailed review of the economic and financial situation and the policies of member countries from both national and international points of view, and help the Fund to deal quickly with members' requests for the use of Fund resources and proposed changes in policies, or in practices that are subject to Fund approval. For the individual member, regular consultations provide the occasion for an external appraisal of policies and for discussion of any special difficulties that may arise from actions or policies of other members.

In 1977/78, as in other recent years, special consultations with selected countries have supplemented the regular consultations in connection with the periodic reviews of the world economic outlook undertaken by the Executive Board. The purpose of these special consultations has been to ensure having up-to-date knowledge of the economic situation in countries whose external policies were regarded as of major importance to the world economy, as well as in other selected countries considered to be representative of their region.

Training and Technical Assistance

Training and technical assistance continued to be provided in various forms and to member countries in various stages of economic development. Such assistance, which included training at headquarters, staff missions, and the stationing of staff members and outside experts in member countries, covered fiscal, monetary, and balance of payments policies, banking, exchange and trade systems, government finance, and statistics. During the year 35 staff members were stationed for six months or longer as Fund representatives or advisors to 24 countries, and 132 outside experts were assigned for six months or more in 52 countries and 4 regional organizations. This assistance was in addition to technical assistance missions carried out by the staff and to the assistance that was made available to members through the Fund's regular procedures under Article VIII and Article XIV.

¹⁸ Executive Board Decision No. 5392-(77/63), adopted April 29, 1977. See *Annual Report, 1977*, pages 107-109.

During the financial year, the IMF Institute provided training to 241 officials of member governments who attended nine courses. Thus, 2,127 officials from 130 member countries have been trained at the Institute since its inception in 1964.

The Institute's principal course, namely, Financial Analysis and Policy, was conducted for 19 weeks in English and 21 weeks each in French and Spanish. The course presents an exposition of the Fund's procedures and policies, examines the modern tools of economic analysis, and provides a thorough study of the instruments of monetary, fiscal, and balance of payments policies that are used to achieve economic objectives under changing international and national conditions. The problems of developing countries receive special emphasis, and the Fund's experience is drawn upon to help to resolve them. For this purpose, case studies and workshops are frequently employed to demonstrate the use of the tools of financial analysis.

The Institute also provides on a regular basis two shorter courses, which are given in English, French, or Spanish, as required. An 8-week course on Balance of Payments Methodology, presented in collaboration with the Balance of Payments Division of the Bureau of Statistics, concentrates on the balance of payments concepts and definitions used in the Fund and serves as an important medium for assisting member countries in their efforts to improve their statistics on the balance of payments. A 10-week course on Public Finance, offered in cooperation with the Fiscal Affairs Department, deals with the objectives, instruments, and procedures of public finance, emphasizing the fiscal problems of developing countries. In addition, a 4-week pilot course (in English) on Government Finance Statistics was conducted for the first time in 1977, in cooperation with the Government Finance Statistics Division of the Bureau of Statistics. It applies the concepts, definitions, and procedures set out in the *Draft Manual on Government Finance Statistics* for compiling statistics from accounts of the government and other parts of the public sector.

Technical assistance in the central banking field was provided by the Central Banking Service to 48 member countries and 5 multinational institutions, either through the assignment of experts or through staff advisory services.

Experts on long-term assignments (six months or longer) directly responsible to the authorities of the recipient country or multinational institution served in 90 executive or advisory capacities in 38 countries and 4 multinational institutions; in addition, 13 experts assigned as consultants provided technical assistance to 9 countries and one multinational institution. The range of posts filled by experts included both top management

and a variety of specialized positions. The need for managerial expertise was felt mainly by countries with institutions at the initial stage of development or in the process of transformation from a currency board type of institution to a central bank, whereas requests for experts specialized in research, bank inspection, accounting, and operations, including in some cases computerization of various aspects of the central bank's accounts and operations, tended to come from countries that were passing through a more advanced stage of institutional development. Candidates for these assignments continued to be drawn primarily from the ranks of well-established central banks, which are able to cooperate with the Fund in making available seasoned officers with the requisite technical and other qualifications.

Advisory services are provided by staff members of the Central Banking Service sometimes in collaboration with other departments of the Fund and on occasion with specialized units of other institutions, particularly the International Finance Corporation or outside consultants with special expertise. These services cover a variety of activities in the central banking and related fields, such as the preparation or modification of central and general banking legislation (in which the Fund's Legal Department collaborates with the Central Banking Service), advisory reports on accounting and operational procedures, examination of administrative and organizational matters, and studies related to the development or improvement of local financial markets, including broad financial surveys as well as studies on specific problems, such as the development of suitable criteria for the licensing of new institutions. Advisory services requiring staff missions were provided to 10 countries and one multinational institution during the financial year 1977/78. In addition, staff members provided specialized advisory services from headquarters to a number of countries.

During the financial year the Fiscal Affairs Department expanded its technical assistance provided through staff missions, staff assignments in the field, and use of the services of members of the panel of fiscal experts. The international panel of fiscal experts carries out most of the long-term, and some short-term, assignments, either alone or with Fund staff. The number of countries utilizing all forms of technical assistance rose to 41, compared with 33 in the previous financial year, and 7 countries and one intergovernmental organization received assistance for the first time. Of the 70 individual field assignments carried out in the financial year, 41 were long-term and 29 short-term, while 358 man-months were spent in the field. Technical assistance work for the year was divided among 44 panel members and 23 staff members. Assistance was given

in the fields of tax policy, tax and customs administration, budgetary systems and procedures, government accounting and auditing, and general financial management. As part of the ongoing review, members of the staff visited a number of countries to inspect progress and to advise on requests for further assistance. Another important element of the program is the work of staff members at headquarters in supporting and controlling the work of field experts.

The Bureau of Statistics provided technical assistance to member countries mainly for the improvement of financial and general statistics in existing central bank bulletins or in bulletins to be established. The work includes discussions with national officials and technicians on the statistical concepts and classification standards for the analysis of monetary and payments problems, and is aimed at promoting the use of definitions that facilitate comparison of data between countries. In improving the statistical content of central bank bulletins, the emphasis has been on the presentation of data on international reserves, money and banking, interest rates, prices, production, external trade, government finance, balance of payments, and, where available, the national accounts.

Apart from its work on central bank bulletins, the Bureau has also provided member countries with general assistance in the area of statistics. In staff visits to member countries for this purpose, the assistance has been concentrated on the specialized areas of balance of payments and government finance statistics and has been focused mainly on applying the concepts and classification standards outlined in the Fund's *Balance of Payments Manual* and *Draft Manual on Government Finance Statistics*. This assistance has been supported by courses given by the IMF Institute in Washington. The Bureau has also provided general assistance in the area of statistics whenever the Bureau's staff has visited member countries under the Fund's regular consultation procedures.

During the financial year, the Bureau's overall technical assistance activities resulted in visits to 27 countries and in a substantial improvement of the statistics in several existing central bank bulletins.

Relations with Other International Organizations

Its focal point in the international monetary and financial sphere brings the Fund into active cooperation with other international and regional organizations having related concerns. Besides its special relationship to the World Bank, growing out of their parallel establishment at the Bretton Woods Conference in 1944,

the Fund has close ties with the United Nations (UN) and its relevant organs and specialized agencies, the General Agreement on Tariffs and Trade (GATT), the Organization for Economic Cooperation and Development (OECD), the Bank for International Settlements (BIS), the Commission of the European Communities (CEC), and the Organization of American States (OAS), especially its Inter-American Economic and Social Council and its Permanent Executive Committee (CEPCIES). The staff also collaborates with regional financial and development institutions in Africa, Asia, Latin America and the Caribbean, and the Middle East.

Many of those organizations were represented at the Annual Meetings of the Board of Governors of the Fund, held jointly with that of the World Bank and its affiliates in Washington, September 26–30, 1977. Certain of them also attended meetings of the Interim and Development Committees held in Washington just before the Annual Meeting, the meeting of the Interim Committee in Mexico City on April 29–30, 1978, and the meetings of senior officials of members of the Development Committee in Paris on September 15, 1977 and in Mexico City on April 28, 1978.

Ongoing liaison responsibilities are centered in the Fund's Special Representative to the United Nations; the European Office in Paris, with regard to the OECD, BIS, and CEC; and the Geneva Office, with regard to the UN Conference on Trade and Development (UNCTAD), the GATT, and other organizations in the vicinity, supplemented by assignments of staff senior officers and technical specialists from headquarters and of staff resident representatives in certain member countries. Staff contacts include attendance at meetings at ministerial, plenary, and committee levels; participation in seminars, working groups, and training programs; and exchange of pertinent documents and information.

The Managing Director's traditional address to the UN Economic and Social Council (ECOSOC) was delivered on his behalf by the Deputy Managing Director at the 63rd Session in Geneva on July 13, 1977. The Managing Director took part in the meeting of the OECD Ministerial Council on June 24, 1977, at which he commented on the Fund's view of the world economic situation and reported on progress toward establishing the supplementary financing facility. He also attended several monthly meetings of the BIS in Basle and continued to provide services in implementation of arrangements on sterling balances, administered by the BIS and supported by central banks of the Group of Ten countries and Switzerland. The Deputy Managing Director attended the third meeting of the central bank governors of the Group of Ten countries, Switzerland, and Portugal, which adhered to certain transitional

arrangements on gold,¹⁹ held in Basle on July 11, 1977.

Fund staff also attended appropriate meetings of the United Nations, including those of the General Assembly and ECOSOC and their subordinate bodies; the Administrative Committee on Coordination (ACC) and its relevant subcommittees and interagency groups; the Committee on Development Planning; the Economic and Social Commission for Asia and the Pacific (ESCAP); the Commission on International Trade Law, its Study Group on International Payments, and Working Group on International Negotiable Instruments; the Commission on Transnational Corporations and its Inter-governmental Group on a Code of Conduct Relating to Transnational Corporations; the UNCTAD Trade and Development Board, including its special session on debt problems of developing countries; and the International Labor Organization's (ILO) 63rd International Labor Conference. Technical staff participated in the Conference on the Carriage of Goods by Sea, in Hamburg; the Interregional Workshop on Mobilization of Personal Savings in Developing Countries, with Special Reference to Africa, in Algiers, at which the staff representative presented a paper; the Expert Group on the Role of Financial Institutions and Arrangements in National Economic Development, in New York; and the UNCTAD Working Group on Cooperation Among Developing Countries in the Monetary and Financial Field, in Caracas, Venezuela.

Other meetings of particular interest to the Fund in which staff participated or attended were as follows: the concluding ministerial meeting of the Conference on International Economic Cooperation (CIEC, or North-South Dialogue), in Paris; the Deputies of the Group of Ten, in Paris; the Association of African Central Banks, in Lusaka, Zambia; the Central Bank Technicians of the American Continent, in San Carlos de Bariloche, Argentina; the Club of Friends of the Sahel, in Ottawa, Canada; the Conference on Economic Development in the Caribbean, convened by the World Bank in Washington; the Conference on Law of the World, organized by the World Peace Through Law Center, in Manila; the Council of Arab Economic Unity's Symposium on "Promotion and Harmonization of Investment Incentives in the Arab Region," at which papers by Fund staff were presented; the general assembly of the Inter-American Center of Tax Administrators (CIAT), in Caracas, at which a Fund paper was contributed; the International Union of Credit and Investment Insurers (Berne Union), in Oslo and London; the Pacific Basin Central Bank Conference on Econometric Modeling, in Wellington, New Zealand,

where the staff representative presented a paper; and annual meetings of the African, Asian, Caribbean, and Inter-American Development Banks, and of the Arab Monetary Fund.

Pursuant to long-established arrangements for collaboration with the GATT regarding its consultations with common members on trade restrictions imposed for balance of payments purposes, Fund staff participated in those consultations and provided background documents. Fund representatives also attended the 33rd Session of the CONTRACTING PARTIES and meetings of the Council of Representatives and kept abreast of developments in the continuing Multilateral Trade Negotiations.

Commodity price stabilization is a special concern of the Fund in connection with its compensatory financing and buffer stock facilities. During negotiations leading to establishment of the International Sugar Agreement, 1977, Fund observers at the UN Sugar Conference, first and second parts, in Geneva, and the interim meeting of the International Sugar Organization, in London, closely followed discussions involving the possibility of Fund financing of sugar stocks under the 1977 Agreement. Staff observers also attended meetings of the International Sugar Council, established under the new Agreement, in London; the International Tin Council, in London; the Third Preparatory Meeting on Copper, held in Geneva under UNCTAD auspices; the UNCTAD's Integrated Program for Commodities and its Negotiating Conference on a Common Fund; and the 51st session of the Committee on Commodity Problems of the Food and Agriculture Organization of the United Nations (FAO).

The importance of aid coordination and debt renegotiation efforts is underlined in Fund consultations with members. To assist in these matters, Fund staff participated in and provided pertinent documents for meetings of Consultative Groups on Aid, held in Paris under the auspices of the World Bank for the following countries: Bolivia, followed immediately by a meeting convened by the Bolivian Government between its delegations and representatives of private commercial banks, and a subsequent local Consultative Group meeting held in La Paz; Colombia; East Africa—Tanzania; Egypt; and Zaïre; and a meeting on the Philippines, held in Tokyo. Aid Groups for Bangladesh, Burma, and Sri Lanka and the India and Pakistan consortia also met in Paris under World Bank sponsorship, with Fund staff participation. The Fund was also represented at the aid donors conference held by the Government of Lesotho at Maseru; the conference on development in Tunis, convened by the Tunisian Government in lieu of the Consultative Group; and an informal meeting of the OECD Turkish consortium in Paris. Debt re-

¹⁹ These arrangements, which were described in the Interim Committee communiqué of August 31, 1975 (*Annual Report, 1976*, pages 120–21), terminated on January 31, 1978.

scheduling meetings of creditor countries with officials of Sierra Leone and Zaïre, respectively, were convened by the French Government in Paris (Paris Club), which also entailed Fund participation and provision of pertinent documents.

The Fund's experience and competence in monetary and financial matters prompted several international organizations to request its technical assistance: the African Development Bank, on a change in the value of its unit of account; the Arab Monetary Fund, on lending policies; the Central African Customs and Economic Union (UDEAC), on tariff and tax matters; the East Caribbean Currency Authority (ECCA), on central bank legislation; and the European Space Agency, on making operational adjustments for inflation and exchange rate fluctuations. Staff lecturers were provided for training programs at the Central Bank of West African States' (BCEAO) West African Center for Training and Banking Studies in Dakar; the South East Asian Central Banks (SEACEN) Research and Training Center in Kuala Lumpur, Malaysia, for a course on financial analysis and policy, as well as participation in a workshop of heads of research departments of its member banks; the United Nations Institute for Training and Research, in Geneva; and, as in former years, the Center for Latin American Monetary Studies (CEMLA), in Mexico City and Washington.

As a means of explaining the implications of the Second Amendment to some officials of member countries, the Fund held a seminar for senior Asian officials in Washington in October 1977 and participated in seminars on that topic organized by CEMLA in Mexico City in November 1977 and May 1978.

Membership, Quotas, and Participation in the Special Drawing Rights Department

Four countries joined the Fund in 1977/78, bringing total membership on April 30, 1978 to 134: Seychelles on June 30, 1977, with an initial quota of SDR 1 million; São Tomé and Príncipe, on September 30, 1977, with an initial quota of SDR 1.6 million; Maldives, on January 13, 1978, with an initial quota of SDR 0.7 million; and Suriname, on April 27, 1978, with a quota of SDR 25 million. Prior to Suriname's acceptance of membership, the Executive Board further extended, at the country's request, the period for acceptance under the Board of Governors Resolution until December 30, 1977, and later until April 30, 1978.

The respective membership resolutions for Seychelles, São Tomé and Príncipe, and Maldives provided that on the date when quota increases under the Sixth General Review of Quotas became effective, the quotas of those countries would be increased as follows:

Seychelles to SDR 1.3 million, São Tomé and Príncipe to SDR 2 million, and Maldives to SDR 0.9 million. Consequently, on April 1, 1978, those new quotas came into effect upon payment by each member for its increase.

The four new members also became participants in the Special Drawing Account, which was renamed the Special Drawing Rights Department on April 1, 1978 when the Second Amendment entered into force. Two other members that had formerly not been participants undertook the obligations of participants in the Special Drawing Account during the year: Ethiopia on January 20, 1978, and Qatar on March 16, 1978, leaving only six members that were not also participants at the end of the financial year.²⁰

The Board of Governors approved, on May 23, 1978 and on June 6, 1978, respectively, terms and conditions for admission to membership of Cape Verde, and of the Solomon Islands upon the latter attaining constitutional independence.²¹ At the end of the financial year, applications for membership by Djibouti and Dominica were under consideration by the Executive Board.

As noted earlier in this chapter, increases in quotas under the Sixth General Review became effective following the entry into force of the Second Amendment on April 1, 1978. The quotas of the Comoros and Guinea-Bissau were also increased in accordance with the terms of their respective membership resolutions. Appendix I, Table I.17 shows the former and new quotas of members with the effective dates of increases.

Nepal completed payment on April 25, 1978 of the last two installments of its quota increase under the Fifth General Review of Quotas, which had been postponed by the Board of Governors until after the Second Amendment came into effect.²² Its quota was thus raised to SDR 14 million, which became the base point for its potential increase under the Sixth General Review.

The aggregate of Fund quotas on April 30, 1978 was SDR 32,346.4 million; on June 30, 1978, additional increases under the Sixth General Review brought the total to SDR 38,789.4 million.

Executive Directors and Staff

A list of Executive Directors and their voting power on June 30, 1978 is given in Appendix IV. The changes in membership of the Executive Board during 1977/78 are shown in Appendix V.

²⁰ Kuwait, Lebanon, Libya, Saudi Arabia, Singapore, and the United Arab Emirates.

²¹ The Solomon Islands became independent on July 7, 1978.

²² See *Annual Report, 1976*, page 64.

In the year ended April 30, 1978, there were 80 appointments to the Fund's regular staff and 68 separations. At the end of the financial year, the staff numbered 1,385 and was drawn from 89 countries. These figures do not include Advisors and Assistants to Executive Directors.

Publications

The list of publications issued by the Fund during the financial year 1977/78 is shown in Appendix I, Table I.18.

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Appendix I

The Fund in 1977/78

The tables in this appendix supplement the information given in Chapter 3 on the activities of the Fund during the financial year ended April 30, 1978. In some tables in this appendix, however, data covering longer periods are included, viz., Table I.1 on exchange rates and exchange arrangements, Table I.13 setting out the charges on the use of the Fund's resources, Table I.14 on the distribution of profits from gold sales, Table I.15 on Trust Fund loans, and Table I.17 on the increases in quotas.

Table I.1. Exchange Rates and Exchange Arrangements, June 30, 1978

(Currency units per unit listed)

Member	Currency	Exchange Rate Maintained Against							Exchange Rates Otherwise Determined ^{2, 4}
		U.S. dollar ¹	Pound sterling ¹	French franc ¹	Other single currency ¹	Special drawing right ¹	Currency com- posite other than SDR ²	Other cur- rencies in a cooperative arrangement ³	
Afghanistan ⁵	Afghani	—	—	—	—	—	—	—	39.00
Algeria ⁵	dinar	—	—	—	—	—	3.9805	—	—
Argentina	peso	—	—	—	—	—	—	—	788.50
Australia	dollar	—	—	—	—	—	—	—	0.871460
Austria	schilling	—	—	—	—	—	14.975	—	—
Bahamas ⁵	dollar	1.00	—	—	—	—	—	—	—
Bahrain	dinar	—	—	—	—	0.476190	—	—	0.388
Bangladesh ⁵	taka	—	28.025	—	—	—	—	—	—
Barbados	dollar	2.00	—	—	—	—	—	—	—
Belgium ⁵	franc	—	—	—	—	—	—	48.6573	32.71
Benin	franc	—	—	50.00	—	—	—	—	—
Bolivia	peso	20.00	—	—	—	—	—	—	—
Botswana	pula	0.828157	—	—	—	—	—	—	—
Brazil ⁵	cruzeiro	—	—	—	—	—	—	—	17.93 ⁶
Burma	kyat	—	—	—	—	8.50847	—	—	6.87659
Burundi	franc	90.00	—	—	—	—	—	—	—
Cameroon	franc	—	—	50.00	—	—	—	—	—
Canada	dollar	—	—	—	—	—	—	—	1.1245
Central African Empire	franc	—	—	50.00	—	—	—	—	—
Chad	franc	—	—	50.00	—	—	—	—	—
Chile	peso	—	—	—	—	—	—	—	32.06
China, Republic of	new Taiwan dollar	38.00	—	—	—	—	—	—	—
Colombia ⁵	peso	—	—	—	—	—	—	—	38.90 ⁶
Comoros	franc	—	—	50.00	—	—	—	—	—
Congo, People's Republic of the	franc	—	—	50.00	—	—	—	—	—
Costa Rica ⁵	colón	8.57	—	—	—	—	—	—	—
Cyprus	pound	—	—	—	—	—	0.379579	—	—
Denmark	krone	—	—	—	—	—	—	8.56656	5.6415
Dominican Republic ⁵	peso	1.00	—	—	—	—	—	—	—
Ecuador ⁵	sucre	25.00	—	—	—	—	—	—	—
Egypt ⁵	pound	0.391305	—	—	—	—	—	—	—
El Salvador	colón	2.50	—	—	—	—	—	—	—
Equatorial Guinea ⁵	ekuele	—	—	—	1.00 ⁷	—	—	—	—
Ethiopia ⁵	birr	2.07	—	—	—	—	—	—	—
Fiji	dollar	—	—	—	—	—	0.850702	—	—
Finland	markka	—	—	—	—	—	4.243	—	—
France	franc	—	—	—	—	—	—	—	4.5015
Gabon	franc	—	—	50.00	—	—	—	—	—
Gambia, The	dalasi	—	4.00	—	—	—	—	—	—
Germany, Federal Republic of	deutsche mark	—	—	—	—	—	—	3.15665	2.0753

Ghana ⁵	cedi	1.15385	—	—	—	—	—	—	1.35
Greece	drachma	—	—	—	—	—	—	—	36.934
Grenada ⁵	East Caribbean dollar	2.70	—	—	—	—	—	—	—
Guatemala	quetzal	1.00	—	—	—	—	—	—	—
Guinea	syli	—	—	—	—	24.6853	—	—	19.9508
Guinea-Bissau	peso	—	—	—	—	—	—	—	35.5610
Guyana	dollar	2.55	—	—	—	—	—	—	—
Haiti	gourde	5.00	—	—	—	—	—	—	—
Honduras	lempira	2.00	—	—	—	—	—	—	—
Iceland	króna	—	—	—	—	—	—	—	260.10
India	rupee	—	—	—	—	—	8.2518	—	—
Indonesia ⁵	rupiah	415.00	—	—	—	—	—	—	—
Iran ⁵	rial	—	—	—	—	82.2425	—	—	70.475
Iraq	dinar	0.296051	—	—	—	—	—	—	—
Ireland ⁵	pound	—	1.00	—	—	—	—	—	—
Israel	pound	—	—	—	—	—	—	—	17.8378
Italy ⁵	lira	—	—	—	—	—	—	—	854.55
Ivory Coast	franc	—	—	50.00	—	—	—	—	—
Jamaica	dollar	—	—	—	—	—	—	—	1.573250
Japan	yen	—	—	—	—	—	—	—	204.70
Jordan	dinar	—	—	—	—	0.387755	—	—	0.313385
Kampuchea, Democratic ⁸	—	—	—	—	—	—	—	—	—
Kenya	shilling	—	—	—	—	9.66	—	—	7.80726
Korea	won	485.00	—	—	—	—	—	—	—
Kuwait	dinar	—	—	—	—	—	0.27462	—	—
Lao People's Democratic Republic ⁵	kip of liberation	400.00	—	—	—	—	—	—	—
Lebanon	pound	—	—	—	—	—	—	—	2.90
Lesotho	rand	—	—	—	1.00 ⁹	—	—	—	—
Liberia	dollar	1.00	—	—	—	—	—	—	—
Libya	dinar	0.296053	—	—	—	—	—	—	—
Luxembourg ⁵	franc	—	—	—	—	—	—	48.6573	32.71
Madagascar	franc	—	—	50.00	—	—	—	—	—
Malawi	kwacha	—	—	—	—	1.05407	—	—	0.851905
Malaysia	ringgit	—	—	—	—	—	2.3668	—	—
Maldives ⁵	rupee	3.93	—	—	—	—	—	—	—
Mali	franc	—	—	100.00	—	—	—	—	—
Malta	pound	—	—	—	—	—	0.393825	—	—
Mauritania	ouguiya	—	—	—	—	—	46.22	—	—
Mauritius ⁵	rupee	—	—	—	—	7.713759	—	—	6.23430
Mexico	peso	—	—	—	—	—	—	—	22.817
Morocco ⁵	dirham	—	—	—	—	—	4.20955	—	—
Nepal ⁵	rupee	12.00	—	—	—	—	—	—	—
Netherlands	guilder	—	—	—	—	—	—	3.35507	2.2325
New Zealand	dollar	—	—	—	—	—	0.970214	—	—
Nicaragua	córdoba	7.00	—	—	—	—	—	—	—

Table I.1 (concluded). Exchange Rates and Exchange Arrangements, June 30, 1978

(Currency units per unit listed)

Member	Currency	Exchange Rate Maintained Against							Exchange Rates Otherwise Determined ^{2, 4}
		U.S. dollar ¹	Pound sterling ¹	French franc ¹	Other single currency ¹	Special drawing right ¹	Currency com- posite other than SDR ²	Other cur- rencies in a cooperative arrangement ³	
Niger	franc	—	—	50.00	—	—	—	—	—
Nigeria	naira	—	—	—	—	—	—	—	0.641025
Norway	krone	—	—	—	—	—	—	8.18706	5.403
Oman	rial Omani	0.345395	—	—	—	—	—	—	—
Pakistan	rupee	9.90	—	—	—	—	—	—	—
Panama	balboa	1.00	—	—	—	—	—	—	—
Papua New Guinea	kina	—	—	—	—	—	—	—	0.707814
Paraguay ⁵	guaraní	126.00	—	—	—	—	—	—	—
Peru ⁵	sol	—	—	—	—	—	—	—	154.597 ⁶
Philippines	peso	—	—	—	—	—	—	—	7.36
Portugal	escudo	—	—	—	—	—	—	—	45.656 ⁶
Qatar	riyal	—	—	—	—	—	—	—	3.8785
Romania ⁵	leu	12.00	—	—	—	—	—	—	—
Rwanda	franc	92.84	—	—	—	—	—	—	—
São Tomé and Príncipe	dobra	—	—	—	—	45.25	—	—	36.5713
Saudi Arabia	riyal	—	—	—	—	—	—	—	3.8785
Senegal	franc	—	—	50.00	—	—	—	—	—
Seychelles	rupee	—	13.3333	—	—	—	—	—	—
Sierra Leone	leone	—	2.00	—	—	—	—	—	—
Singapore	dollar	—	—	—	—	—	2.3195	—	—
Somalia ⁵	shilling	6.23270	—	—	—	—	—	—	—
South Africa ⁵	rand	0.869565	—	—	—	—	—	—	—
Spain	peseta	—	—	—	—	—	—	—	78.812
Sri Lanka	rupee	—	—	—	—	—	—	—	15.72
Sudan ⁵	pound	0.40	—	—	—	—	—	—	—
Suriname	guilder	1.785	—	—	—	—	—	—	—
Swaziland	lilangeni	—	—	—	1.00 ⁹	—	—	—	—
Sweden	krona	—	—	—	—	—	4.5755	—	—
Syrian Arab Republic ⁵	pound	3.925	—	—	—	—	—	—	—
Tanzania	shilling	—	—	—	—	9.66	—	—	7.80726
Thailand	baht	—	—	—	—	—	20.40	—	—
Togo	franc	—	—	50.00	—	—	—	—	—
Trinidad and Tobago	dollar	2.40	—	—	—	—	—	—	—
Tunisia	dinar	—	—	—	—	—	0.418797	—	—
Turkey ⁵	lira	—	—	—	—	—	—	—	25.25
Uganda	shilling	—	—	—	—	9.66	—	—	7.80726
United Arab Emirates	dirham	—	—	—	—	4.7619	—	—	3.878
United Kingdom ⁵	pound	—	—	—	—	—	—	—	0.537577
United States	dollar	—	—	—	—	—	—	—	1.00
Upper Volta	franc	—	—	50.00	—	—	—	—	—

Uruguay ⁵	new peso	—	—	—	—	—	—	—	5.93 ⁶
Venezuela ⁵	bolivar	4.2925	—	—	—	—	—	—	—
Viet Nam ⁵	dong	—	—	—	—	2.66358	—	—	2.15272
Western Samoa ⁵	tala	—	—	—	—	—	0.74105	—	—
Yemen Arab Republic	rial	4.5625	—	—	—	—	—	—	—
Yemen, People's Democratic Republic of	dinar	0.345395	—	—	—	—	—	—	—
Yugoslavia	dinar	—	—	—	—	—	—	—	18.8599
Zaire	zaïre	—	—	—	—	1.00	—	—	0.808205
Zambia	kwacha	—	—	—	—	0.976311	—	—	0.789059

¹ Rates as notified to the Fund and in terms of currency units per unit listed.

² Market rates in currency units per U.S. dollar.

³ Belgium, Denmark, the Federal Republic of Germany, Luxembourg, the Netherlands, and Norway maintain maximum margins of 2.25 per cent for exchange rates in transactions in the official markets between their currencies and those of the other countries in this group. No announced margins are observed for other countries. Rates shown are central rates expressed in terms of SDRs, as valued in accordance with Article XXI, Section 2, of the Fund's Articles of Agreement in effect on March 19, 1973.

⁴ Under this heading are listed those members that describe their exchange rate arrangements variously as floating independently, adjusting according to a set of

indicators (see footnote 6), and certain other members whose exchange arrangements are not otherwise described in this table. In addition, U.S. dollar quotations are given for the currencies that are pegged to the SDR and for those that participate in the European common margins arrangement.

⁵ Member maintains multiple currency practices and/or dual exchange market. A description of the member's exchange system as of December 31, 1977 is given in the *Twenty-Ninth Annual Report on Exchange Restrictions*.

⁶ Exchange rates adjusted according to a set of indicators.

⁷ Per Spanish peseta.

⁸ Information not available.

⁹ Per South African rand.

Table I.2. Transfers of Special Drawing Rights, January 1, 1970–April 30, 1978

(In millions of SDRs)

	Financial Years Ended April 30									Total
	Jan. 1, 1970– Apr. 30, 1970	1971	1972	1973	1974	1975	1976	1977	1978	Jan. 1, 1970– Apr. 30, 1978
Transfers between participants										
Transactions with designation	155	348	267	117	60	440	292	119	398	2,195
Transactions by agreement	<u>20</u>	<u>286</u>	<u>380</u>	<u>303</u>	<u>996</u>	<u>249</u>	<u>176</u>	<u>317</u>	<u>927</u>	<u>3,655</u>
	175	633	647	420	1,056	688	468	436	1,325	5,850
General Resources Account										
Transfers from participants										
Repurchases (net)	183	357	501	68	29	24	440	73	844	2,519
Charges (net)	29	66	30	30	29	92	354	709	801	2,139
Quota payments	—	—	—	—	—	—	—	—	201	201
Assessments	1	1	1	1	1	1	2	1	1	9
Interest received on General Resources Account holdings	—	4	7	10	8	21	21	23	40	135
	213	429	540	108	67	138	817	805	1,887	5,003
Transfers to participants										
Purchases	—	—	—	292	7	4	443	25	662	1,434
Reconstitution ¹	—	—	46	107	157	117	404	445	474	1,751
Replenishment of participants' currencies	—	123	21	—	—	—	—	—	—	145
Remuneration	—	18	15	2	20	6	10	24	122	218
Distribution of net income	—	9	8	—	—	—	—	—	—	17
Restoration of participants' holdings ²	—	—	29	—	—	—	—	—	—	29
Interest, transfer charges on Fund borrowings	—	—	—	—	—	—	8	—	29	37
Other ³	—	1	—	—	—	—	—	—	—	1
	—	151	120	401	185	127	865	495	1,287	3,632
Total transfers	388	1,213	1,307	929	1,308	953	2,150	1,736	4,499	14,485
General Resources Account holdings at end of period	213	490	910	617	499	510	461	771	1,371	1,371

¹ Including amounts acquired as part of purchases.² To offset the effect of failure to fulfill the requirement of balance of payments need when using SDRs in transactions with designation.³ To enable participants to pay assessments or charges in the Special Drawing Rights Department.

Table I.3. Summary of Transactions and Operations in Special Drawing Rights, Financial Year Ended April 30, 1978¹

(In thousands of SDRs)

Holders	Transactions and Operations						Positions at April 30, 1978			
	Holdings on April 30, 1977	Between participants			Between participants and the General Resources Account		Interest, Charges, and Assessment (Net)	Holdings	Net cumulative allo- cations	Holdings as per cent of net cumulative allocations
		Received		Used	Received	Used				
		Through designation	Other							
PARTICIPANTS										
Afghanistan	4,614	2,000			968	1,902	-303	5,377	12,753	42.2
Algeria	43,148	3,000			2		+204	46,354	40,290	115.1
Argentina	69,534	19,675	43,575			22,486	-2,932	107,366	152,520	70.4
Australia	27,416		100,000	1,000	6,000	18,759	-6,620	107,037	225,645	47.4
Austria	96,570						+698	97,268	76,745	126.7
Bangladesh	13,461					12,530	+203	1,134		
Barbados	2,748			3,000	3,000	63	-2	2,684	2,769	96.9
Belgium	407,123					13	+7,025	414,135	209,346	197.8
Benin	4,445						-1	4,444	4,449	99.9
Bolivia	6,652				929	950	-231	6,400	12,753	50.2
Botswana	1,567							1,567	1,569	99.9
Brazil	171,644				1,593		+720	173,958	152,520	114.1
Burma	7,267		562	16,750	22,000	4,951	-470	7,658	20,844	36.7
Burundi	2,877	1,000				82	-123	3,672	6,567	55.9
Cameroon	8,249					3,746	-140	4,363	10,513	41.5
Canada	478,342			81,014		14	+2,351	399,665	358,620	111.4
Central African Empire	1,370		600		667	748	-100	1,789	4,365	41.0
Chad	1,707		350		79	483	-101	1,552	4,449	34.9
Chile	54,383		27,539			22,267	-15	59,639	54,654	109.1
Colombia	23,062	5,500					-1,082	27,480	54,441	50.5
Congo, People's Rep. of the	1,925			3,097	3,418	593	-99	1,554	4,449	34.9
Costa Rica	4,036	2,000			1,240	2,294	-250	4,732	11,016	43.0
Cyprus	7,209					3,382	-127	3,699	8,898	41.6
Denmark	90,263		6,808				+481	97,552	82,764	117.9
Dominican Republic	5,404				1,344	1,469	-337	4,941	14,535	34.0
Ecuador	6,070	4,000			132		-87	10,115	11,229	90.1
Egypt	21,739			41,000	51,263	11,501	-1,508	18,993	65,244	29.1
El Salvador	5,531	3,000				719	-182	7,630	11,655	65.5
Equatorial Guinea	1,736						-35	1,701	2,712	62.7
Fiji	1,326				12	106	-3	1,229	1,378	89.2
Finland	52,446					14,208	-636	37,602	61,470	61.2
France	216,346				17,112		-9,036	224,422	484,980	46.3
Gabon	4,612						-7	4,605	4,791	96.1
Gambia, The	956					136	-52	768	2,331	33.0
Germany, Fed. Rep. of	1,689,768			753,331		139,000	+26,165	823,603	542,400	151.8
Ghana	9,974		1,238		2,459	2,653	-723	10,296	30,123	34.2
Greece	16,105		4,368		16,058	19,541	-1,152	15,839	46,194	34.3
Grenada	74					72	+1	2		
Guatemala	11,422				71		-15	11,479	11,868	96.7
Guinea	2,552					582	-217	1,753	8,304	21.1

APPENDIX I (continued). THE FUND IN 1977/78

Table I.3 (concluded). Summary of Transactions and Operations in Special Drawing Rights, Financial Year Ended April 30, 1978¹

(In thousands of SDRs)

Holders	Transactions and Operations							Positions at April 30, 1978			
	Holdings on April 30, 1977	Between participants			Used	Between participants and the General Resources Account		Interest, Charges, and Assessment (Net)	Holdings	Net cumulative allo- cations	Holdings as per cent of net cumulative allocations
		Received		Other		Received	Used				
		Through designation	Other								
PARTICIPANTS											
Guyana	3,287					763	-141	2,383	6,780	35.1	
Haiti	2,121		1,500			671	-168	2,782	6,567	42.4	
Honduras	2,153	2,000				683	-220	3,250	8,517	38.2	
Iceland	1,676		4,000			3,753	-152	5,571	7,419	75.1	
India	182,134	52,500				56,017	-6,003	172,614	326,220	52.9	
Indonesia	8,761	12,950	964			52	-2,658	19,964	90,156	22.1	
Iran	65,856	6,097			748	2	+243	72,943	61,896	117.8	
Iraq	28,158	6,000			10		+365	34,533	23,217	148.7	
Ireland	45,550						+222	45,772	39,213	116.7	
Israel	8,098		62,000			44,510	-948	24,640	42,810	57.6	
Italy	111,465	42,000	466,951		309,888	714,855	-7,093	208,355	318,000	65.5	
Ivory Coast	8,529	2,000				2,209	-243	8,077	14,268	56.6	
Jamaica	8,942		5,060	35,700	34,025	4,390	-331	7,606	17,673	43.0	
Japan	463,349				30,800		+4,072	498,222	377,400	132.0	
Jordan	7,369						-8	7,361	7,587	97.0	
Kampuchea, Democratic	14						-14		8,517		
Kenya	903	2,000	15,220			4,504	-165	13,453	15,600	86.2	
Korea	6,734	2,000	16,701		5,523	20,918	-509	9,531	22,230	42.9	
Lao People's Dem. Rep.	1,281		78		406	309	-105	1,351	4,449	30.4	
Lesotho	454						-40	414	1,569	26.4	
Liberia	3,325						-222	3,103	9,537	32.5	
Luxembourg	7,339				106		+3	7,447	7,345	101.4	
Madagascar	2,323			5,425	10,557	1,501	-170	5,784	8,730	66.2	
Malawi	4,210					475	-41	3,693	5,085	72.6	
Malaysia	24,894	5,000			69	385	-1,252	28,326	60,618	46.7	
Mali	2,609				357	403	-177	2,386	7,542	31.6	
Malta	5,147				346		+13	5,507	5,088	108.2	
Mauritania	1,011				653	883	-134	648	4,449	14.6	
Mauritius	2,511					335	-179	1,997	7,374	27.1	
Mexico	40,182		20,000		5,081	19,391	-2,745	43,127	124,170	34.7	
Morocco	8,000		4,629		2,784	5,975	-1,110	8,329	39,189	21.3	
Nepal	2,058					675	-11	1,372	2,215	62.0	
Netherlands	542,624		34,247	92,068		62,000	+11,121	433,925	236,460	183.5	
New Zealand	15,436				49,000	24,530	-1,524	38,382	69,402	55.3	
Nicaragua	4,115	1,000				384	-172	4,558	8,943	51.0	
Niger	4,384						-3	4,381	4,449	98.5	
Nigeria	61,750	4,000					+712	66,462	45,555	145.9	
Norway	89,950				2,889		+577	93,416	76,320	122.4	
Oman	741							741	742	99.9	
Pakistan	32,895			52,000	68,250	27,477	-1,860	19,808	81,639	24.3	

Panama	4,381		2,000		380	2,606	-283	3,872	12,372	31.3
Papua New Guinea	1,369		1,000			1,591	+23	801		
Paraguay	6,564				13			6,577	6,567	100.1
Peru	2,907		9,116	7,450	10,056	9,340	-1,387	3,902	40,479	9.6
Philippines	12,667		16,685	48,000	55,175	23,467	-1,347	11,714	51,495	22.7
Portugal	5,808				8,111	13,862	+133	190		
Romania	10,665			15,000	20,063	12,251	+229	3,705		
Rwanda	2,272	1,000			76		-142	3,206	6,567	48.8
Senegal	3,071				1,248	1,824	-330	2,165	11,442	18.9
Sierra Leone	2,446				18	1,479	-224	761	7,845	9.7
Somalia	4,182						-86	4,097	6,567	62.4
South Africa	36,799		17,000		33,579	52,520	-1,937	32,920	88,920	37.0
Spain	79,200				88,750	42,255	-1,882	123,813	126,135	98.2
Sri Lanka	11,880			45,000	59,459	10,530	-749	15,059	33,978	44.3
Sudan	33		6,245		1,972	6,503	-879	868	24,912	3.5
Swaziland	875						-66	809	2,712	29.8
Sweden	107,019				33		-10	107,042	107,025	100.0
Syrian Arab Republic	6,373						-381	5,992	17,034	35.2
Tanzania	9,715		2,591		224	7,494	-281	4,755	14,322	33.2
Thailand	28,608	3,000				1,528	+74	30,154	28,542	105.6
Togo	4,931					248	-11	4,672	5,085	91.9
Trinidad and Tobago	8,699	3,500					-331	11,868	20,811	57.0
Tunisia	9,782					361	-183	9,238	14,713	62.8
Turkey	17,394		28,100	102,172	98,759	24,088	-1,776	16,217	50,307	32.2
Uganda	413		5,500		2,793	1,964	-322	6,419	13,896	46.2
United Kingdom	542,599	146,723			136,527	306,707	-18,422	500,720	1,006,320	49.8
United States	2,051,245	44,422			86,716		-5,512	2,176,871	2,293,980	94.9
Upper Volta	4,424						-1	4,423	4,449	99.4
Uruguay	2,883	1,750			15,300	10,741	-635	8,557	23,937	35.7
Venezuela	126,464	10,000			10,172		+913	147,549	112,290	131.4
Viet Nam	5,160					1,344	-551	3,265	19,758	16.5
Western Samoa	58				90	106	-6	36	212	17.0
Yemen Arab Republic	2,128							2,128	2,130	99.9
Yemen, People's Dem. Rep. of	3,451				2,536	2,374	-240	3,374	9,873	34.2
Yugoslavia	5,693	10,000	16,486			22,133	-2,264	7,783	69,291	11.2
Zaire	16,101		6,300	23,523	14,627	11,499	-1,295	710	39,189	1.8
Zambia	17,468					7,484	-443	9,541	24,588	38.8
Total Participants	8,543,742	398,117	927,413	1,325,530	1,300,266	1,859,552	-40,411	7,944,045	9,314,835	
GENERAL RESOURCES ACCOUNT	771,094				1,859,552	1,300,266	+40,701	1,371,080		
Total ²	9,314,835	398,117	927,413	1,325,530	3,159,818	3,159,818	+290	9,315,126	9,314,835	

¹ This table does not include those participants that did not receive allocations and do not presently hold SDRs. These participants are the Bahamas, Bahrain, the Republic of China, the Comoros, Ethiopia, Guinea-Bissau, Maldives, Qatar, São Tomé and Príncipe, Seychelles, and Suriname.

² The total of SDRs held by participants and the General Resources Account on April 30, 1978 exceeds the total of net cumulative allocations by the amount of charges due but not paid by Democratic Kampuchea (SDR 290,144). See the Balance Sheet of the Special Drawing Rights Department as at April 30, 1978, Note 2, reproduced in Appendix VIII.

Table I.4. Purchases of Currencies and Special Drawing Rights from the Fund, Financial Year Ended April 30, 1978
(In millions of SDRs)

Member Purchasing	Within Reserve Tranche	Within Credit Tranches		Under Decision on		Total Purchases		
		Under stand-by arrangements	Other ¹	Com-pensatory financing	Extended Fund facility	Currencies	Special drawing rights ²	Total
Barbados	—	—	—	3.00	—	—	3.00	3.00
Burma	—	35.00	—	—	—	13.00	22.00	35.00
China, Rep. of	30.00	—	—	—	—	30.00	—	30.00
Comoros	0.48	—	—	—	—	0.48	—	0.48
Congo, People's Rep. of the	—	7.95	—	—	—	4.70	3.25	7.95
Egypt	—	105.00	—	—	—	54.00	51.00	105.00
Equatorial Guinea	1.76 ³	—	—	—	—	1.76	—	1.76
Fiji	1.90	—	—	6.50	—	8.40	—	8.40
Germany, Fed. Rep. of	41.06	—	—	—	—	41.06	—	41.06
Guinea	—	—	8.70	—	—	8.70	—	8.70
Italy	—	90.00	—	—	—	90.00	—	90.00
Jamaica	—	19.20	—	—	—	3.00	16.20	19.20
Madagascar	—	9.43	—	—	—	—	9.43	9.43
Malawi	—	—	5.43	—	—	5.43	—	5.43
Mauritania	—	4.71	—	—	—	4.71	—	4.71
Mauritius	5.49	—	—	11.00	—	16.49	—	16.49
Pakistan	—	80.00	—	—	—	21.15	58.85 ⁴	80.00
Peru	—	10.00	—	—	—	—	10.00	10.00
Philippines	—	—	—	—	108.75	53.75	55.00	108.75
Portugal	—	46.40	—	29.25	—	67.65	8.00	75.65
Romania	—	25.00	—	47.50	—	52.50	20.00	72.50
Sierra Leone	—	7.00	—	—	—	7.00	—	7.00
Somalia	4.75	—	—	—	—	4.75	—	4.75
South Africa	—	123.00	—	—	—	93.00	30.00	123.00
Spain	—	—	—	98.75	—	10.00	88.75	98.75
Sri Lanka	—	55.00	—	—	—	—	55.00	55.00
Syrian Arab Republic	12.50	—	—	—	—	12.50	—	12.50
Tunisia	—	—	—	24.00	—	24.00	—	24.00
Turkey	37.75	50.00	—	73.50	—	62.75	98.50 ⁵	161.25
United Kingdom	—	1,250.00	—	—	—	1,120.00	130.00 ⁶	1,250.00
Zaire	—	5.00	—	28.25	—	23.25	10.00	33.25
Total	135.69	1,922.68	14.13	321.75	108.75	1,834.03	668.98	2,503.01

¹ In accordance with Executive Board Decision No. 102-(52/11), adopted February 13, 1952. (See *Selected Decisions of the International Monetary Fund and Selected Documents* (Eighth Issue, Washington, 1976), pages 37-40.)

² Except where noted, in accordance with Article XXV, Section 7(f) of the Articles of Agreement in effect before Second Amendment and Executive Board Decision No. 5355-(77/36) G/S, adopted March 15, 1977. (See *Annual Report, 1977*, pages 105-106.)

³ Prior to the establishment of an initial par value in accordance with Executive Board Decision No. 1687-(64/22), adopted April 22, 1964. (See *Selected Decisions*, page 88.)

⁴ Of which, SDR 6.85 million was purchased in accordance with Article XXV, Section 7(f) of the Articles of Agreement in effect before Second Amendment and Executive Board Decision No. 3457-(71/121) G/S, as amended, to promote reconstitution. (See *Selected Decisions*, pages 173-74.)

⁵ In accordance with Article V, Section 3(f) in effect after Second Amendment and Executive Board Decision No. 5355-(77/36) G/S, adopted March 15, 1977. (See *Annual Report, 1977*, pages 105-106.)

⁶ In accordance with Article XXV, Section 7(f) of the Articles of Agreement in effect before Second Amendment and Executive Board Decision No. 5460-(77/92) G/S, adopted June 23, 1977.

Table I.5. Repurchases of Currencies from the Fund, Financial Year Ended April 30, 1978

(In millions of SDRs)

Member Repurchasing	Repurchases in Respect of						Total
	Purchases under oil facility	Purchases under stand-by arrangements	Schedules approved by Fund	Article V, Section 7(b) ¹	Voluntary Repurchases	Other Repurchases	
Afghanistan	—	—	—	9.2	—	—	9.2
Argentina	76.1	—	—	—	92.0	152.3	320.4
Australia	—	—	—	85.6	—	—	85.6
Bahamas	—	—	—	— ²	—	—	— ²
Bangladesh	5.7	9.5	23.4	—	—	—	38.6
Bolivia	—	—	—	2.8	—	—	2.8
Botswana	—	—	—	0.6	—	—	0.6
Burma	—	—	7.9	—	—	—	7.9
Burundi	—	—	—	4.8	—	—	4.8
Cameroon	0.6	—	1.7	—	—	—	2.3
Central African Empire	0.2	—	0.1	—	—	—	0.3
Chad	0.2	—	1.4	—	—	—	1.6
Chile	—	—	-1.7 ³	82.9	—	-1.8 ³	79.5
China, Rep. of	—	—	—	—	30.0	—	30.0
Colombia	—	-0.1 ³	—	0.1	—	—	—
Congo, People's Rep. of the	—	—	—	3.3	—	—	3.3
Costa Rica	1.5	—	0.7	—	1.9	—	4.2
Cyprus	—	—	—	7.0	—	—	7.0
Dominican Republic	—	—	-0.1 ³	0.1	—	—	—
Egypt	—	—	28.0	—	—	—	28.0
El Salvador	—	-0.1 ³	-1.5 ³	23.1	—	—	21.6
Greece	—	—	—	77.1	—	—	77.1
Guinea	0.2	—	1.5	—	—	—	1.7
Guinea-Bissau	—	—	—	—	—	0.8	0.8
Haiti	0.3	3.0	—	—	—	—	3.3
Honduras	—	—	—	12.5	—	—	12.5
Iceland	—	—	—	1.0	—	—	1.0
India	—	—	—	281.2	—	—	281.2
Indonesia	—	—	—	65.0	—	—	65.0
Iraq	—	—	—	3.1	—	-3.1 ³	—
Israel	—	12.5	14.6	—	—	—	27.1
Italy	42.2	237.4	—	1,029.0	—	—	1,308.6
Ivory Coast	—	—	—	10.0	—	—	10.0
Jordan	—	—	—	0.1	—	-0.1 ³	—
Kenya	14.5	—	—	22.9	—	—	37.4
Korea	—	—	-0.3 ³	27.8	—	—	27.6
Madagascar	—	—	0.8	8.1	—	—	8.8
Mali	0.3	—	—	—	—	—	0.3
Mexico	—	—	—	92.5	—	—	92.5
Nepal	—	—	—	3.1	—	—	3.1
New Zealand	6.8	—	9.4	2.1	—	—	18.3
Nicaragua	—	—	—	6.7	—	—	6.7
Pakistan	12.2	—	65.8	9.2	—	—	87.2
Panama	0.9	—	2.0	—	—	—	2.9
Papua New Guinea	—	—	—	5.0	—	—	5.0
Philippines	—	-0.3 ³	-2.5 ³	41.6	—	—	38.8
Portugal	—	4.0	—	—	—	—	4.0
Romania	—	—	55.0	—	—	—	55.0
São Tomé and Príncipe	—	—	—	—	—	0.4	0.4
Senegal	1.0	—	—	—	—	—	1.0
Seychelles	—	—	—	—	—	0.1	0.1
Sierra Leone	0.6	—	1.5	—	—	—	2.1
Somalia	—	—	—	0.5	—	—	0.5
South Africa	—	—	—	85.0	—	—	85.0
Sri Lanka	2.8	—	20.9	—	—	—	23.7
Sudan	2.4	—	17.0	—	—	—	19.4
Swaziland	—	—	—	— ²	—	—	— ²
Tanzania	—	—	—	24.0	—	—	24.0
Turkey	—	-9.6 ³	37.8	9.6	—	—	37.8
United Kingdom	—	715.7	—	594.3	—	—	1,310.0

Table I.5 (concluded). Repurchases of Currencies from the Fund, Financial Year Ended April 30, 1978
(In millions of SDRs)

Member Repurchasing	Repurchases in Respect of						Total
	Purchases under oil facility	Purchases under stand-by arrangements	Schedules approved by Fund	Article V, Section 7(b) ¹	Voluntary Repurchases	Other Repurchases	
Uruguay	—	—	-14.0 ³	35.7	—	—	21.6
Western Samoa	—	—	—	0.7	—	—	0.7
Yemen, Peoples Dem. Rep. of	0.6	—	0.9	—	—	—	1.5
Yugoslavia	—	—	—	114.7	—	—	114.7
Zambia	—	—	0.5	18.5	—	—	19.0
Total	169.2	972.0	270.9	2,800.5⁴	123.9	148.6	4,485.0

¹ In effect before Second Amendment.² Less than SDR 50,000.³ Reversal of amounts repurchased in previous years.

⁴ Total includes SDR 12.8 million, SDR 1.1 million, SDR 23.9 million, SDR 55.7 million, and SDR 494.2 million relating to repurchase obligations incurred as of April 30, 1971, 1973, 1974, 1975, and 1976, respectively, under Article V, Section 7(b) in effect before Second Amendment as follows: 1971—SDR 3.1 million by Iraq, SDR 9.6 million by Turkey; 1973—SDR 0.1 million by Colombia, SDR 0.1 million by El Salvador, SDR 0.1 million by Jordan, and SDR 0.8 million by the Philippines; 1974—SDR 3.4 million by Chile, SDR 2 million by the Philippines, and SDR 18.5 million by Zambia; 1975—SDR 0.1 million by the Dominican Republic, SDR 1.5 million by El Salvador, SDR 1.3 million by Nicaragua, SDR 38.8 million by the Philippines, and SDR 14 million by Uruguay; 1976—SDR 8.2 million by Afghanistan, SDR 0.003 million by the Bahamas, SDR 0.6 million by Botswana, SDR 21.6 million by El Salvador, SDR 77.1 million by Greece, SDR 12.5 million by Honduras,

SDR 65 million by Indonesia, SDR 10 million by Ivory Coast, SDR 22.9 million by Kenya, SDR 27.8 million by Korea, SDR 8.1 million by Madagascar, SDR 2.1 million by New Zealand, SDR 5.4 million by Nicaragua, SDR 9.2 million by Pakistan, SDR 0.004 million by the Philippines, SDR 0.5 million by Somalia, SDR 85 million by South Africa, SDR 1.6 million by Tanzania, SDR 21.6 million by Uruguay, SDR 0.3 million by Western Samoa, and SDR 114.7 million by Yugoslavia.

NOTE:

Included in repurchases shown in the table are the following amounts related to purchases under the decision on compensatory financing of export fluctuations (amounts in millions of SDRs):

Argentina	152.3	Guinea	1.5
Australia	85.6	Sri Lanka	19.7
Bangladesh	23.4	Western Samoa	0.2
Chile	10.0		
Egypt	28.0	Total	320.7

Table I.6. Fund Stand-By Arrangements for Members, Financial Year Ended April 30, 1978

(In millions of SDRs)

Member	Total Number of Stand-Bys Approved for Member	Date of Inception	Date of Expiration	Amount Approved 1976/77	Amount Not Purchased at Expiration	Amount Approved 1977/78	Amount Not Purchased April 30, 1978
Argentina	9	Aug. 6, 1976	Aug. 5, 1977	260.00	100.50		
Burma	4	Sept. 16, 1977	Sept. 15, 1978			159.50	159.50
Congo, People's Rep. of the	1	May 6, 1977	May 5, 1978			35.00	—
Costa Rica	6	Jan. 1, 1977	Dec. 31, 1977	4.70	—		
Egypt	3	July 23, 1976	July 22, 1977	11.60	11.60		
Gambia, The	1	Apr. 20, 1977	Apr. 19, 1978	125.00	20.00		
Guyana	10	May 18, 1977	May 17, 1978			2.53	2.53
Haiti	17	June 18, 1976	June 17, 1977	7.25	—		
Israel	3	Aug. 2, 1976	Aug. 1, 1977	6.88	3.88		
Italy	2	Aug. 2, 1977	Aug. 1, 1978			6.90	6.90
Jamaica	3	Oct. 20, 1976	Oct. 19, 1977	29.25	17.25		
Korea	12	Apr. 25, 1977	Dec. 31, 1978	450.00			360.00
Madagascar	1	Aug. 11, 1977	Aug. 10, 1979			64.00	44.80
Mauritania	1	May 6, 1977	Dec. 31, 1977		20.00	20.00	—
Mauritius	1	Dec. 21, 1977	Dec. 20, 1978			9.43	—
Pakistan	7	May 25, 1977	May 24, 1978			4.71	—
Panama	10	Feb. 24, 1978	Feb. 23, 1979			7.97	7.97
Peru	17	Mar. 9, 1977	Mar. 8, 1978	80.00	—		
Portugal	1	Apr. 6, 1977	Apr. 5, 1978	11.25	11.25		
Romania	2	Nov. 18, 1977	Dec. 31, 1979			90.00	80.00
Sierra Leone	4	Apr. 25, 1977	Apr. 24, 1978	42.40	—		
South Africa	4	Sept. 9, 1977	Sept. 8, 1978			64.13	39.13
Spain	1	June 3, 1977	June 2, 1978			9.02	2.02
Sri Lanka	7	Aug. 6, 1976	Aug. 5, 1977	152.00	—		
Turkey	11	Feb. 6, 1978	Feb. 5, 1979			143.19	143.19
United Kingdom	11	Dec. 2, 1977	Dec. 1, 1978			93.00	38.00
Uruguay	9	Apr. 24, 1978	Apr. 23, 1980			300.00	250.00
Western Samoa	3	Jan. 3, 1977	Jan. 2, 1979	3,360.00			1,720.00
Zaire	3	Aug. 4, 1976	Aug. 3, 1977	25.00	25.00		
Zambia	3	Sept. 14, 1977	Sept. 13, 1978			25.00	25.00
		Jan. 31, 1977	Jan. 30, 1978	0.59	0.59		
		Feb. 6, 1978	Feb. 5, 1979			0.73	0.73
		Apr. 25, 1977	Apr. 24, 1978	45.00	40.00		
		July 30, 1976	July 29, 1977	62.00	53.50		
		Apr. 26, 1978	Apr. 25, 1980			250.00	250.00
Total				4,672.92	303.57	1,285.09	3,129.76

Table I.7. Summary of Members' Purchases and Repurchases, Years Ended April 30, 1948-78

(In millions of SDRs)

Year	Total Purchases by Members	Total Repurchases by Members
1948	606.04	—
1949	119.44	—
1950	51.80	24.21
1951	28.00	19.09
1952	46.25	36.58
1953	66.12	184.96
1954	231.29	145.11
1955	48.75	276.28
1956	38.75	271.66
1957	1,114.05	75.04
1958	665.73	86.81
1959	263.52	537.32
1960	165.53	522.41
1961	577.00	658.60
1962	2,243.20	1,260.00
1963	579.97	807.25
1964	625.90	380.41
1965	1,897.44	516.97
1966	2,817.29	406.00
1967	1,061.28	340.12
1968	1,348.25	1,115.51
1969	2,838.85	1,542.33
1970	2,995.65	1,670.69
1971	1,167.41	1,656.86
1972	2,028.49	3,122.33
1973	1,175.43	540.30
1974	1,057.72	672.49
1975	5,102.45	518.08
1976	6,591.42	960.10
1977	4,910.33	868.19
1978	2,503.01	4,485.01
Total	44,966.36¹	23,700.70²

¹ Includes purchases that raised the level of the Fund's holdings of the drawing members' currencies to no more than 75 per cent of quota. These purchases are not subject to repurchase.

² Includes repurchases that reduced the Fund's holdings of members' currencies below the amounts originally paid on subscription account and repurchases of members' currencies paid in settlement of charges. Excludes sales of currencies of members held by the Fund in excess of 75 per cent of quota, as a result of previous purchases, and adjustments due primarily to settlement of accounts with countries that have withdrawn from the Fund; these sales and adjustments have the effect of repurchase.

Table I.8. Summary of Stand-By Arrangements That Became Effective During the Financial Years Ended April 30, 1953-78¹

(In millions of SDRs)

Year	Number	Amount
1953	2	55.00
1954	2	62.50
1955	2	40.00
1956	2	47.50
1957	9	1,162.28
1958	11	1,043.78
1959	15	1,056.63
1960	14	363.88
1961	15	459.88
1962	24	1,633.13
1963	19	1,531.10
1964	19	2,159.85
1965	24	2,159.05
1966	24	575.35
1967	25	591.15
1968	32	2,352.36
1969	26	541.15
1970	23	2,381.28
1971	18	501.70
1972	13	313.75
1973	13	321.85
1974	15	1,394.00
1975	14	389.75
1976	18	1,188.02
1977	19	4,679.64
1978	18	1,285.09
Total	416	28,289.67

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

Table I.9. Status of General Arrangements to Borrow (GAB) and Other Borrowing¹ on April 30, 1978

(In millions of SDR equivalents)

Participants	Maximum Amounts of Credit Arrangements	Fund Indebtedness
Belgium	189.5	30.2
Canada	155.9	36.0
Deutsche Bundesbank	1,577.7	478.2
France	480.2	37.7
Italy	323.4	—
Japan	1,244.1	339.0
Netherlands	267.2	66.1
Sveriges Riksbank	91.4	13.6
United Kingdom	533.4	—
United States	1,631.2	575.3
Total GAB	6,494.0	1,576.1
Other borrowing		
Swiss National Bank	337.5	153.9
Total	6,831.5	1,730.0

¹ See the Balance Sheet of the General Department—General Resources Account as at April 30, 1978, Note 7, reproduced in Appendix VIII.

Table I.10. Borrowing in Connection with Purchases Under the Oil Facility and Repayments to Lenders, September 4, 1974–April 30, 1978

(In millions of SDRs)

Lender	Amount Borrowed	Amount Repaid as of April 30, 1978	Balance Outstanding as of April 30, 1978
Abu Dhabi	100.00	18.78	81.22
Austrian National Bank	100.00	6.51	93.49
National Bank of Belgium	200.00	—	200.00
Canada	246.93	84.07	162.86
Deutsche Bundesbank	600.00	47.34	552.66
Central Bank of Iran	990.00	90.66	899.34
Central Bank of Kuwait	685.00	26.25	658.75
Netherlands	350.00	6.38	343.63
Nigeria	300.00	6.26	293.74
Bank of Norway	100.00	2.61	97.39
Central Bank of Oman	20.50	5.94	14.56
Saudi Arabian Monetary Agency	2,250.00	159.13	2,090.87
Sveriges Riksbank	50.00	—	50.00
Swiss National Bank	100.00	—	100.00
Switzerland	150.00	12.72	137.28
Central Bank of Trinidad and Tobago	10.00	—	10.00
Central Bank of Venezuela	650.00	107.05	542.95
Total	6,902.43	573.70 ¹	6,328.73

¹ Total includes SDR 0.34 million and SDR 200 million repaid during financial years ended April 30, 1976 and 1977, respectively, as follows: 1976—SDR 0.34 million to the Central Bank of Oman; 1977—SDR 60 million to the Central Bank of Iran, SDR 100 million to the Saudi Arabian Monetary Agency, and SDR 40 million to the Central Bank of Venezuela.

Table I.11. Currencies Replenished by the Fund in Connection with the Fund Gold Sales Program, Financial Year Ended April 30, 1978

(In millions of SDRs)

Currency	Sales for Distribution			Sales by Auctions	Total
	Direct	Indirect	Total		
Austrian schillings	2.02	2.82	4.84	37.56	42.39
Barbados dollars	0.19	—	0.19 ¹	—	0.19
Belgian francs	4.87	6.16	11.03	29.57	40.60
Bolivian pesos	0.28	—	0.28 ¹	—	0.28
Brazilian cruzeiros	3.30	1.00	4.30	—	4.30
Canadian dollars	8.24	3.84	12.08	9.18	21.26
CFA francs (Upper Volta)	0.10	—	0.10	—	0.10
Colombian pesos	1.18	—	1.18	—	1.18
Danish kroner	1.95	—	1.95	—	1.95
Deutsche mark	11.98	12.78	24.76	34.56	59.32
French francs	11.23	5.29	16.52	45.96	62.49
Guatemalan quetzales	0.27	—	0.27	—	0.27
Indonesian rupiahs	1.95	—	1.95	—	1.95
Iranian rials	1.44	—	1.44	—	1.44
Iraqi dinars	0.82	—	0.82	—	0.82
Irish pounds	0.91	—	0.91	5.00	5.91
Japanese yen	8.99	10.37	19.35	18.38	37.73
Kuwaiti dinars	0.49	—	0.49	8.37	8.85
Luxembourg francs	0.15	—	0.15	—	0.15
Malaysian ringgit	1.39	—	1.39	—	1.39
Malta pounds	0.12	—	0.12	—	0.12
Moroccan dirhams	0.85	—	0.85 ¹	—	0.85
Netherlands guilders	5.24	4.37	9.61	9.18	18.79
Nigerian naira	1.01	—	1.01	—	1.01
Norwegian kroner	1.80	1.03	2.82	4.37	7.19
Paraguayan guaraníes	0.14	—	0.14	—	0.14
Peruvian soles	0.92	—	0.92 ¹	—	0.92
Qatar riyals	0.15	—	0.15	—	0.15
Rials Omani	0.05	—	0.05	—	0.05
Saudi Arabian riyals	1.00	—	1.00	—	1.00
South African rand (Lesotho)	0.07	—	0.07 ¹	—	0.07
Swedish kronor	2.43	1.42	3.86	—	3.86
Trinidad and Tobago dollars	0.47	—	0.47	—	0.47
U.A.E. dirhams	0.11	—	0.11	—	0.11
U.S. dollars	50.17	32.41	82.58	18.36	100.94
Venezuelan bolívars	2.47	1.66	4.13	18.38	22.51
Yemen rials	0.07	—	0.07	—	0.07
Zambian kwacha	1.14	—	1.14 ¹	—	1.14
Total	129.97	83.14	213.10	238.87	451.97

¹ Currency of member that had postponed purchase of gold distribution until after the Second Amendment of the Articles of Agreement. (Barbados, Lesotho, and Zambia had post-

poned purchase of the First and Second Distribution, and Bolivia, Morocco, and Peru had postponed purchase of the Second Distribution.)

Table I.12. Currencies and Special Drawing Rights Obtained from the Fund by Members in Purchases for Their Own Currencies; Currencies and Special Drawing Rights Used by Members in Repurchases, Financial Year Ended April 30, 1978

(In millions of SDRs)

Medium	Currencies and SDRs Obtained by Members in Purchases			Currencies and SDRs Used by Members in Repurchases		
	For EEC settlements by the			Under Article V, Section 7(b) ¹	Other	Total
	Federal Republic of Germany	Other countries	Total			
SDRs	—	669.0	669.0	832.1	11.9	844.1
Argentine pesos	—	18.0	18.0	—	—	—
Australian dollars	—	—	—	0.5	—	0.5
Austrian schillings	—	16.5	16.5	5.0	15.6	20.6
Belgian francs	—	38.6	38.6	4.2	109.5	113.7
Brazilian cruzeiros	—	5.0	5.0	—	11.7	11.7
Canadian dollars	—	39.4	39.4	60.9	225.9	239.7
Colombian pesos	—	21.7	21.7	—	—	—
CFA francs (Niger)	—	1.0	1.0	—	—	—
CFA francs (Upper Volta)	—	0.5	0.5	—	—	—
Danish kroner	6.8	—	6.8	0.1	—	0.1
Deutsche mark	—	376.0	376.0	464.5	259.3	723.8
Fiji dollars	—	1.0	1.0	— ²	—	— ²
French francs	—	29.6	29.6	47.5	164.9	187.4
Irish pounds	—	4.5	4.5	0.8	1.7	2.5
Japanese yen	—	207.8	207.8	94.9	281.6	314.1
Kuwaiti dinars	—	3.0	3.0	0.1	0.1	0.1
Malaysian ringgit	—	6.9	6.9	— ²	—	— ²
Malta pounds	—	—	—	—	0.1	0.1
Mexican pesos	—	—	—	— ²	—	— ²
Netherlands guilders	34.2	64.5	98.8	45.1	126.7	131.7
Nigerian naira	—	10.0	10.0	—	—	—
Norwegian kroner	—	8.0	8.0	0.1	14.4	14.6
Paraguayan guaraníes	—	1.0	1.0	—	—	—
Pounds sterling	—	62.8	62.8	—	—	—
Qatar riyals	—	1.0	1.0	—	1.7	1.7
Saudi Arabian riyals	—	22.0	22.0	— ²	—	— ²
Singapore dollars	—	—	—	— ²	—	— ²
Swedish kronor	—	15.5	15.5	2.6	30.7	33.3
U.S. dollars	—	826.6	826.6	1,201.7	598.7	1,800.4
Venezuelan bolívares	—	10.0	10.0	2.1	42.7	44.8
Yemen rials	—	2.0	2.0	—	—	—
Total	41.1	2,462.0	2,503.0	2,800.5 ³	1,684.5	4,485.0

¹ In effect before Second Amendment.² Less than SDR 50,000.

³ Total includes SDR 12.8 million, SDR 1.1 million, SDR 23.9 million, SDR 55.7 million, and SDR 494.2 million relating to repurchase obligations incurred as of April 30, 1971, 1973, 1974, 1975, and 1976, respectively, under Article V, Section 7(b) in effect before Second Amendment as follows: 1971—SDR 12.8 million in SDRs; 1973—SDR 1.1 million in SDRs; 1974—SDR 7 million in SDRs; SDR 0.1 million in Canadian dollars, SDR 3.4 million in deutsche mark, SDR 1.1 million in French francs, SDR 6 million in Japanese yen, SDR 0.004 million in Kuwaiti dinars, and SDR 6.4 million in U.S. dollars; 1975—SDR 16.4 million in SDRs, SDR 3.4 million in deutsche mark, SDR 0.03 million in Irish pounds, SDR 3.3 million in

Japanese yen, and SDR 32.5 million in U.S. dollars; 1976—SDR 51.4 million in SDRs, SDR 0.5 million in Australian dollars, SDR 3.9 million in Austrian schillings; SDR 2.1 million in Belgian francs, SDR 13 million in Canadian dollars, SDR 0.04 million in Danish kroner, SDR 120.5 million in deutsche mark, SDR 0.001 million in Fiji dollars, SDR 16.4 million in French francs, SDR 0.8 million in Irish pounds, SDR 4.2 million in Japanese yen, SDR 0.1 million in Kuwaiti dinars, SDR 0.1 million in Malaysian ringgit, SDR 0.01 million in Mexican pesos, SDR 1.5 million in Netherlands guilders, SDR 0.1 million in Norwegian kroner, SDR 0.01 million in Saudi Arabian riyals, SDR 0.003 million in Singapore dollars, SDR 1.1 million in Swedish kronor, SDR 276.2 million in U.S. dollars, and SDR 2.1 million in Venezuelan bolívares.

Table I.13. Schedules of Fund Charges

CHARGES ON TRANSACTIONS EFFECTED FROM JULY 1, 1974 Charges in per cent per annum ¹ payable on holdings in excess of quota and holdings representing transactions effected under the compensatory financing and buffer stock financing facilities, for period stated:		CHARGES ON TRANSACTIONS EFFECTED UNDER THE EXTENDED FUND FACILITY Charges in per cent per annum ¹ payable on holdings in excess of quota, for period stated:	
Service charge	0.5	Service charge	0.5
Up to 1 year	4.375	Up to 1 year	4.375
1 to 2 years	4.875	1 to 2 years	4.875
2 to 3 years	5.375	2 to 3 years	5.375
3 to 4 years	5.875	3 to 4 years	5.875
4 to 5 years	6.375	4 to 5 years	6.375
		5 to 6 years	6.875
		6 to 7 years	6.875
		7 to 8 years	6.875
CHARGES ON TRANSACTIONS EFFECTED UNDER THE OIL FACILITY FOR 1974 Charges in per cent per annum ¹ payable on holdings for period stated:		CHARGES ON TRANSACTIONS EFFECTED UNDER THE OIL FACILITY FOR 1975 Charges in per cent per annum ¹ payable on holdings for period stated:	
Service charge	0.5	Service charge	0.5
Up to 1 year	6.875	Up to 1 year	7.625
1 to 2 years	6.875	1 to 2 years	7.625
2 to 3 years	6.875	2 to 3 years	7.625
3 to 4 years	7.000	3 to 4 years	7.750
4 to 5 years	7.125	4 to 5 years	7.875
5 to 6 years	7.125	5 to 6 years	7.875
6 to 7 years	7.125	6 to 7 years	7.875
CHARGES ON TRANSACTIONS EFFECTED FROM MAY 1, 1963 AND UP TO JUNE 30, 1974 Charges in per cent per annum ¹ for period stated and for portion of holdings in excess of quota by (per cent)			
More than	0	50	100
But not more than	50	100	
Service charge	0.5	0.5	0.5
0 to 3 months	0.0	0.0	0.0
3 to 6 months	2.0	2.0	2.0
½ to 1 year	2.0	2.0	2.5
1 to 1½ years	2.0	2.5	3.0
1½ to 2 years	2.5	3.0	3.5
2 to 2½ years	3.0	3.5	4.0
2½ to 3 years	3.5	4.0	4.5
3 to 3½ years	4.0	4.5	5.0
3½ to 4 years	4.5	5.0	
4 to 4½ years	5.0		
CHARGES ON TRANSACTIONS EFFECTED UNDER THE SUPPLEMENTARY FINANCING FACILITY Charges in per cent per annum ¹ payable on holdings for period stated:		CHARGES ON TRANSACTIONS EFFECTED IN EXCESS OF 200 PER CENT OF MEMBERS' QUOTAS Charges in per cent per annum ¹ payable on holdings in excess of 200 per cent of quota for period stated:	
Service charge	0.5	Service charge	0.5
Up to 3½ years	Rate of interest paid by the Fund plus 0.20 per cent	Each six months	Rate of interest paid by the Fund plus 0.25 per cent
3½ to 4½ years	Rate of interest paid by the Fund plus 0.325 per cent		
Over 4½ years	Rate of interest paid by the Fund plus 0.375 per cent		

¹ Except for service charge, which is payable once per transaction and is stated as a per cent of the amount of the transaction.

Table I.14. Total Direct Distribution of Profits from Gold Sales for the First Two-Year Period, July 1, 1976–June 30, 1978

Member	Share in Quotas (Per cent)	Amount (U.S. dollars)	Member	Share in Quotas (Per cent)	Amount (U.S. dollars)
Afghanistan	0.127	1,658,385	Madagascar	0.089	1,162,175
Algeria	0.445	5,810,875	Malawi	0.051	665,966
Argentina	1.506	19,665,569	Malaysia	0.637	8,318,040
Bahamas	0.068	887,954	Mali	0.075	979,361
Bahrain	0.034	443,977	Malta	0.055	718,198
Bangladesh	0.428	5,588,887	Mauritania	0.045	587,617
Barbados	0.045	587,617	Mauritius	0.075	979,361
Benin	0.045	587,617	Mexico	1.267	16,544,672
Bolivia	0.127	1,658,385	Morocco	0.387	5,053,503
Botswana	0.017	221,989	Nepal	0.042	548,442
Brazil	1.506	19,665,569	Nicaragua	0.092	1,201,350
Burma	0.205	2,676,920	Niger	0.045	587,617
Burundi	0.065	848,780	Nigeria	0.462	6,032,864
Cameroon	0.120	1,566,978	Oman	0.024	313,396
Central African Empire	0.045	587,617	Pakistan	0.804	10,498,750
Chad	0.045	587,617	Panama	0.123	1,606,152
Chile	0.541	7,064,458	Papua New Guinea	0.068	887,954
Colombia	0.537	7,012,225	Paraguay	0.065	848,780
Congo, People's Rep. of the	0.045	587,617	Peru	0.421	5,497,480
Costa Rica	0.110	1,436,396	Philippines	0.531	6,933,876
Cyprus	0.089	1,162,175	Portugal	0.401	5,236,317
Dominican Republic	0.147	1,919,548	Qatar	0.068	887,954
Ecuador	0.113	1,475,571	Romania	0.650	8,487,796
Egypt	0.644	8,409,447	Rwanda	0.065	848,780
El Salvador	0.120	1,566,978	Saudi Arabia	0.459	5,993,690
Equatorial Guinea	0.027	352,570	Senegal	0.116	1,514,745
Ethiopia	0.092	1,201,350	Sierra Leone	0.086	1,123,001
Fiji	0.045	587,617	Singapore	0.127	1,658,385
Gabon	0.051	665,966	Somalia	0.065	848,780
Gambia, The	0.024	313,396	Sri Lanka	0.335	4,374,479
Ghana	0.298	3,891,328	Sudan	0.246	3,212,304
Grenada	0.007	91,407	Swaziland	0.027	352,570
Guatemala	0.123	1,606,152	Syrian Arab Republic	0.171	2,232,943
Guinea	0.082	1,070,768	Tanzania	0.144	1,880,373
Guyana	0.068	887,954	Thailand	0.459	5,993,690
Haiti	0.065	848,780	Togo	0.051	665,966
Honduras	0.086	1,123,001	Trinidad and Tobago	0.216	2,820,560
India	3.218	42,021,117	Tunisia	0.164	2,141,536
Indonesia	0.890	11,621,751	Turkey	0.517	6,751,062
Iran	0.657	8,579,203	Uganda	0.137	1,788,966
Iraq	0.373	4,870,689	United Arab Emirates	0.051	665,966
Ivory Coast	0.178	2,324,350	Upper Volta	0.045	587,617
Jamaica	0.181	2,363,525	Uruguay	0.236	3,081,723
Jordan	0.079	1,031,594	Venezuela	1.130	14,755,706
Kampuchea, Democratic	0.086	1,123,001	Viet Nam	0.212	2,768,327
Kenya	0.164	2,141,536	Western Samoa	0.007	91,407
Korea	0.274	3,577,932	Yemen Arab Republic	0.034	443,977
Kuwait	0.223	2,911,967	Yemen, People's Dem. Rep. of	0.099	1,292,757
Lao People's Dem. Rep.	0.045	587,617	Yugoslavia	0.709	9,258,226
Lebanon	0.031	404,803	Zaire	0.387	5,053,503
Lesotho	0.017	221,989	Zambia	0.260	3,395,118
Liberia	0.099	1,292,757			
Libya	0.082	1,070,768	Total	27.771	362,637,817

Table I.15. Trust Fund Loans for the First Period, July 1, 1976–June 30, 1978

Member	Quota (at December 31, 1975)	Amount (In millions of SDRs)
Bangladesh	125	51.809
Benin	13	5.388
Bolivia	37	15.336
Burma	60	24.868
Burundi	19	7.875
Cameroon	35	14.507
Central African Empire	13	5.388
Chad	13	5.388
Congo, People's Rep. of the	13	5.388
Egypt	188	77.921
Ethiopia	27	11.191
Gambia, The	7	2.901
Grenada	2	0.829
Guinea	24	9.947
Haiti	19	7.875
Ivory Coast	52	21.553
Kenya	48	19.895
Lao People's Dem. Rep.	13	5.388
Lesotho	5	2.072
Liberia	29	12.020
Madagascar	26	10.776
Malawi	15	6.217
Mali	22	9.118
Mauritania	13	5.388
Mauritius	22	9.118
Morocco	113	46.836
Nepal	14 ¹	5.803
Niger	13	5.388
Pakistan	235	97.401
Papua New Guinea	20	8.289
Philippines	155	64.244
Senegal	34	14.092
Sierra Leone	25	10.362
Sri Lanka	98	40.618
Sudan	72	29.842
Tanzania	42	17.408
Thailand	134	55.540
Togo	15	6.217
Upper Volta	13	5.388
Viet Nam	62	25.697
Western Samoa	2	0.829
Yemen, People's Dem. Rep. of	29	12.020
Zaire	113	46.836
Total	2,029	840.968

¹ Amount to which Nepal had consented as at December 31, 1975.

Table I.16. Members That Have Accepted Article VIII, April 30, 1978

Member	Effective Date of Acceptance
Argentina	May 14, 1968
Australia	July 1, 1965
Austria	August 1, 1962
Bahamas	December 5, 1973
Bahrain	March 20, 1973
Belgium	February 15, 1961
Bolivia	June 5, 1967
Canada	March 25, 1952
Chile	July 27, 1977
Costa Rica	February 1, 1965
Denmark	May 1, 1967
Dominican Republic	August 1, 1953
Ecuador	August 31, 1970
El Salvador	November 6, 1946
Fiji	August 4, 1972
France	February 15, 1961
Germany, Fed. Rep. of	February 15, 1961
Guatemala	January 27, 1947
Guyana	December 27, 1966
Haiti	December 22, 1953
Honduras	July 1, 1950
Ireland	February 15, 1961
Italy	February 15, 1961
Jamaica	February 22, 1963
Japan	April 1, 1964
Kuwait	April 5, 1963
Luxembourg	February 15, 1961
Malaysia	November 11, 1968
Mexico	November 12, 1946
Netherlands	February 15, 1961
Nicaragua	July 20, 1964
Norway	May 11, 1967
Oman	June 19, 1974
Panama	November 26, 1946
Papua New Guinea	December 4, 1975
Peru	February 15, 1961
Qatar	June 4, 1973
Saudi Arabia	March 22, 1961
Seychelles	January 3, 1978
Singapore	November 9, 1968
South Africa	September 15, 1973
Sweden	February 15, 1961
United Arab Emirates	February 13, 1974
United Kingdom	February 15, 1961
United States	December 10, 1946
Venezuela	July 1, 1976

Table I.17. Increases in Quotas Under Board of Governors Resolution No. 31-2, as of June 30, 1978¹

(In millions of SDRs)

Member	Quota on Mar. 31, 1978	New Quota	Effective Date of Change	Member	Quota on Mar. 31, 1978	New Quota	Effective Date of Change
Afghanistan	37.00	45.00	June 25, 1978	Liberia	29.00	37.00	May 31, 1978
Algeria	130.00	285.00	June 26, 1978	Libya	24.00	185.00	May 30, 1978
Argentina	440.00	535.00	May 12, 1978	Luxembourg	20.00	31.00	April 28, 1978
Austria	270.00	330.00	May 19, 1978	Madagascar	26.00	34.00	June 23, 1978
Bahamas	20.00	33.00	June 9, 1978	Malawi	15.00	19.00	May 30, 1978
Bahrain	10.00	20.00	May 30, 1978	Malaysia	186.00	253.00	May 24, 1978
Bangladesh	125.00	152.00	May 17, 1978	Maldives	0.70	0.90	May 30, 1978
Barbados	13.00	17.00	May 30, 1978	Mali	22.00	27.00	May 29, 1978
Belgium	650.00	890.00	May 25, 1978	Malta	16.00	20.00	June 23, 1978
Benin	13.00	16.00	May 30, 1978	Mauritius	22.00	27.00	May 29, 1978
Bolivia	37.00	45.00	May 20, 1978	Mexico	370.00	535.00	May 19, 1978
Botswana	5.00	9.00	May 26, 1978	Morocco	113.00	150.00	April 25, 1978
Brazil	440.00	665.00	May 22, 1978	Nepal	12.40 ²	19.00	May 22, 1978
Burma	60.00	73.00	May 19, 1978	Netherlands	700.00	948.00	April 21, 1978
Burundi	19.00	23.00	June 19, 1978	New Zealand	202.00	232.00	May 30, 1978
Cameroon	35.00	45.00	May 29, 1978	Nicaragua	27.00	34.00	May 31, 1978
Canada	1,100.00	1,357.00	May 17, 1978	Niger	13.00	16.00	May 22, 1978
Central African Empire	13.00	16.00	June 7, 1978	Nigeria	135.00	360.00	May 31, 1978
Chad	13.00	16.00	June 8, 1978	Norway	240.00	295.00	May 16, 1978
Chile	158.00	217.00	April 26, 1978	Pakistan	235.00	285.00	May 15, 1978
Colombia	157.00	193.00	May 17, 1978	Panama	36.00	45.00	May 30, 1978
Comoros	1.90	2.30	May 25, 1978	Papua New Guinea	20.00	30.00	May 30, 1978
Congo, People's Rep. of the	13.00	17.00	May 25, 1978	Paraguay	19.00	23.00	May 31, 1978
Costa Rica	32.00	41.00	May 20, 1978	Peru	123.00	164.00	May 19, 1978
Cyprus	26.00	34.00	May 30, 1978	Philippines	155.00	210.00	May 31, 1978
Denmark	260.00	310.00	April 25, 1978	Portugal	117.00	172.00	May 31, 1978
Dominican Rep.	43.00	55.00	May 9, 1978	Qatar	20.00	40.00	May 31, 1978
Ecuador	33.00	70.00	April 27, 1978	Romania	190.00	245.00	May 13, 1978
Egypt	188.00	228.00	May 23, 1978	Rwanda	19.00	23.00	May 31, 1978
El Salvador	35.00	43.00	May 19, 1978	São Tomé and Príncipe	1.60	2.00	May 15, 1978
Ethiopia	27.00	36.00	May 26, 1978	Saudi Arabia	134.00	600.00	May 29, 1978
Fiji	13.00	18.00	May 15, 1978	Senegal	34.00	42.00	May 24, 1978
Finland	190.00	262.00	May 18, 1978	Seychelles	1.00	1.30	May 24, 1978
France	1,500.00	1,919.00	June 9, 1978	Sierra Leone	25.00	31.00	May 19, 1978
Gabon	15.00	30.00	May 12, 1978	Singapore	37.00	49.00 ³	June 26, 1978
Gambia, The	7.00	9.00	May 19, 1978	Somalia	19.00	23.00	May 12, 1978
Germany, Fed. Rep. of	1,600.00	2,156.00	April 18, 1978	South Africa	320.00	424.00	May 30, 1978
Ghana	87.00	106.00	May 26, 1978	Sri Lanka	395.00	557.00	May 29, 1978
Greece	138.00	185.00	April 25, 1978	Sudan	98.00	119.00	April 20, 1978
Grenada	2.00	3.00	May 22, 1978	Swaziland	8.00	12.00	May 31, 1978
Guatemala	36.00	51.00	April 28, 1978	Sweden	325.00	450.00	April 28, 1978
Guinea	24.00	30.00	June 15, 1978	Tanzania	42.00	55.00	June 3, 1978
Guinea-Bissau	3.20	3.90	May 22, 1978	Thailand	134.00	181.00	May 15, 1978
Guyana	20.00	25.00	May 19, 1978	Togo	15.00	19.00	May 25, 1978
Haiti	19.00	23.00	May 24, 1978	Trinidad and Tobago	63.00	82.00	May 30, 1978
Honduras	25.00	34.00	May 24, 1978	Tunisia	48.00	63.00	May 24, 1978
Iceland	23.00	29.00	May 25, 1978	Turkey	151.00	200.00	April 21, 1978
India	940.00	1,145.00	May 31, 1978	Uganda	40.00	50.00	June 24, 1978
Indonesia	260.00	480.00	May 31, 1978	United Arab Emirates	15.00	120.00	May 31, 1978
Iran	192.00	660.00	May 31, 1978	United Kingdom	2,800.00	2,925.00	May 18, 1978
Ireland	121.00	155.00	May 29, 1978	United States	6,700.00	8,405.00	April 10, 1978
Israel	130.00	205.00	April 24, 1978	Upper Volta	13.00	16.00	May 24, 1978
Italy	1,000.00	1,240.00	May 5, 1978	Uruguay	69.00	84.00	May 9, 1978
Ivory Coast	52.00	76.00	May 31, 1978	Venezuela	330.00	660.00	May 3, 1978
Jamaica	53.00	74.00	May 31, 1978	Viet Nam	62.00	90.00	June 20, 1978
Japan	1,200.00	1,659.00	May 15, 1978	Western Samoa	2.00	3.00	May 25, 1978
Kenya	48.00	69.00	June 24, 1978	Yemen Arab Republic	10.00	13.00	May 25, 1978
Korea	80.00	160.00	May 31, 1978	Yemen, People's Dem. Rep. of	29.00	41.00	June 14, 1978
Kuwait	65.00	235.00	May 31, 1978	Yugoslavia	207.00	277.00	May 15, 1978
Lao People's Dem. Rep.	13.00	16.00	June 27, 1978	Zaire	113.00	152.00	June 9, 1978
Lebanon	9.00	12.00	June 10, 1978	Zambia	76.00	141.00	April 1, 1978
Lesotho	5.00	7.00	May 15, 1978				

¹ Members that had not completed the requirements for increasing their quotas on this date were as follows: Equatorial Guinea, Iraq, Mauritania, and the Syrian Arab Republic. The quota of Oman was increased from SDR 7 million to SDR 20 million, effective July 1, 1978. Members that had not consented to their increases in quota on June 30, 1978 were as follows: Australia, Democratic Kampuchea, and Jordan. The quota of China was not increased under the Sixth General Review of Quotas. Suriname became a member after April 1, 1978.

² Nepal's quota was first increased to SDR 14 million on April 25, 1978, upon payment of its last two installments under the Fifth General Review of Quotas.

³ Singapore consented to a quota of less than the maximum amount listed in the Annex to Resolution No. 31-2, which was SDR 110 million.

Table I.18. Publications Issued, Financial Year Ended April 30, 1978**Reports and Other Documents**

Annual Report of the Executive Directors for the Fiscal Year Ended April 30, 1977
(English, French, German, and Spanish). Free

Summary Proceedings of the Thirty-Second Annual Meeting of the Board of Governors Free

Twenty-Eighth Annual Report on Exchange Restrictions
Free

Subscription Publications

Balance of Payments Yearbook
Vol. 29. Annual, 11 monthly booklets, and supplement.
US\$20.00
US\$8.00 to university libraries, faculty members, and students.

Direction of Trade
Monthly, with annual supplement.
US\$16.00 a year. US\$6.00 to university libraries, faculty members, and students.

International Financial Statistics
Monthly (English, French, and Spanish).
US\$35.00 a year. US\$14.00 to university libraries, faculty members, and students.

Staff Papers
Four times a year. US\$7.00 a year. US\$3.00 to university libraries, faculty members, and students.

University libraries, faculty members, and students may obtain the four subscription publications listed above at the reduced rate of US\$26.00 for all four publications.

Government Finance Statistics Yearbook
Vol. 1, 1977. (Introduction and titles of lines in English, French, and Spanish). US\$10.00. US\$4.00 to university libraries, faculty members, and students.

For users of Fund publications that have access to a computer, tape subscriptions to *International Financial Statistics*, *Direction of Trade*, the *Government Finance Statistics Yearbook*, and the *Balance of Payments Yearbook* are available at US\$1,000.00 a year each. This price includes the book

version of the publication. The price to universities is US\$400.00 a year for each subscription.

Books

Balance of Payments Manual
US\$4.00. Fourth edition, 1977.

Surveys of African Economies
US\$5.00 a volume

Volume 7, covering Algeria, Mali, Morocco, and Tunisia, was published in English; the French edition is in preparation. The volumes in this series are available to university libraries, faculty members, and students at a reduced price of US\$2.50 a volume.

Pamphlet Series

No. 19 *Floating Currencies, Gold, and SDRs: Some Recent Legal Developments*

By Joseph Gold (French and German). Free

No. 20 *Voting Majorities in the Fund: Effects of Second Amendment of the Articles*

By Joseph Gold (English). Free

No. 21 *International Capital Movements Under the Law of the International Monetary Fund*

By Joseph Gold (English). Free

No. 22 *Floating Currencies, SDRs, and Gold: Further Legal Developments*

By Joseph Gold (English; "Conclusions," pages 63-69 in English, in German). Free

Other*Finance and Development*

Issued jointly with IBRD; quarterly (English, French, German, and Spanish). A selection of articles is published quarterly in Arabic and annually in Portuguese). Free

IMF Survey

Twice monthly but only once in December (English, French, and Spanish). Private firms and individuals are charged for delivery at the annual rate of US\$10.00.

Appendix II

Principal Policy Decisions of the Executive Board and Report by the Executive Board

A. Supplementary Financing Facility

(a) Establishment

1. (a) The Fund will be prepared to provide, in accordance with this decision, supplementary financing in conjunction with use of the other resources of the Fund (hereinafter referred to as "ordinary resources") to members facing serious payments imbalances that are large in relation to their quotas. Supplementary financing for the purpose of this decision means financing that the Fund will provide under a stand-by or extended arrangement with resources the Fund obtains by replenishment under Article VII, Section 2 and Decision No. 5509-(77/127),¹ adopted August 29, 1977.

(b) Resources available to members under other policies of the Fund will remain available in accordance with the terms of those policies.

2. A member contemplating use of the Fund's resources in the three credit tranches beyond the first credit tranche (hereinafter referred to as the "upper credit tranches") that would include supplementary financing shall consult the Managing Director before making a request under this decision. A request by a member will be met under this decision only if the Fund is satisfied: (i) that the member needs financing from the Fund that exceeds the amount available to it in the four credit tranches and its problem requires a relatively long period of adjustment and a maximum period for repurchase longer than the three to five years under the credit tranche policies; and (ii), on the basis of a detailed statement of the economic and financial policies the member will follow and the measures it will apply during the period of the stand-by or extended arrangement, that the member's program will be adequate for the solution of its problem and is compatible with the Fund's policies on the use of its resources in the upper credit tranches or under the Extended Fund Facility.

3. The Fund may approve a stand-by or extended arrangement that provides for supplementary financing at any time within two years from the effective date of this decision. The Fund will review this period when conducting a review under 12 below. Any extension of the period shall not exceed one year.

4. (a) Supplementary financing will be available only if the program referred to in 2(ii) above is one in support of which the Fund approves a stand-by arrangement in the upper credit tranches or beyond or an extended arrangement. The stand-by or extended arrangement will be in accordance with the Fund's policies, including inter alia its policies on conditionality, phasing, and performance criteria, provided however that any right of augmentation exercised by a member in connection with a repurchase in respect of a purchase made with supplementary financing shall be subject to the same period of repurchase that applied to the purchase in respect of which the repurchase was made.

¹ See page 115.

(b) The period of a stand-by arrangement approved under this decision will normally exceed one year, and may extend up to three years in appropriate cases. The period of an extended arrangement will be in accordance with Decision No. 4377-(74/114),² adopted September 13, 1974.

(c) A request for a purchase in accordance with a stand-by or extended arrangement approved under this decision will be met from ordinary resources and supplementary financing in the proportions determined under 5 and 6 below when the arrangement is approved.

5. The amounts available to a member under a stand-by arrangement approved under this decision will be apportioned between ordinary resources and supplementary financing as follows:

(a) While each credit tranche is 36.25 per cent of quota under the Fund's policies, supplementary financing will be equivalent to 34 per cent of quota in respect of each of the upper credit tranches.

(b) After each credit tranche becomes 25 per cent of quota under the Fund's policies, supplementary financing will be equivalent to 12.5 per cent of quota in respect of the first credit tranche and 30 per cent of quota in respect of the upper credit tranches.

(c) If a member has used all or part of its credit tranches before a stand-by arrangement is approved under this decision, the arrangement approved under this decision will provide that the amount of supplementary financing that would have been used under (a) and (b) above if all earlier purchases in the credit tranches had been made in conjunction with supplementary financing will be used, subject to 4(a) above, before purchases are made under (a) or (b) above.

(d) If a purchase in a credit tranche is less than the amount of a full credit tranche, the supplementary financing to be used in conjunction with the purchase will be in the same proportion of the amount of supplementary financing referred to in (a) and (b) above as the purchase in the credit tranche bears to the amount available in that tranche when the arrangement was approved.

(e) From time to time, the Fund will review the proportions of supplementary financing to be used in conjunction with the upper credit tranches, and may substitute modified proportions for those in effect pursuant to this decision. The modified proportions shall apply only to stand-by arrangements approved after the date of the decision to modify the proportions, provided that a member that has an existing stand-by arrangement may request that, subject to 4(a) and 5(c) above, any increased proportions be made available to it under a new or revised arrangement.

(f) In special circumstances, a stand-by arrangement may be approved under this decision that provides for purchases beyond the credit tranches and supplementary financing available under (a), (b), and (c) above. The arrangement will provide that all purchases under it will be made with supplementary financing. The Fund, taking into account the criteria in 2 above, will prescribe in each arrangement the amount of supplementary financing that will be available.

6. (a) Supplementary financing will be available, in combination with ordinary resources, for purchases under an extended arrangement approved under this decision in an amount not exceeding the equivalent of 140 per cent of quota. Purchases under an extended arrangement will be made with ordinary resources and with supplementary financing in the ratio of one to one.

(b) Supplementary financing available to a member in accordance with the ratio in (a) above will be increased by an amount determined by the ratio of one to one in respect of that part of the upper credit tranches that is no longer available to the member as the result of earlier uses of the Fund's resources. Purchases will be made with supplementary financing, subject to 4(a) above, to the extent of the amount of this increase before purchases are made in accordance with (a) above.

² See *Annual Report, 1975*, pages 88-90.

(c) The principles of 5(e) and (f) shall apply to extended arrangements approved under this decision.

7. (a) Repurchases in respect of outstanding purchases under this decision will be made in accordance with the terms of the stand-by or extended arrangement under which the purchases were made.

(b) The terms will include a provision that the member will be expected to repurchase in respect of purchases, whether made with ordinary resources or with supplementary financing, as its balance of payments and reserve position improves, and will make such repurchases if, after consultation with the member, the Fund represents that repurchase should be made because of an improvement.

(c) The terms will also provide that with respect to purchases financed with ordinary resources repurchase will be made in accordance with the Fund's policies on the credit tranches or under the Extended Fund Facility; and that with respect to purchases made with supplementary financing repurchase will be made in equal semiannual installments that begin not later than three and one-half years and are completed not later than seven years after the purchase.

(d) A repurchase attributed to a purchase made with supplementary financing in advance of this schedule of equal semiannual installments must be accompanied by a repurchase in respect of the purchase financed with ordinary resources made at the same time if any part of the latter purchase is still outstanding. The amounts of the two repurchases will be in the same proportions in which ordinary resources and supplementary financing were used in the purchases, provided, however, that the repurchase in respect of the purchase financed with ordinary resources will not exceed the amount of the purchase still outstanding.

(e) Repurchases will be made in the media prescribed by the Articles of Agreement and specified by the Fund at the time of the repurchase after consultation with members. The Fund will be guided by a policy of specifying for repurchase the media in which it will make repayments as a result of the repurchases, and will take this policy into account in preparing its currency budgets.

8. In order to carry out the purposes of this decision, the Fund will be prepared to grant a waiver of the conditions of Article V, Section 3(a) (iii) (or Article V, Section 3(b) (iii) after the Second Amendment of the Articles) that is necessary to permit purchases under this decision or to permit purchases under other policies that would raise the Fund's holdings of a member's currency above the limits referred to in that provision because of purchases outstanding under this decision.

9. The Fund will apply its credit tranche policies as if the Fund's holdings of a member's currency did not include holdings resulting from purchases outstanding under this decision that have been made with supplementary financing. After the effective date of the Second Amendment of the Articles of Agreement purchases under this decision and holdings resulting from purchases outstanding under this decision will be excluded under Article XXX(c).

10. The Fund will state which purchases by a member are made under this decision and the amounts of ordinary resources and supplementary financing used in each purchase.

11. The Fund will levy charges in accordance with the decision of the Executive Board on holdings of a member's currency resulting from purchases outstanding under this decision to the extent that they are made with supplementary financing.

12. The Fund will review this decision not later than two years after its effective date or when the Seventh General Review of Quotas becomes effective, if that occurs within the two years. One year after the effective date of this decision the Fund will report on the use of the supplementary financing facility. The report will deal also with other important aspects of the facility.

13. The effective date of this decision will be the date on which agreements are completed under Decision No. 5509-(77/127), adopted August 29, 1977, for a

total amount not less than SDR 7.75 billion, including at least six agreements each of which provides for an amount not less than SDR 500 million.

Decision No. 5508-(77/127)
August 29, 1977

(b) Replenishment

1. The International Monetary Fund deems it appropriate in accordance with Article VII of the Articles of Agreement to replenish its holdings of currencies to the extent that purchases are to be made with supplementary financing under Executive Board Decision No. 5508-(77/127),³ adopted August 29, 1977.

2. A number of members and institutions have expressed their intention to make resources available to the Fund for the purpose stated in paragraph 1 above. In order to enable the Fund to replenish its resources in accordance with these intentions, the draft letter set out in the Annex to this decision is adopted as the basis for terms and conditions to be incorporated in the agreement with each contracting party under Article VII of the Articles of Agreement. The terms and conditions will be uniform to the maximum extent possible. Each letter setting forth the terms and conditions to be proposed will be submitted to the Executive Directors for their approval.

3. At any time within the period in which the Fund can replenish its resources in order to provide supplementary financing, it may enter into agreements for this purpose with the contracting parties referred to in paragraph 2 above and with any other member or with its national official financial institutions, provided that the member is in a sufficiently strong balance of payments and reserve position, or with any institution that performs functions of a central bank for more than one member. The Fund will consider a member to be in the position referred to above if it is in a net creditor position in the Fund and if its currency could be used in net sales in the Fund's currency budgets for the foreseeable future, but the Fund may take other circumstances into account in deciding whether to enter into an agreement with a member or with its national official financial institutions.

4. The amounts to be called by the Fund will be in broad proportion to the unutilized balance under each agreement to the total of unutilized balances under all agreements, subject to such operational flexibility as the Fund may find necessary.

5. The Fund will use its best efforts to ensure that the currencies it receives in accordance with this decision will be transferred on the same day to purchasers under Executive Board Decision No. 5508-(77/127), adopted August 29, 1977, and that amounts corresponding to repurchases attributed in accordance with Paragraph 5(b)(i) of the draft letter set out in the Annex to this decision will be repaid to contracting parties on the same day as the repurchase is completed, provided, however, that the Fund will not make such repayment, unless it decides otherwise, if the repurchase entitles the purchaser to augmented rights under its stand-by or extended arrangement. If such repayment has not been made, the Fund will repay promptly on the expiration of the arrangement an amount equivalent to the amount of the augmented rights that have not been exercised.

Decision No. 5509-(77/127)
August 29, 1977

Annex

[Your Excellency] [Dear Sir]:

In accordance with Article VII of the Articles of Agreement of the International Monetary Fund, hereinafter referred to as "the Articles," and pursuant to Executive Board Decision No. 5509-(77/127), adopted August 29, 1977, and Executive

³ See pages 112-15.

Board Decision No. _____ [authorizing agreement with individual contracting party, X] adopted _____, I have been authorized to propose on behalf of the International Monetary Fund, hereinafter referred to as "the Fund," that [X] agree to make available to the Fund at call during the period of five years from the effective date of Executive Board Decision No. 5508-(77/127), adopted August 29, 1977, [currency of X] [specified currency or currencies deemed by the Fund to be freely usable] in amounts that in total do not exceed the equivalent of _____ million special drawing rights (SDR _____) in exchange for readily repayable claims on the following terms and conditions:

1. All amounts under this agreement shall be expressed in terms of the special drawing right. For all purposes of this agreement, the value of a currency in terms of the special drawing right shall be calculated at the rate for the currency as determined by the Fund in accordance with the Fund's Rules and Regulations in effect when the calculation is made, subject to Paragraph 7(a).

2. (a) Calls under this agreement shall be made only (i) in respect of purchases to be made with supplementary financing under the facility established by Executive Board Decision No. 5508-(77/127), adopted August 29, 1977, which is hereinafter referred to as "the facility," or (ii) by agreement with [X], in order to enable the Fund to repay a claim under another agreement connected with the facility when repayment is made under that agreement because of a balance of payments need.

(b) The Fund shall give [X] as much advance notice as possible of the Fund's intention to make calls.

(c) [X] may represent that its balance of payments and reserve position does not justify calls or further calls under this agreement. The Fund, in considering the representation, shall give [X] the overwhelming benefit of any doubt. After consultation with [X], in which the Fund shall give [X] the overwhelming benefit of any doubt, the Fund may make calls or further calls at a later date when in the opinion of the Fund the balance of payments and reserve position of [X] improves sufficiently to justify calls or further calls.

(d) When a call is made, [X] shall deposit to the Fund's account with [X] [the Fund's depository for the currency of [X]] [the Fund's depository for the currency of _____] within three business days after the call an amount of [its currency] [the currency or currencies specified in the preamble] equivalent to the amount of the call at the rate for the currency as determined by the Fund in accordance with the Fund's Rules and Regulations. On request, [X] shall exchange its currency [if not deemed by the Fund to be freely usable] when sold by the Fund for a freely usable currency at the rates for the two currencies as determined by the Fund in accordance with its Rules and Regulations.

3. The Fund shall issue to [X] on its request an instrument evidencing the amount, expressed in special drawing rights, that the Fund is committed to repay under this agreement. Upon repayment of the amount of any instrument and all accrued interest, the instrument shall be cancelled. If less than the amount of any such instrument is repaid, the instrument shall be cancelled and a new instrument for the remainder of the amount shall be substituted with the same maturity dates as in the old instrument. If all or part of the amount of a claim is transferred under 8 below, a new instrument or instruments shall be substituted on request for the old instrument with the same maturity dates as in that instrument.

4. (a) The Fund shall pay interest on the amount that the Fund is committed to repay under this agreement in accordance with the following provisions:

(i) The initial rate of interest on all outstanding claims shall be 7 per cent per annum. This rate shall apply until June 30, 1978.

(ii) Six months after June 30, 1978, and at intervals of six months thereafter, the Fund shall calculate, in the manner set forth in (iii) below,

the rate of interest to be paid on outstanding claims for the period of six months prior to the calculation.

- (iii) The interest rate on outstanding claims for a period of six months shall be the average of the daily yields during that period on actively traded U.S. Government securities, determined on the basis of a constant maturity of five years, as published each week by the Federal Reserve Board, Washington, D.C. in statistical release H-15 or any substitute publication, or if such publication shall cease as certified by the U.S. Treasury, provided that this average shall be rounded up to the nearest $\frac{1}{8}$ of 1 per cent.
- (iv) Interest shall be paid promptly after June 30 and December 31 of each year on the average daily balances outstanding during the preceding six months of the amounts the Fund is committed to repay under this agreement.

(b) No other fee, charge, or commission shall be imposed by [X] with respect to a deposit or an exchange pursuant to a call under Paragraph 2(d) or with respect to any other aspect of a call.

5. (a) Subject to the other provisions of this Paragraph 5, the Fund shall repay [X] an amount equivalent to any deposit pursuant to a call under Paragraph 2 in [eight] equal semiannual installments to commence three and one-half years, and to be completed not later than [seven] years, after the date of the deposit.

(b) The Fund may repay [X] in advance of the repayments required by Paragraph 5(a) to the extent that: (i) a repurchase is attributed, in accordance with the Fund's practice, to a purchase under the facility for which the Fund has received resources from [X] under this agreement, or (ii) [X] agrees to receive repayment.

(c) If at any time [X] represents that there is a balance of payments need for repayment of part or all of the amount the Fund is committed to repay under this agreement and requests such repayment, the Fund, in considering the representation and deciding whether to make repayment, shall give [X] the overwhelming benefit of any doubt.

(d) Repayments under Paragraph 5(b) and (c) shall discharge the installments prescribed by Paragraph 5(a) in the order in which they become due.

6. The Fund shall consult [X] in order to agree with it on the means in which payments of interest and repayment shall be made, but, if agreement is not reached, the Fund shall [have the option to] make payment or repayment in [the currency of [X], or] the currency received by the Fund from [X], [or] [special drawing rights] [or any currency deemed by the Fund to be freely usable or any currency that can be exchanged at the time of the payment or repayment for a freely usable currency at a rate of exchange that would yield value equal in terms of the special drawing right to payment or repayment in a freely usable currency,] [or any combination of these means of payment or repayment].

7. (a) If the Fund decides to make a change in the method of valuation of the special drawing right, [X] shall have the option to require immediate repayment of all outstanding claims on the basis of the method of valuation in effect before the change.

(b) If [X] exercises its option under Paragraph 7(a), it shall have the further option to cancel this agreement.

8. (a) For value agreed between transferor and transferee, transfers may be made at any time of all or part of a claim to repayment under this agreement in accordance with the following provisions:

- (i) Transfers may be made to any contracting party, any member, a member's national official financial institutions (hereinafter referred to as a member's "institution"), or any institution that performs functions of a central bank for more than one member.

(ii) Transfers may be made to transferees other than those referred to in (i) above with the prior consent of the Fund and on such terms and conditions as it may prescribe.

(b) The transferor of a claim shall inform the Fund promptly of the claim that is being transferred, the transferee, the amount of the transfer, the agreed value for the transfer, and the value date. The transfer will be registered by the Fund if it is in accordance with this agreement. The transfer shall be effective for the purposes of this agreement as of the value date agreed between the transferor and transferee.

(c) If all or part of a claim is transferred during a period of six months as described in Paragraph 4, the Fund shall pay interest on the amount of the claim transferred for the whole of that period to the transferee.

(d) Subject to (c) and to any terms and conditions prescribed under (a) (ii), the claim of a transferee shall be the same in all respects as the claim of the transferor, except that Paragraph 5(c) shall apply only if, at the time of the transfer, the transferee is a member, or the institution of a member, that is in a net creditor position in the Fund and in the opinion of the Fund the member's currency could be used in net sales in the Fund's currency budgets for the foreseeable future.

(e) If requested, the Fund shall assist in arranging transfers.

9. [If [X] withdraws from the Fund, this agreement shall terminate and the amount that the Fund is committed to repay under this agreement shall be repaid in accordance with the terms of this agreement, provided that repayment shall be made, at the option of the Fund, in the currency of [X] [or in a currency deemed by the Fund to be freely usable], or in such other currency as may be agreed with [X].] [If the member country of which [X] is an institution withdraws from the Fund, [X's] agreement shall terminate, and the amount that the Fund is committed to repay under this agreement shall be repaid in accordance with the terms of this agreement, provided that repayment shall be made, at the option of the Fund, in the currency of that member [or in a currency deemed by the Fund to be freely usable], or in such other currency as may be agreed with [X].]

10. In the event of liquidation of the Fund the amounts the Fund is committed to repay to [X] shall be immediately due and payable as liabilities of the Fund under the provisions of the Articles on liquidation of the Fund. For the purposes of these provisions the currency in which the liability is payable shall be, at the option of the Fund, [the currency received by the Fund under this agreement] [the currency of [X] if it differs from that currency], [a currency deemed by the Fund to be freely usable,] or any other currency agreed with [X].

11. Any question of interpretation that arises under this agreement that does not fall within the purview of the provisions of the Articles on interpretation shall be settled to the mutual satisfaction of [X] and the Fund.

If the foregoing proposal is acceptable to [X], this communication and your duly authenticated reply shall constitute an agreement between [X] and the Fund, which shall enter into force on the date on which the Fund receives your reply.

Very truly yours,

H. JOHANNES WITTEVEEN
Managing Director

(c) Charges

1. The charge to be levied on each segment of the Fund's holdings of a member's currency that is in excess of 100 per cent of quota under the present Articles, or is subject to charges under Article V, Section 8(b) of the Articles when amended as a result of the proposed Second Amendment, and that represents currency acquired

by the Fund as a result of purchases made with supplementary financing pursuant to Executive Board Decision No. 5508-(77/127),⁴ of August 29, 1977 shall be equal to the rate of interest paid by the Fund from time to time pursuant to Paragraph 4(a) of the Annex of Executive Board Decision No. 5509-(77/127),⁵ of August 29, 1977 plus:

- (a) $\frac{1}{8}$ of 1 per cent per annum for the first 3½ years after a purchase, and
- (b) an additional $\frac{1}{8}$ of 1 per cent per annum for the 12 months following the period in (a), and
- (c) an additional $\frac{1}{8}$ of 1 per cent per annum thereafter.

2. For the purpose of Article V, Section 8(d) of the present Articles, an agreement for the repurchase of holdings subject to 1 above shall be deemed to have been reached in paragraph 7 of Decision No. 5508-(77/127), of August 29, 1977 and, therefore, the rate of charge shall not rise beyond the rate in 1(c) above, provided that after the date of the Second Amendment the charges shall not exceed the rate of interest by more than 0.325 per cent per annum, and provided further that during any period in which there is a failure to repurchase in accordance with paragraph 7 of Decision No. 5508-(77/127), of August 29, 1977 or with a representation by the Fund that the member should repurchase because of an improvement in its balance of payments and reserve position, the charges to be levied shall be higher than they would otherwise have been by an additional $\frac{1}{8}$ of 1 per cent per annum for each period of 12 months until the charges payable on any segment have reached 0.7 per cent per annum above the interest rate payable by the Fund in accordance with 1 above, at which time the Fund will review the charges to be imposed thereafter.

3. The calculation of charges subject to this decision shall be made separately from the calculations made for the purpose of charges on other holdings but shall be made in the same way. The means of payment of charges subject to this decision shall be determined in accordance with the decisions of the Fund that apply to the payment of charges on other holdings.

4. The service charge payable by a member on purchases made with supplementary financing shall be $\frac{1}{2}$ of 1 per cent. The service charge shall be paid at the time the transaction is consummated.

5. The charges payable pursuant to this decision shall be paid promptly after each June 30 and December 31 for the six calendar months ending at each such dates.

Decision No. 5518-(77/130)
September 2, 1977

B. Charges

(a) Stand-By Arrangements

Paragraph 5 of Decision No. 270-(53/95), as amended,⁶ shall be replaced by the following:

(a) A charge of $\frac{1}{4}$ of 1 per cent per annum shall be payable at the beginning of each 12-month period of a stand-by arrangement on that part of the total amount of the arrangement that has not been purchased.

(b) When a purchase is made under a stand-by arrangement, the amount of the charge paid shall be reduced in the proportion the amount of the purchase bears to the total amount that can be purchased under the arrangement during the period of 12 months or less in which the purchase was made. A refund equal to the reduction shall be made.

(c) For any additional rights to purchase that arise during a stand-by arrangement, a charge of $\frac{1}{4}$ of 1 per cent per annum shall be payable on the same basis as is

⁴ See pages 112–15.

⁵ See page 115.

⁶ *Selected Decisions of the International Monetary Fund and Selected Documents* (Eighth Issue, Washington, 1976), pages 44–46.

provided in subparagraph (a) above, on the additional amount that could be purchased during the unexpired period of the stand-by arrangement.

(d) Subparagraph (b) shall apply also in respect of purchases made under additional rights to purchase.

(e) If a member notifies the Fund that it wishes to cancel a stand-by arrangement, the Fund will repay to the member a portion of the charge. The portion repaid will represent the charge for the period remaining unexpired at the date of cancellation for the amount that could still be purchased under the stand-by arrangement at the date of cancellation for which the member has paid a charge.

(f) For the purposes of subparagraphs (b), (d), and (e), it shall be assumed that purchases are made in respect of rights to purchase in the order in which such rights arose.

(g) Charges for stand-by arrangements shall be payable in SDRs, or in U.S. dollars if the member is not a participant in the Special Drawing Account, or in the member's currency as specified for other charges by Article V, Section 8(f).

(h) Refunds for reductions under subparagraphs (b) and (d) above and repayments under subparagraph (e) above of a charge paid for a stand-by arrangement shall be made in SDRs, U.S. dollars, or in the member's currency, in proportion to the media with which the charge was paid.

Decision No. 5569-(77/153)
November 11, 1977

(b) Holdings in Excess of Certain Amounts

1. Effective April 21, 1978, segments of a currency that would otherwise be subject to the schedule of charges in Rule I-7(5) (b) shall be subject to the following charges if they have been acquired by the Fund as a result of purchases under stand-by arrangements taking effect not later than June 30, 1979 and are in excess of 200 per cent of quota: the average yield to constant five-year maturity of U.S. Government securities in New York over the six months preceding the determination of the rate of charge, rounded upwards to the nearest $\frac{1}{4}$ of 1 per cent, plus $\frac{1}{4}$ of 1 per cent. The rate applicable under this paragraph 1 shall be calculated on July 1, 1978 and at intervals of six months thereafter. Each rate so calculated shall apply during the six months preceding the date of the calculation. The Fund shall review this schedule not later than December 31, 1978.

2. Effective April 21, 1978, segments of a currency that would otherwise be subject to Rule I-7(6) shall be subject to the rate in paragraph 1 above if they have been acquired by the Fund as a result of purchases under extended arrangements taking effect not later than June 30, 1979, to the extent that the Fund's holdings of the member's currency resulting from purchases under that facility exceed 140 per cent of quota.

3. The charges payable pursuant to this decision shall be paid promptly after each June 30 and December 31.

Decision No. 5732-(78/65)
April 24, 1978

C. Special Drawing Account: The Rules for Reconstitution

Report by the Executive Directors to the Board of Governors

1. Under Article XXV, Section 6(b) of the Fund's Articles of Agreement, the rules for reconstitution set out in Schedule G must be reviewed before the end of

each basic period. In accordance with Article XXVII(a) (i), these reviews are to be conducted by the Board of Governors. As a result of such a review, the Fund may modify existing rules, or adopt new rules, or take a decision to abrogate all rules for reconstitution. The adoption of new or modified rules, or the abrogation of existing rules, requires a majority of 85 per cent of the total voting power of participants in the Special Drawing Account.

2. It will be recalled that the Board of Governors reviewed the rules for reconstitution at the end of the first basic period in December 1972 and resolved to make no changes in the rules set forth in Schedule G of the Articles of Agreement for the second basic period. The present review under Article XXV, Section 6(b) must be completed by the end of the second basic period on December 31, 1977 and, unless new rules are adopted or a decision is made to abrogate the rules, the present rules will continue to apply. The Executive Directors have considered the rules for reconstitution set out in Schedule G and are submitting this Report to the Board of Governors. The Executive Directors recommend the adoption of the resolution set forth in paragraph 6 below.

3. Under paragraph 1(a) (i) of Schedule G, a participant's net use of its special drawing rights must be such that the average of its daily holdings over a five-year period will not be less than 30 per cent of the average of its daily net cumulative allocation of special drawing rights over the same period. Under paragraph 1(b) of Schedule G, participants are also required to pay due regard to the desirability of pursuing over time a balanced relationship between their holdings of special drawing rights and their holdings of other reserve assets.

4. In accordance with Schedule G, paragraph 1(a) (ii), since December 31, 1971, the Fund has made monthly calculations for each participant so as to ascertain whether and to what extent a participant has a need to obtain special drawing rights in order to maintain the required average holdings of 30 per cent. Since the first review in 1972, a large number of participants have obtained SDRs, either from the Fund's General Account or other participants in order to reconstitute their holdings. By October 31, 1977, a total of SDR 1,965 million had been obtained by 52 participants to promote reconstitution, of which SDR 1,379 million was obtained directly from the Fund's General Account against payment of currencies acceptable to the Fund, SDR 296 million against participants' own currencies in connection with purchases from the General Account and SDR 290 million in transactions by agreement with other participants under Article XXV, Section 2(b) (ii). It has not proved necessary for any participant to be made subject to designation to promote reconstitution pursuant to Article XXV, Section 5(a) (ii).⁷

5. Pursuant to a request by the Interim Committee "to review the characteristics and uses of the SDR so as to promote the purposes of the Fund, including the objective of making the SDR the principal reserve asset in the international monetary system," the Executive Directors have recently begun their examination of these issues as well as the question of an allocation of SDRs. They are of the view that the question of whether the present reconstitution provisions should be retained, modified, or abrogated cannot be resolved independently of decisions about other major aspects of the Special Drawing Account. These include the principles of designation, the valuation of and yield on the SDR, and the greater freedom to use SDRs under the amended Articles. The outcome of the Executive Directors' consideration of these aspects will be a major factor in any future review of the present reconstitution requirements. The Executive Directors, therefore, propose to review the reconstitution provisions again when the amended Articles come into effect as part of their review of the characteristics and uses of the Special Drawing Right. Under amended Article XIX, Section 6(b), the rules for reconstitution can be reviewed at any time by the Executive Directors and a decision can be taken by a 70 per cent majority of the total voting power in the Special Drawing Account.

⁷ One participant, Democratic Kampuchea, however, failed to meet the requirement. The participant could not be informed of its obligations because of the inability of the Fund to communicate through normal channels with the authorities of Democratic Kampuchea.

6. In the light of the foregoing, the Executive Directors recommend that the Board of Governors adopt the following resolution

December 5, 1977

Resolution Submitted to the Board of Governors

Review of Reconstitution

The Board of Governors notes the Report of the Executive Directors entitled "Special Drawing Account—The Rules for Reconstitution" and having conducted its review of the rules for reconstitution in accordance with Article XXV, Section 6(b) and Article XXVII(a) (i), requests the Executive Directors to continue their examination of the rules for reconstitution as part of their review of the characteristics and uses of the Special Drawing Right, and to submit a report and recommendations to the Board of Governors at an appropriate time.

*Board of Governors Resolution No. 33-1
Adopted January 4, 1978*

D. Implementation of the Second Amendment

(a) Rates for Computations and Maintenance of Value

1. The exchange rate for computations by the Fund relating to the currency of a member in the General Resources Account

- (a) on the occasion of the use of that currency in an operation or transaction between the Fund and another member shall be the rate as of three business days before the value date of the operation or transaction, and, if this rate cannot be used, the rate of the preceding day closest thereto that is practicable;
- (b) on all other occasions shall be the rate at which the currency is held by the Fund.

2. The Fund shall adjust its holdings of the currency of a member in the General Resources Account

- (a) whenever a computation relating to the currency is made in accordance with paragraph 1 (a) above,
- (b) at the end of the Fund's financial year,
- (c) when the member requests the Fund to adjust the Fund's holdings of its currency,
- (d) with respect to the U.S. dollar, on the last business day of each month, and
- (e) on such other occasions as the Fund may decide.

3. Adjustments under paragraph 2 shall be made on the basis of the exchange rate of the currency under Rule O-2 for the day of the adjustment and shall take effect on that day, provided that if an exchange rate under Rule O-2 is not communicated for the currency with respect to paragraph 2(b) above, the rate of the preceding day closest thereto for which a rate is communicated shall be used.

4. Whenever the Fund adjusts its holdings of a member's currency in accordance with paragraph 3 above, the Fund shall establish an account receivable or an account payable, as the case may be, in respect of the amount of the currency payable by or to the member under Article V, Section 11.

5. For the purpose of adjustments, the Fund's holdings of a member's currency in the General Resources Account shall consist of the total of the balances of the member's currency in the General Resources Account, plus the balance in any

account receivable, or minus the balance in any account payable, in the currency, as of the date of the adjustment. The total of the balances of the member's currency in the General Resources Account shall be as recorded on the Fund's books if the member agrees with this procedure.

6. For the purpose of applying the provisions of the Articles as of any date, the Fund's holdings of a currency shall consist of its actual holdings plus the balance in any account receivable or minus the balance in any account payable on that date.

7. Settlements of accounts receivable or payable by or to a member shall be made promptly after the end of a financial year of the Fund and at other times when requested by the Fund or the member.

Decision No. 5590-(77/163)

December 5, 1977, effective April 1, 1978

*(b) Exclusion of Purchases and Holdings Under Buffer
Stock Facility: Article XXX(c)(ii)*

With effect from the date of the Second Amendment of the Fund's Articles, purchases after that date under the buffer stock facility (Decision No. 2772-(69/47), June 25, 1969, as amended),⁸ and holdings resulting from all purchases under the facility, shall be excluded pursuant to Article XXX(c)(ii) for the purpose of the definition of "reserve tranche purchase."

Decision No. 5591-(77/163)

December 5, 1977, effective April 1, 1978

*(c) Transfer of Special Drawing Rights Held in the
General Resources Account to Participants
to Promote Reconstitution*

1. Pursuant to Article V, Section 3(f), the Fund agrees that a participant that requests a purchase under Article V, Section 3, may obtain SDRs in that purchase from the General Resources Account to promote reconstitution under Article XIX, Section 6(a) and Schedule G, paragraph 1(a). The maximum amount of SDRs that may be obtained in this way shall be the sum of (i) the largest single amount most recently notified to the participant under Rule R-3 or calculated for acquisition in the final month of a reconstitution period, taking into account the proposed date of acquisition, (ii) the total amount of any charges to be paid in SDRs to the General Resources Account prior to the next calculation under Rule R-2, and (iii) obligations under Schedule B, paragraphs 1 and 2 that must be discharged in SDRs by the participant prior to the next calculation under Rule R-2. This maximum amount will be reduced by any net acquisition of SDRs other than by way of allocation subsequent to the date of the calculation.

2. Pursuant to Article V, Section 6(b) and 6(c), the Fund shall provide a participant, at its request, with SDRs from the General Resources Account for an equivalent amount of the currencies of other members selected by the Managing Director from the currencies in the operational budget, to promote reconstitution under Article XIX, Section 6(a) and Schedule G, paragraph 1(a), in an amount not exceeding the maximum amount defined in paragraph 1 of this decision.

Decision No. 5699-(78/38) G/S

March 22, 1978, effective April 1, 1978

(d) Media of Payment of Charges in the General Resources Account

1. A member that is unable to pay charges in SDRs because it is not a participant in the Special Drawing Rights Department and has not been prescribed as an

⁸ *Selected Decisions of the International Monetary Fund and Selected Documents* (Eighth Issue, Washington, 1976), pages 66-67.

other holder may pay all charges payable under Article V, Section 8 in the currencies of other members. Such currencies shall be selected by the Managing Director from those currencies that the Fund would receive in accordance with the operational budget in effect at the time of payment.

2. A member whose holdings of SDRs are insufficient for the payment of the total of charges due and payable by it may (a) obtain SDRs from the General Resources Account up to the amount of the balance of SDRs needed for the payment, or (b) pay the balance of the charges in the currencies of other members. The currencies for which the SDRs would be sold under (a) or that would be paid under (b) shall be selected by the Managing Director from those currencies that the Fund would receive in accordance with the operational budget in effect at the time of payment.

Decision No. 5702-(78/39) G/S
March 22, 1978, effective April 1, 1978

(e) Repurchase

1. (a) Repurchases of the outstanding amount of a member's currency that results from a purchase under the credit tranches and is subject to charges under Article V, Section 8(b), or under the decision on Compensatory Financing of Export Fluctuations (Decision No. 4912-(75/207), as amended)⁹ or the decision on The Problem of Stabilization of Prices of Primary Products (Decision No. 2772-(69/47), as amended),¹⁰ shall be completed, pursuant to Article V, Section 7(c), five years after the date of the purchase, provided that the repurchase shall be made in equal quarterly installments during the period beginning three years and ending five years after the date of the purchase unless the Fund approves a different schedule.
(b) A member that has outstanding purchases under the decision on The Problem of Stabilization of Prices of Primary Products (Decision No. 2772-(69/47), as amended) will be expected to make a repurchase at an earlier date than would be required under (a) above when, and to the extent that, the international buffer stock for the financing of which the purchase was made makes distributions in currency to the member.
2. Decisions with respect to the timing of repurchases shall be understood to permit a member to combine all repurchases to be made within a calendar month and to complete them not later than the last business day of the month, provided however that the maximum period for use of the Fund's resources according to the policy under which a repurchase is to be made shall not be exceeded.
3. If a member that has an outstanding obligation to pay gold in repurchase has made an equivalent repurchase with special drawing rights in discharge of a commitment the member shall be regarded as having discharged its obligation in accordance with Schedule B, paragraph 2.
4. If a member that has an outstanding obligation to pay gold in repurchase has made an equivalent repurchase with currencies of other members in discharge of a commitment, the member shall be regarded as having discharged its obligation in accordance with Schedule B, paragraph 2, provided that if the currencies paid are not acceptable in repurchase as of the date of the Second Amendment, the member shall substitute an equivalent amount of the currencies of other members specified by the Fund in accordance with Article V, Section 7(i).
5. If a member that has an outstanding obligation to pay gold in repurchase has not made an equivalent repurchase with special drawing rights or with the

⁹ *Selected Decisions of the International Monetary Fund and Selected Documents* (Eighth Issue, Washington, 1976), pages 62-66.

¹⁰ *Ibid.*, pages 66-67.

currencies of other members in discharge of a commitment, within two months after the date of the Second Amendment of the Articles of Agreement the member shall make a repurchase equivalent to the outstanding obligation in gold with special drawing rights or, at its option, with the currencies of other members specified by the Fund in accordance with Article V, Section 7(i). The repurchase shall be regarded as a discharge of the member's obligation in accordance with Schedule B, paragraph 2.

6. The dates for the payment of special drawing rights or currencies of other members in discharge of any obligation to pay gold to the Fund in repurchase, and for any substitution under paragraph 5 above, after the date of the Second Amendment of the Articles of Agreement shall be determined in accordance with Schedule B, paragraph 1.
7. Repurchase under Schedule B, paragraph 4 shall be completed four years after the date of the Second Amendment of the Articles of Agreement. If the Fund's holding of a member's currency that are subject to paragraph 4(ii) are in excess of 10 per cent of the member's quota on the date of the Second Amendment, the member shall be requested to agree to make the repurchase in four equal installments beginning not later than one year after that date.

Decision No. 5703-(78/39)

March 22, 1978, effective April 1, 1978

(f) Early Repurchases

1. In applying the first sentence of Article V, Section 7(b) of the Second Amendment the Fund will be guided by the Summary of Guidelines attached to this decision.
2. This decision will be reviewed after one year from the date of its adoption.

Summary of Guidelines

The following paragraphs are intended to provide members with the assurance that if they repurchase the amount indicated by the agreed guidelines they will be meeting the expectation of Article V, Section 7(b). These guidelines would need to be reviewed from time to time in the light of experience.

a. A member's balance of payments and reserve position would normally be deemed to have improved sufficiently for repurchases to be expected under Article V, Section 7(b), if the member's position is judged sufficiently strong in the context of a quarterly designation plan and currency budget. However, a member that makes a purchase in the credit tranches or under a special facility would not be expected to make repurchases under Article V, Section 7(b) until the quarter following the second full quarter after its purchase, provided that at that time its balance of payments and reserve position was judged sufficiently strong.

b. During the quarter following the decisions on the designation plan and currency budget, it would be expected that the member's outstanding purchases would be reduced by a specified amount, either by repurchases or by sales of the member's currency, or by some combination of the two. The method employed would be at the option of the member.

c. Subject to paragraphs d and e below, the specified amount for the expected quarterly repurchase would be 1.5 per cent of the member's latest gross reserves plus (minus) 5 per cent of the increase (decrease) in gross reserves over the latest six-month period for which data are available. The quarterly amount would be subject to a limit of 4 per cent of a member's latest gross reserves, and the amount of a quarterly repurchase would be limited to an amount that would not

reduce the member's latest gross reserves below 250 per cent of the member's quota.

d. The specified amount would represent the minimum reduction in the Fund's holdings of the member's currency expected during the quarter. Repurchases under Article V, Section 7(c) and (d), and Schedule B, and sales of the member's currency, would count toward meeting that minimum. If the minimum is exceeded in one quarter, the excess amount shall be deducted from expected repurchases in the subsequent quarter or quarters.

e. If, during the six months prior to the date when a member is added to the list of those members whose positions are considered sufficiently strong, a member makes repurchases in amounts in excess of amounts it was obliged or expected to make during those six months, these excess amounts shall be deducted from expected repurchases in the subsequent quarter or quarters.

f. If a member opted to have its currency sold, the specified amount (less any other expected reductions in the Fund's holdings) would also serve as the amount of the currency the Fund might sell in the quarter under Article V, Section 3(d). If the Fund did not sell the currency in the specified amount before the end of the second month of the quarter, the member would be expected to repurchase any balance remaining before the end of the quarter.

Decision No. 5704-(78/39)
March 22, 1978, effective April 1, 1978

*(g) Attribution of Reductions in Fund's Holdings of Currencies*¹¹

A member shall be free to attribute a reduction in the Fund's holdings of its currency to any of its obligations to repurchase.

Decision No. 5705-(78/39)
March 22, 1978

(h) Notification of Exchange Arrangements
Under Article IV, Section 2

1. The procedure set forth in Section 2 of SM/78/81 [attached] for the initial notification within 30 days after the date of the Second Amendment by each member of the exchange arrangements it intends to apply is approved.

2. The procedures set forth in Section IV of SM/77/277 [attached] are approved, and members shall be guided by the considerations in Section IV with respect to the prompt notification of any changes in their exchange arrangements.

3. This decision shall be subject to review not later than one year after its adoption.

Decision No. 5712-(78/41)
March 23, 1978

Attachments

Section 2 of SM/78/81

2. In accordance with these instructions a description of the exchange arrangements, as understood by the Fund staff, of each member country and nonmetropolitan territory, has been forwarded to the authorities of the respective member countries for comment and review. Copies of these descriptions and the covering letters were forwarded to the Executive Directors. Replies now being received from members indicate, in general, that the descriptions of exchange arrangements provided by the staff seem to have been of assistance in regard to their obligations

¹¹ Not applicable to the very small changes in holdings resulting from net administrative expenditures, which will continue to be applied to the last maturing commitment.

under Section 2 of the amended Article IV. In light of this experience, it is proposed that the procedure, described as the "third approach" in SM/77/277, for the initial notification of exchange arrangements required by Article IV, Section 2(a) of the Second Amendment should be adopted. In implementing this procedure at the time of the Second Amendment, the Fund would communicate with members along the lines of the attachment to SM/77/277, which for convenience is attached to the Supplement.

Section IV of SM/77/277

IV. Issues Connected with Subsequent Notification

Once the procedures for initial notifications have been clarified, only a few issues remain to be dealt with in respect of subsequent notifications. One of these is the question of what would constitute a change in an exchange arrangement requiring notification. Clearly, any official action involving the adoption of a different type of arrangement would require notification. Furthermore, in cases where a member pegs its currency, it would be appropriate to notify the Fund of all changes in the peg; this would include not only every change in the central point around which a member was maintaining margins, but also those involving a change in the composition of a composite, other than one occurring from a redistribution of currency weights on the basis of newly available trade or payments data.

For members with flexible exchange arrangements, it is more difficult to specify changes which will require notification to the Fund. For members classified as fixing the rate according to a set of indicators, it would seem an appropriate rule that they communicate to the Fund details of any discrete exchange rate changes that are not consistent with the changes produced by the set of indicators. It would also be expected, if the suggested approach outlined earlier in this paper is accepted, that all members maintaining flexible exchange arrangements be asked to notify the Fund whenever the authorities have taken a significant decision affecting such arrangements. This would involve, as a minimum, notification of such decisions whenever public policy statements have been issued. In addition, in any instance in which the Managing Director considered that a significant change had occurred in a member's exchange policy (including intervention arrangements), and no notification has been received from that member, he would consult with the member to request information on the background to such developments. If considered appropriate, a formal notification of the change would be sought from the member.

Members would be expected to inform the Fund of all actions involving exchange taxes and subsidies. Indeed, under Article VIII, Section 3, members will continue to be required to request prior Fund approval of any multiple currency practices that may be involved in such actions.

Upon receipt of notification of a change in exchange arrangements from a member the staff would circulate it to the Executive Board. If the Board wishes, it could continue to be the normal practice that whenever a change is significant, its communication to the Board would be followed promptly by a staff paper describing the context of the change in policy and giving the staff's assessment.

(i) Freely Usable Currencies

Pursuant to Article XXX(f), and after consultation with the members concerned, the Fund determines that until further notice the deutsche mark, French franc, Japanese yen, pound sterling, and U.S. dollar are freely usable currencies.

*Decision No. 5719-(78/46)
March 31, 1978*

(j) Legal Aspects of Repurchase

A member shall discharge any repurchase obligation that accrued in gold before the date of the Second Amendment with special drawing rights or, at its option, with the currencies of other members specified by the Fund in accordance with Article V, Section 7(i).

Decision No. 5809-(78/88)

June 12, 1978

E. Buffer Stock Financing Facility: 1977 International Sugar Agreement

1. It is decided that, for the purposes of Decision No. 2772-(69/47), as amended,¹² a sugar buffer stock consisting of buffer stocks nationally owned but internationally controlled pursuant to the 1977 International Sugar Agreement, as established by the 1977 United Nations Sugar Conference, shall be deemed to be an international buffer stock if it otherwise meets all the criteria referred to in Decision No. 2772-(69/47), as amended.

2. The Fund, having considered the text of the International Sugar Agreement, 1977, as adopted by the United Nations Sugar Conference on October 7, 1977, recognizing the economically sound attributes of the Agreement and the price stabilization objective, finds that the terms of this Agreement relating to the special stocks of sugar to be established under the Agreement are consistent with the principles referred to in Executive Board Decision No. 2772-(69/47), as amended, including the amendment in paragraph 1 above.

3. In view of paragraph 2 above, the Fund will meet, subject to the provisions of Executive Board Decision No. 2772-(69/47), as amended, and the limits specified in paragraphs 4 and 5 below, a member's requests for purchases in connection with the financing by the member of the special stocks established in accordance with Article 46 of the International Sugar Agreement, 1977. For the purposes of this decision, any special stock in sugar established in accordance with Article 46 of the International Sugar Agreement, 1977, shall cover an amount of sugar not exceeding the quantities for which certificates of existence issued by the Government of the member have been supplied to the International Sugar Organization and in respect of which agreement has been reached between the member and the International Sugar Organization regarding on-site verifications, as provided for in Article 47 of the 1977 International Sugar Agreement. A member may make a purchase under this decision if its request is received in the Fund not later than six months after (i) the end of the period in which the member has to fulfill its obligation to establish a special stock in accordance with Article 46.5 of the International Sugar Agreement or (ii) the date on which the export quotas are lifted, if this date is earlier.

4. A request for a purchase under this decision will be met if it will not cause the total of purchases outstanding under this decision to exceed the sum of the values of the quantities of sugar placed in the special stock, with each quantity valued on the basis of the lesser of (i) the floor price and (ii) the average market price during the month in which the quantity was acquired.

5. A request for a purchase under this decision by a member that has outstanding any loans in foreign exchange for which a special stock has been used as collateral will be met if, in addition to being consistent with the limit specified in paragraph 4 above, it does not cause the total of purchases outstanding under this decision to exceed the higher of (i) the sum referred to in paragraph 4 above minus the amount of any outstanding loans in foreign exchange for which the special stock has been used as collateral and (ii) the total value of the special stock on the basis

¹² *Selected Decisions of the International Monetary Fund and Selected Documents* (Eighth Issue, Washington, 1976), pages 66-67.

of the average price during the latest calendar month before the request for a purchase under this decision minus the amount of any such loans. When requesting a purchase and while it has purchases outstanding under this decision, a member shall inform the Fund of any loans for which the special stock has been used as collateral.

6. A member that has outstanding purchases under this decision will be expected to repurchase in accordance with paragraph 1 of Decision No. [5703-(78/39)], adopted March 22, 1978¹³ and shall complete repurchase in respect of these purchases in accordance with paragraph 2(a) of the same decision. The member will be expected to make a repurchase at an earlier date

- (i) when, and to the extent that, stocks are released from the control of the International Sugar Organization, and
- (ii) when the member obtains a loan in foreign exchange for which the special stock is used as collateral, to the extent that the amount of this loan, together with the amount of purchases outstanding, exceeds the amount that the member may purchase in accordance with paragraphs 4 and 5 above.

7. The staff will keep the Executive Directors informed on the operation of the buffer stocks and other developments in connection with the International Sugar Agreement, 1977, by reports that will be made at least once a year, and the Fund may make such review of this decision as is appropriate in the light of these reports.

Decision No. 5597-(77/171)
December 16, 1977

F. Elimination of Augmentation of Rights to Purchase Under Stand-By and Extended Arrangements

The texts of stand-by and extended arrangements approved after the date of the Second Amendment, including the texts of such arrangements in connection with the Supplementary Financing Facility, shall not provide for the augmentation of rights to make purchases under the arrangements.

Decision No. 5706-(78/39)
March 22, 1978

G. The Special Drawing Right

(a) Method of Valuation

1. Effective July 1, 1978, the value of one special drawing right shall be the sum of the values of specified amounts of the currencies listed in 2 below, the amounts of these currencies to be determined on June 30, 1978 in a manner that will ensure that, at the average exchange rates for the three-month period ending on that date, the shares of the currencies in the value of the special drawing right correspond to the weights specified for each currency in 2 below.

¹³ See pages 124-25.

2. The currencies and the weights referred to in 1 above shall be as follows:

U.S. dollar	33
Deutsche mark	12½
Japanese yen	7½
French franc	7½
Pound sterling	7½
Italian lira	5
Netherlands guilder	5
Canadian dollar	5
Belgian franc	4
Saudi Arabian riyal	3
Swedish krona	2
Iranian rial	2
Australian dollar	1½
Spanish peseta	1½
Norwegian krone	1½
Austrian schilling	1½

3. The list of the currencies that determine the value of the special drawing right, and the amounts of these currencies, shall be revised with effect on July 1, 1983 and on the first day of each subsequent period of five years in accordance with the following formula, unless the Fund decides otherwise in connection with a revision:

- (a) The currencies determining the value of the special drawing right shall be the currencies of the 16 members whose exports of goods and services during the five-year period ending 18 months before the effective date of the revision had the largest value, provided that a currency shall not replace another currency included in the list at the time of the determination unless the value of the exports of goods and services of the issuer of the former currency during the relevant period exceeds that of the issuer of the latter currency by at least 1 per cent.
- (b) The amounts of the 16 currencies referred to in (a) above shall be determined on the last working day preceding the effective date of the relevant revision in a manner that will ensure that, at the average exchange rates for the three-month period ending on that date, the shares of these currencies in the value of the special drawing right correspond to percentage weights for these currencies, which shall be established for each currency in the proportion that the sum of the value of the balances of that currency held by the monetary authorities of other members and the value of the exports of goods and services of the issuer of the currency bears to the total sum of the same values for all 16 currencies during the relevant period, rounded to the nearest ½ of 1 per cent.

4. The determination of the amounts of the currencies in accordance with 1 and 3 above shall be made in a manner that will ensure that the value of the special drawing right in terms of currencies on the last working day preceding the five-year period for which the determination is made will be the same under the valuation in effect before and after revision.

Decision No. 5718-(78/46) G/S
March 31, 1978

(b) Valuation

Effective July 1, 1978, Rule O-1 shall read as follows:

Valuation of the Special Drawing Right

The value of the special drawing right shall be the sum of the values of the following amounts of the following currencies:

U.S. dollar	0.40
Deutsche mark	0.32
Japanese yen	21
French franc	0.42
Pound sterling	0.050
Italian lira	52
Netherlands guilder	0.14
Canadian dollar	0.070
Belgian franc	1.6
Saudi Arabian riyal	0.13
Swedish krona	0.11
Iranian rial	1.7
Australian dollar	0.017
Spanish peseta	1.5
Norwegian krone	0.10
Austrian schilling	0.28

Decision No. 5847-(78/100) G/S
June 30, 1978

H. Trust Fund*(a) Review of Instrument and List of Eligible Members*

In accordance with paragraph 3 of Executive Board Decision No. 5069-(76/72),¹⁴ adopted May 5, 1976, the Fund has reviewed the Instrument to Establish the Trust Fund ("the Instrument") and the list of eligible members in Annex A to the Instrument and decides to modify the Instrument as follows:

1. Section II, Paragraph 2 shall read:

"(a) Eligible members for the first period in Paragraph 1 of this Section shall be those members of the Fund that are listed in Annex A.

(b) Eligible members for the second period in Paragraph 1 of this Section shall be those members of the Fund that are listed in Annex B.

(c) An eligible member shall qualify for assistance if it satisfies the condition of Paragraph 3 of this Section."

2. In Section II, Paragraph 3(c)(i) the word "predominantly" is changed to "partly" and "... December 1, 1977" is changed to "... June 1, 1978."

3. "Annex B" attached to Executive Board Decision No. 5563-(77/150) TR, adopted October 28, 1977, shall be attached to the Instrument as "Annex B."

Decision No. 5563-(77/150) TR
October 28, 1977

¹⁴See *Annual Report, 1976*, pages 111-17.

*Annex B**Trust Fund: List of Eligible Countries
for the Second Period*

1. Afghanistan	31. Madagascar
2. Bangladesh	32. Malawi
3. Benin	33. Mali
4. Bolivia	34. Mauritania
5. Botswana	35. Morocco
6. Burma	36. Nepal
7. Burundi	37. Niger
8. Cameroon	38. Nigeria
9. Central African Empire	39. Pakistan
10. Chad	40. Papua New Guinea
11. Congo, People's Republic of the	41. Philippines
12. Egypt	42. Rwanda
13. El Salvador	43. Senegal
14. Equatorial Guinea	44. Sierra Leone
15. Ethiopia	45. Somalia
16. Gambia, The	46. Sri Lanka
17. Ghana	47. Sudan
18. Grenada	48. Swaziland
19. Guinea	49. Tanzania
20. Haiti	50. Thailand
21. Honduras	51. Togo
22. India	52. Uganda
23. Indonesia	53. Upper Volta
24. Ivory Coast	54. Viet Nam
25. Jordan	55. Western Samoa
26. Kampuchea, Democratic	56. Yemen Arab Republic
27. Kenya	57. Yemen, People's Democratic Republic of
28. Lao People's Democratic Republic	
29. Lesotho	58. Zaïre
30. Liberia	59. Zambia

(b) Diversification of Investments

1. The Fund, recognizing that the SDR is the unit of account in which the assets of the Trust established by Decision No. 5069-(76/72),¹⁵ adopted May 5, 1976, are valued, concludes that it would be desirable to maintain, in a manner compatible with the operational needs of the Trust, the currency assets of the Trust, other than those that need to be distributed directly to developing countries in proportion to their quotas on August 31, 1975, in assets denominated in SDRs or in a combination of currencies that would, to the maximum extent practicable, correspond to the composition of the SDR basket.

2. The Managing Director is authorized to place in deposits with the Bank for International Settlements, denominated in SDRs, the profits from gold sales realized in the period from July 1 to September 30, 1978, with the exception of the portion of these profits that must be distributed directly to developing countries in proportion to their quotas on August 31, 1975.

3. If, on the occasion of an intended deposit with the Bank for International Settlements during the period referred to in 2 above, the Managing Director finds that the interest rate offered by the Bank for International Settlements on this SDR-denominated deposit is not sufficiently attractive, the Managing Director shall invest the currency assets involved and the currency assets accruing from any subsequent

¹⁵ See *Annual Report, 1976*, pages 111-17.

gold sales prior to September 30, 1978 in U.S. Government securities, and will inform the Executive Board of his action.

4. The Executive Board will review this decision not later than October 9, 1978. Before this review, the staff shall complete arrangements, to the extent feasible, with the authorities of the members whose currencies are included in the SDR basket as of July 1, 1978 and that issue obligations in their currencies that the Trust could hold, for the purpose of making possible the placing of investments in domestic currency with them in the proportions corresponding approximately to their share in the SDR basket.

5. The staff shall also inform the Board, as frequently as practicable, but, in any event, not less than once a month during the period July 1 to September 30, 1978, of the approximate yield of an investment of various maturities composed of individual investments in as many as feasible of the 16 currencies that compose the SDR basket.

*Decision No. 5812-(78/90) TR
June 16, 1978*

I. Subsidy Account: Annual Review and Rate of Payment for Financial Year 1978

1. For the financial year ended April 30, 1978, a subsidy shall be paid to each member listed in Table 1 of EBS/77/164 at the rate of 5 per cent per annum on the average daily balances of the currency of the member held by the Fund that are outstanding under Executive Board Decision No. 4634-(75/47)¹⁶ during the year and subject to charges. The precise amounts to be disbursed will be advised to the Executive Board when they are calculated in early May 1978.

2. The payment shall be made in U.S. dollars on May 31, 1978 based on the U.S. dollar/SDR exchange rate determined three working days prior to payment.

3. No charge shall be levied for the services rendered by the Fund in the administration and operation of the Subsidy Account for the financial year ended April 30, 1978.

4. The Managing Director is authorized to send [a] letter to donors requesting their views on the addition to the members listed in Table 1 of EBS/77/164 of [names of members] and on the proposed distribution of any surplus in the Subsidy Account to these countries after the present beneficiaries have received a subsidy of 5 per cent per annum on all balances subject to charges.

5. After the supplementary review provided for in paragraph 4 above, the next review of Executive Board Decision No. 4773-(75/136)¹⁷ shall be conducted in May 1979.

*Decision No. 5726-(78/59) SA
April 17, 1978*

J. Gold Auctions: Noncompetitive Bids

1. Introduction

The Fund will entertain noncompetitive bids by members that informed the Fund by May 22, 1978 that they wish to have the option described in Section 1 of the Summary of Conclusions on Gold Auctions and Restitution (EBS/76/198, Rev. 1, 5/6/76). Until further notice, the terms and conditions set out in the following paragraphs shall apply to such bids.

2. Amount and Timing of Noncompetitive Bids

A member wishing to exercise its right to submit noncompetitive bids must do so before May 31, 1979. The gold auctions are scheduled to take place on the first Wednesday of each month, and members entitled to do so may submit bids at

¹⁶ See *Annual Report, 1975*, page 94.

¹⁷ See *Annual Report, 1976*, pages 98–100.

one or more of the auctions. Each eligible member may submit bids not exceeding in total that part of 25 million ounces that corresponds to its share in total Fund quotas on August 31, 1975 plus the quota of Papua New Guinea.

3. Weight and Quality

The gold will be in bars containing between 350 and 430 fine ounces of gold each and is said to be 995 in 1000 parts or better in fineness. It will be available at the depository at which gold is delivered in the auction in which the bids are submitted or, if a Fund gold depository is located in the territory of the member submitting a bid, at that gold depository.

4. Submission

Bids may be submitted by mail, cable, telegram, or telex. They must be for a number of fine troy ounces in multiples of 400 troy ounces. Bids for the total amount of the member's entitlement will be rounded up to the nearest standard bar. Bids submitted by mail must be dated and signed by the bidder; those submitted by cable, telegram, or telex must contain the usual test number. All bids must be clearly marked "Noncompetitive Bid" and must be received at the Fund in Washington by 11:00 a.m. EDT or EST, as the case may be, on the day of the auction. Bids may be withdrawn or modified only before that time.

5. Notification, Payment and Delivery

(a) The Fund will notify noncompetitive bidders promptly by cable, telegram, or telex upon completion of the auction of the average auction price. The exact amount of gold awarded and the amount due to the Fund will be communicated to the bidders promptly following the selection of bars.

(b) Payment of the amount due to the Fund must be made within seven business days after dispatch of the notification. An amount equivalent to SDR 35 an ounce shall be paid in currencies specified by the Fund, and the remainder in U.S. dollars.

(c) It is expected that the purchaser will make arrangements with the appropriate Fund gold depository to take delivery of the gold awarded within ten business days after the last date for completion of payment.

Decision No. 5779-(78/74) TR

May 19, 1978

Appendix III

Press Communiqués of the Interim Committee of the Board of Governors on the International Monetary System¹

Press Communiqué, Ninth Meeting, Washington, September 24, 1977

1. The Interim Committee of the Board of Governors of the International Monetary Fund held its ninth meeting in Washington, D. C., on September 24, 1977, under the chairmanship of Mr. Denis Healey, Chancellor of the Exchequer of the United Kingdom, who was selected by the Committee to succeed Mr. Willy De Clercq of Belgium as Chairman. Mr. H. Johannes Witteveen, Managing Director of the International Monetary Fund, participated in the meeting. The following observers attended during the Committee's discussions: Mr. G. D. Arsenis, Director, Division for Money, Finance and Development, UNCTAD; Mr. René Larre, General Manager, BIS; Mr. Emile van Lennep, Secretary-General, OECD; Mr. F. Leutwiler, President, National Bank of Switzerland; Mr. Olivier Long, Director-General, GATT; Mr. Robert S. McNamara, President, IBRD; Mr. François-Xavier Ortoli, Vice-President, CEC; Mr. Cyrus Sassanpour, Market Research Analyst, OPEC; and Mr. Cesar E. A. Virata, Chairman, Development Committee.

2. The Committee discussed the world economic outlook and the policies appropriate in the current situation.

While welcoming progress made in many countries in achieving stabilization and growth objectives, the Committee expressed concern about the faltering of economic activity during recent months in a number of industrial countries. Sluggishness in private investment demand, the Committee stated, continued to be a major feature of the current economic situation.

The Committee noted that the slower expansion of the economic activity had been accompanied by a deceleration in the growth of world trade. The impact of this on the export earnings of developing countries was a matter of concern to the Committee, which noted that these earnings had also been adversely affected by the marked declines in primary commodity prices during recent months.

The Committee paid considerable attention to the special problems that affect the economies of the developing countries. It was particularly concerned to ensure that adjustment measures by developed countries should not reduce the transfer of real resources to the developing world.

The Committee expressed concern about the persistence of high unemployment, noting that the overall rate of unemployment for the industrial countries as a group remained close to the recession peak reached in the latter part of 1975.

Although progress has been made in many countries in countering inflation, the Committee remained concerned about current rates of inflation noting that in almost all countries these were still much too high to be considered acceptable.

The Committee reaffirmed its view that tendencies toward protectionist trade policies are unacceptable from an international point of view and should be strongly resisted. In this connection, it stressed the importance it attached to the

¹ No communiqués were issued by the Development Committee during 1977/78.

successful outcome of the current Multilateral Trade Negotiations in Geneva, and to the early conclusion of agreements that would benefit all countries, in particular developing countries.

With respect to national economic policies, the Committee agreed on the following conclusions:

(a) All countries in relatively strong external positions should make every effort to ensure adequate growth of domestic demand compatible with containing inflation; this would not only be in the interest of those countries themselves, but also would help to ensure achievement of a satisfactory rate of growth in world trade, supporting and facilitating external adjustment efforts by deficit countries. The Committee expressed regret that growth of domestic demand in some of the larger industrial countries had lagged behind the targets and expectations of their authorities, and it welcomed the expansionary measures recently announced by several governments. Also, the Committee expressed the belief that, as the results of adjustment action become progressively more evident, an increasing number of countries will be able to bring their inflation and balance of payments problems under control and thus will be strong enough to make their contribution to growth of the world economy.

(b) Demand policies in countries with relatively high inflation or seriously weak external positions should place primary emphasis on combating inflation and improving the balance of payments. The Committee reaffirmed its belief that for these countries this was not only necessary in present circumstances but over time would yield the best results for growth and employment.

(c) The Committee noted the importance of structural problems in the economic situation of many countries and the need to develop appropriate energy policies.

(d) Policies in all countries should be directed as a minimum to avoiding a resurgence of inflation and in many countries to reducing inflation rates which are clearly excessive.

3. An important requirement of the international adjustment process relates to the provision of official financing to deficit countries. Such finance should be provided in sufficiently large amounts, and under appropriate conditions which take account of the specific problems of the borrowing countries, and permits adequate time for necessary adjustment.

The Committee welcomed the completion by the Executive Directors of their work on the establishment of a supplementary financing facility that will enable the Fund to expand substantially the resources it can make available to members facing payments difficulties that are large in relation to their quotas, and the adoption of the decisions of August 29, 1977 on the facility and related arrangements. The Committee noted that a number of members and official institutions have expressed their willingness to make available to the Fund resources for the financing of the facility of about SDR 8.6 billion, equivalent to approximately \$10 billion, but that the facility will not become operative until agreements have been entered into for a total amount of financing of not less than SDR 7.75 billion, including at least six agreements each of which provides for an amount not less than SDR 500 million. The Committee welcomed the prospect that some of the initial amounts made available might be increased and noted that it would be possible for other members in strong positions to make resources available to the facility. In view of the need of some members for prompt financial assistance on the scale envisaged under the new facility, the Committee urged all potential participants in the financing of the facility to complete as soon as possible the necessary action that will bring the facility into operation at the earliest date possible. At the same time, the Committee agreed to request the Executive Directors to pursue their consideration of the possibility of a subsidy, perhaps through voluntary contributions, that would be related to the charges payable by members determined by the Fund to be in difficult circumstances.

4. The Committee noted the report of the Executive Directors on the Seventh General Review of Quotas and their intention to give priority to this matter in their work after the Annual Meeting. It asked the Executive Directors to submit appropriate proposals to the Committee for its consideration, at its next meeting, together with draft recommendations to the Board of Governors.

5. The Committee reaffirmed its request to the Executive Directors to report on the question whether a further allocation of SDRs would be advisable at the present time and to report to the Committee at its first meeting in 1978.

The Committee also reaffirmed its request to the Executive Directors to review the characteristics and uses of the SDR so as to promote the purposes of the Fund, including the objective of making the SDR the principal reserve asset in the international monetary system.

6. The Committee expressed concern at the delay in the entry into force of the Proposed Second Amendment of the Fund's Articles of Agreement and in the increases in quotas under the Sixth General Review of Quotas. In this connection the Committee noted that it has been eighteen months since the Board of Governors completed its action on both these matters and that, although progress had been made in recent months, acceptances and consents from many more members will be needed to attain the required majorities. In view of the importance for members and the international monetary system of the entry into force of the Amendment and the increases in quotas, the Committee once again urged all members that have not yet accepted the Amendment or consented to the increases in their quotas, to do so at the earliest possible date.

7. The Committee agreed to hold its next meeting in Mexico on March 21, 1978.²

Press Communiqué, Tenth Meeting, Mexico City, April 30, 1978

1. The Interim Committee of the Board of Governors of the International Monetary Fund held its tenth meeting in Mexico City on April 29–30, 1978, under the chairmanship of Mr. Denis Healey, Chancellor of the Exchequer of the United Kingdom. Mr. H. Johannes Witteveen, Managing Director of the International Monetary Fund, participated in the meeting. The following observers attended during the Committee's discussions: Mr. G. D. Arsenis, Director of Money, Finance and Development, UNCTAD; Mr. René Larre, General Manager, BIS; Mr. Emile van Lennep, Secretary-General, OECD; Mr. F. Leutwiler, President, National Bank of Switzerland; Mr. François-Xavier Ortoli, Vice-President of the Commission, CEC; Mr. Gardner Patterson, Deputy Director-General, Trade Policy, GATT; Mr. Cyrus Sassanpour, Market Research Analyst, OPEC; Mr. Ernest Stern, Vice President, Operational Staff, IBRD; Mr. Cesar E. A. Virata, Chairman, Development Committee.

2. The Committee noted with satisfaction the recent entry into force of the Second Amendment of the Fund's Articles, which has brought about a modernization of the Articles and will improve the operation of the Fund in current conditions and permit its adjustment to future conditions as they develop. The Committee also welcomed the consents by the overwhelming majority of the Fund's members to the increases in their quotas as proposed under the Sixth General Review of Quotas and expressed the hope that the rest of the members will consent in the near future.

3. The Committee discussed the world economic outlook and the working of the international adjustment process.

The Committee recognized certain favorable developments. Notable among these were the progress made by a number of countries in achieving stabilization and growth objectives, a marked reduction in the surplus of the oil exporting countries, and improved access, over the last few years, by the non-oil developing countries

² This date was subsequently changed.

as a group to sources of finance for their current account deficits, even though the combined current account deficit of these countries is expected to show an increase from 1977 to 1978.

Nevertheless, the Committee noted, world economic developments over the past year or so were unsatisfactory in some important respects. In particular, the Committee expressed concern with the slow and uneven pace of recovery from the severe 1974-75 recession, the prevalence of historically high levels of unemployment, the slow growth of world trade, the continuation of high rates of inflation in many countries, the maldistribution of current account balances, and instability of exchange rates among the industrial countries. The Committee emphasized the need to assure better economic performances, especially in the industrial countries, and an improved environment for the adjustment of external trade and payments positions.

The Committee noted with concern the risk of increasing resort to protectionist action of all kinds in the wake of slow growth, low capacity utilization, and high unemployment. It was agreed that determined and broadly conceived national and international efforts, directed at the underlying causes as well as at specific protectionist measures, were urgently needed to arrest this drift toward protectionism and to reduce trade barriers. The successful completion of the Multilateral Trade Negotiations that are now well under way would do much to stop this development.

Considerable attention was given by the Committee to the special problems of the developing countries, including the need to accelerate their rates of growth as a continuing objective and a common responsibility of the international community. The vulnerability of their economies to slow growth of markets in the industrial world or to reduced access to such markets was a source of widespread concern, and the Committee stressed the desirability of measures on the part of the developed countries to assure continued expansion on an adequate scale of the flow of real resources to developing countries, which would help to promote the adjustment process.

In the course of the Committee's discussion, a consensus was reached on the general outlines of a coordinated strategy, containing mutually supportive and reinforcing elements, designed to promote noninflationary growth of the world economy, leading to higher employment, a reduction of imbalances in international payments, and the conservation of energy. The Committee emphasized that the implementation of this strategy—geared to the medium-term, through 1980—should take due account of the wide differences in current positions of individual countries. It suggested that, among countries in the industrial world, growth policies should be related to the success achieved in reducing inflation, the strength of the external position, and the degree of current and prospective economic slack.

In view of the risk of reviving inflationary pressures, the Committee noted the utility of policies appropriate to counter the predominance of cost-push factors in the current inflation. The Committee also suggested that for those countries with strong cost-push factors fiscal stimulus provided through tax reductions might often be more appropriate than equivalent stimulus applied through increases in domestic government spending unless such spending is investment-oriented.

The Committee was convinced that the general strategy envisioned would yield a more satisfactory rate of economic expansion for the industrial and developing countries and the world economy generally, within a pattern of differentiated growth rates among countries, which would reduce external payments imbalances. The improvement in basic underlying conditions would in this way contribute to greater stability of exchange markets, which is extremely important for the health of the world economy. Greater stability in these circumstances would help to achieve the higher growth rates desired and to improve the prospects of the developing countries.

4. The Second Amendment has brought into effect the provisions of a new Article IV which stresses the objective of a "continuing development of the orderly underlying conditions that are necessary for financial and economic stability" and makes it an obligation of each member "to collaborate with the Fund and other members to assure orderly exchange arrangements and to promote a stable system of exchange rates." In accordance with Article IV, the principles for surveillance shall respect the domestic social and political policies of members, and in applying these principles the Fund shall pay due regard to the circumstances of members. The principles and procedures for surveillance over exchange rate policies endorsed by the Interim Committee and approved by the Executive Board in April 1977 have gone into operation under the Second Amendment. The Committee noted with approval that the Fund has recently adapted its consultation procedures and practices to take account of surveillance, and that particular attention will be focused on those cases in which there are questions as to whether the exchange rate policies of members are consistent with the agreed exchange rate principles. The Fund has always concerned itself with situations in which the value of a currency is not compatible with the smooth working of the adjustment process, or where disorderly conditions exist in exchange markets. The Committee noted that the Fund now has both the obligation and the means through surveillance to make a greater contribution than before to the effective working of the exchange rate system. In this context, some members asked that the Executive Board should consider whether the Council should be brought into being under the Second Amendment as a decision-making organ. Some members of the Committee do not favor bringing the Council into existence because it would not contribute to the working of the international monetary system under the Second Amendment. The Committee received suggestions for the strengthening of surveillance, including the provision of more information by both surplus and deficit countries to assure the efficient working of the surveillance process.

5. The Committee noted the report of the Executive Board on improving the characteristics and broadening the uses of the SDR under the powers of the Second Amendment and on the question of an allocation of SDRs.

The Committee agreed that in present circumstances the interest rate on the SDR should be increased from 60 per cent to no more than 80 per cent of the weighted average of short-term interest rates in the five member countries with the largest quotas, and asked the Executive Board to agree on a satisfactory formula for the rate of remuneration on this basis. Some members could support an increase in the interest rate only on the condition that an allocation of SDRs would be made.

The Committee requested the Executive Board to pursue its work with regard to additional types of uses of SDRs that might be permitted by the Fund in accordance with the provisions of the amended Articles, and to report to the Interim Committee on these matters at its next meeting. Some members favored the abolition of reconstitution and requested the Executive Board to review the rules for designation and reconstitution under the amended Articles.

A large number of members supported an allocation of SDRs; some of these believed that the present state of world liquidity was not such as to justify more than a modest allocation. Some members suggested that a proportion of quota increases should be paid by members in SDRs.

The Committee agreed to request the Executive Board to pursue its work on all these aspects of an allocation of SDRs and to submit appropriate proposals, together with draft recommendations, for consideration by the Committee at its next meeting.

The Committee also considered the suggestion of the Managing Director that an allocation of SDRs could be combined with a reduction in the amount of reserve currency outstanding through a Substitution Account administered by the Fund. Some members believe that agreement on a Substitution Account would facilitate

an allocation of SDRs. The Committee agreed that this suggestion of the Managing Director should be considered further and that a report should be submitted by the Executive Board for consideration by the Committee at its next meeting.

6. The Committee noted the report of the Executive Board on the Seventh General Review of Quotas and considered the issues involved. Recalling that the Board of Governors in its Resolution No. 31-2 decided that the Seventh Review of Quotas should be completed by February 9, 1978, the Committee expressed concern at the delay in completing the Review. The Committee reaffirmed its view that there was a need for an increase in total quotas under the Seventh Review that would be adequate to meet the expected need for conditional liquidity over the next five years and that would strengthen the available sources of balance of payments financing by enhancing the ability of the Fund to provide such financing without heavy recourse to borrowing and by furthering the process of international adjustment. Most members of the Committee were of the view that an increase of the order of at least 50 per cent of the quotas approved under the Sixth General Review would be appropriate in view of the present and prospective circumstances of the international economy. Most members of the Committee agreed that the Seventh Review should be mainly equiproportional, with at most a very small number of selective quota increases, in which case most members felt that the quota share of no developing country should be decreased except for one or two members whose quotas would remain unchanged.

Some members suggested a limited increase in the first credit tranche if quota increases were more than a modest amount, but other members considered that the first credit tranche should be enlarged if the increases were not more than a modest amount.

The Committee asked the Executive Board to give priority to these matters in its work in the coming months and to submit to the Board of Governors appropriate proposals, together with draft recommendations, for consideration by the Interim Committee at the time of the next Annual Meeting of the Board of Governors.

Several members asked that the criteria for quota increases should be reconsidered after the Seventh General Review.

7. The Committee expressed its concern at the long delay in bringing into operation the supplementary financing facility, the establishment of which was decided upon more than six months ago. In view of the need of a number of members for prompt financial assistance on the scale envisaged by the supplementary financing facility, the Committee urged that all necessary steps be taken for bringing the facility into operation at the earliest possible date. In this connection, Committee members from developing countries asked the Executive Board to review the conditionality attaching to the facility and also to drawings under regular credit tranches, and called again for an examination, as early as possible, of the establishment of a subsidy related to the rates of charges that would be payable by low-income countries. The Committee welcomed the intention of Nigeria and Guatemala to contribute to the financing of the facility SDR 220 million and SDR 30 million, respectively, and the intention of Venezuela to increase its contribution from SDR 450 million to SDR 500 million. As a result, the total financing of the facility will be approximately SDR 8.75 billion (about US\$11 billion), as follows (expressed in millions of SDRs):

Abu Dhabi	150
Belgium	150
Canada	200
Federal Republic of Germany	1,050
Guatemala	30
Iran	685
Japan	900

Kuwait	400
Netherlands	100
Nigeria	220
Qatar	100
Saudi Arabia	2,150
Swiss National Bank	650
United States	1,450
Venezuela	500

8. The members of the Committee, noting that Mr. Witteveen is about to relinquish his position as Managing Director of the Fund, expressed on their own behalf and on behalf of their constituencies their deep appreciation and gratitude for the superb manner in which he has discharged the responsibilities of his office in difficult circumstances. The members of the Committee also took the opportunity to congratulate Mr. Jacques de Larosière on his designation as Mr. Witteveen's successor and wished him success in his important and difficult task in the years ahead.

9. The members and associates of the Interim Committee expressed deep appreciation for the welcome and hospitality extended to them in Mexico and thanked the Government of Mexico for the outstanding facilities provided for the tenth meeting of the Committee.

10. The Committee agreed to hold its next meeting in Washington, D.C., on September 24, 1978.

Appendix IV

Executive Directors and Voting Power

on June 30, 1978¹

Director Alternate	Casting Votes of	Votes by Country	General Department		Special Drawing Rights Department	
			Total votes ²	Per cent of Fund total ³	Total votes ²	Per cent of Fund total ³
APPOINTED						
Sam Y. Cross <i>Thomas Leddy</i>	United States	84,300	84,300	20.00	84,300	20.66
William S. Ryrie <i>Pendarell Kent</i>	United Kingdom	29,500	29,500	7.00	29,500	7.23
Eckard Pieske <i>Gerhard Laske</i>	Germany, Fed. Rep. of	21,810	21,810	5.17	21,810	5.35
Jacques Henri Wahl <i>Denis Samuel-Lajeunesse</i>	France	19,440	19,440	4.61	19,440	4.76
Masanao Matsunaga <i>Rei Masunaga</i>	Japan	16,840	16,840	3.99	16,840	4.13
ELECTED						
Muhammad Al-Atrash (Syrian Arab Republic) <i>Kadhim A. Al-Eyd (Iraq)</i>	Bahrain Egypt Iraq Jordan *Kuwait *Lebanon *Libya Pakistan Qatar *Saudi Arabia Somalia Syrian Arab Rep. *United Arab Emirates Yemen Arab Rep.	450 2,530 1,340 480 2,600 370 2,100 3,100 650 6,250 480 750 1,450 380			22,930	5.44
					10,160	2.49
Lamberto Dini (Italy) <i>Eduardo O. de Toledo (Spain)</i>	Italy Malta Portugal Spain	12,650 450 1,970 5,820	20,890	4.96	20,890	5.12
H.O. Ruding (Netherlands) <i>Tom de Vries (Netherlands)</i>	Cyprus Israel Netherlands Romania Yugoslavia	590 2,300 9,730 2,700 3,020	18,340	4.35	18,340	4.49
Bernard J. Drabble (Canada) <i>Donal Lynch (Ireland)</i>	Bahamas Barbados Canada Grenada Ireland Jamaica	580 420 13,820 280 1,800 990	17,890	4.24	17,890	4.38

APPENDIX IV (continued). EXECUTIVE DIRECTORS AND VOTING POWER

Director Alternate	Casting Votes of	Votes by Country	General Department		Special Drawing Rights Department	
			Total votes ²	Per cent of Fund total ³	Total votes ²	Per cent of Fund total ³
ELECTED (continued)						
Jahangir Amuzegar (Iran) <i>Costa P. Caranicas (Greece)</i>	Afghanistan Algeria Ghana Greece Iran Morocco Oman Tunisia Yemen, People's Dem. Rep. of	700 3,100 1,310 2,100 6,850 1,750 320 880 <u>660</u>	17,670	4.19	17,670	4.33
Byanti Kharmawan (Indonesia) <i>Kiat Chong Ng (Singapore)</i>	Burma Fiji Indonesia Korea Lao People's Dem. Rep. Malaysia Nepal *Singapore Thailand Viet Nam	980 430 5,050 1,850 410 2,780 440 740 2,060 <u>1,150</u>	15,890	3.77	15,150	3.71
Eduardo Mayobre (Venezuela) <i>Néstor O. Caldera (Nicaragua)</i>	Costa Rica El Salvador Guatemala Honduras Mexico Nicaragua Venezuela	660 680 760 590 5,600 590 <u>6,850</u>	15,730	3.73	15,730	3.85
Jacques de Groote (Belgium) <i>Heinrich G. Schneider (Austria)</i>	Austria Belgium Luxembourg Turkey	3,550 9,150 560 <u>2,250</u>	15,510	3.68	15,510	3.80
S.D. Deshmukh (India) <i>Warnasena Rasaputram (Sri Lanka)</i>	Bangladesh India Sri Lanka	1,770 11,700 <u>1,440</u>	14,910	3.54	14,910	3.65
Frede Hollensen (Denmark) <i>Matti Vanhala (Finland)</i>	Denmark Finland Iceland Norway Sweden	3,350 2,870 540 3,200 <u>4,750</u>	14,710	3.49	14,710	3.61
Alexandre Kafka (Brazil) <i>T. Ainsworth Harewood (Trinidad and Tobago)</i>	Brazil Colombia Dominican Republic Guyana Haiti Panama Peru Trinidad and Tobago	6,900 2,180 800 500 480 700 1,890 <u>1,070</u>	14,520	3.44	14,520	3.56
Wila D. Mung'omba (Zambia) <i>Festus G. Mogae (Botswana)</i>	Botswana Burundi Ethiopia Gambia, The Guinea Kenya Lesotho Liberia Malawi Nigeria Sierra Leone Sudan Swaziland Tanzania Uganda Zambia	340 480 610 340 550 940 320 620 440 3,850 560 1,130 370 800 750 <u>1,660</u>	13,760	3.26	13,760	3.37

APPENDIX IV (concluded). EXECUTIVE DIRECTORS AND VOTING POWER

Director Alternate	Casting Votes of	Votes by Country	General Department		Special Drawing Rights Department	
			Total votes ²	Per cent of Fund total ³	Total votes ²	Per cent of Fund total ³
ELECTED (concluded)						
R.J. Whitelaw (Australia) Ernest Leung (Philippines)	Australia New Zealand Papua New Guinea Philippines Western Samoa	6,900 2,570 550 2,350 280	12,650	3.00	12,650	3.10
Dante Simone (Argentina) Francisco Garcés (Chile)	Argentina Bolivia Chile Ecuador Paraguay Uruguay	5,600 700 2,420 950 480 1,090	11,240	2.67	11,240	2.75
Samuel Nana-Sinkam (Cameroon) Abderrahmane Alfidja (Niger)	Benin Cameroon Central African Empire Chad Congo, People's Rep. of the Equatorial Guinea Gabon Ivory Coast Madagascar Mali Mauritania Mauritius Niger Rwanda Senegal Togo Upper Volta Zaire	410 700 410 410 420 330 550 1,010 590 520 380 520 410 480 670 440 410 1,770	10,430	2.47	10,430	2.56
			408,960 ⁴	97.00 ³	395,450 ⁴	96.90 ³

* Not a participant in the Special Drawing Rights Department.

¹ In previous Annual Reports the table of Executive Directors and Voting Power has been shown as of April 30, the end of the financial year. Owing to the increases in quotas by members during the period immediately following April 1, 1978, the date of this table has been moved to June 30. As of that date several members had not yet completed the requirements for increasing their quotas. (See Table I.17, page 110.)

² Voting power varies on certain matters pertaining to the General Department with use of the Fund's resources in that Department. In voting on matters relating exclusively to the Special Drawing Rights Department, only the number of votes allotted to members which are participants may be cast.

³ Percentages of total votes of members in the General Department (421,554) and total votes of participants in the Special Drawing Rights Department (408,044), respectively. The sum of the individual percentages may differ from the percentages of the totals because of rounding.

⁴ This total does not include the votes of China, the Comoros, Democratic Kampuchea, and South Africa, which did not participate in the 1976 Regular Election of Executive Directors, and of Guinea-Bissau, Maldives, São Tomé and Príncipe, Seychelles, and Suriname, which became members after that election. The combined votes of these members total 12,594 votes—2.98 per cent of those in the General Department and 3.08 per cent of those in the Special Drawing Rights Department, respectively.

Appendix V

Changes in Membership of Executive Board

Changes in the membership of the Executive Board between May 1, 1977 and April 30, 1978 were as follows:

Mohamed Finaish (Libya) resigned as Alternate Executive Director to Muhammad Al-Atrash (Syrian Arab Republic), effective May 23, 1977.

Kadhim A. Al-Eyd (Iraq) was appointed Alternate Executive Director to Muhammad Al-Atrash (Syrian Arab Republic), effective May 24, 1977.

S.D. Deshmukh (India) was elected Executive Director by Bangladesh, India, and Sri Lanka, succeeding M. G. Kaul (India), effective June 3, 1977.

Warnasena Rasaputram (Sri Lanka), formerly Alternate Executive Director to M.G. Kaul (India), was appointed Alternate Executive Director to S.D. Deshmukh (India), effective June 3, 1977.

Jean Foglizzo (France) resigned as Alternate Executive Director to Jacques Henri Wahl (France), effective August 31, 1977.

Denis Samuel-Lajeunesse (France) was appointed Alternate Executive Director to Jacques Henri Wahl (France), effective September 1, 1977.

Roberto Guarnieri (Venezuela) resigned as Executive Director for Costa Rica, El Salvador, Guatemala, Honduras, Mexico, Nicaragua, and Venezuela, effective October 31, 1977.

Victor Alipui (Togo) resigned as Alternate Executive Director to Samuel Nana-Sinkam (Cameroon), effective October 31, 1977.

Alfredo Crespo (Ecuador) resigned as Alternate Executive Director to Dante Simone (Argentina), effective October 31, 1977.

Eduardo Mayobre (Venezuela) was elected Executive Director by Costa Rica, El Salvador, Guatemala, Honduras, Mexico, Nicaragua, and Venezuela, effective November 1, 1977.

Néstor O. Caldera (Nicaragua), formerly Alternate Executive Director to Roberto Guarnieri (Venezuela), was appointed Alternate Executive Director to Eduardo Mayobre (Venezuela), effective November 1, 1977.

Francisco Garcés (Chile) was appointed Alternate Executive Director to Dante Simone (Argentina), effective November 1, 1977.

Winston Temple-Seminario (Peru) resigned as Alternate Executive Director to Alexandre Kafka (Brazil), effective December 31, 1977.

T. Ainsworth Harewood (Trinidad and Tobago) was appointed Alternate Executive Director to Alexandre Kafka (Brazil), effective January 1, 1978.

Abderrahmane Alfidja (Niger) was appointed Alternate Executive Director to Samuel Nana-Sinkam (Cameroon), effective January 3, 1978.

APPENDIX V (concluded). CHANGES IN MEMBERSHIP OF EXECUTIVE BOARD

The following served at certain times during 1977/78 as Temporary Alternate Executive Directors to the Executive Directors indicated:

Temporary Alternate Executive Director

Miguel J. Acevedo (Mexico)
 Tengku Khatijah Ahmad (Malaysia)
 Kadhim A. Al-Eyd (Iraq)
 Valery D. Amiel (Israel)
 Eimar Avillez (Brazil)
 Tomás J.T. Baliño (Argentina)
 Dominique Berthet (France)
 Jean-Marc Bisson (Canada)
 Inga Björk-Klevby (Sweden)
 Christian Bouchard (Gabon)
 Ian M. Cobbold (United Kingdom)
 Juan-María Cock-Londoño (Colombia)
 Roger De Beckker (Belgium)
 Claudio De Blois (Venezuela)
 K.L. Deshpande (India)
 Wolf-Dieter Donecker (Germany, Fed. Rep. of)
 Luis Eduardo Escobar (Chile)
 Ömer Esener (Turkey)
 Anthony C. Fenwick (New Zealand)
 Bruno Guiot (Belgium)
 Samuel P.O. Itam (Sierra Leone)
 Trond M. Johansen (Norway)
 Ahmad Karimi (Iran)
 Robin D. Kibuka (Uganda)
 Kyung Woo Kim (Korea)
 Haruhiko Kuroda (Japan)
 Carl J. Lohmann (United States)
 Gert Meissner (Germany, Fed. Rep. of)
 Alan G. Morris (Australia)
 Andrew K. Mullei (Kenya)
 Hicham Mutewalli (Syrian Arab Republic)
 Ronald E. Myers (United States)
 Festus L. Osunsade (Nigeria)
 Chike C. Ozumba (Nigeria)
 Emilio Sacerdoti (Italy)
 Saad Shabrawi (Egypt)
 Sharad P. Upasani (India)
 Andries van Dorssen (Netherlands)
 Anne Van 't Veer (Netherlands)
 Luis Felipe Vilches (Mexico)
 Antonio Guillermo Zoccali (Argentina)

Executive Director for whom Temporary Alternate Served

Roberto Guarnieri (Venezuela)
 Eduardo Mayobre (Venezuela)
 Byanti Kharmawan (Indonesia)
 Muhammad Al-Atrash (Syrian Arab Republic)
 H.O. Ruding (Netherlands)
 Alexandre Kafka (Brazil)
 Dante Simone (Argentina)
 Jacques Henri Wahl (France)
 Bernard J. Drabble (Canada)
 Frede Hollensen (Denmark)
 Samuel Nana-Sinkam (Cameroon)
 William S. Ryrie (United Kingdom)
 Alexandre Kafka (Brazil)
 Jacques de Groot (Belgium)
 Roberto Guarnieri (Venezuela)
 Eduardo Mayobre (Venezuela)
 M.G. Kaul (India)
 S.D. Deshmukh (India)
 Eckard Pieske (Germany, Fed. Rep. of)
 Dante Simone (Argentina)
 Jacques de Groot (Belgium)
 R.J. Whitelaw (Australia)
 Jacques de Groot (Belgium)
 Wila D. Mung'omba (Zambia)
 Frede Hollensen (Denmark)
 Jahangir Amuzegar (Iran)
 Wila D. Mung'omba (Zambia)
 Byanti Kharmawan (Indonesia)
 Masanao Matsunaga (Japan)
 Sam Y. Cross (United States)
 Eckard Pieske (Germany, Fed. Rep. of)
 R.J. Whitelaw (Australia)
 Wila D. Mung'omba (Zambia)
 Muhammad Al-Atrash (Syrian Arab Republic)
 Sam Y. Cross (United States)
 Wila D. Mung'omba (Zambia)
 Wila D. Mung'omba (Zambia)
 Lamberto Dini (Italy)
 Muhammad Al-Atrash (Syrian Arab Republic)
 M.G. Kaul (India)
 S.D. Deshmukh (India)
 H.O. Ruding (Netherlands)
 H.O. Ruding (Netherlands)
 Roberto Guarnieri (Venezuela)
 Dante Simone (Argentina)

Appendix VI

Administrative Budget

Letter of Transmittal

August 7, 1978

Dear Mr. Chairman:

The administrative budget of the Fund approved by the Executive Board for the financial year ending April 30, 1979 is presented herewith, in accordance with Section 20 of the By-Laws. This year the budget presentation to the Executive Board included for the first time an analysis of costs by program or activity. This analysis was facilitated by modification of the budget categories so as to make them follow more consistently an "object of expense" criteria. The new object of expense categories are shown in Table VI.1. Actual expenses in the two previous financial years are shown in Table VI.2 according to the categories in use during those years.

I should like to point out that it is of course impossible to predict whether the amounts budgeted will, in fact, meet the requirements of the Fund's program. The amounts shown are estimates of requirements on the basis of the expected level of activities. Should contingencies arise or present plans change materially, the management would recommend appropriate amendments to the Executive Board.

Yours sincerely,

/s/

J. DE LAROSIÈRE

Chairman of the Executive Board

Chairman of the Board of Governors
International Monetary Fund

Table VI.1. Administrative Budget as Approved by the Executive Board for the Financial Year Ending April 30, 1979 Compared with Actual Expenses for the Financial Years Ended April 30, 1977 and 1978(Values expressed in special drawing rights)¹

Object of Expense	Financial Year	Financial Year Ended		Financial Year
	Ended April 30, 1977	April 30, 1978		Ending April 30, 1979
	Actual Expenses	Revised Budget	Actual Expenses	Budget
I. PERSONNEL EXPENSES				
Salaries				33,701,366
Other personnel expenses				21,323,020
Total				55,024,386
II. TRAVEL EXPENSES				
Business travel				4,371,611
Other travel				3,792,535
Total				8,164,146
III. OTHER ADMINISTRATIVE EXPENSES				
Communications				1,908,502
Building occupancy				2,968,780
Books and printing				1,105,137
Supplies and equipment				1,276,413
Data processing services				1,386,518
Miscellaneous				1,325,348
Total				9,970,698
TOTAL ²	62,582,332	68,437,149	67,598,265	73,159,230

¹ The administrative budget is expressed in terms of U.S. dollars and converted to SDR equivalents.

² Net administrative expenses for the financial year ended April 30, 1977 totaled SDR 60,782,287 after deduction of the amounts reimbursed to the General Resources Account by assessments levied on the net cumulative allocations of

participants in the Special Drawing Rights Department (SDR 1,000,045), and for the estimated expenses of conducting the business of the Trust Fund (SDR 800,000). For the year ended April 30, 1978, net administrative expenses amounted to SDR 65,898,262 after similar deductions of SDR 900,003 and SDR 800,000, respectively.

Table VI.2. Actual Administrative Expenses for the Financial Years Ended April 30, 1977 and 1978

(Values expressed in special drawing rights)

Category of Expense	Financial Year	Financial Year Ended	
	Ended April 30, 1977	April 30, 1978	
	Actual Expenses	Revised Budget	Actual Expenses
I. BOARD OF GOVERNORS			
	1,887,933	1,450,559	1,362,105
II. EXECUTIVE DIRECTORS			
Salaries	2,762,092	2,840,509	2,839,448
Other compensations and benefits	875,105	895,752	872,080
Travel	956,267	766,130	725,917
Total	4,593,464	4,502,391	4,437,445
III. STAFF			
Salaries	25,418,223	26,555,345	26,551,114
Other compensations and benefits	13,365,066	16,464,819	16,256,239
Travel	5,001,503	5,440,039	5,427,524
Total	43,784,792	48,460,203	48,234,877
IV. SPECIAL SERVICES TO MEMBER COUNTRIES			
	4,497,655	4,942,188	4,824,992
V. OTHER ADMINISTRATIVE EXPENSES			
Communications	1,686,065	1,854,303	1,849,114
Office occupancy expenses	1,742,877	2,124,412	2,036,257
Books and printing	941,286	1,019,525	925,580
Supplies and equipment	1,121,040	1,094,701	1,048,139
Data processing services	1,181,248	1,298,244	1,256,271
Miscellaneous	1,145,972	1,690,623	1,623,485
Total	7,818,488	9,081,808	8,738,846
TOTAL	62,582,332	68,437,149	67,598,265

Appendix VII

Comparative Statement of Income and Expenses

(Values expressed in special drawing rights)

	Financial Year Ended April 30		
	1976	1977	1978
OPERATIONAL INCOME			
Operational charges			
Received in special drawing rights	26,499,848	24,085,973	12,568,098
Received in members' currencies	68,555	304,824	596,213
Total	<u>26,568,403</u>	<u>24,390,797</u>	<u>13,164,311</u>
Periodic charges			
Received in special drawing rights	407,225,597	725,905,080	782,196,060
Received in members' currencies	795,012	768,457	3,709,728
Amounts receivable	479,615	602,557	703,745
Total	<u>408,500,224</u>	<u>727,276,094</u>	<u>786,609,533</u>
Interest on holdings of special drawing rights	20,838,104	22,980,889	39,800,980
Total Operational Income	<u>455,906,731</u>	<u>774,647,780</u>	<u>839,574,824</u>
Deduct: Operational expenses			
Remuneration			
Paid in special drawing rights	24,108,110	121,774,346	136,279,725
Paid in members' currencies	79,973,828	105,104,238	64,579,373
Total	<u>104,081,938</u>	<u>226,878,584</u>	<u>200,859,098</u>
Transfer charges and interest on indebtedness			
Paid in special drawing rights	7,043,152	352,214	35,484,744
Paid in members' currencies	296,382,331	500,330,420	505,241,877
Total	<u>303,425,483</u>	<u>500,682,634</u>	<u>540,726,621</u>
Other	—	7,046	1,215
Total Operational Expenses	<u>407,507,421</u>	<u>727,568,264</u>	<u>741,586,934</u>
NET OPERATIONAL INCOME	<u>48,399,310</u>	<u>47,079,516</u>	<u>97,987,890</u>
EXPENSES¹			
Administrative budget expenses	52,465,169 ²	60,782,287 ²	65,898,262 ²
Fixed property expenses	69,923	64,437	12,822
Amortization of past service liabilities	—	4,392,696	4,392,696
Net valuation adjustment loss (gain)	(266,938)	31,088	207,436
TOTAL EXPENSES ¹	<u>52,268,154</u>	<u>65,270,508</u>	<u>70,511,216</u>
EXCESS OF (EXPENSES) OR INCOME BEFORE DEDUCTION OF EXTRAORDINARY ITEM			
Deduct: Proceeds from the sale of property	934,418	—	—
EXCESS OF (EXPENSES) OR INCOME	<u>(2,934,426)</u>	<u>(18,190,992)</u>	<u>27,476,674</u>

¹ Excludes operational expenses which have been deducted from operational income.

² After deduction of SDR 1,600,289 for financial year 1976, SDR 1,000,045 for financial year 1977, and SDR 900,003 for financial year 1978 reimbursed to the General Resources Account by assessments levied on the net cumulative allocations of participants in the Special Drawing Rights Department; and SDR 800,000 for financial years 1977 and 1978 reimbursed to the General Resources Account for the estimated expenses of conducting the business of the Trust Fund.

Appendix VIII

Financial Statements of the General Resources Account, Special Drawing Rights Department, Subsidy Account, Trust Fund, and Staff Retirement Fund

Letter of Transmittal

August 7, 1978

Dear Mr. Chairman:

In accordance with Section 20(f) of the By-Laws of the Fund, I have the honor to submit for the consideration of the Board of Governors the audited financial statements of the General Resources Account, the Special Drawing Rights Department, the Subsidy Account, the Trust Fund, and the Staff Retirement Fund for the year ended April 30, 1978, together with the reports of the External Audit Committee thereon.

In conformity with the By-Laws, the audit of the Fund has been performed by an External Audit Committee consisting of auditors nominated by three member countries. At the Fund's request, Canada, Panama, and Tunisia nominated auditors to serve on this Committee. They respectively nominated Mr. Harold E. Hayes, Principal, Audit Operations, Office of the Auditor General of Canada; Mr. Jaime Trujillo B., Deputy Controller General of Panama; and Mr. Mohamed Bouaouaja, Director, Research Department, Central Bank of Tunisia. The auditors thus nominated were confirmed by the Executive Board.

It will be noted that in the year under review for the General Resources Account, operational income amounted to SDR 839,574,824 and operational expenses amounted to SDR 741,586,934 resulting in net operational income of SDR 97,987,890. Administrative budget and fixed property expenses, including the annual amortization of the contribution to the Staff Retirement Fund to discharge the past service liabilities (SDR 4,392,696), amounted to SDR 70,511,216 which resulted in net income of SDR 27,476,674 for the year. In accordance with Executive Board Decision No. 5830-(78/93), adopted June 26, 1978, this net income has been placed to the Special Reserve.

The report of the External Audit Committee is being submitted separately to the Board of Governors.

Yours sincerely,

/s/

J. DE LAROSIÈRE

Chairman of the Executive Board

Chairman of the Board of Governors
International Monetary Fund

REPORT OF THE EXTERNAL AUDIT COMMITTEE
GENERAL DEPARTMENT
GENERAL RESOURCES ACCOUNT

Washington, D.C.
June 30, 1978

AUTHORITY FOR THE AUDIT

The audit for the year ended April 30, 1978 was carried out pursuant to Section 20(b) of the By-Laws of the International Monetary Fund.

SCOPE OF THE AUDIT

We have examined the financial statements of the International Monetary Fund, General Department—General Resources Account, Exhibits A through E, for the year ended April 30, 1978. Exhibits A through D include corresponding figures of the year ended April 30, 1977 for the purpose of comparison. Schedules 1 through 5 submitted with our report to the Board of Governors contain further details of items in the accounts which the Audit Committee consider may be of interest to the Board.

Our examination was made in compliance with Section 20(d) of the By-Laws, which requires that the audit should be conducted in accordance with generally accepted auditing standards and should include such tests of the accounting records of the General Department—General Resources Account, and such other auditing procedures as are considered necessary, and should extend, insofar as practicable, to the ascertainment that operations and transactions conducted during the period under review are supported by the necessary authority, and that it should determine that there is adequate and faithful accounting for the assets and liabilities of the General Department—General Resources Account. We have reviewed the adequacy of the system of accounting and internal control and, after evaluating the extent and results of the tests which we observed to have been carried out by the Internal Auditor, have performed such tests as we deemed necessary in the circumstances.

AUDIT OPINION

In our opinion, the financial statements, as presented, give a true and fair view of the financial position of the International Monetary Fund, General Department—General Resources Account, as at April 30, 1978, and of the results of operations and transactions during the year then ended, in conformity with generally accepted accounting principles applied on a basis consistent with that of the preceding year.

EXTERNAL AUDIT COMMITTEE:

/s/ Mohamed Bouaouaja, Chairman (Tunisia)
/s/ Harold E. Hayes (Canada)
/s/ Jaime Trujillo B. (Panama)

Exhibit A

INTERNATIONAL MONETARY FUND
 GENERAL DEPARTMENT
 (Note 1)
 GENERAL RESOURCES ACCOUNT
 BALANCE SHEET
 as at April 30, 1978
 Amounts expressed in special drawing rights
 (Note 2)

	<u>1978</u>	<u>1977</u>
ASSETS		
GOLD WITH DEPOSITORIES (Notes 2 and 3)	4,507,056,460	4,959,027,070
SPECIAL DRAWING RIGHTS	1,371,080,136	771,093,672
CURRENCIES AND SECURITIES (Notes 4 and 5)		
With depositories		
Currencies	13,498,669,118	13,968,013,201
Securities	19,944,483,109	16,247,600,890
	<u>33,443,152,227</u>	<u>30,215,614,091</u>
Add: Net valuation adjustment receivable	<u>1,912,356,551</u>	<u>1,795,286,779</u>
	35,355,508,778	32,010,900,870
SUBSCRIPTIONS TO CAPITAL—RECEIVABLE		
Balances of initial quotas—not due	31,847,187	23,547,180
Balances of increases in quotas—not due (Contra) (Note 6)	<u>6,003,000,000</u>	<u>6,003,000,000</u>
	6,034,847,187	23,547,180
CHARGES RECEIVABLE FROM MEMBERS	188,640,922	195,065,337
OTHER ASSETS (Notes 2 and 8)	13,505,002	17,501,208
TOTAL ASSETS	<u>47,470,638,485</u>	<u>37,977,135,337</u>
CAPITAL, RESERVES, AND LIABILITIES		
CAPITAL		
Subscriptions of Members	32,346,400,000	29,216,500,000
RESERVES (Exhibit C and Note 9)	713,961,091	686,484,417
SUBSCRIPTIONS IN RESPECT OF INCREASES IN QUOTAS CONSENTED TO BUT NOT YET EFFECTIVE (Contra) (Note 6)	6,003,000,000	6,003,000,000
INDEBTEDNESS (Note 7)		
Oil facility	6,328,726,384	6,702,087,635
General Arrangements to Borrow and other borrowing	<u>1,730,000,000</u>	<u>1,000,000,000</u>
	8,058,726,384	7,702,087,635
REMUNERATION PAYABLE TO MEMBERS	200,859,098	226,878,584
INTEREST PAYABLE ON INDEBTEDNESS	130,751,564	126,806,443
OTHER LIABILITIES (Note 8)	16,940,348	18,378,258
TOTAL CAPITAL, RESERVES, AND LIABILITIES	<u>47,470,638,485</u>	<u>37,977,135,337</u>

The notes in Exhibit E are an integral part of the financial statements.

/s/ W.O. HABERMEIER
 Treasurer

/s/ H. JOHANNES WITTEVEEN
 Managing Director

INTERNATIONAL MONETARY FUND
 GENERAL DEPARTMENT
 (Note 1)
 GENERAL RESOURCES ACCOUNT
 STATEMENT OF INCOME AND EXPENSES
 for the year ended April 30, 1978
 Amounts expressed in special drawing rights
 (Note 2)

	1978	1977
OPERATIONAL INCOME:		
Periodic charges (Note 5)	786,609,533	727,276,094
Interest on holdings of special drawing rights	39,800,980	22,980,889
Service charges	11,836,565	23,748,562
Other operational income	1,327,746	642,235
Total operational income	839,574,824	774,647,780
Deduct operational expenses:		
Remuneration (Note 5)	200,859,098	226,878,584
Interest on indebtedness	537,076,618	495,682,633
Other operational expenses	3,651,218	5,007,047
Total operational expenses	741,586,934	727,568,264
NET OPERATIONAL INCOME	97,987,890	47,079,516
EXPENSES:		
Administrative budget expenses:		
Board of Governors	1,362,105	1,887,933
Executive Directors:		
Salaries	2,839,448	2,762,092
Other compensations and benefits (Note 8)	872,080	875,105
Travel	725,917	956,267
Total Executive Directors	4,437,445	4,593,464
Staff:		
Salaries	26,551,114	25,418,223
Other compensations and benefits (Note 8)	16,256,239	13,365,066
Travel	5,427,524	5,001,503
Total staff	48,234,877	43,784,792
Special services to member countries	4,824,992	4,497,655
Other:		
Communications	1,849,114	1,686,065
Office occupancy expenses	2,036,257	1,742,877
Books and printing	925,580	941,286
Supplies and equipment (Note 2)	1,048,139	1,121,040
Data processing services	1,256,271	1,181,248
Miscellaneous	1,623,485	1,145,972
Total other	8,738,846	7,818,488
Total administrative budget expenses	67,598,265	62,582,332
Deduct: Assessments levied on participants for estimated expenses of operating the Special Drawing Rights Department		
	900,003	1,000,045
Reimbursement for the estimated expenses of conducting the business of the Trust Fund		
	800,000	800,000
Total deductions	1,700,003	1,800,045
Net administrative budget expenses	65,898,262	60,782,287
Fixed property expenses (Note 2)	12,822	64,437
Amortization of past service liabilities	4,392,696	4,392,696
Net valuation adjustment loss	207,436	31,088
TOTAL EXPENSES	70,511,216	65,270,508
NET INCOME (Exhibit C)	27,476,674	(18,190,992)

The notes in Exhibit E are an integral part of the financial statements.

Exhibit C

INTERNATIONAL MONETARY FUND
 GENERAL DEPARTMENT
 (Note 1)
 GENERAL RESOURCES ACCOUNT
 STATEMENT OF RESERVES
 (Note 9)
 Amounts expressed in special drawing rights
 (Note 2)

	April 30	
	1978	1977
SPECIAL RESERVE		
Balance at beginning of year	320,904,714	339,095,706
Add net income (Exhibit B)	27,476,674	(18,190,992)
Balance at end of year	348,381,388	320,904,714
GENERAL RESERVE		
Balance	365,579,703	365,579,703
TOTAL RESERVES (Exhibit A)	713,961,091	686,484,417

The notes in Exhibit E are an integral part of the financial statements.

Exhibit D

INTERNATIONAL MONETARY FUND
 GENERAL DEPARTMENT
 (Note 1)
 GENERAL RESOURCES ACCOUNT
 STATEMENT OF CHANGES IN FINANCIAL POSITION
 for the year ended April 30, 1978
 Amounts expressed in special drawing rights
 (Note 2)

	1978	1977
Resources were applied to:		
Increase in currency holdings (Note 10):		
Changes in holdings which did not affect amounts on which the Fund levies charges or pays remuneration	2,398,558,829	345,075,700
Changes in holdings which reduced (increased) creditor positions on which the Fund pays remuneration	2,321,861,231	(2,593,486,699)
Changes in holdings which increased (decreased) amounts on which the Fund levies charges	(1,375,812,152)	3,682,466,743
	3,344,607,908	1,434,055,744
Increase in holdings of special drawing rights	599,986,464	310,247,058
Decrease (increase) in the excess of other liabilities over other assets	21,391,661	(109,941,316)
	3,965,986,033	1,634,361,486
Resources were provided by:		
Subscription payments:		
Increases in quotas	3,101,600,000	
Quotas of new members	28,300,000	5,100,000
Borrowing:	3,129,900,000	5,100,000
General Arrangements to Borrow and Swiss National Bank	730,000,000	1,000,000,000
Oil facility	—	436,940,000
Less repayments of borrowing under the oil facility	373,361,251	200,000,000
	356,638,749	1,236,940,000
Sales of gold to replenish currency holdings	451,970,610	410,512,478
Net income	27,476,674	(18,190,992)
	3,965,986,033	1,634,361,486

The notes in Exhibit E are an integral part of the financial statements.

Exhibit E

INTERNATIONAL MONETARY FUND
GENERAL DEPARTMENT
NOTES TO THE FINANCIAL STATEMENTS
for the year ended April 30, 1978

1. General Department

Under the Articles of Agreement, as amended with effect from April 1, 1978, the General Department consists of the General Resources Account, the Special Disbursement Account, and the Investment Account. The Special Disbursement Account and the Investment Account are not operative. The General Resources Account replaces the former General Account through which all operations and transactions on the account of the Fund were previously conducted.

General Resources Account

Assets held in the General Resources Account comprise gold, currencies of the Fund's member countries, and special drawing rights (SDRs). The Fund's resources in the General Resources Account are made available to members in accordance with the Fund's policies either in the form of currencies or SDRs which members purchase against the payment of their own currencies. The amount of such use is related to a member's quota in the Fund.

In addition to purchases under the Fund's regular facilities, members may use the Fund's resources under the extended Fund facility (to support corrective policies over two to three years), the compensatory financing facility (to assist members, particularly primary exporters, encountering payments difficulties produced by temporary shortfalls attributable to circumstances beyond their control), and the buffer stock financing facility (to assist members in connection with the financing of international buffer stocks of primary products). Members were also able to use the oil facility (for balance of payments problems caused by increases in the cost of petroleum and petroleum products). Use of the Fund's facilities is dependent on members having a balance of payments need.

Gold transactions, receipt of SDRs in payment of charges and repurchases by members, and use of SDRs by the Fund, take place through the General Resources Account.

2. Accounting Practices*Unit of Account*

The accounts of the General Resources Account are expressed in terms of the SDR, the currency value of which is determined by a standard basket of the currencies of sixteen members. Members' currencies and securities are converted into equivalent amounts of SDRs on the basis of representative rates of exchange determined in accordance with decisions of the Executive Board. Gold with depositories is valued on the basis that one unit of special drawing rights is equivalent to 0.888671 gram of fine gold.

Property, Furniture, and Equipment

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. As at April 30, 1978, the net balance of the Fund's property accounts, at cost, which had been charged to expenses, amounted to SDR 63,568,569 (SDR 63,235,813 at April 30, 1977).

Income and Expenses

The Fund maintains its books of accounts on an accrual basis and accordingly follows a policy of recognizing income as it is earned and recording expenses as they are incurred.

3. Gold with Depositories

The accounts do not include gold held under earmark for members which was equivalent to SDR 91,613 at April 30, 1978 and SDR 333,104 at April 30, 1977.

4. Currencies and Securities with Depositories

Securities issued by members to the Fund comprise non-negotiable and noninterest-bearing securities, payable to the Fund on demand. Each member has the option to substitute securities for that amount of the member's currency held by the Fund which is in excess of $\frac{1}{4}$ of 1 per cent of the member's quota.

In order to maintain the value of the Fund's currency holdings, a holding is revalued whenever the member's currency is used by the Fund in a transaction with another member, or for such other purposes as the Fund may decide. All currency holdings are revalued as at April 30 each year. An account receivable or an account payable is established for the amount of currency payable by or to a member, the balance of which is included in the Fund's currency holdings. At April 30, 1978, amounts receivable amounted to SDR 2,062,089,429 and amounts payable amounted to SDR 149,732,878.

5. Operational Transactions

During the year ended April 30, 1978, members' purchases amounted to SDR 2,503 million of which SDR 135 million was in the reserve tranche, SDR 1,937 million was under the Fund's regular facilities, SDR 322 million was under the compensatory financing facility, and SDR 109 million was under the extended Fund facility. Over the same period, repurchases by members totaled SDR 4,485 million.

At April 30, 1978, outstanding purchases of members were as follows (in millions of SDRs):

Reserve tranche (not subject to charges)	1,358
Regular facilities	3,420
Compensatory financing facility	2,668
Extended Fund facility	175
Oil facility	6,313
Total	<u>13,934</u>

Prior to April 1, 1978 the Fund levied periodic charges on its holdings of a member's currency that were in excess of quota. From that date the Fund levies charges on its holdings of a member's currency to the extent that the holdings (i) have been acquired under a policy that has been the subject of an exclusion, or (ii) exceed the member's quota after deducting holdings that are the subject of an exclusion. Prior to April 1, 1978 the Fund paid remuneration on the amount by which 75 per cent of a member's quota exceeded the Fund's holdings of the member's currency. From April 1, 1978 remuneration is paid on the amounts by which 75 per cent of a member's quota on that date, adjusted for increases or decreases in the member's quota after that date, exceeds the Fund's holdings of the member's currency after deducting amounts that are the subject of an exclusion. At April 30, 1978 the total holdings on which the Fund levies charges amounted to SDR 12,066 million and total creditor positions on which the Fund pays remuneration amounted to SDR 4,016 million.

Exhibit E

Members incur certain obligations to the Fund with the use of Fund resources from the General Resources Account. One member, Democratic Kampuchea, has not fulfilled its financial obligations to repurchase a part of the Fund's holdings of the member's currency, to pay charges on currency balances held by the Fund, and to submit information on monetary reserves.

6. Subscriptions to Capital—Receivable

The resolution in respect of members' quota increases under the Sixth General Review of Quotas, authorizing a maximum increase in quotas of SDR 9.8 billion, provides that members may consent to increases in quotas not later than one month after the effective date of the Second Amendment of the Articles of Agreement (April 1, 1978) and that the period of consent may be extended by the Executive Board as they may determine. The period for consent has been extended until August 7, 1978. Increases in quotas are effective when subscription payments are completed. Each member that consented to a quota increase before April 1, 1978 had to complete its subscription payment by May 31, 1978. Members that consented to quota increases after April 1, 1978 must complete their subscription payments within sixty days following their consent.

By April 30, 1978, a total of 120 members had consented to quota increases amounting to SDR 9,103 million of which SDR 3,100 million had been paid by 15 members. Subscription payments of the other 105 members, amounting to SDR 6,003 million, are payable within the time periods described above and are included in the Balance Sheet as Subscriptions in Respect of Increases in Quotas Consented to but Not Yet Effective.

7. Indebtedness

Oil Facility

The Fund has entered into borrowing agreements with various members and Switzerland, or institutions within their territories, under which these lenders agreed to provide the Fund with specified currencies to finance purchases of currencies from the Fund by other members under the oil facility. The outstanding borrowings carry interest rates of 7 per cent for amounts called under the 1974 borrowing agreements and 7¼ per cent for amounts called under the 1975 borrowing agreements. Any calls made by the Fund under these agreements are repayable in installments beginning not later than 3½ years, to be completed not later than 7 years, after the date of the calls, except that the calls under the borrowing agreements with Canada and the Deutsche Bundesbank are repayable at the end of five years.

General Arrangements to Borrow (GAB)

Ten members, or institutions within their territories, have adhered to the General Arrangements to Borrow under which the Fund may borrow their currencies up to specified amounts. These arrangements first became effective from October 24, 1962 and have been renewed until October 23, 1980. The Fund pays a transfer charge of one-half of one per cent on amounts borrowed under these arrangements and, in addition, pays interest at the rates at which the Fund levies charges on the holdings of currencies resulting from purchases financed from borrowing under the GAB. Any calls made by the Fund under the GAB are repayable within five years.

Other

The Swiss National Bank has entered into a borrowing agreement with the Fund under which it has agreed to lend to the

Fund U.S. dollars equivalent to SDR 337.5 million for exchange transactions under stand-by arrangements. The other terms and conditions of this borrowing are similar to those of the General Arrangements to Borrow.

8. Other Compensations and Benefits

The Fund pays various allowances to or on behalf of Executive Directors and staff including the Employer's contribution to the Staff Retirement Plan. All contributions to the Plan and all other assets, liabilities, and income of the Plan are held separately and can be used only for the benefit of the participants in the Plan and their beneficiaries. The funding of the Plan is based upon a percentage of an imputed gross salary, and the Employer contributes that part of the costs and expenses of the Plan not provided by the contributions of the participants.

In August 1976 certain improvements in the benefits provisions of the Plan and changes in the rates of contribution and funding arrangements were approved effective from September 1, 1976.

The past service liability resulting from these changes amounting to SDR 17,570,796 was discharged on September 1, 1976 by a payment from the General Resources Account to the Staff Retirement Plan. This amount is being charged against the income of the Fund over a period of four years. Accordingly, SDR 4,392,696 was charged against income in 1977 and again in 1978; the balance of SDR 8,785,404 is included as a deferred charge in other assets.

Experience gains and losses of the Plan, as determined by the actuary engaged by the Pension Committee, are amortized over a period of 15 years and, at April 30, 1978, unamortized experience losses amounted to SDR 25.4 million (calculated at the SDR value of the U.S. dollar on that date). Payments over the next 15 years to amortize the actuarial experience losses are estimated to be approximately SDR 35.9 million (at the April 30, 1978 SDR/US\$ rate), of which SDR 2.6 million was paid on May 1, 1978.

Contributions by the Employer to the Staff Retirement Fund for the year ended April 30, 1978 amounted to SDR 9,076,683, including SDR 1,989,282 for the amortization of actuarial experience losses (SDR 1,461,626 in 1977) and SDR 1,208,242 to fund cost of living supplements to beneficiaries (none in 1977).

9. Reserves

The Fund determines annually what part of its net income shall be placed to the General Reserve or the Special Reserve, and what part, if any, shall be distributed. The Fund may use the Special Reserve for any purpose for which it may use the General Reserve, except distribution.

Income from investments in U.S. Government securities was placed to the Special Reserve from November 1, 1957 until February 15, 1972 when the investment program was terminated. A decision by the Executive Board provides that any administrative deficit for any financial year must be written off first against this Reserve.

Net income for the year ended April 30, 1978 has been placed to the Special Reserve by decision of the Executive Board.

10. Comparative Amounts

Certain amounts for 1977 in the Statement of Changes in Financial Position (Exhibit D) have been restated to conform to the 1978 presentation.

REPORT OF THE EXTERNAL AUDIT COMMITTEE
SPECIAL DRAWING RIGHTS DEPARTMENT

Washington, D.C.
June 30, 1978

AUTHORITY FOR THE AUDIT

The audit for the year ended April 30, 1978 was carried out pursuant to Section 20(b) of the By-Laws of the International Monetary Fund.

SCOPE OF THE AUDIT

We have examined the financial statements of the International Monetary Fund, Special Drawing Rights Department, Exhibits A through C, for the year ended April 30, 1978. Exhibit A includes corresponding figures of the year ended April 30, 1977 for the purpose of comparison. Schedules 1 through 3 submitted with our report to the Board of Governors contain further details of items in the accounts which the Audit Committee consider may be of interest to the Board.

Our examination was made in compliance with Section 20(d) of the By-Laws, which requires that the audit should be conducted in accordance with generally accepted auditing standards and should include such tests of the accounting records of the Special Drawing Rights Department, and such other auditing procedures as are considered necessary, and should extend, insofar as practicable, to the ascertainment that operations and transactions conducted during the period under review are supported by the necessary authority, and that it should determine that there is adequate and faithful accounting for the allocations and holdings of the Special Drawing Rights Department. We have reviewed the adequacy of the system of accounting and internal control and, after evaluating the extent and results of the tests which we observed to have been carried out by the Internal Auditor, have performed such tests as we deemed necessary in the circumstances.

AUDIT OPINION

In our opinion, the financial statements, as presented, give a true and fair view of the financial position of the International Monetary Fund, Special Drawing Rights Department and of the allocations and holdings of special drawing rights as at April 30, 1978, and properly reflect the operations and transactions in this Department for the year then ended.

EXTERNAL AUDIT COMMITTEE:

/s/ Mohamed Bouaouaja, Chairman (Tunisia)
/s/ Harold E. Hayes (Canada)
/s/ Jaime Trujillo B. (Panama)

Exhibit A

INTERNATIONAL MONETARY FUND
SPECIAL DRAWING RIGHTS DEPARTMENT
BALANCE SHEET
as at April 30, 1978

Amounts expressed in special drawing rights

	1978	1977
ALLOCATIONS AND UNPAID CHARGES		
Net cumulative allocations of special drawing rights to participants	9,314,835,400	9,314,835,400
Charges due but not paid (Note 5)	290,144	—
	9,315,125,544	9,314,835,400
 HOLDINGS		
Holdings of special drawing rights (Exhibit B)		
Participants		
Holdings above allocations		
Allocations	2,644,257,000	2,468,666,000
Received (net)	1,023,298,554	1,997,028,292
Total holdings above allocations	3,667,555,554	4,465,694,292
Holdings below allocations		
Allocations	6,670,578,400	6,846,169,400
Used (net)	2,394,088,546	2,768,121,964
Total holdings below allocations	4,276,489,854	4,078,047,436
Total holdings by participants	7,944,045,408	8,543,741,728
General Resources Account Holdings	1,371,080,136	771,093,672
	9,315,125,544	9,314,835,400

The notes in Exhibit C are an integral part of the financial statements.

/s/ R.J. FAMILTON
Acting Treasurer

/s/ WILLIAM B. DALE
Acting Managing Director

Exhibit B

INTERNATIONAL MONETARY FUND
SPECIAL DRAWING RIGHTS DEPARTMENT
STATEMENT OF SOURCE AND USE OF SPECIAL DRAWING RIGHTS
for the year ended April 30, 1978

Amounts expressed in special drawing rights

	Participants	General Resources Account	Total
Total Holdings as of April 30, 1977	8,543,741,728	771,093,672	9,314,835,400
Source of Special Drawing Rights Received			
Allocations	—		—
Transactions with Designation	398,117,289		398,117,289
Transactions by Agreement	927,413,052		927,413,052
Net Interest	56,788,708	39,800,980	96,589,688
Transfers Between Participants and the General Resources Account			
Purchases	662,125,000		662,125,000
Repurchases	5,506,000	849,566,088	855,072,088
Charges	7,715,099	808,585,821	816,300,920
Reimbursement of Special Drawing Rights			
Department Expenses (Assessment)		900,003	900,003
Remuneration	121,774,346		121,774,346
Reconstitution	474,014,488		474,014,488
Interest on Fund Borrowings			
Under Oil Facility	10,172,058		10,172,058
Under General Arrangements to Borrow	17,751,411		17,751,411
Quota Payments		201,400,000	201,400,000
Other			
Transfer Charges	1,208,026		1,208,026
Charges due but not paid	290,144		290,144
	<u>2,682,875,621</u>	<u>1,900,252,892</u>	<u>4,583,128,513</u>
Use of Special Drawing Rights			
Transactions with Designation	398,117,289		398,117,289
Transactions by Agreement	927,413,052		927,413,052
Net Charges	96,589,688		96,589,688
Transfers Between Participants and the General Resources Account			
Purchases		662,125,000	662,125,000
Repurchases	849,566,088	5,506,000	855,072,088
Charges	808,585,821	7,715,099	816,300,920
Reimbursement of Special Drawing Rights			
Department Expenses (Assessment)	900,003		900,003
Remuneration		121,774,346	121,774,346
Reconstitution		474,014,488	474,014,488
Interest on Fund Borrowings			
Under Oil Facility		10,172,058	10,172,058
Under General Arrangements to Borrow		17,751,411	17,751,411
Quota Payments	201,400,000		201,400,000
Other			
Transfer Charges		1,208,026	1,208,026
	<u>3,282,571,941</u>	<u>1,300,266,428</u>	<u>4,582,838,369</u>
Total Holdings as of April 30, 1978 (per Balance Sheet)	<u>7,944,045,408</u>	<u>1,371,080,136</u>	<u>9,315,125,544</u>

The notes in Exhibit C are an integral part of the financial statements.

INTERNATIONAL MONETARY FUND
SPECIAL DRAWING RIGHTS DEPARTMENT
NOTES TO THE FINANCIAL STATEMENTS
for the year ended April 30, 1978

1. Special Drawing Rights Department

All transactions and operations involving special drawing rights are conducted through the Special Drawing Rights Department. Special drawing rights are allocated by the Fund to members that are participants in the Special Drawing Rights Department in proportion to their quotas in the Fund. To date there have been three allocations, in 1970, 1971, and 1972, aggregating SDR 9.3 billion. Special drawing rights do not constitute claims by holders against the Fund to provide currency, except in connection with the termination of participation or liquidation.

2. Uses of Special Drawing Rights

A participant can use its special drawing rights in transactions by agreement with another participant to obtain an equivalent amount of currency, and can use them in certain operations involving the General Resources Account, such as the payment of charges and the discharge of repurchase obligations. In addition, the Fund ensures, by designating participants to provide a freely usable currency in exchange for special drawing rights, that a participant can use its special drawing rights to obtain such currency, if the participant has a need because of its balance of payments or its reserve position or developments in its reserves. However, a participant is not obliged to provide currency for special drawing rights beyond the point at which its holdings of special drawing rights in excess of its net cumulative allocation are equal to twice its net cumulative allocation or such higher limit as may be agreed between the participant and the Fund. A participant may, however, provide currency in excess of the obligatory limit or any agreed higher limit.

3. Reconstitution Requirements

A participant is required to maintain, over each five-year period ending in successive calendar quarters, average daily holdings of special drawing rights of not less than 30 per cent of its net cumulative allocation.

4. Interest, Charges, and Assessments

Interest is paid to each holder on its holdings of special drawing rights and charges are levied at the same rate by the Fund on each participant's net cumulative allocation plus any negative balance of the participant or unpaid charges. Net interest or net charges are settled by crediting or debiting individual holdings accounts on April 30 each year. The Fund is required to pay interest to each holder, whether or not sufficient charges are received. The expenses of conducting the business of the Special Drawing Rights Department are paid by the Fund from the General Resources Account which is reimbursed in special drawing rights 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 allocations.

5. Unpaid Charges

This item represents the amount due from Democratic Kampuchea. The total of special drawing rights held by all holders on April 30, 1978 exceeds the total of net cumulative allocations to the extent of these unpaid charges.

REPORT OF THE EXTERNAL AUDIT COMMITTEE
SUBSIDY ACCOUNT

Washington, D.C.
June 30, 1978

AUTHORITY FOR THE AUDIT

The audit for the year ended April 30, 1978 was carried out pursuant to Section 20(b) of the By-Laws of the International Monetary Fund.

SCOPE OF THE AUDIT

We have examined the financial statements of the Subsidy Account administered by the International Monetary Fund, Exhibits A and B, for the year ended April 30, 1978. Exhibit A includes corresponding figures of the year ended April 30, 1977 for the purpose of comparison. Schedules 1 through 3 submitted with our report to the Board of Governors contain further details of items in the accounts which the Audit Committee consider may be of interest to the Board.

Our examination was made in compliance with Section 20(d) of the By-Laws, which requires that the audit should be conducted in accordance with generally accepted auditing standards and should include such tests of the accounting records of the Subsidy Account, and such other auditing procedures as are considered necessary, and should extend, insofar as practicable, to the ascertainment that operations and transactions conducted during the period under review are supported by the necessary authority, and that it should determine that there is adequate and faithful accounting for the assets and liabilities of the Subsidy Account. We have reviewed the adequacy of the system of accounting and internal control and, after evaluating the extent and results of the tests which we observed to have been carried out by the Internal Auditor, have performed such tests as we deemed necessary in the circumstances.

AUDIT OPINION

In our opinion, the financial statements, as presented, give a true and fair view of the financial position of the Subsidy Account, as at April 30, 1978, and of the results of operations and transactions during the year then ended.

EXTERNAL AUDIT COMMITTEE:

/s/ Mohamed Bouaouaja, Chairman (Tunisia)
/s/ Harold E. Hayes (Canada)
/s/ Jaime Trujillo B. (Panama)

Exhibit A

INTERNATIONAL MONETARY FUND
 SUBSIDY ACCOUNT
 (Note 1)
 STATEMENT OF FINANCIAL POSITION
 as at April 30, 1978
 Amounts expressed in special drawing rights
 (Note 2)

	<u>1978</u>	<u>1977</u>
Balance at beginning of year	50,630,093	36,686,385
Contributions received	35,437,047	25,797,982
Interest earned on investments	2,404,139	2,324,480
Valuation loss	<u>(2,218,982)</u>	<u>(360,249)</u>
Additions during year	<u>35,622,204</u>	<u>27,762,213</u>
	86,252,297	64,448,598
Less: Subsidy payments (Note 4)	<u>27,505,945</u>	<u>13,818,505</u>
Balance at end of year	<u>58,746,352</u>	<u>50,630,093</u>
Balance represented by:		
Currency on deposit	2,524,655	9,830,078
Investments in United States Government obligations, at cost	54,715,759	39,414,399
Accrued interest receivable (Note 5)	<u>1,505,938</u>	<u>1,385,616</u>
Total Assets	<u>58,746,352</u>	<u>50,630,093</u>

The notes in Exhibit B are an integral part of the financial statement.

/s/ W.O. HABERMEIER
 Treasurer

/s/ H. JOHANNES WITTEVEEN
 Managing Director

Exhibit B

INTERNATIONAL MONETARY FUND
SUBSIDY ACCOUNT
NOTES TO THE FINANCIAL STATEMENT
for the year ended April 30, 1978

1. The Subsidy Account, which is administered by the Fund, was established by the Fund to assist the most seriously affected (MSA) members to meet the interest cost of using resources made available through the Fund's oil facility for 1975. The assets of the 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 other accounts.

2. The accounts of the Subsidy Account are expressed in terms of the SDR, the currency value of which is determined by a standard basket of the currencies of sixteen members.

3. Currency contributions to the Subsidy Account are converted to equivalent amounts of SDRs on the basis of exchange rates against the SDR at the time of receipt. Cumulative con-

tributions to the Subsidy Account at April 30, 1978 amounted to SDR 97,270,219.

4. The rate of subsidy for the financial years ended April 30, 1976, 1977, and 1978 was set by the Fund at five per cent per annum of the average daily balances in each year of the Fund's holdings of recipient members' currencies subject to the schedule of charges applicable to the 1975 oil facility. Subsidy payments are made after the end of each financial year in U.S. dollars at the SDR/US\$ rate determined for the date of payment. Subsidy payments for the financial year ended April 30, 1978 amounted to SDR 24,950,431 and were made on May 31, 1978.

5. Includes accrued interest purchased amounting to SDR 264,426 at April 30, 1978 (SDR 27,419 at April 30, 1977).

REPORT OF THE EXTERNAL AUDIT COMMITTEE
TRUST FUND

Washington, D.C.
June 30, 1978

AUTHORITY FOR THE AUDIT

The audit for the year ended April 30, 1978 was carried out pursuant to Section 20(b) of the By-Laws of the International Monetary Fund.

SCOPE OF THE AUDIT

We have examined the financial statements of the Trust Fund administered by the International Monetary Fund, Exhibits A through D, for the year ended April 30, 1978. Exhibits A through C include corresponding figures of the period May 5, 1976 through April 30, 1977 for the purpose of comparison. Schedules 1 through 3 submitted with our report to the Board of Governors contain further details of items in the accounts which the Audit Committee consider may be of interest to the Board.

Our examination was made in compliance with Section 20(d) of the By-Laws, which requires that the audit should be conducted in accordance with generally accepted auditing standards and should include such tests of the accounting records of the Trust Fund, and such other auditing procedures as are considered necessary, and should extend, insofar as practicable, to the ascertainment that operations and transactions conducted during the period under review are supported by the necessary authority, and that it should determine that there is adequate and faithful accounting for the assets and liabilities of the Trust Fund. We have reviewed the adequacy of the system of accounting and internal control and, after evaluating the extent and results of the tests which we observed to have been carried out by the Internal Auditor, have performed such tests as we deemed necessary in the circumstances.

AUDIT OPINION

In our opinion, the financial statements, as presented, give a true and fair view of the financial position of the Trust Fund, as at April 30, 1978, and of the results of operations and transactions during the year then ended, in conformity with generally accepted accounting principles applied on a basis consistent with that of the preceding period.

EXTERNAL AUDIT COMMITTEE:

/s/ Mohamed Bouaouaja, Chairman (Tunisia)
/s/ Harold E. Hayes (Canada)
/s/ Jaime Trujillo B. (Panama)

Exhibit A

INTERNATIONAL MONETARY FUND
TRUST FUND
(Note 1)
BALANCE SHEET
as at April 30, 1978
Amounts expressed in special drawing rights
(Note 2)

	<u>1978</u>	<u>1977</u>
ASSETS		
Currency on deposit	27,748	102,875
Gold (Note 3)	18,370,198	17,643,481
Investments	542,876,475	406,201,501
Loans (Note 4)	299,809,000	31,588,000
Accrued interest on investments	2,698,486	5,632,632
Accrued interest on loans	434,669	40,357
Total Assets	<u>864,216,576</u>	<u>461,208,846</u>
 LIABILITY AND TRUST RESOURCES		
Liability—		
Obligation to deliver gold	—	64,712,969
Trust resources (Exhibit C)	864,216,576	396,495,877
Liability and Trust Resources	<u>864,216,576</u>	<u>461,208,846</u>

The notes in Exhibit D are an integral part of the financial statements.

/s/ W.O. HABERMEIER
Treasurer

/s/ H. JOHANNES WITTEVEEN
Managing Director

Exhibit B

INTERNATIONAL MONETARY FUND
TRUST FUND
STATEMENT OF INCOME AND EXPENSES
for the year ended April 30, 1978
Amounts expressed in special drawing rights
(Note 2)

	<u>Year Ended April 30, 1978</u>	<u>May 5, 1976 to April 30, 1977</u>
Income:		
Net proceeds realized from the sale of gold:		
Gross amounts received	906,902,649	573,389,314
Less cost of gold	<u>238,141,271</u>	<u>182,924,530</u>
	668,761,378	390,464,784
Investment income	32,233,823	8,970,133
Interest income on loans	<u>792,763</u>	<u>40,357</u>
	<u>701,787,964</u>	<u>399,475,274</u>
Expenses:		
Administrative expenses (Note 2):		
Staff salaries and benefits and other services	725,395	723,983
Gold weighing and handling charges	67,230	54,273
Data processing services	5,434	9,859
Other	<u>1,941</u>	<u>11,885</u>
Total administrative expenses	800,000	800,000
Exchange valuation loss	<u>34,897,408</u>	<u>2,179,397</u>
	<u>35,697,408</u>	<u>2,979,397</u>
Net Income	<u><u>666,090,556</u></u>	<u><u>396,495,877</u></u>

The notes in Exhibit D are an integral part of the financial statements.

Exhibit C

INTERNATIONAL MONETARY FUND
TRUST FUND
STATEMENT OF TRUST RESOURCES
Amounts expressed in special drawing rights
(Note 2)

	Year Ended April 30, 1978	May 5, 1976 to April 30, 1977
Balance at beginning of period	396,495,877	
Net income (Exhibit B)	666,090,556	396,495,877
	1,062,586,433	396,495,877
Deduct—Distribution of profits to developing members (Note 1)	(222,555,762)	
Add—Contributions received	24,185,905	
Balance at end of period (Exhibit A)	864,216,576	396,495,877

The notes in Exhibit D are an integral part of the financial statements.

INTERNATIONAL MONETARY FUND
TRUST FUND
NOTES TO THE FINANCIAL STATEMENTS
April 30, 1978

1. Purposes

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 IMF has decided that the Trustee will undertake other activities in connection with the distribution of profits from sales of gold for the benefit of developing members. Each recipient's share will be calculated on the basis of the share of each eligible member in total IMF quotas as of August 31, 1975 and on the basis of the actual profits realized in the gold auctions.

2. Accounting Practices*Unit of Account*

The accounts of the Trust Fund are expressed in terms of the special drawing right (SDR), the currency value of which is determined by a standard basket of currencies of sixteen members.

Administrative Expenses

The expenses of conducting the business of the Trust Fund that are paid from the General Resources Account of the IMF are reimbursed annually by the Trust on the basis of a reasonable estimate of these expenses by the IMF.

3. Gold

Gold holdings are valued at SDR 35 per fine ounce.

4. Loans

Loans are made from the Trust Fund to those eligible members that qualify for assistance in accordance with the provisions of the Trust Instrument. Each loan disbursement is repayable in ten semiannual installments which shall begin not later than the end of the first six months of the sixth year, and be completed at the end of the tenth year, after the date of disbursement. Interest on the outstanding loan balances is charged at the rate of one-half of one per cent per annum.

REPORT OF THE EXTERNAL AUDIT COMMITTEE
STAFF RETIREMENT FUND

Washington, D.C.
June 30, 1978

AUTHORITY FOR THE AUDIT

The audit for the year ended April 30, 1978 was carried out pursuant to Section 20(b) of the By-Laws of the International Monetary Fund.

SCOPE OF THE AUDIT

We have examined the financial statements of the Staff Retirement Fund administered by the International Monetary Fund, Exhibits A through F, for the year ended April 30, 1978. Exhibits A and B include corresponding figures of the year ended April 30, 1977 for the purpose of comparison. Schedules 1 through 5 to Exhibit A and Schedules 1 and 2 to Exhibit B submitted with our report to the Board of Governors contain further details of items in the accounts which the Audit Committee consider may be of interest to the Board.

Our examination was made in compliance with Section 20(d) of the By-Laws, which requires that the audit should be conducted in accordance with generally accepted auditing standards and should include such tests of the accounting records of the Staff Retirement Fund, and such other auditing procedures as are considered necessary, and should extend, insofar as practicable, to the ascertainment that operations and transactions conducted during the period under review are supported by the necessary authority, and that it should determine that there is adequate and faithful accounting for the assets and liabilities of the Staff Retirement Fund. We have reviewed the adequacy of the system of accounting and internal control and, after evaluating the extent of the results of the tests which we observed to have been carried out by the Internal Auditor, have performed such tests as we deemed necessary in the circumstances.

AUDIT OPINION

In our opinion, the financial statements, as presented, give a true and fair view of the financial position of the Staff Retirement Fund administered by the International Monetary Fund, as at April 30, 1978, and of the results of operations and transactions during the year then ended, in conformity with generally accepted accounting principles applied on a basis consistent with that of the preceding year.

EXTERNAL AUDIT COMMITTEE:

/s/ Mohamed Bouaouaja, Chairman (Tunisia)
/s/ Harold E. Hayes (Canada)
/s/ Jaime Trujillo B. (Panama)

Exhibit A

INTERNATIONAL MONETARY FUND
STAFF RETIREMENT FUND
BALANCE SHEET
as at April 30, 1978
Amounts expressed in U.S. dollars

	1978	1977
ASSETS		
CASH AT BANKS	24,856	14,387
INVESTMENTS		
Bonds		
Amortized cost (<i>market value \$48,701,923 in 1978, \$33,319,714 in 1977</i>)		
Notes insured by U.S. Government	10,107,181	13,077,206
International development banks	5,816,334	5,792,442
Corporate	10,967,099	11,449,910
Commercial paper	3,430,000	300,000
Certificates of deposit	19,684,900	2,530,000
Repurchase agreement	1,050,000	1,546,000
Total amortized cost	51,055,514	34,695,558
Add: Net realized losses	2,400,126	2,227,889
Funds originally invested	53,455,640	36,923,447
Deduct: Amortized net realized losses	1,352,675	1,112,659
Adjusted book value of bonds	52,102,965	35,810,788
Stocks		
Cost (<i>market value \$57,608,756 in 1978, \$61,875,670 in 1977</i>)		
Preferred convertible	232,682	
Common	64,001,601	67,036,485
	64,234,283	67,036,485
Deduct: Net realized gains	910,781	2,732,481
Funds originally invested	63,323,502	64,304,004
Recognized appreciation/(depreciation)	(464,000)	(29,000)
Adjusted book value of stocks	62,859,502	64,275,004
Total investments at adjusted book value	114,962,467	100,085,792
ACCRUED INTEREST ON BONDS, ACCRUED CONTRIBUTIONS RECEIVABLE, AND MISCELLANEOUS ACCOUNTS RECEIVABLE		
	643,794	797,134
TOTAL ASSETS	115,631,117	100,897,313
 LIABILITIES AND RESERVES		
PARTICIPANTS' ACCOUNT (Exhibit C)	21,782,780	18,221,825
ACCUMULATION ACCOUNT (Exhibit D)	52,308,376	51,964,342
RETIREMENT RESERVE ACCOUNT (Exhibit E)	41,534,435	30,602,589
ACCOUNTS PAYABLE	5,526	108,557
TOTAL LIABILITIES AND RESERVES	115,631,117	100,897,313

The notes in Exhibit F are an integral part of the financial statements.

/s/ W.O. HABERMEIER
Treasurer

/s/ H. JOHANNES WITTEVEEN
Managing Director

Exhibit B

INTERNATIONAL MONETARY FUND
STAFF RETIREMENT FUND
STATEMENT OF CHANGES IN FINANCIAL POSITION
for the year ended April 30, 1978

Amounts expressed in U.S. dollars

	<u>1978</u>	<u>1977</u>
Total assets at beginning of year	100,897,313	69,645,957
Less: Accounts Payable	<u>108,557</u>	<u>54,952</u>
Net Assets	100,788,756	69,591,005
Contributions:		
Participants	3,547,402	3,143,766
International Monetary Fund	10,784,528	28,167,232
Participants restored to service	48,543	2,244
Transfers (net) from retirement plans of other international organizations	<u>(79,855)</u>	<u>(39,954)</u>
Total Contributions	14,300,618	31,273,288
Investment Income:		
Interest and dividends	5,224,376	3,651,975
Amortization of accumulated discounts	35,968	39,964
Amortization of net realized losses on bonds	(240,016)	(222,787)
Recognized market depreciation on equity investments	<u>(435,000)</u>	<u>(402,000)</u>
Net Investment Income	4,585,328	3,067,152
Payments:		
Pensions and other benefits	(3,346,111)	(2,441,570)
Contributions, benefits, and interest paid to participants upon withdrawal	(358,072)	(470,431)
Commutation benefits	(274,635)	(72,500)
Death benefits	<u>(70,293)</u>	<u>(158,188)</u>
Total Payments	(4,049,111)	(3,142,689)
Balances at end of year		
Net Assets	115,625,591	100,788,756
Add: Accounts Payable	<u>5,526</u>	<u>108,557</u>
Total Assets—per Balance Sheet	<u>115,631,117</u>	<u>100,897,313</u>

The notes in Exhibit F are an integral part of the financial statements.

Exhibit C

INTERNATIONAL MONETARY FUND
STAFF RETIREMENT FUND
PARTICIPANTS' ACCOUNT
for the year ended April 30, 1978
Amounts expressed in U.S. dollars

Balance, April 30, 1977 (per Balance Sheet)			18,221,825
Add			
Participants' contributions			
Participating service	3,535,972		
Additional voluntary	<u>11,430</u>	3,547,402	
Contributions and interest refunded by participants restored to service		34,886	
Transfer from IBRD Retirement Plan		1,269	
Transfer from Retirement Reserve Account		9,798	
Interest credited to participants		<u>970,682</u>	4,564,037
Deduct			
Refunds upon withdrawal of participants			
Accumulated contributions	262,131		
Additional voluntary contributions	<u>8,948</u>	271,079	
Refunds upon death of participants		16,398	
Transfers to Retirement Reserve Account		694,525	
Transfers to IBRD Retirement Plan		<u>21,080</u>	1,003,082
Balance, April 30, 1978 (per Balance Sheet)			<u><u>21,782,780</u></u>

The notes in Exhibit F are an integral part of the financial statements.

Exhibit D

INTERNATIONAL MONETARY FUND
STAFF RETIREMENT FUND
ACCUMULATION ACCOUNT
for the year ended April 30, 1978
Amounts expressed in U.S. dollars

Balance, April 30, 1977 (per Balance Sheet)			51,964,342
Add			
Contributions of the International Monetary Fund			
Participating service	7,071,944		
Prior service	2,310,000		
Maturity funding of cost of living supplements	<u>1,402,584</u>	10,784,528	
Income from investments			
Bonds			
Interest	2,730,569		
Amortization of premium and accumulation of discount (net) ..	35,968		
Amortization of net realized losses	<u>(240,016)</u>	2,526,521	
Stocks			
Dividends received	2,491,144		
Recognized depreciation	<u>(435,000)</u>	2,056,144	
Miscellaneous	<u>2,663</u>	4,585,328	
Benefits and interest refunded by participants restored to service		13,657	
Transfers from IBRD Retirement Plan		2,532	
Transfer from Retirement Reserve Account		<u>4,604</u>	15,390,649
Deduct			
Withdrawal benefits		86,993	
Payments upon death of participants		50,006	
Transfers to IBRD Retirement Plan		43,379	
Transfers to Retirement Reserve Account		11,575,658	
Interest transferred to			
Participants' Account	970,682		
Retirement Reserve Account	<u>2,319,897</u>	<u>3,290,579</u>	<u>15,046,615</u>
Balance, April 30, 1978 (per Balance Sheet)			<u>52,308,376</u>

The notes in Exhibit F are an integral part of the financial statements.

Exhibit E

INTERNATIONAL MONETARY FUND
 STAFF RETIREMENT FUND
 RETIREMENT RESERVE ACCOUNT
 for the year ended April 30, 1978
 Amounts expressed in U.S. dollars

Balance, April 30, 1977			30,602,589
Add			
Transfers from			
Participants' Account	694,525		
Accumulation Account	<u>11,575,658</u>	12,270,183	
Interest credited		<u>2,319,897</u>	14,590,080
Deduct			
Transfers to			
Participants' Account	9,798		
Accumulation Account	<u>4,604</u>	14,402	
Pension payments to			
Retired participants	2,847,927		
Beneficiaries of deceased participants	321,054		
Disabled retired participants and their children	<u>107,082</u>	3,276,063	
Pension commutation payments		274,635	
Payments upon death of retired participants		3,889	
Payments to retired participants upon surrender of pension rights		70,048	
Transfer to the retirement plan of the U.S.		<u>19,197</u>	<u>3,658,234</u>
Balance, April 30, 1978 (per Balance Sheet)			<u><u>41,534,435</u></u>

The notes in Exhibit F are an integral part of the financial statements.

Exhibit F

INTERNATIONAL MONETARY FUND
STAFF RETIREMENT FUND
NOTES TO THE FINANCIAL STATEMENTS
for the year ended April 30, 1978

1. The Plan

In accordance with the provisions of the Staff Retirement Plan, all assets and income of the Staff Retirement Fund are the property of the International Monetary Fund and are held and administered by it separately from all its other property and assets and are to be used solely for the benefit of participants and retired participants or their beneficiaries. The International Monetary Fund, as Employer, meets the administrative costs of the Plan and is to contribute the part of the cost and expenses of the Plan not provided by the contributions of participants, plus any additional amounts required to pay costs and expenses of the Plan not otherwise covered. The combined rate of contribution is 21 per cent of participants' gross salaries (14 per cent from the Employer and 7 per cent from participants).

2. Actuarial Valuation

The most recent valuation of the Plan by the actuary engaged by the Pension Committee was made as at April 30, 1977. The actuary's valuation showed an experience loss for the year then ended of \$8.6 million. Experience losses are amortized by contributions from the Employer over a period of

fifteen years. At April 30, 1978 the unamortized experience losses amounted to \$31.1 million (SDR 25.4 million).

3. Valuation Basis of Investments

All investments are recorded in the accounts at cost or amortized cost. The basis of valuation of the investment portfolio is intended to focus on the prospective long-run average yield of the existing portfolio. Therefore, not only interest and dividends, but also realized gains and losses on bonds and the effect of unrealized changes in the value of equity investments, are taken into account. The realized net loss (or gain) on bonds is amortized through the Accumulation Account over a ten-year period; unrealized market appreciation or depreciation on bonds is ignored. The amount of appreciation (or depreciation) on stocks to be recognized through the Accumulation Account each year is based on a ten-year moving average of the annual rate of changes in the market value of the equity portfolio. "Funds originally invested" is the cumulative amount of contributions from the Employer and from the participants made available for investment plus investment income. The investment base for determining the yield on investments is the "adjusted book value" in the balance sheet.

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An asterisk (*) denotes a table; a dagger (†) denotes a chart; fn. denotes a footnote.

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