3 MANAGING MULTIPLE TRANSITIONS

MANAGING MULTIPLE TRANSITIONS

POLICIES FOR AN INTERCONNECTED WORLD

Monitoring global developments

The Managing Director's Global Policy Agenda

Twice a year, the Managing Director's Global Policy Agenda pulls together the key findings and policy advice from multilateral reports and defines a future agenda for the Fund and its members. The Managing Director's Global Policy Agenda is discussed by the Executive Board before the Annual and Spring Meetings, prior to the agenda's presentation to the International Monetary and Financial Committee.

The October 2013 Global Policy Agenda noted that though the recovery had been disappointing until recently, much had been done to avoid the worst. Multiple transitions under way required careful management; they included normalization of global financial conditions, a shift in global growth dynamics and a rebalancing of global demand, and completion of reforms to the international financial system. The IMF would provide a forum for multilateral policy analysis, dialogue, and cooperation, including on policy spillovers, global imbalances, and the policy mix, and offer targeted policy advice, capacity building, and financial support. Swift progress on governance and quota reforms was key to maintaining the IMF's financial strength and credibility.

The April 2014 Global Policy Agenda reported that global activity was strengthening, but the recovery was uneven and remained too weak for comfort, with geopolitical tensions injecting new concerns. Key challenges included risks from a lasting rise in capital flow volatility for emerging and frontier economies and very low inflation in advanced economies, especially the euro area. The IMF's work would focus on a range of policy issues related to shifting growth drivers, spillovers and spillbacks from monetary normalization, the macroeconomic and financial stability implications of global financial regulatory reform, and the role of policy cooperation. Prompt implementation of the 2010 quota and governance reforms, and completion of the Fifteenth General Review of Quotas by January 2015, remained essential for the IMF's continued legitimacy, financial strength, and credibility.

Surveillance

The IMF oversees the international monetary system and monitors the economic and financial policies of its 188 member countries. This activity, known as surveillance, is established by Article IV of the Fund's Articles of Agreement and is one of the IMF's core responsibilities. As part of this process, which takes place both at the global level and in individual countries, the IMF highlights possible risks to stability and advises on needed policy adjustments. In this way, it helps the international monetary system serve its essential purpose of facilitating the exchange of goods, services, and capital among countries, thereby sustaining sound economic growth.

There are two main aspects to the IMF's surveillance work: bilateral surveillance, or the appraisal of and advice on the policies of each member country and multilateral surveillance, or oversight of the world economy. The Integrated Surveillance Decision adopted in 2012 provides the basis for integrating bilateral and multilateral surveillance in a highly integrated world economy. It makes Article IV consultations a vehicle not only for bilateral surveillance but also for multilateral surveillance, thus allowing for a more comprehensive, integrated, and consistent spillover analysis. Since the global financial crisis, financial sector surveillance has also been an area of particular focus.

The IMF regularly reviews its surveillance activities. Most notably, it undertakes a formal review every three years; the last of these Triennial Surveillance Reviews (TSRs) was conducted in 2011.

Group of Twenty Mutual Assessment Process

The Mutual Assessment Process (MAP), an approach to policy collaboration conceived by the Group of Twenty (G20) at its 2009 Pittsburgh Summit, is designed to ensure that collective policy action benefits all. The IMF was asked by the G20 to identify—in collaboration with other international institutions—whether policies pursued by individual G20 countries were consistent with the G20's collective growth objectives. The IMF was also asked to help the G20 membership develop *indicative guidelines* and to use them to identify and evaluate large imbalances among members every two years.[2]

At the September 2013 *St. Petersburg Summit*, the G20 stressed the importance of ongoing cooperation to address the global challenges of economic growth, jobs, and financial stability. It reiterated its commitment to develop credible medium-term fiscal strategies to ensure sustainable *public finances* in advanced economies, taking into account near-term economic and budgetary conditions. The G20 also committed to monitor and minimize the negative *spillovers* of policies implemented for domestic purposes and reaffirmed its pledge to cooperate to achieve a lasting reduction in global imbalances.

At their February 2014 meeting, G20 finance ministers and central bank governors committed to develop ambitious but realistic policies to lift their collective GDP by more than 2 percent above the trajectory implied by current policies over the next five years. This commitment was informed by IMF staff analysis, and G20 countries agreed to take actions, including increasing investment, lifting employment and participation, enhancing trade, and promoting competition, in addition to implementing macroeconomic policies.[3] These actions will form the basis of their comprehensive growth strategies and the 2014 Brisbane Action Plan.

Early Warning Exercise

In November 2008, the G20 asked the IMF and the Financial Stability Board (FSB) to collaborate on regular Early Warning Exercises (EWEs), which assess low-probability but high-impact risks to the global economy and identify policies to mitigate them. The exercises integrate macroeconomic and financial perspectives on systemic risks, drawing on a range of quantitative tools and

Previous top A display panel for the Jakarta Stock Exchange in Indonesia **Previous bottom** A worker at a rice factory in Thailand **Far left** Congolese workers rebuild a neighborhood in Brazzaville **Far right** Tea tins at a factory in Colombo, Sri Lanka **Left** A potato processing plant in Kosovo **Right** A cauliflower field in Kolkata, India

broad-based consultations. The IMF generally takes a leading role on economic, macrofinancial, and sovereign risk concerns, and the FSB, which represents experts and policymakers from financial supervisory agencies and central banks in member countries, on financial system regulatory and supervisory issues.

EWEs identify both the vulnerabilities and triggers that could precipitate systemic crises, and possible risk-mitigating policies, including those that would require international cooperation. They play a role in the IMF's efforts to strengthen surveillance, especially in the areas of economic, financial, and fiscal risks as well as cross-sectoral and cross-border spillovers.

Following discussions at the IMF Executive Board and with the FSB, the EWE's findings are presented to senior officials during the Spring and Annual Meetings. The Executive Board was briefed on EWEs in October 2013 and April 2014.

2014 Triennial Surveillance Review

The IMF's precrisis surveillance suffered from well-documented weaknesses. Surveillance did not adequately identify and warn about mounting risks, in particular from advanced economies. The Fund's 2011 TSR identified needed improvements, such as ensuring that Fund surveillance is as interconnected as the global economy itself.

At an informal Board meeting in September 2013, the Executive Board discussed an IMF staff concept note for the 2014 TSR.[4] The review would cover areas that address the IMF's core mandate of ensuring the stability of the international monetary system, provide the most value added for the membership, and leverage the Fund's comparative advantages. It would be based on (1) a review and analysis of Article IV reports[5] and multilateral surveillance products, (2) guidance from an external advisory group at key stages of the exercise, (3) background studies by external experts and staff, and (4) surveys and interviews with country authorities, staff, and other stakeholders. A review of the Financial Sector Assessment Program (FSAP) would be conducted separately but concurrently with the TSR, with close coordination between the relevant authoring teams. The review would also take into account the findings of other recent work.

Bilateral surveillance

IMF staff continually monitor members' economies. They visit member countries—usually annually—to exchange views with the government and the central bank and consider whether there are risks to domestic and global stability that argue for adjustments in economic or financial policies, in a process known as Article IV consultations. Discussions mainly focus on exchange rate, monetary, fiscal, and financial policies. The IMF staff also typically meets with other stakeholders, such as parliamentarians and representatives of business, labor unions, and civil society, to help evaluate the country's economic policies and direction.

The staff presents a report on the meetings to the IMF's Executive Board, normally for discussion, upon which the consultation is concluded by the Executive Board. The Board's views are subsequently transmitted to the country's authorities. In recent years,

Left A bank branch inside a store in São Paulo, Brazil
Right A wholesale date market in Tunisia

surveillance has become increasingly transparent. Almost all member countries now agree to publish a press release summarizing the views of the Board, as well as the staff report and accompanying analysis. Many countries also publish a statement by the staff at the conclusion of an IMF consultation. During the year, the IMF conducted 123 Article IV consultations (see Web Table 3.1).

Multilateral surveillance

The IMF also monitors global and regional economic trends and analyzes spillovers from members' policies onto the global economy. The key instruments of multilateral surveillance are the regular publications *World Economic Outlook* (WEO), *Global Financial Stability Report* (GFSR), and *Fiscal Monitor* (FM), all part of the World Economic and Financial Surveys. The WEO provides detailed analysis of the state of the world economy, addressing issues of pressing interest, such as the current global financial turmoil and economic downturn. The GFSR provides an up-to-date assessment of global financial markets and prospects, and highlights imbalances and vulnerabilities that could pose risks to financial market stability. The FM updates medium-term fiscal projections and assesses developments in public finances.

The IMF also publishes, as part of its World Economic and Financial Surveys, *Regional Economic Outlook* (REO) reports, providing more detailed analysis for five major regions of the world. In FY2014, REOs were published in April and October on Asia and the Pacific, the Middle East and Central Asia, Sub-Saharan Africa, and the Western Hemisphere, and in October on Central, Eastern, and Southeastern Europe. Publication of the REOs is typically coordinated with extensive outreach events in each region. Press releases summarizing REO findings are posted on the IMF's website, along with the reports themselves and transcriptions and webcasts of press conferences held upon publication.[6] The Executive Board's discussion of issues in international taxation and the role of the IMF is included in Chapter 4.

Pilot External Sector Reports

Since 2012 the IMF has prepared a Pilot External Sector Report, which places the external positions of systemically large economies in a globally consistent setting. Together with the Spillover Report and Article IV consultations (with their heightened focus on spillovers), the Pilot External Sector Report is part of a continuous effort to ensure the IMF is in a good position to address the possible effects of spillovers from members' policies on global stability and to monitor external sectors in a comprehensive manner.

The Executive Board discussed the 2013 Pilot External Sector Report at an informal meeting in July 2013. This second pilot report covered the period 2012 through the first half of 2013. The report integrated the analysis from the Fund's bilateral and multilateral surveillance to provide a coherent assessment of exchange rates, current accounts, reserves, capital flows, and external balance sheets. It took into account feedback received on the previous report by placing a greater emphasis on capital flows and through further refinements to the external balance assessment methodology.

Spillover Reports

Since 2011, the IMF has prepared Spillover Reports analyzing the impact of economic policies in the world's five largest economies—China, the euro area, Japan, the United States, and the United Kingdom—on partner economies. At an informal meeting in July 2013, the Executive Board considered the 2013 Spillover Report. According to the report, five years after the global financial crisis, the severe tensions and risks rooted in 2011 in some of the "systemic five" had abated, but all five were still operating below potential, that is, they were not contributing to global activity as much as they might. If they could somehow close their output gaps, global output would be closer to potential by 3 percentage points.

The mandate to examine spillovers as a central part of the Fund's revamped surveillance framework has put the Fund in a much better position to assess the global impact of country policies and to provide advice on such policies with benefits to its multilateral work. This could enhance the dialogue across countries and would allow fuller consideration of how to achieve rapid and sustainable growth by helping to build a more shared diagnosis.

As events warrant, the Executive Board is kept abreast of developments in the world economy that merit particular attention. In January 2014, the Executive Board was also briefed on spillovers from Venezuela to other countries in the region, due to the lack of official Article IV consultations with Venezuela.

Global liquidity

The global financial crisis and associated policy interventions have highlighted how financial shocks are transmitted in an interconnected global economy. Global liquidity has been discussed in the context of spillovers from the general monetary easing in advanced economies—focusing not only on the immediate effects from particular measures, but also on the global financial stability implications of prolonged accommodation.

At an informal meeting in March 2014, the IMF staff briefed the Executive Board on issues for multilateral surveillance in regard to global liquidity. Drawing on analytics, the IMF policy paper prepared for the briefing[7] suggested indicators across various types of economies for tracking global liquidity, based on the expected impact of those indicators on macrofinancial conditions and stability across countries. For monitoring purposes, the indicators were organized into a dashboard tracing their trends over time. The dashboard tracked well the evolution of global financial conditions, with several indicators already monitored in flagship multilateral surveillance products.

Cluster reports

One of the recommendations of the 2011 Triennial Surveillance Review was strengthening of work on interconnectedness and spillovers. As part of its response to that recommendation, the IMF has undertaken a pilot to cluster Article IV consultations and assess spillovers across groups of interconnected countries, by examining the risks from common shocks, highlighting shared policy challenges, and identifying potential gains from policy coordination. These cluster reports complement the Article IV consultations for the countries concerned.

In August 2013, the Executive Board considered the Nordic Regional Report on Denmark, Finland, Norway, and Sweden.[8] Executive Directors welcomed recent progress at the Nordic and European levels in setting up mechanisms to deal with distressed banks, which should help resolve many of the current differences in supervisory practices and resolution preferences. They noted that the development of a banking union at the European level provides a valuable opportunity for deeper regional coordination that is also in alignment with the broader European scheme.

A second cluster report, the German–Central European Supply Chain Cluster Report, was considered by the Board in July 2013.

Review of the Fund's Strategy on Anti–Money Laundering and Combating the Financing of Terrorism

In March 2014, the Executive Board reviewed the Fund's strategy on Anti–Money Laundering and Combating the Financing of Terrorism (AML/CFT).[9] Executive Directors acknowledged the Fund's contribution to the response by the international community to money laundering and the financing of terrorism and encouraged continued cooperation in this area with the World Bank, the Financial Action Task Force (FATF), and the FATF-style regional bodies (FSRBs). They also highlighted the important role played by the Fund in capacity-building efforts in member countries on AML/CFT.

Executive Directors endorsed the 2012 revised AML/CFT standard and the new assessment methodology for the Fund's operational work, which was expected to result in more focused and meaningful assessments because of the greater attention paid to risks and country context. They noted that deficiencies in a country's AML/CFT regime can have important implications for macroeconomic and financial stability and broadly supported the direction taken by the IMF staff in including financial integrity issues in Article IV consultations and IMF-supported programs when these issues are macro-critical.

Executive Directors reaffirmed that AML/CFT assessments are an important part of the Reports on the Observance of Standards and Codes (ROSCs) program[10] and of the Financial Sector Assessment Program (FSAP), and stressed the importance of ensuring adequate quality of assessment reports across the range of assessor bodies. They noted that, with the expansion of the FATF and FSRBs network in recent years, the Fund has increasingly drawn upon the FATF/FSRBs assessments for the purposes of its own work, in application of the burden-sharing arrangements between the international financial institutions and the FATF/FSRBs. In this respect, Executive Directors welcomed the steps taken by the FATF to strengthen quality and consistency controls for future assessment reports and looked forward to all assessor bodies implementing similar controls. They encouraged the staff to participate actively in the review mechanisms, as resources permit. The current system of converting all assessments into ROSCs following a pro forma review will be maintained.

Executive Directors also stressed the importance of timely and accurate AML/CFT input into every FSAP report. They agreed that, where possible, this input should be based on a comprehensive, quality AML/CFT assessment and, in due course, on targeted updates/ROSCs, in line with the approach taken under other standards and codes.

To facilitate this, Executive Directors encouraged continued efforts by all assessor bodies to align their assessment schedules with the FSAPs. They also noted that, consistent with the general policy, the staff would, if necessary, supplement the information derived from the ROSCs to ensure the accuracy of AML/CFT input. In addition, they recognized that there may be instances where comprehensive assessments or targeted updates against the prevailing standard will not be available. Executive Directors generally agreed that, in these instances, the staff may need to derive key findings on the basis of other sources of information.

Executive Directors noted the resource implications of (1) the increased inclusion of AML/CFT issues in surveillance and in Fund-supported programs, (2) the assessments under the revised methodology, and (3) the IMF staff's participation in the strengthened quality and consistency controls. In light of the overall budget situation, most Executive Directors considered it appropriate for the staff to reduce the number of Fund-led comprehensive assessments to two or three per year. Executive Directors noted that the next review of the AML/CFT program would be expected to be completed within the next four years.

Financial sector surveillance

Financial Surveillance Strategy

The IMF's Financial Surveillance Strategy was adopted by the Executive Board in September 2012 in line with a key recommendation of the 2011 Triennial Surveillance Review. The strategy sets out concrete and prioritized actions over three to five years to strengthen financial surveillance to help the Fund fulfill its mandate of ensuring the effective operation of the international monetary system and supporting global financial

Left A laboratory assistant at a health center in Ngoma, Rwanda
Right A woman sells tortillas at a market in Mexico City

stability. It is built on three main pillars: improving risk identification and policy analysis, fostering an integrated view of financial sector risks in products and instruments, and engaging more effectively with stakeholders.

In September 2013, the Executive Board was briefed on progress in implementing the strategy.[11] Over the first year of implementation, it was reported, progress had been made on each of the three pillars, especially on improving risk identification and policy analysis. This had laid the necessary groundwork for strengthening financial surveillance.

However, resource constraints had impeded progress in other areas, such as increasing the frequency of FSAPs to vulnerable countries beyond the 25 listed as of systemic importance. Over the next year, implementation would focus on those areas where further progress was most needed.

Review of mandatory financial stability assessments under the Financial Sector Assessment Program

In September 2010, the Executive Board made stability assessments under the Financial Sector Assessment Program a mandatory part of bilateral surveillance under Article IV for 25 jurisdictions with systemically important financial sectors. In December 2013, the Executive Board reviewed experience with the first cycle of mandatory assessments and the lessons learned from the financial crisis.[12]

Executive Directors highlighted the success in implementing the decision, with mandatory financial stability assessments already completed or under way for almost all of the jurisdictions identified. They noted that the use of a more risk-based approach to financial sector surveillance had enabled the IMF to allocate FSAP resources more effectively and had helped strengthen the integration of FSAP assessments and Article IV consultations in these jurisdictions.

Executive Directors agreed that it was necessary to align the legal basis for mandatory financial stability assessments with the 2012 Integrated Surveillance Decision. The decision made Article IV consultations a vehicle for both bilateral and multilateral surveillance, enabling the IMF, in an Article IV consultation, to examine spillovers arising from a member's domestic policies when these could significantly influence the effective operation of the international monetary system. Consistent with that approach, mandatory financial stability assessments would also cover spillovers from a member's financial sector policies when those policies either undermined the member's own stability or could significantly influence the effective operation of the international monetary system, for example, by undermining global economic and financial stability.

Executive Directors endorsed the proposal to modify the methodology for determining systemically important financial sectors to incorporate lessons from the crisis, in particular, the importance of interconnectedness. They took note of the 29 jurisdictions whose financial sectors had been determined by the Managing Director to be systemically important. The list of jurisdictions and the methodology itself, it was observed, would need to be periodically reviewed. (At an informal meeting in November

2013, the Executive Board was given a technical briefing on the list of systemically important financial centers.)

At the same time, most Executive Directors expressed concern that the shift towards a more risk-based approach had reduced the availability of voluntary FSAPs in jurisdictions with non-systemic financial sectors.

Low-income countries

Because of the particular challenges they face, low-income countries are a particular focus for the IMF. In addition to the specific areas of attention discussed in the remainder of this section, the IMF engages with these countries by providing financing, on concessional terms, to member countries that are eligible for the Poverty Reduction and Growth Trust (PRGT) and have balance of payments problems; see "Concessional Financing" later in the chapter.

2013 Vulnerability Exercise for Low-Income Countries

In September 2013, the Executive Board discussed the 2013 "Low-Income Countries Global Risks and Vulnerabilities Report."[13] Executive Directors concurred that the examination of specific adverse shock scenarios—a temporary shock to growth in emerging markets and a protracted sluggish growth shock in the euro area—was both timely and appropriate. The shocks considered had been smaller in magnitude than those examined in the 2012 paper on low-income country vulnerabilities, reflecting a decision to focus on proximate risks rather than less probable tail risk scenarios.

Executive Directors broadly agreed with the report's policy recommendations. They welcomed the continued resilience of growth in most low-income countries since the global financial crisis, but noted that there was little room for complacency given the uneven progress in rebuilding fiscal and external buffers and the significant downside risks to the global economy. Executive Directors called for countries to enhance their resilience through rebuilding fiscal and external buffers and developing well-targeted fiscal adjustment measures, stronger efforts to develop domestic financial markets, and strengthening institutional capacity. A proactive engagement between low-income countries and the IMF would be important, it was noted, including technical assistance that was well aligned with the reform needs in vulnerable countries.

Executive Directors noted that, in the event of a serious adverse external shock, the countries' external financing needs would need to be filled through a combination of domestic policy adjustment and external support, depending on country circumstances. The IMF and other international financial institutions were well positioned, it was observed, to provide financing in support of sound policies, but increased aid from bilateral donors would also be needed. Executive Directors emphasized that in situations where fiscal adjustment is needed due to a global shock, this adjustment should safeguard priority expenditures, including infrastructure and poverty-related spending, and prioritize measures such as phasing out universal energy subsidies, strengthening revenue administration, and implementing well-designed tax reforms.

Executive Directors reiterated the importance of concluding the distribution of the remaining gold sales windfall profits to secure the Fund's ability to provide adequate financial support over the

Box 3.1

How women help economic growth

A September 2013 IMF study found striking economic benefits from increased female participation in the workforce. The paper, "Women, Work, and the Economy,"[a] made the case for policymakers to give women equal opportunities to participate in the workforce. For example, the study found, if the number of female workers were raised to the same level as that of men, GDP would expand in the United Arab Emirates by 12 percent, in Japan by 9 percent, and in the United States by 5 percent.

The paper pointed to a variety of obstacles to women's workforce participation. The number of women in the workforce remains far below that of men the world over, it noted, with only about half of women of working age employed. Women account for most unpaid work, and when they are paid, they are overrepresented in the informal sector and among the poor, and they continue to be paid less than men for the same jobs.

Government tax and spending policies as well as labor market regulation can be reformed to help boost female employment, according to the study. For example, taxing individual rather than family income—which in many economies imposes a higher marginal tax on the second earner in households—would encourage women to seek employment. Linking social benefits to participation in the workforce, training, or active labor market programs can also help increase female employment, as can the availability of good, affordable child care and greater opportunities for paternity and maternity leave.

a The paper is available at www.imf.org/external/pubs/ft/sdn/2013/sdn1310.pdf.

longer term (see "Gold Sales" in Chapter 5). Given limits on the available external financing, they underscored the importance of channeling resources to vulnerable countries and those most affected by shocks. They also highlighted the importance of integrating the results of the vulnerability exercise into Fund surveillance and program-related work.

Policy on debt limits in fund-supported programs

In January 2014, the Executive Board informally discussed a staff proposal for the review of the Fund's debt limits policy. The proposal built on input received during an earlier Board discussion in March 2013[14] and extensive consultations with stakeholders carried out by the IMF staff in the ensuing months. In reviewing the Fund's debt limits policy in March 2013, most Executive Directors agreed that because no changes were needed to the design of debt limits in programs funded under the General Resources Account (GRA), the focus of the discussion was on the details of debt conditionality in IMF arrangements with low-income countries. Executive Directors asked the staff to come back with revised proposals for a new framework for such arrangements.

Aid for trade

The IMF is one of the six core partner agencies of the World Trade Organisation's Enhanced Integrated Framework, a global partnership between least-developed countries, donors, and international organizations that supports countries in becoming more active players in the global trading system. The heads of these agencies met in Geneva in July 2013, during the Fourth Global Review of Aid for Trade,[15] to examine how to use development assistance to connect developing- and least-developed-country firms to value chains. The agency heads recommitted to helping the world's poorest communities get more from global trading networks as the international community moves to a post-2015 development agenda.

Sustaining long-run growth and macro stability in low-income countries

At an informal meeting in March 2014, the Executive Board discussed the role of structural transformation and diversification in sustaining long-run growth and macroeconomic stability in low-income countries. Empirical analysis by the IMF staff using a newly constructed cross-country data set, complemented by country case studies, to examine patterns of diversification and transformation since the mid-1960s, formed the basis for the discussion.[16]

Most low-income countries have historically been heavily dependent on a narrow range of traditional primary products and on a small number of export markets for the bulk of their export earnings and sources of growth. These patterns have been changing over the past two decades, the analysis found, albeit with significant variation in the extent of diversification both across and within regions. According to the analysis, there is still ample scope to upgrade the quality of the countries' existing export basket or introduce new higher-value-added products, not only in manufacturing but also in agriculture—often the least productive sector. Development policies should therefore include rather than abandon agriculture.

Cross-country empirical evidence presented in the analysis points to a range of general policy and reform measures that have proven effective in promoting diversification and structural transformation. These include improving infrastructure and trade networks, investing in human capital, encouraging financial deepening, and reducing barriers to entry for new products. But there is no one-size-fits-all recipe, as evidenced by the diversity of experiences recorded in the country case studies. The analysis introduced a new diversification toolkit, developed by the IMF staff and now publicly available,[17] which provided easy access to highly disaggregated, product-level data on export diversification and product quality. The toolkit would enable country authorities and mission teams to conduct more detailed, country-specific analysis.

Emerging markets

The Executive Board is briefed periodically or meets informally on issues or topics of interest in regard to emerging markets. During the year, several such briefings and meetings took place. At an informal meeting in September 2013, the Board discussed developments and prospects for growth in emerging market economies; the meeting included a presentation by the IMF staff, "Emerging Markets: Where Are They, and Where Are They Headed?" The Board was also briefed at an informal meeting in February 2014 on recent developments in emerging markets and in April 2014 on emerging market policy experience in handling external volatility.

Vienna 2 Initiative

The European Bank Coordination Initiative (known as the Vienna Initiative), launched at the height of the global financial crisis, is a framework for safeguarding the financial stability of emerging Europe in the wake of the financial crisis. It was relaunched as "Vienna 2" in January 2012 as a new wave of crisis in the euro area unfolded. The Vienna 2 Initiative is designed to help avoid disorderly deleveraging of Western parent banks in respect to their affiliates in the countries of central, eastern, and southeastern Europe (CESEE); ensure that potential cross-border financial stability issues are resolved; and achieve policy actions, notably in the supervisory area, in the best joint interest of home and host countries.

The IMF is a member of the Vienna 2 Initiative Steering Committee, along with the European Bank for Reconstruction and Development, European Investment Bank, World Bank Group, and European Commission, and the home and host countries—Albania, Italy, and Romania. The initiative publishes the quarterly *CESEE Deleveraging and Credit Monitor,* makes recommendations to relevant European institutions for improvements in supervisory coordination and cross-border bank resolution, and organizes "Host Country Cross-Border Banking Forums" that provide an opportunity for dialogue between the banks that are systemically important in a country and major interlocutors of those banks: the monetary authority and regulator, the parent international banking groups, and the latter's regulators. During the year covered by this report, these forums were organized for Albania, Croatia, and Serbia.[18]

Priorities for 2014

At its January 2014 meeting, the Steering Committee agreed on five priorities for the initiative in 2014:[19] promoting an all-inclusive banking union, with a special focus on non-EU members in southeastern Europe; closely monitoring deleveraging and credit trends in CESEE countries; tackling the critical nonperforming loan problem in the CESEE countries through a coordinated multistakeholder effort; increasing credit enhancement and risk mitigation to support new credit in the context of still-high risk perception in the region; and developing faster local funding sources in CESEE countries.

Arab countries in transition

As of the end of April 2014, the IMF had approved a total of $10 billion in financial support for Arab countries in transition (ACTs). The Fund-supported programs of Jordan, Morocco, and Tunisia were on track, and the Fund was in discussions with Yemen on a possible new arrangement under the Extended Credit Facility and stood ready to engage in program discussions with Egypt should the authorities request such support. IMF engagement also took the form of working with donors, providing policy advice, and building capacity. During the year the Fund conducted almost 180 technical assistance missions in the Middle East and North Africa, and its various training events were attended by about 1,100 participants from the region.

During the year, the Board was briefed on ACTs at a number of informal meetings: developments and key policy challenges (October 2013), recent developments and outlook, including Deauville Partnership efforts (February 2014), and the economic reform agenda (March 2014). An April 2014 IMF staff report on the regional economic outlook and key challenges noted that despite uneven progress, there were early signs of improvement and macroeconomic stabilization in some ACTs.[20] Persistently weak growth and subdued private investment amid heightened regional insecurity continued to weigh, however, on the task of reducing unemployment.

This situation called for accelerated reform efforts by the authorities to achieve higher, more inclusive, and more private-sector-led growth, supported by external partners. In addition, mobilizing affordable external financing could help boost well-implemented public investment and provide a short-term impetus to growth and employment, thereby stabilizing difficult sociopolitical conditions on the ground and providing space for deeper structural reforms.

Small states

More than one-fifth of IMF members are countries with populations of under 1.5 million (small states). Three out of four small states are islands or widely dispersed multi-island states; others are

Left Farmers pick strawberries for export in Morocco **Right** Bauxite mining trucks in Ocho Rios, Jamaica

landlocked, and some are located far from major markets. These small states are a diverse group representing all income categories, but all of them face size-related constraints. They have higher fixed and variable costs of providing public goods, with little scope to exploit economies of scale. In the private sector, higher costs have led to concentrated markets with less competition.

Very high shares of imports and exports in most small states help them to overcome weak competition and to invigorate growth. But this high degree of openness, along with hindrances to diversification, has made them more vulnerable to shocks in global markets. Domestic financial markets in small states tend to be shallow. They have less favorable access to global capital as investors often perceive them to be more risky. To make matters worse, most small states are prone to natural disasters and some are particularly susceptible to climate change.

In recent years, the IMF has endeavored to enhance its engagement in small states, an area that has received steady attention in its work agenda. This renewed focus on small states has been repeatedly welcomed by IMF member countries, including in the October 2013 communiqué of the International Monetary and Financial Committee. This increased emphasis on small states reflects the growing recognition of these countries' special needs and challenges and the role that the IMF can play in helping them address these challenges but also learn from them.

One example of this increased engagement is the *Asia and Pacific Small States Monitor,* which published its inaugural issue in April 2014.[21] The *Monitor*, which is expected to be published quarterly, focuses on recent macroeconomic developments and topical issues covering the small states of the Asia and Pacific region. A staff guidance note has also been issued to enhance the IMF's engagement with its small member countries.

To weather natural disasters and other external shocks, small states have used a number of IMF financing instruments, including the Rapid Credit Facility, a type of emergency assistance. Delivery of technical assistance and training, particularly through the IMF's regional technical centers, plays a vital role in building small states' capacities (see "Capacity Development" in Chapter 4). The IMF is also collaborating closely with other international institutions and development partners to meet small states' needs and learn from their experiences.

FINANCING AND THE GLOBAL SAFETY NET

A core IMF role is to provide financial assistance in line with the IMF's policies and procedures to member countries experiencing actual, prospective, or potential balance of payments problems. This financial assistance enables countries to rebuild their international reserves, stabilize their currencies, continue paying for imports, and restore conditions for strong economic growth, while undertaking policies to correct underlying balance of payments problems.

IMF financing provides a cushion that eases the adjustment policies and reforms that a country must make to correct its balance of payments problem and restore conditions for strong economic growth.

Financing resources

The IMF can use its quota-funded holdings of currencies of financially strong economies to provide financing to its members.[22] The Executive Board selects these currencies generally on a quarterly basis based on members' balance of payments and reserve positions. Most are issued by advanced economies, but the list also has included currencies of emerging market economies, and in some cases of low-income countries, as well. The IMF's holdings of these currencies, together with its own special drawing right (SDR) holdings, make up its usable resources for providing financing. If needed, the IMF can temporarily supplement these resources through borrowing—both through its standing borrowing arrangements and through bilateral arrangements. As of April 30, 2014, the IMF's outstanding borrowings under bilateral loans and note purchase agreements, and the enlarged and expanded New Arrangements to Borrow, amounted to SDR 47.3 billion ($73.3 billion).[23] (Additional sources of financing resources are discussed elsewhere in this report: see "Gold Sales" in Chapter 5 for information on use of proceeds from the IMF's gold sales for financing provided to low-income countries, as well as the discussion of resources for debt relief to low-income countries via the Poverty Reduction and Growth Trust later in this chapter. See also "Review of the Adequacy of the Fund's Precautionary Balances" and "Risk Management" in Chapter 5 for information on measures the Fund takes to safeguard its financial resources.)

Borrowing arrangements

The IMF has two standing sets of credit lines, the General Arrangements to Borrow (GAB, established in 1962) and the New Arrangements to Borrow (NAB, established in 1998 and significantly expanded in 2010). Under these arrangements, a number of member countries or their institutions stand ready to lend additional funds to the IMF, through activation of the arrangements. As of April 30, 2014, 31 bilateral borrowing arrangements were in effect, for SDR 276.5 billion.

The NAB is a set of credit arrangements between the IMF and 38 member countries and institutions, including a number of emerging market economies. A proposal by the Managing Director to "activate" the NAB becomes effective only if it is accepted by participants representing 85 percent of total credit arrangements of participants eligible to vote and is then approved by the Executive Board. The NAB can be activated for periods of up to six months; once activated, it can provide up to SDR 370.0 billion (about $573.4 billion) in supplementary resources. The NAB was activated twice during the time period covered by this report, in October 2013 and April 2014, with each activation for the maximum six-month period.

The GAB enables the IMF to borrow specified amounts of currencies from 11 advanced economies (or their central banks). A proposal for calls under the GAB may be made, however, only when a proposal for the establishment of an activation period under the NAB is not accepted by NAB participants.

The GAB and an associated credit arrangement with Saudi Arabia have been renewed, without modifications, for a period of five years from December 26, 2013. The potential amount of credit available to the IMF under the GAB totals SDR 17 billion (about $26.3 billion), with an additional SDR 1.5 billion ($2.3 billion) available under the associated arrangement with Saudi Arabia. The GAB has been activated 10 times, the last time in 1998. Drawings under the GAB count toward a member's commitment under the NAB, and vice versa.

Bilateral borrowing agreements

Resources available to the IMF under a set of 2012 bilateral borrowing agreements serve as a second line of defense to the Fund's quota and NAB resources.[24] Against the background of very difficult economic and financial conditions in the global economy, in 2012, 38 countries committed to increase IMF resources further by $461 billion through such agreements.

Engagement with regional financing arrangements

Regional financing arrangements provide financial assistance to countries in difficulties, drawing on resources pooled or committed at the regional level. Since the global financial crisis, these arrangements have been recognized as an important layer of the global financial safety net.

Regional financing arrangements potentially have an important impact on the functioning of the international monetary system and on the work of the Fund. There are synergies between these arrangements and the Fund in terms of increased firepower in global response to crises, better understanding of economies and policies through the sharing of experiences and expertise, and strengthened ownership of adjustment programs and associated policies. At the same time, the existence of multiple layers in the global financial safety net could pose coordination challenges due to the diverse mandates of regional financing arrangements and multilateral institutions such as the Fund.

At an informal meeting in May 2013, the Executive Board discussed the IMF's engagement with regional financial arrangements, based on an IMF staff paper[25] and issues raised at an IMF-G20 seminar on the role of regional financial arrangements in the international financial architecture and cooperation with the IMF. The paper summarizes the current landscape of regional financing arrangements and discusses coordination between the IMF and these arrangements to date, as well as options for enhancing cooperation, noting that there have been increasing calls for a more structured approach to coordinating lending by regional financing arrangements and the Fund. The introduction of more structured coordination, it notes, might enhance the predictability of such cofinancing and increase the efficacy of crisis fighting.

Program design

IMF resources are usually made available to members under a financing "arrangement." The member's economic program being supported by an IMF arrangement is formulated by the country assisted by the IMF and presented to the Executive Board in a "Letter of Intent," to which are normally attached a memorandum of economic and financial policies and a technical memorandum of understanding. Once an arrangement is approved by the Board, IMF resources are usually released in phased installments over the period of the arrangement. (The Board's review of debt limits in Fund arrangements is discussed earlier in the chapter.)

Financing instruments and facilities

Over the years, the IMF has developed various financing instruments and facilities that are tailored to address the specific circumstances of its diverse membership. All countries have access to the General Resources Account. PRGT-eligible members (low-income countries) may borrow on concessional terms through several IMF financing facilities under the PRGT, and a variety of facilities offer financing to all IMF members on nonconcessional terms if they are eligible for the PRGT. The IMF reviews its facilities periodically to ensure that they remain responsive to the membership's needs.

Review of the Flexible Credit Line, the Precautionary and Liquidity Line, and the Rapid Financing Instrument

In February 2014, the Executive Board discussed the review of the Flexible Credit Line (FCL), the Precautionary and Liquidity Line (PLL), and the Rapid Financing Instrument (RFI).[26] Executive Directors considered that the FCL and the PLL had both provided valuable insurance to members against external shocks and helped boost market confidence during a period of heightened risks. They broadly agreed that the FCL, PLL, and RFI should remain in the Fund's lending toolkit, which was an important component of the strengthened global financial safety net. At the same time, they saw scope for further refinements and welcomed efforts to enhance their effectiveness, transparency, and attractiveness while also preserving the revolving nature of the Fund's limited resources. The review was completed in early

FY2015 and the Executive Board approved the proposals on unification (also known as alignment) and enhanced transparency.

Executive Directors reiterated that FCL and PLL support provides a temporary supplement to reserves during periods of heightened external risks and that countries making use of these resources are expected to exit in a timely manner. They underscored that assessing external risks remains an important aspect in access and exit discussions. With regard to the RFI, most Executive Directors supported keeping the existing access limits unchanged.

Executive Directors generally agreed that the approach of full scoring of precautionary arrangements in the forward commitment capacity remained appropriate, providing important assurance that committed resources would be available to the membership in all circumstances.

The IMF staff was asked to return to the Board with further analysis and proposals to enhance transparency and predictability in qualification assessments and access and exit discussions, including the unification of the criteria for assessing FCL and PLL qualification, as well as indicators of institutional strength and external stress. It was noted that Executive Directors would take stock in three years' time, or sooner if necessary, of experience with the use of the FCL, PLL, and RFI, and assess the need for a comprehensive review of each of these instruments, including a review of commitment fees, at that time.

Conditionality

When the IMF provides financing to a member, understandings are reached with the authorities on economic policies needed to overcome the balance of payments problems that led it to seek financial aid from the international community. More specifically, in accordance with the Fund's Articles of Agreement and implementing decisions of the Executive Board, program conditions are established on the use of Fund resources, with the aim to ensure that such resources are provided to the member to help it resolve its balance of payments problems in a manner consistent with the Articles of Agreement and that establishes adequate safeguards for the temporary use of the IMF's resources. Reforms to the GRA lending toolkit approved in 2009 streamlined program conditionality in order to enhance national ownership of strong and effective policies.

Conditionality in IMF-supported programs generally consists of variables or measures that are of critical importance for achieving the member's program goals—that is, the underlying macroeconomic and structural policies—or for monitoring program implementation, or are necessary to implement specific provisions of the Articles of Agreement or policies adopted under them. As noted above, conditionality also provides safeguards for the temporary use of IMF resources. The IMF reviews conditionality regularly as part of its effort to assess policies and adapt to a changing environment.

Review of conditionality in countries with evolving monetary policy regimes

Over the past decade there have been significant changes in monetary policy regimes, particularly in developing countries, which need to be taken into account when establishing monetary policy conditionality in Fund-supported programs. There are clear guidelines and established practices for monetary conditionality for money-targeting and inflation-targeting frameworks. However,

Left Men craft carpets in Peshawar, Pakistan **Right** Rehabilitation of an old block in Bucharest, Romania.

there was no specific conditionality framework for countries with evolving monetary policy regimes. At a meeting in March 2014, the Executive Board reviewed monetary policy conditionality in countries with evolving monetary policy regimes.[27]

Executive Directors saw merit in employing a review-based approach to monetary conditionality and broadly endorsed the IMF staff's proposal to enhance the existing framework by introducing a monetary policy consultation clause (MPCC) as an additional tool for monetary policy conditionality that could be used for countries that have the capacity to adjust policy settings in a flexible way to achieve their monetary policy objectives. The MPCC would be based on a specified central path for a target variable (i.e., monetary aggregate or inflation) that would normally have a single tolerance band. A formal consultation with the Executive Board would be triggered if the target variable deviates from the band. Directors noted that many developing countries with scope for independent monetary policy were moving toward more flexible and forward-looking monetary policy frameworks, generally focused around the broad objective of achieving price stability. A weaker relationship between monetary aggregates and inflation implied a decline in the relevance of monetary aggregates as reliable indicators of the monetary stance in countries with low inflation, changing financial landscapes, and facing exogenous shocks. Moreover, the nonobservances of reserve money targets in Fund-supported programs had typically not been correlated with inflation deviations in countries that had already achieved single-digit inflation levels.

Executive Directors considered that the MPCC could enhance monetary policy conditionality in programs in which countries have a strong track record of policy implementation, a relatively low and stable inflation rate, and adequate technical capacities. In this regard, Executive Directors generally pointed to the importance of de facto central bank autonomy in monetary operations, macroeconomic and financial stability, and the capacity for quantitative analysis of the inflation process, for successful implementation of the flexible monetary policy framework under the MPCC.

Executive Directors underscored the importance of evenhanded application of the standard and urged the staff to consider, on a case-by-case basis, whether it would be appropriate for a member to use the MPCC, noting that some countries may not currently meet all the institutional guideposts or have other characteristics that make the use of the MPCC premature. They emphasized the importance of the proposed consultation clause in safeguarding the use of Fund resources. They considered that the traditional framework for monetary policy conditionality would continue to be relevant for many countries, including those with less-developed institutional frameworks and a track record of relatively high inflation. Nonetheless, it was observed, the Fund should support developing countries that seek to modernize their conduct of monetary policy. Executive Directors welcomed the staff's efforts to build institutional capacity and enhance data provision and analysis in these countries.

Executive Directors supported a measured approach by the staff to the introduction of the MPCC in countries where conditions for successful implementation are broadly in place. Directors looked forward to taking stock of implementation of the new conditionality framework once sufficient experience had been gained. It was requested that the Operational Guidance Note on Conditionality be updated to incorporate the enhancements of the review-based monetary conditionality framework discussed by the Board.

Financing during the year

The main resources for Fund financing are provided by member countries through their payment of quotas. Borrowing provides a temporary supplement to quota resources and has played a critical role in enabling the Fund to meet members' needs for financial support during the global economic crisis. However, there are increasing concerns about delays in implementing the quota increases under the Fourteenth General Review and the Fund's continued reliance on borrowed resources.

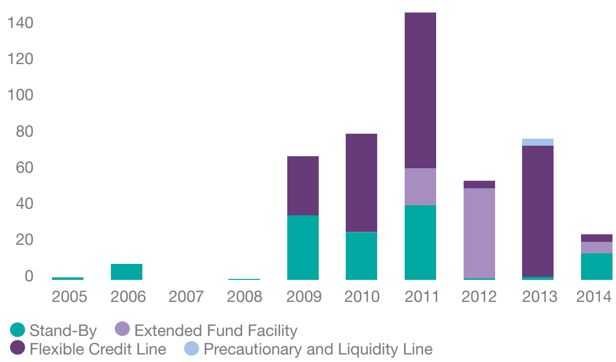
Nonconcessional financing

During the financial year, the Executive Board approved nine arrangements in the IMF's General Resources Account (nonconcessional financing facilities), for a gross total of SDR 24 billion ($37.2 billion).[28] Almost 60 percent of these commitments were represented by three Stand-By Arrangements (SBAs) for Romania, Tunisia, and Ukraine amounting to SDR 13.9 billion ($21.5 billion), Romania's SBA being a follow-on arrangement and treated as precautionary. About one-quarter of these commitments (SDR 6.3 billion, or $9.7 billion) were for five new extended arrangements under the Extended Financing Facility (EFF) for Albania, Armenia, Cyprus, Jamaica, and Pakistan. In addition, a successor arrangement under the Flexible Credit Line for Colombia was approved (SDR 3.9 billion, or $6.0 billion).

In total, by the end of April 2014, purchases[29] from the General Resources Account reached SDR 11.7 billion ($18.1 billion), with purchases by the three euro area program countries (Greece, Ireland, and Portugal) accounting for 76 percent of the total. Repurchases for the period amounted to SDR 20.6 billion ($32 billion). These included an early repurchase (repayment) by Hungary, in August 2013, of its remaining obligation under its 2008 Stand-By Arrangement.[30]

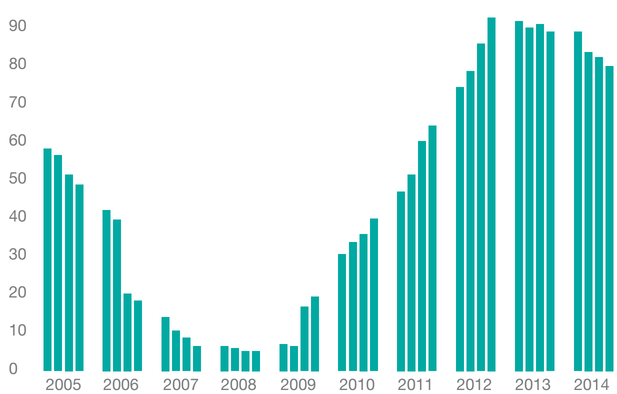
Table 3.1 provides general information about the IMF's financing instruments and facilities, and Table 3.2 and Figure 3.1 detail the arrangements in the GRA approved during the year, with Figure 3.2 offering information on financing amounts outstanding over the last 10 years.

Figure 3.1
Arrangements approved during financial years ended April 30, 2005–14
(Billions of SDRs)



Source: IMF Finance Department.

Figure 3.2
Nonconcessional financing outstanding, FY2005–14
(Billions of SDRs)



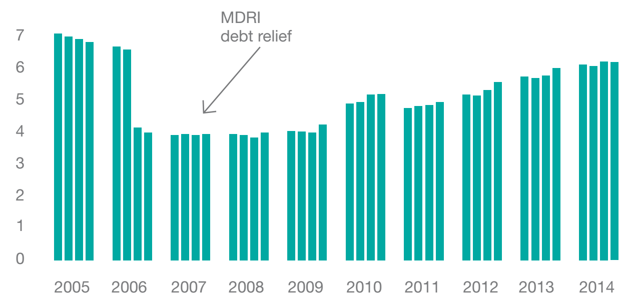
Source: IMF Finance Department.

The rate of charge for nonconcessional financing during the year is discussed in Chapter 5 (see "Income, charges, remuneration, and burden sharing" in that chapter).

Concessional financing

The Fund committed loans during the year amounting to SDR 0.14 billion ($0.22 billion) to its low-income member countries from the Poverty Reduction and Growth Trust. Total concessional loans from the PRGT to 60 members amounted to SDR 6.1 billion ($9.5 billion) at April 30, 2014. Detailed information regarding new arrangements and augmentations of access under the Fund's concessional financing facilities is provided in Table 3.3. Figure 3.3 illustrates amounts outstanding on concessional loans over the last decade.

Figure 3.3
Concessional financing outstanding, FY2005–14
(Billions of SDRs)



Source: IMF Finance Department.
Note: MDRI: Multilateral Debt Relief Initiative.

The Fund continues to provide debt relief to eligible countries under the Heavily Indebted Poor Countries (HIPC) Initiative and the Multilateral Debt Relief Initiative (MDRI). As of April 30, 2014, 36 countries had reached their decision points[31] under the HIPC Initiative; of these, only Chad has yet to reach the completion point. All countries that reach the completion point under the enhanced HIPC Initiative, and those with per capita incomes below $380 and outstanding debt to the Fund at the end of 2004, are eligible for debt relief under the MDRI. Afghanistan, Haiti, and Togo did not have MDRI-eligible debt with the Fund and therefore did not receive debt relief under this initiative from the IMF. In total, the IMF has provided debt relief of SDR 2.6 billion under the HIPC Initiative and SDR 2.3 billion under the MDRI, including debt relief to two non-HIPC countries.

No assistance was provided through the Post-Catastrophe Debt Relief (PCDR) Trust during the year. This trust was established in June 2010 to allow the Fund to join international debt relief efforts when poor countries are hit by the most catastrophic of natural disasters.

Policy Support Instrument

In addition to the IMF's concessional financing facilities (see Table 3.1), the IMF also offers a Policy Support Instrument (PSI) to countries that have established broadly sustainable macroeconomic positions and do not generally require IMF financing. The PSI provides more frequent IMF assessments of a member's economic and financial policies than is available through surveillance. This support from the IMF delivers clear signals to donors, creditors, and the general public on the strength of a country's policies.

The Executive Board completed its final reviews under the existing PSIs and granted new three-year PSIs for Mozambique, Rwanda, and Uganda during the year.[32]

Table 3.1

IMF financing facilities

Credit facility (year adopted)[1]	Purpose	Conditions	Phasing and monitoring
CREDIT TRANCHES AND EXTENDED FUND FACILITY[3]			
Stand-By Arrangements (SBA) (1952)	Medium-term assistance for countries with balance of payments difficulties of a short-term character.	Adopt policies that provide confidence that the member's balance of payments difficulties will be resolved within a reasonable period.	Quarterly purchases (disbursements) contingent on observance of performance criteria and other conditions.
Extended Fund Facility (EFF) (1974) (Extended Arrangements)	Longer-term assistance to support members' structural reforms to address balance of payments difficulties of a long-term character.	Adopt up to 4-year program, with structural agenda, with annual detailed statement of policies for the next 12 months.	Quarterly or semiannual purchases (disbursements) contingent on observance of performance criteria and other conditions.
Flexible Credit Line (FCL) (2009)	Flexible instrument in the credit tranches to address all balance of payments needs, potential or actual.	Very strong ex ante macroeconomic fundamentals, economic policy framework, and policy track record.	Approved access available up front throughout the arrangement period, subject to a midterm review after 1 year.
Precautionary and Liquidity Line (PLL) (2011)	Instrument for countries with sound economic fundamentals and policies.	Strong policy frameworks, external position, and market access, including financial sector soundness.	Large frontloaded access, subject to semiannual reviews (for 1–2-year PLL).
SPECIAL FACILITIES			
Rapid Financing Instrument (RFI) (2011)	Rapid financial assistance to all member countries facing an urgent balance of payments need.	Efforts to solve balance of payment difficulties (may include prior actions).	Outright purchases without the need for full-fledged program or reviews.
FACILITIES FOR LOW-INCOME MEMBERS UNDER THE POVERTY REDUCTION AND GROWTH TRUST			
Extended Credit Facility (ECF) (2010)[5]	Medium-term assistance to address protracted balance of payments problems.	Adopt 3–4-year ECF arrangements (may be extended to a total of 5 years). ECF-supported programs are based on a Poverty Reduction Strategy Paper (PRSP) prepared by the country in a participatory process and integrating macroeconomic, structural, and poverty reduction policies.	Semiannual (or occasionally quarterly) disbursements contingent on observance of performance criteria and reviews.
Standby Credit Facility (SCF) (2010)	To resolve short-term balance of payments and precautionary needs.	Adopt 12–24-month SCF arrangements.	Semiannual (or occasionally quarterly) disbursements contingent on observance of performance criteria and reviews (if drawn).
Rapid Credit Facility (RCF) (2010)	Rapid assistance for urgent balance of payments needs where an upper-credit-tranche-quality program is not needed or feasible.	No review-based program necessary or ex post conditionality.	Usually in a single disbursement.

1 Except for that financed by the Poverty Reduction and Growth Trust (PRGT), the IMF's lending is primarily financed from the capital subscribed by member countries; each country is assigned a quota that represents its financial commitment. A member provides a portion of its quota in foreign currencies acceptable to the IMF—or Special Drawing Rights (SDRs)—and the remainder in its own currency. An IMF loan is disbursed or drawn by the borrower's purchasing foreign currency or SDR assets from the IMF with its own currency. Repayment of the loan is achieved by the borrower's repurchasing its currency from the IMF with foreign currency or SDRs. ECF, RCF, and SCF concessional lending is financed by a separate Poverty Reduction and Growth Trust. For PRGT lending, the Executive Board agreed on April 8, 2013, that once the quota increase under the Fourteenth General Review of Quotas becomes effective, access norms and limits as a percentage of quota should be reduced by half.

2 The rate of charge on funds disbursed from the General Resources Account (GRA) is set at a margin over the weekly interest rate on SDRs. The rate of charge is applied to the daily balance of all outstanding GRA drawings during each IMF financial quarter. In addition, a service charge of 0.5 percent is levied on each drawing of IMF resources in the GRA, other than reserve tranche drawings. An up-front commitment fee (15 basis points on committed amounts of up to 200 percent of quota; 30 basis points for amounts in excess of 200 percent and up to 1,000 percent of quota; and 60 basis points for amounts in excess of 1,000 percent of quota) applies to the amount that may be drawn during each (annual) period under a Stand-By, Flexible Credit Line, Precautionary and Liquidity Line, or Extended Arrangement; this fee is refunded on a proportionate basis as subsequent drawings are made under the arrangement. For facilities for the low-income members under the Poverty Reduction and Growth Trust, an interest rate mechanism was established in 2009 linking the concessional interest rates to the SDR interest rate and regular reviews. At these reviews, the applicable interest rates are set as follows: if the average SDR interest rate observed in the most recent 12-month period is less than 2 percent, the interest rate for ECF and RCF loans shall be set at 0 percent per year, and at 0.25 percent per year for SCF loans; if the average SDR interest rate is 2 percent or more, up to 5 percent, the interest rate for ECF and RCF loans shall

Access limits[1]	Charges[2]	Schedule (years)	Installments
Annual: 200% of quota; cumulative: 600% of quota.	Rate of charge plus surcharge (200 basis points on amounts above 300% of quota; additional 100 basis points when outstanding credit remains above 300% of quota for more than 3 years).[4]	3¼–5	Quarterly
Annual: 200% of quota; cumulative: 600% of quota.	Same as above.	4½–10	Semiannual
No preset limit.	Same as above.	3¼–5	Quarterly
250% of quota for 6 months; 500% of quota available upon approval of 1–2-year arrangements; total of 1,000% of quota after 12 months of satisfactory progress.	Same as above.	3¼–5	Quarterly
Annual: 50% of quota; cumulative: 100% of quota.	Same as above.	3¼–5	Quarterly
Annual: 100% of quota; cumulative: 300% of quota.	0% through end of 2014.	5½–10	Semiannual
Annual: 100% of quota; cumulative: 300% of quota; Precautionary: annual 75% of quota and average annual 50% of quota.	Same as above.	4–8	Semiannual
Annual: 25% (shocks window 50% of quota); cumulative (net of scheduled repayments): 100% (shocks window 125% of quota).	Same as above.	5½–10	Semiannual

be set at 0.25 percent per year, and at 0.5 percent per year for SCF loans; if the average SDR interest rate is greater than 5 percent, the interest rate for ECF and RCF loans shall be set at 0.5 percent per year, and at 0.75 percent per year for SCF loans. A precautionary arrangement under the SCF is subject to an availability fee of 15 basis points per year on the undrawn portion of amounts available during each six-month period. In December 2012, the Board agreed to extend an exceptional temporary interest waiver on concessional loans to end-December 2014 in view of the global economic crisis.

3 Credit tranches refer to the size of purchases (disbursements) in terms of proportions of the member's quota in the IMF; for example, disbursements up to 25 percent of a member's quota are disbursements under the *first credit tranche* and require members to demonstrate reasonable efforts to overcome their balance of payments problems. Requests for disbursements above 25 percent are referred to as *upper-credit-tranche* drawings; they are made in installments as the borrower meets certain established performance targets. Such disbursements are normally associated with a Stand-By or Extended Arrangement. Access to IMF resources outside an arrangement is rare and expected to remain so.

4 Surcharge introduced in November 2000. A new system of surcharges took effect on August 1, 2009, replacing the previous schedule: 100 basis points above the basic rate of charge on amounts above 200 percent of quota, and 200 basis points surcharge on amounts above 300 percent of quota. A member with credit outstanding in the credit tranches or under the Extended Fund Facility on, or with an effective arrangement approved before, August 1, 2009, had the option to elect between the new and the old system of surcharges.

5 ECF previously known as Poverty Reduction and Growth Facility.

Termination of the Emergency Post-Conflict and Natural Disaster Assistance Administered Subsidy Account

In 2001, the Fund established an administered account to subsidize Emergency Post-Conflict Assistance (EPCA) provided from the GRA to PRGT-eligible countries. In 2005, the purposes of the account were expanded to include subsidization of Emergency Natural Disaster Assistance (ENDA). This account, the EPCA/ENDA Subsidy Account, was financed through bilateral contributions provided by 19 member countries, originally amounting to SDR 40.9 million.

A reform of the IMF's facilities for PRGT-eligible countries, which became effective in January 2010, established the Rapid Credit Facility (RCF). The RCF provides concessional financial assistance to low-income countries facing an urgent balance of payments need and thus replaced the subsidized use of emergency assistance previously provided from the GRA. In accordance with the EPCA/ENDA Subsidy Account Instrument, the process of terminating the account began in late 2013, following the repayment earlier in the year of the last outstanding EPCA/ENDA credit by low-income countries.

The account was terminated on February 1, 2014. It had enabled subsidization of SDR 406 million in purchases made since 2001 under EPCA/ENDA.

The remaining balance of subsidy resources in the account at the time of termination, SDR 10.6 million, was disposed of in accordance with the wishes of the 19 members that had originally provided the resources. Eleven contributors requested that their remaining contributions, totaling SDR 7.1 million, be transferred to one of the four PRGT (mainly RCF or General) subsidy accounts. The remaining eight contributors transferred their shares into accounts that support IMF technical assistance, had their contributions returned to them, or had their contributions placed in a temporary administered account pending a final decision on the disposition.

Table 3.3

Arrangements approved and augmented under the Poverty Reduction and Growth Trust in FY2014

(Millions of SDRs)

Member	Effective date	Amount approved
NEW THREE-YEAR EXTENDED CREDIT FACILITY[1] ARRANGEMENTS		
Burkina Faso	December 27, 2013	27.1
Mali	December 18, 2013	30.0
Sierra Leone	October 21, 2013	62.2
Subtotal		**119.3**
AUGMENTATION OF EXTENDED CREDIT FACILITY ARRANGEMENT[2]		
Subtotal		
NEW STANDBY CREDIT FACILITY ARRANGEMENT		
Subtotal		
DISBURSEMENT UNDER RAPID CREDIT FACILITY		
Mali	June 18, 2013	10.0
Samoa	May 24, 2013	5.8
Subtotal		**15.8**
Total		**135.1**

Source: IMF Finance Department.

1 Previously Poverty Reduction and Growth Facility.

2 For augmentation, only the amount of the increase is shown.

Table 3.2

Arrangements in the General Resources Account approved in FY2014

(Millions of SDRs)

Member	Type of arrangement	Effective date	Amount approved
NEW ARRANGEMENTS			
Albania	36-month Extended Fund Facility	February 28, 2014	295.4
Armenia, Republic of	38-month Extended Fund Facility	March 7, 2014	82.2
Colombia	24-month Flexible Credit Line	June 24, 2013	3,870.0
Cyprus	36-month Extended Fund Facility	May 15, 2013	891.0
Jamaica	48-month Extended Fund Facility	May 1, 2013	615.4
Pakistan	36-month Extended Fund Facility	September 4, 2013	4,393.0
Romania	24-month Stand-By	September 27, 2013	1,751.3
Tunisia	24-month Stand-By	June 7, 2013	1,146.0
Ukraine	24-month Stand-By	April 30, 2014	10,976.0
Subtotal			**24,020.4**
AUGMENTATIONS OF ARRANGEMENTS[1]			
Bosnia and Herzogovina	33-month Stand-By	January 31, 2014	135.3
Subtotal			**135.3**
Total			**24,155.6**

Source: IMF Finance Department.

1 For augmentation only the amount of the increase is shown.