ANNUAL REPORT 1977

INTERNATIONAL MONETARY FUND

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1977

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INTERNATIONAL MONETARY FUND

ANNUAL REPORT

OF THE
EXECUTIVE DIRECTORS FOR THE
FISCAL YEAR ENDED APRIL 30, 1977

WASHINGTON, D.C.

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The following symbols have been used throughout this Report:

(. . .) indicate that data are not available;

(—) indicates that the figure is zero or less than half the final digit shown, or that the item does not exist;

(–) is used between years or months (e.g., 1970–77 or January–June) to indicate the years or months covered, including the beginning and ending years or months;

(/) is used between years (e.g., 1976/77) to indicate a fiscal year.

"Billion" means a thousand million.

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

The classification of countries employed in the Report is indicated in Tables 1 and 2 on pages 3 and 7.

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August 2, 1977

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LETTER OF TRANSMITTAL TO THE BOARD OF GOVERNORS

August 2, 1977

Dear Mr. Chairman:

In accordance with Section 10 of the By-Laws of the International Monetary Fund, I have the honor to present to the Board of Governors the Annual Report of the Executive Directors for the fiscal year ended April 30, 1977.

Yours sincerely,

/s/

H. JOHANNES WITTEVEEN

Chairman of the Executive Board

Chairman of the Board of Governors

International Monetary Fund

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Chapter 1
Developments in the World Economy

Introduction

At the present juncture, mid-1977, economic and financial conditions in many parts of the world are distinctly better than those of one or two years ago. Nevertheless, the great majority of the Fund's member countries are still in the process of attempting to restore order to their economies in the wake of the serious and unprecedented disturbances of 1973–75—disturbances that included a rapid upsurge of prices and costs, the most severe and prolonged recession of the postwar period, and the international oil crisis.

Essentially because of those disturbances, the international economic scene in 1977 is still unsatisfactory by past standards. Economic growth rates are generally subnormal in a setting of high unemployment, excess plant capacity, and lagging investment. Inflation is also a widespread problem, and in a number of countries it is coupled with weakness of the external position. In many cases, added to these general features are related problems, such as the presence of inflationary psychology and expectations, a lack of business and consumer confidence, and significant distortions in the structure of the economy.

In the short run, the scope for improvement in this situation is limited. Most member countries—indeed, almost all—have little room for maneuver in their policies of demand management. Because of the constraints imposed by inflation or balance of payments difficulties, fiscal and monetary policies must be kept under restraint. Moreover, measures that are supplementary to demand management policies, on which there is now an unusual degree of reliance because of the complexity of current problems, generally take time to establish and to have effect. These measures cover a wide variety of efforts in the field of incomes policy to affect the movement of wages and prices in the public interest; diverse types of specific programs to deal directly with the problem of unemployment; and various policies to deal with "structural" problems involving supply conditions, cost pressures, and levels of saving and investment.

Clearly, economic policies in the industrial countries, and in most other countries as well, are now placing a primary emphasis on medium-term objectives. The central aim is to combat inflation and, where necessary, strengthen the external position during the next few years, in the firm belief that such an approach will yield the best results for economic growth and employment in the longer run.

Implementation of policies with an emphasis on medium-term objectives—involving a gradual approach to reduction of inflation, absorption of the unemployed, and adjustment of the external position—is likely to prove difficult. It will require skill, patience, and courage on the part of the authorities, together with a substantial measure of continuity. However, despite the problems that might attend the gradual or moderate approach that has been generally adopted, it would not appear that any better or more promising approach is available.

While it is true, as indicated above, that the situation of the world economy is generally unsatisfactory by past standards, countries show a wide variation as regards economic progress in the past few years and, therefore, the severity of current problems. Within the industrial world, the countries that have been most successful in holding down inflation—including the United States, the Federal Republic of Germany, and Japan—are now in a relatively good economic position. In the group of more developed primary producing countries, there is a prevalence of double-digit inflation, low rates of economic growth, and some of the more difficult cases of external imbalance. With respect to the non-oil developing group, perhaps the most striking feature of developments in recent years is the wide disparity among countries, with the character of the economic record rather clearly related to the timing and effectiveness of adjustment efforts following the onset of the recession and the oil price increase at the beginning of 1974.

The domestic and external economic difficulties being experienced by many countries, particularly with respect to the problem of unemployment, have given rise to pressures for protectionist measures. On the whole, such pressures have been resisted, and there have been relatively few instances of recourse to trade restrictions by major trading nations. Nevertheless, the persistence of such pressures, as evident from rising protectionist sentiments in particular industries in some industrial countries, continues to be cause for serious concern. If the forces of protectionism are not resisted, the resort to restrictions on trade would harm the open international trading system; it would not provide any real solution to the economic problems confronting the industrial economies and could have effects destructive of prosperity in the world economy. In this situation, it is encouraging that strong antiprotectionist statements were included in the communiqués issued after the recent meetings of the Interim Committee of the Fund's Board of Governors (in Washington, April 28–29), the leaders of seven industrial countries (in London, May 8–9), and the OECD Ministers (in Paris, June 23–24).

This chapter focuses mainly on developments in the world economy during 1976 and 1977, but with frequent reference to longer-term comparisons in order to provide background perspective. Three broad subjects are covered: domestic activity and policies, trends in world trade, and the functioning of the international adjustment process. Closely related to this discussion of the adjustment process are several sections of Chapter 2, particularly those dealing with the role of the exchange rate in the adjustment process and factors affecting the adequacy of reserves.

Domestic Activity and Policies

Industrial Countries

Output and prices.—After a cessation of economic growth in 1974 and an unusual decline (of 1 per cent) in 1975, real gross national product (GNP) in the industrial countries expanded by almost 5½ per cent in 1976. Increases in the range of 5–6½ per cent occurred in all of the larger industrial countries except the United Kingdom (1½ per cent); the group of smaller industrial countries experienced a combined increase of 3½ per cent. (See Table 1.)

Changes in output on an annual basis mask the extent of irregularity that has characterized the course of economic activity in the industrial world during the past few years. The deep and prolonged international recession that started late in 1973 reached its low point in the first half of 1975, when real GNP in the industrial countries declined at an average annual rate of 4 per cent. However, an upturn occurred in most of the major countries in the second half of 1975, and by the first half of 1976 the resumption of output expansion was widespread. Annual rates of increase from the second half of 1975 to the first half of 1976 ranged as high as 6½–9 per cent for the three largest economies (those of the United States, the Federal Republic of Germany, and Japan), as well as for the Canadian, French, and Italian economies, and averaged close to 7 per cent for the whole group of industrial countries (Table 1).

At mid-1976, it was generally anticipated that cyclical recovery in the industrial countries would continue at a satisfactory pace in the latter part of the year. Moderation in the rate of economic expansion during the second half of 1976 was to be expected as the inevitable product of a further working of cyclical forces, but the degree of moderation that actually occurred was surprising. The rate of increase in real GNP from the first to the second half of 1976 fell off substantially throughout the industrial world, averaging only 3 per cent.

A major factor in this outturn was the disappointing behavior of private gross fixed investment, which had been showing its customary cyclical lag behind the rise in general economic activity but was expected to help sustain this rise in the second half of 1976 and beyond. The unusual behavior of private investment must in general be attributed to investors' cautiousness in the face of inflation and other economic or political uncertainties, together with influences such as the effect of cost-price relationships on the profitability of investment, a desire to go further in the improvement of business balance sheets, and the relatively low rates of capacity utilization.

Another factor in the slowdown of economic activity in the second half of 1976 was that fiscal policies in a number of the industrial countries were evidently less stimulative than had been expected. However, generalizations about this economic slowdown cannot be carried very far. Among countries, it reflected a variety of developments and had a diverse impact on the immediate economic outlook. In France, Italy, and the United Kingdom, the slowdown was accompanied by continuing high inflation and weakness of the external payments position, demonstrating the need for programs of economic stabilization; in the United States, the Federal Republic of Germany, Japan, and some other countries, developments in the latter part of 1976 apparently signified only a "pause" in the cyclical recovery and expansion.

It is estimated that real GNP increased at an average annual rate of 5 per cent in the industrial countries from the second half of 1976 to the first half of 1977, with the size of increases differing markedly among individual countries. (See Chart 1.) If overall growth in

Table 1. Industrial Countries: Changes in Output and Prices, 1962–76

(In per cent)

	Annual Average [1] 1962–72	Change from Preceding Year				Change from Preceding Half Year [2]					
						1974		1975		1976	
		1973	1974	1975	1976	First Half	Second Half	First Half	Second Half	First Half	Second Half
Real GNP											
Canada	5.5	7.5	3.7	1.1	4.9	5.4	−0.9	0.5	4.3	7.8	—
United States	3.9	5.5	−1.4	−1.3	6.0	−1.9	−3.1	−4.8	8.0	6.4	3.5
Japan	10.3	9.8	−1.3	2.4	6.3	−5.1	3.7	0.7	4.8	8.8	2.8
France	6.0	5.4	2.3	0.1	5.2	3.6	−0.8	−1.4	3.9	7.3	2.2
Germany, Fed. Rep.	4.5	4.9	0.4	−2.5	5.7	2.1	−2.9	−6.9	4.5	7.3	3.1
Italy	4.6	6.9	3.9	−3.5	5.6	5.1	−6.7	−3.3	0.7	8.9	3.9
United Kingdom [3]	2.4	6.1	—	−1.6	1.5	−2.7	4.8	−3.8	−2.9	3.7	1.8
Other countries [4]	4.6	4.7	3.1	−2.0	3.4	6.7	−1.3	−3.7	0.6	5.0	3.2
All industrial countries	4.6	6.0	—	−0.9	5.4	−0.2	−1.6	−3.7	4.8	6.8	3.0
Of which,											
Seven larger countries [5]	4.6	6.2	−0.3	−0.8	5.6	−1.0	−1.6	−3.7	5.3	7.0	3.0
European countries	4.4	5.4	1.8	−1.9	4.4	3.1	−1.5	−4.4	1.6	6.3	2.9
GNP deflator											
Canada	3.6	9.1	14.9	11.2	9.5	16.5	14.7	9.8	10.6	9.8	7.8
United States	3.5	5.8	9.7	9.6	5.3	9.5	11.8	10.0	6.7	4.8	4.9
Japan	4.9	11.5	20.7	7.4	6.4	26.4	14.0	6.0	5.2	6.5	8.0
France	4.4	7.6	11.6	12.9	9.7	11.1	14.7	13.9	9.5	9.0	11.2
Germany, Fed. Rep.	4.0	6.1	6.9	7.1	3.1	6.0	10.6	8.6	4.4	2.0	4.0
Italy	5.0	11.9	17.7	17.3	17.8	19.1	23.3	18.5	9.0	21.2	20.0
United Kingdom [3]	5.7	7.6	13.6	28.3	15.1	10.6	23.8	31.9	25.3	12.6	11.6
Other countries [4]	5.2	8.0	9.5	11.2	7.8	9.3	11.7	12.3	9.1	7.1	7.7
All industrial countries	4.1	7.4	11.9	10.9	7.3	12.4	13.5	11.3	8.1	6.7	7.1
Of which,											
Seven larger countries [5]	4.0	7.3	12.1	10.9	7.2	12.8	13.7	11.2	8.0	6.6	7.0
European countries	4.8	7.8	10.8	13.6	9.2	10.0	14.9	15.5	10.4	8.5	9.1

Sources: National statistical publications, IMF Data Fund, and Fund staff estimates.
[1] Compound annual rates of change.
[2] Seasonally adjusted changes, at annual rate.
[3] Expenditure-based estimate of gross domestic product.
[4] Includes Austria, Belgium, Denmark, the Netherlands, Norway, Sweden, and Switzerland.
[5] As listed separately above.

the second half of 1977 were to continue at a 5 per cent rate, which does not seem implausible, the increase for the year as a whole (in comparison with 1976) would be some 4½ per cent. Like the 5½ per cent increase in 1976, this would reflect for most countries a moderate rate of recovery in comparison with prior cyclical experience in the postwar period, especially when allowance is made for the severity of the 1974–75 recession.

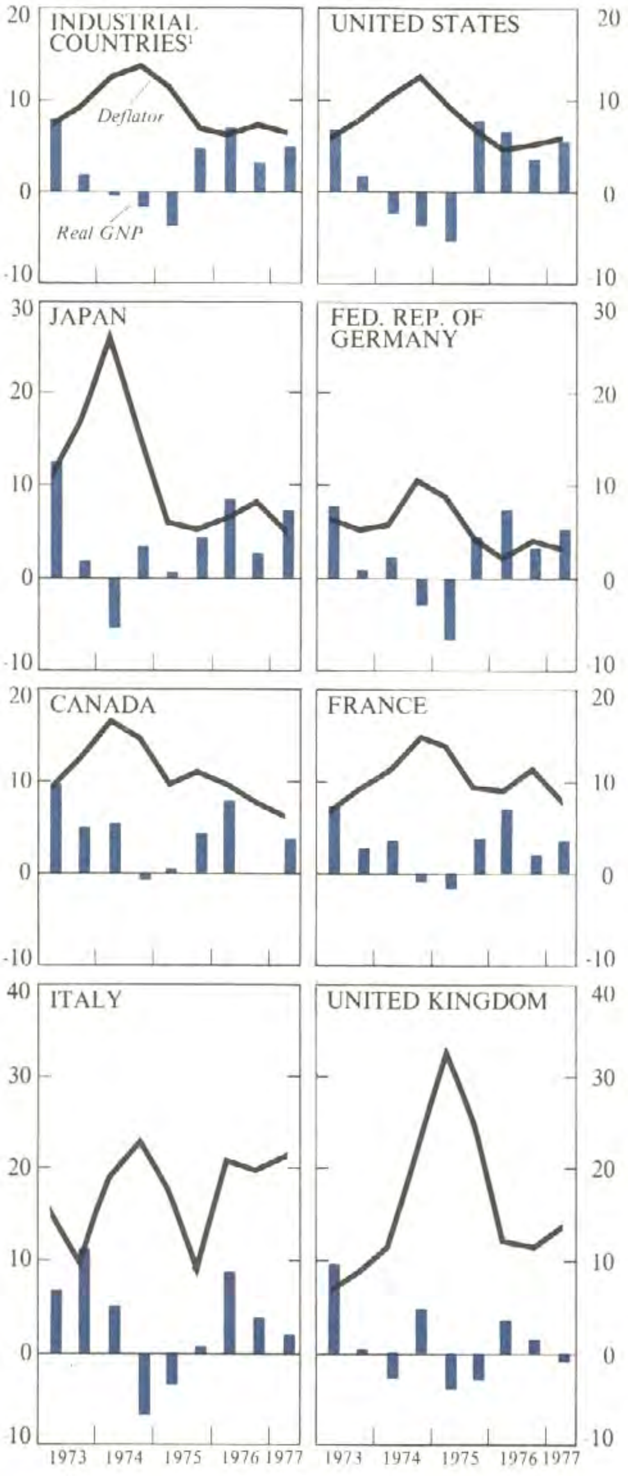
The depressed conditions of 1974 and 1975, together with the moderateness of the ensuing recovery, have led to improvement on the inflation front. From a peak annual rate of 13½ per cent in the second half of 1974 (nearly a full year after the crest of the 1972–73 boom), the overall rate of price increase in the industrial countries dropped to 6½–7 per cent in each half of 1976 and the first half of 1977 (Chart 1). However, an inflation rate of this magnitude is still substantially above the average annual rise of 4 per cent over the period 1962–72 (Table 1) and of 2½ per cent in the first half of the 1960s. In general, current rates of inflation in the industrial countries are much too high to be considered acceptable.

Rates of price increase in the industrial countries during recent years have also exhibited great disparity; this has tended to generate special problems for economic policy, particularly as regards the management of balance of payments positions. Considerable disparity was still evident in the first half of 1977, when the estimated rates of price inflation ranged from 3½ per cent for the Federal Republic of Germany to 13½ per cent for the United Kingdom and 21 per cent for Italy. However, on the basis of the comprehensive stabilization programs that have been established, the U.K. and Italian inflation rates are expected to show significant declines in the period ahead.

From the standpoint of the world economy, it is fortunate that recent price performance in the industrial world has been relatively favorable among the three largest countries, whose record has such a profound effect on the price experience and policies of other

Chart 1. Semiannual Changes in Output and Prices in Industrial Countries, First Half 1973–First Half 1977

(Percentage changes in real GNP and GNP deflators from preceding half year, seasonally adjusted, at annual rates)



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

countries. The United States, the Federal Republic of Germany, and Japan have also shown the best growth records during the period of economic recovery, unhampered by policy constraints because of the balance of payments.

Unemployment.—The foregoing developments with respect to output and prices have been accompanied by persistently high unemployment. The overall rate of reported unemployment [1] in the industrial countries amounted to 5.3 per cent in the first half of 1977—historically a very high rate, close to the recession-induced peak of 5.5 per cent in the second half of 1975 and substantially above the rates, varying between 2.5 and 3.8 per cent, that prevailed during the 1960s and early 1970s.

Numerous reasons may be adduced for this unsatisfactory situation. For instance, it is clear that changes in the composition of the labor force have tended to raise unemployment levels. In particular, the increasing proportions of women and young persons—who tend, on average, to be less firmly attached to specific jobs and, therefore, to have relatively high rates of unemployment—have contributed to the upward drift of unemployment rates in the industrial countries since the first part of the 1960s. Similarly, it is also apparent that large increases in unemployment benefits and the trend toward multiple-income-earning families have reduced the "costs" of unemployment and job search and, correspondingly, have raised the average duration of unemployment.

Such "structural" factors have undoubtedly been important. But the escalation of unemployment rates that occurred during 1975 was primarily a cyclical phenomenon, and the lack of any significant overall decline since then is attributable mainly to the moderate pace of output growth, which has barely offset the combined effects of (any reasonable estimate of) trend productivity growth and increases in the labor force. This growth record, in turn, is rooted in the constraints imposed upon demand management policy by the virulent inflationary momentum of the mid-1970s.

To the extent that the unemployment problem is "structural," it is not susceptible to solution through the expansion of aggregate demand. To the extent that the current unemployment is "cyclical," it can be absorbed only gradually because of the need for demand management policies to be cautious until inflation is brought under better control. Thus, in general, the immediate situation calls for use of (a) incomes policies in order to alleviate employment-inhibiting distortions in the cost-price structure (particularly in wage-profit relation-

[1] This is a weighted average (with weights proportionate to labor forces) of reported national rates of unemployment. These differ in definition, with more significance attaching to changes in the calculated overall rate of unemployment than to its level.

ships), as well as to restrain the growth of claims by competing groups on the national product; and (b) various types of specific policies to deal with the unemployment situation more directly.

Stance of economic policy.—Several generalizations may be made about the stance of economic policy in the industrial countries, with the purpose of indicating how policies are being adapted to meet the issues confronting national authorities.

—Fiscal and monetary policies are generally cautious or restrained. Important differences in the degree of restraint are attributable to the severity of inflation, as well as to balance of payments difficulties.

—The complexity of current problems has led to an unusual degree of reliance on measures supplementary to fiscal and monetary policies; such measures fall into three main categories. (a) Because of the prevailing high rates of unemployment, there has been widespread adoption of specific programs intended to reduce particular types of unemployment, to relieve hardships associated with it, or to provide compensation for costs incurred in reducing it. Governments have instituted diverse types of measures to absorb part of the cost of hiring new employees, together with programs to provide manpower training and to expand public sector employment. (b) With very few exceptions, the industrial countries have also engaged in a wide variety of efforts in the general field of incomes policy in order to influence wage bargaining, rates of payment or accrual of other forms of income, and the development of prices. The efforts classifiable under the heading of incomes policy have varied markedly from country to country, depending on each nation's own institutions, traditions, and climate for wage bargaining and price setting. Mandatory controls of various types are in effect in some countries, whereas others rely on voluntary arrangements or guidelines; blends of compulsory and voluntary techniques are not uncommon. In the Federal Republic of Germany and in Japan, support of the management of aggregate demand through efforts to rationalize the claims of business and labor on the national product has remained on an even more informal plane. (c) Partly overlapping the unemployment measures just described under (a), policies aimed at various types of "structural" problems have been instituted in a number of the industrial countries. Such policies, as indicated earlier, are intended in general to improve supply conditions, alleviate cost pressures, and achieve higher levels of saving and investment. In this last regard, restraining the growth of the public sector over the medium term is considered to be a major policy requirement in some countries.

—Economic policies in the industrial countries have taken on a medium-term cast. They are directed toward combating inflation (and/or strengthening the external position) during the next few years in the conviction that such emphasis of policies will make for a better record of growth and employment over time. The importance of continuing to reduce inflation, together with the link between this and the reduction of unemployment, was stressed in the communiqué of the Interim Committee after its April 1977 meeting in Washington and in the communiqué of the leaders of seven industrial countries after their conference in London during May.

This greater emphasis of policies on medium-term considerations has been accompanied by an evident parallel change in the strategy of short-term demand management. On the whole, the industrial countries reacted cautiously to the slowdown or "pause" in activity that developed in the second half of 1976, apparently being reluctant to provide significantly more stimulus to aggregate demand in the prevailing environment of high inflation and continuing inflationary expectations.

From this and other behavior in the recent period, it would appear that these countries have adopted a rather patient and even-handed approach to the short-term conduct of fiscal and monetary policies, in contrast to the frequent changes of policy undertaken in the late 1960s and early 1970s. More than in the past, the current approach involves the steering of a general course toward medium-term growth objectives judged to be compatible with objectives for employment and prices and with the strength of the balance of payments. It is this apparently greater tendency to gear short-term demand management to a set of interrelated objectives over the medium term that distinguishes current practice from that of the earlier period, when the primary emphasis was on short-term growth targets that frequently proved to be overly ambitious.

Sharper differentiation of the fiscal and monetary policies pursued by individual industrial countries has emerged during 1976 and 1977, following a period of broadly parallel actions during the closing stages of the 1974–75 recession and the early part of the recovery period. Since about the middle of 1976, contrasts geared to differences in domestic situations and external positions have become more apparent.

As regards fiscal policy, shifts toward withdrawal of at least part of the stimulus provided in 1975 occurred in most of the industrial countries in 1976, and sizable further shifts in the same direction are occurring in some of them during 1977. However, the degree of reversal witnessed in 1976 was quite uneven, and contrasts among national fiscal policy stances are now sharper. In general, the large industrial countries with relatively low rates of inflation and freedom from balance of payments constraints—i.e., the Federal Republic of Germany, Japan, and the United States—

withdrew in 1976 only small or moderate proportions of the expansionary fiscal impulses imparted in 1975, while the major countries whose rates of inflation were by far the highest in 1975—the United Kingdom and Italy—undertook larger withdrawals of fiscal stimulus in 1976. For each of those countries, as well as France, the net contractionary shift, apart from purely cyclical changes, was of the order of 2–3 per cent of GNP, whereas none of the corresponding shifts in the first three countries was equivalent to more than about 1 per cent of GNP. The shift was also small in Canada, where the rate of inflation was above the weighted average for the industrial countries, but the external position was not viewed as a constraint.

For 1977, further shifts toward fiscal restraint are expected in France, Italy, and the United Kingdom. Central government fiscal balances in Canada, the Federal Republic of Germany, Japan, and the United States, on the other hand, are expected to show roughly neutral or slightly expansionary changes in 1977.

With respect to monetary policy, too, there is a notable difference between the low-inflation countries with relatively strong external positions and the other major industrial countries. In the United States, the Federal Republic of Germany, and Japan, monetary policies are cautious but are considered by the authorities to be consistent with the attainment of satisfactory economic growth. Although stocks of money in these three countries were expanding much less rapidly in relation to real output during 1976 than those of the other large industrial countries (except Canada), interest rates were also much lower, and current demands for credit have been, in general, readily accommodated. In France, Italy, and the United Kingdom, the financing of large deficits in the current account has required sizable capital inflows during the past year or two, but relatively high rates of price increase (and their effects on exchange rate expectations) have tended to undermine the attraction of domestic yields on financial assets. Even though nominal interest rates in all three of these higher-inflation countries have been pushed considerably above those prevailing in the three low-inflation countries, private capital movements have sometimes fallen short of external financing requirements. In these circumstances, much of the U.K. and French external borrowing has been conducted by public agencies or enterprises; and the Italian authorities also borrowed heavily from foreign official sources during the first half of 1976, although the resultant debts were largely repaid in the second half.

The pursuit of publicly announced targets or target ranges for growth of various monetary aggregates is a notable feature of monetary policy implementation in a number of the industrial countries (including Canada, France, the Federal Republic of Germany, the United States, and the United Kingdom). It would appear that utilization of such targets has proved helpful in conducting central banking operations and in gaining public understanding and acceptance of the economic policies being followed.

Primary Producing Countries

The statistical picture of the current economic situation is much less complete for the primary producing countries than for the industrial world. However, the available figures on output and prices (summarized in Tables 2 and 3) may serve to indicate the main features of the recent economic experience of this large and heterogeneous group of member countries.

Major oil exporting countries.—Beginning in the latter part of 1975, the major oil exporting countries reoriented their economic policies toward reducing demand pressures and combating inflation. As a result mainly of curtailment in the growth of government expenditures, coupled with efforts to improve the supply situation, the estimated average increase in domestic prices was reduced from 18 per cent in 1975 to about 15 per cent in 1976 (Table 3). The slower advance of import prices and, in a few instances, direct measures of control over wages and prices also contributed to this development.

Despite the prevalence of tighter demand policies, economic activity in the non-oil sectors of the oil exporting group remained relatively high in 1976 and may increase at a faster rate in several countries in 1977. Oil production, however, is likely to rise much less rapidly in 1977 than in the cyclical rebound of 1976. The average rate of growth in total output of the oil exporting countries (Table 2) is therefore expected to decline considerably in 1977 from the exceptionally high level reached in 1976.

More developed countries.—As a group, the more developed primary producing countries were less affected by the international recession than the industrial countries. In the current recovery, they are lagging far behind the performance of the industrial group and have made much less progress in reducing the extraordinary levels of inflation reached in 1974 and 1975. The average increase in consumer prices experienced by the more developed primary producers in 1976, estimated at 15 per cent (Table 3), was about twice as large as the average for the industrial group; if this rate does not change much in 1977, as seems likely, most of these countries will have experienced double-digit inflation for five years in a row.

The linkage of high inflation and slow recovery in real economic activity among the more developed primary producers is by no means coincidental. A number

Table 2. Primary Producing Countries: Growth of Real Output, 1967–76

(Percentage changes in real GNP or GDP)

	Average [1] 1967–72	Change from Preceding Year 1973	1974	1975	1976
Major oil exporters [2]	9.0	10.7	8.7	3.0	11.7
Non-oil primary producing countries					
More developed	6.1	6.3	4.3	2.0	3.1
In Europe [3]	6.7	7.3	4.7	2.5	3.3
Australia, New Zealand, and South Africa	5.1	4.6	3.3	1.1	2.5
Less developed [4]	6.1	6.7	5.2	3.4	5.1
In Africa	5.1	2.9	5.9	2.2	4.6
In Asia [5]	4.9	7.0	2.6	5.4	6.3
In the Middle East	6.4	4.7	3.1	4.5	4.1
In Latin America and the Caribbean	6.8	7.5	7.2	2.2	4.6

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

[1] Compound annual rates of change.

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

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

[4] Comprise Fund member countries not listed in Table 1, or as being major oil exporters (footnote 2) or "more developed" primary producing countries (as listed above and in footnote 3). The regional subgroups of less developed countries listed here correspond to the groupings shown in *International Financial Statistics,* except that Afghanistan, Ethiopia, Pakistan, and the Sudan are included in the Middle East. (See also footnote 5.)

[5] Includes estimates for South Viet Nam for the period 1967–74 and for the whole of Viet Nam for the period 1975–77. Estimates for Hong Kong, which is a nonmember country, are also included.

of the countries in this group sought, during the initial downturn in the industrial countries, to maintain their own levels of activity in the face of slackening export demands and increased import costs; as discussed later, they were able to sustain imports and consumption through heavy external borrowing. These efforts, along with deterioration in the terms of trade, quickly led to enlarged deficits on the current account and, in most cases, also to higher budgetary deficits and rapid domestic credit expansion. The resultant upsurge of prices—averaging 17 per cent in 1974 and 1975—generated a need for application of restrictive fiscal and monetary policies.

By the latter part of 1976 or early 1977, most countries in the more developed group were applying measures of demand restraint. The only countries not following restrictive policies by then were those where political uncertainty or insecurity prevented decisive actions by the authorities. A number of the countries were also utilizing some form of incomes policy in efforts to contain inflation. However, progress on that front remained slow and difficult, partly because of the momentum of the wage-price spiral and partly in some cases because of the initial effects on domestic prices of exchange depreciations undertaken during the past year or two to deal with external adjustment problems.

Non-oil developing countries.—By and large, the domestic economies of the non-oil developing countries appear to have been less affected by the global recession than have the economies of other major groups of oil importing countries. The average rate of expansion in total output dropped from 6½ per cent in 1973 to 3½ per cent in 1975, but subsequently recovered to about 5 per cent in 1976 (Table 2) and should move somewhat higher in 1977.

Nevertheless, the slowing of growth from 1973 to 1975 was obviously a blow to the developmental aspirations of the countries affected. Moreover, the terms of trade of the non-oil developing countries in 1977 are appreciably worse than they were in the period 1967–72 (when cyclical conditions were roughly neutral) and the estimated loss in export purchasing power implied by this deterioration is equivalent to somewhat more than 1 per cent of their total gross product. This loss must be added to the shortfall in growth of real output in any assessment of the impact of global developments of the mid-1970s on supplies available for consumption and investment in the non-oil developing countries.

The record of the non-oil developing countries with respect to inflation in recent years (Table 3) is quite mixed. In Asia, it is better than that of the more developed group of primary producers, and in Africa and the Middle East it is roughly similar. In Latin America and the Caribbean, the composite average of consumer price increases has been affected substantially by the particularly virulent inflation in a few South American countries; excluding these, the average is still the highest among regions because of the experience of a few large countries, with the inflation rates in a number of the smaller countries being relatively quite low. Most of the non-oil developing countries enjoyed some success in cutting back their rates of inflation during 1975 and 1976, but a partial reversal of this progress appears to have occurred during the first part of 1977 because of the domestic income and liquidity effects of the upsurge in export prices.

The Asian countries, having adopted some of the earliest and most effective stabilization programs following the onset of the recession and the oil price increase of 1974, regained forward momentum in 1976 and are generally in position to continue moving ahead in 1977. As a group, they have by far the lowest inflation rates of any major developing area, and most of them have eliminated or greatly mitigated the external imbalances confronting them in 1974 and 1975 (as discussed below). In both the containment of inflation and the improvement of the external position, generally prudent financial policies were reinforced in the large countries of South Asia by good harvests, which helped to hold down food prices and to reduce demand for imports of foodgrains.

Economic activity in the Latin American and Caribbean area also has displayed considerable resiliency. After falling to about 2 per cent in 1975, the area's increase in real output rose to 4½ per cent in 1976 and should rise further in 1977.

The initial policy response of Latin American and Caribbean members to the onset of the recession and suddenly enlarged import bills in 1974 was generally an attempt to sustain domestic activity through expansionary fiscal and monetary policies. These led to more rapid inflation and further deterioration of the balance of payments on current account. Widespread adoption of more restrictive fiscal and monetary policies then brought substantial improvement in current account balances, but the pace of inflation as measured by consumer price indices did not, in general, slow down significantly.

Economic expansion in the African region increased somewhat in 1976, although remaining below the pre-1973 trend rate. Marked fluctuations of export earnings, the shifting impact of such natural factors as droughts and floods, and political uncertainties in some parts of the African continent have all contributed to the hesitancy of the current expansion.

During 1975 and 1976, the average rate of inflation in Africa remained about the 20 per cent level to which it had been pushed in 1974. The principal factor in this development was the sharply expansionary impact of the 1973–74 commodity price boom on government expenditures, and hence on monetary and credit developments. However, because of the recent adoption of sound demand management policies in a number of countries, the weighted average of consumer price increases for the region is expected to decline appreciably in 1977.

Among the non-oil developing countries of the Middle East, the average rate of price inflation receded somewhat from the 1974 peak (more than 20 per cent) during 1975 and 1976. However, further deceleration in 1977 seems unlikely in view of the strong demands and political pressures for increases in nominal incomes in several of the larger countries of the area.

In general, the non-oil countries of the Middle Eastern region were not severely affected by the international recession, mainly because of the overflow of demand pressures and other secondary benefits emanating from oil producing countries in the area. Nevertheless, growth of output in 1976 was still below the pre-1973 trend. In the period immediately ahead, the expansion of real economic activity will be retarded by policy mea-

Table 3. Primary Producing Countries: Price Increases, 1967–76

(Percentage changes in consumer prices)[1]

Groupings [2]	Average [3] 1967–72	Change from Preceding Year 1973	1974	1975	1976
Major oil exporters	8.0	11.0	16.0	17.5	14.5
Non-oil primary producing countries					
More developed	6.0	11.8	16.7	16.6	15.0
In Europe	6.8	13.5	18.7	18.0	16.0
Australia, New Zealand, and South Africa	4.6	9.3	13.6	14.6	13.2
Less developed [4]	10.1	21.7	30.3	30.2	31.3
In Africa	5.0	9.0	19.1	17.8	19.7
In Asia	5.4	14.2	26.5	8.2	−1.9
In the Middle East	4.0	13.7	21.4	18.9	14.5
In Latin America and the Caribbean [4]	15.9	31.6	37.3	53.6	68.4

Sources: IMF Data Fund and Fund staff estimates.

[1] Average inflation rates for groups of countries are calculated from weighted geometric means of country indices expressed in terms of local currency. Weights are proportional to GDP (in U.S. dollars) in 1970.

[2] For classification of countries in groupings shown here, see Table 2.

[3] Compound annual rates of change.

[4] Excluding Argentina, Chile, and Uruguay, the figures for less developed non-oil countries in the last three columns are 24 per cent, 16 per cent, and 14 per cent, respectively; with a similar exclusion, the figures for Latin America and the Caribbean in the last three columns would be 25 per cent, 22 per cent, and 26 per cent, respectively.

sures to reduce inflationary pressures and by foreign exchange constraints in some countries.

Trends in World Trade

After four years of extremely uneven developments, dominated for the most part by cyclical influences, world trade seems to be settling into a more sustainable pace of moderate expansion during 1977. Its volume is growing less rapidly than in 1976, when the first stages of the cyclical recovery brought a resurgence of import demands in key areas. However, the present rate of expansion is fairly satisfactory. It is not much below the average for the whole period since 1960.

In general, foreign trade prices appear to be rising a little faster in 1977 than in 1976, partly because of a marked upsurge of primary commodity prices from early 1976 through April 1977. In the next two months, however, the index of such prices showed sizable declines. Although the bulge in late 1976 and early 1977 virtually assures a sharper upward movement (on an annual average basis) for the current year than for 1976, a marked tapering or flattening of the trend now seems to be in prospect for the second half of 1977.

Volume of Trade

The current upswing in the volume of world trade began in the second half of 1975, when demand in the industrial countries first turned upward from its recession trough. A resurgence of world trade then accompanied the accelerating recovery of demand in the industrial countries during the first half of 1976 and continued during the second half, despite the "pause" in expansion of economic activity that occurred in those countries. For the year as a whole, world trade volume is estimated to have exceeded the depressed level of 1975 by 11½ per cent. (See Table 4.)

However, the rise during 1976 was rather unevenly distributed among groups of importing countries, and was caused in considerable part by temporary factors. Strong import demands came only from the industrial countries and the oil exporting countries, while imports of the non-oil primary producing countries—both the more developed and the less developed—remained relatively flat and depressed. The sluggish demand for imports in those countries during most of 1976 reflected not only a cyclical lag in import growth behind the upturn in exports, as is customary during a stage of the international business cycle characterized by restoration of reserve positions and curbing of growth in external debt; it also reflected the efforts of many primary producing countries to restrain the expansion of domestic demand in order to contain inflationary pressures and strengthen balance of payments positions.

Both in the industrial countries and in the oil exporting countries, the pace of import growth during 1976 was rather uneven. In the former group, it was particu-

Table 4. World Trade Summary, 1962–76 [1]

(Percentage changes in volume and in unit value of foreign trade)

				Change from Preceding Year			
			1962–72 [2]	1973	1974	1975	1976
World trade [3]		Volume	9	13	5	−4½	11½
		Unit value (U.S. dollar terms)	2½	23½	41	8½	2
		(SDR terms) [4]	2	12½	40	7½	7
Volume of trade	Imports	Industrial countries	9½	12½	1	−7½	14½
		Other developed countries	8½	16	6	−6½	3½
		Major oil exporters	9	21½	38½	42½	18½
		Other developing countries	5½	15	8	−6	1½
	Exports	Industrial countries	9	14	8	−4½	10½
		Other developed countries	8	3½	½	1	11½
		Major oil exporters	9	13	−1	−11½	13
		Other developing countries	6½	8	4½	—	13
Unit value of trade in SDR terms [4]	Imports	Industrial countries	2	11½	39	8	6
		Other developed countries	2	10½	46½	9½	7
		Major oil exporters	2	10	28	9½	8
		Other developing countries	2	12½	48½	9½	8½
	Exports	Industrial countries	2	9½	23½	11	5½
		Other developed countries	2	23	25	2	5½
		Major oil exporters	3	26½	205	3½	12
		Other developing countries	1½	24	36½	−4	13

Sources: National economic reports, IMF Data Fund, and Fund staff estimates.
[1] For classification of countries in groupings shown here, see Tables 1 and 2.
[2] Compound annual rates of change.
[3] Sum of the groupings shown separately; based on approximate averages of growth rates for world exports and world imports.
[4] For years prior to 1970, an imputed value of US$1.00 has been assigned to the SDR.

larly rapid in the first half of the year, when the cyclical resurgence of aggregate demand and output was strongest. By the second half, a subsidence of the inventory rebuilding that had accompanied the initial upturn of final demand, coupled with the more general influence of the pause in growth of industrial output, was already tending to slow the rise in demand for most classes of imports. However, total imports of the industrial countries were bolstered in the latter part of 1976 by a substantial rise in oil imports, partly in anticipation of a decision by the Organization of Petroleum Exporting Countries (OPEC) to raise the price of crude petroleum at the beginning of 1977. Among the major oil exporting countries themselves, semiannual changes in the pace of import expansion followed a different course; such expansion slowed from about mid-1975 through mid-1976 as port congestion and internal distribution problems arose and more restrained demand management policies were instituted in some countries, but it accelerated in the second half of 1976 and early 1977, when some of the earlier constraints were relieved.

Export volume changes from 1975 to 1976 were much more evenly distributed among the various major groups of countries than were the changes on the import side of the respective trade accounts. For each of the broad groups under review here, the 1976 increase in export volume was within the range of 10½–13 per cent. In 1977, rates of export expansion seem likely to be considerably more moderate (perhaps about 7 per cent on average), partly because the potentials for cyclical rebounds were largely realized before the end of 1976 and partly because import demands of many countries, including several of the larger industrial countries, will probably be constrained by economic policies aimed at control of domestic inflation and/or restoration of external balance.

The pattern of import volume growth expected in 1977 differs from that of 1976. Imports of the industrial countries are clearly rising much less rapidly in real terms in 1977 than in 1976, while those of the non-oil developing countries will probably show a much stronger rise. For the other two major groups, continuation of 1976 import trends seems more likely. This would mean that the largest percentage increase would again be recorded by the major oil exporting countries, and that the imports of the more developed primary producing countries would remain relatively flat.

Foreign Trade Prices

The increase in foreign trade prices, after subsiding markedly in 1975 from the highly inflationary rate of 1974, moderated further in 1976. In U.S. dollar terms, the unit value of goods moving in international trade rose by only 2 per cent in 1976, compared with 8½ per cent in 1975. In SDR terms, however, the degree of additional moderation was slight, reflecting the 1976 depreciation of the SDR against the U.S. dollar. (See Table 4.)

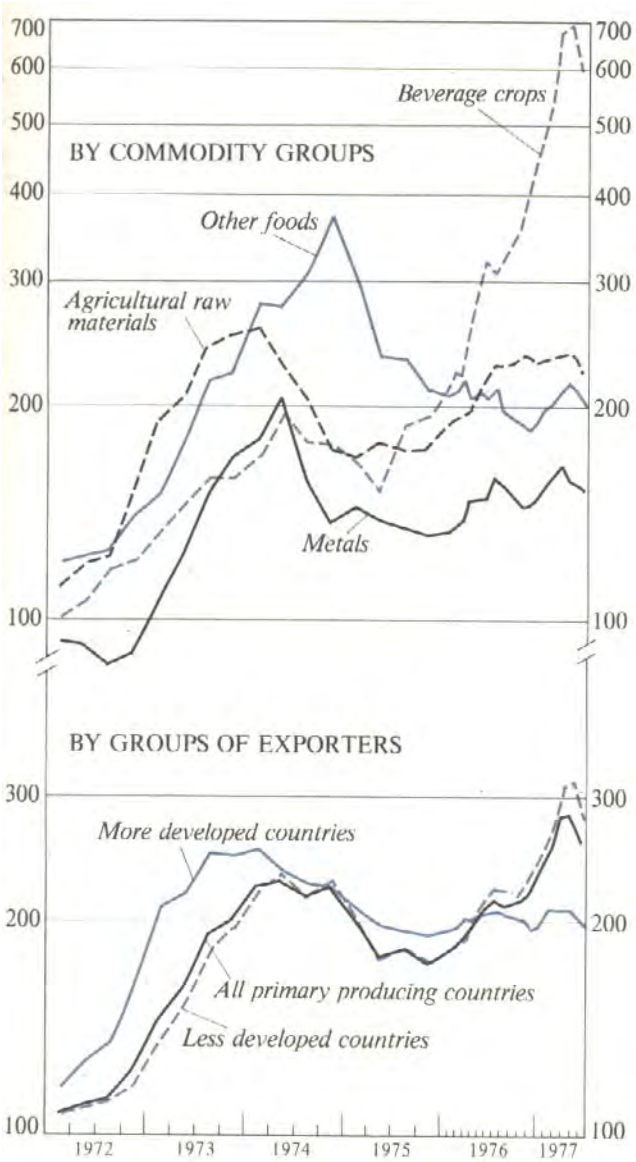
Both in 1976 and in the first half of 1977, the main impetus for higher foreign trade unit values came from increases in the prices of primary commodities. In the case of oil, these stemmed mainly from an increase of 10 per cent in the U.S. dollar price of the OPEC "marker crude" on October 1, 1975 and from further increases of 5 per cent for two members of the OPEC and 10 per cent for the others on January 1, 1977. The upsurge of export prices for other primary commodities (Chart 2) involved a wide range of foods, agricultural raw materials, and metals, very unevenly distributed among products and exporting countries. Soaring prices for coffee, cocoa, and tea, as well as for various vegetable oils and oilseeds, contributed disproportionately to the rise, while prices for several important food products, including grains and sugar, declined throughout 1976 and the first half of 1977. Differences in the supply situation—ranging from severe impairment of Brazilian coffee production by frost damage to abundant harvests of foodgrains among leading suppliers of world markets—lay behind these contrasts. Increases in market prices of metals and agricultural materials over the past year have been much more moderate than those of foodstuffs and more nearly aligned with the somewhat irregular upswing of demand in the importing countries. The fact that the resurgence of demand occurred in a climate of still highly inflationary expectations contributed to the sensitivity of market reactions.

The particular mix of commodities exported by the more developed primary producing countries showed a much smaller average increase in unit value in 1976 and the first half of 1977 than did the exports of the less developed primary producing countries. In part, the difference reflected the fact that members of the former group are not exporters of any of the products—particularly tropical beverage products—that were subject to the largest increases in the recent commodity price bulge. It must also have reflected a higher proportion of manufactured goods in the exports of the more developed primary producers, together with the relatively smaller rise in prices of such goods.

For the industrial countries, the average rate of increase in SDR-denominated export unit values dropped from 11 per cent in 1975 to 5½ per cent in 1976 (with the drop in terms of U.S. dollar prices being much sharper, from about 12 per cent to virtually no increase at all). Movements of these export unit values were particularly depressed in the first half of 1976 (as well as in the second half of 1975), for two principal reasons. First, the lagged effects of the 1975 recession were depressing raw material prices and sharpening

Chart 2. Indices of Prices of Commodities, Except Oil, Exported by Primary Producing Countries, 1972–June 1977

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



competitive pricing practices. Second, the upward impetus stemming from trends in unit labor costs was temporarily quite modest in a period when marked declines in rates of wage increase coincided with large cyclical gains in productivity.

However, these influences on export prices of the industrial countries were reversed during the second half of 1976 and are tending to push those prices up somewhat faster in 1977. Raw materials prices responded to the brisk recovery of economic activity and trade in the first half of 1976, while the need for competitive pricing may have been somewhat attenuated by the revival of demand. Moreover, many producers were anxious to restore eroded profit margins. Meanwhile, the deceleration in the rate of increase in hourly remuneration of manufacturing employees in the industrial countries tapered off after mid-1976, and productivity gains diminished sharply. Consequently, the upward influence of unit labor cost pressures upon export unit values for manufactured goods was considerably stronger during the period from mid-1976 to mid-1977 than it had been during the preceding year.

The sharp differentials in export unit value movements during 1976 and the first half of 1977 have had a marked impact on the terms of trade. For the non-oil developing countries as a group, these improved by 4 per cent in 1976 (Table 5) and will probably show a larger improvement in 1977, thus regaining about half of the sharp deterioration suffered in 1974 and 1975. On the other hand, the terms of trade of the more developed primary producers continued to deteriorate somewhat in 1976, and this trend appears to have extended into the current year. In the case of the industrial countries as a group, a small decline in the terms of trade appears to have occurred during the recent period. For the major oil exporting countries, the terms of trade are now close to the level established in 1974, after receding moderately in 1975 and recovering in 1976.

Table 5. Terms of Trade Developments, 1962–76 [1]

(Percentage changes)

	Annual Average 1962–72 [2]	Change from Preceding Year 1973	1974	1975	1976
Industrial countries	—	−2	−11	3	−1
Primary producing countries					
More developed countries	—	10	−14	−6	−2
Major oil exporters	1	14	138	−5	5
Non-oil developing countries	—½	10	−8	−13	4

Sources: National economic reports, IMF Data Fund, and Fund staff estimates.
[1] For classification of countries in groupings shown here, see Tables 1 and 2.
[2] Compound annual rates of change.

International Adjustment Process

Background Considerations

The large and sudden changes in the structure of international payments caused by the raising of oil prices at the beginning of 1974, as well as the problems thus posed for the functioning of the adjustment process, have been analyzed in earlier Annual Reports. Here, it may be helpful to single out a few salient developments during the period 1974–76, prior to describing the review of the international adjustment process that has been conducted by the Fund during recent months.

First, it will be recalled that very early in 1974, at the meeting of the Committee of Twenty in Rome, it was agreed that oil importing countries should avoid policies that would serve only to shift payments problems among members of the group and would be detrimental to world trade and economic activity. However, this decision to "accept," for the time being, oil-induced deficits in the aggregate did not mean that individual oil importing countries should not make payments adjustments in relation to each other.

From 1973 to 1976, there were two major developments in the field of international payments. (a) The combined current account surplus of the major oil exporting countries increased from $6 billion to more than $40 billion. The latter figure was some $25 billion below the suddenly enlarged oil surplus in 1974, primarily because of rapid import expansion, but it was concentrated in a small number of countries whose capacity to expand their imports is comparatively low in relation to the size of their export earnings. (b) The United States, the Federal Republic of Germany, and Japan were particularly resolute in fighting the severe inflationary pressures that emerged during 1974, and the impact of anti-inflation policies and other factors on their current account balances was quite dramatic. In these three large countries, oil-related deficits were rapidly offset by positive changes (totaling more than $30 billion in 1974) elsewhere in the current account, although these changes were not in themselves an objective of policies. At the same time, it was evident that many other oil importing countries had been quite willing to postpone adjustment; in the aggregate, the current account balance of oil importing countries other than the United States, the Federal Republic of Germany, and Japan shifted from a deficit of $8 billion in 1973 to deficits of $64 billion in 1974 and some $55 billion in 1975 and in 1976.

At the Annual Meeting in Manila in 1976, the Managing Director of the Fund observed that the world economy was moving into a situation where the main danger was no longer a deepening of recession but a worsening of inflation. For this reason, he said, the time had come to lay "more stress on the adjustment of external positions and less emphasis on the mere financing of deficits." He spoke of the "additional urgency" that was lent to this need by the buildup of short-term and medium-term debt, which was beginning to affect the creditworthiness of some borrowers and to create the possibility of economic and financial difficulties.

At its meeting in Manila, the Interim Committee discussed the international adjustment process on the basis of a paper submitted by the Managing Director. The conclusions reached by the Committee, as spelled out in its press communiqué, included the following general principles: (a) Adjustment of external payments positions should be symmetrical as between deficit and surplus countries. (b) To this end, deficit countries should arrange their domestic policies so as to restrain domestic demand and to permit the shift of resources to the external sector, to the extent necessary to bring the deficit on current account in line with a sustainable flow of capital imports and aid. (c) Industrial countries in strong payments positions should ensure continued adequate expansion in domestic demand, within the limits set by effective anti-inflation policies. (d) Exchange rate policies should be allowed to play their proper role in the adjustment process.

In the period immediately following the meetings in Manila, renewed concern about the prospective strength of international trade and about the functioning of the adjustment process was engendered by developments in the industrial world, including both the "pause" in some countries and the demonstrated need for programs of economic stabilization in others. These developments were accompanied by continuing debate as to how the adjustment process should be viewed and analyzed in the changed circumstances of recent years stemming primarily from the oil price increase.

Reference has been made to the review of the adjustment process conducted by the Fund in recent months. The approach adopted in this review had two main elements: (1) an analysis of major shifts in the global pattern of current account balances; and (2) a case-by-case analysis of individual countries' positions.

1. Key features of the international payments structure were assessed with the aid of some statistical estimates that are reproduced here in Table 6. These estimates involve a comparison of the Fund staff's 1977 projections of current account balances for major groups of countries with annual averages of corresponding balances for the years 1967–72 (a period of little bias in cyclical conditions), after scaling up the 1967–72 figures to 1977 levels of world trade prices and of real economic activity in the respective groups of countries.

The table shows that the main shift in the global pattern of current account balances during recent years has been twofold: (a) emergence of the oil exporting countries as the principal surplus group; and (b) disappearance of the formerly large current account surplus of the industrial countries, which have been markedly affected by the oil price increase. The table also shows that the combined current account deficit of the non-oil developing countries as projected for 1977 is about the same as the rescaled deficit for the 1967–72 period. These countries, as well as the more developed primary producing group, thus remain—as they were for many years before the oil price increase—large-scale net recipients of capital and foreign aid, and hence net importers of goods and services.

Although the industrial countries (as a group) are no longer net suppliers of either real resources or financing, they remain the direct source of most of the financing needed to cover the current account deficits (and reserve accumulations) of the non-oil primary producing countries. However, the industrial lenders are obtaining the funds in question not from national saving within the industrial group, as formerly, but directly or indirectly from placements of the surplus funds accruing to the major oil exporting countries. In effect, the industrial countries have reduced their national savings so as to pay for their "share" of the oil deficit; and national savings of the oil exporting countries have displaced those of the industrial countries (mainly through the "recycling" process in international financial markets) as the ultimate net source of funds flowing in various forms to the non-oil primary producing countries.

The perspective on the international payments structure afforded by Table 6 can be helpful in assessing the role of an autonomous source of saving, amounting to about $40 billion a year, that is provided by the current account surplus of a limited number of oil exporting countries. Since most of this saving has been offset by the disappearance of the combined current account surplus of the industrial countries, the global level of international saving is not unduly high on the basis of a proper comparison with the pre-1974 experience and in light of the emphasis generally placed on an increased flow of real resources to the developing countries; and it should not, of itself, be a significant factor inhibiting attainment of a reasonably high level of employment in the world economy, although maldistribution of surpluses and deficits among individual oil importing countries could have such inhibiting effects. In the main, the subnormal performance of the world economy since 1974 can be attributed not to an excessive volume of international saving but to the restraint that national authorities have had to maintain over monetary and fiscal policies because of the severity of the inflation problem, and to the concern in some countries over the balance of payments as the need for individual adjustment made itself felt.

2. While analytical judgments can be formed on the basis of broad aggregative statistics for groups of countries, the positions of individual countries within the groups are diverse. Moreover, the necessary adjustments must of course be made by individual countries. Accordingly, the Fund staff proceeded on a case-by-case basis (with due regard for mutual consistency of the results) and appraised the external structure and prospects of individual member countries. In this assessment, the current account balance projected for each country for 1977 was analyzed in the context of expected domestic economic conditions and of devel-

Table 6. Global Structure of Current Account Balances [1]

(In billions of U.S. dollars)

Groupings [2]	1967–72 Average	1973	1974	1975	1976	1977 Projections	1967–72 Average Rescaled to 1977 Prices and Levels of Real Output [3]
Major oil exporting countries	0.7	6	67	35	41	37	3
Industrial countries	10.2	12	−10	19	−1	−1	31
Other non-oil countries							
More developed	−1.7	1	−14	−15	−14	−12	−6
Less developed	−8.1	−11	−30	−38	−26	−25	−28
Total [4]	1.1	8	14	—	—	−1	... [5]

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

[1] On goods, services, and private transfers.

[2] For classification of countries in groups shown here, see Tables 1 and 2.

[3] Scale factors for prices are based on a general index of world trade prices; scale factors for growth are based on average rates of increase in real GNP (or GDP) in each of the respective groups of countries.

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

[5] In rescaled version of 1967–72 average, this residual figure is primarily a reflection of asymmetries in the treatment of listed groups, and thus does not lend itself to meaningful interpretation.

opments on capital account, with a view to ascertaining whether the current account balance had become out of line with sustainable financing, whether its movement represented progress toward balance of payments adjustment, and whether additional measures of adjustment were likely to be necessary beyond 1977.

Although this individual country material is both detailed and sensitive, a brief review of the current adjustment picture can be provided within the framework of the four major groups of countries utilized in the earlier sections of this chapter. After this review, a final subsection presents some conclusions.

Major Oil Exporting Countries

One of the sizable shifts in the global pattern of current account balances in 1976 was a $6 billion increase in the surplus of the major oil exporting countries, to an estimated $41 billion. It may be recalled that this surplus, after rising—under the impetus of OPEC-determined price increases—from $6 billion in 1973 (and much less in earlier years) to $67 billion in 1974, had then subsided to $35 billion in 1975. (See Table 7.) Both the downward movement in 1975 and the rebound in 1976 can be attributed in large degree to cyclical factors affecting primarily the volume of oil exports.

Such factors, together with short-run swings in oil inventories, have distorted the continuity of calendar-year time series and obscured the expected underlying tendency of the oil exporters' surplus to shrink gradually as their imports rise. This surplus is expected to recede somewhat in 1977; the projected decline is generally in line with the notion that, given their scope for expansion in imports of goods and services, the oil exporters' current account surplus will tend, for some time to come, to decline gradually during any period for which their terms of trade do not rise significantly.

Reference was made earlier to the fact that the combined surplus of the major oil exporters is concentrated in countries of low absorptive capacity. Such a concentration tends, of course, to slow the rate at which rising imports may be expected to eat into the aggregate surplus for the whole oil exporting group, and means that this surplus will probably remain large for some years to come.

Available information on placements of the financial surpluses accruing to the oil exporters indicates a trend toward diversification of investments and shifts into less liquid forms. Placements in bank deposits (mainly in the Eurocurrency market) and short-term government securities are estimated to have absorbed only a little more than one fourth of the net cash inflow available for disposition by the major oil exporting countries in 1976, compared with about two thirds in 1974, while the proportion going into other investments in developed countries (including marketable long-term government securities) has risen from about two tenths to one half. Grants and loans extended to developing countries (directly or through multilateral development agencies) represented one seventh of the total in 1976, about the same proportion as in 1975 but substantially larger than in 1974.

Because of the rather uncertain dividing line between reserves and other officially held external financial assets of the oil exporting countries, together with the improbability of any early net drawing down of their total holdings of external claims, distinctions with respect to the maturity structure of these claims may be somewhat less significant at the present time than corresponding distinctions for most other groups of countries. Nevertheless, the shift just described can be regarded as one tending to increase the stability of international capital movements.

Industrial Countries

Following the oil price increase of 1974, which swung the current account balances of most industrial countries into substantial deficit, annual changes in the combined balance for that group of countries were mainly cyclical in origin. From 1975 to 1976, the response of import demands to the rebound of economic activity was the major element in a downward shift of $20 billion in the group's current account balance, from a surplus of $19 billion to a small deficit. (These balances are defined in terms of goods, services, and private transfers; see Table 8, which also shows current account balances inclusive of official transfers.)

Cyclical considerations aside, it is sometimes contended that each of the industrial countries (and other oil importing countries as well) should have some "fair share" of the collective current account deficit that is the inevitable counterpart, for the time being, of the combined current account surplus of the major oil exporting countries. This simplistic notion, however, overlooks the wide differences among countries in balance of payments structure as between current account transactions and capital flows—such differences reflecting primarily national differences in saving propensities and investment requirements. Nevertheless, given the fact that many countries throughout the world have current account deficits that are too large to be sustained in light of the available financing or the burden of external indebtedness, the working of the international adjustment process would be facilitated by declines in the current account surpluses that still prevail in certain of the industrial countries. Realization of such declines would require not only internationally cooperative policies on the part of the surplus countries themselves, but also

Table 7. Global Balance of Payments Summary, 1973–76

(In billions of U.S. dollars)

		Balance on					
		Trade	Services and private transfers	Current account	Capital Account Balance [1]	Change in Liabilities to Foreign Official Agencies [2]	Balance Financed by Transactions in Reserve Assets
Industrial countries [3]	1973	12.4	−1.3	11.1	−12.5 [4]	5.4	4.0
	1974	−10.1	−1.1	−11.2	−3.6 [4]	18.3	3.5
	1975	21.3	−2.5	18.6	−19.2 [4]	5.2	4.6
	1976	−6.2	4.8	−1.4	−3.2 [4]	15.4	10.8
Major oil exporters [3]	1973	18.6	−12.4	6.2	−2.2	—	4.0
	1974	81.7	−14.3	67.4	−21.4	0.1	46.1
	1975	52.5	−17.8	34.7	−17.3	−0.2	17.2
	1976	63.5	−22.5	41.0	−24.0	—	17.0
Other primary producing countries [3]	1973	−11.4	1.8	−9.6	19.5	0.1	10.0
	1974	−41.8	−2.1	−43.8	40.6	1.8	−1.4
	1975	−48.1	−4.9	−53.0	45.0	5.6	−2.4
	1976	−32.3	−7.8	−40.1	45.7	6.4	12.0
More developed areas	1973	−4.8	6.2	1.3	1.0	−0.1	2.3
	1974	−19.1	4.8	−14.3	10.0	0.4	−3.9
	1975	−19.0	4.2	−14.8	10.1	2.4	−2.3
	1976	−16.8	2.5	−14.3	11.1	3.2	—
Less developed areas	1973	−6.6	−4.4	−10.9	18.5	0.1	7.7
	1974	−22.8	−6.8	−29.5	30.6	1.4	2.5
	1975	−29.1	−9.1	−38.2	34.9	3.2	−0.1
	1976	−15.5	−10.3	−25.8	34.6	3.2	12.0
In Africa	1973	0.5	−2.3	−1.9	2.1	0.1	0.3
	1974	0.7	−3.0	−2.3	2.3	0.2	0.2
	1975	−2.0	−3.1	−5.1	4.8	0.3	—
	1976	−1.3	−3.9	−5.2	4.9	0.5	0.2
In Asia	1973	−2.4	0.1	−2.3	4.3	—	2.0
	1974	−9.1	0.5	−8.6	9.8	0.9	2.1
	1975	−9.2	0.7	−8.6	9.1	0.5	1.0
	1976	−2.8	0.1	−2.7	8.4	0.3	6.0
In the Middle East	1973	−4.3	2.1	−2.2	3.6	0.1	1.5
	1974	−7.0	1.4	−5.6	5.7	0.2	0.3
	1975	−9.1	1.0	−8.2	6.9	1.8	0.5
	1976	−8.2	1.6	−6.7	6.2	1.0	0.5
In Latin America and the Caribbean	1973	−0.3	−4.2	−4.5	8.4	—	3.9
	1974	−7.4	−5.7	−13.1	12.9	0.1	−0.1
	1975	−8.7	−7.6	−16.3	14.1	0.5	−1.7
	1976	−3.1	−8.1	−11.2	15.0	1.4	5.3
Total, all countries [5]	1973	19.6	−11.8	7.8	4.8	5.4	18.0
	1974	29.8	−17.5	12.3	15.7	20.2	48.2
	1975	25.7	−25.3	0.4	8.4	10.6	19.4
	1976	25.0	−25.5	−0.5	18.5	21.8	39.8

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

[1] This balance is computed residually as the difference between the balance financed by transactions in reserve assets and the sum of the current account balance and the change in liabilities to foreign official agencies; it includes net errors and omissions, as well as reported capital movements, government transfers, and gold monetization. (See also footnote 2.)

[2] The concept of "liabilities to foreign official agencies" used in this table encompasses use of Fund credit and short-term balance of payments financing transactions in which the liabilities of the borrowing country are presumably treated as reserve assets by the creditor country.

[3] For classification of countries in groups shown here, see Tables 1 and 2.

[4] See footnote 5.

[5] Global balance of payments aggregations inevitably contain many asymmetries arising from discrepancies of coverage or classification, timing, and valuation in the recording of individual transactions by the countries involved. A major area of asymmetrical classification during recent years concerns the recording of official claims placed in Eurocurrency markets. These transactions, although treated as changes in reserve assets by the investing countries, are recorded as capital inflows by the recipient countries (mainly, the industrial countries). Had such transactions been recorded symmetrically, the global summations would show both a larger net capital outflow and a larger aggregate change in liabilities to foreign official agencies. If identified Eurocurrency reserve placements (shown in terms of SDRs in Table 12 of this Report) were assumed to have been placed in industrial countries, then the adjusted net capital outflows from those countries would amount to \$20.6 billion, \$17.7 billion, \$26.7 billion, and \$11.3 billion over the years 1973, 1974, 1975, and 1976, respectively.

Table 8. Industrial Countries: Balance of Payments Summaries, 1973–76

(In billions of U.S. dollars)

		Balance on						Memo:
		Trade	Services and private transfers	Current account	Capital Account Balance[1]	Change in Liabilities to Foreign Official Agencies[2]	Balance Financed by Transactions in Reserve Assets	Current Account Including Official Transfers
United States	1973	0.9	1.6	2.5	−7.8	5.1	−0.2	−0.4
	1974	−5.4	6.8	1.4	−10.3	10.3	1.4	−5.0[3]
	1975	9.0	6.5	15.5	−20.2	5.3	0.6	11.6
	1976	−9.2	12.3	3.1	−13.5	13.0	2.5	−1.3
United Kingdom	1973	−5.4	4.2	−1.2	1.4	0.3	0.5	−2.1
	1974	−12.0	4.1	−7.8	4.9	3.1	0.2	−8.6
	1975	−7.1	4.3	−2.8	2.8	−1.4	−1.4	−3.6
	1976	−6.4	5.3	−1.1	0.2	−0.5	−1.4	−2.5
Canada	1973	2.7	−2.7	—	−0.5	—	−0.5	0.1
	1974	1.7	−3.4	−1.6	1.6	—	—	−1.5
	1975	−0.5	−4.1	−4.7	4.3	—	0.4	−4.7
	1976	1.1	−5.4	−4.2	4.8	—	0.5	−4.2
France	1973	0.8	−0.8	−0.1	−1.8	0.1	−1.8	−0.7
	1974	−3.9	−1.0	−4.8	4.5	0.3	−0.1	−5.9
	1975	1.5	−0.4	1.1	2.4	0.5	4.0	—
	1976	−4.7	−0.3	−5.0	2.3	−0.1	−2.9	−6.0
Germany, Fed. Rep.	1973	14.9	−8.2	6.7	2.5	−0.5	8.7	4.3
	1974	21.9	−9.6	12.3	−13.0	0.1	−0.6	9.6
	1975	17.6	−10.2	7.5	−8.3	−0.2	−1.0	3.9
	1976	16.4	−9.6	6.8	−3.4	0.3	3.7	3.0
Italy	1973	−4.0	2.8	−1.2	1.0	0.3	0.1	−2.5
	1974	−8.5	1.9	−6.6	2.0	5.3	0.7	−7.8
	1975	−1.1	2.1	0.9	−3.6	1.0	−1.7	−0.5
	1976	−4.0	2.3	−1.7	1.7	2.6	2.6	−2.9
Japan	1973	3.7	−3.6	0.1	−6.4	—	−6.3	−0.1
	1974	1.4	−5.9	−4.5	5.7	—	1.2	−4.7
	1975	5.0	−5.4	−0.4	−0.2	—	−0.6	−0.7
	1976	9.9	−6.0	3.9	−0.1	—	3.8	3.7
Other industrial countries[4]	1973	−1.3	5.5	4.2	−0.9	—	3.4	3.8
	1974	−5.5	5.9	0.4	0.8	−0.7	0.5	−0.4
	1975	−3.2	4.8	1.6	3.6	—	5.2	—
	1976	−9.2	6.2	−3.0	5.0	0.1	2.1	−4.1
Total, industrial countries	1973	12.4	−1.3	11.1	−12.5[5]	5.4	4.0	2.5
	1974	−10.1	−1.1	−11.2	−3.6[5]	18.3	3.5	−24.3[3]
	1975	21.3	−2.5	18.6	−19.2[5]	5.2	4.6	5.9
	1976	−6.2	4.8	−1.4	−3.2[5]	15.4	10.8	−14.3

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

[1] See Table 7, footnote 1.

[2] See Table 7, footnote 2.

[3] Includes the effect of a revision of the terms of the disposition of economic assistance loans made by the United States to India and repayable in rupees, and of rupees already acquired by the U.S. Government in repayment of such loans. The revision has the effect of increasing U.S. Government transfer payments by about $2 billion, with an offset in net official loans.

[4] Austria, Belgium-Luxembourg, Denmark, the Netherlands, Norway, Sweden, and Switzerland.

[5] See Table 7, footnote 5.

firm implementation of adjustment measures by their trading partners with current account deficits.

Current accounts and capital flows.—The industrial countries with current account deficits in 1976 included Austria, Canada, Denmark, France, Italy, Norway, Sweden, and the United Kingdom. Among the larger countries, the deficits of Italy and the United Kingdom were in excess of amounts considered acceptable by the authorities, but each country experienced a major exchange rate depreciation and a gain in international price competitiveness during 1976 that should improve its export prospects. Similar developments occurred in France, where the 1976 deficit on current account was due in considerable part to special factors, such as the summer drought. All three of these countries, as well as most of the other deficit countries, are now pursuing policy measures that should improve their current account balances within the year. In the case both of the United Kingdom, which will benefit from the North Sea oil fields, and of Italy, the expected improvement may carry the current account into balance or surplus.

In the financing of current account deficits of industrial countries, only France and the United Kingdom made any substantial use of reserve assets in 1976. Most of the deficit countries have relied mainly on capital inflows, and a number of them have encouraged private or semiofficial enterprises to borrow abroad. National governments themselves have entered the international capital market in some instances. Policies to encourage external borrowing, partly through maintenance of high domestic interest rates and restraint on domestic credit, continued to be followed in France and the Nordic countries. The Swedish Government borrowed directly on the international market for the first time in February 1977, and it is anticipated that as much as half of the financing for this year's current account deficit may be obtained through that channel. Much of Denmark's overall borrowing abroad has continued to be done by the authorities.

Some of the larger current account deficits among the industrial countries do not appear to be of a character that poses constraints on overall economic policy. The Canadian and Norwegian deficits fall in this category. The structure of Canada's balance of payments has traditionally been one of a current account deficit offset by inflows of long-term capital; this pattern was evident in 1976 and may be expected to continue in the period ahead. The Norwegian current account has been in substantial deficit since 1974, partly as a consequence of heavy importation of equipment for the exploration and exploitation of the North Sea oil resources. As the oil sector imports taper off and the share of fuels in the exports of Norway grows, a shift into surplus is expected.

The current account positions that were strongest in 1975 and 1976 remained strong through the first half of 1977. The surplus of the Federal Republic of Germany is clearly a reflection of the continuing strength of that country's exports and the ability of its exporters to hold or raise their market shares despite the loss in price competitiveness experienced in the early 1970s. In view of its external strength, and in line with its policy stance, the Federal Republic of Germany should maintain an adequate rate of expansion in domestic demand, consistent with its anti-inflation objective, and should accept any appreciation of its currency that may result from the operation of market forces. However, eventual adjustment of that country's current account position will also depend importantly on success of anti-inflation policies in the deficit countries, coupled with willingness of those countries to allow exchange rate flexibility.

In the Netherlands, the persistent current account surplus of recent years reflects in large part the increasing importance of exports of natural gas. Not wishing to count on continuation of recent levels of export earnings from depletable reserves of this product, the authorities are endeavoring to promote capital exports, with the objective of offsetting the current account surplus. The size of the Swiss current account surplus is partly a manifestation of the severity of the recession in Switzerland, which has resulted in low capacity utilization along with almost full employment in the labor market because of a permanent reduction in the number of foreign workers; also, the strong export orientation of several Swiss industries has enabled them to maintain the stability of their foreign market shares, in volume terms, despite the pricing handicaps imposed by appreciation of the Swiss franc. These circumstances signal a structural imbalance calling for additional measures of adjustment. Meanwhile, the Swiss authorities are pursuing a policy of discouraging capital inflows and encouraging outflows.

Japan's current account balance, although pushed into substantial deficit by the oil price rise in 1974, has swung back into surplus. Rapid restoration of export price competitiveness after the onset of severe inflationary pressures in 1974 contributed to an increase in Japan's share of world markets, allowing its exports to rise slightly in volume despite the global recession. By the first half of 1977, the Japanese surplus on current account was very large, and realization of the authorities' intention to reduce it in the period ahead will depend crucially on achievement of a satisfactory rate of expansion of domestic demand. The recent appreciation of the yen and the stated willingness of the authorities to let the exchange rate be determined by market forces, with official intervention only for the purpose of assuring orderly short-run movements, should help in due course to contain upward pressures on the current account balance. Meanwhile, steps may be needed to promote the net outflow of long-term capital, which contracted sharply after the oil crisis and provided only a relatively small offset to the current account surplus in 1976.

The large shrinkage of the current account surplus of the United States from 1975 to 1976, reversing a cyclical movement of similar size in the opposite direction in 1975, reflected primarily the fact that economic activity was recovering at a faster rate in the United States than in its trading partners, with inventories rising strongly. Net capital outflows from the United States greatly exceeded the small current account surplus in 1976—a development that illustrates the role of the U.S. money and capital markets as intermediaries on an international scale. In the main, the counterpart of the recorded net outflows of capital (as usually defined for balance of payments purposes) was to be found in changes in foreign official assets held in the United States. These have accounted for one third to one half of the total inward movement of funds (both capital and reserves) in the past three years, with the investments of oil exporting countries representing the bulk of the official inflow over the period as a whole. In effect, inflows of foreign capital and official reserves, rather than U.S.

national savings, have represented the main source of financing for investments in assets abroad by U.S. residents in recent years.

A further downward movement in the current account balance of the United States occurred in the first half of 1977, carrying it into substantial deficit. This movement was perhaps less wholly attributable to international cyclical factors (i.e., the stronger growth of domestic demand in the United States than in other countries) than was the 1975–76 swing, although such factors were still operating in the same direction. Other influences, such as the sharp rise in prices of many imported primary commodities and the impact of an exceptionally severe winter on requirements for imported oil, were also important. Although oil imports accounted for a considerable part of the total change in the U.S. trade balance from 1975 to the first half of 1977, the change in the balance of other trade transactions was more substantial, serving to facilitate the external adjustment efforts of many other countries.

Exchange rate developments.—Following a period of relative stability in 1975, the effective exchange rates of Italy, the United Kingdom, and France came under pressure in 1976, at different times, and depreciated sharply. (See Chart 3.) In each case, the depreciation occurred despite official efforts to resist it through intervention, large increases in domestic short-term interest rates to influence capital movements, or heavy borrowings abroad by public or semipublic entities. During the first half of 1977, however, there were only small changes in the effective exchange rates of these three countries.

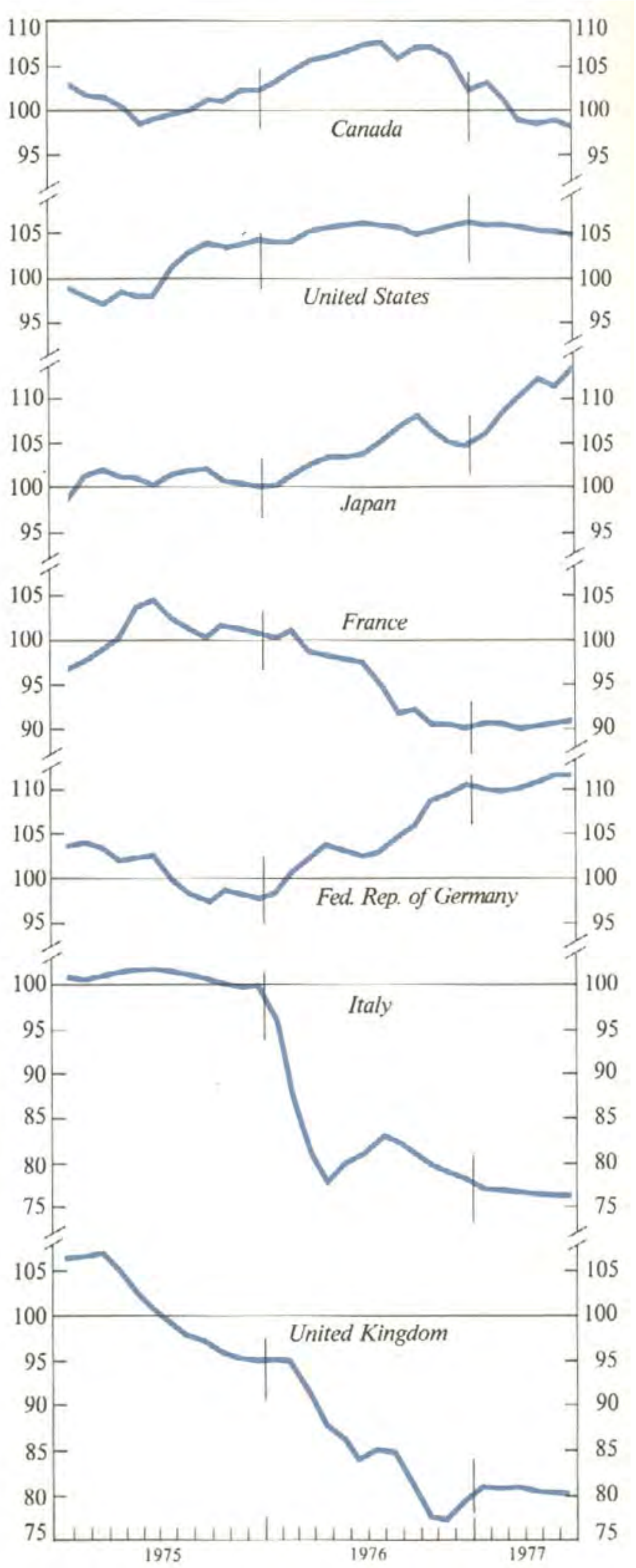
In contrast, the Japanese yen appreciated by 5 per cent in effective-rate terms during 1976 and by 10 per cent during the first half of 1977. The increase in Japan's current account surplus was apparently the major factor behind this development.

Both the deutsche mark and the dollar appreciated in effective-rate terms during 1976, and the former continued to do so in the first half of 1977. The US$/DM rate itself, which had fluctuated rather widely from early 1973 to mid-1975, was quite stable from August 1975 to June 1976, but then rose sharply in the second half of 1976 and continued upward in the first half of 1977. Monetary developments—epitomized by the fall in short-term interest rates in the United States and the rise in the interbank rate in Frankfurt during the second half of 1976 (Chart 4)—can be seen as the key factors behind the deutsche mark appreciation during that period.

Tensions within the European common margins arrangement (the "snake") were frequent during 1976 and at times became extreme, leading to adjustments within the snake in mid-October. Prior to that realignment, the spread of 4–5 percentage points between infla-

Chart 3. Industrial Countries: Effective Exchange Rates, 1975–June 1977

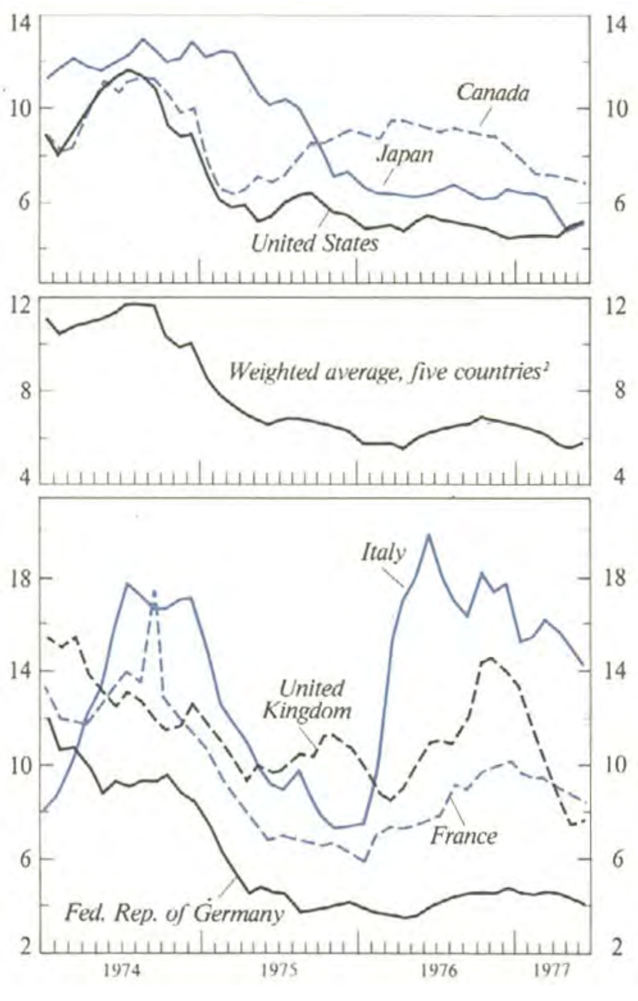
(Indices, 1975 = 100)



tion rates in the Federal Republic of Germany and those in the other "snake" countries, together with the weakening of some of the current account balances, had encouraged speculation in anticipation of a realignment. Official interventions to maintain the established currency relationships were sizable, and several countries resorted to stringent monetary policies for defense of their currencies. After the realignment, however, tensions within the snake abated and remained limited during the first half of 1977. In April, the Nordic countries, although no speculation against their currencies had been evident, made another adjustment in their intervention limits for exchange transactions within the snake, chiefly because of the weakness of Sweden's current account and the loss in competitiveness of Swedish exports.

Chart 4. Industrial Countries: Short-Term Interest Rates, 1974–June 1977 [1]

(In per cent per annum)



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

[2] The United States, the Federal Republic of Germany, the United Kingdom, France, and Japan, with use of weights specified in Section J, Remuneration and Interest Rate on Special Drawing Rights, Appendix II, *Annual Report, 1976*, page 118.

On the whole, exchange rate movements were relatively small during the first half of 1977 despite the persistence of wide differentials in rates of inflation and of sizable current account imbalances. Although direct official intervention in exchange markets did not, on balance, figure prominently in this relative stability, official financing transactions of the various kinds noted above contributed. The major stabilizing factors, however, were probably the pursuit of restrictive demand management policies in deficit countries and of moderately expansionary demand policies in the United States and the Federal Republic of Germany that were broadly similar to each other, resulting in a relatively narrow interest rate differential between those two countries (Chart 4).

Recent developments appear to confirm that there is no close correlation between differences in inflation rates and those in exchange rate movements over short periods. With respect to the past four years, however, differences in relative inflation rates among major industrial countries and changes in exchange rates for their currencies have been, by and large, mutually offsetting. (See Chapter 2, page 28.)

More Developed Primary Producing Countries

The more developed primary producing countries were still generally in the backwash of the international recession in 1976. As noted earlier, rates of inflation remained high despite continued weakness of domestic growth rates; and the group's external deficit on current account was still at approximately the high level reached in 1974 and 1975.

These countries are predominantly net importers of capital, and their current account balances are ordinarily in substantial deficit. Their collective deficit rose sharply with the onset of the global recession and the oil crisis, and many countries in the group borrowed heavily abroad, in addition to drawing down their reserves, to maintain the inflow of real resources. Most of the countries have ready access to international financial markets, and they were apparently willing to utilize this access to postpone downward adjustments of their imports and current account deficits.

In any event, the price and volume changes discussed in the foregoing review of trends in world trade made it difficult for the more developed primary producers to carry out major adjustments of that sort. The cumulative deterioration of their terms of trade since 1973 has been substantially greater than that for any other major group of countries (Table 5). Consequently, even though the exports of this group have been responsive in volume terms to the cyclical upswing in world demand, and might have brought a substantial improvement of the combined trade balance in a setting of more favorable price developments, the trade deficit declined only moderately from 1974 to 1976; moreover, most of the improvement that occurred was offset by a decline in net receipts from services and private transfers.

For 1977, a partial reversal of the recent decline in the service and private transfers account should supplement some further shrinkage of the trade deficit to produce a moderately lower current account balance. As indicated in Table 6, however, the estimated 1977 deficit of the more developed primary producing countries on current account ($12 billion) will remain about twice as large as the average current account deficit of the same group over the period 1967–72 after allowance for the effects of growth and inflation. This observation suggests that the group includes a disproportionate number of countries whose adjustments to the international disturbances of recent years remain relatively incomplete.

In general, this characterization is most applicable to the more developed primary producers of southern Europe. In several cases, internal problems have impaired the ability and willingness of countries in that area to implement meaningful stabilization programs. Delays in the application of restraints on demand have permitted rates of inflation to accelerate or remain unduly high, and the continuation of relatively high inflation, in turn, has contributed to the maintenance of current account deficits at the high levels to which they had risen in 1974 and 1975. The heavy foreign borrowing to finance these large deficits has included substantial flows of an official compensatory character.

From 1974 to 1976, most of the improvement in the combined current account balance of the more developed primary producing countries was centered in the accounts of the non-European members of the group (Australia, New Zealand, and South Africa) and of Finland. These same countries will probably account for the bulk of the further improvement expected in 1977. In all four countries, measures of restraint on aggregate demand have been instrumental in bringing about recent adjustments of balance of payments positions, and the authorities in each case appear determined to persevere with such policies in 1977. This group of countries pursuing restrictive fiscal and monetary policies to curb domestic inflation and adjust external balances has recently been joined by Portugal, where tighter financial policies have been adopted in connection with a Fund stand-by arrangement.

Less Developed Primary Producing Countries

Mainly in reflection of the world trade developments reviewed above, the current account deficit of the non-oil developing countries, which had risen to unprecedented size in 1974 and 1975, showed a substantial reduction in 1976 and may be expected to hold at about the same level in 1977. The estimated deficits for those two years, each about $25 billion, are some $12–13 billion below the 1975 peak. (See Table 6.)

The current account deficit and its financing.—Despite its sharp decline in 1976, the aggregate current account deficit of the non-oil developing countries remains three times as large, in nominal terms, as it was during the late 1960s and early 1970s. However, as noted earlier (and shown in Table 6), this nominal difference is chiefly a reflection of growth and inflation in the world economy over the intervening years. After allowance for those factors, the estimated current account deficit of the non-oil developing countries in 1977 is similar to the annual average for 1967–72.

In this connection, maintenance of perspective requires recognition that these countries have long been —and should continue to be—major net importers of goods and services. As a group, they are making developmental investments substantially in excess of their own national savings, and are enabled to do so by a persistent net inflow of capital and aid from abroad. While the degree to which national resources can be supplemented on a sustainable basis in the prevailing global environment is a difficult issue for judgment, there is general agreement that it is appropriate for the non-oil developing countries to continue sizable current account deficits as long as they are able and willing to use borrowed resources to promote economic development.

Nevertheless, the question of degree remains crucial from the standpoint of balance of payments adjustment. It is clear that the upsurge of current account imbalances among the non-oil developing countries from 1973 to 1975 overshot the mark. In meeting the emergency pressures of that period, when a strongly adverse cyclical swing was compounded by the increased costs of energy and foods, many of these countries relied on external borrowing at rates and costs that were not sustainable, either from their own standpoint or from that of their creditors. However, a considerable proportion of the countries in the group have already made sizable adjustments.

As far as sheer size is concerned, the "scale" considerations cited above (i.e., considerations relating to the record of growth and inflation in the world economy) would suggest that the combined current account deficit for the non-oil developing countries is no longer a source of serious concern. Its financing would not require total capital flows on an extraordinary scale in relation to relevant flows of income, saving, and investment in either the lending countries or the borrowing countries. However, this generalized condition does not imply an absence of need for further balance of payments adjustments by individual countries. The distribution of current account deficits within the non-oil developing countries is extremely uneven, and in a number of cases it is not well matched with the distribution of access to external financing on a readily sustainable basis, nor with debt servicing capabilities.

The overhang of external indebtedness built up during the initial surge of borrowing to finance the 1974 and 1975 deficits constitutes a special problem in some developing countries. A major feature of this surge was heavy reliance on borrowing in international financial markets, and especially on credits (both long-term and short-term) from commercial banks. (See Table 9 and Charts 5 and 6.) An important aspect of the shift toward such sources of funds was the shortening of maturity schedules and the rise in interest costs (by comparison with those involved in traditional developmental financing) that are associated with typical market borrowings. These factors make for disproportionate increases in debt service payments to be charged against receipts from export earnings and from new inflows of capital.

From time to time in recent years, some concern about the sustainability of flows of funds to the non-oil developing countries from commercial market sources has arisen. Through mid-1977, however, such concern did not prove justified for these countries as a group. Indeed, they continued to borrow as heavily in 1976 as in 1975, despite the sharp reduction in their combined current account deficit. It is now clear that many countries borrowed abroad substantially more than was needed for current account financing and added the difference to their reserve holdings, which had been considerably reduced in real terms during 1974 and 1975. However, the magnitude of the reserve replenishment that actually occurred considerably exceeded the expectations of most observers; the equivalent of nearly $12 billion was added to gross reserve assets in 1976, and the rate of increase slackened only moderately after the turn of the year.

Financing of another year's current account deficit at approximately the 1976 level should present no problem in the aggregate. Even with some slackening of external borrowing, the financing of such a deficit could be accommodated through a moderate slowing of the buildup in reserves. Some slackening of external borrowing in 1977 does seem likely, and it will probably be centered in credit from commercial banks. Although the outstanding amount of such credit rose disproportionately for several years through 1976, its growth appears to be tapering off somewhat during the current year. A number of countries are attempting to curb the expansion of external debt and of related debt service charges, while some of the banks supplying these funds have moved to limit the rate of increase in their "exposure" in particular countries.

Regional differences.—The sharp downward adjustment of the aggregate current account deficit of the

Table 9. Non-Oil Developing Countries: Current Account Financing, 1973–76

(In billions of U.S. dollars)

	1973	1974	1975	1976
Current account deficit [1]	10.9	29.5	38.2	25.8
Financing through transactions that do not affect net debt positions	8.2	10.8 [2]	11.1	10.4
Net unrequited transfers received by governments of non-oil developing countries	4.6	6.2 [2]	6.2	6.0
Direct investment flows, net	3.6	4.6	4.9	4.4
Net borrowing and use of reserves [3]	2.7	18.7 [2]	27.2	15.4
Reduction of reserve assets (accumulation, —)	−7.7	−2.5	0.1	−12.0
Net external borrowing [4]	10.4	21.2 [2]	27.1	27.4
Long-term loans received by governments from official sources, net	5.6	7.8 [2]	10.6	11.7
Other long-term borrowing from nonresidents, net	4.7	8.1	10.0	11.2
From private banks abroad	*4.1*	*6.3*	*8.0*	*8.4*
Through suppliers' credits	*0.3*	*0.5*	*0.7*	*1.2*
Other sources [5]	*0.3*	*1.3*	*1.3*	*1.6*
Use of reserve-related credit facilities, net [6]	0.1	1.4	3.2	3.2
Other short-term borrowing, net	0.6	4.1	4.8	1.3
Residual errors and omissions [7]	−0.7	−0.1	−1.5	

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

[1] Balance on goods, services, and private transfers (with sign reversed).

[2] Excludes the effect of a revision of the terms of the disposition of economic assistance loans made by the United States to India and repayable in rupees, and of rupees already acquired by the U.S. Government in repayment of such loans. The revision has the effect of increasing government transfers by about US$2 billion with an offset in net official loans.

[3] I.e., financing through changes in net debt positions (net borrowing, less net accumulation—or plus net liquidation—of official reserve assets).

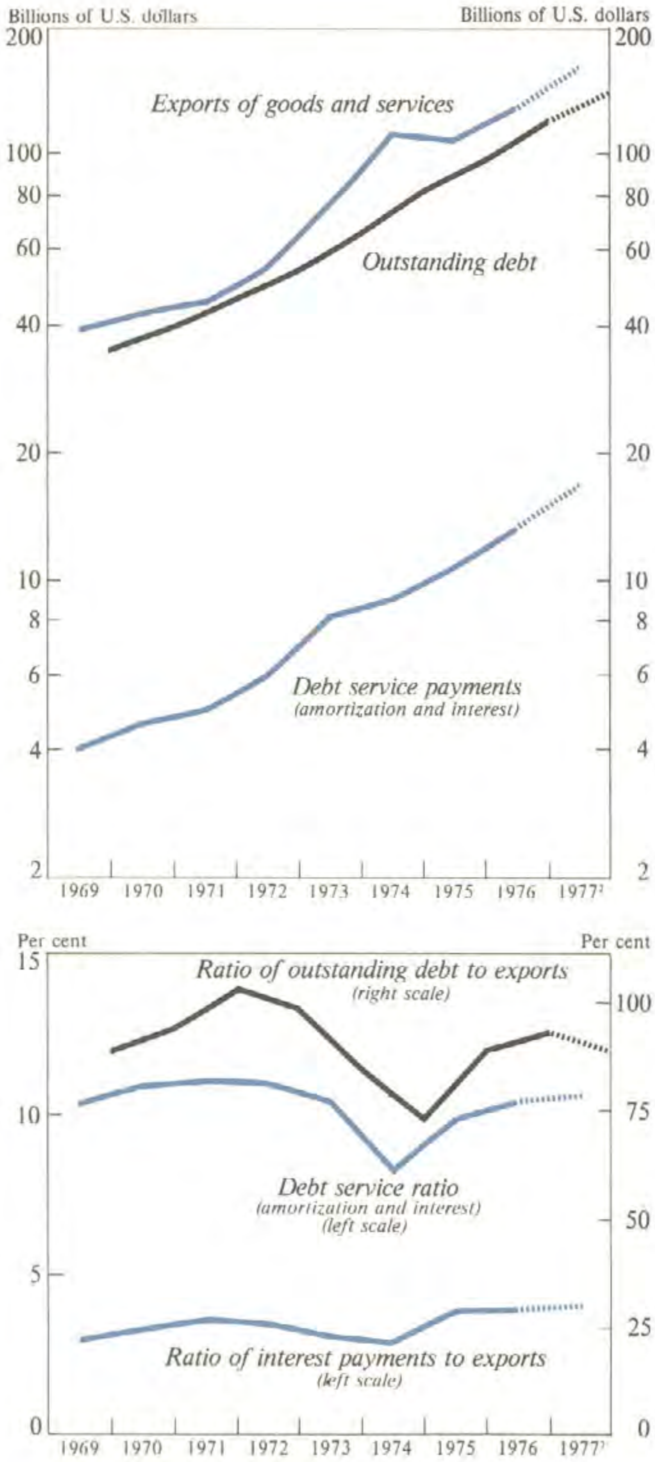
[4] Includes any net use of nonreserve claims on nonresidents, errors and omissions in reported balance of payments statements for individual countries, and minor deficiences in coverage.

[5] Including errors and residuals that arise from the mismatching of data taken from creditor and debtor records.

[6] Comprises use of Fund credit and short-term borrowing by monetary authorities from other monetary authorities.

[7] Errors and omissions in reported balance of payments statements for individual countries, plus minor omissions in coverage.

Chart 5. Non-Oil Developing Countries: Debt and Debt Service Ratios, 1969–77 [1]



Sources: IBRD Debtor Reporting System and Fund staff estimates.

[1] The debt and debt service figures plotted in this chart relate only to medium-term and long-term external public, or publicly guaranteed, debt, as defined in the Debt Reporting Statistics of the IBRD.

[2] Fund staff projections.

non-oil developing countries from 1975 to 1976 was concentrated mainly in two regions—Asia and the Latin American and Caribbean area (Table 7). The decline recorded for the small group of non-oil countries in the Middle East was relatively moderate, while there was no decline at all in the current account deficit of the African region.

For 1977, the virtually unchanged aggregate deficit now in prospect for the non-oil developing countries as a group seems likely to result from contrasting regional changes. These are expected to comprise an appreciable further downward adjustment in Latin America and the Caribbean and a small reduction in Africa, largely offset by considerable slippage in the Middle East and a minor upturn in the collective current account deficit of less developed countries in Asia. If these prospects materialize, the Asian deficit will remain only about one third as large as it was at its peak in 1975, while the Latin American and Caribbean deficit might amount to about one half of the corresponding 1975 figure. On the other hand, the deficits now visualized for the African and Middle Eastern regions are both close to their 1975 levels, suggesting that only relatively minor adjustments have as yet been carried out in those areas.

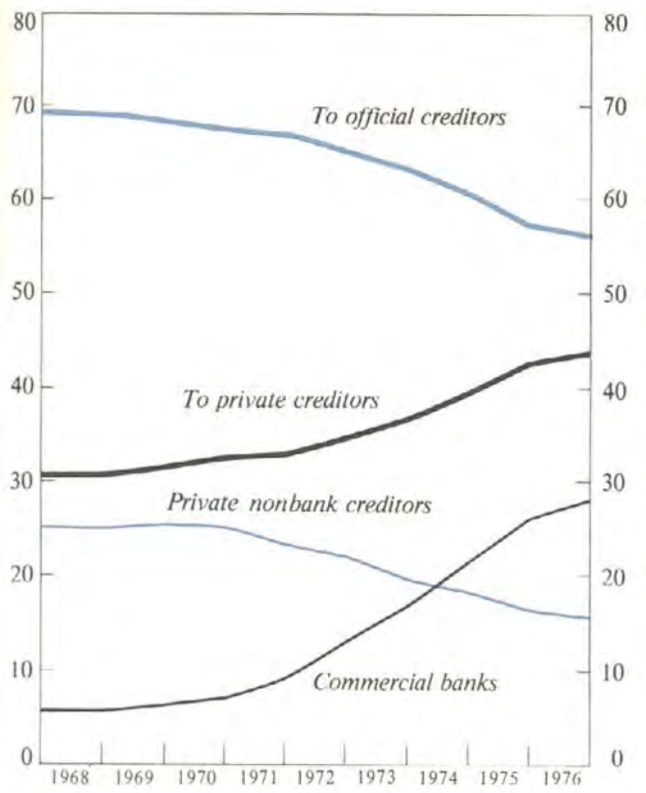
The large decline in the Asian current account deficit since 1975 has stemmed mainly from three factors: the impact on import demands of the restrained financial policies pursued by several of the larger countries; the prevalence, especially in South Asia, of favorable weather conditions, which combined with the easing of world market prices for foodgrains to reduce food import bills; and the strong revival of export earnings stemming from the cyclical recovery in the industrial countries, as well as from the recent bulge in world prices for a number of primary commodities important in Asian export trade.

For some of the major Asian countries, the process of external adjustment to the international disturbances of 1974 and 1975 was largely completed in 1976, and domestic development programs are proceeding without critical balance of payments constraints in 1977. Other Asian countries appear to require only moderate further adjustments, and some of those whose adjustments remain incomplete are nevertheless making satisfactory progress toward adjustment goals under existing programs. However, the Asian area also includes a few countries that remain afflicted with basically weak balance of payments positions, although some of these have been masked by unusually favorable harvests in 1976 or suppressed by the application of restrictive trade and payments policies and domestic controls.

The balance of payments record of the Latin American and Caribbean area, even more than that of the Asian area, has been dominated in recent years by

Chart 6. Non-Oil Developing Countries: Share of External Debt [1] Owed to Various Groups of Creditors, End 1967–End 1976

(Per cent of total debt outstanding)



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

striking changes in the current account balances of a few large countries. Having strong access to international financial markets, the Latin American and Caribbean countries were able to borrow heavily in 1974 and 1975, especially from commercial banks, to finance a large increase in their deficits on current account, and they also drew down reserves. Their combined deficit rose to a peak of more than $16 billion in 1975, compared with only $4½ billion in 1973 (Table 7).

Although most national authorities in the Latin American and Caribbean region had initially attempted to sustain domestic activity through expansionary fiscal and monetary policies during 1974 and much of 1975, there was a widespread swing toward tighter policies as the effects of unrestrained demands on imports and external payments balances became apparent. During 1976, this swing was instrumental in bringing a substantial reduction in the aggregate current account deficit of the region; a further reduction seems to be in process in 1977, in major part because of increases in export prices, especially for coffee. Lowering of exchange rates and more restrained wage policies have also been widely used to facilitate improvements in current account balances.

The scale of external borrowing by Latin American and Caribbean countries was not cut back in step with the reduction of current account deficits in 1976. Consequently, some rebuilding of international reserves took place, and this tendency has continued in the first half of 1977.

For a number of Latin American and Caribbean countries, issues relating to external debt management have come to be important because of the relatively heavy reliance on private market financing, and especially on commercial bank credit. Debt service ratios have risen to historically high levels in a number of countries, and the need to restrain the growth of debt service charges has been taken into account by most of the national authorities concerned in devising their adjustment programs.

In Africa, most non-oil developing countries seized the opportunity created by the commodity boom of 1973–74 to expand development efforts, but found it difficult to modify their policies quickly when the global environment changed. Through most of 1976, balance of payments adjustment measures were confined to a relatively few countries. For the African region as a whole, the current account deficit remained as high in 1976 as in 1975, and the improvement now in prospect for 1977 is quite moderate.

Adjustment measures are needed in a considerable number of African countries. Financing through net inflows of capital and official transfers at their recent rates does not appear to be fully sustainable in the medium term. Increases in medium-term and long-term official and officially guaranteed debt since 1974 have occurred mainly in obligations of relatively short maturities, and annual debt service charges have been rising steeply, leaving about a dozen countries in the African area with severe debt service problems.

In many African countries, the main prerequisite for progress toward satisfactory external adjustment is correction of domestic financial imbalances. Improved budgetary policies are essential to permit lower rates of inflation and to reduce reliance on external financing. In the absence of appropriate stabilization measures, tendencies toward increasing resort to trade and payments restrictions, and to disorderly external financing through arrears on external payments, could become more widespread. Meanwhile, a continuing flow of official external finance will be necessary, since the process of achieving equilibrium at acceptable rates of growth is bound to be slow.

For the Middle Eastern countries that are not major exporters of oil, there was some decline in the current account deficit in 1976 from the swollen level of 1975, but prospects for 1977 are not good. The regional current account deficit seems likely to rise again, and could well exceed even the 1975 figure. This expectation stems largely from the fact that several of the larger countries in this group face deep-rooted imbalances in both internal and external positions. Programs to deal with these imbalances have been designed, but implementation has been hampered or delayed by domestic social and political difficulties.

External financing problems in the Middle Eastern non-oil countries thus remain substantial, but no major difficulties in financing are expected in view of the availability of substantial flows of external assistance. In a few cases, increases in official reserves may well be realized by countries in this group during 1977.

Conclusions

A few broad conclusions from the Fund's recent review of the international adjustment process may be noted.

1. A substantial number of countries experienced improvements in respect of their external accounts during the past year or so in the sense that they moved into positions that could be said to be more nearly sustainable. However, there were also numerous instances in 1976 where countries' external positions worsened or existing weaknesses became more apparent. Progress in respect of international adjustment in the period immediately ahead will depend mainly on the degree of success experienced by the larger countries (both developed and developing) that either have adopted financial arrangements with the Fund or otherwise are embarked on programs to strengthen their external positions. At the same time, many developing countries that have postponed adjustment are likely to experience a prolongation or worsening of their positions in the short run, and such a prospect also applies to several of the more developed primary producing countries. All in all, despite the evident progress, adjustment needs remain large; as experience shows, delays in dealing with them could be very costly.

2. Strategies of adjustment must vary with the nature and position of the adjusting country, with different guidelines or responsibilities in this regard applicable to the oil exporting countries and to surplus and deficit countries within the oil importing group. Despite a number of problems and difficulties, substantial improvement in the working of the international adjustment process over the next several years should be feasible provided that certain conditions are met. The most important of these conditions—which hinge primarily on the effectiveness with which countries exercise their international responsibilities—are satisfactory growth in the volume of world trade; reasonable adherence to the principles of adjustment by surplus and deficit countries as recently developed in the Fund, and summarized in the communiqué of the Interim Committee after its 1976 meeting in Manila; pursuit of demand, pricing, and investment policies by the major oil exporting countries that contribute to international adjustment and to the financing needs of oil importing countries; and greater efforts by the oil importing countries to conserve energy and to develop additional sources of supply.

3. In the financing of the current account deficits of non-oil primary producing countries, the process of "recycling" the savings of oil countries into international financial markets has been reasonably effective. Nevertheless, this recycling has not been accompanied by an appropriate amount of adjustment.

4. Given the persistence of large payments imbalances, heavy demands for use of the Fund's resources might well materialize. Programs of adjustment are clearly needed in a number of countries, and expansion of the Fund's capacity to supply financial assistance, subject to adequate conditionality, could contribute significantly to the promotion of international adjustment and to maintenance of confidence in the international monetary system. It is this central belief that underlies the Fund's current plans for establishment of a supplementary credit facility. (See Chapter 3, page 47.)

Chapter 2 Developments in the International Monetary System

This chapter reviews a number of significant developments in the international monetary system since the adoption of more flexible exchange rate arrangements by most industrial countries. The first part of the chapter concentrates on exchange rate arrangements, beginning with a review of the variety of exchange rate practices adopted by members in recent years. A number of issues relevant to the behavior of exchange rates under the present, more flexible, arrangements are then discussed, and an assessment is made of the role of exchange rate changes in the international adjustment process. This leads on to a review of developments in the demand for and supply of international liquidity, with particular reference to the role of the Fund in providing conditional and unconditional liquidity.

Exchange Rate Arrangements

The new Article IV concerning exchange rate arrangements will take effect when the Proposed Second Amendment enters into force, that is, after the amended Articles have been accepted by the requisite majorities of Fund membership and voting power. Meanwhile, considerable progress has been made in putting into place arrangements for surveillance under the new provisions. Following the meeting of the Interim Committee in April 1977, the Executive Board approved principles for the guidance of members' exchange rate policies, and principles and procedures for Fund surveillance, to be applied when the Second Amendment takes effect. (For the decision on Surveillance over Exchange Rate Policies, see Appendix II.) The provisions of Article IV, and the principles adopted by the Fund for the guidance of members' exchange rate policies, allow members to adopt a wide variety of regimes, thereby recognizing the growing heterogeneity of exchange rate practices that has characterized the international monetary system since the adoption of floating exchange rates by major industrial countries early in 1973.

The exchange rate practices adopted by members over the past four years cover a broad spectrum, ranging from independent floating with relatively little attempt to influence market forces, to the maintenance of a fixed peg against a single intervention currency. The fact that most major currencies float independently implies, of course, that even countries that peg their currencies in some manner face variability in their bilateral exchange rates against currencies outside their group.

Within the group of countries that permit continuous flexibility in their exchange rates, the extent to which rates are managed varies quite widely. Some countries have generally refrained from efforts to influence the course of their exchange rates, other than smoothing short-term disturbances or countering disorderly market conditions. These include Canada, the United States, and the members of the European common margins arrangement (the snake) taken as a group—though individual participants in the snake undertake the necessary measures to keep their exchange rates vis-à-vis other snake currencies within the agreed margins, and some participants have engaged in heavy borrowing to finance current account deficits. Among other countries that consider their exchange rates to be floating, and particularly for those that have faced difficult balance of payments adjustment problems, there has generally been a somewhat greater disposition to use intervention and other policies to influence developments in their rate.

A variety of policies, which may of course also be employed with other objectives in view, have been used to influence exchange rate developments. Such policies include reserve changes, official and quasi-official borrowing and lending, domestic monetary policy, and changes in exchange controls. On occasion these policies have been employed in the context of a fairly clear objective for the exchange rate; but more usually, the policy has been one of resisting rapid movements in the rate.

Among those countries that formally pursue a policy of fixing their exchange rates—the majority of Fund members—a number of different pegging techniques are presently employed. The choice of technique depends in part on historical and institutional factors and partly on the view of the authorities concerned of what would be most consistent with their overall economic objectives. The most commonly used technique is still that of pegging to a single currency (a unitary peg). On June 30, 1977, a total of 44 countries (with about 10 per cent of members' exports in 1975) still retained a peg to the U.S. dollar; 14 (accounting for ½ per cent) were pegged to the French franc; and 9 (with ½ per cent) were pegged on other currencies. In addition, 7 countries (with roughly 2 per cent) having relatively high inflation rates had an exchange rate that was fixed by the authorities, but adjusted frequently on the basis of indicators of relative costs and prices.

A growing group of countries (29 in number on June 30, 1977, with about 9 per cent of members' exports) have chosen to link their currencies in some manner to a basket of other currencies (a composite peg) or to the special drawing right (SDR). Finally, 7 countries (with 24 per cent of members' exports) are participating in the European common margins arrangement, whereby these countries undertake to use mutual intervention to maintain the exchange rate for their currencies within a narrow band of fluctuation against each other, although not against the currencies of other countries.

There has also been a growing preparedness to reappraise exchange rate policies more frequently than in the past. Such reappraisal has resulted in changes in policy or in exchange rate practices. Some countries have changed the intervention points against their peg currency without, however, changing the form of the peg. Others have changed their peg either to another currency or to a currency basket, and still others have made use of formulas or indicators as a guide to peg changes. Relatively few countries outside the industrial world have chosen to move to independent floating as a permanent arrangement, although some have used exchange rate flexibility as an interim measure pending re-establishment of a fixed peg.

This change in attitude to exchange rate arrangements and exchange rate policies can be illustrated by comparing the actions of members in the later years of the par value system with experience in the floating period. In the last three complete years of the operation of the par value system, 1968 to 1970, only one country, Canada, changed from a fixed peg to a floating arrangement (although the deutsche mark was allowed to float briefly in 1969 prior to returning to a par value).

Since 1973, on the other hand, there have been a considerable number of changes in exchange rate arrangements and much more frequent changes in peg by countries adhering to pegging arrangements. In February–March 1973, when the Smithsonian pattern of exchange rates broke down, the European countries participating in the common margins arrangement allowed the snake as a whole to float against other currencies, and a number of other European countries and Japan also adopted floating arrangements. Later in 1973, 10 other countries moved away from a unitary peg, with 3 of these—Greece, Iceland, and Yugoslavia—electing to float independently and 7—including Finland, Malaysia, New Zealand, and Singapore—adopting composite pegging arrangements. In 1974, there were 10 changes in members' exchange arrangements, of which one was repegging by a country with a floating currency (Greece), 6 were changes in pegging arrangements, including the adoption by Spain and Australia of composite pegs, and 3 were the adoption of independent floating (France, Nigeria, and South Africa). In 1975, out of the 22 changes in exchange arrangements, the great majority were movements from a unitary peg to pegging to a composite of currencies, though South Africa switched from independent floating to a unitary peg and France returned to membership in the European common margins arrangement. A noteworthy feature of developments in exchange rate arrangements during 1975 was the adoption of a peg to the SDR by 10 countries that had previously been pegged either to a single intervention currency or to a composite of currencies. Among countries adopting an SDR peg during 1975 were Iran and the 3 countries of the East African Community; Saudi Arabia also shifted to an SDR peg early in the year, but later widened its intervention points to allow a greater measure of stability in its rate against the U.S. dollar.

In 1976 there were rather fewer changes in exchange practices, partly perhaps because many Fund members were by that time already operating under arrangements they considered appropriate to the new circumstances. During the year, four more countries ceased to peg to sterling, with two of them electing to peg to the dollar, one to the SDR, and one to a composite peg. France again left the European common margins arrangement, and Mexico stopped pegging to the U. S. dollar to float independently. In addition, four other countries, including Australia, adopted arrangements permitting greater flexibility in their exchange rates. In the first half of 1977, the only country to change its exchange arrangements was Portugal, which shifted from floating to a composite peg.

An increasing tendency to reconsider exchange rate policies is also reflected in the greater frequency with which countries using pegging arrangements have been prepared to change their intervention points as a means of responding to balance of payments disequilibria. In the three years 1968 to 1970, of the 99 countries that were continuously operating under par values or unitary pegs, and were members of the Fund during the entire period, only 6 proposed changes in par value to the Fund or adjusted their pegged rates. In the three years 1974 to 1976, by contrast, of the 73 countries that continuously maintained a unitary peg (or a peg to the SDR), a total of 19 countries made one or more changes in their intervention points.

In summary, the four years that have elapsed since the move to greater exchange rate flexibility by a number of industrial countries have seen a perceptible increase in flexibility in the exchange arrangements of Fund members as a whole. There has been a growing diversity of exchange practices among countries, and members have been prepared to change their exchange arrangements to meet new circumstances. In addition, there has been an increasing disposition to regard the exchange rate as an instrument of policy that may need to be changed from time to time to respond to disequilibria that have emerged. Countries that are prepared to conduct their domestic policies so as to maintain a rigidly fixed peg for any appreciable period of time now represent only a small proportion of world trade.

A number of factors have combined to induce countries to give greater attention to their exchange rate policies as part of their overall economic strategy. Perhaps the most important has been the unstable economic conditions and high level of worldwide inflation in recent years. This has resulted in fixed exchange rates becoming inappropriate more rapidly than was the case when underlying economic conditions were more settled and rates of price increase were lower and more uniform among countries. Second, uncertainty about the implications for exchange rates of changes in the structure of world trade has required greater attention to exchange rates in the context of achieving effective adjustment. Third, for smaller countries adopting a unitary peg, changes in exchange rates between the currency to which they peg and other major currencies have sometimes resulted in unwelcome shifts in the local currency price of exports and imports. Lastly, and more generally, the breakdown of the par value system has encouraged countries to give more active consideration to the role of the exchange rate in formulating their overall economic policies.

At the same time, many smaller countries have felt that there were advantages for them in maintaining a point of reference for their exchange rate through a policy of pegging. Among the industrial countries that have a pegging policy, and particularly for the smaller members of the snake, the advantages of exchange rate stability have been perceived mainly in relation to the fight against inflation. For developing countries, the main fear has been that independent floating might result in exchange rate instability that would hamper their planning efforts and be harmful to their growth prospects and the confidence on which both capital inflows and local investment depend. Among the reasons why these countries felt unwilling to allow their exchange rates to be continuously determined by market forces alone are the inability of these countries to affect their export or import prices in foreign currencies through changes in their own exchange rates; the inelastic nature of their demand for imports and, in the short run, of their supply of exports; the lack of well-developed financial markets, including forward exchange markets; the unresponsiveness of capital flows to conventional yield considerations; and the desire to maintain a given external objective as a fulcrum for domestic economic policies.

While recognizing that these factors are often put forward as arguments for pegging in the case of primary producing countries, it must also be noted that pegging to a single intervention currency has rather different implications when the major currencies are floating against each other than it does when the world as a whole is operating under fixed rates. In particular, when the major currencies are floating against one another, movements in the pegged rate of a smaller country will reflect developments in the balance of payments of the major country to whose currency it is pegging, and may not necessarily be consistent with the requirements of its own balance of payments position. Since fluctuations in the country's effective exchange rate are to this extent not dependent on the country's own policy, they may interfere with the pursuit of internal policy objectives. To help moderate these unwelcome influences, while still retaining some of the perceived advantages of pegging, a number of countries, most of which are primary producers, have chosen to peg the value of their currencies to some composite of currencies of their important trading partners.

Exchange Rate Changes and Uncertainty

Since the early months of 1973, when a number of major currencies started to float, members' effective exchange rates have fluctuated much more than they had done during the preceding years, except perhaps during the months immediately following the discontinuation of the convertibility into gold of foreign official U. S. dollar holdings in August 1971.

After the par value system broke down, concern was often expressed that exchange rate uncertainty accompanying greater rate flexibility could adversely affect international trade and capital transactions. There is no satisfactory measure of this uncertainty, but one possible indication of developments in exchange rate uncertainty is provided by the information available in spot and forward markets.

In their decisions on the use of the forward market for covering exchange risks, market participants compare the present spot and forward rates with their expectation of the future spot rate at the time when the forward contract matures and the interest rate differential prevailing in the relevant markets. The actions of market participants taken together result in a tendency for the forward rate to be drawn toward the future spot rate collectively expected by the market, with both of these rates tending to differ from the present spot rate by the difference in short-term interest rates in the two money markets in question. These tendencies may, of course, be prevented from fully manifesting themselves by the thinness of the forward market for many currencies and in some instances also by official intervention in this market.

To the extent that the forward rate reflects the market's expectation of the future spot rate on the date on which the forward contract matures, the gap, observed *ex post,* between the forward rate as quoted three months earlier and the actual spot rate on this date can serve as an indicator of market participants' errors in forecasting exchange rate developments.

This indicator is shown in Chart 7 for eight major currencies for which forward exchange rates are readily available. The indicator is calculated as the nine-month moving average of the absolute deviations, whether positive or negative, of the three-month forward rate at the end of each month and the actual spot rate observed three months later. It is noteworthy that the indicator for the Canadian dollar is considerably lower than those for the other currencies during the early part of the period under investigation. This is largely explained by the much narrower range of fluctuations between the Canadian and U. S. dollars than between the currencies of other countries and that of the United States. The increase in the Canadian indicator in the middle of 1975 resulted from an appreciation of the spot rate during a period when there were discounts on the forward Canadian dollar established three months earlier, paralleling the unprecedented disparity in short-term interest rates between Canada and the United States. For many of the European currencies, the largest deviation occurred in 1973 with the onset of floating by many of the major currencies. A smaller peak occurred for countries adhering to the European common margins arrangement in the second quarter of 1975, when there was doubt concerning the effect of the recession on the balance of payments of these countries. For Japan, the peak occurred in the middle of 1974, reflecting the impact of the oil price increase and the subsequent recession.

In contrast, during 1976 the deviations remained relatively small for most of the currencies shown. Only the pound sterling and the Dutch guilder did not follow this general trend. For the pound, the measured deviations reached a peak during 1976. The rise in the indicator for the Dutch guilder above those of most of the other countries in the second half of 1976 may have been caused by unfulfilled expectations that the guilder would be realigned within the European common margins arrangement. The chart shows that, on the whole, the deviations between forward exchange rates and actual spot rates at the time the forward contracts mature were smaller during 1976 than in previous years for many of the major currencies. While, in part, it may indicate that market participants are learning how better to anticipate exchange rate movements, it may also be that the underlying determinants of exchange rates have become less variable and, therefore, more predictable.

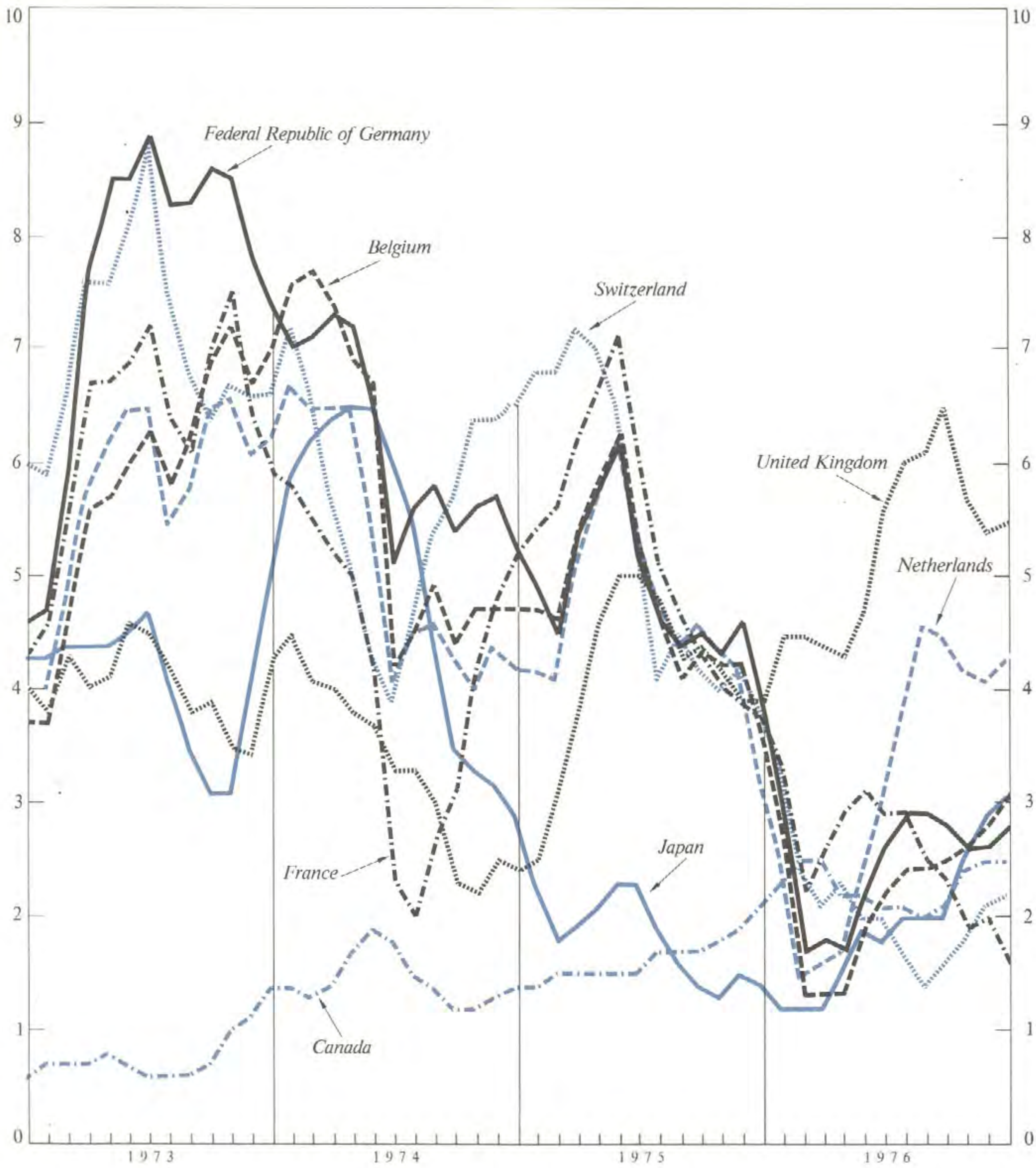
The Role of the Exchange Rate in the Adjustment Process

Four years after the breakdown of the fixed rate system and the move toward greater exchange rate flexibility, a number of industrial countries are continuing to experience serious external imbalances. While it is recognized that too rapid an adjustment to the 1973 oil price increase by the industrial countries as a whole was not desirable, concern has been expressed recently about the apparent slowness of the adjustment process. This section focuses on the role of the exchange rate in the adjustment process for industrial countries that are floating. Evidence from the past four years is reviewed to see whether exchange rate movements have fostered an improvement in the international price competitiveness of industrial countries in a weak position on current account vis-à-vis those in a strong position, and whether exchange rate movements have significantly influenced current account outturns. The contribution of exchange rate movements to the reduction of existing imbalances is found to have been limited, and two main explanations are advanced: (1) until recently the need for external adjustment has not been given high priority and the flexibility of exchange rates has been reduced by the use of intervention and other policy measures, such as official and quasi-official borrowing; and (2) the effectiveness of exchange rate changes has often been impaired by the absence of appropriate accompanying domestic policies. The greater exchange rate flexibility of the past four years has, nevertheless, been helpful in offsetting the effects of divergent inflation rates on countries' external positions.

Since early 1973 changes in exchange rates have tended to offset differences in the rates of inflation among the major industrial countries. This point is evi-

Chart 7. Indicator of Uncertainty of Future Exchange Rates Against the U.S. Dollar, January 1973–December 1976 [1]

(In per cent)



[1] End-of-month data; nine-month moving averages of the absolute difference between the spot rate on a given date and the three-month forward rate for currency to be delivered on the same date.

dent from Chart 8, which shows the effective exchange rate and the relative wholesale price of manufactured goods before and after adjustment for exchange rate changes. The base period for the chart is the first half of 1973, which corresponds to the beginning of the floating rate period. As a consequence of these offsetting price and exchange rate developments, the pattern of competitiveness among most of the major industrial countries is now very similar to what it was in early 1973. Only two countries, Switzerland and Italy, have exhibited a clear change in their competitive positions as measured by wholesale prices adjusted for exchange rate changes between the first half of 1973 and the first quarter of 1977.

The type of comparison made above obscures short-term changes in relative prices. For example, the Federal Republic of Germany sustained a sharp rise in relative prices as a result of the large appreciation of the deutsche mark in early 1973, but its competitive position gradually improved to the third quarter of 1975 as a result of better domestic price performance and no clear trend in its effective exchange rate. Since the third quarter of 1975 there has been some loss in price competitiveness by the Federal Republic of Germany as a result of a further appreciation of the effective exchange rate for the deutsche mark. Japan's price performance exhibits a similar pattern; after a loss in competitiveness of about 10 per cent from 1973 to mid-1974, which reflected high domestic rates of inflation, its relative price position improved through 1975 as a result of relatively low rates of domestic price increases. However, the appreciation of the yen from the early part of 1976 has contributed again to some loss in competitiveness.

Although the relative price position of French manufactured goods has not changed over the period taken as a whole, its development has been discontinuous, reflecting alternating periods of appreciation and depreciation. The United Kingdom experienced a continuing loss in competitiveness from the second half of 1973 to mid-1975, but an improvement accompanied the rapid depreciation of the pound exchange rate to the end of 1976. During the first quarter of 1977 rapid rates of domestic inflation accompanied by an exchange rate appreciation have resulted in a level of competitiveness equal to that experienced in early 1973. The United States and Canada have experienced lesser movements in their relative price positions during the four-year period.

A comparison of prices for manufactured goods may, however, be a misleading indicator of the competitive position of a country, since the producers of manufactured goods may be obliged to some extent to price their products at world price levels despite changes in domestic costs. Under these circumstances, a loss of competitiveness will not be indicated by the relative price of manufactures adjusted for exchange rate changes. Indicators of relative unit labor costs are less subject to this weakness. They have other well-known drawbacks, however, such as their sensitivity to relative cyclical factors. In the present case, the evidence on relative unit labor costs in manufacturing does not diverge significantly from earlier results. According to these indices, the comparative advantage gained by Italy is somewhat larger, while the United Kingdom and the United States also moved into positions of increased competitiveness between the first half of 1973 and the first quarter of 1977. During the same four-year period there was some deterioration in Canada's relative cost position.

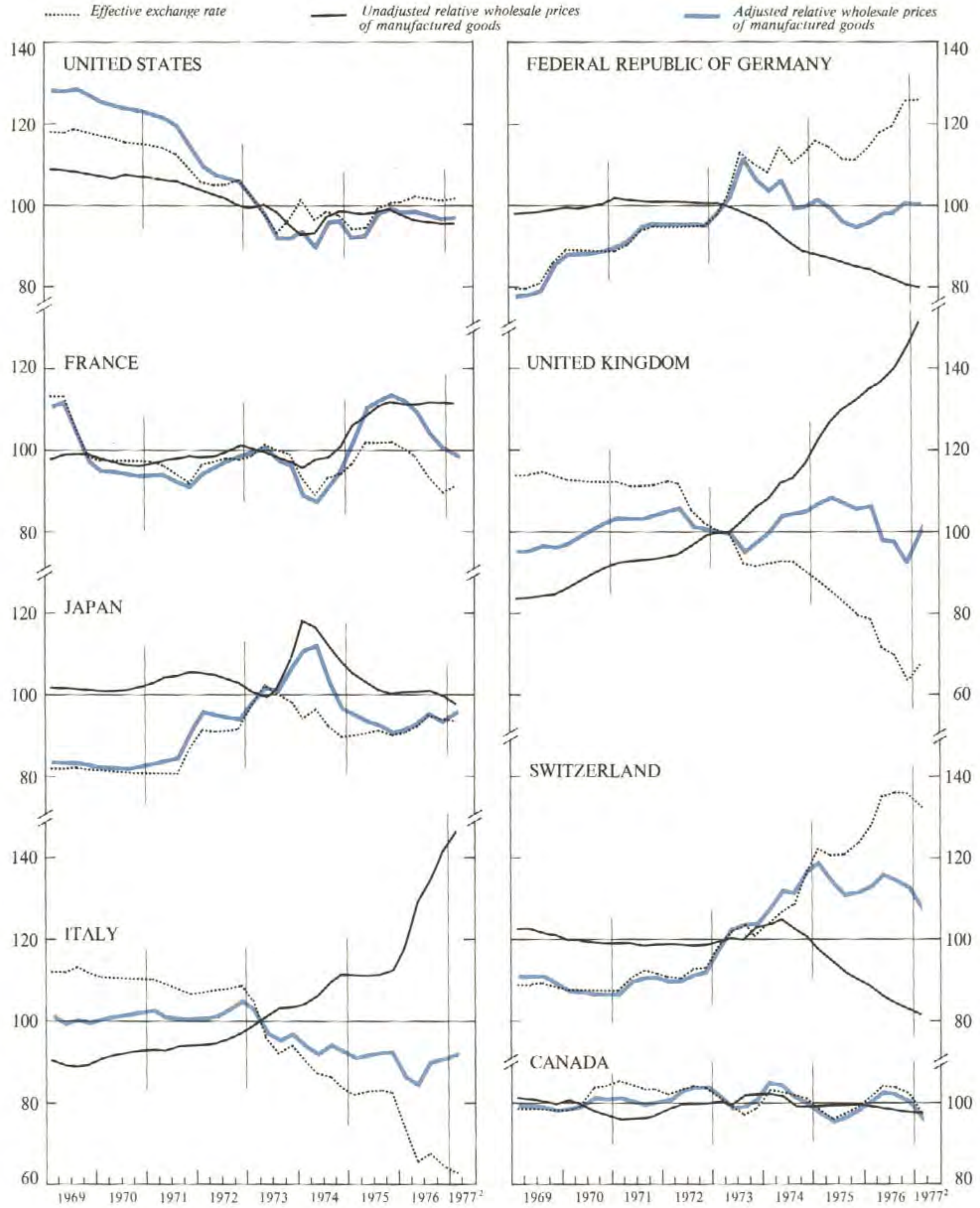
Apart from longer-run changes in international competitiveness, the recent period has also been characterized by short-term fluctuations in exchange rates that have led to sharp temporary movements in the relative price of manufactured goods adjusted for exchange rate changes. The French experience provides an extreme example of the impact of short-run fluctuations in the exchange rate on the competitive position of a country. It is clear from Chart 8 that the short-term fluctuations in the French exchange rate have had a large and immediate impact on the competitive position of French manufactured goods. To the extent that lagged adjustment in domestic prices has occurred, it has tended to amplify the impact of the exchange rate. In 1974 and 1975, domestic prices appear to have been adjusting in part to the prior depreciation of the franc while the exchange rate was appreciating. As a consequence, both factors contributed to the sharp deterioration in the competitive position of French manufactured goods during this period. As discussed below, such short-term fluctuations in relative prices do not, however, have much impact on patterns of production and demand.

The greater exchange rate flexibility of the past four years has been helpful to the adjustment process insofar as exchange rate movements have prevented certain current account imbalances from developing or widening owing to divergent inflation rates. Rate flexibility has also facilitated the financing of current account imbalances by encouraging equilibrating capital movements. Exchange rate changes do not seem, however, to have played much of a role in recent years in reducing existing external imbalances among industrial countries. Current account developments since 1973 seem to have been dominated by other factors.

First, the volume of oil imports is not the same for all industrial countries, and, therefore, the relative current account positions of the various countries were changed by the 1973 oil price increase. Those countries already facing payments deficits in 1973, for exam-

Chart 8. Effective Exchange Rates and Relative Prices, 1969–76

(Quarterly indices, first half 1973 = 100)[1]



[1] These indices, including those used in the calculation of the effective exchange rates, are based on data for the 14 industrial countries.

[2] First quarter partially estimated by the Fund staff.

ple, France, Italy, and the United Kingdom, felt the further weakening in their external position particularly strongly.

Second, the current account developments in individual industrial countries have also been influenced by their demand management policies. Of the eight industrial countries considered in Chart 8, Japan, the Federal Republic of Germany, the United States, and Switzerland adopted restrictive domestic policies during 1973–74 and were successful in reducing inflation, although not in eliminating it. These four countries retained or gradually moved back into current account surplus during 1974–76. Italy and the United Kingdom, which were less prompt in restraining domestic demand and less successful in controlling inflation, experienced large current account deficits in 1974 and, except for Italy in 1975, remained in deficit through 1976. Canada and France followed demand management policies and experienced current account developments during the two years that fell somewhere between those of the other two groups of countries. By 1976, however, Japan, the Federal Republic of Germany, and, especially, the United States had adopted more expansionary policies, while France, Italy, and the United Kingdom continued to experience high inflation rates and introduced or intensified restrictive domestic policies. These policy changes have already contributed to major cyclical shifts in current balance positions in late 1976 and early 1977 as discussed in Chapter 1.

These price and current account developments should not be construed as evidence that exchange rate movements have tended to exacerbate the current account problems of certain industrial countries. It is shown in Chart 9 that the countries with depreciating exchange rates have also had weak current account performances, while the countries with the most rapidly appreciating currencies—the Federal Republic of Germany and Switzerland—have registered persistent surpluses. The most plausible explanation for this pattern is that both the depreciation and the deficit are the result of unstable underlying domestic economic conditions, and that exchange rate developments have prevented these conditions from having a more severe impact on the current balance of the countries concerned. There is still a need, nevertheless, for an exploration of the factors that have inhibited the adjustment process.

One reason why exchange rate movements have not played a greater role in changing relative prices and reducing external imbalances is that exchange rate flexibility has, at times, been reduced because countries decided to sustain large-scale intervention in the foreign exchange market, to encourage foreign borrowing of public and semipublic corporations, and to impose exchange restrictions and capital controls. In many cases, such intervention was justified on the basis of domestic conditions, or because of the need to avoid too rapid an adjustment to the 1973 oil price increase. Denmark, France, Norway, Sweden, and the United Kingdom are among the European countries that have tended to finance current account deficits through international borrowing. Total official financing and net foreign reserve loss by the United Kingdom, for example, amounted to about $13½ billion over the period from 1974 to 1976. The Italian authorities also influenced the exchange rate through the imposition of import surcharges, import deposit requirements, and restrictions on purchases of foreign currency.

Exchange rates, however, do not always move in the short run in the direction required for current account adjustment because of short-term financial factors. For example, during 1974 the inflow of short-term capital into the United Kingdom from the oil exporting countries may have prevented a depreciation that was needed to improve the current account position.

As to the effect of an exchange rate change on the trade balance of a country, there is considerable empirical evidence that relative price changes eventually have a strong impact on foreign trade performance. Successful trade performance, however, is also strongly influenced by nonprice factors, such as a reputation for quality, reliable delivery schedules, good after-sales service, and the development of new products. It is consequently unrealistic to expect that an unanticipated change in relative prices, induced by an exchange rate change, will rapidly affect patterns of production and demand that reflect such "structural" factors. At a minimum, economic agents will have to be sure that the relative price change is going to last before they undertake the large adjustment costs involved in any change in the pattern of demand or supply. In recent years, the slowness of adjustment may have been increased by the depth of the recession and the continued strength of inflationary expectations.

A major consequence of the slow speed of adjustment in the goods market is that the trade balance may initially move in a perverse direction following an exchange rate change because the terms of trade effect may more than offset the slowly developing volume effect on the balance of trade. This is often referred to as the J-curve effect. The deterioration in the terms of trade as a result of a depreciation will be particularly marked if the country's export prices in terms of foreign exchange fall because in the short run the world demand for its products is relatively inelastic—for example, because it exports specialized goods that account for a large share of the corresponding market—while its short-run export supply is relatively price elastic.

Chart 10 presents some empirical evidence on the terms of trade effect for particular periods when the exchange rate exhibited sharp short-term fluctuations.

Chart 9. Relative Prices, the Current Account Balance, and the Effective Exchange Rate, 1972–76

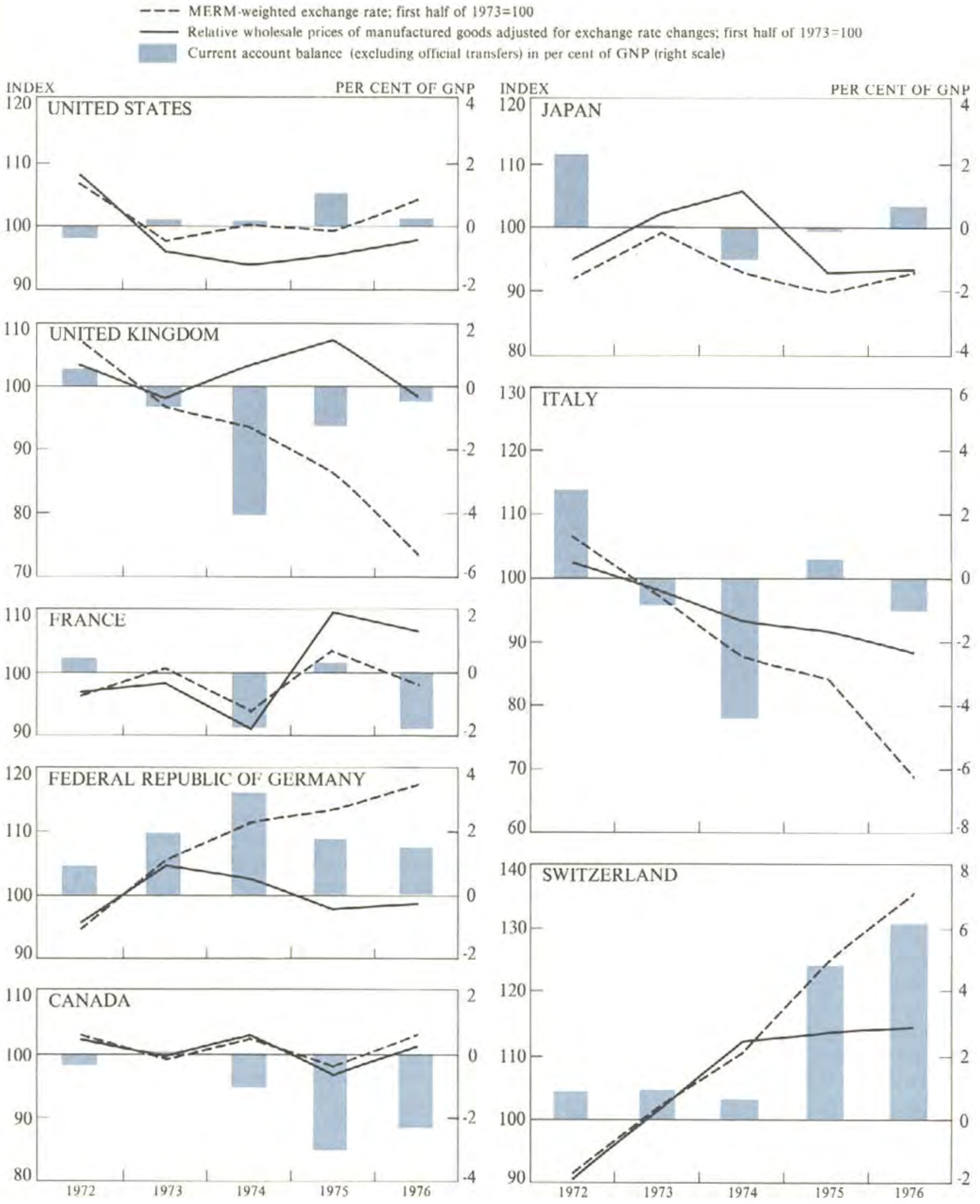
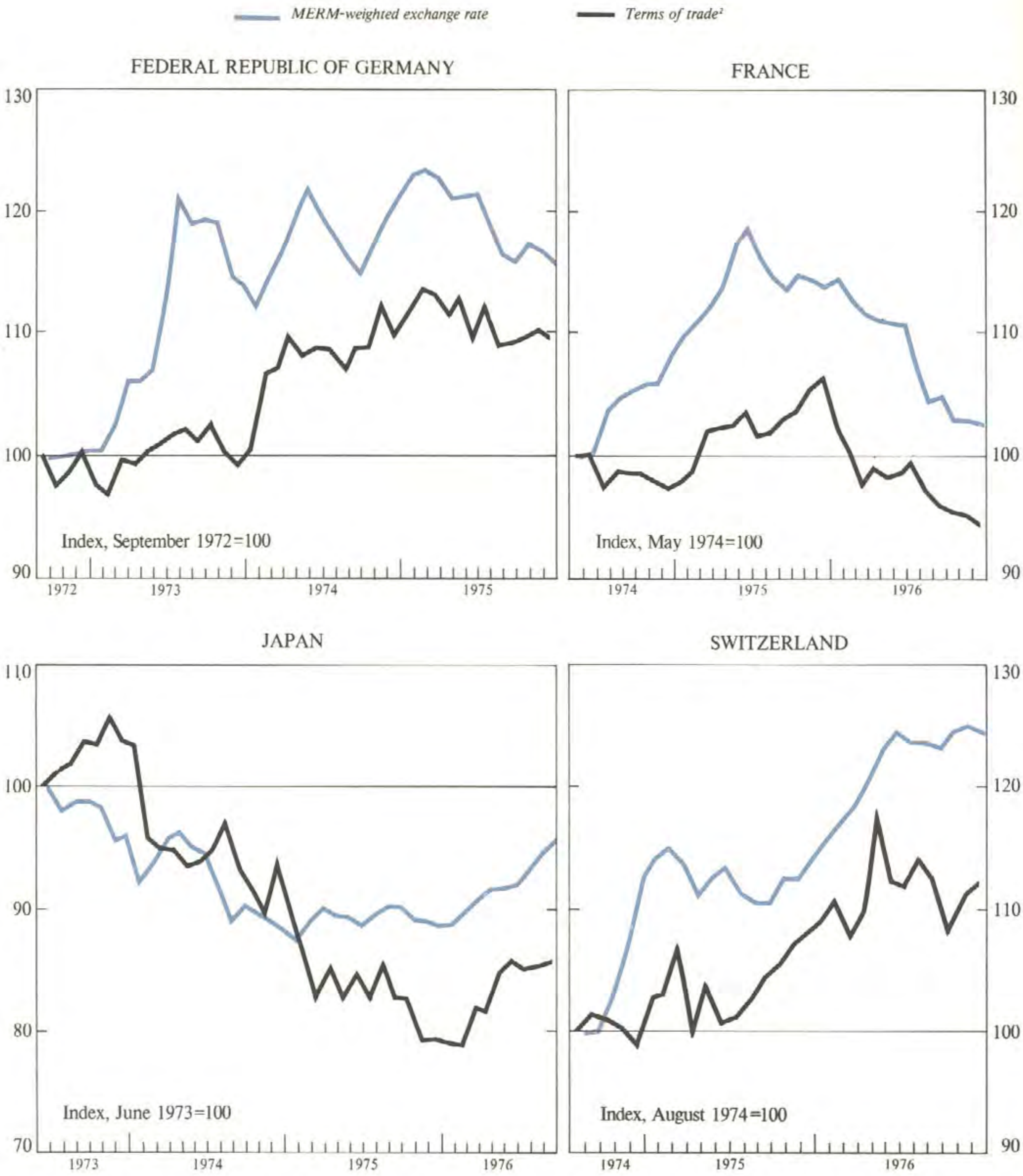


Chart 10. Effective Exchange Rate and the Terms of Trade [1]



[1] This chart considers four particular cases in which a sharp change in the effective exchange rate has occurred.
[2] Export price index divided by import price index, scaled by a trade-weighted average of the terms of trade for the United Kingdom, France, the Federal Republic of Germany, Italy, and Japan.

In each of these cases, the terms of trade of the country under consideration relative to those of other industrial countries were positively related to the movement in the exchange rate, and during the periods considered the changes in the terms of trade appear to have persisted. Since the volume of trade does not seem to have responded rapidly to the exchange rate in these cases, this suggests that a change in the exchange rate may have had a perverse effect on the current account for a period of time.

For the exchange rate to have the desired impact on the current account, it must be able, inter alia, to exert a sustained impact on relative costs. The high rates of inflation that have characterized the 1970s, however, have caused economic agents to focus on wages and prices in real rather than in nominal terms, and have contributed to the rapid spread of wage indexation. By 1976 wage contracts in more than half of the industrial countries in Europe were indexed to a considerable degree, while a significant number of contracts in Canada and the United States included cost of living clauses. In some countries where there was no formal indexation, wages nevertheless responded rapidly to price rises. These factors help to explain why many countries, and particularly those with small open economies, now accept the vicious circle hypothesis, that exchange rate changes lead to offsetting price and cost movements and further exchange rate adjustments, and why they believe that the benefits from exchange rate adjustments are limited. The factors considered above cannot be ignored, but their importance should not be exaggerated either. The evidence presented in Chart 8 and Chart 10, for example, indicates that at least for a period of time, and for the major countries considered here, exchange rate changes have had some impact on relative prices.

In practice, the issue behind the vicious circle argument turns on the effectiveness of different policy instruments in bringing about changes in real wages that are essential for effective adjustment, while minimizing the harmful consequences for other objectives, such as reasonable price stability and full employment. A needed exchange rate adjustment will become associated with a vicious circle only if demand management policy is sufficiently expansionary to permit it. The first step in preventing the vicious circle is to institute adequate restraint on the increase in nominal demand; such restraint should be coupled with efforts to minimize the feedback from the exchange rate to wages and other domestic costs so as to hold down unemployment. This may be helped, for example, by an incomes policy, negotiated among the government, labor unions, and industry, governing price and wage developments. The effectiveness of exchange rate adjustments in the deficit countries will also depend on the adoption of cooperative policies in the surplus countries. The latter must be willing to maintain an adequate level of domestic demand and to accept the appreciation of their effective exchange rates that results from the play of market forces.

In short, both demand management and exchange rate policies have essential roles—distinct but interrelated—to play in the successful functioning of the international adjustment process. As experience clearly shows, use of one without the other is apt to prove ineffective.

Reserve Developments

The previous section has shown that, despite the greater flexibility of exchange rates in recent years, there are still substantial payments imbalances, and the manner in which liquidity is provided to finance these imbalances therefore remains a matter of central concern. Even among countries whose currencies are floating, management of rates in varying degrees is quite widespread. In addition, many currencies are pegged to other individual currencies, to various baskets of currencies, or to the SDR. As a result, countries have been making considerable use of both credit and reserves to deal with payments imbalances.

To a considerable extent, the expansion of reserves and of balance of payments credit has been in the form of assets and liabilities in international capital markets, rather than being provided through the Fund or other intergovernmental agencies. An important issue confronting the international community is the extent to which an expansion of official sources of liquidity could improve the adjustment process, and, by strengthening the international monetary system, support a continuation of private lending. In this connection, a number of issues concerning the volume and nature of the liquidity provided by the Fund are currently under consideration by the Executive Board, including the Seventh Quota Review, whether there should be an allocation of SDRs, the characteristics and uses of the SDR, and the plan put forward by the Managing Director for a temporary supplementary credit facility. These questions will be discussed below in the section on the adequacy of reserves, but first a brief review will be given of recent reserve developments.

Two changes have occurred in recent years that raise questions with respect to the meaning of comparisons over time of the total value of international reserves. First, relative prices of the major reserve assets have been continuously changing by substantial margins over the last few years. For example, from the end of 1970 to the end of 1976, sterling depreciated against the U. S. dollar by almost 30 per cent, the U. S. dollar depreciated against the SDR (and against reserve positions in the Fund whose value is maintained in terms of SDRs) by 14 per cent, and the market price of gold in terms of U. S. dollars rose approximately fourfold. The purchasing power of a given collection of reserve assets therefore depends on its composition. Second, there has been a sharp reduction in the use of gold. Under the present Articles of Agreement gold transactions between members have to take place at the official price of SDR 35 per ounce. Although some gold has been used as a pledge for borrowing abroad, very few transactions have occurred since 1971. Furthermore, uncertainty about the future course of the free market price, and also about the effect on this price of the disposal of significant amounts of officially held gold over a short period, has inhibited governments from undertaking substantial sales in the private market. Thus, most countries' holdings of gold have remained approximately constant since 1971.

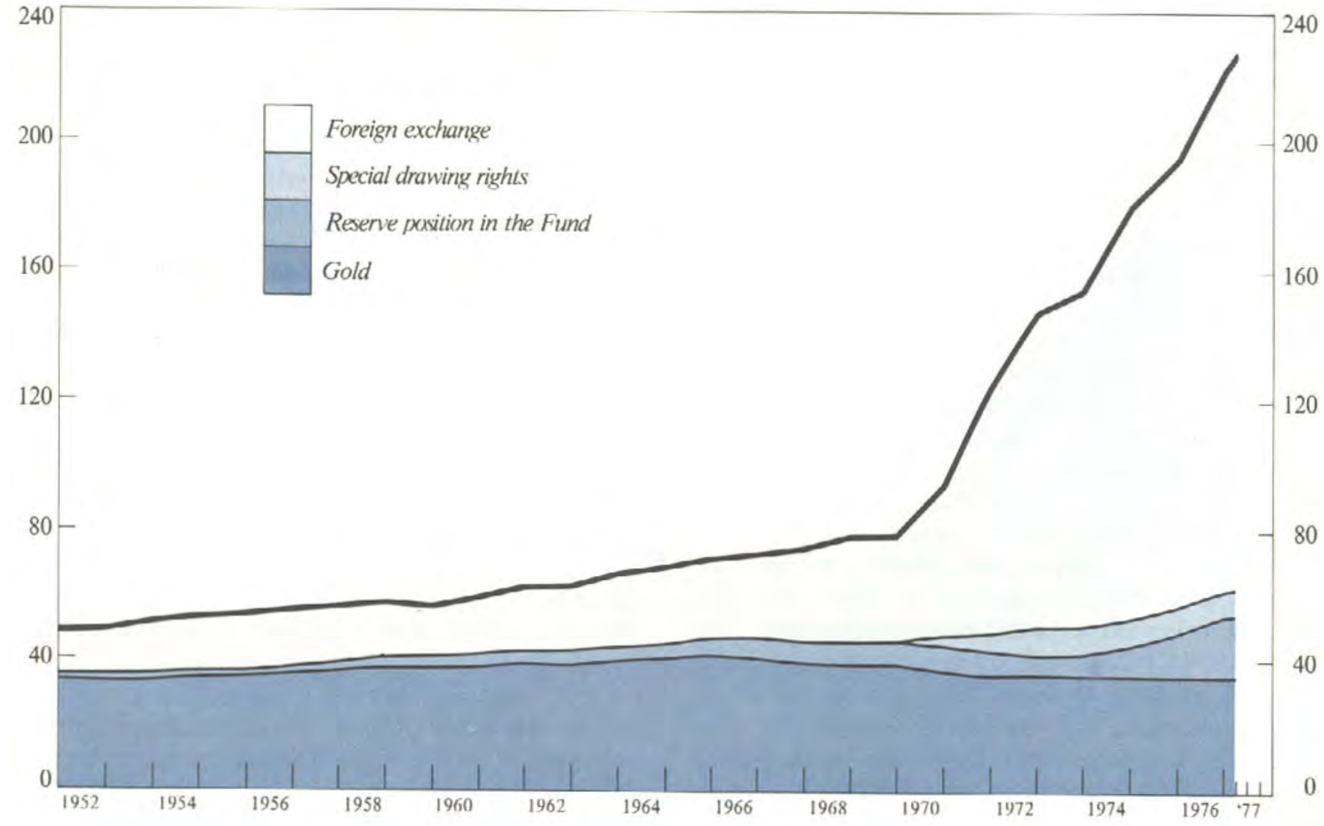
For purposes of the compilation of reserve data in the Statistical Annex to this chapter, assets are valued at current prices in terms of SDRs, except for gold, which is valued at SDR 35 per fine ounce. The same convention underlies Charts 11 and 12 and Table 10.

During the 1950s and 1960s, the main reserve assets held by countries grew at moderate rates (Chart 11). Gold holdings rose from the early 1950s to 1965 by just over 1 per cent per annum; but they subsequently declined until the volume in the mid-1970s was about equal to that observed in the mid-1950s. Foreign exchange holdings increased during the 1950s and 1960s by about 4 per cent per annum, with substantial variations from year to year. These variations depended chiefly on the state of the balance of payments between the United States and the rest of the world, and the willingness or desire of monetary authorities outside the United States to hold dollars. Reserve positions in the Fund grew somewhat more rapidly during this period, on average by about 9 per cent per annum; variations in this rate of change were caused by the uneven incidence over time in the demand for Fund credit.

Beginning in 1970, reserve assets other than gold increased at a much faster pace. Foreign exchange reserves rose fivefold from the end of 1969 to the end of 1976 and "Fund-based reserve assets"—including in this concept SDRs as well as reserve positions in the Fund—increased fourfold. As already mentioned, the volume of gold holdings declined slightly.

The rise in official holdings of foreign exchange and

Chart 11. Level and Composition of Reserves, End of Period, 1951–March 1977
(In billions of SDRs)



Fund-related reserve assets in the 1970s occurred in two distinct waves, separated by a pause in 1973. During the three years 1970–72, foreign exchange reserves nearly tripled. Two thirds of the total increment of SDR 63 billion took the form of an increase in official claims on the United States, while the larger part of the remainder was accounted for by the growth in identified official holdings of Eurodollars. Following a year of slower growth in 1973, foreign exchange reserves expanded by some 50 per cent in 1974–75, chiefly as a result of the accumulation of foreign exchange assets by major oil exporting countries. Reserves of non-oil exporting countries rose very little during these two years. Reserve positions in the Fund expanded rapidly, doubling from the end of 1973 to the end of 1975. This was a reflection of the same forces that were responsible for the rapid increase in foreign exchange reserves, namely, the impact of the increase in the price of oil on countries' payments balances. The increase in reserve positions in the Fund resulted from the rising need for Fund credit by oil importing countries encountering payments difficulties.

In 1976, the rapid rise in liquid reserves continued, with increases in both foreign exchange holdings and reserve positions in the Fund. The latter increased by SDR 5 billion, to reach a level of SDR 17.7 billion, bringing the total of Fund-related assets to SDR 26.4 billion. Foreign exchange holdings increased by SDR 23 billion (17 per cent), partly as a result of the same influences that caused a rise of foreign exchange holdings during the two preceding years but also partly because of a broadly based upward movement in the foreign exchange reserves of non-oil countries, both industrial and developing. This development was facilitated by the recovery in import demand in major industrial countries, and the decisions taken by many countries to use a substantial part of the proceeds of their borrowing to add to their reserves.

During the first five months of 1977, countries' reserves expanded by SDR 13.4 billion and thus continued to rise at about the same pace as in 1976. The bulk of the increase took the form of foreign exchange holdings, but there was also a further expansion, by SDR 1.5 billion, of reserve positions in the Fund. A small rise in gold holdings, resulting chiefly from the sale of Fund gold to members at the official price, was offset by a decline in countries' holdings of SDRs. (See Chapter 3.) All major country groups except the more

Chart 12. Level and Distribution of Reserves, End of Period, 1951–March 1977
(In billions of SDRs)

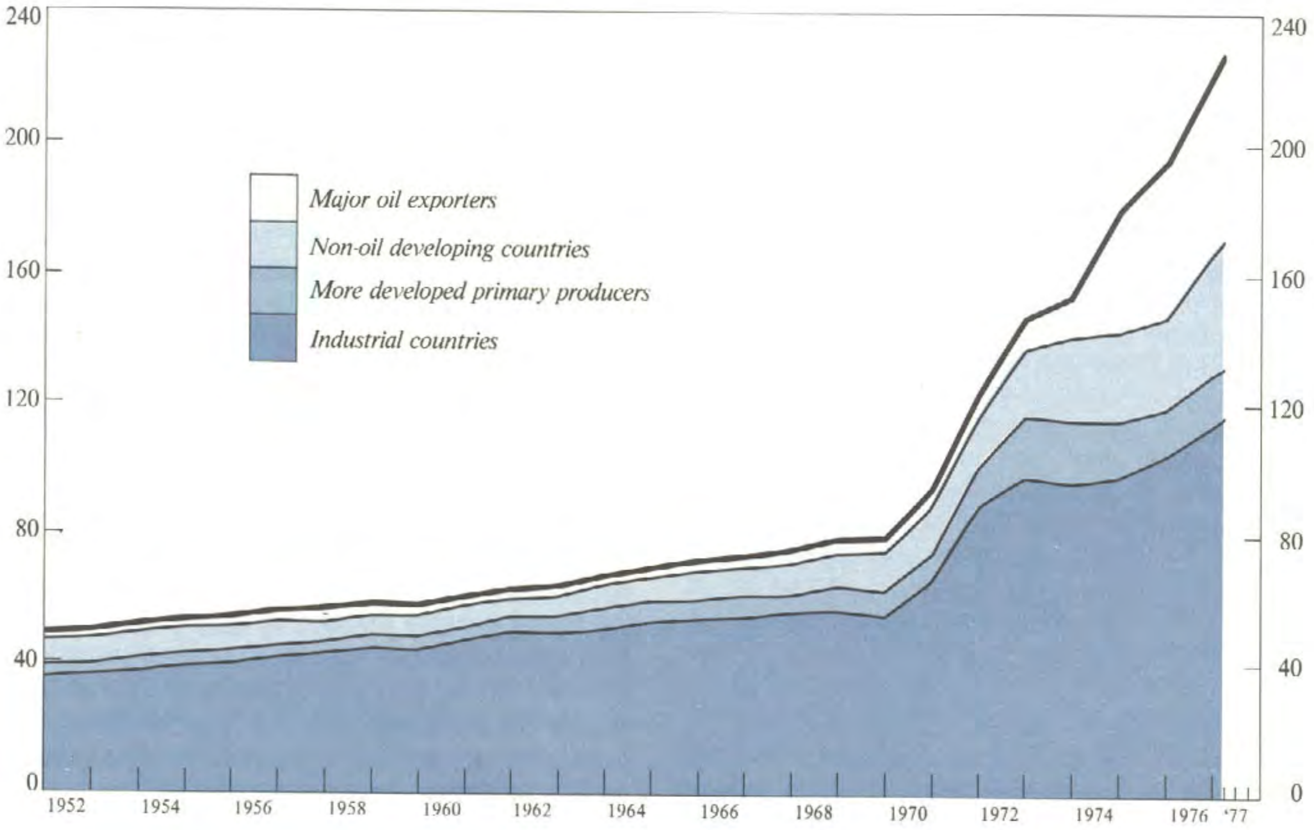


Table 10. Official Reserves, End of Years 1969–76 and End of May 1977
(In billions of SDRs)

	1969	1970	1971	1972	1973	1974	1975	1976	May 1977
Fund-related assets									
Reserve positions in the Fund	6.7	7.7	6.4	6.3	6.2	8.8	12.6	17.7	19.2
Special drawing rights	—	3.1	5.9	8.7	8.8	8.9	8.8	8.7	8.5
Subtotal, Fund-related assets	6.7	10.8	12.2	15.0	15.0	17.7	21.4	26.4	27.7
Foreign exchange [1]	33.0	45.4	75.1	96.2	102.0	126.9	137.4	160.4	172.3
Total liquid reserves [1]	39.8	56.3	87.3	111.2	116.9	144.6	158.8	186.7	200.1
Gold	38.9	37.0	35.9	35.6	35.6	35.6	35.5	35.4	35.5
Total reserves [1]	78.7	93.2	123.2	146.8	152.6	180.2	194.3	222.1	235.6

Source: *International Financial Statistics.*
[1] Official reserves of Fund members except Romania, plus the Netherlands Antilles, Surinam, and Switzerland. Foreign exchange holdings for 1973 include official French claims on the European Monetary Cooperation Fund.

developed primary producing countries shared in the increase in global reserve holdings; about one half of it accrued to the industrial countries, and the larger part of the remainder to the major oil exporting countries.

Factors Affecting the Adequacy of Reserves

This section contains the review of the adequacy of global reserve holdings that the Executive Directors are required to make as part of the Annual Report under Section 10 of the By-Laws of the International Monetary Fund. This provision was introduced as an amendment to the By-Laws in October 1969 at the time of the approval of the first SDR allocation. Since then there have been a number of major changes in the international monetary system that have affected the supply of and demand for reserves. The two most important are the more active use of exchange rates for balance of payments adjustment, including the floating of most major currencies, and the rapid expansion of international capital markets.

As a result of these changes, previous Annual Reports have broadened the discussion of reserve adequacy. Thus, last year's Annual Report went beyond a comparison of the existing global volume of reserves with the global need, and included "the effects on reserve adequacy of the distribution of reserves among countries, the asset composition of a given reserve volume, the availability of public and private liquid resources other than reserves, and the adaptability of the supply of reserve assets to the existing demand." [1] A broad approach will also be followed here with consideration being given to both of the main components of international liquidity, reserve assets and credit available for temporary balance of payments financing.[2]

[1] See *Annual Report, 1976,* page 39.
[2] As in earlier years, the analysis of this section does not deal with the provision of long-term development finance.

A demarcation line between the two forms of international liquidity is not absolutely watertight, but the distinction is, nevertheless, clear in principle as well as in practice. Reserve assets, or "reserves," are at the disposal of the country owning them without any need for negotiation, without any conditionality as to the countries' policies, and without any significant limitation as to the circumstances in which they can be used. Access to credit is always subject to the first of these restrictions and may be subject to the other restrictions mentioned. Thus, the availability of credit, before a credit line has been negotiated, provides less assurance to a country than the ownership of an equal amount of reserves that it will be able to meet possible balance of payments deficits. While, therefore, the demand for reserves is not independent of the availability of credit, the fact that the two forms of liquidity perform somewhat different functions means that the composition of liquidity is not a matter of indifference to individual countries or to the international community as a whole.

Ownership of reserves provides more freedom of maneuver to countries than reliance on access to balance of payments credit, but the certainty of having financial resources available when needed that owned reserves can confer usually entails a cost. For resources already in hand, this cost can be measured by the difference between the return that could be obtained by their long-term investment—for example, in plant and equipment—and the yield achieved by keeping them in the form of liquid reserve assets; for resources that are obtained by borrowing, the cost is similar, reflecting the spread between the rate of interest that countries must pay for loans and the yield on reserve assets. By contrast, access to credit is typically costless, or virtually costless, if not used.

For the reasons just mentioned, the ownership of reserves and access to international credit are not perfect substitutes, and countries tend to aim at some balance in the composition of these liquid resources. Developments in reserve holdings and in the availability and use of international credit facilities should, therefore, be assessed jointly. This is done in the concluding section of this chapter, but first a brief review is necessary of some of the unexpected changes in reserve holdings in the last decade.

At one time, it was easy to think of the Fund as the principal source of supply of balance of payments credit for most member countries. Similarly, when the first allocation of SDRs was being considered, it seemed evident that if the desire of members to increase their reserves were to be met this would have to be done largely by the Fund. Gold was not expected to be a major source of new reserves, and it was widely felt that the U.S. balance of payments deficit, which had been a major source of past increases in the official reserves of other members, would and should be reduced or eliminated. Only two possible sources for reserve increases thus remained—reserve positions in the Fund and special drawing rights. The first was dependent on an increase in quotas and use of the Fund's resources, the second on decisions affecting the timing and size of SDR allocations.

The first decision to allocate SDRs was therefore taken in the expectation of a rising demand for reserves with a supply of reserve assets, other than the SDR, that was both inelastic and expected to increase at a low annual rate. By tailoring the allocation of SDRs to its best estimate of this excess of demand over supply of reserves from other sources, the Fund was, to paraphrase Article XXIV, seeking to meet the long-term global need as it arose to supplement existing reserve assets.

Things did not turn out as expected either in the short run or longer run. The gap between the anticipated growth of reserve needs (of perhaps SDR 4–5 billion a year) and the predicted increase in the supply of reserves other than the SDR (some SDR 1–1.5 billion) was to be filled by an SDR allocation of about SDR 3 billion a year for the basic period of three years, 1970–72. During the period, however, there was a dramatic shift in the trend of reserve increases. In the three years 1967–69, members' reserves had risen by about SDR 6 billion, but in 1970–72 they rose by about SDR 68 billion, with less than SDR 9 billion of this total coming from the SDR allocation. The rapid increase in reserves was followed by other fundamental changes in the system as a whole, and this raised the question of the extent to which the earlier analysis of these issues still applied.

When looked at today, the changes on the side of the demand for reserves have perhaps been less than might have been expected from the major modifications that have taken place in the international monetary system. Although, as noted earlier in this chapter, greater use has been made of the exchange rate for adjustment purposes than in the past, there are still substantial payments imbalances, and most countries, including both those that peg and those that do not, show a desire to hold a growing stock of reserves to meet unexpected changes in their external position. For example, in 1976 when the opportunity for reserve increases occurred, approximately two thirds of the developed countries and two thirds of the non-oil developing countries increased their reserves.

The changes on the supply side of the market for international reserves have been much more striking. Particularly in the few years before 1971, the major part of the increase in international reserves took the form of official claims on the United States. Since the United States could potentially be called on to convert these official dollar holdings into gold, their continued rapid growth became a cause of some concern, because of the possibility that it would jeopardize confidence in the ability and willingness of the United States to undertake such conversion. After convertibility of the U. S. dollar into gold was discontinued in August 1971 and the U. S. dollar allowed to float, this was no longer a consideration. Further, financial intermediation (with deposits and loans denominated in U. S. dollars and other currencies) was expanding in the Eurocurrency markets during the 1960s, and in recent years has become very substantial in a number of financial centers around the world. Many countries have now become accustomed to borrow foreign currencies from commercial banks and other private sources, and their governments can choose to employ some of these funds to increase gross official reserves. The change in the elasticity of supply of international liquidity over the course of the last decade represents a difference in degree that almost amounts to a difference in kind.

In most years, the aggregate addition to reserves that countries make is small in comparison with capital market transactions in countries whose currencies are widely used in international trade and finance. Thus, countries that have access to international capital markets now face within their borrowing capabilities a highly elastic supply of reserves, both individually and in the aggregate. Individually, they can, if they wish, use external borrowing to move toward a particular reserve position. Collectively, the system can generate reserves through the intermediation provided by banks and other private financial institutions.

Partly as a result of these changes, the composition of reserve increases has turned out to be very different from that anticipated at the time of the first allocation of SDRs. The projections made in 1969 implied that at the end of the first allocation period, that is, at the beginning of 1972, SDRs would account for 10 per cent of total reserves and 16 per cent of liquid reserves (reserves excluding gold). It was widely expected that SDR creation would continue thereafter to account for the bulk of reserve increases. In the event, holdings of reserve currencies increased very much faster than had been anticipated, and the actual share of SDR holdings at the beginning of 1972 was about 10 per cent of liquid reserves. Since then, the share of SDRs in liquid reserves has declined further, to less than 5 per cent at the end of 1976.

What in effect has happened as a result of the changes in the last decade is that private capital markets have greatly expanded their activities compared with international financial institutions and central banks. By making medium-term loans and by accepting placement of some of the counterpart funds at shorter term, capital markets have in effect become major suppliers of reserves. Their intermediation between surplus and deficit countries has enabled the latter to settle balance of payments deficits through the use of credit rather than by reducing their gross reserves, while the official holdings of surplus countries, and thus global reserves, have increased. Very substantial payments imbalances have developed in recent years, and there was a time when official agencies would have been expected to be the principal intermediaries between surplus and deficit countries. When the need arose, however, private international markets had already developed to the point at which they were able to perform this function effectively for a number of countries and have continued to do so. During the same period, the ratio of Fund quotas to total imports fell substantially, from over 10 per cent in 1966 and 1967 to under 4 per cent in 1976. The ratio of quotas to imports immediately after general quota increases was 10.7 per cent in 1966 and 9.6 per cent in 1970. In 1977, after the implementation of the Sixth General Review of Quotas, it is estimated that it will be only 4.3 per cent.

Over a number of years the Fund credit available to a member has increased by successive steps in relation to quotas. As early as 1963, the compensatory financing facility was introduced, mainly for the use of countries exporting primary products, adding a potential 50 per cent of quota to the access of members in a position to use that facility, and in 1964 a further 25 per cent was added through the buffer stock facility. Then came the extended Fund facility, adding an additional 65 per cent of quota (1973); the oil facility (1974 and 1975); the expansion of the compensatory financing facility to 75 per cent of quota and the removal of its joint limit with the buffer stock facility (1975); and the temporary widening of the credit tranches by 45 per cent (1976). Not all these facilities have been drawn on to the same extent, but there has nevertheless been a significant increase in the Fund's lending activity. From the end of 1973 to March 31, 1977, all drawings from the Fund totaled about SDR 17 billion, with about 16 per cent of this coming from drawings under the compensatory financing facility, about 40 per cent from the oil facility, and just over 1 per cent from the extended Fund facility. During the same period, reserve positions in the Fund rose by just under SDR 12.5 billion.

While the Fund has been an active lender, the development of private international capital markets has led in recent years to a rapid expansion of private institutions into fields where borrowers were formerly dependent on official organizations or the use of their own official reserves. Thus, commercial banks lend to countries encountering balance of payments difficulties, and governments wishing to add to official reserves can do so by holding the equivalent of part of their countries' borrowing in the form of short-term assets abroad. This, of course, is true only for countries that can borrow in international capital markets. A number of Fund members are not in this position, and for these countries the availability of conditional and unconditional liquidity is largely dependent on the capacity of the Fund to provide credit or to allocate SDRs. For many Fund members, however, the dependence on official financing has been greatly reduced in recent years, and when considering quota increases, supplementary credit, and SDR allocations they can look at these as little more than alternative sources of reserves or balance of payments credit. No country can, of course, be sure that it will not at some stage have need of official assistance, but when this need lies in the uncertain future, more weight can be given to such considerations as the contribution official sources of liquidity can make to the orderly evolution of the international monetary system.

There are varying views on the way in which the expansion of private relative to official sources of finance has affected the international monetary system. Heavy reliance on international capital markets leads to differences in the availability of credit and reserves to countries, depending upon their ability to borrow in such markets. This effect, which is the inevitable result of reliance on the market, is regarded as inequitable by countries whose capacity to borrow is very limited. There are differences, moreover, among increases in reserves obtained through borrowing, current account surpluses, and SDR allocations. For borrowing to lead to a lasting increase in reserves it has to be periodically renegotiated, and circumstances may not necessarily be such that it is easy or convenient for countries to do this.

As far as balance of payments finance is concerned, institutions in the private sector do not normally make a practice of applying comprehensive policy conditions when making balance of payments loans to governments. Access to private sources of balance of payments finance may, therefore, in some cases permit countries to postpone the adoption of adequate domestic stabilization measures. This can exacerbate the problem of correcting payments imbalances, and can lead to adjustments that are politically and socially disruptive when the introduction of stabilization measures becomes unavoidable. The assurance that sufficient official lending capacity with adequate conditionality was available would reduce this risk. In these circumstances, an increase in the capacity of the Fund would complement the resources available through markets and increase confidence in the smooth functioning of the international monetary system.

In recent months, consideration has been given to these issues by the Executive Directors and by the Interim Committee. Since large payments imbalances are likely to persist in the foreseeable future, demands for access to international liquidity must be expected to remain high.

There is thus need for the Fund to be able to give balance of payments assistance to its members on an adequate scale. It is generally agreed that the increased quotas under the Sixth General Review, which are expected to become effective after the Proposed Second Amendment enters into force, will need to be increased again under the Seventh General Review of Quotas. The Seventh Review, which is already under way, is to be completed in February 1978, but, as with earlier quota increases, will not be implemented for some time thereafter.

Some Fund members, however, are expected over the coming period to experience payments imbalances that are large in relation to their economies and, consequently, large also in relation to their quotas. In these circumstances, there is a need for a supplementary facility that would enable the Fund to expand its financial assistance to these members. This assistance, which would be financed through lines of credit from countries in a position to provide them, should be available to all members and subject to adequate conditionality. At its meeting in April, the Interim Committee recognized the urgent need for such a facility and agreed on some of its main features.

In order for the Fund to fulfill its responsibilities in the provision of unconditional liquidity, the issue of whether the conditions exist for an allocation of SDRs must be kept under consideration. Moreover, the characteristics and uses of the SDR must be reviewed from time to time to ensure their continued adaptation to changing circumstances. The Executive Directors have been requested by the Interim Committee to examine all these matters and to report back to the Committee. On the question of the need for an SDR allocation, this report is to be made at the Committee's first meeting in 1978.

Statistical Annex

Table 11. Distribution of Reserves, End of Years 1950, 1960, and 1970–76 [1]

(In billions of SDRs)

	1950	1960	1970	1971	1972	1973	1974	1975	1976
Industrial countries									
United States	24.3	19.4	14.5	12.1	12.1	11.9	13.1	13.6	15.8
United Kingdom	4.8	5.1	2.8	8.1	5.2	5.4	5.7	4.7	3.6
Subtotal	29.1	24.5	17.3	20.3	17.3	17.3	18.8	18.2	19.4
Austria	—	0.7	1.8	2.2	2.5	2.4	2.8	3.8	3.8
Belgium-Luxembourg	0.8	1.5	2.8	3.2	3.6	4.2	4.4	5.0	4.5
Denmark	0.1	0.3	0.5	0.7	0.8	1.1	0.8	0.7	0.8
France	0.8	2.3	5.0	7.6	9.2	7.4	7.2	10.8 [2]	8.4 [2]
Germany, Federal Republic of	0.2	7.0	13.6	17.2	21.9	27.5	26.5	26.5	30.0
Italy	0.7	3.3	5.4	6.3	5.6	5.3	5.7	4.1	5.7
Netherlands	0.5	1.9	3.2	3.5	4.4	5.4	5.7	6.1	6.4
Norway	0.1	0.3	0.8	1.1	1.2	1.3	1.6	1.9	1.9
Sweden	0.3	0.5	0.8	1.0	1.5	2.1	1.4	2.6	2.1
Switzerland	1.6	2.3	5.1	6.4	7.0	7.1	7.4	8.9	11.2
Subtotal, continental industrial Europe	5.2	20.1	39.0	49.1	57.7	63.8	63.4	70.4	74.8
Canada	1.8	2.0	4.7	5.3	5.6	4.8	4.8	4.5	5.0
Japan	0.6	1.9	4.8	14.1	16.9	10.2	11.0	10.9	14.3
Total, industrial countries	36.8	48.5	65.8	88.8	97.5	96.0	97.9	104.1	113.5
Primary producing countries									
More developed countries									
Other European countries [3]	1.5	2.3	5.6	8.0	11.7	13.4	12.4	11.2	11.8
Australia, New Zealand, South Africa	2.0	1.3	3.0	4.2	7.6	6.5	5.0	4.2	4.0
Subtotal, more developed primary producing countries	3.5	3.6	8.5	12.1	19.4	19.9	17.3	15.4	15.8
Less developed countries									
Major oil exporting countries [4]	1.3	2.3	5.0	7.8	10.0	12.1	38.4	48.3	56.1
Other less developed countries									
Other Western Hemisphere [5]	2.4	2.2	4.5	4.5	7.5	10.0	9.7	8.6	13.1
Other Middle East [6]	1.1	0.7	1.7	2.0	2.7	3.6	3.9	4.4	5.0
Other Asia [7]	3.7	2.7	5.8	6.3	7.8	8.8	10.5	11.2	16.1
Other Africa [8]	0.5	0.9	2.0	1.7	1.9	2.2	2.4	2.4	2.6
Subtotal, other less developed countries	7.7	6.6	13.9	14.5	19.9	24.5	26.5	26.6	36.7
Subtotal, less developed countries [9]	9.5	9.0	18.9	22.3	29.9	36.6	64.9	74.9	92.9
Total, primary producing countries	13.0	12.6	27.4	34.4	49.3	56.5	82.2	90.2	108.7
Total	49.7	61.2	93.2	123.2	146.8	152.6	180.2	194.3	222.1

Source: *International Financial Statistics.*

[1] Official reserves of Fund members except Romania, plus the Netherlands Antilles, Surinam, and Switzerland. In addition to the holdings covered in *IFS,* the figures for 1973 include official French claims on the European Monetary Cooperation Fund; those for 1950 and 1960 include amounts incorporated in published U.K. reserves in 1966 and 1967 from proceeds of liquidation of the U.K. official portfolio of dollar securities. Totals may not add to figures shown because of rounding and because some totals include unpublished data for component areas.

[2] The value of the official French and Italian reserve stocks, as shown in this table, differs from that published in official national statistics because, since January 1975 and December 1976, respectively, France and Italy have adopted systems of valuing gold based on market prices.

[3] Finland, Greece, Iceland, Ireland, Malta, Portugal, Spain, Turkey, and Yugoslavia.

[4] Algeria, Indonesia, Iran, Iraq, Kuwait, Libya, Nigeria, Saudi Arabia, Venezuela, and, beginning in 1966, Qatar, in 1970, Oman, and in 1973, the United Arab Emirates.

[5] Argentina, Bolivia, Brazil, Central America, Chile, Colombia, the Dominican Republic, Ecuador, Guyana, Haiti, Jamaica, Mexico, Panama, Paraguay, Peru, Surinam, Trinidad and Tobago, Uruguay, and, beginning in 1966, Barbados, and in 1968, the Bahamas and the Netherlands Antilles.

[6] Cyprus, Egypt, Israel, Jordan, Lebanon, the Syrian Arab Republic, and, beginning in 1965, the People's Democratic Republic of Yemen and Bahrain, and in 1973, the Yemen Arab Republic.

[7] Afghanistan, Burma, the Republic of China, Fiji, India, Korea, Lao People's Democratic Republic, Malaysia, Nepal, Pakistan, the Philippines, Singapore, Sri Lanka, Thailand, Viet Nam, Western Samoa, and, beginning in 1972, Bangladesh.

[8] African Fund members other than Algeria, Libya, Nigeria, and South Africa.

[9] Includes residual.

Table 12. Composition of Reserve Change, 1970–76 [1]

(In billions of SDRs)

	1970	1971	1972	1973	1974	1975	1976
Net annual transactions in reserves							
Gold							
Monetary gold	0.3	–0.1	0.2	—	—	—	–0.3
Gold transactions (acquisitions –) by IMF, BIS, and European Fund	–2.2	–1.0	–0.5	—	—	—	0.2
Countries' gold reserves	–1.9	–1.1	–0.3	—	–0.1	—	–0.1
Special drawing rights							
Allocation of SDRs	3.4	3.0	3.0	—	—	—	—
IMF holdings of SDRs (increase –)	–0.3	–0.2	–0.1	0.1	0.1	–0.1	–0.1
Countries' SDR holdings	3.1	2.8	2.8	0.1	0.1	–0.1	–0.1
Reserve position in the Fund							
Use of IMF credit	–0.8	–1.9	–0.3	–0.1	2.7	3.7	5.2
IMF gold transactions (inflow +)[2]	1.6	0.4	0.1	—	—	—	–0.1
IMF transactions in SDRs (inflow +)	0.3	0.2	0.1	–0.1	–0.1	0.1	0.1
IMF surplus (increase –)	–0.1	—	—	—	—	—	—
Reserve position in the Fund	1.0	–1.3	—	–0.2	2.7	3.8	5.1
Official foreign exchange holdings							
Official claims on the United States [3]	7.8	27.3	10.0	4.7	8.5	4.2	11.3
Other official claims	4.6	6.8	11.0	9.7	17.0	2.6	10.7
Official sterling claims on United Kingdom	*0.5*	*1.7*	*0.7*	*0.3*	*2.7*	*–1.1*	*–2.2*
Official deutsche mark claims on Federal Republic of Germany	*0.8*	*–0.4*	*0.1*	*–0.6*	*0.1*	*0.1*	*0.1*
Official French franc claims on France	*0.2*	*0.2*	*0.3*	*0.2*	*–0.2*	—	*–0.1*
Other official claims on other countries denominated in the debtor's own currency	. . .[4]	—	*–0.1*	*0.6*	*–0.4*	*1.4*	*0.7*
Foreign exchange claims arising from swap credits and related assistance	*–2.2*	*–0.7*	—	*0.4*	*1.2*	*–0.4*	*0.2*
Identified official holdings of Eurodollars [5]	*5.5*	*0.9*	*7.5*	*5.0*	*11.7*	*4.8*	*7.0*
Identified official holdings of other Eurocurrencies	. . .[4]	*0.7*	*2.1*	*1.8*	*0.1*	*1.4*	*–0.2*
Identified official claims on IBRD and IDA	*0.1*	—	—	*0.1*	*0.4*	*0.5*	*0.5*
Residual [6]	*–0.3*	*4.3*	*0.5*	*1.9*	*1.4*	*–4.1*	*4.6*
Total official foreign exchange holdings	12.4	34.1	21.1	14.3	25.5	6.8	22.0
Effect of valuation changes on stock of reserves [7]	—	–4.4	—	–8.5	–0.6	3.7	0.9
Total reserve change	14.6	30.0	23.5	5.8	27.6	14.2	27.8

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

[1] A difference for 1973 between these data and those published in *IFS* is noted in Table 11, footnote 1. Table 14 provides comparable stock data concerning official holdings of foreign exchange. Note, however, that in some years changes in outstanding stocks do not coincide with the estimated transactions values recorded here because of changes in the relationship between the currency of denomination and the SDR. Footnote 1 to Table 14 notes these cases.

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

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

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

[5] See Table 14 for more details concerning these Fund staff estimates.

[6] Table 14, footnote 4, provides details.

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

Table 13. Composition of Reserve Change by Area, 1976 [1]

(In billions of SDRs)

	Industrial Countries		Primary Producing Countries			
	United States	Other countries	More developed countries	Major oil exporting countries	Other less developed countries [2]	Total
Net transactions in reserves						
Gold	—	—	−0.2	0.1	—	−0.1
SDR holdings	0.1	—	−0.1	—	−0.1	−0.1
Reserve positions in Fund	1.9	2.2	—	1.1	−0.1	5.1
Official foreign exchange holdings [3]	0.2	4.4	0.5	6.6	10.3	22.0
Official claims on United States [4]	—	*3.1*	*0.3*	*1.4*	*6.5*	*11.3*
Official sterling claims on United Kingdom	—	—	*−0.2*	*−0.5*	*−1.5*	*−2.2*
Identified official holdings of Eurodollars	—	*0.8*	*−0.1*	*3.0*	*3.3*	*7.0*
Residual holdings of foreign exchange [5]	*0.2*	*0.4*	*0.5*	*2.7*	*2.0*	*5.9*
Effect of valuation changes on stock of reserves [6]	—	0.6	0.2	0.1	*0.1*	*0.9*
Total reserve change	2.2	7.2	0.4	7.8	10.2	27.8

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

[1] Table 12 provides more detailed information on the composition of changes in official reserves of all countries, including comparable data for earlier years.

[2] The transactions values of the components of foreign exchange shown for this group were derived as residuals and therefore include any omissions, errors, and asymmetries included in the transactions values estimated for the other groups.

[3] Area details are based on data provided by those holders of these claims that report this information to the Fund.

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

[5] More details of this residual are provided in Table 12.

[6] For explanation, see Table 12, footnote 7.

Table 14. Official Holdings of Foreign Exchange, by Type of Claim, End of Years, 1970–76 [1]

(In billions of SDRs)

	1970	1971	1972	1973	1974	1975	1976
Official claims on United States [2]	23.8	46.6	56.7	55.4	62.6	68.9	79.0
Official sterling claims on United Kingdom	5.7	7.3	8.1	6.5	8.3	6.4	3.2
Official deutsche mark claims on Fed. Rep. of Germany	1.3	1.0	1.1	0.6	0.8	0.9	1.1
Official French franc claims on France	0.6	0.8	1.0	1.2	1.1	1.1	0.9
Other official claims on countries denominated in the debtor's own currency	0.8	0.9	0.7	1.4	1.2	2.6	3.4
Official foreign exchange claims arising from swap credits and related assistance	0.7	—	—	0.4	1.6 [3]	1.3 [3]	1.5 [3]
Identified official holdings of Eurocurrencies							
Eurodollars							
Industrial countries	5.1	3.4	5.6	7.3	6.5	7.0	7.8
Primary producing countries							
More developed countries	1.6	1.7	3.2	3.4	3.0	3.8	3.7
Less developed countries	3.8	5.4	9.2	10.4	22.8	28.0	34.4
Western Hemisphere	*1.0*	*1.6*	*3.6*	*4.0*	*5.0*	*5.6*	*5.9*
Middle East	*0.6*	*1.1*	*1.9*	*2.3*	*12.0*	*16.9*	*19.6*
Asia	*1.1*	*1.1*	*2.0*	*2.7*	*3.0*	*3.5*	*6.0*
Africa	*1.1*	*1.6*	*1.7*	*1.3*	*2.8*	*2.0*	*3.1*
Memorandum item: Major oil exporting countries	1.6	2.8	3.9	4.0	15.6	21.0	24.1
Total identified Eurodollars	10.5	10.4	18.0	21.1	32.3	38.7	46.0
Other Eurocurrencies	0.4	1.1	3.2	5.0	5.6	6.8	7.0
Total identified holdings of Eurocurrencies	10.9	11.6	21.2	26.1	37.8	45.5	52.9
Identified claims on IBRD and IDA	0.7	0.6	0.6	0.6	0.9	1.6	2.1
Residual [4]	1.1	6.4	6.8	9.7	12.5	9.2	16.1
Total official holdings of foreign exchange	45.4	75.1	96.2	102.0	126.9	137.4	160.4

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

[1] Includes the estimated change in the level of holdings owing to the general realignment of currencies in 1971, the U.S. dollar devaluation in 1973, and the widespread floating of currencies since 1974.

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

[3] Comprises the double deposit arrangement between the Deutsche Bundesbank and the Bank of Italy.

[4] Part of this residual occurs because some member countries do not classify all the foreign exchange claims that they report to the Fund. It also includes asymmetries arising because data on U.S. and U.K. currency liabilities are more comprehensive than data on official foreign exchange as shown in *International Financial Statistics*.

Chapter 3
Activities of the Fund

The principal developments during the period under review were as follows:

- Progress by members in accepting the Proposed Second Amendment of the Articles of Agreement and preparations in the Fund for implementing them, including work on revising the Fund's By-Laws, Rules and Regulations, and general policy decisions.
- Agreement on the principles for the guidance of members with respect to their exchange rate policies and on procedures for Fund surveillance over those policies.
- Work on the establishment of a supplementary credit facility of a temporary nature that would enable the Fund to expand its financial assistance to those of its members that in the next several years will face payments imbalances that are large in relation to their economies and quotas in the Fund.
- Initiation of the Seventh General Review of Quotas, which is to be completed in February 1978.
- Consideration of the question whether a further allocation of SDRs would be advisable at the present time.
- A major review of the Fund's financial position and changes in the rates of charges paid by members for the use of the Fund's resources.
- Provision for the third successive year of a high level of balance of payments assistance to members, with extensive drawings under both the Fund's regular tranche policies and the compensatory financing facility.
- Enlargement of the General Arrangements to Borrow and activation of these arrangements in connection with drawings under stand-by arrangements made by two industrial countries.
- Initiation of gold sales, both to the market through auctions and for distribution to members.
- The initiation of operations by the Trust Fund, with loans to 12 member countries during the fiscal year.
- The approval of stand-by arrangements for members for periods of more than one year.

As in the previous year, the work by the Executive Directors on major policy matters was guided by the discussions and understandings reached in the meetings of the Interim Committee of the Board of Governors on the International Monetary System (the Interim Committee) and the Joint Ministerial Committee of the Boards of Governors of the Bank and the Fund on the Transfer of Real Resources to Developing Countries (the Development Committee). During the past fiscal year, both Committees held meetings in Manila in October 1976 and in Washington in April 1977. The communiqués and announcements issued after those meetings are reproduced in Appendix III.

Second Amendment of the Articles

On April 30, 1976 the Board of Governors adopted a Resolution approving the Second Amendment of the Fund's Articles. The Second Amendment will become effective when it has been accepted by three fifths of the members having four fifths of the total voting power. At the end of July 1977, the Second Amendment had been accepted by 45 members having 51.46 per cent of the total voting power.

By-Laws, Rules and Regulations, and General Decisions

In order to conform the Fund's By-Laws, Rules and Regulations, and general decisions with the new Articles, extensive revisions need to be made in these provisions. The Fund's staff and the Executive Directors have devoted much time to this work and substantial progress has already been made. It is expected that all necessary provisions will have been adopted by the Executive Directors, and, where required, by the Board of Governors by the time the amended Articles enter into force.

Surveillance over Exchange Rate Policies

During the latter half of 1976 and the early part of 1977, the Executive Board worked intensively on developing principles for the guidance of members with respect to their exchange rate policies and procedures for the Fund surveillance over those policies. This was in response to the provisions of Article IV of the amended Articles, which call for the Fund to "adopt specific principles for the guidance of members' exchange rate policies," and to exercise "firm surveillance" over these policies.[1] As expected, negotiation of these principles and procedures was difficult and time-consuming. After a series of meetings, however, during which varying positions were gradually reconciled, agreement was reached on a text without the need to refer unsettled issues to the Interim Committee. This set of principles and procedures was endorsed by the Interim Committee at its meeting in April 1977, and approved by the Executive Board immediately following this meeting.[2]

The principles for the guidance of members' exchange rate policies are aimed at (a) avoiding manipulation of exchange rates or the international monetary system in order to prevent effective balance of payments adjustment or to gain an unfair competitive advantage over other members, (b) countering disorderly short-term conditions in exchange markets, and (c) taking into account, in intervention, the interests of other members.

Somewhat more detailed are the principles that are to guide the Fund in its function of exercising surveillance over exchange rate policies. The provisions in this part of the decision indicate developments that might suggest the need for discussions between the Fund and members, and give some guidance as to how the Fund would set about its task of appraisal.

The text agreed by the Executive Board relates to the procedures to be followed by the Fund in its discussions with members on their exchange rate policies. Regular consultations are to take place under Article IV, and these will comprehend existing consultations under Articles VIII and XIV. In addition, procedures are established for discussions between the Managing Director and members, and for subsequent review by the Executive Board, of cases where the Managing Director considers that a member's exchange rate policies may not be in accord with the exchange rate principles.

[1] Article IV, Section 3(*b*).

[2] Executive Board Decision No. 5392-(77/63), adopted April 29, 1977 and reproduced in Appendix II.

The Sixth and Seventh General Reviews of Quotas

As noted in the 1976 Annual Report, the Board of Governors approved, effective March 22, 1976, a Resolution on Increases in Quotas of Members—Sixth General Review, under which the total of present quotas, amounting to SDR 29.2 billion, will be raised to SDR 39 billion, if all members consent to the full quota increases proposed for them in the Resolution. The texts of the Resolution and the Report of the Executive Directors on the Sixth General Review of Quotas were reproduced in Appendix II of the 1976 Report.[3]

The Board of Governors Resolution provided that the increase in a member's quota would not become effective unless the member had consented to the increase and had paid the quota in full and provided that no increase in quota would become effective "before (i) the effective date of the second amendment of the Articles or (ii) the date of the Fund's determination that members having not less than three fourths of the total of quotas on February 19, 1976 have consented to increases in their quotas, whichever is the later of these dates." As noted earlier in this chapter, the Proposed Second Amendment is in the process of being accepted by member governments; by the end of July 1977, 26 members accounting for 42.04 per cent of quotas on February 19, 1976 had consented to increases in quotas.

The Board of Governors Resolution on Increases in Quotas of Members—Sixth General Review provided that "the seventh general review of quotas shall be completed by February 9, 1978." At its eighth meeting held in Washington on April 28–29, 1977, the Interim Committee considered the main issues relating to the Seventh General Review of Quotas, and agreed that, in view of the expansion of members' international transactions and the need for the Fund to be able to give balance of payments assistance to members on a larger scale than would be available on the basis of quotas under the Sixth General Review, there should be an adequate increase in the total of quotas pursuant to the Seventh General Review. The Committee noted that on the question of distribution of quotas, one view was that in order to conclude the Seventh Review at an early date, increases should be equiproportional to the quotas that would result from the Sixth General Review. Another view, however, was that a few special adjustments should be made for those members whose quotas are seriously out of line with their relative positions in the world economy, and that in this connection some emphasis should be placed on increases

[3] Board of Governors Resolution No. 31-2. See *Annual Report, 1976,* pages 107–11.

that would strengthen the Fund's liquidity. The Committee urged the Executive Directors to pursue their work and to prepare a report, together with draft recommendations to the Board of Governors, on increases in the quotas of members under the Seventh General Review for consideration by the Committee at its next meeting.

The Executive Directors, following a preliminary discussion of the issue in their review of the adequacy of international liquidity, continued their discussion on the Seventh General Review of Quotas in June 1977.

Supplementary Credit Facility

At its meeting in Washington on April 28–29, 1977, the Interim Committee reviewed the international adjustment process and, among its conclusions, agreed that, given the persistence of large payments imbalances, substantial demands for the Fund's resources could be expected.

The Committee found good grounds for believing that expansion of the Fund's role as a financial intermediary could contribute significantly to promotion of international adjustment and to maintenance of confidence in the continued expansion of the world economy and in the effective functioning of the international financial system. After reviewing developments in international liquidity and in the financial activities and resources of the Fund, the Committee recognized that there was an urgent need for a supplementary facility of a temporary nature that would enable the Fund to expand its financial assistance to those of its members that in the next several years will face payments imbalances that are large in relation to their economies and quotas in the Fund.

The Committee set out the main features of this supplementary facility as follows:

(a) The Fund would establish substantial lines of credit in order to be able to assist members to meet their needs for supplementary assistance.

(b) Access to assistance under the supplementary facility should be available to all members and should be subject to adequate conditionality, and such assistance should normally be provided on the basis of a stand-by arrangement covering a period longer than one year.

(c) The Fund should pay interest on amounts borrowed under the lines of credit at market-related interest rates, and charges by the Fund for the use by members of resources borrowed by it under these lines of credit should be based on these rates. The possibility of a subsidy related to the rates of charge that would be payable by low-income countries should be explored.

(d) The claims of lenders under the supplementary facility should be appropriately liquid.

In welcoming the willingness of a number of countries in a position to lend to the Fund to collaborate with it on arrangements for supplementary credit, the Committee urged the Managing Director to complete, as soon as possible, his discussions with potential lenders on terms and conditions and amounts. It further requested the Executive Directors to take the necessary steps for making the supplementary facility operative as soon as possible.

Since this meeting of the Interim Committee, the Executive Directors have given further consideration to these matters with a view to completing the terms and conditions for the establishment of such a supplementary facility at an early date.

Special Drawing Account

Overall activity in the Special Drawing Account remained at a high level during 1976/77 with total use of special drawing rights (SDRs) by participants amounting to SDR 1,241 million, compared with last year's record of SDR 1,285 million. Nearly two thirds, or SDR 805 million, of this total was accounted for by transfers to the Fund's General Account mainly in payment of charges on the use of the Fund's resources and a small amount in repurchases. Outflows from the General Account, largely to promote reconstitution, fell to SDR 495 million, and as a consequence the General Account's holdings of SDRs increased to SDR 771 million at the end of April 1977, compared with SDR 461 million on April 30, 1976.

Transfers of SDRs between participants in transactions with designation amounted to SDR 119 million, which was the lowest level since 1973/74. However, there was a marked increase to SDR 317 million (from SDR 176 million) in transactions by agreement between participants. This increase reflected, in part, the preference of participants for obtaining SDRs for reconstitution from other participants rather than from the General Account following the Executive Board decision in August 1976, which prescribed that participants could engage in transactions by agreement for certain purposes and be exempt from the requirement of need.[4] These latter transactions, which include those that bring holdings closer to net cumulative allocations, aggregated SDR 211 million by June 30, 1977.

Transfers of SDRs during the fiscal year resulted in a decline of SDR 132 million in the holdings of the industrial countries and of SDR 178 million in the

[4] Executive Board Decision No. 5185-(76/128) S, adopted August 25, 1976 and reproduced in Appendix II.

total holdings of other developed and developing countries. The distribution of holdings on April 30, 1977 shows that the industrial countries have recorded a net receipt of SDR 716 million over their net cumulative allocations, while the nonindustrial countries made a net use of SDR 1,487 million. The balance of SDR 771 million is accounted for by the holdings of the Fund's General Account.

Allocations of SDRs and the Basic Period

No allocation of SDRs was made during the fiscal year. The total of SDRs in existence therefore remains unchanged at SDR 9,314.8 million. The calendar year 1977 is the last year of the second basic period that began on January 1, 1973, and the Articles of Agreement require that the Managing Director must submit to the Board of Governors, not later than six months before the end of each basic period (i.e., by June 30, 1977 in respect of the current period), a proposal with respect to the allocation of special drawing rights in the next basic period. If he ascertains that there is no proposal consistent with the Articles that has broad support among participants, he must report that to the Board of Governors and to the Executive Directors.

The Interim Committee of the Board of Governors announced on April 29, 1977 that it had considered the question of whether a further allocation of SDRs would be advisable at the present time. The Committee noted that the Executive Directors had been discussing this question and agreed to request them to give further consideration to all aspects of the matter and to report to the Committee at its first meeting in 1978. The Committee also agreed to request the Executive Directors to review the characteristics and uses of the SDR so as to promote the purposes of the Fund, including the objective of making the SDR the principal reserve asset in the international monetary system.

On June 29, 1977 the Managing Director, after consulting with the Executive Directors, reported to the Board of Governors that there was no proposal for a new allocation that he considered to be consistent with the provisions of the Articles that had broad support among participants.[5]

Transactions with Designation

The use of SDRs in transactions with designation continued to decline and reached the lowest level since 1973/74. Seven participants used a total of SDR 119 million in transactions with designation, compared with eight participants using SDR 292 million in this way in 1975/76. This sharp decline reflected the low holdings of many participants, the need to maintain or restore SDR holdings to meet the rules of reconstitution, and the need to use SDRs for other purposes, particularly for the payment of charges to the General Account. More than two thirds of the total amount of designated transactions during the fiscal year was accounted for by one participant, Mexico, which used SDR 83 million in two transactions. Eleven participants were designated to provide currency in exchange for SDRs; over 80 per cent of the total amount was provided by France, India, and the United States. Designated participants provided the equivalent of SDR 61 million in U.S. dollars and the equivalents of SDR 35 million in French francs, SDR 21 million in pounds sterling, and SDR 2 million in deutsche mark. Of the amounts provided in currencies other than U. S. dollars, a total equivalent to SDR 38 million was converted into U. S. dollars to meet requests of participants using SDRs. Details of the designated transactions are shown in Table 15.

Table 15. Use and Receipt of SDRs in Transactions with Designation, Fiscal Year Ended April 30, 1977
(In thousands of SDRs)

Participant	Use	Receipt
Colombia	—	5,000
Dominican Republic	1,000	—
France	—	35,000
Gambia, The	1,500	—
India	—	20,298
Indonesia	—	2,000
Iran	—	4,500
Jamaica	4,500	—
Korea	—	2,000
Mexico	83,298	—
Nicaragua	—	1,000
Spain	—	5,000
Trinidad and Tobago	—	1,500
United States	—	40,500
Viet Nam	19,000	—
Yugoslavia	—	2,000
Zaïre	8,000	—
Zambia	1,500	—
Total	118,798	118,798

Transactions by Agreement

Transactions by agreement between participants increased significantly, from SDR 176 million in 1975/76 to SDR 317 million during the past fiscal year. Of this total, SDR 164 million was used by Belgium and the Federal Republic of Germany in two transactions in settlement of obligations arising from foreign exchange market interventions under the European common margins arrangement. The remaining amount of SDR 153 million was accounted for by transfers of SDRs under an Executive Board decision that, as indicated earlier, permitted certain transactions by agreement between participants without the require-

[5] The full text of the report by the Managing Director is reproduced in Appendix II.

ment of need. The transactions permitted are those that promote reconstitution of recipients' holdings of SDRs and those that bring the holdings of the participants undertaking the transactions closer to their net cumulative allocations. The principal user under this decision was the Federal Republic of Germany, which transferred SDR 134 million in 23 transactions during the fiscal year. While technically the amount involved in these transactions was divided almost evenly between those to promote reconstitution and those to bring holdings closer to net cumulative allocations, all of the 19 participants receiving SDRs had a need to reconstitute their holdings or would soon have had such a need had these acquisitions not taken place. Since all but one of the participants transferring SDRs had holdings above their allocations and all the recipients had holdings below their allocations, these transactions contributed directly to a more balanced distribution of SDRs among participants. Details of all transactions by agreement are shown in Table 16.

Table 16. Use and Receipt of SDRs in Transactions by Agreement, Fiscal Year Ended April 30, 1977

(In millions of SDRs)

Participant	Use	Receipt
Belgium	165.9	—
Burma	—	1.1
Canada	6.3	—
Chile	—	26.5
Costa Rica	—	3.7
Denmark	—	8.3
El Salvador	—	2.0
Germany, Fed. Rep. of	142.0	155.4
Ghana	—	4.8
Greece	—	7.2
Israel	—	10.0
Ivory Coast	2.7	—
Jamaica	—	3.0
Korea	—	11.9
Liberia	—	0.04
Madagascar	—	1.3
Mexico	—	45.8
Peru	—	2.8
Senegal	—	2.7
Sudan	—	4.3
Tanzania	—	3.3
Turkey	—	16.3
Yugoslavia	—	3.5
Zambia	—	2.9
Total	317.1	317.1

Transactions and Operations Between Participants and the General Account

As noted earlier, transactions and operations between participants and the General Account again constituted by far the largest category of use of special drawing rights during the fiscal year. Total inflow of SDRs to the General Account was SDR 805 million, almost equal to the amount of SDR 817 million in 1975/76. While one half of the last year's total was due to a single repurchase by the United Kingdom, nearly 90 per cent (SDR 709 million) of the total inflow in 1976/77 was in the form of charges paid to the General Account and reflected large-scale use of the Fund's resources. Other transfers to the General Account were repurchases (SDR 73 million), interest on the Fund's holdings of SDRs (SDR 23 million), and reimbursement of the expenses of conducting the Special Drawing Account (SDR 1 million).

A total of SDR 495 million was transferred during the fiscal year to participants from the General Account, compared with SDR 865 million transferred in 1975/76; the latter figure included a single purchase of SDR 396 million by the United Kingdom to offset the effect of a repurchase in the same amount, as mentioned earlier, on the same day. Transfers of SDRs to promote reconstitution of participants' holdings of SDRs totaled SDR 445 million, purchases from the General Account amounted to SDR 25 million, the payment of remuneration SDR 24 million, and interest and transfer charges on Fund borrowing under the General Arrangements to Borrow (SDR 0.2 million) accounted for the remaining transfers. Three participants purchased a total of SDR 3 million under a decision of the Executive Board adopted in March 1977 under which participants may acquire SDRs as part of purchases from the General Account and use them, if they wish, in transactions with designation.[6] Total purchases under this decision amounted to SDR 89 million up to the end of June 1977, of which SDR 54 million was used in transactions with designation.

The net effect of all transactions and operations during the fiscal year was to increase the Fund's holdings of SDRs by SDR 310 million, to SDR 771 million on April 30, 1977, the highest level at the end of any fiscal year since 1971/72.

Reconstitution

The rules for reconstitution require participants to maintain, over successive five-year periods ending in calendar quarters, their average holdings of SDRs at not less than 30 per cent of average net cumulative allocations. All participants except Cambodia, with which the Fund has not been able to communicate, met the rules of reconstitution during the fiscal year.

As mentioned earlier, participants acquired SDRs for reconstitution both from the General Account (39 participants for amounts totaling SDR 445 million) and from other participants in transactions by agreement

[6] Executive Board Decision No. 5355-(77/36) G/S, adopted March 15, 1977 and reproduced in Appendix II.

Table 17. Acquisitions of SDRs for Reconstitution from the Fund's General Account, January 1, 1972–April 30, 1977

(In millions of SDRs)

	Jan. 1, 1972–Apr. 30, 1972		Fiscal Years Ended April 30: 1973		1974		1975		1976		1977		Total Jan. 1,1972–Apr. 30, 1977	
	Number of Transactions	Amount	Number of Transactions	Amount	Number of Transactions	Amount	Number of Transactions	Amount	Number of Transactions	Amount	Number of Transactions	Amount	Number of Transactions	Amount
Against currency acceptable to Fund	4	13.7	34	71.5	64	112.8	70	95.6	88	293.0	93	401.8	353	988.4
In purchases	3	32.7	9	35.7	9	44.4	5	21.5	9	111.2	10	43.4	45	288.9
Total	7	46.4	43	107.2	73	157.2	75	117.1	97	404.2	103	445.2	398	1,277.3

(19 participants for amounts totaling SDR 153 million). Of the amounts acquired from the Fund, SDR 402 million was acquired against currencies acceptable to the Fund and SDR 43 million as part of members' purchases from the General Account. (See Table 17.)

The continued growth in the volume of transactions for the purpose of reconstitution is explained mainly by the increased use of SDRs in transfers to the General Account, in particular for the payment of charges. For many participants, the need to obtain SDRs for reconstitution arose at regular intervals following their use of SDRs for payment of charges. To reduce the inconvenience of frequent acquisitions necessitated by payment of charges or repurchases, the maximum amount of SDRs that a participant may acquire in any month for reconstitution was increased by a decision of the Executive Board redefining the maximum amount to include the total amount of any charges paid to the General Account and any repurchase obligations in SDRs to be discharged prior to the next monthly calculations.[7] Details of acquisitions of SDRs from the General Account are shown in Table 17.

BIS as a Holder of SDRs

As in preceding years, during 1976/77 there were no transactions in SDRs between the Bank for International Settlements (BIS) and participants. The Board of Governors Resolution under which the BIS was prescribed as a holder of special drawing rights provided for the Resolution to be reviewed at least once every three years. Accordingly, the Executive Directors conducted a review of the Resolution in January 1977 and proposed no change.

Valuation of SDR, Its Interest Rate, and the Rate of Remuneration

In June 1976, the Executive Directors completed a review of the valuation of the SDR, the rate at which the Fund pays remuneration on super gold tranche positions,[8] and the rate of interest on the SDR. As a result of the review, no change was made in the method of valuation of the SDR that was announced on June 13, 1974. The change in Rule I-10 so as to make the rate of remuneration and the SDR interest rate more responsive to variations in market interest rates was described in last year's Annual Report [9] and is also dealt with below in relation to the rate of remuneration. The decision on the rate of remuneration and the interest rate on the SDR will have to be reviewed no later than three years after June 30, 1976.

Transactions and Operations in the General Account

The large-scale expansion in use of the Fund's resources, which began in 1974/75, continued for the third consecutive year. Gross purchases amounted to SDR 4.9 billion in 1976/77, about 25 per cent below the level of the previous fiscal year, but the third highest total in the Fund's history. In 1976/77 a record volume of purchases—45 per cent of the total—fell in the credit tranches; the sharp decline in purchases under the oil facility (which was terminated in May 1976) was partly compensated for by a doubling of the amount of purchases under the Fund's compensatory financing facility, which had been liberalized in December 1975. The evolving pattern in the use of the Fund's resources in recent years is shown in Table 18 and Chart 13. As in previous years, the volume of repurchases, at SDR 0.9 billion, was relatively low, reflecting not only the modest use of the Fund's resources in the period 1972–74 but also the relatively large amount of repurchases that was incurred under Article V, Section 7(*b*), as of April 30,

[7] Executive Board Decision No. 5167-(76/120) G/S, adopted August 2, 1976 and reproduced in Appendix II.

[8] A member's super gold tranche is the extent to which the Fund's holdings of that member's currency are below 75 per cent of its quota.

[9] See *Annual Report, 1976,* pages 49–50.

Table 18. Flow of Transactions in the General Account and Resulting Stocks, Fiscal Years Ended April 30, 1973–77

(In millions of SDRs)

Type of Transaction	Fiscal Year Ended April 30 1973	1974	1975	1976	1977
Total purchases	1,175	1,058	5,102	6,591	4,910
Gold tranche	641	607	981	1,324	161
Credit tranche	323	239	1,604	461	2,370
Buffer stock	5	—	—	5	—
Compensatory financing	206	212	18	828	1,753[1]
Extended facility	—	—	—	8	190
Oil facility	—	—	2,499	3,966	437
Total repurchases	540	672	518	960	868
Gold sales for replenishment	—	—	—	—	411
In connection with auctions	—	—	—	—	201
For distribution	—	—	—	—	210
Outstanding borrowings					
In connection with oil facility	—	—	2,499	6,465	6,702
Under the General Arrangements to Borrow	—	—	—	—	911
From Swiss National Bank	—	—	—	—	89
Holdings of the General Account					
Usable currencies[2]	5,200	7,500	10,100	7,200	4,500
SDRs	617	499	510	461	771
Gold	5,370	5,370	5,370	5,370	4,959

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

[2] A currency is considered to be usable by the Fund in its regular transactions when the member issuing the currency is judged to have a sufficiently strong balance of payments and reserve position and has made arrangements with the Fund for such use. The holdings of usable currencies are those currencies included in the currency budget as of April 30, adjusted for working balances and further adjusted if a member was in a debtor position at the time.

1976 and that would normally have been discharged in 1976/77 but was delayed until May 1977. On April 30, 1977, the amount of purchases subject to repurchase amounted to SDR 16 billion—the equivalent of 55 per cent of present quotas.

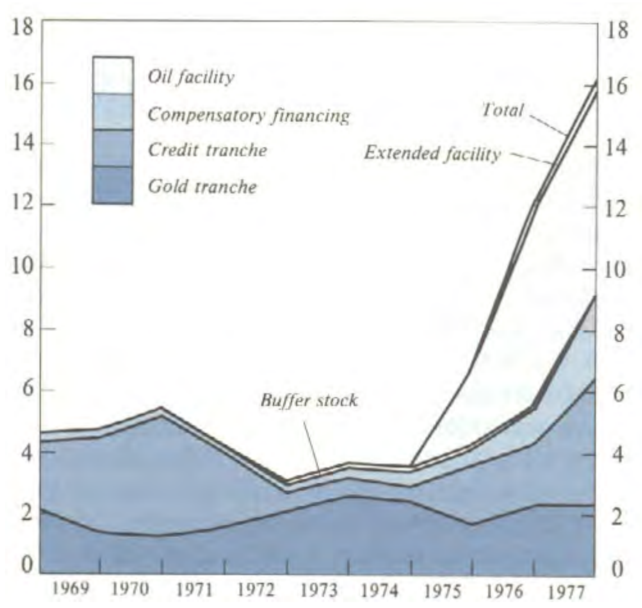
The unprecedented increase in use of the Fund's resources in the past three years has had an important financial impact on the Fund and on members. As one means of financing the increase in demand, the Fund has almost doubled the number of currencies it uses in its transactions, thereby spreading the financing of Fund transactions more widely among its membership. To the same end, the Fund has borrowed during the past three years over SDR 8 billion from 18 members and Switzerland. Indeed, during 1976/77, 93 members (71 per cent of the total membership) engaged in transactions with the Fund, with 55 members using the Fund's resources while currencies of 38 members were used from holdings or were borrowed for the financing of transactions.[10]

As in the previous two fiscal years, the reduction in the Fund's liquidity continued during 1976/77. The volume of usable currencies fell by about one third, to about SDR 4.5 billion at the end of the fiscal year, despite the additions to the Fund's list of currencies for sale and the replenishment of the Fund's holdings of usable currencies by sales of gold, amounting to the equivalent of SDR 411 million in connection with its gold sales program. The Fund's holdings of SDRs

[10] Ecuadoran sucres were sold by the Fund before Ecuador purchased its gold tranche.

Chart 13. Use of Fund's Resources as at April 30, 1968–77

(In billions of SDRs)



increased sharply, owing mainly to the increased amount of charges paid to the General Account. During the year the Fund borrowed a further SDR 1,437 million, of which SDR 437 million was under the oil facility and the balance under the General Arrangements to Borrow and from the Swiss National Bank. The relatively low level of usable currencies held by the Fund is also partly explained by the fact that the quota increases approved under the Sixth General Review of Quotas have not yet come into effect while at the same time the credit tranches have been enlarged until the date of the Second Amendment of the Articles, in accordance with the agreement reached by the Interim Committee at its meeting in Jamaica in January 1976.[11]

Taking into account the volume of loan claims outstanding, which represent Fund borrowing under the oil facility and under the General Arrangements to Borrow, members' reserve positions in the Fund amounted to SDR 18.5 billion on April 30, 1977 and accounted for almost 9 per cent of members' official external reserves as of that date, compared with 4 per cent three years earlier.

Gold Tranche Purchases

Purchases in the gold tranche declined markedly during the fiscal year ended April 30, 1977, reflecting in part the ending of purchases under the oil facility, which required prior use by members of the gold tranche. During the fiscal year, of the 10 members that made gold tranche drawings, 7 subsequently made use of Fund credit. The Federal Republic of Germany made purchases totaling the equivalent of SDR 8.34 million in connection with the settlement of liabilities under the European common margins arrangement. Bahrain and the Syrian Arab Republic also made gold tranche purchases during the year but did not make further use of the Fund's resources.

Credit Tranche Purchases and Stand-By Arrangements

During the fiscal year, drawings in the credit tranches totaled the equivalent of SDR 2.37 billion, the largest amount ever drawn in the credit tranches in any one year. Of this total, 4 members made credit tranche purchases not under stand-by arrangements totaling SDR 160 million, about the same amount as last year.

Of the SDR 2.2 billion of purchases made under stand-by arrangements during the year, all but SDR 500 million was accounted for by two drawings by the United Kingdom, the first for SDR 700 million in May 1976 and the second for SDR 1 billion in January 1977. A further 12 members drew the remainder, of which the largest drawings were by Argentina (SDR 159.5 million), South Africa (SDR 89 million), and Zaïre (SDR 40.96 million). In the preceding fiscal year, only SDR 304 million had been purchased under stand-by arrangements.

The amount of purchases under stand-by arrangements in a fiscal year may not be closely related to the amounts approved under stand-by arrangements, since the period of the stand-by arrangement may not coincide with the fiscal year and new arrangements may span one or more fiscal years. In 1976/77 the Fund approved 19 stand-by arrangements totaling the equivalent of SDR 4.68 billion, the largest amount ever approved in any one fiscal year. About 80 per cent of this total (SDR 3,810 million), represented stand-by arrangements for two industrial countries—the United Kingdom (for SDR 3.36 billion) and Italy (for SDR 0.45 billion). With one exception, South Africa, the remaining stand-by arrangements were for developing countries.

The arrangements for the United Kingdom and Italy approved purchases which would, if the arrangements were fully utilized, raise Fund holdings of these members' currencies to 245 per cent of quota, which is in accordance with the decision to enlarge the size of each credit tranche.[12] Both stand-by arrangements were approved for a period in excess of 12 months; the arrangement for the United Kingdom, approved in January 1977, was for two years, and that for Italy, approved in April 1977, for 20 months ending on December 31, 1978.

The remaining stand-by arrangements approved during the fiscal year were for 12-month periods, except for one of 10 months and one of 6 months; ten arrangements provided for drawings in the enlarged first credit tranche; five arrangements approved drawings in the enlarged second credit tranche; and two arrangements approved drawings in the enlarged third and fourth credit tranches.

As can be seen from Table 18, total credit tranche drawings have accounted for only 27 per cent of total use of the Fund's resources since the rapid expansion in Fund activity from the beginning of the year 1974/75. Of this total, 16.3 per cent (SDR 2.7 billion) has been accounted for by drawings by two industrial countries (Italy and the United Kingdom), 3.3 per cent by the more developed primary producing countries, and the remainder by the developing countries. The relatively large-scale use of the Fund's resources by the developing countries has been concentrated mainly in the oil facility and under the liberalized compensatory financing facility. The pattern of drawings made under various facilities during 1976/77 is shown in Appendix I, Table I.6.

[11] See *Annual Report, 1976,* page 103.

[12] See *Annual Report, 1976,* pages 50 and 51.

Purchases Under the Compensatory Financing Facility

Members' use of the compensatory financing facility for 1976/77 doubled from the previous year, to SDR 1,753 million. At the end of April 1977, total purchases outstanding under the facility reached an unprecedented high of SDR 2,666 million, compared with SDR 1,208 million at the end of the previous year. The rapid expansion in use of the facility during the year was not only a reflection of the adverse impact on commodity prices of the widespread recession in economic activity, particularly in the industrial countries, but also of the liberalization of the facility, which increased a country's maximum entitlement in terms of quota, eliminated the upper forecasting limit, and permitted export shortfall data to be estimated for up to six months of the shortfall year.[13]

Since the amendment of the facility in December 1975 through the fiscal year ended April 30, 1977, purchases totaled SDR 2,360 million, representing 53 purchases by 47 members. During 1976/77, 35 members made use of the facility in 39 transactions.

The largest purchase, for the equivalent of SDR 332.5 million, was made by Australia. Five members made purchases in the range of SDR 90–185 million—Egypt (SDR 94 million), Malaysia (SDR 93 million), Mexico (SDR 185 million), New Zealand (SDR 99.5 million), and South Africa (SDR 160 million). At the end of April 1977 outstanding purchases by three members—Jamaica, New Zealand, and Zambia—amounted to 75 per cent of their quotas, which is the maximum amount that may be outstanding under this facility. Reclassification of purchases within 18 months after the date of the original purchase was approved for three members that had made purchases in the credit tranches.

The decision adopted in December 1975 required the Fund to review the provisions of the compensatory financing facility not later than March 1977, and when drawings under the facility had reached certain quantitative limits. After a review of the facility in May 1976,[14] the Executive Directors decided that no change in the provisions was necessary. The Executive Directors again reviewed the facility in March 1977 in view of the continued large volume of purchases, which had reached a total of SDR 2.35 billion at the end of January 1977. The Executive Board again decided that no change in the provisions was necessary and agreed to review the facility again before March 31, 1979, if drawings under it exceed SDR 1.5 billion in any 12-month period or if outstanding purchases exceeded SDR 4 billion. Commodity prices improved during the calendar year 1976, and following the relatively heavy use of the facility by some countries in that period, purchases under the facility fell to SDR 120 million in the first 6 months of 1977, against purchases amounting to SDR 953 million in the corresponding period of 1976.

[13] These changes in the compensatory financing decision were described in detail in *Annual Report, 1976*, pages 52–53.

[14] See *Annual Report, 1976*, page 53.

Extended Fund Facility

Only three members have entered into extended arrangements with the Fund since the extended facility was established in September 1974. In October 1976, the Fund approved a three-year extended arrangement for Mexico, effective January 1, 1977, for SDR 518 million, the maximum amount (140 per cent of quota) permitted under the facility. This arrangement, together with a purchase in the extended first credit tranche (SDR 134 million), was in support of an economic program for the short term and medium term intended to bring about an improvement in real economic growth and to reduce inflationary pressures. In February 1977, Mexico purchased the equivalent of SDR 100 million under the arrangement. The only other purchase under the extended facility during 1976/77 was made by the Philippines in September 1976, for the equivalent of SDR 90 million, in connection with its three-year arrangement for SDR 217 million. After the initial purchase of SDR 7.7 million in August 1975, Kenya made no further purchases under its arrangement for SDR 67.2 million, approved in July 1975, in view of the marked improvement in its balance of payments and reserve position. The comparatively small use made so far of the extended Fund facility reflects the relatively short period of time that has elapsed since the facility was established and the fact that members have been able to meet a substantial part of their needs for balance of payments financing from the Fund's other facilities, in particular, the oil facility and the compensatory financing facility.

Buffer Stock Facility

On July 1, 1976, the Fifth International Tin Agreement providing for the operation of an international tin buffer stock provisionally entered into effect for a period of five years. It replaced the Fourth International Tin Agreement, which expired on June 30, 1976.

On the basis of their examination, Executive Directors concluded that the terms of the Fifth Agreement were consistent with the requirements considered appropriate to international commodity agreements for which the Fund's financial assistance may be requested. On June 23, 1976, the Executive Directors decided that the Fund would meet members' requests for financial assistance up to the full amount of their compulsory contributions to the buffer stock to be established under the new Agreement.[15]

In view of the improvement of the world price for tin, the manager of the tin buffer stock made no calls on participants other than in respect of their initial compulsory contributions, so that there was no need for financial assistance from the Fund under this facility.

On April 23, 1973, the Executive Board permitted purchases under the buffer stock facility in connection with members' loans to the International Cocoa Council, provided that the use of the Fund's resources was solely for the purpose of the acquisition by the Council of cocoa stocks, other than stocks involved in diversion to nontraditional uses. In view of the high market price for cocoa during the past year, no use has been made so far of this facility.

Oil Facility

As noted in last year's Annual Report, the oil facility was terminated in March 1976;[16] final purchases were made under the facility in the first half of May 1976 by 15 members for the equivalent of SDR 437 million. These purchases were financed by borrowings from 7 lenders, thereby utilizing the remaining amounts available under the borrowing agreements made in connection with financing transactions under the oil facility.[17] Over half of the amount was purchased by 3 countries: SDR 115 million by Finland, SDR 91 million by Turkey, and SDR 56 million by Yugoslavia. The remaining SDR 174 million was purchased by 12 developing countries. Total borrowings made in connection with the oil facility amounted to SDR 6.9 billion.

Repurchases

The volume of repurchases effected during the fiscal year 1976/77 was SDR 868 million, almost SDR 100 million less than in the previous year. The decline in repurchases reflected the low level of purchases in 1973/74, which had been the lowest in a decade, and also the fact that members' balance of payments and reserve positions had not improved sufficiently to induce members to make advance repurchases on any considerable scale. A contributory factor to the low level of total repurchases was an administrative delay in the discharge of obligations incurred under Article V, Section 7(*b*), that lasted until after the end of the fiscal year. The delay was caused by a change in the Fund's practices regarding the order in which holdings of currency acquired by the Fund as a result of members' purchases may be reduced. If these delayed repurchase obligations had been discharged within the fiscal year, the total of repurchases would have risen to over SDR 1.1 billion.

Slightly less than one third of the total of repurchases made during the year (SDR 232 million) was repurchased in accordance with schedules of repurchase approved by the Fund that provided in each case for repurchase within five years from the date of purchase. A total of SDR 199 million was paid in discharge of obligations incurred under Article V, Section 7(*b*), of the Fund Agreement,[18] of which SDR 127 million and SDR 38 million related to obligations incurred as of April 30, 1974 and April 30, 1975, respectively. The remainder (SDR 34 million) was in discharge of obligations incurred as of April 30, 1976. (See Appendix I, Table I.7.)

The Executive Board agreed to the requests of seven members to schedule their repurchases totaling SDR 286 million over periods of up to five years from the date of purchase.

Three members made repurchases in advance of the latest date on which these were due. India repurchased SDR 230 million (26 per cent of the total), of which SDR 30 million was with respect to a drawing in the first credit tranche that it had made in 1974 and the balance was in respect of India's 1974 oil facility purchase. The Fund repaid an equivalent amount to Iran, Saudi Arabia, and Venezuela in respect of loans that had been used to finance the purchases by India. South Africa repurchased the equivalent of SDR 75 million with respect to a purchase under its then current stand-by arrangement and thereby augmented its drawing rights under the arrangement; this repurchase had the effect of discharging *pro tanto* a repurchase obligation incurred under Article V, Section 7(*b*). Malaysia repurchased the equivalent of SDR 85.7 million with respect to its compensatory financing purchase made in 1976.

The Executive Board agreed that four members—Chile, Korea, the Philippines, and Uruguay—could postpone the discharge of repurchase obligations incurred in gold under Article V, Section 7(*b*). These purchases, which totaled SDR 11 million, were subject

[15] Executive Board Decision No. 5127-(76/191), adopted June 23, 1976 and reproduced in Appendix II.

[16] See *Annual Report, 1974,* pages 52–53; *Annual Report, 1975,* pages 53–54; and *Annual Report, 1976,* pages 53–54.

[17] See *Annual Report, 1976,* Appendix I, Table I.16, page 91.

[18] Article V, Section 7(*b*), provides that, subject to certain limitations, a member shall repurchase an amount of the Fund's holdings of its currency equivalent to one half of any increase in the Fund's holdings of its currency that has occurred during the Fund's financial year, plus one half of any increase, or minus one half of any decrease, in the member's monetary reserves during the same period, or, if the Fund's holdings of the member's currency have decreased, one half of any increase in the member's monetary reserves minus one half of the decrease in the Fund's holdings of the member's currency.

to review not later than December 31, 1977, and brought to SDR 35 million the amount of obligations incurred in gold that has been postponed since the fiscal year ended on April 30, 1973. In connection with these postponements, payments in SDRs have been made by members in amounts equal to their obligations payable in gold.

As noted earlier, the Executive Board endorsed a change in the Fund's practices regarding the attribution of reductions in the Fund's holdings of a member's currency resulting from the discharge of repurchase obligations under Article V, Section 7(*b*), and from sales by the Fund. Hitherto, reductions resulting from the discharge of a repurchase obligation that could not be identified as being in respect of a particular purchase and reductions resulting from sales of a member's currency were attributed to the member's purchase carrying the earliest maturing repurchase commitment. However, if a member made a repurchase in advance of the date on which its Article V, Section 7(*b*), repurchase obligation was established, it was free to attribute the resulting reduction in the Fund's holdings of its currency to any purchase that it desired. To put all members on an equal footing, and also to take into account members' desires to execute a choice of the repurchases that they might wish to discharge because of the introduction of new facilities for a member's use of the Fund's resources, which have different periods of use and rates of charge, the Executive Directors agreed to allow a member to specify the purchase to which it wishes to attribute the reduction in the Fund's holdings of its currency resulting from the discharge of an Article V, Section 7(*b*), repurchase obligation or a sale of the member's currency by the Fund.[19] If a member's attribution of a repurchase is in respect of purchases for which the Fund has borrowed and the attribution is different from the original practices then the Fund is to consult with the lenders to accept the new attribution; otherwise, repayment is to be made in accordance with the original schedule. If there has been recourse to the General Arrangements to Borrow, the matter is to be brought back for decision at the Executive Board.

Use of Currencies in Fund Transactions

During the past fiscal year, significant progress was made by the Fund in extending the list of usable currencies, thereby adding to the Fund's potential liquidity. On April 30, 1977, a total of 101 members had completed arrangements for the use of their currencies in Fund transactions when their balance of payments and reserve positions are considered sufficiently strong. Consequently, the Fund was able to increase the number of currencies in the currency budget during the year. Among the currencies of members in a creditor position included for the first time in the currency budget were the Colombian peso, Guatemalan quetzal, Luxembourg franc, Nigerian naira, Paraguayan guaraní, Saudi Arabian riyal, and Yemen rial. The Fund also included in the currency budget some currencies of members in a debtor position, i.e., currencies of which the Fund's holdings were in excess of 75 per cent of the member's quota. A sale of currency held above that level would reduce the member's indebtedness to the Fund; some of the currencies of members in a debtor position included in the currency budget for the first time were the Cyprus pound, Salvadoran colón, Nicaraguan córdoba, Papua New Guinea kina, Upper Volta CFA franc, and Uruguayan new peso.

Notwithstanding the additional currencies that the Fund was able to use in sales to members and the replenishment of its usable currency holdings through sales of gold for distribution and in connection with gold auctions, the continued heavy use of the Fund's resources resulted in a further net reduction in its holdings of usable currencies. Furthermore, some currencies that had previously been included in the currency budget were excluded during the year because of a weakening of these members' reserves and balance of payments positions.

On April 30, 1977, the aggregate amount of usable currencies was about SDR 4.5 billion, compared with SDR 7.2 billion at the end of the previous fiscal year and about SDR 10 billion on April 30, 1975. About three fifths of the decline (SDR 1,521 million) was accounted for by a decrease in the Fund's holdings of U. S. dollars. Nevertheless, the Fund's holdings of U. S. dollars still represented almost 60 per cent of the Fund's holdings of usable currencies on April 30, 1977. In addition, six creditor members' currencies aggregated SDR 1.9 billion, or 37 per cent of total holdings of usable currencies. Thus, the Fund's holdings of seven creditor members' currencies totaled about 90 per cent of the currencies available for use at the end of the fiscal year. Holdings of other usable currencies were low in absolute amounts and their use was limited by the need to preserve a minimum working balance for the possible payment of remuneration.

Over the years, relatively few currencies have made up the bulk of the Fund's holdings of usable currencies. The recent introduction into the currency budget of additional currencies has not substantially altered the position because the Fund's holdings of these currencies are not large in relation to those members' reserves. As a result, the Fund has continued to give relatively more weight to its absolute holdings of currencies in allocating amounts for sales rather than of allocating amounts

[19] See Appendix II, Section K, Attribution of Repurchases Under Article V, Section 7(*b*), for the text of the change in practices of attribution.

Table 19. Changes in Members' Super Gold Tranche Positions,[1] Fiscal Years Ended April 30, 1975–77 [2]
(In millions of SDRs)

Member	April 30, 1975	April 30, 1976	April 30, 1977	Change 1975/76	Change 1976/77
Australia	6.4	0.5	—	−5.9	−0.5
Austria	71.3	122.6	174.7	+51.3	+52.1
Bahrain	4.0	7.0	2.2	+3.0	−4.8
Belgium	358.9	372.0	443.7	+13.1	+71.7
Brazil	6.3	16.3	56.6	+10.0	+40.3
Canada	28.1	44.1	278.5	+16.0	+234.4
Colombia	—	—	16.8	—	+16.8
Denmark	—	—	8.4	—	+8.4
Ecuador	4.0	5.0	—	+1.0	−5.0
Finland	16.3	—	—	−16.3	—
France	78.8	345.4	452.2	+266.6	+106.8
Germany, Fed. Rep. of	1,001.5	1,140.9	1,093.2	+139.4	−47.7
Guatemala	—	—	3.6	—	+3.6
Indonesia	5.0	—	—	−5.0	—
Iran	—	—	20.1	—	+20.1
Iraq	—	—	1.0	—	+1.0
Ireland	11.6	13.7	37.4	+2.1	+23.7
Japan	334.1	514.7	817.8	+180.6	+303.1
Kuwait	20.6	37.4	39.1	+16.8	+1.7
Luxembourg	—	—	3.9	—	+3.9
Malaysia	7.3	7.3	—	—	−7.3
Malta	—	3.8	9.7	+3.8	+5.9
Mexico	5.3	5.3	—	—	−5.3
Netherlands	191.7	253.7	364.7	+62.0	+111.0
Nigeria	—	—	1.5	—	+1.5
Norway	17.5	44.3	86.4	+26.8	+42.1
Qatar	8.0	10.1	10.0	+2.1	−0.1
Saudi Arabia	8.7	21.5	37.3	+12.8	+15.8
South Africa	5.2	—	—	−5.2	—
Sweden	9.7	34.4	90.1	+24.7	+55.7
Trinidad and Tobago	—	—	1.7	—	+1.7
United Arab Emirates	4.0	11.1	9.1	+7.1	−2.0
United States	71.3	565.1	2,049.8	+493.8	+1,484.7
Upper Volta	—	—	1.0	—	+1.0
Venezuela	86.8	161.9	216.2	+75.1	+54.3
Total	2,365.5	3,741.2	6,332.3	+1,375.7	+2,591.1

[1] A member's super gold tranche is the extent to which the Fund's holdings of that member's currency are below 75 per cent of its quota.
[2] This table excludes changes of less than SDR 1 million; as a result, amounts do not add to totals shown.

broadly in proportion to a member's official holdings of gold and foreign exchange. In general, the Fund allocated the amount of currencies to be used in repurchases broadly in proportion to a member's reserve position in the Fund (excluding loan claims), while allocations of amounts of these currencies to be used in purchases were made on a net basis (i.e., after taking into account repurchases) in proportion to the Fund's holdings of currencies.

The increase in the number of usable currencies and the further expansion in the use of the Fund's resources led to a greater dispersion and absolute increase in members' net creditor positions in the Fund. Table 19 shows the changes in these positions since April 30, 1975. Excluding borrowings by the Fund, the increase in members' net creditor positions amounted to SDR 2.6 billion, double the increase in the preceding fiscal year, reaching SDR 6.3 billion at the end of April 1977, or nearly triple the amount of net creditor positions outstanding on April 30, 1975.

The decision adopted in August 1976 that enabled participants to obtain SDRs from other participants in certain categories of transactions by agreement, rather than from the General Account,[20] had the effects of decreasing the inflow of usable currencies and increasing the Fund's holdings of SDRs. For example, during the period August 1976–April 1977 a total of SDR 153 million was obtained in transactions by agreement, most of which might otherwise have been acquired from the General Account with currencies acceptable to the Fund. Further, there was an increase in the General Account's receipts of SDRs by way of charges paid by members that had no need to reconstitute their SDR holdings. As a result of these factors, the holdings of

[20] Executive Board Decision No. 5185-(76/128) S, adopted August 25, 1976 and reproduced in Appendix II.

SDRs by the General Account increased over the fiscal year by SDR 310.3 million, to SDR 771.1 million. Since further increases in the Fund's holdings of SDRs were anticipated, and in order to conserve the Fund's holdings of usable currencies, the Executive Directors decided in March 1977 [21] to include SDRs in the currency budget for sale to members drawing on the Fund. Members obtaining SDRs in this way may hold the SDRs so acquired or use them to acquire currency in a transaction with designation.

Borrowing, Interest, and Repayments by the General Account

Since the end of fiscal year 1973/74, the Fund has borrowed the equivalent of SDR 8.3 billion, and has arranged for the financing of a further SDR 1.8 billion in purchases by Italy and the United Kingdom under the General Arrangements to Borrow and two borrowing agreements with the Swiss National Bank. The amount of borrowing effected since May 1974 is nearly 48 per cent of total purchases made during the same period. Of the total, the equivalent of SDR 6.9 billion was borrowed in connection with financing transactions under the oil facility and the remainder, amounting to SDR 1.4 billion, was borrowed under the General Arrangements to Borrow in connection with the purchases made by the United Kingdom in January and May 1977 and by Italy in May 1977.

Borrowing for the Oil Facility

As noted in previous Annual Reports, the Fund concluded borrowing agreements in 1974, 1975, and 1976 with 16 members and Switzerland for a total of SDR 6,902.5 million to finance transactions under the oil facility. Of this amount, a total of SDR 2,582.8 million was borrowed for purchases under the facility for 1974 and SDR 4,319.6 million for purchases under the facility for 1975. Purchases were made for a total of SDR 2,499.3 million in 1974/75, SDR 3,966.2 million in 1975/76, and SDR 436.9 million in May 1976, thereby exhausting the total available for borrowing.

Loans to the Fund by the creditor members are denominated in SDRs, with interest payable quarterly on these loans at a rate of 7 per cent per annum on amounts borrowed for the oil facility for 1974 and a rate of 7¼ per cent per annum on the amounts borrowed for the oil facility for 1975. The total amount of interest paid on oil facility loans in 1976/77 amounted to SDR 474 million, of which SDR 449 million was paid in U. S. dollars, and the balance, equivalent to SDR 24.3 million, was paid in four lenders' own currencies.

Repayments of loans made in connection with the oil facility shall be made in eight semiannual installments starting three years, and to be completed not later than seven years, after the date of transfer of funds, except for loans borrowed from Canada and the Deutsche Bundesbank, which have to be repaid within five years after the date of transfer. There are also a number of circumstances under which the Fund may repay in advance of the scheduled repayments. On April 30, 1977, the Fund had made advanced repayments totaling the equivalent of SDR 200.3 million to Oman, Saudi Arabia, Iran, and Venezuela. These repayments were made in connection with repurchases made by Fiji and India with respect to purchases they had made under the 1974 oil facility. In the first two months of 1977/78, the Fund repaid a further total of SDR 85 million to 7 lenders as a result of repurchases of oil facility purchases made by 5 members. On June 30, 1977, the amount of oil facility loans totaled SDR 6,617 million.

General Arrangements to Borrow

As reported in the *Annual Report, 1976,* the General Arrangements to Borrow (GAB), which were established in 1962, were renewed for a further five years from October 24, 1975. The Swiss Confederation, which became associated with the GAB in June 1964, also extended its association for the same period of time. The amount of Switzerland's financial assistance to GAB participants is Sw F 865 million (about SDR 300 million).

To strengthen the Fund's liquidity, the Executive Board decided in November 1976, and the ten participants in the GAB formally agreed, to an increase in the amount of Japan's credit arrangement from ¥ 90 billion (approximately SDR 265 million) to ¥ 340 billion (approximately SDR 1 billion), thereby raising the total size of the GAB to approximately SDR 6.2 billion. The increase in Japan's credit arrangement is the first change in any of the amounts of the credit arrangement since the GAB came into effect.

In view of the low level of the Fund's holdings of usable currencies in 1976 and an anticipated continued large volume of purchases in the months to come, the Executive Directors decided to finance purchases under the stand-by arrangements for the United Kingdom and Italy largely through borrowings under the GAB (SDR 2,897.5 million) and under bilateral borrowings from the Swiss National Bank (SDR 337.5 million). It was also decided that the balance of the purchases under the stand-by arrangements would be financed out of the Fund's own holdings of usable currencies. How-

[21] Executive Board Decision No. 5355-(77/36) G/S, adopted March 15, 1977 and reproduced in Appendix II.

ever, the arrangements for the financing of purchases during the second year of the stand-by arrangements will be reviewed in the light of the Fund's liquidity at the time and of the balance of payments and reserve position of each participant in the GAB. As a result of the reviews, the Managing Director may propose alternative arrangements for the financing of further purchases under the stand-by arrangements.

In connection with these transactions, the Fund called on eight participants to provide in their own currencies a total equivalent to SDR 1,285 million on three separate occasions in January and May 1977 for the purchases by the United Kingdom and in May 1977 for the purchase by Italy. Appendix I, Table I.13 lists the ten participants of the GAB, the amount of individual credit arrangements, and the amounts called as of June 30, 1977. No use was made of the amounts available to GAB participants under the association agreement with Switzerland.

The rate of interest on the amounts borrowed, including the transfer charge of 0.5 per cent of the amount borrowed, is the same as that received by the Fund in charges, including the service charge of 0.5 per cent on the amount purchased, except that the minimum rate of interest should be 4 per cent per annum.

Borrowing from the Swiss National Bank

During the year 1976/77, the Fund also arranged two loans from the Swiss National Bank in connection with financing the purchases by the United Kingdom and Italy, mentioned above. The Fund arranged to borrow, in U. S. dollars, the equivalent of SDR 300 million to finance purchases made by the United Kingdom and SDR 37.5 million to finance purchases made by Italy. The provisions of these two loans are similar to the provisions of the GAB, and calls are made on them at the same time and for amounts that are the same proportion as the purchase bears to the total of the stand-by arrangement. By June 30, 1977, the Fund had made calls in connection with these two loans amounting to the equivalent of SDR 125.4 million.

Gold Sales

During the year the Fund sold, at the official price of SDR 35 an ounce, 11.73 million fine ounces of gold, equivalent to SDR 411 million, for replenishment of its holdings of usable currencies. This was the first year in a four-year period in which it is planned to sell gold totaling 50 million ounces, half of which is to be sold for distribution to countries that were members on August 31, 1975, and the remainder is to be sold for the benefit of developing countries.[22] About 5.73 million fine ounces of gold were sold to the market in eight auctions held during the fiscal year on behalf of the Trust Fund (and 1.1 million ounces in auctions held in May and June 1977), and nearly 6.0 million fine ounces were sold for the purpose of distribution to member countries in January and February 1977.

(i) *Gold Auctions.* As noted in last year's Annual Report, early in May 1976 the Executive Directors adopted a gold sales program for the first two years of the four-year period in which one sixth of the Fund's gold is to be auctioned. During the two years beginning in June 1976, 12½ million ounces of gold were to be sold in public auctions. The Executive Directors originally decided that these auctions should be conducted at intervals of approximately six weeks and with the same quantity of gold offered in each auction. After the first six auctions and following a review by the Executive Directors in November/December 1976 of the policies and procedures in the light of the experience gained, it was decided that for the ensuing period through August 1977 auctions should be held on a monthly basis. Accordingly, the last two auctions in the fiscal year were held on this basis in March and April 1977.

Apart from the timing of auctions and the consequential adjustments of the amount that it was decided should be offered at each sale as a result of the November/December review of the gold sales program, the terms and conditions of the auctions remained essentially unchanged over the year. Modifications were, however, made in the pricing method, the minimum accepted bid, the place of delivery, and the period allowed for payment.

Regarding the prices that successful bidders have to pay for gold awarded to them, two systems have been employed—the common price and the bid price. After completion of the review of the gold sales program in December 1976, it was announced that the pricing method would be expected to remain unchanged for a series of three successive auctions. In four auctions the common price system was employed,[23] in which all bidders pay the same (or common) price; this was the highest price bid at which the amount of gold on offer was sold. In the other auctions held during the year the bid price method was used, under which each bidder pays the price actually bid for the gold awarded to him.[24]

The minimum bid was lowered from 2,000 ounces (five standard bars) in the first auction to 1,200 ounces (three standard bars) in later sales to facilitate partici-

[22] See *Annual Report, 1976,* pages 54–56.

[23] In June, July, and December 1976, and in January 1977 (and also in June, July, and August 1977).

[24] In September and October 1976, and in March and April 1977 (and May 1977).

pation in the auctions and to widen the circle of potential participants. Regarding the place of delivery, it is intended to deliver gold from the Fund's depositories roughly in proportion to the distribution of the Fund's holdings of gold among them. Accordingly, gold was delivered in New York in seven of the eight auctions held during the year, and in London in one auction; in the following three sales, delivery was made once each in New York, Paris, and London.

Participation in the gold auctions was substantial, and the amount of gold bid in each auction far exceeded the amount offered. Oversubscription was particularly large in the first five auctions, when bids were submitted up to 5½ times the amount of gold on offer. In 1977, bidding declined somewhat and stabilized around 2 to 2½ times the amount offered. (See Table 20.) Similarly, the number of bids initially increased, but then declined in subsequent sales. The fall reflected, however, primarily a decline in bids that were substantially below prevailing market prices. In the April 1977 auction, for example, only 36 per cent of the bids were below the average London fixing price on the day of the auction, compared with 55 per cent in the December 1976 auction and 99 per cent in the June 1976 auction. During the first four auctions, the average price realized remained below the current market price while in the last four auctions in the fiscal year and the May 1977 auction, average proceeds remained above the current market price. In the June 1977 auction, the average price realized was again slightly below the market price.

As explained in the last Annual Report, the Trust Fund acquires the gold that it sells in auctions from member countries to which the Fund has sold gold in order to replenish its holdings of their currencies. These sales are made on the understanding that the member

Table 20. Selected Data on Gold Auctions on Behalf of the Trust Fund, June 2, 1976–June 1, 1977

	1976				
	June 2	July 14	Sept. 15	Oct. 26	Dec. 8
Pricing method	Common price	Common price	Bid price	Bid price	Common price
Total bids (*thousand ounces*)	2,320.0	2,114.0	3,662.4	4,214.4	4,307.2
Awards (*thousand ounces*)	780.0	780.0	780.0	779.2	780.0
Price range of successful bids (*in U.S. dollars*)	126.00–134.00	122.05–126.60	108.76–114.00	116.80–119.05	137.00–150.00
Average price of successful bids	126.98	123.02	109.40	117.71	137.89
Average realized price	126.00	122.05	109.40	117.71	137.00
Cut-off price	126.00	122.05	108.76	116.80	137.00
Number of bids	220	196	380	383	265
Number of bidders	30	23	23	24	25
Number of successful bids	59	56	41	37	33
Number of successful bidders	20	17	14	16	13
Place of delivery	New York	New York	New York	New York	London
Profits (*million U.S. dollars*)	67.1	64.0	53.8	60.3	75.4

	1977				
	Jan. 26	March 2	April 6	May 4	June 1
Pricing method	Common price	Bid price	Bid price	Bid price	Common price
Total bids (*thousand ounces*)	2,003.2	1,632.8	1,278.0	1,316.4	1,014.0
Awards (*thousand ounces*)	780.0	524.4	524.8	524.8	524.8
Price range of successful bids (*in U.S. dollars*)	133.26–142.00	145.55–148.00	148.55–151.00	147.33–150.26	143.32–150.00
Average price of successful bids	134.43	146.51	149.18	148.02	144.19
Average realized price	133.26	146.51	149.18	148.02	144.19
Cut-off price	133.26	145.55	148.55	147.33	143.32
Number of bids	192	187	136	107	75
Number of bidders	21	21	18	17	14
Number of successful bids	49	14	22	38	35
Number of successful bidders	15	7	11	14	13
Place of delivery	New York	New York	New York	New York	New York
Profits (*million U.S. dollars*)	72.5	55.6	57.0	56.4	53.3

countries will resell the gold to the Trust Fund at the official price. Accordingly, during the fiscal year the Fund replenished its holdings of the currencies of ten creditor members against sales of gold under Article VII, Section 2(ii), of the Fund Agreement (Appendix I, Table I.14). The members purchased the gold with their respective currencies at the official price of SDR 35 per fine ounce and resold it simultaneously at the same price to the Trust Fund against payment of U. S. dollars. The amount of gold sold in replenishment was equal to the amounts sold in public auction by the Fund as Trustee for the Trust Fund. Gold was sold on three occasions each to Belgium, the Federal Republic of Germany, and Japan; on two occasions each to Brazil, the Netherlands, Venezuela, and the United States; and on one occasion each to Austria, Canada, and Sweden.[25]

(ii) *Distribution.* In May 1976 the Fund announced, as part of its gold sales program, that 25 million fine ounces of gold would be sold for the purpose of distribution to members in four annual installments, with the first operation taking place about the middle of the 12-month period following the first gold auction in June 1976. The distribution of gold is to be made to all countries that were members of the Fund on August 31, 1975 and to Papua New Guinea, for which a membership resolution by the Board of Governors had been adopted on that date but which had not accepted membership.

In December 1976, the Executive Directors decided that, for operational reasons, gold sales for distribution should begin on January 10, 1977. Gold should be sold directly to all members whose creditor positions were large enough by an agreed minimum amount to permit the sale against those members' own currencies, that is, the sale of gold would not raise the Fund's holdings of the member's currency above 75 per cent of its quota—and if the creditor's currency was usable in Fund transactions. The distribution to other members would be carried out indirectly; their share of the gold would be sold to the creditor members whose positions were large enough to accommodate the additional replenishment with the understanding that the creditors would resell the gold, at the official price, to the debtors against convertible currency acceptable to the creditors. Members could select any of the Fund's gold depositories for the delivery of gold, except that members in whose territories the Fund's gold depositories are located—France, India, the United Kingdom, and the United States—were expected to take delivery of their share of the gold at the depository in their territory. Gold was to be delivered in whole bars weighing (in terms of fine gold content) not less than a member's proportionate share in the distribution. In order to cover the Fund's administrative expenditures in handling these operations, it was decided to levy a handling charge of SDR 1 for each 25 fine ounces or part thereof.

The Executive Directors also decided that a member representing that it had a balance of payments need could request postponement of the purchase of its share of the gold to be distributed until not later than 30 days after the amended Articles come into effect, when it will be able to purchase gold with its own currency. The balances above quota so acquired by the Fund would be subject to repurchase not later than two years after the date of acquisition and they would be subject to the rates of charge on holdings resulting from purchases in the credit tranches in effect at the time of the gold sale, provided, however, that the balances will be subject to a minimum rate of 4 per cent per annum. The balances would be excluded when the Fund determined a member's drawing rights under the policies on purchases in the credit tranches and under the extended Fund facility.

As mentioned, the sales of gold for distribution began on January 10, 1977 and the bulk of the transactions had been completed by the end of the same month. A total of 5,998,431.028 fine ounces (SDR 209.95 million) was sold to 112 members.[26] Of this amount 3,497,030.293 fine ounces (SDR 122.4 million) were distributed directly to 30 members against payment of their own currencies. The distribution of gold to 82 noncreditor members totaling 2,501,400.735 fine ounces was arranged indirectly through 12 creditor intermediaries,[27] broadly in proportion to their creditor positions after the sales to them of their own shares in the distribution, and taking into account members' options for depositories and operational convenience. With the exception of a small amount in French francs, all payments to intermediaries, both for the purchase of gold and for related handling charges, were made with U. S. dollars in an amount of SDR 85.8 million. Of total gold sales, 63 transfers were executed at the Federal Reserve Bank of New York, New York, 30 at the Bank of England, London, 18 at the Banque de France, Paris, and one at the Reserve Bank of India, Nagpur.

The Fund agreed to the requests of 14 members for postponement of their participation in the first phase of gold distribution. The postponed gold purchases amounted to 130,299 fine ounces (equivalent to

[25] See Appendix I, Table I.14.

[26] Arrangements have not been completed with regard to distribution to Cambodia and the Republic of China.

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

SDR 4.6 million), or 2.1 per cent of the total amount of gold to be distributed.

Charges

The Executive Directors undertook a detailed review of the Fund's financial position during the year and decided, with effect from April 1, 1977, on a number of changes with respect to the payment of charges applicable to members' use of the Fund's resources in the General Account.

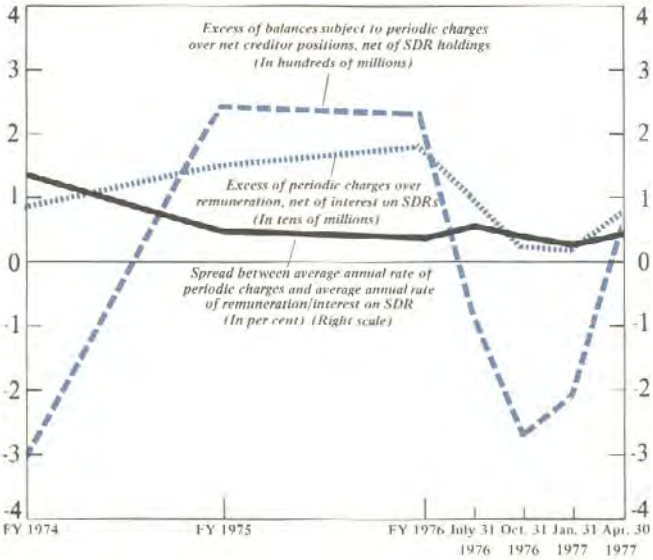
In each fiscal year since 1970/71 the Fund's expenses have exceeded income; the accumulated deficits amounted to nearly SDR 85 million by the end of fiscal year 1975/76. At the time of the review, a further deficit was estimated for the fiscal year 1976/77 (the actual deficit amounted to SDR 18.2 million). Of particular concern was the fact that the Fund continued to be in deficit in its income and expenses at a time when both the volume of transactions and the Fund's operational income were at their highest levels.

In addition to an increase in the Fund's administrative expenditure in recent years, a number of factors contributed to the deficits. Over the last few years there has been a sharp rise in the average cost of funds (i.e., the rate of remuneration) relative to the average rate of charge received by the Fund. Between April 1974 and January 1977, the average cost of funds (excluding interest on borrowing by the Fund) had risen from 1.5 per cent to 3.8 per cent, while the average rate of charges on balances in excess of quota had risen from about 2.85 per cent to 4.2 per cent, leaving a margin of less than ½ of 1 per cent, compared with 1.35 per cent in April 1974. The rise in the cost of funds was due in part to the decision to link the rate of remuneration more closely to selected market rates of interest. Moreover, while charges had been raised in 1974, there had been no subsequent adjustment of the rates of charge in response to the upward float of the rate of remuneration. Indeed, between September 30, 1976 and April 1, 1977, the rate of remuneration was the same as the initial rate of charge, so that no income was earned in the first year that balances were held in excess of quota (except for a one-time service charge of ½ of 1 per cent on credit tranche purchases). The Fund had also decided to borrow at market-related rates for the oil facility, and in 1974 the charges were set, taking the maximum period for which purchases could be outstanding, to yield income that on average was only slightly above the interest rate paid on loans; in 1975 the charges were determined to yield a margin for the Fund for each year that purchases would be outstanding.

Another factor that had a significant bearing on the Fund's operational expense was the use by members of their gold tranche. Use of the gold tranche does not produce any income because no charges are levied but such use usually expands creditor positions on which remuneration is paid. Over the last ten years, gold tranche purchases outstanding accounted for about 45 per cent of total purchases outstanding. For a number of years this was a major reason why average creditor positions, on which remuneration is paid, exceeded average debtor positions, on which charges were paid.[28] The combination of a small, and diminishing, margin referred to above and the periodic excess of creditor balances over debtor balances resulted in total operational income that, while sufficient to cover the Fund's operational expense, was insufficient to meet the Fund's administrative expenses. (See Chart 14 and Table 21.)

Chart 14. Relationship Between Periodic Charges and Total of Remuneration and Borrowings Net of SDRs (Excluding Oil Facility), Years Ended April 30, 1974–77

(In SDRs)



The Executive Directors therefore decided, with effect from April 1, 1977, to change some of the Fund's schedules of charges and also to take other steps to strengthen the Fund's financial position, including the timing of the collection of charges.[29] The central deci-

[28] When the Fund's holdings of a member's currency are less than 75 per cent of the member's quota, the margin between the level of these holdings and 75 per cent is the creditor position. A debtor position is the margin between 75 per cent of quota and the level of holdings when they exceed 75 per cent of quota. Only holdings in excess of 100 per cent of quota attract charges.

[29] Executive Board Decisions No. 5368-(77/51), No. 5369-(77/51), No. 5370-(77/51), and No. 5371-(77/51), adopted April 8, 1977 and reproduced in Appendix II.

Table 21. Summary of Average Rates of Periodic Charges and Remuneration, Fiscal Years Ended April 30, 1976 and 1977

(Balances and charges in millions of SDRs)

	1977	1976	1977	1976
	Including the oil facility		Excluding the oil facility	
Income from charges on balances in excess of quota				
Average daily balances	12,209	6,871	5,472	2,593
Total charges for the period	727.3	408.5	232.7	101.2
Average annual rate	*5.97*	*5.94*	*4.26*	*3.90*
Remuneration and interest on borrowings, net of interest on SDR holdings				
Average daily balances	12,364	6,642	5,601	2,356
Net expense for the period	699.6	386.7	216.6	83.3
Average annual rate	*5.66*	*5.82*	*3.87*	*3.54*
Excess of average daily balances subject to periodic charges over average daily net creditor positions, net of SDR holdings	−155	+229	−129	+237
Spread between the combined average annual rate of charge and the combined average annual rate of expense	*0.31*	*0.12*	*0.39*	*0.36*
Excess of periodic charges over remuneration and interest, net of interest on SDR holdings	+27.7	+21.8	+16.1	+17.9

sion provided for an effective increase in the initial rate of charge of ⅜ of 1 per cent per annum on balances of members' currencies held in excess of quota that have been acquired since June 30, 1974, except holdings resulting from use of the oil facility. The initial rate of charge was raised from 4 to 4.375 per cent per annum for the first 12 months, with the rates progressing by an additional 0.5 per cent per annum for each subsequent 12 months, that is, to a rate of 6.375 per cent per annum on balances outstanding for five years and to 6.875 per cent on balances outstanding from five to eight years under the extended Fund facility. The service charge on all drawings other than those in the gold tranche remained at 0.5 per cent. The new schedules of charges are shown in Appendix I, Table I.16.

The decision also provides for a prompt review of the Fund's financial position, the rate of remuneration, and the initial rate of charge if the margin of the initial rate of charge above the rate of remuneration is reduced to less than ¼ of 1 per cent or is increased to more than 1 per cent because of changes in the rate of remuneration. In these circumstances, the Executive Board would take action as it considers necessary to safeguard the financial position of the Fund; if a new decision is not taken as a result of a review, the initial rate of charge shall be ¼ of 1 per cent or 1 per cent above the rate of remuneration, as the case may be. The decision shall also be reviewed if the Fund's total annual income substantially exceeds its total annual expenses.

As mentioned, a number of related decisions were taken to help to strengthen the Fund's income from charges. First, some balances of currency held by the Fund remain subject to the schedule of charges that was in effect prior to July 1, 1974, and the level of charges under the pre-1974 schedule was lower than the schedules adopted subsequently. In view of the method adopted by the Fund to measure the period over which the Fund's resources are in use for the purpose of levying charges, circumstances could permit a member to pay charges under the pre-July 1974 schedule even though the balances of currencies on which charges were being paid under that schedule had been acquired by the Fund after July 1, 1974.[30] Consequently, the decision was taken to eliminate the balances subject to the pre-July 1, 1974 schedule of charges by applying reductions in the Fund's holdings of currency (other than holdings resulting from use of the extended Fund facility and the oil facility) first to the holdings subject to the pre-July 1, 1974 schedule.

Under another of these decisions members are required to pay charges promptly after the end of the quarter to which they relate rather than having a period of 30 days after the end of the quarter within which to pay. This change in the timing of the payment of charges by members brings the receipt of charges by the Fund more closely in line with the Fund's practices of paying interest to lenders promptly after the end of each quarter and of paying remuneration promptly after the end of each fiscal year.

Another decision, which will become applicable on the date of the Second Amendment, provides that the Fund's holdings of a member's currency acquired by

[30] Namely, the last-in, first-out basis, so that on a decrease of holdings, the latest acquisition of holdings is deemed to disappear first.

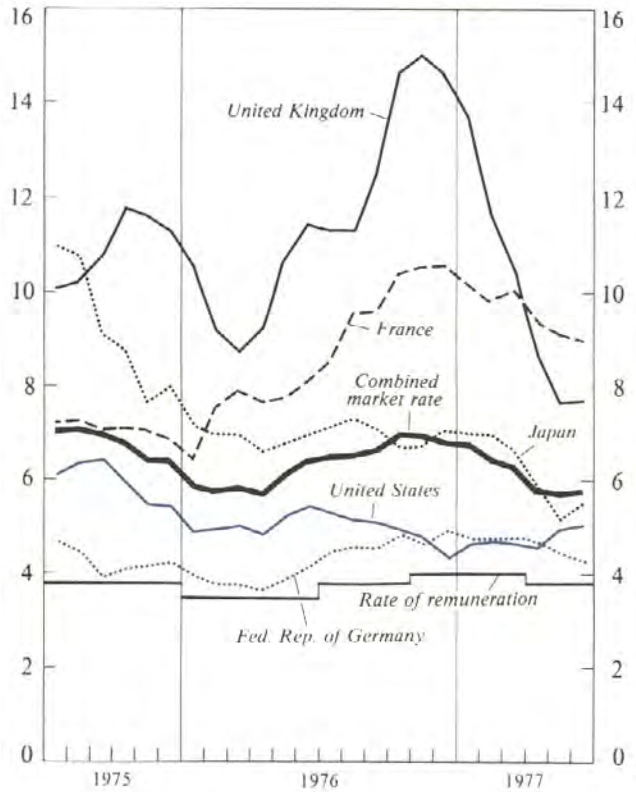
the Fund as a result of the member's purchases under the oil facility shall be "excluded" within the meaning of Article XXX(*c*)(iii) of the amended Articles. This means that such holdings will be excluded for the purpose of determining the member's reserve tranche. It also means that the holdings will be subject to the charges applicable to holdings acquired under the oil facility even when the holdings fall below the quota level. At present, a certain amount of holdings acquired as a result of members' use of the oil facility has fallen into the gold tranche, and, as a result, the Fund receives no income from charges on the amount of holdings but continues to pay interest to the lenders of that amount.[31]

Remuneration

Since July 1, 1974, the rate at which the Fund pays remuneration on net creditor positions and the SDR interest rate have been related to a weighted average of short-term rates in the money markets of the five largest members.[32] For the period July 1, 1974–July 7, 1975, the Executive Directors decided to set the rate of remuneration at 5 per cent as the basic rate but set a rate of 2.5 per cent per annum on net creditor positions that were between 75 and 50 per cent of a member's quota. The rates were reviewed every six months and, unless decided otherwise, the higher rate of remuneration was determined automatically by a formula based on market prices and adjusted within set margins.[33]

In July 1975, the two rates of remuneration were unified at the SDR interest rate of 3.75 per cent per annum on the basis of a formula adopted in June 1974. The rate of remuneration fell to 3.5 per cent for the subsequent six-month period ended June 30, 1976. On the basis of a further review in June 1976, the formula for determining the rate of remuneration was changed to make the rate more responsive to changes in short-term market rates. Henceforward, the rate of remuneration has been determined for each calendar quarter, and equals three fifths of the weighted average of five market rates of interest, rounded to the nearest ¼ of 1 per cent; the adjustments made in response to the formula of market rates to certain maximum and minimum rates were abolished. Furthermore, the weighted average of the five short-term interest rates—the combined market rate of interest—is calculated for the six-week period ending on the fifteenth day of the last month before the calendar quarter for which the rate of remuneration is determined. In accordance with the amended formula in Rule I-10, the rate of remuneration for the calendar quarter beginning July 1, 1976 was 3.75 per cent per annum. The rate was subsequently raised to 4 per cent but was reduced to 3.75 per cent for the calendar quarter commencing April 1, 1977. The average annual rate of remuneration for the fiscal year 1976/77 rose by 0.25 per cent to 3.85 per cent per annum. Chart 15 shows for the period beginning July 1975 the rate of remuneration and, on a monthly average basis, the combined market interest rate and the five short-term interest rates prescribed in Rule I-10(b).

Chart 15. Rate of Remuneration and Short-Term Interest Rates, July 1975–June 1977 [1]



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

[31] This ongoing cost is somewhat offset because repurchases of drawings having an earlier maturity reduce creditor positions and remuneration payments.

[32] The interest rates are as follows: for the United States and the United Kingdom, the yield on three-month treasury bills; for the Federal Republic of Germany and France, the rate for three-month interbank deposits; and for Japan, the call money rate (unconditional). The average is calculated on the basis of the weights prescribed in Rule I-10(b), that is, U.S. Treasury bills, 47 per cent; interbank deposits in the Federal Republic of Germany, 18 per cent; U.K. Treasury bills, 13 per cent; French interbank deposits, 11 per cent; and Japan, the call money market rate, 11 per cent.

[33] The adjustment to the 5 per cent per annum was minus three fifths of the amount by which 9 per cent exceeds, or plus three fifths of the amount by which 11 per cent is exceeded by, the combined market rate of interest; the resulting rate was rounded to the nearest ¼ of 1 per cent.

Income, Expenses, and Reserves

During the fiscal year ended April 30, 1977, the Fund's operational income from charges and the receipt of interest on holdings of SDRs in the General Account rose by SDR 318.8 million (70 per cent), to a record of SDR 774.7 million. On the other hand, the payment of remuneration on creditor positions and interest on the Fund's borrowing rose by the even greater amount of SDR 320.1 million (78 per cent), to SDR 727.6 million. In consequence, net operational income fell slightly in 1976/77 to SDR 47.1 million, compared with SDR 48.4 million in the previous fiscal year. With administrative and other expenditures rising by SDR 14 million (27 per cent), to SDR 65.3 million, a deficit of SDR 18.2 million was incurred in 1976/77, compared with the deficit of SDR 2.9 million in the preceding fiscal year. The deficit was charged against the Special Reserve, reducing it to SDR 320.9 million. The General and Special Reserves totaled SDR 686.5 million on April 30, 1977. A summary of income and expenses for a period of years is shown in Appendix I, Table I.17.

Income received from charges on balances in excess of quota amounted to SDR 727 million, an increase of 78 per cent from the previous year. The bulk of this increase came from the record increase in average balances subject to charge, which increased by approximately 78 per cent, to SDR 12.2 billion in the fiscal year, but there was also an increase in the average rate of charge owing to the progression of charges over the time purchases are outstanding.[34] As described in the section on charges, higher rates of charge became effective on April 1, 1977, but this had a minor impact for the fiscal year as a whole. For the year, the average annual rate of charge on balances in excess of quota (except balances subject to charges under the oil facility) rose to 4.26 per cent per annum, against 3.90 per cent per annum for the previous fiscal year. Income from service charges on purchases declined by SDR 7.1 million (27 per cent), to SDR 19.4 million, mainly because of the phasing out of purchases under the oil facility.

Interest received on holdings of SDRs in the General Account rose by SDR 2.2 million (11 per cent), to SDR 23.0 million and reflects a 1 per cent increase in the average daily balance of the Fund's holdings of SDRs, from SDR 535 million in 1976 to SDR 597 million in 1977.

The record use of the Fund's resources was mirrored in the sharp increase in net creditor positions and loan claims on the Fund. The average daily balances of net creditor positions subject to remuneration and of loan claims on which interest was paid increased from SDR 6.64 billion to SDR 12.36 billion over the year, with a consequential increase in payments of remuneration and interest. These rose by SDR 315 million (77 per cent), to SDR 723 million, in part because of the rise in the average annual rate of remuneration from 3.60 per cent to 3.85 per cent in 1976/77.

As can be seen from Tables 18 and 21, there were substantial changes in the Fund's financial position owing to borrowing, which increased by SDR 1,237 million (19 per cent), to SDR 7,702 million in 1976/77. Of this increase, SDR 437 million represented a drawing down of the remaining 1975 oil facility line of credit, partially offset by the repayment of SDR 200 million borrowed in connection with the 1974 oil facility, while SDR 1 billion represented borrowing under the General Arrangements to Borrow and the borrowing agreement with the Swiss National Bank. Loans made to the Fund in connection with the oil facility in 1974 bear interest at the rate of 7 per cent per annum and those in 1975 at 7.25 per cent per annum. The average rate of interest on the GAB and other borrowing of 4.10 per cent per annum was the same as the average rate of periodic charge levied on the drawings financed under the GAB and other borrowing arrangements. Interest paid on all outstanding indebtedness increased by SDR 192.3 million (63 per cent), to SDR 495.7 million, in 1976/77. Of this amount, SDR 483 million was interest paid on amounts borrowed in connection with the oil facility (SDR 303.4 million in 1975/76) and SDR 12.7 million was interest paid on the GAB and other borrowing.

The combined cost of all capital resources provided to the Fund declined from 5.82 per cent in 1975/76 to 5.66 per cent in 1976/77. This reduction is mostly attributable to the rapid expansion of creditor positions (for which the average cost of funds was 3.85 per cent per annum) relative to borrowing (average cost was 7.01 per cent) in 1976/77. The fall in the cost of funds combined with the rise in the average rate of charge resulted in an improvement in the spread between the average annual rate of charge and the combined average annual rate of expense from 0.12 per cent in 1975/76 to 0.31 per cent in 1976/77. However, as average creditor positions (including oil facility loan claims) exceeded average debtor positions by about SDR 155 million, the improvement in operational income that otherwise would have accrued from an improvement in the margin was reduced by about SDR 6 million for the year.

The Subsidy Account

The Subsidy Account was established by the Executive Directors on August 1, 1975 to assist the Fund's

[34] Outstanding balances amounted to SDR 13.4 billion at April 30, 1977, compared with an outstanding balance of SDR 9.8 billion a year previously.

most seriously affected (MSA) members to meet the cost of using the oil facility for 1975.[35] Of the 39 Fund members on the list prepared by the Secretary-General of the United Nations as being those countries most affected by the increased price of petroleum and petroleum products, 18 made purchases under the 1975 oil facility for a total of SDR 551.04 million. (See Table 22.) The annual amount of subsidy payments to eligible members is calculated as a percentage per annum of the average daily balances of the Fund's holdings of currency, in excess of quota, that resulted from use of the oil facility for 1975 and that are outstanding during the year.

The Subsidy Account is funded by contributions from the 24 members and Switzerland listed in Table 23. The table also shows that contributions totaling SDR 160 million are anticipated over the life of the Subsidy Account, and that the contributions from all but two members had been received by June 30, 1977 in the total amount of SDR 66 million. During the year, one additional member—Greece—has agreed to contribute a total of SDR 0.6 million.

Table 22. Subsidy Account: Total Use of 1975 Oil Facility by Most Seriously Affected Members and Subsidy Paid for the Years Ended April 30, 1976 and 1977

(In millions of SDRs)

Country	Total Use 1975 Oil Facility	Subsidy at 5 Per Cent for Year Ended April 30, 1976	Subsidy at 5 Per Cent for Year Ended April 30, 1977
Bangladesh	40.47	0.65	2.00
Cameroon	11.79	0.14	0.59
Central African Empire	2.66	0.05	0.13
Egypt	31.68	0.16	1.57
Haiti	4.14	0.07	0.21
India	201.34	7.23	10.07
Ivory Coast	10.35	0.15	0.52
Kenya	27.93	0.67	1.39
Mali	3.99	0.01	0.20
Mauritania	5.32	0.05	0.26
Pakistan	111.01	2.60	5.55
Senegal	9.91	0.30	0.50
Sierra Leone	4.97	0.03	0.25
Sri Lanka	34.13	0.48	1.71
Sudan	18.30	0.36	0.92
Tanzania	20.61	0.68	1.03
Western Samoa	0.42	0.01	0.02
Yemen, People's Dem. Rep. of	12.02	0.18	0.60
Total	551.03	13.82[1]	27.51[1]

[1] Purchases began in July 1975 and continued until May 1976; differences in amounts reflect larger average daily balances for the fiscal year 1976/77 than for 1975/76.

Contributions have been received either in U.S. dollars or in the member's own currency with immediate conversion into U.S. dollars. These funds have been invested in U. S. Treasury bills or notes to mature, as far as possible, on dates appropriate to the payments requirement of the Subsidy Account. As required by the Executive Board decision establishing the Subsidy Account,[36] the approval of the United States has been obtained with respect to investments in U. S. dollars.

Table 23. Subsidy Account: Contributions

(In millions of SDRs)

Contributor	Anticipated Total Contributions[1]	Contributions Received as of June 30, 1977
Australia	5.700	1.070
Austria	2.300	2.300
Belgium	5.600	—
Brazil	1.850	0.925
Canada	9.500	9.500
Denmark	2.200	0.640
Finland	1.600	0.400
France	12.900	5.046
Germany, Fed. Rep. of	13.700	6.841
Greece	0.600	0.150
Iran	6.000	3.000
Italy	8.600	—
Japan	10.300	2.200
Luxembourg	0.108	0.108
Netherlands	6.000	6.000
New Zealand	1.700	0.286
Norway	2.100	2.100
Saudi Arabia	40.000	9.990
South Africa	1.350	1.350
Spain	3.400	0.980
Sweden	2.800	1.400
Switzerland	3.285	3.285
United Kingdom	12.050	4.509
Venezuela	6.000	3.000
Yugoslavia	0.900	0.450
Total	160.543	65.530

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

The objective of the Subsidy Account is to reduce the effective rate of annual charge payable on drawings under the 1975 oil facility by about 5 per cent per annum. For the fiscal year ended April 30, 1976, the Executive Directors decided that the rate of subsidy would be 5 per cent, thus reducing the effective interest cost to recipients of using the 1975 oil facility from about 7.71 per cent to 2.71 per cent per annum. After reviewing the Subsidy Account for the fiscal year ended April 30, 1977, the Executive Directors decided to maintain the subsidy rate at 5 per cent for the fiscal year 1976/77. The rate of subsidy implies a grant element of 28 per cent; it involved payments by the Subsidy Account totaling SDR 13.8 million in fiscal year 1975/76 and SDR 27.5 million in 1976/77. (See

[35] See *Annual Report, 1976,* pages 58–59.

[36] Executive Board Decision No. 4773-(75/136), adopted August 1, 1975 and reproduced in *Selected Decisions of the International Monetary Fund and Selected Documents* (Eighth Issue, Washington, 1976), pages 81–83.

Table 22.) The decision establishing the Subsidy Account, including the list of recipients, is to be reviewed annually.

The Trust Fund

As mentioned in last year's Annual Report, on May 5, 1976, the Executive Directors established a Trust Fund to be administered by the International Monetary Fund.[37] The resources of the Trust Fund consist of gold and currencies sold, donated, or lent to it, income from investments and loans, and the proceeds from repayments of loans. One category of assets results from the sale of a portion of the Fund's own gold. Under its authority to replenish its holdings of needed currencies, the Fund sells gold to certain members for their currencies at the official price of SDR 35 per fine ounce. In accordance with an agreed procedure, these members then sell the gold, again at the official price, to the Fund as Trustee for the Trust Fund. The gold is sold in auctions, and the profit goes into the Trust Fund, the bulk of it to be used for loans and a portion to be distributed to developing countries on the basis of the ratio that their quotas on August 31, 1975 bore to total quotas on that date. The resources shall be used to provide additional balance of payments assistance on concessional terms in support of the efforts of eligible developing members that qualify for assistance to carry out programs of balance of payments adjustment. There are currently 61 developing members that are eligible for such assistance. The Fund shall review the Instrument establishing the Trust Fund, and in particular the list of eligible members, and the criterion of eligibility for inclusion before January 1, 1978.

The Instrument establishing the Trust Fund provides that the "Trustee shall report on the operation of the Trust in the annual report of the Executive Directors of the Fund to the Board of Governors of the Fund and shall include in that annual report the report of the audit committee on the Trust." The operation and administration of the Trust through the end of April 1977 is described below, and the report of the audit committee is reproduced in Appendix VIII.

The resources available to the Trust on April 30, 1977 represented profits from the eight gold auctions that had been held to that date and the income from the investment of funds held by the Trust pending disbursements. By April 30, 1977, a total of 5.73 million fine ounces of gold had been sold, and the profits realized from these auctions totaled SDR 437.5 million. Income on investments through April totaled SDR 9.0 million, of which SDR 5.6 million was accrued. The General Account of the Fund was reimbursed SDR 0.8 million for the expenses of conducting the business of the Trust for the fiscal year 1976/77, including the administration and handling of the gold auctions. The Trust has not as yet received any voluntary contributions or loans. At the end of June 1977, the resources of the Trust Fund totaled SDR 543.34 million, including the net proceeds of the auctions conducted in May and June.

The Executive Directors have decided that, to the extent possible, the Trust shall disburse loans at half-yearly intervals, in January and July of each year. The Executive Directors are agreed that the direct distribution of profits to developing members (to be made in proportion to a developing member's quota to total Fund quotas) would be made annually. In view of the relatively small amounts that are likely to be involved for each member, such distributions should, when feasible, be made to coincide with alternative disbursements of loans by the Trust Fund.

The first interim disbursements of Trust Fund loans (for the period July 1, 1976 to June 30, 1978) were made to 12 of the 61 members that had qualified by the end of January 1977 on the basis of both their need for balance of payments assistance and suitable programs for balance of payments adjustment. The amounts of their respective interim loan disbursements were as follows:

	(In millions of SDRs)
Burundi	1.007
Congo, People's Rep. of the	0.689
Haiti	1.007
Kenya	2.544
Liberia	1.537
Morocco	5.989
Nepal	0.742
Philippines	8.215
Tanzania	2.226
Western Samoa	0.106
Yemen, People's Dem. Rep. of	1.537
Zaïre	5.989
Total	31.588

The total amount available to the Trust for making loans at the time of the first interim disbursement was SDR 198 million, which consisted of a share (about 70 per cent) of the profits realized at the Fund's gold auctions during 1976, and of the investment income on the amounts realized at those auctions. The loan for each member that qualified for assistance from the Trust Fund amounted to 5.3 per cent of its quota on Decem-

[37] The Trust Fund, like the Subsidy Account, is an arrangement that falls outside the Fund's own accounts and resources. For a description of the modalities of the Trust Fund and the list of eligible members, see *Annual Report, 1976*, pages 60 and 111–17.

ber 31, 1975. This percentage was obtained as the ratio of SDR 198 million, which was then available for making loans, to SDR 3,760 million, the total quotas of the 61 eligible members. The balance remaining after the first loan disbursement is held in the Trust as the potential share of the 49 members that had not qualified by the end of January 1977.

In the period since the first interim loan disbursements, 9 of the other eligible members have qualified for Trust loans with suitable programs. These members are Bangladesh, Burma, Egypt, The Gambia, Lesotho, Malawi, Mauritania, Pakistan, and Sierra Leone. The quotas of the 21 members that qualified by the end of June 1977 represented 33.7 per cent of the quotas of the 61 eligible members. The second interim loan disbursements were to be made by the Trust toward the end of July 1977. Eligible members can qualify for loans for the first period by presenting a program for 12 months satisfying the criteria of the first credit tranche. Alternatively, a member can rely on such a 12-month program already presented to the Fund. To qualify, the program must begin not later than December 1, 1977.

Trust Fund loans bear interest at a rate of ½ of 1 per cent per annum and are to be repaid in ten semi-annual installments, beginning not later than the end of the first six months of the sixth year, and to be completed at the end of the tenth year, after the date of disbursement. The Fund, as Trustee, decided that a recipient of Trust loans shall pay interest on its indebtedness under the Trust loan agreement on June 30 and December 31 of each year in the currencies specified by the Trustee. Interest payments amounting to SDR 0.065 million were paid to the Trust on June 30, 1977 in U. S. dollars.

Investments made by the Trust totaled SDR 406 million on April 30, 1977, and SDR 499 million on June 30, 1977. The Trust holds a working balance, also invested, to purchase gold from certain Fund creditor countries at the official price in connection with the amount of gold to be sold in public auction.

Subject to obtaining the concurrence of the country whose currency is used for investment, the Trustee may invest balances of currency held by the Trust in marketable obligations of international financial organizations or in marketable obligations issued by, and denominated in the currency of, the country whose currency is used to make the investment. The assets of the Trust, other than the loans already disbursed, have so far been held in U. S. dollars, and all receipts and disbursements of the Trust Fund have so far been made in U. S. dollars.

It would be possible for investments to be held in currencies other than the U. S. dollar, as the Fund may determine in accordance with its duties as Trustee. As required by the Trust Instrument, the concurrence of the United States was obtained regarding investments in U. S. dollar obligations. The investments held by the Trust on June 30, 1977 are shown in Table 24.

Table 24. Trust Fund Investments in U.S. Government Obligations [1] on June 30, 1977

Date of Maturity	Face Value (U.S. dollars)	Effective Yield to Maturity (Per cent)	Current Book Value (In SDRs)[2]
July 14, 1977	20,210,000	4.929	17,265,880
July 21, 1977	9,920,000	4.914	8,461,994
July 26, 1977	162,200,000	5.168	135,023,784
July 28, 1977	161,960,000	4.917	136,803,261
August 4, 1977	12,000,000	5.004	10,051,618
August 11, 1977	22,700,000	5.036	18,993,602
January 31, 1978	199,390,000	5.257	172,107,323
Total	588,380,000	5.109 [3]	498,707,462

[1] The obligations are all U.S. Treasury bills except for the January 31, 1978 maturities, which are U.S. Treasury notes.
[2] On June 30, 1977, at SDR 0.857732 per U.S. dollar, on the basis of cost of investment.
[3] Average effective yield to maturity.

Consultations with Member Countries

In 1976/77 the Fund completed 77 regular consultations with member countries, of which 48 were under Article XIV and 29 under Article VIII. Member countries maintaining restrictions on current international payments and transfers under Article XIV are required to consult annually with the Fund. For members that have accepted the obligations of Article VIII, Sections 2, 3, and 4, the consultations are held regularly on a voluntary basis.

During the fiscal year, Venezuela accepted the obligations of Article VIII, Sections 2, 3, and 4. Out of a total membership of 130 countries, 44 now have Article VIII status. These members are listed in Appendix I, Table I.18.

Regular consultations have continued to be an important part of the Fund's work. They present the opportunity for a detailed review of the economic and financial situation and policies of member countries from both national and international points of view. These consultations help the Fund to deal quickly with members' requests for the use of Fund resources and proposed changes in policies or practices that are subject to Fund approval. They have been a major instrument through which Fund surveillance of members' policies is made effective in accordance with members' obligations under the Articles of Agreement. For the individual member, regular consultations provide occasions for an external appraisal of policies and for discussion of any special difficulties that may arise from actions or policies of other members.

In recent years, the regular consultations have been supplemented from time to time by special consultations with selected countries, particularly those whose external policies were considered to be of major importance to the world economy but also others representative of countries in their region. These consultations were held in connection with periodic reviews of world economic developments in the Executive Board. In 1976/77, such special consultations were held with 19 countries.[38]

In accordance with the principles and procedures for Fund surveillance over exchange rate policies adopted by the Executive Board in April 1977,[39] members will be required, when the Second Amendment of the Articles takes effect, to consult regularly with the Fund under Article IV. These consultations under Article IV will comprehend the regular consultations under Articles VIII and XIV and, in principle, will take place annually.

Training and Technical Assistance

The training and technical assistance provided by the Fund to member countries have continued to be made available in various forms, including training at headquarters, Fund representatives and advisors, staff missions, and the assignment of experts from outside the staff of the Fund. The services provided have covered fiscal, monetary, and balance of payments policies, banking, exchange and trade systems, government finance, and statistics. During 1976/77 the assistance was again broadly distributed among Fund membership. In addition to technical assistance missions carried out by the staff, 31 staff members were assigned for six months or longer as Fund representatives or advisors to 22 countries, and 137 outside experts were stationed for six months or more in 55 countries. This assistance was in addition to that made available through the Fund's regular procedures under Article VIII and Article XIV.

During the fiscal year, the IMF Institute provided training to 221 officials of member governments who attended eight courses. Thus, the total number of officials trained at the Institute since its inception in 1964 has reached 1,886 from 129 member countries.

The main course offered by the Institute continues to be that on Financial Analysis and Policy, conducted for 20 weeks in English and 22 weeks each in French and Spanish. This course consists of an exposition of the Fund's procedures and policies, a review of the modern tools of economic analysis, and a comprehensive study of the instruments of monetary, fiscal, and balance of payments policies used for achieving economic objectives under changing international and national conditions. Special emphasis is placed on the problems of developing countries, drawing on the Fund's experience in helping to resolve such problems. For this purpose, frequent use is made of case studies and workshops designed to illustrate the application of the tools of financial analysis studied in the course.

The Institute also provides two shorter courses, which are given in English, French, or Spanish, as required. One is an 8-week course on Balance of Payments Methodology, held in close collaboration with the Balance of Payments Division of the Bureau of Statistics. This course concentrates on balance of payments concepts and definitions used in the Fund, and serves as an important medium for assisting member countries in their efforts to improve their statistics on the balance of payments. The other is a 10-week course on Public Finance, organized in close cooperation with the Fiscal Affairs Department. It covers the objectives, instruments, and procedures of public finance, with special emphasis on the fiscal problems of developing countries.

The Central Banking Service has continued to provide technical assistance on all aspects of the organization and operations of central banks. During the last fiscal year, 54 member countries and 4 multinational institutions received technical assistance either in the form of assignment of outside experts to central banks or similar monetary institutions or through the provision of advisory services by regular staff members.

Experts on long-term assignments served in executive or advisory capacities in 41 countries and 4 multinational institutions, and short-term consultants visited 4 additional countries. Technical assistance through the assignment of experts was provided primarily in the fields of central bank organization and management, research services, and bank supervision, as well as in the areas of accounting, staff training, and foreign exchange operations. As in the past, the Fund has depended mainly on the cooperation of well-established central banks to meet requests for experts.

Technical assistance is also provided through advisory services, normally carried out by staff members of the Central Banking Service in cooperation, as needed, with staff from other departments within the Fund and other institutions. Advisory services cover a wide range of central banking and related activities, such as drafting or amending central and general banking legislation, administration and organization of central monetary authorities, and development of local financial markets and institutions. Most advisory work is carried out by staff members at headquarters, supplemented by visits to review specific recommendations with the requesting

[38] Brazil, Canada, Egypt, France, the Federal Republic of Germany, Indonesia, Iran, Italy, Japan, Kenya, Pakistan, Saudi Arabia, Singapore, the United Kingdom, the United States, Uruguay, Venezuela, Yugoslavia, and Zambia.

[39] Executive Board Decision No. 5392-(77/63), adopted April 29, 1977 and reproduced in Appendix II.

authorities. During the fiscal year 1976/77, advisory missions visited 14 countries in conjunction with surveys of the financial system, the drafting of legislation, and the establishment of new central monetary authorities. Where appropriate, other Fund departments participate in the advisory work, especially in the context of legislative assistance in which the Fund's Legal Department takes an active role. On occasion, collaboration with specialized units of other institutions, particularly the International Finance Corporation, is also sought, especially for requests concerning the survey of financial systems and the development of financial markets. Similarly, on occasion, staff members of the Central Banking Service participate in missions of other departments and organizations.

During 1976/77 the Fiscal Affairs Department provided technical assistance through staff missions, staff assignments in the field, and use of the services of members of the panel of fiscal experts to 33 member countries, 8 more than in the previous year. Of the countries served, 5 received assistance for the first time. The principal fields in which assistance was given were tax policy, tax and customs administration, budgetary systems and procedures, government accounting and auditing, and general financial management. During the year, 41 assignments were undertaken by members of the fiscal panel, and 25 staff members carried out assignments in the field and at headquarters. At the end of the year, 26 panel members and 1 staff member were on long-term assignment in 17 countries. Groups of advisors were continuing to operate in 2 countries. As in previous years, members of the staff visited a number of countries to inspect progress and to review requests for further assistance; staff members continued to be substantially involved at headquarters in supporting and controlling the work of field experts.

The Bureau of Statistics provided technical assistance to member countries in the area of statistics for improving the assembly of financial and general statistics contained in existing bulletins of central banks or for establishing new bulletins. The technical work, which brings together the staff expert and national technician in a cooperative effort, includes discussions with national technicians on the concepts and classification standards for the organization of statistics relevant to the analysis of the monetary and payments problems, and it has helped to promote the use of statistical definitions that facilitate intercountry comparison of data. In improving the statistical content of central bank bulletins, the emphasis in the work has been on data on international reserves, money and banking, interest rates, prices, production, external trade, government finance, balance of payments, and, where available, the national accounts.

The Bureau staff's discussions on statistics with national counterparts during visits to countries for purposes other than to work on central bank bulletins have, in substance, paralleled the technical work on the statistics for those bulletins. The recent availability of the Fund's *Draft Manual on Government Finance Statistics* and the distribution to countries of questionnaires for assembly of government finance statistics for a yearbook on these data (the publication of which is projected for the fiscal year 1977/78) provided opportunities for assisting officials and technicians of ministries and central banks in understanding and applying the concepts and classification standards in the *Draft Manual* to the detailed data on the transactions of the government and other parts of the public sector. Other technical assistance was provided by the Bureau staff while participating in Fund missions.

During the fiscal year, the Bureau's overall technical assistance activities resulted in visits to 39 countries, in the establishment of two new central bank bulletins, and in the substantial improvement of the statistics in several existing bulletins.

An increasing amount of technical assistance has been provided by the Treasurer's Department both in the field and at headquarters in response to requests of members and of area organizations. These requests have been primarily in the fields of the Fund's financial relationships with members and their reciprocal accounting problems for transactions and operations in both the General Account and the Special Drawing Account. Staff members in the Treasurer's Department have either led or participated in technical missions to prospective members in connection with the collection of data appropriate to the calculation of quotas and to provide assistance to prospective members in the various financial steps associated with achieving membership. Assistance has also been provided in the field to existing members.

Relations with Other International Organizations

In its international setting, the Fund maintains active collaboration with other organizations in the monetary and financial area having related responsibilities and interests. Close relations are maintained through staff contacts, exchange of documents and information, and attendance at meetings from plenary to working party levels with the United Nations (UN) and its relevant organs and specialized agencies, the International Bank for Reconstruction and Development (IBRD), with which the Fund has a special relationship, the General Agreement on Tariffs and Trade (GATT), the Organization for Economic Cooperation and Development (OECD), the Commission of the European Communities (CEC), the Bank for International Settlements (BIS), and the Organization of American States (OAS), particularly its Inter-American Economic and Social Council and its Permanent Executive Committee (CEPCIES). Regional organizations, including the regional development banks and the UN regional economic commissions, and other development and financing institutions, as well as ad hoc conferences and seminars on technical matters within the Fund's competence, are also focal points for cooperation with regard to common members.

Most of those organizations were represented as observers at the Annual Meeting of the Fund's Board of Governors, held jointly with that of the IBRD and its affiliates, in Manila, Philippines, in October 1976, and several of them were also represented at meetings of the Interim Committee and of the Development Committee, held in Manila in October 1976 and in Washington in April 1977.[40]

Primary responsibility for maintaining continuous liaison rests with the Fund's Special Representative to the United Nations; the European Office in Paris, with respect to the OECD, CEC, BIS, and the Conference on International Economic Cooperation (CIEC, or North-South dialogue), for which Fund reports on debt servicing were made available; and the Geneva Office with respect to the GATT, the United Nations Conference on Trade and Development (UNCTAD) and its various bodies, and other UN agencies and meetings in that locale. Their activities are supplemented by attendance of headquarters staff as occasions require, and from time to time by staff resident representatives in certain member countries.

Owing to unexpected developments, the Managing Director's annual address to the UN Economic and Social Council (ECOSOC) was delivered on his behalf by the Special Representative to the UN at the 61st Session, Part I, in Abidjan, Ivory Coast. The Deputy Managing Director addressed the Fourth Session of UNCTAD in Nairobi, Kenya, in May 1976. Staff representatives attended sessions of the ECOSOC, the General Assembly, and their subordinate bodies, the Special Fund, and the Administrative Committee on Coordination (ACC) and its preparatory and working groups. The Managing Director attended various monthly meetings of the BIS in Basle and participated in meetings of the central bank governors of the countries adhering to the arrangements on gold,[41] composed of the Group of Ten industrial countries, Switzerland, and Portugal. On the invitation of the governors of the central banks of the Group of Ten countries and Switzerland, the Managing Director entered into arrangements to monitor a $3 billion medium-term financing facility provided by the BIS, with the support of the participating central banks, with respect to U. K. official sterling balances.

In connection with Fund concerns regarding aid coordination and debt renegotiation, staff representatives participated in meetings, and in some cases, staff reports were made available at the request of the subject country, of the Inter-Governmental Group on Indonesia (IGGI), convened by the Netherlands Government; IBRD Consultative Groups on Aid Coordination for East Africa—Kenya, Korea, the Philippines, the Sudan, and Thailand; the India and the Pakistan Consortia, and the Aid Groups for Bangladesh, Burma, Nepal, and Sri Lanka, which were also held under IBRD auspices. Fund staff also participated in debt renegotiation meetings held by Zaïre with creditor countries under the aegis of the Paris Club and with private creditor banks.

Commodity problems are followed closely by the Fund, particularly with reference to its compensatory financing and buffer stock facilities. Fund staff attended meetings of the UNCTAD in connection with its Integrated Program for Commodities, including the UN Negotiating Conference on a Common Fund and the preparatory meetings therefor, the Preparatory Meeting on Copper, and the UN Sugar Conference; the Food and Agriculture Organization of the United Nations (FAO) meeting of its Committee on Commodity Problems' Intergovernmental Group on Rice; and meetings of the International Cotton Advisory Committee and the International Cocoa Council and its Statistics Committee.

Long-standing cooperative arrangements with the GATT with respect to its consultations with common members on trade restrictions imposed for balance of payments reasons involved staff participation in those consultations and the provision of pertinent documents. Fund representatives also attended the annual session of the CONTRACTING PARTIES to the GATT, meetings of the Council of Representatives, the Consultative Group of Eighteen and other GATT bodies, and continued to pay close attention to the ongoing multilateral trade negotiations.

On the technical level, Fund staff participated in the International Labor Organization's (ILO) Tripartite World Conference on Employment, Income Distribution and Social Progress, held in Geneva, and also attended sessions of its Governing Body and International Labor Conference; the Conference of Asian Chambers of Commerce and Industry; the 19th Session of the UN Statistical Commission, held in New Delhi, at which

[40] The communiqués and announcements issued after the meetings are reproduced in Appendix III.

[41] These arrangements were described in the Interim Committee communiqué of August 31, 1975. See *Annual Report, 1976,* pages 120–21.

the Fund's *Draft Manual* and work on improving and developing government finance statistics were broadly agreed; the Group of 77 Conference on Economic Cooperation Among Developing Countries, held in Mexico City; the general meetings of the International Union of Credit and Investment Insurers (Berne Union); the 10th meeting of the Latin American Banking Federation; the 13th meeting of Central Bank Technicians of the American Continent, at which two papers were submitted by Fund staff; and the Conference on External Financial Policy, sponsored jointly by the OAS and the Central Bank of Chile. Lecturers were also provided by the Fund to the South-East Asia, New Zealand, and Australia (SEANZA) central banking course in Tehran, and to the Center for Latin American Monetary Studies (CEMLA) courses in Mexico City and Washington.

As follow-up to the technical assistance provided in connection with its establishment, a Fund representative attended the first annual meeting of the Board of Governors of the Islamic Development Bank. Technical assistance was also extended to the Organization of Petroleum Exporting Countries (OPEC) Special Fund in connection with establishing criteria for balance of payments support to MSA countries.

Membership, Quotas, and Participation in the Special Drawing Account

The Comoros became a member of the Fund on September 21, 1976 with a quota of SDR 1.9 million, and Guinea-Bissau became a member on March 24, 1977 with a quota of SDR 3.2 million, bringing total membership on April 30, 1977 to 130 and aggregate quotas to SDR 29,216.5 million. The Comoros and Guinea-Bissau also became participants in the Special Drawing Account, bringing the total number of participants to 122, with quotas equivalent to 98.9 per cent of the Fund total. The eight members of the Fund that are not participants in the Special Drawing Account are Ethiopia, Kuwait, Lebanon, Libya, Qatar, Saudi Arabia, Singapore, and the United Arab Emirates.

The Board of Governors approved terms and conditions for the admission of Seychelles to membership in the Fund on September 7, 1976, and for the admission of Surinam to membership in the Fund on October 8, 1976, with each country given a six-month period for acceptance of membership. Owing to unexpected delays in the completion of the official action needed for membership, the Executive Directors, at the request of Seychelles and Surinam, respectively, have extended the period during which Seychelles may accept membership until July 5, 1977 [42] and the period during which Surinam may accept membership until October 6, 1977. At the close of the fiscal year, applications for membership from Cape Verde, Maldives, and São Tomé and Principe were under consideration by the Executive Board.

The Sixth and Seventh General Reviews of Quotas are discussed in an earlier section of this chapter.

Executive Directors and Staff

A list of Executive Directors and their voting power on April 30, 1977 is given in Appendix IV. The changes in membership of the Executive Board during 1976/77 are shown in Appendix V.

In the year ended April 30, 1977, there were 111 appointments to the Fund's regular staff and 101 separations; the separations included the Secretary of the Fund, the Directors of the Administration, African, and Western Hemisphere Departments and the Central Banking Service, the Acting Director of the Middle Eastern Department, and the Directors of the Bureau of Language Services and the Office in Geneva. At the end of the fiscal year, the staff numbered 1,373 and was drawn from 89 countries. These figures do not include Advisors and Assistants to Executive Directors.

Publications

As a memorial to the late J. Marcus Fleming, who had served as Deputy Director of the Research Department, the Fund organized a conference on "The New International Monetary System," to which a number of internationally distinguished economists were invited as participants. The seminar was held at the Fund, November 10–12, 1976. The papers delivered at the seminar and selected policy papers by Mr. Fleming are being published by the Columbia University Press under the joint sponsorship of the Fund and Columbia University.

The list of publications issued by the Fund in 1976/77 is shown in Appendix I, Table I. 19.

[42] Seychelles became a member of the Fund on June 30, 1977.

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Appendices

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Appendix I
The Fund in 1976/77

The tables in this appendix supplement the information given in Chapter 3 on the activities of the Fund during the past year. For some aspects of the Fund's operations, data covering longer periods are included. Apart from Table I.1 on exchange rates and exchange rate regimes, Table I.13 on the status of the General Arrangements to Borrow, and Table I.16 setting out the charges on the use of the Fund's resources, the data in the tables do not go beyond April 30, 1977, the end of the Fund's fiscal year.

Table I.1. Exchange Rates and Exchange Rate Regimes, June 30, 1977

(Currency units per unit listed)

Member	Currency	Exchange Rate Maintained Against: U.S. dollar [1]	Pound sterling [1]	French franc [1]	Other single currency [1]	Special drawing rights [2]	Currency composite other than SDR [3]	Other currencies in group [2,4]	Exchange Rate Otherwise Determined [3,5]	Market Rate per U.S. Dollar [3]
Afghanistan [6]	Afghani	—	—	—	—	—	—	—	45.0	45.0
Algeria [6]	dinar	—	—	—	—	—	4.1485	—	—	4.1485
Argentina [6]	peso	—	—	—	—	—	—	—	390.50 [7]	390.50
Australia	dollar	—	—	—	—	—	—	—	0.896485	0.896485
Austria	schilling	—	—	—	—	—	16.585	—	—	16.585
*Bahamas [6]	dollar	1.00	—	—	—	—	—	—	—	1.00
*Bahrain	dinar	0.394737	—	—	—	—	—	—	—	0.394737
*Bangladesh [6]	taka	—	26.70	—	—	—	—	—	—	15.5214
*Barbados	dollar	2.00	—	—	—	—	—	—	—	2.00
*Belgium [6]	franc	—	—	—	—	—	—	48.6573	—	36.035
Benin	franc	—	—	50.00	—	—	—	—	—	245.963
*Bolivia	peso	20.00	—	—	—	—	—	—	—	20.00
Botswana	pula	0.828157	—	—	—	—	—	—	—	0.828157
Brazil [6]	cruzeiro	—	—	—	—	—	—	—	13.93 [7]	13.93
*Burma	kyat	—	—	—	—	8.50849	—	—	—	7.3218
*Burundi	franc	90.00	—	—	—	—	—	—	—	90.00
Cambodia [8]		—	—	—	—	—	—	—	—	—
Cameroon	franc	—	—	50.00	—	—	—	—	—	245.963
Canada	dollar	—	—	—	—	—	—	—	1.0599	1.0599
Central African Empire	franc	—	—	50.00	—	—	—	—	—	245.963
Chad	franc	—	—	50.00	—	—	—	—	—	245.963
Chile	peso	—	—	—	—	—	—	—	20.59 [7]	20.59
*China, Republic of	new Taiwan dollar	38.00	—	—	—	—	—	—	—	38.00
Colombia [6]	peso	—	—	—	—	—	—	—	36.50 [7]	36.50
Comoros	franc	—	—	50.00	—	—	—	—	—	245.963
Congo, People's Republic of the	franc	—	—	50.00	—	—	—	—	—	245.963
Costa Rica [6]	colón	8.57	—	—	—	—	—	—	—	8.57
Cyprus	pound	—	—	—	—	—	0.410088	—	—	0.410088
*Denmark	krone	—	—	—	—	—	—	8.13822	—	6.0295
Dominican Republic [6]	peso	1.00	—	—	—	—	—	—	—	1.00
Ecuador [6]	sucre	25.00	—	—	—	—	—	—	—	25.00
Egypt	pound	0.391305	—	—	—	—	—	—	—	0.391305
El Salvador	colón	2.50	—	—	—	—	—	—	—	2.50
Equatorial Guinea [6]	ekuele	—	—	—	1.00 [9]	—	—	—	—	69.60
*Ethiopia [6]	birr	2.07237	—	—	—	—	—	—	—	2.07237
Fiji	dollar	—	—	—	—	—	0.919963	—	—	0.919963
Finland	markka	—	—	—	—	—	4.052	—	—	4.052
France	franc	—	—	—	—	—	—	—	4.91925	4.91925

Gabon	**franc**	—	—	**50.00**	—	—	—	—	—	**245.963**
Gambia, The	**dalasi**	—	**4.00**	—	—	—	—	—	—	**2.3253**
*Germany, Federal Republic of	deutsche mark	—	—	—	—	—	—	3.15665	—	2.338
Ghana [6]	cedi	1.15385	—	—	—	—	—	—	—	1.15385
Greece	drachma	—	—	—	—	—	—	—	37.012	37.012
Grenada	East Caribbean dollar	2.70	—	—	—	—	—	—	—	2.70
Guatemala	quetzal	1.00	—	—	—	—	—	—	—	1.00
Guinea [6]	syli	—	—	—	—	24.6853	—	—	—	21.2004
Guinea-Bissau	peso	—	—	—	0.85 [10]	—	—	—	—	32.831
*Guyana [6]	dollar	2.55	—	—	—	—	—	—	—	2.55
Haiti	gourde	5.00	—	—	—	—	—	—	—	5.00
Honduras	lempira	2.00	—	—	—	—	—	—	—	2.00
Iceland	króna	—	—	—	—	—	—	—	194.75	194.75
India	rupee	—	—	—	—	—	8.83619	—	—	8.83619
Indonesia [6]	rupiah	415.00	—	—	—	—	—	—	—	415.00
*Iran [6]	rial	—	—	—	—	82.2425	—	—	—	70.625
*Iraq	dinar	0.296053	—	—	—	—	—	—	—	0.296053
Ireland [6]	pound	—	1.00	—	—	—	—	—	—	0.581327
*Israel [6]	pound	—	—	—	—	—	—	—	9.3928 [7]	9.3928
Italy	lira	—	—	—	—	—	—	—	884.775	884.775
Ivory Coast	franc	—	—	50.00	—	—	—	—	—	245.963
*Jamaica [6]	dollar	0.909091	—	—	—	—	—	—	—	0.909091
Japan	yen	—	—	—	—	—	—	—	267.70	267.70
*Jordan	dinar	—	—	—	—	0.387755	—	—	—	0.330000
*Kenya	shilling	—	—	—	—	9.66	—	—	—	8.31
Korea	won	485.00	—	—	—	—	—	—	—	485.00
Kuwait	dinar	—	—	—	—	—	0.2874	—	—	0.2874
Lao People's Democratic Republic	kip	200.00	—	—	—	—	—	—	—	200.00
Lebanon	pound	—	—	—	—	—	—	—	3.085	3.085
Lesotho	rand	—	—	—	1.00 [11]	—	—	—	—	0.869565
Liberia	dollar	1.00	—	—	—	—	—	—	—	1.00
*Libya	dinar	0.296053	—	—	—	—	—	—	—	0.296053
*Luxembourg [6]	franc	—	—	—	—	—	—	48.6573	—	36.035
Madagascar	franc	—	—	50.00	—	—	—	—	—	245.963
Malawi	kwacha	—	—	—	—	1.05407	—	—	—	0.905264
Malaysia	ringgit	—	—	—	—	—	2.4851	—	—	2.4851
Mali	franc	—	—	100.00	—	—	—	—	—	491.925
Malta	pound	—	—	—	—	—	0.425314	—	—	0.425314
Mauritania	ouguiya	—	—	—	—	—	46.17	—	—	46.17
Mauritius [6]	rupee	—	—	—	—	7.713759	—	—	—	6.62479
Mexico	peso	—	—	—	—	—	—	—	22.9949	22.9949
Morocco [6]	dirham	—	—	—	—	—	4.48105	—	—	4.48105
*Nepal [6]	rupee	12.50	—	—	—	—	—	—	—	12.50
*Netherlands	guilder	—	—	—	—	—	—	3.35507	—	2.4725
New Zealand	dollar	—	—	—	—	—	1.03306	—	—	1.03306

Table I.1 (*concluded*). Exchange Rates and Exchange Rate Regimes, June 30, 1977

(Currency units per unit listed)

Member	Currency	Exchange Rate Maintained Against: U.S. dollar [1]	Pound sterling [1]	French franc [1]	Other single currency [1]	Special drawing rights [2]	Currency composite other than SDR [3]	Other currencies in group [2,4]	Exchange Rate Otherwise Determined [3,5]	Market Rate per U.S. Dollar [3]
Nicaragua	córdoba	7.00	—	—	—	—	—	—	—	7.00
Niger	franc	—	—	50.00	—	—	—	—	—	245.963
Nigeria	naira	—	—	—	—	—	—	—	0.651380	0.651380
*Norway	krone	—	—	—	—	—	—	7.15551	—	5.315
*Oman	rial Omani	0.345395	—	—	—	—	—	—	—	0.345395
*Pakistan	rupee	9.90	—	—	—	—	—	—	—	9.90
Panama	balboa	1.00	—	—	—	—	—	—	—	1.00
Papua New Guinea	kina	—	—	—	0.882223 [12]	—	—	—	—	0.79090
Paraguay [6]	guaraní	126.00	—	—	—	—	—	—	—	126.00
Peru [6]	sol	—	—	—	—	—	—	—	79.3651 [7]	79.3651
Philippines	peso	—	—	—	—	—	—	—	7.396	7.396
Portugal	escudo	—	—	—	—	—	38.625	—	—	38.625
Qatar [13]	riyal	—	—	—	—	4.76190	—	—	—	3.95596
Romania [6]	leu	12.00 [14]	—	—	—	—	—	—	—	12.00
*Rwanda	franc	92.84	—	—	—	—	—	—	—	92.84
Saudi Arabia [13]	riyal	—	—	—	—	4.28255	—	—	—	3.53
Senegal	franc	—	—	50.00	—	—	—	—	—	245.963
Seychelles	Seychelles rupee	—	13.33	—	—	—	—	—	—	7.749
Sierra Leone	leone	—	2.00	—	—	—	—	—	—	1.1627
Singapore	dollar	—	—	—	—	—	2.4644	—	—	2.4644
*Somalia [6]	shilling	6.23270	—	—	—	—	—	—	—	6.23270
South Africa [6]	rand	0.869565	—	—	—	—	—	—	—	0.869565
Spain	peseta	—	—	—	—	—	—	—	69.60	69.60
Sri Lanka [6]	rupee	—	—	—	—	—	7.27821	—	—	7.27821
Sudan [6]	pound	0.348242	—	—	—	—	—	—	—	0.348242
Swaziland	lilangeni	—	—	—	1.00 [11]	—	—	—	—	0.869565
*Sweden	krona	—	—	—	—	—	—	5.91118	—	4.3985
Syrian Arab Republic	pound	3.925	—	—	—	—	—	—	—	3.925
*Tanzania	shilling	—	—	—	—	9.66	—	—	—	8.29628
*Thailand	baht	20.00	—	—	—	—	—	—	—	20.00
Togo	franc	—	—	50.00	—	—	—	—	—	245.963
Trinidad and Tobago	dollar	2.40	—	—	—	—	—	—	—	2.40
Tunisia	dinar	—	—	—	—	—	0.426794	—	—	0.426794
Turkey [6]	lira	—	—	—	—	—	—	—	17.675	17.675
*Uganda	shilling	—	—	—	—	9.66	—	—	—	8.31308
*United Arab Emirates	dirham	3.94737	—	—	—	—	—	—	—	3.94737
United Kingdom [6]	pound	—	—	—	—	—	—	—	0.581327	0.581327
United States	dollar	—	—	—	—	—	—	—	1.000	1.000
Upper Volta	franc	—	—	50.00	—	—	—	—	—	245.963
Uruguay [6]	new peso	—	—	—	—	—	—	—	4.62 [7]	4.62

Venezuela	bolívar	4.2925	—	—	—	—	—	—	—	4.2925
Viet Nam [6]	South Vietnamese dong	—	—	—	—	2.13087	—	—	—	1.83005
Western Samoa	tala	—	—	—	—	—	0.7851	—	—	0.7851
Yemen Arab Republic	rial	4.5625	—	—	—	—	—	—	—	4.5625
*Yemen, People's Democratic Republic of [6]	dinar	0.345395	—	—	—	—	—	—	—	0.345395
Yugoslavia [6]	dinar	—	—	—	—	—	—	—	18.2368	18.2368
*Zaïre	zaïre	—	—	—	—	1.00	—	—	—	0.858828
*Zambia	kwacha	—	—	—	—	0.921837	—	—	—	0.791699

* The member is availing itself of wider margins of up to ± 2.25 per cent.

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

[2] Rates as notified to the Fund and in terms of SDRs as valued in accordance with Article XXI, Section 2, of the Fund Articles of Agreement.

[3] Market rates as of June 30 in currency units per U.S. dollar.

[4] Belgium, Denmark, the Federal Republic of Germany, Luxembourg, the Netherlands, Norway, and Sweden maintain maximum margins of 2.25 per cent for exchange rates in transactions in the official markets between their currencies and those of the other countries in this group. No announced margins are observed for other countries.

[5] Members under this heading comprise those describing their exchange rate regime as one of floating independently as well as certain other members whose regimes are not otherwise described in this table. These members have notified the Fund that their currencies are not being maintained within specified margins in terms of another currency or a currency composite.

[6] Member maintains multiple currency practices and/or dual exchange market. A description of the member's exchange system as of December 31, 1976 is given in the *Twenty-Eighth Annual Report on Exchange Restrictions.*

[7] Exchange rates adjusted according to a set of indicators.

[8] Information not available.

[9] Per Spanish peseta.

[10] Per Portuguese escudo.

[11] Per South African rand.

[12] Per Australian dollar.

[13] Saudi Arabia and Qatar maintain margins of up to ± 7.25 per cent.

[14] Rate for noncommercial transactions.

Table I.2. Transfers of Special Drawing Rights, January 1, 1970–April 30, 1977

(In millions of SDRs)

	Jan. 1, 1970– Apr. 30, 1970	Fiscal Years Ended April 30 1971	1972	1973	1974	1975	1976	1977	Total Jan. 1, 1970– Apr. 30, 1977
Transfers between participants									
Transactions with designation	155	348	267	117	60	440	292	119	1,797
Transactions without designation	20	286	380	303	996	249	176	317	2,727
	175	633	647	420	1,056	688	468	436	4,524
General Account									
Transfers from participants									
Repurchases (net)	183	357	501	68	29	24	440	73	1,675
Charges (net)	29	66	30	30	29	92	354	709	1,339
Assessments	1	1	1	1	1	1	2	1	8
Interest received on General Account holdings	—	4	7	10	8	21	21	23	95
	213	429	540	108	67	138	817	805	3,117
Transfers to participants									
Purchases	—	—	—	292	7	4	443	25	771
Reconstitution	—	—	46	107	157	117	404	445	1,277
Replenishment of participants' currencies	—	123	21	—	—	—	—	—	144
Remuneration	—	18	15	2	20	6	10	24	96
Distribution of net income	—	9	8	—	—	—	—	—	17
Restoration of participants' holdings [1]	—	—	29	—	—	—	—	—	29
Interest on Fund borrowings	—	—	—	—	—	—	8	—	8
Other [2]	—	1	—	—	—	—	—	—	1
	—	151	120	401	185	127	865	495	2,345
Total transfers	388	1,213	1,307	929	1,308	953	2,150	1,736	9,986
General Account holdings at end of period	213	490	910	617	499	510	461	771	771

[1] Under Article XXV, Sections 2(*b*)(ii) and 7(*e*).
[2] Under Article XXVI, Section 5.

Table I.3. Summary of Transactions and Operations in Special Drawing Rights, Fiscal Year Ended April 30, 1977[1]
(In thousands of SDRs)

		Transactions and Operations						Positions at April 30, 1977		
		Between participants								
		Received			Between participants and the General Account					
Participants	Holdings on April 30, 1976	Through designation	Other	Used	Received	Used	Interest, Charges, and Assessment (Net)	Holdings	Net cumulative allocations	Holdings as per cent of net cumulative allocations
Afghanistan	5,260				80	433	−294	4,614	12,753	36.2
Algeria	43,048					1	+101	43,148	40,290	107.1
Argentina	43,710				50,763	21,858	−3,081	69,534	152,520	45.6
Australia	40,083					5,429	−7,238	27,416	225,645	12.1
Austria	95,846						+724	96,570	76,745	125.8
Bangladesh	15,654				9,554	12,382	+635	13,461		
Barbados	2,767					18	−1	2,748	2,769	99.3
Belgium	563,303			165,944		12	+9,776	407,123	209,346	194.5
Benin	4,445						−1	4,445	4,449	99.9
Bolivia	6,990					112	−226	6,652	12,753	52.2
Botswana	1,568							1,567	1,569	99.9
Brazil	170,734				220		+690	171,644	152,520	112.5
Burma	7,137		1,124		1,166	1,639	−521	7,267	20,844	34.9
Burundi	3,094					82	−136	2,877	6,567	43.8
Cambodia	328						−315	14	8,517	0.2
Cameroon	9,945					1,641	−54	8,249	10,513	78.5
Canada	478,867			6,308	1,218	14	+4,578	478,342	358,620	133.4
Central African Empire	2,031					560	−101	1,370	4,365	31.4
Chad	2,147					345	−95	1,707	4,449	38.4
Chile	46,055		26,514		9,989	27,904	−271	54,383	54,654	99.5
Colombia	18,918	5,000			405		−1,261	23,062	54,441	42.4
Congo, People's Republic of the	2,061					44	−92	1,925	4,449	43.3
Costa Rica	3,001		3,732			2,354	−343	4,036	11,016	36.6
Cyprus	9,799					2,572	−18	7,209	8,898	81.0
Denmark	81,886		8,340				+38	90,263	82,764	109.1
Dominican Republic	6,220			1,000	1,000	490	−326	5,404	14,535	37.2
Ecuador	6,097				164		−192	6,070	11,229	54.1
Egypt	7,787				23,523	7,633	−1,939	21,739	65,244	33.3
El Salvador	3,748		2,000		940	881	−276	5,531	11,655	47.5
Equatorial Guinea	1,773						−36	1,736	2,712	64.0
Fiji	1,329						−2	1,326	1,378	96.3
Finland	65,020				43	12,509	−109	52,446	61,470	85.3
France	184,294	35,000			7,557		−10,505	216,346	484,980	44.6
Gabon	4,619						−7	4,612	4,791	96.3
Gambia, The	1,998			1,500	500	18	−25	956	2,331	41.0
Germany, Federal Republic of	1,632,668		155,424	142,039			+43,714	1,689,768	542,400	311.5
Ghana	5,992		4,832		2,650	2,654	−846	9,974	30,123	33.1
Greece	13,410		7,239		10,355	13,720	−1,179	16,105	46,194	34.9
Grenada	56				77	62	+3	74		
Guatemala	11,440						−18	11,422	11,868	96.2
Guinea	2,853				283	372	−211	2,552	8,304	30.7
Guyana	3,649				18	256	−124	3,287	6,780	48.5

Table I.3 (*concluded*). Summary of Transactions and Operations in Special Drawing Rights, Fiscal Year Ended April 30, 1977[1]

(In thousands of SDRs)

		Transactions and Operations						Positions at April 30, 1977		
		Between participants								
		Received			Between participants and the General Account					
Participants	Holdings on April 30, 1976	Through designation	Other	Used	Received	Used	Interest, Charges, and Assessment (Net)	Holdings	Net cumulative allocations	Holdings as per cent of net cumulative allocations
Haiti	1,799				1,500	982	−196	2,121	6,567	32.3
Honduras	3,524					1,154	−216	2,153	8,517	25.3
Iceland	4,054				1,153	3,348	−183	1,676	7,419	22.6
India	198,516	20,298				31,384	−5,296	182,134	326,220	55.8
Indonesia	3,892	2,000			6,111		−3,242	8,761	90,156	9.7
Iran	61,322	4,500			1	2	+35	65,856	61,896	106.4
Iraq	27,977				1		+180	28,158	23,217	121.3
Ireland	44,947				374		+229	45,550	39,213	116.2
Israel	4,621		9,971		10,000	15,117	−1,377	8,098	42,810	18.9
Italy	111,649				161,128	152,327	−8,986	111,465	318,000	35.1
Ivory Coast	14,054			2,726		2,699	−99	8,529	14,268	59.8
Jamaica	357		3,000	4,500	13,511	2,856	−571	8,942	17,673	50.6
Japan	446,337				13,904		+3,108	463,349	377,400	122.8
Jordan	7,378						−9	7,369	7,587	97.1
Kenya	1,625				5,000	5,227	−494	903	15,600	5.8
Korea	3,106	2,000	11,938		10,979	20,668	−621	6,734	22,230	30.3
Lao People's Democratic Republic	1,492				135	232	−114	1,281	4,449	28.8
Lesotho	496						−41	454	1,569	29.0
Liberia	3,521		36				−232	3,325	9,537	34.9
Luxembourg	7,339						−1	7,339	7,345	99.9
Madagascar	348		1,250		2,000	983	−292	2,323	8,730	26.6
Malawi	4,501					263	−28	4,210	5,085	82.8
Malaysia	65,714				250	41,237	+167	24,894	60,618	41.1
Mali	2,606				337	147	−187	2,609	7,542	34.6
Malta	5,087				59		+2	5,147	5,088	101.2
Mauritania	1,563				158	589	−121	1,011	4,449	22.7
Mauritius	2,509				186		−184	2,511	7,374	34.0
Mexico	85,568		45,802	83,298	182	5,291	−2,781	40,182	124,170	32.4
Morocco	13,358					4,287	−1,070	8,000	39,189	20.4
Nepal	2,202				12	152	−3	2,058	2,215	92.9
Netherlands	531,347						+11,277	542,624	236,460	229.5
New Zealand	5,736				33,000	21,095	−2,206	15,436	69,402	22.2
Nicaragua	4,145	1,000				825	−204	4,115	8,943	46.0
Niger	4,387						−3	4,384	4,449	98.5
Nigeria	61,157						+593	61,750	45,555	135.6
Norway	89,455						+495	89,950	76,320	117.9
Oman	742							741	742	99.9
Pakistan	45,080				32,678	42,709	−2,154	32,895	81,639	40.3
Panama	6,550					1,908	−261	4,381	12,372	35.4
Papua New Guinea	1,833				713	1,248	+72	1,369		
Paraguay	6,564				1		−1	6,564	6,567	100.0

Peru	**6,431**		**2,806**		**2,189**	**7,145**	**−1,374**	**2,907**	**40,479**	**7.2**
Philippines	**21,273**				**12,409**	**19,676**	**−1,338**	**12,667**	**51,495**	**24.6**
Portugal	6,213				9,200	9,951	+346	5,808		
Romania	14,721				3,132	7,716	+528	10,665		
Rwanda	2,229				205		−162	2,272	6,567	34.6
Senegal	2,526		2,726			1,823	−358	3,071	11,442	26.8
Sierra Leone	3,645					1,018	−181	2,446	7,845	31.2
Somalia	4,271						−89	4,182	6,567	63.7
South Africa	46,194				519	8,143	−1,771	36,799	88,920	41.4
Spain	116,470	5,000				41,128	−1,143	79,200	126,135	62.8
Sri Lanka	11,677				8,911	7,840	−869	11,880	33,978	35.0
Sudan	2,258		4,347		1,100	6,738	−934	33	24,912	0.1
Swaziland	943						−68	875	2,712	32.2
Sweden	106,995				36		−12	107,019	107,025	100.0
Syrian Arab Republic	6,935					167	−395	6,373	17,034	37.4
Tanzania	1,555		3,297		10,141	4,936	−343	9,715	14,322	67.8
Thailand	29,583					994	+20	28,608	28,542	100.2
Togo	5,081					146	−3	4,931	5,085	97.0
Trinidad and Tobago	7,191	1,500			521		−513	8,699	20,811	41.8
Tunisia	9,965						−184	9,782	14,713	66.5
Turkey	22,802		16,289			20,441	−1,256	17,394	50,307	34.6
Uganda	2,285				470	1,861	−481	413	13,896	3.0
United Kingdom	675,311				6,750	124,458	−15,004	542,599	1,006,320	53.9
United States	2,020,687	40,500					−9,943	2,051,245	2,293,980	89.4
Upper Volta	4,425						−1	4,424	4,449	99.4
Uruguay	789				15,342	12,421	−828	2,883	23,937	12.0
Venezuela	125,952						+512	126,464	112,290	112.6
Viet Nam	19,742			19,000	5,000	206	−376	5,160	19,758	26.1
Western Samoa	19				128	81	−7	58	212	27.5
Yemen Arab Republic	2,129							2,128	2,130	99.9
Yemen, People's Democratic Republic of	3,417				2,422	2,132	−256	3,451	9,873	35.0
Yugoslavia	24,649	2,000	3,450			22,250	−2,155	5,693	69,291	8.2
Zaïre	31,035			8,000	1,959	8,435	−459	16,101	39,189	41.1
Zambia	14,501		2,900	1,500	8,820	6,968	−285	17,468	24,588	71.0
Total Participants	8,853,989	118,798	317,017	435,815	503,135	789,402	−23,981	8,543,742	9,314,835	
General Account	460,847				789,402	503,135	+23,981	771,094		
Total	9,314,835	118,798	317,017	435,815	1,292,537	1,292,537	—	9,314,835	9,314,835	

[1] This table does not include those participants that did not receive allocations and do not presently hold SDRs. These participants are the Bahamas, Bahrain, the Republic of China, the Comoros, and Guinea-Bissau.

Table I.4. Currencies Transferred for Special Drawing Rights, January 1, 1970–April 30, 1977

(In millions of SDRs)

	Jan. 1, 1970– Apr. 30, 1970	Fiscal Years Ended April 30							Total Jan. 1, 1970– Apr. 30, 1977
		1971	1972	1973	1974	1975	1976	1977	
Transactions with designation									
Belgian francs									
Provided directly to participants	1.0	—	—	—	—	—	—	—	1.0
Deutsche mark									
Converted to U.S. dollars	—	—	—	—	3.0	2.0	—	2.0	7.0
French francs									
Provided directly to participants	—	3.5	22.3	—	—	—	—	19.0	44.8
Converted to pounds sterling	—	8.0	—	—	—	—	—	—	8.0
Converted to U.S. dollars	—	14.0	21.0	—	—	104.0	80.5	16.0	235.3
	—	25.5	43.3	—	—	104.0	80.5	35.0	288.2
Italian lire									
Provided directly to participants	—	4.0	—	—	—	—	—	—	4.0
Mexican pesos									
Converted to U.S. dollars	—	—	—	—	—	1.0	—	—	1.0
Pounds sterling									
Provided directly to participants	—	27.4	56.3	59.9	—	—	—	1.5	145.1
Converted to French francs	—	6.7	1.3	—	—	—	—	—	8.0
Converted to U.S. dollars	—	45.8	53.4	5.4	3.0	1.0	4.0	19.3	131.9
	—	79.9	111.0	65.3	3.0	1.0	4.0	20.8	285.0
U.S. dollars									
Provided directly to participants	148.9	227.1	112.5	51.2	54.1	321.1	207.2	61.0	1,183.1
Converted to French francs	5.1	3.6	—	—	—	—	—	—	8.7
Converted to pounds sterling	—	7.5	—	—	—	11.5	—	—	19.0
	154.0	238.2	112.5	51.2	54.1	332.6	207.2	61.0	1,210.8
Total	155.0	347.6	266.8	116.6	60.1	440.6	291.7	118.8	1,797.0
Transactions without designation									
Belgian francs	—	—	—	—	37.0	56.5	67.9	165.9	327.4
Danish kroner	—	—	—	—	5.0	63.3	—	—	68.2
Deutsche mark	—	—	—	—	100.5	123.5	30.4	29.4	283.7
French francs	—	—	—	—	588.5	—	78.3	2.7	669.6
Netherlands guilders	—	—	—	11.7	264.9	5.2	—	—	281.8
Pounds sterling	20.0	—	25.0	291.8	—	—	—	—	336.8
U.S. dollars	—	285.5	355.0	—	—	—	—	119.0	759.5
Total	20.0	285.5	380.0	303.5	995.9	248.5	176.6	317.1	2,727.0

Table I.5. Transfer of Special Drawing Rights by the General Account, Fiscal Year Ended April 30, 1977

(In thousands of SDRs)

	Reconstitution	Payment of Remuneration	Purchases
Afghanistan	80	—	—
Argentina	50,364	—	—
Bangladesh	—	—	9,500
Brazil	—	220	—
Burma	1,166	—	—
Canada	—	1,218	—
Chile	9,989	—	—
Colombia	405	—	—
Dominican Republic	—	—	1,000
Ecuador	—	164	—
Egypt	23,523	—	—
El Salvador	940	—	—
Finland	—	43	—
France	—	7,419	—
Gambia, The	—	—	500
Ghana	2,650	—	—
Greece	10,355	—	—
Grenada	—	—	76
Guinea	283	—	—
Haiti	1,500	—	—
Iceland	1,153	—	—
Indonesia	5,948	163	—
Iran	—	1	—
Iraq	—	1	—
Ireland	—	374	—
Israel	10,000	—	—
Italy	161,128	—	—
Jamaica	13,511	—	—
Japan	—	13,904	—
Kenya	5,000	—	—
Korea	10,956	—	—
Lao People's Democratic Republic	135	—	—
Madagascar	2,000	—	—
Malaysia	—	250	—
Mali	337	—	—
Malta	—	59	—
Mauritania	158	—	—
Mauritius	186	—	—
Mexico	—	182	—
New Zealand	33,000	—	—
Pakistan	32,678	—	—
Papua New Guinea	—	—	713
Paraguay	—	1	—
Peru	2,189	—	—
Philippines	12,240	—	—
Portugal	—	—	9,200
Romania	—	—	2,995
Rwanda	205	—	—
South Africa	—	106	—
Sri Lanka	8,911	—	—
Sudan	1,100	—	—
Tanzania	10,141	—	—
Trinidad and Tobago	521	—	—
Uganda	470	—	—
Uruguay	15,342	—	—
Viet Nam	5,000	—	—
Western Samoa	128	—	—
Yemen, People's Democratic Republic of	2,422	—	—
Zaïre	1,857	—	—
Zambia	7,299	—	1,500
Total	445,273	24,108[1]	25,485

[1] Includes amounts of less than SDR 500 each paid to an additional 15 participants.

Table I.6. Purchases of Currencies and Special Drawing Rights from the Fund, Fiscal Year Ended April 30, 1977

(In millions of SDRs)

Member Purchasing	Within Gold Tranche	Within Credit Tranches: Under stand-by arrangements	Within Credit Tranches: Other [1]	Under Decision on: Compensatory financing	Under Decision on: Extended Fund facility	Under Decision on: Oil facility	Total Purchases	Under the Non-Oil Facilities: Currencies	Under the Non-Oil Facilities: Special drawing rights [2]	Under the Non-Oil Facilities: Total
Argentina	—	159.50	—	—	—	—	159.50	159.50	—	159.50
Australia	—	—	—	332.50	—	—	332.50	332.50	—	332.50
Bahrain	5.00	—	—	—	—	—	5.00	5.00	—	5.00
Bangladesh	—	21.50	—	20.00 [3]	—	14.69	56.19	32.00	9.50	41.50
Barbados	—	—	—	3.50	—	—	3.50	3.50	—	3.50
Cameroon	—	—	—	17.50	—	4.28	21.78	17.50	—	17.50
Chad	—	—	—	6.50	—	—	6.50	6.50	—	6.50
Chile	—	—	—	79.00	—	—	79.00	79.00	—	79.00
Congo, People's Rep. of the	2.03 [4]	—	—	6.50	—	—	8.53	8.53	—	8.53
Costa Rica	—	—	—	—	—	6.83	6.83	—	—	—
Cyprus	—	—	—	13.00	—	7.97	20.97	13.00	—	13.00
Dominican Rep.	—	—	15.00	21.50	—	—	36.50	35.50	1.00 [4]	36.50
Ecuador	17.56	—	—	—	—	—	17.56	17.56	—	17.56
Egypt	—	—	—	94.00	—	11.49	105.49	94.00	—	94.00
Finland	—	—	—	—	—	115.11	115.11	—	—	—
Gambia, The	1.74	—	—	3.50	—	—	5.24	4.74	0.50 [4]	5.24
Germany, Fed. Rep. of	8.34	—	—	—	—	—	8.34	8.34	—	8.34
Greece	—	—	—	58.00	—	—	58.00	58.00	—	58.00
Grenada	—	0.23	—	—	—	—	0.23	0.15	0.08	0.23
Guyana	5.00	7.25	—	10.00	—	—	22.25	22.25	—	22.25
Haiti	—	3.00	—	—	—	—	3.00	1.50	1.50 [5]	3.00
Israel	—	12.00	—	65.00	—	—	77.00	67.00	10.00 [5]	77.00
Jamaica	—	—	—	26.50	—	—	26.50	24.50	2.00 [5]	26.50
Kenya	—	—	—	24.00	—	3.10	27.10	19.00	5.00 [5]	24.00
Korea	—	9.00	—	40.00	—	—	49.00	49.00	—	49.00
Lao People's Dem. Rep.	—	—	—	3.25	—	—	3.25	3.25	—	3.25
Liberia	4.56	—	—	—	—	—	4.56	4.56	—	4.56
Malaysia	—	—	—	93.00	—	—	93.00	93.00	—	93.00
Mauritania	—	—	—	—	—	1.93	1.93	—	—	—
Mexico	97.77	—	134.12	185.00	100.00	—	516.90	516.90	—	516.90
Morocco	—	—	—	—	—	18.00	18.00	—	—	—
Nepal	3.11	4.50	—	—	—	—	7.60	7.60	—	7.60
New Zealand	—	—	—	50.50	—	—	50.50	50.50	—	50.50
Pakistan	—	—	—	99.50 [3]	—	—	99.50	89.50	10.00 [5]	99.50
Panama	—	—	—	18.00	—	—	18.00	18.00	—	18.00
Papua New Guinea	—	—	—	10.00	—	—	10.00	9.29	0.71	10.00
Peru	—	—	—	61.50	—	—	61.50	61.50	—	61.50
Philippines	—	—	—	—	90.00	55.16	145.16	90.00	—	90.00
Portugal	—	—	—	58.50	—	—	58.50	49.30	9.20	58.50
Romania	—	55.00	—	—	—	—	55.00	52.01	2.99	55.00
Sierra Leone	—	—	—	5.50	—	—	5.50	5.50	—	5.50
South Africa	—	189.00	—	160.00	—	—	349.00	349.00	—	349.00
Sri Lanka	—	—	—	15.80	—	—	15.80	15.80	—	15.80
Sudan	—	—	—	26.70	—	—	26.70	26.70	—	26.70
Tanzania	—	—	4.70	—	—	—	4.70	—	4.70 [5]	4.70
Thailand	—	—	—	67.00	—	—	67.00	67.00	—	67.00
Togo	—	—	—	7.50	—	—	7.50	7.50	—	7.50
Turkey	—	—	—	—	—	91.49	91.49	—	—	—
United Kingdom	—	1,700.00	—	—	—	—	1,700.00	1,700.00	—	1,700.00
Viet Nam	15.50 [6]	—	—	31.00	—	—	46.50	41.50	5.00 [5]	46.50
Western Samoa	—	—	—	1.00	—	—	1.00	0.89	0.11 [5]	1.00
Yemen, People's Dem. Rep. of	—	—	5.76	— [3]	—	7.42	13.18	5.76	—	5.76
Yugoslavia	—	—	—	—	—	56.15	56.15	—	—	—
Zaïre	—	40.96	—	—	—	32.53	73.49	40.96	—	40.96
Zambia	—	8.50	—	38.00	—	10.79	57.29	39.88	6.62 [7]	46.50
Total	160.61	2,210.43	159.59	1,752.75 [3]	190.00	436.94	4,910.33	4,404.46	68.92	4,473.39

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

[2] In accordance with Article XXV, Section 7(*f*), of the Articles of Agreement.

[3] In addition, the following amounts purchased within credit tranches during the fiscal year 1975/76 totaling the equivalent of SDR 39.56 million were reclassified as having been made under the compensatory financing decision: Bangladesh—SDR 19.06 million, Pakistan—SDR 18 million, and the People's Democratic Republic of Yemen—SDR 2.5 million.

[4] In accordance with Executive Board Decision No. 5355-(77/36) G/S, adopted March 15, 1977 and reproduced in Appendix II.

[5] In accordance with Executive Board Decision No. 3457-(71/121) G/S, as amended. (See *Selected Decisions*, pages 173–74.)

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

[7] Of which, SDR 1.5 million was purchased in accordance with Executive Board Decision No. 5355-(77/36) G/S, adopted March 15, 1977 and reproduced in Appendix II, and SDR 5.12 million in accordance with Executive Board Decision No. 3457-(71/121) G/S, as amended. (See *Selected Decisions*, pages 173–74.)

Table I.7. Repurchases of Currencies from the Fund, Fiscal Year Ended April 30, 1977

(In millions of SDRs)

Member Repurchasing	Repurchases in Respect of: Purchases under oil facility	Purchases under stand-by arrangements	Schedules approved by Fund	Article V, Section 7(*b*)	Voluntary Repurchases	Other Repurchases	Total
Afghanistan	—	—	—	9.3	—	—	9.3
Argentina	—	—	—	48.0	—	—	48.0
Bangladesh	—	—	31.7	—	1.3	—	33.0
Bolivia	—	—	—	12.1	—	1.9	13.9
Burma	—	—	7.1	—	—	—	7.1
Chile	—	39.5	33.1	12.1	—	—	84.8
Comoros	—	—	—	—	—	0.5	0.5
Costa Rica	—	—	3.0	—	—	—	3.0
Denmark	—	—	—	3.9	—	—	3.9
Egypt	—	—	22.0	—	—	—	22.0
Haiti	—	3.0	—	—	0.7	—	3.7
India	200.0	—	—	—	—	30.0	230.0
Ivory Coast	—	—	—	24.2	—	—	24.2
Korea	—	—	0.3	19.7	—	—	20.0
Liberia	—	—	1.3	—	—	—	1.3
Malaysia	—	—	—	—	—	85.7	85.7
Mali	—	—	3.0	—	—	—	3.0
Mauritius	—	—	—	—[1]	—	—	—[1]
Nicaragua	—	—	—	6.8	—	—	6.8
Pakistan	—	—	59.0	—	—	—	59.0
Philippines	—	—	1.9	36.8	—	—	38.8
South Africa	—	75.0	—	—	—	—	75.0
Sri Lanka	—	—	17.7	—	—	—	17.7
Sudan	—	—	20.0	—	—	—	20.0
Swaziland	—	—	—	1.0	—	—	1.0
Syrian Arab Republic	—	—	—	5.4	—	—	5.4
Uganda	—	—	5.1	—	—	—	5.1
Uruguay	—	—	4.3	—	—	—	4.3
Western Samoa	—	—	—	0.5	—	—	0.5
Zaïre	—	—	22.6	—	—	—	22.6
Zambia	—	—	—	19.0	—	—	19.0
Total	200.0	117.5	232.1	198.6[2]	1.9	118.1	868.2

[1] Less than SDR 50,000.

[2] Total includes SDR 126.8 million and SDR 37.5 million relating to Article V, Section 7(*b*), repurchase obligations incurred as of April 30, 1974 and April 30, 1975, respectively, as follows: 1974—SDR 48 million by Argentina, SDR 12.1 million by Chile, SDR 6.7 million by Nicaragua, SDR 35.6 million by the Philippines, SDR 5.4 million by the Syrian Arab Republic, and SDR 19 million by Zambia; 1975—SDR 12.1 million by Bolivia, SDR 24.2 million by Ivory Coast, and SDR 1.2 million by the Philippines.

NOTE:

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

Argentina	48.0	Philippines	29.1
Bangladesh	31.3	Sri Lanka	7.2
Burma	1.5	Uruguay	4.3
Chile	45.3	Western Samoa	0.1
Egypt	14.0	Zaïre	22.6
Ivory Coast	13.4	Zambia	19.0
Malaysia	85.7	Total	321.4

Table I.8. Fund Stand-By Arrangements for Members, Fiscal Year Ended April 30, 1977

(In millions of SDRs)

Member	Total Number of Stand-Bys Approved for Member	Date of Inception	Date of Expiration	Amount Approved 1975/76	Amount Not Purchased at Expiration	Amount Approved 1976/77	Amount Not Purchased April 30, 1977
Afghanistan	6	July 16, 1975	July 15, 1976	8.50	—		
Argentina	8	Aug. 6, 1976	Aug. 5, 1977			260.00	100.50
Bangladesh	2	July 28, 1975	July 27, 1976	62.50	—		
Burundi	7	June 5, 1976	Mar. 31, 1977			6.50	—
Congo, People's Rep. of the	1	Jan. 1, 1977	Dec. 31, 1977			4.70	4.70
Costa Rica	6	July 23, 1976	July 22, 1977			11.60	11.60
Egypt	3	Apr. 20, 1977	Apr. 19, 1978			125.00	125.00
Finland	3	June 4, 1975	June 3, 1976	95.00	95.00		
Grenada	2	Sept. 29, 1975	Sept. 28, 1976 [1]	0.50	—		
		June 30, 1976	Dec. 31, 1976			0.23	—
Guyana	10	June 18, 1975	June 17, 1976	5.00	5.00		
		June 18, 1976	June 17, 1977			7.25	—
Haiti	16	Aug. 1, 1975	July 31, 1976	4.75	1.50		
		Aug. 2, 1976	Aug. 1, 1977			6.88	3.88
Israel	3	Oct. 20, 1976	Oct. 19, 1977			29.25	17.25
Italy	2	Apr. 25, 1977	Dec. 31, 1978			450.00	450.00
Korea	11	Oct. 22, 1975	June 30, 1976	20.00	11.00		
Liberia	12	Jan. 14, 1976	Jan. 13, 1977	5.00	5.00		
Nepal	1	Feb. 18, 1976	Feb. 17, 1977	4.50	—		
Pakistan	7	Mar. 9, 1977	Mar. 8, 1978			80.00	80.00
Panama	10	Nov. 8, 1975	Nov. 7, 1976	9.00	9.00		
		Apr. 6, 1977	Apr. 5, 1978			11.25	11.25
Philippines	13	May 31, 1975	May 30, 1976 [2]	29.06	—		
Portugal	1	Apr. 25, 1977	Apr. 24, 1978			42.40	42.40
Romania	1	Oct. 3, 1975	Oct. 2, 1976	95.00	—		
South Africa	4	Jan. 21, 1976	Jan. 20, 1977 [3]	80.00	—		
		Aug. 6, 1976	Aug. 5, 1977			152.00	38.00
Tanzania	1	Aug. 21, 1975	Aug. 20, 1976	10.50	10.50		
United Kingdom	11	Dec. 31, 1975	Dec. 30, 1976	700.00	—		
		Jan. 3, 1977	Jan. 2, 1979			3,360.00	2,360.00
Uruguay	8	May 9, 1975	May 8, 1976	17.25	12.95		
		Aug. 4, 1976	Aug. 3, 1977			25.00	25.00
Western Samoa	2	Nov. 12, 1975	Nov. 11, 1976	0.50	—		
		Jan. 31, 1977	Jan. 30, 1978			0.59	0.59
Zaïre	3	Mar. 22, 1976	Mar. 21, 1977	40.96	—		
		Apr. 25, 1977	Apr. 24, 1978			45.00	45.00
Zambia	2	July 30, 1976	July 29, 1977			62.00	53.50
Total				1,188.02	149.95	4,679.64	3,368.67

[1] Canceled as of June 30, 1976.
[2] Canceled as of April 1, 1976.
[3] Canceled as of August 6, 1976.

Table I.9. Purchases and Repurchases Under the Decision on Compensatory Financing of Export Fluctuations, February 27, 1963–April 30, 1977[1]

(In millions of SDRs)

Member	Purchases: Date	Purchases: Amount	Related Repurchases: Total	Related Repurchases: Under paragraph (7) of amended decision	Outstanding Balance April 30, 1977
Afghanistan	June 5, 1968	4.80	4.80	—	—
Argentina	Mar. 3, 1972	64.00	64.00	—	—
	Dec. 23, 1975	110.00	—	—	110.00
	Mar. 30, 1976	110.00	—	—	110.00
Australia	July 8, 1976	332.50	—	—	332.50
Bangladesh	Dec. 15, 1972	62.50	39.06	—	23.44
	Aug. 2, 1976[2]	19.06[2]	—	—	19.06
	Aug. 5, 1976	20.00	—	—	20.00
Barbados	Jan. 3, 1977	3.50	—	—	3.50
Brazil	June 7, 1963	60.00	60.00	—	—
Burma	Nov. 21, 1967	7.50	7.50	—	—
	Sept. 21, 1971	6.50	6.50	—	—
	Feb. 1, 1974	15.00	—	—	15.00
Burundi	June 9, 1970	2.50	2.50	0.80	—
Cambodia	Mar. 14, 1972	6.25	—	—	6.25
	Apr. 18, 1973	6.25	—	—	6.25
Cameroon	July 6, 1976	17.50	—	—	17.50
Central African Empire	Feb. 3, 1976	5.10	—	—	5.10
Chad	Aug. 2, 1976	6.50	—	—	6.50
Chile	Dec. 14, 1971	39.50	39.50	—	—
	Dec. 22, 1972	39.50	29.50	—	10.00
	June 9, 1976	79.00	—	—	79.00
Colombia	Mar. 22, 1967	18.90	18.90	7.70	—
	Apr. 19, 1968[2]	0.95[2]	0.95	0.95	—
	Apr. 19, 1968[2]	0.95[2]	0.95	0.95	—
Congo, People's Rep. of the	Feb. 4, 1977	1.50	—	—	1.50
	Feb. 7, 1977	5.00	—	—	5.00
Cyprus	May 3, 1976	13.00	—	—	13.00
Dominican Republic	Dec. 6, 1966	6.60	6.60	3.30	—
	Sept. 23, 1976	21.50	—	—	21.50
Ecuador	Oct. 15, 1969[2]	3.50[2]	3.50	—	—
	Oct. 15, 1969[2]	2.75[2]	2.75	—	—
Egypt	Oct. 15, 1963	16.00	16.00	—	—
	Mar. 18, 1968	23.00	23.00	—	—
	Aug. 14, 1973	47.00	14.00	—	33.00
	June 16, 1976	94.00	—	—	94.00
El Salvador	Dec. 16, 1969	6.25	6.25	4.30	—
Gambia, The	Mar. 30, 1977	3.50	—	—	3.50
Ghana	Dec. 20, 1966	17.25	17.25	0.75	—
Greece	Sept. 13, 1976	58.00	—	—	58.00
Guatemala	Feb. 5, 1968[2]	3.00[2]	3.00	1.60	—
	Feb. 5, 1968[2]	3.25[2]	3.25	—	—
Guinea	Mar. 26, 1974	6.00	—	—	6.00
Guyana	Mar. 26, 1974	5.00	5.00	—	—
	Dec. 16, 1976	10.00	—	—	10.00
Haiti	Aug. 11, 1967	1.30	1.30	0.12	—
	Dec. 6, 1967	1.00	1.00	0.20	—
Iceland	Nov. 10, 1967	3.75	3.75	3.75	—
	Nov. 26, 1968	3.75	3.75	3.75	—
	Mar. 16, 1976	11.50	—	—	11.50
India	Dec. 28, 1967	90.00	90.00	80.00	—
	Feb. 19, 1974	62.00	62.00	62.00	—
Iraq	Nov. 8, 1967[2]	17.50[2]	17.50	—	—
Israel	Aug. 9, 1976	65.00	—	—	65.00
Ivory Coast	Mar. 22, 1976	26.00	13.42	—	12.58
Jamaica	Mar. 20, 1974	13.25	—	—	13.25
	Sept. 22, 1976	13.25	—	—	13.25
	Nov. 10, 1976	13.25	—	—	13.25
Jordan	Nov. 15, 1971	4.50	4.50	—	—
	Jan. 3, 1973	2.85	2.84	—	0.01
Kenya	July 26, 1976	24.00	—	—	24.00
Korea	June 3, 1976	40.00	—	—	40.00
Lao People's Dem. Rep.	Dec. 19, 1975	3.25	—	—	3.25
	June 9, 1976	3.25	—	—	3.25
Malaysia	Aug. 5, 1976	90.00	85.74	—	4.26
	Aug. 6, 1976	3.00	—	—	3.00
Mauritania	Apr. 2, 1976	6.50	—	—	6.50
Mexico	Nov. 1, 1976	125.00	—	—	125.00
	Nov. 3, 1976	60.00	—	—	60.00

Table I.9 (*concluded*). Purchases and Repurchases Under the Decision on Compensatory Financing of Export Fluctuations, February 27, 1963–April 30, 1977[1]

(In millions of SDRs)

Member	Purchases: Date	Purchases: Amount	Related Repurchases: Total	Related Repurchases: Under paragraph (7) of amended decision	Outstanding Balance April 30, 1977
Morocco	Apr. 8, 1976	56.50	—	—	56.50
New Zealand	May 10, 1967	29.20	29.20	—	—
	July 28, 1975	50.50	—	—	50.50
	Apr. 28, 1976	50.50	—	—	50.50
	Dec. 2, 1976	49.50	—	—	49.50
	Dec. 6, 1976	1.00	—	—	1.00
Pakistan	July 6, 1976 [2]	18.00 [2]	—	—	18.00
	July 9, 1976	72.50	—	—	72.50
	Apr. 25, 1977	22.00	—	—	22.00
	Apr. 28, 1977	5.00	—	—	5.00
Panama	Dec. 27, 1976	2.00	—	—	2.00
	Dec. 28, 1976	16.00	—	—	16.00
Papua New Guinea	June 16, 1976	10.00	—	—	10.00
Peru	June 20, 1972	30.75	30.75	—	—
	May 4, 1976	61.50	—	—	61.50
Philippines	May 18, 1973	38.75	38.75	9.69	—
	Apr. 5, 1976	77.50	—	—	77.50
Portugal	July 1, 1976	38.50	—	—	38.50
	July 2, 1976	20.00	—	—	20.00
Romania	Apr. 28, 1976	95.00	—	—	95.00
Sierra Leone	Mar. 24, 1976	7.00	—	—	7.00
	Sept. 23, 1976	5.50	—	—	5.50
South Africa	Nov. 16, 1976	160.00	—	—	160.00
Sri Lanka	Mar. 21, 1967	19.50	19.50	—	—
	Apr. 17, 1968	19.30	19.30	—	—
	Jan. 24, 1972 [2]	4.70 [2]	4.70	—	—
	Jan. 26, 1972	14.75	14.75	—	—
	June 22, 1973	18.60	2.20	—	16.40
	Feb. 15, 1974	5.90	—	—	5.90
	Nov. 15, 1976	6.18	—	—	6.18
	Nov. 16, 1976	9.62	—	—	9.62
Sudan	June 1, 1965	11.25	11.25	—	—
	Mar. 7, 1975	16.00	—	—	16.00
	Mar. 10, 1975	2.00	—	—	2.00
	May 19, 1976	26.70	—	—	26.70
Syrian Arab Republic	Sept. 18, 1967	9.50	9.50	—	—
	Jan. 25, 1972	12.50	12.50	—	—
Tanzania	Apr. 7, 1976	21.00	—	—	21.00
Thailand	Aug. 5, 1976	67.00	—	—	67.00
Togo	Aug. 2, 1976	7.50	—	—	7.50
Turkey	Nov. 14, 1975	37.75	—	—	37.75
	Apr. 2, 1976	37.75	—	—	37.75
Uganda	Apr. 9, 1976	20.00	—	—	20.00
Uruguay	Feb. 7, 1968	9.50	9.50	5.00	—
	May 17, 1972	17.25	12.92 [3]	—	—
	Mar. 31, 1976	25.90	—	—	25.90
Viet Nam	Jan. 17, 1977	31.00	—	—	31.00
Western Samoa	Nov. 19, 1975	0.50	0.14	—	0.36
	Nov. 1, 1976	0.50	—	—	0.50
	Feb. 3, 1977	0.50	—	—	0.50
Yemen, People's Dem. Rep. of	May 10, 1976 [2]	2.50 [2]	—	—	2.50
Zaïre	July 5, 1972	28.25	28.25	—	—
	Mar. 26, 1976	56.50	—	—	56.50
Zambia	Dec. 14, 1971	19.00	19.00	—	—
	Aug. 7, 1972	16.00	16.00	—	—
	Aug. 8, 1972	3.00	3.00	—	—
	Nov. 28, 1975	14.00	—	—	14.00
	Dec. 1, 1975	5.00	—	—	5.00
	June 3, 1976	19.00	—	—	19.00
	Apr. 27, 1977	19.00	—	—	19.00
		3,620.36	941.77 [3]	184.86	2,674.26

[1] Before September 1966, purchases were made under Executive Board Decision No. 1477-(63/8), adopted February 27, 1963. Subsequently until December 1975, they were made under the decision as amended by Executive Board Decision No. 2192-(66/81), adopted September 20, 1966. And since January 1976, they have been under the decision as amended by Executive Board Decision No. 4912-(75/207), adopted December 24, 1975. (See *Selected Decisions of the International Monetary Fund and Selected Documents* (Eighth Issue, Washington, 1976), pages 62–66.)

[2] Date and amount of reclassification of previous purchases.

[3] In addition, Fund sale of Uruguayan new pesos had the effect of repurchasing the equivalent of SDR 4.33 million.

Table I.10. Total Repurchase Obligations Incurred in Accordance with Article V, Section 7(*b*), and Amounts Payable Forthwith by Members, as of April 30, 1976

(In thousands of SDRs)

	Total Repurchase Obligations Incurred				Amounts Payable Forthwith			
Member	Gold	Special drawing rights	Convertible currencies	Total	Gold	Special drawing rights	Convertible currencies	Total
Afghanistan	1,562	526	15,407	17,495	—	187	9,063	9,250 [1]
Bahamas	—	—	3	3	—	—	3	3 [2]
Denmark	—	—	3,897	3,897	—	—	3,897	3,897
Greece	7,155	723	71,199	79,077	299	547	33,654	34,500 [3]
Indonesia	27	52	64,913	64,992	27	52	64,913	64,992 [2]
Ivory Coast	—	1,022	8,935	9,957	—	1,022	8,935	9,957 [2]
Jamaica	—	40	10,261	10,301	—	40	10,261	10,301 [2]
Kenya	—	280	22,633	22,913	—	188	1,642	1,830 [4]
Korea	1,305	1,474	90,509	93,288	280	316	19,404	20,000 [5]
New Zealand	—	38	2,043	2,081	—	38	2,043	2,081 [2]
Somalia	—	—	515	515	—	—	515	515 [2]
Western Samoa	—	2	780	782	—	—	500	500 [6]
Total	10,049	4,157	291,095	305,301	606	2,390	154,830	157,826

[1] Member discharged the equivalent of SDR 9,250,000 payable forthwith in accordance with paragraph 2(c) of Executive Board Decision No. 3049-(70/44). (See *Selected Decisions of the International Monetary Fund and Selected Documents* (Eighth Issue, Washington, 1976), pages 91–93.) Owing to the limitation of Article V, Section 7(*c*)(iv), the balance of the repurchase obligation incurred as of April 30, 1976 will be payable at the end of the subsequent financial year.

[2] Member has agreed with the calculations.

[3] Member has agreed with the calculations and will discharge the equivalent of SDR 34,500,000 payable forthwith in accordance with paragraph 2(c) of Executive Board Decision No. 3049-(70/44). Owing to the limitation of Article V, Section 7(*c*)(iv), the balance of the repurchase obligation incurred as of April 30, 1976 will be payable at the end of the subsequent financial year or years.

[4] Member repurchased the equivalent of SDR 24,170,000, which discharged the total repurchase obligation incurred as of April 30, 1975. This repurchase discharged the equivalent of SDR 13,000,000, which was payable as of April 30, 1975, and the balance equivalent to SDR 11,170,000, which was payable as of April 30, 1976. Owing to the limitation of Article V, Section 7(*c*)(iv), the member, which has agreed with the calculations, has to pay the equivalent of SDR 1,830,000. The balance of the repurchase obligation incurred as of April 30, 1976 will be payable at the end of the subsequent financial year.

[5] Member discharged the equivalent of SDR 19,720 payable forthwith in special drawing rights and convertible currencies in accordance with paragraph 2(a) of Executive Board Decision No. 3049-(70/44). The amount payable in gold equivalent to SDR 280,000 was postponed. Owing to the limitation of Article V, Section 7(*c*)(iv), the balance of the repurchase obligation incurred as of April 30, 1976 will be payable at the end of the subsequent financial year or years.

[6] Member discharged the equivalent of SDR 500,000 payable forthwith in accordance with paragraph 2(c) of Executive Board Decision No. 3049-(70/44). Owing to the limitation of Article V, Section 7(*c*)(iv), the balance of the repurchase obligation incurred as of April 30, 1976 will be payable at the end of the subsequent financial year.

Table I.11. Summary of Members' Purchases and Repurchases, Years Ended April 30, 1948–77

(In millions of SDRs)

	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
Total	42,463.35 [1]	19,215.69 [2]

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

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

Table I.12. Summary of Stand-By Arrangements That Became Effective During the Fiscal Years Ended April 30, 1953–77 [1]

(In millions of SDRs)

	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
Total	398	27,004.58

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

Table I.13. Status of General Arrangements to Borrow on June 30, 1977

(In millions of SDR equivalents)

Participants	Maximum Amounts of Credit Arrangements	Fund Indebtedness
Belgium	178.9	25.0
Canada	175.2	29.7
Deutsche Bundesbank	1,462.1	388.8
France	473.4	32.0
Italy	333.6	—
Japan	1,077.3	275.8
Netherlands	250.0	54.2
Sveriges Riksbank	100.5	11.3
United Kingdom	528.3	—
United States	1,715.5	467.7
Total	6,294.8	1,284.6

Table I.14. Currencies Replenished by the Fund in Connection with the First Phase of Gold Sales Program, Fiscal Year Ended April 30, 1977

(In millions of SDRs)

Currency	Sales for Distribution: Direct	Sales for Distribution: Indirect	Sales for Distribution: Total	Sales by Auctions	Total
Algerian dinars	0.97	—	0.97	—	0.97
Austrian schillings	2.02	2.68	4.70	9.11	13.81
Bahrain dinars	0.08	—	0.08	—	0.08
Belgian francs	4.87	5.65	10.52	27.27	37.79
Brazilian cruzeiros	3.29	0.74	4.04	18.17	22.20
Canadian dollars	8.24	3.84	12.08	13.66	25.74
Colombian pesos	1.18	—	1.18	—	1.18
Danish kroner	1.95	—	1.95	—	1.95
Deutsche mark	11.99	11.48	23.46	27.28	50.74
Fiji dollars	0.10	—	0.10	—	0.10
French francs	11.23	7.12	18.35	—	18.35
Guatemalan quetzales	0.27	—	0.27	—	0.27
Iranian rials	1.44	—	1.44	—	1.44
Irish pounds	0.91	—	0.91	—	0.91
Japanese yen	8.99	11.18	20.16	27.34	47.50
Kuwaiti dinars	0.49	—	0.49	—	0.49
Luxembourg francs	0.15	—	0.15	—	0.15
Malta pounds	0.12	—	0.12	—	0.12
Netherlands guilders	5.24	5.35	10.59	18.32	28.92
Norwegian kroner	1.80	0.85	2.65	—	2.65
Paraguayan guaraníes	0.14	—	0.14	—	0.14
Qatar riyals	0.15	—	0.15	—	0.15
Rials Omani	0.05	—	0.05	—	0.05
Saudi Arabian riyals	1.00	—	1.00	—	1.00
Swedish kronor	2.43	2.16	4.59	9.19	13.78
Trinidad and Tobago dollars	0.47	—	0.47	—	0.47
U.A.E. dirhams	0.11	—	0.11	—	0.11
U.S. dollars	50.17	34.84	85.01	27.53	112.54
Venezuelan bolívares	2.47	1.66	4.13	22.71	26.83
Yemen rials	0.07	—	0.07	—	0.07
Total	122.40	87.55	209.95	200.57	410.51

Table I.15. Currencies and Special Drawing Rights Obtained from the Fund by Members in Purchases for Their Own Currencies; Currencies and Special Drawing Rights Used by Members in Repurchases, Fiscal Year Ended April 30, 1977[1]

(In millions of SDRs)

Medium	Currencies and SDRs Obtained by Members in Purchases[1]			Currencies and SDRs Used by Members in Repurchases[1]		
	For EEC settlements by the Federal Republic of Germany	Other countries	Total	Under Article V, Section 7(*b*)	Other	Total
SDRs	—	68.9	68.9	5.7	66.9	72.6
Algerian dinars	—	1.0	1.0	—	—	—
Australian dollars	—	—	—	—[2]	—	—[2]
Austrian schillings	—	81.0	81.0	—	6.7	6.7
Belgian francs	—	140.8	140.8	—[2]	15.8	15.8
Brazilian cruzeiros	—	78.3	78.3	—	—	—
Canadian dollars	—	315.8	315.8	2.3	17.4	19.6
Colombian pesos	—	18.0	18.0	—	—	—
CFA francs (Upper Volta)	—	1.0	1.0	—	—	—
Danish kroner	8.3	2.0	10.3	—	—	—
Deutsche mark	—	399.0	399.0	19.1	68.4	87.4
Ecuadoran sucres	—	5.0	5.0	—	—	—
Ethiopian birr	—	0.5	0.5	—	—	—
Fiji dollars	—	1.0	1.0	—	—	—
French francs	—	227.8	227.8	24.7	29.1	53.8
Guatemalan quetzales	—	4.5	4.5	—	—	—
Indonesian rupiahs	—	5.0	5.0	—	—	—
Iranian rials	—	21.5	21.5	—	—	—
Iraqi dinars	—	1.0	1.0	—	—	—
Irish pounds	—	28.4	28.4	—	3.2	3.2
Japanese yen	—	658.7	658.7	21.5	42.5	64.0
Kuwaiti dinars	—	6.0	6.0	—[2]	2.5	2.5
Luxembourg francs	—	4.0	4.0	—	—	—
Malta pounds	—	7.0	7.0	—	1.0	1.0
Netherlands guilders	—	211.4	211.4	0.3	16.2	16.5
Nigerian naira	—	1.5	1.5	—	—	—
Norwegian kroner	—	55.9	55.9	0.4	4.3	4.7
Paraguayan guaranies	—	1.0	1.0	—	—	—
Qatar riyals	—	1.0	1.0	—	1.0	1.0
Saudi Arabian riyals	—	16.0	16.0	—	—	—
Swedish kronor	—	86.6	86.6	—[2]	5.8	5.8
Trinidad and Tobago dollars	—	2.0	2.0	—	—	—
U.A.E. dirhams	—	—	—	—	1.0	1.0
U.S. dollars	—	1,926.5	1,926.5	124.7	178.0	302.6
Uruguayan new pesos	—	5.0	5.0	—	—	—
Venezuelan bolívares	—	81.1	81.1	—	10.0	10.0
Yemen rials	—	1.0	1.0	—	—	—
Total	8.3	4,465.0	4,473.4	198.6[3]	469.6	668.2

[1] Exclusive of transactions in connection with the oil facility.

[2] Less than SDR 50,000.

[3] Total includes SDR 126.8 million and SDR 37.5 million relating to Article V, Section 7(*b*), repurchase obligations incurred as of April 30, 1974 and April 30, 1975, respectively, as follows: 1974—SDR 4.4 million in SDRs, SDR 17 million in deutsche mark, SDR 1.7 million in French francs, SDR 4.2 million in Japanese yen, and SDR 99.5 million in U.S. dollars; 1975—SDR 0.8 million in SDRs, SDR 0.5 million in Canadian dollars, SDR 1.3 million in deutsche mark, SDR 23 million in French francs, SDR 2.8 million in Japanese yen, SDR 0.3 million in Netherlands guilders, SDR 0.4 million in Norwegian kroner, and SDR 8.3 million in U.S. dollars.

Table I.16. Schedules of Fund Charges

CHARGES ON TRANSACTIONS EFFECTED FROM JULY 1, 1974

Charges in per cent per annum [1] payable on holdings in excess of quota, for period stated:

	Previous	Current
Service charge	0.5	0.5
Up to 1 year	4.0	4.375
1 to 2 years	4.5	4.875
2 to 3 years	5.0	5.375
3 to 4 years	5.5 [2]	5.875 [2]
4 to 5 years	6.0	6.375

CHARGES ON TRANSACTIONS EFFECTED UNDER THE EXTENDED FUND FACILITY

Charges in per cent per annum [1] payable on holdings in excess of quota, for period stated:

	Previous	Current
Service charge	0.5	0.5
Up to 1 year	4.0	4.375
1 to 2 years	4.5	4.875
2 to 3 years	5.0	5.375
3 to 4 years	5.5	5.875
4 to 5 years	6.0 [2]	6.375 [2]
5 to 6 years	6.5	6.875
6 to 7 years	6.5	6.875
7 to 8 years	6.5	6.875

CHARGES ON TRANSACTIONS EFFECTED UNDER THE OIL FACILITY FOR 1974

Charges in per cent per annum [1] payable on holdings in excess of quota, for period stated:

Service charge	0.5
Up to 1 year	6.875
1 to 2 years	6.875
2 to 3 years	6.875
3 to 4 years	7.000 [2]
4 to 5 years	7.125
5 to 6 years	7.125
6 to 7 years	7.125

CHARGES ON TRANSACTIONS EFFECTED UNDER THE OIL FACILITY FOR 1975

Charges in per cent per annum [1] payable on holdings in excess of quota for period stated:

Service charge	0.5
Up to 1 year	7.625
1 to 2 years	7.625
2 to 3 years	7.625
3 to 4 years	7.750 [2]
4 to 5 years	7.875
5 to 6 years	7.875
6 to 7 years	7.875

CHARGES ON TRANSACTIONS EFFECTED FROM MAY 1, 1963 AND UP TO JUNE 30, 1974

Charges in per cent per annum [1] for period stated and for portion of holdings in excess of quota by (per cent)

More than	0	50	100
But not more than	50	100	
Service charge	0.5	0.5	0.5
0 to 3 months	0.0	0.0	0.0
3 to 6 months	2.0	2.0	2.0
½ to 1 year	2.0	2.0	2.5
1 to 1½ years	2.0	2.5	3.0
1½ to 2 years	2.5	3.0	3.5
2 to 2½ years	3.0	3.5	4.0 [2]
2½ to 3 years	3.5	4.0 [2]	4.5
3 to 3½ years	4.0 [2]	4.5	5.0
3½ to 4 years	4.5	5.0	
4 to 4½ years	5.0		

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

[2] Point at which the Fund and the member consult.

Table I.17. Income and Expenses, Fiscal Years Ended April 30, 1960, 1965, 1970, and 1973–77 [1]

(In millions of SDRs)

	1960	1965	1970	1973	1974	1975	1976	1977
Operational income from regular facilities								
Service and stand-by charges, etc.	4.1	11.8	13.0	3.2	2.5	8.5	6.8	22.2
Charges on balances in excess of quotas	16.9	35.9	124.7	28.2	28.2	56.4	101.2	232.7
Interest on holdings of special drawing rights	—	—	0.4	10.2	7.8	21.1	20.8	23.0
Total operational income from regular facilities [2]	21.0	47.7	138.1	41.6	38.5	86.0	128.8	277.9
Remuneration	—	—	27.2	29.3	27.2	62.4	104.1	226.9
Interest on borrowing under the General Arrangements to Borrow and bilateral arrangements [3]	—	2.6	16.7	—	—	—	—	12.7
Transfer charges under the General Arrangements to Borrow and bilateral arrangements	—	2.0	2.4	—	—	—	—	5.0
Total operational expenses	—	4.6	46.3	29.3	27.2	62.4	104.1	244.6
Net operational income from regular facilities	21.0	43.1	91.8	12.2	11.2	23.6	24.7	33.3
Operational income from the oil facility								
Service charges	—	—	—	—	—	12.5	19.8	2.2
Periodic charges	—	—	—	—	—	68.0	307.3	494.6
	—	—	—	—	—	80.5	327.1	496.8
Deduct: interest expense	—	—	—	—	—	69.2	303.4	483.0
Net operational income from the oil facility	—	—	—	—	—	11.3	23.7	13.8
Total net operational income	21.0	43.1	91.8	12.2	11.2	34.9	48.4	47.1
Net administrative expenses	6.7	13.0	27.7	38.8	42.6	44.9	52.2	65.3
Fixed property expenses	0.2	4.6	6.5	−4.8	5.9	−0.3	−0.9	—
Total expenses	6.9	17.6	34.2	34.0	48.4	44.6	51.3	65.3
Net income or expenses (—)	+14.1	+25.5	+57.6	−21.7	−37.2	−9.7	−2.9	−18.2

[1] Totals may not add to figures shown, owing to rounding.
[2] Excludes income from investments transferred to the Special Reserve until February 15, 1972.
[3] Net income or expense for each year was transferred to the General Reserve until 1971 and to the Special Reserve for the period 1973–77, except for the fiscal year 1970, when SDR 17.5 million was distributed to members under Article XII, Sections 6(*a*) and (*b*), of the Fund Agreement.

Table I.18. Members That Have Accepted Article VIII, April 30, 1977

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

Table I.19. Publications Issued, Fiscal Year Ended April 30, 1977

Reports and Other Documents

Annual Report of the Executive Directors for the Fiscal Year Ended April 30, 1976
(English, French, German, and Spanish). Free

Summary Proceedings of the Thirty-First Annual Meeting of the Board of Governors and *Supplement: Proposed Second Amendment to the Articles of Agreement of the International Monetary Fund* Free

Twenty-Seventh Annual Report on Exchange Restrictions
Free

Subscription Publications

Balance of Payments Yearbook
Volume 27, 1967–74 (clothbound). US$6.00
Volume 28, data through 1976 (monthly loose-leaf tables and annual bound volume). US$20.00 (binder available for US$4.50)

Direction of Trade
Monthly, with annual supplement.
US$10.00 a year

International Financial Statistics
Monthly (English, French, and Spanish).
US$20.00 a year

Staff Papers
Three times a year. US$6.00 a year
University libraries, faculty members, and students may obtain the four subscription publications listed above at the reduced rates of US$12.00 for all four publications, or US$5.00 for *International Financial Statistics* and US$3.00 each for the other publications.
For users of Fund publications that have access to a computer, tape subscriptions to *International Financial Statistics, Direction of Trade,* and the *Balance of Payments Yearbook* are available at US$1,000.00 a year each. This price includes the book version of the publication. The price to universities is US$300.00 a year for each subscription.

Books

The International Monetary Fund, 1966–1971: The System Under Stress
Volume I: Narrative; Volume II: Documents
US$15.00 the set
Vol. I, US$11.00; Vol. II, US$6.00

The Monetary Approach to the Balance of Payments: A Collection of Research Papers by Members of the Staff of the International Monetary Fund
US$4.00

Pamphlet Series

No. 19 *Floating Currencies, Gold, and SDRs: Some Recent Legal Developments*
By Joseph Gold (English and Spanish). Free

Other

Finance and Development
Issued jointly with IBRD; quarterly (English, French, German, and Spanish. A selection of articles is published quarterly in Arabic and annually in Portuguese). Free

IMF Survey
Twice monthly but only once in December (English, French, and Spanish). Private firms and individuals are charged for delivery.

Appendix II
Principal Policy Decisions of the Executive Board and Report by the Managing Director

A. Buffer Stock Financing Facility: Fifth International Tin Agreement

1. The Fund, having considered the text of the Fifth International Tin Agreement, as adopted by the United Nations Tin Conference on June 21, 1975, finds that the terms of this Agreement relating to the international tin buffer stock to be established under the Agreement are consistent with the principles referred to in Executive Board Decision No. 2772-(69/47) of June 25, 1969.

2. In view of (1) above, the Fund will meet, subject to the provisions of Executive Board Decision No. 2772-(69/47) as amended by Executive Board Decision No. 4913-(75/207),[1] a member's requests for purchases in connection with the financing by the member of its compulsory contributions to the buffer stock established under the Fifth International Tin Agreement.

3. The Fund decides that any contribution made in the form of tin metal under Article 21 of the Agreement shall be regarded as equivalent to a contribution in cash, valued at the floor price prevailing when the contribution is called up. Any transfer of metal from the buffer stock to a member will be treated as a distribution in currency, valued at the floor price prevailing when the transfer is made.

4. The staff will keep the Executive Directors informed on the operation of the buffer stock and other developments in connection with the Fifth International Tin Agreement by reports that will be made at least once a year, and the Fund may make such review of this decision as is appropriate in the light of these reports.

Decision No. 5127-(76/91)
June 23, 1976

B. Subsidy Account: Review of Decision

(a) Annual Review and Payment of Subsidy for Fiscal Year 1976

1. For the fiscal year ended April 30, 1976, a subsidy shall be paid to each member listed in Table 1 of EBS/76/271 at the rate of 5 per cent per annum of the average daily balances of the currency of the member held by the Fund in excess of quota outstanding under Executive Board Decision No. 4634-(75/47)[2] during the year.

2. The payments shall be made in U.S. dollars based on the U.S. dollar/SDR exchange rate on July 19, 1976.

3. The payments shall be deemed to be made first from income earned from the investment of the contributions to the Subsidy Account and thereafter from the contributions.

4. No charge shall be levied for the services rendered by the Fund in the operation of the Subsidy Account for the fiscal year ended April 30, 1976.

[1] *Selected Decisions of the International Monetary Fund and Selected Documents* (Eighth Issue, Washington, 1976), pages 66–67.

[2] See *Annual Report, 1975*, page 94.

5. The next review of Executive Board Decision No. 4773-(75/136)[3] shall be conducted in May 1977.

Decision No. 5144-(76/102) SA
July 12, 1976

(b) Annual Review and Payment of Subsidy for Fiscal Year 1977

In concluding their second review of Executive Board Decision No. 4773-(75/136)[4] August 1, 1975, the Executive Directors adopt the following decision:

1. For the fiscal year ended April 30, 1977, a subsidy shall be paid to each member listed in Table 1 of EBS/77/164 at the rate of 5 per cent per annum on the average daily balances of the currency of the member held by the Fund in excess of quota outstanding under Executive Board Decision No. 4634-(75/47)[5] during the year.
2. The payment shall be made in U.S. dollars on June 16, 1977 based on the U.S. dollar/SDR exchange rate determined three working days prior to payment.
3. No charge shall be levied for the services rendered by the Fund in the administration and operation of the Subsidy Account for the fiscal year ended April 30, 1977.
4. The next review of Executive Board Decision No. 4773-(75/136) shall be conducted in May 1978.

Decision No. 5425-(77/79) SA
May 27, 1977

C. SDR Reconstitution: Redefinition of Maximum Acquisition

1. Paragraph 2 of the Executive Board Decision No. 3457-(71/121) G/S, as amended,[6] is hereby further amended to read as follows:

Pursuant to Article XXV, Section 2(*b*)(ii), the Fund prescribes that a participant may obtain special drawing rights from another participant in a transaction with that other participant that would promote reconstitution under Article XXV, Section 6(*a*), and Schedule G, paragraph 1(*a*). The maximum amount that may be obtained in that way shall be the sum of (i) the single amount most recently notified to the participant under Rule P-3 or calculated for acquisition in the final month of a reconstitution period, taking into account the proposed date of acquisition, and (ii) the total amount of any charges to be paid to the General Account and repurchase obligations in special drawing rights to be discharged by the participant prior to the next calculation under Rule P-2. These maximum amounts will be reduced by any net acquisition of special drawing rights other than by way of allocation subsequent to the date the calculation is made.

2. Rule P-6 of the Fund's Rules and Regulations is modified to read as follows:

A participant may receive special drawing rights in a transaction prescribed by the Fund to promote reconstitution by the participant in a total amount equal to the amount it would need to obtain in accordance with the calculations under Rule P-2, increased by the amount of any charges to be paid, or repurchase obligations in special drawing rights to be discharged, by the participant to the General Account during the month following the calculation under Rule P-2. To the extent that a participant may receive special drawing rights in a transaction under any prescription, in accordance with this Rule, the Fund shall provide special drawing rights held in the General Account to the participant at its

[3] See *Annual Report, 1976*, pages 98–99.
[4] *Ibid.*
[5] See *Annual Report, 1975*, page 94.
[6] *Selected Decisions of the International Monetary Fund and Selected Documents* (Eighth Issue, Washington, 1976), pages 173–74.

request for gold or currency acceptable to the Fund. A participant shall consult the Managing Director before making a request under this Rule.

Decision No. 5167-(76/120) G/S
August 2, 1976

D. Special Drawing Rights: Transactions by Agreement Between Participants

1. Pursuant to Article XXV, Section 2(*b*)(ii), the Fund prescribes that participants may engage in transactions by agreement that bring the holdings of both participants closer to their net cumulative allocations and under Article XXV, Section 3(*c*), prescribes that the users of SDRs in these transactions shall be exempt from the requirement of need set out in Article XXV, Section 3(*a*).

2. Under Article XXV, Section 3(*c*), the Fund prescribes that the user of SDRs in a transaction by agreement between participants to promote reconstitution pursuant to Executive Board Decision No. 3457-(71/121) G/S, adopted December 3, 1971, as amended,[7] shall be exempt from the requirement of need set out in Article XXV, Section 3(*a*).

Decision No. 5185-(76/128) S
August 25, 1976

E. Quarterly Review of Rate of Remuneration Under Rule I-10

In accordance with the formula in Rule I-10, the rate of remuneration for the calendar quarter beginning on October 1, 1976 shall be 4 per cent per annum.

Decision No. 5208-(76/141)
September 17, 1976

In accordance with the formula in Rule I-10, the rate of remuneration for the calendar quarter beginning on January 1, 1977 shall be 4 per cent per annum.

Decision No. 5294-(76/168)
December 22, 1976

In accordance with the formula in Rule I-10, the rate of remuneration for the calendar quarter beginning on April 1, 1977 shall be 3.75 per cent per annum.

Decision No. 5358-(77/40)
March 22, 1977

In accordance with the formula in Rule I-10, the rate of remuneration for the calendar quarter beginning July 1, 1977 shall be 3.50 per cent per annum.

Decision No. 5455-(77/92)
June 29, 1977

[7] *Selected Decisions of the International Monetary Fund and Selected Documents* (Eighth Issue, Washington, 1976), pages 173–74.

F. General Arrangements to Borrow: Increase in Amount of Credit Arrangement for Japan

1. Japan has indicated its willingness to increase from 90 billion yen to 340 billion yen the amount of its credit arrangement under the General Arrangements to Borrow (Executive Board Decision No. 1289-(62/1) of January 5, 1962, as amended).[8] The Fund agrees to this increase in the amount of Japan's credit arrangement under Paragraph 5 of the General Arrangements.

2. The increase will become effective when the Fund has received the agreement of the participants in the General Arrangements to the proposed increase.[9]

Decision No. 5249-(76/154)
November 5, 1976

G. Sales of Gold

(a) Timing of Gold Auctions

The Executive Directors agree to proceed with the gold auctions on the basis of the arrangements described under Option 2 in the Managing Director's statement, with attachment [below].

Decision No. 5273-(76/163) TR
December 7, 1976

(b) Timing of Sales of Gold for the Purpose of Distribution

The Executive Directors agree to undertake the first restitution operation on the basis of the arrangements described under Option 2 in the Managing Director's statement, with attachment [below].

Decision No. 5274-(76/163)
December 7, 1976

Option 2 in the Managing Director's Statement with Attachment

(2) A second possibility would be to hold the sixth auction on January 26, 1977 for another 780,000 ounces. This would represent the last auction under the present schedule. Beginning early in March, auctions would then be held on the first Wednesday of each month and 525,000 ounces (rounded up from 521,333) would be offered in each of 15 monthly auctions. This schedule would facilitate the completion of the first restitution operations, and the amount to be offered in each of the first two years of the sales program would be approximately equal as shown in column 2 of the annexed table. If the sixth auction were not to be the last under the present schedule so that 780,000 ounces would not be offered, but would be the first of monthly auctions, the amounts to be offered would be the same as under the first possibility. In addition, a monthly auction on the fourth Wednesday of each month would later require an adjustment in the dates in order to avoid an auction during the 1977 Christmas holiday season.

[8] *Selected Decisions of the International Monetary Fund and Selected Documents* (Eighth Issue, Washington, 1976), pages 98–113.

[9] The increase became effective on November 23, 1976.

Attachment

Timing and Amounts of Auctions and
Timing of Restitution

(Amounts in fine ounces)

	(1)	(2)	(3)
Sixth auction	January 12	January 26	February 2
Amount to be offered	510,000	780,000	540,000
Seventh auction	February 9	March 2	March 2
Monthly amount	510,000	525,000	540,000
Gold offered in year ending May 31, 1977	6,450,000	6,255,000	6,060,000
Gold offered in second year	6,120,000	6,300,000	6,480,000
Gold offered in first two years	12,570,000	12,555,000	12,540,000
Restitution			
Notification to Fund by members	December 27, 76	December 27, 76	January 3, 77
Delivery of restituted gold	Jan. 10–14, 77	Jan. 10–14, 77	Jan. 17–21, 77
Delivery of gold from sixth auction (approximate dates)	January 24, 77 onwards	February 9, 77 onwards	February 16, 77 onwards

(c) Gold Distribution: Postponement [10]

1. The Fund notes the requests from Barbados, Burundi, Grenada, Liberia, Panama, Philippines, Sierra Leone, Zaïre, and Zambia to allow these members to postpone their participation in the first gold restitution operation on the ground of balance of payments need.

2. Lebanon, Lesotho, Malawi, Sudan, and Uganda have requested the Fund to allow them to postpone their participation in the first gold restitution operation on the ground of balance of payments need. The Fund agrees to these requests.

3. Postponement, in accordance with paragraphs 1 and 2 above, shall continue until not later than 30 days after the date of the second amendment of the Articles of Agreement.

Decision No. 5314-(77/6)
January 10, 1977

H. Transfer of Special Drawing Rights Held in the General Account to Participants Making Purchases from the Fund

Executive Board Decision No. 3414-(71/98) G/S [11] adopted September 10, 1971 is amended to read as follows:

[10] Arrangements have not been made to distribute gold at this time to Cambodia and China, as noted on page 60.

[11] *Selected Decisions of the International Monetary Fund and Selected Documents* (Eighth Issue, Washington, 1976), page 178.

When a member which is a participant in the Special Drawing Account consults in accordance with the Executive Board Decision No. 1371-(62/36),[12] adopted July 20, 1962, on Currencies to Be Drawn and to Be Used in Repurchases, the Managing Director may propose that the participant request the purchase of special drawing rights not in excess of the amount which he shall indicate.

Decision No. 5355-(77/36) G/S
March 15, 1977

I. Financial Position of the Fund and Increases in the Fund's Charges

I. Application of Rule I-4(c)(ii): Decreases in Fund's Holdings of a Currency

For the purpose of applying Rule I-4(c)(ii), decreases in the Fund's holdings of a currency that do not reduce balances subject to Rule I-4(f)(3)(ii), (iii), or (iv) shall reduce balances subject to Rule I-4(f)(3)(i) after balances subject to Rule I-4(f)(2) have been eliminated.

Decision No. 5368-(77/51)
April 8, 1977, deemed effective April 1, 1977

II. Amendment of Rule I-4(a): Time for Payment

The second sentence of Rule I-4(a) shall be made to read as follows:

These charges shall be payable promptly after the end of the quarter to which they relate.

Decision No. 5369-(77/51)
April 8, 1977, deemed effective April 1, 1977

III. Amendment of Rule I-4(f)(3)(i) and Rule I-4(g)(4): Change in Rates of Charge

1. Rule I-4(f)(3)(i) shall be amended as follows:
The charge to be levied on each segment that is in excess of 100 per cent of quota and is not subject to (ii) below shall be 4⅜ per cent per annum for the first 12 months; if the margin of the initial rate of charge above the rate of remuneration is reduced to less than ¼ of 1 per cent or increased to more than 1 per cent because of changes in the rate of remuneration pursuant to Rule I-9, the Executive Board will promptly review the Fund's financial position, the rate of remuneration and the initial rate of charge and take such action as it considers necessary to safeguard the financial position of the Fund. If a new decision is not taken as a result of this review on the rates of charge or on the rate of remuneration, the initial rate of charge shall be ¼ of 1 per cent or 1 per cent above the rate of remuneration, as the case may be. The initial rate of charge shall rise by an additional ½ per cent per annum for each additional twelve months. This decision shall be reviewed if the Fund's total annual income substantially exceeded its total annual expenses.

2. In Rule I-4(g)(4) the words "6.5 per cent" shall be replaced by the words "the initial rate of charge under (f)(3)(i) above plus 2.5 per cent" and the words

[12] *Selected Decisions of the International Monetary Fund and Selected Documents* (Eighth Issue, Washington, 1976), pages 56–62.

"7 per cent" shall be replaced by "the initial rate of charge under (f)(3)(i) above plus 3 per cent."

Decision No. 5370-(77/51)
April 8, 1977, deemed effective April 1, 1977

IV. Second Amendment, Article XXX(c)(iii): Exclusion of Purchases Under Oil Facility for Purposes of Definition of "Reserve Tranche Purchase"

With effect on the date of the second amendment of the Articles of Agreement, the Fund's holdings of currencies acquired in purchases under Executive Board Decision No. 4241-(74/67),[13] June 13, 1974, and Executive Board Decision No. 4634-(75/47),[14] April 4, 1975, shall be excluded pursuant to Article XXX(*c*)(iii) for the purpose of the definition of "reserve tranche purchase."

Decision No. 5371-(77/51)
April 8, 1977, deemed effective April 1, 1977

J. Surveillance over Exchange Rate Policies

1. The Executive Board has discussed the implementation of Article IV of the proposed second amendment of the Articles of Agreement and has approved the document entitled "Surveillance over Exchange Rate Policies" [below]. The Fund shall act in accordance with this document when the second amendment becomes effective. In the period before that date the Fund shall continue to conduct consultations in accordance with present procedures and decisions.
2. The Fund shall review the document entitled "Surveillance over Exchange Rate Policies" at intervals of two years and at such other times as consideration of it is placed on the agenda of the Executive Board.

Decision No. 5392-(77/63)
April 29, 1977

Surveillance over Exchange Rate Policies

General Principles

Article IV, Section 3(*a*), provides that "The Fund shall oversee the international monetary system in order to ensure its effective operation, and shall oversee the compliance of each member with its obligations under Section 1 of this Article." Article IV, Section 3(*b*), provides that in order to fulfill its functions under 3(*a*), "the Fund shall exercise firm surveillance over the exchange rate policies of members, and shall adopt specific principles for the guidance of all members with respect to those policies." Article IV, Section 3(*b*), also provides that "The principles adopted by the Fund shall be consistent with cooperative arrangements by which members maintain the value of their currencies in relation to the value of the currency or currencies of other members, as well as with other exchange arrangements of a member's choice consistent with the purposes of the Fund and Section 1 of this Article. These principles shall respect the domestic social and political policies of members, and in applying these principles the Fund shall pay due regard to the circumstances of members." In addition, Article IV, Sec-

[13] *Selected Decisions of the International Monetary Fund and Selected Documents* (Eighth Issue, Washington, 1976), pages 70–74.
[14] *Ibid.*, pages 76–78.

tion 3(*b*), requires that "Each member shall provide the Fund with the information necessary for such surveillance, and, when requested by the Fund, shall consult with it on the member's exchange rate policies."

The principles and procedures set out below, which apply to all members whatever their exchange arrangements and whatever their balance of payments position, are adopted by the Fund in order to perform its functions under Section 3(*b*). They are not necessarily comprehensive and are subject to reconsideration in the light of experience. They do not deal directly with the Fund's responsibilities referred to in Section 3(*a*), although it is recognized that there is a close relationship between domestic and international economic policies. This relationship is emphasized in Article IV which includes the following provision: "Recognizing . . . that a principal objective [of the international monetary system] is the continuing development of the orderly underlying conditions that are necessary for financial and economic stability, each member undertakes to collaborate with the Fund and other members to assure orderly exchange arrangements and to promote a stable system of exchange rates."

Principles for the Guidance of Members' Exchange Rate Policies

A. A member shall avoid manipulating exchange rates or the international monetary system in order to prevent effective balance of payments adjustment or to gain an unfair competitive advantage over other members.

B. A member should intervene in the exchange market if necessary to counter disorderly conditions which may be characterized inter alia by disruptive short-term movements in the exchange value of its currency.

C. Members should take into account in their intervention policies the interests of other members, including those of the countries in whose currencies they intervene.

Principles of Fund Surveillance over Exchange Rate Policies

1. The surveillance of exchange rate policies shall be adapted to the needs of international adjustment as they develop. The functioning of the international adjustment process shall be kept under review by the Executive Board and Interim Committee and the assessment of its operation shall be taken into account in the implementation of the principles set forth below.

2. In its surveillance of the observance by members of the principles set forth above, the Fund shall consider the following developments as among those which might indicate the need for discussion with a member:

(i) protracted large-scale intervention in one direction in the exchange market;

(ii) an unsustainable level of official or quasi-official borrowing, or excessive and prolonged short-term official or quasi-official lending, for balance of payments purposes;

(iii) (a) the introduction, substantial intensification, or prolonged maintenance, for balance of payments purposes, of restrictions on, or incentives for, current transactions or payments, or

(b) the introduction or substantial modification for balance of payments purposes of restrictions on, or incentives for, the inflow or outflow of capital;

(iv) the pursuit, for balance of payments purposes, of monetary and other domestic financial policies that provide abnormal encouragement or discouragement to capital flows; and

(v) behavior of the exchange rate that appears to be unrelated to underlying economic and financial conditions including factors affecting competitiveness and long-term capital movements.

3. The Fund's appraisal of a member's exchange rate policies shall be based on an evaluation of the developments in the member's balance of payments against the background of its reserve position and its external indebtedness. This appraisal shall be made within the framework of a comprehensive analysis of the general economic situation and economic policy strategy of the member, and shall recognize that domestic as well as external policies can contribute to timely adjustment of the balance of payments. The appraisal shall take into account the extent to which the policies of the member, including its exchange rate policies, serve the objectives of the continuing development of the orderly underlying conditions that are necessary for financial stability, the promotion of sustained sound economic growth, and reasonable levels of employment.

Procedures for Surveillance

I. Each member shall notify the Fund in appropriate detail within thirty days after the Second Amendment becomes effective of the exchange arrangements it intends to apply in fulfillment of its obligations under Article IV, Section 1. Each member shall also notify the Fund promptly of any changes in its exchange arrangements.

II. Members shall consult with the Fund regularly under Article IV. The consultations under Article IV shall comprehend the regular consultations under Articles VIII and XIV. In principle such consultations shall take place annually, and shall include consideration of the observance by members of the principles set forth above as well as of a member's obligations under Article IV, Section 1. Not later than three months after the termination of discussions between the member and the staff, the Executive Board shall reach conclusions and thereby complete the consultation under Article IV.

III. Broad developments in exchange rates will be reviewed periodically by the Executive Board, inter alia in discussions of the international adjustment process within the framework of the World Economic Outlook. The Fund will continue to conduct special consultations in preparing for these discussions.

IV. The Managing Director shall maintain close contact with members in connection with their exchange arrangements and exchange policies, and will be prepared to discuss on the initiative of a member important changes that it contemplates in its exchange arrangements or its exchange rate policies.

V. If, in the interval between Article IV consultations, the Managing Director, taking into account any views that may have been expressed by other members, considers that a member's exchange rate policies may not be in accord with the exchange rate principles, he shall raise the matter informally and confidentially with the member, and shall conclude promptly whether there is a question of the observance of the principles. If he concludes that there is such a question, he shall initiate and conduct on a confidential basis a discussion with the member under Article IV, Section 3(*b*). As soon as possible after the completion of such a discussion, and in any event not later than four months after its initiation, the Managing Director shall report to the Executive Board on the results of the discussion. If, however, the Managing Director is satisfied that the principles are being observed, he shall informally advise all Executive Directors, and the staff shall report on the discussion in the context of the next Article IV consultation; but the Managing Director shall not place the matter on the agenda of the Executive Board unless the member requests that this procedure be followed.

VI. The Executive Directors shall review annually the general implementation of the Fund's surveillance over members' exchange rate policies.

K. Attribution of Repurchases Under Article V, Section 7(*b*)

The Executive Directors endorsed the following conclusions, effective March 23, 1977:

(i) the [present] practice . . . should be modified to allow a member incurring a repurchase obligation under Article V, Section 7(*b*), and a member with outstanding purchases whose currency is sold to another member making use of the Fund's resources, to specify the undertaking it wishes considered discharged; and

(ii) if such a specification is made and the specified purchase has been financed by borrowed funds, the Fund would propose to the lender or lenders that they accept repayment in accordance with the specification instead of the original practices of attribution. No repayment that departed from application of the original practices of attribution would be made if the lender objected to it.

L. Allocation of Special Drawing Rights (Article XXIV, Section 4(*c*))

Report by the Managing Director to the Board of Governors and to the Executive Directors

Article XXIV, Section 1(*a*), of the present Articles[15] provides that "In all its decisions with respect to the allocation and cancellation of special drawing rights the Fund shall seek to meet the long-term global need, as and when it arises, to supplement existing reserve assets in such manner as will promote the attainment of its purposes and will avoid economic stagnation and deflation as well as excess demand and inflation in the world." Decisions to allocate or to cancel SDRs are made by the Board of Governors on the basis of proposals of the Managing Director, concurred in by the Executive Directors. Before making any proposal, "the Managing Director, after having satisfied himself that it will be consistent with the provisions of Section 1(*a*) of this Article, shall conduct such consultations as will enable him to ascertain that there is broad support among participants for the proposal."[16] Article XXIV, Section 4(*c*), of the present Articles provides that not later than six months before the end of each basic period the Managing Director shall either make such a proposal or report to the Board of Governors and to the Executive Board that "there is no proposal which he considers to be consistent with the provisions of Section 1 of this Article that has broad support among participants."

The present basic period, which is the second one, began as an "empty" period on January 1, 1973 in the absence of a proposal by the Managing Director and will terminate at the end of this calendar year. I now wish to report that at the present time I am not in a position to make a proposal with respect to the next (third) basic period, which starts on January 1, 1978.

The possibility of an SDR allocation was not discussed by the Executive Board between 1973 and 1977, and major changes occurred in the international monetary system during that period. Indeed, such changes began to take place immediately following the first allocation. A figure of approximately SDR 9.5 billion had been agreed for the basic period of three years, 1970–72. This amount was expected to be approximately equal to the gap between the anticipated growth of reserve needs (of perhaps SDR 4–5 billion a year) and the predicted increase in the supply of reserves other than SDRs (some SDR 1–1.5 billion a year). During the period, however, there was a dramatic shift in the trend of reserve increases. In the three years 1967–69, members' reserves had risen by about SDR 6 billion.

[15] The references in this report to Article XXIV are to the present Articles. Some of the events mentioned in this report might occur after the Proposed Second Amendment has become effective. It should be noted, therefore, that Article XXIV, Sections 1(*a*) and 4(*a*), (*b*), and (*c*), will become Article XVIII, Sections 1(*a*) and 4(*a*), (*b*), and (*c*), respectively, of the amended Articles.

[16] Article XXIV, Sections 4(*a*) and (*b*).

But in 1970–72 they rose by about SDR 68 billion (about SDR 15 billion in 1970, SDR 30 billion in 1971, and SDR 23 billion in 1972) with less than SDR 9 billion of this total coming from the SDR allocation.

When it came time to consider an allocation for the second basic period, there was considerable support for a further allocation over a short basic period of two years. Some members favored an annual figure roughly the same as in the first basic period, others were prepared to accept an amount approximately half this size, and some did not see the need for any allocation. On June 26, 1972, just over six months before the beginning of the second basic period, the Managing Director reported that he was unable to find sufficient support for an allocation proposal but indicated that he would continue his consultations. These consultations, in the second half of 1972, led to the conclusion that there was not broad support for any proposal, and the Managing Director ceased his consultations after the very large increase in foreign exchange reserves (about US$20 billion) that took place in the first quarter of 1973.

Major changes have occurred and are occurring in the international monetary system, and the question of an SDR allocation should be considered in relation to these continuing developments. In my view, some important issues still remain open, and the request of the Interim Committee that the Executive Directors give the subject further study provides an opportunity to see whether these questions can be resolved within the near future. From the consideration that has been given to the question of an SDR allocation in recent weeks, I would judge it unlikely that I shall be able to make a proposal before January 1, 1978. Thus, it may be expected that the third basic period will start as an empty period.

Active consideration of the issues involved is being planned for the months ahead. In their communiqué of April 29 the Interim Committee reached the following conclusions:

> The Committee also considered the question whether a further allocation of SDRs would be advisable at the present time. The Committee noted that the Executive Directors have been discussing this question and agreed to request them to give further consideration to all aspects of this matter and to report to the Committee at its first meeting in 1978.
>
> The Committee also agreed to request the Executive Directors to review the characteristics and uses of the SDR so as to promote the purposes of the Fund, including the objective of making the SDR the principal reserve asset in the international monetary system.

I should note that I can make a proposal at any time during the third basic period when I am satisfied that the requisite conditions of Article XXIV, Section 4(*b*), are fulfilled, and indeed am obliged to do so by Article XXIV, Section 4(*c*). If the outstanding questions can be resolved, I will submit a proposal for an SDR allocation as soon as I am satisfied that one can be made that will be consistent with the requirements of the Articles, or, if such a proposal cannot be made, I will report to the Board of Governors and the Executive Board at an appropriate time.

June 29, 1977

Appendix III
Press Communiqués and Announcements of the Interim Committee and the Development Committee

Interim Committee of the Board of Governors on the International Monetary System

Press Communiqué, Sixth Meeting, Manila, October 2, 1976

1. The Interim Committee of the Board of Governors of the International Monetary Fund held its sixth meeting in Manila, the Philippines, on October 2, 1976 under the chairmanship of Mr. Willy De Clercq, Minister of Finance of Belgium. Mr. H. Johannes Witteveen, Managing Director of the Fund, participated in the meeting. The following observers attended during the Committee's discussions: G. D. Arsenis, Director, New York Office, UNCTAD; Henri Konan Bédié, Chairman, Development Committee; Wilhelm Haferkamp, Vice-President in Charge of Economic and Financial Affairs, CEC; René Larre, General Manager, BIS; E. van Lennep, Secretary-General, OECD; F. Leutwiler, President, National Bank of Switzerland; Olivier Long, Director-General, GATT; and Robert S. McNamara, President, IBRD.

2. The Committee discussed the world economic outlook and the functioning of the international adjustment process.

The Committee welcomed the economic recovery that has been under way for the last year; it expressed continued concern, however, about persistently high levels of unemployment and high rates of inflation in many countries. The Committee believes that in present circumstances the restoration of a reasonable degree of price stability will be necessary to establish the basis for sustained economic growth and the reduction of unemployment. Accordingly, the Committee is of the view that policies in the industrial countries at the present time should give priority to the reduction of price and cost inflation. This would require fiscal and monetary policies in these countries that would provide effective control over the expansion of aggregate demand in a manner compatible with this objective, even where price and incomes policies are in effect.

The Committee further agreed that, given the constraint under which demand management policies in the industrial countries must operate, special efforts, including the reduction in the barriers to trade in the negotiations now under way, to improve market access to the exports of developing countries and to increase the flow of development assistance would be indicated.

With respect to the international adjustment process, the Committee reached the following conclusions:

(a) As a result of the recovery in the world economy, exports are rising in many countries and the international environment has become much more favorable for the adjustment of external payments positions. The Committee believes that such adjustment, which should be symmetrical as between deficit and surplus countries, is now both urgent and opportune.

(b) To this end, deficit countries should arrange their domestic policies so as to restrain domestic demand and to permit the shift of resources to the external sector, to the extent necessary to bring the deficit on current account in line with a sustainable flow of capital imports and aid.

(c) Industrial countries in strong payments positions should ensure continued adequate expansion in domestic demand, within the limits set by effective anti-inflationary policies.

(d) Exchange rates should be allowed to play their proper role in the adjustment process.

(e) In the context of the use of the Fund's resources, adjustment by deficit countries can be promoted by a larger use of the credit tranches and the extended Fund facility.

3. The Committee noted that, in accordance with the agreement incorporated in the provisions of the Proposed Second Amendment, the Fund will have the obligation to exercise firm surveillance over the exchange rate policies of members. The Executive Directors should consider how this function is to be exercised and should report to the Committee on this subject.

4. The Committee noted the section of the Annual Report of the Executive Directors dealing with developments in international liquidity. In accordance with its terms of reference the Committee requested the Executive Directors to keep all aspects of international liquidity under review and to report to it at a later meeting.

5. The Committee reviewed, on the basis of a report by the Executive Directors, the financial activities of the Fund, including developments in the Fund's policies on the use of its resources and in the liquidity of the Fund. The Committee noted the unprecedented expansion in the use of the Fund's resources by members in order to finance their balance of payments deficits and agreed that, even if all reasonable efforts toward adjustment were made, there might still be a need for a large use of the Fund's resources in the near future. The Committee shared the view of the Executive Directors that greater emphasis should be placed on the adjustment by members of imbalances in their payments positions and that the use of the Fund's resources should present the Fund with the opportunity to promote the use by members of the kind of adjustment measures that are most conducive to the interest of all. The Committee noted the actions taken by the Executive Directors with regard to the Trust Fund and welcomed their intention to keep the compensatory financing and buffer stock facilities under review.

6. The Committee endorsed the conclusions of the Executive Directors on the state of the Fund's liquidity. The Committee urged that, pursuant to the Resolution on Quota Increases adopted by the Board of Governors last March, all members that have not yet done so should make the necessary arrangements for the use of their currencies in the operations and transactions of the Fund in accordance with its policies. It was agreed that the Fund's liquidity should be kept under close review. The Committee stressed the fact that prompt adoption of the Proposed Second Amendment of the Articles and the subsequent completion of the steps necessary for quota increases under the Sixth General Review would provide the most effective way of improving the liquidity of the Fund.

7. The Committee noted that the Executive Directors will initiate in the near future the Seventh General Review of Quotas so that it can be concluded, as planned, in February 1978.

8. The Committee noted the report of the Executive Directors regarding the progress made by members in connection with their acceptance of the Proposed Second Amendment of the Fund's Articles. In view of the importance that the

entry into force of the amended Articles will have for the functioning of the international monetary system, the Committee urged all members that had not yet notified the Fund of their acceptance of the Second Amendment to complete as soon as possible the arrangements that would permit them to take this action.

9. The Committee agreed to hold its eighth meeting in Washington, D.C., on April 18 and 19, 1977.

Announcement, Seventh Meeting, Manila, October 6, 1976

The Interim Committee at its seventh meeting today in Manila selected Mr. Willy De Clercq, Minister of Finance of Belgium, to continue as its Chairman for a new term, following upon the election of Executive Directors of the International Monetary Fund which took place on October 5, 1976.

The Committee also decided that its eighth meeting previously announced for April 18 and 19, 1977 is now to be held on April 28 and 29, 1977 in Washington, D.C.

Press Communiqué, Eighth Meeting, Washington, April 29, 1977

1. The Interim Committee of the Board of Governors of the International Monetary Fund held its eighth meeting in Washington, D.C., on April 28–29, 1977 under the chairmanship of Mr. Willy De Clercq, Minister of Finance of Belgium. Mr. H. Johannes Witteveen, Managing Director of the Fund, participated in the meeting. The following observers attended during the Committee's discussions: Mr. G. D. Arsenis, Director, New York Office, UNCTAD; Mr. Mahjoob A. Hassanain, Chief, Economics Department, OPEC; Mr. Pierre Languetin, General Manager, National Bank of Switzerland; Mr. René Larre, General Manager, BIS; Mr. Emile van Lennep, Secretary-General, OECD; Mr. Olivier Long, Director-General, GATT; Mr. Robert S. McNamara, President, IBRD; Mr. François-Xavier Ortoli, Vice-President, CEC; and Mr. Cesar E. A. Virata, Chairman, Development Committee.

2. The Committee discussed the world economic outlook and the functioning of the international adjustment process.

The Committee noted the expansion of activity that has taken place in the world economy over the past year and welcomed the improvement in economic outlook during recent months following cessation of the "pause" in the industrial countries. The Committee expressed concern, however, about the persistence of high levels of unemployment, especially among young people, and high levels of inflation in many countries.

I. On the broad question of the economic policy options and priorities of member countries, the Committee agreed on the following conclusions:

(a) Policies of demand management in most countries must emphasize the need to deal with problems of inflation and the balance of payments. These policies are being guided by the conviction that measures to combat inflation and, where necessary, to strengthen the external position are not only necessary in present circumstances but also will make for a better record over time in terms of economic growth and employment.

(b) At the same time, special efforts should be made to improve market access for the exports of the developing countries and to increase the flow of official development assistance. Any tendencies toward protectionist trade policies cannot be considered acceptable from an international point of view and should be strongly resisted; indeed, increased attention should be paid to the need to reduce the existing restrictions on trade. Success in the current negotiations in Geneva would make an important contribution to this end.

II. The Committee drew the following conclusions from its review of the international adjustment process:

(a) The needs for adjustment remain large and, as experience shows, delays in dealing with them can be very costly. It will take international cooperation, and determined action by surplus as well as deficit countries, to make continuing progress with respect to adjustment. An encouraging development is that a number of countries, both large and small, developed and developing, have adopted programs to strengthen their external positions, often in the context of stand-by arrangements approved by the Fund.

(b) Strategies of adjustment must include emphasis on conservation of energy, on elimination of domestic sources of inflation, particularly in the deficit countries, and on improvement in cost-price relationships among countries. It is important that industrial countries in relatively strong payments positions should ensure continued adequate expansion of domestic demand, within prudent limits. Moreover, these countries, as well as other countries in strong payments positions, should promote increased flows of long-term capital exports.

(c) Given the persistence of large payments imbalances, important demands for the Fund's resources can be expected to materialize. The Committee found good grounds for believing that expansion of the Fund's role as a financial intermediary could contribute significantly to promotion of international adjustment and to maintenance of confidence in the continued expansion of the world economy and in the effective functioning of the international financial system.

3. The Committee reviewed the developments in international liquidity and in the financial activities and resources of the Fund. In this connection, it had the benefit of a report of the Managing Director summarizing the discussions that the Executive Directors have had to date on these subjects. As a result of this review, the Committee reached the following conclusions:

The Committee recognized that there was an urgent need for a supplementary arrangement of a temporary nature that would enable the Fund to expand its financial assistance to those of its members that in the next several years will face payments imbalances that are large in relation to their economies.

The Committee agreed that some of the main features of this supplementary arrangement would be as follows:

(i) The Fund would establish substantial lines of credit in order to be able to assist members to meet their needs for supplementary assistance.

(ii) Access to assistance under the supplementary arrangement should be available to all members and should be subject to adequate conditionality, and such assistance should normally be provided on the basis of a stand-by arrangement covering a period longer than one year.

(iii) The Fund should pay interest on amounts borrowed under the lines of credit at market-related interest rates, and charges by the Fund for the use by members of resources borrowed by it under these lines of credit should be based on these rates. The possibility of a subsidy related to the rates of charge that would be payable by low-income countries should be explored.

(iv) The claims of lenders under the supplementary arrangement should be appropriately liquid.

The Committee welcomed the willingness of a number of countries in a position to lend to the Fund to collaborate with it on arrangements for supplementary credit and urged the Managing Director to complete, as soon as possible, his discussions with potential lenders on terms and conditions and amounts. It further requested the Executive Directors to take the necessary steps for making such an arrangement operative as soon as possible.

4. The Committee considered the main issues relating to the Seventh General Review of Quotas. It was agreed that, in view of the expansion of members' international transactions and the need for the Fund to be able to give balance of payments assistance to members on a larger scale than would be available on the basis of quotas under the Sixth General Review, there should be an adequate

increase in the total of quotas pursuant to the Seventh General Review. On the question of distribution of quotas, one view was that in order to conclude the Seventh Review at an early date, increases should be equiproportional to the quotas that will result from the Sixth General Review. Another view, however, was that a few special adjustments should be made for those members whose quotas are seriously out of line with their relative positions in the world economy, and in this connection some emphasis should be placed on increases that would strengthen the Fund's liquidity. The Committee urged the Executive Directors to pursue their work and to prepare a report, together with draft recommendations to the Board of Governors, on increases in the quotas of members under the Seventh General Review for consideration by the Committee at its next meeting.

5. The Committee also considered the question whether a further allocation of SDRs would be advisable at the present time. The Committee noted that the Executive Directors have been discussing this question and agreed to request them to give further consideration to all aspects of this matter and to report to the Committee at its first meeting in 1978.

The Committee also agreed to request the Executive Directors to review the characteristics and uses of the SDR so as to promote the purposes of the Fund, including the objective of making the SDR the principal reserve asset in the international monetary system.

6. Although the Committee discussed the proposals for supplementary credit, the Seventh Quota Review and any allocation of SDRs separately as indicated above, members of the Committee attached importance to the interrelationships among them and particularly to the overall effect of the decisions as a whole.

7. The Committee noted with satisfaction the work of the Executive Directors on the implementation of Article IV of the Proposed Amendment of the Articles of Agreement, and welcomed the consensus reached by them on the principles and procedures for the guidance of members and for the exercise of surveillance by the Fund over the exchange rate policies of members in the period after the Second Amendment has become effective. The Committee endorsed these principles and procedures, and agreed that they will make an important contribution to the effective functioning of the international monetary system in the future.

8. The Committee noted that so far no more than twenty-four members of the Fund having about 32 per cent of the total voting power have notified the Fund of their acceptances of the Proposed Second Amendment of the Fund's Articles and that very few members have given their formal consents to increases in their quotas under the Sixth General Review of Quotas. The Committee expressed its concern at this delay and urged all members that have not yet accepted the Proposed Second Amendment to complete as soon as possible the arrangements that would enable them to take this action and to increase their quotas under the Sixth General Review.

9. The Committee agreed to hold its ninth meeting in Washington on September 24, 1977.

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 Communiqué, Sixth Meeting, Manila, October 3, 1976

1. The Development Committee (the Joint Ministerial Committee of the Boards of Governors of the Bank and the Fund on the Transfer of Real Resources to Developing Countries) held its sixth meeting in Manila on October 3, 1976, under the chairmanship of Mr. Henri Konan Bédié, Minister of Economy and Finance for the Ivory Coast. Mr. Robert S. McNamara, President of the World Bank, Mr. H. Johannes Witteveen, Managing Director of the International Monetary Fund and Mr. M. M. Ahmad, Acting Executive Secretary, took part in the meeting which was also attended by representatives from a number of international and regional organizations and Switzerland as observers.

2. The Committee approved for presentation to the Boards of Governors of the Fund and the World Bank its second annual report covering the period July 1975 to June 1976.

3. The Committee considered the program of its future work in the light of the situation and prospects of developing countries. The analyses presented to it by the staffs of the IMF and the World Bank showed that the current account deficit of non-oil developing countries had declined somewhat but was still expected to be running at a high annual rate of about US$32–33 billion in 1976 and the first half of 1977. These estimates did not suggest that a significant relief from current difficulties would be forthcoming in the early part of 1977. Many developing countries, especially the middle-income countries, borrowed heavily to maintain the flow of imports and to avoid undue interruption of their development programs, leading to an increase in their external debt and debt service payments. The low-income countries have had little or no growth in per capita income since 1970 and their level of imports fell by some 20 per cent below those of the late 1960s. Official aid to them has been inadequate. To assist the developing countries in their adjustment process and to help them achieve a higher rate of growth, the low-income countries would require additional concessional assistance and the middle-income countries would need increased flows from both official and private sources. To be effective, these in turn would require a greater emphasis upon domestic policies attuned toward the necessary internal adjustment processes and toward employment creation.

4. The Committee reaffirmed its strong support for the timely and satisfactory completion of the Fifth Replenishment of IDA so as to permit a substantial increase in IDA resources which, in the opinion of many members, should be in real terms, and to maintain continuity of its operations beyond June 1977. The Committee also agreed that it was important that the lending programs of the international lending institutions remain adequate to help meet the capital requirements of the developing countries. They asked the Boards of these institutions to review the adequacy of their capital resources for this purpose and, where such capital is inadequate, to review the issues prerequisite to consideration of augmenting such capital.

5. The Committee, with due regard to the functions of the Boards of the IMF, the World Bank, and other international institutions, desired to focus attention on the resources situation of the international development finance institutions, on the volume, terms and distribution of official flows, and on the role of adjustment in the development process. The Committee agreed to establish a Working Group which would, initially, consider the study of the International Resources Bank requested of the World Bank. In addition, the group could be assigned other

specific matters, including the volume, terms and distribution of official flows. The Working Group will present its conclusions and recommendations for the consideration of the Committee.

6. The Committee received a further interim report from the Working Group on Access to Capital Markets. It was agreed that capital market countries would endeavor, as far as their balance of payments situation permitted, to move progressively toward greater liberalization of capital movements, in particular capital outflows. In the meanwhile, when regulations governing capital outflows are maintained for unavoidable reasons,

—governments of capital market countries would afford favorable treatment, as among foreign borrowers, to developing country borrowers with regard to permissions to make an issue or place in the issue calendar;

—those capital market countries which currently maintain quantitative limits on the amount of foreign issues in their markets would endeavor to keep developing country borrowers outside these limits, at least up to specified amounts;

—since the Eurobond market presents potential opportunities for developing countries to raise finance, countries whose currencies are in strong demand, and which maintain restrictions on international issues denominated in their currencies, would endeavor to give favorable treatment, as among foreign borrowers, to developing country borrowers.

The Committee noted a number of recommendations in the report that consideration be given to the removal of legal and administrative barriers so far as is consistent with investors' protection and urged capital market countries to give them earnest consideration.

7. The Committee recognized the need to reinforce and expand technical assistance activities in the field of access to capital markets, noted the bilateral programs already in the field, recognized the need to coordinate the implementation of present and future available services, and recommended that attention be given by the Board of IFC to the possibility of IFC expanding its activities.

8. The Committee stressed the importance of co-financing by international and regional development banks as a means of augmenting private capital flows to some developing countries, noted the progress being made in this regard and urged that these arrangements be further expanded.

9. The Committee noted with satisfaction that the Working Group had considered the subject of multilateral guarantees and the proposal for an international investment trust and asked that it continue its studies on these subjects. The Committee also agreed that the Working Group should present to the Committee at its next meeting concrete recommendations for improving the various reporting systems on international financial stocks and flows.

10. The Committee agreed to meet again on October 6 in Manila and also tentatively to meet on April 17, 1977, in Washington, D.C., the time of the next meeting of the Interim Committee.

11. The Committee expressed its deep appreciation to the Government of the Republic of the Philippines for its warm hospitality and for the excellent facilities provided to the Committee for the conduct of its meetings.

Announcement, Seventh Meeting, Manila, October 6, 1976

At its seventh meeting in Manila on October 6, 1976, the Development Committee selected the Honorable Cesar E.A. Virata, Secretary of Finance of the Philippines, as Chairman and appointed Sir Richard King, K.C.B., M.C., of the United Kingdom, as Executive Secretary. Sir Richard is currently Permanent Secretary of the Ministry of Overseas Development.

At its eighth meeting in Washington, the Development Committee decided not to issue a Press Communiqué. It decided that the ninth meeting would take place in Washington on September 25, 1977.

Appendix IV
Executive Directors and Voting Power on April 30, 1977

Director / *Alternate*	Casting Votes of	Votes by Country	General Account: Total votes [1]	General Account: Per cent of Fund total [2]	Special Drawing Account: Total votes [1]	Special Drawing Account: Per cent total [2] of Fund
APPOINTED						
Sam Y. Cross *Thomas Leddy*	United States	67,250	67,250	20.71	67,250	21.06
William S. Ryrie *Pendarell Kent*	United Kingdom	28,250	28,250	8.70	28,250	8.85
Eckard Pieske *Gerhard Laske*	Germany, Fed. Rep. of	16,250	16,250	5.01	16,250	5.09
Jacques Henri Wahl *Jean Foglizzo*	France	15,250	15,250	4.70	15,250	4.78
Masanao Matsunaga *Rei Masunaga*	Japan	12,250	12,250	3.77	12,250	3.84
ELECTED						
Lamberto Dini (Italy) *Eduardo O. de Toledo (Spain)*	Italy	10,250				
	Malta	410				
	Portugal	1,420				
	Spain	4,200	16,280	5.01	16,280	5.10
Bernard J. Drabble (Canada) *Donal Lynch (Ireland)*	Bahamas	450				
	Barbados	380				
	Canada	11,250				
	Grenada	270				
	Ireland	1,460				
	Jamaica	780	14,590	4.49	14,590	4.57
H. O. Ruding (Netherlands) *Tom de Vries (Netherlands)*	Cyprus	510				
	Israel	1,550				
	Netherlands	7,250				
	Romania	2,150				
	Yugoslavia	2,320	13,780	4.24	13,780	4.31
Muhammad Al-Atrash (Syrian Arab Republic) *Mohamed Finaish (Libya)*	Bahrain	350				
	Egypt	2,130				
	Iraq	1,340				
	Jordan	480				
	*Kuwait	900				
	*Lebanon	340				
	*Libya	490				
	Pakistan	2,600				
	*Qatar	450				
	*Saudi Arabia	1,590				
	Somalia	440				
	Syrian Arab Rep.	750				
	*United Arab Emirates	400				
	Yemen Arab Rep.	350	12,610	3.88	8,440	2.64
Vacant *Warnasena Rasaputram (Sri Lanka)*	Bangladesh	1,500				
	India	9,650				
	Sri Lanka	1,230	12,380	3.81	12,380	3.88

Director *Alternate*	Casting Votes of	Votes by Country	General Account: Total votes [1]	General Account: Per cent of Fund total [2]	Special Drawing Account: Total votes [1]	Special Drawing Account: Per cent of Fund total [2]
ELECTED (continued)						
Jacques de Groote (Belgium)	Austria	2,950				
Heinrich G. Schneider (Austria)	Belgium	6,750				
	Luxembourg	450				
	Turkey	1,760	11,910	3.67	11,910	3.73
R. J. Whitelaw (Australia)	Australia	6,900				
Ernest Leung (Philippines)	New Zealand	2,270				
	Papua New Guinea	450				
	Philippines	1,800				
	Western Samoa	270	11,690	3.60	11,690	3.66
Frede Hollensen (Denmark)	Denmark	2,850				
Matti Vanhala (Finland)	Finland	2,150				
	Iceland	480				
	Norway	2,650				
	Sweden	3,500	11,630	3.58	11,630	3.64
Byanti Kharmawan (Indonesia)	Burma	850				
Kiat Chong Ng (Singapore)	Fiji	380				
	Indonesia	2,850				
	Korea	1,050				
	Lao People's Dem. Rep.	380				
	Malaysia	2,110				
	Nepal	374				
	*Singapore	620				
	Thailand	1,590				
	Viet Nam	870	11,074	3.41	10,454	3.27
Alexandre Kafka (Brazil)	Brazil	4,650				
Winston Temple-Seminario (Peru)	Colombia	1,820				
	Dominican Republic	680				
	Guyana	450				
	Haiti	440				
	Panama	610				
	Peru	1,480				
	Trinidad and Tobago	880	11,010	3.39	11,010	3.45
Roberto Guarnieri (Venezuela)	Costa Rica	570				
Néstor O. Caldera (Nicaragua)	El Salvador	600				
	Guatemala	610				
	Honduras	500				
	Mexico	3,950				
	Nicaragua	520				
	Venezuela	3,550	10,300	3.17	10,300	3.23
Jahangir Amuzegar (Iran)	Afghanistan	620				
Costa P. Caranicas (Greece)	Algeria	1,550				
	Ghana	1,120				
	Greece	1,630				
	Iran	2,170				
	Morocco	1,380				
	Oman	320				
	Tunisia	730				
	Yemen, People's Dem. Rep. of	540	10,060	3.10	10,060	3.15
Wila D. Mung'omba (Zambia)	Botswana	300				
Festus G. Mogae (Botswana)	Burundi	440				
	*Ethiopia	520				
	Gambia, The	320				
	Guinea	490				
	Kenya	730				
	Lesotho	300				
	Liberia	540				
	Malawi	400				
	Nigeria	1,600				
	Sierra Leone	500				
	Sudan	970				
	Swaziland	330				
	Tanzania	670				
	Uganda	650				
	Zambia	1,010	9,770	3.01	9,250	2.90

Director *Alternate*	Casting Votes of	Votes by Country	General Account: Total votes [1]	General Account: Per cent of Fund total [2]	Special Drawing Account: Total votes [1]	Special Drawing Account: Per cent of Fund total [2]
ELECTED (concluded)						
Dante Simone (Argentina)	Argentina	4,650				
Alfredo Crespo (Ecuador)	Bolivia	620				
	Chile	1,830				
	Ecuador	580				
	Paraguay	440				
	Uruguay	940	9,060	2.79	9,060	2.84
Samuel Nana-Sinkam (Cameroon)	Benin	380				
Victor Alipui (Togo)	Cameroon	600				
	Central African Empire	380				
	Chad	380				
	Congo, People's Rep. of the	380				
	Equatorial Guinea	330				
	Gabon	400				
	Ivory Coast	770				
	Madagascar	510				
	Mali	470				
	Mauritania	380				
	Mauritius	470				
	Niger	380				
	Rwanda	440				
	Senegal	590				
	Togo	400				
	Upper Volta	380				
	Zaïre	1,380	9,020	2.78	9,020	2.82
			314,414 [3]	96.84 [2]	309,104 [3]	96.79 [2]

* Not a participant in the Special Drawing Account.

[1] Voting power varies on certain matters pertaining to the General Account with use of the Fund's resources in that Account. In voting on matters relating exclusively to the Special Drawing Account, only the number of votes allotted to members which are participants may be cast.

[2] Percentages of total votes of members in the General Account (324,665) and total votes of participants in the Special Drawing Account (319,355), respectively. 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 Cambodia, Comoros, China, and South Africa, which did not participate in the 1976 Regular Election of Executive Directors, and of Guinea-Bissau, which became a member after that election. The combined votes of the five members total 10,251 votes—3.16 per cent of those in the General Account and 3.21 per cent of those in the Special Drawing Account, respectively.

Appendix V
Changes in Membership of Executive Board

Changes in the membership of the Executive Board between May 1, 1976 and April 30, 1977 were as follows:

Peter J. Bull (United Kingdom) resigned as Alternate Executive Director to William S. Ryrie (United Kingdom), effective May 2, 1976.

Pendarell Kent (United Kingdom) was appointed Alternate Executive Director to William S. Ryrie (United Kingdom), effective May 3, 1976.

W.M. Tilakaratna (Sri Lanka) resigned as Alternate Executive Director to S. Jagannathan (India), effective June 30, 1976.

Warnasena Rasaputram (Sri Lanka) was appointed Alternate Executive Director to S. Jagannathan (India), effective July 1, 1976. He was appointed Alternate Executive Director to M.G. Kaul (India), effective November 1, 1976.

Francesco Palamenghi-Crispi (Italy) resigned as Executive Director for Italy, Malta, Portugal, and Spain, effective July 5, 1976.

J.B. Zulu (Zambia) resigned as Alternate Executive Director to Horace R. Monday, Jr., effective July 5, 1976.

Lamberto Dini (Italy) was elected Executive Director by Italy, Malta, Portugal, and Spain, effective July 6, 1976. He was re-elected, effective November 1, 1976.

Eduardo O. de Toledo (Spain), formerly Alternate Executive Director to Francesco Palamenghi-Crispi (Italy), was appointed Alternate Executive Director to Lamberto Dini (Italy), effective July 6, 1976, and was reappointed, effective November 1, 1976.

Roberto Gavaldá (Argentina) resigned as Executive Director for Argentina, Bolivia, Chile, Ecuador, Paraguay, and Uruguay, effective July 15, 1976.

Mikio Wakatsuki (Japan) resigned as Alternate Executive Director to Kaichi Kawaguchi (Japan), effective July 19, 1976.

Rei Masunaga (Japan) was appointed Alternate Executive Director to Kaichi Kawaguchi (Japan), effective July 20, 1976. He was appointed Alternative Executive Director to Masanao Matsunaga (Japan), effective November 1, 1976.

Dante Simone (Argentina) was elected Executive Director by Argentina, Bolivia, Chile, Ecuador, Paraguay, and Uruguay, effective July 20, 1976. He was re-elected, effective November 1, 1976.

Santiago Sevilla (Ecuador), formerly Alternate Executive Director to Roberto Gavaldá (Argentina), was appointed Alternate Executive Director to Dante Simone (Argentina), effective July 20, 1976. He was reappointed, effective November 1, 1976. He resigned, effective December 31, 1976.

Wila D. Mung'omba (Zambia) was appointed Alternate Executive Director to Horace R. Monday, Jr., effective October 4, 1976. He was elected Executive

Director by Botswana, Burundi, Ethiopia, The Gambia, Guinea, Kenya, Lesotho, Liberia, Malawi, Nigeria, Sierra Leone, the Sudan, Swaziland, Tanzania, Uganda, and Zambia, effective November 1, 1976.

Tom de Vries (Netherlands) was reappointed Alternate Executive Director to Pieter Lieftinck (Netherlands), effective October 30, 1976. He was appointed Alternate Executive Director to H.O. Ruding (Netherlands), effective January 1, 1977.

Per Åsbrink (Sweden) completed his term of service as Executive Director for Denmark, Finland, Iceland, Norway, and Sweden, effective October 31, 1976.

R.S. Deane (New Zealand) completed his term of service as Alternate Executive Director to R.J. Whitelaw (Australia), effective October 31, 1976.

Nazih Ahmed Deif (Egypt) completed his term of service as Executive Director for Bahrain, Egypt, Iraq, Jordan, Kuwait, Lebanon, Libya, Pakistan, Qatar, Saudi Arabia, Somalia, the Syrian Arab Republic, the United Arab Emirates, and the Yemen Arab Republic, effective October 31, 1976.

S. Jagannathan (India) completed his term of service as Executive Director for Bangladesh, India, and Sri Lanka, effective October 31, 1976.

Kaichi Kawaguchi (Japan) resigned as Executive Director for Japan, effective October 31, 1976.

Sein Maung (Burma) completed his term of service as Alternate Executive Director to Byanti Kharmawan (Indonesia), effective October 31, 1976.

Horace R. Monday, Jr. (The Gambia) completed his term of service as Executive Director for Botswana, Burundi, Ethiopia, The Gambia, Guinea, Kenya, Lesotho, Liberia, Malawi, Nigeria, Sierra Leone, the Sudan, Swaziland, Tanzania, Trinidad and Tobago, Uganda, and Zambia, effective October 31, 1976.

Francisco Suárez (Mexico) completed his term of service as Executive Director for Costa Rica, El Salvador, Guatemala, Honduras, Mexico, Nicaragua, and Venezuela, effective October 31, 1976.

Antoine W. Yaméogo (Upper Volta) completed his term of service as Executive Director for Benin, Cameroon, the Central African Empire, Chad, the People's Republic of the Congo, Equatorial Guinea, Gabon, Ivory Coast, Madagascar, Mali, Mauritania, Mauritius, Niger, Rwanda, Senegal, Togo, Upper Volta, and Zaïre, effective October 31, 1976.

Muhammad Al-Atrash (Syrian Arab Republic) was elected Executive Director by Bahrain, Egypt, Iraq, Jordan, Kuwait, Lebanon, Libya, Pakistan, Qatar, Saudi Arabia, Somalia, the Syrian Arab Republic, the United Arab Emirates, and the Yemen Arab Republic, effective November 1, 1976.

Mohamed Finaish (Libya), formerly Alternate Executive Director to Nazih Ahmed Deif (Egypt), was appointed Alternate Executive Director to Muhammad Al-Atrash (Syrian Arab Republic), effective November 1, 1976.

Jahangir Amuzegar (Iran) was re-elected Executive Director by Afghanistan, Algeria, Ghana, Greece, Iran, Morocco, Oman, Tunisia, and the People's Democratic Republic of Yemen, effective November 1, 1976.

Costa P. Caranicas (Greece) was reappointed Alternate Executive Director to Jahangir Amuzegar (Iran), effective November 1, 1976.

Jacques de Groote (Belgium) was re-elected Executive Director by Austria, Belgium, Luxembourg, and Turkey, effective November 1, 1976.

Heinrich G. Schneider (Austria) was reappointed Alternate Executive Director to Jacques de Groote (Belgium), effective November 1, 1976.

Bernard J. Drabble (Canada), formerly Executive Director for the Bahamas, Barbados, Canada, Ireland, and Jamaica, was elected Executive Director by the Bahamas, Barbados, Canada, Grenada, Ireland, and Jamaica, effective November 1, 1976.

Donal Lynch (Ireland) was reappointed Alternate Executive Director to Bernard J. Drabble (Canada), effective November 1, 1976.

Roberto Guarnieri (Venezuela), formerly Alternate Executive Director to Francisco Suárez (Mexico), was elected Executive Director by Costa Rica, El Salvador, Guatemala, Honduras, Mexico, Nicaragua, and Venezuela, effective November 1, 1976.

Néstor O. Caldera (Nicaragua) was appointed Alternate Executive Director to Roberto Guarnieri (Venezuela), effective November 1, 1976.

Frede Hollensen (Denmark) was elected Executive Director by Denmark, Finland, Iceland, Norway, and Sweden, effective November 1, 1976.

Jørn H. Kjaer (Denmark), formerly Alternate Executive Director to Per Åsbrink (Sweden), was appointed Alternate Executive Director to Frede Hollensen (Denmark), effective November 1, 1976. He resigned, effective February 28, 1977.

Alexandre Kafka (Brazil), formerly Executive Director for Brazil, Colombia, the Dominican Republic, Guyana, Haiti, Panama, and Peru, was elected Executive Director by Brazil, Colombia, the Dominican Republic, Guyana, Haiti, Panama, Peru, and Trinidad and Tobago, effective November 1, 1976.

M.G. Kaul (India) was elected Executive Director by Bangladesh, India, and Sri Lanka, effective November 1, 1976. He died on March 14, 1977.

Byanti Kharmawan (Indonesia), formerly Executive Director for Burma, Cambodia, Fiji, Indonesia, Korea, Lao People's Democratic Republic, Malaysia, Nepal, Singapore, Thailand, and Viet Nam, was elected Executive Director by Burma, Fiji, Indonesia, Korea, Lao People's Democratic Republic, Malaysia, Nepal, Singapore, Thailand, and Viet Nam, effective November 1, 1976.

Kiat Chong Ng (Singapore) was appointed Alternate Executive Director to Byanti Kharmawan (Indonesia), effective November 1, 1976.

Pieter Lieftinck (Netherlands) was re-elected Executive Director by Cyprus, Israel, the Netherlands, Romania, and Yugoslavia, effective November 1, 1976. He resigned, effective December 31, 1976.

Masanao Matsunaga (Japan) was appointed Executive Director by Japan, effective November 1, 1976.

Festus G. Mogae (Botswana) was appointed Alternate Executive Director to Wila D. Mung'omba (Zambia), effective November 1, 1976.

Samuel Nana-Sinkam (Cameroon), formerly Alternate Executive Director to Antoine W. Yaméogo (Upper Volta), was elected Executive Director by Benin, Cameroon, the Central African Empire, Chad, the People's Republic of the Congo, Equatorial Guinea, Gabon, Ivory Coast, Madagascar, Mali, Mauritania, Mauritius, Niger, Rwanda, Senegal, Togo, Upper Volta, and Zaïre, effective November 1, 1976.

R.J. Whitelaw (Australia), formerly Executive Director for Australia, New Zealand, the Philippines, and Western Samoa, was elected Executive Director by Australia, New Zealand, Papua New Guinea, the Philippines, and Western Samoa, effective November 1, 1976.

Ernest Leung (Philippines) was appointed Alternate Executive Director to R.J. Whitelaw (Australia), effective November 1, 1976.

H.O. Ruding (Netherlands) was elected Executive Director by Cyprus, Israel, the Netherlands, Romania, and Yugoslavia, effective January 1, 1977.

Victor Alipui (Togo) was appointed Alternate Executive Director to Samuel Nana-Sinkam (Cameroon), effective January 19, 1977.

Alfredo Crespo (Ecuador) was appointed Alternate Executive Director to Dante Simone (Argentina), effective January 21, 1977.

Matti Vanhala (Finland) was appointed Alternate Executive Director to Frede Hollensen (Denmark), effective March 1, 1977.

The following served at certain times during 1976/77 as Temporary Alternate Executive Directors to the Executive Directors indicated:

Temporary Alternate Executive Director	**Executive Director for whom Temporary Alternate Served**
Kadhim Al-Eyd (Iraq)	Muhammad Al-Atrash (Syrian Arab Republic)
Victor Alipui (Togo)	Samuel Nana-Sinkam (Cameroon)
Valery D. Amiel (Israel)	Pieter Lieftinck (Netherlands)
	H.O. Ruding (Netherlands)
Samuel Arancibia (Chile)	Roberto Gavaldá (Argentina)
	Dante Simone (Argentina)
Eimar Avillez (Brazil)	Alexandre Kafka (Brazil)
Matthias Berger (Germany, Fed. Rep. of)	Eckard Pieske (Germany, Fed. Rep. of)
Dominique Berthet (France)	Jacques Henri Wahl (France)
Jean-Marc Bisson (Canada)	Bernard J. Drabble (Canada)
Inga Björk-Klevby (Sweden)	Frede Hollensen (Denmark)
Christian Bouchard (Gabon)	Samuel Nana-Sinkam (Cameroon)
Ian M. Cobbold (United Kingdom)	William S. Ryrie (United Kingdom)
Juan María Cock Londoño (Colombia)	Alexandre Kafka (Brazil)
James K.E. Cole (Sierra Leone)	Horace R. Monday, Jr. (The Gambia)
	Wila D. Mung'omba (Zambia)
Roger De Beckker (Belgium)	Jacques de Groote (Belgium)
K.L. Deshpande (India)	S. Jagannathan (India)
	M.G. Kaul (India)
Anne Doizé (Belgium)	Jacques de Groote (Belgium)
Bernd Goos (Germany, Fed. Rep. of)	Eckard Pieske (Germany, Fed. Rep. of)
Guillermo Heyden Q. (Costa Rica)	Francisco Suárez (Mexico)
Fouad K. Hussein (Egypt)	Nazih Ahmed Deif (Egypt)
Trond M. Johansen (Norway)	Frede Hollensen (Denmark)
Ahmad Karimi (Iran)	Jahangir Amuzegar (Iran)
Reza Khonsary (Iran)	Jahangir Amuzegar (Iran)
Haruhiko Kuroda (Japan)	Kaichi Kawaguchi (Japan)
	Masanao Matsunaga (Japan)
Carl J. Lohmann (United States)	Sam Y. Cross (United States)
Abdul Malek (Malaysia)	Byanti Kharmawan (Indonesia)
Yves Jean Marie Mersch (Luxembourg)	Jacques de Groote (Belgium)
Alan G. Morris (Australia)	R.J. Whitelaw (Australia)
Hicham Mutewalli (Syrian Arab Republic)	Muhammad Al-Atrash (Syrian Arab Republic)
Alan B. Nymark (Canada)	Bernard J. Drabble (Canada)
F.L. Osunsade (Nigeria)	Wila D. Mung'omba (Zambia)
Chike C. Ozumba (Nigeria)	Horace R. Monday, Jr. (The Gambia)
	Wila D. Mung'omba (Zambia)
S.K. Panya (Lao People's Dem. Rep.)	Byanti Kharmawan (Indonesia)
Markku Pietinen (Finland)	Per Åsbrink (Sweden)
Emilio Sacerdoti (Italy)	Francesco Palamenghi-Crispi (Italy)
	Lamberto Dini (Italy)
Sharad P. Upasani (India)	S. Jagannathan (India)
	M.G. Kaul (India)
Luis Felipe Vílches (Mexico)	Francisco Suárez (Mexico)
	Roberto Guarnieri (Venezuela)
Mohamed A. Wasfy (Egypt)	Nazih Ahmed Deif (Egypt)
Paul Zimmer (Luxembourg)	Jacques de Groote (Belgium)
A.G. Zoccali (Argentina)	Roberto Gavaldá (Argentina)
	Dante Simone (Argentina)

Appendix VI
Administrative Budget

Letter of Transmittal

August 2, 1977

Dear Mr. Chairman:

The administrative budget of the Fund approved by the Executive Board for the fiscal year ending April 30, 1978 is presented herewith, in accordance with Section 20 of the By-Laws. The presentation also shows actual expenses for the past two fiscal years.

I should like to point out that it is of course impossible to predict whether the amounts budgeted will, in fact, meet the requirements of the Fund's program. The amounts shown are estimates of requirements on the basis of the expected level of activities. Should contingencies arise or present plans change materially, the management would recommend appropriate amendments to the Executive Board.

Yours sincerely,
/s/
H. JOHANNES WITTEVEEN
Chairman of the Executive Board

Chairman of the Board of Governors
International Monetary Fund

Administrative Budget as Approved by the Executive Board for the Fiscal Year Ending April 30, 1978 Compared with Actual Expenses for the Fiscal Years Ended April 30, 1976 and 1977

(Values expressed in special drawing rights)[1]

Category of Expense	Fiscal Year Ending Apr. 30, 1978	Fiscal Year Ended Apr. 30, 1977		Fiscal Year Ended Apr. 30, 1976
	Budget	Revised Budget	Actual Expenses	Actual Expenses
I. Board of Governors	1,527,269	2,177,079	1,887,933	1,420,496
II. Executive Directors				
Salaries	2,896,217	2,766,824	2,762,092	2,541,641
Other compensations and benefits	881,944	915,228	875,105	692,754
Travel	731,368	983,672	956,267	723,202
Total	4,509,529	4,665,724	4,593,464	3,957,597
III. Staff				
Salaries	27,761,010	25,689,302	25,418,223	22,743,022
Other compensations and benefits	16,281,113	13,367,644	13,365,066	9,757,960
Travel	5,665,951	5,359,374	5,001,503	4,883,306
Total	49,708,074	44,416,320	43,784,792	37,384,288
IV. Special Services to Member Countries	5,231,433	4,875,678	4,497,655	4,002,199
V. Other Administrative Expenses				
Communications	1,832,722	1,740,097	1,686,065	1,523,504
Office occupancy expenses	2,090,852	1,989,419	1,742,877	1,698,895
Books and printing	1,127,167	1,215,554	941,286	955,409
Supplies and equipment	1,272,581	1,157,991	1,121,040	988,880
Data processing services	1,408,529	1,274,614	1,181,248	1,029,479
Miscellaneous	1,382,716	1,180,968	1,145,972	1,104,711
Total	9,114,567	8,558,643	7,818,488	7,300,878
Total[2]	70,090,872	64,693,444	62,582,332	54,065,458

[1] The administrative budget is expressed in terms of U.S. dollars and converted to SDR equivalents.

[2] Net administrative expenses for the fiscal year ended April 30, 1977 totaled SDR 60,782,287 after deduction of the amounts reimbursed to the General Account by assessments levied on the net cumulative allocations of participants in the Special Drawing Account (SDR 1,000,045), and for the estimated expenses of conducting the business of the Trust Fund (SDR 800,000). For the year ended April 30, 1976, net administrative expenses amounted to SDR 52,465,169 after deduction of SDR 1,600,289 in assessments levied on participants in the Special Drawing Account.

Appendix VII

Comparative Statement of Income and Expenses

(Values expressed in special drawing rights)

	Fiscal Year Ended		
	Apr. 30, 1975	Apr. 30, 1976	Apr. 30, 1977
OPERATIONAL INCOME			
Operational charges			
Received in special drawing rights	20,666,782	26,499,848	24,085,973
Received in members' currencies	357,981	68,555	304,824
Total	21,024,763	26,568,403	24,390,797
Charges on balances in excess of quotas			
Received in special drawing rights	122,426,915	407,225,597	725,746,313
Received in members' currencies	1,871,916	795,012	927,224
Amounts receivable	96,594	479,615	602,557
Total	124,395,425	408,500,224	727,276,094
Interest on holdings of special drawing rights	21,123,821	20,838,104	22,980,889
Total Operational Income	166,544,009	455,906,731	774,647,780
Deduct: Operational expenses			
Remuneration			
Paid in special drawing rights	10,317,068	24,108,110	121,774,346
Paid in members' currencies	52,055,045	79,973,828	105,104,238
Total	62,372,113	104,081,938	226,878,584
Transfer charges and interest on indebtedness			
Paid in special drawing rights	1,200,167	7,043,152	352,214
Paid in members' currencies	68,028,115	296,382,331	500,330,420
Total	69,228,282	303,425,483	500,682,634
Other	—	—	7,046
Total Operational Expenses	131,600,395	407,507,421	727,568,264
NET OPERATIONAL INCOME	34,943,614	48,399,310	47,079,516
EXPENSES[1]			
Administrative budget expenses	44,770,761[2]	52,465,169[2]	60,782,287[2]
Fixed property expenses	(290,599)	69,923	64,437
Amortization of past service liabilities	—	—	4,392,696
Net valuation adjustment loss (gain)	119,893	(266,938)	31,088
TOTAL EXPENSES[1]	44,600,055	52,268,154	65,270,508
EXCESS OF EXPENSES OVER INCOME BEFORE DEDUCTION OF EXTRAORDINARY ITEM	9,656,441	3,868,844	18,190,992
Deduct: Proceeds from the sale of property	—	934,418	—
EXCESS OF EXPENSES OVER INCOME	9,656,441	2,934,426	18,190,992

[1] Excludes operational expenses which have been deducted from operational income.

[2] After deduction of SDR 1,199,751 for fiscal year 1975, SDR 1,600,289 for fiscal year 1976, and SDR 1,000,045 for fiscal year 1977 reimbursed to the General Account by assessments levied on the net cumulative allocations of participants in the Special Drawing Account; and SDR 800,000 for fiscal year 1977 reimbursed to the General Account for the estimated expenses of conducting the business of the Trust Fund.

Appendix VIII

Financial Statements of the General Account, Special Drawing Account, Subsidy Account, Trust Fund, and Staff Retirement Fund

Letter of Transmittal

August 2, 1977

Dear Mr. Chairman:

In accordance with Section 20(b) of the By-Laws of the Fund, I have the honor to submit for the consideration of the Board of Governors the audited financial statements of the General Account, the Special Drawing Account, the Subsidy Account, the Trust Fund, and the Staff Retirement Fund for the year ended April 30, 1977, together with the reports of the External Audit Committee thereon.

In conformity with the By-Laws, the audit of the Fund has been performed by an External Audit Committee consisting of auditors nominated by three member countries. At the Fund's request, Tunisia, the United Kingdom and Uruguay nominated auditors to serve on this Committee. They respectively nominated Mr. Mohamed Bouaouaja, Director, Research Department, Central Bank of Tunisia; Mr. J. A. Collens, Deputy Director of Audit, Exchequer and Audit Department, United Kingdom; and Mr. Lelis A. Breda, Chief, Money and Credit Sector, Central Bank of Uruguay. The auditors thus nominated were confirmed by the Executive Directors.

It will be noted that in the year under review for the General Account, operational income amounted to SDR 774,647,780, and operational expenses amounted to SDR 727,568,264 resulting in net operational income of SDR 47,079,516. Administrative budget and fixed property expenses, including the annual amortization of the contribution to the Staff Retirement Fund to discharge the past service liabilities (SDR 4,392,696), amounted to SDR 65,270,508 which resulted in an excess of expenses over income of SDR 18,190,992 for the year. In accordance with Executive Board Decision No. 708-(57/57), adopted November 27, 1957, this excess of expenses over income has been charged against the Special Reserve.

The report of the External Audit Committee is being submitted separately to the Board of Governors.

Yours sincerely,
/s/
H. JOHANNES WITTEVEEN
Chairman of the Executive Board

Chairman of the Board of Governors
International Monetary Fund

General Account
Report of the External Audit Committee

Washington, D.C.
July 1, 1977

Authority for the Audit

The audit for the year ended April 30, 1977, was carried out pursuant to Section 20(b) of the By-Laws of the International Monetary Fund.

Scope of the Audit

We have conducted the audit in accordance with generally accepted auditing standards and in compliance with the requirements of Section 20(b) of the By-Laws that it should be comprehensive with respect to examination of the records of the Fund; should extend, insofar as practicable, to the ascertainment that operations and transactions conducted through the General Account were supported by the necessary authority; and should determine that there was adequate and faithful accounting for the assets and liabilities of the Fund. Our examination included a review of the adequacy of the system of accounting and internal control and such tests as we considered necessary in the circumstances, having regard to the extent and results of the tests which we observed to have been carried out by the Internal Auditor.

Scope of the Accounts

Exhibits A through E represent the accounts which Section 20(b) of the By-Laws requires to be prepared and audited. They include corresponding figures for the year ended April 30, 1976, for the purposes of comparison. Schedules 1 through 5 submitted with our report to the Board of Governors contain further details of items in the accounts which the Audit Committee consider may be of interest to the Board.

Audit Opinion

In our opinion, the financial statements (Exhibits A through E) present fairly, in terms of special drawing rights, the financial position of the General Account of the International Monetary Fund as at April 30, 1977, and the results of its operations and transactions for the year then ended, in conformity with generally accepted accounting principles applied on a basis consistent with that of the preceding year.

External Audit Committee:
/s/ J. A. Collens, Chairman (United Kingdom)
/s/ Mohamed Bouaouaja (Tunisia)
/s/ Lelis A. Breda (Uruguay)

EXHIBIT A

INTERNATIONAL MONETARY FUND

GENERAL ACCOUNT
(Note 1)
BALANCE SHEET
as at April 30, 1977

Amounts expressed in special drawing rights

(Note 2)

		1977	1976
ASSETS			
GOLD WITH DEPOSITORIES (Note 3)		4,959,027,070	5,369,539,548
SPECIAL DRAWING RIGHTS		771,093,672	460,846,614
CURRENCIES AND SECURITIES (Notes 4 and 5)			
With depositories			
Currencies	13,968,013,201		11,796,561,246
Securities	16,247,600,890		16,288,819,875
	30,215,614,091		28,085,381,121
Add: Net valuation adjustment receivable	1,795,286,779		2,491,464,005
		32,010,900,870	30,576,845,126
SUBSCRIPTIONS TO CAPITAL—RECEIVABLE (Balances of initial quotas—not due)		23,547,180	46,694,339
CHARGES RECEIVABLE FROM MEMBERS		195,065,337	140,470,388
OTHER ASSETS (Notes 2 and 7)		17,501,208	4,019,249
TOTAL ASSETS		37,977,135,337	36,598,415,264

		1977	1976
CAPITAL, RESERVES, AND LIABILITIES			
CAPITAL			
Subscriptions of Members		29,216,500,000	29,211,400,000
RESERVES (Exhibit C and Note 8)		686,484,417	704,675,409
INDEBTEDNESS (Note 6)			
Oil facility	6,702,087,635		6,465,147,635
General Arrangements to Borrow and other borrowing	1,000,000,000	7,702,087,635	
REMUNERATION PAYABLE TO MEMBERS		226,878,584	104,081,938
INTEREST PAYABLE ON INDEBTEDNESS		126,806,443	107,807,354
OTHER LIABILITIES (Note 7)		18,378,258	5,302,928
TOTAL CAPITAL, RESERVES, AND LIABILITIES		37,977,135,337	36,598,415,264

The notes in Exhibit E are an integral part of the financial statements.

/s/ R. J. FAMILTON
Acting Treasurer

/s/ H. JOHANNES WITTEVEEN
Managing Director

EXHIBIT B

INTERNATIONAL MONETARY FUND

GENERAL ACCOUNT

STATEMENT OF INCOME AND EXPENSES

for the year ended April 30, 1977

Amounts expressed in special drawing rights

(Note 2)

	1977			1976
OPERATIONAL INCOME:				
Charges on balances in excess of quotas		727,276,094		408,500,224
Interest on holdings of special drawing rights		22,980,889		20,838,104
Service charges		23,748,562		26,336,528
Other operational income		642,235		231,875
Total operational income			774,647,780	455,906,731
Deduct operational expenses				
Remuneration		226,878,584		104,081,938
Interest on indebtedness		495,682,633		303,425,483
Other operational expenses		5,007,047		—
Total operational expenses			727,568,264	407,507,421
NET OPERATIONAL INCOME			47,079,516	48,399,310
EXPENSES:				
Administrative budget expenses:				
Board of Governors		1,887,933		1,420,496
Executive Directors:				
Salaries	2,762,092			2,541,641
Other compensations and benefits (Note 7)	875,105			692,754
Travel	956,267			723,202
Total Executive Directors		4,593,464		3,957,597
Staff:				
Salaries	25,418,223			22,743,022
Other compensations and benefits (Note 7)	13,365,066			9,757,960
Travel	5,001,503			4,883,306
Total staff		43,784,792		37,384,288
Special services to member countries		4,497,655		4,002,199
Other:				
Communications	1,686,065			1,523,504
Office occupancy expenses	1,742,877			1,698,895
Books and printing	941,286			955,409
Supplies and equipment (Note 2)	1,121,040			988,880
Data processing services	1,181,248			1,029,479
Miscellaneous	1,145,972			1,104,711
Total other		7,818,488		7,300,878
Total administrative budget expenses		62,582,332		54,065,458
Deduct: Assessments levied on participants for estimated expenses of operating the Special Drawing Account	1,000,045			1,600,289
Reimbursement for the expenses of conducting the business of the Trust Fund	800,000			—
Total deductions		1,800,045		1,600,289
Net administrative budget expenses		60,782,287		52,465,169
Fixed property expenses (Note 2)		64,437		69,923
Amortization of employer's contribution to the Staff Retirement Fund to discharge past service liabilities (Note 7)		4,392,696		—
Net valuation adjustment (gain) loss on administrative balances not subject to maintenance of value		31,088		(266,938)
TOTAL EXPENSES		65,270,508		52,268,154
Deduct realized gain from the sale of property		—		934,418
NET EXPENSES			65,270,508	51,333,736
EXCESS OF EXPENSES OVER INCOME (Exhibit C)			18,190,992	2,934,426

The notes in Exhibit E are an integral part of the financial statements.

EXHIBIT C

INTERNATIONAL MONETARY FUND

GENERAL ACCOUNT
STATEMENT OF RESERVES
as at April 30, 1977

Amounts expressed in special drawing rights
(Note 2)

	1977	1976
SPECIAL RESERVE (Note 8)		
Balance—Beginning of the fiscal year	339,095,706	342,030,132
Deduct excess of expenses over income (Exhibit B)	18,190,992	2,934,426
Balance—End of the fiscal year	320,904,714	339,095,706
GENERAL RESERVE		
Balance	365,579,703	365,579,703
TOTAL RESERVES (Exhibit A)	686,484,417	704,675,409

The notes in Exhibit E are an integral part of the financial statements.

EXHIBIT D

INTERNATIONAL MONETARY FUND

GENERAL ACCOUNT

STATEMENT OF CHANGES IN FINANCIAL POSITION

for the year ended April 30, 1977

Amounts expressed in special drawing rights

(Note 2)

Resources were applied to:			
Net increase in use of the gold tranche and in currency holdings in excess of members' quotas			3,996,874,572
Increase in holdings of special drawing rights			310,247,058
Increase in currency holdings from subscription payments			28,247,159
Excess of expenses over income			18,190,992
			4,353,559,781
Resources were provided by:			
Increase in net creditor positions			2,591,065,987
Borrowing:			
General Arrangements to Borrow and Swiss National Bank		1,000,000,000	
Oil facility	436,940,000		
Less: Repayment of borrowing under 1974 oil facility	200,000,000	236,940,000	1,236,940,000
Sales of gold			410,512,478
Increase in the excess of other liabilities over other assets			109,941,316
Quotas of new members			5,100,000
			4,353,559,781

The notes in Exhibit E are an integral part of the financial statements.

EXHIBIT E

INTERNATIONAL MONETARY FUND

GENERAL ACCOUNT
NOTES TO THE FINANCIAL STATEMENTS
for the year ended April 30, 1977

Note 1—General Account

All operations and transactions on the account of the International Monetary Fund (the Fund) are conducted through the General Account. Assets held in the General Account comprise gold, currencies of the Fund's member countries, and special drawing rights (SDRs). The Fund's resources in the General Account are made available to members in accordance with the Fund's policies either in the form of currencies or SDRs, which members purchase against the payment of their own currencies. The amount of such use is related to a member's quota in the Fund. In addition to purchases under the Fund's regular facilities, members may use the Fund's resources under the extended Fund facility (to support corrective policies over two to three years), the compensatory financing facility (to assist members experiencing fluctuations in receipts from exports of primary products), the buffer stock financing facility, and the oil facility (for balance of payments problems caused by increases in the costs of petroleum and petroleum products). Use of all the Fund's facilities is dependent on members having a balance of payments need.

In addition to transactions with currencies (including borrowing by the Fund), the purchase or sale of gold by the Fund, the receipt of SDRs in payment of charges and in repurchases by members and the use of SDRs by the Fund take place through the General Account.

Note 2—Accounting Practices

Unit of Account

The accounts of the General Account are expressed in terms of the special drawing right. The currency value of the SDR is determined by a standard basket of the currencies of sixteen members and the gold value is 0.888671 gram of fine gold. Members' currencies and securities are converted into equivalent amounts of SDRs on the basis of representative rates of exchange determined in accordance with decisions of the Board of Executive Directors. Gold held by the General Account is valued on the basis that one unit of special drawing rights is equivalent to 0.888671 gram of fine gold.

Property, Furniture, and Equipment

The Fund charges as an expense of each accounting period the total costs incurred for fixed property, furniture, and equipment. As at April 30, 1977, the net balance of the Fund's property accounts, at cost, which had been charged to expenses, amounted to SDR 63,235,813 (SDR 62,813,188 at April 30, 1976).

Income and Expenses

The Fund maintains its books of account on the accrual basis and accordingly follows a policy of recognizing income as it is earned and recording expenses as they are incurred.

Note 3—Gold with Depositories

The accounts do not include gold held under earmark for members which was equivalent to SDR 333,104 at both April 30, 1977 and April 30, 1976.

Note 4—Currencies and Securities with Depositories

Securities issued by members to the Fund comprise nonnegotiable and noninterest-bearing securities, payable to the Fund on demand. Each member has the option to substitute securities for that amount of the member's currency held by the Fund which is in excess of ¼ of 1 per cent of the member's quota.

In order to maintain the value of the Fund's currency holdings, a holding is revalued whenever the member's currency is used by the Fund in a transaction with another member, or for such other purposes as the Fund may decide. All currency holdings are revalued as at April 30 each year. An account receivable or an account payable is established for the amount of currency payable by or to a member, the balance of which is included in the Fund's currency holdings. At April 30, 1977, amounts receivable amounted to SDR 1,872,688,403 and amounts payable to SDR 77,401,624.

Note 5—Operational Transactions

During the year ended April 30, 1977, members' purchases amounted to SDR 4,910 million of which SDR 160 million was in the gold tranche, SDR 2,370 million was under the Fund's regular facilities, SDR 1,753 million was under the compensatory financing facility, SDR 437 million was under the oil facility and SDR 190 million was under the extended Fund facility. Over the same period, repurchases by members totaled SDR 868 million, of which SDR 200 million related to the oil facility.

As at April 30, 1977, total outstanding purchases of members amounted to SDR 16,068 million, of which SDR 2,626 million represented purchases in the gold tranche not subject to Fund charges and SDR 6,702 million represented purchases under the oil facility, which were subject to separate schedules of charges. Currency holdings in excess of members' quotas which are subject to Fund charges were SDR 13,442 million and total creditor positions of members on which the Fund pays remuneration amounted to SDR 6,332 million.

Members incur certain obligations to the Fund with the use of Fund resources from the General Account. One member has not fulfilled financial obligations to repurchase a part of the Fund's holdings of the member's currency, to pay Fund charges on currency balances in excess of the member's quota and to submit information on monetary reserves. Normal means of communication are not available between the Fund and the member. The Fund has this situation under continuing review.

Note 6—Indebtedness

Oil Facility

The Fund has entered into borrowing agreements with various members and Switzerland, or institutions within their territories, under which these lenders agreed to provide the Fund with specified currencies to finance purchases of currencies from the Fund by other members under the oil facility. The outstanding borrowings carry interest rates of 7 per cent for amounts called under the 1974 borrowing agreements and 7¼ per cent for amounts called under the 1975 borrowing agreements. Any calls

EXHIBIT E

made by the Fund under these agreements are repayable over seven years except that calls made under the borrowing agreements with Canada and the Deutsche Bundesbank are repayable over five years.

General Arrangements to Borrow (GAB)

Ten members, or institutions within their territories, have adhered to the General Arrangements to Borrow under which the Fund may borrow their currencies up to specified amounts. These arrangements first became effective from October 24, 1962 and have been renewed until October 23, 1980. The Fund pays a transfer charge of one-half of one per cent on amounts borrowed under these arrangements and, in addition, pays interest at the rates at which the Fund levies charges on the holdings of currencies resulting from purchases financed from borrowing under the GAB. Any calls made by the Fund under the GAB are repayable within five years.

Other

The Swiss National Bank has entered into a borrowing agreement with the Fund under which it has agreed to lend to the Fund U.S. dollars equivalent to SDR 300 million for exchange transactions under a stand-by arrangement. The other terms and conditions of this borrowing are similar to those of the General Arrangements to Borrow.

Note 7—Other Compensations and Benefits

The Fund pays various allowances to or on behalf of Executive Directors and staff including the employer's contribution to the Staff Retirement Plan. All contributions to the Plan and all other assets, liabilities and income of the Plan are held separately and can be used only for the benefit of the participants in the Plan and their beneficiaries. The funding of the Plan is based upon a percentage of salaries paid, and the employer contributes that part of the costs and expenses of the Plan not provided by the contributions of the participants.

In August 1976 certain improvements in the benefits provisions of the Plan and changes in the rate of contribution and funding arrangements were approved effective from September 1, 1976. A payment equivalent to SDR 19,032,422 was made from the General Account to the Staff Retirement Fund on September 1, 1976. Of this amount, SDR 17,570,796 was to discharge the past service liabilities resulting from the improved benefits and changes in funding arrangements and is being charged against income over a period of four years. Accordingly, SDR 4,392,696 was charged against income in the year ended April 30, 1977; the balance of SDR 13,178,100 is included as a deferred charge in other assets. The balance of the payment made on September 1, 1976, namely SDR 1,461,626, was to fund part of the accumulated experience losses of the Plan as determined by the actuary engaged by the Pension Committee. Experience gains and losses are amortized over a period of 15 years and at April 30, 1977 unamortized experience losses amounted to SDR 18.4 million.

Contributions by the employer to the Staff Retirement Fund for the year ended April 30, 1977 amounted to SDR 6,854,196, including the amortization of experience losses of the Plan, but excluding the payment for past service liabilities.

Note 8—Special Reserve

Income from investments in U.S. Government securities was placed to the Special Reserve from November 1, 1957 until February 15, 1972 when the investment program was terminated. The Articles of Agreement provide that any administrative deficit for any fiscal year must be written off first against this reserve. Transfers may be made from this reserve to the General Reserve.

Special Drawing Account
Report of the External Audit Committee

Washington, D.C.
July 1, 1977

Authority for the Audit

The audit for the year ended April 30, 1977, was carried out pursuant to Section 20(b) of the By-Laws of the International Monetary Fund.

Scope of the Audit

We have conducted the audit in accordance with generally accepted auditing standards and in compliance with the requirements of Section 20(b) of the By-Laws that it should be comprehensive with respect to examination of financial records; should extend, insofar as practicable, to the ascertainment that operations and transactions conducted through the Special Drawing Account were supported by the necessary authority; and should determine that there was adequate and faithful accounting for special drawing rights. Our examination included a review of the adequacy of the system of accounting and internal control and such tests as we considered necessary in the circumstances, having regard to the extent and results of the tests which we observed to have been carried out by the Internal Auditor.

Scope of the Accounts

Exhibits A and B represent the statements which Section 20(b) of the By-Laws requires to be prepared and audited in respect of the Special Drawing Account. Exhibit A includes corresponding figures for the year ended April 30, 1976, for the purposes of comparison. Schedules 1 through 3 submitted with our report to the Board of Governors contain further details from the accounting records for special drawing rights which the Audit Committee consider may be of interest to the Board.

Audit Opinion

In our opinion, the statements (Exhibits A and B) of the Special Drawing Account of the International Monetary Fund present fairly the allocation and holdings of special drawing rights as at April 30, 1977, and properly reflect the operations and transactions in this account for the year then ended.

External Audit Committee:

/s/ J. A. Collens, Chairman (United Kingdom)
/s/ Mohamed Bouaouaja (Tunisia)
/s/ Lelis A. Breda (Uruguay)

EXHIBIT A

INTERNATIONAL MONETARY FUND

SPECIAL DRAWING ACCOUNT
BALANCE SHEET
as at April 30, 1977

Amounts expressed in special drawing rights

		1977	1976
ALLOCATIONS			
Net cumulative allocations of special drawing rights to participants (Note 1)		9,314,835,400	9,314,835,400
HOLDINGS			
Holdings of special drawing rights (Note 2 and Exhibit B)			
Participants			
Holdings above allocations:			
Allocations	2,468,666,000		2,449,904,000
Received (net)	1,997,028,292		2,070,327,850
Total holdings above allocations		4,465,694,292	4,520,231,850
Holdings below allocations:			
Allocations	6,846,169,400		6,864,931,400
Used (net)	2,768,121,964		2,531,174,464
Total holdings below allocations		4,078,047,436	4,333,756,936
Total holdings by participants		8,543,741,728	8,853,988,786
General Account Holdings		771,093,672	460,846,614
		9,314,835,400	9,314,835,400

NOTES:

1. Under Articles XXX and XXXI of the Fund Agreement, which cover termination of participation in and the liquidation of the Special Drawing Account, respectively, a participant has an obligation to pay to the Fund an amount equal to its net cumulative allocation of special drawing rights and any other amounts that may be due and payable because of participation in the Special Drawing Account. The Fund also has an obligation to redeem special drawing rights in accordance with these Articles.

2. Special drawing rights allocated by the Fund do not constitute claims by holders against the Fund to provide currency, except as prescribed by the provisions of Articles XXX and XXXI relating to the termination of participation and liquidation. Participants may use their special drawing rights to obtain currency in accordance with the provisions of Article XXV, and under Section 5 of this Article they are entitled to request the Fund's assistance in the form of designation of participants to provide currency in exchange for special drawing rights. The obligation of a participant to provide currency for special drawing rights does not extend beyond the point at which its holdings of special drawing rights in excess of its net cumulative allocation are equal to twice its net cumulative allocation or such higher limit as may be agreed between a participant and the Fund. A participant may, however, provide currency in excess of the obligatory limit or any agreed higher limit.

Other Note

Under the provisions of Article XXV of the Fund Agreement, participants that have used allocations received incur certain obligations in regard to the reconstitution of their holdings of SDRs; participants are required to maintain average daily holdings over the most recent of the five-year periods ending in calendar quarters, of not less than 30 per cent of the average of their daily net cumulative allocations over the same periods. One participant has not fulfilled the reconstitution requirements for the five-year periods ending on December 31, 1975 and subsequent calendar quarters. The normal means of communication between the Fund and the participant are not available. The Fund has the participant's situation under review.

/s/ R. J. FAMILTON
Acting Treasurer

/s/ H. JOHANNES WITTEVEEN
Managing Director

EXHIBIT B

INTERNATIONAL MONETARY FUND

SPECIAL DRAWING ACCOUNT

STATEMENT OF SOURCE AND USE OF SPECIAL DRAWING RIGHTS

for the year ended April 30, 1977

Amounts expressed in special drawing rights

	Participants	General Account	Total
Total Holdings as of April 30, 1976	8,853,988,786	460,846,614	9,314,835,400
Source of Special Drawing Rights Received			
Allocations	—		—
Transactions with Designation (Article XXV, Section 5(*a*))	118,798,350		118,798,350
Transactions without Designation			
Under Article XXV, Section 2(*b*)(i)	163,763,817		163,763,817
Under Article XXV, Section 2(*b*)(ii)	153,253,124		153,253,124
Net Interest	78,095,558	22,980,889	101,076,447
Transfers Between Participants and the General Account			
Purchases	25,483,894		25,483,894
Repurchases		72,573,517	72,573,517
Charges	8,097,151	716,828,098	724,925,249
Reimbursement of Special Drawing Account Expenses (Assessment)		1,000,045	1,000,045
Remuneration	24,108,110		24,108,110
Reconstitution	445,273,091		445,273,091
Interest on Fund Borrowings Under General Arrangements to Borrow	48,733		48,733
Other General Account Charges	124,512		124,512
	1,017,046,340	813,382,549	1,830,428,889
Use of Special Drawing Rights			
Transactions with Designation (Article XXV, Section 2(*a*))	118,798,350		118,798,350
Transactions without Designation			
Under Article XXV, Section 2(*b*)(i)	163,763,817		163,763,817
Under Article XXV, Section 2(*b*)(ii)	153,253,124		153,253,124
Net Charges	101,076,447		101,076,447
Transfers Between Participants and the General Account			
Purchases		25,483,894	25,483,894
Repurchases	72,573,517		72,573,517
Charges	716,828,098	8,097,151	724,925,249
Reimbursement of Special Drawing Account Expenses (Assessment)	1,000,045		1,000,045
Remuneration		24,108,110	24,108,110
Reconstitution		445,273,091	445,273,091
Interest on Fund Borrowings Under General Arrangements to Borrow		48,733	48,733
Other General Account Charges		124,512	124,512
	1,327,293,398	503,135,491	1,830,428,889
Total Holdings as of April 30, 1977 (per Balance Sheet)	8,543,741,728	771,093,672	9,314,835,400

SUBSIDY ACCOUNT
REPORT OF THE EXTERNAL AUDIT COMMITTEE

Washington, D.C.
July 1, 1977

AUTHORITY FOR THE AUDIT

The audit for the year ended April 30, 1977, was carried out pursuant to Executive Board Decision No. 4773-(75/136) of August 1, 1975, and Section 20(b) of the By-Laws of the International Monetary Fund.

SCOPE OF THE AUDIT

We have conducted the audit in accordance with generally accepted auditing standards and in compliance with the general requirements of Section 20(b) of the By-Laws that it should be comprehensive with respect to the examination of records; should extend, insofar as practicable, to the ascertainment that operations and transactions were supported by the necessary authority; and should determine that there was adequate and faithful accounting for the relevant assets and liabilities. Our examination included a review of the adequacy of the system of accounting and internal control and such tests as we considered necessary in the circumstances, having regard to the extent and results of the tests which we observed to have been carried out by the Internal Auditor.

SCOPE OF THE ACCOUNTS

Exhibits A and B represent the accounts required to be audited under Executive Board Decision No. 4773-(75/136). Exhibit A includes corresponding figures for the year ended April 30, 1976, for the purposes of comparison. Schedules 1 through 3 submitted with our report to the Board of Governors contain further details from the accounting records which the Audit Committee consider may be of interest to the Board.

AUDIT OPINION

In our opinion, the financial statements (Exhibits A and B) present fairly, in terms of special drawing rights, the financial position of the Subsidy Account administered by the International Monetary Fund as at April 30, 1977, and properly reflect the transactions in this Account for the year then ended.

EXTERNAL AUDIT COMMITTEE:

/s/ J. A. Collens, Chairman (United Kingdom)
/s/ Mohamed Bouaouaja (Tunisia)
/s/ Lelis A. Breda (Uruguay)

EXHIBIT A

INTERNATIONAL MONETARY FUND

SUBSIDY ACCOUNT
(Note 1)
STATEMENT OF FINANCIAL POSITION
as at April 30, 1977

Amounts expressed in special drawing rights
(Note 2)

		1977	1976
Balance at beginning of year		36,686,385	—
Contributions received (Note 3)	25,797,982		36,035,190
Interest earned on investments	2,324,480		322,083
Valuation gain (loss)	(360,249)		329,112
Additions during year		27,762,213	36,686,385
		64,448,598	36,686,385
Less: Subsidy payments (Note 4)		13,818,505	—
Balance at end of year		50,630,093	36,686,385
Balance represented by:			
Currency on deposit		9,830,078	4,962,614
Investments in United States Government obligations, at cost		39,414,399	31,262,398
Accrued interest receivable (Note 5)		1,385,616	461,373
Total assets		50,630,093	36,686,385

The notes in Exhibit B are an integral part of the financial statement.

/s/ R. J. FAMILTON
Acting Treasurer

/s/ H. JOHANNES WITTEVEEN
Managing Director

EXHIBIT B

INTERNATIONAL MONETARY FUND

SUBSIDY ACCOUNT

NOTES TO THE FINANCIAL STATEMENT

for the year ended April 30, 1977

Note 1

The Subsidy Account was established by the Fund to assist the most seriously affected (MSA) members to meet the interest cost of using resources made available through the Fund's oil facility for 1975.

Note 2

The accounts of the Subsidy Account are expressed in terms of the SDR, the currency value of which is determined by a standard basket of the currencies of sixteen members.

Note 3

Currency contributions to the Subsidy Account are converted to equivalent amounts of SDRs on the basis of exchange rates against the SDR at the time of receipt. Cumulative contributions to the Subsidy Account at April 30, 1977 amounted to SDR 61,833,172.

Note 4

The rate of subsidy for the fiscal year ended April 30, 1976 was set by the Fund at five per cent per annum of the average daily balances of the Fund's holdings of recipient members' currencies in excess of quotas under the 1975 oil facility during that year. Subsidy payments were made in U.S. dollars based on the SDR/US$ rate on July 19, 1976.

Note 5

Includes accrued interest purchased amounting to SDR 27,419 at April 30, 1977 (SDR 145,926 at April 30, 1976).

Trust Fund
Report of the External Audit Committee

Washington, D.C.
July 1, 1977

Authority for the Audit

The audit for the period May 5, 1976 through April 30, 1977 was carried out pursuant to Executive Board Decision No. 5069-(76/72) of May 5, 1976 and Section 20(b) of the By-Laws of the International Monetary Fund.

Scope of the Audit

We have conducted the audit in accordance with generally accepted auditing standards and in compliance with the general requirements of Section 20(b) of the By-Laws that it should be comprehensive with respect to the examination of records; should extend, insofar as practicable, to the ascertainment that operations and transactions were supported by the necessary authority; and should determine that there was adequate and faithful accounting for the relevant assets and liabilities. Our examination included a review of the adequacy of the system of accounting and internal control and such tests as we considered necessary in the circumstances, having regard to the extent and results of the tests which we observed to have been carried out by the Internal Auditor.

Scope of the Accounts

Exhibits A through C represent the accounts required to be audited under Executive Board Decision No. 5069-(76/72). Schedules 1 and 2 submitted with our report to the Board of Governors contain further details from the accounting records which the Audit Committee consider may be of interest to the Board.

Audit Opinion

In our opinion, the financial statements (Exhibits A through C) present fairly, in terms of special drawing rights, the financial position of the Trust Fund administered by the International Monetary Fund as at April 30, 1977, and its income and expenses for the period May 5, 1976 through April 30, 1977, in conformity with generally accepted accounting principles.

External Audit Committee:

/s/ J. A. Collens, Chairman (United Kingdom)
/s/ Mohamed Bouaouaja (Tunisia)
/s/ Lelis A. Breda (Uruguay)

EXHIBIT A

INTERNATIONAL MONETARY FUND

TRUST FUND
(Note 1)
BALANCE SHEET
as at April 30, 1977

Amounts expressed in special drawing rights
(Note 2)

ASSETS

Currency on deposit	102,875
Gold (Note 3)	17,643,481
Investments	406,201,501
Loans (Note 4)	31,588,000
Accrued interest on investments	5,632,632
Accrued interest on loans	40,357
Total Assets	461,208,846

LIABILITY AND TRUST RESOURCES

Liability—	
Obligation to deliver gold (Note 3)	64,712,969
Trust resources (Exhibit B)	396,495,877
Liability and Trust Resources	461,208,846

The notes in Exhibit C are an integral part of the financial statements.

/s/ R. J. FAMILTON
Acting Treasurer

/s/ H. JOHANNES WITTEVEEN
Managing Director

EXHIBIT B

INTERNATIONAL MONETARY FUND

TRUST FUND

STATEMENT OF INCOME AND EXPENSES

for the period May 5, 1976 through April 30, 1977

Amounts expressed in special drawing rights

(Note 2)

Income:		
Net proceeds realized from the sale of gold:		
Gross amounts received	573,389,314	
Less cost of gold	182,924,530	
		390,464,784
Investment income		8,970,133
Interest income on loans		40,357
		399,475,274
Expenses:		
Administrative expenses (Note 2):		
Staff salaries and benefits and other services	723,983	
Gold weighing and handling charges	54,273	
Data processing services	9,859	
Communications	5,807	
Other	6,078	
Total administrative expenses		800,000
Income less administrative expenses		398,675,274
Exchange valuation loss		2,179,397
Net income		396,495,877

The notes in Exhibit C are an integral part of the financial statements.

EXHIBIT C

INTERNATIONAL MONETARY FUND

TRUST FUND

NOTES TO THE FINANCIAL STATEMENTS

for the period May 5, 1976 through April 30, 1977

Note 1—Purposes

The Trust Fund was established in 1976 to provide balance of payments assistance on concessional terms to eligible members that qualify for assistance. The IMF may decide that the Trustee will undertake other activities in connection with the distribution of profits from sales of gold for the benefit of developing members. Each recipient's share will be calculated on the basis of the share of each eligible member in total IMF quotas as of August 31, 1975 and on the basis of the actual profits realized in the gold auctions. No decision had been made by April 30, 1977 on the recipients of the direct distribution of profits.

Note 2—Accounting Practices

Unit of Account

The accounts of the Trust Fund are expressed in terms of the special drawing right (SDR), the currency value of which is determined by a standard basket of currencies of sixteen members.

Administrative expenses

The Trust Fund is administered by the International Monetary Fund as Trustee. The expenses of conducting the business of the Trust Fund that are paid from the General Account of the IMF are reimbursed annually by the Trust on the basis of a reasonable estimate of these expenses by the IMF.

Note 3—Obligation to deliver gold

Title to gold sold by the Trust Fund passes to the purchaser when delivery is effected after full payment is made. As of April 30, 1977 successful bidders had paid a total of SDR 64,712,969 against the future delivery of gold which, at cost to the Trust Fund (SDR 35 per fine ounce) amounted to the equivalent of SDR 17,643,481.

Note 4—Loans

Loans are made from the Trust Fund to those eligible members that qualify for assistance in accordance with the provisions of the Trust Instrument. Each loan disbursement is repayable in ten semiannual installments which shall begin not later than the end of the first six months of the sixth year, and be completed at the end of the tenth year, after the date of disbursement. Interest on the outstanding loan balances is charged at the rate of one-half of one per cent per annum.

Staff Retirement Fund
Report of the External Audit Committee

Washington, D.C.
July 1, 1977

Authority for the Audit

The audit of the Staff Retirement Fund of the International Monetary Fund for the year ended April 30, 1977, was carried out pursuant to and in accordance with the requirements of Section 20(b) of the By-Laws of the International Monetary Fund. All assets and income of the Staff Retirement Fund, in accordance with Article 9, Section 1, of the Staff Retirement Plan, are the property of the International Monetary Fund and are held and administered by it separately from its other property and assets.

Scope of the Audit

We have conducted the audit in accordance with generally accepted auditing standards and in compliance with the general requirements of Section 20(b) of the By-Laws that it should be comprehensive with respect to the examination of records; should extend, insofar as practicable, to the ascertainment that operations and transactions were supported by the necessary authority; and should determine that there was adequate and faithful accounting for the relevant assets and liabilities. Our examination included a review of the adequacy of the system of accounting and internal control and such tests as we considered necessary in the circumstances, having regard to the extent and results of the tests which we observed to have been carried out by the Internal Auditor. In the course of our audit, reference was made to the Articles of the Staff Retirement Plan and to the decisions of the Pension, Administration, and Investment Committees created under the Plan.

Scope of the Accounts

Exhibits A through F represent the accounts required to be prepared and audited. Exhibits A and B include corresponding figures for the year ended April 30, 1976, for the purposes of comparison. Schedules 1 through 5 to Exhibit A and Schedules 1 and 2 to Exhibit B submitted with our report to the Board of Governors contain further details of items in the accounts which the Audit Committee consider may be of interest to the Board.

Audit Opinion

In our opinion, the financial statements (Exhibits A through F) present fairly, in terms of U.S. dollars, the financial position of the Staff Retirement Fund of the International Monetary Fund as at April 30, 1977, and the changes in its financial position for the year then ended, in conformity with generally accepted accounting principles applied on a basis consistent with that of the preceding year.

External Audit Committee:

/s/ J. A. Collens, Chairman (United Kingdom)
/s/ Mohamed Bouaouaja (Tunisia)
/s/ Lelis A. Breda (Uruguay)

EXHIBIT A

INTERNATIONAL MONETARY FUND

STAFF RETIREMENT FUND

BALANCE SHEET

as at April 30, 1977

Amounts expressed in U.S. dollars

	1977			1976
ASSETS				
CASH AT BANKS			14,387	78,174
INVESTMENTS				
Bonds				
Amortized cost (*market value $33,319,714 in 1977, $21,303,299 in 1976*)				
Notes insured by U.S. Government	13,077,206			5,615,886
International development banks	5,792,442			5,768,549
Corporate	11,449,910			10,406,672
Commercial paper	300,000			119,000
Certificates of deposit	2,530,000			1,405,000
Repurchase agreements	1,546,000			—
Total amortized cost	34,695,558			23,315,107
Add: Net realized losses	2,227,889			2,226,348
Funds originally invested	36,923,447			25,541,455
Deduct: Amortized net realized losses	1,112,659			889,872
Adjusted book value of bonds		35,810,788		24,651,583
Stocks				
Cost (*market value $61,875,670 in 1977, $47,022,017 in 1976*)	67,036,485			45,781,047
Deduct: Net realized gains	2,732,481			1,820,362
Funds originally invested	64,304,004			43,960,685
Recognized appreciation/(depreciation)	(29,000)			373,000
Adjusted book value of stocks		64,275,004		44,333,685
Total investments at adjusted book value			100,085,792	68,985,268
ACCRUED INTEREST ON BONDS, ACCRUED CONTRIBUTIONS RECEIVABLE, AND MISCELLANEOUS ACCOUNTS RECEIVABLE			797,134	582,515
TOTAL ASSETS			100,897,313	69,645,957
LIABILITIES AND RESERVES				
PARTICIPANTS' ACCOUNT (Exhibit C)			18,221,825	16,017,191
ACCUMULATION ACCOUNT (Exhibit D)			51,964,342	32,498,404
RETIREMENT RESERVE ACCOUNT (Exhibit E)			30,602,589	21,075,410
ACCOUNTS PAYABLE			108,557	54,952
TOTAL LIABILITIES AND RESERVES			100,897,313	69,645,957

The notes in Exhibit F are an integral part of the financial statements.

/s/ R. J. FAMILTON
Acting Treasurer

/s/ H. JOHANNES WITTEVEEN
Managing Director

EXHIBIT B

INTERNATIONAL MONETARY FUND

STAFF RETIREMENT FUND
STATEMENT OF CHANGES IN FINANCIAL POSITION
for the year ended April 30, 1977

Amounts expressed in U.S. dollars

	1977	1976
Total Assets—beginning of the year	69,645,957	62,667,083
Less: Accounts Payable	54,952	30,471
Net Assets	69,591,005	62,636,612
Contributions:		
Participants	3,143,766	2,761,938
International Monetary Fund	28,167,232	5,497,777
Participant restored to service	2,244	13,332
Net transfers (to) from retirement plans of other international organizations	(39,954)	9,773
Total Contributions	31,273,288	8,282,820
Investment Income:		
Interest and dividends	3,651,975	2,651,188
Amortization of accumulated discounts	39,964	50,290
Amortization of net realized losses on bonds	(222,787)	(222,653)
Recognized market depreciation on equity investments	(402,000)	(1,240,000)
Net Investment Income	3,067,152	1,238,825
Payments:		
Pensions and other benefits	(2,441,570)	(1,978,569)
Contributions, benefits, and interest paid to participants upon withdrawal	(470,431)	(393,000)
Commutation benefits	(72,500)	(105,800)
Death benefits	(158,188)	(89,883)
Total Payments	(3,142,689)	(2,567,252)
Balances—end of the year		
Net Assets	100,788,756	69,591,005
Add: Accounts Payable	108,557	54,952
Total Assets—per Balance Sheet	100,897,313	69,645,957

The notes in Exhibit F are an integral part of the financial statements.

EXHIBIT C

STAFF RETIREMENT FUND
PARTICIPANTS' ACCOUNT
for the year ended April 30, 1977

Amounts expressed in U.S. dollars

Balance, April 30, 1976 (per Balance Sheet)			16,017,191
Add:			
Participants' contributions			
Participating service	3,132,616		
Additional voluntary	11,150	3,143,766	
Contributions and interest refunded by participant restored to service		1,867	
Transfers from retirement plans of the			
International Bank for Reconstruction and Development	10,852		
United Nations	2,136		
Inter-American Development Bank	957	13,945	
Interest credited to participants		849,457	4,009,035
Deduct:			
Refunds upon withdrawal of participants			
Accumulated contributions	349,022		
Additional voluntary contributions	10,523	359,545	
Refunds upon death of participants		45,717	
Transfers to Retirement Reserve Account		1,372,542	
Transfers to retirement plans of the			
International Bank for Reconstruction and Development	10,378		
United Nations	16,219	26,597	1,804,401
Balance, April 30, 1977 (per Balance Sheet)			18,221,825

The notes in Exhibit F are an integral part of the financial statements.

EXHIBIT D

STAFF RETIREMENT FUND
ACCUMULATION ACCOUNT
for the year ended April 30, 1977

Amounts expressed in U.S. dollars

Balance, April 30, 1976 (per Balance Sheet)				32,498,404
Add:				
Contributions of the International Monetary Fund				
Participating service		6,265,232		
Prior service		21,902,000	28,167,232	
Income from investments				
Bonds				
Interest	2,124,473			
Amortization of premium and accumulation of discount (net)	39,964			
Amortization of net realized losses	(222,787)	1,941,650		
Stocks				
Dividends received	1,527,501			
Recognized depreciation	(402,000)	1,125,501	3,067,151	
Benefits and interest refunded by participant restored to service			377	
Transfers from retirement plans of the				
International Bank for Reconstruction and Development		21,828		
United Nations		4,303		
Inter-American Development Bank		1,603	27,734	31,262,494
Deduct:				
Withdrawal benefits			110,886	
Payments upon death of participants			77,942	
Transfers to retirement plans of the				
International Bank for Reconstruction and Development		20,741		
United Nations		34,294	55,035	
Transfers to Retirement Reserve Account			9,370,635	
Interest transferred to				
Participants' Account		849,457		
Retirement Reserve Account		1,332,601	2,182,058	11,796,556
Balance, April 30, 1977 (per Balance Sheet)				51,964,342

The notes in Exhibit F are an integral part of the financial statements.

EXHIBIT E

STAFF RETIREMENT FUND
RETIREMENT RESERVE ACCOUNT
for the year ended April 30, 1977

Amounts expressed in U.S. dollars

Balance, April 30, 1976			21,075,410
Add:			
Transfers from			
Participants' Account	1,372,542		
Accumulation Account	9,370,635	10,743,177	
Interest credited		1,332,601	12,075,778
Deduct:			
Pension payments to			
Retired participants	2,089,080		
Beneficiaries of deceased participants	234,898		
Disabled retired participants and their children	103,094	2,427,072	
Pension commutation payments		72,500	
Payments upon death of retired participants		34,529	
Payments to retired participants upon surrender of pension rights		14,498	2,548,599
Balance, April 30, 1977 (per Balance Sheet)			30,602,589

The notes in Exhibit F are an integral part of the financial statements.

EXHIBIT F

INTERNATIONAL MONETARY FUND

STAFF RETIREMENT FUND
NOTES TO THE FINANCIAL STATEMENTS
for the year ended April 30, 1977

Note 1—The Plan

In accordance with the provisions of the Staff Retirement Plan, all assets and income of the Staff Retirement Fund are the property of the International Monetary Fund and are held and administered by it separately from all its other property and assets and are to be used solely for the benefit of participants and retired participants or their beneficiaries. The International Monetary Fund, as employer, meets the administrative costs of the Plan and is to contribute the part of the cost and expenses of the Plan not provided by the contributions of participants, plus any additional amounts required to pay costs and expenses of the Plan not otherwise covered. The combined rate of contribution was changed during the year from 19.5 per cent to 21 per cent of participants' gross salaries (14 per cent from the employer and 7 per cent from participants).

Note 2—Actuarial Valuation

The most recent valuation of the Plan by the actuary engaged by the Pension Committee was made as at April 30, 1976. The actuary's valuation showed an experience loss for the year then ended of $6.4 million. Experience losses are amortized by contributions from the employer over a period of fifteen years. At April 30, 1977 the unamortized experience losses amounted to $21.4 million (SDR 18.4 million).

Note 3—Valuation Basis of Investments

All investments are recorded in the accounts at cost or amortized cost. The basis of valuation of the investment portfolio is intended to focus on the prospective long-run average yield of the existing portfolio. Therefore, not only interest and dividends, but also realized gains and losses on bonds and the effect of unrealized changes in the value of equity investments, are taken into account. The realized net loss (or gain) on bonds is amortized through the Accumulation Account over a ten-year period; unrealized market appreciation or depreciation on bonds is ignored. The amount of appreciation (or depreciation) on stocks to be recognized through the Accumulation Account each year is based on a ten-year moving average of the annual rate of changes in the market value of the equity portfolio. "Funds originally invested" is the cumulative amount of contributions from the employer and from the participants made available for investment plus investment income. The investment base for determining the yield on investments is the "adjusted book value" in the balance sheet.

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An asterisk (*) denotes a table; a dagger (†) denotes a chart; fn. denotes a footnote.