Message from the Managing Director and Chair of the Executive Board

Management team, from left:
Rodrigo de Rato, Managing Director and Chair of the Executive Board
Anne O. Krueger, First Deputy Managing Director
Agustín Carstens, Deputy Managing Director
Takatoshi Kato, Deputy Managing Director

The IMF's financial year that ended on April 30, 2006, was a year of continuity and progress for the global economy, and a year of change for the Fund. The global economy continued to grow at an impressive pace, the expansion became more broadly spread geographically, and financial market conditions remained benign. This environment, largely free of economic crises, was conducive to debate, both within and outside the Fund, on the future direction of the institution—a debate that I encouraged when I launched a review of the Fund's strategic direction in 2004.

I sought to crystallize the results from this debate in two reports: a report that I sent to the International Monetary and Financial Committee (IMFC) in September 2005 outlining a Medium-Term Strategy for the Fund, and a report to the IMFC in April 2006 on plans for implementing the strategy. I am pleased that the IMF's Executive Board broadly endorsed both reports before they were submitted to the IMFC, and that the IMFC welcomed both and, in April, gave me and the Executive Board a mandate to produce proposals in surveillance, crisis lending, and the Fund's own governance—all key areas—in the run-up to the Annual Meetings to be held in Singapore in September.

The road we need to take in surveillance is already clear: we need surveillance that is more focused, with more attention to spillovers between member countries. We also need to deepen our understanding of financial and capital markets. The new department that is being created from the merger of the International Capital Markets Department and the Monetary and Financial Systems Department will have an important role to play in this. Another key element of the Medium-Term Strategy (MTS) will be a new tool to supplement the Fund's surveillance of the global economy: multilateral consultations, in which particular issues of global or regional significance will be taken up comprehensively and collectively with the key countries concerned, as well as with policymaking bodies formed by groups of members. Our first multilateral consultation is already under way, focused on the aim of narrowing global payments imbalances while maintaining robust global growth.

The past year has been one of progress and hope in low-income countries. Growth in Africa exceeded 5 percent for the second consecutive year. In July 2005, the leaders of the G–8 countries proposed a write-off of debts owed to international financial institutions by some of the poorest, most heavily indebted countries, and the international financial institutions responded quickly. Indeed, I am proud to say that the IMF led the way—putting in place by January 2006 mechanisms to cancel the debts to it of 19 countries. The Fund has risen to meet the challenges of poverty reduction in low-income countries in other respects, also: with a new facility to help members deal with exogenous shocks, with the Policy Support Instrument to help low-income countries that do not want or need financial support from the Fund, and with the *Guide on Resource Revenue Transparency,* to help countries overcome "the curse of natural resources." We also continue to base our work on giving sound advice on macroeconomic policies—the Fund's core function and the best way we can help low-income countries meet the Millennium Development Goals.

Financial year 2006 was a year in which there was little new regular (nonconcessional) lending by the Fund, and in which some major borrowers were able to repay the Fund early. This is a cause for celebration. But I do not believe that demand for the Fund's financial assistance to help address balance of payments problems will remain dormant indefinitely, and the Fund needs to be ready to meet our members' needs when they arise. With this in mind, I have proposed to the Executive Board, again as part of the MTS, that we develop a new instrument to provide financing to emerging market countries that have strong fundamentals but remain vulnerable to shocks. The instrument would be designed to help members avoid crises and to respond to crises if they do occur.

The Fund also worked to put its own house in better order over the past year. In April, we completed the Employment, Compensation, and Benefits Review. We also presented, for the first time, a medium-term budget. Work is under way on other important changes. I have appointed high-level external committees to advise us on two critical issues—the division of labor between the Fund and the World Bank, and new sources of income for the Fund in an era when crisis prevention may largely supersede crisis response and the Fund should not be as dependent as it has been on its income from lending. In addition to consideration of options to broaden the Fund's income base, action is being taken on the expenditure side, where real reductions are proposed in the medium-term budget. Perhaps most fundamentally, I am preparing proposals on reform of the representation of member countries in the Fund. At present, the relative quotas and voting shares of our members do not adequately reflect the increased economic weight of some countries, including some of the largest emerging markets. I am also concerned that the voting power of low-income countries has been eroded over time. This gives rise to concerns about the adequacy of voice and representation for a number of countries that continue to borrow from the Fund but that have only a limited share in Fund voting. I will be making some specific proposals on how to take these governance issues forward in the run-up to this year's Annual Meetings; they are critical for the Fund's effectiveness in the years ahead.

We meet this year in Singapore, and it is appropriate that the Fund hold its Annual Meetings in Asia, where the pace of economic growth and change has been so fast in recent years. Many challenges lie in front of us, but when our members convene in September, they can celebrate a year of great progress and the prospect of a Fund that is continuing to renew itself for the benefit of the global community and that will continue to work unstintingly for them in the years ahead.

Letter of Transmittal
to the Board of Governors

August 3, 2006

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, 2006, in accordance with Article XII, Section 7*(a)* of the Articles of Agreement of the International Monetary Fund and Section 10 of the IMF's By-Laws. In accordance with Section 20 of the By-Laws, the administrative and capital budgets of the IMF approved by the Executive Board for the financial year ending April 30, 2007, are presented in Chapter 9. The audited financial statements for the year ended April 30, 2006, of the General Department, the SDR Department, and the accounts administered by the IMF, together with reports of the external audit firm thereon, are presented in Appendix VII.

Rodrigo de Rato
Managing Director and
Chair of the Executive Board

Executive Board on April 30, 2006

(Alternate Executive Directors are indicated in italics.)

United States

Nancy P. Jacklin
Meg Lundsager

Japan

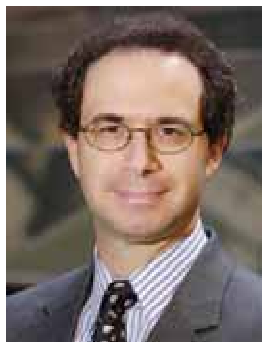
Shigeo Kashiwagi
Michio Kitahara

Germany

Karlheinz Bischofberger
Gert Meissner

Armenia, Bosnia and Herzegovina, Bulgaria, Croatia, Cyprus, Georgia, Israel, FYR Macedonia, Moldova, Netherlands, Romania, Ukraine

Jeroen Kremers
Yuriy G. Yakusha

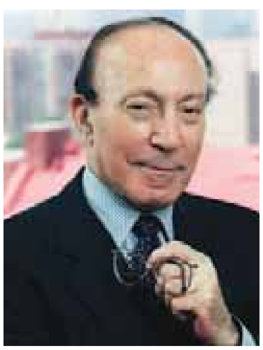


Costa Rica, El Salvador, Guatemala, Honduras, Mexico, Nicaragua, Spain, Venezuela

Moisés Schwartz
Mary Dager

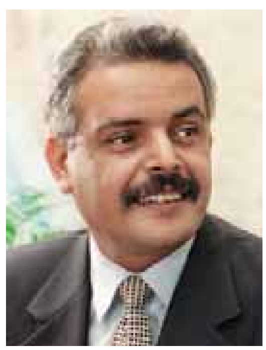
Albania, Greece, Italy, Malta, Portugal, San Marino, Timor-Leste

Arrigo Sadun
Miranda Xafa



Bahrain, Egypt, Iraq, Jordan, Kuwait, Lebanon, Libya, Maldives, Oman, Qatar, Syrian Arab Republic, United Arab Emirates, Yemen

A. Shakour Shaalan
Samir El-Khouri



Saudi Arabia

Sulaiman M. Al-Turki
Abdallah S. Alazzaz

Brunei Darussalam, Cambodia, Fiji, Indonesia, Lao P.D.R., Malaysia, Myanmar, Nepal, Singapore, Thailand, Tonga, Vietnam

Hooi Eng Phang
Made Sukada

Russian Federation

Aleksei V. Mozhin
Andrei Lushin

Islamic Republic of Afghanistan, Algeria, Ghana, Islamic Republic of Iran, Morocco, Pakistan, Tunisia

Abbas Mirakhor
Mohammed Daïri

Brazil, Colombia, Dominican Republic, Ecuador, Guyana, Haiti, Panama, Suriname, Trinidad and Tobago

Eduardo Loyo
Roberto Steiner

France

Pierre Duquesne
Olivier Cuny

United Kingdom

Tom Scholar
Andrew Hauser

Austria, Belarus, Belgium, Czech Republic, Hungary, Kazakhstan, Luxembourg, Slovak Republic, Slovenia, Turkey

Willy Kiekens
Johann Prader

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

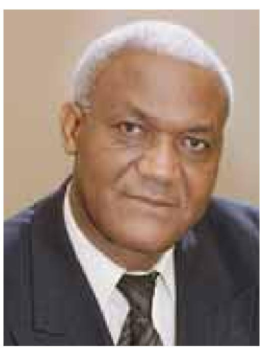
Jonathan Fried
Peter Charleton

Denmark, Estonia, Finland, Iceland, Latvia, Lithuania, Norway, Sweden

Tuomas Saarenheimo
Jon T. Sigurgeirsson

Australia, Kiribati, Korea, Marshall Islands, Federated States of Micronesia, Mongolia, New Zealand, Palau, Papua New Guinea, Philippines, Samoa, Seychelles, Solomon Islands, Vanuatu

Jong Nam Oh
Richard Murray



Angola, Botswana, Burundi, Eritrea, Ethiopia, The Gambia, Kenya, Lesotho, Malawi, Mozambique, Namibia, Nigeria, Sierra Leone, South Africa, Sudan, Swaziland, Tanzania, Uganda, Zambia

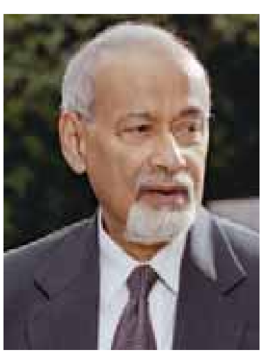
Peter J. Ngumbullu
Peter Gakunu

China

WANG Xiaoyi
GE Huayong

Azerbaijan, Kyrgyz Republic, Poland, Serbia and Montenegro, Switzerland, Tajikistan, Turkmenistan, Uzbekistan

Fritz Zurbrügg
Andrzej Raczko

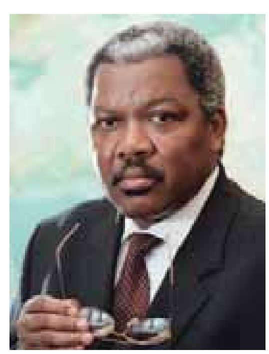


Bangladesh, Bhutan, India, Sri Lanka

B.P. Misra
Amal Uthum Herat

Argentina, Bolivia, Chile, Paraguay, Peru, Uruguay

Héctor R. Torres
Javier Silva-Ruete



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

Damian Ondo Mañe
Laurean W. Rutayisire