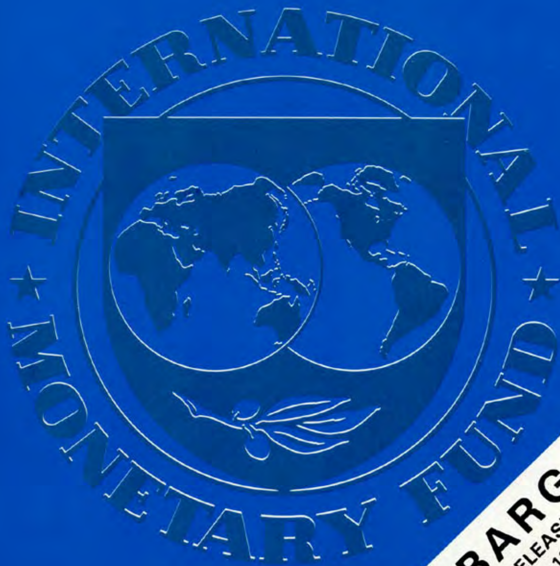
Annual Report 1984

International Monetary Fund



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INTERNATIONAL MONETARY FUND

ANNUAL REPORT

OF THE

EXECUTIVE BOARD FOR THE

FINANCIAL YEAR ENDED APRIL 30, 1984

WASHINGTON, D.C.

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The following symbols have been used throughout this paper:

... to indicate that data are not available;

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

– between years or months (e.g., 1979–81 or January–June) to indicate the years or months covered, including the beginning and ending years or months;

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

"Billion" means a thousand million.

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

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* Alphabetical listing.

August 13, 1984

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LETTER OF TRANSMITTAL
TO THE BOARD OF GOVERNORS

August 13, 1984

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, 1984, 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, 1985 is presented in Appendix VI and the audited financial statements of the General Department, the SDR Department, the Subsidy Account, the Supplementary Financing Facility Subsidy Account, the Trust Fund, and the Staff Retirement Plan for the year ended April 30, 1984, 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
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Chapter 1
Developments in the World Economy

Introduction

The performance of the world economy in 1983 and the early part of 1984 was significantly better than in the preceding several years. Economic expansion proceeded vigorously in the United States and Canada, and showed signs of spreading to other countries in the industrial world. Price inflation receded further in the seven largest industrial countries, dropping to its lowest level in 15 years. And the current account deficit of developing countries was further reduced. Nevertheless, difficult problems remained much in evidence. Developing countries, apart from some in Asia, were generally unable to resume the momentum of their domestic economic development. Financing the debt of those that had borrowed most heavily continued to require exceptional measures. And the persistence of high interest rates, which began to rise again in the early part of 1984, presented risks for the process of sustaining and broadening recovery.

Perhaps the most encouraging aspect of economic developments in 1983 was the resumption of growth in the industrial economies. In the United States and Canada, recovery had been initiated at the end of 1982, and by mid-1983 had gathered considerable momentum. The upswing began in the sectors of housing, stockbuilding, and consumer durables, and in the United States had spread to investment demand by the end of the year. Recovery in the other industrial countries has been more subdued and, except in the United Kingdom, began somewhat later. Nevertheless, by early 1984, the improving trend appeared to be fairly well established, albeit not with sufficient strength outside the United States and Canada to make much inroad on the very high levels of unemployment being experienced in many countries.

Economic recovery was accompanied by a further slowing of inflation. The weighted average rate of increase in the gross national product (GNP) deflator of the seven major industrial countries fell below 5 percent in 1983, having been above 9 percent in 1980. This continued improvement in price performance was associated with a further decline in interest rates in the first half of 1983. By the second half of the year, however, the decline had come to an end, leaving interest rates at a very high level in relation to current inflation. In the opening months of 1984, interest rates firmed quite significantly, especially in the United States, despite the continuing moderate pace of underlying inflation.

The high level of interest rates has been a major factor complicating the task of developing countries in bringing about external adjustment and restoring the momentum of their development. These countries had been severely affected by the world recession. Their export markets had stagnated and their terms of trade had deteriorated. Their situation was aggravated in a number of cases by delays in taking appropriate adjustment measures and by the actions of trading partners in attempting to preserve domestic employment through an intensification of protectionist measures. Given the large share of their external debt that had been contracted at variable interest rates, developing countries faced severe difficulties in financing their external obligations when international interest rates shifted upward. Although the combined current account deficit of the non-oil developing countries was reduced sharply after 1981, the reduction came too late to avert the financing crisis that developed among heavily indebted countries in the latter half of 1982. This crisis quickly led to a very sharp reduction in spontaneous new bank lending to developing countries.

Faced with this situation, developing countries (oil importing and oil exporting alike) had no alternative but to intensify their efforts toward external adjustment. The combined current account deficit of the non-oil developing countries fell in 1983 to its lowest level, in relation to exports of goods and services, in ten years. For many countries, however, this was not sufficient to bring about a restoration of normal financing of their external debt. As a result, in 1983 and the early part of 1984 there was again a large number

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of debt reschedulings and concerted new financing packages.

The reduction in the current account deficit of the non-oil developing countries was aided in 1983 by a slight improvement in their terms of trade and an increase in the volume of exports to the industrial countries. Nevertheless, these recent positive developments in the external environment should not be allowed to obscure the difficulties developing countries have faced in achieving the needed adjustment. A massive shift in the pattern of absorption has been required and until recently has had to be brought about largely by a compression of imports. The policies required to achieve this shift took their toll on domestic economic growth. While experience has varied significantly among countries, the average growth rate in non-oil developing countries as a group was only 1½ percent in 1983, making three years during which output has grown by less than the rate of population increase. As there was also in these three years a substantial movement of resources toward the external sector, to compensate for adverse terms of trade shifts and to improve the external accounts, it is clear that there has been a very serious erosion of living standards in many of these countries.

Improving economic performance in the developing countries is, therefore, one of the most pressing objectives of international economic policy. It can be attained, however, only if the recovery that is under way in industrial countries is sustained and broadened, and if the heavy burden of debt service faced by many borrowing countries can be handled satisfactorily.

Economic recovery in the industrial countries has been facilitated by the greater measure of price stability that has been established in recent years. It will be important to continue to formulate monetary policy in such a way as to safeguard the progress that has been made. At the same time, if the expansion that is now under way is to be sustained in a balanced manner, a number of policy adaptations will be needed. First, it will be important to frame fiscal policies in such a way that the conflict between government and private demands for credit is minimized. Otherwise, upward pressure on interest rates will be maintained, jeopardizing the stability of recovery and undermining the adjustment efforts of developing countries. Also of major importance is a concerted attack on structural rigidities that hamper the effective functioning of many of the industrial economies. If these rigidities, particularly in labor markets, are not tackled, the prospects of an eventual return to more normal levels of unemployment will be diminished. In addition, determined resistance to protectionist pressures is required, both to promote structural change and growth and to enable indebted countries to service their external debts and bring about needed external adjustment. Many of these indebted countries have, with the encouragement of the international community, based their economic strategies on the development of a vigorous foreign trade sector. Any threat to their adequate access to export markets would seriously inhibit the use of these outward-looking growth strategies.

Of course, developing countries themselves must play the major role in adjustment, by continuing the pursuit of policies that restore domestic economic stability and provide a sound financial basis for resumed growth of output and investment. It is noteworthy that countries that have adapted in a timely way to changes in the international economic environment have generally fared better in their economic performance than those that have been slower to adjust. It remains true, however, that an increased flow of official development assistance will have a vital role to play, particularly to enable those countries that do not have access to commercial credit to participate adequately in an economic upturn.

Domestic Activity and Policies

Industrial Countries

Stance of Policies.—Throughout 1983 and the first half of 1984, the authorities of the industrial countries have continued to place primary emphasis on the restoration of the underlying economic conditions necessary for sustained noninflationary growth. In general, this focus on medium-term objectives has meant perseverance with policies of financial discipline designed to achieve a more stable environment for private economic decision making. The practical implementation of such policies, however, has generally been more consistent and effective in the management of money and credit than in the fiscal field.

In most major countries, monetary policy has been designed to restrain the growth of monetary aggregates and thus to achieve lower inflation on a lasting basis. The implementation of this strategy has proceeded flexibly, taking account of a number of factors that have introduced additional uncertainty into the underlying trend of the relationship between money and nominal GNP. Institutional changes have brought about shifts in the demand for money, while the high level of real interest rates has complicated the task of extrapolating historical relationships between velocity and interest rates into the more recent period. In a number of cases there have also been reversible short-term shifts in money demand, associated, for example, with anticipated currency realignments in the European Monetary System (EMS).

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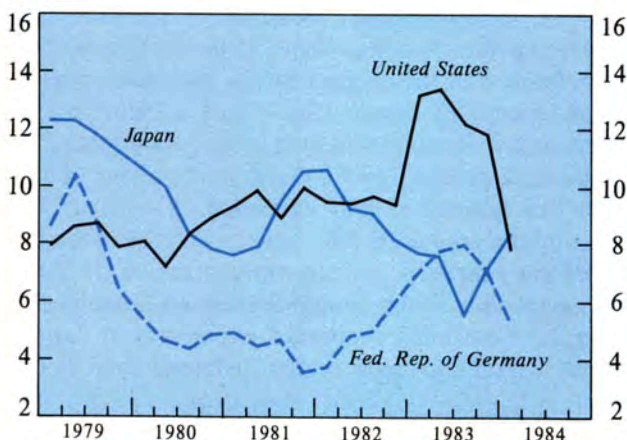
Reflecting such factors, the growth of monetary aggregates was allowed to exceed its target range early in 1983 in several important countries, notably the United States, the United Kingdom, and the Federal Republic of Germany. Subsequently, however, monetary growth was more restrained, and by the early part of 1984 the monetary aggregates were within, or in some cases below, their target ranges in each of the three countries. For the seven major industrial countries as a group, the rate of expansion of both broad and narrow money in 1983 was similar to that recorded in the previous year. M1 grew by 8½ percent, the same rate as in 1982, while M2 grew by 9 percent, against 9½ percent in 1982. (See Chart 1 for a record of the growth rate of target aggregates in the three largest industrial countries.)

Monetary conditions in the industrial countries shifted somewhat during the course of the year. During the first half of 1983, monetary expansion was sufficient to accommodate the revival of economic growth while permitting a decline in interest rates to continue. Later in the year, however, strengthening economic activity in the private sector, together with a deceleration in monetary growth, contributed to a notable tightening in monetary conditions. These factors, in combination with government borrowing requirements that remain very large, have brought a distinct renewal of upward pressures on interest rates in some countries, particularly among those where the cyclical recovery has been most vigorous. The average of short-term interest rates in the major industrial countries, which had fallen to 9¼ percent in the first half of 1983 from a peak of some 15 percent during 1981, rose to 9¾ percent in the first half of 1984. Long-term rates followed a broadly similar pattern, though the amplitude of the movements, until recently, was generally less. (See Chart 2.)

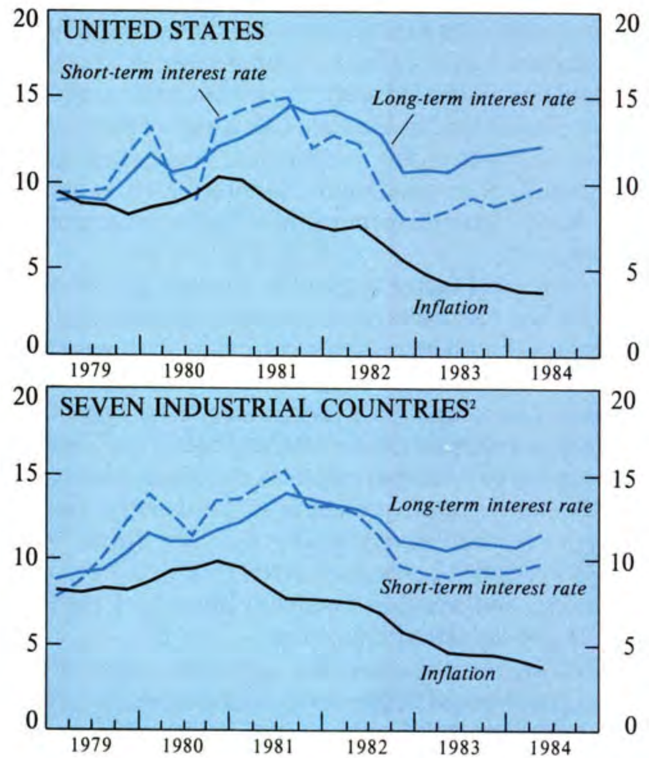
Chart 1. Three Major Industrial Countries: Growth of Monetary Aggregates, 1979–First Quarter 1984 [1]

(Percent change from corresponding period of preceding year)



[1] The aggregates are central bank money for the Federal Republic of Germany, M2 plus certificates of deposit for Japan, and M2 for the United States.

Chart 2. Major Industrial Countries: Interest Rates and Inflation, 1979–Second Quarter 1984 [1]



[1] Inflation is measured by the percentage change in GNP deflators.
[2] Includes Canada, France, the Federal Republic of Germany, Italy, Japan, the United Kingdom, and the United States. Composite interest rates and inflation are averages of variables for individual countries weighted by the average U.S. dollar value of their respective GNPs over the preceding three years.

A noteworthy feature of the recent increases in interest rates is the fact that they have not occurred in response to overt signs of renewed inflation. As a result, real interest rates have probably risen further. The calculation of medium-to-long-term real interest rates requires assumptions about inflationary expectations that are inevitably speculative. Nevertheless, it may be noted that, for the average of the major industrial countries, the gap between interest rates (both long-term and short-term) and the current inflation rate was greater in early 1984 than it had been in 1981. The recent rise in interest rates has been strongest and most persistent in the United States, where both short-term and long-term yields in the spring of 1984 reached levels roughly 2 percentage points higher than in the early months of 1983 (see Chart 2), and in Canada, whose financial markets are closely linked with those of the United States.

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During recent years, the broad aims of fiscal policy in most industrial countries have been to contain and if possible reduce the share of national output absorbed by government, and to improve the structure of government finances. In practice, however, the implementation of these objectives has encountered a series of difficulties. The effect of the prolonged recession on the fiscal position of governments was to reduce receipts relative to expenditures and thus to perpetuate and increase budget deficits. Furthermore, in a number of countries, intended cuts in expenditure were not fully implemented, and certain categories of payments, notably transfers under "entitlement" programs, grew more rapidly than envisaged. Planned tax cuts, on the other hand, have in general been more fully implemented.

An additional factor tending to weaken government finances has been the combination of prevailing high interest rates with increased government debt resulting from the succession of large deficits incurred during the recession years. This has produced an important new element of intractability in fiscal balances. General government interest payments in the major industrial countries now average nearly 2 percentage points higher, as a proportion of GNP, than they did in 1979. They represent 9 percent of GNP in Italy, 7 percent in Canada, and about 3–5 percent in each of the five other major industrial countries.

Reflecting these factors, the aggregate deficit of the central government in the seven major industrial countries reached over 5½ percent of GNP in 1983, almost 1 percentage point higher than in 1982 and almost 2 percentage points above the highest figure reached during the 1970s. The overall increase in 1983 cannot be attributed to cyclical factors, since the impact of increases in economic slack in some European countries was broadly offset by the favorable fiscal effects of rapid economic growth in North America. After adjustment for cyclical factors, the increase in the aggregate deficit was largely a consequence of U.S. income tax cuts not matched by corresponding expenditure reductions and of some temporary and unintended slippage in the U.K. Government's program of fiscal consolidation in the first half of 1983. The large countries of continental Europe and Japan recorded modest improvements in their underlying fiscal position; and some smaller countries undertook more far-reaching fiscal measures.

Seen in a somewhat longer perspective, the past four years have been a period of substantial divergence in the thrust of fiscal policy between the United States, on the one hand, and other major industrial countries, on the other (Table 1). From 1979 to 1983, the expansionary impulse imparted by fiscal policy in the United States is estimated to have amounted to almost 2 percent of GNP.[1] In all other major countries, there was a contractionary thrust, ranging up to some 3 percent of GNP in the United Kingdom and the Federal Republic of Germany. Partly as a consequence, the actual deficit of the U.S. Federal Government rose by the equivalent of 4½ percent of GNP between 1979 and 1983, while the corresponding increase for the other major industrial countries was under 1 percent of GNP.

According to budgetary plans already announced or adopted, the contrasting paths of fiscal developments in the United States and in the other major industrial countries seem destined to persist through 1984. Although the U.S. federal deficit is likely to decline slightly in the current calendar year, the expected decline would be less than could be attributed to the effects of recovery alone. Outside the United States, policy actions are expected to be in the direction of a modest further reduction in deficits and, in conjunction with an improving level of economic activity, should result in the other major industrial countries having the first decline in their recorded deficit for several years.

It is clear, however, that governments are continuing to absorb rather large shares of private saving in virtually all industrial countries. Even in Japan, where saving is high, one eighth of gross private saving is now needed to finance the deficit of the general government sector. In the other major countries, the proportion is considerably higher, ranging up to almost one half. All of these ratios—and especially those in the United States and Canada—are relatively high by the respective national historical standards, and must be cut back significantly as the recovery proceeds if adequate financing for the desired expansion of productive private investment is to be found.

Output and Demand.—At mid-1984, the industrial world as a whole was well into its second year of recovery, following three years of severe recession. Industrial production was about 15 percent higher than a year earlier in the United States and more than 10 percent higher in Japan. (See Chart 3.) For the five largest industrial countries as a group, the average rise in industrial production from the first quarter of 1983 to the first quarter of 1984 exceeded 11 percent.

During the course of 1983, and especially in the first half of the year, the upward momentum of GNP was centered mainly in the United States and Canada. (See Table 2.) Continued moderate expansion of Japan's output, which had been better sustained than that of

[1] Fiscal policy is measured here in terms of the financial position of the Federal Government. If the financial position of state and local governments is included, the expansionary impulse stemming from the government sector would be about 1½ percent during this period.

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Table 1. Major Industrial Countries: Central Government Fiscal Balances and Impulses, 1977–83 [1]
(In percent of GNP)

	1977	1978	1979	1980	1981	1982	1983
Fiscal balance (+ surplus, − deficit)							
Canada [2]	−3.5	−4.6	−3.4	−3.3	−2.1	−5.7	−6.3
United States	−2.7	−2.0	−1.2	−2.4	−2.5	−4.3	−5.8
Japan [3]	−5.1	−5.3	−6.2	−6.1	−5.9	−5.5	−5.1
France [4]	−1.0	−2.6	−1.5	−1.1	−2.6	−2.8	−2.9
Germany, Fed. Rep. of	−2.2	−2.1	−1.8	−1.7	−2.2	−1.9	−2.0
Italy [5]	−9.0	−14.6	−11.1	−10.9	−12.9	−15.1	−16.8
United Kingdom	−3.1	−5.0	−5.3	−4.9	−4.1	−2.9	−4.9
All seven countries	−3.2	−3.6	−3.1	−3.5	−3.8	−4.7	−5.6
All seven countries except the United States	−3.7	−4.9	−4.6	−4.4	−4.7	−5.0	−5.4
Fiscal impulse (+ expansionary, − contractionary)							
Canada [2]	1.2	1.0	−0.7	−0.4	−1.1	1.4	0.2
United States	0.2	—	−0.8	0.3	0.2	0.5	1.6
Japan [3]	0.2	0.2	1.0	—	−0.3	−0.6	−0.4
France [4]	−0.4	1.9	−0.8	−0.7	1.0	—	−0.3
Germany, Fed. Rep. of	−0.4	0.1	—	−0.4	−0.7	−1.8	−0.1
Italy [5]	−0.8	5.3	−3.0	−0.1	0.6	0.6	−0.1
United Kingdom	−2.3	2.7	0.5	−2.4	−2.5	−1.2	2.4
All seven countries	−0.1	0.7	−0.4	−0.2	−0.2	−0.1	0.9
All seven countries except the United States	−0.3	1.3	—	−0.5	−0.4	−0.5	0.1

[1] For the definition of the fiscal impulse measure, see *World Economic Outlook: A Survey by the Staff of the International Monetary Fund* (Washington: International Monetary Fund, April 1984), pages 99–112. Data have been converted where necessary from a fiscal to a calendar year basis for ease of comparison. Composites for the country groups are weighted averages of the individual country ratios, with weights in each year proportionate to the U.S. dollar value of the respective GNPs in the preceding year.
[2] Data for Canada are on a national income accounts basis.
[3] Data for Japan cover the consolidated operations of the general account, certain special accounts, social security transactions, and disbursements of the Fiscal Investment and Loan Program (FILP), except those to financial institutions. Japanese data other than FILP transactions are based on national income accounts.
[4] Data for France do not include social security transactions and are on an administrative basis.
[5] Data for Italy refer to the "state sector" and cover the transactions of the state budget as well as those of several autonomous entities operating at the state level. They also include the deficit of the social security institutions and part of that of local authorities.

most other industrial countries throughout the recessionary period, also bolstered the average growth rate for the group as a whole. In addition, moderate advances were recorded during 1983 by the United Kingdom and the Federal Republic of Germany, as well as by Finland and Norway among the smaller industrial countries. Elsewhere in the industrial world, however, increases in GNP were quite limited, and a few countries, including Italy and Australia, registered declines in output on a year-over-year basis.

The leading role of the United States in the cyclical turnaround that began during 1983 stemmed initially from a revival of consumer demand and a shift toward reversal of the inventory cycle. Real incomes and purchasing power, which were benefiting from the program of personal income tax reductions, were further enhanced by marked declines in both inflation and interest rates from their 1982 levels. These declines raised consumer confidence and added to household net wealth. Precautionary attitudes that had built up during earlier years of high inflation apparently were relaxed. All of the foregoing factors added stimulus to consumer demand, especially for housing, automobiles, and other durable goods. To meet this rising demand, industrial production expanded rapidly, and the previous tendency to reduce inventories was diminished and gradually reversed as business confidence rose.

While expansion in the United States and Canada has been strongest in the consumer-oriented components of demand, there have also been encouraging signs that recovery is spreading to the investment sector, particularly in the United States. In that country, business capital formation has shown considerable strength, which is all the more noteworthy in the light of the high level of real interest rates that has prevailed throughout the recovery period. The reasons for this strength are not fully apparent, but may reflect both

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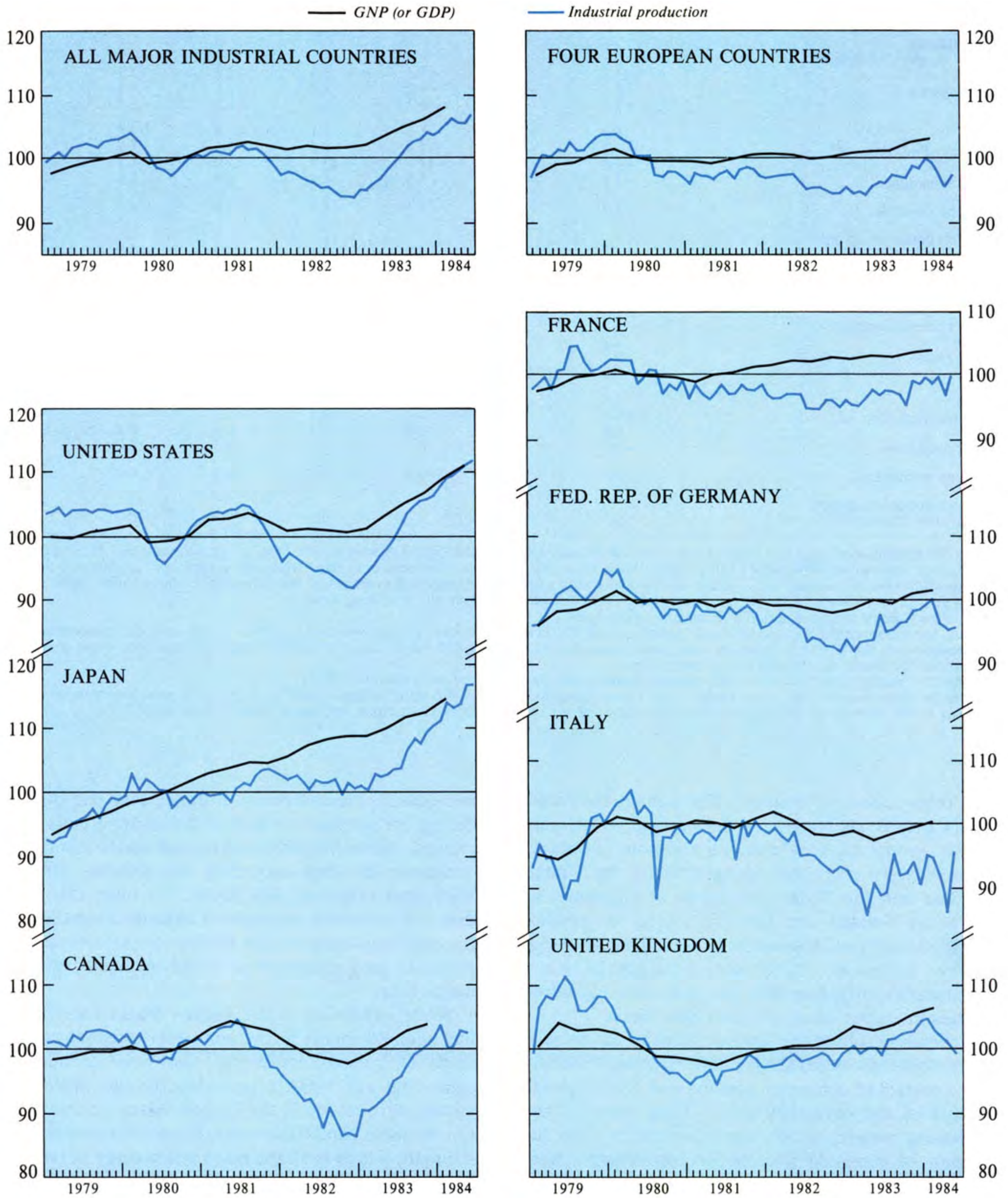
Chart 3. Major Industrial Countries: Real GNP and Industrial Production, 1979–June 1984
(Indices, 1980 = 100)[1]



[1] Seasonally adjusted.

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Table 2. Industrial Countries: Changes in Output and Prices, 1967–83 [1]
(In percent)

	Average 1967–76 [2]	Change from Preceding Year						
		1977	1978	1979	1980	1981	1982	1983
Real GNP								
Canada	4.8	2.0	3.6	3.2	1.1	3.3	−4.4	3.3
United States	2.8	5.5	5.0	2.8	−0.3	2.6	−1.9	3.4
Japan	7.4	5.3	5.1	5.2	4.8	4.0	3.3	3.0
France [3]	4.7	3.1	3.8	3.3	1.1	0.2	2.0	0.7
Germany, Fed. Rep. of	3.4	2.8	3.5	4.0	1.9	−0.5	−1.1	1.3
Italy [3]	4.3	1.9	2.7	4.9	3.9	0.2	−0.4	−1.2
United Kingdom [3]	2.3	2.2	3.8	2.8	−2.5	−1.6	2.1	3.1
Other industrial countries [4]	4.3	1.7	2.0	2.9	2.1	0.6	0.2	1.9
All industrial countries	3.7	3.9	4.1	3.5	1.3	1.6	−0.2	2.5
Of which,								
Seven major countries above	*3.6*	*4.3*	*4.5*	*3.6*	*1.2*	*1.8*	*−0.2*	*2.5*
European countries	*3.8*	*2.4*	*3.0*	*3.4*	*1.5*	*−0.2*	*0.5*	*1.4*
GNP deflator								
Canada	6.9	7.4	6.7	10.3	11.4	10.6	10.4	5.4
United States	5.6	5.8	7.4	8.7	9.2	9.4	6.0	4.2
Japan	7.9	5.7	4.6	2.6	2.8	2.7	1.7	0.7
France [3]	7.3	9.0	9.5	10.4	12.0	12.3	12.5	9.7
Germany, Fed. Rep. of	5.1	3.7	4.2	4.0	4.5	4.2	4.8	3.2
Italy [3]	9.3	19.1	13.9	15.9	20.7	18.4	17.9	15.2
United Kingdom [3]	9.9	13.9	10.9	14.5	19.8	11.7	7.0	5.5
Other industrial countries [4]	8.0	10.1	8.7	8.2	8.7	9.5	9.8	7.0
All industrial countries	6.7	7.6	7.5	8.0	9.1	8.7	7.2	5.1
Of which,								
Seven major countries above	*6.5*	*7.2*	*7.3*	*8.0*	*9.1*	*8.5*	*6.7*	*4.8*
European countries	*7.5*	*9.8*	*8.6*	*9.0*	*10.9*	*10.0*	*9.4*	*7.4*

[1] Composites for the country groups are averages of percentage changes for individual countries weighted by the average U.S. dollar value of their respective GNPs over the preceding three years.
[2] Compound annual rates of change.
[3] GDP at market prices.
[4] Comprise Australia, Austria, Belgium, Denmark, Finland, Iceland, Ireland, Luxembourg, the Netherlands, New Zealand, Norway, Spain, Sweden, and Switzerland.

fiscal incentives for investment and the unsuitability of parts of the existing capital stock for the structure of demand growth that is now in prospect.

Outside the two North American industrial economies, expansion has been slower in gathering momentum, although by the second half of 1983 and the early part of 1984, recovery appeared to be better established. The growth in net imports into the United States and Canada has been an important factor underpinning output growth in other industrial countries. This was particularly significant for Japan, although domestic demand now appears to be providing a greater stimulus to GNP growth in that country. In the United Kingdom and the Federal Republic of Germany, as well as in several of the smaller industrial countries, declining inflation and interest rates appear to have led to a further drop in the saving ratio and to have encouraged a revival in investment activity.

In France, where economic activity had been somewhat better maintained in 1981–82 than in most other European countries, recovery tended to be relatively weak in 1983. The need to combat inflation and bring down the external current account deficit limited the scope for increases in domestic demand. As a result, gross domestic product (GDP) was only about ½ of 1 percent higher in 1983 than in 1982, and did not display signs of upward momentum until late in 1983 and early in 1984. Italy, too, was influenced by the need to improve its balance of payments and, especially, its price performance. Italian output, though recovering slowly during 1983 from a sharp drop during 1982, was just over 1 percent lower for the past calendar year as a whole than in 1982.

Among the smaller industrial countries, experience varied considerably in 1983 and in early 1984. On average, however, their economic performance has remained somewhat weaker than that of the seven major industrial countries as a group. With many of the smaller countries still suffering from serious inflation and weak balance of payments positions, their

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combined GNP growth averaged 1.9 percent in 1983. While this represented an improvement over the sluggish rates of the preceding two years, the output expansion recorded in 1983 was well below the estimated increase in these countries' productive potential.

In early 1984, the average rate of growth among the smaller industrial countries continued to lag behind that of the larger ones, and in most there was a further worsening in unemployment. However, scattered signs of some acceleration in economic activity were appearing, and some of the smaller countries have laid the foundation for stronger gains as their major trading partners reach more satisfactory stages of recovery. Since most of the smaller countries are closely linked to the European industrial area, the regional pattern of cyclical recovery among major industrial countries has so far been rather unfavorable for the majority of the smaller countries, but this disadvantage may be mitigated as recovery spreads.

Employment and Unemployment.—Except in the United States and Canada, the acceleration of growth in 1983 was generally insufficient to take up much of the slack in the labor market. The average rate of unemployment was higher in 1983 than in 1982 in every major industrial country except the United States, as well as in most of the smaller ones. Altogether, 8 of the 21 countries in the industrial group, including for the first time Denmark and Australia, reported average unemployment exceeding 10 percent of the labor force in 1983,[2] and the annual average for the entire group reached 8¾ percent. By the end of the year, however, there were increasing signs of improvement. Unemployment continued to fall rapidly in the United States and Canada, while in several other countries the rise in joblessness seemed to have been halted.

In the early part of 1984, the unemployment rate was reduced substantially further in the United States and was reduced or at least stabilized in several other countries. The United States, however, was the only member of the group whose employment gains during the first half of 1984 were strong enough to outpace labor force growth by a sizable margin. Hiring of additional workers in the United States responded more quickly than usual to the cyclical upturn in demand and production, reflecting the degree to which the sheer duration of the recession had resulted in elimination of the hoarding of labor typically observed during past recessions. At less than 8 percent in the first quarter of 1984, the U.S. unemployment rate was down by more than ½ of 1 percentage point from the previous quarter and by 2½ percentage points from the corresponding quarter a year earlier.

[2] On the basis of the respective national statistics, which are not fully comparable in terms of labor force definitions and concepts of unemployment.

In a number of European industrial countries, by contrast, further increases in unemployment were recorded. Even in the countries whose employment situations seemed to be stabilizing, levels of unemployment remained quite high during early 1984. About 12½ percent of the labor force was out of work in the United Kingdom, and still higher unemployment rates (15 percent or more) prevailed in Belgium, Ireland, the Netherlands, and Spain. The persistence of such high rates of unemployment appears to be attributable not only to cyclical weakness in these economies but also to structural rigidities in their labor markets. Wage costs continue to absorb a higher share of value added in European countries than was common in the 1960s and early 1970s. At the same time, employers are made reluctant to hire additional workers by the difficulty of releasing them should demand conditions change.

Prices and Costs.—The concerted focus of policy on restraint of inflationary pressures met with further success in 1983. Rates of increase in prices subsided significantly in every major industrial country and in most of the smaller ones as well. In a number of countries, including the United States, the United Kingdom, the Netherlands, and New Zealand, the rate of increase in the GNP deflator was more than halved from 1981 to 1983. For the industrial countries as a group, the rise in the GNP deflator dropped to 5 percent in 1983, compared with 7 percent in 1982 and 8½–9 percent in each of the preceding two years. (See Table 2.) With some of the factors underlying this moderating trend having largely run their course by mid-1983, recent quarterly movements in the series have shown less tendency to improve, although there was a further decline in this measure of inflation in the United States in the first half of 1984. Consumer prices in these countries have followed a broadly similar course in recent years, although with more amplitude of movement, reflecting mainly the greater volatility of import costs.

While the dispersion of inflation rates has remained quite substantial, it tended to diminish somewhat during 1983 and the first half of 1984. Canada and France, which had had persistently high rates of price increase during 1979–82, finally achieved some success in reducing inflation. The same can be said of a number of the smaller industrial countries, including Ireland, New Zealand, and Norway. By the first half of 1984, the rate of consumer price increase in most industrial countries had been brought below the double-digit level.

Foremost among the factors leading to the current greatly reduced average rate of inflation has been the perseverance of most national authorities with their anti-inflationary strategy despite its high short-run cost in terms of unemployment and forgone output. In

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particular, monetary restraint has limited the capacity of business enterprises to accede to higher wage demands or to pass additional wage costs through to their customers in the form of higher prices. Increased flexibility in labor contract negotiations has resulted from the combination of a marked reduction in inflationary expectations with high unemployment and slack productive capacity. During 1982 and 1983, these conditions induced a notable moderation in wage settlements. In several countries, significant modifications of previously rigid indexation arrangements made major contributions to the slowing of wage and price increases.

In 1983, the scaling back of wage and salary increases was reinforced, in its effect on unit labor costs, by an acceleration in productivity gains. After a long period of weakness, the growth of output per man-hour in manufacturing increased sharply, and overall GNP per employee in the industrial countries rose about twice as fast as it had during the 1980–82 period. This favorable result occurred despite the fact that an exceptional degree of labor shedding by cost-conscious employers had occurred during the recession, leaving less scope than in previous cyclical recoveries for productivity increases from fuller utilization of already employed labor.

Factors underlying the welcome acceleration of productivity gains in 1983 cannot be identified with certainty, but some of the probable causes can be suggested. Fuller utilization of existing plant capacity must have been among the more important. It also seems likely that rapid scrapping of obsolete plant and equipment during the years of weak demand and intensified cost pressures may have resulted in an upgrading and a reduction in the average age of facilities in use. The maturing of the labor force could have benefited productivity in countries where high proportions of new entrants from the generation born just after World War II had lowered the average experience of workers employed during the previous decade or so. Whatever the respective roles of these and other underlying factors, it is clear that the recent acceleration of productivity growth has made an important contribution to reducing the rate of increase of unit costs and final product prices.

Developing Countries

A major factor underlying the serious economic and financial difficulties confronted by most developing countries in recent years, and the associated slowdown in their rates of growth, has been the recession in the industrial countries.

This recession was unusually prolonged, in part because of the difficulties of combatting inflationary expectations that had become entrenched during the earlier period of accommodative policies. The impact of the weakness in economic activity was reflected in a reduced demand for developing countries' exports and a further deterioration in their terms of trade. The recession also tended to intensify protectionist trade measures in industrial countries, restricting the growth of markets for exports of manufactures from developing countries. Oil exporting countries, too, were seriously affected, as a combination of weak aggregate demand, conservation efforts, inventory reductions, and substitution among fuels and among sources of supply led to a sharp reduction in the volume of their oil exports and, eventually, to a decline in price also.

The strains resulting from these adverse external developments were exacerbated in a number of developing countries by inappropriate domestic financial policies in the years immediately following the 1979–80 oil price increases. Inflationary demand management policies and resort to excessive external borrowing or trade and payments restrictions, rather than to needed measures of adjustment, led to a loss in international competitiveness and worsened the payments disequilibrium in several of these countries.

The weakness of foreign exchange earnings, against a background of indebtedness that had been rapidly rising since the mid-1970s and that was largely contracted at variable interest rates, made developing countries particularly vulnerable to the large increase in international interest rates that took place after 1980. The prolongation of this situation contributed to capital flight and to a widespread drying up of new private lending after the middle of 1982. In the circumstances, developing countries were obliged to curtail imports, adopt policy measures to restrict domestic demand, and settle for lower growth rates.

Economic Growth.—In most developing countries, economic growth remained weak in 1983, as it had been in 1981 and 1982. This was true, not only in comparison with these countries' performance in the 1960s and 1970s but also, more importantly, in relation to their population growth and development needs. The weighted average growth rate for all developing countries, which had been declining steadily from its 1977 level of nearly 6 percent, was less than 1 percent in both 1982 and 1983. (See Table 3.)

Among the non-oil developing countries, the weighted average rate of growth remained at 1½ percent in 1983, approximately the same pace as in 1982. In per capita terms, economic growth has declined from some 3 percent per annum during most of the 1960s and 1970s to virtually zero in 1981 and to a negative figure in 1982 and 1983. Moreover, the requirements of external adjustment have meant that a sizable additional portion of real output has had to be devoted to net exports over the past three years, both to offset the deterio-

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ration in the terms of trade and to bring about a reduction in the current account deficit. Thus, the additional resources available for domestic consumption and investment were substantially less than the increase in measured output. The aggregate output of oil exporting countries, heavily influenced as it is by developments in the oil sector, has been decreasing since 1980. It fell again in 1983, albeit by a relatively small amount. Abstracting from developments in oil production, however, economic growth in the non-oil

Table 3. Developing Countries: Changes in Output, 1967–83 [1]

(In percent)

	Average 1967–76 [2]	Change from Preceding Year						
		1977	1978	1979	1980	1981	1982	1983
Developing countries								
Weighted average [3]	5.7	5.8	5.5	4.8	3.5	1.2	0.2	0.8
Median	. . .	5.0	5.6	4.9	3.7	3.2	1.8	1.7
Oil exporting countries [3]	7.0	6.3	2.3	3.7	−2.0	−4.0	−4.3	−i.1
Oil sector [3]	. . .	2.0	−3.5	3.0	−11.7	−15.4	−16.0	−6.9
Other sectors [3]	. . .	9.4	6.0	4.1	4.9	5.5	3.9	1.9
Median	. . .	8.9	5.5	7.8	11.1	9.4	5.5	3.7
Non-oil developing countries								
Weighted average [3]	5.6	5.7	6.4	5.1	5.0	2.8	1.5	1.6
Median	5.0	5.0	5.6	4.8	3.7	3.3	2.0	1.7
By analytical group								
Weighted averages [3]								
Net oil exporters	6.8	3.6	6.1	7.6	7.3	6.6	1.1	−1.5
Net oil importers	5.4	5.7	6.4	4.7	4.7	2.2	1.6	2.2
Major exporters of manufactures	6.9	5.7	4.7	6.4	4.5	0.1	0.3	−0.1
Low-income countries	3.8	6.6	9.0	3.3	6.0	4.3	4.3	6.1
Excl. China and India	3.6	3.6	5.4	2.3	3.4	3.4	3.8	2.6
Other net oil importers	5.1	6.0	5.6	3.6	3.2	3.1	0.4	1.1
Medians								
Net oil exporters	6.0	4.9	6.6	4.5	6.3	4.8	1.2	2.3
Net oil importers	4.8	5.0	5.3	4.8	3.7	3.0	2.1	1.7
Major exporters of manufactures	7.6	6.4	6.7	6.8	4.9	4.2	1.0	1.8
Low-income countries	3.9	3.9	4.7	3.8	3.5	2.8	2.8	2.4
Other net oil importers	5.1	5.5	5.9	4.9	3.7	3.0	1.8	1.1
By area								
Weighted averages [3]								
Africa (excl. South Africa)	4.8	2.3	2.5	2.2	3.0	1.8	1.2	0.1
Asia	5.0	7.3	9.8	4.7	5.4	5.1	4.5	6.5
Europe	5.5	5.4	5.4	3.9	1.5	2.3	2.4	0.6
Middle East	5.6	4.3	7.4	4.3	6.8	5.4	3.4	4.2
Western Hemisphere	6.6	5.0	4.2	6.7	6.1	0.2	−1.6	−2.3
Medians								
Africa	4.7	3.5	3.5	4.0	2.5	2.0	2.6	1.6
Asia	4.8	5.8	6.7	6.3	5.5	5.0	3.8	4.4
Europe	6.4	6.6	6.8	5.6	2.7	2.5	2.9	0.8
Middle East	6.4	5.6	8.2	3.8	6.8	7.3	5.4	4.2
Western Hemisphere	4.9	5.3	6.4	4.8	4.3	2.1	−0.7	—

[1] Data in this table cover all Fund members except those listed in Table 2, together with a few territories for which output statistics are readily available. The main groups of *oil exporting countries* and *non-oil developing countries*, as well as each of the regional subgroups of non-oil developing countries, conform to the classification used in the Fund's *International Financial Statistics*. The subgroup of oil exporting countries is defined as those countries meeting both of the following criteria (applied at present to 1978–80 averages): that oil exports (net of any imports of crude oil) account for at least two thirds of the country's total exports; and that such net exports are at least 100 million barrels a year (roughly equivalent to 1 percent of annual world exports of oil). Among the non-oil developing countries, the net oil exporters are those countries that export more oil than they import, but do not satisfy the criteria noted above. The *major exporters of manufactures* are those 12 countries that, in 1977, had manufactured exports amounting to both at least $1 billion and 25 percent of each country's total exports. The subgroup of *low-income countries* comprises 43 countries whose per capita GDP, as estimated by the World Bank, did not exceed the equivalent of $350 in 1978. The subgroup of *other net oil importers* comprises middle-income countries (according to the World Bank's estimates) the majority of which export mainly primary commodities. For the specific country coverage of each analytical subgroup, see *World Economic Outlook: A Survey by the Staff of the International Monetary Fund* (Washington: International Monetary Fund, April 1984), pages 167–68.

[2] Compound annual rates of change. Excludes China.

[3] Arithmetic averages of country growth rates weighted by the average U.S. dollar value of GDPs over the preceding three years.

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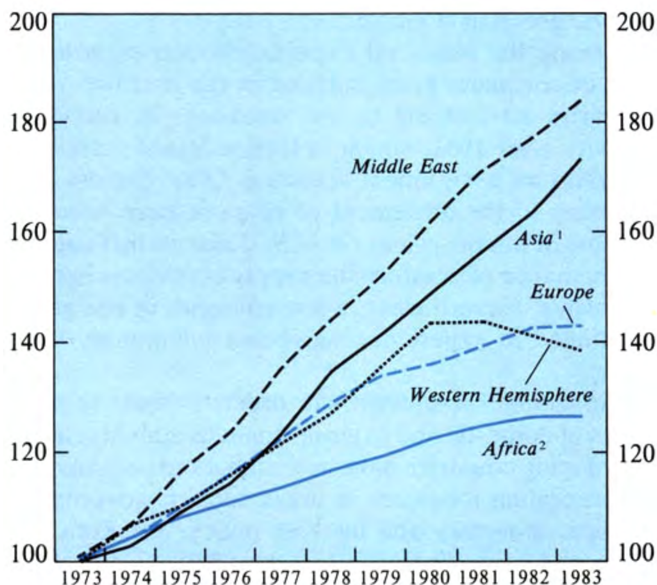
sectors of these economies has remained positive, though declining from an average rate of 5 percent in 1978–81 to 2 percent in 1983.

The slowdown in growth has been pervasive, with the median rate of output increase having declined in each of the past five years. (See Table 3.) The only regions that seem to have emerged relatively unscathed are the non-oil developing countries of the Middle East and Asia. (See Chart 4.) In the latter region, the performance of the two largest countries, China and India, as well as that of a number of smaller ones, has run counter to the trend in much of the rest of the world.

As noted above, an important factor in the severe deceleration of growth in the non-oil developing countries was the pronounced reduction in the volume and prices of their exports as a result of the recession in the industrial countries. The decline in real GNP growth of industrial countries from 4 percent in 1978 to virtual stagnation in 1982 was accompanied by an even more pronounced slowdown in the expansion of world trade. In particular, the rate of growth of non-oil developing countries' export volumes declined from 10 percent in 1978 to 1¾ percent in 1982, before recovering to 5¼ percent in 1983. The major exporters of manufactures have suffered the most substantial slowdown in output growth since the onset of the recession, reflecting a significant deceleration (and in 1982 an actual decline) in the volume of their exports.

Chart 4. Non-Oil Developing Countries: Real GDP by Region, 1973–83
(Indices, 1973 = 100)



[1] Excluding China.
[2] Excluding South Africa.

Their reliance on manufactured exports rendered them vulnerable to protectionist trends in industrial countries, while their high level of international indebtedness required a particularly determined adjustment effort at a time when foreign lending declined.

The smaller low-income countries (i.e., excluding China and India) are relatively less exposed to international economic developments, and their growth rate, though low, was initially less affected by the international recession, remaining at about 3½ percent per annum during 1980–82. In 1983, however, output growth in these countries fell to only 2½ percent, reflecting in part adverse climatic conditions in a number of countries, particularly in sub-Saharan Africa.

Not surprisingly, the weakness of economic activity in the industrial world had a substantial adverse effect on the terms of trade of the non-oil developing countries. These countries' import payments had already risen as a result of the second round of oil price increases in 1979–80. Subsequently, their export earnings were undercut by the severe decline in non-oil primary commodity prices that occurred in 1981 and 1982. This decline reflected the impact of the world recession, the rise in interest rates (which made it costly to hold commodity stocks), and the impact of the strength of the U.S. dollar on prices quoted in that currency. In addition, record harvests of foodgrains and cotton exerted downward pressure on international market prices of these commodities.

The weakness of export markets of many non-oil developing countries, together with the very high nominal rates of interest prevailing in international financial markets, resulted in a steep increase in real interest rates, as measured by the Eurodollar deposit rates adjusted for changes in these countries' export prices. In 1980 and 1981, the real rate became increasingly positive, and it fell only moderately in 1982 and 1983, as softening of export prices offset the impact of declines in nominal interest rates. The relative burden of debt service was further increased by the continued appreciation of the U.S. dollar. As the dollar rises in terms of other currencies, the value of payments that are fixed in dollar terms (such as interest payments on dollar-denominated liabilities) tends to rise relative to those (such as payments for developing countries' exports) that move more closely in line with the average of currency values.

In the face of increased debt service burdens and limited export earnings, many countries had to seek adjustment mainly through a reduction of imports. Such import cuts cause dislocations in the domestic economy and affect the ability to produce goods for domestic consumption and investment. They may also limit the country's exporting capability insofar as the

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forgone imports are required for production of exportable goods. In either case, the path of real gross domestic product is deflected downward.

Although 1983 was a disappointing year from the point of view of output growth in developing countries, a number of trends appeared that should have a favorable impact in 1984 and beyond. In particular, the recession in the industrial countries began to ease. The decline in oil prices, while contributing to the balance of payments problems of countries whose external positions depend, directly or indirectly, on oil receipts, tended to ease the adjustment burden for many other developing countries. With some recovery in commodity prices, the terms of trade of non-oil developing countries began to improve, and real export earnings started to grow more rapidly. For the oil exporting countries, the prolonged decline in the demand for their principal export showed signs of coming to an end. Interest rates generally remained below the levels reached in 1981, although they were still high in real terms and showed signs of rising in the second half of 1983 and in early 1984.

Whether the developing countries can build on these developments to achieve higher growth rates will depend in part on the extent to which the trend toward a more favorable external environment is maintained. Primarily, however, it will depend on the determination with which developing countries themselves adopt appropriate policy packages in such areas as fiscal reform, credit restraint, interest and exchange rates, incentives for private sector activity, and pricing in public sector undertakings. Recovery in developing countries will also depend on the extent to which these countries are permitted access to expanding markets in the industrial countries, and on the extent to which international capital flows, private and official, are restored and expanded.

Inflation.—In the developing countries, unlike in the industrial countries, inflation has not shown uniform signs of decelerating in recent years. In sharp contrast to the sustained anti-inflationary policies that have been instrumental in controlling cost and price pressures in the industrial countries, accommodative financial policies have been characteristic of many developing countries, and have been a major factor accounting for the high rates of inflation they have experienced over the past several years. This has been particularly true for the non-oil developing countries, whose weighted average rate of increase in consumer prices increased to 32 percent per annum in 1980–82 and to 44 percent in 1983. (See Table 4.) It may be noted here that this weighted average, being dominated by the poor performance of a few large countries, tends to overstate the rise in inflation for the majority of the non-oil developing countries. The median rate of inflation, which is more representative of price increases in a "typical" developing country, declined from 15 percent in 1980 to 11 percent in 1982 and remained at that level in 1983.

A notable feature of the pattern of inflation rates among developing countries is that Asia has been, for many years, more successful than other regions in containing price increases. This superior performance may be attributed in part to the adjustment programs adopted by many Asian countries in the 1970s and early 1980s, which included policies designed to achieve fiscal and monetary discipline, correction of price distortions, and reduction of external restrictions. The adoption of such policies in the other regions has not always taken place on such a timely basis. Furthermore, the other regional groups all include one or more sizable countries with exceptionally high rates of inflation that tend to push up the average without necessarily affecting the median rate for the area. Such high-inflation countries often have extensive indexation arrangements which, once inflation accelerates, greatly complicate the task of inflation control, particularly in circumstances requiring external adjustment. This is especially true for the Western Hemisphere region, which continued to experience the highest inflation, with the weighted average rate accelerating sharply from 78 percent in 1982 to 123 percent in 1983. However, the median inflation rate for this region showed only a modest rise, from 9½ percent in 1982 to 11½ percent in 1983, with serious inflationary problems being confined to Argentina, Bolivia, Brazil, and Mexico. Similarly, in the non-oil Middle East region, continued high inflation in Israel largely accounted for the increase in the weighted average rate for the group as a whole.

Among the major oil exporting countries, a lower rate of consumer price inflation in the past two years is partly attributable to the weakness in economic activity after 1981, which in turn reflected increasing restraint on government spending. Other factors contributing to the abatement of inflation have been the decline in import prices (in U.S. dollar terms) and the maintenance of comfortable supply conditions in most countries. Nevertheless, a few countries in this group continued to experience significant inflationary pressures.

Adjustment Measures.—In order to improve prospects of domestic and external financial stability, many developing countries have now embarked on programs incorporating measures in areas such as government finance, monetary and banking policy, the exchange rate, and trade liberalization. In addition, structural adjustment efforts included policies relating to subsidies and prices, public enterprise management, and the level and distribution of development expenditures.

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Table 4. Developing Countries: Changes in Consumer Prices, 1967–83 [1]
(In percent)

	Average	Change from Preceding Year						
	1967–76 [2]	1977	1978	1979	1980	1981	1982	1983
Developing countries								
Weighted average [3]	. . .	21.9	18.9	21.6	27.7	27.1	26.7	35.4
Median	. . .	11.2	9.9	11.6	14.6	13.5	10.3	10.0
Oil exporting countries								
Weighted average [3]	. . .	15.2	11.9	10.9	13.2	13.2	8.1	11.4
Median	. . .	11.2	10.6	10.6	11.2	11.1	7.6	9.0
Non-oil developing countries								
Weighted average [3]	15.9	23.6	20.9	24.8	32.0	31.3	32.9	44.1
Median	7.8	11.2	9.4	12.0	14.9	13.7	11.0	11.0
By analytical group								
Weighted averages [3]								
Net oil exporters	8.2	22.8	17.7	17.7	24.2	24.4	43.6	74.2
Net oil importers	17.3	23.8	21.4	25.9	33.2	32.3	31.1	39.1
Major exporters of manufactures	22.6	43.2	40.2	45.4	54.5	61.9	63.3	86.5
Low-income countries	10.7	7.0	3.7	6.7	11.7	10.4	7.4	8.1
Excl. China and India	14.9	14.2	11.5	17.9	21.8	26.4	20.4	18.0
Other net oil importers	15.8	19.6	18.7	23.9	31.5	19.3	15.7	16.0
Medians								
Net oil exporters	7.9	12.3	10.6	9.0	15.1	14.6	16.2	16.3
Net oil importers	7.8	10.6	9.1	12.2	14.9	13.5	10.6	10.0
Major exporters of manufactures	11.5	12.2	14.4	19.0	24.9	22.6	21.0	20.7
Low-income countries	8.1	9.6	9.1	11.0	14.4	13.6	11.9	13.0
Other net oil importers	7.5	11.2	8.3	12.1	14.3	12.3	7.7	7.6
By area								
Weighted averages [3]								
Africa	8.6	24.3	19.1	22.5	23.3	28.2	18.3	19.5
Asia	10.3	5.5	3.7	6.7	12.5	10.5	5.9	5.9
Europe	9.0	15.1	19.8	25.9	37.9	24.0	23.5	23.3
Middle East	9.6	20.0	20.9	25.9	42.2	34.0	36.1	40.3
Western Hemisphere	27.5	53.8	45.3	50.1	58.6	65.3	78.4	122.7
Medians								
Africa	7.5	12.0	10.1	11.6	13.8	13.5	13.5	13.0
Asia	8.0	5.0	6.0	6.3	14.5	13.4	7.4	8.0
Europe	7.3	11.1	9.9	14.3	16.2	15.7	18.5	14.2
Middle East	9.5	14.3	12.0	14.1	15.2	10.3	11.2	10.0
Western Hemisphere	8.7	11.5	10.2	15.6	18.1	14.6	9.4	11.6

[1] For classification of countries in groups shown here, see Table 3, footnote 1.
[2] Compound annual rates of change. Excludes China.
[3] Geometric averages of country indices, weighted by the average U.S. dollar value of GDPs over the preceding three years.

While these adjustment programs are expected eventually to reduce inflationary pressures, their initial consequence has sometimes been a rise in the level of domestic prices following corrective price adjustments.

A widespread feature of financial policies in developing countries in recent years has been an acceleration in money and credit growth induced by excessive fiscal deficits. Efforts to reduce fiscal deficits have been hampered by falling government revenues owing to declining economic activity, stagnation in trade, and the difficulty of expanding the tax base during a recession. Attempts to reduce government expenditures have encountered social and political constraints as well as the fear of retarding economic development by substantial reductions in capital expenditure. Since 1982, however, many countries have pursued the objective of fiscal restraint in a more determined manner. As a result, the average ratio of the fiscal deficit to GDP of the non-oil developing countries registered a modest decline to 4½ percent in 1983, after having widened from 3½ percent in 1977–81 to 4¾ percent in 1982. This improvement in the fiscal position permitted a deceleration in the rate of expansion of domestic credit. Credit growth in non-oil developing countries, which had reached 67 percent in 1982, fell back to 50 percent in 1983. There was, nevertheless, some increase in the average rate of growth of the money stock, as the monetary impact of the balance of payments became less negative.

Among the oil exporting countries, substantial adjustment measures have been made necessary by declining oil revenues, and in a few cases also by the

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need to moderate inflationary pressures. Virtually all the members of this group took measures aimed at reducing public sector spending substantially, and in many countries such measures were combined with efforts to increase domestic non-oil revenue. Nevertheless, falling receipts from the petroleum sector brought about a widening in the overall fiscal deficit, from an average of 5¼ percent of GDP in 1982 to 9 percent of GDP in 1983.

External adjustment has involved, for many developing countries, either an outright, planned reduction of investment outlays or an indirect reduction in investment spending brought about by restrictive monetary and fiscal policies and the higher cost or reduced availability of capital. This is particularly true for countries in the Western Hemisphere and in Africa, which have generally suffered reductions in the share of investment in total GDP in recent years. Although this adjustment has had adverse implications for growth, it needs to be viewed in the perspective of the acceleration in investment spending that occurred in many of these countries in the 1970s. During the mid-1970s, the relatively easy availability of private international credit at low or negative real rates of interest encouraged a rapid growth of investment spending in many countries in the Western Hemisphere. In Africa, a similar, though less pronounced, development took place in response to growing inflows of official finance on concessional terms. Although increased investment was generally associated with increased output and exports, easy access to external credit may have encouraged some countries to reach levels of imports that could not be sustained in the longer run and to avoid the reductions in consumption and investment that would otherwise have been called for. Moreover, negative real interest rates may have led to distortions in the allocation of resources.

However, if the low real interest rates of the mid-1970s may have caused an expansion in investment spending that was ultimately unsustainable, the subsequent rise in rates has had the opposite effect. The steep rise in the real cost of borrowing has narrowed the range of economically attractive investment opportunities, and has reduced the real rate of return (after allowance for the increased cost of borrowing) on all investments. The impact has been especially severe on past investments financed through floating rate debt. The economic viability of these investments has been undermined by the higher real rates of return required to match the increase in real interest costs.

Another difference between the experience of the mid-1970s and that of the early 1980s is in the resource uses of external credit. During most of the 1970s, although some borrowing was used to finance increased energy costs, growing capital inflows were in general associated with a rising absorption of real resources from abroad. While credit was still available in 1980–82—albeit at very high rates of interest—it had to be used primarily to meet the increased cost of servicing the large volume of debt accumulated in earlier years and to finance external deficits arising from the deterioration in the global economic environment, rather than to bring about increases in domestic outlays for investment. The early 1980s were also a period in which flows of industrial country aid to developing countries flattened out. This meant that in the low-income countries, which rely heavily on concessional borrowing, investment spending could not be increased or even maintained at existing rates without cutting already low consumption levels.

Beyond the effects of the increasing cost and scarcity of external credit on investment, domestic capital formation in developing countries has been affected in the short term by policies that have to be employed to restore financial stability on a durable basis. Fiscal retrenchment has led to the curtailment of public sector projects, while monetary restraint has had the effect of limiting the flow of bank credit to the private sector. While in some cases resources released by the public sector have been quickly reabsorbed through an increase in private investment activity, in general this kind of switch in resource use takes time to have its effect.

International Trade and Payments

With the progress of economic recovery in the industrial countries, the volume of world trade began to expand quite strongly in 1983, and the prolonged deterioration in the terms of trade of non-oil developing countries came to an end. (See Tables 5 and 6.)Imports into industrial countries grew at an annual rate of over 9 percent, in real terms, from the last quarter of 1982 to the first quarter of 1984. Non-oil commodity prices increased by 20 percent in U.S. dollar terms between the trough reached in November 1982 and May 1984. In consequence, the terms of trade of those developing countries that are net importers of oil improved by an estimated 2 percent in 1983 over 1982, after having deteriorated by some 20 percent over the preceding five years. For oil exporting countries, there was a decline in the terms of trade in 1983, which, however, provided only a limited offset to the improvement that had occurred during 1979–81.

The principal change in the pattern of world current account balances among major country groupings in 1983 was a further substantial reduction in the deficit of non-oil developing countries, which fell by $26 billion, to $56 billion. (See Table 7.)With the industrial countries remaining in approximate balance and oil

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Table 5. World Trade Summary, 1967–83 [1]
(Percentage changes)

	Average 1967–76 [2]	Change from Preceding Year 1977	1978	1979	1980	1981	1982	1983
World trade [3]								
Volume	7.5	5.0	5.5	7.0	1.5	1.0	−2.5	2.0
Unit value								
(in U.S. dollar terms)	8.5	9.0	10.0	18.5	20.0	−1.0	−4.0	−4.5
(in SDR terms) [4]	7.0	7.5	2.5	14.5	19.0	9.0	2.5	−1.0
Volume of trade								
Exports								
Industrial countries	8.0	5.3	6.1	7.5	3.7	3.4	−2.1	2.0
Developing countries	6.5	2.4	4.2	5.3	−2.5	−4.1	−7.4	0.6
Oil exporting countries	6.0	0.5	−2.9	2.3	−12.5	−15.6	−18.4	−7.2
Non-oil developing countries	6.6	4.1	10.0	8.0	9.0	7.8	1.7	5.3
Imports								
Industrial countries	7.6	4.4	5.1	8.6	−1.5	−1.9	−0.5	4.1
Developing countries	8.7	10.2	7.2	5.2	8.1	7.2	−4.5	−3.4
Oil exporting countries	18.5	16.3	3.8	−8.5	12.4	20.6	6.5	−10.2
Non-oil developing countries	6.0	7.7	8.6	10.7	6.8	3.1	−8.3	−0.6
Unit value of trade								
(in SDR terms) [4]								
Exports								
Industrial countries	6.2	6.6	5.2	11.5	12.4	6.1	3.0	−0.3
Developing countries	11.3	10.9	−4.0	25.4	35.1	14.0	1.0	−2.8
Oil exporting countries	20.1	8.4	−6.2	39.7	59.3	20.6	2.2	−8.4
Non-oil developing countries	6.3	13.4	−2.2	15.0	14.9	7.9	—	0.9
Imports								
Industrial countries	7.2	7.9	2.3	15.4	20.6	7.7	1.2	−2.4
Developing countries	6.5	6.5	3.1	12.8	17.8	12.3	3.4	—
Oil exporting countries	6.2	7.3	4.9	9.5	10.7	8.2	2.5	0.6
Non-oil developing countries	7.1	6.2	2.4	14.2	20.1	13.7	3.7	−0.2

[1] For classification of countries in groups shown here, see Table 2 and Table 3, footnote 1. Excludes data for China prior to 1978.
[2] Compound annual rates of change.
[3] Averages based on data for the three groups of countries shown separately below and on partly estimated data for other countries (mainly the U.S.S.R. and other nonmember countries of Eastern Europe and, for years prior to 1978, China). Figures are rounded to the nearest 0.5 percent.
[4] For years prior to 1970, an imputed value of $1.00 has been assigned to the SDR.

exporting countries in moderate deficit, the principal counterpart to the improvement in the non-oil developing countries' position was a reduction in the negative "statistical discrepancy" for the world as a whole. The large size, and significant changes, in this balancing item should induce caution in the interpretation of recorded balance of payments developments, though it probably does not invalidate inferences drawn from broad trends in such developments.

The 1983 recovery in world trade permitted non-oil developing countries to resume import growth in the latter part of that year, while still achieving a sizable further reduction in their external current account deficit. This deficit fell to the equivalent of 12½ percent of their export receipts, the lowest figure in a decade. The oil exporting countries, whose record surplus of over $110 billion in 1980 had been converted into a moderate deficit by 1982, managed to stabilize their position in 1983. In their case, however, this was due entirely to a substantial compression of imports, as both the price and the volume of their exports continued to decline.

Despite the improvements in the balance of payments position of most developing countries, many of them continued to face severe external constraints. The reluctance of commercial banks to extend further credit to many of the most heavily indebted countries, which had come to a head in the second half of 1982, remained a central feature of international credit markets in 1983 and the first half of 1984. Consequently, many developing countries had to have recourse to exceptional means of balance of payments financing, including rescheduling of existing debt and concerted new lending by banking consortia. These arrangements were usually developed in the context of programs of balance of payments adjustment supported by the Fund.

Among the industrial countries, the dominant feature of developments over the past year has been the continued strength of the U.S. dollar, and the very substantial widening in the current account deficit of the United States. Between the end of 1982 and mid-1984, the real effective exchange rate of the U.S. dollar rose by a further 5 percent, having risen by 31 percent

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Table 6. Summary of Terms of Trade and World Prices, 1967–83 [1]
(Percentage changes)

	Average 1967–76 [2]	Change from Preceding Year						
		1977	1978	1979	1980	1981	1982	1983
Terms of trade								
Industrial countries	−1.0	−1.2	2.8	−3.4	−6.8	−1.5	1.8	2.1
Developing countries	4.5	4.1	−6.9	11.2	14.7	1.5	−2.3	−2.9
Oil exporting countries	13.1	1.0	−10.5	27.6	43.9	11.5	−0.4	−9.0
Non-oil developing countries	−0.7	6.8	−4.5	0.8	−4.3	−5.1	−3.5	1.1
Net oil exporters	1.2	6.9	−4.3	19.3	11.5	−7.1	−6.8	−2.7
Net oil importers	−1.0	6.8	−4.5	−2.1	−7.1	−4.8	−2.9	1.8
Major exporters of manufactures	−1.1	5.0	−3.3	−2.8	−6.8	−4.4	−2.6	3.9
Low-income countries [3]	−0.6	16.4	−7.9	−0.6	−10.4	−5.3	−2.6	1.8
Other net oil importers	−0.7	6.1	−5.1	0.2	−9.1	−8.0	−5.5	−0.2
World trade prices (in U.S. dollar terms) **for major commodity groups** [4]								
Manufactures	7.5	8.0	14.5	14.0	11.0	−6.0	−1.0	−3.0
Oil	21.7	9.3	0.4	46.0	63.5	10.0	−4.2	−12.1
Non-oil primary commodities (market prices)	7.4	21.2	−4.1	16.3	8.7	−14.6	−12.0	6.7

[1] Based on foreign trade unit values except where indicated. For classification of countries in groups shown here, see Table 2 and Table 3, footnote 1. Excludes data for China prior to 1978.
[2] Compound annual rates of change.
[3] Excluding China and India.
[4] As represented, respectively, by (1) the United Nations export unit value index for the manufactures of the developed countries; (2) the oil export unit values of the oil exporting countries; and (3) the Fund's *International Financial Statistics* index of market quotations for non-oil primary commodities.

during the previous two years: With the Japanese yen little changed, the principal counterweight to the dollar's strength was in the European currencies. The French franc, the Italian lira, and the pound sterling experienced the largest declines against the dollar. The strength of the dollar must be largely attributed to developments affecting the capital account, notably the large interest differential favoring investment in dollar-denominated assets, the effects of tax changes and strong economic growth on the yield of equity and other investments in the United States, and the attractiveness of U.S. financial markets as a "safe haven" for foreign funds. The current account position of the United States has continued to deteriorate markedly; a deficit of $42 billion (including official transfers) was recorded in 1983, and data for the first part of 1984 suggest that the deficit could double in the current year.

Industrial Countries

Exchange Rate Developments.—The rise in the value of the U.S. dollar during 1983 continued the extended upswing that had begun in the third quarter of 1980. Having appreciated by 30 percent in nominal effective terms between that time and December 1982, the dollar rose by another 9½ percent from December 1982 to January 1984. It then declined by 4 percent from January to March 1984, but in the subsequent few months tended to firm again. By the first quarter of 1984, the real effective value of the dollar (based on relative normalized unit labor costs in manufacturing, adjusted for exchange rate movements) had risen to a level more than 25 percent above its average level for 1973–82, the first decade of generalized floating among major currencies.

The continued appreciation of the U.S. dollar indicates that the preference for dollar-denominated assets by market participants remained strong in 1983. Factors that may have contributed to the strength of these investor preferences included relatively high expected returns on both financial and real investments in the United States and the perceived safety of the U.S. financial system in a period of continued international uncertainties.

The recovery of the U.S. economy, which gathered pace during 1983, together with the continued large size of the federal budget deficit, eventually arrested the decline in U.S. interest rates that had been taking place since 1981. Both short-term and long-term interest rates began to rise in mid-1983, pushing differentials vis-à-vis most other major currencies in a direction favoring assets denominated in U.S. dollars. The expectation that the conditions underlying these high interest rates would persist provided an incentive

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for substantial inflows of capital to the United States from abroad, satisfying the heavy net demand for savings and simultaneously contributing to both the appreciation of the dollar and the deterioration of the current account balance.

The strengthening of the U.S. economy in 1983 also fostered expectations of relatively high returns on real investment, particularly in comparison with countries where economic recovery remained weak. The growth of public and private demand for domestic credit, combined with the debt problems of a number of the larger developing countries, led to a sharp decline in foreign lending by U.S. private banks. This also may have strengthened the U.S. currency, since borrowers had reduced access to dollars to convert into other currencies for the purpose of making payments.

The counterpart to the rise in the effective value of the dollar between late 1982 and mid-1984 is to be found largely in the European currencies (Chart 5). From December 1982 to May 1984, the deutsche mark depreciated substantially against the dollar (by 12 percent) and to an even greater extent (by 17 percent) against the Japanese yen. In real effective terms, the deutsche mark declined by about 5½ percent from the fourth quarter of 1982 to the first quarter of 1984, reaching a level 11½ percent below its average for the decade 1973–82. A factor that may have contributed to the decline in the deutsche mark against the other two major currencies was the easing of German monetary conditions during the first half of 1983. This had the effect of reducing real interest rates significantly below those in the United States and Japan. In addition, the trade performance of the Federal Republic of Germany remained rather weak, given its relative cyclical position, especially in comparison with that of Japan.

Other European currencies generally declined more against the dollar during 1983 than did the deutsche mark. Within the EMS, the persistence of inflation differentials was one of the factors that led to strong speculative pressures that resulted in a realignment of central rates in March 1983. The deutsche mark, Netherlands guilder, Belgian franc, Danish krone, and Luxembourg franc were revalued against the French franc, Italian lira, and Irish pound. During the remainder of 1983, stability within the EMS was generally maintained, though the Belgian franc fell below its lower divergence threshold in September and remained there until late March 1984. Some pressures re-emerged within the EMS in February 1984, when the deutsche mark appreciated sharply against the U.S. dollar, but they subsided during March and April after the dollar showed renewed strength against the deutsche mark.

The pound sterling, which remained outside the common margins agreement of the EMS, also declined during the period from late 1982 to mid-1984, falling by about 6 percent in nominal effective terms and by some 8 percent in real effective terms. This decline, which was similar to the average of EMS member countries, may have reflected the continuing erosion of the British balance of payments surplus.

Compared with most European currencies, the Japanese yen and the Canadian dollar were relatively strong against the U.S. dollar during 1983. The strengthening of Japan's current account balance since mid-1980 has been substantial, particularly during the past year. The effect of this strengthening on the exchange rate for the yen, though partly moderated by increasing capital outflows, has nevertheless been important. After reaching a four-year low in the fourth quarter of 1982, the yen was almost 10 percent higher against the dollar in the following quarter. Thereafter, fluctuations in the yen/dollar rate corresponded closely to changes in the interest rate differential between Japan and the United States, with little net movement in the nominal rate until March 1984, when the yen rose by 4 percent compared with the previous month.

For most of the smaller industrial countries, changes in nominal exchange rates during 1983 tended to offset the differences between domestic inflation rates and those in main competitor countries. However, there were a few exceptions to this broad trend. Belgium and Denmark—whose currencies had already depreciated in real terms in 1982—experienced further gains in competitiveness during 1983, partly as a result of the general depreciation of the EMS currencies against the U.S. dollar and the Japanese yen and partly owing to incomes policies that have slowed the growth of normalized unit labor costs. Beginning in late 1982 and continuing through mid-1983, Spain allowed the peseta to depreciate in order to reduce balance of payments pressures. In real effective terms, the level of the peseta was 14 percent lower by the second half of 1983 than its average level in 1982, although by March 1984, 4 percentage points of this decline had been reversed. The Swedish krona, which had depreciated substantially in nominal and real terms in 1981 and 1982, was stable in nominal effective terms during 1983 but tended to appreciate somewhat in real terms. By March 1984 the real effective exchange rate of the Swedish krona was 4 percent higher than its average level in 1983, but was still some 22 percent below its average value during the period 1978–80.

Current Account Developments.—The aggregate current account position of the industrial countries, excluding official transfers, remained in approximate balance in 1983, as it had been in 1981 and 1982.[3] It

[3] Including official transfers, the combined current account of the group of industrial countries recorded a deficit of $20–25 billion during each of the past three years.

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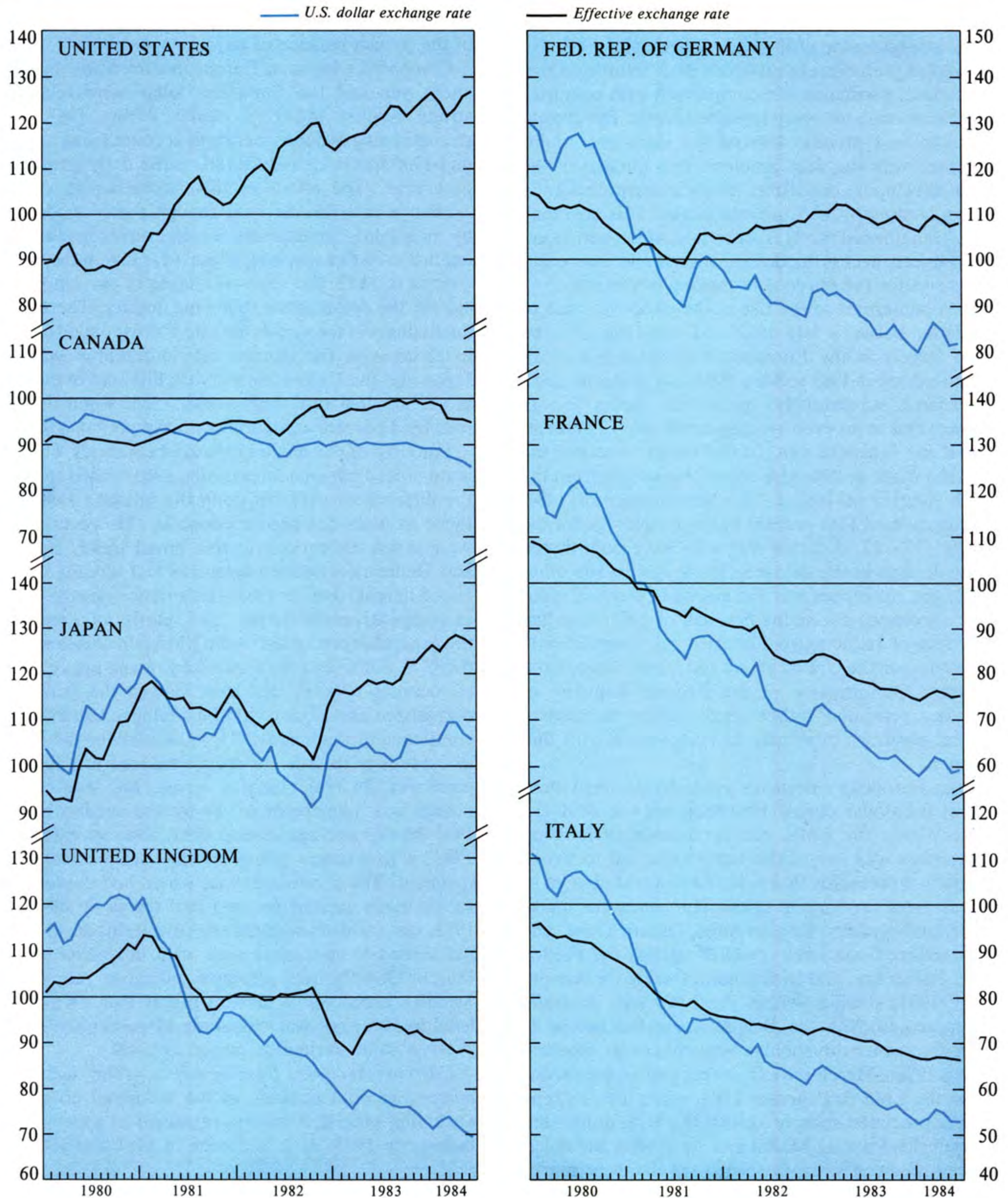
Chart 5. Major Industrial Countries: Indices of Monthly Average U.S. Dollar and Effective Exchange Rates, January 1980–May 1984
(Indices, 1977 = 100)



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should be remembered, however, that the global balance of payments accounts reflected some $80 billion of net unrecorded receipts during 1983. Given the heavy weight of the industrial countries in world trade, it seems likely that a significant part of these net receipts should be attributed to them and that, consequently, they remained in substantial surplus.

The rather small movement in the recorded aggregate current account balance of the industrial countries during this period was the net result of substantial but largely offsetting shifts in the external positions of individual countries. (See Chart 6.) The U.S. current account (including official transfers) shifted from a small surplus in 1981 to a large deficit in 1983, while the current account surplus of Japan increased substantially and the position of the Federal Republic of Germany shifted from a large deficit to a moderate surplus.

As in prior years, movements in the current account balances of the industrial countries in 1983 were closely linked to movements in their merchandise trade balances. In turn, the rather large shifts in trade balances among the industrial countries can be attributed to changes in countries' competitive and relative cyclical positions, and to developments in oil trade. For the group as a whole, the $74 billion reduction in the oil trade deficit in 1982–83 resulted not only from declines in the price of oil measured in U.S. dollars, which amounted to 7 percent in 1982 and 9 percent in 1983, but also from the continued drop in the volume of oil imports. The reduction in the net volume of oil imports was, however, substantially less in 1983 than in any of the three preceding years (6 percent, compared with more than 13 percent annually in 1980–82), largely because of the impact of economic recovery on the demand for energy. Nevertheless, virtually all industrial countries showed some improvement in their oil trade balances in 1983.

Among the industrial countries, developments in the pattern of non-oil trade balances during the past year and a half were strongly influenced by the sizable disparities in rates of growth of domestic demand in the industrial countries themselves and in their principal export markets. The large changes in real exchange rates that occurred over the past several years were also a major influence on the direction of non-oil trade flows because of their effects on international price competitiveness among countries. (See Chart 7.)

For the United States, the loss of price competitiveness was an important factor contributing to the sharp deterioration in the non-oil trade balance during the past three years. The growth of U.S. non-oil export volumes fell short of market growth in each year from 1981 to 1983. Moreover, in 1983, when economic activity recovered sharply in the United States, the volume of imports grew three times as fast as real domestic demand.

While the effects of relative price changes on the volume of trade flows may take several years to be fully felt, the effects of changes in countries' relative cyclical positions are usually apparent at once. For example, the major swing in the relative cyclical position of the United States during the past two years had a substantial impact on the U.S trade balance. In 1982, the decline in economic activity in the United States resulted in a sharp fall in the volume of imports, especially oil imports; then, in 1983 and the first quarter of 1984 the rebound in U.S. economic activity, which was earlier and stronger than in most other countries, contributed to the rapid increase in import volumes.

The United States may also have suffered from an adverse geographical pattern in its external trade. In particular, the contraction of import demand in a number of Latin American countries affected the United States to a greater extent than other industrial countries because of the large proportion of U.S. exports going to these countries. Another source of weakness in the external position of the United States was the $10 billion decline in the surplus on net services in 1981–83, largely the result of a cyclical decline in profits and dividends from foreign direct investment.

The current account of Japan, in contrast to that of the United States, strengthened sharply in 1983 as a result of earlier gains in competitiveness, the resumption of growth in foreign markets, and the lower growth of domestic demand. Export volumes increased much faster than the rise in foreign demand, while the rise in the volume of non-oil imports was held to only 1 percent—below the growth rate of domestic demand and well below that of total output. As Japan's oil trade balance also continued to improve, the surplus of the current account as a whole, including official transfers, rose by $14 billion, to $21 billion.

The current account position of the Federal Republic of Germany, after moving from a deficit of $16 billion in 1980 to a surplus of $3½ billion in 1982, was little changed in 1983. Only at the end of 1983 and early in 1984 were there significant signs of renewed buoyancy in export receipts. The weak export performance in 1983 may have resulted, in part, from shifts in competitiveness within the EMS following the realignment of central rates in March 1983 and, more importantly, from the effects of the accompanying adjustment policies adopted by Germany's major trading partners. The volume of non-oil imports increased sharply in 1983 (by 6½ percent) owing partly to the resumption of growth in domestic demand after two years of decline. The weakness of exports and the upswing in non-oil imports during most of 1983 were offset by a lower volume of oil imports.

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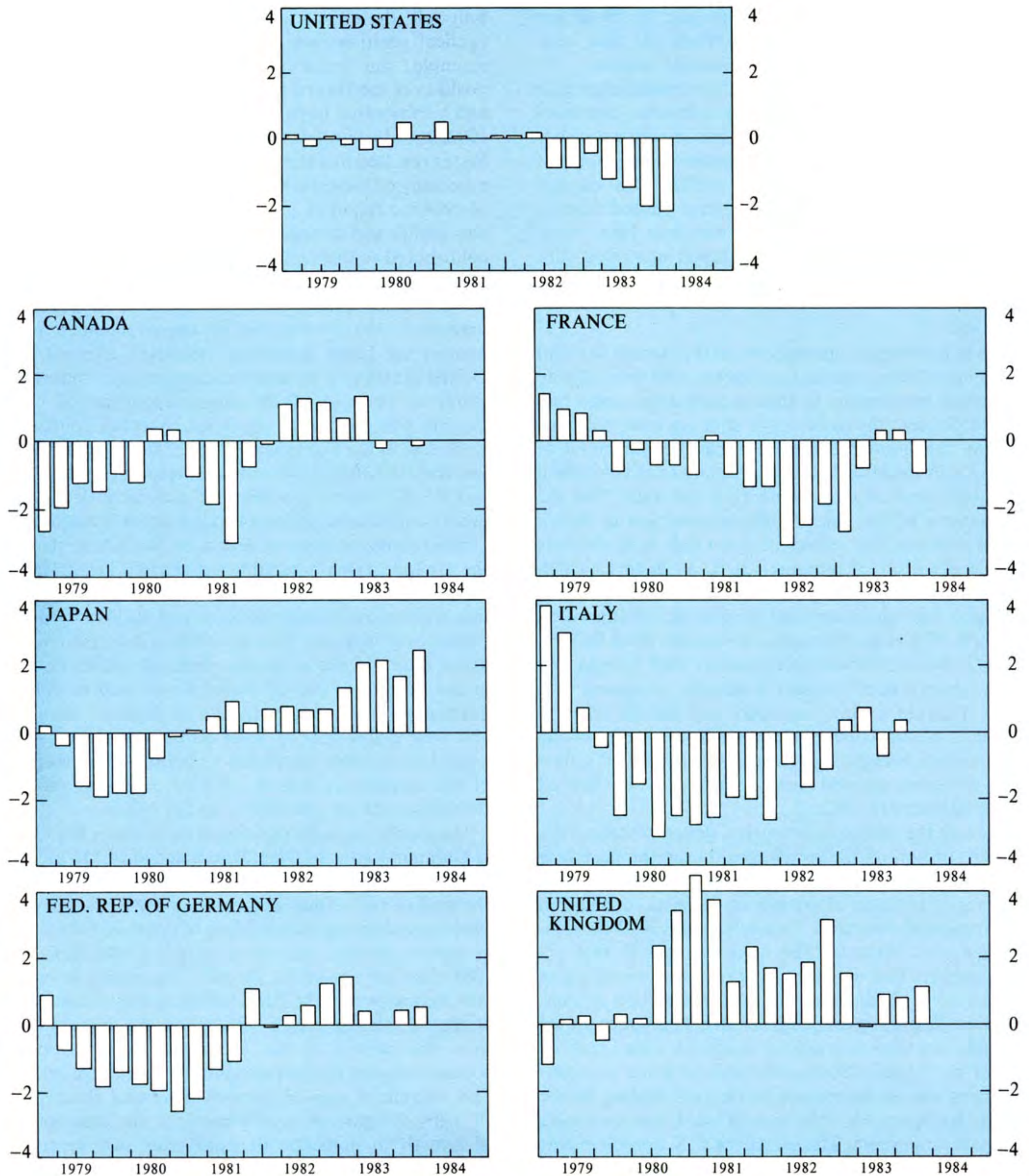
Chart 6. Major Industrial Countries: Payments Balances on Current Account, Including Official Transfers, as Percentage of GNP, 1979–First Quarter 1984 [1]



[1] Based on seasonally adjusted data.

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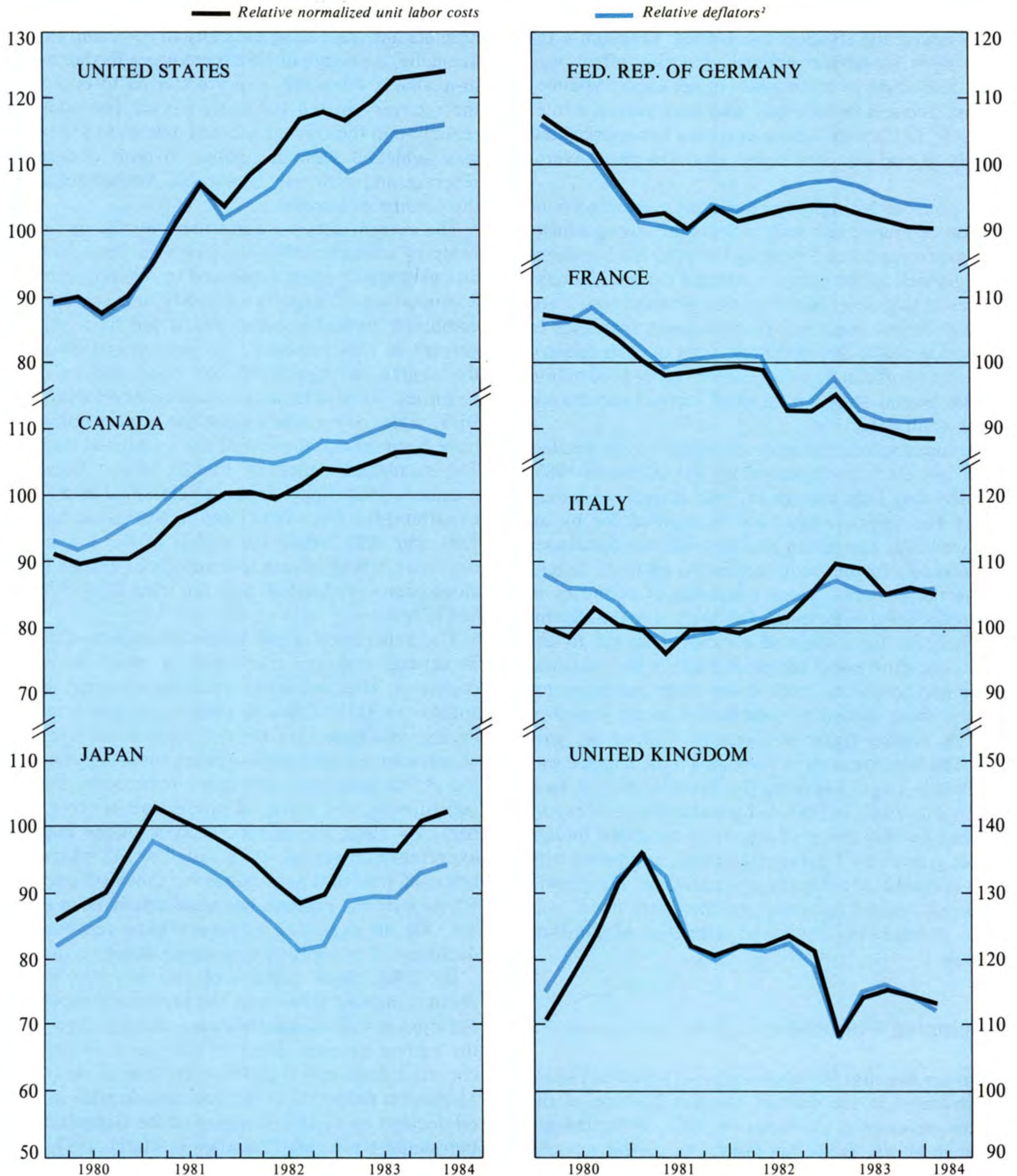
Chart 7. Major Industrial Countries: Relative Prices of Manufactures Adjusted for Exchange Rate Changes, 1980–First Quarter 1984

(Indices, 1977 = 100) [1]



[1] Indices of the type shown here are frequently referred to as indices of real effective exchange rates. The data for first quarter 1984 are based on preliminary staff estimates.
[2] Annual deflators for gross domestic product originating in manufacturing, with quarterly interpolations and extrapolations (beyond the latest available data) based on wholesale price data for manufactures.

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Cyclical developments largely account for the reductions in the surpluses of the United Kingdom and Canada that took place during 1983. In both countries, the pace of domestic demand resulted in a deterioration in the foreign balance in real terms. The decline in oil prices adversely affected the United Kingdom's receipts from petroleum exports, but this effect was more than offset by an increase in net export volume. Competitiveness factors may also have played a role, especially in Canada, whose currency has appreciated steadily in real effective terms over the past several years.

The noteworthy improvement in the current account position of France and Italy reflects the strong adjustment measures taken following the 1983 EMS realignment, as well as the gains in external competitiveness realized at that time. With domestic demand restrained and with direct measures to hold down increases in production costs, the current account of each country (inclusive of official transfers) improved by $6–8 billion in 1983, leaving Italy with a small surplus and France with a small deficit.

The combined current account balance of the smaller industrial countries improved by $11 billion in 1983, after showing little change in 1982. Slightly less than half of this improvement was accounted for by an increase in the surplus on non-oil trade; the remainder represented a further reduction in the oil trade deficit. During the past two years a number of countries in this group, notably Belgium, Denmark, Ireland, Spain, and Sweden, have adopted policies designed to improve competitiveness and profitability in the industrial sector and to reduce excessively large public sector deficits; these measures contributed to the improvement in non-oil trade performance during the past year. The improvement in Sweden's trade balance was particularly large, following the devaluation that took place in late 1982. In 1983, the growth of non-oil export volumes for this group of countries exceeded foreign market growth by 1 percentage point, compared with a loss of market share in the previous year. The growth of non-oil import volumes, on the other hand, was lower, owing to the continued stagnation of domestic demand.

Developing Countries

Current Account Developments.—There was a sharp improvement in the current account position of the non-oil developing countries in 1983, reflecting adjustment efforts made necessary by earlier adverse developments in their payments situation, as well as by the drying up of commercial lending after mid-1982. With the oil price increases of 1979–80, the worldwide recession, and the escalation of interest rates, the current account deficit of those countries had worsened dramatically, reaching $109 billion in 1981, against $30 billion in 1977. (See Table 7.) The deficit fell to $82 billion in 1982, reflecting in the main a compression of imports in the face of a continued weakness in export markets and increasing difficulty in obtaining external financing. Although in 1983 there was a further decline in available financing, exports started to respond to the recovery in the industrial world. The additional reduction in the current account deficit, to $56 billion, was achieved without another overall decrease in reserves and with only a marginal further cutback in the volume of imports.

The current account adjustment by the non-oil developing countries over the past two years has been just as marked when expressed in relative terms. As a proportion of exports of goods and services, the combined current account deficit fell from some 24 percent in 1981 to about 12½ percent in 1983. While the degree of adjustment has been uneven across countries, some of the largest non-oil developing countries, which were also among the largest borrowers, have been among those that have adjusted the most. The combined deficit of the 25 largest borrowing countries (including 4 countries classified as major oil exporters) fell from $80 billion to $40 billion between 1981 and 1983, while the deficit of the low-income countries, whose access to commercial finance had all along been very limited, only fell from $15½ billion to $13 billion.

The experience of the major oil exporters differed in several respects from that of other developing countries. After an initial surge in their current account surplus to $111 billion in 1980, there was a massive decline in demand for their oil exports as a result of energy conservation measures in consuming countries, the global recession, inventory reductions, interfuel substitution, and rising oil production in other countries. By 1982, the current account of the major oil exporters had moved into a deficit of $12 billion. The brunt of this shift was borne by those oil exporters whose external position has traditionally been strongest. All oil exporting countries have responded to declining oil receipts by restraining domestic demand.

By 1983, these policies of restraint had brought about a marked slowing in the previously rapid deterioration of their current account position. As a result, the current account deficit of the major oil exporting countries rose only slightly, to $16 billion, despite the 15 percent reduction in the benchmark price of crude oil decided on by the members of the Organization of Petroleum Exporting Countries in March 1983.

Among both the oil exporting and non-oil developing countries, balance of payments adjustment primarily took the form of a compression of imports. For the non-oil developing countries, for example, imports in

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Table 7. Summary of Payments Balances on Current Account, 1977–83 [1]
(In billions of U.S. dollars)

	1977	1978	1979	1980	1981	1982	1983
Industrial countries	**−2.1**	**32.7**	**−5.1**	**−38.1**	**4.8**	**3.2**	**2.8**
Canada	−4.1	−4.0	−4.2	−1.2	−5.4	1.9	1.3
United States	−11.7	−12.3	2.6	6.6	10.7	−3.8	−35.5
Japan	11.1	17.0	−8.1	−9.9	6.3	8.8	22.1
France	1.0	8.5	6.9	−2.5	−2.8	−9.5	−1.8
Germany, Fed. Rep. of	8.5	13.4	0.1	−8.3	0.8	10.2	9.8
Italy	3.1	7.9	6.4	−9.5	−7.5	−4.9	1.0
United Kingdom	2.0	5.5	3.0	12.7	18.1	13.3	7.5
Other industrial countries	−12.0	−3.2	−11.8	−26.0	−15.6	−13.0	−1.6
Developing countries	**−1.0**	**−36.6**	**0.5**	**23.3**	**−55.7**	**−94.2**	**−72.6**
Oil exporting countries	29.4	5.7	62.5	111.0	53.4	−12.0	−16.2
Non-oil developing countries	−30.4	−42.3	−62.0	−87.7	−109.1	−82.2	−56.4
By analytical group [2]							
Net oil exporters	−6.3	−7.4	−7.3	−10.2	−24.3	−14.4	−6.9
Net oil importers	−25.0	−34.2	−52.5	−74.2	−86.1	−73.5	−54.5
Major exporters of manufactures	−8.9	−10.8	−22.9	−32.5	−37.4	−34.6	−17.1
Low-income countries	−3.7	−8.2	−10.5	−14.1	−15.7	−15.1	−13.1
Other net oil importers	−12.5	−15.2	−19.1	−27.6	−33.0	−23.8	−24.3
By area							
Africa (excl. South Africa)	−6.6	−9.4	−9.9	−12.9	−14.0	−12.5	−10.8
Asia	−1.5	−8.3	−16.9	−25.4	−23.2	−14.6	−10.7
Europe	−9.1	−7.2	−10.1	−12.7	−10.4	−6.9	−5.5
Middle East	−5.1	−5.7	−7.2	−7.1	−11.5	−9.3	−12.0
Western Hemisphere	−8.5	−13.2	−21.4	−33.1	−45.5	−38.8	−18.5
Total [3]	**−3.1**	**−3.9**	**−4.6**	**−14.8**	**−50.9**	**−91.0**	**−69.8**

[1] On goods, services, and private transfers. For classification of countries in groups shown here, see Table 2 and Table 3, footnote 1.
[2] China, which is classified as a low-income country but is also a net oil exporter, is included in the total but not in the subgroups.
[3] Reflects errors, omissions, and asymmetries in reported balance of payments statistics on current account, plus balance of listed groups with other countries (mainly the U.S.S.R. and other nonmember countries of Eastern Europe).

value terms fell by $61 billion between 1981 and 1983, exceeding the $53 billion improvement in the current account during the same period. The volume of imports of the non-oil developing countries in 1983 was no higher than it had been in 1979. (See Chart 8.)

The degree of import compression in recent years has varied considerably among individual countries and regions depending on the extent of adjustment necessary, the promptness with which adjustment measures were undertaken, and the success attending such measures. The Western Hemisphere, with three of the largest borrowers—Mexico, Brazil, and Argentina—was the region that delayed adjustment the longest, through increased commercial borrowing, especially at short term. After August 1982, when access to commercial borrowing was effectively frozen for the three countries just mentioned, as well as for most other Latin American borrowers, the fall in imports was particularly sharp. The region's real imports dropped by one fifth in both 1982 and 1983, as net capital inflows fell by half in each year, from $42 billion in 1981 to $10 billion in 1983. The volume of imports of African countries, on the other hand, had already begun to decline in 1981 and continued to do so through 1983. The situation facing African countries has been made more difficult by the 15 percent deterioration in their terms of trade from 1980 through 1983, and by recurrent droughts in large regions of the continent, particularly in 1983. The Asian region, by contrast, has been much more successful in adjusting to external shocks. The volume of Asian countries' imports barely dropped in 1982 and picked up strongly in 1983. This achievement has been the result of prompt adjustment to the declining availability of external financing. India, for example, launched a major adjustment program in 1981 with the support of the Fund under an extended arrangement. China has also had a very strong balance of payments performance in recent years, following a major reorientation and consolidation of its externally financed investment program.

While import cuts have had to bear the brunt of the adjustment effort in most countries, the purchasing power of exports has held up fairly well, considering the length and severity of the global recession. (See Chart 9.)Real exports of non-oil developing countries (i.e., the value of exports deflated by the import price index) fell only slightly in 1982 and increased by over 6 percent in 1983, the result of a 5 percent increase in

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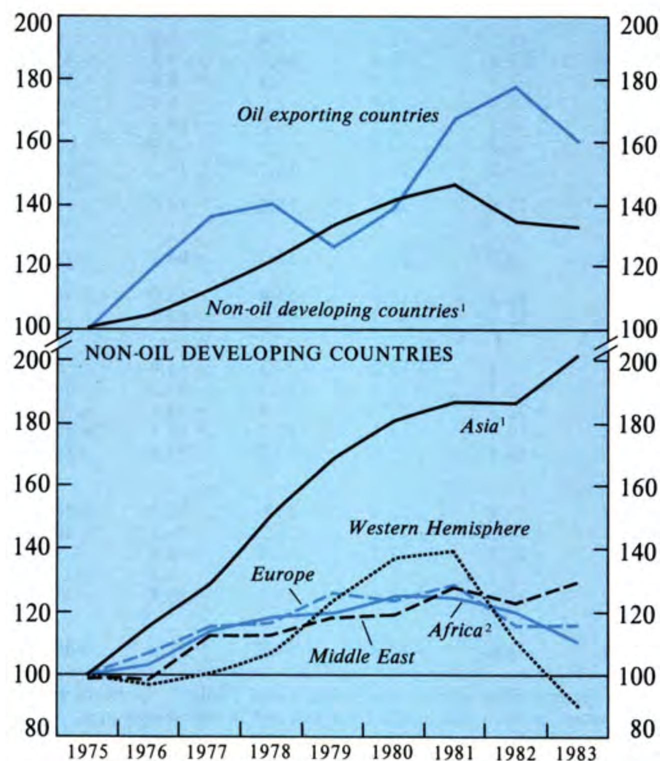
Chart 8. Developing Countries: Volume of Imports, 1975–83
(Indices, 1975 = 100)



[1] Excluding China.
[2] Excluding South Africa.

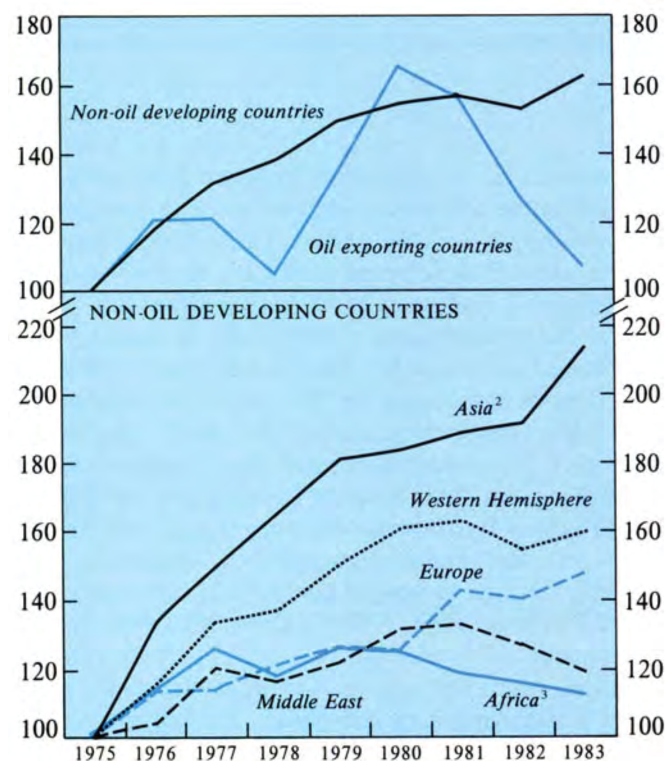
the volume of exports and a slight improvement in the terms of trade. The increases in export volume in 1983 reflected, in many countries, measures to stimulate exports taken in the framework of structural adjustment programs. These measures included the establishment of more realistic exchange rates and efforts to increase nontraditional exports, especially of manufactures. Such policies played a major role in the relatively strong growth in export volumes of developing countries in Asia and Europe. The principal exceptions to the trend of increasing exports were to be found among the oil exporting countries (whose export volumes are dependent primarily on demand rather than supply factors) and in the African region, where drought conditions affected the supply of agricultural commodities and the terms of trade remained depressed.

A further factor that has contributed to the decline in current account deficits since 1981 has been a marked deceleration in the growth of net interest payments abroad. After nearly tripling in absolute terms between 1979 and 1982, net interest payments by the non-oil developing countries remained unchanged in 1983 and actually fell as a proportion of exports. This reflected both a slowdown in the growth of debt outstanding, associated with the 1982 debt crisis, and a decline in nominal interest rates. These factors are discussed in more detail below.

Although available information is fragmentary, there are indications that the current account position of the non-oil developing countries as a whole has continued to improve in 1984. Monthly data for the industrial countries show a progressive increase in their imports from non-oil developing countries, relative to their exports to them, implying a strengthening of the developing countries' trade balance with the industrial countries. This improvement, however, appears to be unevenly distributed, with Asia continuing to be the main beneficiary.

In assessing future prospects for the developing countries, particularly the non-oil countries and the major borrowers among the oil exporters, a number of uncertainties must be taken into account. First, the recent increase in interest rates, if it were to persist, could jeopardize the economic revival of heavily indebted countries, both by increasing their debt-serv-

Chart 9. Developing Countries: Purchasing Power of Exports, 1975–83 [1]
(Indices, 1975 = 100)



[1] Export earnings deflated by import prices, a measure which incorporates developments in both exports in real terms and the terms of trade.
[2] Excluding China.
[3] Excluding South Africa.

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icing costs and by affecting market perceptions of their creditworthiness and hence their ability to borrow. If this were to lead to a need for a further round of generalized adjustment through import reduction, serious damage could be done both to the developing countries' own development effort and to the growth of world trade and demand for industrial countries' exports. Of course, to the extent that higher interest rates are a reflection of stronger economic growth in industrial countries, this stronger growth will have offsetting beneficial consequences for developing countries' export earnings.

Second, the resolution of the present debt situation depends on borrowing countries both developing the capacity to earn increasing amounts of foreign exchange and having access to markets that are expanding rapidly enough to absorb these additional exports. This latter condition serves to underscore the importance for developing countries of a sustained recovery and the preservation of a liberal trading environment in the industrial world.

Financing and Debt.—As noted above, a substantial decline in private creditors' willingness to increase their net claims on developing countries was the primary force driving these countries' current and capital accounts in 1983. From an environment in which large new loans were raised from private sources during 1980–81, the situation changed to one in which many countries could obtain new loan commitments only as part of financing packages established in the context of comprehensive, Fund-supported adjustment programs. This change in financial environment affected all countries that were significant borrowers in international financial markets. While much of the data presented in this subsection pertains to non-oil developing countries, by 1982 several among the major oil exporting countries faced similar circumstances.

The root causes of the change in creditors' attitudes can be traced to concerns that many debtor countries were not taking adequate steps to reduce their current account deficits to sustainable levels. There were three, mutually reinforcing, reasons for this concern: the growing size of the total debt outstanding; shifts in its maturity structure; and the persistence of high rates of interest which, with continuing weakness in export markets, resulted in a sharp rise in debt service ratios.

The rapid increase in the outstanding debt of developing countries reflected the large size of current account deficits, which in turn had been made possible by the ready availability of private lending. During 1979–81 the aggregate debt of non-oil developing countries had grown at an annual average rate of 19 percent. (See Table 8.) Among four oil exporting countries with significant foreign borrowing (Algeria, Indonesia, Nigeria, and Venezuela) indebtedness had also grown rapidly, increasing at an average annual rate of 27 percent from 1976 to 1979. While in the late 1970s the growth in the debt had been accompanied by a rapid expansion of output and exports, this situation did not persist after 1980. As a result, the debt/export ratio, which was 111 percent in 1980, had risen to 144 percent by 1982. The debt/GDP ratio, which had been fairly stable at about 24 percent in the late 1970s, rose to 33 percent by 1982. Creditors' concerns were also aggravated by the undue concentration of debt in certain countries and regions. (See Chart 10.) Africa and the Western Hemisphere, which already had high ratios of debt to exports and GDP in 1977, pursued borrowing strategies that further increased these ratios. Both regions allowed their debt/export ratios to rise to very high levels by 1982—Africa's to 205 percent, and the Western Hemisphere's to 274 percent. These increases were of particular concern for countries in the Western Hemisphere, where most borrowing was from commercial sources and thus especially vulnerable to shifts in confidence.

The recourse of borrowers and lenders to shorter maturities for new lending compounded the problems associated with the growing size of the debt by increasing the vulnerability of borrowers to changes in market sentiment. During 1977–79, short-term debt of non-oil developing countries had remained at about 15 percent of their total debt and was mainly related to trade flows. However, as part of their response to the 1979–80 oil price increases, some developing countries increasingly substituted short-term borrowing for the less readily available long-term facilities. Consequently, short-term debt rose rapidly, reaching 20 percent of total debt by 1982. The use of short-term borrowing for longer-term purposes created an increasingly severe mismatch between repayment obligations and the returns generated by debt-financed outlays. Again, this trend was particularly noticeable in the Western Hemisphere region, whose short-term debt rose as a proportion of total debt from 13 percent in 1977 to over 23 percent by 1982. In relation to imports, the region's short-term debt rose from an average of 40 percent in 1977–79 to 92 percent in 1982.

A third major concern of creditors was the rising debt service costs facing borrowers. The non-oil developing countries' total debt service payments rose at an average annual rate of 31 percent during 1978–81, with interest payments rising particularly rapidly. The effect of these rising payments on the debt service ratio (i.e., all payments of interest and amortization of long-term debt as a proportion of receipts from exports of goods and services) was particularly severe after export growth began to slow down in 1980. (See Chart 11.)

Three factors explain the trends in debt service

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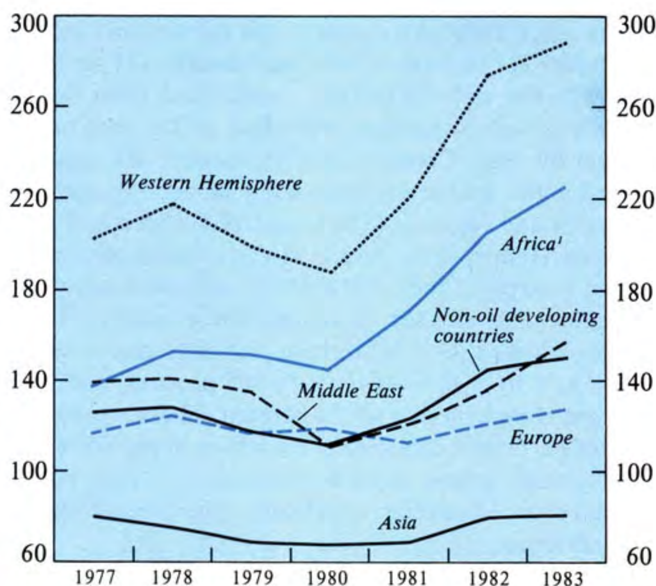
Chart 10. Non-Oil Developing Countries: Ratios of Debt to Exports, 1977–83
(In percent)



[1] Excluding South Africa.

ratios shown in Chart 11. First, interest payments rose because the volume of debt increased, approximately doubling between 1978 and 1982. Second, interest rates, particularly on private loans, increased sharply after 1979. The 25 major borrowers, whose debt is mainly commercial in origin, paid an average 7.3 percent interest rate in 1978 but 12.1 percent in 1982. The third trend, which helps to explain the falling amortization/export ratio, is that the substitution of short-term for long-term borrowing by some debtors after 1979 pushed down the conventionally defined amortization ratio in subsequent years. This effect, which is most clearly evident in the Western Hemisphere region, obscures the fact (recognized by creditors) that the rolling over of short-term debt may present problems that are every bit as difficult as refinancing the long-term debt that is included in the amortization ratio.

Beyond the trends just described, other developments in the early 1980s were undermining the ability of developing countries to continue to finance large current account deficits. Despite the high level of private borrowing that was taking place, ratios of official reserves to import payments were declining, from over 26 percent in 1978 to under 17 percent in 1982. A further disturbing sign was that private capital flight from the non-oil developing countries picked up after 1979 and remained at high levels during 1980–82. This outflow not only compounded the financing problems of some countries but also exerted a significant destabilizing influence on external creditors' confidence.

As noted above, the combined effect of these various developments, together with the continuation of recessionary trends in the world economy, provoked a fundamental shift in the willingness of private creditors to extend financing after mid-1982. As a result, official creditors and international financial institutions, together with commercial banks and the borrowing countries themselves, had to engage in coordinated efforts to restore stability in the financing of indebted countries. The main features of these efforts were the adoption of comprehensive programs of balance of payments adjustment, and the negotiation of a series of "financing packages" involving debt restructuring and in a number of cases concerted new lending. These packages significantly influenced the pattern of current account financing observed in 1983 and accounted for approximately half of new bank lending to non-oil developing countries. The arrangements provided an effective framework in which to reinforce the adjustment efforts of debtor countries and to influence creditors in their attitude toward new lending.

A central feature of most financing packages was the rescheduling of a significant portion of an indebted country's amortization payments. Such rescheduling does not give rise to new inflows of capital. Nevertheless, it played an extremely important role in easing the external financial constraints facing indebted countries in a situation in which new lending was less readily available. The number of countries undertaking a multilateral rescheduling of their debt to official creditors rose from 6 in 1982 to 16 in 1983, a record level. Debt restructuring agreements between developing countries and their bank creditors also reached a peak in 1983, when 17 countries (including 2 nonmember countries) completed restructuring agreements. As a result of these arrangements, debt service payments on medium-term and long-term debt of the non-oil developing countries were reduced by $8 billion in 1982 and by $19 billion in 1983, below what they would otherwise have been. In addition, a large amount of short-term bank debt was converted to medium-term and long-term maturities.

Beyond the rescheduling of existing debts, a number of financing packages involved commitments of new funds, both from official and from private creditors. Some $15 billion of new bank credits were arranged in 1983, mainly to countries in the Western Hemisphere. While this figure was much in excess of what would have been forthcoming in the absence of concerted lending efforts, it represented a considerable slowdown in new lending commitments from the pace of earlier years. As may be seen from Table 8, net external borrowing by non-oil developing countries from private creditors, most of which is debt to banks, fell by half from 1981 to 1982, and nearly halved again in 1983.

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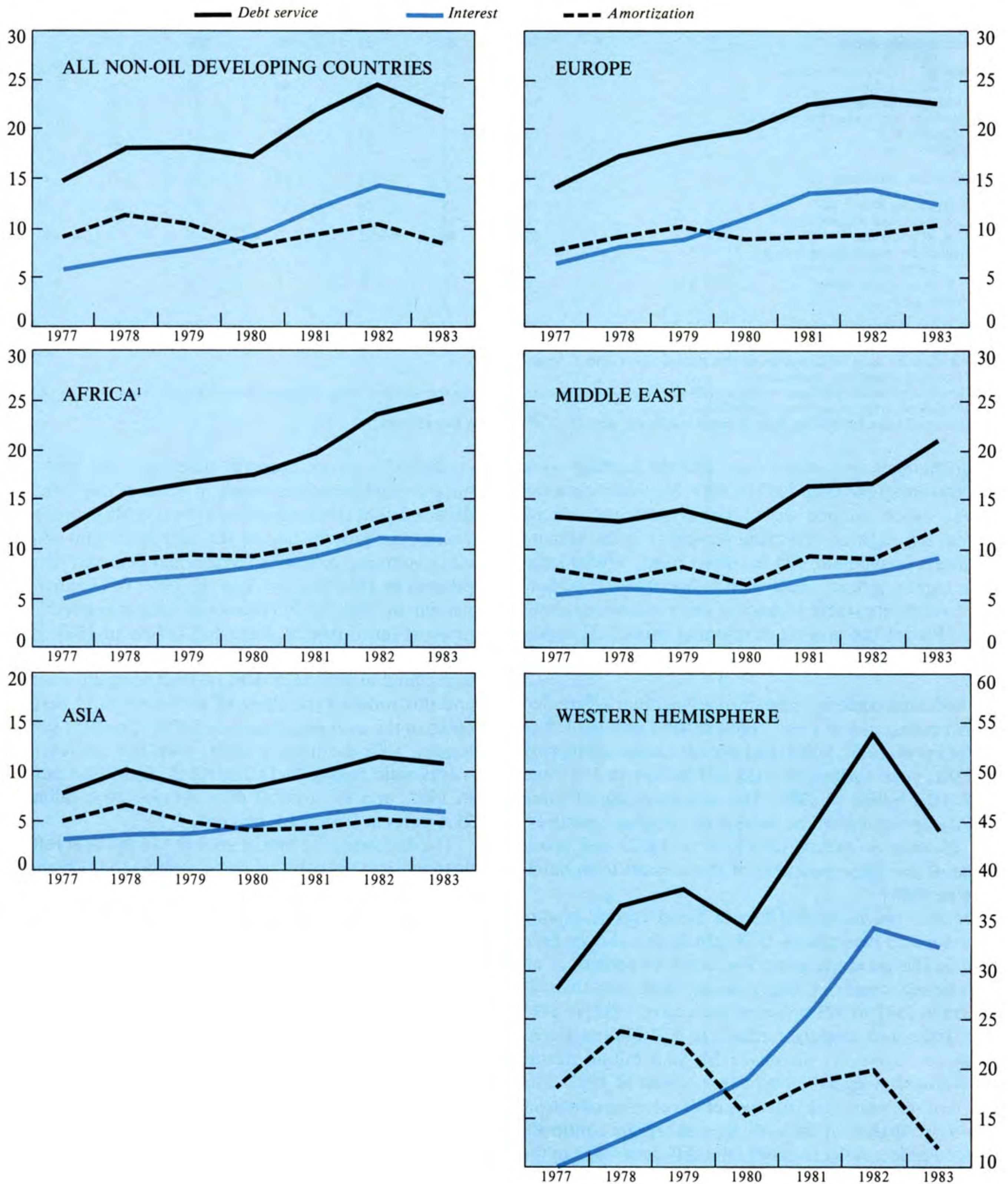
Chart 11. Non-Oil Developing Countries: Debt Service Ratios, 1977–83
(In percent of exports of goods and services)



[1] Excluding South Africa.

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Table 8. Non-Oil Developing Countries: Current Account Financing, 1977–83 [1]
(In billions of U.S. dollars)

	1977	1978	1979	1980	1981	1982	1983
Current account deficit	30	42	62	88	109	82	56
Relatively "stable/autonomous" financing flows	27	31	41	44	50	46	44
Non-debt-creating flows	14	17	24	24	27	24	21
Long-term borrowing from official creditors [2]	13	14	17	20	23	22	23
Other flows, net	3	12	21	44	59	37	13
Errors and omissions	−7	−7	−3	−15	−16	−19	−10
Other financing flows, net	10	18	24	59	75	56	23
Reserve-related transactions	−9	−14	−12	−2	4	19	2
Use of reserves [3]	−12	−16	−12	−7	−5	4	−6
Liabilities constituting foreign authorities' reserves	1	2	−1	4	7	8	10
Use of Fund credit	0	0	0	2	6	6	10
Arrears [4]	2	1	0	1	3	7	−2
Other net external borrowing [5]	18	33	37	61	70	36	20

[1] For classification of countries in this group, see Table 3, footnote 1.
[2] Excluding monetary institutions.
[3] The flow of resources into reserves will not necessarily equal changes in the stock, owing to exchange rate movements.
[4] Arrears on current account items only.
[5] Essentially net borrowing from private creditors, almost all of which is from banks.

Financing flows other than private lending were much more stable from 1982 to 1983. Non-debt-creating flows, which include direct investment and official grants, fell slightly, reflecting weakness in the climate for direct investment. On the other hand, official long-term capital inflows were well maintained. Together, these relatively stable sources of finance covered about four fifths of the non-oil developing countries' aggregate current deficit in 1983, against only about half in 1982.

Fund assistance in support of adjustment efforts led to increasing use of Fund credit in 1982 and 1983. Net use of Fund credit, which had already increased sharply in 1981, rose further to SDR 6.4 billion in 1982 and SDR 10.3 billion in 1983. The increased use of Fund credit supplemented the non-oil developing countries' use of reserve-related liabilities in 1982, and offset some of the net repayment of these short-term liabilities in 1983.

Despite the increased use of Fund credit, arrears continued to increase in 1983, albeit at a slower pace than in the previous year. The stock of arrears of all developing countries had jumped from less than $7 billion in 1981 to $23 billion at the end of 1982; in 1983 they increased slightly further, to $27 billion. Gross reserves, however, increased by $0.8 billion during 1983 after having fallen by $16.5 billion in 1982. The fact that the aggregate reserves of developing countries could rise slightly at the same time as arrears continued to accumulate reflects mainly the different stage in the adjustment process reached by various countries.

As may be observed from Charts 10 and 11, developments in the financing of the non-oil developing countries' current account deficit in 1982 and 1983 have caused a notable break in some of the trends of debt and debt service that were observable in preceding years. The growth rate of the aggregate debt of non-oil developing countries, which had declined from 18 percent in 1981 to 13 percent in 1982, fell further to 6 percent in 1983. Within this total, there was a reduction in short-term debt of some $23 billion in 1983 (overwhelmingly concentrated in the Western Hemisphere), associated in part with debt restructuring agreements, and this reduced the share of such debt to 15 percent, close to the average of the late 1970s. The debt service burden also declined in 1983, with the interest payments ratio falling to 13.2 percent, from 14.3 percent in 1982, and the overall debt service ratio falling to 21.6 percent from 24.5 percent.

The decline in the rate of growth of total debt reflects financial market constraints as well as the substantial compression that has taken place in the aggregate current account deficit of non-oil developing countries. As far as the decline in the debt service ratio is concerned, however, this is attributable largely to the impact of debt rescheduling. The effect of debt rescheduling on the aggregate debt service ratio of non-oil developing countries was to reduce it by 1.8 percentage points in 1982, and by 4.1 percentage points in 1983. If the rescheduled debt service had been paid at the original maturity, these countries' debt service ratios would have increased from about 21 percent in 1981 to over 26 percent in 1982, and would have declined only marginally, to just under 26 percent, in 1983.

Debt service ratios will continue to be held down in

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1984 as further debt restructurings are put in place. Moreover, creditors' and debtors' expectations of the availability of funds are now better aligned than was the case in 1982–83. Countries in the Western Hemisphere, which accounted for half the debt restructuring agreements in 1983, are prominent among those requiring further restructurings in 1984, with financial packages having already been put in place for Mexico and Brazil. However, the region remains critically dependent on the floating interest rate loans offered by private creditors. The trend toward higher interest rates in the industrial countries in early 1984 will be reflected in the interest payments required to service the region's debts. As noted above, however, to the extent that higher interest rates have been caused by more rapid economic growth, this growth will also have resulted in higher export earnings for developing countries.

Policy Issues

Although in 1983 there was a welcome improvement in economic growth in industrial countries, and a further reduction in the external deficit of the non-oil developing countries, important issues continue to confront policymakers. The recovery in the industrial world remains uneven, and could be undermined by the renewed upward movement of interest rates. Higher interest rates also weaken the position of heavily indebted developing countries, whose task is to convert the success achieved in improving their balance of payments into a revival of domestic growth and development. Influencing both these issues is the specter of protectionism, which has been condemned more effectively than it has been resisted.

This section of the chapter focuses on these issues as they affect the domestic economic policies and prospects of member countries. Issues related primarily to the working of the international monetary system are dealt with in Chapter 2.

Sustaining Recovery in the Industrial Countries

Now that the cyclical recovery from the global recession of the early 1980s is well under way in several of the major industrial countries and clearly spreading to others, the essential task of economic policy is to guide it along an orderly path leading gradually, but surely, back to satisfactory levels of employment and steady growth of real incomes. For this purpose, it is important that the authorities of the major industrial countries maintain the basic principles of the strategy they adopted several years ago to deal with an unprecedented combination of high inflation and faltering growth. The progress already made toward restoration of a stable financial environment has played a major role in initiating the present upswing; continuation of this progress will play a central role in broadening and sustaining expansion.

The process of restoring financial stability is still quite uneven and incomplete, and confidence in its continuation remains fragile in many countries. Although it is true that inflation has subsided to an impressive degree in nearly all of the industrial countries, it is also true that it remains unduly high in some of them, and that the downward momentum of price increases will become harder to maintain as economic activity continues to strengthen. Renewed rises in interest rates in several countries represent another warning that the speed at which increases in demand can be accommodated without revival of inflationary expectations is by no means unlimited.

The foremost requirement for consolidation of the recovery, accordingly, is the firm application of monetary and fiscal policies continuously geared to maintenance of an anti-inflationary environment. Observance of this priority does not, of course, call for identical policies among the various individual countries, nor for rigid maintenance of a particular degree of restraint in any of them. Since their circumstances and recent experiences differ considerably, each of them will need to make flexible use of available monetary and fiscal instruments in accordance with its own situation.

Although continued monetary discipline will remain of central importance in every industrial country, the degree of restraint applied will have to be greatest in the countries where inflation remains seriously out of line with the average elsewhere in the industrial world. Effective control of inflation would help to restore domestic investment incentives and maintain international competitive positions that would permit domestic producers to share in the cyclical upswing in world markets.

In the countries where the effectiveness of monetary discipline in bringing down inflation and laying the basis for renewed growth has already been most amply demonstrated, prudence in the provision of liquidity in the early phases of recovery will be necessary. The temptation to attempt to hold down interest rates by easing monetary policy may be strong for some central banks, but it is to be hoped that it will be resisted. Failure to apply an adequate degree of restraint during previous cyclical expansions has been one of the prime factors making for rising inflation over much of the past 15 years. In the present climate of expectations,

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an attempt to restrain interest rates through more accommodative monetary policies could be counterproductive even in the short run through its effects on market expectations.

Against the background of financial innovations and regulatory changes that have characterized the past several years, gauging the actions necessary to maintain an appropriate degree of monetary restraint without choking off the recovery will not be easy for any of the major central banks. Most of them are relying on indicative targets for expansion of key monetary aggregates to guide their policy actions, but some of them have encountered serious technical problems in interpreting shifting relationships between these aggregates and other economic and financial variables in a rapidly changing financial environment. Flexibility in permitting deviations from targeted paths, or in taking account of alternative aggregates—and of such other variables as exchange rates—has proved helpful during the past year or two and will probably be necessary in the future. However, caution regarding the exercise of such flexibility is also necessary. If the setting of publicized monetary targets is to remain a helpful technique for checking inflationary expectations and reducing uncertainty about macroeconomic policies, the frequency of deviations from targeted paths will have to be limited to cases with compelling justification.

In most of the industrial countries, the management of money and credit has been complicated for a number of years by the prevalence of large fiscal deficits. In a few countries, including some of the larger ones, the effective orientation of fiscal policy has been out of step in important respects with the general strategy of re-establishing a stable financial environment. There has thus been less uniformity in fiscal policies than in monetary policies among the industrial countries, as well as inconsistency within some of the individual countries in the implementation of the two principal instruments of demand management.

Over the past four years, the central governments in three of the major industrial countries—Japan, the Federal Republic of Germany, and the United Kingdom—have carried out significant reductions of the structural components of their budget deficits. Although these reductions were largely or wholly offset in the two European countries by opposite changes in cyclically responsive elements of the budget, they provided in all three cases a considerable degree of support for the policy of monetary restraint that was being implemented at the same time. In the United States, Italy, and Canada, on the other hand, central government deficits increased during the same period, not only for reasons associated with the adverse evolution of cyclical positions but also because of structural changes that raised borrowing requirements. Unless measures are adopted to raise revenue or reduce the spending implied by existing fiscal programs, prospective government borrowing in these three countries will tend to absorb proportions of private saving that are very large by historical standards.

Even in the countries where structural improvements in fiscal balances have been achieved during the past few years, actual deficits remain high. In Japan, this circumstance is a reflection of the degree of imbalance that was reached before the current policy of fiscal retrenchment was adopted. In the United Kingdom and the Federal Republic of Germany, as well as in France, the magnitudes of the present deficits are perhaps mainly a manifestation of the influence of cyclical conditions. The large borrowing requirements associated with all these imbalances have kept total demand for credit strong even at a time of relatively weak domestic economic activity, enhancing the sensitivity of financial markets in these countries to the pressures now being generated by rising interest rates in the United States and Canada.

The very brisk pace of recovery in the United States and Canada provides an exceptional opportunity for those two countries to make useful and necessary adjustments in their budgetary structures while avoiding some of the adverse repercussions that might have resulted from such actions during the recession period. Apart from the long-run need to shift the balance between government and private use of private saving, some additional restraint on the growth of nominal spending may now be helpful for keeping total domestic demand within sustainable bounds. Because of the size of the U.S. economy and the magnitude of the capital inflow now being attracted there, reduction of the U.S. Federal Government deficit could be expected to have a significant impact on availability of funds for private investment throughout the world, as well as in the United States itself.

In Italy and France, recovery has been much slower in coming than in the industrial economies of North America. With growth prospects handicapped by inflation and weakness in the external accounts, however, fiscal restraint is necessary for these countries also—particularly for Italy, whose budget deficit is by far the largest, relative to GNP, among the major countries. Without fiscal discipline, monetary policy, even if well conceived, can achieve only limited results.

Japan and the Federal Republic of Germany, with their comparatively low rates of inflation, strong external positions, and records of progress toward fiscal equilibrium, have perhaps less need than the countries discussed above to press for rapid reduction of their fiscal deficits. Nevertheless, strengthening investment and growth over the longer run may depend importantly

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on further gradual progress in that direction. For the United Kingdom, which also has a generally strong record of fiscal restraint in recent years, such progress remains central to the authorities' policy strategy, both because it was interrupted in 1983 and because control of inflation is more recent and less complete—and hence remains less secure—in that country than in the other two.

An integral part of the general strategy followed since 1979 by the major industrial countries has been an effort to reduce or eliminate various structural rigidities that were believed to be impeding optimum allocation and full use of available resources. Toward this end, a number of governments have adopted fiscal measures aimed—over and above their impact on overall budgetary balances—at improving incentives to work, to save, and to invest. Adjustments of wage indexation arrangements and social transfer schemes have been fairly widespread, and government regulations of prices (particularly for energy), of interest rates in some countries, and of other aspects of business and financial operations have been removed or liberalized in a number of countries. Most of these actions have been intended to give greater play to market forces in holding down costs and reallocating resources in a more effective way.

Greater flexibility in the negotiation of wage contracts, particularly in Europe, appears to be essential if profit margins of enterprises and investment incentives are to be restored to a degree that will expedite the absorption of presently unemployed members of the labor force. Unduly rigid attitudes and practices in the setting of wage rates have long tended to interfere with shifts of workers from declining industries into those with greater potential for expansion—and in the process have obscured for all concerned the full potentials of the latter industries. For many European enterprises, prospective profit margins at existing cost structures seem too small to warrant the risk and effort involved in innovative capital investments. Greater flexibility and more realistic alignment of nominal wage increases with current gains in productivity and with national objectives regarding price stabilization would enhance the prospects for stronger investment and reduced unemployment.

Adjustment and Growth in Developing Countries

The length and severity of the downturn in economic growth in non-oil developing countries has made the restoration of adequate rates of economic expansion an urgent priority for policymakers. However, durable expansion can take place only on the basis of a strengthened balance of payments position and improved international creditworthiness.

Following the widening in their current account deficit associated with the 1979–80 rise in oil prices and the recession in the industrial world that began in 1980, many developing countries cushioned the impact of these external developments on their domestic economies by borrowing heavily from commercial sources to finance enlarged deficits. Such a strategy could perhaps have been justified if the adverse developments in the external environment could have been identified as being of strictly temporary duration. In the event, however, the recession was prolonged, and the external position of borrowing countries was further undermined by the effects of the continued high level of interest rates—itself a result of industrial countries' new-found determination to confront the threat of cumulative increases in inflationary expectations.

With the benefit of hindsight, it may be seen that postponement of adjustment in 1979–81 made the eventual adjustment more difficult. Faced with an abrupt change in the availability of external finance, many developing countries had no option but to cut back sharply their current account deficit. With demand in the industrial world sluggish, the terms of trade for primary producers remaining weak, and access to some industrial markets being restricted, the needed improvement in developing countries' current account positions could be brought about only through import compression.

The extent to which such import compression has to be associated with a decline in the domestic growth rate depends, of course, on the flexibility with which the economies concerned are able to adapt to new circumstances. Such flexibility is likely to be inhibited by rigidities and distortions in the mechanism for resource allocation, such as those fostered by high rates of inflation, controls over domestic prices and wages, inappropriate exchange rates and interest rates, and restrictions on foreign trade and payments. In present circumstances, the progressive removal of such impediments to the fuller and more effective use of real resources in developing countries must be a central feature of programs of economic adjustment.

Reductions in inflation are needed because, although it may be possible in principle to mitigate inflation's adverse consequences on resource allocation, the methods that have to be employed in practice are rarely fully effective and are often inimical to the realization of productive potential. The more rapid the rise in the overall price level, the greater, in general, are fluctuations in relative prices. At the same time, future inflation becomes more difficult to foresee, and greater uncertainty surrounds the decision to save and

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invest productively. Capital tends to flow abroad or into unproductive inflation hedges, thus further complicating the task of economic management.

Distortions in relative prices brought about by direct controls are also harmful. In addition to the welfare losses that stem from resource misallocation, there can be budgetary costs when final product prices are held down by subsidies. When they are held down by other means, such as administrative controls, production incentives are weakened and shortages develop, leading to black markets. The situation is particularly serious when the items that are subsidized are in the traded goods sector. In such a situation, various forms of rationing may have to be resorted to in order to balance the supply and demand for foreign exchange. An economy's capacity to respond to external disturbances is reduced, since its propensity to consume traded goods is artificially inflated relative to its capacity to produce such goods.

Two prices with a particularly pervasive impact on an economy's capacity both to adjust in the short term and to grow in the long term are the exchange rate and the interest rate. An overvalued exchange rate is, in effect, a blanket subsidy on the consumption of traded goods, and a tax on their production, with all the adverse consequences just noted. Artificially low interest rates, particularly when they are negative in real terms, reduce savings incentives and give rise to capital flight, thus limiting domestic investment. Correction of inappropriate interest and exchange rates has been an important element in the economic strategy of a number of the most seriously indebted Fund members in 1983 and 1984. The actions they have taken can play an important role in restoring dynamism to their foreign trade sectors. Employment and output will be encouraged directly in export and import-competing industries, and multiplier effects should help to raise output throughout the economy.

Foreign trade restrictions may occasionally be unavoidable for countries whose external situation has become particularly difficult. In anything other than the very short run, however, they tend to have adverse consequences, both for the international trading environment and for the countries that adopt them. The allocation of scarce foreign exchange has to take place by an administrative mechanism that is costly in terms of human resources, hard to make responsive to changing economic requirements, and subject to abuse.

While policy adjustments by developing countries themselves can and must play the main role in restoring a satisfactory rate of growth to these countries' economies, developments in the surrounding economic environment are clearly of fundamental importance also. Growth must be maintained at a satisfactory rate in industrial countries if developing countries are to succeed in their attempts to expand the size of the sectors of their economy producing for export. And, as discussed above, changes in policy stance in several industrial countries could help contain interest rates and thereby allow the developing countries to devote a larger share of their foreign exchange earnings to the acquisition of goods for the development effort. It will also be important for adequate finance to be available during the remaining stages of the adjustment process. There is a heavy burden of debt falling due in the coming years that far exceeds the capacity of debtor countries to repay out of current earnings. So long as borrowing countries are following well-conceived policies of medium-term adjustment, it is both appropriate and prudent for lenders to make available the finance that enables these countries to sustain moderate rates of growth of output and investment, while lengthening the maturity over which existing debt is effectively repaid. For those low-income countries that cannot expect to have significant access to commercial sources of credit, an adequate level of official development assistance is essential if the adjustment efforts they are making are to bear their full fruit in increased growth potential.

Protectionism

Among the most troubling developments of recent years has been the strengthening of protectionist tendencies. While governments in most industrial countries have generally resisted blatant interference with the trading environment, they have displayed an increased willingness to accede to requests for special measures on a case-by-case basis. These measures have only occasionally taken the form of direct quota restrictions on trade; more frequently they have involved indirect techniques. One such technique is that of "voluntary export restraint," under which an exporting country is induced to limit its exports to certain markets in order to avoid presumably more severe restrictions imposed by the importing country. Other techniques include the use of "nuisance" measures to complicate customs clearance procedures and increased resort to domestic legislation governing "unfair" competition from abroad.

The case for resistance to protectionist pressures is well known and widely accepted. Import restrictions reduce competition in importing countries, thus pushing up prices to consumers and retarding technical innovation. The support they provide to domestic employment is limited and temporary. In the first place, resort to protection invites retaliation that gives rise to employment losses in export sectors of the economy. Even if this does not happen, the curtailment

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of imports in one sector of the economy will, other things being equal, tend to push up the exchange rate and lead to an offsetting weakening of the trade balance in sectors that are not protected. Since protective measures are invariably selective in their incidence, they tend to distort the pattern of resource allocation away from most efficient channels. Where factors of production are not employed in accordance with comparative advantage, there are adverse effects not only on the level of output that is achievable in the short term but also on investment and hence on potential output over the longer term.

In present circumstances, resistance to protectionism acquires added importance from the need of heavily indebted countries to enhance their foreign exchange earnings in order to meet their large debt service obligations. Thus far, these countries have had to rely heavily on import compression to reduce their current account deficit relative to their export earnings. Such compression cannot be regarded as indefinitely sustainable, at least not without unacceptable consequences for economic development. For developing countries to achieve renewed growth in living standards, along with a sustained improvement in their external position, it will be essential for them to have adequate access to expanding markets in the industrial countries. At the same time, developing countries should themselves resist the temptation to resort to import restrictions as an instrument of adjustment. In the medium term, adjustment can be regarded as sustainable only if it is based on an improved allocation of resources, in accordance with the requirements of international comparative advantage and domestic financial stability.

Now that world output and trade are once more expanding at a more satisfactory pace, conditions should be propitious for a serious attack on the protectionist tendencies that have been allowed to flourish in a recessionary environment. Several international meetings at the ministerial level have emphasized the determination of participants to resist and roll back protectionist measures. These meetings have included, most recently, the Interim Committee meeting in April 1984 and the ministerial meeting of the Organization for Economic Cooperation and Development in May 1984. It is to be hoped that the coming year will see more success in bringing these intentions to fruition than has been apparent hitherto.

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Chapter 2
Developments in the International Monetary System

This chapter deals with salient aspects of the present international monetary system and its recent evolution. The first part of the chapter reviews exchange rate arrangements and policies of industrial and developing member countries; it concludes with a discussion of developments in the Fund's surveillance over members' exchange rate policies. The second part of the chapter takes up the question of international liquidity, beginning with an analysis of recent changes in official international reserve holdings and proceeding to a description of developments in private international credit markets; it ends with a discussion of the adequacy of international reserves and the role of the Fund in providing liquidity to its members.

Exchange Rates and Surveillance

Throughout 1983 and the first half of 1984, the pattern of exchange rates, especially the weakness of many of the major currencies against the U.S. dollar, remained a source of concern. While the reasons for this pattern are not fully understood, it seems that divergences in economic and financial conditions—in particular, the strength of the economic recovery in the United States compared with that of other countries and the renewed rise in U.S. interest rates—were important contributing factors. Within the European Monetary System (EMS), the persistence of relatively high inflation rates in a number of countries led to a new period of tension, followed by a realignment of central rates in the first quarter of 1983. Since then, however, the adjustment efforts of the countries with relatively high inflation have led to an abatement of the tension.

Most of the non-oil developing countries experienced a marked reduction in their current account deficits in 1983 as a result of policy measures taken in these countries and, to a lesser extent, of the economic recovery in industrial countries. In many instances, these policy measures included a significant devaluation of the exchange rate supported by a comprehensive program to reduce the fiscal deficit and the rate of credit expansion, improve the allocation of public investment, and, more broadly, restore an adequate system of interest rate and price incentives. In a number of countries, however, progress toward reducing the external deficit was brought about by programs relying mainly on import restrictions and domestic demand cuts, especially cuts in domestic investment, without adequate incentives for a switching of economic resources into the export sector.

The developments during 1983 and the first part of 1984 have demonstrated once more that any move toward a stable system of exchange rates requires domestic policies that foster the achievement of stable domestic economic and financial conditions, especially in the major industrial countries. A policy stance consistent with low inflation rates is important in this context, but it is not enough. It is also important that monetary and fiscal policies be mutually supportive to avoid undue pressures on interest rates. In its surveillance activities, the Fund has continued to stress the need for such a balanced configuration of policies. In the many developing countries with major external and internal adjustment problems, the Fund has stressed the need for comprehensive longer-run adjustment policies aimed at an expansion of exports and a restoration of the basis for sustained growth, in addition to the short-run policy measures of demand restraint that are often unavoidable.

Exchange Rate Issues in Industrial Countries

Concerns about the levels of exchange rates among the major currencies intensified during 1983 and the

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first few months of 1984, in particular because of the continued strength of the U.S. dollar (Chart 12). Except for the Japanese yen, which appreciated sharply against the U.S. dollar toward the end of 1982 and then maintained a relatively stable dollar value during 1983, the pattern of an appreciating dollar generally persisted throughout 1983. The dollar then depreciated somewhat in nominal effective terms during the first quarter of 1984, but rose again in the second quarter, approaching the level reached in January.[1] These exchange rate movements raised the real value of the dollar to about 15 percent above its average value for the decade 1973–82 in relation to the Japanese yen and the pound sterling, some 40 percent in relation to the deutsche mark, and nearly 50 percent in relation to the French franc.

A country's average real exchange rate over the past decade is, of course, not necessarily sustainable and appropriate under present circumstances. Changes in underlying economic and financial conditions often call for changes in real exchange rates. For example, the very sharp real appreciation of the pound sterling from 1978 through the first quarter of 1981 can be explained in part by the development of North Sea oil at a time of rapidly rising oil prices, while the subsequent reversal was aided by the softening oil market in 1982 and 1983. Also, shifts in private saving and investment patterns or in market confidence may induce changes in real exchange rates in order to generate a balance between the current and capital accounts. The demand for U.S. dollars, in particular, has occasionally been stimulated by the traditional role of the United States as a haven for financial investments during periods of turmoil in other countries. During the past year and a half, this demand may also have been stimulated by the positive effects of the strong economic recovery and the 1981 tax package on after-tax corporate profits and the expected rate of return on investment.

In a narrow sense, one can even say that, in the absence of intervention by the authorities in foreign exchange markets, exchange rates are always at equilibrium levels, since they are simply a reflection of the preferences and expectations of market participants engaged in free and open trading based on information available to them. But that observation does not imply that serious misalignments cannot occur in terms of the relative prices at which international trade takes place. Whenever stable domestic economic and financial conditions are absent, developments in financial markets can lead to swings in exchange rates that, while reflecting the free play of forces in the foreign exchange market, may not be consistent with the proper functioning of the adjustment process in the goods markets. This does not mean that the movements in exchange rates per se are unjustified but that the international interest would be well served if both the unstable domestic conditions and the accompanying movements in exchange rates were eliminated. For example, a lack of balance between monetary and fiscal policies may lead to a rise in real interest rates, and an appreciation of the exchange rate to the point of jeopardizing a country's international competitive position. Such a development would be detrimental not only to that country but also to its trading partners because it would have to be reversed sooner or later, with all countries obliged to bear the cost of moving factors of production first in and then out of certain sectors. Moreover, in the interim it may result in the introduction of protectionist measures that may be difficult to remove later.

The main reason for the current concern about exchange rates is that they appear to have exerted strong pressure on trading patterns and current account positions of the major industrial countries. For example, the rise in the exchange value of the U.S. dollar during the past several years has contributed to a sharp weakening in the U.S. current account balance (including official transfers) from a surplus of $5 billion in 1981 to a deficit of $39 billion in 1983, which, if continued, could have disquieting implications for the international allocation of world private saving. On the other hand, the U.S. current account deficit has had beneficial effects on economic recovery in other countries.

Economic and Financial Convergence

It is becoming increasingly apparent that the smooth functioning of the exchange rate system requires stable underlying conditions in the major industrial countries, including low rates of inflation, sustainable growth of real incomes, and a stable pattern of financial conditions. In the absence of such conditions, exchange markets tend to generate large swings in, and unsustainable levels of, exchange rates as market participants shift funds among currencies in response to actual or expected changes in relative economic and financial conditions.

Some important improvements in economic performance occurred during 1983 and the first part of 1984. In particular, there was a continued trend toward improved cost and price performance, with most of the major industrial countries recording reduced inflation in 1983, compared with the preceding three years. The average rise in the gross national product (GNP)

[1] Recent exchange rate developments are described in more detail in Chapter 1.

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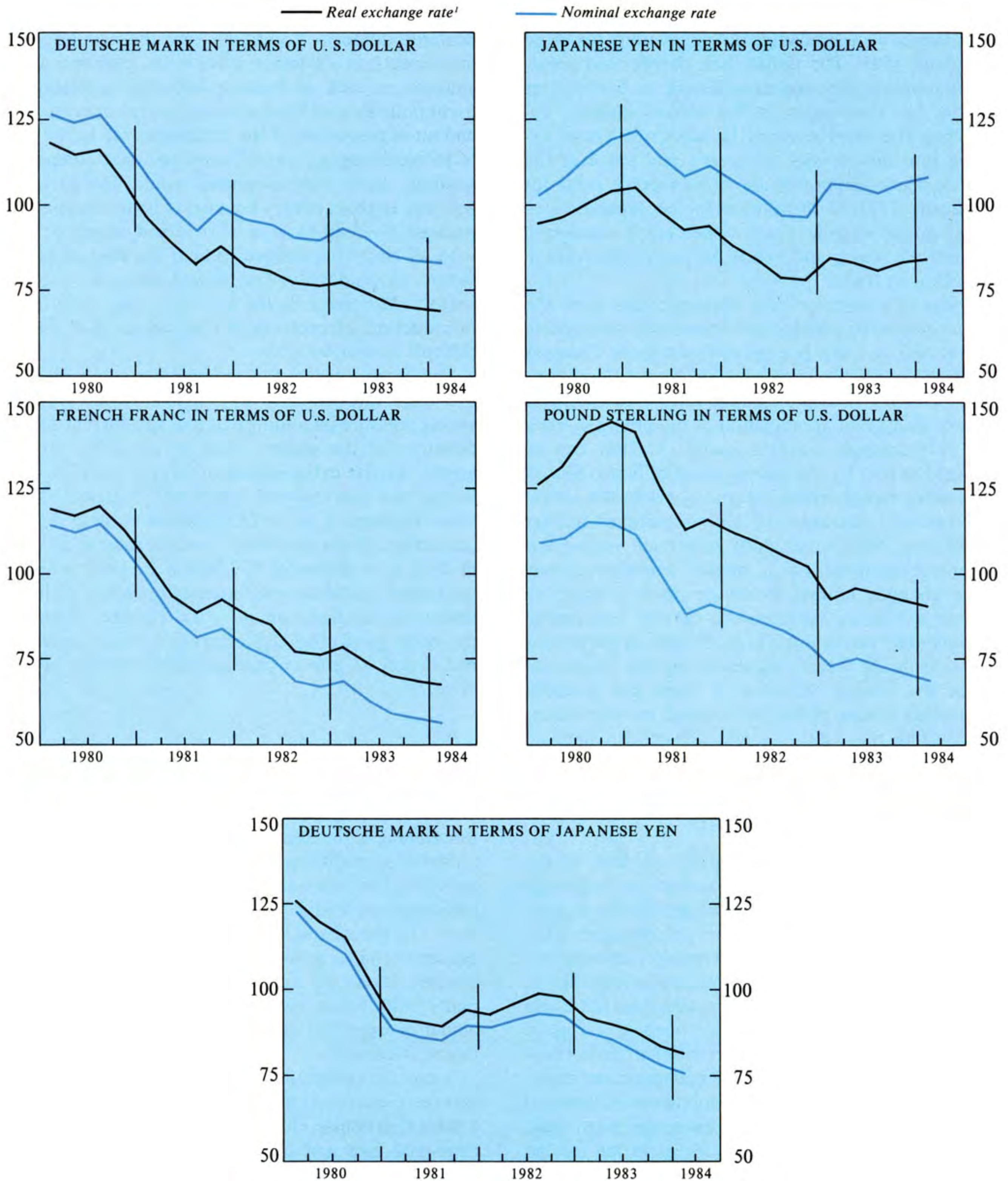
Chart 12. Selected Major Industrial Countries: Nominal and Real Bilateral Exchange Rates, 1980–First Quarter 1984
(Indices, 1973–82 = 100)



[1] Nominal exchange rate multiplied by the ratio of normalized unit labor costs in manufacturing for the two countries. Normalized unit labor costs are calculated by dividing an index of hourly labor costs by an index of potential output per man-hour.

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deflators of the seven largest industrial countries, which had surpassed 9 percent in 1980, fell to 4½ percent from the fourth quarter of 1982 to the fourth quarter of 1983 (Chart 13). Furthermore, the spread between the highest and lowest inflation rates was reduced somewhat, especially in comparison with 1980 and 1981.

A similar improvement was recorded in the achievement of real economic growth. The previous three years (1980–82) had been characterized by cyclical swings in economic activity that were sizable and not synchronous; five of the seven major countries—Japan and France being the exceptions—experienced a decline in real GNP in at least one of those years. In 1982, the rate of change in real GNP in the major countries ranged from a 4 percent decline in Canada to a rise of over 3 percent in Japan, with an average decline of ½ of 1 percent. In contrast, all of these countries showed positive growth on average during 1983, although the rates of growth still ranged from less than 1 percent to almost 7 percent.

As regards real interest rates, the evidence suggests an increased dispersion of real long-term rates around a higher average level in 1983 than in the years 1980–82, although real short-term rates moved down somewhat in most countries (Chart 13). Real interest rates are difficult to evaluate because they involve estimating market expectations of inflation. These difficulties are particularly pronounced at times when inflation is changing rapidly, as it was during 1982 and 1983. Nonetheless, most plausible estimates, including the estimates shown in the chart that reflect interest rates adjusted by a three-quarter moving average of actual inflation rates, indicate that in 1983 the high real long-term interest rates in the United States and Canada were in marked contrast to the rates in the other large countries. In the United States, the estimated real long-term rate of 8 percent was about 6 percentage points higher than the average that prevailed during the 30-year period 1950–79. Part of this difference, however, may reflect a greater persistence of expected inflation in the United States and Canada than is assumed in these estimates.

The balance between monetary and fiscal policies also continued to differ substantially among major industrial countries during 1983. Monetary policy has been even more difficult than usual to assess during this period, owing to shifts in the demand for money at a time of financial deregulation in the United States and a number of other industrial countries, and pressures associated with the EMS realignment in March 1983. On the whole, however, monetary growth seems to have been at least moderately constrained in most countries (Chart 13). Less success has been achieved in controlling fiscal positions. In particular, fiscal deficits in Canada and the United States were significantly larger in relation to GNP in 1983 than the average for the three preceding years. By contrast, in Japan and the Federal Republic of Germany, where the recovery was less advanced, the deficit in 1983 was equal to, or smaller than, the average deficit in the three preceding years. The following analysis discusses the effects of fiscal policies on exchange rates, as well as the broader issue of the role of convergence of economic performance to sustainable levels among countries with floating exchange rates and among countries having pegged rates or participating in cooperative exchange arrangements.

Countries with Floating Exchange Rates

The role of convergence of economic performance in the smooth functioning of the exchange rate system may at one time have appeared to be less crucial for countries with floating exchange rates. The pressures that arose from divergent policies and conditions in the late 1960s and early 1970s furnished a primary impetus in the evolution of the current system. It was frequently argued at the time that floating exchange rates would enable countries to pursue domestic monetary objectives with a greater degree of independence than was possible under fixed exchange rates. In the event, divergent conditions—especially with respect to inflation—have proved to be a serious problem for countries with floating rates as well. Indeed, the experience of the instabilities associated with high inflation made it clear that a generalized reduction of inflation was a prerequisite for creating the climate of confidence that was needed to underpin a smoothly functioning exchange rate system.

Part of the problem associated with the high rates of inflation experienced by many industrial countries during the 1970s and early 1980s was their unpredictability, which added to the risks of investing in financial assets denominated in those countries' currencies. In addition, the failure of some countries to control inflation led to a decline of confidence in the sustainability of their policies. Market participants came to expect inflationary policies to be reversed sooner or later, but the magnitude and timing of those reversals were subject to substantial uncertainty. The riskiness associated with financial investment during periods of high inflation reduced the confidence with which expectations were formed, weakening the tendency toward stabilizing speculation in foreign exchange markets.

A further problem was that inflation detracted from the smooth adjustment of floating exchange rates, even among countries with similar inflation rates, because

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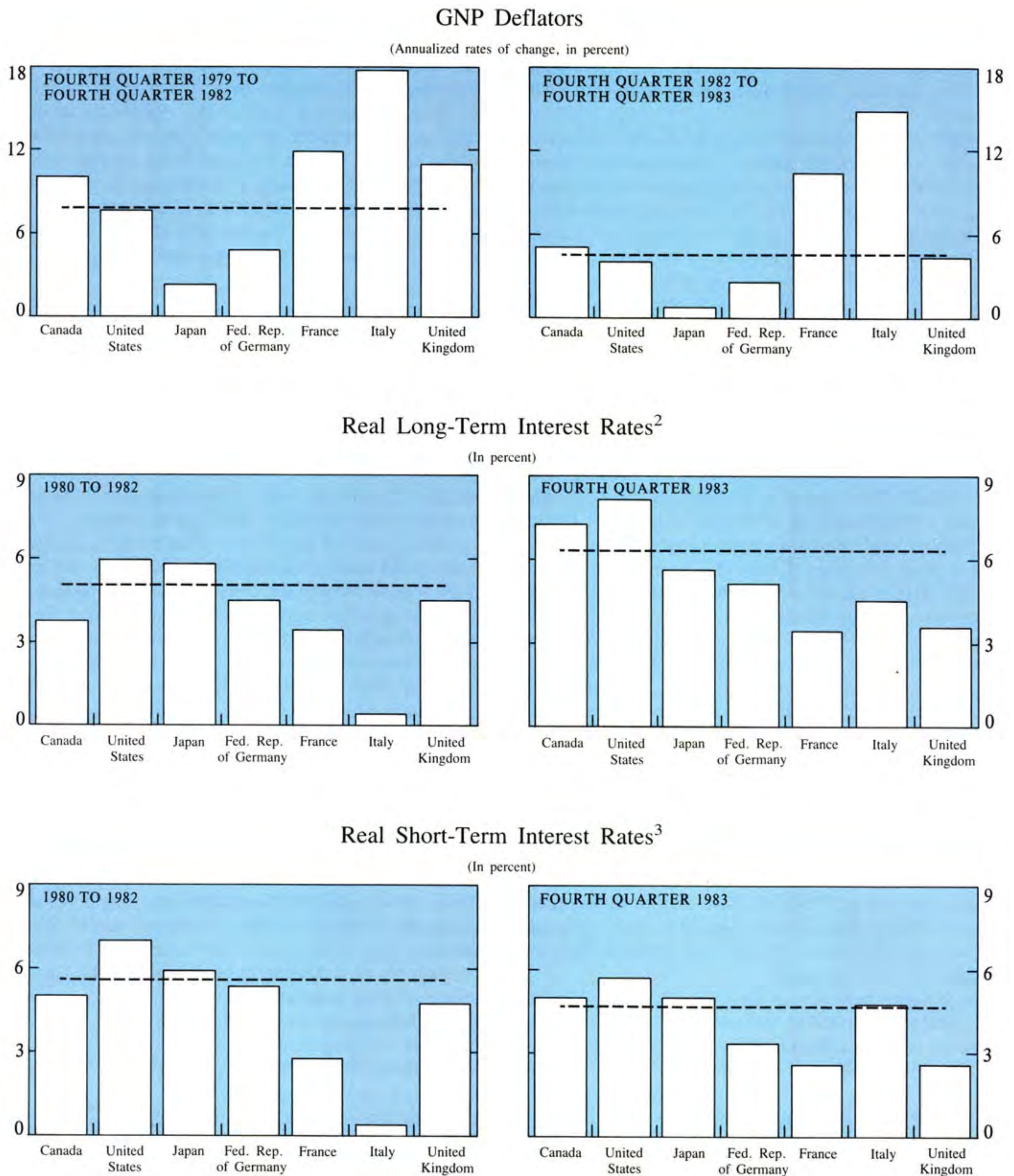
Chart 13. Seven Major Industrial Countries: Indicators of Economic Performance [1]



[1] The dashed horizontal line in each panel represents the mean value of the plotted data, weighted by the relative size of each country's gross national product for the 1980–82 period.
[2] Yields on government bonds with maturities ranging from 7 to 20 years deflated by a weighted average of the rate of inflation in the current quarter and the next two quarters, with the deflator of private final domestic demand serving as the price index. Staff projections of this deflator are used for the most recent data.

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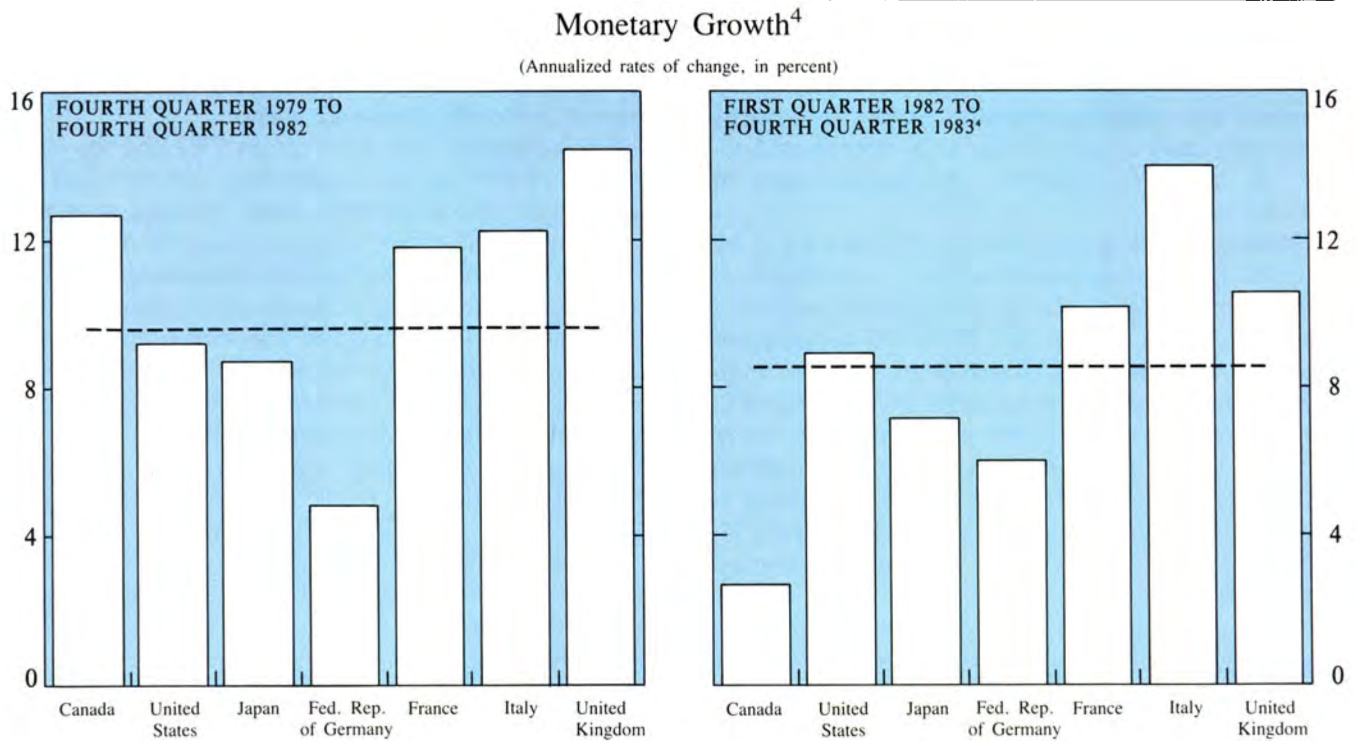
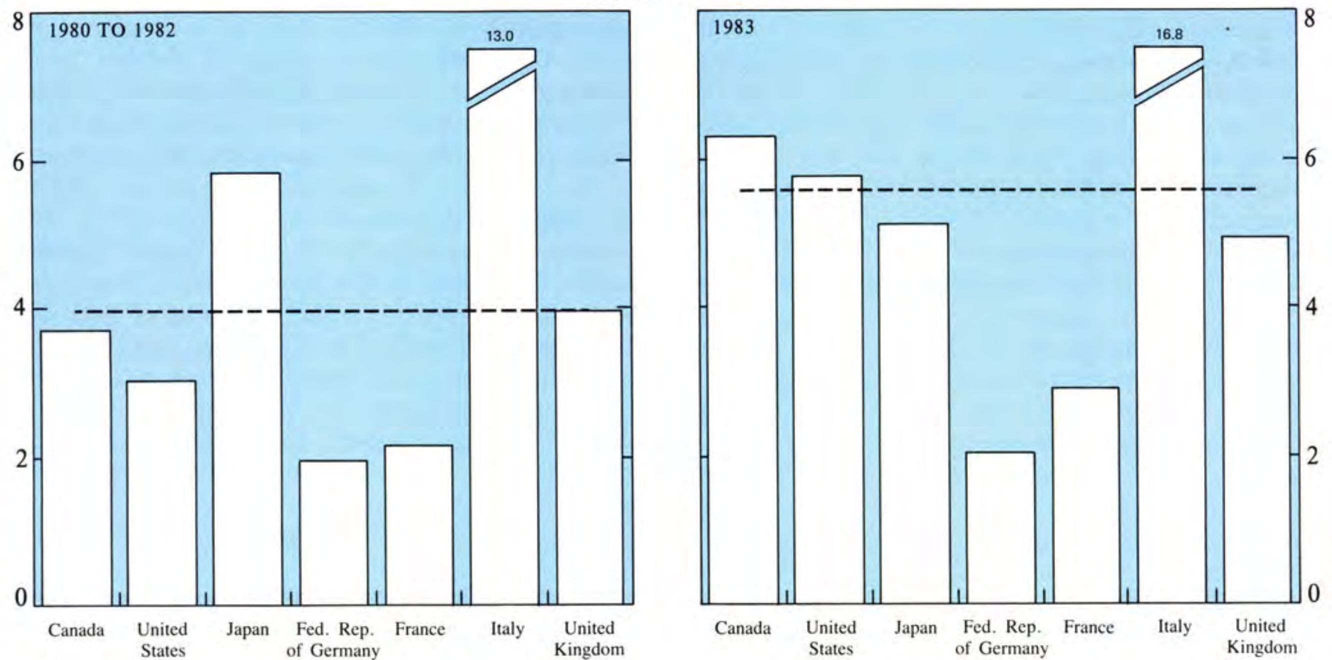
Chart 13 (*concluded*). Seven Major Industrial Countries: Indicators of Economic Performance [1]





[3] Averages of daily rates on money market instruments of about 90 days' maturity, except for Japan, where the discount rate on two-month (private) bills is used. These rates are deflated by the same index used for long-term interest rates.
[4] Money stocks used are M2 for the United States, Canada, France, and Italy; M2 plus certificates of deposit for Japan; sterling M3 for the United Kingdom; and central bank money for the Federal Republic of Germany.

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the relative prices of individual goods, services, and assets tended to be less stable and to have more divergent patterns than in periods of greater overall price stability. In turn, this instability led to increased uncertainty about movements in relative prices. To the extent that these uncertainties pertained to prices of internationally traded goods, they contributed directly to increased volatility and misalignment of exchange rates.

A related aspect of convergence that proved to be important is the maintenance of a steady stance of demand management policies. The cyclical pattern of economic growth during the 1970s led to frequent changes in these policies, which were at times counterproductive and added to uncertainty with regard to the future course of the world economy. Even more important, undue delays in the adoption of firm measures to put an end to the rise in inflation made it ultimately necessary to have a marked shift in policies in 1979–80, with a very painful adjustment period during 1980–83.

The problems that are raised for the smooth functioning of the exchange rate system by large policy-induced cyclical swings in economic activity occur whether or not those cycles are synchronous among countries. If the cycles are not synchronous, as was the case in the recessionary period of 1981–82, then the countries undergoing relatively rapid expansion of domestic demand will tend to have relatively weak external payments positions, and conversely. On the other hand, as the experience in 1972 and 1973 demonstrated, synchronous cyclical movements among major countries can create large swings in prices of primary commodities. Such swings can seriously disrupt normal trading relationships and can add to uncertainties about relative prices, thus contributing to exchange rate instability. The implementation of steadier demand management policies would contribute to economic and exchange rate stability by fostering an environment in which market participants could have greater confidence in the persistence of current policies and the stability of underlying conditions.

Changes in circumstances do at times require short-run adjustments in economic policies. For example, large shifts in the demand for money resulting from institutional or regulatory innovations or from shifts in preferences for holding various assets may occasionally need to be accommodated by the authorities through temporarily higher or lower monetary growth rates. This is particularly true from the vantage point of the international financial system when changes in the demand for money involve shifts among assets denominated in different currencies. Monetary authorities that have gained considerable credibility through past actions will normally be able to make the short-run adjustment without significant effects on inflationary expectations. However, monetary authorities with a less well established credibility may have to exercise greater caution, especially if the circumstances are such that the short-run adjustment could easily be misinterpreted by economic agents.

Much progress was achieved in 1983 and the early months of 1984 in the abatement of inflation and the restoration of real growth. What became apparent, however, was that this progress was not sufficient for a return to a sustainable pattern of exchange rates. A further requirement was that progress should also be achieved in the avoidance of abnormally high or low real interest rates. This objective is intrinsically important, inasmuch as abnormally high real interest rates hinder private capital investment and create major hardships for developing countries with substantial external indebtedness; on the other hand, negative real interest rates give rise to inflation and encourage excessive indebtedness. In addition, this objective is important because abnormally high real interest rates in an industrial country with broad financial markets can have a major effect on its exchange rate.

The emergence of very high real interest rates in the United States after 1980 induced increases in other countries that were generally somewhat smaller, resulting in sizable real interest rate differentials favoring the U.S. dollar over other major currencies (Chart 14). These differentials apparently gave rise to a substantial flow of capital into dollar-denominated assets and consequently may have contributed to the appreciation of the U.S. dollar in real terms. In addition, interest rates were quite volatile during 1980 and 1981 in relation to historical patterns, especially in the United States but in a number of other countries as well, contributing to the volatility of exchange rates. During 1982, the real interest rate differentials in favor of U.S. dollar investments over those in other major currencies tended to subside, as did the volatility of nominal and real interest rates. Since the beginning of 1983, however, these differentials have widened again as a result of continued progress against inflation in the United States, as well as the rise in nominal U.S. interest rates. To a major degree, this renewed rise in U.S. interest rates reflects the strength of the recovery in the United States, which has had beneficial effects on the prospects for economic growth in other countries; but it is likely that the large U.S. fiscal deficit was also a contributing factor. Since convergence of real interest rates could promote a more stable pattern of exchange rate developments, it would be desirable for fiscal and monetary policies to foster such convergence by taking adequate account of differences among countries in the flow of saving relative to the demand for private investment.

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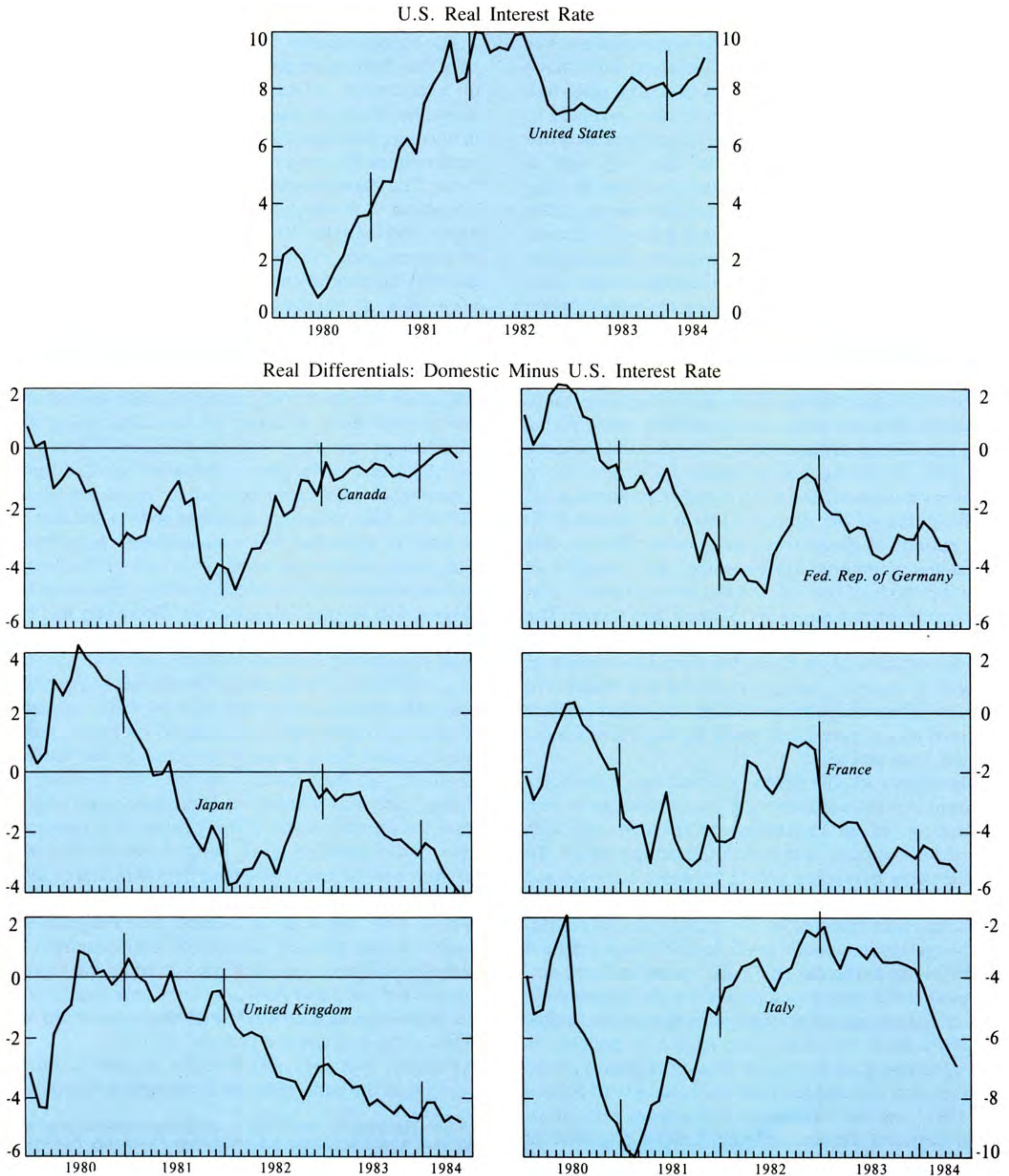
Chart 14. Seven Major Industrial Countries: Monthly Average Real Long-Term Interest Rates, January 1980–May 1984 [1]

(In percent per annum)



[1] Yields on government bonds with maturities ranging from 7 to 20 years deflated by a weighted average of the rate of inflation in the current quarter and the next two quarters, with the deflator of private final domestic demand serving as the price index. Staff projections of this deflator are used for the most recent data.

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Countries with Managed Exchange Rates

The problems associated with a lack of convergence of economic performance are also apparent in countries with pegged exchange rates and among those that participate in cooperative exchange arrangements. For these countries, divergences of inflation rates have necessitated periodic adjustments in central rates and have sometimes subjected the currencies involved to bouts of destabilizing speculation. In addition, because interest rates have tended to be relatively high in countries with higher inflation rates, investors in some circumstances have been able to take advantage of the relative exchange rate certainty that follows a change of parities by placing funds temporarily in those higher-yielding assets. A divergence of nominal interest rates has then placed upward pressure on the high-inflation country's currency for a time, followed by downward pressure once the competitive effects of the country's high inflation rate have begun to be felt.

The recent functioning of the EMS illustrates these difficulties and the ways that countries participating in a joint floating arrangement have been able to cope with them. There has been a substantial divergence in inflation rates among the EMS member countries since the inception of the current system in March 1979. This pattern of divergence, along with other factors affecting competitive relationships, has resulted in several periods of tension and has necessitated a total of seven realignments over the past five years. The cumulative nominal depreciation of the Italian lira vis-à-vis the deutsche mark during this period has amounted to some 27 percent, roughly matching the cumulative inflation differential; similar, though somewhat smaller, net movements have taken place for the French franc and the Irish pound.

Adjustment of the EMS parities has sometimes occurred in an atmosphere of pressure associated with anticipation of an impending realignment and with official intervention in support of existing parities. To reduce these pressures and to promote convergence of economic performance, most EMS realignments have been accompanied by the introduction of restrictive budgetary or monetary policies in the high-inflation countries. In particular, the most recent realignment, in March 1983, was accompanied by the implementation of a package of restrictive measures in France involving both budgetary and monetary policies as well as foreign exchange controls. Subsequently, monetary growth was successfully reduced in both France and Italy, and the real short-term interest rate differential between France and the Federal Republic of Germany switched from approximately 1 percentage point in favor of assets denominated in deutsche mark just before the realignment to about the same margin in favor of French francs a year later. In addition, France, Ireland, and Italy have all made further efforts during the past year to moderate inflationary pressures by controlling government expenditure and reducing fiscal deficits.

The recent experiences of the other industrial countries that have managed their exchange rates in terms of a composite of currencies—comprising Austria, Australia, Finland, Norway, and Sweden—also help to illustrate the importance of convergence of economic performance for the smooth management of exchange rates. The Austrian economy, for example, is closely integrated with that of the Federal Republic of Germany, and there has been in general a very high degree of convergence between the two countries. Consequently, for several years the Austrian authorities have been able to maintain a rather stable relationship between the schilling and the deutsche mark in both nominal and real terms.

The Australian dollar was, until recently, managed in relation to a basket of currencies, with an exchange rate posted daily in terms of the U.S. dollar (the intervention currency for the authorities).[2] During the late 1970s and early 1980s, Australia's cost and price performance was close to that of its major trading partners. This situation, together with a flexible approach to exchange rate management, permitted a reasonable degree of stability in the real effective exchange rate for the Australian dollar, relative to that observed in the preceding period. However, in 1982–83, prices in Australia rose at a substantially more rapid rate than in its major trading partners, making it more difficult to maintain international competitiveness. Moreover, in the first part of 1983, exchange market pressures were exacerbated by heavy speculative capital flows around the time of the national elections. In these circumstances, the nominal exchange rate was allowed to depreciate quite sharply from the fourth quarter of 1981 to the first quarter of 1983, culminating in a 10 percent devaluation with reference to the trade-weighted basket in March 1983. Until a wages pause began to take effect in the early part of 1983, much of the depreciation fed back into wage inflation through indexation. Consequently, the real effective exchange rate, measured on the basis of normalized unit labor costs, declined only slightly from the high level of late 1981, and the current account deficit remained about 4 percent of GNP.

Finland, Norway, and Sweden provide a further example of the importance of convergence of economic

[2] On December 12, 1983, the Australian authorities announced that they were abandoning the administered exchange rate system in favor of independent floating. This decision followed a period of exceptional net foreign exchange inflow that was creating substantial difficulties for the management of both domestic monetary policy and the exchange rate.

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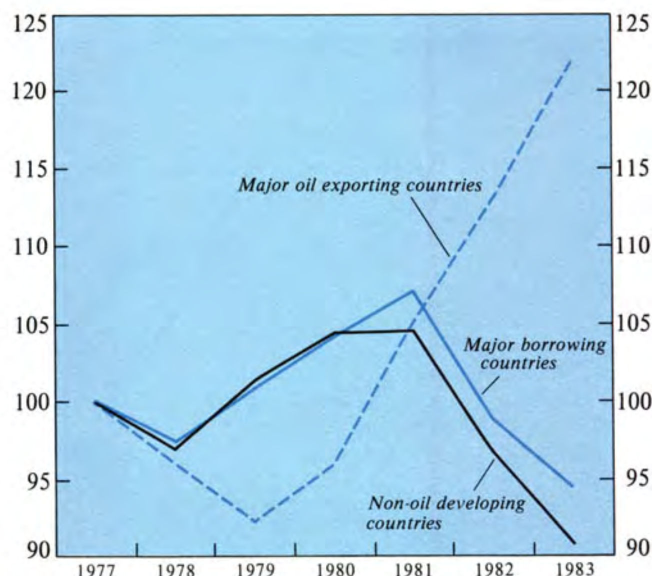
performance for the management of exchange rates. These three countries are all close trading partners and competitors in international markets, and each one pegs its exchange rate to a trade-weighted currency basket. During the late 1970s, inflation rates were similar both within this group of countries and between them and their other major trading partners, and interest rate policies were fairly effective in curbing speculative pressures and maintaining exchange rate stability, with occasional adjustments of parities relieving shifts in competitive positions. In the early 1980s, however, inflation rates in these countries became higher than in their partner countries. By the autumn of 1982, the resulting loss of competitiveness led to a series of devaluations by all three countries. Since then, all of these countries have implemented policies intended to promote convergence by reducing inflation to rates closer to those prevailing abroad. The average rate of inflation in consumer prices in these three countries, which had reached nearly 10 percent during 1982, declined to 7½ percent for the 12 months through January 1984.

Chart 15. Developing Countries: Real Effective Exchange Rates, 1977–83 [1]

(Indices, 1977 = 100)



[1] These indices measure the evolution of a country's prices relative to those of its trading partners, adjusted for exchange rate changes. Prices are measured by the average annual consumer price index, with indices of partner countries averaged by using import weights, and exchange rates are measured by an import-weighted index of average annual effective exchange rates. Group indices are GDP-weighted averages of country indices.

Exchange Rate Policies in Developing Countries

For most developing countries, exchange rate policies since 1982 have been dominated by three major features in the economic setting: the pressing need to carry out adjustments in the current account of the balance of payments; the domestic economic situation, which in many instances was conditioned by high and rising rates of inflation; and large medium-term swings in exchange rates among the major currencies. These topics will be discussed after an examination of recent exchange rate developments.

Exchange Rate Developments

During 1983, the real effective exchange rates of the non-oil developing countries, calculated as an average across countries weighted by gross domestic product (GDP), depreciated by over 6 percent, bringing the cumulative depreciation for the period 1982–83 to about 13 percent (Chart 15); this change followed a cumulative appreciation of 8 percent over the previous three years.[3] Nevertheless, the currencies of a large number of these countries continued to appreciate in real effective terms, as demonstrated by the fact that an unweighted average of real effective exchange rate indices for these countries appreciated by 2 percent in 1982 and depreciated by less than 1 percent in 1983.[4]

The appreciation of real effective exchange rates in 1978–81 was accompanied by a deterioration in current account balances, supported by heavy external borrowing, and the real effective depreciation of 1982–83 by many of these countries played a significant role in their efforts to improve their current account balances and overall external positions (see Chapter 1). For example, the adjustment in the average real effective exchange rate of the 25 major borrowers among developing countries [5] amounted to a cumulative depre-

[3] Indices of real effective exchange rates measure the evolution of a country's prices relative to those of its trading partners, adjusted for exchange rate changes. Prices are measured by the average annual consumer price index, with indices of partner countries averaged by using import weights, and exchange rates are measured by an import-weighted index of average annual effective exchange rates.

[4] GDP weights were used for computing these averages for major groups of developing countries (Charts 15–17), in order that overall trends for a group might reflect the relative importance of countries within the group. Nevertheless, unweighted averages are also reported, because in some cases the experience of a few large countries in a group might give a misleading impression of developments in other countries in the group. Later in this section (Charts 18–20), only unweighted averages are presented, in order to focus on the association between exchange rate developments and a special common characteristic of countries within each group.

[5] This group consists of the 25 developing countries with the largest total external debt at the end of 1982. These are, in order of the amount of their debt, Brazil, Mexico, Argentina, Korea, Indonesia, Venezuela, Israel, India, Chile, Egypt, Yugoslavia, Turkey, Algeria, the Philippines, South Africa, Portugal, Nigeria, Thailand, Malaysia, Peru, Pakistan, Morocco, Romania, Colombia, and Hungary.

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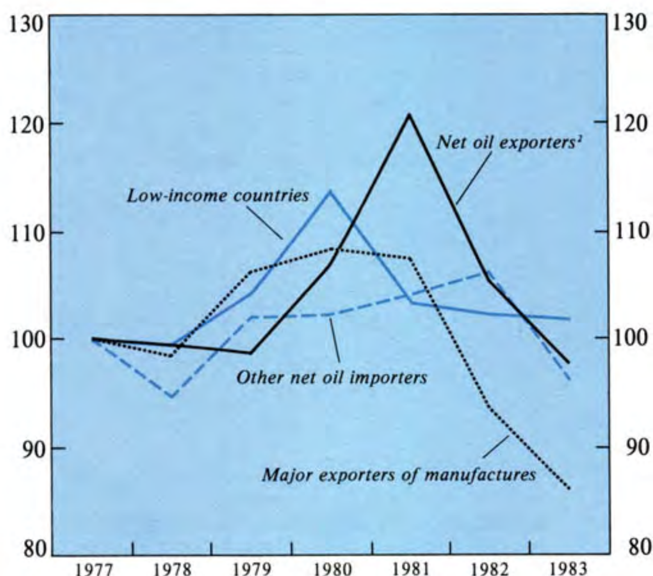
Chart 16. Non-Oil Developing Countries: Real Effective Exchange Rates by Analytical Subgroups of Countries, 1977–83 [1]
(Indices, 1977 = 100)



[1] These indices measure the evolution of a country's prices relative to those of its trading partners, adjusted for exchange rate changes. Prices are measured by the average annual consumer price index, with indices of partner countries averaged by using import weights, and exchange rates are measured by an import-weighted index of average annual effective exchange rates. Group indices are GDP-weighted averages of country indices.
[2] Within the group of "non-oil developing countries."

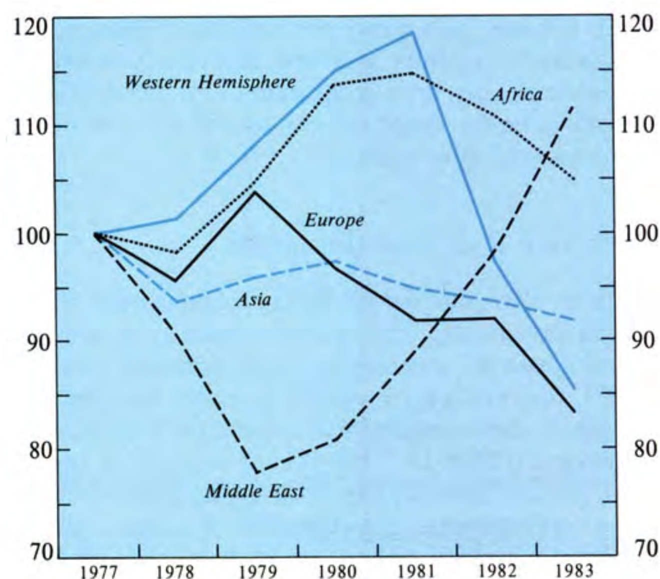
ciation of about 12 percent over 1982–83, following a cumulative appreciation of nearly 10 percent over the years 1978–81 (developments were similar for unweighted averages).

By contrast, the major oil exporting countries tended to experience an appreciation of their real effective exchange rates, with a cumulative appreciation for the group as a whole of 16 percent over the two-year period 1982–83,[6] despite relatively low domestic inflation rates for most of the countries in this group. This development can be explained in large part by the policy of a number of these countries of maintaining relatively stable exchange rates between their currencies and the U.S. dollar, which appreciated over this period against most other currencies.

Among the non-oil developing countries, the low-income countries experienced a slight depreciation of real effective exchange rates in both 1982 and 1983 when averaged using GDP weights (Chart 16), but an unweighted average showed a significant appreciation in both these years. The authorities in a number of these countries did not take exchange rate action to remedy a decline in international competitiveness, perhaps because they did not expect such action to have an immediate impact on volumes of primary product exports. The opposite was true for most other non-oil developing countries, in which the manufacturing sector plays a more important role in exports and import substitution. For instance, major exporters of manufactures, other net oil importers, and net oil exporters all experienced substantial depreciations in their real effective exchange rates in 1983, when averaged with GDP weights (although these changes were less marked for unweighted averages). For a number of countries in these categories, the depreciation exceeded 10 percent, notably for Brazil, Chile, Ghana, Mexico, and Yugoslavia.

Some sharp regional differences in exchange rate trends emerged among the non-oil developing countries in 1983 (Chart 17). In Africa, after a tendency toward appreciation of real effective exchange rates over much of the previous decade, there was a depreciation of 5½ percent in 1983, using a GDP-weighted average of national indices. On the same basis, the average depreciation of real effective exchange rates was sharper among non-oil developing countries in the Western

Chart 17. Non-Oil Developing Countries: Real Effective Exchange Rates by Region, 1977–83 [1]
(Indices, 1977 = 100)



[1] These indices measure the evolution of a country's prices relative to those of its trading partners, adjusted for exchange rate changes. Prices are measured by the average annual consumer price index, with indices of partner countries averaged by using import weights, and exchange rates are measured by an import-weighted index of average annual effective exchange rates. Group indices are GDP-weighted averages of country indices.

[6] Similar developments are shown when using unweighted averages across countries in this group.

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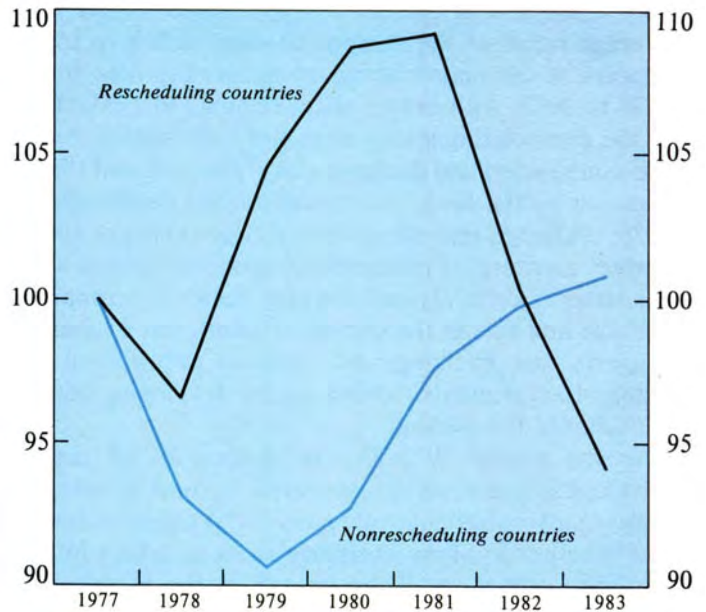
Hemisphere (12 percent) and Europe (9½ percent). In Asia, where changes in real effective exchange rates have tended to be more moderate over the past half decade than in the other regions, there was on average only a slight depreciation in 1983. In the small Middle Eastern group (dominated by developments in Egypt and Israel), there was an average appreciation of 14 percent.[7]

Exchange Rate Policies and External Imbalances

The relationship between exchange rate movements and balance of payments developments over the past five years was complex. Sharp changes in both current account balances and in the direction and magnitude of capital movements were closely associated with exchange rate movements in many developing countries. The large net inflows of lending received by these countries in 1978–81 were cut back sharply in 1982–83. Those major borrowing countries that rescheduled their debt in 1982–83 experienced an especially sharp swing between the appreciation of real effective exchange rates between 1978 and 1981 and the depreciation of 1982–83, while for major borrowers with less severe debt problems there was a mild degree of appreciation of real effective exchange rates over the period 1980–83, after some depreciation in 1978 and 1979. However, the experience of the rescheduling countries—a period of appreciation of real effective exchange rates through 1981 followed by depreciation thereafter—was the more typical one for the non-oil developing countries as a whole (Chart 18).

The interpretation of these developments is complicated by the interdependence of exchange rates and capital flows. In countries where exchange rate determination is allowed some degree of sensitivity to market pressures, the impact of capital flows on exchange rates is a direct one. But even in countries where the market does not influence these rates directly, the exchange rate policies of the authorities have been strongly affected by the availability of external finance. This is indeed suggested by the widespread—in some cases, dramatic—exchange rate changes after 1981, when drying up of financing flows made the need for external adjustment evident. It may be argued, however, that the appreciation of the real effective exchange rate creates a greater demand for external finance through its impact on the current account. The large capital inflows experienced in some

Chart 18. Major Borrowing Developing Countries: Average Real Effective Exchange Rates, 1977–83 [1]
(Indices, 1977 = 100)



[1] This group consists of the 25 developing countries with the largest total external debt at the end of 1982. These are, in order of the amount of their debt, Brazil, Mexico, Argentina, Korea, Indonesia, Venezuela, Israel, India, Chile, Egypt, Yugoslavia, Turkey, Algeria, the Philippines, South Africa, Portugal, Nigeria, Thailand, Malaysia, Peru, Pakistan, Morocco, Romania, Colombia, and Hungary.

The indices measure the evolution of a country's prices relative to those of its trading partners, adjusted for exchange rate changes. Prices are measured by the average annual consumer price index, with indices of partner countries averaged by using import weights, and exchange rates are measured by an import-weighted index of average annual effective exchange rates. Group indices are unweighted averages of country indices.

countries prior to 1982 were in part a response to the growth of current account deficits, which in turn reflected, among other factors, real effective exchange rates that had become increasingly appreciated.

It is nevertheless difficult to determine the relative contribution of several concurrent policies to the current account improvement achieved by the non-oil developing countries. In addition to exchange rate adjustments, the fall in incomes and output, as well as trade and exchange restrictions, played key roles. The available evidence shows that countries that acted to maintain their international price competitiveness—in other words, to avoid substantial real effective appreciation of their currencies—during the period 1978–81 were, on the whole, better able to keep the deterioration of their current accounts in check than were countries whose international price competitiveness, as measured by their real effective exchange rates, had been allowed to decline. Moreover, the former countries were more successful in adjusting to the difficult external situation prevailing in 1982–83

[7] For all these regions, unweighted averages of national indices changed in the same direction as the GDP-weighted averages, although in most cases the changes were smaller.

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than were the latter countries. These tendencies can be illustrated by comparing the experience of those non-oil developing countries whose currencies depreciated in real effective terms over the years 1978–81 with those whose currencies appreciated. While the average ratio[8] of the current account deficit to total exports of the appreciating group steadily rose from 1978 to 1982, with only a slight reversal in 1983, that of the depreciating group increased only slightly over the same period and declined sharply in 1982 and 1983, showing by the latter year a substantial decline from 1978. Although real effective exchange rates are not a perfect measure of international competitiveness and the latter is certainly not the only factor determining the sign and size of the current account, this evidence suggests that exchange rate policies contributed to external adjustments carried out by developing countries during this period.

In the period 1979–83, the authorities of many developing countries encountered several dilemmas with regard to exchange rate policies.[9] A major problem was whether to allow exchange rates to reflect fully, partially, or not at all the impact on the balance of payments of the salient external developments occurring during this period—the increase in petroleum prices in 1979–80, the rise in interest rates after 1979, the recession in the industrial countries, and the cutting back of international lending by the commercial banks. Difficult judgments had to be made, in an environment of considerable uncertainty, as to whether these developments were of a temporary or permanent nature and, if temporary, of how long a duration. It was not implausible to believe that at least some of the developments were temporary, but, when the availability of external financing declined, the need for immediate action was apparent. At first, some countries sought to avoid exchange rate action by imposing trade and exchange restrictions. By 1982, however, it was evident that a serious balance of payments crisis had developed and that it was necessary to increase external competitiveness to achieve viable positions with regard to the balance of payments, the level of debt, and the size of debt service payments. Hence, substantial exchange rate adjustments were carried out in 1982–83 by a number of countries.

Nevertheless, as indicated earlier, many countries with current account positions that had deteriorated markedly up to 1982 still have not undertaken adequate exchange rate adjustments. These countries, therefore, have had to carry out adjustments in their balance of payments positions principally by means of measures to reduce aggregate demand and of restrictions on imports and external payments. A large number of non-oil developing countries introduced or intensified import restrictions in 1982 or 1983—although, to be sure, certain restrictions were reduced or eliminated, sometimes in connection with Fund programs. While restrictive measures were considered necessary to meet the immediate balance of payments crisis, they cannot in the long run provide an adequate substitute for measures to improve the price competitiveness of the sectors producing traded goods in these countries. Such improvement will depend not only on exchange rate policies and the removal of price-distorting subsidies and controls but also on the success of controlling the level of aggregate demand, especially the demand of the public sector.

While there can be little doubt that exchange rate adjustments improved the external positions of the countries undertaking them, there is reason to believe that the impact of these adjustments on the current account was less marked than it would have been under different circumstances. First, the fact that so many countries were simultaneously attempting to improve their external competitiveness tended to dampen the effect of exchange rate measures on the current account position of individual countries. In addition, the scope for improved export performance for the developing countries, as a result of exchange rate adjustments, was limited by the existence of protective tariffs and quantitative restrictions in the industrial countries. Finally, the effects of exchange rate adjustments undertaken so far may not yet have been fully realized, because of the lags between the initial adjustment and the expected increase in market shares, and also because the initial adjustments occurred while the industrial economies were still in recession.

Global developments over the past several years have had a significantly different impact on countries exporting oil[10] than on oil importing developing countries (see Chapter 1), although there have been striking contrasts within the former group. For those oil exporting countries that had financed a rapid rise in government expenditure after 1980 with heavy borrowing from abroad, the decline in the price of oil since 1981, which was accompanied by lower oil export volumes and higher interest rates, created an especially difficult situation. In the 1970s, these oil exporting countries had already faced the problem of choosing an appropriate exchange rate, particularly when demand for oil was high, since the short-run equilibrium

[8] Unweighted average of ratios of countries in each group.

[9] Problems arising from the role of exchange rates in the management of domestic demand and from the task of managing exchange rates in a world of floating rates among major currencies are topics taken up in the following subsections.

[10] The reference to oil exporting countries in this paragraph includes both the group of major oil exporters and that of net oil exporters among the "non-oil developing countries."

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rate was not always consistent with the objective of the authorities of these countries to expand their non-oil traded goods sectors. In many countries that export oil, real appreciation of the effective exchange rate was permitted to occur during the 1970s; subsequently, when some of these countries (e.g., Mexico, Indonesia, and Venezuela) were faced with serious balance of payments strains, exchange rate adjustments were then used to help remedy the situation. In Indonesia, the long-run danger of allowing the competitiveness of the non-oil traded goods sector to weaken was seen at a relatively early stage, and a major exchange rate devaluation was carried out in 1978, as well as in 1983.

In centrally planned economies, as noted in previous Annual Reports, exchange rate policies may not play the same role as in market economies. This role varies among planned economies depending on the extent to which individual units of production make their decisions on the basis of price incentives rather than quantitative targets and direct allocations of inputs from the central economic authority. In a number of member countries with planned economies, steps have been taken to expose individual enterprises to changes in world prices, to unify exchange rates (thereby better reflecting the set of relative prices prevailing in the world economy), and to adjust rates in the direction suggested by changes in the underlying balance of payments position.

Exchange Rates and Domestic Policies

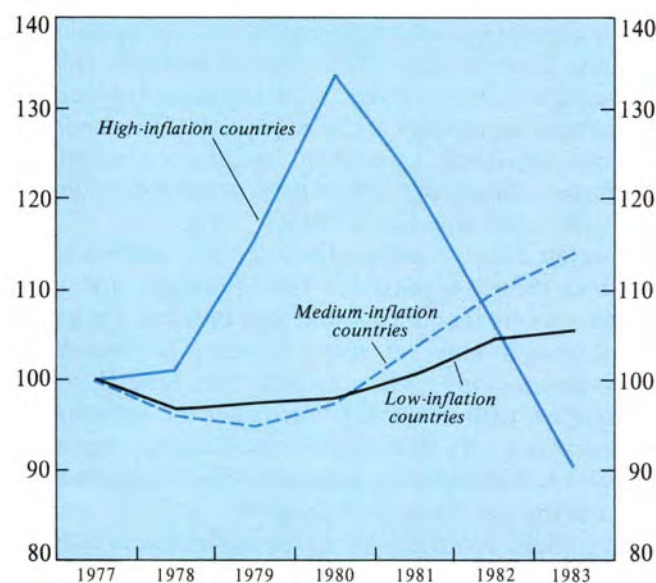
An important factor determining the course of exchange rate policies, including the choice of exchange arrangement, is the domestic policy setting. Domestic considerations often weigh heavily in decisions to allow the domestic currency to appreciate or depreciate. In particular, the movement in the real effective exchange rate of the currency depends on whether the nominal exchange rate is adjusted in line with differences between domestic and foreign rates of inflation. At the same time, changes in the nominal exchange rate are often perceived as an important influence on the level of domestic prices.

If every country adjusted the external value of its currency exactly in line with differences between domestic and foreign inflation rates, real exchange rates would remain constant and there would consequently be no difference in the real effective exchange rate performance of low-inflation, medium-inflation, and high-inflation countries.[11] In fact, however, there were striking differences among these groups for certain periods during the past decade (Chart 19).

The real effective exchange rates of high-inflation countries appreciated, on average, substantially between 1975 and 1980, and then sharply depreciated (correcting the previous overvaluation) between 1980 and 1983. For many of these countries, the downward adjustment of exchange rates began only in 1982, after a period of heavy borrowing and real appreciation of exchange rates in the period preceding 1982. A few countries (Argentina and Uruguay) experimented with schemes to exert a downward influence on inflationary expectations by keeping the exchange rate overvalued. Obviously, the substantial real depreciation after 1981 was made necessary by the previous appreciation.

For medium-inflation countries, the pattern was quite different, with the real effective exchange rate gradually depreciating over the period 1974–79 and thereafter steadily appreciating. The tendency for exchange rate adjustments to lag behind inflation after 1979 was especially strong in countries where inflation significantly exceeded the historical norm and was therefore regarded as a temporary phenomenon (e.g., many African countries). In some of these countries, also, the fear that devaluation would further stimulate

Chart 19. Developing Countries: Average Real Effective Exchange Rates for Low-, Medium-, and High-Inflation Countries, 1977–83 [1]
(Indices, 1977 = 100)



[1] These indices measure the evolution of a country's prices relative to those of its trading partners, adjusted for exchange rate changes. Prices are measured by the average annual consumer price index, with indices of partner countries averaged by using import weights, and exchange rates are measured by an import-weighted index of average annual effective exchange rates. Group indices are unweighted averages of country indices.

[11] For the purpose of this grouping, "high inflation" was defined as an average of more than 31 percent over the period 1979–83; "medium inflation" as an average of 11 to 31 percent; and "low inflation" as an average of less than 11 percent.

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inflationary pressures may also have hindered timely exchange rate adjustments.

For low-inflation countries, changes have in general been more muted, with a gradual real appreciation of about 8 percent occurring from 1978 to 1983. This appreciation was in part related to the fact that a number of these countries pegged their currencies to the U.S. dollar (see section on Exchange Arrangements) and did not choose to alter the level of the peg during this period, thereby allowing their currencies to appreciate with the U.S. dollar against non-dollar currencies.

The implementation of required exchange rate adjustments has been complicated by the high rates of inflation prevalent in many of the adjusting countries. For example, in 28 member countries[12] inflation rates averaged 20 percent or more during the period 1979–83. In such economies, the direction and implementation of exchange rate policy became a major concern of the authorities and necessarily posed more complicated choices than in countries with relatively low rates of inflation.

One approach that has been taken in recent years in a number of countries—industrial as well as developing—is to gear exchange rate policies, at least in part, to domestic price objectives. Such use of exchange rate policy has taken different forms. In some countries, the authorities deliberately maintain a fixed exchange rate that overvalues the domestic currency: this policy of "cheap imports" is expected both to keep domestic prices down and to weaken upward pressures on wages. In other countries, a depreciation of the domestic currency is simply avoided or delayed because of its anticipated impact on domestic prices. The concerns of the authorities in this regard influenced exchange rate policies in Chile, Mexico, and numerous African countries, as well as in some oil exporting countries, during the inflationary surge following the increase in oil prices in 1979–80.

A related technique used in several countries since the mid-1970s (Argentina, Chile, Portugal, and Uruguay) is to preannounce a schedule of future exchange rates, which may, at least initially, be somewhat overvalued. This policy, which has tended to be associated with relatively high rates of inflation, is intended not only to dampen domestic price increases but also to influence expectations. When accompanied by appropriate fiscal and monetary policies, such a policy might contribute to a gradual decline in the rate of inflation, until it fell below the preannounced rate of devaluation, and hence to future exchange rates that were no longer overvalued. Nevertheless, this policy has in some cases also led to overvaluation of the domestic currency, a deteriorating current account, the distortion of relative prices, and foreign exchange earnings that not only fell but were also funneled into black markets; any slowing of inflation thereby achieved tended to be temporary.

Countries with high or accelerating inflation had difficulty in coordinating exchange rate policies with other policies affecting the money supply, wages, and controlled prices. While the adverse effects of permitting the domestic currency to become overvalued were evident, there was a countervailing fear of entering into an inflationary spiral in which an effectively indexed exchange rate played a key role. In some countries (notably Chile) exchange rate developments tended to have an asymmetric, or ratchet, effect on real wages. While an appreciation of the rate automatically raised real wages, the corresponding depression of real wages caused by a depreciation tended to be resisted by wage earners, resulting in a rise in unemployment to the extent that such resistance was successful.

The task of coordinating exchange rate and interest rate policies also proved to be especially complicated in an inflationary setting, particularly if it was uncertain whether inflation would accelerate or decelerate. Almost all countries rejected the approach of permitting both rates to be determined in the free market because of the thinness of the markets involved. When the authorities set both rates, the problem arose that expectations created by the rates might not be consistent with the goals of the authorities. For example, in countries where capital outflows were permitted (or could not be successfully controlled), an overvalued exchange rate tended to provoke expectations of a devaluation, which in turn led to capital outflows: this was the experience of certain Latin American countries in 1981–82. When interest rates were raised—sometimes to rates exceeding in real terms those prevailing in international markets—in order to induce the placement of financial savings within the country, the result was either to raise the public's expected rate of inflation (because officially determined interest rates were regarded as a signal of the authorities' own expectations) or, when private expectations were not affected in this way, to discourage borrowing for private investment. Conducting exchange rate and interest rate policies that avoid such outcomes continues to be one of the most difficult tasks facing the authorities in countries suffering from both external payments problems and high inflation.

The ability of governments to deal with problems of the sort just described has generally been enhanced by a firm control over the fiscal balance. When the authorities have been seen to be unable to prevent the

[12] Out of 104 developing countries (both oil exporting and non-oil developing countries) for which data were available.

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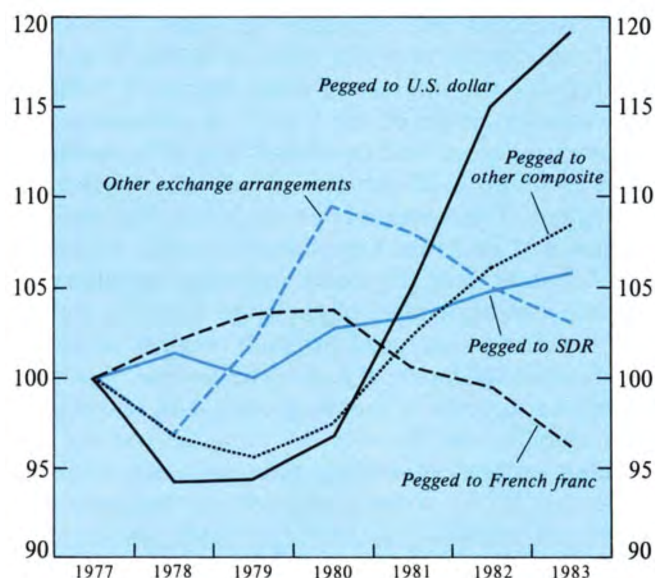
fiscal deficit from rising or to reduce it when it had already become excessive, expectations with respect to both the exchange rate and inflation have tended to become more volatile, and the authorities' margin for maneuver with regard to their exchange rate and interest rate policies has been narrowed.

Impact of Exchange Arrangements

An analysis of movements in real effective exchange rates by type of exchange arrangement reveals, not surprisingly, that currencies pegged to the U.S. dollar have appreciated substantially (about 25 percent) since 1980 (Chart 20). In most of the countries affected, exchange rates have not been adjusted downward against the dollar to offset the influence of the effective appreciation of the dollar itself. Currencies pegged to the SDR, as well as those pegged to a composite, have also appreciated over this period, but by less than those pegged to the U.S. dollar. It may be noted that all three of these groups include some oil exporting countries. In 1983 there was continued depreciation (again, since 1980) of currencies pegged to the French franc and of currencies classified in the category of other exchange arrangements (including those countries moving exchange rates according to a set of indicators).

Chart 20. Developing Countries: Real Effective Exchange Rates by Exchange Arrangements, 1977–83 [1]

(Indices, 1977 = 100)



[1] These indices measure the evolution of a country's prices relative to those of its trading partners, adjusted for exchange rate changes. Prices are measured by the average annual consumer price index, with indices of partner countries averaged by using import weights, and exchange rates are measured by an import-weighted index of average annual effective exchange rates. Group indices are unweighted averages of country indices.

The large changes in exchange rates that have taken place among the major currencies over the past five years have had a substantial impact on the developing countries, not only on their real effective exchange rates (as shown above) but also on such variables as commodity prices, the real value of international reserves, and external debt. In particular, the dollar appreciation tended to depress commodity prices in U.S. dollar terms while nominal magnitudes of debt service (which was mainly in dollars) remained unchanged, thereby raising the real burden of debt service. To the extent that the currency composition of reserves differs from that of payments, the real value of reserves varies with changes in exchange rates among the currencies in which reserves are held.

The impact of changes in exchange rates among major currencies on the variables just mentioned cannot be prevented by choosing a particular exchange rate regime. The effect of such changes on commodity prices in terms of one of the internationally traded currencies cannot be offset by an exporting country unless it possesses, alone or together with other exporters, a certain degree of monopolistic power in its export markets. Fluctuations in the real values of international reserves and external debt resulting from foreign exchange rate movements can be reduced by management of the currency composition of external assets and liabilities but not by pegging to a particular currency composite.

Some effects of exchange rate movements, however, can be offset, at least partially, through the choice of exchange arrangement. For example, when the currency composition of import payments differs from that of export receipts, or when trade is conducted in more than one foreign currency, a change in exchange rates among major currencies will alter the balance of trade in domestic currency terms, thereby affecting the level of aggregate income and demand; this impact can be muted through choice of an appropriate currency composite to which to peg the local currency. The same type of exchange arrangement can be used to reduce, on average and over time, the exchange risk faced by individual traders because contracts are denominated in a foreign currency other than that to which the domestic currency is pegged, or to dampen variations in any key economic variables, such as external competitiveness, that are measured by real effective exchange rates. The choice of currency, or currencies, to which to peg the local currency has sometimes also been used to reduce the extent to which inflation is transmitted from major trading partners through increases in the prices of their exports.

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Table 9. Developing Countries: Exchange Rate Arrangements, End of June 1978–84 [1]
(Number of countries)

	1978	1979	1980	1981	1982	1983	1984
Pegged to a single currency	62	61	58	56	56	54	51
U.S. dollar	41	41	40	38	38	36	33
French franc	14	14	14	14	13	13	13
Pound sterling	4	3	1	1	1	1	1
Other currency	3	3	3	3	4	4	4
Pegged to composite	28	27	32	32	34	35	35
SDR	15	13	15	14	15	14	11
Other composite	13	14	17	18	19	21	24
Flexible arrangements	23	29	28	32	35	36	39
Adjusted according to a set of indicators	5	4	3	4	4	5	6
Other [2]	18	25	25	28	31	31	33
Total	113	117	118	120	125	125	125

[1] Based on midyear classifications; excludes Democratic Kampuchea, for which no current information is available. For classification of countries in the group shown here, see Chapter 1, Table 3, footnote 1.
[2] This category comprises the following categories used in Table 10: "Flexibility limited vis-à-vis single currency," "Other managed floating," and "Independently floating."

It is also generally true, however, that no exchange arrangement can entirely offset all these effects, because an arrangement that is especially well suited to smooth the effects of foreign exchange rate fluctuations in one respect (e.g., variations in average external competitiveness) may deal less effectively with other types of effects (e.g., those on the domestic currency value of the balance of trade). Hence, the ideal exchange arrangement, taking into account all relevant criteria, will generally involve a compromise among a variety of objectives. Nevertheless, for medium- and high-inflation countries, the objective of maintaining external competitiveness is a dominant one, requiring frequent adjustment of exchange rates more or less in line with the difference between domestic and foreign inflation.

The response of developing countries to the exchange rate environment they face is shown by the evolution of their exchange arrangements (Table 9). Although no radical shifts occurred in the pattern of such arrangements in the 12 months ended June 30, 1984, there has been over the past five years a gradual increase in arrangements involving either a peg of the domestic currency to a composite of other currencies or flexible exchange arrangements, paralleled by a decrease in arrangements under which the domestic currency is pegged to a single currency. The fact that there are still 51 of the latter type of arrangements suggests that in many countries the single currency peg is either highly advantageous in terms of convenience, especially when the bulk of external transactions is conducted in a single foreign currency, or is perceived as a cornerstone of domestic financial policies and, therefore, also of confidence in the national currency.

Surveillance Over Exchange Rate Policies

Against the background of an improving but still difficult world economic and financial situation, the Fund has continued to attach great importance to the exercise of its surveillance function. An important aspect of this function is the need to ensure that the exchange rate policies of Fund members are guided by the three principles enunciated in the 1977 document "Surveillance Over Exchange Rate Policies," which enjoins members to avoid manipulating exchange rates or the international monetary system, to intervene in the exchange market if necessary to counter disorderly conditions, and to take into account in their intervention policies the interest of other members.[13] Much more broadly, however, the Fund's surveillance activities are concerned with the obligations of its members under Section 1 of Article IV of the Articles of Agreement. This section not only proscribes the manipulation of exchange rates but also obliges members to collaborate with the Fund and other members to promote a stable system of exchange rates. In particular, it refers to the need for each member to direct its economic and financial policies toward the objective of fostering orderly economic growth with reasonable price stability and to seek to promote stability by fostering orderly underlying economic and financial conditions. In this wider dimension, surveillance embraces, in addition to exchange rate policies and policies adopted for balance of payments purposes, policies that are undertaken primarily for domestic

[13] See Executive Board Decision No. 5392-(77/63), adopted April 29, 1977, *Selected Decisions of the International Monetary Fund and Selected Documents*, Tenth Issue (Washington, 1983), pages 10–14 (hereinafter referred to as *Selected Decisions*).

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reasons but also have consequences for exchange rates and for the international monetary system as a whole.

In March 1984, the Executive Board conducted both its biennial review of the 1977 document and its annual review of the implementation of surveillance.[14] The Board's conclusion was that the experience in the implementation of surveillance did not call for a revision of the principles and procedures set out in the document, but that it did call for more active implementation. In this context, the Board stressed that, while the assessment of exchange rate policies was a complex task, the Fund had to take a position on the appropriateness of members' exchange rate policies, irrespective of the exchange arrangements chosen by an individual member and of the member's need for Fund financial support. The Board also stressed that, to have firm and effective surveillance, it was necessary that Fund members give active and broad support to the positions taken by the institution.

A further point noted during the 1984 surveillance review was that many of the international economic difficulties of recent years have been associated with the pronounced swings in exchange rates between major industrial countries, and with the repercussions of the prevailing low levels of economic activity and high interest rates in these countries on the rest of the world. There was a broadly shared view that to some extent these developments resulted from domestic policies in major industrial countries that did not sufficiently promote the evolution of stable economic and financial conditions and also failed to take account of the implications for other countries and for the international monetary system as a whole. Therefore, the Executive Board concluded that it was incumbent on the Fund to form a view on the domestic policies needed to foster the smooth working of the system and to attempt to persuade its members to follow such policies.

Issues in the Implementation of Surveillance

The restoration of stable domestic economic and financial conditions in the major industrial countries remained one of the central issues in the implementation of Fund surveillance during 1983 and the first half of 1984. The nature of foreign exchange markets is such that it is unrealistic to assume that much progress can be made in the direction of reducing exchange rate instability among the major currencies as long as domestic conditions are unstable in some fundamental ways. The existence of an inflation problem, in particular, is bound to be accompanied by exchange rate instability because economic agents will be uncertain as to the future level of inflation, the impact on the balance of payments, the corrective financial measures that will be used, and the degree of success of these measures. Stable domestic conditions, however, involve much more than an absence of inflation. They require a monetary policy that is viewed by economic agents as insuring them against a return of inflation. They also depend on a fiscal policy that is adequately supportive of the monetary stance and is consistent with the financing of private capital formation without undue pressures on real interest rates.

While there is generally no disagreement with respect to the need for a restoration of stable domestic conditions, policymakers at times differ as to how this aim is best achieved. In recent years, it is mainly in the fiscal area that opinions have tended to differ. In Japan, the Federal Republic of Germany, and the United Kingdom, the first priority of fiscal policy was to reduce the fiscal deficit, if only because this was the best way to foster a reduction of interest rates and a recovery of private investment. On the other hand, in the United States the authorities were convinced that the first priority of fiscal policy was a reduction of the tax burden imposed on the private sector; if this reduction led to an excessive fiscal deficit, then government expenditures must be reduced. If this reduction turned out to be a long and arduous task, it would still be better—in the view of the U.S. authorities—to have a deficit that was high by historical standards for a number of years than to abandon the plan to reduce the tax burden.

The authorities of various countries have also assessed differently the importance of the relationships among the fiscal deficit, interest rates, and the exchange rate. The main problem in this area is that the relationships are often obscured by a number of factors, including the level and composition of government spending and taxes, the extent to which government debt is perceived to be wealth by investors, the ratio of government debt to GNP, and expectations. Expectations are important in several respects. First, expectations are an important element influencing the effect of fiscal expansion on interest rates. For example, fiscal expansion may lead to higher long-term interest rates, even during a period of relatively low private demand for credit, if economic agents have reasons to expect that the expansion will persist when the private demand for credit recovers. Second, expectations also influence the relation between interest rates and exchange rates. The expectation that the

[14] See Executive Board Decisions Nos. 7645-(84/40) and 7646-(84/40), adopted March 12, 1984 (reproduced in Appendix II).

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fiscal expansion is to be accommodated by an expansionary monetary policy often will be associated with anticipations of higher inflation, in which case the combination of policies could lead to a rise in nominal domestic interest rates associated with a depreciation of the exchange rate. In contrast, the expectation that the fiscal expansion is not to be accommodated may contribute to a rise in domestic real interest rates and an appreciation of the exchange rate. This complexity of the relationship between fiscal policies and exchange rates explains the lack of a systematic correlation, either over time or across countries, between fiscal policies and exchange rates. It also explains why, in any specific case, it is often difficult for the authorities in different countries to arrive at a common judgment of the contribution of fiscal policy to exchange rate developments.

In the monetary area, the problems have been essentially technical rather than related to any fundamental differences of view. In all major industrial countries, increased reliance has been placed over the past several years on the control of monetary growth as the principal way to set monetary policies in the medium term. More recently, however, large changes in velocity have obliged a number of central banks to adopt a flexible and judgmental approach to the determination of monetary growth. Part of the problem is temporary, associated with the rather sudden decreases in inflation and in nominal interest rates that have characterized the past two years. But part of it may be longer lasting, being associated with the development of close substitutes for money balances as traditionally defined and with the increase in substitution among major currencies on the international level. For all these reasons, it has become particularly difficult to determine the appropriate rates of growth of monetary aggregates, and, therefore, to assess whether specific exchange rate developments are the result of excessively low or high rates of monetary growth.

While the complexities involved in assessing the source of exchange rate problems and other problems resulting from international interdependence are all too real, they should not be exaggerated. In some instances, there is little doubt with respect to the basic source of the problem, even though it may be difficult to give a precise description of the relevant relationships. The Fund has then a clear mandate to press the country concerned to improve its policy stance. At times, the process of distinguishing the various issues involved can help to reduce divergences of view. It is essential for the success of surveillance that, whenever the exchange rate implications of certain policies are not well understood, a serious attempt be made at a very early stage to work toward a common understanding of the processes at work. This is why the Fund has endeavored to develop its analysis in this domain in recent years, and why it has sought through its various publications, through informal contacts between the Managing Director and member countries, through participation in meetings of the Group of Ten and other country groups, and through Article IV consultations to present the conclusions of its work to its members.

More specifically, during the past year and a half the Fund has forcefully advocated the adoption of policy measures that would help to foster a favorable convergence of financial conditions among its industrial members. The progress that many industrial countries have made toward restoring noninflationary sustainable rates of economic growth is encouraging, not only for its own sake but for its salubrious effects on the exchange rate system. The consolidation and furthering of these gains over the next few years should go far toward enhancing the stability of exchange rates among the major industrial countries and reducing pressures on trading relationships and on the economic prospects of other countries. But the one area where progress is so far lacking in a number of countries is also one of those most directly important for the smooth operation of the exchange rate system: the attainment of balanced and consistent macroeconomic policies so as to reduce the incentive for the shifting of financial assets among currencies in search of relatively high returns. Only by making progress in this area will countries be able to provide financial markets with the means to formulate stable expectations based on a reasonable certainty that policies as well as economic performance will be sustained over the medium term.

The serious economic problems faced by developing countries were the other central issue in the implementation of Fund surveillance during 1983 and the first half of 1984. The Fund has continuously stressed that these problems are partly the result of unsatisfactory economic conditions in developed countries. Over the past year and a half, developing countries have benefited from the strong expansion of economic activity and imports in the United States. Nevertheless, on the whole the external environment remains unfavorable to them, especially because of the high interest rates in international capital markets and the still relatively low level of economic activity in many industrial countries. Thus, further improvements in the underlying economic and financial conditions in developed countries—particularly the major industrial countries—would greatly ease the adjustment problems of developing countries by fostering an enlarged demand for their exports and a reduction in the interest rates on their foreign debt.

At the same time, the Fund has stressed that de-

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veloping countries must further strengthen their adjustment efforts to restore a sustainable external position and to renew the process of economic growth. They cannot afford to wait for better conditions in industrial countries. Furthermore, in many instances, economic problems can also be traced to domestic economic policies. Ultimately, the developing countries have no choice but to harness their economic resources to expand exports and replace certain imports with due regard to comparative advantage, while providing adequate incentives for the investment of national saving at home rather than abroad and for foreign equity investment. To achieve these objectives, it is equally essential to keep aggregate demand under control through appropriate fiscal and monetary policies and to improve domestic resource allocation through a rationalization of the structure of incentives.

In both respects, exchange rate policies can be expected to play a key role. The experience of a number of developing countries over the past two or three years, including Indonesia, Mexico, Pakistan, Somalia, Turkey, and Uganda, has demonstrated once more that exchange rate flexibility, accompanied by a removal of controls on domestic prices and the implementation of appropriate fiscal and monetary policies, can contribute to external adjustment in developing as well as developed countries. Because of national differences in economic structure, the contribution of exchange rate flexibility to the adjustment process is greater in some countries than in others; and that contribution may in some respects also be limited by the global nature of the current adjustment problem. But there is no doubt that exchange rates do influence the aggregate volume of products, especially manufactures, that the industrial countries import from developing countries; that in all countries the efficiency of allocation of foreign exchange among domestic economic agents is greatly enhanced when the price of foreign exchange is permitted to reflect its true scarcity; that the process of lowering unduly high real wage rates is often facilitated by an exchange rate adjustment; and that a realistic exchange rate is ultimately necessary to avoid a flight of domestic capital. Furthermore, the use of trade and exchange restrictions is a more costly form of adjustment in the long run because of its detrimental effect on the efficiency of resource allocation.

Exchange rate flexibility and the removal of controls on domestic prices should not, however, be viewed as policies taken in isolation from others. Reduced fiscal deficits, for example, are required for improved control over the growth of monetary aggregates. With inadequate control of monetary growth, exchange rate flexibility will restore overall balance of payments equilibrium, but at the cost of runaway inflation and, possibly, a dislocation of the domestic economy. The Fund in its surveillance activities has therefore continued to stress that improvement in economic performance requires the implementation of domestic financial policies that provide appropriate support for exchange rate adjustment. Given the magnitude of the problems faced by many developing countries, adjustment also requires a longer-run strategy aimed at improving the overall efficiency of the production system, increasing private saving and investment, and exploiting developments in a country's comparative advantage. This is also a crucial aspect of the adjustment policies that the Fund, in cooperation with the International Bank for Reconstruction and Development, has been advocating in its discussions with member countries.

Throughout 1983 and the first half of 1984, the Fund has continued to encourage the commercial banks to provide adequate financing in support of Fund-assisted adjustment programs. In many cases, the debt burden of the country, in particular the indebtedness to banks, is such that a continuation of the support of the banks is absolutely necessary if the adjustment program is to proceed with a reasonable chance of success. When the country has shown a serious willingness to adjust, commercial banks have generally become more forthcoming and have provided a critical level of financing. For the smaller low-income developing countries, in particular many of the African countries, that continue to have limited access to financial markets or cannot afford the interest rate prevailing in these markets, the level of external financing depends more heavily on foreign aid, and hence the lack of real growth in aid often undermines the success of adjustment efforts in these countries.

Possibly the most detrimental effect of the economic problems faced by developed and developing countries alike over the past few years is the increase in trade restrictions, especially restrictions taking the form of nontariff barriers negotiated on a bilateral basis outside the framework of the General Agreement on Tariffs and Trade (GATT). There are many reasons for this growth of protectionism. Some are related to the unwillingness to accept the consequences of changes in comparative advantage. Others are more directly related to the exchange rates currently prevailing among the major currencies, the desire on the part of many developing countries to limit the depreciation of their exchange rates despite the persistence of extremely high inflation rates, and the belief in countries suffering from unemployment that import restrictions may safeguard jobs. Whether related to exchange rate issues or not, the proliferation of trade barriers has now reached a stage at which the effectiveness of

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exchange rate adjustments and the efficiency of the multilateral trading system are in jeopardy.

As was indicated in the 1983 Annual Report, the Fund has intensified its collaboration with the GATT and has placed greater emphasis on issues of protectionism in all of its surveillance activities. So far, however, progress in restraining the rise of protectionism has been very disappointing. Not only have there been no concrete policy actions to resume progress toward an open multilateral trading environment, but, in fact, protectionist measures have been intensified. One especially worrisome consequence of this evolution is that it hinders the adjustment process of developing countries with high external indebtedness. These countries must expand their exports of manufactured and agricultural products at a rapid rate over the next few years if they are to restore an adequate external position while sustaining a moderate rate of economic growth. This, however, will be possible only if there is a reversal of the current protectionist tendencies.

Procedures for Implementing Surveillance

The Fund carries out its surveillance activities both in a multilateral context and through its consultations with individual members. These activities are supported by a continuous monitoring of developments in exchange rates and exchange arrangements.

The world economic outlook exercise remains the main framework for multilateral surveillance. The comprehensive analysis of the world economy and the exchange rate system that is undertaken in the world economic outlook papers prepared at least twice each year provides a basis for the reviews by the Executive Board and the Interim Committee of the central surveillance issues, including those that are related to the global effects of the economic policies of major countries. In recent years, these papers have emphasized a medium-term approach. In particular, medium-term scenarios have been developed to highlight the policies needed to achieve a sustainable noninflationary recovery in the industrial countries and to analyze the adjustment and debt problems of developing countries. Aside from these papers, the staff also prepares Executive Board papers on particular surveillance issues. During 1983 and early 1984, papers on particular issues included "Issues in the Assessment of the Exchange Rates of Industrial Countries," and "The Exchange Rate System: Lessons of the Past and Options for the Future."[15]

[15] Published as Occasional Papers Nos. 29 and 30 (Washington: International Monetary Fund, June 1984).

Another channel for multilateral surveillance is the participation of the management of the Fund in various multilateral meetings of the major industrial countries. The Managing Director often participates in the meetings of the ministers and governors of the Group of Ten and, since the 1982 economic summit meeting, in the regular meetings of the ministers of the five countries whose currencies are part of the SDR basket. On these occasions, the Managing Director has reviewed recent economic developments and has underlined the need for cooperation in order to put in place policies designed to achieve convergence toward a lasting reduction in inflation, higher employment, and sustainable economic growth. More broadly, the Managing Director has stressed the need for major countries, in framing their domestic policies, to give weight to the impact of their decisions on exchange rates and on economic conditions in other countries.

One subject that has continued to be given particular prominence in the multilateral surveillance activities of the Fund in 1983 and early 1984 is the problem of external indebtedness. The importance attached to this subject was underscored by a number of Executive Board meetings on questions related to Fund policies in the context of external debt-servicing problems and developments in international capital markets. Moreover, a number of projects were initiated to further improve the monitoring, presentation, and analysis of external indebtedness. New tables on international banking statistics have been incorporated in the Fund's *International Financial Statistics* beginning with the January 1984 issue. Because of the seriousness of the debt problem, cooperation with official and private creditors has intensified. Members of the Fund staff cooperate closely with official creditors in the Paris Club, and adjustment programs supported by Fund resources in the upper credit tranches remain a prerequisite for the consideration of rescheduling requests. Furthermore, when private flows are impaired and countries are seeking comprehensive packages of financial assistance from commercial banks, the Fund now often finds it necessary to adopt a more active role in securing confirmation from both official and private creditors that the external financing assumptions of economic adjustment programs are realistic. In this connection, the Fund staff has also been prepared, at the request of a debtor country, to discuss the outlook for the country's external payments with private financial institutions, as well as with official agencies.

The main channel for the Fund's exercise of surveillance in a bilateral context is the Article IV consultation. Even though the basic procedures of these consultations have remained unchanged in recent years, there is a continuing evolution in Fund practices with

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respect to the subject matters covered. The range of topics has been enlarged particularly in respect of international interdependence, external debt, and protectionism. Consultation reports for the major industrial countries now include a section on the international repercussions of their domestic policies. Furthermore, there has been an increasing emphasis in consultation reports on the elaboration of medium-term scenarios concerning the external debt position, which often includes a sensitivity analysis with respect to the major assumptions. This analysis is now viewed as an analytical tool that should be part of the set of elements used in any assessment of the sustainability of the balance of payments situation of all countries regardless of their debt situation. There has also been an increasing emphasis on trade policy matters. Of special importance is the emphasis in the 1984 surveillance review on the need to cover in consultation reports the protectionist measures and export subsidies adopted by members as a result of their participation in customs unions or other regional arrangements. Moreover, to the extent possible the economic costs of protectionist measures taken by individual countries or groups of countries since the last Article IV consultation should be quantified, and the impact of protectionism on domestic adjustment should be examined where relevant. More generally, there is now to be greater emphasis on following up on the conclusions of previous consultations in evaluating current policies.

The timing and timeliness of Article IV consultations are of considerable importance. In principle, consultations are to take place annually, but in practice even the operational guideline that had been adopted—of covering three fourths of the membership annually—was not met in the early 1980s. This slippage led the Executive Board on the occasion of the 1983 surveillance review to decide on the implementation of a stricter adherence to an annual consultation cycle for most members—including in particular those whose policies have a substantial impact on other economies, those that have Fund-supported programs, and those for which there are substantial doubts about the medium-term viability of the balance of payments situation. Furthermore, it was decided that at the conclusion of each consultation a date would be set by which the Executive Board discussion of the next consultation was expected to be concluded. These procedural changes have led to a marked increase in the frequency of consultations during the past year and a half, with membership coverage rising to 80 percent during 1983. The improvement in coverage was particularly marked for countries with Fund-supported programs; all of them were covered during 1983 or the first few months of 1984.

Another decision that was taken during the 1983 review and implemented in the course of 1983 was the initiation of a system whereby the Executive Board is notified regularly of all sizable changes in real effective exchange rates. This system supplements existing procedures for notification of changes in member countries' nominal exchange rates. Currently, all except 35 Fund members are covered by the new system. For the remaining members, the unavailability of reliable price or other data has so far made the computation of a meaningful index of the real effective exchange rate difficult, but efforts are continuing to make the system comprehensive. Under the new system, a large change in a country's real effective exchange rate since the last Executive Board discussion of the country's exchange rate policies results in the issuance of an information notice to the Board. This notice includes a brief factual discussion of developments in the member's exchange rate and its costs and prices, together with a statement of how these were related to changes in the balance of payments and to other developments in the economy.

Exchange Arrangements

The international exchange rate system has continued to evolve toward greater flexibility of arrangements in recent years. A major aspect of this evolution has been the substitution of various forms of managed floating for pegged arrangements—in particular, arrangements involving a peg to a single currency. Another feature of the movement away from single currency pegs has been the increased use of currency composites, including the SDR, which has helped to reduce short-run fluctuations in effective exchange rates. Of the 18 members that changed their exchange arrangements in 1983 and the first half of 1984, 5 ceased to peg their currencies (including 1 de facto peg) and adopted more flexible exchange rate arrangements. Another member that previously maintained its currency with limited flexibility vis-à-vis the U.S. dollar adopted a regime of managed floating. Four other members whose currencies were previously pegged to the U.S. dollar adopted currency composites as pegs (2 of them choosing the SDR), while 3 other members gave up pegging to the SDR basket and pegged instead to a currency composite tailored to reflect more closely their particular trading patterns. Only one member changed from a more flexible exchange arrangement to pegging its currency to that of another member.

Developing countries made increased use of inflation differentials, alone or in combination with other factors, as an indicator for automatic or quasi-automatic

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adjustment of an otherwise pegged arrangement. As of the end of the first quarter of 1984, 8 members had incorporated in their exchange arrangements a policy of periodic adjustment of the exchange rate to maintain international competitiveness according to such an indicator, while 5 other members undertook such a policy as part of a program supported by the use of Fund resources in 1983 and in the first quarter of 1984.

In sum, the number of Fund members with "more flexible" exchange rate arrangements increased from 33 at the end of 1982 to 38 at the end of June 1984 (of a total membership of 146).[16] The number of countries pegging to a single currency declined from 56 to 51 over the same period, while the number of those pegging to a composite of currencies increased from 38 to 39. Arrangements in the intermediate group between pegged and flexible arrangements (labeled "flexibility limited") declined from 18 to 17. Since the inception of the present classification system, at the end of 1981, the proportion of Fund members with "more flexible" arrangements has risen from 21 percent to 26 percent, and those pegging to a currency composite from 25 percent to 27 percent. The use of the SDR as a peg declined, however, from 10 percent to 7½ percent of the membership, as composites tailored to individual trade patterns were preferred.

At the end of June 1984, the currencies of 51 members were pegged to a single currency—33 to the U.S. dollar, 13 to the French franc, 2 to the South African rand, and 1 each to the Indian rupee, the pound sterling, and the Spanish peseta (Table 10). Eleven currencies were pegged to the SDR and 28 to other currency composites. In all, therefore, 90 members had exchange arrangements classified under the "pegged" category. Seventeen members maintained exchange arrangements classified in the "flexibility limited" category. Within this group, 9 currencies were in the subclassification "single currency" (all vis-à-vis the U.S. dollar) as a result of having their exchange rates fluctuate within the equivalent of margins of 2¼ percent or less against an identifiable single currency of another member; the other 8 currencies were those of countries maintaining cooperative arrangements under the EMS. Thirty-eight members maintained exchange arrangements in the "more flexible" category; of these, 6 adjusted their exchange rates according to a set of indicators, 24 managed floating rates, and the currencies of 8 members floated independently.

International Liquidity, Reserves, and Capital Markets

The current recovery from the world recession and the response of financial market participants to the external payments difficulties of many developing countries had a major impact on the expansion and distribution of international liquidity during 1983. Many countries pursued a policy of rebuilding their reserve holdings in order to offset the losses of foreign exchange reserves in 1982. This expansion of international reserves encompassed diverse patterns of growth in its components of official holdings of gold, foreign exchange, SDRs, and reserve positions in the Fund.

The remainder of this chapter examines a number of aspects of the recent movements in international reserves and liquidity. First, there is a review of the recent growth, composition, distribution, and sources of international reserves, non-gold reserves, and foreign exchange reserves. Second, an examination of the roles of private international financial markets and official agencies in the provision of international liquidity and the financing of the adjustment process is undertaken. In addition to considering the implications for international liquidity of reduced access for many countries to financial markets, this discussion describes the efforts of debtor countries, banks, national agencies, and international organizations to develop a smooth and orderly adjustment process in the period since the emergence of large external payments difficulties in 1982. Next, the issues involved in determining the adequacy of international reserves are reviewed. Finally, there is a discussion of the role of the Fund in the provision of international liquidity through the extension of conditional credit and SDR allocation.

Recent Evolution of Official Reserve Assets

In 1983, total international reserves were affected by renewed accumulation of non-gold reserves and a decline in the market value of official gold holdings. The growth of non-gold reserves reflected larger holdings of both Fund-related reserve assets and foreign exchange reserves. While all the major country groups increased their holdings of Fund-related reserve assets, the expansion of foreign exchange reserves was the result of accumulations in industrial countries and non-oil developing countries that outweighed reduced holdings in the oil exporting countries. A decline in the market price of gold reduced the market value of official gold holdings by 12 percent. The reduction in the market value of official gold holdings in 1983 was

[16] No information is available on Democratic Kampuchea.

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Table 10. Exchange Rate Arrangements as of June 30, 1984 [1]

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

[1] No current information is available for Democratic Kampuchea.
[2] All exchange rates have shown limited flexibility vis-à-vis the U.S. dollar.
[3] Member maintains dual exchange markets involving multiple exchange arrangements. The arrangement shown is that maintained in the major market.
[4] Exchange rates are determined on the basis of a fixed relationship to the SDR, within margins of up to ± 7.25 percent. However, because of the maintenance of a relatively stable relationship with the U.S. dollar, these margins are not always observed.
[5] The exchange rate is maintained within overall margins of ± 7.5 percent around the fixed shilling/SDR relationship; however, the exchange rate will be re-evaluated when indicative margins of ± 2.25 percent are exceeded.
[6] The exchange rate is maintained within margins of ± 2.25 percent.
[7] Margins of ± 6 percent are maintained with respect to the currencies of other countries participating in the exchange rate mechanism of the European Monetary System.
[8] The exchange rate is maintained within margins of ± 5 percent on either side of a weighted composite of the currencies of the main trading partners.

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slightly larger than the increase in non-gold reserves, and total international reserves, including gold valued at market prices, declined by 2 percent.

Non-Gold Reserves

Non-gold reserves increased by 10 percent in 1983 to SDR 364 billion at the end of the year (Table 11). Although this rate of growth of non-gold reserves was lower than the average rate of growth experienced during the period from 1973 to 1980, it represented a recovery from 5 percent growth in 1981 and a decline of 2 percent in 1982.

The expansion of non-gold reserves in 1983 by SDR 33 billion represented increased holdings of both Fund-related assets and foreign exchange. Fund-related reserve assets grew by SDR 10 billion (24 percent), and foreign exchange reserves expanded by SDR 22 billion (8 percent). Since Fund-related reserve assets grew at a more rapid rate than foreign exchange reserves, the share of Fund-related reserves in total non-gold reserves continued to rise to 15 percent in 1983.

The larger stock of non-gold reserves at the end of 1983 reflected additional holdings by industrial countries (SDR 21 billion) and non-oil developing countries (SDR 13 billion) and lower holdings by oil exporting countries (SDR 0.9 billion). As a result of these changes, industrial countries held 56 percent of total non-gold reserves, the oil exporting countries 19 percent, and the non-oil developing countries 25 percent.

Foreign Exchange Reserves

Although the increase of 8 percent in foreign exchange reserves in 1983 was lower than the average annual growth rate of 14 percent during the period from 1973 to 1980, it represented a considerable expansion of foreign exchange reserves when compared with the growth of 2 percent in 1981 and the decline of 4 percent in 1982. Foreign exchange reserves increased in 1983 for the industrial countries and the non-oil developing countries but declined for oil exporting countries (Table 11). Foreign exchange reserves in industrial countries, after declining for two consecutive years, increased by SDR 15 billion during 1983. The experiences of the various countries in the group, however, were not uniform. The largest expansions in foreign exchange reserves occurred in Italy (SDR 6.3 billion) and France (SDR 4.0 billion), as a result of significant improvements in their current and capital account balances following the devaluation of their currencies in the realignment of central rates in the European Monetary System in March 1983. On the other hand, the largest contraction of foreign exchange reserves occurred in the United States (SDR 3.3 billion). For oil exporting countries, movements in foreign exchange reserves have been closely associated with changes in their oil export earnings. Following the oil price increases of 1979–80, oil export earnings increased sharply from 1978 to 1980, but then declined in the three subsequent years because of falling world oil consumption and oil prices. As a result, the current account surplus of oil exporting countries fell from $111 billion in 1980 to $53 billion in 1981, and turned into deficits in 1982 ($12 billion) and 1983 ($16 billion). At the same time, foreign exchange reserves, which had grown by almost SDR 27 billion during 1979–81, fell by nearly SDR 12 billion during 1982–83.

Non-oil developing countries increased their holdings of foreign exchange reserves by SDR 13 billion in 1983. This accumulation of reserves during a period of limited access to international financial markets was brought about in part by significant improvements in their current account positions. Since the various groups of non-oil developing countries faced different external financing constraints and undertook diverse adjustment programs, their experiences regarding the accumulation of foreign exchange reserves also differed. Many Asian countries retained access to international financial markets and reduced their current account deficits in 1983, and they accumulated almost SDR 10 billion of foreign exchange reserves, with China expanding its holdings significantly. In contrast, Middle Eastern countries, whose current account deficit increased from $9.3 billion in 1982 to $12 billion in 1983, saw their holdings of foreign exchange reserves decline by SDR 0.8 billion. African, European, and Western Hemisphere countries, which on the whole improved their current account balance in 1983, accumulated some modest amounts of foreign exchange reserves. African countries increased their holdings by SDR 0.6 billion, European developing countries by SDR 1.1 billion, and Western Hemisphere countries by SDR 1.9 billion, with a large increase in Mexico and significant declines in Argentina and Colombia.

At the end of 1983, 54 percent of foreign exchange reserves were held by the industrial countries, 18 percent by the oil exporting countries, and 28 percent by the non-oil developing countries. In 1973, in contrast, the shares were 64 percent for the industrial countries, 10 percent for the oil exporting countries, and 26 percent for the non-oil developing countries. This redistribution of foreign exchange reserves, essentially from the industrial countries to the oil exporting countries, did not occur at a uniform pace throughout the decade. While the share of the oil

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Table 11. Official Holdings of Reserve Assets, End of Selected Years 1978–83 and End of March 1984 [1]
(In billions of SDRs)

	1978	1979	1980	1981	1982	1983	March 1984
All countries							
Total reserves excluding gold							
Fund-related assets							
Reserve positions in the Fund	14.8	11.8	16.8	21.3	25.5	39.1	40.0
SDRs	8.1	12.5	11.8	16.4	17.7	14.4	14.6
Subtotal, Fund-related assets	22.9	24.2	28.6	37.7	43.2	53.5	54.6
Foreign exchange	224.2	249.9	293.1	299.0	287.8	310.1	310.5
Total reserves excluding gold	247.1	274.1	321.8	336.7	331.0	363.6	365.1
Gold [2]							
Quantity (*millions of ounces*)	1,036.8	944.4[3]	952.4	951.5	947.1	945.7	945.5
Value at London market price	179.9	367.1	440.2	325.0	392.3	344.6	345.2
Industrial countries							
Total reserves excluding gold							
Fund-related assets							
Reserve positions in the Fund	9.6	7.7	10.7	13.5	17.1	25.6	25.9
SDRs	6.4	9.3	8.9	11.9	14.1	11.5	11.8
Subtotal, Fund-related assets	16.0	17.1	19.6	25.5	31.1	37.1	37.7
Foreign exchange	127.2	136.1	164.7	159.6	153.2	167.8	170.1
Total reserves excluding gold	143.1	153.2	184.3	185.1	184.4	204.9	207.8
Gold [2]							
Quantity (*millions of ounces*)	884.2	789.1[3]	787.9	787.6	787.3	786.6	786.4
Value at London market price	153.4	306.7	364.2	269.0	326.1	286.6	287.1
Oil exporting countries							
Total reserves excluding gold							
Fund-related assets							
Reserve positions in the Fund	4.4	3.0	4.1	5.8	6.7	11.3	12.1
SDRs	0.5	1.0	1.2	1.8	2.1	1.5	1.6
Subtotal, Fund-related assets	4.9	4.0	5.3	7.5	8.8	12.8	13.7
Foreign exchange	40.1	51.0	62.8	66.6	59.8	54.9	50.7
Total reserves excluding gold	44.9	55.0	68.1	74.1	68.6	67.7	64.3
Gold [2]							
Quantity (*millions of ounces*)	36.3	36.7	40.1	41.7	42.0	42.2	42.2
Value at London market price	6.3	14.2	18.5	14.2	17.4	15.4	15.4
Non-oil developing countries							
Total reserves excluding gold							
Fund-related assets							
Reserve positions in the Fund	0.9	1.0	2.1	2.0	1.7	2.3	2.0
SDRs	1.2	2.1	1.7	2.7	1.6	1.4	1.2
Subtotal, Fund-related assets	2.1	3.2	3.8	4.7	3.2	3.6	3.3
Foreign exchange	56.9	62.7	65.6	72.8	74.9	87.4	89.7
Total reserves excluding gold	59.0	65.9	69.3	77.5	78.1	91.1	93.0
Gold [2]							
Quantity (*millions of ounces*)	116.4	118.7	124.5	122.3	117.8	116.9	116.9
Value at London market price	20.2	46.1	57.5	41.8	48.8	42.6	42.7

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

[1] "Fund-related assets" comprise reserve positions in the Fund and SDR holdings of all Fund members and Switzerland. Claims by Switzerland on the Fund are included in the line showing reserve positions in the Fund. The entries under "Foreign exchange" and "Gold" comprise official holdings of those Fund members for which data are available and certain other countries or areas, including Switzerland. For classification of countries in groups shown here, see Chapter 1, Table 2 and Table 3, footnote 1.

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

[3] The decrease recorded in the quantity of countries' official gold holdings from the end of 1978 to the end of 1979 reflects mainly the deposit by the members of the European Monetary System of 20 percent of their gold holdings with the European Monetary Cooperation Fund. The European currency units issued in return for these deposits are shown as part of the countries' official foreign exchange holdings.

exporting countries increased by 17 percentage points in 1974, it declined by 9 percentage points in 1978. Although variations in the shares of the three major groups have been less pronounced since 1978, the share of the oil exporting countries in foreign exchange reserves declined by 5 percentage points in the past two years.

Holdings of Fund-Related Reserve Assets

In 1983, holdings of Fund-related reserve assets increased by 24 percent to SDR 54 billion, but this development encompassed sharply contrasting behavior for reserve positions in the Fund and holdings of SDRs. While reserve positions in the Fund increased

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by SDR 14 billion, SDR holdings by member countries declined by SDR 3.3 billion. These changes were associated with the increase in quotas under the Eighth General Review of Quotas. Since member countries paid 22 percent of their quota increase in 1983 in SDRs, their holdings of SDRs declined and their reserve positions in the Fund increased simultaneously. These SDR payments were made in December 1983 and amounted to SDR 6.0 billion. There was no SDR allocation during 1982 or 1983.

Fund-related reserve assets increased in 1983 for all country groups, but the larger holdings of industrial countries and oil exporting countries accounted for most of the total increase of SDR 10 billion. Industrial countries increased their holdings by SDR 6.0 billion, with the United States experiencing the largest individual accumulation, SDR 4.2 billion, mainly as a result of the large purchases of U.S. dollars from the Fund by member countries. Oil exporting countries increased their holdings by SDR 4.0 billion. Saudi Arabia raised its holdings by SDR 4.2 billion, largely as a result of additional Fund borrowing from that country. Non-oil developing countries added SDR 0.4 billion to their holdings. At the end of 1983, industrial countries held 69 percent of total Fund-related reserve assets, oil exporting countries held 24 percent, and non-oil developing countries held the remaining 7 percent.

Gold

In 1983, the movements in the market value of gold reserves reflected a small change in the physical amount of official holdings of gold, accompanied by a relatively large change in its market price. Throughout the period since 1973, physical holdings of gold reserves have remained quite constant, apart from a decline by 9 percent in 1979. This decline was largely associated with the deposits by the members of the European Monetary System of 20 percent of their gold holdings with the European Monetary Cooperation Fund in exchange for European currency units (ECUs). The distribution of gold holdings among the various country groups has also remained fairly constant. At the end of 1983, the total physical amount of gold held as international reserves was 946 million ounces, of which industrial countries held 83 percent, oil exporting countries 5 percent, and non-oil developing countries 12 percent.

The market price of gold has shown large changes during the past decade, ranging from SDR 90 an ounce at one point in August 1976 to SDR 639 an ounce at one point in January 1980. Given the rather fixed physical stock of gold reserves, fluctuations in the market value of official gold holdings mirror changes in the market price of gold. During 1983, a decline of 12 percent in the market price of gold reduced the market value of official gold holdings to SDR 345 billion.

The share of gold valued at market prices in total international reserves has been strongly influenced by the sharp fluctuations in the market price of gold during the past decade. The share declined from 52 percent in 1974 to 38 percent in 1977, and then increased to 58 percent in 1980. The decline in gold prices in 1983, together with the increase in non-gold reserves, reduced the share of gold in total international reserves from 54 percent in 1982 to 49 percent in 1983. In that year, the share of total reserves held by the industrial countries was 58 percent, the share of oil exporting countries equaled 19 percent, and the share of the non-oil developing countries was 32 percent.

Developments in First Quarter of 1984

In the first quarter of 1984, non-gold reserves rose by SDR 1.5 billion. There was a small increase (SDR 0.4 billion) in the foreign exchange component and a somewhat larger rise (SDR 1.1 billion) in the holdings of Fund-related reserve assets, with holdings of SDRs growing by SDR 0.2 billion and reserve positions in the Fund by SDR 0.9 billion. The increase in non-gold reserves during the first quarter of 1984 was not shared by all major country groups. While the holdings of oil exporting countries fell by SDR 3.4 billion, continuing the decline first evident in 1982, the industrial countries and the non-oil developing countries increased their holdings by SDR 2.9 billion and SDR 1.9 billion, respectively.

Since the market value of official gold holdings also increased slightly during the first quarter of 1984 as a result of a small increase in the market price of gold, total reserve holdings rose by SDR 2.1 billion during the same period. The total physical amount of official gold holdings and the distribution among the major country groups remained constant.

Currency Composition and Sources of Foreign Exchange Reserves

This section examines the currency composition of foreign exchange reserves, the effects of exchange rate movements and market transactions on official holdings of major currencies, and the sources of foreign exchange reserves.

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Table 12. Share of National Currencies in Total Identified Official Holdings of Foreign Exchange, End of Selected Years 1976–83 [1]

(In percent)

	1976	1977	1978	1979	1980	1981	1982	1983	Memorandum: 1983 ECUs Treated Separately [2]
All countries									
U.S. dollar	76.5	77.9	75.6	72.8	66.7	69.4	68.5	69.1	58.8
Pound sterling	1.8	1.7	1.7	2.0	3.0	2.2	2.5	2.6	2.4
Deutsche mark	9.0	9.2	11.0	12.6	15.1	13.2	12.5	11.9	10.6
French franc	1.6	1.3	1.2	1.4	1.7	1.4	1.4	1.2	1.0
Swiss franc	2.3	2.4	2.3	2.7	3.2	2.8	2.7	2.4	2.2
Netherlands guilder	0.9	0.9	0.9	1.1	1.3	1.2	1.0	0.8	0.7
Japanese yen	2.0	2.3	3.2	3.5	4.2	4.1	4.2	4.2	3.8
Unspecified currencies	5.9	4.3	4.2	4.0	4.8	5.7	7.2	7.8	20.5
	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0
Industrial countries									
U.S. dollar	87.0	89.0	86.2	83.5	77.6	78.7	77.1	77.4	56.7
Pound sterling	0.8	0.8	0.7	0.7	0.8	0.8	0.9	1.0	0.8
Deutsche mark	6.2	5.6	8.0	9.8	14.5	13.1	12.8	13.4	10.9
French franc	0.5	0.3	0.4	0.6	0.5	0.5	0.4	0.3	0.3
Swiss franc	1.1	1.0	1.3	1.6	1.8	1.8	1.8	1.5	1.2
Netherlands guilder	0.6	0.5	0.5	0.6	0.7	0.8	0.6	0.5	0.4
Japanese yen	1.8	1.6	2.1	2.5	3.4	3.6	4.2	4.7	3.8
Unspecified currencies	1.9	1.1	0.8	0.7	0.7	0.7	2.3	1.1	26.0
	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0
Developing countries [3]									
U.S. dollar	68.8	67.8	62.3	62.7	56.9	63.5	64.1	66.5	66.5
Pound sterling	2.6	2.7	3.0	3.3	5.1	3.6	4.1	4.5	4.5
Deutsche mark	11.4	12.8	14.9	15.6	15.8	13.8	13.1	11.3	11.3
French franc	2.5	2.2	2.3	2.2	3.0	2.5	2.4	2.1	2.1
Swiss franc	3.4	3.9	3.7	3.8	4.7	3.9	3.8	3.5	3.5
Netherlands guilder	1.2	1.2	1.5	1.5	1.9	1.6	1.5	1.3	1.3
Japanese yen	2.2	3.1	4.6	4.5	5.1	4.7	4.6	4.1	4.1
Unspecified currencies	7.8	6.5	7.6	6.5	7.5	6.3	6.4	6.7	6.7
	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0

Sources: Various Fund publications and Fund staff estimates.

[1] The detail in each of the columns may not add to 100 because of rounding. Starting with 1979, the SDR value of European currency units (ECUs) issued against U.S. dollars is added to the SDR value of U.S. dollars, but the SDR value of ECUs issued against gold is excluded from the total distributed here. For classification of countries in groups shown here, see Chapter 1, Table 2 and Table 3, footnote 1.

[2] This column is for comparison and indicates the currency composition of reserves when holdings of ECUs are treated as a separate reserve asset, unlike the earlier columns starting with 1979 as is explained in the preceding footnote. The share of ECUs, amounting to 13.5 percent for the total and 25.0 percent for the industrial countries, respectively, has been added to that of unspecified currencies.

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

Currency Composition

The growing diversification of currency reserves that was evident in the period 1977–80 has not continued. Since the diversification of the late 1970s was in part undertaken to minimize the risk of large capital losses owing to the depreciation of the U.S. dollar, the sharp appreciation of the U.S. dollar and high real returns on U.S. dollar assets that emerged in the early 1980s increased the attractiveness of U.S. dollar reserve assets and limited the incentives for further diversification (Table 12). When the SDR value of ECUs issued against gold is not counted as part of foreign exchange reserves, the share of U.S. dollar assets (including ECUs issued against dollars) in total official holdings of foreign exchange declined from 78 percent in 1977 to 67 percent in 1980 but then recovered to 69 percent in 1983. A slightly different picture emerges if ECUs, which were introduced in 1979 and accounted for 14 percent of total foreign exchange reserves in 1983, are treated separately. Under this alternative treatment of ECUs, the share of the U.S. dollar declined from 78 percent in 1977 to 55 percent in 1980. It then increased to 58 percent in 1981 and remained stable at that level during 1982 and 1983.

The currency composition of the increase in the SDR value of foreign exchange reserves in 1983 can also be decomposed into price and quantity changes. While total foreign exchange reserves increased by SDR 22.3 billion in 1983, U.S. dollar reserves rose by SDR 14.4 billion and ECU reserves by SDR 4.1 billion (Table 13). Changes in the SDR value of official holdings of the other major currencies were much smaller. The increase in the SDR value of U.S. dollar

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Table 13. Currency Composition of Official Holdings of Foreign Exchange, End of 1978–End of 1983 [1]

(In millions of SDRs)

	1978	1979	1980	1981	1982	1983
U.S. dollar						
Change in holdings	12,211	−14,054	5,841	12,496	−5,855	14,420
Quantity change	23,362	−12,588[2]	612	−3,200	−14,831	5,476
Effect of price change	−11,151	−1,467	5,229	15,696	8,976	8,945
Year-end value	169,424	155,369	161,211	173,706	167,852	182,272
Pound sterling						
Change in holdings	278	692	3,004	−1,599	498	929
Quantity change	313	373	2,395	−690	1,185	1,294
Effect of price change	−34	319	609	−910	−688	−365
Year-end value	3,782	4,474	7,478	5,879	6,377	7,306
Deutsche mark						
Change in holdings	6,084	4,108	9,477	−2,671	−2,852	367
Quantity change	4,574	3,017	12,549	−806	−2,833	3,153
Effect of price change	1,509	1,091	−3,071	−1,865	−19	−2,786
Year-end value	24,556	28,664	38,141	35,470	32,617	32,985
French franc						
Change in holdings	178	402	1,263	−485	−311	−368
Quantity change	50	320	1,592	155	81	160
Effect of price change	128	82	−329	−640	−392	−528
Year-end value	2,705	3,107	4,370	3,885	3,574	3,206
Swiss franc						
Change in holdings	275	964	2,088	−611	−522	−389
Quantity change	−346	877	2,631	−1,086	−141	−144
Effect of price change	622	87	−542	475	−380	−245
Year-end value	5,156	6,120	8,209	7,598	7,076	6,687
Netherlands guilder						
Change in holdings	293	380	899	−159	−502	−353
Quantity change	145	329	1,127	9	−470	−109
Effect of price change	148	51	−227	−168	−33	−244
Year-end value	2,016	2,396	3,296	3,137	2,635	2,281
Japanese yen						
Change in holdings	2,420	780	2,802	242	105	705
Quantity change	1,796	2,410	942	115	257	−20
Effect of price change	623	−1,631	1,860	128	−152	725
Year-end value	7,107	7,887	10,689	10,931	11,037	11,742
European currency units						
Change in holdings	—	32,706	14,952	−4,727	−5,007	4,074
Quantity change[3]	—	27,295	−1,545	−2,143	−1,460	1,195
Effect of price change	—	5,411	16,497	−2,584	−3,547	2,879
Year-end value	—	32,706	47,658	42,931	37,925	41,999
Sum of the above						
Change in holdings	21,739	25,978	40,328	2,486	−14,446	19,386
Quantity change	29,894	22,034	20,303	−7,646	−18,212	11,006
Effect of price change	−8,155	3,943	20,025	10,132	3,766	8,380
Year-end value	214,745	240,723	281,052	283,537	269,092	288,478
Total official holdings[4]						
Change in holdings	20,406	25,683	43,268	5,890	−11,191	22,274
Year-end value	224,172	249,855	293,123	299,013	287,822	310,095

Source: Fund staff estimates.

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

[2] Reflects mainly deposits of U.S. dollars by members of the European Monetary System (EMS) in the European Monetary Cooperation Fund.

[3] Quantity changes in European currency units (ECUs) issued against dollars are evaluated by applying the SDR price of the U.S. dollar on the swap date to the estimated change in dollar holdings. Similarly, quantity changes in ECUs issued against gold are determined by applying the SDR price of the ECU on the swap date to the ECU price of gold used by the EMS and multiplying by the change in the number of ounces.

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

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reserves in 1983 resulted from both a larger quantity of officially held U.S. dollars (up by SDR 5.5 billion) and the effects of the appreciation of the dollar in terms of the SDR (adding SDR 8.9 billion). This contrasts with the experience of 1982, when a large drop in the quantity of officially held U.S. dollars was only partially offset by the appreciation of the U.S. dollar in terms of the SDR, resulting in a significant decline in U.S. dollar reserves.

The increase in the SDR value of official holdings of ECUs in 1983 also reflected positive quantity and price changes. ECUs are issued by the European Monetary Cooperation Fund to the central banks of the members in exchange for the deposit of 20 percent of the gold holdings and 20 percent of the gross U.S. dollar holdings of these institutions. These swaps are renewed every three months, and changes in the members' holdings of U.S. dollars and gold, as well as in the market price of gold and in the value of the U.S. dollar, affect the amount of ECUs outstanding. Quantity and price changes in the SDR value of ECU holdings, therefore, depend on the evolution of its two components, gold and U.S. dollars. In 1983, the positive quantity effect, SDR 1.2 billion, resulted solely from increases in the quantity of dollars deposited at the European Monetary Cooperation Fund, since the quantity of gold deposited remained virtually unchanged at 85.7 million ounces during the year. The positive price effect, SDR 2.9 billion, resulted from both the appreciation of the U.S. dollar with respect to the SDR and the increase in the swap price of gold in terms of SDRs during the year.[17] The significant increase in the SDR value of ECU holdings that resulted from positive quantity and price changes in 1983 contrasts sharply with the two previous years, when negative quantity and price changes produced significant declines in the SDR value of ECU holdings.

The other major currencies have also been affected by the process of diversification of international reserves. The share of the deutsche mark, the second most important currency in official portfolios after the U.S. dollar, has declined steadily from 15.1 percent in 1980 to 11.9 percent in 1983. A similar, although less pronounced, trend is observed in the shares of the Swiss franc, which fell from 3.2 percent in 1980 to 2.4 percent in 1983, and the Netherlands guilder, which declined from 1.3 percent in 1980 to 0.8 percent in 1983. While the share of the pound sterling has shown a slightly upward trend in the past three years, the shares of the French franc and the Japanese yen have not changed significantly.

For these other major currencies, the quantity changes in the SDR value of the official holdings in 1983 was positive for the pound sterling, the deutsche mark, and the French franc and negative for the Swiss franc, the Netherlands guilder, and the Japanese yen. The price changes reflected relative exchange rate movements. While the price change was positive for holdings of Japanese yen owing to the appreciation of the yen with respect to the SDR, it was negative for all the other currencies except the U.S. dollar, reflecting their depreciation with respect to the SDR.

When all the major currencies are taken together, the change in the SDR value of foreign exchange reserves in 1983 showed a sharp contrast to the experience of the previous year. While a positive price change was outweighed by a larger negative quantity change in 1982, a positive price change of SDR 8.4 billion was reinforced by a positive quantity change of SDR 11.0 billion in 1983.

The pattern of currency diversification differs between industrial countries and developing countries (Table 12). Historically, the industrial countries have held a greater proportion of their reserves in U.S. dollars than have the developing countries. As a result, the share of reserves accounted for by the other major currencies has been larger in developing countries than in industrial countries. Although this relationship also held in 1983, there has been a different tendency between the two country groups during the past few years. While the share of the U.S. dollar in total foreign exchange reserves remained at about 77 percent in industrial countries from 1980 to 1983, it increased from 57 percent to 67 percent in developing countries during the same period. This shift to U.S. dollar reserves in developing countries was reflected in a reduction in the shares of each of the other major currencies, in particular the deutsche mark, whose share declined from about 16 percent in 1980 to 11 percent in 1983.

Expected rates of return, together with considerations of liquidity and risks, exert an important influence on the allocation of international reserves among assets denominated in different currencies. Since expected rates of return cannot be directly observed, realized rates of return in short-term investments denominated in the major reserve currencies can provide some indication of the yields on reserve holdings as well as the uncertainty that gives rise to portfolio diversification. During the past decade, the rates of return, in terms of SDRs, on investments in the five currencies that currently comprise the SDR basket diverged

[17] Although the SDR market price of gold showed a declining trend during 1983, the swap price of gold in terms of SDRs increased as a lagged response to the increase in gold price during the second half of 1982. According to the method used for valuing gold against ECUs, the ECU swap price is equal to the lower of the two prices: the average of the prices recorded daily at the two London fixings during the previous six calendar months and the average price of the two fixings on the penultimate working day of the period. For any given date, the swap price in terms of SDRs is obtained by multiplying the SDR/ECU exchange rate on that date by the ECU swap price on the latest swap date.

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Table 14. Placement of Official Holdings of Foreign Exchange Reserves, End of Year 1976-83 [1]
(In billions of SDRs)

	1976	1977	1978	1979	1980	1981	1982	1983
Liabilities of residents of the United States to foreign official institutions	79	104	120	109	123	139	149	163
Items not included in reported official U.S. dollar holdings[2]	–8	–10	–7	–13	–22	–35	–50	–52
Reported official U.S. dollar claims on residents of the United States	71	94	113	96	101	104	99	111
Reported official claims on residents of other countries denominated in the debtor's own currency	17	19	27	30	41	39	38	40
Subtotal	88	113	140	126	142	143	137	151
Identified official holdings of Eurocurrencies								
Eurodollars	47	54	47	49	54	60	57	57
Other currencies	13	19	21	25	34	33	30	33
Subtotal	60	73	68	74	88	93	87	90
European currency units	—	—	—	33	48	43	38	43
Residual[3]	14	18	16	17	15	20	26	26
Total official holdings of foreign exchange	162	204	224	250	293	299	288	310

Sources: International Monetary Fund, *International Financial Statistics*; U.S. Treasury Department, *Bulletin*; and Fund staff estimates.
[1] Official foreign exchange reserves of Fund members and certain other countries and areas, including Switzerland. Beginning in April 1978, Saudi Arabian holdings exclude the foreign exchange cover against a note issue, which amounted to SDR 4.3 billion at the end of March 1978.
[2] Mainly U.S. dollars deposited with the European Monetary Cooperation Fund in connection with the issuance of European currency units, U.S. obligations to official institutions in countries not reporting to the International Monetary Fund, and U.S. obligations that are not classified as foreign exchange reserves in the reports provided to the International Monetary Fund by the holders.
[3] Part of this residual occurs because some member countries do not classify all the foreign exchange claims that they report to the Fund. Includes identified official claims on the International Bank for Reconstruction and Development, on the International Development Association, and the statistical discrepancy.

substantially.[18] Although interest rate differentials explain part of this divergence of yields, the dominant factor has been the differences among the rates of appreciation or depreciation of each currency with respect to the SDR. For example, a U.S. dollar-denominated investment would have produced the lowest rate of return among investments denominated in the different currencies in 1978, when there was a large depreciation of the U.S. dollar with respect to the SDR; and it would have produced the highest rate of return in 1981 and 1982, when the U.S. dollar appreciated substantially with respect to the SDR. In 1983, an investment denominated in Japanese yen had the highest rate of return (22 percent) and the highest rate of appreciation with respect to the SDR. In contrast, investments denominated in French francs and pounds sterling had the lowest rate of return (1 percent) and the highest rates of depreciation with respect to the SDR. At the same time, the U.S. dollar appreciated with respect to the SDR and produced a rate of return of 12 percent on U.S. dollar investments, while the deutsche mark depreciated with respect to the SDR and produced a rate of return of 2 percent on deutsche mark investments. The uncertainty regarding the realized rate of returns, which reflects mainly the size and duration of unexpected exchange rate changes, provides incentives for the diversification of international reserves among investments denominated in different currencies.

[18] See *Annual Report of the Executive Board for the Financial Year Ended April 30, 1982* (Washington: International Monetary Fund, 1982), page 67 (hereinafter referred to as *Annual Report, 19—*), for a description of the procedure followed to calculate the rates of return that are compared in this section.

Placement of Foreign Exchange Reserves

Increased official claims on residents of the United States and ECUs accounted for much of the growth of foreign exchange reserves in 1983 (Table 14). While foreign exchange reserves increased by SDR 22 billion, official claims on residents of the United States grew by SDR 12 billion and ECUs by SDR 5 billion. Other holdings of foreign exchange reserves expanded by more modest amounts. Official claims on residents of countries other than the United States in the debtor's own currency grew by SDR 2 billion, and official Eurocurrency deposits grew by SDR 3 billion. Since official Eurodollar deposits did not change from the previous year, the entire increase in official Eurocurrency deposits is accounted for by official deposits in other currencies.

Over the past four years there has been no significant change in the composition of the holdings of foreign exchange reserves. At the end of 1983, official claims on residents of the United States accounted for 36 percent of total foreign exchange reserves, official claims on residents of other countries for 13 percent,

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official Eurocurrency deposits for 29 percent, and ECUs for 14 percent. Official Eurodollars amounted to 63 percent of total official Eurocurrency deposits.

The holdings of the various reserve currencies have been influenced not only by official portfolio preferences and foreign exchange market intervention but also by external payments developments and changes in the access of countries to international financial markets. The U.S. dollar has remained the principal intervention currency for most authorities. The other reserve currencies have served much more as investments, hedges against exchange risk, or working balances. In this regard, the relatively large decline in the quantity of U.S. dollar holdings in 1981 and 1982 reflected to some degree the foreign exchange market intervention undertaken by the authorities in a number of industrial countries intended to limit the depreciations of their currencies relative to the U.S. dollar.

Changes in official holdings of U.S. dollars have at times paralleled movements in the U.S. current account balance. For example, the U.S. current account deficits of $12 billion in both 1977 and 1978 were accompanied by a large increase in official holdings of U.S. dollars, even though the share of U.S. dollars in total holdings of foreign exchange reserves fell from 78 percent to 76 percent as a result of a depreciation of the U.S. dollar relative to the SDR. A U.S. current account surplus in 1979 was associated with a decline in official claims on residents of the United States. Continued surpluses in 1980 and 1981, however, were accompanied by rising official U.S. dollar claims. In 1982, the U.S. current account deficit was accompanied by larger liabilities of U.S. residents to foreign official institutions but a decline in reported official U.S. dollar claims on residents in the United States. This divergent behavior reflected, in part, the foreign exchange market intervention undertaken in the industrial countries and the extensive use of foreign exchange reserves by many developing countries to meet external payments when new credits could not be readily obtained from international financial markets. In 1983, however, the larger U.S. current account deficit ($39 billion) was accompanied by an increase in official holdings of U.S. dollar claims and a larger share of U.S. dollars in total foreign exchange reserves.

The Role of International Financial Markets in the Provision of Liquidity and the Adjustment Process

Throughout the 1970s and early 1980s, international financial markets came to play an increasingly important role in the provision of international liquidity and the financing of the adjustment process. This section reviews these developments since 1973, but places emphasis on the period 1982–83. Although a major proportion of international lending involves loans to borrowers in industrial countries, the discussion focuses on lending to developing countries in order to examine the relation between current account imbalances, debt service commitments, conditions in the world economy, and disturbances in financial markets.

Since mid-1982, activity in international financial markets has been strongly affected by the external payments difficulties of a number of developing countries. During the period January 1983 to April 1984, 17 developing members of the Fund underwent multilateral debt restructurings involving an estimated $94 billion in bank debt. In addition, there were official multilateral debt renegotiations to reschedule payments on debt owed to, or guaranteed by, the governments or appropriate agencies of creditor countries. Despite these difficulties, an unprecedented degree of cooperation among international banks, the developing country debtors, and national and international agencies made possible an orderly balance of payments adjustment process based on a case-by-case approach involving the implementation of a Fund stand-by program, the restructuring of amounts in arrears and of debt falling due, and, in some important instances, the arrangement of new credits from international banks. The more limited access to international financial markets by many developing countries has nonetheless affected the availability of international liquidity. In the late 1970s and early 1980s, access to the international banking markets allowed many countries to economize on holdings of actual reserves, and a number of countries increased their international liquidity through establishing credit lines that would allow them to borrow reserves when needed. However, events since August 1982 have shown that the amounts of borrowed reserves available to individual countries, as well as to groups of countries, could be subject to abrupt change. Thus, even though actual reserves of developing countries increased in 1983, their more limited access to the international markets may well have resulted in a decline in the overall international liquidity available to this group. Since the disturbances in international financial markets in 1982 and 1983 are intimately related to economic and financial developments in earlier years, this section first reviews the experience in the years 1973–81 before considering developments in 1982 and 1983.

Developments in 1973–81

During the period 1973–81, the role of capital markets in the international adjustment process expanded sharply

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as private lending became an increasingly important source of financing for large external payments imbalances. The first major increase in private international lending occurred in the period 1973–75, which was characterized by the need to recycle the current account surpluses of the major oil exporting countries that had grown from $7 billion in 1973 to $69 billion in 1974 before declining to $35 billion in 1975. During this period, the current account deficit of the non-oil developing countries grew from $11 billion in 1973 to $37 billion in 1974 and to $46 billion in 1975. Despite these current account deficits, this group of countries was nonetheless able to increase its holdings of non-gold reserves by more than $10 billion over the years 1973–76, in part owing to the sharp inflow of private credits. As the share of net external borrowing from private sources relative to the aggregate of current account deficits and reserve accumulations of the non-oil developing countries rose from 27 percent in 1973 to 51 percent in 1975, non-oil developing countries almost tripled their external debt from $130 billion to $337 billion. This large-scale borrowing, which in part constituted an attempt to produce a more gradual adjustment to the sharp changes in international price structures, was facilitated by the low average real cost of borrowing[19] of ½ of 1 percent per annum during 1974–78. In some of these countries, however, the borrowing was used to finance not only an adjustment to external developments but also extensive investment and government spending programs.

While there were a number of sources of funds to finance this increased lending, deposits from oil exporting countries with international banks were especially important. Such deposits increased by $30 billion in 1974 and by about $11–13 billion in each of the following three years.

Movements in external payments imbalances in the period immediately following the second major increase in the price of oil in 1979–80 were similar to those experienced in the period after 1974. The current account deficits of the non-oil developing countries rose from $42 billion in 1978 to $88 billion in 1980 and $109 billion in 1981. The holdings of non-gold reserves by non-oil developing countries nonetheless rose by nearly $21 billion, as international bank lending again became a major source of financing balance of payments deficits and reserve accumulation. The external debt of non-oil developing countries grew from $395 billion in 1979 to $633 billion in 1982 and $669 billion in 1983.

Although the pattern of payments imbalances and private capital inflows of the early 1980s was similar to that of the middle 1970s, there were differences in macroeconomic policies pursued by the industrial and developing countries, as well as in general economic conditions in the world economy. While monetary and fiscal policies in the mid-1970s had been directed in a number of countries toward promoting a recovery from the 1975 recession, the presence of high and rapidly rising inflation rates in 1979–80 resulted in a determined effort to control inflation in many industrial countries. Inflation (as measured by the change in GNP deflators) in the industrial countries declined from 9 percent in 1980 and 1981 to 5 percent in 1983. The rate of growth of output also fell sharply in both industrial and developing countries. One aspect of the response of the financial markets to these changes in policies and economic developments was the emergence of high real rates of interest, reaching an average of 7 percent in 1981 and 1982.

These developments had a pronounced effect on the relation between financial markets and major borrowers among the developing countries. In the course of the 1970s, the composition of the debt of many developing countries had changed toward liabilities to private lenders based on commercial terms and toward shorter maturities. These changes in the composition of their external debt made the debt-servicing capacity of developing countries more vulnerable to rising interest rates and falling exports. The shift in the composition of the external liabilities toward debt obtained on commercial terms meant that the developing countries experienced a rapid increase in their debt service as interest rates rose during 1979–81. In addition, the shortening of the maturity of bank debt also implied that changing creditor perceptions of lending risks could quickly create major refinancing problems.

These developments were reflected in the rise of the ratio of external debt to GDP of non-oil developing countries from 122 percent in 1981 to 144 percent in 1982 and 150 percent in 1983, as well as in the increase in the external debt service ratio[20] from 27 percent in 1981 to 32 percent in 1982 and 37 percent in 1983; both of these ratios had remained virtually unchanged from 1977 to 1980. As a result of the high real cost of bank loans, worsening terms of trade, and shrinking export volumes, borrowing by many non-oil developing countries continued to expand in 1981 and 1982.

[19] The real cost of borrowing is measured as the London interbank offered rate (LIBOR) on three-month U.S. dollar deposits less the rate of change of the GDP deflator in the United States. Alternatively, if the rate of change of the export unit value of the non-oil developing countries is used as a measure of inflation, then the implicit real interest rate was a negative 2.5 percent per annum.

[20] Ratio of interest and amortization payments to the total exports of goods and services.

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Developments in 1982–83

The emergence of external payments problems for a number of developing countries during the second half of 1982 reduced sharply and rapidly the access of many member countries to international financial markets. National monetary authorities, international agencies, debtor countries, and creditor banks coordinated their efforts to prevent a widening of the crisis and a severe and possibly prolonged interruption of international credit and trade. Since the approach to these problems was to deal separately with external payments difficulties of individual countries, adjustment programs supported by the use of the Fund's resources have become a central element in the current approach to the resolution of debt crises.

While there were four debt restructuring agreements[21] with commercial banks involving an estimated total of $1.6 billion in 1982, there were 15 agreements involving 17 countries (including two nonmembers) for an estimated $67 billion in 1983. In addition, there were also six debt reschedulings through the Paris Club in 1982 and 16 in 1983, involving total rescheduled amounts of $629 million and $11 billion, respectively. The terms on rescheduled debt varied, but there are some broad similarities. Bank debt rescheduling usually covered from 80 to 100 percent of principal falling due on medium-term debt that had not previously been rescheduled. The grace period on rescheduled debt extended from two to three years and the new maturities averaged between eight and nine years. The interest spreads above the London interbank offered rate (LIBOR) on rescheduled debt ranged from 1¾ to 2¼ percent, and rescheduling fees averaged 1 to 1½ percent of the amounts restructured. Generally, the best terms were received by countries undertaking strong adjustment programs. In almost half of the reschedulings, short-term debt was also restructured. The treatment of interbank deposits generally involved the greatest difficulties and, in some cases, restoring such deposits was not entirely successful. Several recent debt renegotiations were complicated by the existence of substantial external obligations of the private sector, often without public guarantee. The lack of foreign exchange forced some governments to assume, and then to reschedule, the obligations of private debtors, which were able to service debt in local currency but unable to obtain the requisite amount of foreign exchange. Multilateral rescheduling through the Paris Club of debt owed to or guaranteed by official creditors also required, as a precondition, agreement between the debtor country and the Fund on the use of Fund resources in the upper credit tranches.

While banks have generally been unwilling to reschedule future interest payments and almost always have insisted on the elimination of interest arrears, they have in several instances, including most of the large borrowers, committed new financing in advance of scheduled interest payments. Such commitments for additional financing totaled $15 billion in 1983.

Debt restructuring in 1983 had a major impact on the debt service payments of non-oil developing countries. These payments were reduced by $8 billion in 1982 and by $19 billion in 1983—by 2 percent and 4 percent of exports, respectively. Furthermore, the restructuring of debt resulted in a decline of short-term debt by $20 billion in 1983. The reserve holdings of many developing countries were also sharply affected by reduced access to international financial markets and the need to service external payments. For the first time since 1978, the non-gold reserves of oil exporting countries declined in 1982. Although the reserves of non-oil developing countries grew marginally in 1982, most of this increase reflected larger holdings by certain Asian countries, with other regional groups (especially in the Western Hemisphere) showing sharp declines.

The adjustment efforts of many developing countries and the decreased willingness of the banks to extend credit to certain countries were reflected in a relatively small increase in the total debt of developing countries, from $725 billion in 1982 to $768 billion in 1983.

International bank lending declined from $162 billion in 1982 to $138 billion in 1983 (Table 15). Lending to borrowers in industrial countries, which continued to account for the bulk of this cross-border lending (68 percent in 1983), declined from $117 billion in 1982 to $95 billion in 1983, reflecting low private credit demands and greater reliance on bond issuance rather than bank loans. New lending to non-oil developing countries fell from $41 billion in 1982 to $27 billion in 1983. More than half of the growth of banks' claims on non-oil developing countries in 1983 took the form of coordinated lending to four Latin American countries and Yugoslavia in conjunction with bank debt restructurings and Fund-supported programs; lending to Mexico alone accounted for over $4 billion. Loans to oil exporting developing countries were $5 billion in 1983, compared with $9 billion in 1982.

These reduced lending flows reflected not only the adjustment efforts of developing countries but also the attempts of international banks to improve the risk-

[21] Bank debt restructuring is defined here to cover either the rescheduling or the refinancing, or both, of debt service payments in arrears and/or of future service payments on the short-term and medium-term debt, or both. Rescheduling is a formal deferment of debt service payments over a period exceeding one year, with new maturities applying to the deferred amounts. Refinancing either is a straight rollover of maturing debt obligations or involves the conversion of existing debt service payments into new medium-term loans.

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Table 15. Net External Bank Lending and Deposit Taking, 1982–83 [1]
(In billions of U.S. dollars)

	First Half 1982	Second Half 1982	First Half 1983	Second Half 1983	1982	1983
Borrowing by[2]						
Industrial countries	61	56	9	86	117	95
Offshore centers[3]	4	19	−1	13	23	12
Developing countries	32	18	9	23	50	32
Oil exporting	*5*	*4*	*−2*	*7*	*9*	*5*
Non-oil	*27*	*14*	*11*	*16*	*41*	*27*
Unallocated[4]	−27	−1	−3	2	−28	−1
Total	70	92	14	124	162	138
Deposit taking from[5]						
Industrial countries	56	59	15	83	115	98
Offshore centers[3]	12	9	7	19	21	26
Developing countries	5	6	4	19	11	23
Oil exporting	*−3*	—	*−4*	*3*	*−3*	*−1*
Non-oil	*8*	*6*	*8*	*16*	*14*	*24*
Unallocated[4]	10	14	5	4	24	9
Total	83	88	31	125	171	156
Change in net liabilities of [6]						
Industrial countries	5	−3	−6	3	2	−3
Offshore centers[3]	−8	10	−8	−6	2	−14
Developing countries	27	12	5	4	39	9
Oil exporting	*8*	*4*	*2*	*4*	*12*	*6*
Non-oil	*19*	*8*	*3*	—	*27*	*3*
Unallocated[4]	−37	−15	−8	−2	−52	−10
Total	−13	4	−17	−1	−9	−18

Sources: International Monetary Fund, *International Financial Statistics;* and staff estimates.
[1] Data on lending and deposit taking are derived from stock data on liabilities and assets, including a correction for valuation changes owing to exchange rate movements. For classification of countries in groups shown here, see Chapter 1, Table 2 and Table 3, footnote 1.
[2] As measured by differences in the liabilities of borrowing countries, defined as cross-border interbank accounts by residence of borrowing bank plus international bank credits to nonbanks by residence of borrower.
[3] Consisting of the Bahamas, Bahrain, the Cayman Islands, Hong Kong, the Netherlands Antilles, Panama, and Singapore.
[4] Including centrally planned economies that are not Fund members and certain international organizations.
[5] As measured by differences in the assets of depositing countries, defined as cross-border interbank accounts by residence of lending bank plus international bank deposits of nonbanks by residence of depositor.
[6] Lending to minus deposits taken from.

adjusted return on their assets. In part, this has involved more comprehensive consideration of country risk factors and some emphasis on directing new lending toward lower-risk activities such as bond underwriting and trade financing rather than large syndicated loans. However, in 1983, lending opportunities in many markets were limited because of reduced external payments imbalances as well as low levels of economic activity. As a result, the international capital market became segmented, with little or no expansion in new spontaneous lending to many developing countries, while many borrowers from industrial countries and a limited number of developing countries obtained credits on highly competitive terms.

The increased segmenting of borrowers according to perceived lending risks also contributed to the historically high level of activity in the international bond markets in 1982 and 1983. Although total international bond issues reached $76 billion in 1982 and $77 billion in 1983, few developing countries had access to these markets; and bond issues of developing countries fell by $1.4 billion from 1982 to 1983. Increased bond placements have generally been confined to high-quality borrowers from industrial countries and selected European and Asian developing countries. Floating rate notes issued in large volumes by the most creditworthy borrowers were considered by many—but not all—financial institutions as more liquid and less risky securities. Issues of floating rate notes rose from $15 billion in 1982 to $20 billion in 1983, when they constituted 25 percent of total international bond issues. International banks have often been willing to absorb floating rate notes at a lower yield than syndicated loans in order to improve the risk and liquidity features of their balance sheets.

The sources of funds for this international bank lending also changed in 1983. New deposits from industrial countries declined from $115 billion in 1982

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to $98 billion in 1983, with banks from the United States reducing their new deposits from $80 billion in 1982 to $34 billion in 1983. In contrast, new deposits from both oil exporting and non-oil developing countries increased, reflecting in part a buildup of gross official reserves.

As a result of these developments in lending and deposit taking in 1983, private and public agents in industrial countries more than doubled their net borrowing from the international banking system (Table 15); and agents in the United States switched from being net lenders of $34 billion in 1982 to being net borrowers of $8 billion in 1983. The net flow to non-oil developing countries from banks in the rest of the world declined sharply to small amounts.

Adequacy of Reserves and the Role of the Fund

The recent changes in reserve holdings and capital market conditions described in the two preceding sections are important factors that affect the adequacy of the stocks of international reserves and liquidity. This section considers the impact of these changes and other macroeconomic developments and also examines the role of the Fund in the provision of international liquidity.

Adequacy of International Reserves

An adequate stock of reserves is one that is consistent with the smooth functioning of the international monetary system, an expansion of world trade, and the absence of persistent inflation or deflation. An adequate level of reserves may be larger or smaller than the desired holdings of reserves under a particular set of asset prices and economic conditions. For example, an effective demand for reserves that reflects a depressed level of international trade and high interest costs could be considerably smaller than the amount of reserves that would be held under more favorable conditions. In assessing the adequacy of the stock of international reserves, current economic conditions and, in particular, the factors currently influencing the supply of reserves must be evaluated. The effective demand for reserves is influenced by such factors as the level and variability of trade flows, the willingness of the authorities to adopt timely stabilization programs aimed at reducing payments imbalances, the speed with which external imbalances respond to policy changes, the opportunity cost of holding reserves, the exchange rate regime, the size and nature of the domestic and external shocks that affect a country, and the extent to which a country has access to international capital markets. Empirical studies of the demand for reserves in industrial and developing countries suggest that the reserve demands in the world as a whole and in each of these two country groups were reasonably stable during the 1970s. Although it had been anticipated that there would be a significant reduction in the demand for reserves in the period following the end of the Bretton Woods par value system and the move toward a greater degree of exchange rate flexibility, it has generally been found that the demand for reserves for all countries taken together has continued to grow roughly in accordance with the pattern observed earlier under the par value system. In part, this continued growth in reserve holdings reflected the greater variability of trade flows, interest rates, and other macroeconomic variables that was evident in the 1970s and early 1980s. The growth of world trade became significantly more variable in the decade 1974–83 than in earlier years. Using the standard deviation of the rate of growth of world imports as a measure of variability, the import variability increased from 10 percent in 1965–73 to 19 percent in 1974–83. This greater variability quite likely stimulated the precautionary demand for reserves.

Over the long term, total reserves have, in fact, grown approximately in proportion to the value of imports. For example, the ratio of non-gold reserves to imports for all countries has had an average value of 21 percent and has remained within the narrow range from 20 to 25 percent between 1974 and 1983; for the industrial countries, it has fluctuated between 14 and 19 percent; and for the non-oil developing countries, it has moved between 18 and 27 percent (Table 16). In contrast, the ratio of the oil exporting countries has fallen from 110 percent in 1974 to 50 percent in 1983. Apart from periods involving major changes in exchange rates or financial market conditions, these reserve ratios have also been relatively stable over longer periods. The ratio of reserves to imports for all countries had average values of 17 percent for the period 1959–63 and 20 percent during 1979–83. Thus, while the ratios of reserves to imports do not reflect all of the factors influencing the demand for reserves, they may provide an indication of likely trend movements in the effective demand for reserves.

Even if countries adjust their actual holdings of reserves to their effective demands, there is still the issue of whether the supply of reserves is adequate for the smooth functioning of the international monetary system. The supply of reserves is affected by the monetary and fiscal policies of the reserve currency countries as well as by the state of their balance of payments, movements in the market price of gold, and changing access to international capital markets. Pol-

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Table 16. Ratio of Non-Gold Reserves to Imports, End of Year 1970–83 [1]
(In percent)

Year	All Countries	Industrial Countries	Oil Exporting Countries	Non-Oil Developing Countries
1970	17.4	16.0	39.4	19.0
1971	24.8	24.6	58.0	20.2
1972	28.2	26.2	68.3	29.1
1973	22.6	19.8	57.8	26.4
1974	20.2	15.0	110.0	18.2
1975	21.9	16.1	90.9	18.3
1976	21.1	14.3	88.9	22.5
1977	24.0	17.4	79.7	25.8
1978	22.9	18.7	50.4	27.1
1979	19.6	15.1	57.6	23.4
1980	20.9	17.2	61.5	19.9
1981	19.7	16.0	50.0	18.5
1982	20.2	16.7	44.8	19.4
1983	20.9	17.0	50.3	20.9

[1] The annual rate of imports in the fourth quarter is the divisor of the stock of reserves at year-end. For classification of countries in groups shown here, see Chapter 1, Table 2 and Table 3, footnote 1.

icies of monetary restraint in the reserve center countries will tend to slow the growth of foreign exchange reserves, both those held as direct claims on reserve centers and those placed in offshore financial markets. The monetary restraint observed in many industrial countries since the early 1980s has contributed to the slowing in the growth of international reserves.

Movements in the price of gold have appreciably affected the reserves of countries holding a large proportion of their reserves in the form of gold. While the rise in the market price of gold from 1973 to the early months of 1980 sharply raised the market value of official gold reserves, that value has receded since 1980 because of a general downward trend in the market price of gold. For the past two years, the market price of gold and the market value of official gold holdings have stabilized at a level not quite halfway between the levels at the beginning of the 1970s and a decade later. For many countries, particularly the developing economies, this influence was not very strong, since their gold holdings were relatively small.

Of much greater importance for many developing countries was their reduced access to international capital markets. In the 1970s and early 1980s, borrowing in international financial markets became an increasingly important source of international reserves. As the external payments problems of a number of major debtor countries emerged in the period after August 1982, a large number of countries were unable to obtain new credits from international financial institutions and had to use existing reserves to meet a variety of external payments. Reduced access to international financial markets may therefore have been a factor contributing to the decline in international reserves in 1982 for many countries and, even more, to the adequacy of international liquidity, which reflects access to international credit as well as actual reserve holdings. During 1983, non-gold reserve holdings of non-oil developing countries increased sharply, reflecting, in part, significant improvements in their current account positions and sustained flows of official transfers and credits. However, a significant part of this accumulation was accounted for by a small number of Asian countries.

The impact of the sharp changes in the growth of international reserves during 1982 and 1983 on the adequacy of international reserves is subject to different interpretations. On the one hand, the decline in reserve holdings in 1982 experienced by many countries could have reflected adjustment to a lower effective demand associated with reduced values of international trade and payments and adverse financial market conditions. The higher reserve holdings for a number of non-oil developing countries since 1983 would, in turn, reflect improving economic conditions associated with the recovery of world output and the volume of trade. On the other hand, reserve holdings could have declined relative to both the effective demand for reserves and an adequate stock of reserves.

The reduced access of many developing countries to international financial markets, which has made it difficult to replenish depressed reserve holdings except through current account surpluses, may have slowed the pace of adjustment of actual reserve holdings to the level effectively demanded. This reduction in market access may have reflected changing perceptions of market participants regarding the ability of individual countries to service their external obligations over an extended period. Such credit reputations can be influenced by both external factors (e.g., high real international interest rates) and internal developments (e.g., inappropriate domestic adjustment policies). For many countries, reduced access to financial markets has raised the cost of adjusting reserve positions, as measured either by real borrowing rates or by forgone imports. When reserve holdings are constrained by effective demand, reserves will rise only as the effective demand for reserves grows with international trade and payments. By contrast, in a situation where supply constraints prevent adjustment of reserve holdings to effective demand, an increase in the supply of reserves can reduce the real cost of generating reserves and thereby lead to a rise in actual holdings.

These two interpretations may be valid for different groups of countries. Countries with ready access to international credit markets and strong balance of payments positions can readily ensure the growth of

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their reserve holdings, which will, therefore, fully reflect their effective demand for reserves. Adverse conditions of reserve supply would neither depress the reserve holdings of these countries below the amounts they feel are needed in the conduct of their external economic relations, nor would their policies be affected in any appreciable way by changes in the conditions under which reserves are being supplied. On the other hand, countries with little or no access to international capital markets and a constrained potential for affecting their holdings of reserves through exchange rate policies are likely, in a period of growing values of international trade and settlements, to hold smaller reserves than required for the efficient conduct of their international transactions. For countries facing such a situation, the receipt of additional reserve assets may well lead to greater reserve holdings rather than additional spending. Such behavior seems evident in the efforts of many developing countries to rebuild their reserve holdings even in the presence of serious external payments problems.

The Role of the Fund in the Provision of Liquidity

Recent developments in holdings of Fund-related reserve assets—SDRs and reserve positions in the Fund—have been reviewed earlier in this chapter. While SDRs are created through allocation, members' reserve positions in the Fund come into existence as claims on the Fund that are the counterpart of members' subscriptions paid in other reserve assets and of credit extended to the Fund. At the end of 1983, the most important source of these Fund-related reserve assets was the credit made available to the Fund by its members, which at SDR 31 billion accounted for almost three fifths of the total. The resources lent to the Fund are used to provide temporary financial support to members carrying out balance of payments adjustment programs. The largest part of these credits to member countries is extended in conjunction with programs of economic policy agreed between the members in question and the Fund, with certain specified features of the programs being considered conditions for the continuation of the phased financial support. Access by Fund members to this type of international credit constitutes an extension of international liquidity beyond that provided by reserve holdings and access to private international credit markets. In comparison with these other sources of liquidity, the Fund's credit is characterized by its conditionality, which gives it an important role among the assets and availabilities that constitute international liquidity.

At the end of 1983, the Fund's resources rose as a result of an increase in Fund quotas from SDR 61 billion to SDR 90 billion.[22] In addition, borrowing arrangements totaling SDR 6 billion with the Bank for International Settlements, the National Bank of Belgium, Japan, and Saudi Arabia have been concluded. These commitments are intended to supplement the regular quota resources of the Fund and make it possible in 1984 to continue providing access to Fund resources within specified limits to members with economic adjustment programs that merit support on a more substantial scale than would be permitted by quota resources alone. Under certain circumstances, the Fund may also obtain access to additional resources as a result of the enlargement of the General Arrangements to Borrow (GAB) from SDR 6.4 billion to SDR 17 billion (reflecting full participation by the Swiss National Bank) and the conclusion of a borrowing arrangement with Saudi Arabia in association with the GAB for an amount of SDR 1.5 billion.

Although recent developments in international liquidity, the world economy, and international financial markets have led to extensive discussions of the role of the SDR and the possibility of an SDR allocation, there have been no allocations since January 1, 1981. Because of the continuing growth of other non-gold reserves, the share of cumulative SDR allocations declined from 6.5 percent of non-gold reserves at the end of January 1981 to 6.0 percent at the end of March 1984. Allocations are made on the basis of proposals by the Managing Director, concurred in by the Executive Board, and approved by the Board of Governors by an 85 percent majority of the total voting power. Although the question of further SDR allocations has been kept under continuous review by the Executive Board during the past two years, it has not been possible to make a proposal for a new allocation that commands the required support of members with 85 percent of the total voting power in the Fund. At its April 1984 meeting, the Interim Committee agreed that the Executive Board should continue its examination of the issues involved before the next meeting of the Committee in September 1984, and that the Managing Director should then present a report on the outcome of the Board's discussions.

[22] See Chapter 3 for a more detailed discussion of these developments.

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Chapter 3
Activities of the Fund

Introduction

The extensive use of the Fund's resources continued in the year ended April 30, 1984, with gross purchases (SDR 10.2 billion) close to the record level of the preceding year (see Table 17). At the end of the year, 35 adjustment programs were in effect, with a total commitment of SDR 18.6 billion, of which about one half had been drawn. The amount of total Fund credit outstanding increased from SDR 23.6 billion (85 countries) at the end of 1982/83 to SDR 31.7 billion (84 countries) at the end of 1983/84. The bulk of the Fund's financial assistance has been through purchases under upper tranche conditionality, in keeping with the Fund's policy of combining adjustment and financing (see Table 18).

The Fund's liquidity position was strengthened considerably during the year as a result of (i) the increase in quotas under the Eighth General Review (from SDR 61.1 billion to SDR 89.2 billion); (ii) the enlargement (from SDR 6.4 billion to SDR 17 billion) of the General Arrangements to Borrow (GAB); (iii) the completion of the associated arrangement of Saudi Arabia with the GAB (SDR 1.5 billion); and (iv) the putting into place of other borrowing arrangements (totaling SDR 6 billion) with the Saudi Arabian Monetary Agency (SAMA), the Bank for International Settlements (BIS), Japan, and the National Bank of Belgium. The prospective demand for Fund assistance, however, is expected to remain at a high level given the continued payments imbalances of a number of countries, some of which face structural difficulties that involve longer-run adjustment efforts. The Fund, therefore, needs to continue to manage its liquidity position carefully so as to avoid any gap between the demand and supply of usable resources.

The continuing need of members for Fund assistance required the Executive Board to take a new set of decisions that would enable the Fund to continue to provide appropriate financial assistance to members experiencing large payments imbalances in relation to their quotas. Under these decisions, the enlarged access policy will remain in effect until the end of 1984, and may be extended beyond that date, subject to a further decision by the Board. The Executive Board set guidelines to determine the extent of members' access to Fund resources under the enlarged access policy, and reduced the maximum limits on access, in terms of percentage of quota. The Board also reduced the limits in terms of quota on drawings under the compensatory and buffer stock financing facilities. The limits on enlarged access as well as those governing drawings under the compensatory and buffer stock financing facilities will be reviewed not later than December 31, 1984 and annually thereafter in the light of all relevant factors, including the magnitude of members' payments imbalances and developments in the Fund's liquidity. While extending the enlarged access policy, the Fund has sought to maintain appropriate standards of conditionality in the use of its resources. The Executive Board formulated new guidelines specifying the criteria that the Fund will use in reviewing requests for use of the compensatory financing facility.

In addition to providing direct balance of payments financing in support of adjustment programs, the Fund continued to facilitate financing arrangements for debtor member countries in collaboration with governments, central banks, the Bank for International Settlements, the World Bank, and commercial banks. A key aspect of the Fund's role has been to explain to all parties concerned the thrust of the adjustment policies being undertaken by the debtor countries involved.

The Fund is a cooperative intergovernmental institution which relies largely on its members to provide the finance to enable it to assist other members in balance of payments difficulties. To facilitate the reconstitution of Fund resources the Executive Board agreed on a formula to increase the attractiveness of creditor positions in the Fund relative to other international reserve assets. Under the formula, the rate of remuneration on creditor positions in the Fund was

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Table 17. Selected Financial Activities by Type and Country, 1977–84
(In millions of SDRs)

	Financial Year Ended April 30								
	1977	1978	1979	1980	1981	1982	1983	1984	1977–84
					By Type				
I. General Resources Account									
Gross purchases[1]	4,749.7	2,367.3	1,239.2	2,210.8	4,385.9	6,960.2	10,258.2	10,164.1	42,335.4
Net purchases[2]	(3,882.4)	(−2,113.5)	(−3,588.0)	(−1,362.9)	(1,575.3)	(5,066.0)	(8,711.5)	(8,148.9)	(20,319.7)
II. Administered Accounts									
Trust Fund loans	31.7	268.2	670.0	961.7	1,059.9	—	—	—	2,991.5
Oil facility subsidy account payments (grants)	27.5	25.0	19.1	27.8	50.1	9.3	2.5	11.7	173.0
Supplementary financing facility subsidy account payments (grants)	—	—	—	—	—	22.9	44.3	68.5	135.7
III. SDR allocations	—	—	4,032.6	4,033.2	4,052.5	—	—	—	12,118.3
Total	4,808.9	2,660.5	5,960.9	7,233.5	9,548.4	6,992.4	10,305.0	10,244.3	57,753.9
					By Country (I + II + III)				
Industrial countries[3]	2,198.1	1,438.8	2,593.7	2,617.6	2,543.9	—	54.0	—	11,446.1
United States	—	—	874.1	874.1	857.3	—	—	—	2,605.5
United Kingdom	1,700.0	1,250.0	304.2	304.2	298.3	—	—	—	3,856.7
Italy	—	90.0	129.0	128.9	126.5	—	—	—	474.4
Others	498.1	98.8	1,286.4	1,310.4	1,261.8	—	54.0	—	4,509.5
Developing countries[3]	2,610.8	1,221.7	3,367.2	4,615.9	7,004.3	6,992.4	10,251.0	10,244.3	46,307.7
Oil exporting	—	—	369.3	369.3	380.3	—	65.1	360.0	1,544.0
Non-oil developing	2,610.8	1,221.7	2,997.9	4,246.6	6,624.0	6,992.4	10,185.9	9,884.3	44,763.7
Africa	*635.3*	*336.6*	*861.7*	*1,262.6*	*1,472.9*	*1,999.9*	*2,072.1*	*1,665.3*	*10,306.4*
Asia	*603.8*	*435.4*	*1,011.5*	*1,197.4*	*3,448.3*	*3,163.5*	*3,106.1*	*2,279.5*	*15,245.5*
Europe	*340.1*	*271.6*	*249.0*	*765.8*	*981.2*	*1,326.0*	*1,188.1*	*1,658.3*	*6,780.1*
Middle East	*199.5*	*143.1*	*289.7*	*152.4*	*75.7*	*0.8*	*25.2*	*0.7*	*887.1*
Western Hemisphere	*832.1*	*35.0*	*586.0*	*868.4*	*646.0*	*502.2*	*3,794.4*	*4,280.5*	*11,544.6*
All countries	4,808.9	2,660.5	5,960.9	7,233.5	9,548.4	6,992.4	10,305.0	10,244.3	57,753.8
IV. Memorandum:									
Stand-by and extended arrangements as of April 30									
Number of arrangements	20	22	20	29	37	35	39	35	
Commitments	5,197.6	5,759.3	1,600.4	3,049.7	9,475.1	16,206.3	25,025.5	18,569.4	
As percent of total quotas	17.8	17.8	4.1	7.8	15.9	26.7	41.0	20.9	
Undrawn balances	3,581.1	3,638.8	1,377.5	2,718.0	8,076.4	11,154.6	16,405.1	9,269.5	
As percent of commitments	68.9	63.2	86.1	89.1	85.2	68.8	65.6	49.9	
V. Outstanding Fund credit	13,655	12,066	8,873	8,306	9,545	14,802	23,590	31,742	
Number of countries	71	72	73	74	78	79	85	84	

[1] Excluding purchases in the reserve tranche.
[2] Purchases minus repurchases; net repurchases (−).
[3] For classification of countries in groups shown here, see Chapter 1, Table 2 and Table 3, footnote 1.

raised from 85 percent of the SDR interest rate to 88.33 percent on May 1, 1984 and will be further raised to 91.66 percent on May 1, 1985 and to 94.99 percent on May 1, 1986. The relationship between the rate of remuneration and the SDR interest rate may be further adjusted depending on interest rate developments and will be reviewed again before May 1, 1987.

In keeping with its objective of promoting the role of the SDR reserve asset in the international monetary system, the Fund took further decisions to improve the asset characteristics of the SDR. Effective July 29, 1983, the rate of SDR interest and charges is being calculated weekly instead of quarterly, and the payment of interest on SDR holdings is being made quarterly instead of annually. The greater frequency of calculations and payment of the SDR interest rate is intended to make the yield on SDR holdings competitive with alternative reserve assets.

No allocations of SDRs have been made since 1981, which was the last year of the third basic period. The question of an allocation of SDRs in the current—that is, the fourth—basic period, was considered again by

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Table 18. Purchases Under Tranche Policies and Special Facilities, 1977–84
(In billions of SDRs)

	Financial Year Ended April 30							
	1977	1978	1979	1980	1981	1982	1983	1984
I. Purchases under tranche policies	2.56	2.05	0.72	1.31	3.60	5.33	6.17	8.88
First credit tranche	0.78	0.09	0.13	0.16	0.78	0.02	0.03	—
Upper credit tranches	1.59	1.85	0.35	0.93	1.90	2.73	3.68	4.16
Extended Fund facility	0.19	0.11	0.24	0.22	0.92	2.58	2.46	4.72
II. Purchases under special facilities	2.19	0.32	0.51	0.89	0.78	1.63	4.09	1.28
Oil facility	0.44	—	—	—	—	—	—	—
Compensatory financing facility	1.75	0.32	0.46	0.86	0.78	1.63	3.74	1.18
Buffer stock financing facility	—	—	0.05	0.03	—	—	0.35	0.10
III. Total I + II	4.75	2.37	1.23	2.20	4.38	6.96	10.26	10.16

the Interim Committee at its meeting on April 12, 1984. Most members of the Committee were convinced that there was increased evidence for an SDR allocation and that such an allocation would be in full conformity with the requirements of the Fund's Articles and would strengthen the world economy and the international monetary system. Some other members of the Committee, however, continued to feel that long-term global need to supplement existing reserve assets had not been demonstrated. No conclusion regarding SDR allocation was reached at this meeting, but it was agreed that the Executive Board should continue its urgent examination of the issues involved and that the Managing Director should present a further report on the outcome of the Executive Board's discussion at the next meeting of the Interim Committee, in Washington, D.C., on September 22, 1984.

In March 1984, the Executive Board concluded a comprehensive review of the procedures for surveillance and consultations with members under Article IV. It was agreed that the experience in the implementation of surveillance did not call for any revision of principles and procedures but for more active implementation and strong political support from the membership. The next annual review will be conducted not later than April 1, 1985.

During the year the Fund continued to offer training through the IMF Institute to officials of member governments and maintained its technical assistance services at a high level in the areas of central banking, fiscal affairs, and statistics.

Membership and Quotas

Membership and Participation in the SDR Department

As of April 30, 1984 the total membership of the Fund was 146, all of whom were participants in the SDR Department. Saint Christopher and Nevis applied for membership on August 2, 1983, and the Board of Governors approved the terms and conditions of its membership on April 4, 1984, establishing a quota for the new member of SDR 4.5 million. The People's Republic of Mozambique applied for membership on May 3, 1984, and on July 18, 1984 the Republic of Kiribati applied for membership.

Eighth General Review of Quotas

An increase in the total of Fund quotas from SDR 61,059.8 million to SDR 90,034.8 million under the Eighth General Review of Quotas was authorized by the Board of Governors on March 31, 1983.[1] Increases in quotas were proposed for all members except Democratic Kampuchea, which, as in the Seventh General Review, did not participate in the Eighth General Review of Quotas.

The resolution of the Board of Governors set forth that a member could consent to the increase in its quota at any time before November 30, 1983 and that no increase in quota could take effect until the Fund determined that members having not less than 70 percent of total quotas on February 28, 1983 had consented to the amount of increase proposed in the resolution for these members (consents for amounts less than those proposed were not permitted). The participation requirement was reached on November 30, 1983 and the Fund made that determination. To give the members that had not yet consented further

[1] See Board of Governors Resolution No. 38-1, adopted March 31, 1983, *Summary Proceedings of the Thirty-Eighth Annual Meeting of the Board of Governors*, September 27–30, 1983 (Washington: International Monetary Fund, 1983), pages 268–72.

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opportunity to consent to the proposed increases in their quotas, the period of consent was extended twice, to January 31, 1984 and to March 15, 1984. By the latter date, all members except the Islamic Republic of Iran, Singapore, and the United Arab Emirates had consented to the proposed increases in their quotas. The proposed quota increases for these three members totaled SDR 798.5 million, representing 2.8 percent of the total of proposed increases. The increases came into effect when subscriptions were paid within 30 days following consent. All of the 142 members that had consented to increases in quotas had completed payment of their subscriptions by April 20, 1984, raising the total of Fund quotas to its present level of SDR 89,236.3 million.

Members were required to pay 25 percent of their quota increases in SDRs, or in the currencies of other countries specified by the Fund, with the concurrence of the issuers, or in any combination of SDRs and such currencies. The balance of the increase was to be paid by each member in its own currency. Under an arrangement set up by the Fund and some members with large SDR holdings, a number of members that did not have sufficient SDRs or foreign exchange holdings to pay the reserve asset portion of their quota increase were enabled to borrow SDRs; under this arrangement, 39 members borrowed SDR 540.2 million from 11 other members to pay for the reserve asset portion of their quota increases. Simultaneously, they purchased the reserve tranche positions created by this payment and used the proceeds to repay their SDR loans. No interest, fee, or commission was charged for the use of this facility by either the Fund or the lenders.

Payments of quota increases amounted to SDR 28,176.5 million, of which 25 percent (SDR 7,044.1 million) represented payments of the reserve asset portion of quota increases. Asset payments made in SDRs equaled SDR 6,194.7 million, and payments made in the currencies of other members specified by the Fund, with the concurrence of the issuers, totaled SDR 849.4 million. The reserve asset portion of the increase in quotas was paid in SDRs by 126 members, in foreign currencies by 11 members, and in combinations of SDRs and foreign currencies by 5 members. The currencies used in payments comprised the following: SDR 331.9 million in deutsche mark, SDR 331.9 million in Japanese yen, SDR 131.3 million in U.S. dollars, and SDR 54.3 million in pounds sterling. Most payments for quota increases (97.4 percent) were made in December 1983. Individual members' quotas in the Fund at the end of April 1983 and April 1984, and the effective date of increase in the quota of each member, are shown in Appendix I, Table I.2.

Transactions and Operations in the General Resources Account

Total purchases in the General Resources Account (SDR 10.2 billion)[2] during 1983/84 were close to the record level of SDR 10.3 billion of the previous year. Credit tranche purchases, at SDR 4.2 billion, were larger than in the previous year (SDR 3.7 billion), and purchases under the extended Fund facility nearly doubled, from SDR 2.5 billion to SDR 4.7 billion. However, purchases under the buffer stock and compensatory financing facilities, at SDR 102 million and SDR 1.2 billion, respectively, were both less than one third of their levels in the previous year. At the end of the financial year 1983/84, outstanding purchases amounted to SDR 31.7 billion, compared with SDR 23.6 billion in the previous year (see Chart 21).

The bulk of the total repurchases in 1983/84, amounting to SDR 2.0 billion against SDR 1.6 billion in 1982/83, were in respect of purchases financed from ordinary resources. About half of the total repurchases were related to credit tranche purchases and a little over one third to purchases under the compensatory financing facility.

Purchases

Reserve Tranche Purchases

Reserve tranche purchases were made by 75 members for a total of SDR 1.4 billion, which was somewhat larger than the purchases of SDR 1.1 billion in the previous year. The option provided to members under a decision of the Executive Board in April 1981[3] to retain their reserve tranche positions when making use of credit tranches, or of the extended Fund facility, meant that asset payments for quota increases created reserve tranche positions for all members, including those that had outstanding purchases. This decision, together with the decision on attribution of reductions in the Fund's holdings of currencies,[4] was reviewed

[2] This excludes purchases in the "reserve tranche." A member has a reserve tranche position in the Fund by the extent to which the Fund's holdings of a member's currency in the General Resources Account, after deducting holdings of the member's currency resulting from all purchases (i.e., in the credit tranches, under the extended Fund facility, and under the special facilities) are less than its quota. Reserve tranche purchases represent a use of members' own reserves held in the form of reserve positions in the Fund and therefore do not constitute use of Fund credit.

[3] Executive Board Decision No. 6830-(81/65), adopted April 22, 1981, effective May 1, 1981, *Selected Decisions*, Tenth Issue, page 299.

[4] Executive Board Decision No. 6831-(81/65), adopted April 22, 1981, effective May 1, 1981, as amended by Decision No. 7059-(82/23), adopted February 22, 1982, *Selected Decisions*, Tenth Issue, pages 108–109.

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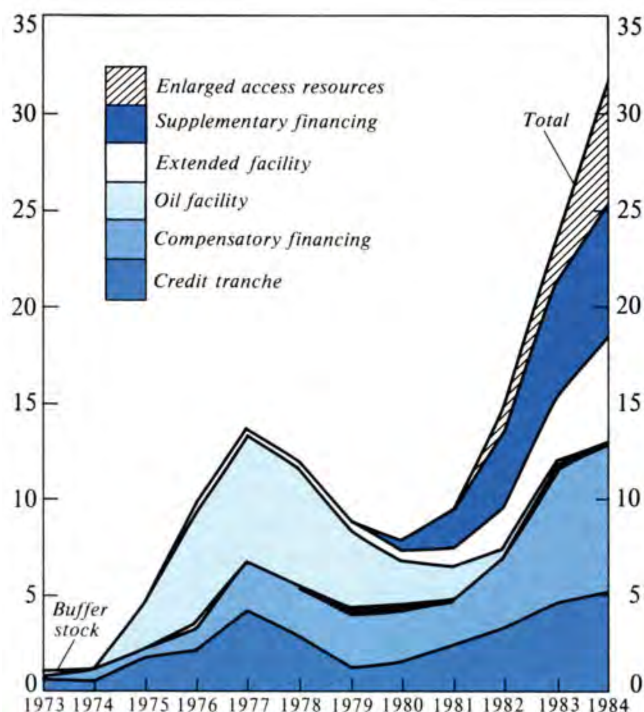
Chart 21. Use of Fund's Resources as at April 30, 1973–84
(In billions of SDRs)



by the Executive Board in April 1984. It was agreed that the experience under the decision had been satisfactory; the decisions had enhanced the asset characteristics of reserve tranche positions and had also provided members with added flexibility in the management of their reserves and in their financial relations with the Fund. The Executive Board concluded, therefore, that the decisions should remain in effect without any change, on the understanding that they would be kept under review by the staff.

Credit Tranche Purchases

Purchases in the credit tranches rose to a new peak of SDR 4.2 billion in 1983/84 from the previous high level of SDR 3.7 billion in 1982/83 (see Table 19). All of these purchases were made under stand-by arrangements by 43 members. The largest amounts purchased were by Yugoslavia (SDR 379.0 million), Hungary (SDR 376.9 million), Argentina (SDR 299.8 million), Romania (SDR 275.5 million), Korea (SDR 256.0 million), and Turkey (SDR 202.5 million). (See Appendix I, Table I.6.) About one third of the financing provided under stand-by arrangements (SDR 1.5 billion) was from the Fund's ordinary resources, and the remaining SDR 2.7 billion was from borrowed resources under the supplementary financing facility (SDR 0.5 billion) and the enlarged access policy (SDR 2.2 billion). This pattern of financing compares with SDR 1.3 billion used from ordinary resources and SDR 1.9 billion from borrowed resources in 1982/83.

New commitments under stand-by arrangements for 25 members totaled SDR 4.3 billion, compared with SDR 5.4 billion for 27 members in 1982/83. (See Appendix I, Table I.3.) Eleven arrangements were for a one-year period, in amounts ranging from SDR 2.4 million for the Solomon Islands to SDR 425.0 million for Hungary. The other fourteen arrangements were for periods of 10½ months to 2½ years in amounts between SDR 12.8 million for The Gambia and SDR 575.8 million for Korea. The arrangement for Korea for a period of 20 months was the largest stand-by arrangement approved during the year. The second largest arrangement was for Portugal (SDR 445 million) over a 17-month period. Of the SDR 4.3 billion committed under these stand-by arrangements during the financial year, more than half, SDR 2.4 billion, is to be financed under the enlarged access policy, leaving an amount of SDR 1.9 billion committed from the Fund's ordinary resources.

One arrangement (for Turkey) approved during the year was canceled before the expiration date, with an unused balance of SDR 168.75 million, and was replaced by a new arrangement. Four other arrangements (Argentina, Liberia, Romania, and Senegal) approved in the two previous financial years were also canceled in 1983/84 prior to their dates of expiration. The amounts that had not been purchased under these arrangements totaled SDR 1.2 billion. As at April 30, 1984, undrawn balances under stand-by arrangements amounted to SDR 3.1 billion; one arrangement was inoperative because of the member's failure to observe performance criteria.

Extended Fund Facility

The Executive Board reviewed in November 1983 the decision on the extended Fund facility, which was established in 1974[5] to provide medium-term assistance to members to overcome serious structural balance of payments maladjustments. It was decided that its provisions remained appropriate and that the decision should be reviewed again not later than December 31, 1984.

Purchases under extended arrangements in 1983/84 rose to a record SDR 4.7 billion, compared with purchases of SDR 2.6 billion and SDR 2.5 billion in

[5] Executive Board Decision No. 4377-(74/114), adopted September 13, 1974, as amended by Decisions Nos. 6339-(79/179), December 3, 1979, and 6830-(81/65), April 22, 1981, effective May 1, 1981, *Selected Decisions*, Tenth Issue, pages 27–31.

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Table 19. Flow of Transactions in the General Resources Account and Resulting Stocks, 1978–84
(In millions of SDRs)

Type of Transaction	Financial Year Ended April 30						
	1978	1979	1980	1981	1982	1983	1984
Total purchases	2,503	3,720	2,433	4,860	8,041	11,392	11,518
Reserve tranche	136	2,480	222	474	1,080	1,134	1,354
Credit tranches	1,937	485	1,106	2,682	2,748	3,703	4,164
Buffer stock financing facility	—	48	26	—	—	352	102
Compensatory financing facility	322	465	863	784	1,635	3,740	1,180
Extended Fund facility	109	242	216	920	2,578	2,463	4,718
Total repurchases	4,485	4,859	3,776	2,853	2,010	1,555	2,018
Gold sales	452	453	419	—	—	—	—
Replenishment up to May 31, 1978	239	—	—	—	—	—	—
Competitive bids	—	181	187	—	—	—	—
Noncompetitive bids	—	51	1	—	—	—	—
In distributions	213	220	231	—	—	—	—
Outstanding borrowings							
In connection with oil facility	6,329	4,257	2,474	1,528	526	18	—
Under General Arrangements to Borrow	1,576	777	777	777	777	777	—
From Swiss National Bank	154	—	—	—	—	—	—
Supplementary financing facility	—	—	502	2,018	4,112	6,037	6,915
Under policy on enlarged access	—	—	—	—	1,358	4,120	6,876
Holdings of the General Resources Account at end of year							
Usable currencies[1]	11,200	8,800	10,600	23,000	17,000	14,000	32,900
SDRs	1,371	1,290	1,407	5,445	5,456	4,335	6,437
Gold[2]	4,507	4,055	3,636	3,620	3,620	3,620	3,620
Reserve tranche positions of members at end of year	9,025	8,310	8,380	13,125	15,621	20,592	27,415

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

1981/82 and 1982/83, respectively. Of the purchases made by 11 members, those of India and Brazil (SDR 1.5 billion each) and by Mexico (SDR 1.2 billion) were the largest. The remaining SDR 0.5 billion was purchased by Dominica, the Dominican Republic, Grenada, Ivory Coast, Jamaica, Malawi, Pakistan, and Peru in amounts ranging from SDR 1.1 million by Grenada to SDR 165 million by Peru. Of total purchases under the facility, SDR 2.3 billion was financed from ordinary resources, SDR 1.8 billion from enlarged access resources, and SDR 0.6 billion from resources that became available under the supplementary financing facility. Four arrangements expired during the year, of which three had unused balances totaling SDR 302.4 million. Two arrangements were canceled, with balances undrawn totaling SDR 397.4 million.

New commitments were approved under three-year extended arrangements in 1983/84 for Grenada (SDR 13.5 million) and Malawi (SDR 100.0 million); financing of SDR 23.1 million was to be provided from ordinary resources and SDR 90.5 million from borrowed resources. As of April 30, 1984, extended arrangements were in effect for five members, with undrawn commitments amounting to SDR 6.2 billion, compared with undrawn commitments of SDR 11.5 billion under nine arrangements a year earlier.

Supplementary Financing Facility

The supplementary financing facility, established in August 1977[6] to provide additional financing under arrangements in conjunction with the use of the Fund's ordinary resources, was financed by 14 lenders, which agreed to provide a total of SDR 7.8 billion under specified terms and conditions consistent with the strength of their external position. Under these agreements, funds could not be committed after February 22, 1982 nor be borrowed by the Fund after February 22, 1984. In order to be able to utilize resources that might become available during the two years after February 22, 1982 as a result of cancellation or expiration of arrangements that had not been fully drawn, the Executive Board adopted a decision on February 5, 1982 that made it possible for the Fund to

[6] Executive Board Decision No. 5508-(77/127), adopted August 29, 1977, *Selected Decisions*, Tenth Issue, pages 33–38.

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substitute supplementary financing for enlarged access resources in arrangements that had been approved for members, provided the necessary amendment to the arrangement was requested by the member before February 22, 1982.[7] As a result, the arrangements of 12 members were amended to provide for such substitution at the discretion of the Managing Director on the occasion of each purchase.

Disbursements of supplementary financing in purchases by members in 1983/84 amounted to SDR 1.1 billion, representing the major portion of the balance of SDR 1.6 billion that had not been disbursed as of April 30, 1983. Of this amount, SDR 0.5 billion represented substitution for enlarged access resources in connection with purchases under the extended arrangement with India. In the previous financial year, such substitutions totaled SDR 0.8 billion and involved the arrangements with The Gambia, India, Liberia, and Mauritius. In total, SDR 7.2 billion of the SDR 7.8 billion that had been available under the borrowing agreements was called upon and disbursed. Some of the undrawn balances at the time of expiration of the facility could not be utilized because the external positions of the lenders were not sufficiently strong.

Policy on Enlarged Access

The policy on enlarged access to Fund resources, adopted by the Executive Board on March 11, 1981[8], enabled the Fund—following the full commitment of resources from the supplementary financing facility—to continue to provide assistance to members whose balance of payments imbalances are large in relation to their quotas and which need resources in larger amounts and for longer periods than are available under the regular credit tranches.[9]

Without a decision by the Executive Board to extend the enlarged access policy, the Fund could not approve arrangements under the policy after the Eighth General Review of Quotas became effective on November 30, 1983. The Executive Board therefore decided[10] to extend the policy on enlarged access up to the end of 1984, when the matter is to be reviewed again. In determining access to the Fund's resources under the policy during 1984, the Executive Board agreed on guidelines that follow the recommendations of the Interim Committee. Access by members during 1984 will be subject to annual limits of 102 or 125 percent of quota, three-year limits of 306 or 375 percent of quota, and cumulative limits of 408 or 500 percent of quota, depending on the seriousness of the member's balance of payments needs and the strength of its adjustment efforts. The access limits are not regarded as targets; within these limits, the amount of access in individual cases can vary according to the circumstances of the members and, in exceptional circumstances, can even exceed the limits. The access policy will be reviewed before December 31, 1984 and annually thereafter.

While reviewing the policy on enlarged access, the Executive Board simplified the provisions that determine the relative proportions of ordinary and borrowed resources to be used under stand-by and extended arrangements.[11] The new proportions are as follows: (a) Under a stand-by arrangement, purchases will be made with ordinary and borrowed resources in the ratio of 2 to 1 in the first credit tranche and 1 to 1 in the next three credit tranches. Thereafter, purchases will be made with borrowed resources only. (b) Under an extended arrangement, purchases will be made with ordinary and borrowed resources in the ratio of 1 to 1 until the outstanding use of the upper credit tranches and the extended Fund facility equals 140 percent of quota. Thereafter purchases will be made with borrowed resources only. The new proportions are also applicable to amounts that had not been purchased under existing arrangements as of the effective date of the decision (i.e., January 6, 1984).

Compensatory Financing Facility

Under the compensatory financing facility the Fund provides financial assistance to members experiencing balance of payments difficulties arising from temporary export shortfalls and/or from increases in the cost of cereal imports caused by factors largely outside their control. Members have the option of including services—workers' remittances and travel receipts—and cereal import costs, as well as merchandise exports, in the calculations.

In July 1983 the Executive Board undertook a comprehensive review of the facility, including the cereal decision and the buffer stock financing facility, and subsequently also reviewed various aspects of the facilities separately. It was decided to make no changes in the facilities, but, as the decision on cereals[12] was established for an initial period of four years, this

[7] Executive Board Decision No. 7047-(82/13), adopted February 5, 1982, *Selected Decisions*, Tenth Issue, pages 58–60.
[8] Executive Board Decision No. 6783-(81/40), adopted March 11, 1981, *Selected Decisions*, Tenth Issue, pages 40–45.
[9] For details, see *Annual Report, 1981*, pages 85–88.
[10] Executive Board Decision No. 7599-(84/3), adopted January 6, 1984 (reproduced in Appendix II).

[11] Executive Board Decision No. 7601-(84/3), adopted January 6, 1984 (reproduced in Appendix II).
[12] Executive Board Decision No. 6860-(81/81), adopted May 13, 1981, *Selected Decisions*, Tenth Issue, pages 65–70.

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decision will be reviewed again prior to its expiration in mid-1985.

In September 1983, the Board adopted the guidelines on the requirement of cooperation in respect of purchases under the compensatory financing facility as a result of which the conditionality for purchases under this facility is brought more closely in line with that applying to purchases in the credit tranches.[13] Following the review of the guidelines on members' access to the Fund's resources, the Executive Board reviewed the access limits under the compensatory financing facility and decided to reduce the quota limits (based on new quotas) applicable under the facility.[14] The separate limits of 100 percent of quota on outstanding purchases relating to export shortfalls or cereal import excesses were reduced to 83 percent; the joint limit of 125 percent on outstanding purchases relating to both export shortfalls and cereal import excesses was reduced to 105 percent.

Purchases Relating to Export Fluctuations

In 1983/84, 13 members purchased a total of SDR 1.2 billion, about one third of the all-time high level of SDR 3.7 billion purchased by 29 members in 1982/83. The decline in purchases in 1983/84 represented a reversal of the sharp increase during the preceding two years that were associated with the 1981–82 world recession. The largest purchases were by Indonesia (SDR 360.0 million), Portugal (SDR 258.0 million), Ghana (SDR 120.5 million), and Zaïre (SDR 114.5 million). The remaining amounts ranged from SDR 1.2 million by Western Samoa to SDR 97.2 million by Zambia. Outstanding purchases under the facility as of April 30, 1984 amounted to SDR 6.8 billion by 72 members, or 22 percent of total outstanding use of Fund resources. Of these 72 members, 60 were also making use of Fund resources under stand-by and extended arrangements. Thirty members had compensatory financing purchases outstanding in excess of 50 percent of their quotas, but none was at 100 percent of quota.

Purchases Relating to Excesses in the Cost of Cereal Imports

For the first time since this decision became effective in May 1981, no purchases were made under it during the financial year. Since its inception, five members (Bangladesh, Kenya, Korea, Malawi, and Morocco) have made six purchases totaling SDR 498 million, of which SDR 469 million was outstanding as of April 30, 1984.

Buffer Stock Financing Facility

Assistance under the Fund's buffer stock financing facility, established in 1969, is available to members in balance of payments need for financing their contributions to approved international buffer stocks of primary products. Purchases under this facility by five members in 1983/84 totaled SDR 102.0 million, compared with purchases by ten members amounting to SDR 352 million purchased in 1982/83. Three of the members, the Dominican Republic, Brazil, and Zimbabwe made purchases in connection with their obligations to constitute special stocks of sugar under the 1977 International Sugar Agreement. One member, Thailand, purchased SDR 21.8 million to make its compulsory contributions to the buffer stock of the Sixth International Tin Agreement, and another member, Ivory Coast, purchased SDR 1.0 million for its contributions to the buffer stock of the International Natural Rubber Agreement.

Since the establishment of the buffer stock financing facility in 1969,[15] Fund assistance in connection with the Fourth, Fifth, and Sixth International Tin Agreements, the International Sugar Agreement, and the International Natural Rubber Agreement had, as of April 30, 1984, been extended to 18 members for a total of SDR 557.7 million. As of April 30, 1984 purchases outstanding under the facility (12 members) amounted to SDR 375.3 million.

The new access limit on outstanding purchases under this facility in January 1984, following the increase in quotas under the Eighth General Review, was reduced from 50 percent of quota to 45 percent of new quotas.[16]

Repurchases

During 1983/84 repurchases totaled SDR 2,018 million, compared with SDR 1,555 million in 1982/83. (See Appendix I, Table I.7.) The major portion (89 percent) of total repurchases was with respect to purchases financed from ordinary resources. About 49 percent

[13] Executive Board Decision No. 7528-(83/140), adopted September 14, 1983 (reproduced in Appendix II).

[14] Executive Board Decision No. 7602-(84/3), adopted January 6, 1984 (reproduced in Appendix II).

[15] Executive Board Decision No. 2772-(69/47), adopted June 25, 1969, as amended by Decision No. 4913-(75/207), adopted December 24, 1975, *Selected Decisions*, Tenth Issue, pages 70–71.

[16] Executive Board Decision No. 7602-(84/3), adopted January 6, 1984 (reproduced in Appendix II).

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of the total repurchases were related to credit tranche purchases, mostly under stand-by arrangements and a smaller amount under extended arrangements; 35 percent of repurchases were in respect of purchases under the compensatory financing facility. Most of the remainder was on account of purchases under the buffer stock and the supplementary financing facilities. A very small amount represented repurchases made early in May 1983 relating to purchases under the 1974 and 1975 oil facilities. As of May 11, 1983, all repurchases with respect to purchases under the 1974 and 1975 oil facilities were completed.

Two members, China (SDR 450 million) and Australia (SDR 32.5 million), made repurchases in accordance with the guidelines for early repurchases, under which members are expected to repurchase calculated amounts in advance of the normal schedule in the event of improvements in their balance of payments and reserve positions.[17] One member, South Africa, repurchased on August 30, 1983, at its own initiative, SDR 50.0 million in advance of its scheduled commitment. Two countries, Tanzania (SDR 13.9 million) and the Central African Republic (SDR 0.2 million), repurchased SDR 14.1 million, reflecting purchases under the compensatory financing facility made on the basis of partly estimated export data that were later found to be in excess of the actual shortfalls.

Fund Liquidity

The Fund's liquidity position is reviewed regularly by the Executive Board. In looking at all the relevant factors, the Board particularly takes into account the need to maintain the liquidity of creditors' claims on the Fund and the Fund's ability to meet its responsibilities in helping to finance adjustment policies of its members. The latest of these reviews was carried out in April 1984. The Fund must have adequate ordinary and borrowed resources to meet possible demands for encashment of reserve tranche positions or creditors' claims (all of which are generally encashable on representation of balance of payments need) and to cover existing and foreseeable demands for the use of its resources.

The Fund's ordinary resources that are immediately available for use consist of usable currencies and the SDRs held in the General Resources Account.[18] The usable currencies are those of the members whose balance of payments and gross reserve positions are considered by the Executive Board to be sufficiently strong to be sold by the Fund through its operational budget to finance other members' purchases in a particular quarter. Decisions in this respect are taken each quarter and, consequently, the list of usable currencies varies with changes in members' external payments and reserve positions. The SDRs held in the General Resources Account are the most liquid asset of the Fund because they are always usable, whereas the usability of a currency in a particular quarter depends on whether the issuing member's external position is sufficiently strong. The Fund's liquidity position improved substantially as a result of (i) payments for the quota increases under the Eighth General Review of Quotas, which added nearly SDR 20 billion to usable currencies and SDRs; (ii) the enlargement of the General Arrangements to Borrow, including the full participation by the Swiss National Bank and the conclusion of a borrowing arrangement with Saudi Arabia in association with the GAB; and (iii) the additional borrowing agreements for SDR 6 billion concluded in April 1984 to support the enlarged access policy. The number of usable currencies also increased during the financial year as a result of the improvement in the external positions of ten members and their consequent addition to the operational budgets.

As a result of these factors, the Fund's total holdings of usable currencies and SDRs on April 30, 1984, at SDR 39.5 billion, were more than double their level a year earlier (SDR 18.7 billion). The uncommitted lines of credit on that date were close to SDR 3 billion, and the GAB and the associated arrangement, for a total of SDR 18.5 billion, had not been used. Liquid claims on the Fund as of April 30, 1984 amounted to SDR 41.2 billion, consisting of outstanding borrowing of SDR 13.8 billion and reserve tranche positions of SDR 27.4 billion. The bulk of these liquid claims were held by members in strong balance of payments and reserve positions with no immediate need to encash these claims on the Fund. In addition to these claims, undrawn balances under arrangements amounted to SDR 9.3 billion. The latter amount was reduced by SDR 1.1 billion on May 1, 1984 as a result of the cancellation of India's extended arrangement. The total amount of resources released for other uses as a result of all the canceled arrangements equaled SDR 2.9 billion.

The Fund's SDR holdings in the General Resources Account, amounting to SDR 6.4 billion as of April 30, 1984, accounted for 30 percent of the net cumulative allocation (SDR 21 billion), compared with 20 percent a year ago. This increase largely reflected the use of

[17] Executive Board Decisions Nos. 5704-(78/39), adopted March 22, 1978, effective April 1, 1978, and 6172-(79/101), adopted June 28, 1979, *Selected Decisions*, Tenth Issue, pages 101–105.

[18] The Fund's holdings of gold (103.440 million ounces valued at SDR 35 a fine ounce) are not included in the category of immediately usable resources. The sale of this gold for any purpose requires an 85 percent majority of the total voting power of the Fund.

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SDRs in asset payments for quota increases under the Eighth General Review of Quotas. The Executive Board decided[19] that the Fund, in determining the relative use of currencies and SDRs in Fund transactions and operations, will be guided by the aim of reducing the Fund's SDR holdings to a level of approximately SDR 4 billion by May 31, 1985. The Fund's SDR holdings will be reviewed again by April 1985 to determine whether and to what extent they should be reduced further.

Borrowing

Borrowing provides an important temporary supplement to the Fund's ordinary resources (mainly quota subscriptions). All borrowing by the Fund to date has been from official sources, which include its members, Switzerland, and central banks and other official institutions in these countries.

The Fund's guidelines for borrowing were reviewed following completion of the Eighth General Review of Quotas.[20] Under the guidelines, outstanding borrowings, plus unused lines of credit to the Fund, will not be allowed to exceed the range of 50 to 60 percent of the total of Fund quotas. In respect of the GAB and associated borrowing arrangements, the determination of the total of outstanding borrowing plus unused credit lines will be made on the basis of outstanding borrowings, or two thirds of the total under these arrangements, whichever is the greater. The proportion of the GAB that is to be included in the calculations was increased, as a result of the review, from one half to two thirds, primarily to reflect the fact that the resources derived from the GAB may now be used in certain circumstances to finance purchases by non-GAB participants. On April 30, 1984, the Fund's total outstanding borrowing and unused lines of credit, calculated in accordance with these guidelines, amounted to SDR 34.4 billion, equivalent to 38.7 percent of quotas (33.1 percent of quotas on April 30, 1983). The guidelines will be reviewed again in case of major developments, including any significant change in the GAB or associated arrangements and, in any event, when the Board of Governors has completed the Ninth General Review of Quotas. The Fund's current borrowing arrangements are described below.

[19] Executive Board Decision No. 7626-(84/23)S, adopted February 13, 1984, *Selected Decisions*, Supplement to Tenth Issue, page 19.

[20] Executive Board Decision No. 7589-(83/181), adopted December 23, 1983 (reproduced in Appendix II).

General Arrangements to Borrow and Associated Arrangements

The purpose of the General Arrangements to Borrow is to provide supplementary resources to the Fund if needed to forestall or cope with an impairment of the international monetary system. Originally concluded between the Fund and ten individual member countries (the Group of Ten) in 1962 for four years, the Arrangements have been periodically reviewed and renewed with some modifications. Switzerland became associated with the GAB in 1964. The last borrowing under the GAB was in 1978 in connection with a reserve tranche purchase by the United States, and this amount was fully repaid in November 1983.

On January 18, 1983 the Ministers and Governors of the Group of Ten agreed on revisions and a major enlargement of the GAB from about SDR 6.4 billion to SDR 17.0 billion. The revision and enlargement of the GAB were approved by the Executive Board on February 24, 1983 and came into effect on December 26, 1983, when all ten of the original participants had notified the Fund of their concurrence.[21] In accordance with provisions of the revised GAB decision, the Swiss National Bank became a participant on April 10, 1984.

Under the revised GAB the Fund can enter into associated borrowing agreements. One such agreement

Table 20. Lenders and Amounts of Credit Arrangements Under the General Arrangements to Borrow and Associated Arrangements

Lender	Amount
	(In SDRs)
United States	4,250,000,000
Deutsche Bundesbank	2,380,000,000
Japan	2,125,000,000
France	1,700,000,000
United Kingdom	1,700,000,000
Italy	1,105,000,000
Canada	892,500,000
Netherlands	850,000,000
Belgium	595,000,000
Sveriges Riksbank	382,500,000
Swiss National Bank	1,020,000,000
Total	17;000,000,000
Credit arrangements associated with the General Arrangements to Borrow:	
Saudi Arabia	1,500,000,000
Total General Arrangements to Borrow and associated lines of credit	18,500,000,000

[21] Executive Board Decision No. 7337-(83/37), adopted February 24, 1983, *Selected Decisions*, Tenth Issue, pages 131–45.

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has been concluded with Saudi Arabia, for SDR 1.5 billion, and came into effect at the same time as the revised GAB. (See Table 20.) The other principal revisions of the GAB are as follows:[22]

(i) The Fund will be permitted to borrow under certain circumstances to finance transactions with members that are not GAB participants.

(ii) The interest rate is amended to equal the combined market interest rate computed by the Fund from time to time to determine the SDR rate.

(iii) The credit arrangements of participants are denominated in SDRs.

The revised GAB decision will be in effect for five years from its effective date, subject to further review and renewal. The Fund and the participants in the GAB will review the functioning of the decision when considering renewal of the arrangements.

Supplementary Financing Facility

Borrowing arrangements under the supplementary financing facility were concluded with 13 member countries and the Swiss National Bank.[23] (See Appendix I, Table I.9.) None of the funds were to be committed after February 22, 1982 or to be disbursed after February 22, 1984.

Borrowing under the supplementary financing facility during 1983/84 amounted to SDR 1.1 billion, bringing the total of such borrowings to SDR 7.2 billion over the period of five years since the facility was activated. An amount of SDR 0.6 billion remained undrawn at the expiration of the agreements, of which SDR 0.3 billion had not been called because the balance of payments and reserve positions of some lenders were not sufficiently strong.

Repayments under the supplementary financing facility, which began in November 1982, amounted to SDR 202 million during the financial year, bringing the total amount of repayments to SDR 317.4 million by April 30, 1984. The remaining repayments due by the final maturity date of April 30, 1991 amount to SDR 6.9 million.

Borrowing to Finance Enlarged Access

Medium-Term Borrowing

The Fund's policy on enlarged access became operational with the signing of a medium-term borrowing agreement for SDR 8.0 billion with the Saudi Arabian Monetary Agency in May 1981. The Fund had borrowed SDR 3.6 billion under the agreement through April 30, 1983, and further borrowings amounted to SDR 2.1 billion in 1983/84. The commitment period under the agreement with SAMA expires on May 6, 1987.

Short-Term Borrowing

Under agreements concluded in 1981, the central banks or official agencies of 18 countries agreed to make available to the Fund the equivalent of SDR 1.3 billion over a commitment period of two years. Of that amount, SDR 675 million was provided under a borrowing agreement with the Bank for International Settlements. At the end of the financial year 1983/84, the amount of SDR 1.3 billion had been fully utilized, except for a very small amount that was not drawn before an agreement expired. These short-term borrowings by the Fund, of which SDR 1.17 million was outstanding on April 30, 1984, are to be repaid in full in the period to end-January 1985.

At the end of April 1984, the Fund concluded four new short-term borrowing agreements for a total of SDR 6 billion with SAMA, the BIS, Japan, and the National Bank of Belgium. The agreement with SAMA takes the form of a supplement to its 1981 borrowing agreement with the Fund.

The four new borrowing agreements (all denominated in SDRs) are broadly parallel with respect to their principal terms and conditions, with variations reflecting the lenders' preferences and the Fund's projected requirements for utilizing the resources available under the agreements. The drawdown period under three of the agreements is for one year, beginning on April 30, 1984 in respect of the BIS and Japan and on June 30, 1984 in the case of Belgium. Drawings on the agreement with SAMA may be made by the Fund beginning in 1985 and through May 6, 1987. The final maturity of each drawing under the agreements will be two and one half years after the date of the drawing.

Borrowed Resources Suspense Accounts

The borrowed resources suspense accounts hold funds borrowed under the policy of enlarged access pending their use in purchases, or amounts received in repurchases pending repayments to lenders. The amounts are invested in SDR-denominated assets at prevailing short-term SDR interest rates in order to protect their capital value in terms of the SDR, to generate income to offset the borrowing cost, and to

[22] For further details, see *Annual Report, 1983*, pages 94–95.
[23] Executive Board Decision No. 5508-(77/127), adopted August 29, 1977, *Selected Decisions*, Tenth Issue, pages 33–38.

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relieve the Fund of exchange risk.[24] During 1983/84 the assets in the account consisted entirely of deposits with the Bank for International Settlements, which totaled SDR 0.6 million on April 30, 1984, substantially less than one half of the SDR 1.7 million a year before.

Financial Position

The Fund, under the current decisions of the Executive Board, as noted in the Annual Report for 1982, aims at maintaining over time a positive income position for the Fund and concessionality in the rate of charge on the use of ordinary resources consistent with an appropriate rate of remuneration for creditors and a modest increase in the Fund's reserves over time.

On January 6, 1984, a decision was taken by the Executive Board to narrow the differential between the rate of remuneration and the SDR interest rate by raising the remuneration coefficient (i.e., the ratio of the rate of remuneration to the SDR interest rate) in stages.[25] Under this decision, the Executive Board agreed on a formula whereby the remuneration coefficient would be raised on May 1 of each of the years 1984, 1985, and 1986 to specified levels, with additional adjustments depending on interest rate developments. For the financial year beginning May 1, 1984, the rate of remuneration was increased to 88.33 percent of the SDR rate of interest and will be further increased to 91.66 percent and 94.99 percent of the SDR rate of interest on May 1, 1985 and May 1, 1986, respectively. A review of the rate of remuneration will be held between May 1, 1986 and May 1, 1987, taking into account all relevant factors, including the SDR interest rate and the rate of charge.

The Fund pays remuneration to those members that hold a remunerated reserve tranche position. Such a position exists whenever the Fund's holdings of a member's currency (after exclusion of currency holdings representing the counterpart of the member's outstanding use of Fund credit) are lower than the "norm" for remuneration. The norm for countries that were members of the Fund prior to the Second Amendment of the Articles of Agreement (April 1, 1978) is the sum of 75 percent of their quotas at the date of the Second Amendment plus the increases in their quotas after that date. For members that joined the Fund after April 1, 1978, the norm is the weighted average of the norms applicable to all other members on the date the member joined the Fund plus any increases in their quotas after that date. At the end of April 1984, the average of the norms for all Fund members was 91.71 percent of quota.

The SDR rates of interest and the rates of remuneration applicable in 1983/84 are given in Table 21. (See also Chart 22.)

Charges and Remuneration

Under the procedures in effect since May 1, 1981 the Executive Board determines at the beginning of each financial year a rate of charge applicable to members' use of the Fund's ordinary resources. The rate of charge is based on the estimated income and expense of the Fund for the year ahead and takes into

Table 21. SDR Interest Rate and Rate of Remuneration

Period Beginning	SDR Interest Rate	Rate of Remuneration
April 1, 1983	8.52	7.24
July 1, 1983	8.65	7.35
August 1, 1983	8.81	7.49
August 8, 1983	8.96	7.62
August 15, 1983	9.03	7.68
August 22, 1983	8.89	7.56
August 29, 1983	8.84	7.51
September 5, 1983	8.93	7.59
September 12, 1983	8.84	7.51
September 19, 1983	8.79	7.47
September 26, 1983	8.64	7.34
October 3, 1983	8.56	7.28
October 10, 1983	8.53	7.25
October 17, 1983	8.63	7.34
October 24, 1983	8.50	7.23
October 31, 1983	8.47	7.20
November 7, 1983	8.59	7.30
November 14, 1983	8.56	7.28
November 21, 1983	8.63	7.34
November 28, 1983	8.60	7.31
December 5, 1983	8.67	7.37
December 12, 1983	8.72	7.41
December 19, 1983	8.80	7.48
December 26, 1983	8.70	7.40
January 2, 1984	8.69	7.39
January 9, 1984	8.57	7.28
January 16, 1984	8.51	7.23
January 23, 1984	8.63	7.34
January 30, 1984	8.60	7.31
February 6, 1984	8.62	7.33
February 13, 1984	8.68	7.38
February 20, 1984	8.73	7.42
February 27, 1984	8.74	7.43
March 5, 1984	8.68	7.38
March 12, 1984	8.75	7.44
March 19, 1984	8.82	7.50
March 26, 1984	9.00	7.65
April 2, 1984	8.95	7.61
April 9, 1984	8.92	7.58
April 16, 1984	8.94	7.60
April 23, 1984	8.94	7.60
April 30, 1984	8.91	7.57
May 1, 1984	8.91	7.87
May 7, 1984	9.03	7.98

[24] See *Annual Report, 1983*, page 96.

[25] Executive Board Decision No. 7603-(84/3), adopted January 6, 1984 (reproduced in Appendix II).

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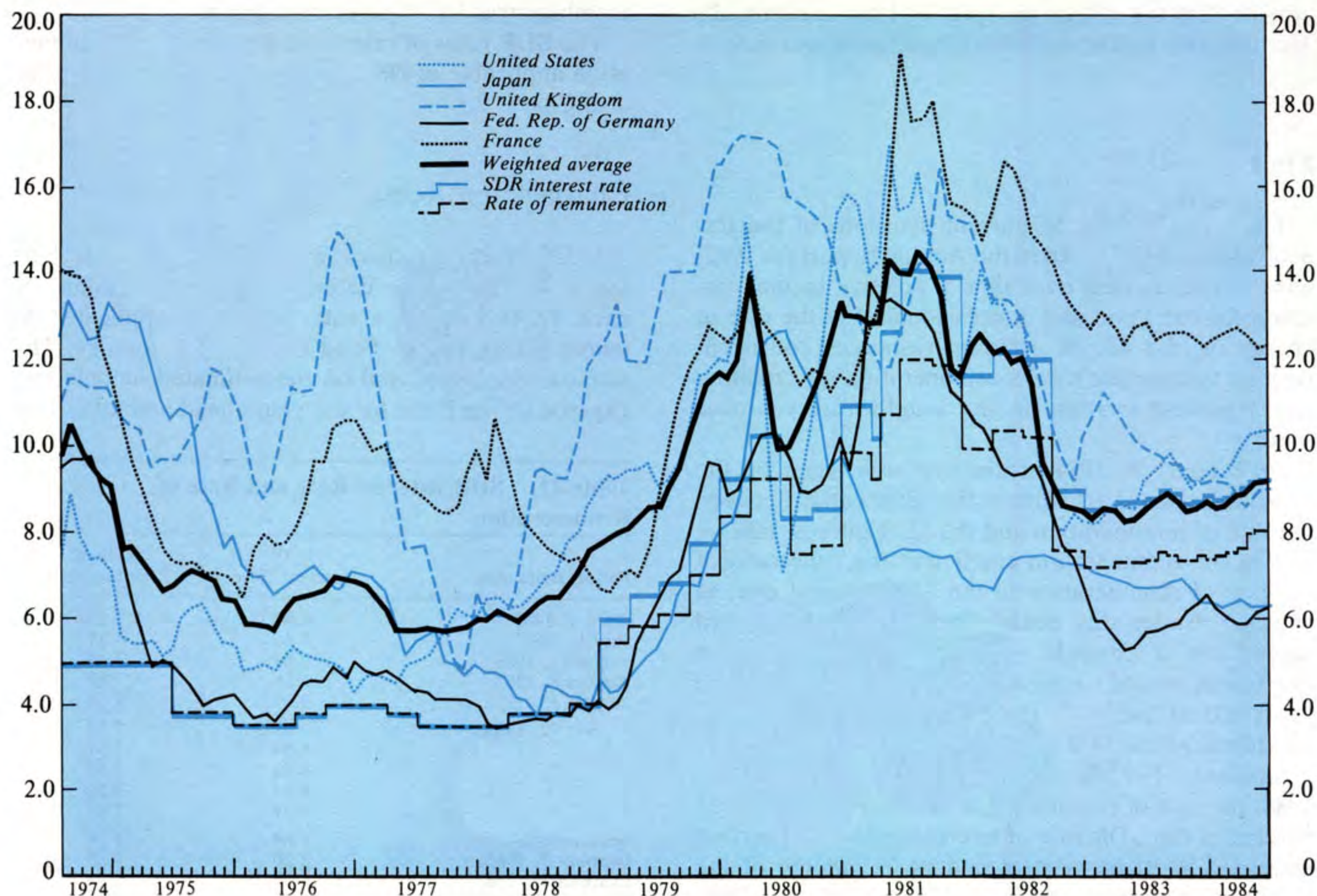
Chart 22. SDR Interest Rate, Rate of Remuneration, and Short-Term Interest Rates, July 1974–June 1984 [1]
(In percent per annum)



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

account a target amount of net income for the year. For the financial year 1983/84, the rate of charge to be applied to holdings arising from purchases financed from the Fund's ordinary resources was set by the Executive Board at 6.6 percent per annum. Following the review of the Fund's income position in May 1984, a rate of 7 percent will apply from May 1, 1984.

The charges applicable to holdings arising from purchases by members financed with borrowed resources under the oil facility, the supplementary financing facility, and the policy on enlarged access reflect the costs incurred by the Fund in borrowing to finance these facilities. The rates of charge applicable to purchases under the oil facility for 1975 had progressed to the maximum level of 7.875 percent per annum during the year under review. As the balances under the oil facility have all been repurchased, this schedule of charges no longer applied after May 1983. The rates of charges applied to the use of borrowed resources under the supplementary financing facility and the policy on enlarged access continued to be determined on the same basis as in the previous financial years. The rate of charge under the supplementary financing facility is the rate of interest paid by the Fund plus 0.2 percent in the first three and one half years and plus 0.325 percent after three and one half years. Under the enlarged access policy, the rate of charge is the net cost of borrowing by the Fund plus 0.2 percent per annum. The average rates of interest per annum on outstanding Fund borrowings for the year ended April 30, 1984 were 4 percent (General Arrangements to Borrow), 7.25 percent (oil

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facility), 11.49 percent (supplementary financing facility), and 10.32 percent (enlarged access to resources). All GAB and oil facility loans were repaid during 1983/84.

Income, Expense, and Reserves

For the financial year ended April 30, 1984, the Fund's net income was SDR 73 million, compared with SDR 65 million in 1982/83. These results reflect an increase in operational income of SDR 747 million, primarily from periodic charges. The increase in income from periodic charges, SDR 819 million, reflected the increase in use of the Fund's resources. Net operational income for the year ended April 30, 1984 was SDR 266 million, compared with SDR 257 million in 1982/83. The total Fund holdings of members' currencies subject to charges (i.e., Fund credit extended to members) amounted to SDR 31,742 million on April 30, 1984, compared with SDR 23,590 million on April 30, 1983. The Fund's average holdings of SDRs in 1983/84 were marginally lower than in the previous year, and the interest on these holdings was also lower than in 1982/83 as a result of lower interest rates (8.70 percent in 1983/84 and 10.20 percent in 1982/83).

The Fund's operational expense, comprising remuneration payable by the Fund on the use of creditor currencies and interest on borrowing, increased by SDR 738 million over the previous year, to SDR 2,526 million. This reflected increases both in remuneration (SDR 305 million) and interest payments (SDR 433 million) over the previous year. Outstanding borrowing on April 30, 1984 amounted to SDR 13,791 million, compared with SDR 10,952 million at the end of 1982/83.

Although the average rate of remuneration in 1983/84 was lower than in the previous year (7.39 percent in 1983/84 and 8.42 percent in 1982/83), the Fund's remuneration expense was greater owing mainly to the expansion of members' remunerated positions resulting from the increase in the financing provided to members from the Fund's ordinary resources. Remunerated positions of members at April 30, 1984 amounted to SDR 21,200 million, compared with SDR 14,997 million at the end of 1982/83. The remuneration paid in 1983/84 amounted to SDR 1,286.32 million (70 member countries), against SDR 981.12 million paid in 1982/83 (74 member countries). Administrative expenses of the Fund in 1983/84 were SDR 193 million, compared with SDR 191 million in the previous year.

A statement of the Fund's operational income and expense is shown in Appendix VII, and details of administrative expenses are shown in Appendix VI.

The Articles of Agreement and the Rules and Regulations provide that the Fund shall determine at the end of each financial year the disposition of its net income for that year. If the net income for the year exceeds the target amount for the year, the Executive Board will consider whether the whole or a part of the excess should be used to reduce the rate of charge, or increase the rate of remuneration to not more than the rate of interest on the SDR, retroactively for the year just ended, or both, or to place all or part of the excess to reserves. The Executive Board determined that the net income for the financial year ended April 30, 1984 shall be placed to the special reserve, which can be used for all purposes except a general distribution to members. Total reserves of the Fund, taking into account the net income for 1983/84, amounted to SDR 1,074 million as against SDR 1,000 million at the end of 1982/83. Over the past seven years, the Fund's total reserves, even with the successive addition of net income since 1978, have declined steadily in relation to all relevant financial magnitudes, namely, quotas, credit to members, borrowings and liquid claims on the Fund, and the volume of the Fund's gross income and expense.

SDR Department

The most notable feature of activity in the SDR Department[26] during 1983/84 was the record level of total transfers, which amounted to SDR 22.6 billion, about double the amount for 1982/83 (SDR 11.0 billion) and well in excess of the previous peak in 1980/81 (SDR 12.2 billion). This exceptionally large volume of transfers reflected the use of SDRs by a large number of participants to pay the reserve asset component of their quota increase payments pursuant to the Eighth General Review of Quotas.

The Rules and Regulations of the Fund provide for a review of the rate of interest on holdings of SDRs and of the rate of remuneration on members' creditor positions in the Fund at the conclusion of each financial year. From May 1, 1981 until April 30, 1984, the SDR rate of interest was maintained at 100 percent of the combined market rate of interest and the rate of remuneration at 85 percent of the SDR rate of interest.

[26] Executive Board Decision No. 7481-(83/112), adopted July 26, 1983, effective August 1, 1983 (reproduced in Appendix II) introduces a new Rule B-6 which adopts usage of the term "SDR" (or "SDRs" as appropriate) as standard procedure in Fund documents, correspondence, and publications, in place of the expression "special drawing rights." The new rule allows for a different usage of the term if the text is in a language in which that usage has been established.

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The Executive Board adopted a decision, effective August 1, 1983, on the SDR interest rate and related matters. The general purpose of the decision was to further enhance the role of the SDR as an international reserve asset by bringing its yield closer in line with yields on other reserve assets included in the SDR interest basket.[27] This decision amended the Fund's Rules relating to the determination and payment of interest and charges on SDRs (Rule T-1) and of remuneration (Rules I-9 and I-10). Commencing August 1, 1983, the SDR interest rate and charges, as well as the rate of remuneration on members' creditor positions, have been calculated on a weekly instead of a quarterly basis. The combined market interest rate used to determine the SDR interest rate is calculated on Friday (using the interest rates of that day); the SDR interest rate becomes effective the following Monday and applies until the following Sunday. Consequent upon the weekly determination of the SDR interest rate, the 15-day reference period used heretofore to calculate the combined market interest rate was replaced with a single reference day. Effective August 1, 1983, the timing of payment of SDR interest and charges, as well as remuneration, was changed from an annual to a quarterly frequency.

Prescribed Holders of SDRs

During the year ended April 30, 1984, the Fund prescribed one more institution (the East African Development Bank) as a holder of SDRs, bringing to 14 the total number of "prescribed holders." The Fund also prescribed the Eastern Caribbean Central Bank as a holder of SDRs. The Bank is the successor to the East Caribbean Currency Authority, which itself was a prescribed holder. The prescribed holders now comprise four central banks (the Bank of Central African States, Yaoundé; the Central Bank of West African States, Dakar; the Eastern Caribbean Central Bank, Basseterre, St. Kitts; and the Swiss National Bank, Zürich); three intergovernmental monetary institutions (the Bank for International Settlements, Basle; the Andean Reserve Fund, Bogotá; and the Arab Monetary Fund, Abu Dhabi); and seven development institutions (the Asian Development Bank, Manila; the East African Development Bank, Kampala; the International Bank for Reconstruction and Development, Washington, D.C.; the International Development Association, Washington, D.C.; the International Fund for Agricultural Development, Rome; the Islamic Development Bank, Jeddah; and the Nordic Investment Bank, Helsinki).

Prescribed holders can acquire and use SDRs in transactions and operations by agreement with participants in the SDR Department (Fund members) and other prescribed holders under the same terms and conditions as participants. They cannot receive allocations of SDRs nor use SDRs in transactions with designation. During the year, transfers involving prescribed holders amounted to SDR 206 million, compared with SDR 126 million in the preceding year. These transfers comprised SDR 103 million in transactions by agreement, SDR 83 million in loans, SDR 18 million in settlement of financial obligations, and SDR 2 million in interest receipts on their SDR holdings. At the end of April 1984, seven institutions held SDR 37 million, more than double the SDR 16 million held by five prescribed holders at the end of April 1983. Their highest level of holdings at a month-end was SDR 61 million in August 1983, and the lowest was SDR 29 million in December 1983.

Transactions and Operations in SDRs[28]

Transactions by Agreement

Transactions by agreement during 1983/84 amounted to SDR 3,175 million, the highest annual level to date.[29] The volume of transactions by agreement exceeded the volume of transactions with designation (discussed below) for the first time since 1978/79. The bulk of the transactions by agreement represented acquisitions of SDRs by members that needed SDRs to pay the reserve asset portion of the quota increase, charges to the Fund's General Resources Account, or net charges on the use of SDRs. The major sellers of SDRs in 1983/84 were the Federal Republic of Germany, the United Kingdom, Japan, Italy, and Colombia.

Transactions with Designation

The designation mechanism ensures that participants can obtain currency against SDRs if they have a balance of payments need. In 1983/84, 44 participants used SDR 2,402 million in transactions with designation to obtain currencies from 23 participants designated by

[27] Executive Board Decision No. 7480-(83/112)G/S, adopted July 26, 1983, effective August 1, 1983 (reproduced in Appendix II). The SDR interest rate is the weighted average of the market yields on the following short-term money market instruments: three-month U.S. Treasury bills; three-month interbank deposits in the Federal Republic of Germany; three-month interbank money against private paper in France; three-month U.K. Treasury bills; and the discount on two-month (private) bills in Japan.

[28] See Appendix I, Tables I.11 and I.12.

[29] Under this category of transactions, participants and prescribed holders can use SDRs by mutual agreement with one another in exchange for any currency for which the Fund has established a representative rate, and without any requirement of a balance of payments need and without any further authorization by the Fund.

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the Fund. Of this total, SDR 2,313 million represented the immediate use of SDRs acquired from the Fund's General Resources Account in purchases, and the remainder represented the use of participants' own SDR holdings. About 60 percent of SDRs received in purchases were used in transactions with designation, compared with 71 percent in 1982/83 and an average of 76 percent over the preceding four years. Of the 23 countries designated to provide currency in exchange for SDRs, 14 industrial countries received SDR 2,137 million, 3 oil exporting countries received SDR 24 million, and 5 non-oil developing countries received SDR 241 million. The largest amounts of currency in designated transactions were provided by the United Kingdom, the Federal Republic of Germany, Italy, Canada, China, and the United States.

Additional Uses of SDRs

The Fund permits additional uses of SDRs among participants and prescribed holders.[30] Such operations, which are in the nature of voluntary transfers other than transactions by agreement, amounted to SDR 1,194 million in 1983/84. Of this total, SDR 1,080 million represented loans and repayments of SDRs in connection with payments for quota increases. SDRs were used in ten loans (other than for quota payments) for a total of SDR 89 million, primarily for balance of payments support by an international financial organization to its member countries. Two Fund members also made loans, one to another member and one to a prescribed holder.

SDRs were used in the settlement of 14 financial obligations (other than in repayment of loans for quota payments) for a total of SDR 25 million. These transfers represented primarily debt service on loans. Two of the transfers represented the drawing down by a prescribed holder of a deposit denominated in currency with the central bank of a participant, and one of the transfers represented partial payment of a capital subscription. The cumulative total of SDRs transferred in all such operations since they were first permitted in 1978 was SDR 1,748 million at the end of April 1984.

Transactions Involving the General Resources Account

The General Resources Account's holdings of SDRs on April 30, 1984 were SDR 6,437 million, compared with SDR 4,335 million on April 30, 1983. In May 1983, the Executive Board adopted a decision that aimed at reducing the Fund's SDR holdings to approximately SDR 1.5 billion by the end of 1983, and this level was reached by the end of November 1983. After quota payments had increased the Fund's holdings of SDRs to SDR 7,175 million by the end of January 1984, the Executive Board decided that the amount of SDRs the Fund would transfer in purchases would be guided by the aim of reducing those holdings to approximately SDR 4 billion by May 31, 1985.[31] The use of SDRs in purchases is the principal instrument by which the Fund can influence the level of its SDR holdings in the General Resources Account.

Inflows

The bulk of the inflows of SDRs to the General Resources Account, amounting to SDR 6,195 million, represented payment of quota increases, followed by payment of charges on the use of Fund resources.

Repurchases that were discharged at the member's option in SDRs rather than in a currency specified by the Fund amounted to SDR 392 million, compared with SDR 566 million in 1982/83. Repurchases discharged in SDRs amounted to 18 percent of total repurchases in 1983/84, compared with the 36 percent of total repurchases made in SDRs in 1982/83. This tendency to use currencies rather than SDRs in repurchases resulted from the low level of SDR holdings of many countries, especially after the quota subscription payments were made.

Outflows

SDRs transferred from the General Resources Account to members amounted to SDR 6,794 million, compared with SDR 3,714 million in 1982/83. The major outflow was the use of SDR 3,876 million in purchases, which accounted for 61 percent of total purchases financed from the Fund's ordinary resources and was the largest volume of SDR purchases in any financial year to date. The substantial transfers of SDRs in purchases reflected the aim of reducing the General Resources Account's SDR holdings to approximately SDR 4 billion by the end of May 1985. Payment of remuneration amounted to SDR 1,573 million to 79 countries, compared with SDR 861 million in 1982/83. This increase also reflected the fact that 1983/84 was a transitional year in which the payment of remuneration was changed from an annual to a

[30] These are currently as follows: to use SDRs in the settlement of financial obligations; to buy and sell SDRs forward; to borrow, lend, or pledge SDRs; to use SDRs in swaps; to make donations (grants) of SDRs; and to use SDRs as security for performance of financial obligations. See *Selected Decisions*, Tenth Issue, pages 278–88.

[31] Executive Board Decision No. 7626-(84/23)S, adopted February 13, 1984 (reproduced in Appendix II).

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quarterly basis. The payment in May 1983 represented accrued remuneration during the financial year 1982/83, while payments in November 1983 and February 1984 represented accruals over the previous quarter. The Fund used a total of SDR 989 million to pay interest and make repayments of principal to lenders to the Fund. The most important items were repayments of SDR 777 million to two countries (the Federal Republic of Germany and Japan) on Fund borrowing under the General Arrangements to Borrow. The General Resources Account also sold SDR 330 million to countries needing them to pay charges to the Fund or to settle charges on their net use of SDRs.

Pattern of Holdings by Participants

Despite the large volume of turnover of SDRs, there was little change in the pattern of SDR holdings among the main groups of countries in 1983/84. As at May 1, 1984 (after payment of interest and charges), industrial countries held 78 percent of total SDR holdings by participants, compared with 81 percent on April 30, 1983, while non-oil developing countries held 11 percent, against 8 percent in April 1983. The share in holdings of the oil exporting countries was unchanged at 11 percent. The shares of the three main groups of countries in cumulative allocations of SDRs are 67 percent for industrial countries, 26 percent for non-oil developing countries, and 7 percent for oil exporting countries.

SDR as a Unit of Account Outside the Fund and as a Currency Peg

In addition to its uses as a medium of exchange and settlement among participants and prescribed holders, the SDR, which is the unit of account for Fund transactions and operations and for its administered accounts, is also used as a unit of account (or as the basis for a unit of account) by a number of international and regional organizations and in capital markets.[32] A number of international conventions use the SDR to express monetary magnitudes, notably those expressing liability limits in the international transport of goods and services.

In recent years, the SDR has been playing an increasing role both as a denominator and as a unit of contract, and in some cases as the basis for a privately issued currency composite. Considerable interest was shown in the private use of SDR-denominated assets in 1981, following the reduction from 16 to 5 in the number of currencies in the SDR valuation basket, effective January 1, 1981. However, the diminished private market interest in SDR-denominated instruments observed during 1982 continued during 1983. No SDR-denominated bond issues took place during 1983, and the amount of SDR-denominated deposits and bank credits has remained modest. This lack of activity seems to reflect the continued strength of the U.S. dollar during the year.

As of June 30, 1984, 11 countries had currencies pegged to the SDR, against 14 countries as of June 30, 1983. When a member pegs its currency to the SDR, the value of its currency is fixed in terms of the SDR and is set in terms of currencies by reference to the SDR value of those currencies, as calculated and published daily by the Fund.

Administered Accounts

The Fund administers as a Trustee, in addition to its Staff Retirement Plan, two accounts for member countries, namely, the Trust Fund and the supplementary financing facility subsidy account. Another administered account, the oil facility subsidy account, was terminated in August 1983 after completion of repayment of purchases under the facility. These administered accounts are separate from the Fund's General Department and the SDR Department.

The Trust Fund, which used part of the proceeds of gold auctioned by the Fund to make loans on concessional terms to low-income member countries, was terminated as of April 30, 1981.[33] The responsibilities of the Fund thereafter are confined to the receipt and disposition of interest and loan repayments and the completion of any unfinished business. Two installments of semiannual interest payments for a total amount of SDR 14.7 million were collected in June 1983 and January 1984. Repayments of Trust Fund loans, which began in July 1982, were made by 38 countries in 1983/84 and amounted to SDR 114.1 million. As of April 30, 1984, Trust Fund loans outstanding amounted to SDR 2,861.9 million.

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

[33] Executive Board Decision No. 6704-(80/185) TR, adopted December 17, 1980, *Selected Decisions*, Tenth Issue, pages 318–20.

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Oil Facility Subsidy Account

The oil facility subsidy account was established on August 1, 1975 to assist Fund members most seriously affected by oil price increases to meet part of the cost of using the resources of the 1975 oil facility, which was in operation from June 1975 through May 1976. It was the first trust arrangement established by the Fund for a particular group of Fund members. In that sense, the account was a forerunner of the Trust Fund and the supplementary financing facility subsidy account. The contributions to the account, amounting to SDR 160 million from 24 member countries and Switzerland, demonstrated a significant cooperative response to help meet the needs of the poorest members of the Fund during generally difficult international financial circumstances.[34] In addition to the contributions, the account was also financed by the earnings, amounting to SDR 26.5 million, on the investments of the contributions, pending their disbursement.

The amount of subsidy for each eligible member was calculated as a percentage per annum on the average daily balances subject to charges of the member's outstanding purchases under the 1975 oil facility. Following subsidy payments in June 1983 at 5 percent for the period May 1, 1982 through May 11, 1983 (the date of the last scheduled repurchases under the 1975 oil facility), a balance of SDR 11.7 million remained in the account. Subsequently, an additional payment was made to eligible beneficiaries at a rate of 0.33 percent per annum on average balances that were eligible for subsidy during the lifetime of the facility. This payment was made in early August 1983 to all the 25 recipients in proportion to their eligible average balances. This raised the rate of subsidy to all eligible members over the life of the account from 5 percent per annum to 5.33 percent. These payments fully utilized the remaining resources of the account, which was terminated on August 15, 1983. The total payments under the account amounted to SDR 186.8 million. The recipients and the amounts disbursed are shown in Table 22.

Subsidy payments from the account amounted to an equivalent of 68.6 percent of the total charges paid by eligible beneficiaries on their drawings under the oil facility and 10.8 percent of the total charges paid by eligible beneficiaries on their total indebtedness to the Fund over the financial years 1976–83. The subsidy payments amounted to 23.2 percent of total oil facility drawings and increased the grant element in drawings under the facility to 30 percent. Thus, the subsidy

[34] The contributing members were Australia, Austria, Belgium, Brazil, Canada, Denmark, Finland, France, the Federal Republic of Germany, Greece, the Islamic Republic of Iran, Italy, Japan, Luxembourg, the Netherlands, New Zealand, Norway, Saudi Arabia, South Africa, Spain, Sweden, the United Kingdom, Venezuela, and Yugoslavia.

Table 22. Total Use of 1975 Oil Facility by Beneficiaries, and Total Subsidy Payments, 1976–83
(In millions of SDRs)

	Total Use of 1975 Oil Facility	Total Charges on Use of 1975 Oil Facility	Subsidy Payments
Bangladesh	40.47	15.78	11.06
Cameroon	11.79	4.60	3.22
Central African Republic	2.66	1.04	0.73
Egypt	31.68	12.35	8.66
Grenada	0.49	0.19	0.13
Haiti	4.14	1.61	1.13
India	201.34	41.08	28.75
Ivory Coast	10.35	2.16	1.51
Kenya	27.93	10.89	7.63
Malawi	3.73	1.45	1.02
Mali	3.99	1.56	1.09
Mauritania	5.32	2.08	1.46
Morocco	18.00	7.02	4.92
Pakistan	111.01	43.27	30.32
Papua New Guinea	14.80	4.12	2.93
Philippines	152.03	59.27	41.52
Senegal	9.91	3.86	2.71
Sierra Leone	4.97	1.95	1.36
Sri Lanka	34.13	13.30	9.32
Sudan	18.30	7.23	5.05
Tanzania	20.61	8.04	5.63
Western Samoa	0.42	0.16	0.11
Yemen, People's Democratic Republic of	12.02	4.70	3.29
Zaïre	32.53	12.74	8.90
Zambia	29.72	11.60	4.31
Total	802.33	272.05	186.76

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Table 23. Supplementary Financing Facility Subsidy Account: Contributions Received to April 30, 1984
(In millions of SDRs)

Contributor	Amount of Contribution
Donations	
Australia	2.0
Austria	1.2
Denmark	1.5
Finland	0.8
France	9.3
Netherlands	4.1
Norway	1.4
Saudi Arabia	22.2
Sweden	2.2
Switzerland	2.4
Subtotal	47.1
Loans	
Belgium	4.4
Luxembourg	0.2
Subtotal	4.6
Total	51.7

account fulfilled its objective of substantially reducing the net cost to those most seriously affected members that used the 1975 oil facility.

Supplementary Financing Facility Subsidy Account

The supplementary financing facility subsidy account was established in December 1980 to reduce the cost for low-income developing members of using the supplementary financing facility. The primary sources of funds for the account are from repayments of, and interest on, Trust Fund loans (up to SDR 750 million), which are transferred to the account via the special disbursement account.[35] By April 30, 1984 the account had received SDR 174.9 million from this source. In addition, the account is financed through donations and loans and through income on the investment of resources held pending disbursement. Details of contributions received by April 30, 1984 are shown in Table 23.

Subsidy payments are calculated as a percentage per annum of the average daily balance of the Fund's holdings of a member's currency that result from purchases under the supplementary financing facility and are consistent with the repurchase provisions of that facility. Eligible countries are divided into two groups: those with per capita incomes in 1979 equal to or below the per capita income used to determine eligibility for assistance from the International Development Association (IDA) receive the full rate of subsidy, which does not exceed 3 percent per annum; those with a per capita income in 1979 above the IDA level, but not more than that of the member that had the highest per capita income of those countries that were eligible to receive assistance from the Trust Fund, receive subsidies at one half the full rate. All payments to date have been made at the maximum rates, that is, 3 percent and 1.5 percent.

The payments under the account to eligible members totaled SDR 217.18 million. (See Table 24.) Four eligible members had not paid the charges due on the balances to which the subsidy was to be applied. Consequently the subsidy payments to those members have been withheld until those charges are paid. Pending further payments of subsidy, the investments of the account are held in SDR-denominated deposits with the Bank for International Settlements. As of April 30, 1984, these deposits amounted to SDR 98.4 million, with accrued interest of SDR 2.2 million.

Consultations with Member Countries

As noted in Chapter 2, Article IV consultations with members are the principal vehicle for the exercise of Fund surveillance over the exchange rate policies of individual member countries. Article IV consultations are required, in principle, to take place annually and to be completed not later than three months after the termination of discussions between the member and the staff. While in practice it has been impossible to attain the objective of annual consultations with all members, procedural changes that were introduced last year to ensure greater regularity of consultations are proving effective.

In 1983/84, the Fund completed 117 Article IV consultations (up from 98 in 1982/83 and from 79 in 1981/82), of which 65 were with countries availing themselves of the transitional arrangements under Article XIV and 52 with countries that had formally accepted the obligations of Article VIII. Membership coverage rose to 78 percent. The marked increase in consultations included virtually all members for which consultations were clearly overdue, except in a few cases involving security problems.

In addition to the regular Article IV consultations, special consultations were held with major industrial countries in connection with the world economic outlook reviews by the Executive Board, and the staff has informally visited some countries to keep informed of important developments and to ascertain the member's reasons for particular policy actions.

[35] This is an account in the General Department of the Fund which receives repayments and interest from Trust Fund loans and is used for purposes consistent with those of the Fund.

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Table 24. Drawings Under Supplementary Financing Facility by Eligible Members, and Subsidy Payments
(In millions of SDRs)

	Total Drawings to June 30, 1983	Total Subsidy Payments
Recipients of subsidy at 3 percent		
Bangladesh	110.0	11.16
Bolivia	25.5	3.09
Dominica	4.5	0.25
Gambia, The	4.8	0.23
Guyana	30.9	1.77
India	1,200.0	46.84
Kenya	94.8	8.36
Liberia	42.4	2.47
Madagascar	22.2	2.22
Malawi	28.1	2.87
Mauritania	17.3	1.39
Pakistan	537.1	38.18
Philippines	333.0	32.53
Senegal	54.2	4.35
Sierra Leone	17.2	1.65
Sri Lanka	—	0.59 [1]
Sudan	171.4	11.87
Tanzania	16.3	1.34
Togo	7.3	0.72
Zambia	—	3.52 [2]
Subtotal	2,717.0	175.40
Recipients of subsidy at 1.5 percent		
Ivory Coast	286.4	7.56
Jamaica	217.2	11.07
Mauritius	69.2	3.46
Morocco	109.7	7.07
Peru	195.1	12.62
Subtotal	877.6	41.78
Total	3,594.6	217.18

[1] Subsidy paid in respect of Fund holdings in excess of 140 percent of quota under the Fund's policy on exceptional use.
[2] Subsidy paid in respect of Fund holdings in excess of 200 percent of quota under the Fund's policy on exceptional use.

During 1983/84, three countries, Belize (June 14, 1983), Iceland (September 19, 1983), and Antigua and Barbuda (November 22, 1983) accepted the obligations of Article VIII, Sections 2, 3, and 4 of the Articles of Agreement, raising to 59 the number of members that have formally accepted these obligations. Eighty-seven members were availing themselves of the transitional arrangements under Article XIV, Section 2 at the end of the financial year.

Debt Restructuring

Since mid-1982, Fund management and staff have frequently assisted member countries in the resolution of debt-servicing difficulties with international banks and in the arrangement of new medium-term financial lending packages. From January 1983 to April 1984, 17 Fund member countries—all within the group of developing countries—signed debt restructuring agreements with international banks. Amounts restructured and new financing arranged as part of the restructuring in conjunction with Fund-supported adjustment programs reached some $94 billion, or the equivalent of more than 20 percent of the bank debt of developing countries. In 1983, bank debt restructurings reduced the debt service of non-oil developing countries by an estimated $24 billion, or the equivalent of 5 percent of their exports of goods and services. Restructurings agreed to in the first four months of 1984 are projected to result in a further reduction of debt service payments by at least $10 billion. In late 1983 and early 1984, a narrowing of spreads and a lengthening of grace periods and final maturities occurred for countries that had previously undergone debt restructurings and made significant progress in implementing Fund-supported adjustment programs.

The extent of official multilateral debt reschedulings has risen sharply in recent years. During 1982, 6 Fund member countries rescheduled an estimated debt of $500 million owed to official creditors. However, in the 16-month period ended April 30, 1984, the number

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of official debt reschedulings with Fund members reached 18, involving an estimated total debt of $10.9 billion. Over the period since 1981, of the total number of reschedulings involved (24), the majority (16) covered debt owed by African countries.

With the exception of Mexico (where the rescheduling was concluded at a meeting of creditors held at the Organization for Economic Cooperation and Development—OECD), the official debt rescheduling negotiations were conducted under the auspices of the Paris Club. In all cases, the rescheduling agreement was concluded only after the Fund's Executive Board had approved a stand-by or extended arrangement involving upper credit tranche conditionality with the debtor country concerned. Fund staff representatives participated as observers in all of the OECD and Paris Club meetings.

Technical Assistance and Training

During 1983/84, technical assistance continued to be an important part of the Fund's work. Such assistance is provided at the request of members and includes training at headquarters, staff missions to member countries, and the stationing of staff members and outside experts in member countries, as well as the assistance customarily provided through the Fund's consultation procedures under Article IV or in connection with adjustment programs.

During 1983/84, the IMF Institute continued the high level of operations of previous years. It conducted 13 courses, and for the second time held seminars on Central Banking and on Budgeting and Expenditure Control. The number of participants attending seminars totaled 63, a decline from 84 in 1982/83 when three seminars were held, while the number of participants in the regular Institute training courses increased by 142 to 426. Altogether, some 4,000 officials from 145 member countries have participated in the programs of the IMF Institute since its inception in 1964.

The 18-week Financial Analysis and Policy course in English presented an exposition of the Fund's procedures and policies, and examined the tools of economic analysis and forecasting. It devoted special attention to the instruments of monetary, fiscal, and balance of payments policies that are being employed under changing national and international conditions. Special facilities were provided to permit Arabic-speaking participants to follow the course in their own language. The 12-week course on Financial Programming and Policy, conducted separately in English, French, and Spanish, is shorter and more intensive than the course on Financial Analysis and Policy. It reviewed techniques of financial programming, examined the Fund's procedures and policies, and dealt with the problems of policy formulation and implementation related to the short-term and medium-term economic management. The course on Techniques of Economic Analysis was conducted in English and French over an 8-week period. It described the principal macroeconomic accounts, the tools of economic analysis, and the Fund's policies and procedures. Special arrangements for Arabic-speaking participants were also made for this course. The 10-week course on Public Finance was offered in English, in cooperation with the Fiscal Affairs Department. It dealt with the objectives, instruments, and procedures of public finance, emphasizing the fiscal problems of developing countries. The 8-week course on Balance of Payments Methodology was presented in English, in collaboration with the Bureau of Statistics. It focused on the concepts and definitions that are used in the Fund's *Balance of Payments Manual*. The 8-week course on Government Finance Statistics was conducted in English and French, also in cooperation with the Bureau of Statistics. This course applied the concepts, definitions, and procedures in the *Draft Manual on Government Finance Statistics* for compiling statistics from accounts in the public sector.

The Institute's External Training activities underwent considerable expansion during 1983/84. Country seminars were conducted in Egypt and Nepal and focused on the economic problems and policy issues facing these countries; a regional seminar on financial policy was held in Barbados, concentrating on issues of common interest to the Caribbean countries; and a course on banking and monetary policy was conducted in China. Lecturing assistance was also provided to five regional organizations and national training institutions.

The provision of technical assistance on fiscal matters to member countries continues to be a major activity of the Fiscal Affairs Department. Advice again covered a wide range of fiscal subjects on both policy and administration related to taxes, the budget system and procedures, accounting, auditing, and financial reporting. Such technical assistance contributed to successful adjustment in a number of countries by easing constraints on the effective implementation of fiscal adjustment measures. This assistance continued to be given through a mixture of staff missions and the use of members of the panel of fiscal experts, most often by field assignments. In 1983/84 technical assistance was given to 44 countries, compared with 45 in 1982/83, 52 in 1981/82, and 38 in 1980/81. During 1983/84 there were 42 long-term and 38 short-term assignments in the field, totaling 80 individual assignments and 379 man-months; 56 panel members and 19

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staff members undertook technical assistance work. Support and guidance to experts in the field is provided from headquarters. In January–February 1984, the Fiscal Affairs Department held a French-language seminar on budget and expenditure control problems, attended by 32 senior officers from member countries.

Technical assistance continued to be provided by the Central Banking Department through the assignment of resident experts to member countries and through advisory services. During the financial year, experts and consultants served on assignments in executive or advisory positions with central monetary institutions and provided about 91 staff-years of assistance, most of which was in the fields of research and statistics, bank supervision, and banking and foreign exchange operations. Departmental staff carried out 23 advisory and assessment missions and participated in 9 missions led by Area Departments. Advice was given on topics that included central banking and financial system legislation (in cooperation with the Legal Department), procedures to follow in organizing a monetary union, organization and operation of central banks, structure and development of the financial system, and the design of monetary policy instruments.

The program of technical assistance in the area of external debt, which was instituted in the Central Banking Department last year, underwent significant expansion during the financial year. Experts and consultants have been assigned to 14 member countries to assist in the establishment of a permanent national machinery for the reporting, control, and management of external debt operations, and in the collection of debt statistics.

A second seminar on central banking, attended by senior officials of central banks of member countries, was conducted jointly by the Central Banking Department and the IMF Institute in August 1983. The Department also collaborated with the Institute in conducting the course on banking and monetary policy in China in October 1983. During the year, further progress was made in expanding the Department's computerized data base of central banking legislation and in instituting new research programs in support of the advisory work of the Department.

Technical assistance in statistics continues to be an important part of the work of the Bureau of Statistics, which makes such assistance available through missions to member countries and visits by national technicians to Fund headquarters for training. The bulk of the assistance is provided through missions that are undertaken in response to requests from member countries and is concentrated on statistical assistance in money and banking, balance of payments, government finance, international banking, and general economic data. During 1983/84, the staff of the Bureau of Statistics participated in 72 technical assistance missions to 57 countries and 2 regional organizations (Central Bank of West African States and the Eastern Caribbean Central Bank). Bureau staff also gave lectures on balance of payments methodology, government finance statistics, and other statistics. In addition, 13 officials from countries or regional organizations visited the Bureau for training in the various fields of statistics.

In 1983/84, the Bureau of Computing Services provided technical assistance to two member countries—Pakistan and Ethiopia—to review the current computer applications, methodology, and procedures for processing financial and economic data, to assess the available computing technology and facilities, and to provide technical advice on the development of a comprehensive plan for the establishment of computerized data bases. These data bases will benefit the member country and will support the work of the Bureau of Statistics and the respective Area Departments by providing timely and convenient access to accurate financial and economic data.

Relations with Other International Organizations

Considerations relating to the problem of the unprecedented levels of external debt of a number of developing member countries heavily influenced the Fund's relations with other international organizations in the economic and financial fields during the past year. As noted earlier, perhaps the most obvious and immediate manifestation of the Fund's involvement in the areas of debt renegotiation and aid coordination was the attendance by its staff at the series of meetings on the rescheduling of external debt, which have come to be known as Paris Club meetings. During 1983/84, the Fund attended meetings on debt reschedulings for Brazil, the Central African Republic, Ecuador, Ivory Coast, Liberia, Madagascar, Malawi, Morocco, Peru, Romania, Senegal, Sierra Leone, Zaïre, and Zambia. The Fund was also represented at a meeting of principal aid donor countries with Morocco convened by the World Bank in Washington on September 28, 1983, and, pursuant to that meeting, convened a gathering at the Fund's Paris Office on November 3, 1983 on the subject of coordination of balance of payments assistance to Morocco. At the invitation of the World Bank, the Fund participated in meetings of the Aid Groups for Bangladesh, Nepal, and Sri Lanka, in the Consultative Group meetings for Ghana, Kenya, Mauritius, the Philippines, Somalia, Sudan, Uganda, and Zaïre, and in the meetings of the Consortia for India and for

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Pakistan, all convened in Paris. A Fund staff member was also present at the twenty-sixth meeting of the Intergovernmental Group on Indonesia, held on June 13–14, 1983 in The Hague, under the sponsorship of the Government of the Netherlands.

The Fund strengthened its already close ties with other international and regional organizations sharing common interests, especially the World Bank, with which it has developed a unique relationship over the years. Information and expertise are regularly exchanged between the two institutions, and staff members of each organization participate, on occasion, in the missions and related activities of the other. Cooperation with the Organization of American States, especially with its Inter-American Economic and Social Council and the Permanent Executive Committee, and with regional development and financial institutions in Africa, Asia and the Pacific area, Latin America and the Caribbean, and the Middle East has also been, and continues to be, of considerable importance to the Fund. Relations with the United Nations are maintained primarily by the Office of the Fund's Special Representative to the United Nations in New York, as well as by frequent exchanges of views and by occasional exchanges of documents with the agency's relevant organs, especially with the regional economic commissions. The Fund maintains a European office in Paris, among the responsibilities of which is the maintenance of continuous liaison with the Organization for Economic Cooperation and Development, the Commission of the European Communities, and the Bank for International Settlements. The Fund's Office in Geneva is responsible for liaison with the United Nations Conference on Trade and Development (UNCTAD) and its various bodies, and with the General Agreement on Tariffs and Trade (GATT). These efforts are supplemented, as necessary, by the assignment of headquarters' staff and resident representatives in the field. Activities include the exchange of pertinent documents with other organizations and the attendance by staff members at meetings and seminars, either as participants or as observers.

As part of the Fund's effort to strengthen its relationship with the GATT, information and expertise, as well as copies of pertinent documents, were provided to that organization's Committee on Balance of Payments Restrictions in connection with its consultations with common member countries on trade restrictions imposed for balance of payments purposes. A Fund observer was also present at certain meetings of the GATT Council of Representatives, and at the thirty-ninth session of the CONTRACTING PARTIES. In response to a request received by the Managing Director from the Director-General of the GATT, Fund staff prepared a paper entitled "Exchange Rate Volatility and World Trade," for use by both organizations and published by the Fund as Occasional Paper No. 28.

The Managing Director participated in the meeting of the ministers of seven major industrial countries held in Paris on May 11, 1983, to discuss trade and finance linkages, and attended the celebrations for the World Day of Peace held on May 25, 1983 at the United Nations Industrial Development Organization's headquarters in Vienna. He addressed the meeting of UNCTAD VI in Belgrade on June 8, 1983 and the Second Regular Session of the United Nations Economic and Social Council in Geneva on July 8. He participated in meetings of the Bank for International Settlements, held in Basle, in July and November 1983, delivered an address to the United Nations Administrative Committee on Coordination in New York on October 27, 1983, and presented a statement to the London meeting of that body on April 16, 1984. The Managing Director also took part in the meetings of the ministers and central bank governors of the Group of Ten in Washington on September 24, 1983 and April 12, 1984, as well as a gathering of the ministers and governors of five major industrial countries on April 11, 1984. In addition, he attended a meeting of the Group of Ten governors in Basle on November 7, 1983. He attended the ministerial meetings of the Intergovernmental Group of Twenty-Four on International Monetary Affairs, which took place in Washington, D.C. on September 24, 1983 and April 11, 1984, at the time of the Interim and Development Committee meetings. He was also present at a meeting in New York convened by the Secretary-General of the United Nations on March 20, 1984 to discuss the economic problems of Africa.

The Fund often shares its technical expertise with regional organizations, through the participation of Fund staff in seminars and joint studies. In 1983/84, staff members participated in a seminar on exchange control policies and economic development for central bank officials of member states of the African Centre for Monetary Studies, held under the sponsorship of that institution in Bujumbura, Burundi, April 24–May 4, 1984. At the request of the Arab Monetary Fund (AMF), a training advisor was provided to organize a Banker's Training Institute to provide courses and seminars in central and commercial banking, so as to upgrade skills and strengthen the financial structure of the organization's 20 members. Also, the Fund provided an advisor to work with the AMF's Treasury and Investments Department to assist in the management of the investment portfolio. The Fund advised the Commission of the European Communities Directorate-General of Economic and Financial Affairs on development of its work in forecasting and policy

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analysis and on the implementation of a previous study, prepared with Fund assistance, on the suitability of the Commission's macroeconomic and international trade models. At the request of the Cooperation Council of the Arab States of the Gulf, the Fund provided technical assistance for a study on banking arrangements in the region, and is preparing another study on exchange arrangements in the six member countries of the organization.

Executive Directors and Staff

In the year ended April 30, 1984, there were 114 appointments to the Fund's regular staff and 73 separations. At the end of the financial year, the staff numbered 1,619 and was drawn from 96 countries.

External Relations

During the financial year the Fund continued its program of seminars for nonofficials. Begun in 1981, the seventh and eighth seminars in the program were conducted in German on October 11–14, 1983 in Baden, Austria, and in French on April 24–27 in Dakar, Senegal. These seminars are aimed at promoting understanding of what the Fund is doing to help members solve their balance of payments problems. Those participating in the seminars are scholars, journalists, and others interested in the work of the Fund. The proceedings of the seminars are usually published in the language in which they are conducted. The publications issued by the Fund in 1983/84 are listed in Appendix I, Table I.14.

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Appendix I
Fund Activities in 1983/84

This appendix supplements the information on the Fund given in Chapter 3. In general, the statistical data contained in the tables do not go beyond the end of the financial year ended April 30, 1984. In two tables in this appendix, however, data relating to a later period are included, viz., Table I.1 on exchange rates and exchange arrangements and Table I.10 setting forth the charges on the use of the Fund's resources.

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Table I.1. Exchange Rates and Exchange Arrangements, June 29, 1984 [1]

		Pegged to					Limited Flexibility		More Flexibility [3]		
Member	Currency	U.S. dollar [2]	French franc [2]	Other single currency [2]	SDR [2]	Currency composite other than SDR [3]	Vis-à-vis single currency [3, 4]	Under cooperative arrange-ments [3, 5]	Adjusted according to a set of indicators	Other managed floating	Floating independently
Afghanistan	Afghani	—	—	—	—	—	50.60	—	—	—	—
Algeria	dinar	—	—	—	—	4.9307	—	—	—	—	—
Antigua and Barbuda	East Caribbean dollar	2.70	—	—	—	—	—	—	—	—	—
Argentina	peso argentino	—	—	—	—	—	—	—	—	50.860	—
Australia	dollar	—	—	—	—	—	—	—	—	—	1.16104
Austria	schilling	—	—	—	—	19.526	—	—	—	—	—
Bahamas	dollar	1.00	—	—	—	—	—	—	—	—	—
Bahrain	dinar	—	—	—	—	—	0.376	—	—	—	—
Bangladesh	taka	—	—		—	25.20	—	—	—	—	—
Barbados	dollar	2.0113	—	—	—	—	—	—	—	—	—
Belgium	franc	—	—	—	—	—	—	56.680	—	—	—
Belize	dollar	2.00	—	—	—	—	—	—	—	—	—
Benin	franc	—	50.00	—	—	—	—	—	—	—	—
Bhutan	ngultrum	—	—	1.00 [6]	—	—	—	—	—	—	—
Bolivia	peso	2,019.5	—	—	—	—	—	—	—	—	—
Botswana	pula	—	—	—	—	1.22085	—	—	—	—	—
Brazil	cruzeiro	—	—	—	—	—	—	—	1,719.00	—	—
Burma	kyat	—	—	—	8.1385	—	—	—	—	—	—
Burundi	franc	—	—	—	122.7	—	—	—	—	—	—
Cameroon	franc	—	50.00	—	—	—	—	—	—	—	—
Canada	dollar	—	—	—	—	—	—	—	—	—	1.3194
Cape Verde	escudo	—	—	—	—	84.4388	—	—	—	—	—
Central African Republic	franc	—	50.00	—	—	—	—	—	—	—	—
Chad	franc	—	50.00	—	—	—	—	—	—	—	—
Chile	peso	—	—	—	—	—	—	—	91.48	—	—
China	yuan	—	—	—	—	2.2473	—	—	—	—	—
Colombia	peso	—	—	—	—	—	—	—	100.40	—	—
Comoros	franc	—	50.00	—	—	—	—	—	—	—	—
Congo	franc	—	50.00	—	—	—	—	—	—	—	—
Costa Rica	colón	—	—	—	—	—	—	—	—	43.75	—
Cyprus	pound	—	—	—	—	0.57921	—	—	—	—	—
Denmark	krone	—	—	—	—	—	—	10.2125	—	—	—
Djibouti	franc	177.721	—	—	—	—	—	—	—	—	—
Dominica	East Caribbean dollar	2.70	—	—	—	—	—	—	—	—	—
Dominican Republic	peso	1.00	—	—	—	—	—	—	—	—	—
Ecuador	sucre	—	—	—	—	—	—	—	—	63.15	—
Egypt	pound	0.70	—	—	—	—	—	—	—	—	—
El Salvador	colón	2.50	—	—	—	—	—	—	—	—	—
Equatorial Guinea	ekwele	—	—	2.00 [7]	—	—	—	—	—	—	—
Ethiopia	birr	2.07	—	—	—	—	—	—	—	—	—
Fiji	dollar	—	—	—	—	1.07296	—	—	—	—	—
Finland	markka	—	—	—	—	5.901	—	—	—	—	—
France	franc	—	—	—	—	—	—	8.5445	—	—	—
Gabon	franc	—	50.00	—	—	—	—	—	—	—	—
Gambia, The	dalasi	—	—	4.00 [8]	—	—	—	—	—	—	—

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Germany, Federal Republic of	deutsche mark	—	—	—	—	—	—	2.7842	—	—	—
Ghana	cedi	—	—	—	—	—	35.0	—	—	—	—
Greece	drachma	—	—	—	—	—	—	—	—	110.25	—
Grenada	East Caribbean dollar	2.70	—	—	—	—	—	—	—	—	—
Guatemala	quetzal	1.00	—	—	—	—	—	—	—	—	—
Guinea	syli	—	—	—	24.6853	—	—	—	—	—	—
Guinea-Bissau	peso	—	—	—	—	—	—	—	—	84.054	—
Guyana	dollar	—	—	—	—	—	3.75	—	—	—	—
Haiti	gourde	5.00	—	—	—	—	—	—	—	—	—
Honduras	lempira	2.00	—	—	—	—	—	—	—	—	—
Hungary	forint	—	—	—	—	49.0497	—	—	—	—	—
Iceland	króna	—	—	—	—	—	—	—	—	29.98	—
India	rupee	—	—	—	—	—	—	—	—	11.1998	—
Indonesia	rupiah	—	—	—	—	—	—	—	—	1,015.0	—
Iran, Islamic Republic of	rial	—	—	—	92.30	—	—	—	—	—	—
Iraq	dinar	0.310857	—	—	—	—	—	—	—	—	—
Ireland	pound	—	—	—	—	—	—	0.909091	—	—	—
Israel	shekel	—	—	—	—	—	—	—	—	236.40	—
Italy	lira	—	—	—	—	—	—	1,716.025	—	—	—
Ivory Coast	franc	—	50.00	—	—	—	—	—	—	—	—
Jamaica	dollar	—	—	—	—	—	—	—	—	3.85	—
Japan	yen	—	—	—	—	—	—	—	—	—	237.50
Jordan	dinar	—	—	—	0.387747	—	—	—	—	—	—
Kampuchea, Democratic [9]	riel	—	—	—	—	—	—	—	—	—	—
Kenya	shilling	—	—	—	14.786818	—	—	—	—	—	—
Korea	won	—	—	—	—	—	—	—	—	803.4	—
Kuwait	dinar	—	—	—	—	0.29431	—	—	—	—	—
Lao People's Democratic Republic	kip	10.00	—	—	—	—	—	—	—	—	—
Lebanon	pound	—	—	—	—	—	—	—	—	—	6.0250
Lesotho	loti	—	—	1.00 [10]	—	—	—	—	—	—	—
Liberia	dollar	1.00	—	—	—	—	—	—	—	—	—
Libyan Arab Jamahiriya	dinar	0.296053	—	—	—	—	—	—	—	—	—
Luxembourg	franc	—	—	—	—	—	—	56.68	—	—	—
Madagascar	franc	—	—	—	—	601.711	—	—	—	—	—
Malawi	kwacha	—	—	—	—	1.39140	—	—	—	—	—
Malaysia	ringgit	—	—	—	—	2.3200	—	—	—	—	—
Maldives	rufiyaa	—	—	—	—	—	7.05	—	—	—	—
Mali	franc	—	50.00	—	—	—	—	—	—	—	—
Malta	lira	—	—	—	—	0.456934	—	—	—	—	—
Mauritania	ouguiya	—	—	—	—	66.52	—	—	—	—	—
Mauritius	rupee	—	—	—	—	13.600	—	—	—	—	—
Mexico	peso	—	—	—	—	—	—	—	—	167.46	—
Morocco	dirham	—	—	—	—	—	—	—	—	8.8209	—
Nepal	rupee	—	—	—	—	16.10	—	—	—	—	—
Netherlands	guilder	—	—	—	—	—	—	3.1535	—	—	—
New Zealand	dollar	—	—	—	—	—	—	—	—	1.57754	—
Nicaragua	córdoba	10.00	—	—	—	—	—	—	—	—	—
Niger	franc	—	50.00	—	—	—	—	—	—	—	—
Nigeria	naira	—	—	—	—	—	—	—	—	0.748559	—
Norway	krone	—	—	—	—	7.9915	—	—	—	—	—

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Table I.1 *(concluded)*. **Exchange Rates and Exchange Arrangements, June 29, 1984** [1]

		Pegged to					Limited Flexibility		More Flexibility [3]		
Member	Currency	U.S. dollar [2]	French franc [2]	Other single currency [2]	SDR [2]	Currency composite other than SDR [3]	Vis-à-vis single currency [3, 4]	Under cooperative arrangements [3, 5]	Adjusted according to a set of indicators	Other managed floating	Floating independently
Oman	rial Omani	0.3454	—	—	—	—	—	—	—	—	—
Pakistan	rupee	—	—	—	—	—	—	—	—	13.9878	—
Panama	balboa	1.00	—	—	—	—	—	—	—	—	—
Papua New Guinea	kina	—	—	—	—	0.816994	—	—	—	—	—
Paraguay	guaraní	160.00	—	—	—	—	—	—	—	—	—
Peru	sol	—	—	—	—	—	—	—	3,335.08	—	—
Philippines	peso	—	—	—	—	—	—	—	—	18.002	—
Portugal	escudo	—	—	—	—	—	—	—	143.714	—	—
Qatar	riyal	—	—	—	—	—	3.64	—	—	—	—
Romania	leu	—	—	—	—	14.32	—	—	—	—	—
Rwanda	franc	—	—	—	102.71	—	—	—	—	—	—
St. Lucia	East Caribbean dollar	2.70	—	—	—	—	—	—	—	—	—
St. Vincent	East Caribbean dollar	2.70	—	—	—	—	—	—	—	—	—
São Tomé and Principe	dobra	—	—	—	45.25	—	—	—	—	—	—
Saudi Arabia	riyal	—	—	—	—	—	3.505	—	—	—	—
Senegal	franc	—	50.00	—	—	—	—	—	—	—	—
Seychelles	rupee	—	—	—	7.2345	—	—	—	—	—	—
Sierra Leone	leone	2.50	—	—	—	—	—	—	—	—	—
Singapore	dollar	—	—	—	—	2.1325	—	—	—	—	—
Solomon Islands	dollar	—	—	—	—	1.28107	—	—	—	—	—
Somalia	shilling	—	—	—	—	—	—	—	17.5556	—	—
South Africa	rand	—	—	—	—	—	—	—	—	—	1.35446
Spain	peseta	—	—	—	—	—	—	—	—	157.895	—
Sri Lanka	rupee	—	—	—	—	—	—	—	—	25.17	—
Sudan	pound	1.30	—	—	—	—	—	—	—	—	—
Suriname	guilder	1.785	—	—	—	—	—	—	—	—	—
Swaziland	lilangeni	—	—	1.00 [10]	—	—	—	—	—	—	—
Sweden	krona	—	—	—	—	8.184	—	—	—	—	—
Syrian Arab Republic	pound	3.925	—	—	—	—	—	—	—	—	—
Tanzania	shilling	—	—	—	—	17.1714	—	—	—	—	—
Thailand	baht	—	—	—	—	—	23.00	—	—	—	—
Togo	franc	—	50.00	—	—	—	—	—	—	—	—
Trinidad and Tobago	dollar	2.4090	—	—	—	—	—	—	—	—	—
Tunisia	dinar	—	—	—	—	0.76150	—	—	—	—	—
Turkey	lira	—	—	—	—	—	—	—	—	369.94	—
Uganda	shilling	—	—	—	—	—	—	—	—	320.00	—
United Arab Emirates	dirham	—	—	—	—	—	3.671	—	—	—	—
United Kingdom	pound	—	—	—	—	—	—	—	—	—	0.739263
United States	dollar	—	—	—	—	—	—	—	—	—	1.00
Upper Volta	franc	—	50.00	—	—	—	—	—	—	—	—
Uruguay	new peso	—	—	—	—	—	—	—	—	—	53.88
Vanuatu	vatu	—	—	—	100.60	—	—	—	—	—	—
Venezuela	bolívar	7.50	—	—	—	—	—	—	—	—	—
Viet Nam	dong	—	—	—	10.37883	—	—	—	—	—	—
Western Samoa	tala	—	—	—	—	—	—	—	—	1.81732	—

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Yemen Arab Republic	rial	5.410	—	—	—	—	—	—	—	—	—
Yemen, People's Democratic Republic of	dinar	0.345399	—	—	—	—	—	—	—	—	—
Yugoslavia	dinar	—	—	—	—	—	—	—	—	143.1968	—
Zaïre	zaïre	—	—	—	—	—	—	—	—	36.20	—
Zambia	kwacha	—	—	—	—	1.67870	—	—	—	—	—
Zimbabwe	dollar	—	—	—	—	1.201201	—	—	—	—	—

[1] For further explanation of the classification of exchange rate arrangements, in particular for members that maintain dual exchange markets involving multiple exchange rate arrangements, see Table 10. Exchange rates for Zambia and Nigeria are for the end of April and the end of May, respectively.
[2] Rates as notified to the Fund and in terms of domestic currency units per unit listed.
[3] Market rates in domestic currency units per U.S. dollar.
[4] All exchange rates have shown limited flexibility against the U.S. dollar.
[5] Belgium, Denmark, France, the Federal Republic of Germany, Ireland, Italy, Luxembourg, and the Netherlands are participating in the European Monetary System and maintain maximum margins of 2.25 percent (for the Italian lira, 6 percent) for exchange rates in transactions in the official markets between their currencies and those of the other countries in this group.
[6] Per Indian rupee
[7] Per Spanish peseta.
[8] Per pound sterling.
[9] Information not available.
[10] Per South African rand.

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Table I.2. Increases in Quotas, April 30, 1983 and April 30, 1984 [1]
(In millions of SDRs)

Member	Quota on April 30, 1983	Quota on April 30, 1984	Effective Date of Change
Afghanistan	67.50	86.70	Dec. 30, 1983
Algeria	427.50	623.10	Dec. 21, 1983
Antigua and Barbuda	3.60	5.00	Dec. 30, 1983
Argentina	802.50	1,113.00	Dec. 28, 1983
Australia	1,185.00	1,619.20	Dec. 23, 1983
Austria	495.00	775.60	Dec. 29, 1983
Bahamas	49.50	66.40	Dec. 30, 1983
Bahrain	30.00	48.90	Dec. 28, 1983
Bangladesh	228.00	287.50	Dec. 30, 1983
Barbados	25.50	34.10	Dec. 29, 1983
Belgium	1,335.00	2,080.40	Dec. 9, 1983
Belize	7.20	9.50	Dec. 30, 1983
Benin	24.00	31.30	Dec. 30, 1983
Bhutan	1.70	2.50	Jan. 27, 1984
Bolivia	67.50	90.70	Dec. 29, 1983
Botswana	13.50	22.10	Dec. 15, 1983
Brazil	997.50	1,461.30	Dec. 30, 1983
Burma	109.50	137.00	Dec. 27, 1983
Burundi	34.50	42.70	Dec. 28, 1983
Cameroon	67.50	92.70	Dec. 30, 1983
Canada	2,035.50	2,941.00	Dec. 15, 1983
Cape Verde	3.00	4.50	Dec. 30, 1983
Central African Republic	24.00	30.40	Dec. 30, 1983
Chad	24.00	30.60	Dec. 30, 1983
Chile	325.50	440.50	Dec. 21, 1983
China	1,800.00	2,390.90	Dec. 30, 1983
Colombia	289.50	394.20	Dec. 23, 1983
Comoros	3.50	4.50	Mar. 16, 1984
Congo	25.50	37.30	Dec. 30, 1983
Costa Rica	61.50	84.10	Dec. 27, 1983
Cyprus	51.00	69.70	Dec. 30, 1983
Denmark	465.00	711.00	Dec. 30, 1983
Djibouti	5.70	8.00	Mar. 12, 1984
Dominica	2.90	4.00	Dec. 23, 1983
Dominican Republic	82.50	112.10	Dec. 28, 1983
Ecuador	105.00	150.70	Dec. 28, 1983
Egypt	342.00	463.40	Dec. 23, 1983
El Salvador	64.50	89.00	Dec. 23, 1983
Equatorial Guinea	15.00	18.40	Dec. 19, 1983
Ethiopia	54.00	70.60	Dec. 30, 1983
Fiji	27.00	36.50	Dec. 29, 1983
Finland	393.00	574.90	Dec. 23, 1983
France	2,878.50	4,482.80	Dec. 19, 1983
Gabon	45.00	73.10	Dec. 30, 1983
Gambia, The	13.50	17.10	Dec. 30, 1983
Germany, Federal Republic of	3,234.00	5,403.70	Dec. 30, 1983
Ghana	159.00	204.50	Dec. 30, 1983
Greece	277.50	399.90	Dec. 29, 1983
Grenada	4.50	6.00	Dec. 30, 1983
Guatemala	76.50	108.00	Dec. 30, 1983
Guinea	45.00	57.90	Dec. 20, 1983
Guinea-Bissau	5.90	7.50	Dec. 26, 1983
Guyana	37.50	49.20	Dec. 29, 1983
Haiti	34.50	44.10	Dec. 30, 1983
Honduras	51.00	67.80	Dec. 30, 1983
Hungary	375.00	530.70	Dec. 23, 1983
Iceland	43.50	59.60	Dec. 29, 1983
India	1,717.50	2,207.70	Dec. 30, 1983
Indonesia	720.00	1,009.70	Dec. 27, 1983
Iran, Islamic Republic of	660.00	660.00[2]	—
Iraq	234.10	504.00	Feb. 28, 1984
Ireland	232.50	343.40	Dec. 30, 1983
Israel	307.50	446.60	Dec. 30, 1983
Italy	1,860.00	2,909.10	Dec. 29, 1983
Ivory Coast	114.00	165.50	Dec. 30, 1983

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Table I.2 *(continued)*. Increases in Quotas, April 30, 1983 and April 30, 1984 [1]
(In millions of SDRs)

Member	Quota on April 30, 1983	Quota on April 30, 1984	Effective Date of Change
Jamaica	111.00	145.50	Feb. 10, 1984
Japan	2,488.50	4,223.30	Dec. 23, 1983
Jordan	45.00	73.90	Dec. 30, 1983
Kampuchea, Democratic [3]	25.00	25.00	—
Kenya	103.50	142.00	Dec. 30, 1983
Korea	255.90	462.80	Dec. 30, 1983
Kuwait	393.30	635.30	Dec. 20, 1983
Lao People's Democratic Republic	24.00	29.30	Feb. 24, 1984
Lebanon	27.90	78.70	Dec. 30, 1983
Lesotho	10.50	15.10	Dec. 28, 1983
Liberia	55.50	71.30	Dec. 30, 1983
Libyan Arab Jamahiriya	298.40	515.70	Apr. 13, 1984
Luxembourg	46.50	77.00	Dec. 22, 1983
Madagascar	51.00	66.40	Dec. 20, 1983
Malawi	28.50	37.20	Dec. 7, 1983
Malaysia	379.50	550.60	Dec. 16, 1983
Maldives	1.40	2.00	Dec. 22, 1983
Mali	40.50	50.80	Dec. 6, 1983
Malta	30.00	45.10	Dec. 30, 1983
Mauritania	25.50	33.90	Dec. 30, 1983
Mauritius	40.50	53.60	Dec. 30, 1983
Mexico	802.50	1,165.50	Dec. 30, 1983
Morocco	225.00	306.60	Dec. 15, 1983
Nepal	28.50	37.30	Dec. 30, 1983
Netherlands	1,422.00	2,264.80	Dec. 14, 1983
New Zealand	348.00	461.60	Dec. 30, 1983
Nicaragua	51.00	68.20	Apr. 10, 1984
Niger	24.00	33.70	Dec. 30, 1983
Nigeria	540.00	849.50	Dec. 23, 1983
Norway	442.50	699.00	Dec. 29, 1983
Oman	30.00	63.10	Dec. 29, 1983
Pakistan	427.50	546.30	Dec. 28, 1983
Panama	67.50	102.20	Dec. 30, 1983
Papua New Guinea	45.00	65.90	Dec. 22, 1983
Paraguay	34.50	48.40	Dec. 1, 1983
Peru	246.00	330.90	Feb. 17, 1984
Philippines	315.00	440.40	Dec. 28, 1983
Portugal	258.00	376.60	Dec. 30, 1983
Qatar	66.20	114.90	Dec. 28, 1983
Romania	367.50	523.40	Dec. 23, 1983
Rwanda	34.50	43.80	Dec. 30, 1983
St. Lucia	5.40	7.50	Dec. 30, 1983
St. Vincent	2.60	4.00	Dec. 28, 1983
São Tomé and Principe	3.00	4.00	Jan. 31, 1984
Saudi Arabia	2,100.00	3,202.40	Dec. 30, 1983
Senegal	63.00	85.10	Dec. 30, 1983
Seychelles	2.00	3.00	Dec. 20, 1983
Sierra Leone	46.50	57.90	Dec. 30, 1983
Singapore	92.40	92.40 [2]	—
Solomon Islands	3.20	5.00	Dec. 20, 1983
Somalia	34.50	44.20	Dec. 30, 1983
South Africa	636.00	915.70	Dec. 28, 1983
Spain	835.50	1,286.00	Dec. 30, 1983
Sri Lanka	178.50	223.10	Dec. 30, 1983
Sudan	132.00	169.70	Dec. 27, 1983
Suriname	37.50	49.30	Dec. 30, 1983
Swaziland	18.00	24.70	Dec. 30, 1983
Sweden	675.00	1,064.30	Dec. 30, 1983
Syrian Arab Republic	94.50	139.10	Feb. 23, 1984
Tanzania	82.50	107.00	Dec. 22, 1983
Thailand	271.50	386.60	Dec. 30, 1983
Togo	28.50	38.40	Dec. 30, 1983
Trinidad and Tobago	123.00	170.10	Dec. 30, 1983
Tunisia	94.50	138.20	Dec. 30, 1983
Turkey	300.00	429.10	Dec. 28, 1983

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Table I.2 *(concluded)*. Increases in Quotas, April 30, 1983 and April 30, 1984 [1]
(In millions of SDRs)

Member	Quota on April 30, 1983	Quota on April 30, 1984	Effective Date of Change
Uganda	75.00	99.60	Dec. 22, 1983
United Arab Emirates	202.60	202.60 [2]	—
United Kingdom	4,387.50	6,194.00	Dec. 30, 1983
United States	12,607.50	17,918.30	Dec. 29, 1983
Upper Volta	24.00	31.60	Jan. 4, 1984
Uruguay	126.00	163.80	Dec. 28, 1983
Vanuatu	6.90	9.00	Dec. 19, 1983
Venezuela	990.00	1,371.50	Dec. 23, 1983
Viet Nam	135.00	176.80	Dec. 9, 1983
Western Samoa	4.50	6.00	Dec. 20, 1983
Yemen Arab Republic	19.50	43.30	Dec. 29, 1983
Yemen, People's Democratic Republic of	61.50	77.20	Dec. 30, 1983
Yugoslavia	415.50	613.00	Dec. 26, 1983
Zaïre	228.00	291.00	Dec. 12, 1983
Zambia	211.50	270.30	Dec. 28, 1983
Zimbabwe	150.00	191.00	Feb. 3, 1984

[1] Board of Governors Resolution No. 38-1, Increases in Quotas of Members—Eighth General Review, adopted March 31, 1983.
[2] The Islamic Republic of Iran, Singapore, and the United Arab Emirates did not consent to the quota increases proposed for them under the Eighth General Review.
[3] Democratic Kampuchea did not participate in the Eighth General Review of Quotas.

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Table I.3. Fund Stand-By Arrangements for Members, Financial Year Ended April 30, 1984
(In millions of SDRs)

Member	Total Number of Stand-Bys Approved for Member Since 1953	Current Arrangement		Amount Approved in 1982/83		Amount Approved in 1983/84		Amount Not Purchased at Expiration or Cancellation	Amount Not Purchased as of April 30, 1984
		Date of inception	Date of expiration	Total	Of which: borrowed resources	Total	Of which: borrowed resources		
Argentina	10	Jan. 24, 1983	Apr. 23, 1984[1]	1,500.00	754.35	—	—	899.49	—
Bangladesh	4	Mar. 28, 1983	Aug. 31, 1983	68.40	—	—	—	—	—
Barbados	1	Oct. 1, 1982	May 31, 1984	31.88	15.36	—	—	—	3.90
Central African Republic	3	Apr. 22, 1983	Apr. 21, 1984	18.00	14.66	—	—	13.50	—
Chile	13	Jan. 10, 1983	Jan. 9, 1985	500.00	246.84	—	—	—	216.00
Costa Rica	8	Dec. 20, 1982	Dec. 19, 1983	92.25	45.88	—	—	—	—
Ecuador	10	July 25, 1983	July 24, 1984	—	—	157.50	75.77	—	39.37
El Salvador	13	July 16, 1982	July 15, 1983	43.00	—	—	—	—	—
Gambia, The	4	Apr. 23, 1984	July 22, 1985	—	—	12.83	6.42	—	10.20
Ghana	6	Aug. 3, 1983	Aug. 2, 1984	—	—	238.50	121.80	—	47.70
Guatemala	10	Aug. 31, 1983	Dec. 31, 1984	—	—	114.75	66.92	—	57.37
Guinea	1	Dec. 1, 1982	Nov. 30, 1983	25.00	—	—	—	13.50	—
Haiti	19	Aug. 9, 1982	Sept. 30, 1983	34.50	17.64	—	—	—	—
		Nov. 7, 1983	Sept. 30, 1985	—	—	60.00	45.23	—	39.00
Honduras	13	Nov. 5, 1982	Dec. 31, 1983	76.50	44.62	—	—	15.30	—
Hungary	2	Dec. 8, 1982	Jan. 7, 1984	475.00	229.26	—	—	—	—
		Jan. 13, 1984	Jan. 12, 1985	—	—	425.00	212.50	—	297.50
Kenya	5	Mar. 21, 1983	Sept. 20, 1984	175.95	166.21	—	—	—	46.15
Korea	15	July 8, 1983	Mar. 31, 1985	—	—	575.77	575.77	—	319.77
Liberia	17	Sept. 29, 1982	Sept. 28, 1983[2]	55.00	44.11	—	—	20.00	—
		Sept. 14, 1983	Sept. 13, 1984	—	—	55.00	55.00	—	13.00
Madagascar	5	July 9, 1982	July 8, 1983	51.00	26.05	—	—	10.20	—
		Apr. 10, 1984	Mar. 31, 1985	—	—	33.00	16.50	—	30.00
Malawi	3	Aug. 6, 1982	Aug. 5, 1983	22.00	8.56	—	—	—	—
Mali	7	May 21, 1982	May 20, 1983	30.38	—	—	—	—	—
		Dec. 9, 1983	May 31, 1985	—	—	40.50	34.62	—	24.50
Mauritius	5	May 18, 1983	Aug. 17, 1984	—	—	49.50	46.87	—	16.50
Morocco	9	Sept. 16, 1983	Mar. 15, 1985	—	—	300.00	246.33	—	170.00
Niger	1	Oct. 5, 1983	Dec. 4, 1984	—	—	18.00	—	—	8.40
Panama	16	June 24, 1983	Dec. 31, 1985	—	—	150.00	120.27	—	75.00
Peru		Apr. 26, 1984	July 31, 1985	—	—	250.00	—	—	250.00
Philippines	16	Feb. 25, 1983	Feb. 28, 1984	315.00	150.28	—	—	215.00	—
Portugal	3	Oct. 7, 1983	Feb. 28, 1985	—	—	445.00	222.20	—	278.60
Romania	3	June 15, 1981	June 14, 1984[3]	(1,102.50)	(746.18)	—	—	285.00	—
Senegal	4	Nov. 24, 1982	Nov. 23, 1983[4]	47.25	23.91	—	—	41.34	—
		Sept. 19, 1983	Sept. 18, 1984	—	—	63.00	38.32	—	15.75
Sierra Leone	6	Feb. 3, 1984	Feb. 2, 1985	—	—	50.20	24.06	—	31.20
Solomon Islands	2	June 22, 1983	June 21, 1984	—	—	2.40	—	—	1.44
Somalia	10	July 15, 1982	Jan. 14, 1984	60.00	49.38	—	—	—	—
South Africa	5	Nov. 3, 1982	Dec. 31, 1983	364.00	—	—	—	205.00	—
Sri Lanka	8	Sept. 14, 1983	July 31, 1984	—	—	100.00	57.00	—	50.00
Sudan	8	Feb. 23, 1983	Mar. 9, 1984	170.00	134.81	—	—	—	—
Thailand	3	Nov. 17, 1982	Dec. 31, 1983	271.50	189.16	—	—	—	—
Togo	3	Mar. 4, 1983	Apr. 3, 1984	21.37	12.02	—	—	—	—
Turkey	15	June 24, 1983	June 23, 1984[5]	—	—	225.00	39.44	168.75	—
		Apr. 4, 1984	Apr. 3, 1985	—	—	225.00	—	—	168.75
Uganda	5	Aug. 11, 1982	Aug. 10, 1983	112.50	97.56	—	—	—	—
		Sept. 16, 1983	Sept. 15, 1984	—	—	95.00	95.00	—	30.00
Uruguay	13	Apr. 22, 1983	Apr. 21, 1985	378.00	283.50	—	—	—	226.80
Western Samoa	5	June 27, 1983	June 26, 1984	—	—	3.38	—	—	—
Yugoslavia	9	Apr. 18, 1984	Apr. 17, 1985	—	—	370.00	185.00	—	370.00
Zaïre	5	Dec. 27, 1983	Mar. 26, 1985	—	—	228.00	135.17	—	150.00
Zambia	4	Apr. 18, 1983	Apr. 17, 1984	211.50	143.73	—	—	67.50	—
Zimbabwe	2	Mar. 23, 1983	Sept. 22, 1984	300.00	187.50	—	—	—	125.00
Total				5,449.98	2,885.39	4,287.33	2,420.19	1,954.58	3,111.90

[1] Arrangement canceled on January 23, 1984.
[2] Arrangement canceled on September 13, 1983.
[3] Arrangement approved in financial year 1981/82 and canceled on January 31, 1984.
[4] Arrangement canceled on September 18, 1983.
[5] Arrangement canceled on April 3, 1984.

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Table I.4. Summary of Members' Purchases and Repurchases, Financial Years Ended April 30, 1948–84

(In millions of SDRs)

Year	Total Purchases by Members	Total Repurchases by Members
1948	606.04	—
1949	119.44	—
1950	51.80	24.21
1951	28.00	19.09
1952	46.25	36.58
1953	66.12	184.96
1954	231.29	145.11
1955	48.75	276.28
1956	38.75	271.66
1957	1,114.05	75.04
1958	665.73	86.81
1959	263.52	537.32
1960	165.53	522.41
1961	577.00	658.60
1962	2,243.20	1,260.00
1963	579.97	807.25
1964	625.90	380.41
1965	1,897.44	516.97
1966	2,817.29	406.00
1967	1,061.28	340.12
1968	1,348.25	1,115.51
1969	2,838.85	1,542.33
1970	2,995.65	1,670.69
1971	1,167.41	1,656.86
1972	2,028.49	3,122.33
1973	1,175.43	540.30
1974	1,057.72	672.49
1975	5,102.45	518.08
1976	6,591.42	960.10
1977	4,910.33	868.19
1978	2,503.01	4,485.01
1979	3,719.58	4,859.18
1980	2,433.26	3,775.83
1981	4,860.01	2,852.93
1982	8,040.62	2,009.88
1983	11,391.89	1,555.12
1984	11,517.73	2,017.65
Total	86,929.45 [1]	40,771.30 [2]

[1] Includes purchases that are not subject to repurchase.
[2] Excludes sales of currency and adjustments that have the effect of repurchase.

Table I.5. Summary of Stand-By Arrangements That Became Effective During the Financial Years Ended April 30, 1953–84[1]

(In millions of SDRs)

Year	Number	Amount
1953	2	55.00
1954	2	62.50
1955	2	40.00
1956	2	47.50
1957	9	1,162.28
1958	11	1,043.78
1959	15	1,056.63
1960	14	363.88
1961	15	459.88
1962	24	1,633.13
1963	19	1,531.10
1964	19	2,159.85
1965	24	2,159.05
1966	24	575.35
1967	25	591.15
1968	32	2,352.36
1969	26	541.15
1970	23	2,381.28
1971	18	501.70
1972	13	313.75
1973	13	321.85
1974	15	1,394.00
1975	14	389.75
1976	18	1,188.02
1977	19	4,679.64
1978	18	1,285.09
1979	14	507.85
1980	24	2,479.36
1981	21	5,197.93
1982	19	3,106.21
1983	27	5,449.98
1984	25	4,287.33
Total	546	49,318.33

[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.

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Table I.6. Purchases of Currencies and SDRs from the Fund, Financial Year Ended April 30, 1984

(In millions of SDRs)

		Within Credit Tranche			Under Decision on						Purchases Financed with			
		Under stand-by arrangements			Extended Fund facility						Ordinary resources			
Member Purchasing	Within Reserve Tranche	Ordinary resources	Supplementary financing facility	Enlarged access resources	Ordinary resources	Supplementary financing facility	Enlarged access resources	Compensatory financing	Buffer stock	Total Purchases	Currencies	SDRs	Supplementary financing facility	Enlarged access resources
Afghanistan	15.09	—	—	—	—	—	—	—	—	15.09	—	15.09	—	—
Antigua and Barbuda	0.35	—	—	—	—	—	—	—	—	0.35	—	0.35	—	—
Argentina	77.63	136.30	—	163.47	—	—	—	—	—	377.40	136.30	77.63	—	163.47
Bangladesh	—	45.60	—	—	—	—	—	—	—	45.60	—	45.60	—	—
Barbados	—	7.27	—	8.33	—	—	—	—	—	15.60	1.77	5.50	—	8.33
Belize	—	—	—	—	—	—	—	3.60	—	3.60	—	3.60	—	—
Benin	1.83	—	—	—	—	—	—	—	—	1.83	—	1.83	—	—
Bolivia	5.80	—	—	—	—	—	—	—	—	5.80	—	5.80	—	—
Brazil	115.95	—	—	—	748.00	—	748.00	—	64.47	1,676.42	448.00	480.42	—	748.00
Burma	—	—	—	—	—	—	—	29.15	—	29.15	—	29.15	—	—
Cameroon	13.00	—	—	—	—	—	—	—	—	13.00	—	13.00	—	—
Central African Republic	2.70	—	—	4.50	—	—	—	—	—	7.20	—	2.70	—	4.50
Chile	28.75	73.65	—	88.35	—	—	—	—	—	190.75	102.33	0.07	—	88.35
Chad	3.25	—	—	—	—	—	—	—	—	3.25	—	3.25	—	—
Colombia	258.61	—	—	—	—	—	—	—	—	258.61	100.00	158.61	—	—
Congo	3.27	—	—	—	—	—	—	—	—	3.27	—	3.27	—	—
Costa Rica	5.65	33.55	—	40.25	—	—	—	18.60	—	98.05	33.55	24.25	—	40.25
Djibouti	0.58	—	—	—	—	—	—	—	—	0.58	—	0.58	—	—
Dominica	0.28	—	—	—	0.85	1.28	—	—	—	2.41	0.62	0.51	1.28	—
Dominican Republic	7.40	—	—	—	24.75	—	24.75	—	12.64	69.54	21.88	22.91	—	24.75
Ecuador	—	62.05	—	56.08	—	—	—	85.40	—	203.53	102.68	44.77	—	56.08
Egypt	30.35	—	—	—	—	—	—	—	—	30.35	—	30.35	—	—
El Salvador	6.13	15.50	—	—	—	—	—	—	—	21.63	7.75	13.88	—	—
Equatorial Guinea	0.85	—	—	—	—	—	—	—	—	0.85	—	0.85	—	—
Ethiopia	4.17	—	—	—	—	—	—	—	—	4.17	—	4.17	—	—
Gabon	0.04	—	—	—	—	—	—	—	—	0.04	—	0.04	—	—
Gambia, The	0.90	1.32	—	1.32	—	—	—	—	—	3.53	—	2.22	—	1.32
Ghana	11.38	97.18	—	93.62	—	—	—	120.50	—	322.68	81.70	147.36	—	93.62
Grenada	0.38	—	—	—	—	—	1.13	—	—	1.50	—	0.38	—	1.13
Guatemala	7.88	22.62	—	34.76	—	—	—	—	—	65.26	11.45	19.05	—	34.76
Guinea	4.68	—	—	—	—	—	—	—	—	4.68	—	4.68	—	—
Guinea-Bissau	0.40	—	—	—	—	—	—	—	—	0.40	—	0.40	—	—
Guyana	2.93	—	—	—	—	—	—	—	—	2.93	—	2.93	—	—
Haiti	2.40	18.14	—	20.36	—	—	—	—	—	40.90	10.10	10.43	—	20.36
Honduras	4.20	13.91	—	16.69	—	—	—	—	—	34.80	13.86	4.25	—	16.69
Hungary	—	177.11	—	199.79	—	—	—	—	—	376.90	37.82	139.30	—	199.79
India	—	—	—	—	750.00	450.00[1]	300.00	—	—	1,500.00	250.00	500.00	450.00	300.00
Indonesia	—	—	—	—	—	—	—	360.00	—	360.00	—	360.00	—	—
Iraq	67.48	—	—	—	—	—	—	—	—	67.48	—	67.48	—	—
Israel	34.78	—	—	—	—	—	—	—	—	34.78	—	34.78	—	—
Ivory Coast	12.88	—	—	—	—	115.43	—	—	0.98	129.28	—	13.85	115.43	—
Jamaica	8.63	—	—	—	—	—	74.80	—	—	83.43	—	8.63	—	74.80
Jordan	16.57	—	—	—	—	—	—	—	—	16.57	16.57	—	—	—
Kenya	2.78	—	—	84.60	—	—	—	—	—	87.38	—	2.78	—	84.60
Korea	51.72	—[2]	—	256.00	—	—	—	—	—	307.72	51.73	—	—	256.00
Lao People's Democratic Republic	1.33	—	—	—	—	—	—	—	—	1.33	—	1.33	—	—
Liberia	3.95	—	—	42.00	—	—	—	—	—	45.95	—	3.95	—	42.00
Luxembourg	7.63	—	—	—	—	—	—	—	—	7.63	—	7.63	—	—
Madagascar	5.03	1.50	—	1.50	—	—	—	—	—	8.03	—	6.53	—	1.50
Malawi	—	—	—	6.00	11.09	—	3.91	—	—	21.00	3.59	7.50	—	9.91

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Table I.6 *(concluded)*. Purchases of Currencies and SDRs from the Fund, Financial Year Ended April 30, 1984

(In millions of SDRs)

Member Purchasing	Within Reserve Tranche	Within Credit Tranche: Under stand-by arrangements			Under Decision on: Extended Fund facility					Total Purchases	Purchases Financed with: Ordinary resources			
		Ordinary resources	Supplementary financing facility	Enlarged access resources	Ordinary resources	Supplementary financing facility	Enlarged access resources	Compensatory financing	Buffer stock		Currencies	SDRs	Supplementary financing facility	Enlarged access resources
Maldives	0.45	—	—	—	—	—	—	—	—	0.45	—	0.45	—	—
Mali	2.58	3.00	—	13.00	—	—	—	—	—	18.58	3.00	2.58	—	13.00
Mauritania	2.10	—	—	—	—	—	—	—	—	2.10	—	2.10	—	—
Mauritius	3.28	2.63	—	30.37	—	—	—	—	—	36.28	—	5.91	—	30.37
Mexico	25.71	—	—	—	601.88	—	601.88	—	—	1,229.46	399.62	227.97	—	601.88
Morocco	20.40	53.67	—	76.33	—	—	—	—	—	150.40	—	74.07	—	76.33
Nepal	2.20	—	—	—	—	—	—	—	—	2.20	—	2.20	—	—
Netherlands	79.55	—	—	—	—	—	—	—	—	79.55	79.55	—	—	—
Nicaragua	4.30	—	—	—	—	—	—	—	—	4.30	—	4.30	—	—
Niger	—	9.60	—	—	—	—	—	24.00	—	33.60	—	33.60	—	—
Nigeria	77.38	—	—	—	—	—	—	—	—	77.38	—	77.38	—	—
Pakistan	—	—	—	—	47.50	47.50	—	—	—	95.00	47.50	—	47.50	—
Panama	8.68	29.73	—	45.27	—	—	—	58.90	—	142.58	18.30	79.01	—	45.27
Peru	—	—	—	—	111.09	—	53.91	—	—	165.00	79.44	31.65	—	53.91
Philippines	31.35	50.00	—	—	—	—	—	—	—	81.35	50.00	31.35	—	—
Portugal	48.77	99.33	—	67.08	—	—	—	258.00	—	473.17	148.09	258.00	—	67.08
Romania	38.98	86.82	—	188.68	—	—	—	—	—	314.48	—	125.79	—	188.68
Senegal	5.53	22.19	—	25.06	—	—	—	—	—	52.78	15.03	12.68	—	25.06
Seychelles	0.69	—	—	—	—	—	—	—	—	0.69	0.69	—	—	—
São Tomé and Principe	0.90	—	—	—	—	—	—	—	—	0.90	—	0.90	—	—
Sierra Leone	2.85	10.54	—	8.46	—	—	—	—	—	21.85	8.84	4.55	—	8.46
Solomon Islands	—	0.96	—	—	—	—	—	—	—	0.96	—	0.96	—	—
Somalia	2.43	—	—	26.25	—	—	—	—	—	28.68	—	2.43	—	26.25
Sri Lanka	11.15	32.79	—	17.21	—	—	—	—	—	61.15	17.58	26.36	—	17.21
St. Lucia	0.53	—	—	—	—	—	—	—	—	0.53	—	0.53	—	—
Sudan	9.43	4.71	—	97.29	—	—	—	—	—	111.43	4.62	9.51	—	97.29
Suriname	10.83	—	—	—	—	—	—	—	—	10.83	10.83	—	—	—
Swaziland	—	—	—	—	—	—	—	9.00	—	9.00	—	9.00	—	—
Syrian Arab Republic	11.15	—	—	—	—	—	—	—	—	11.15	—	11.15	—	—
Tanzania	6.13	—	—	—	—	—	—	—	—	6.13	—	6.13	—	—
Thailand	—	39.26	—	137.44	—	—	—	—	21.81	198.51	—	61.06	—	137.44
Togo	2.48	8.90	—	10.48	—	—	—	—	—	21.85	3.63	7.74	—	10.48
Turkey	—	112.50	90.00	—	—	—	—	—	—	202.50	—	112.50	90.00	—
Uganda	6.15	—	—	102.50	—	—	—	—	—	108.65	—	6.15	—	102.50
Uruguay	—	61.57	—	89.63	—	—	—	—	—	151.20	37.79	23.78	—	89.63
Yemen, People's Democratic Republic of	3.93	—	—	—	—	—	—	—	—	3.93	—	3.93	—	—
Viet Nam	10.45	—	—	—	—	—	—	—	—	10.45	—	10.45	—	—
Western Samoa	0.38	3.38	—	—	—	—	—	1.15	—	4.90	3.51	1.39	—	—
Yugoslavia	52.67	—	379.00	—	—	—	—	—	—	431.67	—	52.67	379.00	—
Zaïre	15.75	26.56	—	51.44	—	—	—	114.50	—	208.25	92.50	64.31	—	51.44
Zambia	14.71	48.66	—	63.84	—	—	—	97.20	—	224.41	112.42	48.15	—	63.84
Zimbabwe	10.25	55.80	—	59.20	—	—	—	—	2.10	127.35	47.89	20.25	—	59.20
Total	1,353.59	1,468.27	469.00	2,227.14	2,295.16	614.21	1,808.37	1,180.00	102.00	11,517.73	2,612.53	3,786.48	1,083.21	4,035.51

[1] Purchase financed from supplementary financing facility resources in substitution for enlarged access resources, Executive Board Decision No. 7047-(82/13), adopted February 5, 1982. (See *Selected Decisions of the International Monetary Fund and Selected Documents*, Tenth Issue (Washington, 1983), page 58.)

[2] Less than SDR 50,000.

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Table I.7. Repurchases of Currencies from the Fund, Financial Year Ended April 30, 1984
(In millions of SDRs)

Member Repurchasing	Repurchases in Respect of Purchases of: Borrowed Resources		Ordinary Resources				Total
	Oil facility	Supplementary financing facility	Credit tranche	Extended Fund facility	Compensatory financing	Buffer stock	
Australia	—	—	—	—	—	32.5 [1]	32.5
Bangladesh	0.9	—	8.9	—	—	—	9.8
Bolivia	—	4.5	6.3	—	1.9	—	12.7
Burma	—	—	11.3	—	—	—	11.3
Burundi	—	—	—	—	4.8	—	4.8
Cameroon	0.3	—	—	—	—	—	0.3
Central African Republic	—	—	—	—	1.3 [2]	—	1.3
Chile	— [3]	—	—	—	—	—	— [3]
China	—	—	450.0 [1]	—	—	—	450.0
Costa Rica	0.4	1.3	—	—	10.3	—	12.0
Cyprus	0.5	—	—	—	3.7	—	4.2
Dominica	—	—	0.3	—	0.5	—	0.8
Dominican Republic	—	—	8.0	—	2.3	—	10.2
Egypt	0.7	—	—	—	—	—	0.7
Equatorial Guinea	—	—	—	—	1.6	—	1.6
Ethiopia	—	—	—	—	18.0	—	18.0
Finland	7.2	—	—	—	—	—	7.2
Gabon	—	—	6.6	—	—	—	6.6
Gambia, The	—	—	0.8	—	1.7	—	2.5
Ghana	—	—	16.0	—	—	—	16.0
Guinea-Bissau	—	—	—	—	0.7	—	0.7
Guyana	—	—	—	—	1.9	—	1.9
India	—	—	—	—	66.5	—	66.5
Israel	—	—	—	—	18.1	—	18.1
Jamaica	—	21.4	—	6.7	17.8	—	46.0
Kenya	0.2	2.2	11.3	1.3	34.5	—	49.5
Korea	—	18.6	27.8	—	60.0	—	106.5
Lao People's Democratic Republic	—	—	0.6	—	—	—	0.6
Liberia	—	1.0	2.8	—	10.2	—	14.0
Madagascar	—	0.6	—	—	11.0	—	11.6
Malawi	—	1.0	1.2	—	9.5	—	11.7
Malaysia	—	—	—	—	—	1.0 [4]	1.0
Mali	—	—	—	—	2.6	—	2.6
Mauritania	0.1	0.5	—	—	5.3	—	5.9
Mauritius	—	6.1	10.6	—	—	—	16.7
Morocco	1.1	—	—	—	14.0	—	15.1
Nepal	—	—	—	—	3.8	—	3.8
Nicaragua	—	—	—	—	4.3	—	4.3
Peru	—	42.2	37.1	—	15.4	—	94.7
Philippines	3.4	13.2	63.3	31.9	68.8	—	180.6
Romania	—	—	6.5	—	66.1	—	72.6
Senegal	—	1.1	—	—	5.3	—	6.3
Sierra Leone	—	—	4.1	—	—	—	4.1
Somalia	—	—	0.4	—	—	—	0.4
South Africa	—	—	50.0 [5]	—	—	—	50.0
Sri Lanka	—	—	9.5	6.7	—	—	16.2
Sudan	—	8.8	8.9	1.3	26.1	—	44.9
Tanzania	—	—	3.8	—	23.4 [6]	—	27.2
Thailand	—	—	17.0	—	8.6	—	25.6
Togo	—	—	0.9	—	—	—	0.9
Turkey	5.7	67.3	60.2	—	35.8	—	169.0
Uganda	—	—	0.3	—	15.0	—	15.3
Viet Nam	—	—	1.3	—	—	—	1.3
Western Samoa	—	—	0.4	—	0.5	—	0.8
Yemen, People's Democratic Republic of	0.5	—	—	—	—	—	0.5

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Table I.7 *(concluded)*. Repurchases of Currencies from the Fund, Financial Year Ended April 30, 1984
(In millions of SDRs)

Member Repurchasing	Repurchases in Respect of Purchases of: Borrowed Resources		Ordinary Resources				Total
	Oil facility	Supplementary financing facility	Credit tranche	Extended Fund facility	Compensatory financing	Buffer stock	
Yugoslavia	3.5	12.2	50.0	—	138.5	—	204.2
Zaïre	2.0	—	18.6	—	—	—	20.7
Zambia	0.7	—	96.9	—	6.1	—	103.6
Total	27.3	202.0	991.7	47.8	715.3	33.4	2,017.6

[1] Early repurchases in accordance with the guidelines for early repurchase, Executive Board Decision No. 6172-(79/101), adopted June 28, 1979. (See *Selected Decisions of the International Monetary Fund and Selected Documents*, Tenth Issue (Washington, 1983), page 103.)
[2] Of which, SDR 0.2 million was an overcompensation in a purchase under the compensatory financing decision.
[3] Less than SDR 50,000.
[4] Repurchases under the buffer stock financing facility (rubber) in accordance with paragraph 3(b)(i) of Executive Board Decision No. 7246-(82/147), adopted November 12, 1982. (See *Selected Decisions of the International Monetary Fund and Selected Documents*, Tenth Issue (Washington, 1983), page 78.)
[5] Advance repurchase.
[6] Of which, SDR 13.9 million was an overcompensation in a purchase under the compensatory financing decision.

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Table I.8. Extended Fund Facility Arrangements for Members, July 7, 1975–April 30, 1984
(In millions of SDRs)

Member	Date of Inception	Date of Expiration	Total Amount of Arrangement	Of Which: Borrowed Resources	Amount Not Purchased at Expiration or Cancellation	Of Total Amount Approved, Amount Not Purchased as of April 30, 1984
Approved in previous financial years						
Bangladesh	12/8/80	12/7/83	800.00 [1]	480.80	580.00	—
Brazil	3/1/83	2/28/86	4,239.38	2,842.88	—	2,618.50
Costa Rica	6/17/81	6/16/84	276.75 [2]	190.65	254.25	—
Dominica	2/6/81	2/5/84	8.55	4.49	—	—
Dominican Republic	1/21/83	1/20/86	371.25	255.75	—	247.50
Egypt	7/28/78	7/27/81	600.00	—	525.00	—
Gabon	6/27/80	12/31/82	34.00	—	34.00	—
Guyana	6/25/79	6/24/82	62.75 [3]	35.00	52.75	—
	7/25/80	7/24/83	150.00 [4]	116.37	98.27	—
Haiti	10/25/78	10/24/81	32.20	—	21.40	—
Honduras	6/28/79	6/27/82	47.60	—	23.70	—
India	11/9/81	11/8/84	5,000.00	2,595.50	—	1,100.00
Ivory Coast	2/27/81	2/22/84	484.50	324.90	38.47	—
Jamaica	6/9/78	6/8/81	200.00 [5]	—	130.00	—
	6/11/79	6/10/81	260.00 [6]	227.10	175.00	—
	4/13/81	4/12/84	477.70 [7]	390.55	74.90	—
Kenya	7/7/75	7/6/78	67.20	—	59.50	—
Mexico	1/1/77	12/31/79	518.00 [8]	—	518.00	—
	1/1/83	12/31/85	3,410.63	2,287.13	—	2,106.57
Morocco	10/8/80	10/7/83	810.00 [9]	600.00	663.00	—
	3/9/81	10/7/83	817.05 [10]	567.00	680.55	—
Pakistan	11/24/80	11/23/83	1,268.00 [11]	869.00	919.00	—
	12/2/81	11/23/83	919.00	490.12	189.00	—
Peru	6/7/82	6/6/85	650.00 [12]	311.56	385.00	—
Philippines	4/2/76	4/1/79	217.00 [13]	—	—	—
Senegal	8/8/80	8/7/83	184.80 [14]	126.00	143.70	—
Sierra Leone	3/30/81	2/22/84	186.00 [15]	121.81	152.50	—
Sri Lanka	1/1/79	12/31/81	260.30	—	—	—
Sudan	5/4/79	5/3/82	427.00 [16]	303.80	—	—
Zaïre	6/22/81	6/21/84	912.00 [17]	632.94	737.00	—
Zambia	5/8/81	5/7/84	800.00 [18]	674.00	500.00	—
Subtotal			24,491.66	14,447.35	6,954.99	6,072.57
Approved during financial year 1983/84						
Grenada	8/24/83	8/23/86	13.50 [19]	8.98	12.37	—
Malawi	9/19/83	9/18/86	100.00	81.47	—	85.00
Subtotal			113.50	90.45	12.37	85.00
Total			24,605.16	14,537.80	6,967.36	6,157.57

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

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Table I.9. Borrowing in Connection with Purchases Under the Supplementary Financing Facility and Repayments to Lenders, May 29, 1980–April 30, 1984

(In millions of SDRs)

Lender	Total Amount of Agreement	Amount Borrowed	Amount Undrawn at Expiration of Agreements [1]	Amount Repaid [2]	Borrowing Outstanding as of April 30, 1984
Abu Dhabi	150.00	105.22	44.78	4.58	100.64
Austrian National Bank	50.00	50.00	—	0.99	49.01
Banque Nationale de Belgique	150.00	12.34	137.66	3.08	9.25
Canada	200.00	173.61	26.39	4.11	169.50
Deutsche Bundesbank	1,050.00	1,050.00 [3]	—	—	877.99
Banco de Guatemala	30.00	8.36 [4]	21.64	8.36	—
Japan	900.00	886.69	13.31	33.54	853.15
Central Bank of Kuwait	400.00	400.00	—	12.24	387.76
De Nederlandsche Bank, N.V.	100.00	100.00	—	2.58	97.42
Central Bank of Nigeria	220.00	69.85 [5]	150.15	69.85	—
Saudi Arabian Monetary Agency	1,934.00	1,906.74 [3]	27.26	107.19	1,971.56
Swiss National Bank	650.00	650.00	—	21.87	628.13
United States	1,450.00	1,450.00	—	31.87	1,418.13
Central Bank of Venezuela	500.00	369.42	130.58	17.14	352.28
Total	7,784.00	7,232.22 [6]	551.78	317.39	6,914.83

[1] Agreements lapsed on February 22, 1984.
[2] Repayments began on November 24, 1982.
[3] Claims totaling SDR 172.011 million under the supplementary financing facility were transferred by the Deutsche Bundesbank to the Saudi Arabian Monetary Agency against U.S. dollars on November 13, 1980.
[4] Claims totaling SDR 8.356 million were repaid in advance to the Banco de Guatemala on February 8, 1982. This encashment was refinanced by a call on the Swiss National Bank.
[5] Claims totaling SDR 69.850 million were repaid in advance to the Central Bank of Nigeria on April 8 and 9, 1982. This encashment was financed by calls in equal amounts under the supplementary financing facility borrowing agreements with Japan and the United States, in agreement with these lenders.
[6] Of which, SDR 1,083.21 million was borrowed in the financial year 1983/84.

Table I.10. Schedule of Fund Charges

Charges in percent per annum[1] payable on holdings for the periods stated:

	May 1, 1982 through April 30, 1984	From May 1, 1984
Purchases in the Credit Tranches and Under the Compensatory Financing, Buffer Stock Financing, and Extended Fund Facilities		
Service charge	0.5	0.5
Periodic charge	6.6	7.0
Supplementary Financing Facility		
Service charge	0.5	
Periodic charge		
Up to 3½ years	Rate of interest paid by the Fund plus 0.2 percent	
Over 3½ years	Rate of interest paid by the Fund plus 0.325 percent	
Enlarged Access Policy		
Service charge	0.5	
Periodic charge	Net cost of borrowing by the Fund plus 0.2 percent	

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

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Table I.11. Transfers of SDRs, January 1, 1970–April 30, 1984
(In millions of SDRs)

	Annual Average Jan. 1, 1970–Apr. 30, 1978	Financial Years Ended April 30						Total Jan. 1, 1970–Apr. 30, 1984
		1979	1980	1981	1982	1983	1984	
Transfers among participants and prescribed holders								
Transactions with designation								
From own holdings	222	74	346	392	489	996	89	4,238
From purchases of SDRs from Fund	41	1,006	1,025	1,490	1,389	1,717	2,313	9,282
Transactions by agreement	439	1,533	362	418	1,242	1,281	3,175	11,666
Prescribed operations	—	—	—	—	158	396	1,194	1,748
Net interest on SDRs	42	71	190	223	245	273	188	1,536
Total	743	2,684	1,923	2,525	3,520	4,664	6,959	28,470
Transfers from participants to General Resources Account								
Repurchases	306	502	994	930	838	566	392	6,772
Charges	259	717	557	587	968	1,497	2,159	8,643
Quota payments	24	19	1	5,091	266	83	6,195	11,856
Interest received on General Resources Account holdings	16	57	82	266	657	444	147	1,788
Assessments	1	2	1	2	2	2	3	21
Total	606	1,297	1,634	6,875	2,732	2,593	8,896	29,079
Transfers from General Resources Account to participants and prescribed holders								
Purchases	172	1,106	1,283	2,033	2,035	2,419	3,876	14,185
Repayments of Fund borrowings	—	38	64	161	144	28	787	1,223
Interest on Fund borrowings	4	9	21	50	143	224	202	685
In exchange for other members' currencies								
Acquisitions to pay charges	—	8	—	—	27	162	330	529
Acquisitions to make quota payments	—	—	—	341	—	—	—	341
Remuneration	26	136	140	219	348	861	1,573	3,496
Reconstitution	210	75	5	20	—	—	—	1,851
Other	29	5	4	13	23	20	26	333
Total	442	1,378	1,517	2,837	2,721	3,714	6,794	22,642
Total transfers	1,792	5,358	5,074	12,237	8,972	10,970	22,649	80,191
General Resources Account holdings at end of period	1,371	1,290	1,407	5,445	5,456	4,335	6,437	6,437

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Table I.12. Summary of Transactions and Operations in SDRs, Financial Year Ended April 30, 1984

(In thousands of SDRs)

Holders	Total Holdings April 30, 1983	Receipts from Participants and Prescribed Holders		Transfers to Participants and Prescribed Holders		Receipts from the General Resources Account	Transfers to the General Resources Account	Interest, Charges, and Assess-ment (Net)	Positions as at April 30, 1984		
		Designated	Other	Designated	Other				Holdings	Net cumulative allocations	Holdings as percent of cumulative allocations
PARTICIPANTS											
Afghanistan	14,450	—	4,800	15,086	—	15,663	4,800	−525	14,502	26,703	54.3
Algeria	141,016	—	—	—	—	11,676	48,900	+428	104,220	128,640	81.0
Antigua and Barbuda	—	—	350	—	350	352	350	—	2	—	—
Argentina	12.614	—	159,503	—	77,625	99,810	152,781	−13,895	27,626	318,370	8.7
Australia	86,014	118,582	—	—	—	—	56,036	−16,341	132,219	470,545	28.1
Austria	216,215	77,942	18,675	—	116,263	27,880	70,150	+1,219	155,517	179,045	86.9
Bahamas	5,293	—	—	—	—	231	4,225	−245	1,053	10,230	10.3
Bahrain	16,702	—	—	—	—	—	4,725	+424	12,402	6,200	200.0
Bangladesh	4,584	—	28,710	38,600	—	45,649	31,363	−1,856	7,124	47,120	15.1
Barbados	17	—	820	—	—	5,535	4,435	−250	1,687	8,039	21.0
Belgium	614,340	6,900	—	—	96,292	22,342	186,350	+2,862	363,801	485,246	75.0
Belize	—	—	575	3,582	—	3,763	739	+1	19	—	—
Benin	1,285	—	—	—	—	1,825	1,825	−360	925	9,409	9.8
Bhutan	2	—	—	—	—	20	—	+1	24	—	—
Bolivia	1,114	—	8,695	—	5,800	11,625	12,895	−1,166	1,573	26,703	5.9
Botswana	6,373	—	—	—	—	992	—	+122	7,487	4,359	171.7
Brazil	16,230	—	262,730	370,730	115,950	496,886	225,064	−15,592	48,510	358,670	13.5
Burma	1,083	—	15,919	29,018	—	29,150	11,815	−1,880	3,439	43,474	7.9
Burundi	1,833	—	—	—	—	336	930	−532	707	13,697	5.2
Cameroon	88	—	1,900	—	7,200	13,562	6,306	−926	1,119	24,463	4.6
Canada	24,105	274,475	2,000	—	—	7,627	226,375	−28,272	53,560	779,290	6.9
Cape Verde	100	—	—	—	—	27	—	−22	105	620	17.0
Central African Republic	436	—	2,600	—	—	2,711	4,644	−356	746	9,325	8.0
Chad	220	—	—	—	900	3,424	2,000	−319	425	9,409	4.5
Chile	6,173	—	43,900	—	—	3,100	35,011	−5,291	12,872	121,924	10.6
China	182,580	192,679	147,725	—	—	199	158,611	+2,277	366,850	236,800	154.9
Colombia	181,719	14,800	—	167,801	114,811	178,717	26,175	+3,868	70,317	114,271	61.5
Comoros	—	—	324	—	—	14	234	−104	1	716	0.1
Congo	71	—	2,400	—	2,000	3,270	2,950	−356	434	9,719	4.5
Costa Rica	2,954	—	12,150	16,400	5,650	24,925	16,975	−996	8	23,726	—
Cyprus	580	—	5,675	—	—	730	5,153	−826	1,006	19,438	5.2
Denmark	176,080	9,487	—	—	—	5,940	61,500	−468	129,539	178,864	72.4
Djibouti	393	—	—	—	—	639	575	−33	424	1,178	36.0
Dominica	121	—	394	—	—	806	1,252	−18	51	592	8.6
Dominican Republic	2,163	—	7,961	19,768	—	29,726	14,477	−1,329	4,276	31,585	13.5
Ecuador	11	—	12,725	44,148	—	50,239	17,100	−1,382	345	32,929	1.0
Egypt	962	—	45,625	30,350	—	30,350	33,627	−5,946	7,014	135,924	5.2
El Salvador	1,596	—	11,525	6,050	6,125	16,319	13,265	−1,086	2,914	24,985	11.7
Equatorial Guinea	—	—	850	—	850	2,647	1,822	−819	6	5,812	0.1
Ethiopia	2,310	—	10,000	—	—	4,991	14,938	−430	1,932	11,160	17.3
Fiji	3,187	—	6,800	—	—	280	3,266	−184	6,817	6,958	98.0
Finland	92,853	—	79,120	—	5,000	4,051	52,820	−2,902	115,302	142,690	80.8
France	777,061	—	6,125	—	15,293	64,794	401,075	−15,631	415,980	1,079,870	38.5
Gabon	200	—	14,950	—	—	57	13,939	−586	681	14,091	4.8
Gambia, The	344	—	900	2,054	900	5,655	3,186	−222	538	5,121	10.5

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Germany, Federal Republic of	1,893,354	516,284	131,700	—	1,444,782	765,602	542,425	+36,935	1,356,668	1,210.760	112.1
Ghana	813	—	22,375	118,800	11,375	148,509	32,835	−2,435	6,251	62,983	9.9
Greece	29	—	36,653	—	—	2,798	30,600	−4,382	4,499	103,544	4.3
Grenada	—	—	375	—	375	861	719	−124	18	930	1.9
Guatemala	44	—	15,465	18,408	—	19,488	15,317	−1,203	68	27,678	0.2
Guinea	—	—	3,225	—	3,225	6,476	3,984	−2,492	—	17,604	—
Guinea-Bissau	—	—	400	—	400	746	558	−163	25	1,212	2.0
Guyana	33	—	2,925	—	2,925	4,321	3,719	−635	—	14,530	—
Haiti	648	—	4,050	9,700	2,400	18,819	6,837	−576	4,004	13,697	29.2
Honduras	1,507	—	6,050	1,700	—	6,795	9,255	−819	2,578	19,057	13.5
Hungary	3,324	—	83,200	127,311	—	140,612	70,913	+599	29,511	—	—
Iceland	909	—	5,625	—	—	735	5,454	−704	1,111	16,409	6.8
India	231,824	—	254,425	200,000	6,875	580,824	459,418	−25,001	375,779	681,170	55.2
Indonesia	96,191	—	80,700	360,000	89,290	372,819	90,363	−10,016	42	238,956	—
Iran, Islamic Republic of	305,378	—	—	—	—	2,799	—	+2,771	310,947	244,056	127.4
Iraq	4,289	—	97,475	30,000	71,210	72,948	67,475	−2,523	3,504	68,464	5.1
Ireland	88,199	4,077	—	—	—	6,060	27,725	+5	70,616	87,263	80.9
Israel	1,407	—	60,500	34,000	—	34,790	53,518	−4,428	4,750	106,360	4.5
Italy	712,216	285,595	51,850	—	246,999	49,263	262,275	+6,339	595,989	702,400	84.9
Ivory Coast	4,889	—	59,010	—	12,875	14,669	57,463	−1,565	6,664	37,828	17.6
Jamaica	—	—	14,915	—	8,625	63,941	64,412	−5,819	—	40,613	—
Japan	2,032,943	23,948	5,650	—	211,999	331,101	433,700	+51,807	1,799,750	891,690	201.8
Jordan	16,436	—	—	—	—	938	—	+19	17,393	16,887	103.0
Kampuchea, Democratic	1,876	—	—	—	—	—	—	−601	1,276	15,417	8.3
Kenya	4,221	—	85,700	—	—	6,065	88,875	−954	6,157	36,990	16.6
Korea	18,226	—	266,725	—	—	1,361	269,093	−2,490	14,728	72,911	20.2
Kuwait	76,279	—	—	—	—	23,717	60,500	+2,278	41,774	26,744	156.2
Lao People's Democratic Republic	—	—	1,325	—	1,325	4,221	2,179	−1,322	720	9,409	7.7
Lebanon	1,802	—	10,542	—	—	560	12,700	−116	89	4,393	2.0
Lesotho	835	—	1,417	—	—	—	1,150	−115	986	3,739	26.4
Liberia	—	—	3,950	—	3,950	21,594	18,656	−2,905	32	21,007	0.2
Libyan Arab Jamahiriya	136,474	—	—	—	—	22,520	54,325	+4,194	108,863	58,771	185.2
Luxembourg	15,252	—	—	—	—	8,511	7,625	−47	16,091	16,955	94.9
Madagascar	1,498	—	4,850	—	3,850	14,416	14,476	−842	1,596	19,270	8.3
Malawi	983	—	4,725	3,000	—	10,283	9,846	−441	2,704	10,975	24.6
Malaysia	111,516	2,054	—	—	—	9,013	20,315	−1,482	100,786	139,048	72.5
Maldives	142	—	—	450	—	494	150	−7	29	282	10.2
Mali	535	—	—	—	—	5,264	5,035	−688	76	15,912	0.5
Malta	26,105	5,892	—	—	—	2,676	3,775	+959	31,857	11,288	282.2
Mauritania	497	—	10,831	4,000	4,344	2,932	5,520	−396	—	9,719	—
Mauritius	1,575	—	16,255	2,632	3,275	7,772	16,997	−677	2,021	15,744	12.8
Mexico	4,077	—	153,490	197,745	—	230,976	152,630	−12,423	25,745	290,020	8.9
Morocco	26,788	—	48,800	11,000	50,536	92,268	91,454	−3,635	11,231	85,689	13.1
Nepal	649	—	—	—	—	3,134	2,938	−341	504	8,105	6.2
Netherlands	811,333	81,500	13,925	—	270,643	46,805	210,700	+11,877	484,098	530,340	91.3
New Zealand	514	—	39,414	—	—	125	28,435	−5,610	6,008	141,322	4.3
Nicaragua	351	—	4,300	—	4,300	5,792	5,283	−860	—	19,483	—
Niger	7,256	—	—	33,600	—	33,999	3,475	−117	4,063	9,409	43.2
Nigeria	28,510	—	77,375	—	77,375	77,375	77,375	−5,707	22,803	157,155	14.5
Norway	294,511	48,104	33,917	—	75,675	27,423	64,125	+6,958	271,112	167,770	161.6
Oman	12,090	7,000	—	—	6,700	2,393	8,275	+491	7,000	6,262	111.8
Pakistan	13,132	—	151,450	—	—	497	137,064	−7,201	20,814	169,989	12.2
Panama	564	—	11,660	35,434	30,000	79,291	19,827	−843	5,410	26,322	20.6
Papua New Guinea	24,103	—	—	—	—	3	8,194	+522	16,433	9,300	176.7
Paraguay	27,561	3,500	—	—	—	2,886	3,475	+810	31,283	13,697	228.4

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Table I.12 (*concluded*). Summary of Transactions and Operations in SDRs, Financial Year Ended April 30, 1984
(In thousands of SDRs)

Holders	Total Holdings April 30, 1983	Receipts from Participants and Prescribed Holders		Transfers to Participants and Prescribed Holders		Receipts from the General Resources Account	Transfers to the General Resources Account	Interest, Charges, and Assess-ment (Net)	Positions as at April 30, 1984		
		Designated	Other	Designated	Other				Holdings	Net cumulative allocations	Holdings as percent of cumulative allocations
PARTICIPANTS											
Peru	134	—	115,450	—	—	32,302	144,152	−3,576	158	91,319	0.2
Philippines	9,998	—	104,450	—	31,350	31,475	108,272	−5,022	1,280	116,595	1.1
Portugal	65	—	46,533	226,000	30,000	260,282	40,054	−2,237	8,590	53,320	16.1
Qatar	15,635	5,178	—	—	—	2,075	12,175	+181	10,894	12,822	85.0
Romania	9,075	—	90,805	74,070	38,975	128,976	110,707	−3,324	1,780	75,950	2.3
Rwanda	10,525	—	—	—	—	329	2,325	−149	8,380	13,697	61.2
St. Lucia	—	—	525	—	525	833	693	−106	34	742	4.6
St. Vincent	49	—	—	—	—	108	99	−15	43	354	12.2
São Tomé and Principe	339	—	—	904	—	935	250	−11	109	620	17.6
Saudi Arabia	615,421	—	—	—	—	167,963	275,600	+21,673	529,457	195,527	270.8
Senegal	—	—	18,974	4,659	5,525	16,964	19,468	−3,321	2,965	24,462	12.1
Seychelles	139	—	—	—	—	23	100	−12	49	406	12.1
Sierra Leone	674	—	3,820	—	2,850	8,986	8,168	−763	1,700	17,455	9.7
Singapore	52,677	—	—	—	7,000	7,189	—	+1,842	54,708	16,475	332.1
Solomon Islands	1,255	—	—	—	—	963	654	+59	1,623	654	248.0
Somalia	823	—	19,320	6,475	4,437	2,478	10,900	−555	255	13,697	1.9
South Africa	69,853	—	80,300	—	—	—	121,065	−7,887	21,201	220,360	9.6
Spain	172,787	—	—	—	—	10,687	112,642	−6,182	64,649	298,805	21.6
Sri Lanka	5,235	—	23,528	19,708	—	26,999	32,959	−3,094	—	70,868	—
Sudan	5,116	—	9,425	—	9,425	52,905	55,736	−2,284	—	52,192	—
Suriname	8,388	—	—	—	3,940	228	2,950	−75	1,650	7,750	21.3
Swaziland	5,884	—	6,048	1,500	13,900	9,000	2,141	+65	3,456	6,432	53.7
Sweden	233,753	3,000	21,050	—	40,775	8,262	97,325	−1,251	126,714	246,525	51.4
Syrian Arab Republic	9,358	—	13,580	—	13,772	11,162	11,150	−1,207	7,972	36,564	21.8
Tanzania	1,358	—	9,097	—	6,125	9,757	12,705	−1,374	9	31,372	—
Thailand	16,976	—	66,000	21,352	—	61,815	88,327	−2,807	32,304	84,652	38.2
Togo	2,474	—	2,815	5,268	2,475	8,312	4,618	−419	820	10,975	7.5
Trinidad and Tobago	85,560	22,408	—	—	—	—	11,775	+2,374	98,567	46,231	213.2
Tunisia	14,179	—	—	—	—	957	10,925	−946	3,265	34,243	9.5
Turkey	4,664	—	134,975	—	43,000	113,100	192,290	−4,799	12,650	112,307	11.3
Uganda	3,084	—	14,470	—	6,150	28,635	35,241	−1,230	3,567	29,396	12.1
United Arab Emirates	50,743	11,563	—	—	—	—	—	+770	63,076	38,737	162.8
United Kingdom	823,866	517,708	144,850	—	565,552	96,243	451,625	−43,419	522,071	1,913,070	27.3
United States	4,800,321	169,314	174,800	—	174,800	707,422	663,850	+15,617	5,028,824	4,899,530	102.6
Upper Volta	7,320	—	—	—	—	304	1,900	−96	5,628	9,409	59.8
Uruguay	233	—	19,550	18,477	—	27,686	21,904	−2,094	4,993	49,977	10.0
Vanuatu	3	—	525	—	—	30	525	+1	34	—	—
Venezuela	400,578	—	—	—	—	36,205	95,375	+3,902	345,310	316,890	109.0
Viet Nam	—	—	10,450	—	10,450	17,965	11,888	−6,077	—	47,658	—
Western Samoa	67	—	375	680	—	1,699	1,221	−40	200	1,142	17.5
Yemen Arab Republic	14,839	—	14,627	14,627	—	23	6,542	+320	8,640	6,160	140.3
Yemen, People's Democratic Rep. of	10,620	—	11,701	—	3,000	3,925	5,413	−304	17,529	22,583	77.6
Yugoslavia	55	—	242,674	52,672	—	55,418	224,449	−6,586	14,440	155,161	9.3
Zaïre	—	—	15,750	4,000	15,750	115,478	55,788	−12,323	43,367	86,309	50.2
Zambia	92	—	27,872	20,230	14,700	88,209	78,264	−2,978	—	68,298	—

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Zimbabwe	4,168	—	20,300	—	16,298	20,651	23,396	−372	5,054	10,200	49.5
Total Participants	17,107,542	2,401,989	4,258,284	2,401,989	4,277,112	6,793,775	8,745,696	−176,225	14,960,568	21,433,330	69.8
PRESCRIBED HOLDERS											
Arab Monetary Fund	2,879	—	93,005	—	77,784	—	—	+1,038	19,138	—	—
Bank of Central African States	186	—	8,500	—	7,750	—	—	+107	1,042	—	—
East African Development Bank	—	—	1,850	—	—	—	—	—	1,850	—	—
Eastern Caribbean Central Bank	735	—	—	—	—	—	—	+32	768	—	—
Islamic Development Bank	—	—	1,000	—	—	—	—	+44	1,044	—	—
Nordic Investment Bank	84	—	6,919	—	6,912	—	—	+6	97	—	—
Swiss National Bank	12,575	—	—	—	—	—	—	+556	13,131	—	—
Total Prescribed Holders	16,459	—	111,274	—	92,446	—	—	+1,783	37,070	—	—
GENERAL RESOURCES ACCOUNT	4,334,909	—	8,745,696	—	6,793,775	—	—	+149,900	6,436,730	—	—
Total	21,458,910	2,401,989	13,115,253	2,401,989	11,163,332	6,793,775	8,745,696	−24,542	21,434,368	21,433,330	—

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Table I.13. Members That Have Accepted the Obligations of Article VIII, April 30, 1984

Member	Effective Date of Acceptance
Antigua and Barbuda	November 22, 1983
Argentina	May 14, 1968
Australia	July 1, 1965
Austria	August 1, 1962
Bahamas	December 5, 1973
Bahrain	March 20, 1973
Belgium	February 15, 1961
Belize	June 14, 1983
Bolivia	June 5, 1967
Canada	March 25, 1952
Chile	July 27, 1977
Costa Rica	February 1, 1965
Denmark	May 1, 1967
Djibouti	September 19, 1980
Dominica	December 13, 1979
Dominican Republic	August 1, 1953
Ecuador	August 31, 1970
El Salvador	November 6, 1946
Fiji	August 4, 1972
Finland	September 25, 1979
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
Iceland	September 19, 1983
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
New Zealand	August 5, 1982
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
St. Lucia	May 30, 1980
St. Vincent	August 24, 1981
Saudi Arabia	March 22, 1961
Seychelles	January 3, 1978
Singapore	November 9, 1968
Solomon Islands	July 24, 1979
South Africa	September 15, 1973
Suriname	June 29, 1978
Sweden	February 15, 1961
United Arab Emirates	February 13, 1974
United Kingdom	February 15, 1961
United States	December 10, 1946
Uruguay	May 2, 1980
Vanuatu	December 1, 1982
Venezuela	July 1, 1976

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Table I.14. Publications Issued, Financial Year Ended April 30, 1984

Reports and Other Documents

Annual Report of the Executive Board for the Financial Year Ended April 30, 1983
(English, French, German, and Spanish). Free

Annual Report on Exchange Arrangements and Exchange Restrictions, 1983
One copy free; additional copies US$12.00 each.

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

Summary Proceedings of the Thirty-Eighth Annual Meeting of the Board of Governors Free

Subscription Publications

Balance of Payments Statistics
Vol. 35. A two-part yearbook and 12 monthly booklets. US$38.00 a year. US$19.00 to university libraries, faculty members, and students. US$12.00 for yearbook only.

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

Government Finance Statistics Yearbook
Vol. VII, 1983. (Introduction and title of lines in English, French, and Spanish). US$20.00 a year. US$10.00 to university libraries, faculty members, and students.

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

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

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

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

Occasional Papers

No. 19 *The European Monetary System: The Experience, 1979–82*
By Horst Ungerer, with Owen Evans and Peter Nyberg

No. 20 *Alternatives to the Central Bank in the Developing World*
By Charles Collyns

No. 21 *World Economic Outlook: A Survey by the Staff of the International Monetary Fund*

No. 22 *Interest Rate Policies in Developing Countries*
By the Research Department of the International Monetary Fund

No. 23 *International Capital Markets: Developments and Prospects, 1983*
By Richard Williams, Peter Keller, John Lipsky, and Donald Mathieson

No. 24 *Government Employment and Pay: Some International Comparisons*
By Peter S. Heller and Alan A. Tait

No. 25 *Recent Multilateral Debt Restructurings with Official and Bank Creditors*
By a Staff Team Headed by E. Brau and R.C. Williams, with P.M. Keller and M. Nowak

No. 26 *The Fund, Commercial Banks, and Member Countries*
By Paul Mentré

Occasional Papers No. 21, the *World Economic Outlook*, and No. 23 are available for US$8.00 each, with a special price of US$5.00 each for university libraries, faculty members, and students. Occasional Papers No. 19, No. 20, No. 22, No. 24, No. 25, and No. 26 are available for US$5.00 each, with a special price of US$3.00 each for university libraries, faculty members, and students.

Books

Adjustment, Conditionality, and International Financing
Edited by Joaquín Muns. In English and Spanish. US$10.00

Exchange Rate Regimes and Policy Interdependence
Edited by A.W. Hooke. US$8.00

The Fund and China in the International Monetary System
Edited by A.W. Hooke. Cloth, US$10.00 Paper, US$5.00

Government Budgeting and Expenditure Controls: Theory and Practice
By A. Premchand. Cloth, US$24.00 Paper, US$18.00

International Money and Credit: The Policy Roles
Edited by George M. von Furstenberg. Cloth, US$28.50 Paper, US$15.00

Pamphlet Series

No. 37 *The International Monetary Fund: Its Evolution, Organization, and Activities* (third edition)
By A.W. Hooke (English, French, and Spanish). Free

No. 39 *Order in International Finance, the Promotion of IMF Stand-By Arrangements, and the Drafting of Private Loan Agreements*
By Joseph Gold (French and Spanish). Free

No. 40 *SDRs, Currencies, and Gold: Sixth Survey of New Legal Developments*
By Joseph Gold (English). Free

Other

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

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

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Appendix II
Principal Policy Decisions of the Executive Board

A. Surveillance over Members' Exchange Rate Policies

(a) Review of Surveillance over Exchange Rate Policies

The Executive Board has reviewed the document "Surveillance over Exchange Rate Policies" as provided in paragraph 2 of Executive Board Decision No. 5392-(77/63),[1] adopted April 29, 1977, and will review it again at an appropriate time not later than April 1, 1986.

Decision No. 7645-(84/40)
March 12, 1984

(b) Review of Implementation of Procedures for Surveillance

The Executive Board has also reviewed the procedures relating to the general implementation of the Fund's surveillance over members' exchange rate policies, as required by paragraph VI of *Procedures for Surveillance* in the document "Surveillance over Exchange Rate Policies" referred to in *(a)* above, including the procedures for the conduct of consultations under Article IV, which consultations shall comprehend the consultations under Article VIII and Article XIV, and approves the continuation of the procedures as described in SM/84/44, in the light of the Managing Director's summing up, until the next annual review, which shall be conducted not later than April 1, 1985.

Decision No. 7646-(84/40)
March 12, 1984

Attachment to Decision No. 7646-(84/40)
Managing Director's Summing Up

In our review, Directors once again indicated the great importance they attach to the Fund's role in the field of surveillance. They also stressed that effective surveillance requires the full cooperation of members and that it must be conducted in an effective and evenhanded way.

The discussion encompassed two reviews: the biennial review of the basic document setting out the principles of surveillance and the annual review of the implementation of surveillance. I shall refer first to Directors' remarks on the key issues encountered in the conduct of surveillance that can be related to the principles and procedures set out in the documents. Second, I shall refer to the remarks relating to the various methods through which surveillance is carried out: the multilateral aspects, Article IV consultations, and exchange rate monitoring.

[1] *Selected Decisions of the International Monetary Fund and Selected Documents*, Tenth Issue (Washington, 1983), pages 10–14.

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I. *Key Issues in the Conduct of Surveillance*

In focusing on the substance of surveillance, a number of Directors stressed that the Fund should be more energetic in its efforts to make surveillance effective, evenhanded, and symmetrical. The following conclusions emerged from the discussions.

First, while many Directors recognized that the assessment of exchange rate policies was a very complex task, they stressed that it was incumbent on the Fund to form a view on the appropriateness of members' exchange rate policies, irrespective of the exchange arrangements chosen by individual members and of the member's need for Fund financial support. This principle is the core of Article IV. In practice, it is often difficult to determine with quantitative precision the magnitude of an exchange rate's "out-of-lineness." But if the Fund is convinced that a rate is out-of-line, it must express that view in the first instance to the authorities of the countries directly involved. A few Directors held the view that the staff sometimes seemed insufficiently flexible, and somewhat dogmatic in its views with regard to exchange rates, with a tendency to overestimate the effectiveness of exchange rate depreciation, particularly in developing countries and centrally planned economies.

Second, the staff's determination of the adequacy of the exchange rate policy in an individual country is not merely an econometric exercise; it is something that touches on the functioning of the international monetary system. Thus it is important that when the Fund staff is convinced of a maladjustment in exchange rates, it should seek agreement of the membership on that judgment and on the necessary policy changes. It can happen that national authorities have domestic goals and constraints that may result in an inappropriate exchange rate in the judgment of the Fund. In such instances, through Article IV consultations and other reviews, the matter is brought to the attention of the Executive Board; after discussion and Board agreement with the staff position, the country is informed. Beyond that, the effectiveness of the Fund's surveillance procedures requires that the members of this institution give active and broad support to the positions taken by the Fund.

Third, Directors supported the view that many of the international economic difficulties of recent years have been associated with the pronounced swings in exchange rates between major industrial countries and with the repercussions of the low levels of economic activity and high interest rates prevailing in these countries on the rest of the world. Many Directors noted that to some extent these developments resulted from domestic policy stances in major industrial countries that, in their view, did not sufficiently promote the convergence of favorable economic conditions and that failed to take account of the implications for other countries and for the international monetary system as a whole. Most Directors felt that this failure to integrate international interests, rather than any deliberate attempt to manipulate exchange rates or the international monetary system, was the real problem. Therefore, the Fund had to form a view on the domestic policies needed to foster a smooth working of the system and had to attempt to persuade its members to follow such policies. On the basis of these considerations, Directors agreed that the experience in the implementation of surveillance does not call for a revision of the principles and procedures set out in the documents, but calls for more active implementation.

II. *Methods of Surveillance*

Multilateral aspects

Directors considered that the world economic outlook provided a valuable framework for analyzing global surveillance issues, and indeed considered it

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indispensable for evaluating the global effects of the economic policies of major countries. They welcomed the increasing emphasis on a medium-term approach and in particular on the development of medium-term balance of payments scenarios. They also called for increased analysis of the interaction of individual members' domestic policies, including the regional consequences of individual members' policies.

Directors considered it important that the Fund continue to place public emphasis on surveillance through different channels, such as publications and statements by the Managing Director. They also considered the more active role of the Fund in looking for solutions to the problems of external debt and protectionism in multilateral contexts to be essential. With regard to trade matters in particular, a number of Directors emphasized that the Fund's work could usefully enhance the GATT's activities while fully respecting the responsibilities of that institution.

Article IV consultations

In view of the Fund's obligation to form a view on the exchange rate policies of members, Directors generally endorsed the practice in staff reports of providing clear appraisals of exchange rate policies. Several Directors felt that the Fund staff was still less explicit in its exchange rate policy pronouncements for large industrial countries than it was in the case of smaller countries. The view was also put forward that an appraisal of the exchange rate policy of a member in an Article IV consultation should be made, whenever appropriate, in a multilateral framework.

Directors welcomed the recent emphasis on medium-term scenarios in the analysis of external debt and encouraged the staff to make further progress in presentation and analysis, with possibly alternative scenarios on debt, and to make more explicit the assumptions that underlie these projections and the sensitivity of the scenarios to changes in assumptions. Directors also called for increased emphasis on the medium term when assessing underlying payments balances as part of the appraisal of members' policies even when external debt or the financing of external imbalances was not a major concern.

The need for continued development of staff analyses in consultation reports of issues related to protectionism and export subsidies was stressed by many Directors. These analyses should cover the practice not only of individual members but also, if necessary, of groups of countries and customs unions. It was felt that to the extent possible the economic costs of protectionist measures taken by individual countries or groups of countries since the last Article IV consultation should be quantified and that the impact of protectionism on domestic adjustment should be examined in relevant cases.

In the course of the discussion, a number of suggestions were made for further improving the analytical coverage in consultation reports of structural aspects, capital flows, openness of capital markets, the size and structure of government revenue and expenditure, barriers to direct investment, the noncentral government public sector, structural adjustment problems, aid to ailing industries, and labor markets. A number of Directors also proposed that consultation reports should follow up the main points made in the summing up of the previous consultation. These reports should recall the main recommendations of the Board as contained in the summing up and indicate whether appropriate measures had been taken.

As in the recent discussion of "Coverage and Currentness of Data," Directors emphasized the crucial role of accurate data in consultation reports.

The marked increase in consultation frequency was welcomed by all Directors, who noted particularly the improved coverage of countries with Fund-supported programs. Directors recognized the efforts made in the last 18 months to reduce

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the backlog of overdue consultations, and considered that at the present time the problem of overdue consultations had been largely solved. Leaving aside cases involving security problems, at present only one member country was significantly behind in the consultation cycle. Directors reiterated their view that consultations should not be delayed on account of discussions on the use of Fund resources. A number of Directors believed that the Board should consider the Article IV consultation before turning to a request for use of Fund resources in those cases where the consultation was overdue. This is a very important policy recommendation.

Directors emphasized the need to carry out consultations on a timely basis in the future. In this regard, the system of advance specification of consultation cycles provides a useful framework. To help ensure that consultations are completed on time, we shall report to the Board on problems that may arise on a semiannual basis.

Directors broadly endorsed current practices in specifying consultation cycles. The suggestion was made that the criteria for the one-year consultation cycle be expanded to include members that wish to be kept on that cycle. Directors recognized that with such a work load, special efforts would be necessary to maintain the quality of consultation work. Therefore, the staff would continue to combine requests for use of Fund resources and periodic reviews with consultation reports. Some Directors supported the practice of selectively shortening, or even omitting, the papers on recent economic developments, particularly for countries on which economic information was amply available; but a number of other Directors stressed the importance of those papers for members individually and collectively, and they were opposed to any reduction in the role or importance of these documents.

Directors encouraged the staff to bring consultations on closely related countries to the Board simultaneously, in order to avoid duplication of effort on common features and to better understand the interaction aspect.

Exchange rate monitoring

Directors considered that both the quarterly reports on indicators of real effective exchange rates and the notices on individual countries provided useful information, although, of course, the developments have to be carefully analyzed before reaching any policy-directed conclusions. Most Directors considered that the threshold for issuing information notices should continue to be 10 percent. Some questions were raised regarding the benchmark date.

Directors welcomed the staff's intention to continue making improvements in the information notice system, and attached importance to making the coverage of the system as comprehensive as possible. In view of the importance of price, exchange rate, and direction of trade data for policy formulation, it is incumbent on country authorities, in consultation with the staff, to obtain the necessary data and to provide it to the Fund.

In sum, the Board felt that surveillance is an essential tool for the stability of the international monetary system. It considers that, despite the progress realized in the Fund's work in this field, the insufficient convergence of economic conditions throughout the world requires not necessarily changes in Fund procedures but, rather, strong political support from the membership.

There are still large differences of views on the way the exchange rate system is working and even larger differences of views on the way it should function. There are also differences of views on the way economic policies interact and, thus, affect the setting of prescriptions by the Fund. In a collective institution, these prescriptions can sometimes be difficult to express and even more difficult to implement.

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We should continue to improve the quality and the persuasiveness of our analysis of policy interactions. It is only through the quality of these analyses that the Fund will enlist support for its recommendations. The Executive Directors can help the staff and management in this task by maintaining the high standards of their interventions relating to all surveillance matters.

B. Adoption of Term "SDR" as Standard Usage by Fund

The following new Rule shall be included in the Rules and Regulations of the Fund as Rule B-6:

B-6 SDR refers to the special drawing right of the Fund. The term "SDR" (or "SDRs," as appropriate) shall be adopted as standard usage in Fund documents, correspondence, and publications where a reference to special drawing rights is intended, provided that if the text is in a language in which a different usage has become established, that usage may be retained.

Decision No. 7481-(83/112)
July 26, 1983

C. SDR Interest Rate and Related Matters: Amendment of Rules I-9, I-10, and T-1

Rules I-9, I-10, and T-1 of the Rules and Regulations of the Fund shall be amended to read as set forth below. The amended Rules shall apply with effect from August 1, 1983, provided that interest and charges on holdings of SDRs and remuneration accrued during the current financial quarter ending on July 31, 1983 shall be paid as of the commencement of the next financial year.

I—CHARGES IN RESPECT OF GENERAL RESOURCES ACCOUNT TRANSACTIONS AND REMUNERATION

I-9 (a) Remuneration shall accrue daily. The amount that has accrued during each quarter of the financial year of the Fund shall be paid as of the beginning of the following quarter.

(b) A member that wishes to receive in its own currency the whole or a specified portion of the remuneration payable to it shall so notify the Fund.

I-10 (a) The rate of remuneration shall be equal to 85 percent of the rate of interest on holdings of SDRs under Rule T-1(b), rounded to the two nearest decimal places.

(b) The Fund shall review the rate of remuneration on the occasion of the annual review of the rate of interest on holdings of SDRs under Rule T-1(d).

T—INTEREST, CHARGES, AND ASSESSMENTS IN RESPECT OF SDRS

T-1 (a) Interest and charges in respect of SDRs shall accrue daily at the rate referred to in (b) below. The amount that has accrued during each quarter of the financial year of the Fund shall be paid promptly as of the beginning of the following quarter. The accounts of participants shall be credited with the excess of interest due over charges or debited with the excess of charges over the interest due. The accounts of holders that are not participants shall be credited with the interest due.

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(b) The rate of interest on holdings of SDRs for each weekly period commencing each Monday shall be equal to the combined market interest rate as determined by the Fund at the beginning of the period in the manner described in (c) below.

(c) The combined market interest rate shall be the sum, rounded to the two nearest decimal places, of the products that result from multiplying each yield or rate listed below, expressed as an equivalent annual bond yield, for the preceding Friday by the value in terms of the SDR on that Friday of the amount of the corresponding currency specified in Rule O-1, as determined pursuant to Rule O-2(b). If a yield or rate is not available for a particular Friday, the calculation shall be made on the basis of the latest available yield or rate.

U.S. dollar	Market yield for three-month U.S. Treasury bills
Deutsche mark	Three-month interbank deposit rate in Germany
French franc	Three-month interbank money rate against private paper in France
Japanese yen	Discount rate on two-month (private) bills in Japan
Pound sterling	Market yield for three-month U.K. Treasury bills

(d) The Fund will review the rate of interest on holdings of SDRs at the conclusion of each financial year.

Decision No. 7480-(83/112) G/S
July 26, 1983, effective August 1, 1983

D. Rate of Remuneration: Amendment of Rule I-10

Rule I-10 shall read as follows:

(a) The rate of remuneration shall be equal to 85 percent of the rate of interest on holdings of SDRs under Rule T-1 (hereafter referred to as the "SDR interest rate"). The relationship of the rate of remuneration to the SDR interest rate will be referred to as the "remuneration coefficient."

(b) Beginning April 30, 1984, the remuneration coefficient during each quarter shall be at the level determined under (1), (2), (3), and (4) below, but no higher than permitted by Article V, Section 9(*a*):

(1) During the period May 1, 1984 to April 30, 1987, the remuneration coefficient shall be the higher of (i) or (ii) below:

(i) The remuneration coefficient in effect on January 1, 1984 increased by 3.33 percentage points in each of the three financial years beginning May 1, 1984, May 1, 1985, and May 1, 1986;

(ii) The remuneration coefficient in effect on January 1, 1984, increased or decreased on the first day of each quarter by 1 percentage point for each ⅙ of 1 percentage point that the SDR interest rate on the day before the beginning of the quarter is below or above the SDR interest rate in effect on April 30, 1984, provided that the remuneration coefficient in any quarter in each of these three financial years shall not be more than 2.5 percentage points above the amount of the coefficient for that year as determined under (i) above.

(2) Following the adjustment in the remuneration coefficient on May 1, 1986, the rate of remuneration shall be reviewed before May 1, 1987. This review shall be conducted in the light of all the relevant considerations, including, in particular, the SDR interest rate and the rate of charge.

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(3) Beginning May 1, 1987, the remuneration coefficient shall be the higher of (i) or (ii) below:

(i) The remuneration coefficient existing at the end of the preceding financial year;

(ii) A remuneration coefficient of 95 percent, increased or decreased on the first day of each quarter by 1 percentage point for each ⅙ of 1 percentage point that the SDR interest rate on the day before the beginning of a quarter is below or above the SDR interest rate on April 30, 1987, provided that the remuneration coefficient in any quarter of a financial year shall not be more than 2.5 percentage points above the level at the end of the preceding year.

(4) The rate of remuneration, while less than 100 percent of the SDR interest rate, shall be rounded to the nearest two decimal places.

(c) The operation of (b) above shall be reviewed on the occasion of the reviews of the rate of charge under Rule I-6(4) and the SDR interest rate under Rule T-1(d).

(d) If the rate of charge on holdings specified in Rule I-6(4) should exceed the SDR interest rate, the Executive Board shall review the remuneration coefficient, and, in particular, will consider whether the remuneration coefficient should be set, within the range in Article V, Section 9(*a*), at such a level as would permit the rate of charge to be set under Rule I-6(4)(a) or (b) at the same level as the SDR interest rate referred to above and still meet the target amount of net income for the financial year.

Decision No. 7603-(84/3)
January 6, 1984

E. Level of Fund's SDR Holdings

In determining the amounts of SDRs to be transferred in purchases under the operational budgets, the Fund will be guided by the aim of reducing the Fund's SDR holdings to a level of approximately SDR 4.0 billion by May 31, 1985. Prior to April 30, 1985, the Fund will review the level of its SDR holdings to determine whether and to what extent they should be further reduced.

Decision No. 7626-(84/23) S
February 13, 1984

F. Policy on Enlarged Access to the Fund's Resources: Extension of Period

1. The Fund may approve a stand-by or extended arrangement that provides for enlarged access under Decision No. 6783-(81/40) [2] on the policy on enlarged access until the end of 1984, provided that the Fund may extend this period.

2. The Fund will review Decision No. 6783-(81/40) [2] not later than December 31, 1984, and annually thereafter as long as the Decision remains in effect, in order to consider the future of the policy on enlarged access in light of all relevant factors, including the magnitude of members' payments problems and developments in the Fund's liquidity.

Decision No. 7599-(84/3)
January 6, 1984

[2] *Selected Decisions of the International Monetary Fund and Selected Documents*, Tenth Issue (Washington, 1983), pages 40–45.

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G. Policy on Enlarged Access to the Fund's Resources: Criteria for Amount of Access in Individual Cases

Chairman's Summary of Executive Board Discussion

The thoughtful and frank comments of Executive Directors during the discussion were of great benefit to the staff and management. As has been suggested by a number of Directors, I will sum up the discussion rather than attempt to reformulate the proposed criteria in Section V of the staff paper.

A number of Executive Directors noted that the broad thrust of the staff paper, particularly Section II, "Considerations Governing Amount of Access," (see Attachment) was acceptable to them. I will now try to summarize the discussion; in doing so, I will note the reservations and nuances that have been expressed by several Directors, without referring back to the staff paper in detail. I have noted, in particular, the following nine points that were emphasized by Executive Directors:

1. The criteria for the use of the Fund's resources contained in the decision on the policy on enlarged access remained valid and would continue to be applied on a case-by-case basis.

2. The access limits of 102 percent or 125 percent of quota set out in paragraph 5(c) of the communiqué of the Interim Committee [3] were not to be regarded as targets or entitlements.

3. The considerations pertaining to the use of Fund resources under the existing decision on enlarged access would continue to be applied in determining the amounts of individual access in what several Executive Directors had called the continuum going from 0 to 102 or 125 percent of quota. Clearly, the criteria of the member's need and the strength of the adjustment program would be major guiding factors in setting those individual amounts. In response to comments made by some Directors, I can state that the staff did not intend to make use of the Fund's resources in the range between 102 percent and 125 percent of quota subject to a finding of "exceptional circumstances," in the sense of what governs access beyond the upper limit. In bringing forward requests by members for the use of the Fund's resources under the enlarged access policy, the staff will try to explain more fully how it had come to the access limits proposed in each case, in light of the framework that has emerged from the views expressed by the Executive Board.

4. The Fund should apply its criteria with the necessary flexibility and not in a mechanical way. Rather, the policy should be applied on the basis of experience and taking into account the analytical studies of the staff and the Board discussions of the staff papers. Today's staff paper was part of that background material.

5. The Executive Board preferred not to codify the exceptional circumstances that might entail utilization of the Fund's resources beyond the upper limit of 125 percent. In particular, the Board was opposed to singling out the impairment of the international monetary system as a criterion, because it might imply special treatment for larger countries. Several Directors had noted that, in their view, there might well be a good case for emphasizing the circumstances of smaller countries with no access to financial markets.

6. After a thorough discussion of the concept of the Fund's role as a catalyst, a number of Directors expressed the fear that this concept could lead to withholding the support of the Fund for countries with large problems and little or no access to financial markets. A number of other Directors stressed that in providing assistance to member countries where the process of reaching balance of payments viability would be lengthy, the Fund should be guided by the principle of the revolving and temporary character of the use of the Fund's resources. Directors would have another opportunity to discuss that issue when they considered the

[3] See page 144 below.

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paper that the staff was preparing on continuous use of Fund resources for long periods. A number of Directors stressed the importance of adapting the adjustment period to the circumstances of the country. All Directors agreed that the Fund should continue to concern itself with the type of cases referred to in this paragraph, and develop even closer links with the World Bank for this purpose.

7. A number of Directors expressed the view that the problem of small-quota, low-income countries had been dealt with inadequately in the staff paper, and that the Fund should carry out the injunction of the Interim Committee in paragraph 5(f) of its communiqué that, "in implementing its policies on access to its resources, the Fund should be particularly mindful of the very difficult circumstances of the small-quota, low-income member countries." A number of Directors felt that in considering such cases, the Fund should bear in mind that the limit of SDR 25 million for a small quota was outdated, and should be the subject of further consideration.

8. A number of Directors felt that the staff paper was biased against the use of the extended Fund facility. I wish to emphasize that that had not been the intention; on the occasion of the recent discussion in the Executive Board on the review of past programs under stand-by and extended arrangements, I stated that the staff and management had the firm intention of continuing to make use of the extended Fund facility, which had a valuable role to play but, of course, conditions would have to be adequate.

9. Several Directors called for a review of the Fund's borrowing requirements for 1984 and beyond, and for more of an indication of the methods of financing them. The methods of financing the resources that the Fund might need to borrow in 1984 could not be decided until the scale of the commitments to members and the size of the present commitment gap were better known. When they came to consider the liquidity position of the Fund in the first months of 1984, Executive Directors would be asked to express their views on how the Fund should meet its borrowing needs, in light of the amounts required. Some Directors emphasized that if requests for augmentation of existing arrangements on the basis of the new quotas and the new access limits were to be received, they would have to be dealt with on a case-by-case basis, in the light of needs and the merits of particular cases.

December 2, 1983

Attachment to Chairman's Summary
Section II of Staff Paper

II. *Considerations Governing Amount of Access*

Under the decision on enlarged access, a request for the Fund's resources will be met only if the Fund is satisfied that the payments imbalance that the member faces is large in relation to its quota, that the member's financing need from the Fund exceeds the amount available to it in the credit tranches or under the extended Fund facility, and that its problem requires a relatively long period of adjustment and a period of repurchases longer than three to five years. The decision further states that the period of a stand-by arrangement involving enlarged access will normally exceed one year and may extend to three years, and the period of an extended arrangement will be normally three years. In practice the Fund has considered successive one-year stand-by arrangements, formulated within a medium-term strategy of steady progress toward a sustainable balance of payments position to be consistent with this decision, when the amount of the arrangement is greater than that available in the credit tranches.

The considerations that need to be taken into account in determining the amount of access in individual arrangements and current practice on access have

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been discussed in recent staff papers and may be briefly recapitulated here. The first important consideration is the member's actual or potential need for resources from the Fund, taking into account other sources of financing and the desirability of maintaining a reasonable level of reserves; in no circumstances can access be greater than this need. The second important consideration stems from the need to preserve the revolving character of the resources that the Fund provides, i.e., the ability of the member to service its indebtedness to the Fund. In determining the case for Fund support and the amount involved, the timing and extent of the expected improvement in the member's balance of payments are relevant factors. It follows that adjustment policies in support of which the Fund's resources are to be used must be designed and implemented in such a manner as to lead to a strengthening of the balance of payments by the time the repurchases begin to fall due and of a sufficient extent to allow the member to make the repurchases without strain. Finally, the amount of the member's outstanding use of Fund credit and its record in using Fund resources in the past must enter into the judgment on the appropriate scale of further use of the Fund.

Under the policy on enlarged access, repurchases of borrowed resources begin three and one-half years after the purchase, whether under a stand-by or extended arrangement. Repurchases of ordinary resources under a stand-by arrangement must be made during the regular three to five-year period after the purchase, while repurchases of ordinary resources under an extended arrangement must be made during a four to ten-year period after the purchase. For stand-by arrangements, it should therefore be expected that substantially all adjustment measures would be implemented at an early stage and there would be significant progress to balance of payments viability by the end of the three years, in order that repurchases could be made as scheduled.

To ensure that the program allows repurchases to be made, a balance of payments projection well into the repurchase period must show that progress toward a viable balance of payments position is being achieved. This can be indicated by a diminishing need for exceptional finance in general, and that to be provided by the Fund in particular, over the period. The policy measures already in place or being introduced must be commensurate with those needed to continue this progress at the required rate. This subject is discussed in the recent paper reviewing upper credit tranche stand-by arrangements and conditionality.

These basic principles have to be applied in a flexible way because of the great variety of the member's circumstances and the uncertainties that attend economic projections and programming. Access at or close to the annual limit of 102 percent of quota is justified where the member's outstanding use of the Fund's resources is not large, where the member has undertaken a comprehensive adjustment program adequate to bring about a rapid turnaround in the balance of payments, and where the Fund is satisfied that on the basis of the member's past record and its present circumstances, it has the ability and willingness to implement the program. The Fund support might appropriately be given in the form of an extended arrangement in some of these cases. Substantial Fund financing may frequently be a critical element in restoring confidence of the international financial community in the policies of the country and thus reviving capital flows.

In these cases where the member has an especially large need for financing from the Fund, and where, based on all relevant information, the strength of the adjustment effort is such that the balance of payments improvement will be quick, sufficient, and durable, Fund financing could exceed the 102 percent limit and reach up to the 125 percent limit. Moreover, as reaffirmed by the Interim Committee, the Fund should have the flexibility in exceptional cases of going beyond the latter limit.

The Fund has recognized that even full implementation of a program or programs may not necessarily guarantee the achievement of the desired balance

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of payments outcome; moreover, even if the outcome were to turn out to be fully as planned, new problems could arise before repurchases were completed, calling for a supplementary adjustment effort. The Fund should continue to have the flexibility to provide financial support in these circumstances, even though this might prolong the period of use of its resources by a member. This policy approach is implicit in the fact that the cumulative limit allows additional Fund financing even when a member has obtained the maximum possible amount of support for a period of three years.

There are also circumstances where it is clear at the outset that the adjustment period will have to be stretched beyond three years. In these cases Fund support should normally be in the form of successive shorter-term stand-by arrangements, each arrangement being formulated within the framework of a medium-term strategy of balance of payments adjustment. In view of the possible association of the Fund over a number of years, Fund financing in each individual year should be in moderate amounts, that is, well below the limit of 102 percent. Moreover, such support must be associated with the prospect of a significant reduction in balance of payments pressures within a reasonable period so that the member will be in a position to make the repurchases on schedule and in less straitened circumstances than when the corresponding drawings were made.

In a quite different category are situations where the Fund's role is likely to be primarily that of a catalyst. The weakness of a member's balance of payments may be such that it is questionable whether a sustainable position not requiring exceptional finance can be achieved over the medium term. A principal factor causing this weakness is often the existing burden of debt service. In some of these cases the debt service problem may be due in part to the large outstanding use of the Fund by the member and further substantial purchases from the Fund would only aggravate the difficulties. In other cases, a substantial improvement in the balance of payments may call for fundamental economic changes which cannot be achieved within a medium-term time frame. In all these situations Fund financing on a limited scale is justified if the member is taking appropriate steps to deal with its situation and such support will maintain the confidence of other creditors. The great bulk of the external financing must normally be provided on appropriate terms from sources other than the Fund. If sufficient external financing cannot be obtained, the Fund cannot be the residual source of finance, and there would thus be no basis for the Fund to support the adjustment program. The amount of the financing need that can be met from the Fund must be closely related to the expected rate of improvement in the overall balance of payments, and there should be a clear prospect of the member making net repurchases with a view to restoring its credit tranche position, thus preventing the use of Fund resources acquiring a semipermanent character.

H. Policy on Enlarged Access to the Fund's Resources: Guidelines on Access Limits

1. Access by members to the Fund's general resources under Decision No. 6783-(81/40) [4] on the policy on enlarged access during the period ending on December 31, 1984 shall be subject to annual limits of 102 or 125 percent of quota, three-year limits of 306 or 375 percent of quota, and cumulative limits of 408 or 500 percent of quota net of scheduled repurchases, depending on the seriousness of the member's balance of payments needs and the strength of its adjustment effort. The annual and triennial access limits shall not be regarded as targets. Within these limits, the amounts of access in individual cases will vary according to the circumstances of the member in accordance with criteria established by the Executive Board. The Fund may approve stand-by or extended

[4] *Selected Decisions of the International Monetary Fund and Selected Documents*, Tenth Issue (Washington, 1983), pages 40–45.

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arrangements that provide for amounts in excess of these access limits in exceptional circumstances.

2. The guidelines will be reviewed before the end of 1984 at the time of the annual review of the Decision on the policy on enlarged access.

Decision No. 7600-(84/3)
January 6, 1984

I. Policy on Enlarged Access to the Fund's Resources: Use of Ordinary and Borrowed Resources

The Fund, having reviewed the proportions of ordinary and borrowed resources to be used under a stand-by or extended arrangement approved under Decision No. 6783-(81/40) [5] on the policy on enlarged access, decides that:

1. The proportions after the effective date of this decision will be as follows:

(a) Under a stand-by arrangement, purchases will be made with ordinary and borrowed resources in the ratio of 2 to 1 in the first credit tranche, and 1 to 1 in the next three credit tranches. Thereafter, purchases will be made with borrowed resources only.

(b) Under an extended arrangement, purchases will be made with ordinary and borrowed resources in the ratio of 1 to 1 until the outstanding use of the upper credit tranches and the extended Fund facility equals 140 percent of quota. Thereafter, purchases will be made with borrowed resources only.

2. In accordance with subparagraph 8(d) of Decision No. 6783-(81/40),[5] the proportions in 1 above shall apply to amounts that may be purchased under existing arrangements after the effective date of this decision on the basis of the member's quota at the time the arrangement for the member was approved.

Decision No. 7601-(84/3)
January 6, 1984

J. Value Date of Purchases Under Arrangements Involving Enlarged Access Resources

(a) Amendment of Rule G-4(b)

Effective July 3, 1984 Rule G-4(b) shall read as follows:

(b) The value date for a purchase that involves resources borrowed by the Fund under the policy on enlarged access, and that is in accordance with the stand-by or extended arrangement, will normally be either the fifteenth or the last day of the month, or the preceding business day if the day selected is not a business day. If the request for the purchase is not received in the Fund in time for its instructions to be issued for the first of these value dates following the date of receipt, the purchase will be executed at the next such value date.

Decision No. 7687-(84/70)
May 1, 1984, effective July 3, 1984

(b) Amendment of Forms of Stand-By and Extended Arrangements

Paragraph 7 of the form of stand-by and extended arrangements under enlarged access policy (attached to Decision No. 6838-(81/70),[6] April 29, 1981) shall be amended to read as follows:

[5] Ibid.
[6] Ibid., pages 48–57.

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7. The value date for purchases under this [stand-by] [extended] arrangement involving borrowed resources will be determined in accordance with Rule G-4(b) of the Fund's Rules and Regulations. (Member) will consult the Fund on the timing of purchases involving borrowed resources in accordance with Rule G-4(d).

Decision No. 7688-(84/70)
May 1, 1984

K. Overdue Payments to the Fund: Performance Criterion Under Stand-By and Extended Arrangements

1. Paragraph 4(d) of the form of the stand-by arrangement in *Attachment A* to Decision No. 6838-(81/70),[7] April 29, 1981, shall be amended to read as follows:

(d) during the entire period of this stand-by arrangement, while (member) has any overdue financial obligation to the Fund, or if (member)
   (i) imposes [or intensifies] restrictions on payments and transfers for current international transactions, or
   (ii) introduces [or modifies] multiple currency practices, or
   (iii) concludes bilateral payments agreements which are inconsistent with Article VIII, or
   (iv) imposes [or intensifies] import restrictions for balance of payments reasons.

2. Paragraph 4(d) of the form of the extended arrangement in *Attachment B* to Decision No. 6838-(81/70),[7] April 29, 1981, shall be amended to read as follows:

(d) throughout the duration of the extended arrangement, while (member) has any overdue financial obligation to the Fund, or if (member)
   (i) imposes [or intensifies] restrictions on payments and transfers for current international transactions, or
   (ii) introduces [or modifies] multiple currency practices, or
   (iii) concludes bilateral payments agreements which are inconsistent with Article VIII, or
   (iv) imposes [or intensifies] import restrictions for balance of payments reasons.

3. Other stand-by arrangements involving the use of the Fund's resources in the upper credit tranches and other extended arrangements granted by the Fund after the date of this decision shall also include the provision in 1 or 2 above.

4. The provision in 1 or 2 above shall also be included in an existing stand-by or extended arrangement when the Fund and the member reach understandings regarding the circumstances in which further purchases may be made under the arrangement.

Decision No. 7678-(84/62)
April 20, 1984

L. Oil Facility: Subsidy Account—Final Report on Termination

1. Subsidy payments shall be made to the beneficiaries listed in Table 1 of EBS/83/94, Supplement 3, on the Fund's holdings of each member's currency subject to charges that were outstanding under the 1975 oil facility and eligible for subsidy for the period May 1, 1975 to May 11, 1983 at a rate (approximately 0.32 percent) that will fully utilize the remaining resources of the account.

2. These payments shall be made in U.S. dollars as soon as practicable after

[7] Ibid.

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all charges due at the end of July 1983 in connection with the oil facility have been paid.

3. No charge shall be levied for the services rendered by the Fund in the administration, operation, and termination of the account.

4. After disbursement of subsidy payments under paragraph 2 above, the subsidy account shall be considered terminated.

Decision No. 7484-(83/117)
August 2, 1983

M. Compensatory Financing of Export Fluctuations: Guidelines on Cooperation

The Executive Board approves the guidelines on cooperation under the compensatory financing facility set out in EBS/83/171, Supplement 1 (9/12/83).

Decision No. 7528-(83/140)
September 14, 1983

Attachment to Decision No. 7528-(83/140)
EBS/83/171, Supplement 1

Lower tranche

The criterion—namely, that the Fund is satisfied that the member will cooperate with the Fund in an effort to find, where required, appropriate solutions for its balance of payments difficulties—implies a willingness to receive Fund missions and to discuss, in good faith, the appropriateness of the member's policies and whether changes in the member's policies are necessary to deal with its balance of payments difficulties. Where the Fund considers that the existing policies of the member in dealing with its balance of payments difficulties are seriously deficient or where the country's record of cooperation in the recent past has been unsatisfactory, the Fund will expect the member to take action that gives, prior to submission of the request for the purchase, a reasonable assurance that policies corrective of the member's balance of payments problem will be adopted.

Upper tranche

The additional criterion of the upper tranche—namely, that the Fund is satisfied that a member has been cooperating with the Fund in an effort to find, where required, appropriate solutions for its balance of payments difficulties—means that in the light of the action taken by the member and the balance of payments policies being pursued the Fund is satisfied with the member's record of cooperation. The existence of a satisfactory balance of payments position (apart from the effects of the shortfall) or the existence of and broadly satisfactory performance under an arrangement with the Fund, or the adoption of such an arrangement at the time the request for a CFF purchase is made, will be considered to provide evidence of cooperation. However, the existence or the adoption of an arrangement is not a prerequisite. If a member's current and prospective policies were such as would, in the Fund's view, meet the criteria of the use of resources in the credit tranches, the member would be deemed to have been satisfactorily cooperating with the Fund, even though such use was not contemplated at the time of the CFF request.

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N. Compensatory Financing of Export Fluctuations: Access Limits

1. In paragraph 3 of Decision No. 6224-(79/135) [8] "100 percent" shall be changed to "83 percent."

. . .

4. The new percentages of quota under 1 . . . above shall be reviewed not later than December 31, 1984 and annually thereafter in the light of all relevant factors, including the magnitude of members' payments problems and developments in the Fund's liquidity.

Decision No. 7602-(84/3)
January 6, 1984

O. Compensatory Financing of Fluctuations in the Cost of Cereal Imports: Access Limits

. . .

2. The following changes shall be made in paragraphs 9 and 14(a) of Decision No. 6860-(81/81): [9]
(i) "125 percent" shall be changed to "105 percent;" and
(ii) "100 percent" shall be changed to "83 percent."

. . .

4. The new percentages of quota under . . . 2 . . . above shall be reviewed not later than December 31, 1984 and annually thereafter in the light of all relevant factors, including the magnitude of members' payments problems and developments in the Fund's liquidity.

Decision No. 7602-(84/3)
January 6, 1984

P. Buffer Stock Financing Facility: Access Limits

. . .

3. In paragraph 2 of Decision No. 2772-(69/47),[10] as amended, "50 percent" shall be changed to "45 percent."
4. The new percentages of quota under . . . 3 above shall be reviewed not later than December 31, 1984 and annually thereafter in the light of all relevant factors, including the magnitude of members' payments problems and developments in the Fund's liquidity.

Decision No. 7602-(84/3)
January 6, 1984

Q. Guidelines for Borrowing by the Fund

Quota subscriptions are and should remain the basic source of the Fund's financing. However, borrowing by the Fund provides an important temporary supplement to its resources. In present circumstances, it facilitates the provision of balance of payments assistance to its members under the Fund's policies of supplementary financing and enlarged access.

The confidence of present and potential creditors in the Fund will depend not only on the prudence and soundness of its financial policies but also on the

[8] *Selected Decisions of the International Monetary Fund and Selected Documents*, Tenth Issue (Washington, 1983), pages 61–64.
[9] Ibid., pages 65–70.
[10] Ibid., pages 70–71.

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effective performance of its various responsibilities, including, in particular, its success in promoting adjustment.

Against this background the Executive Board approves the following guidelines on borrowing by the Fund.

1. Fund borrowing shall remain subject to a process of continuous monitoring by the Executive Board in the light of the above considerations. For this purpose, the Executive Board will regularly review the Fund's liquidity and financial position, taking into account all relevant factors of a quantitative and qualitative nature.

2. Subject to paragraph 4 below, the Fund will not allow the total of outstanding borrowing plus unused credit lines to exceed the range of 50–60 percent of the total of Fund quotas. If the total of outstanding borrowing plus unused credit lines reaches the level of 50 percent of quotas, the Executive Board shall assess the various technical factors that determine, at that time, the availability of balances of unused lines of credit. While this assessment is being made, the total of outstanding borrowing plus unused credit lines may rise, if necessary, beyond 50 percent, but shall not exceed 60 percent of total quotas.

3. The total of outstanding borrowing plus unused credit lines under paragraph 2 above shall include, in respect of the GAB and borrowing arrangements associated with the GAB, either outstanding borrowing by the Fund under these arrangements, or two thirds of the total of credit lines under these arrangements, whichever is the greater.

4. In the case of major developments, the Executive Board shall promptly review, and may adjust, the guidelines. In any event, the guidelines shall be reviewed when the Board of Governors has completed the Ninth General Review of Quotas, or when there is a significant change in the GAB or associated arrangements, and may be adjusted as a result of such reviews.

5. The percentage limits specified in paragraph 2 above, or any other limits that may be adopted as a result of a review pursuant to paragraph 4 above, are not to be understood, at any time, as targets for borrowing by the Fund.

Decision No. 7589-(83/181)
December 23, 1983

R. General Arrangements to Borrow: Transferability of Claims

Pursuant to Paragraph 13 of the revised General Arrangements to Borrow (GAB) which became effective on December 26, 1983,[11] the Fund consents in advance to the transfer of outstanding claims to repayment under the GAB on the terms and conditions set out below:

1. All or part of any claim under the GAB may be transferred at any time to a participant in the GAB.

2. As from the value date of the transfer, the transferred claim shall be held by the transferee on the same terms and conditions as claims originating under its credit arrangement, except that the transferee shall acquire the right to request early repayment of the transferred claim on balance of payments grounds pursuant to Paragraph 11(e) of the GAB only if, at the time of the transfer, (i) the transferee is a member, or the institution of a member, whose balance of payments and reserve position is considered sufficiently strong for its currency to be usable in net sales in the Fund's operational budget; or (ii) the transferee is the Swiss National Bank, and the balance of payments and reserve position of the Swiss Confederation is, in the opinion of the Fund, sufficiently strong to justify such acquisition.

[11] See Decision No. 7337-(83/37), *Selected Decisions of the International Monetary Fund and Selected Documents*, Tenth Issue (Washington, 1983), pages 131–45.

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3. The price for the claim transferred shall be as agreed between the transferee and the transferor.
4. The transferor of a claim shall inform the Fund promptly of the claim that is being transferred, the name of the transferee, the amount of the claim that is being transferred, the agreed price for the transfer of the claim, and the value date of the transfer.
5. The transfer shall be registered by the Fund if it is in accordance with the terms and conditions of this decision. The transfer shall be effective as of the value date agreed between the transferee and the transferor.
6. If all or part of a claim is tranferred during a quarterly period as described in Paragraph 9(b) of the GAB, the Fund shall pay interest to the transferee on the amount of the claim transferred for the whole of that period.
7. If requested, the Fund shall assist in seeking to arrange transfers.

Decision No. 7628-(84/25)
February 15, 1984, effective April 10, 1984

S. Borrowing Agreement with Saudi Arabia in Association with the General Arrangements to Borrow: Transferability of Claims

Pursuant to Paragraph 9 of the Borrowing Agreement with Saudi Arabia under which Saudi Arabia has agreed to provide supplementary resources in association with the GAB, and which became effective on December 26, 1983 (the Agreement),[12] the Fund consents in advance to the transfer of outstanding claims to repayment under the Agreement on the terms and conditions set out below:
1. All or part of any claim may be transferred at any time to any member of the Fund, the central bank or other agency of any member, or any official entity that has been prescribed as a holder of SDRs pursuant to Article XVII, Section 3 of the Articles of Agreement.
2. On the value date of the transfer, all the rights and obligations of Saudi Arabia provided in the Agreement with respect to the claim that is the subject of the transfer shall vest in the transferee, except that

(a) the transferee shall acquire the right to request early repayment on balance of payments grounds provided in Paragraph 6(d) of the Agreement only if, at the time of the transfer, (i) the transferee is a member, or the agency of a member, whose balance of payments and reserve position is considered sufficiently strong for its currency to be usable in net sales in the Fund's operational budget, or (ii) the transferee is the Swiss National Bank, and the balance of payments and reserve position of the Swiss Confederation is, in the opinion of the Fund, sufficiently strong to justify such acquisition;

(b) if the transferee is a member or the agency of a member, references in the Agreement to payment in Saudi riyals shall be deemed to be references to payment in the member's currency, and if the transferee is not a member or the agency of a member such references shall not apply; and

(c) the right to repayment on withdrawal provided in Paragraph 10 of the Agreement shall apply only if the transferee is a member or the agency of a member, and that member withdraws from the Fund.

3. The price for the claim transferred shall be as agreed between the transferor and the transferee.
4. The transferor shall inform the Fund promptly of the claim that is being transferred, the name of the transferee, the amount of the claim that is being transferred, the agreed price for transfer of the claim, and the value date of the transfer.
5. The transfer shall be registered by the Fund if it is in accordance with the

[12] See Decision No. 7403-(83/73), *Selected Decisions of the International Monetary Fund and Selected Documents*, Supplement to Tenth Issue (Washington, 1984), pages 20–25.

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terms and conditions of this decision. The transfer shall be effective as of the value date agreed between the transferor and the transferee.

6. If all or part of a claim is transferred during the quarterly period ending on a date specified in Paragraph 5(b) of the Agreement, the Fund shall pay interest to the transferee on the amount of the claim transferred for the whole of that period.

7. If requested by the holder of a claim under the Agreement, the Fund shall assist in seeking to arrange a transfer pursuant to this Decision.

Decision No. 7629-(84/25)
February 15, 1984, effective April 10, 1984

T. Treatment of Reserve Tranche—Attribution of Reduction in Fund's Holdings of Currencies: Review

The Executive Board has reviewed Decisions Nos. 6830-(81/65), [13] adopted April 22, 1981, effective from May 1, 1981 and 6831-(81/65), [14] adopted April 22, 1981, effective from May 1, 1981, as amended by Decision No. 7059-(82/23), [14] adopted February 22, 1982. It has concluded that the decisions shall remain in effect without any change.

Decision No. 7704-(84/78)
May 14, 1984

[13] *Selected Decisions of the International Monetary Fund and Selected Documents,* Tenth Issue (Washington, 1983), pages 58 and 299.

[14] Ibid., page 108.

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Appendix III
Press Communiqués of the Interim Committee and the Development Committee

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

PRESS COMMUNIQUÉS

Twenty-First Meeting, Washington, September 25, 1983

1. The Interim Committee of the Board of Governors of the International Monetary Fund held its twenty-first meeting in Washington, D.C., on September 25, 1983, under the chairmanship of Mr. Willy De Clercq, Vice Prime Minister, Minister of Finance, and Minister of Foreign Trade of Belgium. Mr. Jacques de Larosière, Managing Director of the International Monetary Fund, participated in the meeting. The meeting was also attended by observers from a number of international and regional organizations and from Switzerland.

2. In its discussion of the world economic outlook the Committee noted with satisfaction that economic recovery had begun in the United States and Canada and appeared to be getting under way in a number of other industrial countries. The Committee also noted with satisfaction the abatement of inflation and considered that it had been an important factor in supporting the renewed growth of demand.

In present circumstances, therefore, the aim of policy should be to strengthen the recovery through policies that consolidated the progress made toward a more stable economic and financial environment. A crucial element of this strategy was the need to reassert adequate control over fiscal and monetary policies. It was the view of the Committee that excessive monetary growth should be avoided and that structural budget deficits remained too high in a number of countries. Bringing structural fiscal deficits under control would contribute to a more stable and sustainable path of real growth, as would the continuation of determined efforts to reduce market rigidities and structural imbalances.

The Committee discussed the difficult situation facing developing countries, noting that external financial difficulties had required significant restraint over domestic demand. Particular concern was expressed at the prospect that economic growth in these countries in 1983 was once again expected to be lower than the rate of population increase—a downward revision from the figures considered by the Committee at its meeting in February.

The Committee noted that a considerable reduction had already taken place in the current account deficits of non-oil developing countries. Nonetheless, many of these countries still faced an acute debt service problem and further progress would have to be made before their external position could be considered viable. Attention therefore had to be given to encouraging the continued pursuit of realistic adjustment policies and to ensuring adequate flows both of official

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development assistance and of private bank credit. In this latter connection, coordinated financial arrangements would be required, involving mutually supportive credits from private banks, multilateral organizations, and official lenders.

3. The Committee expressed deep concern about the increasing tendencies toward protectionism. It called on all members to resist, and as soon as possible to rescind, protectionist measures, and stressed the need for the adoption of policies aimed at promoting an open multilateral trade and payments system, which is in the interest of both developed and developing members. In this connection, it called particular attention to the need for all countries, especially heavily indebted developing countries, to have adequate market access, in order to facilitate service of their external debt and at the same time support a reasonable volume of imports.

The Committee was pleased to note that the Fund had intensified its collaboration with the GATT and had placed increased emphasis on the subject of protectionism in the exercise of its surveillance responsibilities. More generally, the Committee reiterated its view that the surveillance activities of the Fund should be maintained and strengthened.

4. The Committee stressed the great importance, in current circumstances, of the Fund's role in providing balance of payments assistance to the members that engage in adjustment programs—a role that the Fund can perform effectively only if it has sufficient financial resources. In this connection, the Committee noted with concern the increasing strain on the liquidity position of the Fund and the prospect of a reduction in the availability of Fund assistance if additional resources are not assured at an early date. In the light of these developments, the Committee strongly endorsed the Managing Director's efforts to arrange additional borrowing from official sources to cover the growing gap between the amounts of borrowed resources that the Fund had committed and those available to it under existing credit lines, and expressed the hope that this borrowing can be successfully concluded without delay.

Given the continued serious balance of payments problems of many members, providing the Fund with adequate resources is a key element in ensuring further progress toward adjustment and hence soundly based growth. The Committee emphasized, therefore, the critical importance of bringing into effect before the end of this year, in accordance with the timetable prescribed by the Board of Governors, the quota increases under the Eighth General Review and the revised and enlarged General Arrangements to Borrow that were approved last March. Reaffirming its view that subscriptions under members' quotas should be the primary source of Fund financing, and recalling that the new quotas could not become effective until increases had been accepted by members having at least 70 percent of total quotas, the Committee expressed concern at the fact that members accounting for only 29.2 percent of total quotas had consented so far. The Committee called on all members that had not yet communicated their consent to complete the steps necessary for this purpose as a matter of urgency.

5. The Committee considered the subject of the access to the Fund's resources after the quota increase under the Eighth General Review becomes effective, taking note of the temporary and revolving nature of the Fund's balance of payments support. The conclusions reached by the Committee are set forth in the following paragraphs. A few members of the Committee stated that they did not agree with all the conclusions on the access limits.

(a) While noting that adjustment appeared to be under way, the Committee recognized that the needs of many members for the type of temporary balance of payments financing that the Fund provides are and may remain large in relation to their quotas. It concluded, therefore, that the policy on enlarged access, which is of a temporary character, should continue for 1984, in accordance with (b), (c), and (d) below.

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(b) The access limits and the enlarged access policy will be reviewed yearly to consider the future of the policy, including its termination, its gradual phase-down, or its extension, in light of all relevant factors, including the magnitude of members' payments problems and developments in the Fund's liquidity position.

(c) Access to the Fund's resources under the policy during the period of extension specified in (a) will be subject to annual limits of 102 or 125 percent of quota, three-year limits of 306 or 375 percent of quota, and cumulative limits of 408 or 500 percent of quota, depending on the seriousness of the balance of payments needs and the strength of the adjustment effort. These limits would be examined periodically in conjunction with the reviews of the enlarged access policy itself. As at present, the Executive Board should retain the flexibility to approve stand-by or extended arrangements for amounts above the access limits in exceptional circumstances.

(d) As at present, the annual and triennial access limits should not be regarded as targets; within these limits, the amount of access in individual cases should vary with the circumstances of the member, in accordance with criteria established for this purpose by the Executive Board.

(e) On the question of access to the Fund's resources under the special facilities after the Eighth General Review becomes effective, some of the members of the Committee would prefer the retention of the present limits. Other members would prefer a lesser amount ranging from 68 to 85 percent. Accordingly, the Committee asked the Executive Board to consider the matter and to reach a conclusion at the earliest possible date. These limits should be reviewed at the time of each review of the enlarged access policy.

(f) In implementing its policies on access to its resources, the Fund should be particularly mindful of the very difficult circumstances of the small-quota, low-income member countries.

(g) The Committee requested the Executive Board to take, as soon as possible, the necessary action in order to implement the conclusions reached in the Committee.

6. The Committee considered again the question of allocation of SDRs in the current, i.e., the fourth, basic period which began on January 1, 1982. Most members of the Committee were of the view that the recent trends in the state of international liquidity and the conditions of the world economy strengthened the case for an allocation during the current period, while other members were of the view that the case had not yet been made. The Committee agreed that discussions of the issue, which could lead to a proposal by the Managing Director commanding broad support among members of the Fund, should be pursued as a matter of priority.

7. The Committee agreed to hold its next meeting in Washington, D.C., in the spring of 1984.

Annex: Interim Committee Attendance, September 25, 1983

Chairman

Willy De Clercq, Vice Prime Minister, Minister of Finance, and Minister of Foreign Trade for Belgium

Managing Director

J. de Larosière

Members or Alternates

Mohammad Abal-Khail, Minister of Finance and National Economy of Saudi Arabia
Hassan Al-Najafi, Governor of the Central Bank of Iraq
Rachid Bouraoui, Governor of the Banque Centrale d'Algérie
B.T. Chidzero, Minister of Finance, Economic Planning and Development of Zimbabwe

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Pierre Werner, President of the Government of Luxembourg (Alternate for Willy De Clercq, Vice Prime Minister, Minister of Finance, and Minister of Foreign Trade for Belgium)
Jacques Delors, Minister of Economy, Finance and Budget of France
Ernane Galvêas, Minister of Finance of Brazil
Giovanni Goria, Minister of the Treasury of Italy
Paul J. Keating, Treasurer of the Commonwealth of Australia
Marc Lalonde, Minister of Finance of Canada
Nigel Lawson, Chancellor of the Exchequer of the United Kingdom
LU Peijian, Governor of the People's Bank of China
Manmohan Singh, Governor of the Reserve Bank of India (Alternate for Pranab Kumar Mukherjee, Minister of Finance of India)
Jóhannes Nordal, Governor of the Central Bank of Iceland
Nukul Prachuabmoh, Governor of the Bank of Thailand
Donald T. Regan, Secretary of the Treasury of the United States
H.O. Ruding, Minister of Finance of the Netherlands
SAMBWA Pida Nbagui, Governor of the Banque du Zaïre
Jesús Silva-Herzog, Secretary of Finance and Public Credit of Mexico
Gerhard Stoltenberg, Federal Minister of Finance of Germany
Haruo Mayekawa, Governor of the Bank of Japan (Alternate for Noboru Takeshita, Minister of Finance of Japan)
Jorge Wehbe, Minister of Economy of Argentina

Observers

A.W. Clausen, President, IBRD
Gamani Corea, Secretary General, UNCTAD
Arthur Dunkel, Director-General, GATT
Salah Hamed, Chairman, Intergovernmental Group of Twenty-Four
Ghulam Ishaq Khan, Chairman, Development Committee
Emile van Lennep, Secretary-General, OECD
F. Leutwiler, Chairman of the Governing Board, Swiss National Bank
François-Xavier Ortoli, Vice-President for Economic and Financial Affairs, CEC
Jean Ripert, Director General for Development and International Economic Cooperation, UN
M.V. Samii, Head, International Money and Finance Unit, OPEC
Günther Schleiminger, General Manager, BIS

Twenty-Second Meeting, Washington, April 12, 1984

1. The Interim Committee of the Board of Governors of the International Monetary Fund held its twenty-second meeting in Washington, D.C., on April 12, 1984, under the chairmanship of Mr. Willy De Clercq, Vice Prime Minister, Minister of Finance, and Minister of Foreign Trade of Belgium. Mr. Jacques de Larosière, Managing Director of the International Monetary Fund, participated in the meeting. The meeting was also attended by observers from a number of international and regional organizations and from Switzerland.

2. The Committee discussed the policies required in present circumstances to improve the economic prospects of all members.

The Committee welcomed the recovery of economic activity that is currently under way in industrial countries at a pace faster than was foreseen. It noted, however, that the effects of this recovery on employment had so far been limited outside the United States and Canada. The reductions in inflation rates which had been substantial in many countries were welcomed. The Committee expressed great concern, however, at the possible consequences of recent increases of key interest rates rising from an already high level.

In reviewing economic conditions in the developing countries, the Committee commented favorably on the fact that the rate of growth appears to be picking up in these countries on average, but regarded the continuing low level of that rate, especially in per capita terms, as a danger and a challenge to policy. It was a matter of regret that, in general, little improvement in inflation rates had yet taken place.

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During the course of the last year, the volume of international trade increased significantly, and some improvement in the terms of trade of the non-oil developing countries also took place. These changes were welcomed, although they have not compensated for the deterioration in trade conditions suffered by these countries in recent years.

Balance of payments developments and associated exchange rate movements were examined in the context of the linkages between fiscal deficits, levels of public expenditure, current account positions, interest rates, monetary policies, and the distribution of savings in the global economy.

For the industrial world, the Committee felt that prudent monetary and fiscal policies needed to be set in a medium-term framework so as to preserve and improve upon the better price performance of the recent past, while providing scope and incentive for the recovery of capital investment and continuing strength of total demand. In a number of countries a reduction of fiscal deficits in relation to GNP would be helpful in this respect, and this was regarded as a matter of urgency. It was recognized that in most of the industrial countries substantial structural adaptations were needed to improve the conditions of supply, including discipline in government spending and fewer rigidities in labor and capital markets.

The Committee felt that the immediate policy challenge to developing countries was to maintain and strengthen, where necessary, the adjustment efforts that in many of them are already bearing fruit, as manifested by the reduction of the current account deficits of the non-oil developing countries in 1982–83. It was also noted, however, that a significant part of this reduction was due to a compression of imports. The Committee recognized that adjustment programs, if they are not to lead to continued import compression, which would limit the growth potential of debtor countries and could lead to social and political instability, require more open trade and capital markets as well as continued financial cooperation from governments and the international banking community. The Committee also recognized that low-income developing countries depend heavily on grants and concessional loans to support economic adjustment, and these should, along with improved economic policies, be playing a larger role. In this regard, the Committee noted, in particular, the plight of sub-Saharan Africa whose problems have been exacerbated by natural disasters and require concerted action on the part of the international community.

The Committee stressed that the economies of the developed and developing countries were closely linked and that the policies of each group vitally influenced the economies of the other.

The Committee expressed its profound concern over the growth of protectionist practices, recognizing that they inhibit the expansion of trade, the adjustment efforts of both developed and developing countries, the control of inflation, and the improvement of living standards worldwide. It was also noted that protectionist pressures in major industrial countries were of particular concern in this regard, in view of the large weight of these countries in world trade. The Committee welcomed the increased attention given to the problem of protectionism in the Fund's surveillance activities, which can help to support the efforts of the GATT and other competent institutions to promote an open trading system. The improvement of trade opportunities, particularly for the heavily indebted countries, will help to lay the foundation for a more broad-based economic recovery and strengthen the international financial system. The Committee urged members to take action that would contribute to global trade liberalization, and to examine within their respective governments how they could move toward enunciation of a clear, practical policy commitment that would effectively halt the present trend and pave the way for a rollback in protectionism. The Committee expressed the view that in this way a concrete meaning could be given to the recent antiprotectionist pledges made by governments in several international forums, thereby

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instilling confidence in the shared objective of promoting an open multilateral trading system.

3. The Committee, while recognizing the progress made in the cooperative efforts to deal with the problems of international indebtedness, drew attention to the serious difficulties that continue to beset many member countries. In this respect, the Committee stressed that the debt problems of many developing countries remained serious. High interest rates continue to strain debt-servicing capacity, jeopardizing adjustment efforts. The Committee agreed that a satisfactory resolution of these difficulties would continue to require close cooperation among all parties concerned. Above all, many member countries would need to direct their efforts toward achieving a viable external position. Their success would depend upon the pursuit by all member countries of policies that would contribute to an environment of sustained noninflationary economic growth and would help to promote an open trading system and the efficient movement of capital, keeping in view the special needs of developing countries. In this connection, the Committee stressed the vital role that the Fund has played, and should continue to play, in these endeavors.

4. The Committee welcomed the considerable strengthening of the Fund's liquidity as a result of the implementation of the quota increases under the Eighth General Review and the augmentation of the GAB, including the full participation by the Swiss National Bank and the conclusion of a borrowing arrangement with Saudi Arabia in association with the GAB. It noted with satisfaction that further borrowing agreements for SDR 6 billion in support of the Fund's policy on enlarged access were in the process of being concluded by the Fund.

5. The Committee also reiterated the concerns it had expressed last September about the special needs of small-quota, low-income countries as regards access to the Fund's resources.

6. The Committee considered again the question of an allocation of SDRs in the current, i.e., the fourth, basic period against the background of the state of international liquidity and the conditions of the world economy.

Most members of the Committee were convinced that there was increased evidence for an SDR allocation, pointing out that, in their view, an allocation in present circumstances would be in full conformity with the requirements of the Fund's Articles, and would strengthen the world economy and the international monetary system. Some other members of the Committee, however, continued to feel that a global liquidity shortage had not been demonstrated.

No conclusion was reached at this meeting, but it was agreed that the Executive Board should continue, before the next meeting of the Interim Committee, its urgent examination of the issues involved, and that the Managing Director should present a further report at the next meeting of the Committee on the outcome of the Executive Board's discussions.

7. The Committee agreed to hold its next meeting in Washington, D.C., on September 22, 1984.

Annex: Interim Committee Attendance, April 12, 1984

Chairman

Willy De Clercq, Vice Prime Minister, Minister of Finance, and Minister of Foreign Trade for Belgium

Managing Director

J. de Larosière

Members or Alternates

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

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Hassan Al-Najafi, Governor, Central Bank of Iraq
Rachid Bouraoui, Governor, Banque Centrale d'Algérie
B.T. Chidzero, Minister of Finance, Economic Planning and Development, Zimbabwe
Holger Bauer, State Secretary, Ministry of Finance, Austria (Alternate for Willy De Clercq, Vice Prime Minister, Minister of Finance, and Minister of Foreign Trade for Belgium)
Michel Camdessus, Director of the Treasury, Ministry of Economy, Finance and Budget, France
Ernane Galvêas, Minister of Finance, Brazil
Giovanni Goria, Minister of the Treasury, Italy
Bernardo Grinspun, Minister of Economy, Argentina
C.J. Hurford, Minister for Housing and Construction and Minister assisting the Treasurer, Australia (Alternate for Paul J. Keating, Treasurer, Australia)
Marc Lalonde, Minister of Finance, Canada
Nigel Lawson, Chancellor of the Exchequer, United Kingdom
Benito Raul Losada, President, Banco Central de Venezuela
QIU Qing (Mrs.), Vice President, People's Bank of China (Alternate for LU Peijian, President, People's Bank of China)
Pranab Kumar Mukherjee, Minister of Finance, India
Radius Prawiro, Minister of Finance, Indonesia
Kjell Storvik, Under Secretary, Ministry of Finance, Norway (Alternate for Rolf Presthus, Minister of Finance, Norway)
Donald T. Regan, Secretary of the Treasury, United States
H.O. Ruding, Minister of Finance of the Netherlands
SAMBWA Pida Nbagui, Governor, Banque du Zaïre
Gerhard Stoltenberg, Federal Minister of Finance, Germany
Haruo Mayekawa, Governor, Bank of Japan (Alternate for Noboru Takeshita, Minister of Finance, Japan)

Observers

A.W. Clausen, President, IBRD
Ali K. Hussain, International Money and Finance Analyst, Economics and Finance Department, OPEC
Ghulam Ishaq Khan, Chairman, Development Committee
Alexandre Lamfalussy, Assistant General Manager, BIS
Emile van Lennep, Secretary-General, OECD
F. Leutwiler, Chairman of the Governing Board, Swiss National Bank
M.G. Mathur, Deputy Director-General, GATT
François-Xavier Ortoli, Vice-President for Economic and Financial Affairs, CEC
Jan Pronk, Deputy Secretary General, UNCTAD
Jean Ripert, Director-General, Development and International Economic Cooperation, UN

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

Press Communiqués

Twenty-Second Meeting, Washington, September 26, 1983

1. The Development Committee held its twenty-second meeting in Washington, D.C., on September 26, 1983, under the chairmanship of His Excellency Ghulam Ishaq Khan, Minister of Finance, Commerce and Economic Coordination of Pakistan. Mr. A.W. Clausen, President of the World Bank, Mr. J. de Larosière, Managing Director of the International Monetary Fund, and Mr. Hans E. Kastoft, Executive Secretary, participated in the meeting. Representatives from a number of international and regional organizations and Switzerland also attended the meeting.

2. The Committee's discussions took place against the background provided by the *World Development Report, 1983* of the World Bank and the *World Economic Outlook* of the IMF. A report by the President of the World Bank highlights some specific development issues. The Committee took note of the discussion in the Interim Committee on the global economic situation and agreed that though economic recovery had begun in the United States and appeared to be getting under way in a number of other industrialized countries, the situation facing developing countries remained difficult and that external financial difficulties had required significant restraint on domestic demand in these countries. Particular concern was expressed at the prospect that economic growth in the developing countries in general in 1983 was once again expected to be lower than the rate of population increase.

3. The challenge in the period ahead is how recovery can be sustained, strengthened, and extended in a noninflationary environment. The recovery in the industrialized countries is a necessary but not a sufficient condition for restoring growth momentum in the developing world. In that context, the subject of capital flows to the developing countries, both nonconcessional and concessional, and both public and private, was discussed. In particular, members agreed on the need, in accordance with past policy and practice, to take early action on a selective capital increase for the World Bank following and in line with the Eighth General Review of Quotas in the Fund. A range of $3 billion to $20 billion was discussed. Most members agreed to a selective capital increase of about $8 billion and requested that Executive Directors work out the specifics with the aim of submission to the Board of Governors by the end of this calendar year.

4. The Committee also welcomed the intention of the World Bank management to prepare proposals concerning the future role of the Bank and the implications for longer-term capital requirements, including the need for a general capital increase. These subjects will be considered by the Bank's Executive Board in the months ahead. The Committee invited the Executive Board to report on these discussions to the Development Committee meeting in September 1984.

5. The needs of low-income developing countries, dependent on official development assistance (ODA) were discussed, including the status of the negotiations of IDA 7. No progress was made in the recent negotiations on IDA 7 which were held on September 24, 1983. This was regrettable since the urgency of concluding IDA 7 negotiations by the end of this year was unanimously accepted. Ministers recognized that the size of IDA 7 should be agreed at a realistic level which recognizes the needs of an expanded IDA recipient community

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faced with an extremely serious economic predicament and the budgetary constraints of donor countries.

6. The difficult economic circumstances and prospects of sub-Saharan Africa were considered, based on a review of recent World Bank reports. It was noted that a number of countries in this region had adjustment programs under way. Considering the severe decline in the income per capita experienced by these countries, and in order to help sustain and extend the process of domestic economic policy reform, Ministers agreed on the priority attached to an increase of the share these countries receive in external assistance on concessional terms. The Committee urged the World Bank to continue to give particular attention to the problems of sub-Saharan Africa.

7. The Committee agreed on the importance of encouraging direct private investment, especially in the poorer countries, and noted the intention of the Bank management to propose expanding the investment program of the International Finance Corporation (IFC) during fiscal years 1984–1988 with a capital increase of $750 million. This would expand capital flows from the World Bank Group to the private sector in the developing countries. The proposal will be considered by the Executive Directors in the next several months.

8. The Committee reviewed a progress report on energy development and the role of the World Bank in helping mobilize additional funds for this purpose. The Committee took note of the growing need for these additional funds by developing countries for energy development.

9. The Committee also considered brief progress reports from the Bank and the Fund on the subject of trade and promotion of development, first taken up at its last meeting in April 1983. The Committee agreed to discuss this subject further at its next meeting. In the meantime the Committee urged all trading nations to reduce their reliance on protectionism.

10. The draft of the Annual Report on the work of the Committee during the year July 1982 to June 1983 was approved by the Committee for submission to the Boards of Governors.

11. An oral progress report from the Chairman of the Task Force on Concessional Flows set up in 1982 by the Committee to study problems affecting the volume, quality, and effective use of concessional flows was also received.

12. The Committee agreed to meet again in the spring of 1984.

Twenty-Third Meeting, Washington, April 13, 1984

1. The twenty-third meeting of the Development Committee was held in Washington, D.C., on April 13, 1984 under the chairmanship of His Excellency Ghulam Ishaq Khan, Minister of Finance, Commerce and Economic Coordination of Pakistan. Mr. A.W. Clausen, President of the World Bank, Mr. J. de Larosière, Managing Director of the International Monetary Fund, and Mr. Hans E. Kastoft, Executive Secretary, participated in the meeting. Representatives from a number of international and regional organizations and Switzerland also attended.

2. The Committee discussed the status of IDA and the linkages between trade and development against the background of the world economic outlook as projected in the Fund document and the report by the President of the World Bank. It was noted that while the world economic situation is more promising than a year ago, the achievement of sustained growth and its extension to developing countries require improved policy performance by both the developed and developing countries, an increase of private and official capital flows, and improved trade prospects.

3. Ministers recalled that at their last meeting most members had agreed on a Selective Capital Increase (SCI) for the World Bank of about $8 billion. In the process of negotiating the SCI, agreement was reached on the relative contributions

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of major donors to IDA 7. The Committee noted the agreement reached among most of the major shareholders on share ranking in the IBRD which had facilitated the agreement on the IDA 7 replenishment. While concern was expressed by members that action on IDA 7 and the SCI had not yet been taken, they were encouraged by the willingness of major shareholders to work toward resolving as quickly as possible the outstanding issues. Ministers urged that shareholders exert maximum effort to obtain the necessary approvals so that the implementing resolutions for the Seventh Replenishment and the Selective Capital Increase could be considered by the Executive Boards and approved by the Governors in time to permit the legislative action needed if IDA 7 is to become effective on July 1, 1984.

4. All donors but one expressed concern at the implications of a $9 billion replenishment, an amount well below the $12 billion level supported by most. All members except one pointed to the inadequacy of the $9 billion replenishment, which represents a sharp decline in real terms in relation to IDA 6. Most members asked for accelerated action by IDA management and donors to mobilize up to $3 billion in a Supplementary Funding Arrangement to be available by July 1, 1984. All donors were urged to participate in this fund on the basis of fair burden sharing.

5. The Committee looks forward at its next meeting to suggestions from World Bank management concerning the future role of the Bank and the implications for longer-term capital requirements, keeping in mind the need for a general capital increase. The Committee welcomed progress in the preparation of an expanded investment program for the International Finance Corporation (IFC) through a management proposal of a $750 million capital increase and called for early action by the IFC Executive Board.

6. In reviewing the world economic outlook, the Committee took note of the difficulties developing countries continued to experience despite recovery in many industrialized countries. The Committee welcomed the recovery of economic activity that is currently under way in industrial countries at a pace faster than was foreseen. It noted, however, that the effects of this recovery on employment had so far been limited outside the United States and Canada. The reductions in inflation rates which had been substantial in many countries were welcomed. The Committee expressed great concern, however, at the possible consequences of recent increases of key interest rates rising from an already high level. In reviewing economic conditions in the developing countries, the Committee commented favorably on the fact that the rate of growth appears to be picking up in these countries on average, but regarded the continuing low level of that rate, especially in per capita terms, as a danger and a challenge to policy. It was a matter of regret that, in general, little improvement in inflation rates had yet taken place.

7. The Committee paid special attention to the critical situation faced by the sub-Saharan African countries. The Committee expressed concern at the grim prospects for the region, reflected in a continued decline in per capita incomes for many African countries, a weakening in external payments positions, depressed commodity prices, a burdensome debt situation, and, against rapidly rising population growth, a crisis in food production, bordering on famine. These negative features had been exacerbated by continuing severe drought conditions which had now extended to southern Africa, creating human and economic problems of major proportions. It was agreed that increased concessional assistance was urgently needed from both bilateral and multilateral sources to address the immediate problem of food availability and its distribution and to support domestic policies aimed at improving sub-Saharan Africa's long-term development prospects.

8. The Development Committee reiterated its earlier view that Africa should continue to receive high priority in the allocation of IDA resources. It was noted,

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however, that with a replenishment level of $9 billion, it would be difficult to provide adequate IDA resources to sub-Saharan Africa, taking into account the needs of other low-income countries. The Committee welcomed an undertaking by the Bank/IDA management to prepare a program for Africa for the September 1984 meeting of the Development Committee to guide the Bank and the international community in helping sub-Saharan Africa deal with its severe human, social, and economic problems.

9. The Committee held an extensive discussion on the linkages between trade, finance, and development, on the basis of background papers prepared by the Bank and Fund staffs. While the Committee noted with satisfaction that exports had begun to revive, it expressed serious concern regarding the continuing rise in protectionism which is making more difficult the orderly implementation of the adjustment process in all countries, developing and developed. Moreover, for some heavily indebted developing countries relying on the openness of markets, protectionism has aggravated their serious balance of payments problems, making it more difficult for them to service their debt in an orderly fashion. The increase in trade barriers is also retarding the much needed structural adjustment in both developed and developing countries. The Committee emphasized that expanded trade opportunities, including more remunerative prices for primary commodities, would provide a critical impetus to the extension of world economic recovery and contribute to restoring the long-term growth and development prospects of developing countries. Trade liberalization and improved domestic economic policies in all countries, together with enlarged flows of external finance to developing countries, are mutually reinforcing actions which would help accelerate growth momentum of developing countries.

10. The Committee invited all governments to step up their efforts to seek effective solutions to the current problems in international trade relations, bearing in mind the special needs of the developing countries. The Committee welcomed the indications of a growing interest among governments in launching a new round of multilateral trade negotiations under the aegis of the GATT, which should continue to play the central role in efforts to bring about a more open trading system. These negotiations should consider dismantling nontariff barriers and other measures affecting the trade of developing countries. The Committee considered that it could usefully supplement these efforts by playing a more active part in strengthening governments' resistance to protectionist pressures and encouraging trade liberalization. Accordingly, it invited members to discuss in future meetings progress reached on improvements in trade opportunities, particularly for the developing countries. It also invited the Director-General of the GATT, at the Committee's future meetings, to present his appraisal of progress in measures to strengthen the multilateral trading system and to liberalize trade affecting developing countries. The Committee urged the Bank and the Fund to continue their efforts to encourage an expanding and open world trading system. The Committee considered that, by keeping under review the linkages between trade and the promotion of development, it could provide continuing support to the work of the GATT and the UNCTAD, and thereby help ensure the coherence and consistency of actions in the international financial and trade fields.

11. The Committee expressed its satisfaction with the progress achieved so far by the international community in addressing the debt problem of developing countries. The Committee requested that the Fund and the Bank continue to examine the debt problem of developing countries.

12. The Committee also took note of a study on investment incentives and performance requirements undertaken by the World Bank on the recommendation of the Task Force on Private Foreign Investment. The study will facilitate a better understanding of the impact and choice of policies pertaining to international direct private investment.

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13. The Committee appointed Mr. Fritz Fischer to succeed the present Executive Secretary, Mr. Kastoft, with effect from July 1, 1984, and placed on record its appreciation of the services rendered by him.

14. The Committee agreed to meet again on September 23, 1984 in Washington, D.C.

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Appendix IV
Executive Directors and Voting Power on April 30, 1984

Director *Alternate*	Casting Votes of	Votes by Country	Total Votes [1]	Percent of Fund Total [2]
APPOINTED				
Richard D. Erb *Mary K. Bush*	United States	179,433	179,433	19.32
Nigel Wicks *T.A. Clark*	United Kingdom	62,190	62,190	6.70
Gerhard Laske *Guenter Grosche*	Germany, Fed. Rep. of	54,287	54,287	5.84
Bruno de Maulde *Xavier Blandin*	France	45,078	45,078	4.85
Teruo Hirao *Tadaie Yamashita*	Japan	42,483	42,483	4.57
Yusuf A. Nimatallah *Jobarah E. Suraisry*	Saudi Arabia	32,274	32,274	3.47
ELECTED				
Miguel A. Senior (Venezuela)	Costa Rica	1,091		
José L. Feito (Spain)	El Salvador	1,140		
	Guatemala	1,330		
	Honduras	928		
	Mexico	11,905		
	Nicaragua	932		
	Spain	13,110		
	Venezuela	13,965	44,401	4.78
J.J. Polak (Netherlands)	Cyprus	947		
Tom de Vries (Netherlands)	Israel	4,716		
	Netherlands	22,898		
	Romania	5,484		
	Yugoslavia	6,380	40,425	4.35
Jacques de Groote (Belgium)	Austria	8,006		
Heinrich G. Schneider (Austria)	Belgium	21,054		
	Hungary	5,557		
	Luxembourg	1,020		
	Turkey	4,541	40,178	4.33

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Director / *Alternate*	Casting Votes of	Votes by Country	Total Votes [1]	Percent of Fund Total [2]
ELECTED (continued)				
Robert K. Joyce (Canada)	Antigua and Barbuda	300		
Luke Leonard (Ireland)	Bahamas	914		
	Barbados	591		
	Belize	345		
	Canada	29,660		
	Dominica	290		
	Grenada	310		
	Ireland	3,684		
	Jamaica	1,705		
	St. Lucia	325		
	St. Vincent	290	38,414	4.14
Giovanni Lovato (Italy)	Greece	4,249		
Costa P. Caranicas (Greece)	Italy	29,341		
	Malta	701		
	Portugal	4,016	38,307	4.12
Mohamed Finaish (Libya)	Bahrain	739		
Tariq Alhaimus (Iraq)	Iraq	5,290		
	Jordan	989		
	Kuwait	6,603		
	Lebanon	1,037		
	Libya	5,407		
	Maldives	270		
	Oman	881		
	Pakistan	5,713		
	Qatar	1,399		
	Somalia	692		
	Syrian Arab Republic	1,641		
	United Arab Emirates	2,276		
	Yemen Arab Republic	683		
	Yemen, People's Democratic Republic of	1,022	34,642	3.73
A.R.G. Prowse (Australia)	Australia	16,442		
Kerry G. Morrell (New Zealand)	Korea	4,878		
	New Zealand	4,866		
	Papua New Guinea	909		
	Philippines	4,654		
	Seychelles	280		
	Solomon Islands	300		
	Vanuatu	340		
	Western Samoa	310	32,979	3.55
John Tvedt (Norway)	Denmark	7,360		
Arne Lindå (Sweden)	Finland	5,999		
	Iceland	846		
	Norway	7,240		
	Sweden	10,893	32,338	3.48
R.N. Malhotra (India)	Bangladesh	3,125		
A.S. Jayawardena (Sri Lanka)	Bhutan	275		
	India	22,327		
	Sri Lanka	2,481	28,208	3.04
Alexandre Kafka (Brazil)	Brazil	14,863		
César Robalino (Ecuador)	Colombia	4,192		
	Dominican Republic	1,371		
	Ecuador	1,757		
	Guyana	742		
	Haiti	691		
	Panama	1,272		
	Suriname	743		
	Trinidad and Tobago	1,951	27,582	2.97
J.E. Ismael (Indonesia)	Burma	1,620		
Jaafar Ahmad (Malaysia)	Fiji	615		
	Indonesia	10,347		
	Lao People's Dem. Rep.	543		
	Malaysia	5,756		
	Nepal	623		
	Singapore	1,174		
	Thailand	4,116		
	Viet Nam	2,018	26,812	2.89

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Director *Alternate*	Casting Votes of	Votes by Country	Total Votes [1]	Percent of Fund Total [2]
ELECTED (concluded)				
N'Faly Sangare (Guinea)	Botswana	471		
E.I.M. Mtei (Tanzania)	Burundi	677		
	Ethiopia	956		
	Gambia, The	421		
	Guinea	829		
	Kenya	1,670		
	Lesotho	401		
	Liberia	963		
	Malawi	622		
	Nigeria	8,745		
	Sierra Leone	829		
	Sudan	1,947		
	Swaziland	497		
	Tanzania	1,320		
	Uganda	1,246		
	Zambia	2,953		
	Zimbabwe	2,160	26,707	2.88
ZHANG Zicun (CHANG Tse Chun) (China) *WANG Enshao (China)*	China	24,159	24,159	2.60
Alvaro Donoso (Chile)	Argentina	11,380		
Mario Teijeiro (Argentina)	Bolivia	1,157		
	Chile	4,655		
	Paraguay	734		
	Peru	3,559		
	Uruguay	1,888	23,373	2.52
Ghassem Salehkhou (Islamic Republic of Iran)	Afghanistan	1,117		
Omar Kabbaj (Morocco)	Algeria	6,481		
	Ghana	2,295		
	Iran, Islamic Republic of	6,850		
	Morocco	3,316		
	Tunisia	1,632	21,691	2.34
Abderrahmane Alfidja (Niger)	Benin	563		
wa Bilenga Tshishimbi (Zaïre)	Cameroon	1,177		
	Cape Verde	295		
	Central African Republic	554		
	Chad	556		
	Comoros	295		
	Congo	623		
	Djibouti	330		
	Equatorial Guinea	434		
	Gabon	981		
	Guinea-Bissau	325		
	Ivory Coast	1,905		
	Madagascar	914		
	Mali	758		
	Mauritania	589		
	Mauritius	786		
	Niger	587		
	Rwanda	688		
	São Tomé and Principe	290		
	Senegal	1,101		
	Togo	634		
	Upper Volta	566		
	Zaïre	3,160	18,111	1.95
			914,072[3]	98.41[2]

[1] Voting power varies on certain matters pertaining to the General Department with use of the Fund's resources in that Department.
[2] Percentages of total votes in the General Department and the SDR Department (928,863). The sum of the individual percentages may differ from the percentages of the totals because of rounding.
[3] This total does not include the votes of Egypt, Democratic Kampuchea, and South Africa, which did not participate in the 1982 Regular Election of Executive Directors. The combined votes of those members total 14,791—1.59 percent of those in the General Department and SDR Department.

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Appendix V
Changes in Membership of Executive Board

Changes in membership of the Executive Board between May 1, 1983 and April 30, 1984 were as follows:

John Anson (United Kingdom) resigned as Executive Director for the United Kingdom, effective May 1, 1983.

Nigel Wicks (United Kingdom) was appointed Executive Director for the United Kingdom, effective May 2, 1983.

Christopher T. Taylor (United Kingdom), formerly Alternate Executive Director to John Anson (United Kingdom), was appointed Alternate Executive Director to Nigel Wicks (United Kingdom), effective May 2, 1983.

A. Hasnan Habib (Indonesia) resigned as Executive Director for Burma, Fiji, Indonesia, the Lao People's Democratic Republic, Malaysia, Nepal, Singapore, Thailand, and Viet Nam, effective June 30, 1983.

J.E. Ismael (Indonesia) was elected Executive Director by Burma, Fiji, Indonesia, the Lao People's Democratic Republic, Malaysia, Nepal, Singapore, Thailand, and Viet Nam, effective July 1, 1983.

Jaafar Ahmad (Malaysia), formerly Alternate Executive Director to A. Hasnan Habib (Indonesia), was appointed Alternate Executive Director to J.E. Ismael (Indonesia), effective July 1, 1983.

Anne Le Lorier (France) resigned as Alternate Executive Director to Bruno de Maulde (France), effective August 31, 1983.

Xavier Blandin (France) was appointed Alternate Executive Director to Bruno de Maulde (France), effective September 1, 1983.

Charles H. Dallara (United States) resigned as Alternate Executive Director to Richard D. Erb (United States), effective September 19, 1983.

Michael Casey (Ireland) resigned as Alternate Executive Director to Robert K. Joyce (Canada), effective September 30, 1983.

Christopher T. Taylor (United Kingdom) resigned as Alternate Executive Director to Nigel Wicks (United Kingdom), effective September 30, 1983.

T.A. Clark (United Kingdom) was appointed Alternate Executive Director to Nigel Wicks (United Kingdom), effective October 1, 1983.

Luke Leonard (Ireland) was appointed Alternate Executive Director to Robert K. Joyce (Canada), effective October 1, 1983.

Mary K. Bush (United States) was appointed Alternate Executive Director to Richard D. Erb (United States), effective December 13, 1983.

Costa P. Caranicas (Greece) resigned as Alternate Executive Director to Giovanni Lovato (Italy), effective April 30, 1984.

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The following served at certain times during 1983/84 as Temporary Alternate Executive Directors to the Executive Directors indicated:

Temporary Alternate Executive Director	**Executive Director for whom Temporary Alternate Served**
Samir Ramez Abiad (Lebanon)	Mohamed Finaish (Libya)
Ali Asghar Agah (Iran, Islamic Republic of)	Ghassem Salehkhou (Iran, Islamic Republic of)
Eric Michael Ainley (United Kingdom)	Yusuf A. Nimatallah (Saudi Arabia)
E.A. Ajayi (Nigeria)	N'Faly Sangare (Guinea)
Hassan Alaoui-Abdallaoui (Morocco)	Ghassem Salehkhou (Iran, Islamic Republic of)
José Roberto Novaes de Almeida (Brazil)	Alexandre Kafka (Brazil)
Ignazio Angeloni (Italy)	Giovanni Lovato (Italy)
Hernando Arias Garcia (Panama)	Alexandre Kafka (Brazil)
Luca Barbone (Italy)	Giovanni Lovato (Italy)
Chandi J. Batliwalla (India)	R.N. Malhotra (India)
Romeo Lopez Bernardo (Philippines)	A.R.G. Prowse (Australia)
Janet Bulloch (United Kingdom)	Nigel Wicks (United Kingdom)
Mohamed Camara (Guinea)	N'Faly Sangare (Guinea)
Mohamed Bahaa Chatah (Lebanon)	Mohamed Finaish (Libya)
Luc E.J.M. Coene (Belgium)	Jacques de Groote (Belgium)
Thomas A. Connors (United States)	Richard D. Erb (United States)
Silvio E. Conrado (Nicaragua)	Miguel A. Senior (Venezuela)
Ramiro J.J. Costa (Argentina)	Alvaro Donoso (Chile)
Jaime Delgadillo (Bolivia)	Alvaro Donoso (Chile)
Mama Kanny Diallo (Senegal)	Abderrahmane Alfidja (Niger)
Lubin Kobla Doe (Togo)	Abderrahmane Alfidja (Niger)
Samir Fouad El-Khouri (Lebanon)	Yusuf A. Nimatallah (Saudi Arabia)
Miriam Eran (Israel)	J.J. Polak (Netherlands)
Gazi Ercel (Turkey)	Jacques de Groote (Belgium)
Christian Flamant (France)	Bruno de Maulde (France)
Ingimundur Fridriksson (Iceland)	John Tvedt (Norway)
Giorgio Gomel (Italy)	Giovanni Lovato (Italy)
Vinjamuri Govindarajan (India)	R.N. Malhotra (India)
Avner Halevi (Israel)	J.J. Polak (Netherlands)
Detlev Hammann (Germany, Federal Republic of)	Gerhard Laske (Germany, Federal Republic of)
Kai Aaen Hansen (Denmark)	John Tvedt (Norway)
Nadeem Ul Haque (Pakistan)	Mohamed Finaish (Libya)
Sabir Mohamed Hassan (Sudan)	N'Faly Sangare (Guinea)
Christopher Mark Dobell Hull (United Kingdom)	Nigel Wicks (United Kingdom)
Liviu Ionescu (Romania)	J.J. Polak (Netherlands)
Joseph Mills Jones (Liberia)	N'Faly Sangare (Guinea)
Antti Kalervo Juusela (Finland)	John Tvedt (Norway)
Hirotaka Kobayashi (Japan)	Teruo Hirao (Japan)
Peter Kohnert (Germany, Federal Republic of)	Gerhard Laske (Germany, Federal Republic of)
Alimata Koné (Ivory Coast)	Abderrahmane Alfidja (Niger)
Michael J. Kooymans (Australia)	A.R.G. Prowse (Australia)

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Temporary Alternate Executive Director	**Executive Director for whom Temporary Alternate Served**
Hak-Sung Lee (Korea)	A.R.G. Prowse (Australia)
Pisit Leeatham (Thailand)	A. Hasnan Habib (Indonesia)
	J.E. Ismael (Indonesia)
Pierre Claver Maganga-Moussavou (Gabon)	Abderrahmane Alfidja (Niger)
Wolfgang Moerke (Germany, Federal Republic of)	Gerhard Laske (Germany, Federal Republic of)
James A.K. Munthali (Malawi)	N'Faly Sangare (Guinea)
V.K.S. Nair (India)	R.N. Malhotra (India)
Georges Nguyen (France)	Bruno de Maulde (France)
Jean-Christian Obame (Gabon)	Abderrahmane Alfidja (Niger)
Kieke Okma (Netherlands)	J.J. Polak (Netherlands)
Yoshio Okubo (Japan)	Teruo Hirao (Japan)
John Kobina Orleans-Lindsay (Ghana)	Abderrahmane Alfidja (Niger)
Ishwari Raj Panday (Nepal)	A. Hasnan Habib (Indonesia)
	J.E. Ismael (Indonesia)
Jørgen Gier Pedersen (Denmark)	John Tvedt (Norway)
Patrick D. Péroz (France)	Bruno de Maulde (France)
Pál Péterfalvy (Hungary)	Jacques de Groote (Belgium)
George W.K. Pickering (Canada)	Robert K. Joyce (Canada)
Eduardo Portas (Mexico)	Miguel A. Senior (Venezuela)
Mohammed Zia Masoom Qureshi (Pakistan)	Mohamed Finaish (Libya)
Tawfik Ramtoolah (Mauritius)	Abderrahmane Alfidja (Niger)
Mukhlis Rasyid (Indonesia)	J.E. Ismael (Indonesia)
Janardana Reddy (Fiji)	J.E. Ismael (Indonesia)
Cristian Alfonso Salinas Cerda (Chile)	Alvaro Donoso (Chile)
A.A. Scholten (Netherlands)	J.J. Polak (Netherlands)
Johannes Schuijer (Netherlands)	J.J. Polak (Netherlands)
SHAO Zhengkang (China)	ZHANG Zicun (China)
Douglas I.S. Shaw (Canada)	Robert K. Joyce (Canada)
Sakorn Sornyanyontr (Thailand)	J.E. Ismael (Indonesia)
Hideaki Suzuki (Japan)	Teruo Hirao (Japan)
Donald Charles Templeman (United States)	Richard D. Erb (United States)
Norbert Toé (Upper Volta)	Abderrahmane Alfidja (Niger)
Martín Toro (Venezuela)	Miguel A. Senior (Venezuela)
WANG Chang Yao (China)	ZHANG Zicun (China)
Mario Alejandro Weitz (Argentina)	Alvaro Donoso (Chile)
John Calvin Williams (United States)	Richard D. Erb (United States)
Ali Yasseri (Iran, Islamic Republic of)	Ghassem Salehkhou (Iran, Islamic Republic of)

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Appendix VI
Administrative Budget

Administrative Budget as Approved by the Executive Board for the Financial Year Ending April 30, 1985 Compared with Actual Expenses for the Financial Years Ended April 30, 1983 and 1984

(Values expressed in SDRs)[1]

	Financial Year Ended April 30, 1983	Financial Year Ended April 30, 1984		Financial Year Ending April 30, 1985
Object of Expense	Actual Expenses	Revised Budget	Actual Expenses	Budget
I. PERSONNEL EXPENSES				
Salaries	68,585,225	79,442,281	78,993,602	86,968,937
Other personnel expenses	53,622,416	54,652,835	53,554,860	56,972,064
Total	122,207,641	134,095,116	132,548,462	143,941,001
II. TRAVEL EXPENSES				
Business travel	12,354,830	13,016,991	12,986,925	13,817,495
Other travel	9,395,024	10,284,097	10,153,155	11,140,056
Total	21,749,854	23,301,088	23,140,080	24,957,551
III. OTHER ADMINISTRATIVE EXPENSES				
Communications	4,205,178	6,468,076	6,384,835	5,823,428
Building occupancy	5,888,031	8,955,021	8,621,476	14,209,548
Books and printing	1,604,683	1,763,047	1,657,064	1,773,803
Supplies and equipment	4,423,995	4,255,475	4,253,202	5,182,756
Data processing services	4,529,900	10,110,137	10,103,424	17,804,965
Miscellaneous	3,206,547	5,233,047	5,231,959	4,747,672
Total	23,858,334	36,784,803	36,251,960	49,542,172
TOTAL[2]	167,815,829	194,181,007	191,940,502	218,440,724

[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, 1983 totaled SDR 165,315,827 after a deduction of the amount reimbursed to the General Resources Account by assessments levied on the net cumulative allocations of participants in the SDR Department (SDR 2,500,002). For the year ended April 30, 1984, net administrative expenses amounted to SDR 188,940,478 after a deduction of SDR 3,000,024 reimbursed to the General Resources Account by assessments levied on the net cumulative allocations of participants in the SDR Department.

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Appendix VII

Comparative Statement of Income and Expense

(Values expressed in SDRs)

	Financial Year Ended April 30		
	1982	1983	1984
OPERATIONAL INCOME			
Periodic charges			
Received in SDRs	869,324,008	1,282,417,980	1,909,632,764
Amounts receivable	222,730,922	262,993,780	454,168,294
Total	1,092,054,930	1,545,411,760	2,363,801,058
Interest on holdings of SDRs	657,244,835	444,258,572	371,630,647
Other operational charges			
Received in SDRs	39,568,008	55,627,079	56,564,842
Total Operational Income	1,788,867,773	2,045,297,411	2,791,996,547
Deduct: Operational expense			
Remuneration			
Paid in SDRs	860,614,342	962,550,264	610,796,785
Paid in members' currencies	48,018,458	18,571,289	7,770,453
Amounts payable	—	—	667,752,311
Total	908,632,800	981,121,553	1,286,319,549
Interest on borrowing			
Paid in SDRs	115,176,553	156,910,948	129,059,065
Paid in members' currencies	338,784,355	417,316,875	792,541,653
Amounts payable	220,549,600	260,668,454	435,258,494
Total	674,510,508	834,896,277	1,356,859,212
Less: net income from temporary investments held in the Borrowed Resources Suspense Accounts	39,651,089	27,513,391	117,014,821
Other	11,448	—	11,216
Total Operational Expense	1,543,503,667	1,788,504,439	2,526,175,156
NET OPERATIONAL INCOME	245,364,106	256,792,972	265,821,391
EXPENSE [1]			
Administrative budget expense	142,396,230 [1]	165,315,827 [1]	188,940,478 [1]
Fixed property expense	11,438,200	15,480,167	3,869,486
Net valuation adjustment loss (gain)	(505,392)	(427,641)	(47,973)
Cumulative effect on prior years (to April 30, 1982) of changing the method of accounting for compensated absences and accumulated termination grants	—	11,029,770	—
TOTAL EXPENSE [2]	153,329,038	191,398,123	192,761,991
NET INCOME	92,035,068	65,394,849	73,059,400

[1] After deduction of SDR 2,100,000 for financial year 1982, SDR 2,500,002 for financial year 1983, and SDR 3,000,024 for financial year 1984, reimbursed to the General Resources Account by assessments levied on the net cumulative allocations of participants in the SDR Department.
[2] Excludes operational expense which has been deducted from operational income.

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Appendix VIII

Financial Statements of the General Department, SDR Department, Subsidy Account, Supplementary Financing Facility Subsidy Account, Trust Fund, and Staff Retirement Plan

REPORT OF THE EXTERNAL AUDIT COMMITTEE

Washington, D.C.
June 29, 1984

AUTHORITY AND SCOPE OF THE AUDIT

In accordance with Section 20(b) of the By-Laws of the International Monetary Fund we have audited the financial statements of the Fund for the year ended April 30, 1984, covering the

—General Department (including the General Resources Account, Borrowed Resources Suspense Accounts, and Special Disbursement Account),
—SDR Department, and
—Accounts Administered by the Fund which consist of the
  Subsidy Account,
  Supplementary Financing Facility Subsidy Account, and
  Trust Fund.

The audit was conducted in accordance with international auditing guidelines and, accordingly, included reviews of accounting and control systems, tests of accounting records, evaluation of the extent and results of work performed by the Internal Auditor, and other audit procedures.

AUDIT OPINION

In our opinion, the financial statements of the General Department (including the related supplemental schedules one through four), the SDR Department, and the Accounts Administered by the Fund have been prepared in accordance with generally accepted accounting principles applied on a basis consistent with that of the preceding year, and give a true and fair view of the respective financial positions and the allocations and holdings of SDRs as at April 30, 1984, and of the financial results of operations and transactions during that year.

EXTERNAL AUDIT COMMITTEE:

/s/ Walter Scholz, Chairman (Germany)
/s/ M. Ijadur Rahman (Bangladesh)
/s/ Abdelmalek Ouenniche (Morocco)

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INTERNATIONAL MONETARY FUND

GENERAL DEPARTMENT
BALANCE SHEET
as at April 30, 1984

(In thousands of SDRs)
(Note 1)

	1984	1983
ASSETS		
CURRENCIES AND SECURITIES (Notes 2 and 5)	93,574,681	64,064,554
SDR HOLDINGS (Note 3)	6,436,730	4,334,909
GOLD HOLDINGS (Note 4)	3,620,396	3,620,396
BORROWED RESOURCES HELD IN SUSPENSE	601,642	1,780,609
CHARGES RECEIVABLE AND ACCRUED (Note 5)	786,931	505,334
ACCRUED INTEREST ON SDR HOLDINGS	224,704	—
OTHER ASSETS	20,873	13,231
TOTAL ASSETS	105,265,957	74,319,033
QUOTAS, RESERVES, AND LIABILITIES		
QUOTAS		
Subscriptions of Members	89,236,300	61,059,800
RESERVES (Note 6)	1,073,774	1,000,715
LIABILITIES		
Borrowing (Note 7)	13,791,229	10,952,479
Remuneration Payable (Note 5)	667,752	981,121
Accrued Interest Payable (Note 7)	435,258	268,868
Other Liabilities and Deferred Credits (Note 5)	61,644	56,050
TOTAL QUOTAS, RESERVES, AND LIABILITIES	105,265,957	74,319,033

The accompanying notes and Schedules 1–4 are an integral part of the financial statements.

/s/ W. O. HABERMEIER
Treasurer

/s/ J. DE LAROSIÈRE
Managing Director

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INTERNATIONAL MONETARY FUND

GENERAL DEPARTMENT
STATEMENT OF INCOME AND EXPENSE
for the year ended April 30, 1984

(In thousands of SDRs)
(Note 1)

	1984	1983
OPERATIONAL INCOME		
Periodic charges (Note 5)	2,363,801	1,545,412
Interest on SDR holdings	371,631	444,258
Service charges	50,820	51,291
Other	5,744	4,336
	2,791,996	2,045,297
OPERATIONAL EXPENSE		
Remuneration (Note 5)	1,286,320	981,121
Interest on borrowing, net of income from temporary investments held in Borrowed Resources Suspense Accounts (SDR 117,015 in 1984 and SDR 27,513 in 1983)	1,239,845	807,383
Other	11	—
	2,526,176	1,788,504
NET OPERATIONAL INCOME	265,820	256,793
ADMINISTRATIVE EXPENSE (Note 9)		
Personnel	132,549	122,208
Travel	23,140	21,750
Other, net	33,203	20,930
Fixed property (Note 1)	3,869	15,480
Cumulative effect (to April 30, 1982) of changing the method of accounting for compensated absences and accumulated termination grants (Note 9)	—	11,030
TOTAL ADMINISTRATIVE EXPENSE	192,761	191,398
NET INCOME	73,059	65,395

The accompanying notes and Schedules 1–4 are an integral part of the financial statements.

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INTERNATIONAL MONETARY FUND

GENERAL DEPARTMENT
STATEMENT OF CHANGES IN RESERVES
for the year ended April 30, 1984

(In thousands of SDRs)
(Note 1)

	1984	1983
SPECIAL RESERVE (Note 6)		
Balance at beginning of the year	635,135	569,740
Net income for the year	73,059	65,395
Balance at end of the year	708,194	635,135
GENERAL RESERVE (Note 6)		
Balance at beginning and end of the year	365,580	365,580
TOTAL RESERVES	1,073,774	1,000,715

The accompanying notes and Schedules 1–4 are an integral part of the financial statements.

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INTERNATIONAL MONETARY FUND

GENERAL DEPARTMENT
NOTES TO THE FINANCIAL STATEMENTS

General Department

Under the Articles of Agreement, the General Department consists of the General Resources Account, the Special Disbursement Account, and the Investment Account. The Investment Account had not been activated at April 30, 1984. The General Department also includes Borrowed Resources Suspense Accounts, the establishment of which was authorized by the Executive Board in May 1981.

General Resources Account

Assets held in the General Resources Account comprise (i) currencies of the Fund's member countries (including securities), (ii) SDR holdings, and (iii) gold.

Each member is required to pay to the Fund the amount of its initial quota and subsequent increases partly in the member's own currency and the remainder in the form of reserve assets, except that for the increases proposed in 1978, members were permitted to pay the entire increase in their own currencies. A member's quota cannot be increased until it consents to the increase and pays the subscription in full. In March 1983, the Board of Governors of the Fund authorized an increase in quotas from their then current levels to approximately SDR 90 billion. Twenty-five percent of the quota increases were to be paid in SDRs or in the currencies of other members prescribed by the Fund, subject to their concurrence. Members had until March 15, 1984 to consent to the proposed increase. 142 members having 98 percent of quotas on March 31, 1983 consented to the proposed quota increases and have completed increased quota payments amounting to SDR 28.18 billion.

The Fund makes its resources available to its members by selling SDRs or currencies to members in exchange for their own currency in accordance with Fund policies on the use of its resources. Use of the Fund's resources by a member is dependent on the member having a balance of payments need.

When members make a purchase, they undertake to repurchase, within the period specified by the Fund, the Fund's holdings of their currencies against the payment to the Fund of SDRs or the currencies of other members specified by the Fund. The Fund's policies on the use of its resources, which indicate the time period for which purchases may be outstanding, are intended to assure that use of its resources is temporary and will be reversed within time periods specified by the Fund.

The composition of the Fund's holdings of members' currencies changes as a result of the Fund's operations and transactions, including purchase and repurchase transactions in currencies as noted above. The currency holdings reflect both the counterpart of purchases by those members that have a need to use the Fund's resources, and also the currencies of those members whose balance of payments and reserve positions are determined by the Fund on a quarterly basis to be sufficiently strong for their currencies to be used in all the Fund's operations and transactions in accordance with the policies of the Fund.

A member has a reserve tranche position in the Fund to the extent that the Fund's holdings of its currency, excluding holdings which reflect the member's use of Fund credit, are less than the member's quota. A member's reserve tranche position is regarded as a part of the member's external reserves and a member may purchase up to the amount of its full reserve tranche at any time. Reserve tranche purchases are not regarded as a use of Fund credit.

Members may make use of Fund credit under various policies and the amount of such use is related to a member's quota in the Fund. Under the credit tranche policy, the Fund's credit is at present made available to members in a range consisting of four tranches or segments each equal to 25 percent of a member's quota. A first credit tranche purchase is defined as one that raises the Fund's holdings of a member's currency in the credit tranche from 0 to 25 percent of quota. Subsequent purchases are made in three successive tranches, each equal to 25 percent of quota, to a level of no more than 100 percent of quota. Purchases in these three tranches are referred to as upper credit tranche purchases. The distinction between first and upper credit tranches also reflects the higher conditionality that accompanies the use of Fund credit in the upper tranches.

Members experiencing balance of payments difficulties may enter into stand-by arrangements with the Fund under which the Fund commits itself to provide resources to be made available over periods of up to three years from the date of the arrangements. Purchases under these arrangements in the upper credit tranches depend upon the member's meeting the performance criteria included in the arrangements.

In addition to purchases under the Fund's credit tranche policies, members may use the Fund's resources under decisions on:

- Compensatory financing—to assist members, particularly primary exporters, encountering payments difficulties produced by temporary export shortfalls attributable to circumstances beyond their control and in addition, at their option, to assist members encountering payments difficulties produced by an excess in the cost of their cereal imports.
- Buffer stock financing—to assist members in connection with the financing of international buffer stocks of primary products.
- Extended Fund facility—to provide, through extended arrangements of up to three years, medium-term assistance to members to make structural adjustments in their economies. Purchases under these arrangements depend upon the member's meeting the performance criteria included in the arrangements.
- Supplementary financing facility and the policy on enlarged access—to make resources available under stand-by and extended arrangements, in addition to those available in the credit tranches or under the extended Fund facility, to members facing serious payments imbalances that are large in relation to their quotas. These policies are temporary and may be utilized only in conjunction with the use of resources in the upper credit tranches.

Members were also able to use the oil facility until May 1976 for balance of payments problems caused by increases in the cost of petroleum and petroleum products.

Members that purchase resources from the Fund undertake to repurchase the Fund's holdings of their currencies against the payment to the Fund of SDRs or the currencies of other members specified by the Fund. Reserve tranche purchases made after April 1, 1978 are not subject to repurchase. Under the Fund's repurchase policies, purchases in the credit tranches, under the compensatory financing facility and under the buffer stock facility, are to be repurchased in quarterly installments beginning three years, and ending not later than five years, after the date of purchase; repurchases of purchases financed with borrowed resources under the supplementary financing facility or the enlarged access policy are to be made in semiannual installments beginning three and one-half years, and ending not later than seven years, after the date of purchase; and repurchases under the extended Fund facility (other than purchases financed with borrowed resources under the supplementary financing facility or policy on enlarged access) are to be made in semiannual installments beginning four years, and ending not later than ten years, after the date of purchase. However, a member is entitled to repurchase at any time holdings of its currency on which the Fund levies charges, and is expected to make repurchases prior to the periods mentioned above as and when its balance of payments and reserve position improves.

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Borrowed Resources Suspense Accounts

Borrowed Resources Suspense Accounts have been established in order to hold, transfer, convert, and invest (i) currencies borrowed by the Fund before they are transferred to the General Resources Account for use in transactions or operations; and (ii) currencies received by the Fund in repurchases financed with borrowed resources before repayments to lenders can be made. Members are not obligated to maintain the SDR value of their currencies held by the Fund in the Borrowed Resources Suspense Accounts, and as far as practicable, the currencies are invested in SDR-denominated obligations.

At April 30, 1984 borrowed resources held in suspense amounted to SDR 601.64 million (SDR 1,780.61 million at April 30, 1983) and included accrued income of SDR 5.01 million (SDR 3.37 million at April 30, 1983).

Special Disbursement Account

The Special Disbursement Account was activated on June 30, 1981. The Fund administers a Trust Fund, established in 1976 to provide balance of payments assistance on concessional terms to certain members. This Trust Fund is at present being wound up and resources received by the Trust Fund after April 30, 1981 are transferred to the Special Disbursement Account, of which up to SDR 750 million is to be placed to the Supplementary Financing Facility Subsidy Account. At April 30, 1984 SDR 174.92 million (SDR 48.80 million at April 30, 1983) had been received into the Special Disbursement Account from the Trust Fund and placed to the Supplementary Financing Facility Subsidy Account. There were no resources held in the Special Disbursement Account at April 30, 1984 and 1983.

1. Accounting Practices

Unit of Account

The accounts of the General Department are expressed in terms of the SDR, the currency value of which is determined daily by the Fund, at present, by summing the values in U.S. dollars, based on market exchange rates, of a basket of five specified currencies, as follows:

Currencies	Amount
U.S. dollar	0.54
Deutsche mark	0.46
French franc	0.74
Japanese yen	34
Pound sterling	0.071

Members' currencies are valued in terms of the SDR on the basis of the representative rate of exchange determined in accordance with the Rules of the Fund. Gold with depositories is valued on the basis that one SDR is equivalent to 0.888671 gram of fine gold.

Basis of Accounting

The Fund maintains its books of accounts on an accrual basis and, accordingly, recognizes income as it is earned and records expenses as they are incurred. It is the practice of the Fund to make all calculations on the basis of the exact number of days in the accounting period.

The established policy of the Fund is to charge as an expense of each accounting period the total costs incurred for fixed property, furniture, and equipment. For the year ended April 30, 1984, the cost of property, furniture, and equipment charged as an expense amounted to SDR 7.05 million (SDR 20.60 million in 1983).

2. Currencies and Securities

Each member has the option to substitute nonnegotiable and noninterest-bearing securities for the amount of its currency held by the Fund in the General Resources Account that is in excess of ¼ of 1 percent of the member's quota. These securities, which are part of the Fund's currency holdings, are encashable by the Fund on demand.

Changes in the Fund's holdings of members' currencies and securities for the year ended April 30, 1984 were as follows:

	In millions of SDRs		
	April 30, 1983	April 30, 1984	Net Change
Members' quotas	61,060	89,236	28,176
Members' use of Fund credit	23,590	31,742	8,152
Members' reserve tranche positions	(20,592)	(27,415)	(6,823)
Administrative currency balances	7	12	5
Currencies and securities	64,065	93,575	29,510

Each member is obligated to maintain the value of the Fund's holdings of its currency in terms of the SDR except for holdings which may be held in Borrowed Resources Suspense Accounts, the Special Disbursement Account, and the Investment Account. Whenever the Fund revalues its holdings of a member's currency, an account receivable or an account payable is established for the amount of currency payable by or to the member in order to maintain the value of the Fund's holdings of the currency in terms of the SDR. The balances of the accounts receivable or payable are reflected in the Fund's total currency holdings. At April 30, 1984 accounts receivable to maintain SDR values of currency holdings amounted to SDR 12,542.42 million and accounts payable amounted to SDR 728.95 million. At June 25, 1984 the amounts receivable were SDR 1,716.25 million and amounts payable were SDR 523.26 million.

The Fund's holdings of members' currencies at April 30, 1984 are shown in Schedule 1.

3. SDR Holdings

SDRs are reserve assets created by the Fund and allocated to members participating in the SDR Department. Although SDRs are not allocated to the Fund, the Fund may acquire, hold, and dispose of them through the General Resources Account. SDRs held by the Fund are received from its members in the settlement of their financial obligations to the Fund (quota payments, repurchases, and charges) and may be used by the Fund in transactions and operations between the Fund and its members (sold to members in purchases or transferred to members in the settlement of remuneration and interest on Fund borrowing). The Fund earns interest on its SDR holdings.

4. Gold Holdings

At April 30, 1984 the Fund held 3,217,341 kilograms of gold at designated depositories.

5. Fund Operations

For the year ended April 30, 1984, members' purchases amounted to SDR 11,518 million, of which SDR 1,354 million were reserve tranche purchases. Over the same period, repurchases by members totaled SDR 2,015 million, including repurchases of SDR 3 million relating to purchases made prior to the Second Amendment and attributed to the reserve tranche. The members' purchases subject to repurchase are shown in Schedule 2.

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Changes in the outstanding use of Fund credit under various facilities for the year ended April 30, 1984, were as follows:

	In millions of SDRs			
	April 30, 1983	Purchases	Repurchases	April 30, 1984
Regular facilities	4,721	1,468	992	5,197
Compensatory financing	6,837	1,180	713	7,304
Buffer stock financing	307	102	34	375
Extended Fund facility	3,317	2,295	44	5,568
Oil facility	27	—	27	—
Supplementary financing facility	6,039	1,083	202	6,920
Enlarged access	2,342	4,036	—	6,378
Total	23,590	10,164	2,012	31,742

Periodic Charges and Remuneration

The Fund levies charges, which are payable periodically, on its holdings of a member's currency that derive from the member's use of Fund credit. A service charge is levied by the Fund on each purchase involving use of Fund resources other than reserve tranche purchases.

The Fund pays remuneration on a member's remunerated reserve tranche position. A remunerated reserve tranche position is the amount by which the Fund's holdings of a member's currency (excluding holdings that derive from use of the Fund's credit) is below the "norm." The "norm" is an amount equal to 75 percent of the member's quota on April 1, 1978 plus the total of subsequent increases in the member's quota. For members that joined the Fund after April 1, 1978, the "norm" is determined by adding the proportion of the member's quota equal to the average of the "norm" of all other members on the date the member joined the Fund and the total of subsequent quota increases in the member's quota.

At April 30, 1984, the total holdings on which the Fund levied charges amounted to SDR 31,742 million (SDR 23,590 million in 1983) and total creditor positions on which the Fund paid remuneration amounted to SDR 21,200 million (SDR 14,997 million in 1983).

One member, Democratic Kampuchea, has not fulfilled its financial obligations to the General Department, either to repurchase a part of the Fund's holdings of the member's currency, or to pay charges on currency balances held by the Fund. At April 30, 1984, purchases by Democratic Kampuchea to be repurchased amounted to SDR 18.74 million and unpaid charges receivable from Democratic Kampuchea amounted to SDR 6.38 million, and these unpaid charges are included in the balance sheet as charges receivable and as a deferred credit. On December 19, 1978 the Executive Board decided that Democratic Kampuchea may not make use of the general resources of the Fund until such time as Democratic Kampuchea is fulfilling its obligations under the Articles of Agreement.

6. Reserves

The Fund determines annually what part of its net income shall be placed to the General Reserve or to the Special Reserve, and what part, if any, shall be distributed. The Articles of Agreement do not limit the use that the Fund may make of the General Reserve, and permit the Fund to use the Special Reserve for any purpose for which it may use the General Reserve, except distribution. Any administrative deficit for any financial year must be written off first against the Special Reserve. Net income for the year ended April 30, 1984 was placed to the Special Reserve.

7. Borrowing

Outstanding borrowing by the Fund was as follows:

	In millions of SDRs			
	April 30, 1983	Borrowing	Repayment	April 30, 1984
Oil facility	18	—	18	—
Supplementary financing facility	6,037	1,083	205	6,915
Enlarged access	4,120	2,855	99	6,876
General Arrangements to Borrow	777	—	777	—
	10,952	3,938	1,099	13,791

Scheduled repayments of outstanding borrowing by the Fund are shown in Schedule 3.

Oil Facility

In 1974 and 1975, the Fund 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 were under the 1975 borrowing agreements and carried an interest rate of 7¼ percent. Calls made by the Fund under these agreements were repayable in installments beginning not later than three and one-half years, and to be completed not later than seven years, after the dates of the calls. The last repayment of borrowing under the oil facility was made in 1983.

Supplementary Financing Facility

The supplementary financing facility became operational in May 1979. The Fund has entered into borrowing agreements with 14 members, or institutions within their territories, and with the Swiss National Bank under which the lenders have agreed to make resources available to the Fund, at call, up to SDR 7,784 million until February 1984 to finance purchases by members under this facility. Borrowing by the Fund under these agreements is to be repaid in installments between three and one-half to seven years after the date of borrowing. Interest paid by the Fund on amounts borrowed under the borrowing agreements is based on the average yield on U.S. Government securities with a constant maturity of five years.

Enlarged Access

The policy on enlarged access became operational in May 1981. The Fund has entered into borrowing agreements with various members, or institutions within their territories, the Bank for International Settlements, and the Swiss National Bank under which the lenders have agreed to make resources available to the Fund, up to SDR 15,305 million, to finance purchases by members under the policy. The maturities of borrowing by the Fund under these agreements vary from six months to seven years. Interest paid by the Fund on amounts borrowed under these agreements is at variable rates of interest which are established periodically, and are related to market interest rates, based on weighted average yields of domestic instruments denominated in the five currencies in the SDR valuation basket.

General Arrangements to Borrow (GAB)

Under the General Arrangements to Borrow the Fund may borrow up to specified amounts from adherents when supplementary resources are needed to forestall or to cope with an impairment of the international monetary system. The GAB first became effective from October 24, 1962 and has been renewed until October 23, 1985.

In February 1983, the Fund approved an enlargement of the GAB to SDR 17 billion including provision for the adherence of the Swiss National Bank as a participant, and for associated arrangements with nonparticipants (SDR 1.5 billion). It also approved amendments that would allow the Fund to borrow under the GAB in certain

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circumstances in order to finance purchases by nonparticipants. These changes, including one associated agreement with the Saudi Arabian Monetary Authority (SDR 1.5 billion), became effective on December 26, 1983 when all ten participants had notified the Fund of their concurrence in the amendments and in the increased credit limits. The Swiss National Bank adhered to these arrangements in April 1984.

Borrowing Guidelines

The Fund has established guidelines for borrowing, which provide that the Fund will not allow the total of outstanding borrowing, plus unused credit lines, to exceed the range of 50 to 60 percent of the total of Fund quotas. Since all GAB lines of credit are unlikely to be called upon at the same time, the total of outstanding borrowing shall include either outstanding borrowing by the Fund under the GAB, or two thirds of the total credit lines under the GAB and associated agreements, whichever is the greater. The borrowing guidelines are subject to review by the Executive Board. Following the increase in quotas, total outstanding borrowing and unused credit lines, calculated in accordance with these guidelines, at April 30, 1984 were equal to 38.6 percent of quotas (33.1 percent of quotas at April 30, 1983).

8. Commitments Under Stand-By and Extended Arrangements

At April 30, 1984, thirty-five arrangements were in effect and undrawn balances under these arrangements amounted to SDR 9,269.48 million. These arrangements are listed in Schedule 4.

9. Administrative Expenses

The Fund incurs administrative expenses primarily for salaries, travel, and other administrative needs, which are expended in accordance with an administrative budget approved by the Executive Board. Expenses for building are authorized outside of the annual administrative budget. The Fund is reimbursed for expenses incurred in administering the SDR Department.

The Fund has certain commercial deposits and receivables relating to its administrative activities. These deposits and receivables are not subject to the maintenance of value obligations.

The Fund pays various allowances to or on behalf of Executive Directors and staff including the employer's contribution to the Staff Retirement Plan. All contributions to the Plan and all other assets, liabilities, and income of the Plan are held separately outside of the General Department and can be used or incurred only for the benefit of the participants in the Plan and their beneficiaries. The employer contributes that part of the costs and expenses of the Plan not provided by the contributions of the participants. In addition, experience gains and losses of the Plan, as determined by the actuary engaged by the Pension Committee, are amortized over a period of 15 years. The unamortized experience losses at April 30, 1984 amounted to SDR 60.3 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 78.5 million (at the April 30, 1984 SDR/US$ rate), of which SDR 7.7 million was paid on May 1, 1984.

Contributions by the employer to the Staff Retirement Fund for the year ended April 30, 1984 amounted to SDR 27.5 million, including SDR 6.9 million for the amortization of actuarial experience losses (SDR 7.5 million in 1983) and SDR 4.5 million to fund cost of living supplements to beneficiaries (SDR 6.8 million in 1983).

The Fund staff is entitled to accumulate annual leave, up to a maximum of 60 days, which may be commuted into a cash payment upon termination of employment. In addition, upon the completion of five years' service, each member of the staff is entitled to a termination grant, subject to maximum amounts based on years of service after July 1979. Prior to the year ended April 30, 1983, the Fund accounted for these amounts of accumulated leave and earned termination grants only as they were paid. Since the year ended April 30, 1983, the Fund has elected to account for these amounts as an expense as they are earned.

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Schedule 1

INTERNATIONAL MONETARY FUND

GENERAL DEPARTMENT

QUOTAS, FUND'S HOLDINGS OF CURRENCIES, MEMBERS' USE OF FUND RESOURCES, AND RESERVE TRANCHE POSITIONS as at April 30, 1984

(In thousands of SDRs)

	Quotas	Fund's Holdings of Currencies[1]		Use of Fund Resources	Reserve Tranche Positions
		Total	Percent of quota		
Afghanistan	86,700	81,896	94.5	—	4,806
Algeria	623,100	450,739	72.3	—	172,363
Antigua and Barbuda	5,000	5,000	100.0	—	2
Argentina	1,113,000	2,233,626	200.7	1,120,610	—
Australia	1,619,200	1,503,557	92.9	—	115,649
Austria	775,600	378,950	48.9	—	396,656
Bahamas	66,400	55,519	83.6	—	10,882
Bahrain	48,900	27,242	55.7	—	21,661
Bangladesh	287,500	677,554	235.7	412,445	22,395
Barbados	34,100	71,639	210.1	39,691	2,152
Belgium	2,080,400	1,599,414	76.9	—	480,992
Belize	9,500	11,207	118.0	3,600	1,896
Benin	31,300	29,281	93.6	—	2,024
Bhutan	2,500	1,931	77.2	—	570
Bolivia	90,700	170,248	187.7	79,527	4
Botswana	22,100	10,788	48.8	—	11,319
Brazil	1,461,300	4,361,089	298.4	2,899,720	—
Burma	137,000	212,813	155.3	82,687	6,877
Burundi	42,700	36,054	84.4	2,750	9,418
Cameroon	92,700	85,509	92.2	—	7,196
Canada	2,941,000	2,397,520	81.5	—	543,516
Cape Verde	4,500	3,550	78.9	—	951
Central African Republic	30,400	54,880	180.5	24,568	111
Chad	30,600	34,243	111.9	7,100	3,464
Chile	440,500	1,019,502	231.4	579,000	—
China	2,390,900	2,209,169	92.4	—	181,734
Colombia	394,200	394,205	100.0	—	—
Comoros	4,500	4,250	94.4	—	251
Congo	37,300	34,333	92.0	—	2,982
Costa Rica	84,100	264,204	314.2	180,082	—
Cyprus	69,700	69,270	99.4	4,236	4,675
Denmark	711,000	509,441	71.7	—	201,563
Djibouti	8,000	6,765	84.6	—	1,237
Dominica	4,000	15,235	380.9	11,237	2
Dominican Republic	112,100	343,602	306.5	231,500	—
Ecuador	150,700	342,829	227.5	203,525	11,425
Egypt	463,400	512,716	110.6	49,311	—
El Salvador	89,000	201,875	226.8	112,873	—
Equatorial Guinea	18,400	31,509	171.2	13,100	—
Ethiopia	70,600	165,114	233.9	94,500	—
Fiji	36,500	42,216	115.7	13,500	7,789
Finland	574,900	451,941	78.6	—	122,961
France	4,482,800	3,190,997	71.2	—	1,292,521
Gabon	73,100	66,988	91.6	912	7,028
Gambia, The	17,100	46,191	270.1	29,113	39
Germany, Federal Republic of	5,403,700	2,594,345	48.0	—	2,809,382
Ghana	204,500	515,804	252.2	311,300	1
Greece	399,900	313,730	78.5	—	86,172
Grenada	6,000	11,427	190.4	5,425	—
Guatemala	108,000	260,981	241.6	152,975	—
Guinea	57,900	69,410	119.9	11,500	—
Guinea-Bissau	7,500	9,350	124.7	1,850	[2]
Guyana	49,200	122,947	249.9	73,745	—
Haiti	44,100	130,206	295.3	86,150	70
Honduras	67,800	207,793	306.5	139,991	—

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Schedule 1
(continued)

	Quotas	Fund's Holdings of Currencies[1]		Use of Fund Resources	Reserve Tranche Positions
		Total	Percent of quota		
Hungary	530,700	1,166,280	219.8	674,500	38,925
Iceland	59,600	77,084	129.3	21,500	4,025
India	2,207,700	5,820,309	263.6	4,099,500	486,911
Indonesia	1,009,700	1,362,380	134.9	425,100	72,425
Iran, Islamic Republic of	660,000	589,236	89.3	—	70,765
Iraq	504,000	504,008	100.0	—	—
Ireland	343,400	229,246	66.8	—	114,155
Israel	446,600	446,605	100.0	—	—
Italy	2,909,100	1,942,922	66.8	—	966,184
Ivory Coast	165,500	754,989	456.2	589,488	2
Jamaica	145,500	728,542	500.7	582,976	—
Japan	4,223,300	2,820,559	66.8	—	1,402,761
Jordan	73,900	66,681	90.2	—	7,225
Kampuchea, Democratic	25,000	37,494	150.0	12,500	7
Kenya	142,000	512,110	360.6	380,347	10,267
Korea	462,800	1,750,546	378.3	1,287,741	—
Kuwait	635,300	294,514	46.4	—	340,791
Lao People's Democratic Republic	29,300	41,675	142.2	12,375	—
Lebanon	78,700	59,870	76.1	—	18,831
Lesotho	15,100	13,855	91.8	—	1,248
Liberia	71,300	275,353	386.2	204,041	—
Libyan Arab Jamahiriya	515,700	272,202	52.8	—	243,498
Luxembourg	77,000	64,795	84.1	—	12,208
Madagascar	66,400	194,553	293.0	128,151	—
Malawi	37,200	133,506	358.9	98,492	2,189
Malaysia	550,600	706,354	128.3	315,078	159,332
Maldives	2,000	1,998	99.9	—	3
Mali	50,800	91,049	179.2	48,925	8,680
Malta	45,100	16,312	36.2	—	28,820
Mauritania	33,900	70,137	206.9	36,225	—
Mauritius	53,600	221,050	412.4	167,463	13
Mexico	1,165,500	2,605,202	223.5	1,504,685	65,036
Morocco	306,600	1,285,414	419.2	978,813	18
Nepal	37,300	39,474	105.8	7,868	5,693
Netherlands	2,264,800	1,446,694	63.9	—	818,112
New Zealand	461,600	433,143	93.8	—	28,472
Nicaragua	68,200	81,499	119.5	13,290	—
Niger	33,700	58,740	174.3	33,600	8,560
Nigeria	849,500	849,496	100.0	—	5
Norway	699,000	287,151	41.1	—	411,850
Oman	63,100	32,628	51.7	—	30,479
Pakistan	546,300	1,774,937	324.9	1,317,180	88,554
Panama	102,200	311,336	304.6	209,135	14
Papua New Guinea	65,900	105,584	160.2	45,000	5,324
Paraguay	48,400	16,158	33.4	—	32,249
Peru	330,900	945,319	285.7	635,617	21,227
Philippines	440,400	1,271,876	288.8	832,745	1,326
Portugal	376,600	771,342	204.8	424,400	29,663
Qatar	114,900	77,710	67.6	—	37,194
Romania	523,400	1,586,186	303.1	1,062,781	—
Rwanda	43,800	34,162	78.0	—	9,643
St. Lucia	7,500	10,050	134.0	2,550	[2]
St. Vincent	4,000	5,150	128.7	1,500	350
São Tomé and Principe	4,000	4,001	100.0	—	—
Saudi Arabia	3,202,400	1,183,291	37.0	—	2,019,111
Senegal	85,100	286,651	336.8	202,494	946
Seychelles	3,000	3,001	100.0	—	—
Sierra Leone	57,900	139,522	241.0	81,622	5
Singapore	92,400	23,881	25.8	—	68,526
Solomon Islands	5,000	7,884	157.7	3,360	478

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Schedule 1
(concluded)

	Quotas	Fund's Holdings of Currencies[1] Total	Percent of quota	Use of Fund Resources	Reserve Tranche Positions
Somalia	44,200	150,329	340.1	106,117	—
South Africa	915,700	1,590,739	173.7	745,000	69,966
Spain	1,286,000	964,493	75.0	—	321,509
Sri Lanka	223,100	564,883	253.2	347,733	5,951
Sudan	169,700	776,228	457.4	606,524	—
Suriname	49,300	49,301	100.0	—	—
Swaziland	24,700	32,980	133.5	9,975	1,698
Sweden	1,064,300	823,585	77.4	—	240,721
Syrian Arab Republic	139,100	139,103	100.0	—	—
Tanzania	107,000	148,342	138.6	41,325	—
Thailand	386,600	1,218,719	315.2	860,908	28,792
Togo	38,400	76,756	199.9	38,554	206
Trinidad and Tobago	170,100	48,844	28.7	—	121,256
Tunisia	138,200	108,072	78.2	—	30,129
Turkey	429,100	1,898,891	442.5	1,502,060	32,275
Uganda	99,600	447,953	449.8	351,864	3,522
United Arab Emirates	202,600	89,273	44.1	—	113,329
United Kingdom	6,194,000	4,177,309	67.4	—	2,016,711
United States	17,918,300	8,251,597	46.1	—	9,676,933
Upper Volta	31,600	24,067	76.2	—	7,535
Uruguay	163,800	381,160	232.7	226,800	9,450
Vanuatu	9,000	7,427	82.5	—	1,575
Venezuela	1,371,500	860,580	62.7	—	510,930
Viet Nam	176,800	205,195	116.1	28,395	5
Western Samoa	6,000	13,270	221.2	7,268	—
Yemen Arab Republic	43,300	47,098	108.8	9,750	5,953
Yemen, People's Democratic Republic of	77,200	92,576	119.9	15,375	—
Yugoslavia	613,000	2,535,510	413.6	1,922,503	—
Zaïre	291,000	843,904	290.0	552,900	—
Zambia	270,300	948,538	350.9	678,243	7
Zimbabwe	191,000	461,669	241.7	270,694	27
Totals	89,236,300	93,574,681		31,741,553	27,415,316

[1] Includes nonnegotiable, noninterest-bearing notes, which members are entitled to issue in substitution for currency.
[2] Less than SDR 500.

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Schedule 2

INTERNATIONAL MONETARY FUND
GENERAL DEPARTMENT
MEMBERS' PURCHASES SUBJECT TO REPURCHASE
BY YEAR OF SCHEDULED REPURCHASE [1]
as at April 30, 1984

(In thousands of SDRs)

Financial Years Ending April 30	Credit Tranches	Compensatory Financing	Buffer Stock	Extended Facility	Total [2]
1985	1,443,978	1,005,716	—	279,487	2,735,432
1986	1,890,313	1,467,367	26,932	717,363	4,101,975
1987	2,900,066	2,597,815	155,430	1,309,465	6,962,776
1988	3,263,080	1,935,752	161,889	1,990,470	7,351,191
1989	1,921,689	297,256	31,094	2,107,881	4,357,920
1990	1,082,602	—	—	1,746,350	2,828,952
1991	494,945	—	—	1,343,146	1,838,091
1992	—	—	—	760,382	760,382
1993	—	—	—	546,598	546,598
1994	—	—	—	303,904	303,904
Totals	12,996,673	7,303,906	375,345	11,105,046	31,787,221 [2]

[1] A member is entitled to repurchase at any time holdings of its currency subject to charges and is expected to make repurchases as and when its balance of payments and reserve position improves.

[2] The total of members' purchases subject to repurchase exceeds the outstanding use of Fund credit by SDR 45.67 million because certain purchases made prior to the Second Amendment of the Articles of Agreement effective on April 1, 1978 which do not represent the extension of Fund credit must be repurchased in accordance with the repurchase terms then in effect.

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Schedule 3

INTERNATIONAL MONETARY FUND
GENERAL DEPARTMENT
SCHEDULED REPAYMENTS OF FUND BORROWING
as at April 30, 1984
(In thousands of SDRs)

Periods of Repayment [1] Financial Years Ending April 30	Supplementary Financing Facility	Enlarged Access Resources	Total
1985	675,504	1,141,394[2]	1,816,898
1986	1,200,856	347,000[2]	1,547,856
1987	1,657,732	890,000	2,547,732
1988	1,585,795	1,425,000	3,010,795
1989	1,152,145	1,425,000	2,577,145
1990	519,015	1,113,000	1,632,015
1991	123,788	535,000	658,788
Totals	6,914,835	6,876,394	13,791,229

[1]Dates of repayment are the dates provided in the borrowing agreements between the Fund and lenders, including maximum periods of renewals which are at the Fund's option. The borrowing agreements also permit earlier repayments in certain circumstances.
[2]Includes short-term borrowing with original maturities not exceeding three years.

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Schedule 4

INTERNATIONAL MONETARY FUND
GENERAL DEPARTMENT
STATUS OF STAND-BY ARRANGEMENTS AND EXTENDED ARRANGEMENTS
as at April 30, 1984

(In thousands of SDRs)

Member	Date of Arrangement	Expiration	Total Amount Agreed[1]	Undrawn Balance[1]
STAND-BY ARRANGEMENTS				
Barbados	October 1, 1982	May 31, 1984	31,875	3,900
Chile	January 10, 1983	January 9, 1985	500,000	216,000
Ecuador	July 25, 1983	July 24, 1984	157,500	39,375
Gambia, The	April 23, 1984	July 22, 1985	12,830	10,200
Ghana	August 3, 1983	August 2, 1984	238,500	47,700
Guatemala	August 31, 1983	December 31, 1984	114,750	57,375
Haiti	November 7, 1983	September 30, 1985	60,000	39,000
Hungary	January 13, 1984	January 12, 1985	425,000	297,500
Kenya	March 21, 1983	September 20, 1984	175,950	46,150
Korea	July 8, 1983	March 31, 1985	575,775	319,775
Liberia	September 14, 1983	September 13, 1984	55,000	13,000
Madagascar	April 10, 1984	March 31, 1985	33,000	30,000
Mali	December 9, 1983	May 31, 1985	40,500	24,500
Mauritius	May 18, 1983	August 17, 1984	49,500	16,500
Morocco	September 16, 1983	March 15, 1985	300,000	170,000
Niger	October 5, 1983	December 4, 1984	18,000	8,400
Panama	June 24, 1983	December 31, 1984	150,000	75,000
Peru	April 26, 1984	July 31, 1985	250,000	250,000
Portugal	October 7, 1983	February 28, 1985	445,000	278,600
Senegal	September 19, 1983	September 18, 1984	63,000	15,750
Sierra Leone	February 3, 1984	February 2, 1985	50,200	31,200
Solomon Islands	June 22, 1983	June 21, 1984	2,400	1,440
Sri Lanka	September 14, 1983	July 31, 1984	100,000	50,000
Turkey	April 4, 1984	April 3, 1985	225,000	168,750
Uganda	September 16, 1983	September 15, 1984	95,000	30,000
Uruguay	April 22, 1983	April 21, 1985	378,000	226,800
Western Samoa	June 27, 1983	June 26, 1984	3,375	—
Yugoslavia	April 18, 1983	April 17, 1985	370,000	370,000
Zaïre	December 27, 1983	March 26, 1985	228,000	150,000
Zimbabwe	March 23, 1983	September 22, 1984	300,000	125,000
			5,448,155	3,111,915
EXTENDED ARRANGEMENTS				
Brazil	March 1, 1983	February 28, 1986	4,239,375	2,618,500
Dominican Republic	January 21, 1983	January 20, 1986	371,250	247,500
India	November 9, 1981	November 8, 1984	5,000,000	1,100,000
Malawi	September 19, 1983	September 18, 1986	100,000	85,000
Mexico	January 1, 1983	December 31, 1985	3,410,625	2,106,565
			13,121,250	6,157,565
		Totals	18,569,405	9,269,480

[1]Details may not add to totals due to rounding.

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INTERNATIONAL MONETARY FUND

SDR DEPARTMENT
STATEMENT OF ALLOCATIONS AND HOLDINGS
as at April 30, 1984

(In thousands of SDRs)

	1984	1983
ALLOCATIONS		
Net cumulative allocations of SDRs to participants	21,433,330	21,433,330
Charges due but not paid (Note)	1,038	25,580
	21,434,368	21,458,910
HOLDINGS		
Participants		
With holdings above allocations		
Allocations	8,424,789	5,519,349
Net receipt of SDRs	2,114,823	3,345,988
	10,539,612	8,865,337
With holdings below allocations		
Allocations	13,008,541	15,913,982
Net use of SDRs	8,587,585	7,671,777
	4,420,956	8,242,205
Total holdings by participants	14,960,568	17,107,542
General Resources Account	6,436,730	4,334,909
Prescribed holders	37,070	16,459
	21,434,368	21,458,910

The accompanying note is an integral part of the financial statements.

/s/ W. O. HABERMEIER
Treasurer

/s/ J. DE LAROSIÈRE
Managing Director

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INTERNATIONAL MONETARY FUND
SDR DEPARTMENT
STATEMENT OF RECEIPT AND USE OF SDRs
for the year ended April 30, 1984

(In thousands of SDRs)

	Participants	General Resources Account	Prescribed Holders	Total 1984	Total 1983
Total holdings at beginning of financial year	17,107,542	4,334,909	16,459	21,458,910	21,448,750
Receipt of SDRs					
Transfers among participants and prescribed holders					
Transactions with designation	2,401,988			2,401,988	2,713,441
Transactions by agreement	3,086,240		88,919	3,175,159	1,281,428
Operations					
Loans	623,934		5,000	628,934	121,322
Settlement of financial obligations	548,110		17,355	565,465	275,090
Net Interest on SDRs	186,062		1,783	187,845	272,517
Transfers from participants to General Resources Account					
Repurchases		391,706		391,706	565,880
Charges		2,159,231		2,159,231	1,496,619
Quota payments		6,194,759		6,194,759	83,368
Interest on SDRs		146,926		146,926	444,258
Assessment on SDR allocation		2,974		2,974	2,494
Transfers from General Resources Account to participants and prescribed holders					
Purchases	3,875,794			3,875,794	2,418,576
Repayments of Fund borrowing	787,429			787,429	28,279
Interest on Fund borrowing	201,659			201,659	223,764
Refunds and adjustments	25,807			25,807	20,099
In exchange for currencies of other members					
Acquisitions to pay charges	329,739			329,739	162,463
Remuneration	1,573,347			1,573,347	860,614
	13,640,109	8,895,596	113,057	22,648,762	10,970,212
Use of SDRs					
Transfers among participants and prescribed holders					
Transactions with designation	2,401,989			2,401,989	2,713,441
Transactions by agreement	3,162,409		12,750	3,175,159	1,281,428
Operations					
Loans	551,150		77,784	628,934	121,322
Settlement of financial obligations	563,552		1,912	565,464	275,090
Transfers from participants to General Resources Account					
Repurchases	391,706			391,706	565,880
Charges	2,159,230			2,159,230	1,496,619
Quota payments	6,194,759			6,194,759	83,368
Assessment on SDR allocation	2,974			2,974	2,494
Transfers from General Resources Account to participants and prescribed holders					
Purchases		3,875,794		3,875,794	2,418,576
Repayments of Fund borrowing		787,429		787,429	28,279
Interest on Fund borrowing		201,659		201,659	223,764
Refunds and adjustments		25,807		25,807	20,099
In exchange for currencies of other members					
Acquisitions to pay charges		329,739		329,739	162,463
Remuneration		1,573,347		1,573,347	860,614
Charges in the SDR Department					
Net charges due	334,772			334,772	716,775
Charges not paid when due	−12,709			−12,709	−25,580
Settlement of unpaid charges	37,251			37,251	15,420
Total uses	15,787,083	6,793,775	92,446	22,673,304	10,960,052
Total holdings at end of financial year	14,960,568	6,436,730	37,070	21,434,368	21,458,910

The accompanying note is an integral part of the financial statements.

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INTERNATIONAL MONETARY FUND
SDR DEPARTMENT
NOTE TO THE FINANCIAL STATEMENTS

SDR Department

All transactions and operations involving SDRs are conducted through the SDR Department. SDRs do not constitute claims by holders against the Fund to provide currency, except in connection with the termination of participation or liquidation. SDRs are allocated by the Fund to members that are participants in the SDR Department in proportion to their quotas in the Fund. Three allocations were made in 1970, 1971, and 1972, totaling SDR 9.3 billion. Three further allocations were made, in 1979, 1980, and 1981, totaling SDR 12.1 billion. The Fund is empowered to prescribe certain official entities as holders of SDRs: to date, 14 institutions have been prescribed as holders. These prescribed holders do not receive allocations and cannot use or receive SDRs in designation.

Uses of SDRs

Participants and prescribed holders can use and receive SDRs in transactions and operations by agreement among themselves. Participants can also use SDRs in operations involving the General Resources Account, such as the payment of charges and repurchases. In addition, the Fund ensures, by designating participants to provide freely usable currency in exchange for SDRs, that a participant can use its SDRs to obtain such currency if it has need because of its balance of payments or its reserve position or development in its reserves. A participant is not obliged to provide currency for SDRs beyond the point at which its holdings of SDRs in excess of its net cumulative allocation are equal to twice its net cumulative allocation. A participant may, however, provide currency in excess of the obligatory limit or any agreed higher limit.

Interest, Charges, and Assessment

Interest is paid to each holder on its holdings of SDRs and charges are levied at the same rate on each participant's net cumulative allocation plus any negative balance of the participants or unpaid charges. The SDR interest rate is determined by reference to a combined market interest rate, which is a weighted average of yields or rates on short-term instruments in the capital markets of France, the Federal Republic of Germany, Japan, the United Kingdom, and the United States. Effective August 1, 1983, the SDR interest rate is determined on a weekly basis rather than on a quarterly basis and interest on SDR holdings is paid and charges on net cumulative allocations are collected on a quarterly basis. Interest and charges accrued between May 1, 1983 and July 31, 1983, before the decision became effective, are payable on May 1, 1984. Interest and charges are settled by crediting and debiting individual holdings accounts on the first day of the subsequent quarter. The Fund is required to pay interest to each holder, whether or not sufficient SDRs are received in payment of charges. As of April 30, 1984 the amount of unpaid charges amounted to SDR 1,037,692, which represents the amount of net charges in the SDR Department by Viet Nam for the financial quarter ended January 31, 1984 that remained unpaid as of April 30, 1984.

The combined market interest rate used to determine the SDR interest rate is calculated each Friday, using the yields or rates of that day. The SDR interest rate, which is set equal to the combined market interest rate, enters into effect on the following Monday and applies until the end of the following Sunday.

The expenses of conducting the business of the SDR Department are paid by the Fund from the General Resources Account, which is reimbursed in SDRs at the end of each financial year. For this purpose, the Fund levies an assessment, at the same rate for all participants, on their net cumulative allocation.

Suspension of Right to Use SDRs

On December 19, 1978 the Executive Board suspended the right of Democratic Kampuchea to use SDRs acquired after the date of the suspension because the Fund found that Democratic Kampuchea had failed to meet certain obligations in the SDR Department.

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INTERNATIONAL MONETARY FUND
SUBSIDY ACCOUNT
STATEMENT OF FINANCIAL POSITION
as at April 30, 1984

(In thousands of SDRs)

(Note 1)

	May 1, 1983 to April 30, 1984	Cumulative August 1, 1975 to April 30, 1984
Balance at beginning of period	13,555	—
Contributions received (Note 1)	—	160,293
Interest earned on investments	330	24,032
	330	184,325
Valuation gain	341	2,439
	671	186,764
	14,226	186,764
Less: Subsidy payments (Notes 2 and 3)	14,226	186,764
Balance at end of period (Note 3)	—	—

The accompanying notes are an integral part of the financial statement.

/s/ W. O. HABERMEIER
Treasurer

/s/ J. DE LAROSIÈRE
Managing Director

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INTERNATIONAL MONETARY FUND

SUBSIDY ACCOUNT
NOTES TO THE FINANCIAL STATEMENT

Purpose

The Subsidy Account, which is administered by the Fund, was established to assist the most seriously affected 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 or administered by the Fund and are not used to discharge liabilities or to meet losses incurred in the administration of other accounts.

1. Accounting Practices

Unit of Account

The accounts of the Subsidy Account are expressed in terms of the SDR, the currency value of which is determined daily by the Fund, at present, by summing the values in U.S. dollars, based on market exchange rates, of a basket of five specified currencies, as follows:

Currencies	Amount
U.S. dollar	0.54
Deutsche mark	0.46
French franc	0.74
Japanese yen	34
Pound sterling	0.071

Basis of Accounting

The accounts are maintained on an accrual basis and, accordingly, income is recognized as it is earned. It is the practice of the Fund to make all calculations on the basis of the exact number of days in the accounting period.

Contributions

Contributions to the Subsidy Account are made in currencies which are valued in terms of SDRs on the basis of exchange rates against the SDR at the time of receipt.

2. Subsidy Payments

The rate of subsidy for the financial years ended April 30, 1976 through 1982 and for the period from May 1, 1982 to May 11, 1983—the latter being the date by which the last outstanding balances from purchases under the 1975 oil facility were scheduled to be fully repurchased—was set by the Fund at 5 percent 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 in U.S. dollars at the SDR/US$ rate determined for the date of payment. Subsidy payments for the period from May 1, 1982 to May 11, 1983 amounted to SDR 2.5 million and were made on June 15, 1983.

3. Termination

The balances remaining in the Subsidy Account, after completion of repurchases under the oil facility and payment of subsidies at a rate of 5 percent, were used for payment of an additional subsidy at a rate of 0.334 percent on the Fund's holdings during the period May 1975 to May 1983 of currencies of members eligible to receive the subsidy. The final payment, which fully utilized the remaining resources of the Subsidy Account, amounted to SDR 11.7 million and was made after all charges due at the end of July 1983 in connection with the oil facility were paid. The Subsidy Account was terminated with the final payment on August 15, 1983.

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INTERNATIONAL MONETARY FUND

SUPPLEMENTARY FINANCING FACILITY

SUBSIDY ACCOUNT

BALANCE SHEET

as at April 30, 1984

(In thousands of SDRs)

(Note 1)

ASSETS	1984	1983
Currencies	12	73
Interest-earning deposits (Note 2)	98,372	31,498
Accrued income	2,250	1,104
Total	100,634	32,675
RESOURCES AND LIABILITIES		
Resources—Account balance	96,034	28,075
Borrowing (Note 3)	4,600	4,600
Total	100,634	32,675

The accompanying notes are an integral part of the financial statements.

/s/ W. O. HABERMEIER
Treasurer

/s/ J. DE LAROSIÈRE
Managing Director

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INTERNATIONAL MONETARY FUND
SUPPLEMENTARY FINANCING FACILITY
SUBSIDY ACCOUNT
STATEMENT OF CHANGES IN RESOURCES
for the year ended April 30, 1984

(In thousands of SDRs)

(Note 1)

	1984	1983
Balance at beginning of year	28,075	29,183
Transfers from Special Disbursement Account	126,116	33,808
Contributions (Note 1)	5,880	6,862
Investment income	4,347	2,548
Exchange valuation gain (loss)	79	(56)
Balance before subsidy payments	164,497	72,345
Subsidy payments (Note 4)	68,463	44,270
Balance at end of year	96,034	28,075

The accompanying notes are an integral part of the financial statements.

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INTERNATIONAL MONETARY FUND
SUPPLEMENTARY FINANCING FACILITY
SUBSIDY ACCOUNT
NOTES TO THE FINANCIAL STATEMENTS

Purpose

The Supplementary Financing Facility Subsidy Account, which is administered by the Fund, was established in December 1980 to assist low-income developing members to meet the cost of using resources made available through the Fund's supplementary financing facility and under the policy on exceptional use. The assets of the Supplementary Financing Facility Subsidy Account are separate from the assets of all other accounts of or administered by the Fund and are not used to discharge liabilities or to meet losses incurred in the administration of other accounts. The Supplementary Financing Facility Subsidy Account became operational in May 1981 and the first subsidy payments were made in December of that year. The resources of the Account arise from contributions and loans from members, interest income earned on investments, and transfers of amounts received in interest and loan repayments from the Trust Fund through the Special Disbursement Account.

1. Accounting Practices

Unit of Account

The accounts of the Supplementary Financing Facility Subsidy Account are expressed in terms of the SDR, the currency value of which is determined by the Fund, at present, by summing the values in U.S. dollars, based on market exchange rates, of a basket of five specified currencies, as follows:

Currencies	Amount
U.S. dollar	0.54
Deutsche mark	0.46
French franc	0.74
Japanese yen	34
Pound sterling	0.071

Basis of Accounting

The accounts are maintained on an accrual basis and, accordingly, income is recognized as it is earned and expenses are recorded as they are incurred. It is the practice of the Fund to make all calculations on the basis of the exact number of days in the accounting period.

Contributions

Contributions to the Supplementary Financing Facility Subsidy Account are made in currencies which are valued in terms of SDRs on the basis of exchange rates against the SDR at the time of receipt. Cumulative contributions to the Supplementary Financing Facility Subsidy Account at April 30, 1984 amounted to SDR 47.01 million.

2. Interest-Earning Deposits

To avoid exchange risks, the assets of the Account, pending their disbursement, are held in the form of interest-earning SDR-denominated time deposits.

3. Borrowing

Certain members have made loans to the Fund in its capacity as trustee of the Supplementary Financing Facility Subsidy Account. These loans, which are without interest, are to be repaid on December 31, 1984.

4. Subsidy Payments

The amount of the subsidy is calculated as a percentage per annum of the average daily balances in each year of the Fund's holdings of recipient members' currencies subject to the schedule of charges applicable to the supplementary financing facility and the policy on exceptional use. The rate of subsidy to be paid is determined by the Fund in the light of the resources available and the subsidy may not exceed the equivalent of 3 percent per annum of the currency holdings to which the supplementary financing facility and exceptional use charges apply, nor reduce the effective charge on such holdings below the rate of charge which would have been applicable had they been acquired under the Fund's policies on the regular use of its resources.

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INTERNATIONAL MONETARY FUND
TRUST FUND
BALANCE SHEET
as at April 30, 1984
(In thousands of SDRs)
(Note 1)

ASSETS	1984	1983
Loans (Note 2)	2,861,916	2,972,886
Accrued interest on loans	4,764	4,894
Investments, at cost (and approximate market value)	3,824	3,724
Accrued interest on investments	134	111
Total	2,870,638	2,981,615

TRUST RESOURCES AND LIABILITIES	1984	1983
Trust resources	2,864,491	2,975,589
Liabilities—		
Undistributed profits from sale of gold (Note 3)	3,811	3,690
Borrowing (Note 4)	2,332	2,332
Accrued interest on borrowing	4	4
Total	2,870,638	2,981,615

The accompanying notes are an integral part of the financial statements.

/s/ W. O. HABERMEIER
Treasurer

/s/ J. DE LAROSIÈRE
Managing Director

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INTERNATIONAL MONETARY FUND
TRUST FUND
STATEMENT OF INCOME AND EXPENSE
for the year ended April 30, 1984
(In thousands of SDRs)
(Note 1)

	1984	1983
Income:		
Interest income on loans	14,678	14,927
Investment income	367	447
Exchange valuation gain (loss)	(15)	5
	15,030	15,379
Less—Interest expense on borrowing (Note 4)	12	12
Net income	15,018	15,367

The accompanying notes are an integral part of the financial statements.

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INTERNATIONAL MONETARY FUND

TRUST FUND

STATEMENT OF CHANGES IN TRUST RESOURCES

for the year ended April 30, 1984

(In thousands of SDRs)

(Note 1)

	1984	1983
Balance, beginning of year	2,975,589	2,994,030
Net income for the year	15,018	15,367
Balance before transfers to the Special Disbursement Account	2,990,607	3,009,397
Transfers to the Special Disbursement Account (Note 5)	126,116	33,808
Balance, end of year	2,864,491	2,975,589

The accompanying notes are an integral part of the financial statements.

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INTERNATIONAL MONETARY FUND
TRUST FUND
NOTES TO THE FINANCIAL STATEMENTS

Purpose

The Trust Fund, which is administered by the Fund as Trustee, was established in 1976 to provide balance of payments assistance on concessional terms to eligible members that qualify for assistance. The resources of the Trust Fund are separate from the assets of all other accounts of or administered by the Fund and are not used to discharge liabilities or to meet losses incurred in the administration of other accounts.

1. Accounting Practices

Unit of Account

The accounts of the Trust Fund are expressed in terms of the SDR, the currency value of which is determined daily by the Fund, at present, by summing the values in U.S. dollars, based on market exchange rates, of a basket of five specified currencies, as follows:

Currencies	Amount
U.S. dollar	0.54
Deutsche mark	0.46
French franc	0.74
Japanese yen	34
Pound sterling	0.071

Basis of Accounting

The accounts are maintained on an accrual basis and, accordingly, income is recognized as it is earned and expenses are recorded as they are incurred. The expenses of conducting the business of the Trust Fund that are paid from the General Department of the Fund are reimbursed by the Trust Fund on the basis of an estimate of these expenses. Following the termination of the Trust Fund on April 30, 1981, residual administrative costs have been absorbed by the Fund's General Department. It is the practice of the Fund to make all calculations on the basis of the exact number of days in the accounting period.

Valuation Adjustments

Valuation adjustments arising from changes in the SDR rate of currencies held by the Trust Fund are charged to net income at the end of the year.

2. Loans

Loans were made from the Trust Fund to those eligible members that qualified for assistance in accordance with the provisions of the Trust Fund Instrument. The final loan disbursements were made on March 31, 1981. Each loan disbursement is repayable in ten semiannual installments which shall begin not later than the end of the first six months of the sixth year, and be completed at the end of the tenth year after the date of disbursement, except that most of the final loan disbursements made to members on March 31, 1981 that amounted to about 0.4 percent of quotas are to be repaid in a single installment not later than ten years after the date of that disbursement. Interest on the outstanding loan balances is charged at the rate of ½ of 1 percent per annum.

3. Direct Distribution of Profits

The Fund decided that the Trustee make, through the Trust Fund, the direct distribution of part of the profits from the sale of gold for the benefit of developing members. The share of each developing member in this direct distribution of profits was calculated on the basis of its share in total Fund quotas as at August 31, 1975 and on the basis of the actual profits realized in the gold auctions.

The direct distribution of profits has been completed, except that an amount of US$3,990,776, representing the share of Democratic Kampuchea, will continue to be held in the Trust Fund until relations with that member have been restored.

4. Borrowing

One beneficiary of the direct distribution of profits from the Trust Fund has lent a part of its entitlements to the Trust Fund. The amounts borrowed by the Trust Fund are repayable in five equal annual installments beginning not later than the end of the sixth year after the date of borrowing. Interest on the amounts outstanding is paid at the same rate as interest is charged on Trust Fund loans, provided that the rate shall not be less than ½ of 1 percent per annum.

5. Termination and Transfer of Resources

The Fund, as Trustee, decided that upon the completion of the final loan disbursements, the Trust Fund shall be terminated as of April 30, 1981. After that date, the activities of the Trust Fund have been confined to the completion of any unfinished business of the Trust Fund and the winding up of its affairs.

The resources of the Trust Fund held on the termination date or subsequently received by the Trustee will be employed first to satisfy current administrative expenses, second to pay interest and principal as it falls due on loan obligations, and third to make transfers to the Special Disbursement Account, the first SDR 750 million of which will flow through to the Supplementary Financing Facility Subsidy Account. At April 30, 1984 SDR 174.92 million had been transferred through the Special Disbursement Account to the Supplementary Financing Facility Subsidy Account.

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Report of the External Audit Committee
Staff Retirement Plan

Washington, D.C.
June 29, 1984

Authority and Scope of the Audit

In accordance with Section 20(b) of the By-Laws of the International Monetary Fund, we have audited the financial statements of the Staff Retirement Plan for the year ended April 30, 1984, which consist of statements of

—Accumulated plan benefits and net assets available for benefits,
—Changes in accumulated plan benefits, and
—Changes in net assets available for benefits.

The audit was conducted in accordance with international auditing guidelines and, accordingly, included reviews of accounting and control systems, tests of accounting records, evaluation of the extent and results of work performed by the Internal Auditor, and other audit procedures.

Audit Opinion

In our opinion, the financial statements have been prepared in accordance with generally accepted accounting principles, applied on a basis consistent with that of the preceding year, and give a true and fair view of the financial position of the Staff Retirement Plan as at April 30, 1984 and of the financial results of operations and transactions during that year.

External Audit Committee:

/s/ Walter Scholz, Chairman (Germany)
/s/ M. Ijadur Rahman (Bangladesh)
/s/ Abdelmalek Ouenniche (Morocco)

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INTERNATIONAL MONETARY FUND
STAFF RETIREMENT PLAN
STATEMENT OF ACCUMULATED PLAN BENEFITS
AND NET ASSETS AVAILABLE FOR BENEFITS
as at April 30, 1984
(In thousands of U.S. dollars)
(Note 1)

	1984	1983
Accumulated Plan benefits (Note 1):		
Actuarial present value of accumulated Plan benefits		
Vested benefits		
Retired participants	120,700	111,000
Other participants	104,500	89,500
Nonvested benefits	43,200	38,200
Total actuarial present value of accumulated Plan benefits	268,400	238,700
Net assets available for benefits:		
Investments, at current value (Note 1)		
Portfolio managed within the United States	344,921	316,755
Portfolio managed outside the United States	69,812	48,377
	414,733	365,132
Receivables:		
Contributions	772	596
Accrued interest and dividends (Note 1)	3,672	3,610
Other	1,251	—
	5,695	4,206
Cash at banks	32	13
Total assets	420,460	369,351
Liabilities:		
Accounts payable	919	804
Net assets available for benefits	419,541	368,547
Excess of net assets available for benefits over actuarial present value of accumulated Plan benefits	151,141	129,847

The accompanying notes are an integral part of the financial statements.

/s/ W. O. HABERMEIER
Treasurer

/s/ J. DE LAROSIÈRE
Managing Director

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INTERNATIONAL MONETARY FUND
STAFF RETIREMENT PLAN
STATEMENT OF CHANGES IN ACCUMULATED PLAN BENEFITS
for the year ended April 30, 1984

(In thousands of U.S. dollars)

(Note 1)

	1984	1983
Actuarial present value of accumulated Plan benefits at beginning of year	238,700	211,700
Increase (decrease) during the year attributable to:		
Benefits accumulated	17,748	17,258
Increase for interest due to decrease in discount period	23,300	20,600
Benefits paid	(11,348)	(10,858)
Net increase	29,700	27,000
Actuarial present value of accumulated Plan benefits at end of year (Note 1)	268,400	238,700

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INTERNATIONAL MONETARY FUND
STAFF RETIREMENT PLAN
STATEMENT OF CHANGES IN NET ASSETS AVAILABLE FOR BENEFITS
for the year ended April 30, 1984
(In thousands of U.S. dollars)
(Note 1)

	1984	1983
Investment income (Note 1):		
Net appreciation in current value of investments (Note 3)	798	80,460
Interest	14,544	12,561
Dividends	9,539	7,726
	24,881	100,747
Contributions (Note 2):		
International Monetary Fund	28,860	30,515
Participants	8,357	7,378
Participants restored to service	74	28
Net transfers from (to) retirement plans of other international organizations	170	(197)
	37,461	37,724
Total additions	62,342	138,471
Benefits:		
Pensions	10,038	8,917
Withdrawal benefits	784	925
Commutation benefits	172	751
Death benefits	354	265
Total payments	11,348	10,858
Net additions	50,994	127,613
Net assets available for benefits at:		
Beginning of year	368,547	240,934
End of year—April 30, 1984	419,541	368,547

The accompanying notes are an integral part of the financial statements.

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INTERNATIONAL MONETARY FUND
STAFF RETIREMENT PLAN
NOTES TO THE FINANCIAL STATEMENTS

Description of Plan

General

The Staff Retirement Plan (Plan) is a defined benefit pension plan covering nearly all staff members of the International Monetary Fund (employer). All assets and income of the Plan are the property of the employer and are held and administered by it separately from all its other property and assets and are to be used solely for the benefit of participants and retired participants or their beneficiaries. The account is valued in U.S. dollars.

Benefits

Participants are entitled to an annual pension beginning at normal retirement age (65). The amount of the pension is based on number of years of service and highest average gross remuneration. Participants who have reached the age of 55 may retire with a reduced pension (or with an unreduced pension if the sum of their age and years of service equals 90 or more). The Plan also provides for disability retirement and death benefits to a surviving spouse and minor children. Upon termination before age 55 a participant with at least three years of eligible service may elect to receive either a withdrawal benefit (accumulated contributions of the participant plus an amount equal to a percentage of such accumulated contributions, the percentage being based on number of months of eligible service) or a deferred pension to commence after the participant has reached the age of 55. A participant entitled to receive a normal, early retirement, or deferred pension may elect to commute up to one third of his or her pension, and receive a lump sum amount in lieu of the amount of pension commuted. A participant entitled to receive a disability pension may elect to commute one third of the early retirement pension that would otherwise have been applicable.

Contributions

As a condition of employment, regular staff members are required to participate in the Plan and to contribute 7 percent of their gross remuneration to the Plan. Certain other categories of staff members may elect to participate in the Plan. The employer meets the administrative costs of the Plan, such as actuarial, management, and custodial fees, and is to contribute any additional amounts not provided by the contributions of participants to pay costs and expenses of the Plan not otherwise covered. In 1984, these administrative costs were approximately $2.4 million ($1.1 million in 1983).

1. Accounting Practices

Valuation of Investments

Investments in securities listed in stock exchanges are valued at the last reported sales price on the last business day of the accounting period. Over-the-counter securities are valued at their bid price on the last business day of the year. Purchases and sales made by U.S. investment managers are recorded on the settlement date basis, and transactions made by the non-U.S. investment manager are recorded on the trade date basis.

Accumulated Benefits—Vested and Nonvested

The actuarial value of vested benefits is shown for two categories. For retired participants, the amount shown equals the present value of the benefits expected to be paid over the future lifetime of the pensioner, and, if applicable, the surviving spouse of the pensioner. For other participants, the amount shown equals the present value of the deferred pension earned to the valuation date for a participant, or, if greater, the value of the withdrawal benefit for that participant, summed over all participants. For the purpose of determining the actuarial value of the vested benefits at the end of the Plan year, it is assumed that the Plan will continue to exist but that participants will not earn pension benefits beyond the date of the calculation.

The amount of nonvested benefits represents the total of the withdrawal benefits for all participants with less than three years of eligible service.

Other

Dividend and interest income from investments are recorded as earned.

2. Funding

The employer makes normal contributions to the Plan equal to 14 percent of gross remuneration. Whenever the cost of living for a financial year increases, pensions shall be augmented by a pension supplement, which shall be the lesser of the increase in the cost of living for the financial year or 2 percent. If the increase in the cost of living for a year exceeds 2 percent, pensions shall be augmented by an additional supplement to be paid from contributions from the employer equal to the difference between 2 percent and the increase in the cost of living. The employer has the right for good cause to reduce the additional supplement to not less than 1 percent.

3. Investments

The net appreciation in the current value of investments for the periods April 30, 1984 and 1983 is as follows (in U.S. dollars):

	1984	1983
Portfolio managed within the United States	(11,522,052)	70,817,228
Portfolio managed outside the United States		
—Net market appreciation	12,493,251	11,698,045
—Net exchange valuation loss	(172,841)	(2,055,401)
	12,320,410	9,642,644
Total appreciation	798,358	80,459,872

The net exchange loss was calculated by converting the book value of securities in currencies other than U.S. dollars to U.S. dollars at the exchange rates in effect at both the beginning and the end of the accounting period (or at the time a security was purchased or sold if this occurs during the accounting period) and subtracting one from the other to determine the exchange loss.

At April 30, 1984, 9.69 percent of the net assets available for benefits was held in the Grantham, Mayo, Van Otterloo Managed Market Trust, which has underlying investments in approximately 300 equity issues. There were no other investments which represented 5 percent or more of the net assets available for benefits.

4. Actuarial Valuation

The most recent valuation of the Plan by the actuary engaged by the Pension Committee was made as at April 30, 1983. Actuarial assumptions used in the valuation were (a) life expectancy of participants as based on the 1960 United Nations Service Tables, (b) certain percentages of staff, differing by sex, would retire at each age between 55 and 65, and (c) an assumed average rate of return on investments of 6 percent per annum. The purpose of the annual valuation is to determine, on the basis of the actuarial assumptions used, the level of additional employer contributions necessary to fund experience losses and cost of living increases beyond the first 2 percent. It is further assumed that the Plan will continue to exist and that participants will continue to earn pension

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benefits beyond the date of the valuation until the date of withdrawal, disability, death, or retirement. This valuation therefore differs from that in which the actuarial value of vested benefits is determined (Note 1).

Experience gains and losses of the Plan, as determined by the actuary, are amortized over a period of 15 years. The most recent valuation (at April 30, 1983) showed an experience loss of $5.4 million for the year then ended. Unamortized experience losses amounted to $63.1 million at April 30, 1984, of which $8.0 million was paid by the employer on May 1, 1984.

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Letters are used as follows: c for chart, n for footnote, and t for table.

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