

**ANNUAL REPORT 1979**  
**INTERNATIONAL MONETARY FUND**



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# ANNUAL REPORT

## 1979

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# INTERNATIONAL MONETARY FUND

## ANNUAL REPORT

OF THE  
EXECUTIVE BOARD FOR THE  
FINANCIAL YEAR ENDED APRIL 30, 1979

WASHINGTON, D.C.

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The following symbols have been used throughout this Report:

- (. . .) indicate that data are not available;
- (—) indicates a figure too small to record in the table or that the item does not exist;
- (–) is used between years or months (e.g., 1971–79 or January–June) to indicate the years or months covered, including the beginning and ending years or months;
- (/) is used between years (e.g., 1978/79) to indicate a financial 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 11.

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# International Monetary Fund

J. de Larosière

*Managing Director and Chairman of the Executive Board*

William B. Dale

*Deputy Managing Director*

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Paul Mentré de Loye	Denis Samuel-Lajeunesse	Jahangir Amuzegar	Mohammed Yeganeh
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Mahsoun B. Jalal	Yusuf A. Nimatallah	S. D. Deshmukh	Edmund Eramudugolla
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Chief Editor .....	Norman K. Humphreys

August 3, 1979

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LETTER OF TRANSMITTAL  
TO THE BOARD OF GOVERNORS

August 3, 1979

Dear Mr. Chairman:

I have the honor to present to the Board of Governors the Annual Report of the Executive Board for the financial year ended April 30, 1979, in accordance with Article XII, Section 7(a) of the Articles of Agreement of the International Monetary Fund and Section 10 of the Fund's By-Laws. In accordance with Section 20 of the By-Laws, the administrative budget of the Fund approved by the Executive Board for the financial year ending April 30, 1980 is presented in Appendix VI and the audited financial statements of the General Resources Account, the Special Drawing Rights Department, the Subsidy Account, the Trust Fund, and the Staff Retirement Fund for the year ended April 30, 1979, together with the reports of the External Audit Committee thereon, are presented in Appendix VIII.

Yours sincerely,

/s/

J. DE LAROSIÈRE

*Chairman of the Executive Board*

Chairman of the Board of Governors  
International Monetary Fund

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# Chapter 1

## Developments in the World Economy

### Introduction

The performance of the world economy during 1978 and the first half of 1979 was characterized by a mixture of gains and disappointments. On the one hand, the evolution of domestic demand in several of the largest industrial countries proceeded broadly along the lines of a strategy of policy that had been agreed in various international forums, and this development was beneficial to the distribution of external current account balances among individual countries within the industrial group. The sizable changes in exchange rates for major currencies that occurred during 1978 also made for a better pattern of international payments relationships among the principal industrial countries, and a substantial improvement in the pattern of their current account balances did, indeed, emerge in the first half of 1979. Further, the more orderly conditions prevailing in foreign exchange markets during the current year to date attest to the calming impact of the internationally coordinated measures taken, in combination with adjustments of domestic policy, in the latter part of 1978.

On the other hand, with respect to several of the most fundamental economic problems, little visible progress has been made in the period since the 1978 Annual Report. Both inflation and unemployment remain much too high in most member countries, and the efforts of national authorities to deal with these persistent problems have proved less effective than might have been hoped. Indeed, a rather general renewal of upward momentum in rates of inflation was apparent during the first half of 1979, and the oil price increases introduced at midyear will bring further upward pressures on prices. Many structural problems affecting the supply capabilities of member countries have not yet been adequately treated, and it has become progressively clearer that such problems must be addressed through measures other than general demand management policies.

Another disturbing development emerging during the current year is a sharp resurgence of the combined current account deficit of the non-oil developing countries.

At a time when they cannot expect buoyant growth of demand in the industrial world to facilitate expansion of their export earnings, and when costs of imports are rising rapidly, many of the non-oil developing countries—and particularly the poorer ones—may face difficulty in attaining desirable growth rates because of insufficient financing for the volume of imports of goods and services that such growth rates would imply.

The continued prevalence of high unemployment in most industrial countries has reflected growth rates since 1976 that (with the conspicuous exception of the United States) have been insufficient to absorb any significant degree of slack in the labor force, even with productivity growing at a markedly slower rate than in the 1960s. In a number of countries, a combination of unsatisfactory growth rates (even with the slower growth of potential output), rising labor costs, and high inflation have impeded the restoration of satisfactory levels of profitability and cash flow of business firms and depressed incentives for additions to the capital stock. Although the pattern of economic growth within the industrial world has shifted during recent years, featuring a progressive deceleration in the United States after 1976 and some acceleration in Europe and Japan during 1978, the average rate of output expansion for all industrial countries remained more or less unchanged at 4 per cent in 1977 and 1978. However, this rate dropped to less than 3 per cent in the first half of 1979. By midyear, signs of a likely recession in the United States had multiplied as real gross national product (GNP) rose only slightly in the first quarter and declined appreciably in the second.

During most of 1978, domestic imbalances continued to generate imbalances in world trade and payments relationships, culminating in a major currency crisis in October. Actions undertaken by authorities of several large industrial countries, and particularly by those of the United States at the beginning of November, were successful in arresting the precipitate movements of exchange rates and of private capital that characterized the later stages of the currency disorder. Restoration of



more orderly conditions in exchange markets was followed, after the turn of the year, by reversal of many of the earlier movements of short-term capital, as well as (in part) some of the principal changes in exchange rates that had occurred during the first ten months of 1978.

With respect to the broad global pattern of current account balances, several years of progressive reduction in the disequilibrium between oil importing and oil exporting countries came to an end in the first half of 1979. Largely through increased imports of goods and services by the major oil exporters, the current account surplus of that group had been cut back from \$68 billion in 1974 to about \$6 billion in 1978. However, the previous trend toward reduction of the oil exporters' surplus was sharply reversed by the succession of oil price increases during the first six months of 1979 that culminated in the decision taken by members of the Organization of Petroleum Exporting Countries (OPEC) toward the end of June, by which further large price increases were put into effect under a complex system in which official export prices for most crude oils exported by OPEC members range from \$18 a barrel to \$23.50 a barrel (compared with a weighted average of less than \$13 a barrel in 1978). These price changes occurred against a background of rising demand for oil and the impact of the Iranian situation on the supply of oil, which together pushed up spot market prices early in 1979; and they have been accompanied by similar changes in the pricing of oil exported from other countries.

Although the exact implications of the new OPEC prices depend on a number of still uncertain factors regarding the shares of various producing countries and types of oil in total exports, it is estimated that the average price charged by the major oil exporting countries under the arrangements announced at the conclusion of the June 1979 OPEC meeting will be about \$20.50 a barrel. With such an average price (60 per cent above the 1978 level), the current account surplus of the major oil exporting countries will be raised to an estimated \$43 billion in the calendar year 1979 and to more than \$50 billion for a full year beginning in July 1979.

These estimates are predicated on the rough assumption that, in the year ahead, additional outlays for imports of goods and services might absorb between two fifths and one half of the incremental export earnings of the major oil exporting countries as a group. On the volume of oil that they exported in 1978, the price increase (over the 1978 average) would add some \$75 billion to the aggregate value of their exports.

A corresponding addition to the aggregate import bill of countries other than the major oil exporters is, of course, in prospect. On a full-year basis, this would

mean about \$70 billion for developed countries and a net total of some \$5 billion for developing countries that are not major exporters of oil. Within the latter group of "non-oil" developing countries, however, net oil importers may face an additional annual import cost of about \$12 billion, while a small number of other countries that are net exporters (but not "major" exporters) of oil will gain some \$7 billion in net export earnings. For many countries in the subgroup of net oil importers, the financing of such large incremental payments for imports may pose problems, in view of their existing external debt and the heavy borrowing in prospect even before the latest rise in oil prices.

Along with its marked effects on international payments positions, both of individual countries and of major groups, the 1979 oil price increase will have an adverse impact on rates of inflation and on the pace of economic activity in oil importing countries. On the assumption that prices for much, but not all, of the oil produced outside the major oil exporting countries and the Sino-Soviet countries will move upward in broad parallel with the price of OPEC oil,<sup>1</sup> it can be calculated that the direct addition to the level of prices in the world economy outside the areas just mentioned will be on the order of 1½ per cent. Additional effects of an indirect character, although highly uncertain and dependent in great part on the policies adopted by the affected countries, could be quite substantial.

While the diversion of purchasing power into imports of OPEC oil will be gradually offset, at least in part, by the feedback of additional exports of goods and services to the major oil exporting countries, the deflationary effects of this diversion in the short run may also be substantial. For the whole group of industrial countries and non-oil primary producing countries, the direct deflationary impact is calculated at ⅔ to ¾ of 1 per cent of GNP before allowance for any "multiplier" effects or for any possible offsets to such effects induced by policy measures on the part of national authorities.

An issue commanding immediate attention concerns the question of how the policies of oil importing countries should respond to the 1979 increases in oil prices. Actually, this response has several aspects. First, and of fundamental importance, is the need to conserve energy and develop additional sources of supply. For both purposes, realistic pricing policies for energy are a prime requisite. Second, with wage earners trying to prevent or recoup losses in real earnings, governments face the difficult task of limiting the indirect effects of the oil price increase on the general level of prices. Third, the policy reaction to the deflationary impact is bound to vary widely among countries, but many with relatively

<sup>1</sup> By far the most important exception is oil produced in the United States, for which price increases are not expected to parallel those in the world market.

high rates of inflation or weak external positions will doubtless find it advisable to accept—not to offset—it. Fourth, in many oil importing countries the authorities will have to contend with a deterioration in the current account position, with the policy reaction depending on individual circumstances.

This chapter reviews developments in the world economy during 1978 and 1979, separately for the several major groups of countries. Two broad subjects are first considered: domestic activity and policies, and international trade and payments. Then, against this background, a concluding section discusses a number of key issues of policy facing member countries—including the domestic and international implications of a probable U.S. recession—and touches on the role of the Fund itself in helping members to deal with their economic difficulties.

## Domestic Activity and Policies

### Industrial Countries

*Output and prices.*—Developments in the world economy during recent years have been governed in large

part by the course of real economic activity and prices in the industrial countries, which account for three fourths of the estimated total output of Fund members.

It may be recalled that, following the severe international recession of 1974–75, economic recovery in the industrial countries proceeded at a slow and uneven pace under conditions of continuing high inflation. For most of these countries, the increases of real GNP in 1977 and 1978 (Table 1) did not exceed the estimated growth of potential GNP, and hence did not bring about any significant reduction in the prevailing high level of unemployment.

Despite this picture of sluggish overall growth rates in the industrial countries, some welcome changes occurred in the pattern of expansion of real domestic demand in 1978. (See Chart 1.) They represented a partial reversal of the movements in 1976 and 1977, when the combination of a relatively high rate of expansion in the United States and markedly lower rates among the other industrial countries, especially Japan and the Federal Republic of Germany, became an important source of imbalance in international payments (as discussed later). In 1978, the rate of growth of real domestic demand in the United States, after averaging about 6 per cent annually in 1976 and 1977, receded to

**Table 1. Industrial Countries: Changes in Output and Prices, 1962–78**

(Percentage changes)

	Annual Average 1962–72 <sup>1</sup>	Change from Preceding Year					
		1973	1974	1975	1976	1977	1978
<b>Real GNP</b>							
Canada	5.5	7.5	3.6	1.2	5.4	2.4	3.4
United States	3.9	5.5	–1.4	–1.3	5.9	5.3	4.4
Japan	10.3	10.0	–0.5	1.4	6.5	5.4	5.6
France <sup>2</sup>	6.0	5.4	2.8	0.3	4.6	3.0	3.3
Germany, Fed. Rep.	4.5	4.9	0.4	–1.9	5.1	2.6	3.4
Italy	4.6	6.9	4.2	–3.5	5.9	2.0	2.6
United Kingdom <sup>2</sup>	2.9	6.5	–1.6	–1.5	3.3	1.7	3.3
Other countries <sup>3</sup>	4.6	4.7	3.7	–1.7	3.8	1.6	2.1
All industrial countries	4.6	6.1	0.2	–0.9	5.4	4.0	4.0
Of which,							
Seven larger countries <sup>4</sup>	4.6	6.2	–0.1	–0.8	5.6	4.2	4.2
European countries	4.5	5.5	1.8	–1.5	4.4	2.2	2.9
<b>GNP deflator</b>							
Canada	3.6	9.2	15.3	10.8	9.7	7.0	6.4
United States	3.5	5.8	9.6	9.6	5.2	6.0	7.3
Japan	4.9	10.9	20.1	8.6	5.6	5.6	4.8
France <sup>2</sup>	4.4	7.8	11.6	13.3	10.1	8.9	9.9
Germany, Fed. Rep.	4.0	6.1	6.9	6.7	3.2	3.8	3.9
Italy	5.0	11.9	18.3	17.4	18.0	18.9	13.3
United Kingdom <sup>2</sup>	5.2	7.0	15.1	27.4	14.6	13.5	10.1
Other countries <sup>3</sup>	5.2	7.9	9.6	11.0	7.6	6.9	6.0
All industrial countries	4.1	7.3	11.9	11.0	7.1	7.1	7.0
Of which,							
Seven larger countries <sup>4</sup>	4.0	7.3	12.1	11.0	7.1	7.1	7.1
European countries	4.9	7.7	11.1	13.3	9.1	8.7	7.6

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

<sup>1</sup> Compound annual rates of change.

<sup>2</sup> GDP (at market prices).

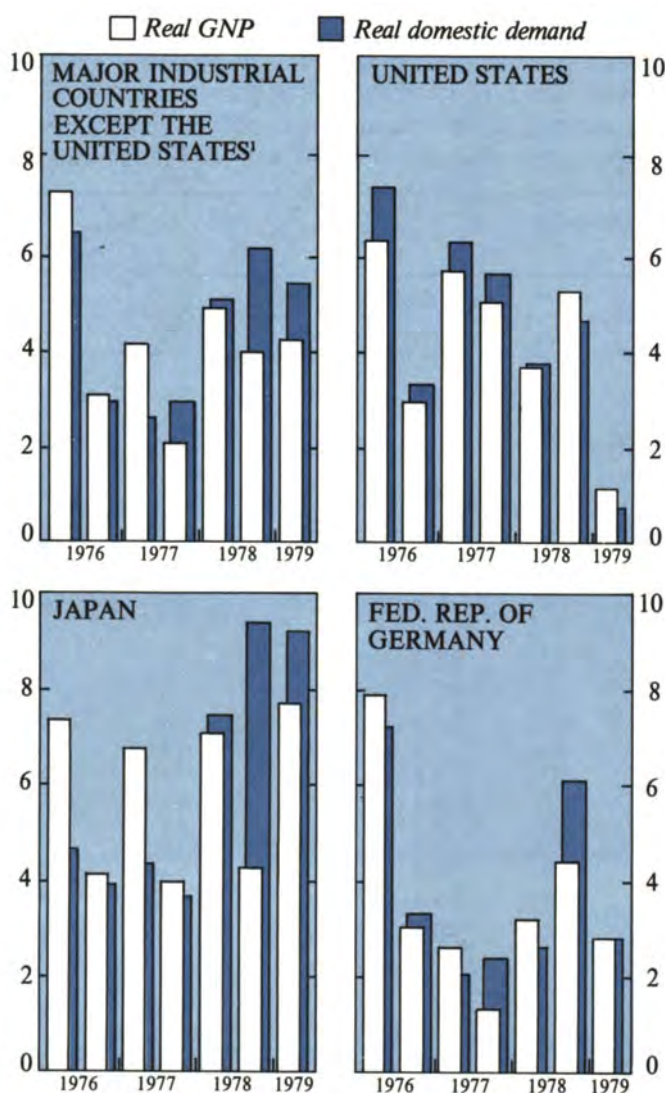
<sup>3</sup> Includes Austria, Belgium, Denmark, the Netherlands, Norway, Sweden, and Switzerland.

<sup>4</sup> As listed separately above.

4½ per cent. On the other hand, the growth of real domestic demand in Japan—after averaging only about 4 per cent annually in 1976 and 1977—increased to 7 per cent in 1978. For the Federal Republic of Germany, the main point in this context is that domestic demand expansion accelerated from only 2¼ per cent in 1977 to nearly 4 per cent in 1978. Considerable acceleration of growth in domestic demand from 1977 to 1978 was also evident in most of the other industrial countries. For all of the major countries in that group except the United States, as shown in the upper left-hand panel of Chart 1, the acceleration averaged almost 2 percentage points.

**Chart 1. Major Industrial Countries: Changes in Domestic Demand and Output, First Half 1976–First Half 1979**

(Percentage changes from preceding half year; seasonally adjusted at annual rates)



<sup>1</sup> Canada, Japan, France, the Federal Republic of Germany, Italy, and the United Kingdom.

The shift in the pattern of expansion of real domestic demand has continued into 1979. In the United States, the pace of domestic demand expansion dropped to an annual rate of less than 1 per cent in the first half of the year; a decline in the rate of U.S. economic expansion had been generally expected and was desired by the authorities in view of the high level of resource utilization and the worsening of domestic inflation. In many other industrial countries, the recovery of domestic demand has continued apace and was particularly marked in the latter part of 1978. For the first half of 1979, real domestic demand is estimated to have exceeded the levels of a year earlier by about 5 per cent in the Federal Republic of Germany and Italy, and by 9 per cent in Japan.

Particularly in the case of Japan, the increases in domestic demand that have been cited above differ markedly from the corresponding increases in GNP; the differences are due, of course, to the behavior of the foreign balance on goods and services in real terms. The change in this balance in Japan, after being sizably positive for several years, turned negative in 1978 and the first half of 1979 (by amounts cumulating to almost 3 per cent of GNP) as the real effects of exchange rate appreciation and other measures to adjust the external position became progressively larger. It is this withdrawal of stimulus through deterioration of the real foreign balance that reduced the growth of real GNP in 1978 and the first part of 1979 substantially below the corresponding increases in total domestic demand. Such negative shifts in foreign balances—which loom large in the domestic situations of the Federal Republic of Germany and Italy as well—find their main counterpart in the balance of the United States, where rapid expansion of exports during 1978 brought about a growth of total output that was higher than that of domestic demand by about ½ of 1 percentage point. (See Chart 1.)

The shift in growth rates among industrial countries, as already indicated, left the overall rate for these countries unchanged at 4 per cent in 1978; the slowdown in the United States was just offset by the pickup of recovery in the rest of the industrial world. Such a balancing of changes, however, has probably come to an end. The continuing deceleration in the growth rate of the United States, together with a leveling off in the pace of expansion in the other large industrial countries, resulted in overall growth of only about 2¾ per cent, at an annual rate, in the first half of 1979 for the whole group of industrial countries. This tendency toward increasing sluggishness should become somewhat more pronounced during the remainder of 1979 as the adverse effects on real demand that may be expected to emanate from the current surge in oil prices and from inflation more generally begin to be felt.

With respect to inflation, the rate of increase in the weighted average of GNP deflators in the industrial countries dropped from a peak annual rate of 13½ per cent in the second half of 1974 to 7 per cent in the first half of 1976 but remained at that rate in every semiannual period through 1978. This remarkable lack of change was a result of countervailing movements in the United States and in the rest of the industrial world. From 1976 to 1978, the rate of price increase went up from 5 per cent to 7½ per cent in the United States (Table 1) but declined from 8½ per cent to 7 per cent in the other industrial countries taken as a group. Among these countries, the degree of improvement, if any, varied markedly, being most pronounced in those countries (Italy and the United Kingdom) with the highest inflation rates. In a number of countries, declines in oil prices expressed in terms of local currencies, together with the general weakness of prices of imported primary commodities, contributed to the slowing of inflation. Despite the marked convergence of inflation rates that had occurred, price increases in the industrial countries were still quite disparate in 1978; they ranged from less than 3 per cent in Switzerland to more than 13 per cent in Italy.

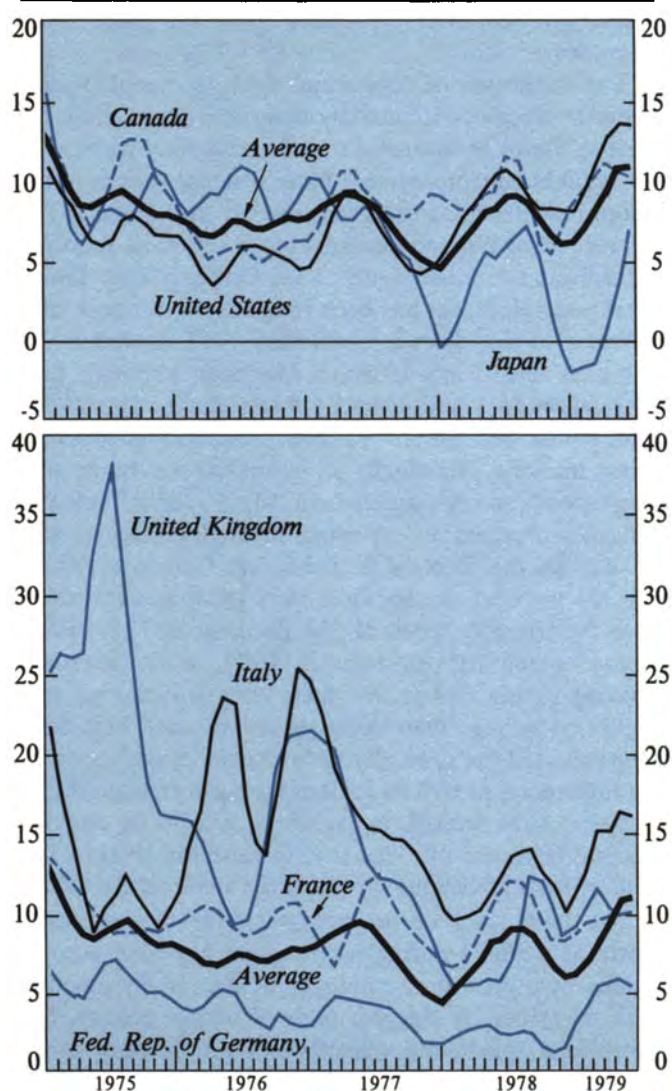
The stability of the overall rate of price increase in the industrial countries did not continue in the first part of 1979. Following a 5 per cent average increase in 1978, wholesale prices in the major industrial countries as a group rose at an annual rate of 11–13 per cent in each of the first four months of 1979.<sup>2</sup> Consumer prices in the major industrial countries rose at average annual rates of 9–12 per cent in the early months of the year, compared with 7 per cent for 1978 as a whole. (See Chart 2.) With respect to the GNP deflator (which covers price changes relating to national production, and not to imported commodities such as oil), prices in the whole group of industrial countries increased from the second half of 1978 to the first half of 1979 at an annual rate of 8 per cent. A worrisome factor is that the acceleration of the inflation rate was widespread, affecting countries that had previously succeeded in bringing inflation under control and that had considerable slack in resource utilization.

The acceleration of price increases in early 1979 occurred in an environment of reduced productivity gains, unduly high rates of monetary expansion, and inflationary expectations. It would appear, however, that this acceleration was to a large extent attributable directly to the pass-through of price increases for oil, food, and other primary products that are unlikely to

continue at recent rates. Although at midyear such increases had yet to be fully registered in general price movements, they need not result in a lasting escalation of the underlying rate of inflation in the industrial countries. Such an outcome was avoided during a similar, but considerably less pronounced, episode in the first half of 1977 (Chart 2). In this context, it is encouraging to note that rates of increase in employee compensation (by far the largest single element, over time, of price formation in the industrial countries) remained rather stable through the early months of 1979. Nevertheless, some acceleration must be expected because of institutionalized mechanisms of wage indexation. Therefore, a primary issue for policy—particularly in the United States, where the pressure on resources is great—

**Chart 2. Major Industrial Countries: Consumer Prices, 1975–June 1979**

(Changes in per cent)<sup>1</sup>



<sup>1</sup> Three months ending in the months indicated over the preceding three months; seasonally adjusted at annual rates.

<sup>2</sup> These developments in wholesale prices are clearly noteworthy. But it should be recalled that wholesale price indices, particularly those covering all commodities, are generally subject to a number of statistical inadequacies, and that they tend to be much more volatile than indices of final product prices, such as GNP deflators and consumer price indices.



est—is to hold the secondary effects to a minimum and to prevent the present surge in inflation from adding to the strength of price expectations, and thus being built into wage and profit behavior. Otherwise, much of the all too modest progress made by industrial countries in curbing inflation over the past five years would be jeopardized.

*Utilization of resources.*—Mainly because of the moderate pace of expansion in economic activity since the trough of the 1974–75 recession, the industrial world continues to be troubled by a considerable underutilization of resources. In this respect, however, a sharp distinction must be drawn between the United States and other countries. According to staff estimates of the “gap” between actual and potential output,<sup>3</sup> underutilization of capacity in the manufacturing sector as a whole in the second half of 1978 was virtually nonexistent in the United States, but ranged from a moderate level in the Federal Republic of Germany and Canada to considerably wider gaps for most other countries.

The indication of substantial slack in manufacturing capacity in most industrial countries other than the United States is buttressed at the economy-wide level by available unemployment data. Unemployment in the major industrial countries rose sharply during the 1974–75 recession, but subsequent progress toward reducing it has been confined largely to the United States. There, total unemployment has been reduced from a peak of 9 per cent of the labor force in May 1975 to about 5¼ per cent since early 1978—a rate that, although high in relation to unemployment levels during the 1950s and 1960s because of various structural changes in labor markets, is thought to be within the range that corresponds to full employment. More gradual, but significant, progress in reducing unemployment is also evident in the Federal Republic of Germany, where the 3¾ per cent rate for June 1979 compares favorably with the recession peak of 5¼ per cent in 1975. Elsewhere, unemployment rates in 1978, while generally holding steady during the year, were still appreciably higher on average than in the recession year 1975; thus, they reflected the generally unfavorable impact of cyclical influences, as well as various long-run structural factors that have tended, as in the United States and the Federal Republic of Germany, to raise the level of unemployment associated with a given demand for labor.

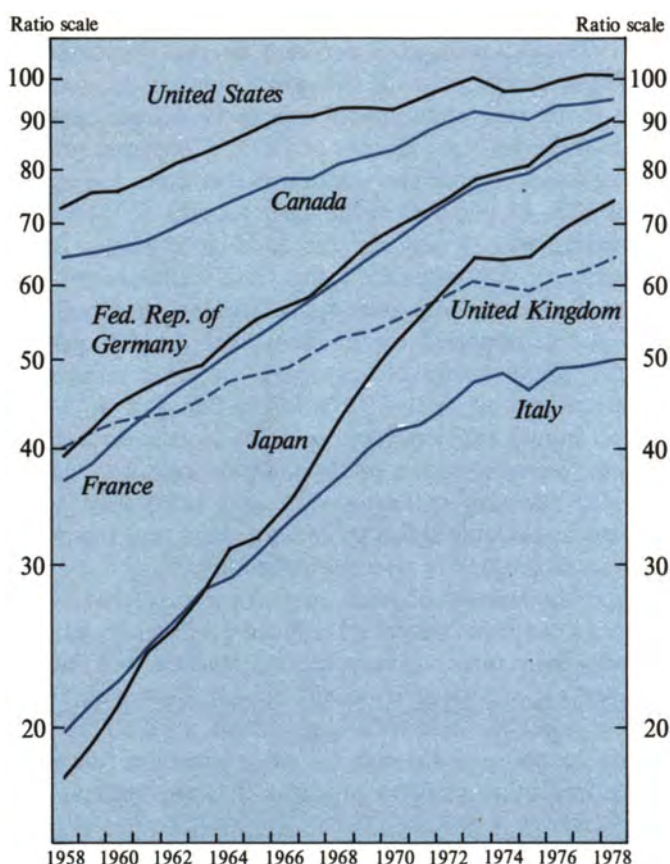
The high level of unemployment in the industrial world as a whole during recent years has been accompanied by a growth of employment that, in conjunction with the generally sluggish pace of output growth, has involved a substantial reduction in productivity gains.

As measured by real GNP per person employed, the overall gain in productivity for the seven major industrial countries amounted to only about 1½ per cent per annum from 1973 to 1978, compared with an average increase of 3¾ per cent for the period 1960–73.

What remains unclear, given the considerable amount of slack that still exists, is the degree to which output per employee is depressed by cyclical factors, as opposed to those of an underlying structural character. A major cyclical element in the initial downturn or slowdown in productivity gains after 1973 is readily apparent in Chart 3, as is an upswing in the recovery of 1976. It is equally clear, however, that economy-wide trends of productivity since 1973 have been generally flatter than those prevailing for many years prior to 1973. Particularly striking in this context is the case of the United States, where the rate of increase in employment during the past several years has been too strong to leave room for a supposition that any appreciable cyclical redundancy of employment still ex-

**Chart 3. Major Industrial Countries: Real Gross National Product Per Employee, 1958–78<sup>1</sup>**

(Indices, United States in 1973 = 100)



<sup>1</sup> Intercountry differences (for 1973) are based on a study by the United Nations and the World Bank. Irving B. Kravis and others, *International Comparisons of Real Product and Purchasing Power* (Johns Hopkins University Press, 1978).

<sup>3</sup> These were described briefly in the *Annual Report, 1978*, pages 6–7.

ists. These observations—also broadly applicable to Canada—would support a judgment that structural factors may have contributed to a deceleration of underlying growth in output per head. On the other hand, direct attempts to trace the slowdown of productivity growth in the industrial countries to particular structural factors—e.g., intersectoral shifts in the composition of output, lower rates of capital accumulation, changing age-sex composition of the work force, environmental regulations, and the effects of higher energy prices—have generally failed to account for much of the actual slowdown. It is thus difficult to rule out cyclical factors (and related measures to bolster employment) in explanations of the weak trend of productivity growth in the industrial world, especially for countries other than the United States and Canada.

*Stance of policies.*—The current inflationary situation, combined with widespread underutilization of resources and generally disappointing growth of output, raises basic questions about the appropriate strategy of economic policy. In the Fund's 1976 Annual Report, the importance of bringing down inflation and greatly reducing inflationary expectations was stressed. A "gradual" approach was recommended—but one that "would need to be adhered to firmly." It was observed (a) that budget deficits remained very large in a number of countries and (b) that rates of monetary expansion were still in double digits in most of the industrial countries, and would need to be reduced considerably if a return to reasonable price stability was to be achieved in the next few years. The Report made clear that primary emphasis should be placed on demand management policies for the purpose of reducing inflation and inflationary expectations, but it indicated important supplementary roles for incomes policy and for various measures to improve supply conditions, alleviate cost pressures, and achieve higher levels of saving and investment. Also, it was recognized that labor market and other specific measures might be needed in order to cushion the hardships of unemployment and help to reduce its level.

Now, three years later, it is clear that the suggested strategy of policy has not led to satisfactory results; for the industrial countries, average rates of inflation and unemployment have not been reduced. The reasons for this unsatisfactory outturn are manifold and complex, but perhaps the basic one has been the pursuit of policies that have failed to make a dent in inflationary expectations. It is evident that governments have felt severe economic and political constraints in launching an effective anti-inflation program, since in the short run this would be bound to have adverse employment effects whose timing and magnitude would depend primarily on the ability to reduce inflationary expectations and hence would be difficult to predict. Also note-

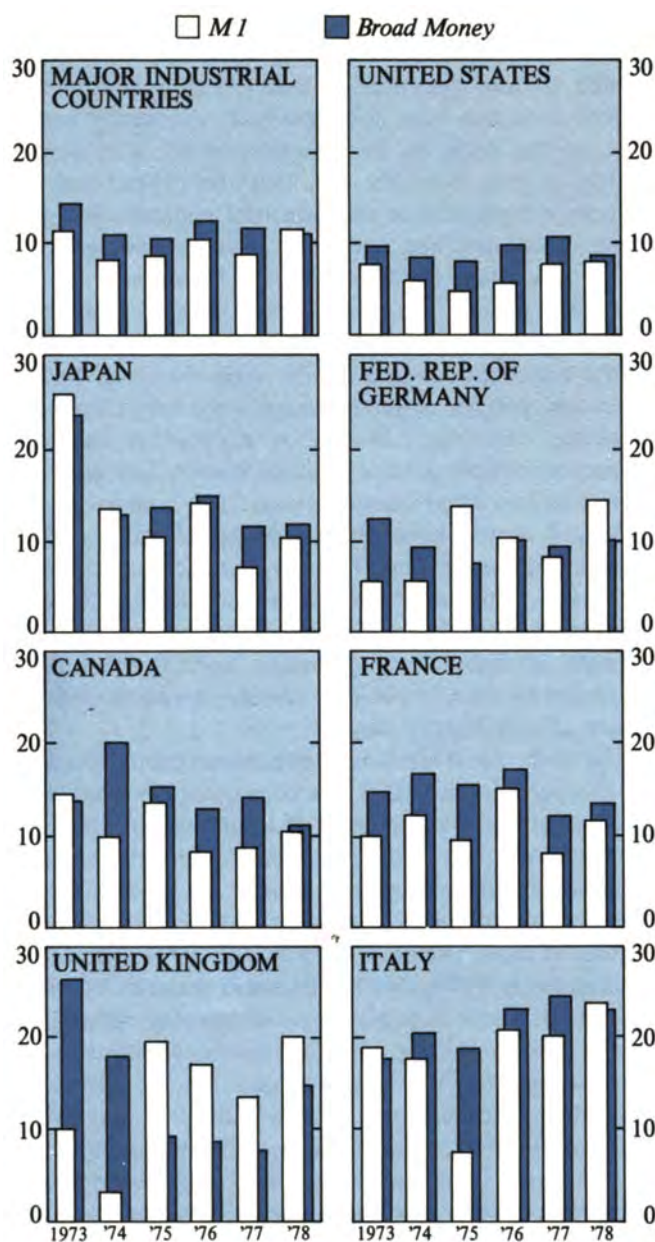
worthy is that economic forecasting and policymaking have been subject to a substantial degree of error in the unaccustomed situation of "stagflation"—an error often compounded, however understandably, by official optimism toward the future or misleading assessments of past developments.

The upshot has been that "gradualism" as an approach to the reduction of inflation and inflationary expectations has been too "gradual"—in many countries, to the point of no reduction at all. This seems clearly evident from the fact that the overall rate of monetary expansion in the industrial countries has not come down, but has remained about 10 per cent in every year since 1975 (Chart 4). Experience in the monetary sphere has, of course, differed markedly among countries on a year-to-year basis. But in none of the countries covered in the chart does one find a consistent pattern of movement toward lower rates of monetary expansion. Doubts as to whether rates of monetary expansion have been sufficiently low are also stirred by two other considerations: (a) countries with monetary targets have often exceeded them; and (b) official price projections have, by and large, been too optimistic. This latter consideration might well have implied an insufficient awareness of, or resistance to, the strength of inflationary pressures and, therefore, an insufficiently restrictive (or unduly accommodative) stance of monetary policy.

Use of the fiscal instrument in industrial countries during the period since 1975 has been generally characterized by caution—in the sense of hesitation to introduce significant changes in the presence of high rates of both inflation and unemployment. There have been, to be sure, certain shifts of a general nature toward withdrawal of fiscal stimulus in 1976 and 1977, provision of stimulus in 1978, and back toward restraint in 1979 (Chart 5). There have also been noteworthy differences among countries—e.g., the consistent withdrawal of fiscal stimulus in the United States and the provision of significant stimulus in Japan in both 1978 and 1979. Over all, however, changes in the thrust of fiscal policy in the major industrial countries during recent years have been neither sustained nor particularly marked. Indeed, cumulated over the period since 1975, changes in both the cyclically adjusted fiscal deficits and the unadjusted fiscal deficits of the countries covered in the chart, measured as a proportion of these countries' combined GNP, show a decline of about 1 per cent. Thus, the combined deficit (unadjusted) of the central governments of the major industrial countries amounted to 4½ per cent of their GNP in 1978, compared with 5½ per cent in the recession year 1975. Further, most of this change reflected withdrawal of stimulus in the United States that, in retrospect, is widely considered to have been too gradual. For the other industrial coun-

**Chart 4. Major Industrial Countries: Rates of Monetary Expansion, 1973–78**

(Percentage changes in annual averages)



tries, cumulative fiscal shifts have been roughly neutral over the period taken as a whole, with the combined central government deficit of this group of countries having amounted to 6 per cent of GNP in both 1975 and 1978.

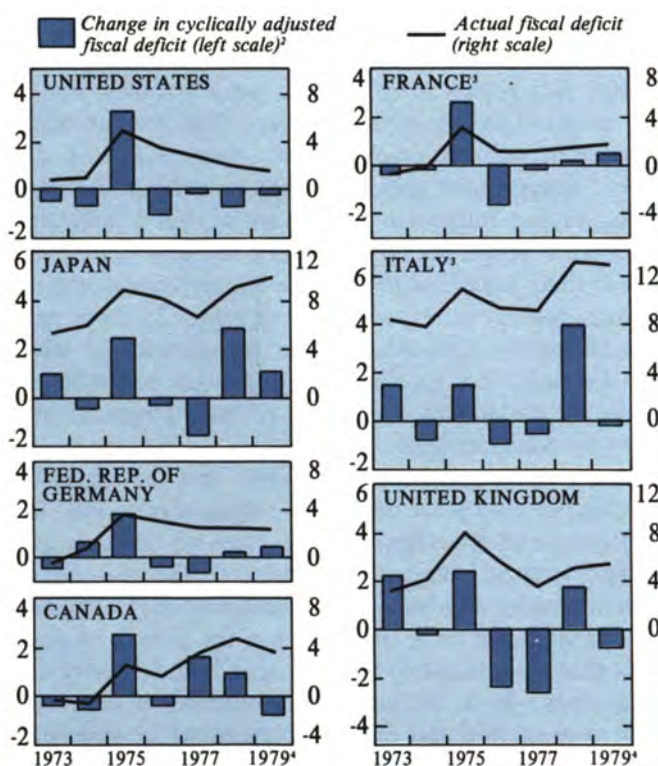
However, while it seems clear that “gradualism” has been “too gradual,” it would also appear that governments have in practice no alternative but to stick with the established strategy and—mindful of the various difficulties experienced—try to make it work more

effectively. Some of the principal aspects of such an approach are touched on below.

—Policy in individual countries should be reviewed with an eye toward gradually but consistently reducing the rate of monetary expansion. Particularly in countries with a margin of unused resources, a reduction in the rate of monetary expansion could—through its impact on expectations—have beneficial effects on inflation without marked effects on employment, although this is admittedly difficult. While the implications of such an approach vary from country to country, it should be noted first that particular effort is required of countries where inflation rates are running well above the averages for past periods. It should also be noted that monetary accommodation to the recent surge in inflation would be counterproductive from the standpoint of restraining a wage-price spiral and would end up as yet another slip in the implementation of a gradualist policy. The steps toward greater monetary restraint taken last November in the United States and, more recently, in other industrial countries—which

**Chart 5. Major Industrial Countries: Fiscal Balances, 1973–79<sup>1</sup>**

(In per cent of gross national product)



<sup>1</sup> The estimates relate only to central government and social security transactions.

<sup>2</sup> A positive change is expansionary, and a negative change is contractionary.

<sup>3</sup> Excluding social security transactions.

<sup>4</sup> Fund staff projections.



have been manifested in higher interest rates (Chart 6)—should contribute to avoidance of such slippage.

—With respect to the fiscal instrument, various considerations come into play in the formulation of current policy: the amount of fiscal stimulus, as distinct from the change in such stimulus; the strength of private demand; fears of “crowding out”; concern about the structure of the budget (levels of expenditure and taxation) in a medium-term context; public attitudes; etc. Given such wide-ranging concerns, as well as the quite different unemployment and inflation situations in each country, there is clearly a need for rather differentiated stances of fiscal policy. In the United States, given the high level of resource utilization, the declared intention of exercising fiscal restraint is clearly appropriate. In

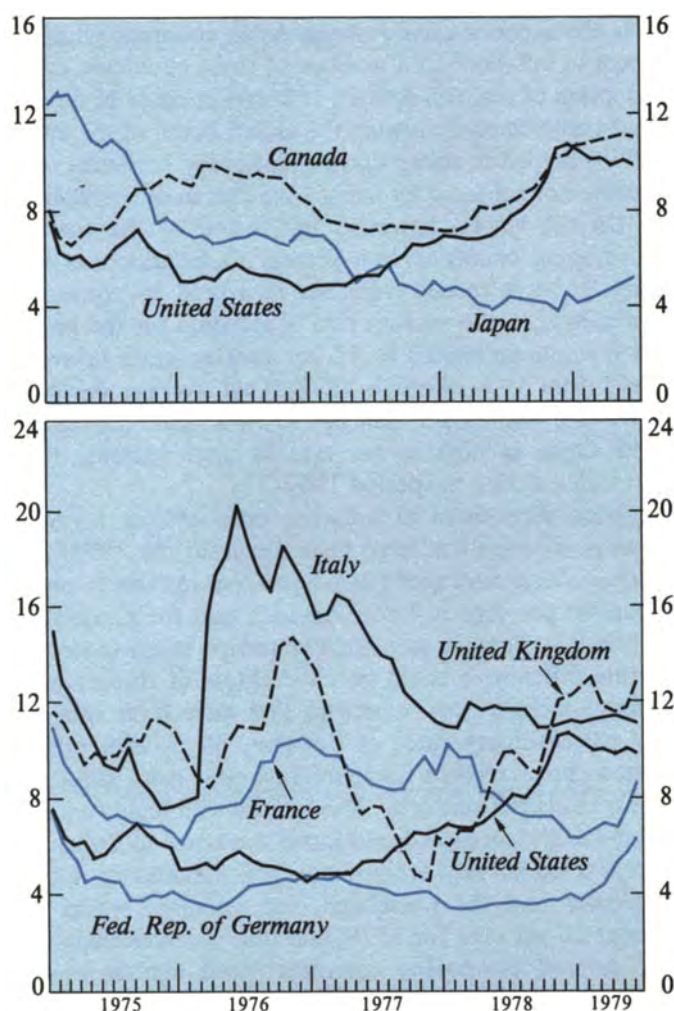
some countries (e.g., Canada and the United Kingdom, where there have been recent changes in government), fiscal policy is being subjected to a fundamental reassessment. On a matter of general relevance, as already noted, the policy reaction to the deflationary impact of the 1979 increases in oil prices may be expected to vary widely among countries, but many countries with relatively high rates of inflation will undoubtedly decide to accept it, rather than to offset it. Any offsetting adjustments of the fiscal stance should not be allowed to compromise targets with respect to the monetary aggregates. Short-term inconsistencies between such fiscal actions and monetary objectives might best be resolved through increases in nominal interest rates, in the expectation that subsequently these would subside with reduction in the rate of inflation.

—The prevailing situation of “stagflation” raises the question of the possible use of some form of incomes policy. An effective incomes policy, where considered feasible, should make it possible to limit cost pressures and achieve price moderation without incurring greater slack and unemployment. Throughout the 1970s, the Fund has called attention to this point and has advocated increased consideration of the use of incomes policy. The efforts classifiable under the heading of incomes policy have varied markedly from country to country—depending not only on the economic circumstances but also on each country’s own institutions, traditions, and social and political settings—and have had a mixed record of effectiveness. Still, suitable incomes policies can serve as useful adjuncts to fiscal and monetary policies, and would seem to be especially appropriate at the present time in view of increased cost pressures of external origin. Of particular importance in this regard are measures that would exclude oil prices from the mechanism of wage indexation and thus serve to limit self-defeating wage-price spirals.

—Finally, greater emphasis needs to be placed on measures intended to effect structural adjustments and improve productivity. It is becoming increasingly clear that the early 1970s were something of a watershed for the industrial countries and that traditional policy responses were often stymied by structural impediments. Removal of these impediments generally calls for measures to stimulate investment—in some cases, via measures to strengthen the profit position. Protectionism has also been a worrisome feature of the past few years, and supplementary measures to foster the reallocation of resources required for an expanding volume of international trade merit consideration. An important objective for the industrial countries—and other countries as well—is to speed up the process of adjustment to an age of higher-cost energy. In this respect, realistic pricing of domestic energy supplies, conservation programs, and

**Chart 6. Major Industrial Countries: Short-Term Interest Rates, 1975–June 1979<sup>1</sup>**

(In per cent per annum)



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



development of alternative energy sources appear to be essential.

### Primary Producing Countries

The primary producing countries have been affected, in varying degrees, by the relatively slow pace of economic activity and high rates of inflation in the industrial world during the past several years. The impact of these external influences has been superimposed upon a variety of problems of internal origin, including, in many primary producing countries, inadequacies of domestic policy. In this setting, real output of both the more developed and the less developed groups of non-oil primary producing countries has generally been increasing less rapidly during the past few years than it did for a number of years prior to 1973, and rates of inflation have been much higher, on average, than in the 1960s or early 1970s. The experience of the major oil exporting countries, although varying widely within the group, has been relatively favorable, on the whole, with respect to both inflation and growth of the non-oil sectors of their economies.

Domestic economic developments and policies are reviewed below for three major groups of primary producing countries. The discussion begins with the largest of these groups, the less developed countries among the non-oil primary producers, and continues with briefer comments on the major oil exporting countries and the more developed primary producing countries.

In general, the past three years can be characterized as a period of steady, but modest, economic growth for the *less developed non-oil primary producing countries*, generally identified more briefly as "non-oil developing countries." Although the average rate of expansion of real gross domestic product (GDP) in these countries had declined less severely than that of the industrial countries during the 1974-75 recession, its subsequent recovery was limited, and the vigor of the late 1960s and early 1970s has not been regained. (See Table 2.) Weighted averages of increases in real GDP for this group as a whole remained in the neighborhood of 5 per cent in every year from 1976 to 1978, compared with a little more than 6 per cent per annum for the period 1967-72. However, because of the implied curtailment of real income growth on a per capita basis, the difference of nearly 1 percentage point was by no means insignificant for a group of countries with a combined population increase of about 2½ per cent per annum.

Of particular concern is the continuing relatively slow rate of economic growth in countries where per capita incomes are lowest. For 39 countries in the non-oil group of less developed countries whose GDP per capita did not exceed US\$300 in 1977, the average an-

nual rate of growth in total GDP over the past three years is estimated at only about 4 per cent. Total population in the low-income group, however, was growing at about the same average rate as that in the other non-oil developing countries. The margin for improvement of living standards was thus commensurately lower in the low-income group, where it was most needed.

More than half of the non-oil developing countries with the lowest per capita incomes are located in Africa, and their relatively weak growth performance has been instrumental in giving that area the lowest rate of real GDP expansion of any regional group of non-oil developing countries in recent years. In the Asian area, on the other hand, there are a number of countries at the opposite end of the spectrum; their successful development of domestic industry and rapid expansion of exports of manufactures have contributed notably to the region's economic performance. Growth of output in the non-oil developing countries of Asia was about 6 per cent or higher in every year from 1974 to 1978. An important factor underlying this sustained expansion was the superior record of the Asian countries with respect to inflation. In a number of these countries, early adoption of realistic policies of financial restraint during and immediately following the global boom of the early 1970s helped to damp down inflationary pressures to a degree not achieved by many countries in other regions.

On the whole, however, the record of the non-oil developing countries with respect to inflation has not been good in recent years. As measured by consumer price indices, the average rate of inflation for the group as a whole amounted to 30 per cent or more in every year from 1974 through 1977. That average declined only to about 25 per cent in 1978—a figure still about 2½ times as high as the rate of price increase that prevailed during the period 1967-72.

Wide differences in inflation rates among regional groups of countries have been apparent. In 1978, regional averages ranged from 7 per cent in Asia to more than 40 per cent in Latin America and the Caribbean (Table 2). Among individual countries, much more extreme differences could be cited. Most of the regional groups include some countries that have been afflicted by extraordinary rates of inflation, along with others whose price records compare favorably with those of most industrial countries. If countries with highly exceptional experience (as listed in the footnotes to Table 2) are excluded, the average rate of inflation in Latin America and the Caribbean, for example, would be about 28 per cent for 1978, and that year's average for all non-oil developing countries (with similar exclusions) would be roughly 17 per cent.

In part, the high rates of inflation prevailing in the non-oil less developed countries during recent years can be traced to rising costs for imported products. In many

**Table 2. Primary Producing Countries: Changes in Output and Prices, 1967–78**

(Percentage changes)

	Annual Average 1967-72 <sup>1</sup>	Change from Preceding Year					
		1973	1974	1975	1976	1977	1978
<b>Real GDP</b>							
More developed primary producing countries	6.1	6.4	4.4	2.0	3.3	2.6	3.0
Europe <sup>2</sup>	6.5	7.3	4.9	2.4	3.6	3.5	3.2
Australia, New Zealand, South Africa	5.1	4.6	3.4	1.2	2.6	0.4	2.6
Major oil exporting countries <sup>3</sup>	9.0	10.7	8.0	-0.3	12.8	6.2	2.6
Non-oil developing countries <sup>4</sup>	6.1	7.3	5.3	4.1	5.0	5.1	5.2
Africa	5.0	2.2	5.6	2.3	4.7	4.0	3.7
Asia	4.8	7.9	2.7	6.1	5.8	6.6	6.9
Latin America and the Caribbean	6.8	8.1	7.7	2.6	4.8	4.3	4.3
Middle East	8.8	4.8	-1.0	8.4	2.8	5.9	6.5
<b>Consumer prices</b>							
More developed primary producing countries <sup>5</sup>	6.0	11.8	16.7	16.9	14.4	17.8	16.6
Europe <sup>2, 5</sup>	6.8	13.5	18.6	18.2	15.0	20.9	20.8
Australia, New Zealand, South Africa	4.6	9.3	13.6	14.6	13.2	12.2	8.7
Major oil exporting countries <sup>3</sup>	8.0	11.3	17.0	18.8	16.4	15.1	9.9
Non-oil developing countries <sup>4, 6</sup>	10.1	22.1	33.0	32.9	29.9	29.7	24.6
Africa <sup>7</sup>	4.8	9.3	18.6	16.4	17.4	24.4	21.2
Asia	5.4	14.9	27.8	11.5	0.9	9.0	6.8
Latin America and the Caribbean <sup>8</sup>	15.9	30.8	40.9	54.6	62.4	51.6	43.1
Middle East <sup>9</sup>	4.3	12.7	21.8	20.3	20.2	19.2	21.7

<sup>1</sup> Compound annual rates of change.<sup>2</sup> Comprises Finland, Greece, Iceland, Ireland, Malta, Portugal, Romania, Spain, Turkey, and Yugoslavia.<sup>3</sup> Comprise Algeria, Indonesia, Iran, Iraq, Kuwait, Libya, Nigeria, Oman, Qatar, Saudi Arabia, the United Arab Emirates, and Venezuela.<sup>4</sup> Include all Fund members not mentioned above, or in Table 1, plus certain essentially autonomous dependent territories (Hong Kong and the Netherlands Antilles) for which adequate statistics are available. The regional subgroups correspond to the groupings shown in *International Financial Statistics*.<sup>5</sup> Excluding Turkey, the average for the European countries in the last four columns would be 18.0 per cent, 14.6 per cent, 19.8 per cent, and 16.2 per cent, respectively; and the average for the total would be 16.7 per cent, 14.1 per cent, 16.8 per cent, and 13.3 per cent, respectively.<sup>6</sup> Excluding the high-inflation countries listed in footnotes 7–9, the figures for non-oil developing countries in the last four columns would be 16.5 per cent, 14.2 per cent, 20.6 per cent, and 16.8 per cent, respectively.<sup>7</sup> Excluding Ghana, Uganda, and Zaïre, the African figures in the last four columns would be 14.6 per cent, 9.4 per cent, 13.9 per cent, and 12.6 per cent, respectively.<sup>8</sup> Excluding Argentina, Chile, and Uruguay, the Latin America and Caribbean figures in the last four columns would be 22 per cent, 27.2 per cent, 33.5 per cent, and 28.1 per cent, respectively.<sup>9</sup> Excluding Israel, the Middle East figures in the last four columns would be 10.1 per cent, 14.5 per cent, 12.5 per cent, and 10.9 per cent, respectively.

cases, however, they are also rooted in overexpansionary fiscal programs and in excessive rates of monetary expansion (often as a direct consequence of the means used to finance government deficits). In every major region, weighted averages of the principal monetary aggregates increased faster during the past three years—by several percentage points—than they did during the preceding three-year period.

During the past several years, the *major oil exporting countries* were generally consolidating the gains made possible by the additional financial resources that became available to them as a result of the oil price increases of 1973–74. After an initial period of highly expansionary policies, generating substantial demand pressures, supply bottlenecks, and large increases in domestic prices, most of these countries shifted toward more cautious domestic policies in efforts to curb inflation. Several of them also took a variety of steps to eliminate constraints on supplies of goods and services.

After the turn toward retrenchment, growth rates in the non-oil sectors of the major oil exporters' economies tended to subside gradually, but to remain generally high by the standards of most developing countries. In 1978, the average increase in non-oil output of these 12 countries was still almost 8 per cent, even though it was significantly affected by the impairment of economic activity in Iran during the latter part of the year.

Year-by-year changes in total output of the major oil exporting countries have differed considerably from those recorded for other developing countries, reflecting the comparatively fast expansion of non-oil sectors and fluctuations of oil output peculiar to the changing demand and supply conditions in world markets for petroleum. Crude oil production now accounts for about two fifths of the group's total GDP. When the small increase in output of the oil sector in 1977 and the 4½ per cent decline in 1978 are added to the increases in non-oil output, the overall GDP expansion for the major oil ex-

porting group as a whole is seen to have dropped from a cyclically high rate of nearly 13 per cent in 1976 to 6 per cent in 1977 and about 2½ per cent in 1978 (Table 2).

With respect to inflation, the major oil exporters have in general been more successful than most other developing countries in bringing down the high rates that emerged in the middle 1970s. As a result of restrained demand management policies and expanding capacity to absorb imports, especially in those countries whose current accounts have remained in surplus, the average rate of inflation in the major oil exporting countries was almost halved from 1975 to 1978 (Table 2).

The mid-1970s have been a period of prolonged and difficult adjustment for the *more developed primary producing countries*. They have had to contend with slow growth, severe unemployment, and high inflation rates, as well as with the serious external problems discussed later in this chapter.

Total output for this group rose by only 3 per cent annually from 1975 through 1978, while consumer prices increased during those years at rates averaging 14–18 per cent. (See Table 2.) The subdued pace of economic activity reflected both unfavorable external developments—e.g., the slow recovery of the industrial countries from the 1974–75 recession and a severe deterioration in the terms of trade—and deliberate policy actions. Tight fiscal and monetary policies had to be adopted by an increasing number of the more developed primary producers in order to reduce absorption of domestic production and imports and to fight inflation, which was being fueled by wage developments, price increases for oil and other imports, and, in some cases, by currency devaluations. Large and ill-timed increases in real wages, occurring in a period of deterioration of the terms of trade and generally poor productivity gains, were particularly damaging in several cases; and undue delays in modifying the accommodative monetary policies adopted during the recession trough were also a widespread factor.

By 1978, however, several countries in the more developed group had achieved considerable success in reducing inflation. In Australia, Finland, and Ireland, rates of increase in prices decelerated to 7–8 per cent in 1978, after several years of double-digit rates; and New Zealand, Portugal, and Spain cut their respective inflation rates by several percentage points. Only Iceland and Turkey, among the countries in the more developed primary producing group, experienced sharply higher inflation rates.

For the group as a whole, this relative success in moderating inflation, together with a return to generally less sizable external deficits on current account, made possible a reversion to more growth-oriented policies. Consequently, rates of output expansion increased somewhat in most countries of the group in 1978. Only

the Turkish and Portuguese economies, after adoption of long-delayed stabilization programs, grew significantly less in 1978 than in 1977. For the more developed countries as a group, a further acceleration in output expansion is expected for 1979.

## International Trade and Payments

### Global Perspectives

Efforts to adjust international payments positions over the past few years have been carried out in a global environment of modest expansion of world trade volume and continuing inflation of world trade prices. Although trade volume rebounded strongly in the first year of recovery from the 1974–75 recession, the annual increases in 1977 and 1978 averaged only about 5 per cent (Table 3). The moderate size of these gains is attributable primarily to the persistence since 1976 of a moderate rate of growth (3¾ per cent per annum) in real domestic demand in the industrial countries, which account for more than 70 per cent of world imports.

Foreign trade prices, as measured by unit values in terms of U.S. dollars, rose by 9–10 per cent in each of the past two calendar years<sup>4</sup> and were continuing upward at an even faster pace in the first half of 1979. In view of the increases in oil prices during recent months, no slowing of foreign trade prices can be expected for the rest of the year despite the expected slowdown of economic activity in the industrial countries and the concomitant easing of demands for imports.

Although the rate of increase in the unit value of world trade expressed in terms of U.S. dollars appears to be remaining in the neighborhood of 10 per cent per annum for a third consecutive year, the underlying pattern of changes in prices and terms of trade has shifted markedly from year to year. In 1977, the largest increases occurred in primary commodity prices, and especially in those for the tropical beverage products. Accordingly, it was the non-oil developing countries whose terms of trade showed the strongest improvement in that year, extending a recovery already evident in 1976. A slight improvement in the terms of trade of the oil exporting countries was also registered from 1976 to 1977, while those of the industrial countries, as well as of the more developed primary producing countries, deteriorated somewhat.

The 1976–77 upswing in market prices of primary commodities peaked in the first half of 1977 and was followed by a sharp decline over the next several months. However, the trend of these prices (except for

<sup>4</sup> Corresponding changes in unit values expressed in terms of SDRs are given in Table 3.

**Table 3. World Trade Summary, 1962-78<sup>1</sup>**

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

		Annual Average 1962-72 <sup>2</sup>	Change from Preceding Year					
			1973	1974	1975	1976	1977	1978
World trade <sup>3</sup>								
	Volume	9	13	5½	-5	12	5	5
	Unit value (U.S. dollar terms)	2½	23½	40½	9	1½	9	10
	(SDR terms) <sup>4</sup>	2	12½	39½	8	7	8	2½
Volume of trade								
Exports	Industrial countries	9	14	8	-4½	10½	5	5
	More developed primary producing countries	8	3	2	2	11½	6	9
	Major oil exporters	9	12½	-1	-11	14½	—	-4½
	Non-oil developing countries	6½	8	5	2	14	5	8
Imports	Industrial countries	9½	12½	1½	-7½	14½	5	6
	More developed primary producing countries	8½	16½	9½	-7	4	½	-½
	Major oil exporters	9	21½	37½	42	19	15	5
	Non-oil developing countries	5½	14	8½	-6½	4	5	9
Unit value of trade in SDR terms <sup>4</sup>								
Exports	Industrial countries	2	9	23½	11	5½	7	5½
	More developed primary producing countries	2	23	24	1½	6	5½	1
	Major oil exporters	3	27½	204	3½	12	8½	-6½
	Non-oil developing countries	1½	24	36½	-4½	12½	12½	-2½
Imports	Industrial countries	2	11½	39	8	6½	8	2½
	More developed primary producing countries	2	10½	41½	10	6½	8	3
	Major oil exporters	2	11	28	10	6½	7½	4½
	Non-oil developing countries	2	12½	48½	10	7½	7½	2

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

<sup>1</sup> For classification of countries in groupings shown here, see Tables 1 and 2.<sup>2</sup> Compound annual rates of change.<sup>3</sup> Sum of the groupings shown separately; based on approximate averages of growth rates for world exports and world imports.<sup>4</sup> For years prior to 1970, an imputed value of US\$1.00 has been assigned to the SDR.

the beverage commodities) was again generally upward from late 1977 through the second quarter of 1979 (Chart 7). Given the lags with which market prices are reflected in foreign trade unit values, the foregoing movements were translated into a moderate increase from 1977 to 1978 in the average unit value of the non-oil developing countries' exports, expressed in terms of U.S. dollars. This increase, however, fell considerably short of matching the concurrent rise in import prices, reflecting (in the main) the high average rate of inflation in the industrial world. The previous year's terms of trade improvement for the non-oil developing countries was thus reversed.

A considerably larger terms of trade deterioration was experienced in 1978 by the major oil exporters, whose export prices remained virtually unchanged in terms of U.S. dollars throughout that year. (See Chart 8.) On the other hand, the terms of trade of the industrial countries benefited strongly from the stability of oil prices and the general weakness of prices for primary commodities other than oil. (See Table 4.)

Still a different pattern is clearly in the making for 1979. It features a substantial improvement in the terms of trade of the oil exporters and deteriorating terms of trade for all other major groups of countries. Such deterioration will probably be most noticeable in the case of the non-oil developing countries, whose export prices

are not expected to keep pace with the prices of imported manufactured goods, much less with the price of oil.

Apart from the long decline in prices of the beverage commodities from a peak in the second quarter of 1977 through early 1979, all major classes of primary commodities have been subject to moderately rising average prices since the latter part of 1977. Until the second quarter of 1978, faster increases were recorded for food prices than for prices of agricultural raw materials and metals. Subsequently, the reverse was true over the next several quarters; but the upward momentum of prices for industrial materials appeared to be abating toward the middle of 1979 (Chart 7).

Changes in international price relationships and in cyclical conditions, along with policies directed toward adjustment of internal and external positions, have exerted strong influence on the global structure of external current account balances in recent years. Over the period since 1974, the pattern of such balances has shifted markedly from year to year, gravitating back toward the pre-1974 pattern in some major respects but continuing also to display certain contrasting features.

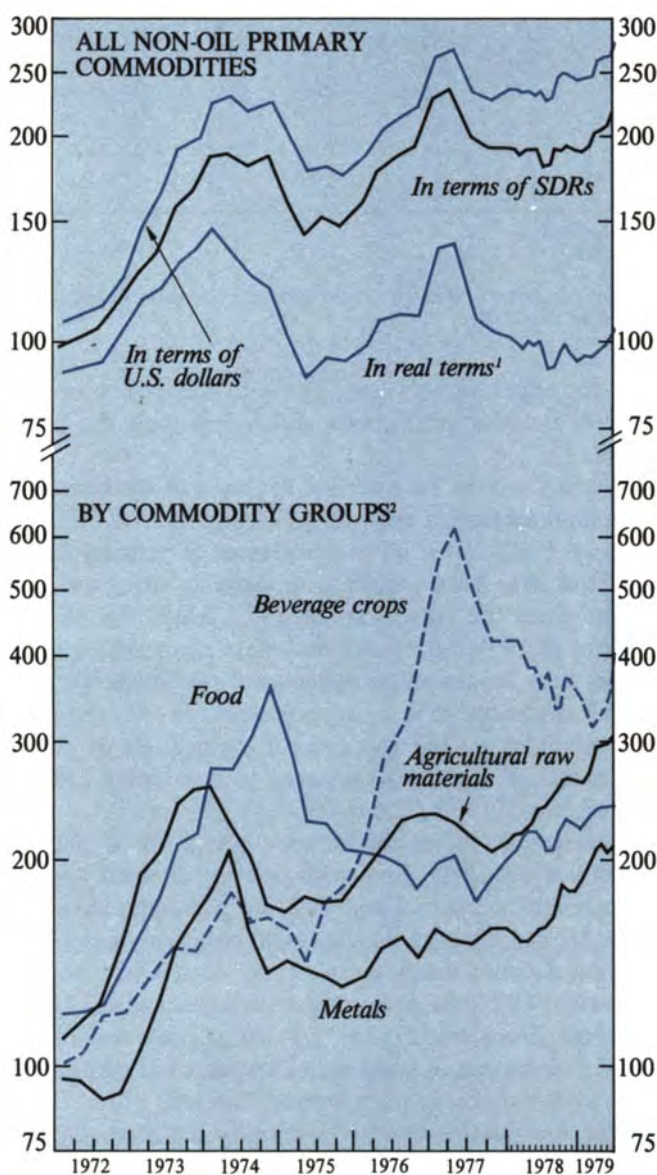
The outstanding point of similarity is the persistence of substantial current account deficits in the two groups of predominantly capital-importing countries: the non-oil developing countries and the more developed pri-

mary producing countries. This point is readily evident from the aggregate deficits for those countries shown in Tables 5 and 6.

The principal contrast between the recent global pattern of current account balances and that characteristic of the 1960s and early 1970s lies in the distribution of surpluses among groups of predominantly capital-exporting countries. In 1974, oil price increases wiped out the traditional current account surplus of the industrial countries taken as a group; this surplus had repre-

**Chart 7. Indices of Prices of Commodities, Except Oil, Exported by Primary Producing Countries, 1972–June 1979**

(1968–70 = 100)

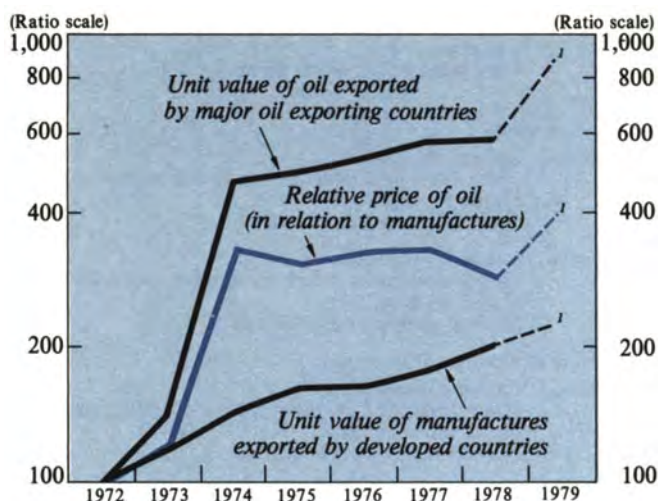


<sup>1</sup> Deflated by UN index of manufactured exports of developed countries.

<sup>2</sup> Expressed in U.S. dollars.

**Chart 8. Indices of Prices of Oil and Manufactures in International Trade, 1972–July 1979**

(1972 = 100; based on export unit values in terms of U.S. dollars)



<sup>1</sup> Estimate for July 1979.

sented the preponderant counterpart of the deficits on current account incurred by the two groups of capital-importing countries. By 1978, the industrial countries were again substantial net exporters of goods and services, but their combined current account surplus is projected to fall sharply in 1979 under the likely impact of the latest oil price increases. At the same time, the combined current account surplus of six oil exporting countries with limited short-run absorptive capacity is projected to rise from an estimated \$21 billion in 1978 to \$43 billion in 1979—thus dominating the overall current account surplus being recorded for the larger group of “major oil exporting countries.”

Changes in the aggregate current account balance of the industrial countries over the past half-dozen years have resulted mainly from cyclical fluctuations in export and import volumes and shifts in the terms of trade, including those stemming from oil price increases. This balance became a sizable surplus in 1978, when the general sluggishness of import demand in the industrial countries was coupled with a shift of the terms of trade in their favor. Amounting to \$33 billion, this surplus is expected to decline to about \$10 billion in 1979 with the payment of considerably higher prices for oil imports. (The figures cited here are those shown in Table 5 on the basis of goods, services, and private transfers.)

Within the group of industrial countries, differences in the phasing of cyclical developments and in the degree of dependence on imported fuels, as well as changes in exchange rates, have contributed to strongly



**Table 4. Terms of Trade Developments, 1962–78<sup>1</sup>**

(Percentage changes)

	Annual Average 1962–72 <sup>2</sup>	Change from Preceding Year					
		1973	1974	1975	1976	1977	1978
Industrial countries	—	—2	—11	3	—1	—1	3
More developed primary producing countries	—	11	—10½	—7½	—½	—2½	—2
Major oil exporters	1	15	137	—5	5	1	—10½
Non-oil developing countries	—½	10	—8	—13	5	4	—4½
Reference: World trade prices (in U.S. dollars) for major commodity groups <sup>3</sup>							
(a) Manufactures	3	17	22	12	—	9	15
(b) Oil	4	40	226	5	6	9	—
(c) Non-oil primary commodities (market prices)	2½	55	28	—18	12	20	—5

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

<sup>1</sup> Based on foreign trade unit values; for classification of countries in groupings shown here, see Tables 1 and 2.<sup>2</sup> Compound annual rates of change.<sup>3</sup> As represented, respectively, by: (a) the United Nations' export unit value index for the manufactures of the developed countries; (b) the oil export unit values of the major oil exporting countries; and (c) the *International Financial Statistics* index of market quotations for non-oil primary commodities.

contrasting swings among the larger members. At this juncture, from the standpoint of the working of the international adjustment process, a particularly welcome set of developments is the marked shrinkage of the U.S. current account deficit and of the German and Japanese current account surpluses. (See Chart 9.) Also noteworthy is the fact that several large industrial countries (notably the United Kingdom and Italy) are now in better position than they were in 1974 to meet the effects of a large increase in the price of oil. Further comments on the external positions of individual industrial countries are offered in the following section.

The changes in the global pattern of current account balances expected for 1979 as a whole do not depict the situation that is likely to prevail in the latter part of the year. At that time, current account balances will more fully reflect the recent oil price increases, and the combined current account surplus of the major oil exporting countries will have reached an annual rate considerably above the estimate shown in Table 5 for the

full year. Depending upon cyclical developments in the industrial countries, a considerable part of the offset to this increase in the oil exporters' surplus may appear among the non-oil primary producing countries, for which sizable increases in current account deficits are likely. For the industrial countries, an expected sharp deterioration in the current account balance in the latter part of 1979 because of increases in the oil import bill may be tempered to some extent by a weakening of general import demand.

## Industrial Countries

*Exchange rate developments.*—An acceleration of exchange rate adjustments in industrial countries took place in 1978 in response to balance of payments disequilibria that had been cumulating since 1976. As noted below, relationships among major currencies were significantly altered in real, as well as nominal, terms.

**Table 5. Payments Balances on Current Account, 1973–79<sup>1</sup>**

(In billions of U.S. dollars)

	1973	1974	1975	1976	1977	1978	1979 <sup>2</sup>
Industrial countries	19	—4	25	7	4	33	10
More developed primary producing countries	1	—14	—15	—14	—13	—6	—10
Major oil exporting countries	6	68	35	40	32	6	43
Non-oil developing countries	—11	—30	—38	—26	—21	—31	—43
Total <sup>3</sup>	15	20	7	8	2	2	—

<sup>1</sup> On goods, services, and private transfers. For classification of countries in groups shown here, see Tables 1 and 2.<sup>2</sup> Fund staff projections.<sup>3</sup> Reflects errors, omissions, and asymmetries in reported balance of payments statistics, plus balance of listed groups with other countries.

**Table 6. Global Balance of Payments Summary, 1975–78**

(In billions of U.S. dollars)

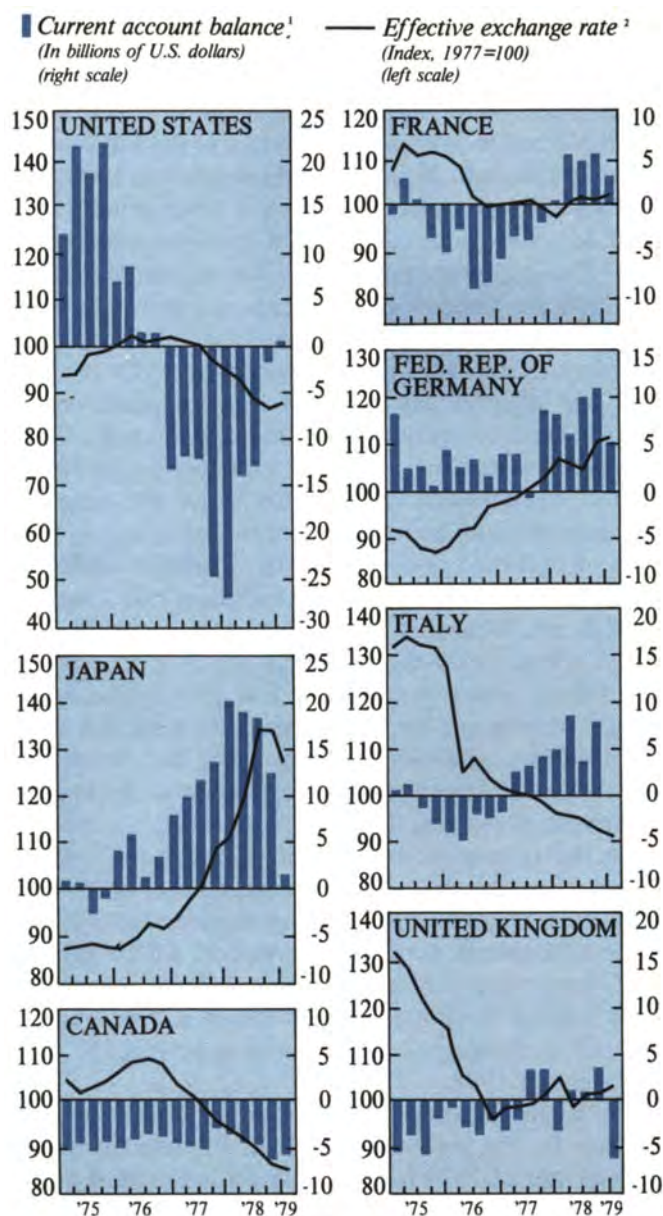
		Balance on				Change in Liabilities to Foreign Official Agencies <sup>2</sup>	Balance Financed by Transactions in Reserve Assets
		Trade	Services and private transfers	Current account excluding official transfers	Capital Account Balance <sup>1</sup>		
Industrial countries <sup>3</sup>	1975	22.2	2.7	24.9	-25.0 <sup>4</sup>	5.3	5.1
	1976	-3.0	10.3	7.3	-12.3 <sup>4</sup>	15.7	10.8
	1977	-7.3	10.8	3.5	-5.4 <sup>4</sup>	37.4	35.5
	1978	16.7	17.7	34.4	-29.2 <sup>4</sup>	28.8	34.0
More developed primary producing countries <sup>3</sup>	1975	-18.9	4.1	-14.7	9.8	2.4	-2.5
	1976	-16.1	2.4	-13.7	11.5	2.9	0.7
	1977	-15.0	2.0	-13.0	12.0	1.1	—
	1978	-10.9	5.2	-5.8	11.3	-0.4	5.0
Major oil exporting countries <sup>3</sup>	1975	53.4	-18.4	35.0	-23.9	-0.2	10.9 <sup>5</sup>
	1976	65.3	-25.2	40.1	-31.5	—	8.6 <sup>5</sup>
	1977	61.7	-29.5	32.2	-24.1	—	8.1 <sup>5</sup>
	1978	41.2	-35.0	6.2	-19.1	0.3	-12.6 <sup>5</sup>
Non-oil developing countries <sup>3</sup>	1975	-28.6	-9.5	-38.0	37.0	1.7	0.7
	1976	-15.4	-10.1	-25.5	33.4	3.4	11.3
	1977	-12.2	-8.9	-21.2	32.4	0.4	11.6
	1978	-21.6	-9.7	-31.3	44.1	-0.2	12.5
In Africa	1975	-2.4	-3.8	-6.2	5.8	0.4	-0.1
	1976	-1.3	-4.7	-5.9	5.7	0.5	0.2
	1977	-1.5	-5.0	-6.5	7.1	0.1	0.6
	1978	-3.1	-5.3	-8.4	7.5	0.5	-0.5
In Asia	1975	-9.5	0.9	-8.6	9.3	0.7	1.4
	1976	-3.3	1.0	-2.3	7.2	0.4	5.3
	1977	-3.8	2.2	-1.6	6.2	-0.3	4.3
	1978	-8.4	2.6	-5.9	9.1	-0.1	3.1
In the Middle East	1975	-8.0	1.3	-6.7	7.5	—	0.8
	1976	-7.7	2.3	-5.4	5.3	0.8	0.6
	1977	-8.4	3.9	-4.5	5.2	1.2	1.9
	1978	-10.5	4.7	-5.8	7.0	—	1.2
In Latin America and the Caribbean	1975	-8.7	-7.8	-16.5	14.5	0.5	-1.4
	1976	-3.1	-8.8	-11.9	15.3	1.8	5.2
	1977	1.4	-10.0	-8.6	13.9	-0.6	4.8
	1978	0.4	-11.7	-11.3	20.5	-0.5	8.7
Total, all countries <sup>6</sup>	1975	28.2	-21.0	7.1	-2.1	9.2	14.2
	1976	30.7	-22.6	8.2	1.2	22.1	31.5
	1977	27.1	-25.6	1.5	14.8	38.8	55.1
	1978	25.4	-21.9	3.5	7.0	28.5	38.9
Memorandum item: Low-income non-oil developing countries	1975	-5.5	-1.7	-7.2	6.5	0.8	0.1
	1976	-2.8	-1.3	-4.1	5.8	0.1	1.8
	1977	-3.0	-0.4	-3.5	6.4	-0.3	2.6
	1978	-6.8	-0.1	-6.9	7.7	—	0.8

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

<sup>1</sup> 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.)<sup>2</sup> 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.<sup>3</sup> For classification of countries in groups shown here, see Tables 1 and 2.<sup>4</sup> See footnote 6.<sup>5</sup> The changes in reserve assets of the major oil exporting countries as reported here, unlike corresponding figures listed in previous Annual Reports, are based (with estimated valuation adjustments to take account of changes in exchange rates) on reserve asset holdings as reported in *International Financial Statistics*. Large additional changes in holdings of external financial claims by official agencies of the major oil exporting countries (some of which were classified in the global balance of payments summaries presented in previous Annual Reports as changes in reserves) are included in the column "Capital Account Balance" of this table. The dividing line between capital movements and reserve asset changes remains uncertain for some oil exporting countries.<sup>6</sup> 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. Some of 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 19 of this Report) were assumed to have been placed in industrial countries, then the adjusted net capital outflows from those countries would amount to \$33.1 billion, \$21.3 billion, \$22.6 billion, and \$35.2 billion over the years 1975, 1976, 1977, and 1978, respectively. (The adjustments made in deriving these estimates for the years 1975–77 have been affected by the change of classification mentioned in footnote 5, above.)

Exchange rates continued to move in a direction generally consistent with the reduction of current account imbalances, as shown in Chart 9. Appreciation of the currency of Japan—the country with the largest surplus last year—and depreciation of the U.S. dollar, as well as that of the Canadian dollar, became more rapid in the course of 1978. Exchange rate influences on relative cost and price movements, and thus on competitive

**Chart 9. Major Industrial Countries: Balances on Current Account and Effective Exchange Rates, 1975–First Quarter 1979**



<sup>1</sup> Including official transfers; seasonally adjusted annual rate.

<sup>2</sup> MERM indices as reported in *International Financial Statistics*.

positions in international trade, were correspondingly more pronounced, and began in the first half of 1978 to have perceptible effects on trade volumes. Adjustment of trade balances in value terms (based on the U.S. dollar or SDR to facilitate international comparisons) was slower to emerge, as the terms of trade effects of exchange rate changes temporarily outweighed their corrective influence on real flows. These so-called J-curve effects contributed to the instability of foreign exchange markets in the months preceding November 1978, as day-to-day movements in exchange rates became increasingly volatile in thin and nervous markets.

From September 1977 through the end of October 1978 the U.S. dollar depreciated steeply—by some 19 per cent in effective terms<sup>5</sup>—while the yen and the deutsche mark appreciated by 40 per cent and 13 per cent, respectively. Although the Swiss franc also appreciated strongly (by 35 per cent), exchange markets were for the most part dominated by the changing relationships among the currencies of the three largest industrial countries. During the fourth quarter of 1977 and again after mid-1978, rates for both the deutsche mark and the yen appreciated sharply. Changes in effective exchange rates of other major currencies in the period from September 1977 to the end of October 1978 were generally smaller: depreciations of 15 per cent for the Canadian dollar and 8 per cent for the Italian lira, and little change in effective rates of the French and U.K. currencies. The increasing tendency of anticipatory or speculative capital movements to dominate exchange markets in basically unstable conditions came to a head in October 1978. In the course of that month, which witnessed the most severe unrest in exchange markets since early 1973, the U.S. dollar depreciated by 6 per cent, with correspondingly large movements in the exchange rates of other major currencies.

In retrospect, it is clear that the economic disturbances of the 1970s have given rise to difficulties in achieving mutually compatible variations in current account balances and private capital flows in several of the major industrial countries. This lack of quantitative adjustment has resulted in substantial price variability—the price in this instance being the exchange rate. The emergence of unstable conditions in the period up to, and particularly during, October 1978—along with a sharp depreciation of the U.S. dollar against virtually all major currencies—led to the announcement on November 1, 1978 of a package of coordinated policy measures by authorities of the United States, the Federal Republic of Germany, Japan, and Switzerland. These exchange rate and monetary policy measures were de-

<sup>5</sup> Based on the MERM indices published in *International Financial Statistics*.



signed to correct a situation in which movements in the dollar exchange rate were considered to have exceeded any decline that might be related to fundamental factors.

The period since the introduction of the November 1 measures has witnessed an extensive reversal of previous exchange rate movements, accompanied by a reduction in the volatility of movements. The U.S. dollar has appreciated with respect to most major currencies: the effective exchange rate for the dollar rose substantially during the eight months from November 1, 1978 through June 30, 1979, and in late July was more than 6 per cent above its end-October level, despite an appreciable decline during the weeks after mid-June. The obverse movement in the Japanese yen from November to July was pronounced; following an appreciation of 36 per cent over the first ten months of 1978, the yen depreciated against the dollar by 18 per cent during the next eight months and recovered only slightly during July. Exchange rates of currencies within the European Monetary System (EMS), which was introduced on March 13, 1979,<sup>6</sup> showed little net change vis-à-vis the U.S. dollar over the first six months of 1979, but rose appreciably from mid-June to late July; the deutsche mark, for example, appreciated by about 4½ per cent during that brief period, reaching a higher level against the U.S. dollar than at any time since October 1978. The pound sterling appreciated even more strongly than the EMS currencies from October 1978 to late July 1979, while the Canadian dollar showed little net change. The rise in the effective rate for the U.S. dollar in the first seven months of 1979 therefore largely reflected developments vis-à-vis the yen.

The reversal of exchange rate movements of major currencies after October 1978 was accompanied by massive intervention in support of the dollar. This intervention occurred first in the face of the sharp decline of the dollar in October 1978—which it did not prevent—and then continued at a heavy rate for the rest of the year. Since the beginning of 1979, however, U.S. foreign official liabilities have been greatly reduced, and all borrowings under the November agreements had by the end of March been repaid. Correspondingly, large increases in the official reserves of the Federal Republic of Germany and Japan took place in November and December as a result of intervention, but these were also fully unwound in the subsequent quarter.

Although there is little doubt that the introduction of the November 1 measures did much to stabilize market conditions, developments with respect to other short-run influences on exchange rates were also important in the recent period. Domestic activity in both the Federal Republic of Germany and Japan has accelerated in recent

quarters, while the tightening of monetary and other policies introduced in the United States (in part, along with the November 1 package) has contributed to a shift in growth rates of domestic demand conducive to an improvement in the distribution of current account balances. The reported declines in the U.S. trade deficit and in the German and Japanese surpluses have had important effects on market sentiment in recent months. It would appear that the outcome of the November 1 measures has provided a clear demonstration of the importance of credible policies and favorable underlying conditions in support of exchange market interventions and other short-term measures.

The EMS was launched in March under the favorable auspices of a strengthened and steady U.S. dollar. So far, the Italian lira and, more recently, the deutsche mark have been among the strong currencies in the EMS group, while the Belgian franc and (recently) the Danish krone have been at the bottom of the EMS band. Austria, although officially not a member of the EMS, has continued its exchange rate policy of keeping the schilling fairly close to the currencies of its main trading partners. This policy had previously given Austria a *de facto* link with the “snake” arrangements and now associates it similarly with the EMS.

Effects of exchange rate adjustments in 1978 and the first half of 1979 on relative cost/price relationships among major countries have been considerable. With domestic inflation rates showing some tendency toward greater convergence in 1978, the major influence on competitive positions stemmed from the changing pattern of exchange rates (Chart 10). Relative deflators for manufactures adjusted for exchange rate changes (which are indicators of “real exchange rates”) declined sharply over the first three quarters of 1978 in the United States and Canada and rose markedly in Japan. Movements for other currencies were less pronounced but, generally speaking, were also consistent with adjustment needs in direction, although the appropriateness of the magnitudes is more difficult to assess. With the subsequent reversal of exchange rate movements for major currencies in the last quarter of 1978, a movement that for some countries continued into 1979, these adjustments were partly unwound. Effects on the cost/price competitiveness of Japan have been particularly marked, resulting in a reversal of a large part of the real exchange rate appreciation experienced in late 1977 and in 1978.

On balance, however, real exchange rates—including the rate for the yen—were substantially different in the first quarter of 1979 from their levels in the third quarter of 1977, when the rapid exchange rate adjustments commenced. Among currencies that depreciated in real terms over that period were the U.S. dollar (12 per cent), the Canadian dollar (8 per cent), and the Italian

<sup>6</sup> See Chapter 2 for comment on the founding and objectives of the EMS.

lira (8 per cent); appreciating currencies, also in real terms, were the Japanese yen (13 per cent) and the deutsche mark (5 per cent). The currencies of France and the United Kingdom also appreciated somewhat from the third quarter of 1977 to the first quarter of 1979, although neither country can be said to have had a particularly strong balance of payments position.

The imprecision attaching to intercountry comparisons of costs and prices warrants mention. Indices such as those used above to explore shifting conditions of relative competitiveness are subject to a number of conceptual and statistical problems. Correspondence between these indices and actual developments may be clouded, for example, by differences in the composition of manufacturing and export or import-substituting industry, divergent profit developments in exporting industry (partly as a response to price movements abroad), and developments in nonprice competitiveness. Moreover, important structural shifts affecting compara-

tive trading positions are seldom reflected directly or quickly in such indices. Nevertheless, the indices are considered to be indicative of broad movements in relative competitive positions.

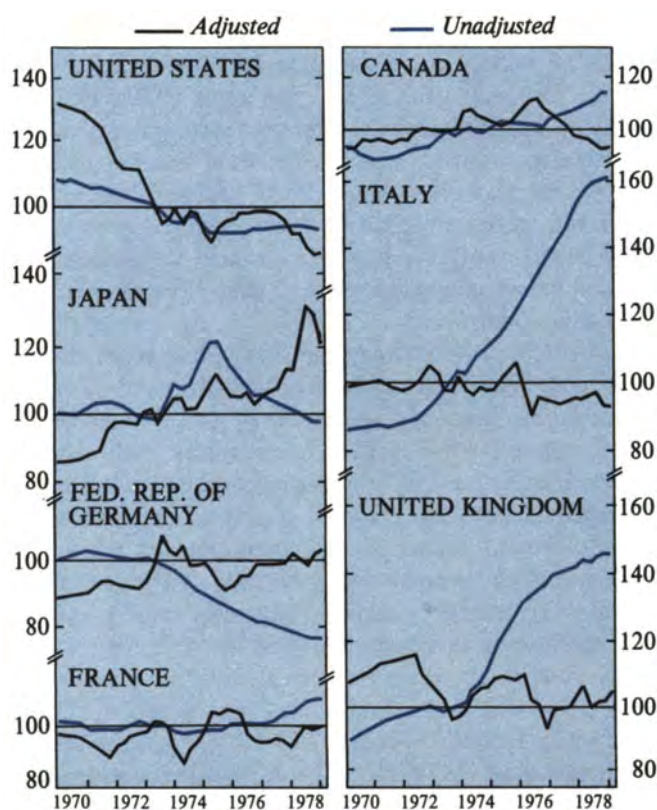
*Current account balances.*—Significant shifts in the distribution of current account balances among industrial countries toward a more satisfactory pattern became increasingly evident in 1978 and early 1979. The initial response of current account balances to the exchange rate adjustments of recent years had, however, been largely one of greater disequilibrium in the short run. Changes in the terms of trade resulting from rapid exchange rate changes overwhelmed the response of trade volumes, which is subject to a time lag, and led to increases in surpluses or deficits. The delay in reduction of current account imbalances was evident in the emergence of large surplus and deficit positions during 1978, in the face of substantial exchange rate adjustments. (See Chart 9.)

Underlying effects of earlier exchange rate adjustments became evident in trade volumes of several major countries early in 1978. From 1977 to the first half of 1978, imports in real terms accelerated in Japan and the Federal Republic of Germany but decelerated in the United States. Similarly, the volume of exports from the United States picked up sharply in the first half of 1978, while the exports of Japan and the Federal Republic of Germany slowed perceptibly. This process of contrasting trade volume developments continued for the United States and Japan in the second half of 1978. Terms of trade movements were sufficiently strong, however, that the current account surpluses of Japan and the Federal Republic of Germany underwent large upward swings from 1977 to 1978 as a whole—from \$11 billion to \$17½ billion in Japan and from \$4 billion to \$9 billion in the Federal Republic of Germany (including official transfers).

In several respects, the distribution of current account balances among industrial countries reached its most unsatisfactory stage of recent years in the first quarter of 1978. From a large surplus (\$20 billion at an annual rate) in the second half of 1975, the U.S. balance had shifted steadily to a large deficit (at a rate of some \$28 billion) in the first quarter of 1978. Conversely, the Japanese current account had moved from approximate balance to a surplus of \$20 billion (annual rate) over roughly the same period. During the remainder of 1978, the U.S. deficit on current account including official transfers declined to about \$9 billion at an annual rate, so that the deficit for the full-year 1978 was somewhat lower than that of 1977. Similarly, the Japanese surplus declined considerably toward the end of 1978 and continued to contract in the first half of 1979, under the impetus of the appreciation of the yen and the expansion of domestic demand. The surplus of the Fed-

**Chart 10. Major Industrial Countries: Relative Prices of Manufactures, Adjusted and Unadjusted for Exchange Rate Changes, 1970–First Quarter 1979<sup>1</sup>**

(Indices, 1973 = 100)



<sup>1</sup> Annual deflators for gross domestic product originating in manufacturing with quarterly interpolations and extrapolations (beyond the latest available annual data) based on wholesale price data for raw materials and manufactures.

eral Republic of Germany, although continuing to rise during 1978, also declined in the first half of 1979.

Most of the other industrial countries experienced markedly stronger current account balances in 1978 than in the preceding year. For the most part, these changes stemmed from favorable shifts in the terms of trade. Sizable improvements in terms of trade were recorded for France, Italy, the United Kingdom, Austria, Norway, and Sweden, and these were generally in accordance with the need for a strengthening of the balance of payments of those countries. For the industrial countries as a group, the combined balance on current account (goods, services, and private transfers) moved from a surplus of \$4 billion in 1977 to one of \$33 billion in 1978. (See Table 7, which also shows balances including official transfers.) Except for a \$7 billion increase in the net surplus on invisibles, the change can be ascribed to an improvement in the terms of trade of the industrial countries vis-à-vis the rest of the world generally, especially the developing countries (both oil and non-oil). Developments in the first half of 1979 largely represented an extension of the within-1978 movement toward a better distribution of current account balances.

On a retrospective view of the long and substantial deterioration of the U.S. current account from late 1975 to early 1978, it is clear that the swing represented primarily a higher rate of increase in imports than in exports in volume terms. Some deterioration of the terms of trade also contributed, but this resulted mainly from reductions in prices for U.S. agricultural exports, rather than from "J-curve" effects of the exchange rate change. Such effects did not come into play until late in the downswing of the current account balance, as the external value of the dollar was virtually stable at a relatively high level throughout 1976 and the first three quarters of 1977. Indeed, the high effective exchange rate prevailing in that period (compared with the average of immediately preceding years) was doubtless one element in the deterioration of the trade balance, as it involved a rising real exchange rate damaging to the U.S. competitive position. Another element, perhaps the main one, was the faster pace of economic expansion in the United States than elsewhere in the industrial world after mid-1976.

The striking growth of the Japanese current account balance, from near balance in 1975 to a surplus of \$18 billion in 1978, was in part a terms of trade phenomenon, particularly in 1978, but it also reflected a strong export performance coupled with a downward shift in imported raw material requirements. More buoyant domestic demand combined with sizable exchange rate depreciation, as well as policy measures focusing directly on the current account, has been responsible for a sharp curtailment in the current account

surplus since late 1978—to the point that the Japanese balance on current account has swung into deficit during recent months. Although the deficit may not be sustained in the period ahead, the degree of adjustment obtained represents a gratifying response to policy measures undertaken for the purpose.

Viewed from a medium-term perspective, the current accounts of all four major European industrial countries—France, the Federal Republic of Germany, Italy, and the United Kingdom—strengthened appreciably from 1975 to 1978, showing a combined upward movement of about \$26 billion. In three of the four cases, however, the improvements began from weak current account positions during the period 1974–76, and the recent surpluses of Italy and the United Kingdom can be regarded as desirable from the standpoint of facilitating the repayment of borrowed funds. In the case of the Federal Republic of Germany, the increase of the surplus in 1978 reinforced an already strong external position. For Canada, changes in the current account deficit during the past several years have not been sizable. In view of the substantial depreciation of the Canadian dollar since 1976, this experience is perhaps illustrative of the long lags with which effects of exchange rate changes on trade and service transactions are sometimes felt. Most of the smaller industrial countries—with the notable exception of Switzerland, with its very large surplus of about \$6 billion in 1978—have also been capital importers throughout the middle and latter 1970s. For the group of smaller industrial countries during these years, a generally upward tendency of current account deficits of most members has been evident, although the movement was partly reversed in 1978. Marked growth of Switzerland's surplus, however, is also an element of the combined balance shown in Table 7 for the smaller industrial countries.

*Capital flows.*—Exchange market disturbances during 1977 and 1978 both reflected and contributed to large destabilizing flows of capital. These flows were sometimes responsive to cyclical interest rate differentials, but were often contrary to them because of the influence of exchange rate expectations, which on occasion generated forward exchange rate premiums or discounts large enough to override the uncovered spreads in interest rates. In several countries, changes in capital restrictions also played an important role.

Reversal of exchange rate pressures in the first quarter of 1979 was paralleled by large movements of short-term private capital. From a \$14 billion outflow in the last quarter of 1978, U.S. bank-reported net capital flows reverted to a \$14 billion inflow in the first quarter of 1979. In the Federal Republic of Germany, net short-term flows also showed a reversal in these quarters. Covered arbitrage favoring the Tokyo market persisted until March because of the continued large for-

**Table 7. Industrial Countries: Balance of Payments Summaries, 1975-78**

(In billions of U.S. dollars)

		Balance on			Capital Account Balance			Change in Liabilities to Foreign Official Agencies <sup>3</sup>	Balance Financed by Transactions in Reserve Assets	Memo: Current Account Including Official Transfers
		Trade	Services and private transfers	Current account excluding official transfers	Total <sup>1</sup>	Long-Term capital and official transfers	Other <sup>2</sup>			
United States	1975	9.1	13.3	22.3	-26.7	-23.7	-3.0	5.3	0.8	18.3 <sup>4</sup>
	1976	-9.3	18.3	9.0	-19.5	-19.7	0.2	13.1	2.6	4.6
	1977	-30.9	20.9	-9.9	-25.1	-17.6	-7.5	35.4	0.4	-14.1
	1978	-34.2	25.0	-9.2	-22.4	-16.1	-6.3	30.9	-0.8	-13.9
United Kingdom	1975	-6.6	3.2	-3.4	3.2	0.3	2.9	-1.3	-1.4	-4.2
	1976	-5.8	5.2	-0.6	-0.3	-0.4	0.1	-0.5	-1.4	-2.0
	1977	-2.5	5.0	2.5	11.6	3.5	8.1	2.6	16.7	0.6
	1978	-1.8	5.5	3.7	-5.9	-5.6	-0.3	-2.1	-4.3	0.5
Canada	1975	-0.4	-4.2	-4.6	4.2	3.7	0.5	—	-0.4	-4.7
	1976	1.7	-5.5	-3.8	4.4	8.0	-3.6	—	0.6	-3.8
	1977	3.0	-6.9	-3.8	2.5	4.2	-1.7	—	-1.3	-3.9
	1978	3.4	-7.6	-4.2	4.1	2.7	1.4	—	-0.2	-4.6
France	1975	1.5	-0.3	1.2	2.3	-2.2	4.5	0.5	4.0	0.1
	1976	-4.7	-0.2	-4.9	1.8	-2.7	4.5	0.2	-2.8	-5.9
	1977	-2.7	0.9	-1.9	2.6	-0.8	3.4	-0.6	0.1	-3.3
	1978	1.6	3.8	5.4	-2.4	-4.8	2.3	0.3	3.3	4.0
Germany, Fed. Rep.	1975	17.7	-10.5	7.1	-8.0	-10.4	2.4	-0.2	-1.0	3.6
	1976	16.7	-9.4	7.3	-3.9	-4.0	0.1	0.3	3.8	3.5
	1977	19.7	-11.2	8.6	-3.8	-9.8	6.0	-0.3	4.4	4.3
	1978	25.3	-12.1	13.2	-3.4	-5.4	2.0	3.1	12.9	8.9
Italy	1975	-1.1	1.9	0.7	-3.4	-0.3	-3.1	1.0	-1.7	-0.6
	1976	-4.2	2.7	-1.6	1.3	-1.0	2.3	2.6	2.3	-2.9
	1977	0.1	3.9	4.0	1.7	-0.7	2.4	-0.6	5.2	2.3
	1978	3.1	6.1	9.2	-2.4	-1.9	-0.5	-4.0	2.7	6.3
Japan	1975	5.0	-5.4	-0.4	-0.2	-0.3	0.1	—	-0.6	-0.7
	1976	9.9	-6.0	3.9	-0.1	-0.9	0.8	—	3.8	3.7
	1977	17.3	-6.2	11.1	-4.6	-2.8	-1.8	—	6.5	10.9
	1978	25.6	-7.9	17.7	-7.7	-11.7	4.0	—	10.0	17.5
Other industrial countries <sup>5</sup>	1975	-3.0	4.9	1.9	3.4	-2.7	6.1	0.1	5.4	0.3
	1976	-7.1	5.2	-2.0	4.0	-6.0	10.0	—	2.0	-3.0
	1977	-11.4	4.4	-7.1	9.7	0.9	8.8	0.9	3.5	-8.6
	1978	-6.3	4.9	-1.4	11.0	-8.0	19.0	0.8	10.4	-3.5
Total industrial countries	1975	22.2	2.7	24.9	-25.0 <sup>6</sup>	-35.5	10.5	5.3	5.1	12.3 <sup>4</sup>
	1976	-3.0	10.3	7.3	-12.3 <sup>6</sup>	-26.6	14.3	15.7	10.8	-5.9
	1977	-7.3	10.8	3.5	-5.4 <sup>6</sup>	-23.2	17.7	37.4	35.5	-11.8
	1978	16.7	17.7	34.4	-29.2 <sup>6</sup>	-50.7	21.5	28.8	34.0	15.2

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

<sup>1</sup> See Table 6, footnote 1.<sup>2</sup> Includes recorded net movements of short-term capital, net errors and omissions, and gold monetization.<sup>3</sup> See Table 6, footnote 2.<sup>4</sup> 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.<sup>5</sup> Austria, Belgium-Luxembourg, Denmark, the Netherlands, Norway, Sweden, and Switzerland.<sup>6</sup> See Table 6, footnote 6.

ward premium on the yen, but the premium narrowed considerably in March as the decline in the trade surplus was sustained.

As in the past, restrictive measures designed to prevent or contain flows of capital have proved of limited usefulness in recent years. For example, fairly comprehensive measures introduced by Japan in late 1977 did not prevent the substantial flows that accompanied the exchange rate reversal in late 1978. Another lesson that may be derived from recent experience concerns the important role of exchange rate expectations—particularly in the presence of exchange restrictions that per-

mit large forward exchange rate premiums or discounts to build up. These premiums or discounts have in some countries offset the anticipated equilibrating effects of interest rate policies on capital flows, and have thus added to exchange market pressures.

In general, as already mentioned, staff analyses of developments in the major industrial countries over the 1970s point to a limited equilibrating role of private flows in offsetting changes in current account balances. Reasons cited for this result include the uncertainties and risks associated with foreign investment, official restrictions on capital movements or the fear of future

restrictions, and institutional rigidities, as well as differences in the size and efficiency of the various national capital markets. Lack of the necessary correspondence between prevailing current account balances and external investment propensities of private residents has been all too evident among the industrial countries throughout the 1970s. It was the proximate cause—reinforced by intensification of exchange rate expectations—of the volatile exchange rate movements and huge changes in reserve assets and related liabilities that characterized the international financial scene during much of the past two years.

Neither of the two major industrial countries with the largest surpluses on current account—the Federal Republic of Germany and Japan—was a net supplier of private capital to the rest of the world on a commensurate scale in 1977 and 1978. Substantial amounts of long-term capital were invested abroad by residents of both countries during these years, but these outflows were not large enough in either case to cover both the current account surplus and the net movement of short-term capital, which was very responsive to exchange rate expectations. In the case of the Federal Republic of Germany, indeed, net inflows of short-term funds matched or exceeded long-term outflows in both 1977 and 1978, so that the net external investment corresponding to the current account surpluses (including official transfers) took the form of increases in international reserves held by the monetary authorities. In the case of Japan, increases in reserves were equivalent to well over half of the current account surplus in each of the past two years. During the course of 1978, however, the net outflow of long-term capital from Japan increased sharply, amounting to \$11½ billion for the year as a whole. In both countries, the additions to reserves in 1978 stemmed from official intervention to prevent disorderly movements of exchange rates at times of strong upward pressure in currency markets. However, the reserves of the Federal Republic of Germany and Japan were sharply reduced in the first part of 1979, when earlier speculative movements of short-term funds were apparently unwound.

In the United States, where a substantial net capital inflow was needed to finance by far the largest current account deficit among the industrial countries in both 1977 and 1978, the net flow of private capital was in fact substantially outward. That outflow, together with the current account deficit itself, was financed mainly through exceptionally large increases in U.S. Government liabilities to foreign official agencies—i.e., chiefly through the accumulation of U.S. dollar reserves by the monetary authorities of other countries.

In other industrial countries over a longer time perspective, a similar lack of correspondence between private capital flows and current account imbalances was

also observed. Until 1978, Canada was an exception, having traditionally experienced a large and relatively consistent net influx of autonomous long-term capital. In 1978, however, capital inflows would have declined sharply if the Government of Canada had not borrowed heavily in foreign capital markets.

For industrial countries as a group, the general result of markedly unequal capital account and current account balances has been a considerable movement, back and forth, of short-term and medium-term capital flows (including claims on the Eurocurrency market) between surplus countries and the rest of the world. But there has been no adequate net outflow of total private capital (long-term and short-term combined) from the surplus countries on a steady or consistent basis.

The broad pattern of capital movements among major groups of countries has long featured net flows from the industrial countries to the non-oil primary producing countries. This flow reflects the provision of resources by areas with excess saving (i.e., saving in excess of concurrent domestic investment) to areas that are deficient in savings. In recent years, this pattern has been modified to a considerable extent by the emergence of the oil surplus countries as large-scale suppliers of national savings to international financial markets. In the main, however, as noted in recent Annual Reports, the capital and reserve funds invested by the oil surplus countries have been placed in financial claims on the industrial countries, which have continued to be the direct suppliers of the bulk of the capital and official transfers flowing to the non-oil primary producing countries. In relation to total world trade, the order of magnitude of this flow remains similar to that of the late 1960s and early 1970s, even though the industrial countries are now supplying less than half of the aggregate net flow from the excess of their own national saving over domestic investment (the remainder representing a “recycling” of national savings originating in the oil surplus countries).<sup>7</sup>

## Non-Oil Developing Countries

*Aggregate current account deficit and its financing.*—For many years, the balance of payments structure typical of most developing countries has been one featuring net inflows of capital and/or official transfers (in supplementation of domestic savings insufficient to finance desired capital formation) and a sizable excess of im-

<sup>7</sup> As a group, the major industrial countries other than Canada have supplied a relatively steady net flow of capital to other areas in recent years. The magnitude of this flow, it should be noted, is seriously understated in conventional balance of payments statistics because official Eurocurrency deposits by other countries in banks located in the industrial countries are reported by the latter as capital inflows, rather than as reserve-related official financing.

ports over exports of goods and services (reflecting the real-resource counterpart of the capital inflow). A current account deficit of some size is thus a normal characteristic of the balance of payments of most developing countries, although exceptions occur, for example, when export earnings situations are particularly favorable or during periods of adjustment when external financial positions are being rebuilt. Sustained maintenance of balance or surplus in the current account would mean that a country (or group of countries) had failed to make use of external resources to supplement its development efforts.

Taken together, the current account balances of the non-oil developing countries have undergone several distinct phases during the 1970s. From a position of unusual and largely cyclical strength (1972–73), they were plunged into an unprecedented degree of deficit in 1974 and 1975 by the global recession, the increase in oil prices, and severe inflation of world trade prices generally. The next two years were dominated by the effects of a partial cyclical recovery in the industrial world and by widespread balance of payments adjustments on the part of developing countries in the aftermath of the preceding strains on their external financial positions. Consequently, the aggregate current account deficit of the non-oil less developed countries as a group was relatively low in historical perspective during 1976 and 1977 (with due allowance for inflation and growth), despite the continued incurrence of sizable imbalances by many individual countries.

Against this background, a rebound was to be expected. The resurgence of current account deficits among non-oil developing countries raised their combined deficit from \$21 billion in 1977 to \$31 billion in 1978, and is projected to raise it markedly further, to \$43 billion, in 1979 (Table 5). In 1978, their combined deficit was moderate in historical perspective, although a number of countries were struggling with severe problems of external financing. By 1979, however, the projected deficit would appear to be high in terms of relationships to such relevant magnitudes as world trade, total output of the non-oil developing countries, or the aggregate value of their imports. Moreover, since the imbalances on current account are quite unevenly distributed among developing countries, the projected rise in the total deficit would mean that strained external positions are likely to become more numerous.

The nature of the actual and projected increases in the combined current account deficit of the non-oil developing countries from 1977 to 1979 gives as much cause for concern as their size. Of the \$22 billion rise implied by the estimates shown in Table 5, some \$16 billion would be attributable to deterioration of the terms of trade of these countries, whose export prices did not keep pace with prices of their imports in 1978

and are expected to lag again in 1979, while about \$6 billion would probably reflect increased net payments of interest and other forms of investment income. The estimated decline in the terms of trade index for the non-oil developing countries over the period 1977–79 would leave that index at about the level to which it receded in 1975. The prominence of interest charges and deterioration of the terms of trade in the rise of the deficit of the non-oil less developed countries since 1977 is a cause for concern, since these factors have been absorbing borrowed funds without increasing the real flow of external resources for development.

Despite the modest rates of expansion projected for aggregate real demand in the industrial countries and for world trade generally, growth in the volume of exports of the non-oil developing countries in 1979 is expected to be maintained at a relatively high rate. Partly because the developing countries that have become significant exporters of manufactures are still gaining shares in markets that are very large in relation to their own exports, total exports of the non-oil developing countries are believed to be rising somewhat faster in real terms in 1979, as they did in 1978, than total real imports of the industrial countries. In addition, unit values of exports of primary commodities are expected to show a moderately more favorable movement than in 1978. This movement, however, is unlikely to match the rise in import unit values stemming from a combination of oil price increases and continued inflation of prices for manufactured goods from the industrial countries. (See Chart 11.)

In 1978, the non-oil developing countries as a group borrowed abroad on a greatly expanded scale, sufficient (in combination with inflows of official transfers and direct investment capital) not only to cover their deficit on current account but also to permit another large addition (about \$12½ billion) to their international reserves. (See Table 8.) In 1979, they appear to be receiving larger amounts in forms (official transfers, SDR allocations, and direct investment capital) that do not generate debt. At present, a considerable slowdown in the rate of accumulation of reserves seems probable.

For the group as a whole, reserve holdings had reached by the end of 1978, after three consecutive years of major additions, a level that in terms of historical standards must be considered rather high in relation to imports. The significance of this observation, however, is subject to certain important qualifications. In the first place, the distribution of both the reserve gains of recent years and the outstanding holdings of reserve assets among individual countries has been quite uneven. Notwithstanding the magnitude of the overall additions to reserves and the now high average ratio of reserves to imports, many individual developing countries, especially among the low-income countries of



Africa and Asia, have not shared in the reserve gains and do not have comfortable reserve positions. A second qualification is that some of the largest increases in reserves during recent years, and especially during 1978, accrued to countries whose net external debt was also expanding more rapidly. This "grossing up" of their external financial assets and liabilities detracts somewhat from the significance to be attached to the high reserve/import ratio, even in the cases of large developing countries with a strong status in international financial markets.

In the general context of reserve positions, attention may be called to the decline in use of reserve-related credit facilities by non-oil developing countries since 1976. New borrowing in this category, which comprises mainly use of Fund credit, has not been as large in the past two years (\$0.1 billion per annum) as during the period 1974–76 (\$2.2 billion per annum), and the limited amount of new borrowing that has occurred since then has been partly offset by repayments of credits obtained in the earlier period.

For non-oil developing countries other than those in the low-income category, the marked acceleration of net borrowing in 1978 was primarily a manifestation of the

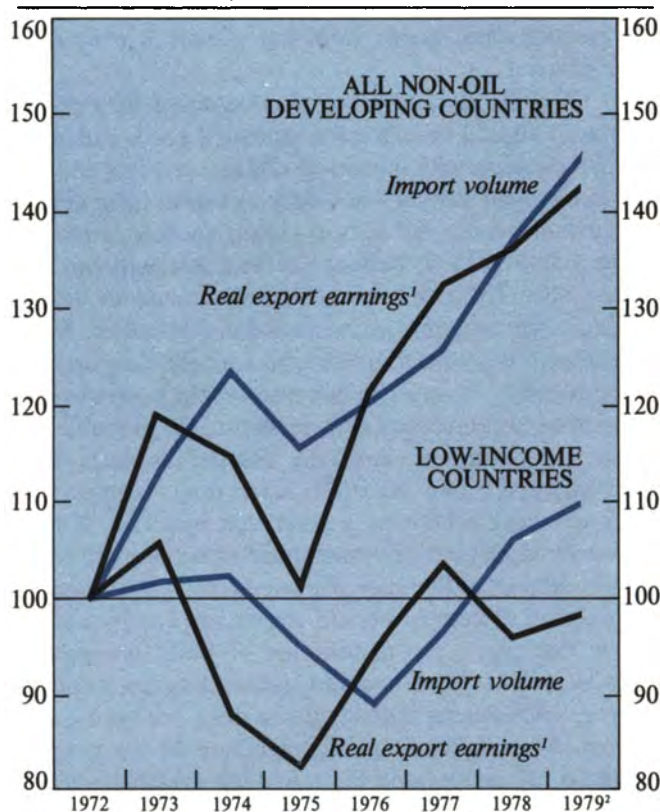
expanded role of many of the larger developing countries as fund raisers in the international banking markets. In 1978, the net absorption of long-term loans from private financial institutions by non-oil developing countries is estimated to have risen by nearly \$5 billion, or well over one third, from an already historically high level in 1977. If changes in various major elements of the financing pattern (including a reduction in the rate of accumulation of reserves) materialize along the lines suggested above, the projected 1979 increase of \$12 billion in the current account deficit of the non-oil developing countries as a group could be accommodated without any further increase in net external borrowing. But the overall rate of borrowing would nevertheless remain high, and the growth of external debt thus generated would continue to increase the burden of debt service charges on balance of payments positions. (See Chart 12.) Total public and publicly guaranteed debt of the developing countries expanded sharply throughout the period 1973–78, and a large proportion of the new debt contracted during this period reflected borrowing in international financial markets (Chart 13) on terms less favorable (with respect to interest rates and maturities) than those associated with traditional development financing. Largely as a consequence of this development, debt service charges have been rising faster than the debt itself.

The above developments seem likely to reinforce the tendency that has been observed in recent years for more countries to encounter debt servicing problems. From 1974 to the end of 1978, the number of countries experiencing arrears on current payments or conducting or seeking multilateral debt renegotiations increased from 3 to 18. At the end of 1978, these countries accounted for about 12 per cent of the total outstanding external debt of developing countries. For the 18 countries with debt servicing problems, deterioration in the balance of payments was brought about by a combination of circumstances, of which one of the most common was a serious decline in the rate of export growth. In a number of cases, inadequacy of domestic policies also played a part. The growth of total indebtedness in this group of 18 countries did not differ much from that of other developing countries, but the expansion of their export earnings—and hence of their ability to service debt—did not keep pace with the average for other developing countries.

At the present time, trade and payments prospects of the non-oil developing countries are subject to important new uncertainties. Among these are the probability of a U.S. recession, the recent acceleration of inflation in the industrial countries, with its implications for prices paid by the developing countries for imports of manufactures, and the impact that the oil price increases of recent months may have on current account balances.

**Chart 11. Non-Oil Developing Countries: Real Export Earnings and Import Volume, 1972–79**

(Indices, 1972 = 100)



¹ Export earnings deflated by import prices.

² Fund staff projections.

**Table 8. Non-Oil Developing Countries: Current Account Financing, 1973–78**

(In billions of U.S. dollars)

	1973	1974	1975	1976	1977	1978
Current account deficit <sup>1</sup>	11.3	30.4	38.0	25.5	21.2	31.3
Financing through transactions that do not affect net debt positions	8.4	10.9 <sup>2</sup>	11.2	10.6	11.9	13.0
Net unrequited transfers received by governments of non-oil developing countries	4.2	6.2 <sup>2</sup>	6.2	5.8	6.7	7.0
Direct investment flows, net	4.2	4.7	4.9	4.8	5.2	6.0
Net borrowing and use of reserves <sup>3</sup>	2.9	19.5 <sup>2</sup>	26.8	14.9	9.3	18.3
Reduction of reserve assets (accumulation, —)	—7.7	—2.9	—0.7	—11.3	—11.7	—12.5
Net external borrowing <sup>4</sup>	10.6	22.4 <sup>2</sup>	27.5	26.2	21.0	30.8
Long-term from official sources, net <sup>5</sup>	4.6	6.9 <sup>2</sup>	10.7	9.4	11.1	12.4
On concessionary terms <sup>6</sup>	3.1	3.7 <sup>2</sup>	4.4	6.8	5.5	6.2
On nonconcessionary terms <sup>6</sup>	1.5	3.2	6.3	2.6	5.6	6.2
Other long-term borrowing from nonresidents, net	5.9	9.1	11.0	12.9	11.8	17.8
From financial institutions <sup>5</sup>	3.7	5.9	7.5	10.9	12.1	16.9
Through bond issues <sup>5</sup>	0.5	0.3	0.2	1.2	2.6	3.6
Other sources <sup>7</sup>	1.7	2.9	3.3	0.8	—2.9	—2.7
Use of reserve-related credit facilities, net <sup>8</sup>	0.1	1.4	1.7	3.4	0.4	—0.2
Other short-term borrowing, net	0.9	4.8	6.9	4.2	—1.5	—1.2
Residual errors and omissions <sup>9</sup>	—0.9	0.2	—2.7	—3.7	—0.8	2.0

Sources: Fund balance of payments records and staff estimates.

<sup>1</sup> Net total of balances on goods, services, and private transfers, as defined for *Balance of Payments Yearbook* (with sign reversed).<sup>2</sup> 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.<sup>3</sup> I.e., financing through changes in net debt positions (net borrowing, less net accumulation—or plus net liquidation—of official reserve assets).<sup>4</sup> Includes any net use of nonreserve claims on nonresidents, errors and omissions in reported balance of payments statements for individual countries, and minor deficiencies in coverage.<sup>5</sup> Public and publicly guaranteed borrowing only.<sup>6</sup> Loans on "concessionary terms" are defined to include all loans containing a grant element greater than 25 per cent.<sup>7</sup> Including suppliers' credits and errors and residuals arising from mismatching of data taken from creditor and debtor records.<sup>8</sup> Comprises use of Fund credit and short-term borrowing by monetary authorities from other monetary authorities.<sup>9</sup> Errors and omissions in reported balance of payments statements for individual countries, plus gold monetization and minor omissions in coverage.

This impact has been discussed in the introduction to the present chapter.

*Experience of subgroups.*—Observations formulated in terms of group aggregates or averages necessarily blur distinctions among individual countries in a group as large and diverse as the one under review. Whether in terms of levels or of net changes, the distribution of current account deficits and capital flows (as well as reserve changes) within the group of non-oil less developed countries is quite uneven.

A class of countries for which this tends to be particularly true is the low-income subgroup, whose weight in almost any macroeconomic statistics tends to be small in relation to its size in terms of population or geographic area. External positions of low-income countries were severely strained by the end of 1978, and most of them do not have effective access to the international financial markets—nor to the flows of direct investment capital—that have contributed so much to the financing of increased current account deficits for the other non-oil developing countries as a group. Since the low-income countries, unlike some of the others, were not gaining reserves on any substantial scale in 1978, they have little scope for accommodating a rise in their current account deficit through further reduction of re-

serve accumulations. Also noteworthy is that their external financing pattern is directed toward official and international sources of assistance that are less flexible than the international capital markets on which many other developing countries have been relying heavily in recent years. About two thirds of the total cumulative net inflow of capital to low-income countries over the period 1973–78 came in the form of concessionary loans and official transfers. As shown in Table 9, loans and grants from official external creditors provided financing for nearly 18 per cent of total imports of goods and services by these countries, and more than four fifths of the net inflow from official sources abroad was on a concessional basis. In contrast, other non-oil developing countries financed only 7 per cent of their imports through official grants or credits, with roughly two thirds of such financing on a concessional basis.

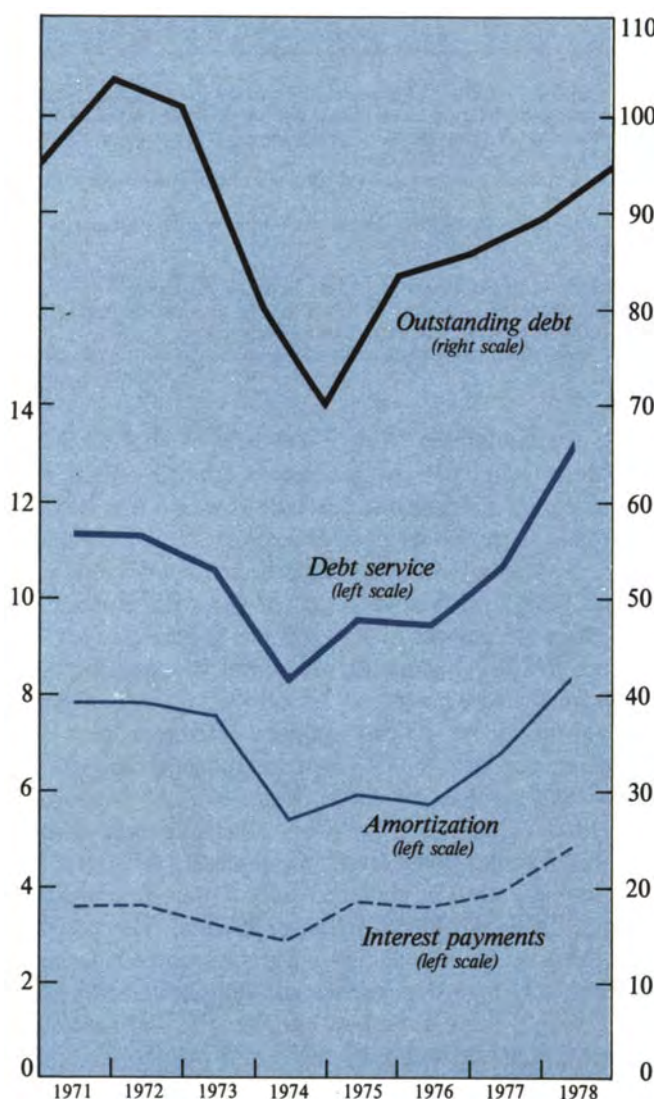
Relatively high dependence on official financing during a period of very limited buoyancy in the provision of this type of financing by the donor or creditor countries has produced a virtually flat trend, in real terms, in the net inflow of capital and aid received by low-income countries. In relation to the import purchasing power of the funds, this net inflow is estimated to be no larger in 1978 and 1979 than in 1973.



Even with respect to the current account itself, patterns of change during recent years have differed in the low-income countries from those observed in other developing countries. Since the middle 1970s, the former group has undergone a larger deterioration of its trade balance, partly compensated by more favorable developments in the service accounts. Because of their limited reliance on private capital markets, the low-income countries have not incurred parallel increases in interest costs on external debt; and some countries in this group have benefited to a substantial extent from receipts of migrant workers' remittances.

**Chart 12. Non-Oil Developing Countries: Debt and Debt Service, 1970-78<sup>1</sup>**

(As a percentage of exports of goods and services)

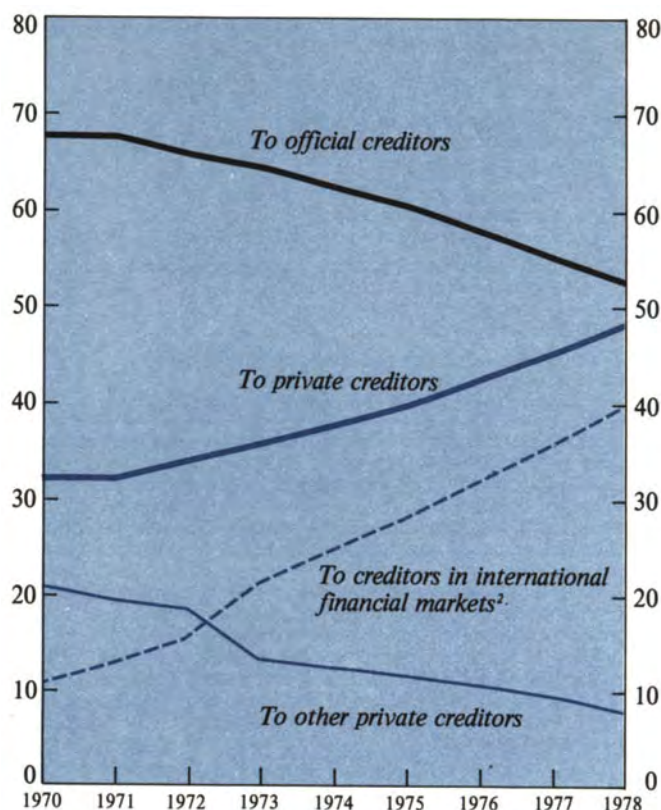


Sources: World Bank Debtor Reporting System and Fund staff estimates.

<sup>1</sup> The debt and debt service ratios plotted in this chart relate only to external public, or publicly guaranteed, debt with an original or extended maturity of more than one year.

**Chart 13. Non-Oil Developing Countries: Share of External Debt<sup>1</sup> Owed to Various Groups of Creditors, End 1970-End 1978**

(As a percentage of total debt outstanding)



Sources: World Bank Debtor Reporting System and Fund staff estimates.

<sup>1</sup> Public and publicly guaranteed debt with an original or extended maturity of more than one year.

<sup>2</sup> Comprises financial institutions and holders of bonds.

An opposite deviation from the general pattern is evident in the balance of payments accounts of those developing countries that have become important exporters of manufactures.<sup>8</sup> For this still rather small group, external positions have been relatively strong in recent years on both current account and capital account. However, it is particularly these countries—along with other developing countries where diversification of the export base has proceeded far enough to permit them to compete successfully in world markets for various manufactures—that are now threatened by the swing in the industrial countries during the past few years toward restrictive trade measures for protective purposes. Such actions have already affected access of developing countries to markets for a variety of manufactures, in-

<sup>8</sup> Here defined to comprise nine developing countries (Argentina, Brazil, the Republic of China, Hong Kong, India, Israel, Korea, Mexico, and Singapore), each of whose exports of manufactures amounted to at least \$1 billion in 1976.

**Table 9. Non-Oil Developing Countries: Comparative Structures of Import Financing for Low-Income Countries and Other Countries, 1973-78**

(In per cent)

	Low-Income Countries	Other Countries
Imports of goods and services	100.0	100.0
Financed by		
Exports of goods and services <sup>1</sup>	82.2	86.2
Officially provided long-term capital and aid	17.9	7.3
Official transfers, net	9.3	2.5
Concessionary loans, net	5.4	2.4
Subtotal	14.7	5.0
Other official loans	3.3	2.3
Private long-term capital, net	2.3	10.6
Direct investment	—	3.3
Other	2.3	7.3
Residual financing flows, net <sup>2</sup>	1.9	0.4
Reduction in reserves	-4.4	-4.6

<sup>1</sup> Including net receipts of private transfers.<sup>2</sup> Including use of Fund credit, short-term capital flows, and net errors and omissions.

cluding textiles and clothing, footwear, steel, and electrical consumer goods; and representatives of developing countries have been voicing increasing concern about effects on their export earnings and, more broadly, on their growth and development prospects.

The recently concluded Multilateral Trade Negotiations (MTN) have provided for some potentially significant improvements in trading conditions for developing countries, but it is too early to judge whether the implementation of the various MTN agreements will succeed in arresting and reversing the drift toward protective trade policies. Success with respect to that objective will also depend in considerable part on the adoption by industrial countries, as well as developing countries, of policies to encourage desirable structural adjustments.

*Regional developments.*—All but one of the manufacturing exporters singled out for special attention above are in the Asian and Latin American areas, while more than half of the low-income countries, as noted earlier, are concentrated in Africa. This uneven distribution of countries with quite different characteristics goes far toward explaining regional differences in the evolution of trade and payments balances. Another differentiating factor, of course, is the prevalence of dissimilar trends in prices for various classes of primary commodities (discussed briefly in the foregoing commentary on global perspectives). While recent differences in such price movements are too numerous to trace in this Report, they have clearly contributed to some of the major divergences observable in regional comparisons. Relative weakness has been apparent during the past year or so in export prices of many African and Latin American countries, as well as some in the Middle East, while Asian primary product prices have been relatively buoyant. Indeed, Asia was the only

major region for which market prices of primary commodity exports rose in 1978. The strength of exports of manufactures from several Asian developing countries has also been an important factor in the evolution of their external balances for several years, but may be of diminishing influence in 1979 because of various protectionist shifts in some of the importing countries.

Regional current account balances depend not only on export earnings, of course, but equally on flows of imports. Here, too, the most rapid expansion in 1978, as in each of the preceding two years, was that recorded for the Asian countries. For them, a large increase in import volume raised the region's aggregate current account deficit to \$5 billion in 1978, compared with less than \$1 billion in 1977 and about \$1½ billion in 1976. The regional current account deficit also rose substantially in Latin America and the Caribbean, where it had been halved from 1975 to 1977 by a combination of favorable commodity prices, especially for coffee, and declining imports in real terms. Both of these factors were reversed in 1978, as import volume rose moderately after three consecutive years of decline. In addition, increased payments for services, including interest payments on external debt, contributed importantly to the rebound of the combined current account deficit of the Latin American and Caribbean countries in 1978.

In the African area, weak growth of export earnings from 1977 to 1978 made an intensification of external payments pressures almost unavoidable. Even with a very small rise in import volume (the smallest for any of the regional groups), the aggregate current account deficit of the African countries increased by about \$2 billion in 1978, to some \$8½ billion. The non-oil developing countries of the Middle East showed an appreciably smaller increase in their current account deficit, despite a relatively marked deterioration of their trade balance. For these countries, rapid expansion of receipts for services and private transfers, including remittances from expatriate workers in neighboring oil countries, has counterbalanced the enlargement of their trade deficit over the past two years.

## Major Oil Exporting Countries

The balance of payments experience of the major oil exporting countries during recent years has differed greatly from the general experience of other developing countries. It may be recalled that the combined current account surplus of the oil exporting group declined sharply and somewhat irregularly from \$68 billion in 1974 to about \$32 billion in 1977. Over those three years, the volume of imports expanded substantially, although at a decelerating pace, while the volume of exports rose only slightly because of the relatively slow

growth of world oil consumption and the rise in oil production of other countries in 1977. Cumulatively, the further increases in oil prices that occurred intermittently after 1974 were about equal to the rise in import prices paid by the oil exporting countries, so that the terms of trade of those countries were virtually the same in 1977 as in 1974.

The deficit of the oil exporting countries on account of services and private transfers showed a strong upward trend throughout those three years, reaching a level of about \$30 billion in 1977. The latter figure was almost 2½ times the size of the corresponding deficit in 1973, reflecting mainly a rapid growth in payments to foreign contractors, in remittances by expatriate workers, and in payments of freight and insurance on merchandise imports. Payments of this last type were particularly high from 1975 through 1977 because of the freight surcharges and demurrage payments associated with port congestion. The increase in total payments for "invisibles" was only partly offset by the relatively large rise in investment income on external assets.

According to the provisional estimates given in Table 6, the combined current account surplus of the major oil exporting countries fell by \$26 billion in 1978, to about \$6 billion. This sharp decline reflected the effects of an appreciable dip in the value of oil exports and of further growth in both imports and net payments for services and private transfers.

The 1977–78 decline in the value of oil exports—which account for more than 93 per cent of all exports of the major oil exporting countries—stemmed almost entirely from a fall in export volume. The demand for oil from these countries was relatively weak in the first half of the year, and the supply was curtailed by interruptions of oil production in Iran during the closing months. The average oil export price in terms of U.S. dollars remained virtually unchanged in 1978 on a year-to-year basis, as the OPEC meetings in December 1977 and June 1978 did not result in any decision to change the price of the marker crude. Meanwhile, the volume and value of total imports continued to rise, although at a decelerating rate.

For 1979, a strong rebound in the current account surplus of the major oil exporting countries is clearly indicated, their combined surplus being tentatively projected at \$43 billion (Table 5). In the main, this rebound is a reflection of the improvement in the terms of trade of the oil exporters resulting from the large increases in oil prices that have taken place this year. A virtual cessation of the previously rapid increase of imports in real terms, however, is another notable reason for the upsurge in the surplus. This leveling off of total imports reflects mainly a substantial decline in imports of Iran because of the recent impairment of economic activity in that country. For the other major oil export-

ers as a group, increased receipts from oil exports are expected to contribute to an acceleration of import growth in 1979, although most of these countries are continuing to pursue relatively restrained demand management policies.

Within the group of major oil exporters, the current account surplus has become increasingly concentrated. By 1978, six of the countries in the group still had a combined surplus of \$21 billion, while the other six major oil exporters had a combined current account deficit of \$15 billion. Positive shifts are projected for both groups in 1979, but the greater part of the combined improvement is likely to be reflected in the position of the first group because of a shift, associated with the Iranian situation, in the origins of oil exports.

The total net cash surplus available for disposition by the major oil exporting countries is estimated to have declined less in 1978 than the combined current account surplus, mainly because of changes in outstanding oil export credits and a rise in borrowing by official institutions of oil exporting countries with enlarged current account deficits. Incomplete information on the disposition of the net cash surplus in 1978 indicates a marked decline in net placements in bank deposits and government securities, a more moderate decline in other capital flows (such as placements in corporate equities and bonds) to the developed countries, and maintenance of the flow of funds from the major oil exporters to other developing countries at approximately the same level as in 1977. The much smaller increase in assets of a relatively liquid nature during 1978 than during the preceding years appears to have reflected, at least to some extent, drawdowns of liquid holdings by those oil exporting countries that incurred balance of payments deficits in 1978.

In 1979, the total net cash surplus of the major oil exporters is expected to increase less sharply than their combined current account surplus. One reason is the lag of cash payments for oil behind the corresponding exports. Also, net borrowing by the six major oil exporters that were in deficit on current account in 1978 is likely to decline with the strengthening of their external positions because of the recent price increases.

### More Developed Primary Producing Countries

During the mid-1970s, most of the more developed primary producing countries encountered severe balance of payments problems. Their combined current account deficit rose to \$14 billion in 1974 and remained stubbornly in the \$13–15 billion range through 1977 (Table 5). Relatively weak demand for their exports on the part of the industrial countries, a persistent decline in their terms of trade, and comparatively high rates of

inflation, in some cases not accompanied by exchange rate adjustments, were among the factors underlying the prolonged maintenance of such large current account deficits. The initially strong external financial positions of the majority of countries in the more developed primary producing group, coupled with their generally ready access to international capital markets, allowed a number of them to postpone adjustment to the external shocks and inflationary forces that emerged in the middle 1970s.

Although several countries in the group did adopt effective stabilization programs early in that period, the response in their external accounts tended to be weakened by the sluggishness of export markets and severe deterioration of the terms of trade, and to be offset within the group total by widening current account deficits of countries that continued to pursue expansionary policies. These latter countries drew down reserves and resorted increasingly to international financial markets to finance the deficits until 1977 or early 1978, when several of them finally adopted stabilization programs.

More restrictive fiscal and monetary policies, various kinds of incomes policy measures, and adjustments of exchange rates were among the elements in these programs. With their implementation, 1978 became something of a turning point in the external adjustment history of the more developed primary producing group. Its aggregate deficit on current account was cut by more than half, in comparison with the deficits of 1977 and the immediately preceding years, to a level that was no longer seriously out of line with the experience of the countries in this group during the 1960s and early 1970s. This major adjustment reflected, in addition to a sharp reduction in the trade deficit, a substantial increase in the surplus on external service transactions, mainly through larger receipts from tourism in the Mediterranean countries. The reduction in the trade deficit reflected a cutback in domestic absorption of goods and services (with real imports declining slightly and real exports expanding sharply) under the influence of more restrained domestic demand management policies and lower exchange rates for some of the countries concerned.

The non-European countries among the more developed primary producers were perhaps hit harder by the external shocks of the mid-1970s than most of the other members of the group. Their terms of trade deteriorated by 30 per cent from 1973 to 1978, and their traditional deficit on service transactions rose progressively throughout the period. Despite early adjustment measures, which kept their internal and external imbalances generally within manageable proportions, the economic policies of the non-European countries continue to be constrained by considerations relating to their external accounts.

Of the more developed primary producers that adopted Fund-supported stabilization programs in late 1977 or early 1978, Spain was the one achieving the clearest success on the external side. Its current account balance, after several years of widening deficits, accompanied by increasing reliance on foreign borrowing, moved from a deficit of \$2½ billion in 1977 to a surplus of \$1½ billion in 1978, and its gross official reserves—bolstered also by substantial capital inflows into the private sector—rose by \$4 billion. Stabilization efforts in Portugal also achieved encouraging, although more limited, results. Large depreciations of the escudo in 1977 and 1978, as well as cuts in real wages in both years, improved the international competitiveness of Portuguese industry and resulted in an improvement of the trade balance in real terms in 1978, after substantial deteriorations in the preceding two years. In Turkey, financial policies for too long took inadequate account of changed external circumstances. In 1977, the Turkish lira was depreciated but mounting inflationary pressures and further large-scale expansion of domestic credit contributed to the intensification of balance of payments difficulties. The further depreciation of the currency in 1978 was accompanied by a more cohesive program of economic policies, but this failed to slow down the rapid rise in costs and prices, partly because there was not sufficient policy flexibility to follow through with the necessary additional measures. The halving of the current account deficit from 1977 to 1978 reflected primarily the need to cut imports severely in view of the shortage of external financing. Recently, however, a new stabilization program coupled with substantial further exchange rate adjustments has been agreed with the Fund.

In 1979, a moderate pickup in domestic economic activity in the more developed primary producing countries seems likely to induce an expansion of their imports in real terms for the first time in five years. Along with yet another deterioration in the group's terms of trade, this resumption of import growth would imply a considerable increase in its aggregate current account deficit. The increase foreseen would not appear likely, in general, to strain the external borrowing capacities of most of the countries under review. A few members of the group, however, remain in precarious external positions and could ill afford to share in the enlargement of the combined deficit.

### Key Issues of Policy

At the end of 1978, worries were being felt in many quarters about the international energy picture over the longer term and about fundamental aspects of economic performance, including high inflation, sluggish economic

growth, underutilization of resources, periodic instability of foreign exchange markets, the difficult situation of the non-oil developing countries, and the spread of protectionist trade measures. To these factors has been added the steep run-up in oil prices during 1979. The current environment of great uncertainty clearly foreshadows a period of severe strains in the world economy, emphasizing the need for policies to deal with them.

Of key importance in this regard will be the character of domestic economic policies pursued in the industrial countries. The present array of problems confronting national authorities in the industrial world precludes simple prescriptions offering promise of early success, but rather points to the need for pursuit of a many-sided strategy of policy in a medium-term framework. Similar in this regard is the position of a number of more developed primary producing countries.

As suggested earlier in this chapter, the basic approach must be a "gradual" one, but not "too gradual." It calls for determined and skillful use of the traditional monetary and fiscal instruments, combined with the application of suitable incomes policies (e.g., to prevent oil price increases and other external cost pressures from entering into the indexation, formal or *de facto*, of wages and other incomes) and increased emphasis on measures to effect structural adjustments and improve supply capabilities, including adaptation to the lower availability and higher price of energy. Obviously, a strategy of policy along these lines will be difficult to implement; it will require courage and perseverance so as to elicit public support for national economic policies and, above all, to reduce inflationary expectations.

The international setting in which industrial countries will be conducting their domestic economic policies is in the process of changing substantially. At the beginning of 1979, the growth of total output in these countries, after proceeding at a pace of 4 per cent in each of the past two years, was expected to decline moderately because of an economic slowdown in the United States—a slowdown that was sought by the U.S. authorities, and welcomed internationally, in view of the need to curb domestic inflationary pressures. Now, it seems clear that the decline of output growth in the industrial world will prove to be much sharper than had been generally expected.

Two developments are important in this respect. First, the oil price increases since the end of 1978 may be expected to have a generally depressive effect on economic growth, both directly through their deflationary impact and indirectly through their intensification of the inflationary process.<sup>9</sup> Second, the course of real GNP in the United States during the first half of

1979—very little increase in the first quarter and a decline in the second—has turned out to be quite weak. At the present juncture, U.S. economic indicators available through June are inconclusive; but, with allowance also for the strength of the current inflationary spiral and for the probable effects of the shortage of oil, it seems likely that a U.S. recession is now under way—a view in line with statements by U.S. officials, who expect the recession to be short-lived and mild.

Such a situation raises a number of important policy issues. In the first place, a U.S. recession (whatever its duration or severity) could not be "offset" in the other industrial countries; in general, their economies are not buoyant and, because of either the fact or the threat of inflation, they would not be in a position to adopt significantly more expansionary policies in the endeavor to compensate for a recessionary development in the United States, although they could reasonably be expected to maintain their growth rates as much as possible. As for the United States itself, a "cooling off" period of very low growth of output or of declining output would serve to dampen inflationary pressures, but it would not permit any lowering of the priority that has been accorded by the U.S. authorities to the reduction of inflation in a medium-term context. Indeed, policies to counter recession would need to be very cautious, with primary reliance placed on built-in ("automatic") fiscal stabilizers to support the economy. On the external side, a flattening out or decline in U.S. economic activity would have a positive impact on the current account balance through an easing of the demand for imports. However, the impact on the overall U.S. balance of payments and on the effective exchange rate for the dollar would depend also on the extent to which changes in relative monetary conditions affected capital account positions.

A more general point of significance is that exchange rates for the major currencies would be subject to different influences in a setting of weaker demand conditions, coupled with the higher oil prices and continuing inflation. Whether the relative calm that has characterized the exchange markets in recent months would be extended would depend to a large extent on policies. The larger industrial countries, while keeping their policies attuned to fundamental objectives, might well find it necessary to coordinate their actions regarding exchange market intervention and, at least to some extent, their monetary policies.

A softening in the pace of economic activity in the industrial world could have markedly adverse effects on the primary producing countries. Within this very large and heterogeneous group, conditions and policies differ widely but particular attention needs to be paid to the situation of the non-oil developing countries. Most of these countries have been experiencing growth rates in

<sup>9</sup> For a brief discussion of the effects of the recent oil price increases and of the appropriate policy responses, see the introduction to this chapter, page 2.



recent years not commensurate with their developmental needs, and an increasing number of them are struggling with balance of payments problems stemming from recently enlarged current account deficits and mounting burdens of external indebtedness—all of which will be exacerbated, in the year or so ahead, by effects of the recent oil price increases and of the continuing slowdown of economic activity in the industrial countries. Among the non-oil less developed countries, conditions and prospects are particularly unsatisfactory in many of the poorest countries that have been singled out for special attention in this chapter. The economic performance of the low-income group of developing countries, which contain more than two fifths of the population of all Fund members, is clearly a major cause for concern in terms of human welfare.

Many of the non-oil developing countries need to adopt better domestic policies in order to deal with the very difficult situation that they now face, as well as to establish an environment attractive to foreign investment and financing. But their problems could be eased by actions on the part of industrial countries. One such problem derives from the fact, already noted, that the bulk of new indebtedness incurred by the non-oil less developed countries in the past five years came from borrowing in international financial markets on terms less favorable than those associated with traditional development financing, so that debt service charges are now rising faster than the debt itself, and faster than export earnings. Particularly in the case of many low-income, low-growth developing countries, the debts contracted since 1974 represent—from the standpoint of such borrowers—a costly and ill-adapted way of transferring savings internationally.

To assist developing countries with their external financing, industrial countries in a strong position on current account should take all feasible steps to improve their position as capital exporters. An important area of such improvement must be to ensure a larger stabilizing flow of private capital—something that inevitably takes time to achieve but that can be influenced by additional governmental measures to encourage capital outflows, both directly and through changes in institutional arrangements and practices in the private sector. In addition, and here immediate action could be taken, there is a strong case for all industrial countries—surplus and deficit alike—to increase their official development assistance. Such assistance amounts to only about  $\frac{1}{3}$  of 1 per cent of GNP for industrial donor countries combined, with several of the large countries—including those in a surplus position—having even lower percentages. Expanded flows of capital and aid to the developing countries—along with measures to improve market access for their exports—are essential for

their economic development, and also for the proper functioning of the international monetary system.

Considerable scope for improvement of economic conditions around the world lies in a better working of the international adjustment process. The wide differences that characterize the current positions of member countries call for adjustment policies on a broad scale, carefully differentiated on an individual country basis. As a general proposition, each country should contribute to world economic growth in relation to the strength of its external position and to its price performance. The implications of such an approach—if carried out effectively—are that countries in a relatively strong external position would act to support growth to the extent that it would not jeopardize their anti-inflation programs, while countries in a relatively weak external position and with high inflation would adopt corrective measures of a fundamental nature to deal with their problems.

In this context, the industrial countries could make a particularly important contribution by coordinating their growth objectives and policies over the medium term. Such a process could serve to bolster economic growth, to safeguard the recent improvement in the distribution of current account balances, and thus to promote the maintenance of orderly exchange markets and of reasonable stability in the exchange rates for major currencies. Important in this connection is the finding that seemingly moderate differences in growth rates among the major industrial countries could lead to substantial differences in their current account balances, with possibly severe impact on the functioning of the international adjustment process. It is clear that the rest of the world has a strong stake in the pursuit of policies by the major industrial countries directed toward coordinated growth and payments adjustment.

It must be stressed that the preceding brief sketch of how the functioning of the international adjustment process could be improved involves issues that are very controversial, as well as complex. Yet, hope for further progress in this area is to be found in the widespread recognition that—given the interdependence among countries in a world of serious economic and financial problems—no country can afford to ignore international influences in the management of its economy.

The very difficult conditions now confronting the authorities of most member countries also portray a large, and probably difficult, task for the International Monetary Fund. The role of the Fund is a very broad one, ranging from the conduct of a worldwide forum on economic and financial problems to the provision of financial, consultative, and technical services to individual countries. In the exercise of all its functions, such as those involving the principles of conditionality or of

surveillance over exchange rate policies, the Fund must act fairly and evenhandedly—an assurance given by the Managing Director in his concluding remarks at the 1978 Annual Meeting of the Board of Governors.

It seems evident that, under the conditions that loom ahead, the Fund must be prepared to assist many of its member countries in dealing with their economic and financial problems. But, notwithstanding the high priority that has to be given to adjustment, it would appear that claims on the Fund's resources in the next few years could be large. The Fund has endeavored to adapt its policies and facilities to the needs of member countries in the changing circumstances of recent years, and it is

continuing to assess the adequacy of improvements that have been, or are being, introduced. In addition, in view of the uncertainty that characterizes the international economic situation, it would be highly desirable for member countries to expedite their acceptance of quota increases under the Seventh General Review of Quotas. If all members accepted quota increases to the maximum amounts proposed, total quotas in the Fund (as explained in Chapter 3) would rise as a result of the Seventh General Review from the current level of SDR 39.0 billion to SDR 58.6 billion—thus placing the Fund in a much better financial position to meet potential needs for use of its resources.

## **Chapter 2**

# **Developments in the International Monetary System**

This chapter reviews a number of recent developments in the international monetary system in a longer-term perspective. The marked variability in exchange rates among the larger industrial countries within the last two years has generated some criticism of floating exchange rates. It is certainly widely recognized that given the underlying economic and financial conditions prevailing in recent years a substantial degree of exchange rate flexibility has been and remains essential, and that exchange rate changes have made a significant contribution to international adjustment. At the same time, the experience of recent years has provided a reminder that there are limits to what can be accomplished by changes in exchange rates. In particular, attention has been drawn to the substantial lags in current account adjustments to exchange rate changes and to the extent to which such adjustments to rate changes can be slowed down or even nullified by the absence of supporting domestic measures. Moreover, the behavior of exchange markets has at times been characterized by “overshooting” with consequential reversals of exchange rate movements. Recent experience with floating rates has thus led a number of countries to the view that more management of exchange rates is required. It has also reinforced the conclusion, embodied in the new Article IV, that in the absence of orderly underlying economic and financial conditions in member countries it will not be possible to achieve a stable system of exchange rates.

The second part of the chapter deals with international liquidity. In the face of continued large payments imbalances in 1978, management of foreign exchange rates resulted in official intervention in exchange markets—for some countries quite heavy at times—and in continued expansion of official foreign exchange reserves, albeit at a much less rapid rate than in the preceding year. This development was also fostered through an ample supply of international credit provided by commercial banks. To the authorities of some members, this supply appeared so abundant as to arouse interest in

possible methods for its control. To obviate undue expansion of private credit while responding to world liquidity requirements, members’ access to conditional liquidity was augmented in 1978 through a rise in Fund quotas by one third, as well as by an extension of the Fund’s credit facilities, and it is to be further enlarged in the near future by a quota increase amounting to one half of present quotas. Steps were also taken to enhance the role of special drawing rights in the international monetary system. These include the resumption of SDR allocations, changes in the characteristics and uses of SDRs, and the consideration of a substitution account administered by the Fund that would accept deposits of reserve currency balances in exchange for claims denominated in SDRs.

### **The Exchange Rate System**

A description has been given in Chapter 1 of the frequent and sharp changes in exchange rates that have taken place over the last two years. Reference has also been made to the measures adopted by industrialized countries to strengthen intervention in exchange markets and to pay increased attention to external adjustment requirements in the formulation of domestic economic policies. In addition, it has been pointed out in Chapter 1 that, in spite of the significant changes that have occurred in exchange rates and relative prices, current account imbalances have been slow to adjust.

These developments, coming as they do after several years of widespread floating, have raised a number of issues that will be considered here, beginning with some of the consequences of exchange rate variability, followed by an analysis of why the adjustment mechanism has tended to be sluggish. The recent efforts of the industrialized countries to moderate exchange rate movements are described briefly, and the potential implications of these efforts reviewed. This is followed by a discussion of the exchange rate problems of less devel-



oped countries. Many of these countries have not escaped the consequences of exchange rate instability among the largest industrial countries, and some have had problems in reaching and maintaining appropriate exchange rate levels. The Fund has a responsibility for helping to deal with these problems of the exchange rate system through its surveillance over the exchange rate and related policies of members, and the first half of the chapter concludes with some observations on the opportunity this provides for cooperative action within the international community.

## The Variability of Exchange Rates

Prior to the adoption of widespread floating, there was disagreement on the likely degree of instability of flexible exchange rates. Many of the earlier episodes of floating rates had been characterized by frequent and sharp changes in rates, but it could be argued that this was to be expected, since countries had generally used flexible rates only during times of economic instability. It was often suggested that under more settled conditions flexible rates could be expected to be relatively stable. More recent analysis has suggested that exchange markets tend to behave in some respects like other financial markets and thus may exhibit a fair degree of variability even when underlying conditions are less disturbed than at present. While this analysis is suggestive, the fact that there has been a background of relatively unstable economic and financial conditions during the six years of generalized floating makes it difficult to draw firm conclusions on what might happen in a more stable international environment.

In discussing exchange rate movements, it is helpful to distinguish among three types of variability: short-run fluctuations of a day-to-day, week-to-week, month-to-month variety; intermediate-term fluctuations over periods extending from one or two quarters to one or two years; and long-term shifts in exchange rates that persist. The three types of variability are illustrated in Charts 14 and 15 and Table 10. Chart 14 shows the daily changes of leading currencies against the U.S. dollar. It is evident that for the Federal Republic of Germany, Japan, Switzerland, and, to a lesser extent, France the years of floating break up into three periods: the first, one of considerable fluctuations; the second, a period of relative calm in 1976 and early 1977; and the third, the last two years of significant changes with greater stability in the first half of 1979. For Italy and the United Kingdom there was an additional period of larger fluctuations in 1976. For Canada the bilateral daily rates with the U.S. dollar were relatively more stable than for other countries, although also with some

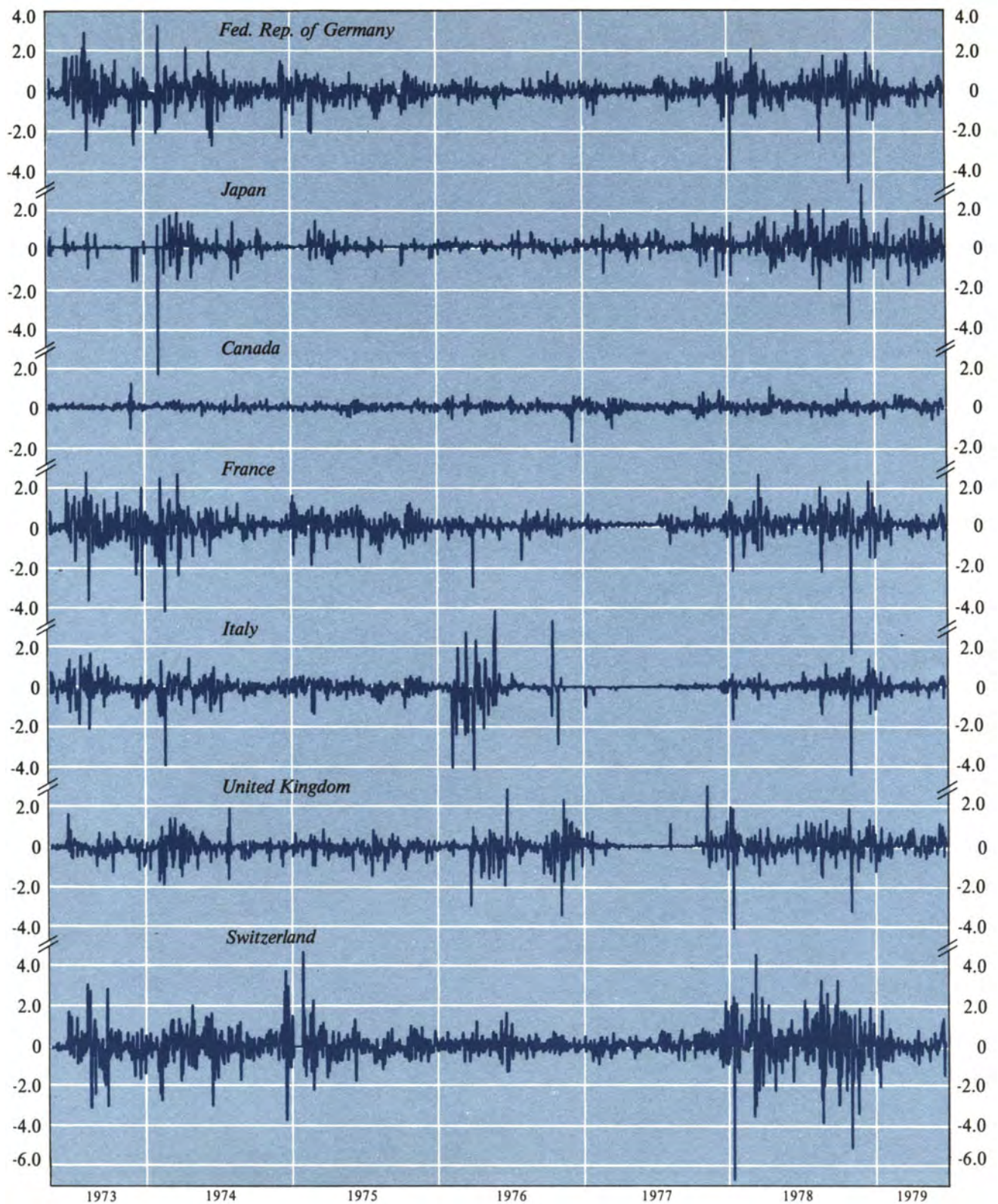
tendency for Canadian exchange rate variability to increase in recent years. One of the problems with a chart of this kind is that it shows only fluctuations of the U.S. dollar against individual currencies. For many purposes, however, the bilateral rates that are most frequently quoted are not the only bilateral rates that matter. Further, the changes shown in Chart 14 combine all three types of variability.

It is useful, therefore, to supplement Chart 14 with Table 10, which shows the variability of monthly divergences of effective exchange rates adjusted for the average change over each annual or semiannual period. Roughly the same pattern as in the chart showing daily fluctuations can be seen for sterling, the deutsche mark, the French franc, the yen, the lira, and the Swiss franc. Not surprisingly, the U.S. dollar mirrors the pattern of a number of the other major currencies, although it does not reflect the fluctuations of the pound sterling and Italian lira in 1976. Using effective exchange rates, the variability of the Canadian dollar is rather different, with small fluctuations in the early years, rising gradually to significant levels in 1976–78.

Chart 15 illustrates both intermediate-term fluctuations and long-term structural shifts in the pattern of effective exchange rates. Intermediate-term fluctuations in effective rates appear for the United States as a mirror image of opposite fluctuations in the Federal Republic of Germany and, to some extent, Switzerland. There are also less marked fluctuations in the exchange rates of the United Kingdom, France, and Canada in the early years. In the case of Japan, there are some minor fluctuations at the beginning of the period with a striking intermediate-term fluctuation in 1978–79.

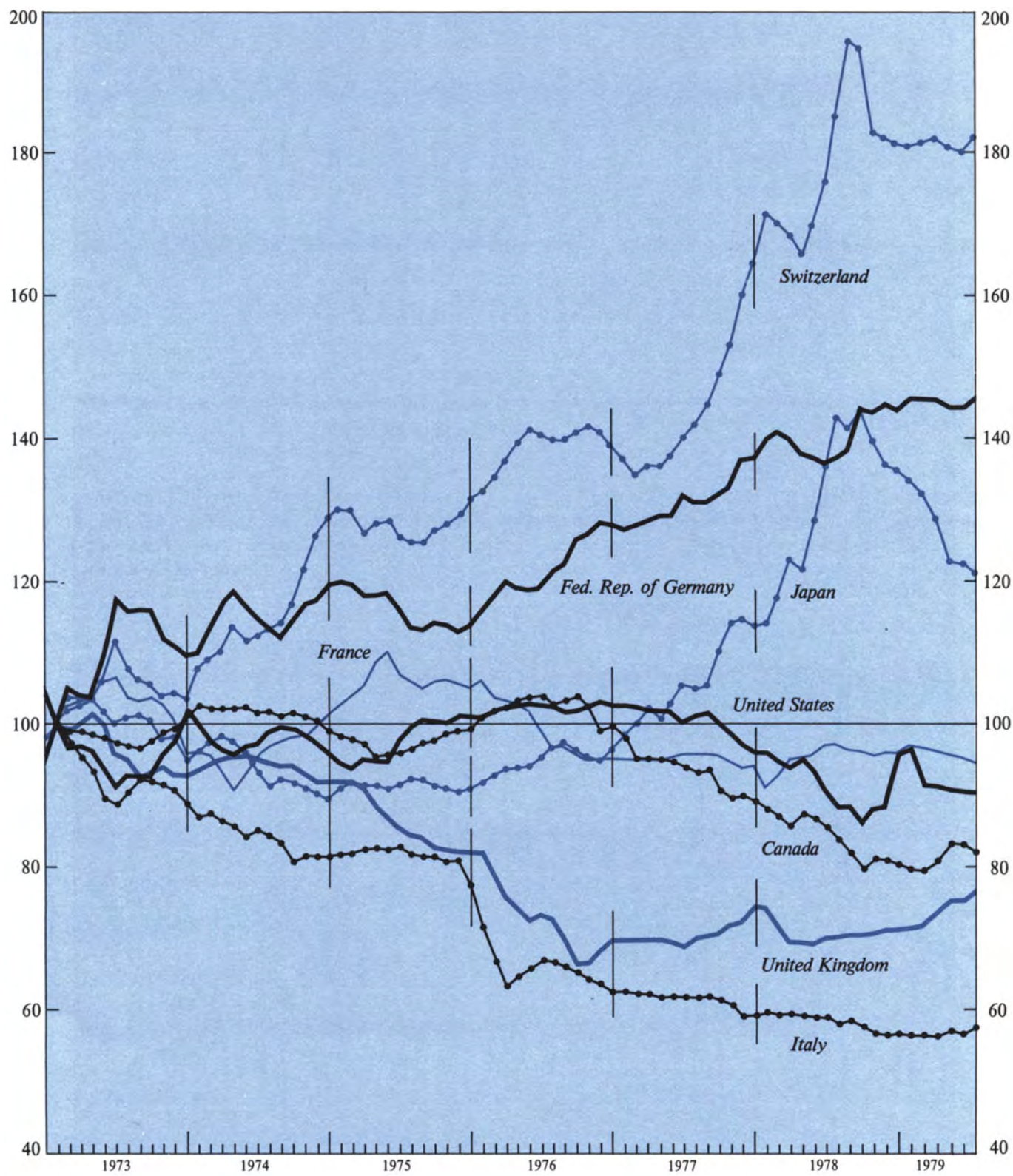
While the size of recent intermediate-term fluctuations can be partly explained by current differences in trends in the growth of money and in prices and costs, differences in current account positions and in circumstances and policies as reflected in levels of capacity utilization appear to have been more important short-run factors. (Representative measures of these indicators are shown in Table 11.) For example, measures of prices, such as the GNP deflator or data on broad money or broad money per unit of output, do not suggest that large exchange rate changes would have occurred. Narrower measures of prices, such as wholesale prices of manufactures, reveal sharper differences, but in part they may reflect the pressure to adjust the prices of internationally traded goods to a common level in response to exchange rate changes. Manufacturing unit labor costs in major countries are less immediately affected by exchange rates and also show sharper international differences than the GNP deflators. The same was broadly true of the rates of productivity growth (as measured by output per man-hour in manufacturing). The striking contrasts in current account positions and

**Chart 14. Short-Run Variability of Exchange Rates in Terms of U.S. Dollars, April 2, 1973–June 30, 1979**  
(Daily percentage changes)<sup>1</sup>



<sup>1</sup> A negative change indicates a depreciation of the local currency.



**Chart 15. Indices of Effective Exchange Rates, December 1972–June 1979**(Monthly average of daily spot rates. First quarter 1973 = 100)<sup>1</sup><sup>1</sup> The weights for calculating effective exchange rates are derived from the Fund's multilateral exchange rate model.

**Table 10. Average Monthly Variability of Effective Exchange Rates for Eight Currencies, 1973–78 and First Half 1979<sup>1</sup>**

(In per cent)

Currency	1973	1974	1975	1976	1977		1978		1979
					First Half	Second Half	First Half	Second Half	First Half
U.S. dollar	2.46	1.90	1.37	0.47	0.23	1.14	1.13	2.13	0.66
Pound sterling	1.68	0.77	0.95	2.41	0.97	0.94	2.45	0.58	1.29
Deutsche mark	3.07	1.75	1.20	0.98	0.34	1.30	1.32	1.73	0.64
French franc	1.77	2.12	1.50	1.21	0.23	0.62	2.14	0.99	0.63
Japanese yen	2.58	1.93	1.01	0.99	1.18	1.92	2.83	3.92	1.41
Italian lira	2.30	1.10	0.39	3.68	0.56	0.97	0.74	0.70	0.42
Canadian dollar	0.77	0.82	0.97	1.42	1.19	1.19	1.60	1.61	1.78
Swiss franc	2.50	2.09	1.35	0.90	1.21	1.16	3.01	4.54	0.69

<sup>1</sup> For each period, variability is measured by the standard deviation of monthly percentage changes in effective exchange rates. Monthly values of effective exchange rates are calculated by combining monthly averages of daily exchange rates vis-à-vis the currencies of partner countries with weights derived from the Fund's multilateral exchange rate model.

significant differences in levels of capacity utilization, reflecting the sharper recovery of the U.S. economy from the 1974–75 recession than that of Japan and the Federal Republic of Germany, contributed to expectations of future exchange rate changes that led to shifts among currencies by asset holders during this period.

There has always been concern that the variability of exchange rates that might exist under a flexible rate system would have detrimental effects on international trade and foreign investment. Existing statistical studies have not detected a significant decline in the growth of international trade that can be related to exchange rate fluctuations, although there has not been time to observe the effects of the instability of the last two years. Statistical analysis of foreign investment similarly fails to reveal any noticeable decline in response to exchange rate variability. The surveys that are available on the reaction of businessmen in industrial countries to exchange rate uncertainty also suggest that in general they have adjusted their behavior to take account of exchange rate uncertainty rather than having reduced their international transactions.

In countries with well-developed financial markets, such adjustments are relatively simple to make in the case of daily, weekly, or monthly fluctuations in rates, which principally affect international transactions that are under way or planned for the near future. Forward markets for covering trade transactions or hedging asset positions have kept the cost of such fluctuations within reasonable limits. Fluctuations over intermediate periods can be more troublesome. As for long-term shifts in exchange rates, these would eventually have to occur under any type of exchange arrangement if domestic economic policy adjustments do not deal with the underlying causes of divergence. Expectations with regard to these shifts could affect trade or investment only if there

were considerable uncertainty about the extent to which the shifts would be in line with relative price-cost developments; but such uncertainty is also present when rates are pegged.

There seems little question, however, that the problems encountered by international traders and foreign investors from exchange rate variability, including those arising from the need to meet corporate or externally applied accounting standards on the valuation of foreign assets and liabilities, have turned out to be more complex than many anticipated. These problems have led to the commitment of a good deal of executive time and effort to deal with foreign exchange issues, and many participants in international transactions have found the variability of exchange rates at the least troublesome and, in some cases, a very serious matter. In general there appears to be much more concern over exchange rate variability than over price fluctuations in other financial markets. The reasons for this are not obvious, although it is noteworthy that fluctuations in exchange rates have much broader effects than those resulting from changes in prices and yields in other markets and, therefore, more serious economic and political implications.

It is not easy to judge the extent to which exchange rate instability under the floating system can be attributed to floating per se and how much to instability in underlying economic and financial conditions. While countries continue to accept the need for the adjustment of exchange rates to underlying conditions, the actions of most countries indicate a widespread view that unmanaged floating can be a factor in exchange rate instability. These actions include the establishment of the European Monetary System and the more active intervention in exchange markets by the United States and Canada.

**Table 11. Variables Related to Exchange Rate Changes, 1975–78**

(Percentage change over preceding period unless otherwise indicated)

	1975	1976	1977	1978
<b>Exchange rates</b>				
Deutsche mark/U.S. dollar	-4.9	2.3	-7.8	-13.5
Japanese yen/U.S. dollar	1.8	-0.1	-9.5	-21.6
<b>Broad money <sup>1</sup></b>				
Germany, Federal Republic of (M3)	7.5	10.0	9.4	10.1
Japan (M2)	13.3	14.6	11.4	11.7
United States (M2)	7.7	9.9	10.7	8.3
<b>Broad money per unit of output</b>				
Germany, Federal Republic of	9.6	4.7	6.6	6.5
Japan	11.7	7.6	5.7	5.8
United States	9.1	4.0	5.5	4.1
<b>GNP deflator</b>				
Germany, Federal Republic of	6.7	3.2	3.8	3.9
Japan	8.5	5.6	5.5	4.7
United States	9.6	5.2	5.9	7.4
<b>Wholesale prices of manufactures</b>				
Germany, Federal Republic of	4.7	3.9	2.6	1.3
Japan	1.6	4.8	1.4	-1.7
United States	11.0	4.6	6.2	7.5
<b>Unit labor costs in manufacturing</b>				
Germany, Federal Republic of	8.8	-1.7	2.4	4.0
Japan	21.8	0.1	4.5	-1.7
United States	6.6	3.8	6.2	6.7
<b>Output per man-hour in manufacturing</b>				
Germany, Federal Republic of	3.8	8.1	5.3	2.7
Japan	-3.9	8.0	5.1	8.7
United States	4.7	4.4	2.4	2.7
<b>Index of relative cyclical position <sup>2</sup></b>				
Germany, Federal Republic of	101	102	103	102
Japan	88	90	91	93
United States	100	103	106	111
<b>Balance on current account—including official transfers</b> (in billions of U.S. dollars)				
Germany, Federal Republic of	3.6	3.5	4.3	8.9
Japan	-0.7	3.7	10.9	17.5
United States	18.5	4.3	-14.1	13.9

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

<sup>1</sup> See Chart 4 for a comparison between broad money and M1 for these countries.<sup>2</sup> This index shows the ratio between actual and potential output in the manufacturing sector, relative to an export-weighted average of such ratios for the 13 other industrial countries; this average is equal to 100. In general, the degree of capacity utilization is very difficult to measure accurately, especially during a period such as that of the past few years, when marked changes in both cyclical influences and structural factors of various types have been occurring simultaneously.

## Exchange Rates and the Adjustment Mechanism

The 1977 Annual Report pointed out that exchange rate changes had made only a limited contribution to eliminating persistent current account imbalances, and the 1978 Report indicated that the effects of exchange rate changes on a number of persistent current account surpluses and deficits were still not evident. It is suggested in Chapter 1 that in the period from early 1978 to mid-1979 there was some evidence that such imbalances were in the process of being reduced. It remains true, however, that given the time horizons within which policymakers must frequently work, the lags in the response of trade balances to exchange rate changes has affected the way in which the flexible rate system is viewed.

There are several reasons why the response of current account balances to exchange rate changes has been particularly sluggish in the recent period. In the first place, exchange rate changes will have significant consequences only to the extent that their effects on relative costs and prices are not offset by domestic wage and price changes. Such offsetting wage-price movements tend to be larger in more open economies, where import prices are a major component of the cost of living, and the response of wages and prices can be a source of serious difficulty where inflationary expectations are deeply entrenched. If wage increases are indexed to changes in the consumer price index, or wage bargaining is quickly affected by actual and anticipated price increases arising from depreciation, the ratio of domestic to foreign costs will change by much less than the exchange rate.

While offsetting effects on domestic wages and prices reduce the impact of exchange rate changes on relative national cost levels, it is clear from the evidence presented in Chapter 1 that substantial changes have taken place in relative costs and prices in recent years. As earlier experience would suggest, however, trade flows have reacted with a significant lag to relative price changes. This was to be expected, since in the period following a change in exchange rates and relative prices most trade is based on previously concluded contracts, and a considerable time is required before it is possible to take advantage of cheaper sources of supply or for newly competitive producers to capture additional export markets. Such changes in trade flows often require substantial search time and information costs, and may entail the establishment of new or adapted plant and equipment, new distribution systems, and the adjustment of products to tastes in new markets. Conversely, recent experience has shown the extent to which exporters in countries with sharply appreciating currencies have been able to benefit *inter alia* from their existing reputations for reliability, timely delivery, service, and high-quality goods and have been able to hold on to significant market shares in spite of a worsening competitive position.

There are other reasons why trade flows respond sluggishly to exchange rate changes even when resulting adjustments in relative costs are maintained. Nontariff barriers to trade can have an important effect on the response of trade flows to changes in relative prices, if new opportunities for sales encounter strong resistance. Another factor that may have some significance is that enterprises in countries with a past history of overvaluation have undertaken substantial direct investment in countries with lower cost levels. The fact that they have an investment in foreign facilities may discourage corporations from either exporting to countries serviced by their subsidiaries or curtailing imports from their own foreign production facilities.

The above reasons may help to explain why estimates, based on the Fund's world trade model, show that for 14 industrial countries import and export price elasticities for manufactured imports and exports are each below unity for a period of up to one year. Over the longer run, the elasticities are higher, indicating that a sustained change in relative prices will lead to substantial positive effects in both volume and value terms. Nevertheless, the typical effect of a currency depreciation is an initial worsening of the current account followed by an improvement after a lag generally exceeding one year.

A major additional factor accounting for the slowness of current account adjustments has been the demand-management policies being followed by surplus and deficit countries. Exchange rate-induced changes in

relative prices will shift demand from output in appreciating countries to that in depreciating countries, but if fiscal and monetary policies being followed in the deficit countries are relatively more expansionary than policies in the surplus countries, this will tend to offset such shifts.

If a surplus in the current account is the counterpart of a sustainable capital flow, it may not require correction, just as a deficit can persist if offset by sustainable foreign borrowing. There remains the question of why in fact capital flows have not responded to a similar extent to the same forces that have led to current account surpluses and deficits.

If, for example, the amount that residents wish to save is high relative to the level of domestic investment, then both adjustments through financial markets and monetary policy ought to lead to relatively low real interest rates. The opposite should be the case in countries where the amount that residents want to save is low relative to investment opportunities, with market adjustments and monetary policy leading to relatively high real interest rates. This in turn ought to affect capital flows and help to maintain overall external balance. This tendency would be further strengthened by portfolio adjustments as investors exploit existing interest rate differentials. Although nominal interest rates in deficit countries have exceeded those in surplus countries, in a period as turbulent as this one with major changes in exchange rate expectations, it is not surprising that long-run tendencies have sometimes been swamped by short-run forces.

With regard to direct investment, international disparities in interest rates may well be a less important factor than relative costs. Investment tends to flow to countries with depreciating currencies as long as domestic wages and other costs are not fully adjusted to exchange rate changes. The response of direct investment to this incentive, however, is subject to a considerable lag and may be hampered by several factors, including a lack of institutions geared to foreign investment, government restrictions on foreign ownership, and the pressure exercised by those concerned with the export of employment opportunities.

## Prospects for Greater Exchange Rate Stability

Given the disappointment with both the variability of floating rates and their contribution to adjustment, it is not surprising that there has been discussion of means of achieving greater exchange rate stability. Two major initiatives were taken by industrial countries during the past year to reduce unwanted exchange rate changes. One of these was the set of measures adopted by the United States on November 1, 1978. As part of a com-



prehensive economic program, the United States announced that it would—in cooperation with the authorities of the Federal Republic of Germany, Japan, and Switzerland—intervene in exchange markets in a forceful and coordinated manner to correct movements of the dollar exchange rate that were felt to have exceeded any decline related to fundamental factors. The measures were designed to offset negative market psychology that in the judgment of the authorities was not justified by the underlying economic situation. The steps taken were not aimed at establishing fixed exchange rates or target zones for rates. Rather, they represented a move to restore order in exchange markets so that rates could respond more readily to economic fundamentals.

The second initiative was the creation by the European Community (EC) of the European Monetary System (EMS), which was officially put into effect by the participating European countries<sup>1</sup> on March 13, 1979. The aim of the agreement is to foster “closer monetary cooperation leading to a zone of monetary stability in Europe.” The agreement consists principally in an intervention requirement on the part of each participant to limit exchange rate fluctuations, in the creation of the ECU (European Currency Unit, a basket of all nine EC currencies) as the center of the system, and in the enlargement of credit facilities already established in the EC as well as in connection with the former European common margins arrangement (the so-called snake). The intervention mechanism requires that countries intervene to prevent movements greater than 2.25 per cent around parity in bilateral rates between participants.<sup>2</sup> There exists also a presumption that a participating country will take action when the value of its currency in terms of the ECU diverges from its central rate by more than a uniform percentage, the precise percentage for each country being adjusted to take account of the weight of its currency in the basket. Unlimited very short-term credit for intervention purposes continues in the same form as in the “snake” arrangement, except that such credit can be extended for a somewhat longer period than before. An initial supply of ECUs has been issued by the European Monetary Cooperation Fund against deposits of 20 per cent of both the gold and the dollar reserves of participating countries; these ECUs are to be used for the settlement of such intervention debts in accordance with agreed rules. The existing short-term and medium-term facilities of the EC have been substantially en-

larged, and credit under the short-term facility can also be granted over longer periods. It is envisaged that ultimately all the credit facilities under the EMS will be consolidated in a European Monetary Fund.

In addition to contributing to increased integration within the EC area, the principal objective of the EMS is to promote internal financial stability. Participating countries in the earlier European common margins arrangement—particularly those with small, open economies—have argued that the exchange rate stability gained through that arrangement has assisted their domestic economic policies and strengthened their foreign sectors. The economies of those countries that previously allowed their rates to float but are now joining the arrangement have in the past followed a different path from those of the “snake” countries in response to differing circumstances and policies. Thus, the task of stabilizing rates will require a concentrated effort toward policy coordination. It is expected by the participants that the greater exchange rate stability gained by more concerted intervention policies will facilitate the task of harmonizing financial policies.

These recent initiatives raise the question of what would be the requirements for a system in which exchange rate fluctuations were reduced and the rate changes that did occur were more consistently in line with long-term underlying trends. As indicated in the introduction of this chapter, the answer to this question embodied in the new Article IV is that such a system requires orderly underlying economic and financial conditions in member countries. Such conditions imply, *inter alia*, a closer approximation to reasonable price stability in member countries, and a strong commitment by member governments to avoid future departures from price stability. In an environment of this kind expectations could be stabilizing rather than destabilizing. The world is clearly still a long way from a system of this kind, but the wider recognition that inflation not only leads to instability but also over the longer run adversely affects growth and employment opportunities constitutes an important first step on the road to a more stable international monetary system.

### Special Problems of Less Developed Countries and Their Exchange Rate Policies

The early years of floating exchange rates in the industrial countries were particularly difficult ones for most less developed primary producing countries. Major contributing factors were the rise in oil prices, slower growth and slack demand conditions in the industrial countries, an overall deterioration in the external terms of trade in some cases, and lags in adjusting domestic financial policies to the new external circumstances.

<sup>1</sup> These comprise Belgium, Denmark, France, the Federal Republic of Germany, Ireland, Italy, Luxembourg, and the Netherlands. The United Kingdom is a member of the EMS although it does not participate for the time being in the intervention arrangements.

<sup>2</sup> Participating countries whose rates were previously floating against other participants' currencies are permitted to have movements in their bilateral rates of up to 6 per cent around parity. Italy decided to make use of this option.

Both the introduction of floating exchange rates for the currencies of the industrial countries and the pressing needs of the external adjustment process faced less developed countries with new and complex choices with regard to the exchange arrangements best suited to their particular needs and to the role of the exchange rate for their own currency in achieving required external and internal adjustments. The choices made in a number of cases had substantial influence on the ability of these countries to cope with both external and domestic disturbances.

### *Exchange Arrangements*

In choosing an exchange rate regime, the less developed countries can be broadly described as falling into two groups. The first group consists of those members that have continued the practice of pegging to a major currency—usually, but by no means always, the traditional intervention currency. For those members continuing long-standing fixity of exchange rates between their currencies and a principal currency used for international transactions, several reasons were relevant. One of these was convenience for those engaged in foreign trade, particularly where the bulk of contracts was denominated in the principal currency or where there was a high degree of geographic concentration of trade. Another was encouragement of confidence in the home currency and in domestic policies, in order, *inter alia*, to foster domestic investment from both resident and foreign sources. Finally, related closely to the previous reason, there was the desire to use a fixed exchange rate as a stable element around which domestic policies could be planned and implemented. For countries that are members of the West African and Central African currency unions, the policy of pegging to the French franc followed from continued participation in their respective

groups. Another important consideration in some cases may also have been that the particular peg chosen was expected to result in a desired change in the effective exchange rate.

As of June 30, 1979, however, while 60 less developed members pegged their currencies to another currency, 50 had chosen some other type of exchange arrangement.<sup>3</sup> Of these, 13 pegged their currencies to the SDR and 13 to other composite currency baskets, while 3 adjusted the rates for their currencies according to a set of indicators and 21 maintained other exchange arrangements (Table 12).<sup>4</sup> Many members in this latter category are ones that, as a consequence of broadly diversified trade patterns, found that, with rate fluctuations among the major currencies, pegging to a single currency resulted in disruptive fluctuations in the prices of a large portion of their exports or imports. They thus sought to minimize such fluctuations by frequent adjustments in their exchange rates.

The variability of exchange rates, shown in Table 13,<sup>5</sup> has increased substantially for most developed and less developed countries between the last years of the par value system and the years since 1973. While such variability results both from changes in the rate between the home currency and the intervention currency and from changes between the intervention currency and

<sup>3</sup> These figures do not include Democratic Kampuchea.

<sup>4</sup> The following members had a change in the classification of their exchange arrangements in 1978: Argentina, Bahrain, Chile, Ghana, Guinea-Bissau, Indonesia, Iran, Jamaica, Norway, Papua New Guinea, Peru, Sierra Leone, Thailand, the United Arab Emirates, Viet Nam, and Zaïre. During the first six months of 1979, there were changes in classification for China, Equatorial Guinea, France, India, Ireland, Italy, Jamaica, New Zealand, South Africa, Tanzania, Uruguay, and Western Samoa. These changes include both changes in exchange arrangements and reclassifications of existing arrangements resulting from discussions between the Fund staff and national authorities.

<sup>5</sup> The measure of variability in Table 13 gives the combined effect of short-run and intermediate-term variability, as defined earlier in this chapter.

**Table 12. Exchange Arrangements of Fund Members as of June 30, 1979**

Type of Exchange Arrangement	Industrial Countries	More Developed Primary Producing Countries	Oil Exporting Countries	Non-Oil Developing Countries <sup>1</sup>	Total
Currency pegged to					
U.S. dollar	—	1	4	36	41
French franc	—	—	—	14	14
Pound sterling	—	—	—	3	3
Other currencies	—	—	—	3	3
SDR	—	—	—	13	13
Other composite	3	2	2	11	18
Exchange rate adjusted to a set of indicators	—	1	—	3	4
Cooperative exchange arrangements	7	1	—	—	8
Exchange rates otherwise determined	11	9	6	15	41
Total	14	13	12	98	137 <sup>1</sup>

<sup>1</sup> This figure does not include Democratic Kampuchea, for which no information is available.



**Table 13. Average Monthly Variability of Effective Exchange Rates, January 1967–December 1978<sup>1</sup>**

(In per cent)

	Jan. 1967– Mar. 1973	Apr. 1973– Dec. 1978
Developed countries	1.127	1.680
Industrial	0.875	1.320
Other	1.567	2.311
Less developed countries <sup>2</sup>	1.705	2.411
Exchange rate		
Pegged to the U.S. dollar	1.522 (1.422) <sup>3</sup>	1.778 (0.563)
Pegged to the French franc	0.493 (0.001) <sup>4</sup>	0.612 (—)
Pegged to the SDR	1.417	4.602 (1.965)
Countries not classified above	2.285	3.180

<sup>1</sup> The exchange rates used in these calculations are monthly import-weighted effective exchange rates. Variability is defined as the standard deviation of the monthly percentage changes in the exchange rate about the average monthly percentage change.

<sup>2</sup> Countries are classified according to their exchange arrangements as of June 30, 1979.

<sup>3</sup> The figures in parentheses indicate that part of variability that was due to changes in the rates of these currencies against the U.S. dollar, the French franc, or the SDR, respectively. For other countries, and for SDR peggers during the period 1967–73, calculations of this sort would not be meaningful.

<sup>4</sup> In 1967 the Mali franc was depreciated by 50 per cent relative to the CFA franc.

third currencies, it can be seen from Table 13 that the latter type of change has accounted for much of the variability, especially during the floating period. The increase in variability between the two periods was especially marked for those countries pegged to the SDR or those not classified elsewhere in Table 13. This is not surprising, as one would expect that floating rates among the major currencies would result in larger variations in effective exchange rates for those countries whose trade is widely diversified geographically. Hence, these would be the countries that would benefit from pegging their currencies to a composite of currencies or from engaging in some form of managed floating, and one may suppose that the variability of exchange rates would have been even greater for these countries had they been pegged to another currency. For countries pegging their currencies to the U.S. dollar or the French franc, the low degree of variability is apparently related to the high geographic concentration of their trade, which is in turn an important factor in the decision of these members to remain pegged to a single currency.

Exchange rate variability has been a matter of concern to less developed countries for several reasons. It has contributed to greater unpredictability of import prices and export receipts in both the short run and the intermediate term, which in turn has made it more difficult for both the public and private sectors to plan their activities, manage their finances, and choose between import suppliers. Moreover, the greater unpredictability of exchange rates in the intermediate term has

complicated the task faced by many less developed countries in the management of both their foreign reserves and their external debt. In addition, those members not pegging their currency to another one have had to make frequent decisions on the level at which to maintain the exchange rate.

Another significant problem has been the increased short-term exchange risk faced by exporters and importers. While in industrialized countries the risk is reduced by means of forward markets, such markets typically do not exist or are inadequate in less developed countries. In some countries, an attempt has been made to provide at least exporters, and occasionally also importers, with forward exchange facilities through the central bank. Such arrangements may involve exchange risk for the central bank, especially if forward cover is being provided to importers and a future depreciation of the local currency is expected, or if a special forward rate is offered to exporters in order to stimulate exports. Where the balance of payments position of a member is weak, the authorities have often prohibited forward transactions. Where the latter are permitted, the authorities have sometimes preferred to encourage establishment of forward exchange facilities in the private market, including links with forward markets in established financial centers. For many countries, however, such a development would require further improvements in local banking expertise, telecommunication facilities, and correspondent relationships with foreign banks.

### *Exchange Rate Policies*

With regard to policies determining the extent and frequency of changes in exchange rate levels, the first fact to be noted is that the present environment of various types of regime has presented less developed countries with a much greater range of choice of such policies than existed under the par value system. Previously, for the typical less developed country, changes in par value were infrequent, normally preceded by a long period of more rapid rates of domestic price increases than those abroad, a worsening balance of payments, and increasing resort to exchange and trade restrictions. Under present circumstances, a depreciation of the domestic currency can be regarded as much less unusual than was hitherto the case.

There are, to be sure, reasons why the authorities in some countries have continued to be reluctant to carry out the exchange rate adjustments called for by a persistent balance of payments deficit. In many instances, these are related to the short-run effects of changes in the rate and in some particulars are similar to the experience of the industrialized countries with exchange rate flexibility. On the one hand, because of short-run price

inelasticity of exports and imports, the effects on the balance of payments are not soon apparent; on the other hand, there is an immediate impact on domestic prices. Moreover, unless the depreciation is accompanied by the appropriate supporting policies, the desired change in relative prices will not be achieved; in some circumstances such policies lead to a temporary decline in aggregate real expenditure and are therefore difficult to carry out. Further effects of a depreciation that may create difficulties for the authorities are the initial impact on income distribution, which is often in favor of profit recipients relative to wage earners, and the fiscal burden of increasing the size of external debt in domestic currency. Less commonly, where an appreciation of the domestic currency is called for, the required change is often resisted on the grounds of damage to the sectors producing exports and import substitutes.

Considerations such as the foregoing have led to the tendency already alluded to for the authorities of many countries to postpone needed adjustments in the value of their currencies. Experience has shown that the long-run costs of such postponement often outweigh any short-run benefits. This is particularly true in cases where price levels have already moved far out of line with those abroad without any corresponding exchange rate movements. This not only has a direct consequence of distorting relative prices and resource allocation but also gives rise to exchange and trade restrictions, price controls, and special fiscal measures that are created to improve the balance of payments in lieu of an exchange rate change. The overall result of this course of action can be a slowing of economic growth and, if anything, a worsening in the underlying current account position. While the ultimate effects on domestic consumption may be postponed through foreign financing, the delayed adjustment when it is made will be more disruptive than would have been more timely action.

An exchange rate policy that maintains an appropriate relationship between domestic and external price levels has a noticeable influence on the current account over the medium term if adequate supporting policies are pursued. A number of non-oil less developed countries have been able to improve their current account position over the floating rate period as a whole, notwithstanding the oil price increase, unfavorable trends in prices for their exports, and other external developments. Some of these countries (including Burma, India, Kenya, Sri Lanka, and Thailand) experienced an effective depreciation of their currencies in real terms<sup>6</sup> over the ten years 1968–77. To be sure, current account improvement reflects not only exchange rate action but also demand-management policies and other measures

affecting the relative price incentives of production for export or domestic sales, as well as changes in external demand and the terms of trade. Nevertheless, those countries whose improved current accounts were based on relatively rapid rates of export expansion have placed noticeable emphasis in their policies on maintaining appropriate price incentives in favor of export growth. In contrast, a number of other less developed countries have customarily stressed import substitution, which tends to introduce a bias against production for export relative to domestic sales. In some of these countries with an improved current account performance but rather weak export growth, import substitution policies and recessionary conditions were responsible for limiting the growth of imports.

It is noteworthy that, while the majority of less developed countries have continued to be reluctant about making adjustments in their exchange rates, a number of these countries in recent years have followed a policy of permitting considerable flexibility of exchange rates between their currencies and the major intervention currency. These countries include those that engage in managed floating, or adjust their rates frequently according to a set of indicators, or are pegged to a composite of currencies. For some of these countries, where inflation rates are substantially higher than those abroad, severe disruptions for the export and import sectors quickly arise unless frequent exchange rate adjustments are made. For certain other countries, which have maintained moderate inflation rates, a flexible use of exchange rate policy has been encouraged by other factors, such as relatively sophisticated financial markets. The choice of exchange rate policy has also been affected by the structure of the external sector and its size relative to GNP. Many countries with flexible exchange rate policies have relatively diversified economies and a sizable share of manufactured goods in their exports, so that both the demand for imports and the supply of exports tend to be sensitive to changes in the real exchange rate. Indeed, many of these countries have achieved substantial increases in the volume of their exports in recent years, without which the burden of external adjustment would have been rendered much more difficult. In a number of cases, this has been facilitated by sound domestic policies.

Among the less developed countries that had pegged their rates, a number in recent years have had to rely on formal devaluations of their exchange rates along with restrictive demand-management measures to achieve needed adjustments in their external accounts (for example, Burma, Ghana, Tanzania, Zaïre, and Zambia). In a number of instances the exchange rate adjustments were linked directly to the need to provide adequate price incentives to export producers. In countries where the initiation of the adjustment effort was delayed and

<sup>6</sup> In other words, a depreciation of the effective exchange rate, corrected for the domestic rate of inflation relative to inflation rates in trading-partner countries.

domestic cost-price relationships had seriously deteriorated, the needed adjustments in the exchange rate were understandably large. Such action was often combined with measures to reduce or eliminate exchange controls, quantitative restrictions, and taxes on and subsidies to foreign trade that had been introduced during previous balance of payments difficulties. The need to retain the price incentives created by these measures could typically be met only by large changes in the rate.

The attitudes of less developed countries toward the role of the exchange rate vary considerably, reflecting, *inter alia*, the size and structure of the external sector and the strength of domestic inflationary pressures relative to those abroad. In part, perhaps, this also results from differences in the extent to which the free-market price mechanism or direct controls have been the preferred means for determining resource allocation and promoting economic growth. In varying degrees, most less developed countries have relied upon exchange and trade controls to regulate foreign trade and payments and to encourage preferred patterns of industrial expansion and income distribution. It appears, however, that for many less developed countries relatively limited reliance on restrictive exchange and trade controls, together with a flexible use of exchange rates, has facilitated the adaptation of their economies to unfavorable external developments and has helped both to promote the growth of exports and to raise levels of output and employment.

In summary, while floating exchange rates have resulted in some unavoidable problems for less developed countries, they have also provided more opportunity to follow flexible exchange rate policies that could improve the prospects for exports and economic growth. A number of less developed countries have taken advantage of this opportunity and have benefited from such a flexible approach. It should be remembered, however, that suitable financial policies are essential for strengthening the external position, and that the choice of a member's exchange arrangement must necessarily be conditioned to its particular circumstances.

## Surveillance

It is clear from what has been said earlier that for the time being, and probably for some years to come, members will continue to exercise their freedom to follow the exchange rate regime of their choice. It is equally clear, however, that the freedom to choose an exchange rate regime does not confer on a member the freedom to maintain any exchange rate it chooses without corresponding obligations to the international community. The present method of ensuring the fulfillment of those obligations is through Fund surveillance over

exchange rate policies. While the Fund has always had an interest in, and views about, the exchange rate policies of its members, the new principles and procedures for implementing formal surveillance have been in effect only since April 1978. Nevertheless, some preliminary comments can be made arising out of this brief experience. These include observations on the scope of surveillance, the other corrective forces that support surveillance, and the need to take into account reserve and external debt positions in applying surveillance.

Since April 1978, one formal modification of the Fund's surveillance function has been made that bears mention. In January 1979, a supplementary surveillance procedure was introduced, under which the Managing Director must initiate an informal and confidential discussion with the member whenever he considers that a modification in the member's exchange arrangements or exchange rate policies or the behavior of the exchange rate for its currency may be important or may have important effects on other members. If, after this prior discussion, the Managing Director considers the matter to be of importance, he must either conduct an *ad hoc* consultation with the member and report to the Executive Board, or informally advise the Executive Directors on the consultation as promptly as circumstances permit. This supplementary procedure permits the Fund to look into exchange market developments without any presumption that the member in question has not complied with its obligations.

While this decision reflects an extension of possible methods for carrying out the Fund's surveillance function, there have also been developments in the application of surveillance. Thus the Fund is increasingly using the authority it has under Article IV with respect to both the exchange rate policies of members and related economic policies that can affect the exchange rate. Under this Article the Fund is entrusted with the task of overseeing the compliance of members with their obligations under Section 1 of Article IV, which refers to the pursuit of domestic economic policies that will promote a stable system of exchange rates.

The use by the Fund of its wider authority, which extends beyond exchange rate policies and domestic policies directly related to "balance of payments purposes," has resulted from successive discussions within the Fund on the world economic structure and outlook. In these discussions it has become increasingly apparent that, particularly in the case of countries with well-developed financial markets, a close relationship exists between domestic economic policies and external developments even if the domestic policies are not directly related to "balance of payments purposes." Moreover, given the lags in the response of trade flows to exchange rate and relative price changes, countries can be directly affected over the short run by domestic developments in

other countries even if their trade is carried out across floating rates. The experience of the last two years has demonstrated the fact that domestic economic policies in the largest industrial countries can affect levels of economic activity elsewhere and can lead to changes in the structure, and short-term variability, of exchange rates that are widely regarded as disruptive to the system as a whole. Such developments are of concern to the international community, and there has been a good deal of support for periodic Fund consideration of the general economic policies of member countries.

While surveillance is a significant factor in encouraging the adjustment of inappropriate exchange rates, it is important to recognize the corrective forces that existed and that continue to exist quite independent of the Fund's new authority over exchange rate policies. Thus, countries with undervalued currencies encounter a number of difficulties, frequently including the need to contend with the monetary effects of rapid reserve accumulation, and the resulting requirement to weigh the benefits of investment in reserve assets against alternative uses of these resources. In contrast, countries with overvalued currencies tend to rely on restrictions, excessive borrowing, or underutilization of capacity, and all of these have their costs. The latter countries usually find it necessary at some stage to come to the Fund for assistance, and an adjustment of the exchange rate is often part of the program for which the Fund gives support.

Although corrective forces will in most cases lead to a solution after a sufficiently long interval, there are two disadvantages to relying on these forces alone, or in postponing adjustment until a critical situation has been allowed to develop. The first is that such forces bear unevenly on countries, with those with undervalued currencies being able to resist pressures for change much more effectively than those at the other end of the spectrum. The second weakness is that, in both cases, adjustment can be postponed to the point where the changes are disruptive both for the country concerned and, in varying degree, for the system as a whole.

In implementing surveillance it is essential that the Fund avoid a static mechanical approach. Thus, while the general rule is that an appropriate exchange rate is one that results in a balancing of sustainable net capital flows with the underlying value of net transactions on current account, some departure from this path may be desirable in order to promote restoration of a member's reserve position. The April 1977 decision, "Surveillance over Exchange Rate Policies," provides that "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."

Under an approach that takes into account reserve and external debt positions, countries that have a his-

tory of a weak balance of payments with low net reserves would not be discouraged from maintaining a value for their currencies that would permit them to repay debt and to accumulate reserves. Alternatively, countries with substantial reserves and high borrowing capacity might be encouraged to allow their currencies to appreciate to, or remain at, a level that would lead to little increase, or even a decrease, in their reserves, thus giving other countries room to adjust. In short, judgments about the suitability of a particular structure of exchange rates cannot be made only in terms of the present and the future, but need to take into account what has happened in the past. The Fund may thus contribute to the long-term stability of the system by encouraging countries in a relatively strong position to refrain from intervening excessively to prevent an appreciation of their currencies or to intervene to prevent a depreciation. In other cases, and these are likely to be greater in number, the Fund can act as a catalyst in stimulating members in a relatively weak position to adopt appropriate domestic policies and, where necessary, to carry out devaluations in order to achieve the competitive position they require to reconstitute their net reserves. In applying this broad approach to surveillance, as in all its surveillance activities, the Fund will continue (in the words of Article IV, Section 3(b)) to "pay due regard to the circumstances of members" and to take into account the responsibility of members under the decision on surveillance over exchange rate policies "to counter disorderly conditions" in exchange markets.

A final comment can be made on the role of surveillance over exchange rate policies under various exchange rate regimes. While "firm" surveillance arose as part of the new Article IV and is sometimes associated with floating exchange rates, the need for authority of this kind emerged from the experience with the par value system. In the present mixed system, surveillance applies equally to those members that peg and to those that float, and, under any exchange regime, it can play an important role in preventing the emergence and retention of an inappropriate structure of exchange rates.

## International Liquidity

Developments in international liquidity are intimately linked with countries' exchange rate policies and with the course of events affecting currency markets. Reserves can be used for official intervention in exchange markets in order to reduce the amplitude of short-term fluctuations in a country's exchange rate. The scope for exchange rate stabilization through intervention thus depends, inter alia, on the state of international liquidity or, more precisely, on the volume of international re-

serves and the cost at which individual countries can obtain and use them. The global stock of foreign exchange reserves is, in turn, influenced by developments in exchange markets, which may at times lead the authorities of many countries to intervene in the same direction, thereby increasing or reducing aggregate holdings of the principal reserve currency. This twofold relation between exchange market conditions and international liquidity enters into any analysis of historical reserve developments or of the adequacy of reserves. The following treatment of these topics begins with a review of reserve developments in 1978 and a historical survey of the rate of growth of reserves and its variability in the era of floating exchange rates, continues with a consideration of the adequacy of reserves, and concludes with a discussion of the composition of official foreign exchange reserves and the role of the SDR. Recent developments in international liquidity other than reserve movements and the role of the Fund in the provision of conditional and unconditional liquidity are dealt with in connection with the last two of these three topics.

## Recent Developments in International Reserves

### *Reserve Changes in 1978*

As reported in the Fund's *International Financial Statistics*, the value of official holdings of foreign exchange, expressed in SDRs, increased by about 10 per cent during 1978, from SDR 200 billion at the beginning of the year to SDR 221 billion at the end (Table 14). This rise reflected not only foreign exchange transactions conducted by monetary authorities, including the acquisition and use of currency balances through official borrowing abroad and repayment of foreign liabilities, but also alterations in the value of currency holdings resulting from changes in valuation and statistical coverage.<sup>7</sup> The increase attributable to transactions alone was SDR 34 billion (17 per cent) in 1978, compared with a corresponding rise of SDR 45 billion (28 per cent) in 1977. As in past years, the contribution of transactions in other reserve assets to the growth of total reserves was small during 1978. Countries' aggregate holdings of SDRs remained approximately unchanged. Reserve positions in the Fund declined by somewhat more than SDR 3 billion. Of this total, a reduction of SDR 0.5 billion came about through sales of gold by the Fund; the remainder was the counterpart of a net decline in the use of Fund credit. The volume of gold held in official reserves increased by about 0.7 per cent, as the distribution to members of a por-

tion of the Fund's gold exceeded net sales to the market from official holdings. As the London market price of gold in terms of SDRs increased by 28 per cent, the value of official gold holdings expressed at that price increased by SDR 39 billion, or 29 per cent.

The growth of foreign exchange holdings during the first five months of 1979 came to SDR 11 billion, reflecting both transactions and valuation changes, for which separate estimates are not available. The increase in holdings of the eight countries participating in the exchange rate and intervention mechanism of the European Monetary System (EMS), which came into force on March 13, 1979, amounted to SDR 13 billion, mostly reflecting the issuance of ECUs in return for deposits of gold.<sup>8</sup> Some other industrial countries also showed large changes in their foreign exchange reserves, notably Japan and Switzerland with decreases of SDR 6.3 billion and SDR 2.3 billion, respectively, and the United States with an increase of SDR 2.2 billion. The changes in Fund-related reserves were much smaller, although members' holdings of SDRs rose by SDR 4.1 billion, mainly as the result of the allocation of SDR 4 billion on January 1, 1979, and reserve positions in the Fund were reduced by SDR 1.7 billion, largely through net repurchases. The volume of gold recorded in countries' reserves declined by almost 9 per cent, chiefly because of the above-mentioned deposits of gold by EMS participants.

For industrial countries as a group, holdings of reserves excluding gold increased by SDR 21 billion in 1978—a rise of 19 per cent, compared with 31 per cent in 1977. Almost the entire amount of the increase in 1978 could be accounted for by changes in the holdings of the Federal Republic of Germany, Japan, and Switzerland, and nearly two thirds of it occurred during the last quarter of that year, when these countries intervened heavily with the objective of stabilizing conditions in the currency markets. During the same quarter, the United States reduced its holdings of Fund-related assets and engaged in borrowing abroad to acquire foreign currency balances for exchange market intervention undertaken in cooperation with these three countries. This acquisition marked the first sizable increase in U.S. holdings of foreign exchange assets in many years.

The group of countries to record the largest proportionate rise in reserves excluding gold during 1978 was that of the more developed primary producing countries, whose holdings increased by SDR 4.1 billion, or by fully 30 per cent. The reserves of these countries had reached a high point in 1973 and thereafter had experienced two years of substantial decline followed by two

<sup>8</sup> For this purpose, the value of gold is calculated on the basis of either the average market price of the six preceding months or the average market price of the penultimate working day, whichever is the lower. The participating countries are listed on page 40, footnote 1.

<sup>7</sup> See Statistical Annex Table 19, especially footnotes 5 and 8.

**Table 14. Official Holdings of Reserve Assets, End of Years 1971–78 and End of May 1979<sup>1</sup>**

(In billions of SDRs)

	1971	1972	1973	1974	1975	1976	1977	1978	May 1979
<b>Reserves excluding gold</b>									
Fund-related assets									
Reserve positions in the Fund	6.4	6.3	6.2	8.8	12.6	17.7	18.1	14.8	13.1
Special drawing rights	5.9	8.7	8.8	8.9	8.8	8.7	8.1	8.1	12.2
Subtotal, Fund-related assets	12.3	15.0	15.0	17.7	21.4	26.4	26.2	22.9	25.3
Foreign exchange	75.0	95.9	101.8	126.3	136.9	159.8	200.1	220.8 <sup>2</sup>	231.8
Total reserves excluding gold	87.2	110.9	116.8	144.0	158.3	186.2	226.3	243.8 <sup>2</sup>	257.1
<b>Gold</b>									
Quantity ( <i>millions of ounces</i> ) <sup>3</sup>	1,026	1,017	1,017	1,016	1,015	1,010	1,012	1,019	931 <sup>4</sup>
Value (i) at SDR 35 per fine ounce	35.9	35.6	35.6	35.6	35.5	35.3	35.4	35.7	32.6
(ii) at London market price	41.2	60.8	94.7	154.8	121.6	117.1	137.4	176.7	201.4

Source: *International Financial Statistics*.

<sup>1</sup> "Fund-related assets" comprise reserve positions in the Fund and SDR holdings of all Fund members. Claims by Switzerland on the Fund are included in the line showing reserve positions in the Fund. The entries under "Foreign exchange" and "Gold" comprise official holdings of the Netherlands Antilles, Switzerland, and Fund members except Romania, for which data are not published. Figures for 1973 include official French claims on the European Monetary Cooperation Fund.

<sup>2</sup> Beginning with April 1978, Saudi Arabian holdings of foreign exchange exclude the cover against the note issue, which amounted to SDR 4.3 billion at the end of March 1978.

<sup>3</sup> One troy ounce equals 31.103 grams.

<sup>4</sup> The decrease recorded in the quantity of countries' official gold holdings from the end of 1978 to the end of May 1979 reflects mainly the deposit by the eight countries participating in the exchange rate and intervention mechanism of the European Monetary System of 20 per cent of their gold holdings with the European Monetary Cooperation Fund. The ECUs issued in return for these deposits are shown as part of the countries' official foreign exchange holdings.

years of virtual stagnation. The recovery in 1978 brought their holdings back to a value slightly above that reached five years earlier.

Non-oil developing countries as a group continued to add to their reserves during 1978. For all regions taken together, the increase in reserves excluding gold was 20 per cent. The experience of individual geographic areas, however, was very uneven. Non-oil developing countries in the Western Hemisphere added almost 35 per cent to their holdings, whereas those in Africa recorded no advance at all. The remaining areas fell between these extremes, with non-oil developing countries in Asia and in the Middle East showing additions of about 11 and 19 per cent, respectively.

The only group of countries to show a decline in reserves for 1978 was that of the major oil exporting countries. Part of the recorded reduction of SDR 16 billion in reserves excluding gold resulted from the reclassification by Saudi Arabia of a portion of its foreign exchange holdings (Table 14, footnote 2). Even when allowance is made for this change in coverage, however, the decrease from the end of 1977 to the end of 1978 was 19 per cent.

Within each group, developments in individual countries differed substantially (Table 15). Each of the three industrial countries mentioned above as major reserve gainers in 1978 saw its reserves excluding gold rise by more than SDR 5 billion; four other industrial countries and three non-oil primary producing countries each added more than SDR 1 billion to their holdings. Three

major oil exporting countries and one industrial country experienced declines exceeding SDR 1 billion. Saudi Arabia had a decrease of SDR 5.6 billion in its adjusted reserves. The United Kingdom, which had added nearly SDR 14 billion to its reserves during 1977, saw its holdings go down by more than SDR 4 billion in 1978.

### *Medium-Term Reserve Developments*

Two striking features of reserve developments in the 1970s are the high average rate of growth of nominal reserves and the substantial year-to-year variation in reserve growth. These features will be discussed in turn.

In the decades of the 1950s and 1960s world reserves grew much less rapidly than in the 1970s. For instance, from 1951 to 1969, world reserves including gold rose on average by less than 3 per cent per annum, and the foreign exchange component grew by 5 per cent per annum. The average annual increase in gold holdings, the dominant component of reserves throughout this period, was less than 1 per cent. The proportionate rise in reserve positions in the Fund was quite large, 8 per cent per annum, but the absolute amount of this element of reserve growth was only SDR 5 billion over this period of 18 years. During the first three years of the 1970s, which can be regarded as a transition period straddling the collapse of the Bretton Woods par value system in 1971, reserve growth accelerated sharply. From the end of 1969 to the end of 1972, the average annual rate of

**Table 15. Countries with Changes of SDR 1 Billion or More in Official Reserves Excluding Gold During 1978<sup>1</sup>**  
(In billions of SDRs)

	Change During Indicated Period	
	1978	Fourth Quarter 1978
Large increase in calendar year 1978		
Germany, Fed. Rep. of	8.6	6.5
Japan	6.5	2.6
Switzerland	5.2	4.4
France	2.3	0.5
Italy	1.8	0.4
Austria	1.1	0.5
Denmark	1.1	0.1
Seven industrial countries	26.6	15.0
Spain	2.8	0.2
Brazil	3.2	1.3
Argentina	1.2	-0.4
Three primary producing countries	7.2	1.1
Subtotal, countries with large increases	33.8	16.1
Large decrease in calendar year 1978		
United Kingdom	-4.3	-0.7
Saudi Arabia	-5.6 <sup>2</sup>	-1.1
Nigeria	-2.0	0.3
Venezuela	-1.8	-0.1
Three primary producing countries	-9.4 <sup>2</sup>	-0.9
Subtotal, countries with large decreases	-13.7 <sup>2</sup>	-1.6
All other countries (net)	1.7	1.4
Total, all countries	21.8 <sup>2</sup>	15.9

<sup>1</sup> During the first five months of 1979, many of the countries covered in this table again recorded changes of SDR 1 billion or more in their reserves excluding gold. The data for these countries are as follows (in billions of SDRs): Of the countries with large increases in 1978, France (4.9), Italy (5.9), Denmark (1.2), and Argentina (1.6) showed further increases, while the Federal Republic of Germany (-1.5), Japan (-6.5), Switzerland (-2.4), and Austria (-1.2) showed decreases; of the countries with large decreases in 1978, Saudi Arabia (-1.5) showed a further decrease and the United Kingdom (1.3) an increase. Three other countries also had large increases in January-May 1979: the United States (3.2), the Netherlands (2.1), and Belgium (1.2). For the Federal Republic of Germany, France, Italy, Denmark, the Netherlands, and Belgium, holdings of reserves excluding gold were increased during this period by the issuance to them of ECUs in return for deposits of gold.

<sup>2</sup> The change shown for Saudi Arabia is that in adjusted foreign exchange reserves, in which the effect of the change in reporting coverage is left out of account. (See Table 14, footnote 2). Other subtotals and totals containing Saudi Arabia's holdings are correspondingly adjusted.

increase in foreign currency holdings in terms of SDRs was 43 per cent, and as a result foreign exchange had become the dominant reserve component at the end of this three-year period.

In the six years of widespread floating that has characterized the international monetary system since the early months of 1973, the average annual rate of growth of foreign exchange reserves, measured in SDRs, has been 15 per cent. Although substantially below the explosive increase during the transition period 1970-72,

this is still a high rate of growth in historical comparison. It may be noted in this context, however, that the average annual rate of increase in the value of world imports measured in SDRs over the six-year period 1972-78 was 18 per cent. While changes from year to year in official foreign currency holdings are determined by a variety of factors, some of which are discussed below, the accumulation of these holdings over longer periods corresponds to the secular trend in the demand for reserves, which is related to the long-term increase in the value of international settlements. From 1951 to 1969, for instance, official foreign exchange holdings rose at an annual rate (5.1 per cent) that was somewhat below the rate of increase in world imports (6.6 per cent).

The change in holdings of Fund-related reserve assets is influenced largely by developments affecting their supply. In the absence of an SDR allocation, countries' holdings of SDRs failed to grow from the end of 1972 to the end of 1978—and in fact marginally declined during the last two years of this period—but they increased at the beginning of 1979, when allocations were resumed at the rate of SDR 4 billion per annum. Reserve positions in the Fund come about chiefly as a result of the net use of Fund credit. They are closely related to the size of quotas and various credit facilities made available by the Fund, as well as to members' decisions on the use of these facilities. While these positions have greatly increased in recent years—they nearly tripled from the end of 1973 to the end of 1977—they are subject to considerable variation. For instance, as pointed out earlier, they fell by almost one fifth in the course of 1978. If the SDR allocation at the beginning of 1979 is added to the end-1978 data, Fund-related assets as a proportion of total reserves excluding gold declined from about 13 per cent in 1972 and 1973 to 11 per cent at the beginning of 1979. The volume of official gold holdings was nearly constant at slightly more than one billion troy ounces (31,600 tons) during the period under review. The value of these holdings at market prices fluctuated sharply, with year-end peaks of SDR 155 billion in 1974 and SDR 177 billion in 1978 and a year-end low point between these peaks of SDR 117 billion in 1976.

The second notable feature of recent reserve developments mentioned at the beginning of this section is the high variability of the yearly rate of change of reserves, especially of foreign exchange holdings. The sources of variability in the rates of change of reserve components other than foreign exchange holdings have been touched on above. The following analysis deals only with variation in the rate of change in official foreign exchange holdings, which ranged from 6 per cent in 1973 to 25 per cent in 1977. Since about four fifths of foreign exchange reserves are denominated in U.S. dollars, the



question arises whether the valuation effect of movements in the exchange rate between the SDR and the U.S. dollar could have significantly contributed to the variability of foreign exchange reserves measured in SDRs. This does not appear to be the case, however. The variation in annual growth rates of foreign exchange holdings expressed in U.S. dollars was even larger (between 3½ and 31 per cent) than that calculated from the same data expressed in SDRs (Table 16).

As mentioned earlier, the rate of change of foreign exchange reserves is related to changing tendencies in exchange market intervention in response to movements of exchange rates. For instance, at times when the U.S. dollar declines against other currencies in general—as measured, say, by movements in the exchange rate between the SDR and the U.S. dollar—there is a tendency for official U.S. dollar holdings to be increased through purchases in the exchange markets designed to reduce the rate of appreciation of other currencies against the U.S. dollar. The opposite occurs when the U.S. dollar appreciates against other currencies. Monthly percentage changes in the U.S. dollar value of official foreign exchange holdings have, with considerable regularity, moved counter to the corresponding percentage changes in the SDR/dollar rate, especially during the most re-

the SDR/dollar exchange rate and the U.S. dollar value of foreign exchange reserves (which, in the bottom panel of Chart 16, is expressed in terms of percentage deviations from its secular trend).

The relation just described should be even more clearly observable if changes in U.S. dollar holdings alone were considered, instead of changes in the dollar value of all foreign exchange holdings. While monthly U.S. dollar holdings for all countries are not available, quarterly changes in official U.S. dollar reserves of five industrial countries with large holdings of U.S. dollars (the Federal Republic of Germany, France, Japan, Switzerland, and the United Kingdom) show a similar countermovement to the weighted average of their exchange rates against the U.S. dollar (Chart 17). Although the relation is obscured by other factors in the early part of the period, particularly in 1974, it is very pronounced from the beginning of 1975 onward. According to estimates based on 15 observations from the second quarter of 1975 to the fourth quarter of 1978, the dollar holdings of the five countries taken as a group have tended to change more than in proportion to (almost one and one half times) the percentage change in the combined exchange rate of the currencies of these countries, and more than one half of the total variation in the rate of change of their U.S. dollar holdings is accounted for by this relation.

This evidence suggests that intervention transactions in response to exchange rate movements have been large enough to offset the valuation effects of changes in the SDR/dollar rate on foreign exchange reserves measured in SDRs but not so large as to account for the observed substantial changes in the SDR value of these holdings. The high variability in the rate of growth of these reserves cannot, therefore, be explained on the basis of these factors alone.

As Table 16 indicates, 1974 and 1977 stand out as years in which the growth of official foreign exchange holdings was particularly high, and it is reasonable to look for special factors that may have been at work. In each of these two years, a large proportion of the overall increase was concentrated in a small number of countries. In 1974, the sharp rise in the prices of certain primary commodities, particularly petroleum, led to large current account surpluses on the part of some of the countries that are major exporters of these commodities and to corresponding deficits in the rest of the world. The financing of these current account deficits involved the transfer of foreign exchange balances from private holders in the deficit countries to official entities in the surplus countries and thus gave rise to an increase in the global total of official foreign exchange reserves. Indeed, the rise in the holdings of the major oil exporting countries in 1974 accounted for the entire global increase of SDR 25 billion (24 per cent).

**Table 16. Annual Rates of Growth of Official Foreign Exchange Holdings Expressed in SDRs and in U.S. Dollars, and Rate of Appreciation of the U.S. Dollar Against the SDR, 1973–78**

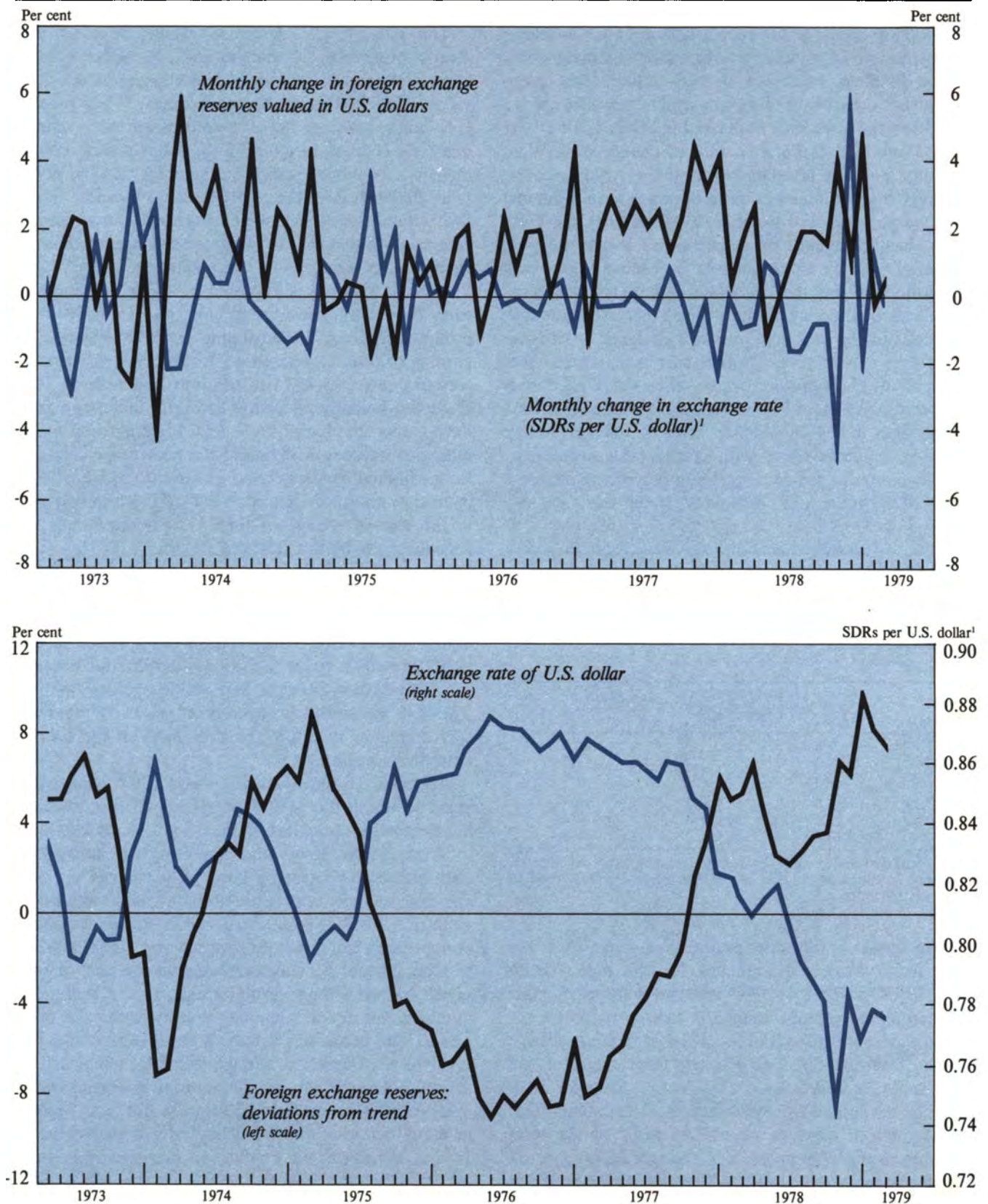
(In per cent)

Year-End to Year-End	Rate of Growth of Foreign Exchange Holdings Expressed in		Appreciation (+) or Depreciation (–) of U.S. Dollar Against SDR
	SDRs	U.S. dollars	
1972–73	5.8	17.5	–10.0
1973–74	24.4	26.3	–1.5
1974–75	8.4	3.7	4.6
1975–76	16.8	15.9	0.8
1976–77	25.2	30.9	–4.4
1977–78	12.5 <sup>1</sup>	20.6 <sup>1</sup>	–6.8

<sup>1</sup> Percentage changes are calculated on the basis of foreign exchange holdings at the end of 1978 adjusted as described in Table 15, footnote 2.

cent four years of the entire period examined (Chart 16, top panel). Statistical estimates for the period from April 1973 to February 1979 indicate that, on average, the monthly percentage change in foreign exchange reserves was about three fourths of the percentage change (in the opposite direction) in the SDR value of the U.S. dollar, a relationship significantly stronger than could be accounted for by valuation effects alone. This relation, which explains about two fifths of the total variation in monthly percentage changes of foreign exchange reserves, has been sufficiently pronounced to have resulted in a clear association between the level of

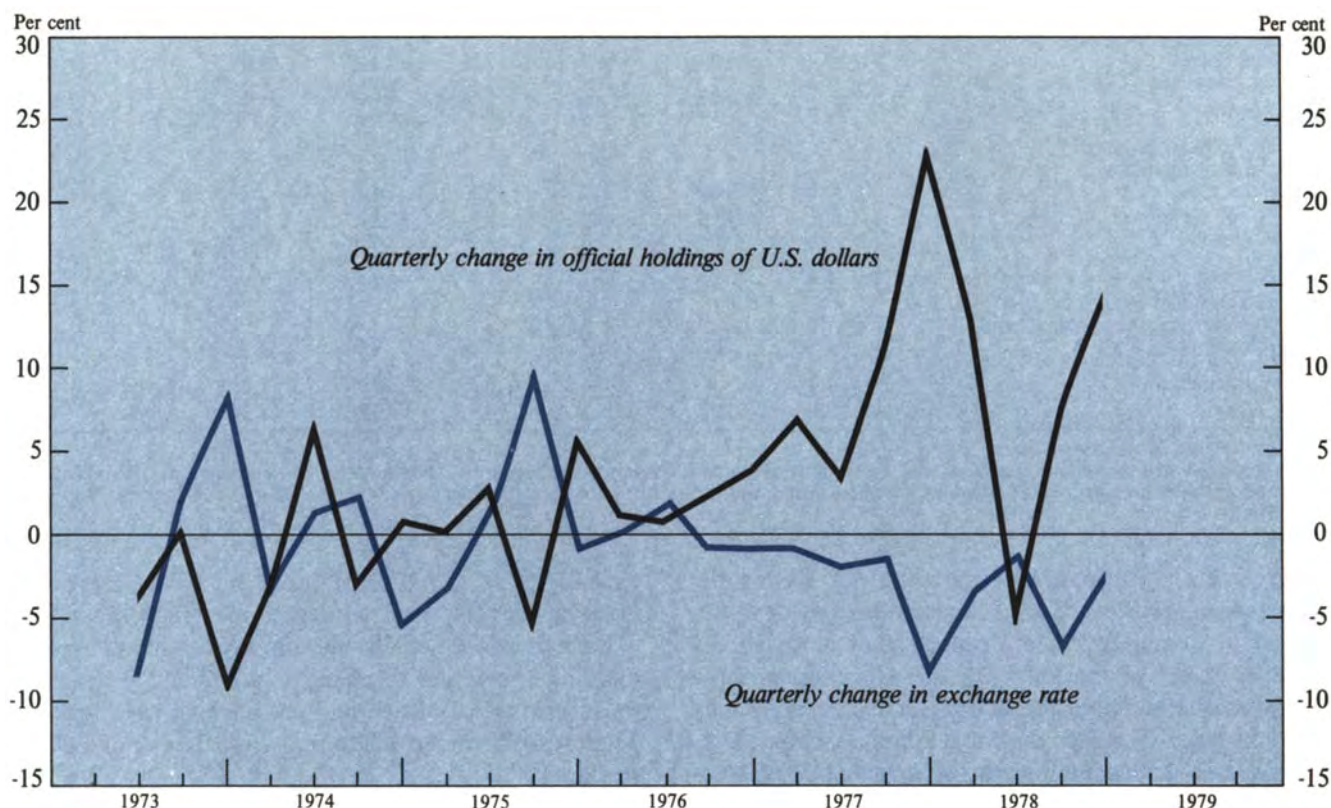


**Chart 16. Official Foreign Currency Reserves of All Countries and Exchange Rate of the U.S. Dollar, April 1973–February 1979**

<sup>1</sup> For the period prior to June 1974, the U.S. dollar exchange rate is calculated using the SDR currency basket announced on June 13, 1974.



**Chart 17. Five Industrial Countries: Quarterly Changes in Official Holdings of U.S. Dollars and in Weighted Average Exchange Rate Index, Second Quarter 1973–Fourth Quarter 1978<sup>1</sup>**



<sup>1</sup> The five countries are France, the Federal Republic of Germany, Japan, Switzerland, and the United Kingdom. The exchange rate index is constructed as a weighted geometric mean of the dollar exchange rates of the five countries, with weights equal to countries' shares in the group's average exports of goods and services, 1972–76.

In 1977, several factors appear to have combined to produce the unusually large reserve increase, including the sharp deterioration in the U.S. current account balance, the persistent current surpluses of several industrial countries, and, not least, the volatility of private capital movements. During the year, central monetary institutions acquired a total of SDR 45 billion of foreign currency reserves as a result of intervention in the exchange markets—as distinct from changes in holdings reflecting valuation effects (Table 17). Of this amount, more than SDR 40 billion consisted of assets denominated in U.S. dollars, which were the counterpart of net sales of dollars by private transactors throughout the world in exchange both for goods and services and for assets denominated in other currencies. While the global increase in official foreign exchange holdings cannot be ascribed to particular entries in the balance of payments accounts of individual countries, there is little doubt that the sharp increase in the U.S. current account deficit in 1977, together with the policies of surplus countries with respect to exchange market intervention, contributed to the rapid growth of reserves in that year.

The amount of that deficit (SDR 11 billion, including official transfers) was, however, little more than one fourth of the accumulation of U.S. dollar holdings by central monetary institutions. Almost one half of this accumulation corresponds to the U.S. deficit on capital account, which is also related to the growth in global dollar holdings, but with an uncertain causal nexus: it is not clear to what extent it may be cause, and to what extent consequence, of the growth in these holdings. The equivalent of SDR 10 billion of the increase in official U.S. dollar holdings in 1977 took the form of (identified) official Eurodollar placements, which bear no direct relation to the U.S. balance of payments.

As already mentioned, it is not possible, on the basis of data currently available, to determine with any degree of certainty whether a substantial portion of the accumulation of dollar reserves in 1977 resulted from shifts in private portfolios. Private capital movements, and associated intercurrency shifts in asset portfolios, depend on expectations with respect to exchange rates and interest rates, which in turn are affected by various underlying economic phenomena, including the balance

**Table 17. Composition of the Change in Official Holdings of Foreign Exchange Reserves, 1971–78**

(In billions of SDRs)

	1971	1972	1973	1974	1975	1976	1977	1978
Official claims on countries								
United States	27.4	10.0	4.7	8.5	4.3	11.3	30.3	24.6
Other countries	1.6	1.3	1.8	3.6	—	0.3	1.2	3.2
Subtotal	29.0	11.3	6.5	12.1	4.3	11.6	31.5	27.8
Identified official holdings of Eurocurrencies								
Eurodollars	0.9	6.4	3.7	13.8	4.6	7.4	10.4	0.3
Other currencies	0.7	2.1	2.0	0.1	1.7	—0.2	3.8	2.2
Subtotal	1.6	8.5	5.7	13.9	6.3	7.2	14.2	2.5
Residual <sup>1</sup>	3.4	1.1	2.1	—1.0	—3.6	3.0	—0.5	3.4
Total change in official foreign exchange reserves arising from transactions	34.0	20.9	14.3	25.0	7.0	21.8	45.2	33.7
Valuation change	—4.4	—	—8.4	—0.5	3.6	1.1	—4.9	—8.7
Total	29.6	20.9	5.9	24.5	10.6	22.9	40.3	25.0

Source: Statistical Annex, Table 19.

<sup>1</sup> Includes identified official claims on the International Bank for Reconstruction and Development, the International Development Association, and the European Monetary Cooperation Fund, and the statistical discrepancy. See also Statistical Annex, Table 20, footnote 3.

of payments performance of the countries issuing the currencies in question. These expectations are, at times, subject to cumulative reinforcement that tends to destabilize exchange markets. On these occasions, large official intervention purchases of reserve currencies may result in large increases in global foreign exchange reserves. It is significant that the gain in dollar reserves was not widely dispersed across countries in 1977, as might have been expected if it had arisen mainly as a consequence of large net foreign expenditures by U.S. residents. Instead, the increase in official U.S. dollar holdings in that year was concentrated in the United Kingdom, which experienced unusually large capital inflows, and a few other industrial countries. In this connection it may be noted that, although the U.S. deficit on current and capital account was almost as large in 1978 as it had been in 1977, the lower level of exchange market intervention by other countries—SDR 34 billion in 1978 compared with SDR 45 billion in 1977—and the associated larger valuation effect combined to produce a much smaller increase in the SDR value of global foreign exchange holdings in the latter year.

## The Adequacy of International Reserves

The preceding discussion of the growth of global reserves in recent years furnishes a convenient starting point for analysis of the adequacy of international reserves. As interpreted in recent Annual Reports, the concept of reserve adequacy is a broad one, involving not only the balance between the global supply of and demand for reserves but also considerations about the state of the private international credit markets and the

availability of conditional liquidity. These considerations have to do with the degree to which the supplies of various reserve assets, and the availability of reserves in general, respond to changes in demand for reserves by individual countries and by all countries together. These questions are taken up in the remainder of this section.

### *Developments in International Credit Markets*

The decade of the 1970s has witnessed very rapid growth in the provision of credit by the international capital markets. It is widely recognized that private banking institutions contributed greatly to the smooth functioning of the world trade and payments system in the years 1974–76 by recycling the funds deposited by oil exporting countries and they can be expected to continue to play a major role in international financial intermediation in the future. Two questions have been raised, however, with respect to certain consequences of the increased reliance on private credit markets. The first is the question of whether growth of the Euromarkets induces an expansion of the global reserve stock beyond the level warranted by countries' long-run reserve needs. The second question is concerned with the extent to which the private international capital markets may contribute to an overexpansion of liquidity by extending credit to countries for longer periods and on easier terms than would be desirable from the standpoint of ensuring timely and adequate adjustment of payments imbalances. These questions have given rise to a renewed debate over the merits of some form of control over the international financial system.

The first question is rooted in the observation that creditworthy countries generally can, if they wish, increase their official reserves by borrowing in the Eurocurrency market and redepositing the loan proceeds in that market, often at a small cost in terms of the difference between their borrowing and lending rates. This does not mean, however, that the growth of international credit markets has caused an expansion of global reserves. In the first place, countries can satisfy their demand for international reserves not only by official (or officially induced) borrowing abroad but also in other ways, for instance, by pursuing macroeconomic policies designed to achieve an overall surplus in the current and private capital accounts. Moreover, although the attractiveness of obtaining reserves by borrowing abroad rises whenever the spread between Eurocurrency borrowing and lending rates narrows, the acquisition of borrowed reserves always entails a net cost and would not be pushed beyond countries' longer-term reserve needs.

The composition of changes in foreign exchange reserves as between direct claims on reserve currency countries and Eurocurrency holdings cannot furnish reliable evidence on the question at issue, since official foreign exchange holdings may be deposited in Eurobanks even if they did not originate in Eurocurrency loans and, vice versa, proceeds of Euromarket loans may be used to acquire direct claims on reserve centers. In the five-year period 1972–76, the rise in foreign exchange reserves resulting from transactions was nearly evenly divided between direct claims (SDR 46 billion) and identified Eurocurrency deposits (SDR 42 billion), and this division was roughly maintained year by year (Table 17). In the last two years, 1977 and 1978, the increase in direct claims (SDR 59 billion) by far exceeded that in Eurocurrency holdings (SDR 17 billion). This may indicate that large U.S. deficits on current and long-term capital account resulted in substantial additions to direct claims on the United States in these years and that the country distribution of these increments favored retention of these direct claims rather than depositing them in the Eurocurrency markets. This factor may, in particular, account for the small rise in identified official holdings of Eurocurrencies (SDR 2.5 billion) in 1978, the smallest increase since 1971. Of the rise of SDR 34 billion (excluding valuation changes) in foreign exchange reserves in 1978, SDR 25 billion was in the form of direct official claims on the United States. This reflects the fact that during 1978 the overwhelming proportion of the increase in reserves was concentrated among members of the Group of Ten, which have generally refrained since 1971 from redepositing reserve accruals in the Eurocurrency markets. Furthermore, oil exporting countries, some of which hold a substantial portion of their official reserves in Eurocurrency assets,

experienced a large decline in reserves in 1978. To summarize, the available data provide no concrete evidence of a systematic causal relationship running from Eurocurrency market growth to growth in international reserves.

The answer to the second question—that of the role of the international capital markets in the adjustment process—is less clear cut. Credit conditions in the private capital markets may be unduly expansionary even if there is no evidence that debtor countries are adding to their holdings of international reserves. Indeed, continuous short-term official foreign borrowing by a country to finance a payments deficit is often regarded as *prima facie* evidence of inadequate adjustment policies. The international banking system was extremely effective in providing the credit needed to stretch out the period available for adjustment after the increase in oil prices early in 1974. It may not have been equally effective in limiting credit to countries that failed to take timely and adequate adjustment measures. In recent market conditions of ample liquidity and low profit margins, some banks may have been willing to extend credits to countries in which they consider their exposure to be small, in an attempt to earn somewhat higher interest rates, thereby reducing the need of these countries for recourse to conditional credit from the Fund. In these circumstances, some countries may at times receive financing in amounts and on terms that are not sustainable and that tend to delay adjustment. Unchecked expansion of private international credit could thus detract from the smooth functioning of the balance of payments adjustment process.

These and other considerations have stimulated the resurgence of official interest in the regulation of international banking. Two principal aspects of current discussions should be distinguished. The first involves the desirability and feasibility of measures to control the overall growth of Euromarket aggregates. The monetary authorities in certain countries feel that consideration should be given to coordinated action aimed at controlling the growth of the Euromarket. The recent renewal of the 1971 agreement by which central banks of the Group of Ten refrain from depositing reserve accruals in the market is a step in this direction, although it is widely recognized that the effectiveness of this measure in restraining the overall growth of Eurodeposits is quite limited. A more ambitious proposal is the call for reserve requirements against Eurocurrency deposits. While the advocates of this proposal acknowledge that its implementation would be difficult, they feel that reserve requirements would both reduce the competitive advantage of offshore lending relative to lending from domestic offices and enhance international control over the aggregate stock of Eurocurrency deposits. Other monetary authorities, however, feel that, provided the major industrial countries maintain control over domes-

tic monetary aggregates, additional controls over the Eurocurrency markets are unnecessary.

The second aspect of international banking control is that of supervision for prudential purposes, and in this area there is considerably more agreement about the need for further progress. In particular, it has been proposed in a number of industrial countries that the regulatory agencies take a consolidated balance sheet approach to measuring the level and extent of risk involved in lending to individual countries, i.e., that loans made by foreign branches and subsidiaries of each bank should be considered together with any loans from home offices. At present, most member countries do not collect the necessary data for this type of supervision, the United States being an exception. However, a number of other countries are undertaking to establish such reporting procedures for their banks, and in a few countries considerable progress has been made in that regard. The regulatory agencies in the United States have recently announced a new joint supervisory approach aimed at achieving greater uniformity in the evaluation of risk in banks' foreign portfolios.

#### *Provision of Conditional Liquidity by the Fund*

While the renewed official interest in the supervision of international commercial banking is prompted by the desire to enhance the soundness and resilience of private international financial markets, it is not the primary purpose of the institutions participating in these markets to conduct their operations in a way that will improve the functioning of the international adjustment process. In this regard, the Fund plays a complementary role in the international monetary system: it monitors balance of payments developments, and the mechanism through which it provides conditional liquidity to members is designed to influence the process of payments adjustment through the terms and conditions on which its credits are extended. In particular, the Fund's assistance to a member is conditional on an explicit understanding that the member will follow macroeconomic policies believed to be appropriate in the light of its situation. Policies that are designed to be of lasting benefit and to treat root causes, not just symptoms, of a country's balance of payments difficulties may involve short-term costs. In order to enable the Fund to fulfill its function in the adjustment process, members' access to Fund credit should be large enough to provide justification for accepting these costs. It is important, therefore, to prevent erosion of the real value of the Fund's resources and to ensure an adequate growth of the potential access of members to its facilities in relation to the rise in the value of international transactions and settlements.

In recent years, the Fund has responded in a number of ways to the need for expansion in members' access to its resources. In 1978, members' quotas were augmented from SDR 29 billion to the present total of SDR 39 billion by increases decided under the Sixth General Review of Quotas. In 1976, even before this enlargement had taken effect, the Executive Board had begun the Seventh General Review of Quotas, which was concluded by a Resolution of the Board of Governors, adopted in December 1978, providing for a further increase in quotas by 50 per cent.<sup>9</sup> This increase will enlarge the Fund to SDR 59 billion, provided that all members accept the increases proposed for them. These quota increases will become effective for consenting members that have paid their increased subscriptions after members having 75 per cent of total present quotas have accepted their increases.

Augmentation of quotas is not, however, the only means of increasing assistance to member countries. In the years before 1978, when quotas had been stationary for a considerable period—since 1970—the Fund established or enlarged several special facilities aimed at providing additional balance of payments assistance at a given level of quotas. Some of these—the extended Fund facility and the (expanded) compensatory financing and buffer stock facilities, all of which are permanent facilities—have increased members' access to financial resources without enlarging the total of these resources. For this reason, these facilities cannot be expanded beyond certain limits without putting strain on the liquidity of the Fund. The oil facilities of 1974 and 1975, by contrast, made available resources that the Fund borrowed for this purpose from members in a sufficiently strong balance of payments position, namely, from a number of oil exporting countries and several industrial countries. Although these facilities were thus in a sense "self-financing," the Fund is committed to repay a lender's claim if repayment is requested to meet a balance of payments need. This type of facility, too, has thus an effect on the liquidity of the Fund, even though, for a given amount of credit extended, this effect is less pronounced than that which accompanies special facilities financed from the Fund's regular resources.

In order to be able to provide adequate assistance to members with balance of payments problems that are large relative to their quotas, the Fund decided in August 1977 to establish the supplementary financing facility, which, like the oil facilities, will make available resources borrowed by the Fund from members. This facility entered into force in February 1979, after 13 members (or institutions) had agreed to make available resources amounting to more than SDR 7¾ billion.

<sup>9</sup> Board of Governors Resolution No. 34-2, adopted December 11, 1978 and reproduced in Appendix II.

It is designed to augment the resources available to meet the need of members requiring assistance in larger amounts and for a longer period than would be available under the Fund's regular tranche policy. The facility will permit the extension, over periods of two to three years, of additional financial assistance to members in conjunction with use of the ordinary resources of the Fund made available under stand-by arrangements in the upper credit tranches or under extended arrangements. These credits will be tied to the adoption of effective programs of adjustment.

### *Assessment of Reserve Adequacy*

The adequacy of international liquidity has been profoundly affected by major changes in the international monetary system in recent years. Most importantly, the large expansion in international banking and the access to such banking funds that many countries now enjoy have gone far toward eliminating the risk of a global deficiency in reserves. International banking has come to play a major role in the financing of payments imbalances, transferring financial resources from surplus to deficit countries in accordance with market incentives. Conditional lending by the Fund, although small in relation to the volume of private international credit, serves an important function by being primarily oriented toward strengthening the balance of payments adjustment process. The growth of its resources and facilities has, over time, permitted the Fund to perform this function on a scale consonant with rising trends in the value of international transactions and settlements.

### **The Composition of Official Foreign Exchange Reserves and the Role of the SDR**

Since the adoption by many Fund members of exchange arrangements permitting greater flexibility of rates, exchange rate movements, particularly among the currencies widely held as part of official reserves, have become a more prominent source of variation in the relative values of international reserve assets. Management of reserve assets has gained importance for monetary authorities and their currency preferences, in addition to those of private holders, constitute a potentially important element in the determination of exchange market developments. Many factors affect authorities' decisions on the size of their international reserves, the proportion to be held in the form of foreign exchange, and the particular reserve currencies to be included in the portfolio. In addition to concerns about safety, liquidity, and yield, the main considerations have tended to be a country's exchange arrangements and the structure of its trade and payments.

As a result of the predominant role that the United States has played in international trade and finance, the largest part by far of countries' foreign exchange reserves has been held in U.S. dollars. Available data on the currency composition of official foreign exchange reserves indicate that the U.S. dollar continues to be the predominant reserve currency. On the basis of reserve statistics for a sample of 76 Fund members, there is evidence of a shift out of sterling, holdings of which were reduced from 8 per cent of the foreign exchange reserves of these countries in 1970 to less than 2 per cent in 1978. The decline in sterling holdings was accompanied by a net increase in holdings of deutsche mark and a small number of other currencies, which did not, however, include the U.S. dollar. Nor has the share of dollar holdings in official foreign exchange reserves declined. Throughout the period since 1970, dollar-denominated assets have remained at roughly four fifths of total official holdings of foreign exchange reserves, despite the valuation effect of significant movements in the exchange rates of other reserve currencies against the dollar.

Although diversification of official foreign exchange reserves does not appear to have been an important cause of exchange rate changes or reserve flows during the past several years, it is conceivable that, in the long run, countries might not wish to hold their reserves so overwhelmingly in a single currency as they have done under the circumstances prevailing in the past. If countries decided, on a substantial scale, to hold other currencies rather than dollars in their reserves, this process of diversification could be disturbing to exchange markets and would lead to a multicurrency reserve practice containing the risk of disruptive short-term switches in the composition of reserves. These considerations suggest the desirability of a larger role for the SDR in members' reserves. The modalities of Fund action in this regard include allocation of SDRs, enhancement of their attractiveness, and, perhaps, the creation of a substitution account.

The amended Articles of Agreement refer to the objective of "making the special drawing right the principal reserve asset in the international monetary system" (Article VIII, Section 7 and Article XXII). This goal is viewed as a long-term means of reducing the asymmetries and instabilities inherent in a system whose main reserve assets are individual national currencies. In order for the SDR to play a wider role in the system, it must have characteristics that make it an attractive asset to be held, along with currency balances, in members' official reserves. From this point of view, the most important characteristics of the SDR are its valuation, its interest rate, and the diversity of uses to which it can be put.



In line with these considerations and with obligations under the Articles of Agreement, the Executive Board considered and decided upon a number of measures during 1978 that would enhance the role of the SDR in the international monetary system. These included several decisions designed to expand the use of the SDR, to raise the interest rate, and to halve the obligation to reconstitute SDR holdings after use. (See Chapter 3.)

In December 1978, the Fund decided to resume the allocation of SDRs at a rate of SDR 4 billion per annum for a period of three years commencing at the beginning of 1979. An important consideration in this decision was the objective of making the SDR the principal reserve asset in the system. No allocations of SDRs had taken place since 1972, and with the rapid rise in official holdings of reserve currencies the share of SDRs in international liquidity had progressively declined. Exclusive reliance on the accumulation of reserve currencies to provide for desired increases in reserves would not be compatible with enhancing the role of the SDR. In view of the highly elastic supply of reserves, a substantial portion of any SDR allocation could, in effect, be substituted for increases in official foreign exchange holdings that would occur in the absence of the allocation. The recent decision to allocate SDRs is thus unlikely to lead to a corresponding net increase in reserves. Moreover, one fourth of the subscription pay-

ment on the occasion of the quota increase under the Seventh General Review of Quotas is to be paid in SDRs. This payment will temporarily divert about SDR 5 billion, or more than one year's allocation, from members' holdings to the Fund, where they will be used in making loans to members.

A further aspect of the general question of reserve composition is currently under discussion. This is the consideration of the possible establishment of a substitution account, to be administered by the Fund, that would accept deposits of foreign exchange from members on a voluntary basis in exchange for an equivalent amount of SDR-denominated claims. The concept of such an account had already come under discussion in the Committee on Reform of the International Monetary System (the Committee of Twenty). The renewed interest in it results from concern with the long-term development of the international monetary system, and with the contribution that such a scheme might make toward promoting the role of the SDR. In this context, a substitution account would permit a change in the composition of members' reserves unaccompanied by potentially disturbing transactions in foreign exchange markets. While there appears to be broad support among Fund members for consideration of such an account, the problems are complex, and the Fund is now reviewing all aspects of this question.

## Statistical Annex

**Table 18. Distribution of Reserves, End of Years 1950, 1960, 1970, and 1974-78<sup>1</sup>**

(In billions of SDRs)

	1950	1960	1970	1974	1975	1976	1977	1978
<b>Industrial countries</b>								
Austria	—	0.7	1.8	2.8	3.8	3.8	3.5	4.6
Belgium-Luxembourg	0.8	1.5	2.8	4.4	5.0	4.5	4.7	4.5
Canada	1.8	2.0	4.7	4.8	4.5	5.0	3.8	3.5
Denmark	0.1	0.3	0.5	0.8	0.7	0.8	1.4	2.5
France	0.8	2.3	5.0	7.2	10.8	8.4	8.4	10.7
Germany, Federal Republic of	0.2	7.0	13.6	26.5	26.5	30.0	32.7	41.4
Italy	0.7	3.3	5.4	5.7	4.1	5.7	9.6	11.4
Japan	0.6	1.9	4.8	11.0	10.9	14.3	19.1	25.7
Netherlands	0.5	1.9	3.2	5.7	6.1	6.4	6.6	5.8
Norway	0.1	0.3	0.8	1.6	1.9	1.9	1.8	2.2
Sweden	0.3	0.5	0.8	1.4	2.6	2.1	3.0	3.4
Switzerland	1.6	2.3	5.1	7.4	8.9	11.2	11.4	16.6
United Kingdom	4.8	5.1	2.8	5.7	4.7	3.6	17.3	13.1
United States	24.3	19.4	14.5	13.1	13.6	15.8	16.0	15.0
<b>Total, industrial countries</b>	<b>36.8</b>	<b>48.5</b>	<b>65.8</b>	<b>97.9</b>	<b>104.1</b>	<b>113.5</b>	<b>139.5</b>	<b>160.4</b>
<b>Primary producing countries</b>								
More developed countries								
Other European countries <sup>2</sup>	1.5	2.3	5.6	12.4	11.1	11.8	12.9	17.1
Australia, New Zealand, South Africa	2.0	1.3	3.0	5.0	4.2	4.0	3.0	2.9
<b>Subtotal, more developed primary producing countries</b>	<b>3.5</b>	<b>3.6</b>	<b>8.5</b>	<b>17.3</b>	<b>15.3</b>	<b>15.8</b>	<b>15.9</b>	<b>20.0</b>
Less developed countries								
Major oil exporting countries <sup>3</sup>	1.3	2.3	5.0	38.4	48.3	56.1	62.2	46.2 <sup>4</sup>
Other less developed countries								
Other Western Hemisphere <sup>5</sup>	2.3	2.2	4.5	9.7	8.6	13.1	16.7	22.3
Other Middle East <sup>6</sup>	1.1	0.7	1.6	3.9	4.4	5.0	6.2	7.2
Other Asia <sup>7</sup>	3.7	2.7	5.8	9.8	10.7	15.4	18.2	20.2
Other Africa <sup>8</sup>	0.5	0.9	2.0	2.4	2.4	2.7	3.1	3.1
<b>Subtotal, other less developed countries</b>	<b>7.6</b>	<b>6.6</b>	<b>13.9</b>	<b>25.9</b>	<b>26.1</b>	<b>36.1</b>	<b>44.2</b>	<b>52.8</b>
<b>Subtotal, less developed countries</b>	<b>9.3<sup>9</sup></b>	<b>9.0</b>	<b>18.9</b>	<b>64.3</b>	<b>74.3</b>	<b>92.3</b>	<b>106.3</b>	<b>99.0<sup>4</sup></b>
<b>Total, primary producing countries</b>	<b>12.8</b>	<b>12.6</b>	<b>27.4</b>	<b>81.6</b>	<b>89.7</b>	<b>108.1</b>	<b>122.3</b>	<b>119.0<sup>4</sup></b>
<b>Total</b>	<b>49.6</b>	<b>61.2</b>	<b>93.2</b>	<b>179.5</b>	<b>193.8</b>	<b>221.6</b>	<b>261.7</b>	<b>279.4<sup>4</sup></b>

Source: *International Financial Statistics*.

<sup>1</sup> Official reserves of Fund members except Romania, plus the Netherlands Antilles and Switzerland. In addition to the holdings covered in *IFS*, the figures for 1950 and 1960 include amounts incorporated in published U.K. reserves in 1966 and 1967 from proceeds of liquidation of the U.K. official portfolio of dollar securities. For a number of countries stock reserve figures may differ from those published in national sources because of differences in valuation of gold, which in *IFS* is valued at SDR 35 per ounce. Totals may not add to figures shown because of rounding and because some totals include unpublished data for component areas.

<sup>2</sup> Finland, Greece, Iceland, Ireland, Malta, Portugal, Spain, Turkey, and Yugoslavia.

<sup>3</sup> Algeria, Indonesia, Iran, Iraq, Kuwait, Libya, Nigeria, Oman, Qatar, Saudi Arabia, the United Arab Emirates, and Venezuela. See footnote 4.

<sup>4</sup> Beginning with April 1978, Saudi Arabian holdings exclude the foreign exchange cover against the note issue, which amounted to SDR 4.3 billion at the end of March 1978.

<sup>5</sup> Argentina, the Bahamas, Barbados, Bolivia, Brazil, Chile, Colombia, Costa Rica, the Dominican Republic, Ecuador, El Salvador, Grenada, Guatemala, Guyana, Haiti, Honduras, Jamaica, Mexico, the Netherlands Antilles, Nicaragua, Panama, Paraguay, Peru, Suriname, Trinidad and Tobago, and Uruguay.

<sup>6</sup> Bahrain, Cyprus, Egypt, Israel, Jordan, Lebanon, the Syrian Arab Republic, the Yemen Arab Republic, and the People's Democratic Republic of Yemen.

<sup>7</sup> Afghanistan, Bangladesh, Burma, China, Fiji, India, Korea, Lao People's Democratic Republic, Malaysia, Nepal, Pakistan, Papua New Guinea, the Philippines, Singapore, Sri Lanka, Thailand, Viet Nam, and Western Samoa.

<sup>8</sup> Benin, Burundi, Cameroon, the Central African Empire, Chad, Congo, Ethiopia, Gabon, The Gambia, Ghana, Ivory Coast, Kenya, Liberia, Madagascar, Malawi, Mali, Mauritania, Mauritius, Morocco, Niger, Rwanda, Senegal, Sierra Leone, Somalia, Sudan, Swaziland, Tanzania, Togo, Tunisia, Uganda, Upper Volta, Zaïre, and Zambia.

<sup>9</sup> Includes non-oil less developed countries not assigned to one of the geographical areas.

**Table 19. Composition of Reserve Change, 1970-78<sup>1</sup>**

(In billions of SDRs)

	1970	1971	1972	1973	1974	1975	1976	1977	1978
Net annual transactions in reserves									
Gold									
Monetary gold	0.3	-0.1	0.2	—	—	—	-0.4	-0.3	-0.3
Gold transactions (acquisitions —) by IMF, BIS, and European Fund	-2.2	-1.0	-0.5	—	—	—	0.2	0.4	0.5
Countries' gold reserves	-1.9	-1.1	-0.3	—	-0.1	—	-0.2	0.1	0.2
Special Drawing Rights									
Allocation of SDRs	3.4	3.0	3.0	—	—	—	—	—	—
IMF holdings of SDRs (increase —)	-0.3	-0.2	-0.1	0.1	0.1	-0.1	-0.1	-0.5	—
Countries' SDR holdings	3.1	2.8	2.8	0.1	0.1	-0.1	-0.1	-0.5	—
Reserve position in the Fund									
Use of IMF credit	-0.8	-1.9	-0.3	-0.1	2.7	3.7	5.2	0.5	-2.8
IMF gold transactions (inflow +) <sup>2</sup>	1.6	0.4	0.1	—	—	—	-0.1	-0.6	-0.5
IMF transactions in SDRs (inflow +)	0.3	0.2	0.1	-0.1	-0.1	0.1	0.1	0.5	—
IMF surplus (increase —)	-0.1	—	—	—	—	—	—	—	—
Reserve position in the Fund	1.0	-1.3	—	-0.2	2.7	3.8	5.1	0.4	-3.2
Official foreign exchange holdings									
Official claims on the United States <sup>3</sup>	7.8	27.4	10.0	4.7	8.5	4.3	11.3	30.3	24.6
Other official claims	4.6	6.6	11.0	9.6	16.4	2.7	10.5	14.8	9.2
Official sterling claims on United Kingdom	0.5	1.7	0.7	0.3	2.7	-1.1	-2.2	-0.1	-0.3
Official deutsche mark claims on Federal Republic of Germany	0.8	-0.4	0.4	0.7	-0.1	0.2	1.4	1.1	2.1
Official French franc claims on France	0.2	0.2	0.3	0.2	-0.2	—	-0.1	-0.1	0.6
Other official claims on other countries denominated in the debtor's own currency	... <sup>4</sup>	0.1	-0.1	0.6	-0.4	1.3	1.0	0.6	2.0 <sup>5</sup>
Claims on European Monetary Cooperation Fund	—	—	—	0.4	-0.4	—	—	—	0.7
Dollar claim of Bundesbank on Bank of Italy	—	—	—	—	1.6	-0.4	0.2	-0.3	-1.2
Identified official holdings of Eurodollars <sup>6</sup>	5.5	0.9	6.4	3.7	13.8	4.6	7.4	10.4	0.3 <sup>5</sup>
Identified official holdings of other Eurocurrencies	... <sup>4</sup>	0.7	2.1	2.0	0.1	1.7	-0.2	3.8	2.2 <sup>5</sup>
Identified official claims on IBRD and IDA	0.1	—	—	0.1	0.4	0.8	0.7	-0.3	—
Residual <sup>7</sup>	-2.5	3.4	1.3	1.7	-1.1	-4.3	2.2	-0.3	2.8 <sup>5</sup>
Total official foreign exchange holdings	12.4	34.0	20.9	14.3	25.0	7.0	21.8	45.2	33.7 <sup>5</sup>
Effect of valuation changes on stock of reserves <sup>8</sup>	—	-4.4	—	-8.4	-0.5	3.6	1.1	-4.9	-8.7
Total reserve change	14.6	29.9	23.5	5.8	27.2	14.3	27.8	40.1	22.0 <sup>5</sup>

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

<sup>1</sup> The official reserves covered in this table are described in Table 18, footnote 1. Table 20 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 20 notes these cases.

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

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

<sup>4</sup> 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.

<sup>5</sup> The decrease resulting from the change in coverage of Saudi Arabia's foreign exchange holdings has been eliminated. See footnote 4 to Table 18.

<sup>6</sup> See Table 20 for more details concerning these Fund staff estimates.

<sup>7</sup> Table 20, footnote 3, provides details.

<sup>8</sup> Countries' official holdings of foreign exchange are denominated in U.S. dollars or other national currencies. The value of most currencies has changed from time to time in relation to the SDR, the unit in which the figures in these annex tables are expressed. Such changes affect reserve stocks, which are calculated by converting the original currency figures into SDRs at the rates prevailing on each day in question. These valuation changes are shown in this line; the other changes shown in the table (except the grand total below) are thus solely those resulting from international transactions.

**Table 20. Official Holdings of Foreign Exchange, by Type of Claim, End of Years 1970–78<sup>1</sup>**

(In billions of SDRs)

	1970	1971	1972	1973	1974	1975	1976	1977	1978
Official claims on United States <sup>2</sup>	23.8	46.7	56.7	55.4	62.7	68.9	79.2	103.8	120.2
Official sterling claims on United Kingdom	5.7	7.3	8.1	6.5	8.3	6.4	3.2	3.3	2.7
Official deutsche mark claims on Fed. Rep. of Germany	1.3	1.0	1.4	2.2	2.4	2.5	4.2	5.7	8.3
Official French franc claims on France	0.6	0.8	1.0	1.2	1.1	1.1	0.9	0.8	1.5
Other official claims on countries denominated in the debtor's own currency	0.9	1.0	0.9	1.6	1.5	2.7	3.9	4.7	6.9
Claims on European Monetary Cooperation Fund	—	—	—	0.4	—	—	—	—	0.7
Dollar claim of Bundesbank on Bank of Italy	—	—	—	—	1.6	1.3	1.5	1.2	—
Identified official holdings of Eurocurrencies									
Eurodollars									
Industrial countries	5.1	3.4	4.4	4.7	6.0	6.5	7.9	10.2	9.9
Primary producing countries									
More developed countries	1.6	1.7	3.2	3.4	3.0	3.8	3.7	4.8	7.1
Less developed countries	3.8	5.4	9.2	10.3	22.8	27.7	34.0	38.7	30.8
<i>Western Hemisphere</i>	1.0	1.6	3.6	4.0	5.0	5.6	5.9	7.3	8.7
<i>Middle East</i>	0.6	1.1	1.9	2.3	12.0	16.7	19.1	20.6	12.1
<i>Asia</i>	1.1	1.1	2.0	2.7	3.0	3.5	5.9	7.8	8.2
<i>Africa</i>	1.1	1.6	1.7	1.3	2.8	2.0	3.1	2.9	1.8
Memorandum item: Major oil exporting countries	1.6	2.8	3.9	4.0	15.6	20.7	23.7	25.8	14.9
Total identified Eurodollars	10.5	10.4	16.8	18.5	31.8	38.0	45.6	53.6	47.7
Other Eurocurrencies	0.4	1.1	3.2	5.3	5.8	7.2	7.6	12.2	14.7
Total identified holdings of Eurocurrencies	10.9	11.6	20.0	23.8	37.6	45.2	53.2	65.8	62.4
Identified claims on IBRD and IDA	0.7	0.6	0.6	0.6	0.9	1.8	2.5	2.1	2.0
Residual <sup>3</sup>	1.7	6.1	7.3	10.0	10.2	7.0	11.2	12.4	16.2
Total official holdings of foreign exchange	45.4	75.0	95.9	101.8	126.3	136.9	159.8	200.1	220.8

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

<sup>1</sup> The official foreign exchange reserves covered in this table are described in Table 18, footnotes 1 and 4. The figures for 1973 include official French claims on the European Monetary Cooperation Fund. This table includes the estimated change in the value of holdings owing to the general realignment of currencies in 1971, the U.S. dollar devaluation in 1973, and the widespread floating of currencies since 1974; see also footnote 8 to Table 19.

<sup>2</sup> Covers only claims of countries, including those denominated in the claimant's own currency.

<sup>3</sup> Part of this residual occurs because some member countries do not classify all the foreign exchange claims that they report to the Fund. It also includes asymmetries arising because data on U.S. and U.K. currency liabilities are more comprehensive than data on official foreign exchange as shown in *IFS*.

## Chapter 3

### Activities of the Fund

The principal developments during the year were as follows:

- Almost all the quota increases proposed under the Sixth General Review of Quotas had come into effect by September 13, 1978, on which date the Fund had 134 members with total quotas of SDR 39 billion. The Seventh General Review of Quotas was completed in December 1978 when the Board of Governors adopted a Resolution on increases in members' quotas that will, if all members accept the proposed increases, raise total quotas in the Fund to SDR 58.6 billion.
- The supplementary financing facility, which is designed to assist those members that would require balance of payments financing in larger amounts and for a longer period than could be available under the regular credit tranches, became operational on February 23, 1979. The amount available for the facility under the borrowing agreements with lenders at the end of June 1979 is SDR 7,784 million.
- The Interim Committee of the Board of Governors on the International Monetary System expressed "broad support" for active consideration by the Executive Board of an account, to be administered by the Fund, that would accept deposits of foreign exchange from members on a voluntary basis in exchange for an equivalent amount of SDR-denominated claims. The Executive Board has continued to work on such an account with the objective of presenting its conclusions to the next meeting of the Committee to be held in Belgrade, October 1, 1979, on the occasion of the next Annual Meeting of the Board of Governors.
- The Executive Board adopted, in March 1979, a new set of guidelines on conditionality on the use of the Fund's general resources in the upper credit tranches. The new guidelines replace an earlier set of guidelines formulated in 1968, with more detailed specifications.
- In accordance with one of the major objectives of the Second Amendment, the Fund took several decisions toward enhancing the role of the SDR as the principal international reserve asset, through resumption of allocations and improvements in its yield, provision for a wider range of uses, and a reduction in the reconstitution requirement.
- With the participation in late 1978 of five members (Lebanon, Libyan Arab Jamahiriya, Saudi Arabia, Singapore, and the United Arab Emirates), all but one of the Fund's 138 members are now participants in the Special Drawing Rights Department.
- The Fund resumed the allocation of SDRs, last made in the period 1970–72, with an allocation of SDR 4 billion as of January 1, 1979 to the 137 members that were participants in the Fund's Special Drawing Rights Department on December 31, 1978. This allocation, which brought the total of SDRs in existence to SDR 13.3 billion, was made in accordance with a Resolution of the Board of Governors providing for further allocations of about SDR 4 billion as of January 1 in each of the years 1980 and 1981.
- The Fund completed the third of four annual distributions of gold to members and sold, for the benefit of developing member countries, 7.2 million ounces to the market through public auctions. The Executive Board agreed on the terms and conditions of gold sales through public auctions for the last year, ending in May 1980, under the four-year gold sales program.
- The Trust Fund loans in the first period ended June 1978 aggregated SDR 840.9 million, representing over 40 per cent of the qualified members' quotas; for about three fourths of the qualified members these loans represented one half or more of the assessed need. For the Trust Fund's second period, which will end on June 30, 1980, 59 members (against 61 in the first period) will be eligible

to receive low-interest loans in support of 12-month balance of payments programs that are to begin no later than May 1, 1980.

- For the second consecutive year, there was a reduction in the net amount of balance of payments assistance provided by the Fund through the General Resources Account. Total purchases amounted to SDR 3,720 million. Reserve tranche purchases rose to an all-time peak of SDR 2,480 million, accounted for largely by the purchases made by the U.S. Government as part of a package of measures to strengthen the position of the U.S. dollar. Total repurchases were also the largest amount in any financial year in the Fund's history, so that there was a net contraction of Fund credit equivalent to about SDR 3.6 billion. For its part, the Fund reduced its net outstanding borrowing from governments and central banks.
- For the first time the Fund extended financial assistance under its buffer stock facility to member countries to meet their obligations under the 1977 International Sugar Agreement.
- For the second time since its financial year 1971/72, the Fund recorded an overall surplus (SDR 46 million, compared with SDR 27 million in 1977/78) in its operations (after taking account of administrative expenses), which was added to reserves.

During the year discussion by the Executive Board of a number of major policy issues was guided by the deliberations 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). Both committees met in Washington, D.C. at the time of the 1978 Annual Meetings, and the Interim Committee subsequently met, again in Washington, D.C., during March 1979. The press communiqués by the Interim Committee are reproduced in Appendix III.

### Sixth General Review of Quotas

On April 1, 1978, at the time of the entry into force of the Second Amendment of the Fund's Articles of Agreement, 86 members having 78.65 per cent of total quotas had consented to and paid in full increases in their quotas, thus satisfying the conditions in the Board of Governors Resolution of March 22, 1976, that no increase in quotas in the Sixth Review would be effective before the latter of two dates: (1) the effective date of the Second Amendment; or (2) the date of the Fund's determination that members having 75 per cent

of the total of Fund quotas as of February 19, 1976 had consented to their increases. Under the Resolution, members that had not consented to their increases at the time the Second Amendment came into effect had up to one month after the effective date of the Amendment to consent, that is, up to May 1, 1978. The Executive Board, acting under a provision of the Resolution, extended the period of consent, first to June 12, 1978, then to August 7, 1978, and finally to October 31, 1978. By that date all eligible members except Democratic Kampuchea had consented to increases in their quotas; Singapore consented to an increase in its quota from SDR 37 million to SDR 49 million, against the proposed maximum quota of SDR 110 million. The Resolution required that payments for quota increases be made within 60 days of the effective date of the Second Amendment, or of the date of consent if the member consented after April 1, 1978; the last payment for a quota increase was made on September 13, 1978, on which date the Fund had 134 members with total quotas of SDR 39,001.4 million.

As mentioned in the 1978 Annual Report, a member increasing its quota under the Sixth General Review had the option to pay the entire increase in its own currency, or 25 per cent of the increase in SDRs, or in currencies of other members specified—with their concurrence—by the Fund, and the balance of the increase in the member's own currency. Eleven members paid 25 per cent of the increase in quotas in media other than their own currencies.

### Seventh General Review of Quotas

The Executive Board submitted to the Board of Governors on November 1, 1978 a report containing proposals for increases in members' quotas under the Seventh General Review of Quotas. The Report contained a draft Resolution, which was approved by the Board of Governors effective December 11, 1978.<sup>1</sup> The proposals for quota increases were based on the view that, in general, increased access to the Fund's resources should, over the longer run, normally result from an increase in Fund quotas, which give the Fund a more assured access to resources than does borrowing. However, the possibility of large payments imbalances over the next few years and their distribution are likely to affect the Fund's liquidity position. For these reasons, and in accordance with the understandings reached by the Interim Committee at its meeting on September 24, 1978, the Board of Governors proposed a general increase in the overall size of quotas of 50 per cent for all members except China and Demo-

<sup>1</sup> Board of Governors Resolution No. 34-2, adopted December 11, 1978 and reproduced in Appendix II.



cratic Kampuchea; in addition, selective quota increases totaling SDR 388 million were proposed for 11 member countries. The proposed increases will become effective for an individual member on the latest of the following three dates: (a) the date of the member's consent to the increase, (b) the date of payment of its increased subscription, and (c) the date on which the Fund determines that members having not less than three fourths of the total of quotas on November 1, 1978 have consented to increases in their quotas. However, if the Fund's determination is in the period between July 1, 1980, and October 5, 1980, no increase in quota will become effective until after October 5, 1980. This provision was designed to ensure that there would be no changes in quotas during, or shortly before, the 1980 Annual Meeting, when the next election of Executive Directors will take place. Since total quotas on November 1, 1978 were equivalent to SDR 39 billion, the minimum participation requirement will be met when members accounting for at least SDR 29.3 billion of total quotas have consented to a full or partial increase in their quotas.

A member may consent to an increase in its quota any time on or before November 1, 1980. The Executive Board may extend this period as it may determine. A member can consent to an increase smaller than the amount proposed for it in the Annex to the Resolution, and later could consent to an additional amount, up to the proposed maximum, at any time prior to the expiration of the period for consent. As of July 30, 1979, 15 countries—Bolivia, Botswana, Chile, Denmark, Ecuador, El Salvador, Guatemala, Iceland, Indonesia, Malawi, Malaysia, Nepal, Paraguay, the Philippines, and Sweden—had consented to their maximum increases under the Seventh General Review. The quotas of these countries accounted for about 6 per cent of total quotas in the Fund as of November 1, 1978.

Members that are participants in the Special Drawing Rights Department must pay 25 per cent of the increase in their quota under this review in special drawing rights; a nonparticipant must pay 25 per cent in the currencies of other members specified by the Fund, subject to their concurrence. The balance of the increase shall be paid in a member's own currency. Members must pay the increase in quota—both the SDR portion and the local currency portion—within 30 days after the later of (a) the date on which the member notifies the Fund of its consent, or (b) the date determined by the Fund on which the participation requirement is met, unless this determination is made between July 1 and October 5, 1980, in which case the determination will be deemed to have been made on October 5, 1980. If all members accept increases in their quotas to the maximum amounts proposed, total quotas in the Fund would rise as a result of the Seventh General Review

from the current level of SDR 39,011.2 million to SDR 58,616.3 million.

The Executive Board does not intend to propose a general adjustment of quotas for five years after the adoption—on December 11, 1978—of Board of Governors Resolution No. 34-2, unless there is a major change in the world economy and its financing needs. The Executive Board will review the customary method of calculating quotas after completion of the Seventh General Review of Quotas. Such a review will examine the quota shares of members in relation to their positions in the world economy with a view to adjusting their shares better to reflect members' relative economic positions while having regard to the desirability of an appropriate balance in the composition of the Executive Board.

### **Conditionality Attached to the Use of Fund Resources**

At its April 1978 meeting in Mexico, the Interim Committee asked the Executive Directors of the Fund to review the conditionality attached to the use of Fund resources in the credit tranches. The review began in June 1978 and was completed on March 2, 1979 with the adoption by the Executive Board of a decision containing a new set of guidelines for the use of Fund resources.<sup>2</sup> Executive Directors discussed the Fund's experience in the application of conditionality, the policies and objectives of adjustment programs supported by the Fund's resources in the upper credit tranches, and the criteria that govern the use of these resources. The discussions took into account comments that had been made at the Annual Meetings of the Fund and in other forums on the Fund's approach to conditionality.

The new guidelines include many of the conclusions that the Executive Board had reached in 1968 following a similar review of this subject.<sup>3</sup> These are (a) the avoidance of contractual language in stand-by documents; (b) the inclusion of appropriate consultation clauses in all stand-by arrangements; (c) the limitation of performance criteria to those that are necessary to assess the implementation of the program so as to ensure the attainment of its objectives; and (d) the limitation on the use of phasing of purchases under stand-by arrangements to those arrangements that go beyond the first credit tranche and to purchases beyond this tranche.

The new guidelines, however, include a number of considerations that go further than the 1968 conclusions. It is recognized that countries often tend to hesi-

<sup>2</sup> Executive Board Decision No. 6056-(79/38), adopted March 2, 1979 and reproduced in Appendix II.

<sup>3</sup> See *Annual Report, 1969*, pages 37–38.

tate to adopt corrective measures at an early stage in their balance of payments difficulties. In recent years, many countries approached the Fund for support only after their financial situation had already undergone an extreme degree of deterioration. In these cases, the financial programs have had to be more stringent than they would have been if adjustment measures had been taken earlier. The new guidelines therefore emphasize that the Fund, in its regular consultations with members under Article IV and on other occasions, will intensify its efforts to encourage countries to adopt necessary corrective measures that could be supported by the use of the Fund's general resources at an early stage of their balance of payments difficulties. They also recognize—and indeed this has been the practice in recent years—that for countries facing severe balance of payments problems, often of a structural nature, the period of adjustment should extend beyond one year. Therefore, in appropriate cases, stand-by arrangements may be concluded for a period of up to three years in order to alleviate the effect of corrective measures on real incomes and to contribute to a distribution of the burden of adjustment within the economy that is socially and politically more acceptable. Long periods of adjustment have been specifically provided for in the extended Fund facility, introduced in 1974, which supports programs that cover periods of up to three years, and also in the supplementary financing facility.

Adjustment measures typically relate to sensitive areas of fiscal, credit, incomes, and exchange rate policies as well as to policies on trade and payments restrictions, and governments are rightly concerned about the compatibility of these policies with their economic priorities and their domestic social and political objectives. The new guidelines have made it clear that, in assisting countries in the design of adjustment programs, the Fund will pay due regard to these concerns and to the particular circumstances of members, including the causes of their balance of payments difficulties. Furthermore, performance criteria will normally be confined to (1) macroeconomic variables and (2) those criteria necessary to implement specific provisions of the Articles of Agreement or policies adopted under them. Performance criteria may relate to other variables only in exceptional cases when they are essential for the effectiveness of the member's program, because of their macroeconomic impact.

As in the past, the Managing Director will continue to recommend to the Executive Board the approval of a member's request for a stand-by arrangement when he judges that the request is consistent with the Fund's provisions and policies and that the program presented by the member will be carried out. In certain circumstances, the new guidelines recognize that this may require the member to adopt certain measures before

the stand-by arrangement is approved. In such cases, the Managing Director will keep Executive Directors informed in an appropriate manner of the progress of discussions with the members.

The new guidelines provide for flexibility in those cases, including in particular programs extending beyond one year, where a member is not able to establish in advance one or more performance criteria for the duration of the stand-by arrangement. In these instances, provision is made for a review in order to establish the performance criteria for the remaining period. In addition, in exceptional cases where an essential feature of the program cannot be formulated as a performance criterion at the beginning of the program year because of uncertainties concerning major economic trends, the guidelines make provision for a review in order to reach any necessary understandings.

Other important issues are stressed in the guidelines, such as the need for the Managing Director to ensure adequate coordination in the application of policies relating to the use of the Fund's resources in order to maintain the nondiscriminatory treatment of members. It is also recognized that the policies of the Fund in this area, as well as in others within its competence, will have to evolve in the light of changing circumstances in the world economy. The concluding two guidelines require the Fund staff to prepare studies of the appropriateness of and performance under programs. Individual country programs will be analyzed and evaluated in reports on consultations under Article IV or when a further request for use of Fund resources is made by the country concerned. Studies evaluating and comparing the features of different programs as well as their appropriateness and the performance under them will be prepared periodically. These studies will assist the Executive Board in deciding on the timing and modalities of the next comprehensive review of conditionality.

### **Consultations with Member Countries**

Regular consultations with member countries are a central part of the Fund's work, providing an occasion for review and appraisal of the country's economic and financial situation in an international context as well as a background of up-to-date information, which enables the Fund to deal promptly with requests for use of Fund resources and with proposed changes in practices subject to Fund approval. Under the Second Amendment of the Articles of Agreement, which became effective on April 1, 1978, consultations under Article IV are required for all members and, in principle, take place annually. These new consultations include the regular consultations previously held under Article XIV

and Article VIII. Consultations are required annually for countries availing themselves of the transitional arrangements under Article XIV; they were held annually on a voluntary basis for Article VIII countries.

While Article IV gives member countries substantial freedom in the selection of their exchange arrangements, it establishes general obligations and specific undertakings that each member must meet in pursuit of its exchange policies. In addition to the commitment to collaborate with the Fund and other members to assure orderly exchange arrangements and to promote a stable system of exchange rates, each member is to endeavor to direct economic and financial policies toward fostering orderly growth and to seek to promote stability by fostering orderly underlying economic and financial conditions. The member is to refrain from manipulating exchange rates to prevent effective balance of payments adjustment or to gain an unfair competitive advantage over other members. Under the Fund's principles for the guidance of members' exchange rate policies, each member is enjoined to intervene in the exchange market if necessary to counter disorderly conditions, and to take into account in its intervention policies the interests of other members. The Article IV consultation is intended to help the Fund in ensuring observance of these obligations and in exercising firm surveillance over exchange rate policies. Thus, in formal terms the scope and role of regular consultations have been enlarged to include consideration of the observance by members of the principles for the guidance of members' exchange rate policies as well as of a member's obligations under Article IV, Section 1. In other respects there has been no major substantive change in the approach to consultations, since comprehensive analysis of economic and financial developments and policies has always been an objective of these discussions.

As before, regular consultation discussions normally take place in member countries between their representatives and Fund staff teams. On the basis of these discussions the Fund staff prepares reports for consideration and discussion by the Executive Board. Not later than three months after the termination of discussions between the member and the staff, the Executive Board is to reach conclusions and thereby complete the consultation under Article IV. In addition to any formal decision rendered by the Board on any matters subject to Fund jurisdiction, the Article IV consultation concludes with an informal summation by the Managing Director expressing the sense of the meeting and indicating the conclusions reached. These views are transmitted promptly to the authorities of the member country by the Fund.

Regular consultations as described are supplemented

by special consultations held in connection with the periodic review of the world economic outlook by the Executive Board. These special consultations are intended to provide up-to-date information on the economic situation of countries whose external policies are regarded as being of major importance to the world economy. In this context, a special surveillance of the exchange rate and of the underlying policies of a major member country (the United States) was undertaken for the first time by the Executive Board in December 1978.

Following a review of procedures for surveillance under Article IV in late 1978, the Executive Board decided<sup>4</sup> that there should be provision for reviews of developments involving the exchange rate policies of individual member countries between annual consultations. Accordingly, a supplemental surveillance procedure was established under which the Managing Director must initiate an informal and confidential discussion with a member whenever he considers that a modification in the member's exchange arrangements or exchange rate policies or the behavior of the exchange rate of its currency may be important or may have important effects on other members. This supplementary procedure can justify discussion not only when an important movement of the exchange rate has occurred but also when lack of movement might be considered important because a change in underlying conditions is giving rise to a serious imbalance. It permits the Fund to look into exchange rate developments or situations of importance between regular Article IV consultations without any presumption that the member in question has not complied with its obligations. If, after a prior discussion, the Managing Director considers the matter to be of importance, he must either conduct an ad hoc consultation with the member and report to the Executive Board, or informally advise the Executive Directors on the consultation as promptly as circumstances permit.

In 1978/79, the first full year of experience under the Second Amendment, the Fund completed 70 regular Article IV consultations, of which 40 were with countries availing themselves of the transitional arrangements of Article XIV and 30 with countries that had formally accepted the obligations of Article VIII. In addition, 20 consultations were completed that had been initiated before Article IV came into effect; of these, 16 were under Article XIV and 4 under Article VIII. Another 31 consultations were initiated in 1978/79 but not completed before the end of the financial year; of these, 23 were with Article XIV countries

<sup>4</sup>Executive Board Decision No. 6026-(79/13), adopted January 22, 1979 and reproduced in Appendix II, supplementing Executive Board Decision No. 5392-(77/63), adopted April 29, 1977. See *Annual Report, 1977*, pages 107-109.

and 8 with Article VIII countries. During the financial year, one member country, Suriname, formally accepted the obligations of Article VIII, Sections 2, 3, and 4. On April 30, 1979, the Fund had a total membership of 138 countries, of which 47 had Article VIII status, as listed in Appendix I, Table I.17.

### Major Developments Relating to Special Drawing Rights

Several major decisions were taken in 1978/79 to enhance the yield and characteristics of the SDR and thereby to promote the SDR as the principal reserve asset in the international monetary system, which is one of the objectives of the Second Amendment to the Articles of Agreement. These decisions were part of a package of measures adopted in the light of the consensus reached at the meeting of the Interim Committee in September 1978, including an increase of 50 per cent in the quotas of most Fund members. The decisions concerning the SDR were as follows:

- (i) to increase the volume of SDRs in existence by resuming allocations of SDRs;
- (ii) to improve the return on SDR holdings by raising the rate of interest on the SDR;
- (iii) to liberalize the conditions under which SDRs may be used by reducing the "reconstitution" requirement for average holdings of SDRs; and
- (iv) to widen the usability of SDRs by permitting the use of SDRs in certain "operations" by agreement between participants.

With a view to broadening the use of SDRs even further, the staff of the Fund has begun to explore with a number of official institutions the possibility of their becoming "other holders" of SDRs so as to be able to acquire, hold, and use SDRs in certain transactions and operations.

Another important development during the financial year was that five Fund members that were not participants (Lebanon, Libyan Arab Jamahiriya, Saudi Arabia, Singapore, and the United Arab Emirates) decided to participate in the Special Drawing Rights Department. Thus, all but one of the 138 Fund members are now participants.

An increasingly large number of transactions and operations in the Fund are now being conducted in SDRs, including purchases and repurchases in the General Resources Account, the payment of charges and quota payments by members, and interest payments and loan repayments by the Fund. Outside the Fund, there has been increasing use of the SDR as a unit of account in private contracts and international treaties, and by the end of June 1979, 13 Fund members had pegged the rate of their currency to the SDR.

### Allocations

On December 11, 1978, the Board of Governors adopted a Resolution approving the proposal of the Managing Director, concurred in by the Executive Board, that allocations of SDRs should be resumed and that SDR 4 billion should be allocated as of January 1 each year in 1979, 1980, and 1981.<sup>5</sup> The proposal was made in accordance with the Managing Director's conclusion that, as required by Article XVIII, Section 1(a) of the Articles of Agreement, the Fund should seek to meet the long-term global need, as and when it arises, to supplement existing reserve assets in such a manner as to promote the attainment of its purposes. The basis for this finding was, *inter alia*, that, notwithstanding greater exchange rate flexibility, countries wanted to increase their reserves in keeping with the rise in the level of their international transactions. While most countries could satisfy their need for reserves by recourse to international capital markets, this entailed difficulties of periodic refinancing that did not arise when additions to net reserves were made through allocations of SDRs. Another consideration was that exclusive reliance on the accumulation of reserve currencies to provide the needed increases in reserves would not be compatible with the objective of making the SDR the principal reserve asset of the international monetary system. The share of holdings of SDRs in reserves excluding gold had declined from about 10 per cent at the beginning of 1972 to about 4 per cent at the end of 1978 and, in the absence of allocations in the third basic period, the SDR would have continued its decline as a proportion of reserves.

The amount of SDR allocations and the period over which they are to be made were determined by a combination of several considerations. First, it was estimated that members' holdings of official reserves might increase by SDR 20 billion a year or more over the next five years, taking into account expected growth in the value of world trade over this period. Second, with a highly elastic supply of reserves through international capital markets, a substantial part of any allocation of SDRs could be expected to be substituted for increases in official holdings of foreign exchange that would otherwise have taken place, so that the expansionary effects of allocation would be limited. However, in view of the possible effects on expectations with respect to inflation, SDR allocations should be modest in terms of both annual size and the length of the period of allocation. Yet another consideration was that SDRs would be used in partial payment for quota increases under the Seventh General Review of Quotas.

<sup>5</sup> The Managing Director's Proposal and Board of Governors Resolution No. 34-3, adopted December 11, 1978, are reproduced in Appendix II.

The main provisions of Board of Governors Resolution No. 34-3, adopted December 11, 1978, are as follows:

(i) The third basic period for allocations that began on January 1, 1978 would end on December 31, 1981.

(ii) Allocations during the basic period would be made as of the first day of the month following the effective date of the Resolution and as of the same date in each of the subsequent two years (i.e., the basic period would have a duration of four years, with allocations as of January 1 in each of the last three of those years).

(iii) The amount to be allocated to each eligible participant would be determined by the percentage, rounded to the nearest  $\frac{1}{10}$  of 1 per cent, resulting from dividing SDR 4 billion by the total of quotas on the day before allocation of those participants that were eligible to receive allocations on the effective date of the Resolution.

In accordance with the Resolution, the total amount allocated as of January 1, 1979 was SDR 4,033 million, bringing the cumulative total of SDR allocations to SDR 13.3 billion, about 5 per cent of world official reserves excluding gold. The allocation was made to the 137 Fund members that were participants in the Special Drawing Rights Department, including 25 participants that were receiving an allocation for the first time. To allow allocations to members that became participants after the beginning of the third basic period, the Executive Board decided to permit such allocations provided that the members concerned became participants by December 31, 1978 and indicated their wish to receive the allocations during the third basic period.<sup>6</sup> It is expected that the Executive Board will give sympathetic consideration to a desire by any new participant to receive allocations during the remainder of the third basic period after it becomes a participant.

The amount of SDRs allocated to each participant was equal to 10.4 per cent of its quota, and thus ranged widely from SDR 874 million for the United States to SDR 93,600 for the Maldives, the Fund member with the smallest quota.<sup>7</sup> It is expected that the allocation as of January 1, 1980 will be based on present quotas, since these are likely to be still in effect at that time. However, the allocation as of January 1, 1981 for most members will probably be calculated on the basis of higher quotas in accordance with the Resolution on the Seventh General Review of Quotas.

<sup>6</sup> Executive Board Decision No. 5956-(78/180) S, adopted November 17, 1978 and reproduced in Appendix II.

<sup>7</sup> The amounts allocated to all participants are shown in Table I.2 in Appendix I.

## Interest Rate

On January 1, 1979 the interest rate on the SDR was increased from 60 per cent to 80 per cent of the combined market interest rate that is calculated each calendar quarter on the basis of short-term money market rates in the five countries with the largest Fund quotas (France, the Federal Republic of Germany, Japan, the United Kingdom, and the United States) and rounded to the nearest  $\frac{1}{4}$  of 1 per cent.<sup>8</sup> As a result of the new decision and the general rise in money market rates, the interest rate on the SDR rose from 4 per cent in the fourth quarter of 1978 to 6 per cent in the first quarter and 6.5 per cent in the second quarter of 1979. Taking into account the basket method for valuation of the SDR, which was reviewed and updated a year ago,<sup>9</sup> and the decision to increase the interest rate, the yield on the SDR is now more competitive with yields on other international reserve assets.

## Reconstitution

Also effective January 1, 1979, the Executive Board decided to reduce from 30 per cent to 15 per cent the minimum level of average SDR holdings that participants must maintain in relation to their net cumulative allocations to meet the reconstitution obligation.<sup>10</sup> This requirement must be met for successive five-year periods ending each calendar quarter. The change in the requirement helps to emphasize the reserve asset character of the SDR and enables participants to maintain lower levels of SDR holdings from day to day, thus increasing their ability to use SDRs without having to reacquire them to meet the reconstitution requirement. The decision giving effect to the reduced requirement also provides that the reconstitution provisions should be considered further in the light of experience.

Consideration was also given to the way in which the reconstitution requirement should be applied to participants that received allocations for the first time as of January 1, 1979. It was noted that participants that received allocations in 1970 were first subject to the reconstitution requirement for the five-year period ended December 31, 1974 and were not obliged to

<sup>8</sup> The financial instruments and the weights used in calculating the combined market interest rate are as follows:

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

<sup>9</sup> See *Annual Report, 1978*, pages 56-57.

<sup>10</sup> Executive Board Decision No. 5936-(78/168) S, adopted October 25, 1978 and reproduced in Appendix II.

reacquire SDRs earlier than 1972, even if they had used their allocations in full. Thus, to provide uniform treatment among participants, it was decided that participants that received their first allocations in 1979 should not be required to meet the reconstitution requirement for five-year periods that end before December 31, 1983. This was put into effect by a decision of the Executive Board providing that participants must meet the 15 per cent requirement for the reconstitution period ending five years after the date of the first allocation to them and for each five-year reconstitution period ending thereafter.<sup>11</sup>

## Wider Uses of SDRs

One change of major importance in widening the use of SDRs under the amended Articles is the freedom of participants to use their SDRs to obtain currency in transactions by agreement with other participants, without regard to the requirement of need and without the necessity for specific authorization by the Fund. A further provision of the amended Articles enables the Fund to "prescribe" (permit) operations in which participants may use SDRs by agreement without exchanging them directly for currency. During the financial year 1978/79, the Executive Board took a number of decisions that permitted the use of SDRs in such operations, as follows:<sup>12</sup>

(i) To settle financial obligations, other than to make donations.

(ii) To make loans of SDRs at interest rates and maturities agreed between the parties. Repayment of loans and payment of interest may be made with SDRs.

(iii) As security for the discharge of financial obligations, other than to make donations. The security may be provided in either of two ways: (a) participants may pledge SDRs, which can be earmarked for the duration of the pledge by being recorded in a special register kept by the Fund; (b) participants may agree that SDRs would be transferred as security for the performance of an obligation and that the SDRs would be returned to the transferor when its obligation under the agreement had been fulfilled.

The amounts used in these operations are left for the parties to agree in the light of the user's SDR holdings. The denomination of the financial obligation concerned may be in SDRs, or the currency of a Fund member, or the currency of a nonmember, or a unit of account that is composed of currencies and is applied under an intergovernmental agreement. The exchange rates to

be used for any loans or settlements of financial obligations must be at equal value and would be the same as the exchange rates that would be used for transactions in SDRs.

The decisions prescribing the operations provide for reviews by June 30 of each year. However, as by the end of June 1979, there had been no operations in SDRs under these decisions, it was not necessary for the Executive Board to hold the reviews during the past year. The Interim Committee at its meeting in March 1979 endorsed the intention of the Executive Board to pursue and complete, as soon as possible, its work on other types of SDR use, in particular the use of SDRs in swaps, forward transactions, and donations.

## Other Holders of SDRs

The Interim Committee also endorsed the intention of the Executive Board to consider increasing the number of official institutions that might, as "other holders" of SDRs, be authorized to acquire, hold, and use SDRs on terms and conditions agreed by the Fund. Following the Second Amendment, a wide range of international organizations, national institutions, and nonmembers of the Fund would be eligible to become other holders. At present, only the Bank for International Settlements (BIS) is an other holder. As in preceding years, there were no transactions in SDRs involving the BIS during 1978/79.

## The SDR as Unit of Account and Currency Peg

There have been several important developments in the use of the SDR as a unit of account and as a currency peg. The SDR is the unit of account for the Fund's General Resources Account and the Trust Fund, but it has now also been adopted widely outside the Fund as a unit of account (or as the basis for a unit of account) for private contracts and international treaties, and by other international and regional organizations, such as the African Development Bank, the Arab Monetary Fund, the Asian Clearing Union, the Economic Community of West African States, the Islamic Development Bank, and the Nordic Investment Bank. SDR-denominated currency deposits are now accepted by the BIS and several of the major commercial banks, and bonds denominated in SDRs have been issued in the international capital market.

Some Fund member countries have pegged their currency to the SDR. This is done by fixing the value of the member's currency in terms of the SDR and then setting the value in terms of other currencies by refer-

<sup>11</sup> Executive Board Decision No. 6063-(79/43), adopted March 14, 1979 and reproduced in Appendix II.

<sup>12</sup> Executive Board Decisions No. 6000-(79/1) S and No. 6001-(79/1) S, adopted December 28, 1978, and No. 6053-(79/34) S and No. 6054-(79/34) S, adopted February 26, 1979.



ence to the SDR value of the other currencies as calculated and published by the Fund.

### Transactions and Operations in the Special Drawing Rights Department

The volume of transactions and operations in SDRs reached a new record of SDR 5,283 million in 1978/79, following the high level of activity in the previous year, when a total of SDR 4,499 million was transferred.

A summary of the transactions and operations during the financial year is presented in Table 21. Further details are given in the sections that follow, but the main features are as follows:

(i) The new freedom under the amended Articles for transactions by agreement between participants enabled the United States to use SDRs to acquire the equivalent of SDR 600 million in deutsche mark from the Federal Republic of Germany and SDR 500 million in Japanese yen from Japan. These transactions were part of the package of measures announced by the United States on November 1, 1978 to strengthen the U.S. dollar.

(ii) There was a record volume of SDR 1,080 million in transactions with designation. This occurred as a result of the policy of providing mainly SDRs instead of currencies from the General Resources Account to members using the Fund's resources. Members receiving SDRs in this way may either retain the SDRs or use them immediately in a transaction with designation to obtain foreign exchange.

(iii) Acquisitions of SDRs to promote reconstitution fell sharply from the high levels of recent years, mainly because of the reduced reconstitution requirement and the effect of resumed allocations of SDRs on members' current and projected average holdings of SDRs.

(iv) The allocation of SDRs as of January 1, 1979 might have been expected to be followed by a substantial volume of use of SDRs by participants with balance of payments financing needs, especially because of the simultaneous reduction in the reconstitution requirement. However, during the four months to the end of the financial year, the use of SDRs by participants from their holdings was rather modest. Thus, transactions with designation (excluding those that resulted from purchases of SDRs from the Fund's General Resources Account) amounted to SDR 74 million and repurchases to SDR 201 million, a total of SDR 275 million—less than 7 per cent of the allocation as of January 1, 1979 to all participants.

**Table 21. Summary of Transfers of SDRs, May 1, 1976–April 30, 1979**

(In millions of SDRs)

	Financial Years Ended April 30		
	1977	1978	1979
<b>Transfers by participants</b>			
To other participants			
In designation	119	398	1,080
By agreement	317	927	1,533
	<u>436</u>	<u>1,325</u>	<u>2,613</u>
To the Fund			
Repurchases	73	844	502
Charges	709	801	715
Quota payments	—	201	19
Other	24	41	59
	<u>805</u>	<u>1,887</u>	<u>1,295</u>
<b>Transfers by the Fund</b>			
To participants			
Purchases	25	662	1,106
Reconstitution	445	474	75
Remuneration	24	122	136
Other	—	29	58
	<u>495</u>	<u>1,287</u>	<u>1,375</u>
Total transfers	1,736	4,499	5,283
Fund holdings of SDRs at end of period	771	1,371	1,290

### Transactions by Agreement

The use of SDRs by participants in transactions by agreement with other participants amounted to SDR 1,533 million in 1978/79, compared with SDR 927 million in the previous year. The United States transferred SDR 1,100 million to the Federal Republic of Germany and Japan, as mentioned earlier, and the Netherlands transferred SDR 100 million to the Federal Republic of Germany in two transactions to settle obligations arising under the former European common margins arrangement. The remaining transactions involved use by Canada, the Federal Republic of Germany, and the Netherlands, which countries had high holdings of SDRs and maintained arrangements with the Treasurer's Department of the Fund for transfers of SDRs to other participants that wished to acquire them for any reason. In these cases, therefore, transactions were arranged at the initiative of the recipient, usually because SDRs were needed to promote reconstitution or to make payments to the Fund, for example, for repurchases or charges. Details of transactions by agreement in 1978/79 are shown in Table 22.

**Table 22. Use and Receipt of SDRs in Transactions by Agreement, Financial Year Ended April 30, 1979**

(In millions of SDRs)

Participant	Use	Receipt
Argentina	—	41.2
Bangladesh	—	7.6
Canada	47.9	—
Chile	—	0.2
Fiji	—	0.3
Finland	—	30.0
Germany, Fed. Rep. of	192.9	702.2
Ghana	—	1.2
Grenada	—	0.02
Haiti	—	1.5
Israel	—	62.0
Jamaica	—	1.1
Japan	—	500.0
Kenya	—	2.4
Korea	—	4.9
Madagascar	—	4.0
Mexico	—	50.0
Morocco	—	4.3
Netherlands	190.0	—
New Zealand	—	13.0
Pakistan	—	30.1
Panama	—	1.0
Papua New Guinea	—	5.5
Peru	—	6.3
South Africa	—	20.0
Sudan	—	1.2
Tanzania	—	3.9
Turkey	2.3	16.0
Uganda	—	3.3
United States	1,100.0	—
Uruguay	—	1.6
Yemen, People's Dem. Rep. of	—	0.8
Yugoslavia	—	17.5
Total	1,533.0	1,533.0

### Transactions with Designation

During the year, the Executive Board reviewed the principles and procedures for selecting participants for inclusion in the designation plan, but no changes were made.

The amounts of SDRs transferred in transactions with designation in 1978/79 totaled SDR 1,080 million, much higher than in any previous financial year. (See Appendix I, Table I.3.) An amount of SDR 1,006 million was used in transactions resulting from purchases in the Fund's General Resources Account, and the remaining amount (SDR 74 million) was used by 12 participants from their own holdings, following the allocation as of January 1, 1979. From September 1978 it became the practice in executing the quarterly operational budgets to sell SDRs in preference to currencies because the Fund's holdings of SDRs were at a high level. Including 17 non-oil exporting developing countries, 37 participants were designated to provide currency in transactions with designation. The largest amounts were provided by the United Kingdom (equivalent to SDR 335 million), Italy (SDR 122 million),

France (SDR 113 million), and India (SDR 88.6 million). Details of transactions with designation in 1978/79 are shown in Table 23.

Following the Second Amendment, designated participants may provide any currency that the Fund has determined is a freely usable currency as defined in the Articles of Agreement.<sup>13</sup> The Executive Board has decided that, until further notice, five currencies are freely usable currencies, namely, the deutsche mark, French franc, Japanese yen, pound sterling, and U.S. dollar.<sup>14</sup> Arrangements have been made with the issuers of these currencies for the prompt exchange of balances of these currencies for balances of any other freely usable currency that may be requested by participants using SDRs in transactions with designation.

The arrangements for the provision and exchange of currencies in transactions with designation worked smoothly during the financial year. In most transactions U.S. dollars were provided directly to the participants using SDRs (SDR 882 million); however, pounds sterling and French francs were also provided directly (SDR 67 million), French francs were provided and exchanged for deutsche mark and U.S. dollars (SDR 88 million), and U.S. dollars were provided and exchanged for deutsche mark and Japanese yen (SDR 44 million). Further details of currencies transferred against SDRs are presented in Table I.4 in Appendix I.

### Transactions and Operations Between Participants and the General Resources Account

The SDR holdings of the Fund's General Resources Account fell slightly during 1978/79 after increasing sharply over the preceding two financial years. Inflows from participants using SDRs to pay charges or to make repurchases declined, while total outflows rose reflecting a large increase in purchases of SDRs by participants partially offset by a fall in transfers to participants to promote reconstitution. The Fund's SDR holdings totaled SDR 1,290 million as of April 30, 1979, about 10 per cent of the total allocations to all participants.

### Inflows

Transfers to the General Resources Account totaled SDR 1,295 million in 1978/79, which was considerably lower than the record level of SDR 1,887 million in the previous year. Repurchases with SDRs instead of cur-

<sup>13</sup> A freely usable currency is a member's currency that the Fund determines (i) is, in fact, widely used to make payments for international transactions, and (ii) is widely traded in the principal exchange markets.

<sup>14</sup> Executive Board Decision No. 5719-(78/46), adopted March 31, 1978. See *Annual Report, 1978*, page 127.

**Table 23. Use and Receipt of SDRs in Transactions with Designation, Financial Year Ended April 30, 1979**  
(In thousands of SDRs)

Participant	Use	Receipt	Participant	Use	Receipt
Afghanistan	—	1,000	Lao People's Dem. Rep.	4,000	—
Argentina	—	23,500	Liberia	9,250	—
Austria	—	6,500	Malaysia	—	17,278
Brazil	—	25,300	Mali	3,200	—
Burma	11,500	—	Mauritius	10,470	—
Burundi	—	687	Mexico	—	9,152
Canada	—	2,000	Morocco	34,400	—
Chile	—	6,500	Nepal	4,500	—
Colombia	—	14,000	Netherlands	—	11,510
Denmark	—	3,000	Nicaragua	5,757	—
Dominican Republic	17,510	—	Norway	—	2,000
Ecuador	—	500	Peru	110,550	—
Egypt	60,000	—	Philippines	84,076	—
El Salvador	—	1,000	Romania	71,310	—
Ethiopia	7,335	—	Senegal	14,850	—
Finland	—	8,303	Solomon Islands	981	—
France	—	113,181	Spain	—	22,499
Gabon	10,028	—	Sri Lanka	53,000	—
Gambia, The	4,750	—	Sudan	24,352	—
Germany, Federal Republic of	—	39,550	Sweden	—	10,000
Ghana	44,631	—	Tanzania	8,824	1,000
Guinea-Bissau	2,176	—	Thailand	107,749	—
Guyana	8,875	—	Trinidad and Tobago	—	7,925
Honduras	—	975	Turkey	60,589	—
India	—	88,575	United Kingdom	—	334,650
Indonesia	—	32,585	United States	—	45,750
Iran	—	22,635	Uruguay	—	5,750
Iraq	—	17,957	Venezuela	—	7,300
Ireland	—	4,000	Western Samoa	2,537	—
Israel	53,000	—	Yemen Arab Republic	—	1,000
Italy	—	122,276	Yugoslavia	—	19,750
Jamaica	70,150	—	Zaire	11,944	—
Japan	—	29,800	Zambia	143,750	—
Kenya	23,905	—			
Korea	—	20,560	Total	1,079,949	1,079,949

rencies totaled SDR 502 million, compared with SDR 844 million in 1977/78, when Italy used SDR 575 million for this purpose. The largest amounts used for repurchases were by the United Kingdom (SDR 210 million), Israel (SDR 80 million), Chile (SDR 51 million), and South Africa (SDR 40 million). Apart from repurchases by the United Kingdom, more than 60 per cent of the repurchases with SDRs were made during the last four months of the financial year after the allocation of SDRs and the reduction in the reconstitution requirement as of January 1, 1979.

The payment of charges in SDRs amounted to SDR 715 million in 1978/79, somewhat lower than in the previous year because of lower average balances of members' currencies that were subject to charges. The largest amounts of charges were paid by the United Kingdom (SDR 152 million), Italy (SDR 92 million), and Spain (SDR 44 million).

In other payments to the Fund, Rwanda and Yugoslavia elected to use SDRs instead of their own currencies to pay part of their quota increases under the Sixth General Review of Quotas, and the Solomon Islands used SDRs it received in the allocation as of January 1,

1979 to pay part of its initial subscription as a new member of the Fund. These quota payments totaled SDR 19 million. Interest received on the Fund's holdings of SDRs in the General Resources Account totaled SDR 57 million.

## Outflows

The main avenue for outflows of SDRs from the General Resources Account in 1978/79 was in transfers to members making purchases. As explained above, transfers of SDRs in this way reached a record SDR 1,106 million, compared with SDR 662 million in the previous year. These transfers of SDRs accounted for 82 per cent of total purchases during the year that were financed through the Fund's operational budgets.

In May 1978, the Fund paid remuneration on members' net creditor positions for the year 1977/78, including amounts in SDRs totaling SDR 136 million to 36 members. Following the Second Amendment, remuneration is to be paid in SDRs, unless the member or the Fund decides that the payment should be made

in the member's own currency. The largest payments in SDRs were to the United States (SDR 57 million) and Japan (SDR 25 million).

Transfers to participants to promote reconstitution were only SDR 75 million, a sharp decline from SDR 474 million in 1977/78. This can be partly attributed to the fact that participants received SDRs in other ways, including purchases, transactions by agreement, and transactions with designation. The main factors, however, were the reduced reconstitution requirement and the allocation of SDRs, as mentioned above.

In other transfers, the Fund used SDR 12 million to pay interest and transfer charges on borrowings under the General Arrangements to Borrow and SDR 38 million to repay lenders under the oil facility. These payments were made to lenders that agreed to receive payment in SDRs rather than in currencies.

## Reconstitution

All participants, except Democratic Kampuchea,<sup>15</sup> fulfilled the reconstitution requirement during 1978/79. The change in the requirement for participants' average holdings of SDRs from 30 per cent to 15 per cent of average net cumulative allocations took effect for all five-year reconstitution periods ending after January 1, 1979. The monthly calculations, which are made to determine which participants need to acquire SDRs to meet the reconstitution requirement, were adapted so as to reflect the allocation as of January 1, 1979 and the projected allocations as of January 1, 1980 and 1981. As a consequence, the number of participants needing to acquire SDRs for reconstitution fell from 39 participants at the end of September 1978 to only 3 participants at the end of April 1979, and there were no acquisitions to promote reconstitution in the four months January–April 1979.

## Transactions and Operations in the General Resources Account

There was a net reduction in members' use of the Fund's resources for the second consecutive year, which can be partly attributed to the continued improvement in external financial positions of several members making large use of the Fund's resources and to the availability of funds from the international money and capital markets. (See Chart 18.) In addition, the repurchase commitments under the oil facility

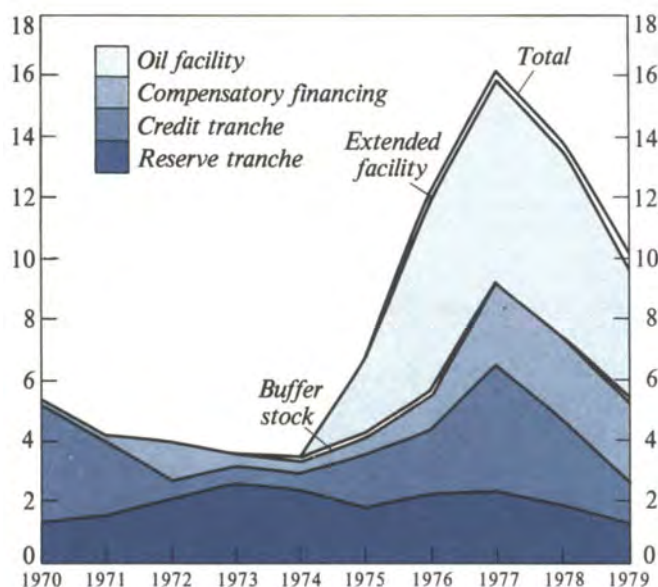
<sup>15</sup> In view of the repeated failure of Democratic Kampuchea to meet the reconstitution requirement and its failure to pay charges due on its SDR allocations, the Executive Board decided on December 19, 1978 to suspend the right of Democratic Kampuchea to use SDRs acquired after that date.

had begun to fall due during the year. Although total purchases increased to SDR 3.7 billion, about one half more than the aggregate in 1977/78, repurchases reached a total of SDR 4.9 billion, exceeding last year's record of SDR 4.5 billion. (See Table 24.) As a result, the amount of members' purchases to which repurchase provisions apply decreased further, from SDR 14 billion at the end of the previous financial year to about SDR 10 billion on April 30, 1979, representing the equivalent of about 26 per cent of total quotas.

As in the previous year, aggregate purchases and repurchases were influenced by relatively large transactions between the Fund and the industrial countries. Total purchases by industrial countries (SDR 2,375

**Chart 18. Use of Fund's Resources as at April 30, 1970–79**

(In billions of SDRs)



million) included the reserve tranche purchases by the Netherlands (SDR 100 million) and the United States (SDR 2,275 million); repurchases totaling SDR 2,467 million included those by the United Kingdom (SDR 1,621 million) and Italy (SDR 846 million). Industrial countries received the equivalent of SDR 137.5 million in the third distribution of gold.

During the year nonindustrial countries purchased the equivalent of SDR 1,345 million (SDR 1,122 million in the previous year) and reduced their indebtedness in the General Resources Account by SDR 1,047 million, compared with SDR 744 million during the previous financial year. Their share in the gold distribution was SDR 76.9 million. The payments from the Trust Fund in connection with the distribution of

**Table 24. Flow of Transactions in the General Resources Account and Resulting Stocks, Financial Years Ended April 30, 1974-79**

(In millions of SDRs)

Type of Transaction	Financial Year Ended April 30					
	1974	1975	1976	1977	1978	1979
Total purchases	1,058	5,102	6,591	4,910	2,503	3,720
Reserve tranche	607	981	1,324	161	136	2,480
Credit tranche	239	1,604	461	2,370	1,937	485
Buffer stock	—	—	5	—	—	48
Compensatory financing	212	18	828	1,753 <sup>1</sup>	322	465
Extended facility	—	—	8	190	109	242
Oil facility	—	2,499	3,966	437	—	—
Total repurchases	672	518	960	868	4,485	4,859
Gold sales	—	—	—	411	452	453
In connection with auctions	—	—	—	201	239	181
(i) Replenishment up to May 31, 1978 <sup>2</sup>	(—)	(—)	(—)	(201)	(239)	(—)
(ii) Competitive bids	(—)	(—)	(—)	(—)	(—)	(181)
Noncompetitive bids	—	—	—	—	—	51
In distributions	—	—	—	210	213	220
Outstanding borrowings	—	—	—	—	—	—
In connection with oil facility	—	2,499	6,465	6,702	6,329	4,257
Under the General Arrangements to Borrow	—	—	—	911	1,576	777
From Swiss National Bank	—	—	—	89	154	—
Holdings of the General Resources Account	—	—	—	—	—	—
Usable currencies <sup>3</sup>	6,500	10,100	7,800	5,300	11,200	8,800
SDRs	499	510	461	771	1,371	1,290
Gold <sup>2</sup>	5,370	5,370	5,370	4,959	4,507	4,055

<sup>1</sup> 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.

<sup>2</sup> Valued at SDR 35 per fine ounce.

<sup>3</sup> "Usable currencies" are those that are available to the Fund for net sales through the operational budget, except for those currencies held by the Fund in excess of quota. Since the Second Amendment became effective on April 1, 1978, the criterion for including currencies for net sales is that the members concerned have a balance of payments and reserve position that is considered "sufficiently strong" for that purpose.

profits and in loan disbursements amounted to about SDR 730 million.

All 14 stand-by arrangements that were approved in the year were, as in the previous year, with developing countries, for a total of SDR 507.9 million, which was less than one half the amount (SDR 1,285 million) approved in the previous year for 18 arrangements. At the end of the financial year, 15 members had outstanding stand-by arrangements that would permit, subject to observance of performance criteria, purchases of SDR 633.9 million. This total represented a sharp decline from the amount available a year earlier (SDR 3,130 million), which had included SDR 2,080 million under stand-by arrangements for Italy and the United Kingdom that had been approved in 1976/77 for periods longer than one year. At the end of the financial year, outstanding purchases in the upper credit tranches amounted to about 4 per cent of the total use being made of the Fund's resources, which was considerably below the level of about 10 per cent a year earlier.

Four extended arrangements were approved during the year, for a total of SDR 1,093 million, in support of three-year programs; three of these arrangements were for amounts in excess of 140 per cent of the members'

quotas because of their exceptional circumstances, particularly the balance of payments need relative to their quotas.

Purchases under the compensatory financing facility were made by 19 members, for a total of SDR 464.8 million, an increase of about 44 per cent over the total of SDR 321.8 million purchased by 9 members in the previous year. The sharp decline in the amount of use of the facility during the two years, following the record high of SDR 1,752.8 million purchased in 1976/77, reflected in part the increases in the prices of some raw materials.

The purchases by 2 members under the buffer stock financing facility amounted to SDR 47.6 million and represented the first use of the Fund's resources under this facility in connection with the financing of special stocks of sugar that were established under the 1977 International Sugar Agreement.

The Fund completed its third distribution of about 6.1 million fine ounces of gold, amounting to the equivalent of about SDR 214.5 million, to most of those countries that were members of the Fund on August 31, 1975. Under the provisions of the Second Amendment, all purchases of gold were at SDR 35 per fine ounce with the members' own currencies.

## Reserve Tranche Purchases

Purchases in the reserve tranche (formerly the gold tranche) recorded a sharp rise during the financial year 1978/79 to SDR 2,480 million (67 per cent of all the purchases during the period), compared with SDR 135.7 million in 1977/78 and SDR 160.6 million in 1976/77. The rise during 1978/79 was due almost wholly to two purchases totaling SDR 2,275 million made by the United States as part of a package of measures undertaken by the U.S. Government to strengthen the position of the U.S. dollar. The second largest purchase (SDR 100 million) was by the Netherlands in connection with the settlement of liabilities it incurred as a result of operations in support of its currency in the context of the European arrangements for maintaining margins of 2.25 per cent. The remaining purchases, totaling SDR 105.4 million, were made by 11 developing countries in amounts ranging from SDR 0.15 million (Swaziland) to SDR 32.5 million (Thailand); 5 of these members drew on their reserve tranche prior to subsequent purchases under stand-by arrangements in accordance with required procedures.

## Credit Tranche Purchases and Stand-By Arrangements

As in the previous year, most credit tranche purchases during the financial year were made under stand-by arrangements, but the total purchases were smaller, SDR 484.9 million, compared with SDR 1,936.8 million in 1977/78. The purchases in the previous year, however, were largely accounted for by the purchases by Italy (SDR 90 million) and the United Kingdom (SDR 1,250 million), which represented about 69.2 per cent of the total.

All the credit tranche purchases in 1978/79 were by nonindustrial countries, with Zambia purchasing the largest amount (SDR 125 million) in four transactions made under a two-year stand-by arrangement approved in April 1978 for SDR 250 million (177 per cent of quota). This arrangement reflected the member's exceptional economic circumstances and the size of its balance of payments deficit in relation to its quota. The other amounts purchased in the credit tranches were all for less than SDR 50 million.

During the year, 14 stand-by arrangements were approved for 13 members in amounts totaling SDR 507.9 million, of which the largest amount was for Peru (SDR 184 million), approved in September 1978 for a period of 27½ months. The previous arrangement for SDR 90 million approved for the period November 18, 1977–December 31, 1979, of which SDR 10 million had been drawn, was canceled.

The stand-by arrangement for Peru was the second stand-by arrangement approved by the Fund for use of the Fund's resources by a member above 200 per cent of its quota. The arrangement was in support of the Government's stabilization program in response to the balance of payments difficulties and inflation that had been building up over approximately the past four years and that had resulted in an acute foreign exchange crisis by the second quarter of 1978. Of the other 13 arrangements, all for one-year periods, those for Kenya (SDR 17.25 million), Liberia (SDR 9.25 million), Senegal (SDR 10.50 million), Thailand (SDR 45.25 million), and Uruguay (SDR 21 million) permitted drawings in the first credit tranche; those for Gabon (SDR 15 million), Ghana (SDR 53 million), and Portugal (SDR 57.35 million) were in the first and second tranches; those for Burma (SDR 30 million), Congo (SDR 4 million), and Guyana (SDR 6.25 million) were in the second and higher credit tranches. Panama canceled an arrangement before expiration, and a new one for a slightly larger amount (SDR 30 million) was approved; both arrangements provided for purchases in the first and upper credit tranches.

## Extended Fund Facility

Four three-year arrangements (for Egypt, Haiti, Jamaica, and Sri Lanka) were approved during the year for a total of SDR 1,092.5 million under the extended facility, which was established in September 1974 to provide medium-term assistance to members to meet balance of payments deficits for longer periods and in amounts larger in relation to quotas than under existing tranche policies. Of the three other arrangements concluded in previous financial years, those for Kenya (SDR 67.2 million) and the Philippines (SDR 217 million) expired during the year, whereas Mexico's arrangement was still in effect, with the original amount of SDR 518 million.

The amounts under the arrangements with Egypt, Jamaica, and Sri Lanka, which were in excess of the 140 per cent of quota limit, were approved in the light of their exceptional circumstances, particularly the balance of payments need relative to the member's quota. The arrangement for Jamaica, approved in June 1978, was for SDR 200 million (270.3 per cent of quota), of which SDR 70 million had been purchased as of April 30, 1979. The arrangement of SDR 600 million for Egypt (July 1978) represented 263.2 per cent of quota, the largest absolute amount approved so far under the facility; as of April 30, 1979, Egypt had purchased SDR 75 million under the arrangement. Sri Lanka's arrangement (January 1979) was for SDR 260.3 million (218.7 per cent of quota), of which SDR 40

million had been purchased as of April 30, 1979. Haiti's arrangement (October 1978) was the only one that was subjected to the normal limit of 140 per cent of quota (SDR 32.2 million). No purchases were made by Haiti during the year.

It may be noted that the total amount of SDR 1,894.7 million committed under the decision on the extended Fund facility up to April 30, 1979 is near the SDR 2 billion mark at which the Executive Directors decided to review the adequacy of the provisions of the decision relating to the extended Fund facility.<sup>16</sup> The Executive Board reviewed the decision in June 1979 and decided that no modification should be made to the decision for the time being, but that the functioning of the extended Fund facility should be reviewed again when the possibility of access to the supplementary financing facility came to an end.

### Compensatory Financing Facility

In 1978/79, 19 members purchased a total of SDR 465 million under the compensatory financing facility, bringing the total amount purchased in the last three financial years to SDR 2,539 million. During this three-year period, purchases under the compensatory financing facility accounted for 23 per cent of total purchases from the Fund, and 32 per cent of purchases other than those made in the reserve tranche or under the oil facility.

Purchases outstanding under the compensatory financing facility increased from SDR 2,668 million at the end of April 1978 to SDR 2,945 million at the end of April 1979. Repurchases are expected to be large in 1979/80, because the very large purchases made in 1976/77 (SDR 1,753 million) will enter into the normal three-year to five-year repurchase period. For that reason, outstanding purchases under the facility in 1979/80 are unlikely to exceed SDR 4 billion, which would trigger an automatic review of the facility.

During the financial year, the Executive Board devoted considerable attention to possible ways of improving the facility. In June 1978, the Board reviewed a joint Fund/Bank staff report on the stabilization of export earnings and transmitted that report to the Development Committee, together with the preliminary views expressed by Executive Directors. The Development Committee, at its meeting in September 1978, requested a further report, which will also be reviewed by the Board before being transmitted to the Committee for consideration in September 1979. The Board began its own review of the facility, giving particular attention to various proposals

<sup>16</sup> Executive Board Decision No. 5220-(76/144), adopted September 20, 1976 and reproduced in *Selected Decisions of the International Monetary Fund and Selected Documents* (Supplement to Eighth Issue, Washington, 1978), page 19.

made either for improving the existing Fund facility or for establishing additional compensatory financing facilities. This review is expected to be completed in 1979/80.

### Buffer Stock Facility

A total amount of SDR 48 million was purchased by two members under the buffer stock facility in 1978/79. The two purchases (by the Philippines and the Dominican Republic) were made in connection with special stocks of sugar constituted under the terms of the 1977 International Sugar Agreement. This agreement entered into force provisionally in January 1978.

Financial assistance under the buffer stock facility can also be provided in connection with members' contributions to the buffer stock facility established under the Fifth International Tin Agreement and loans to the International Cocoa Council, but no requests were made in this connection during 1978/79, since no stock was bought. Throughout the period, the market prices of both tin and cocoa remained above the level at which stocks could be purchased under the terms of the agreements.

### Supplementary Financing Facility

This facility was established on August 29, 1977 to enable the Fund to provide supplementary financing in conjunction with the use of the Fund's ordinary resources to members facing serious payments imbalances that are large in relation to their economies and their Fund quotas. It became operational on February 23, 1979 when the Austrian National Bank joined 12 other members or institutions in making resources available for the facility. The agreement with the Austrian National Bank raised the total amount available for the facility to SDR 7,754 million. (The minimum required for the facility to become operational was SDR 7.75 billion, including at least six agreements for amounts not less than SDR 500 million each.) A fourteenth Agreement was concluded on April 16, 1979 with the Banco de Guatemala (central bank of Guatemala) for SDR 30 million. This raised the total amount available for the facility to SDR 7,784 million.<sup>17</sup>

The main features of the facility are as follows:

(1) Members can use the facility only under a standby arrangement (normally of more than one year and might be up to three years) reaching into the upper credit tranches or under an extended arrangement (usually up to three years), subject to the usual policy conditions, phasing, and performance criteria.

<sup>17</sup> The individual lenders, amounts, and currencies to be made available under the agreements are given on page 78.



(2) The amounts available to a member will be apportioned between ordinary resources and supplementary financing in prescribed proportions as follows:

(a) The equivalent of 12.5 per cent of its quota along with its first credit tranche, and 30 per cent of its quota along with each of the upper credit tranches.

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

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

(3) Holdings resulting from these purchases will be subject to repurchase in equal semiannual installments that begin not later than three and one-half years, and are to be completed not later than seven years, after the purchase. The supplementary financing facility will be reviewed by the Executive Board not later than two years after its effective date, or earlier if the Seventh General Review of Quotas becomes effective before the end of the two-year period.

The supplementary financing facility was used for the first time in May 1979 when the Fund approved a request from Sudan to make purchases equivalent to SDR 200 million (227.3 per cent of Sudan's quota) over the next three years under the Fund's extended facility in support of a medium-term adjustment program. Purchases under the extended arrangement with Sudan will be financed in equal parts from the Fund's ordinary resources and from resources available under the Fund's supplementary financing facility.

On June 30, 1979, total purchases by three members financed with resources available under the supplementary financing facility amounted to SDR 47.1 million.

## Repurchases

The total repurchases made in the financial year amounted to the equivalent of SDR 4,859 million, which was about 8.3 per cent higher than the previous peak of SDR 4,485 million reached in 1977/78. Slightly over half the total (SDR 2,467 million) reflected repurchases by Italy (SDR 846 million) and the United Kingdom (SDR 1,621 million); over 27 per cent of the total (SDR 1,340 million) represented repurchases by 8 members with repurchases greater than SDR 100 million (Argentina, Finland, India, Korea, Mexico, South Africa, Spain, and Uruguay). The balance of SDR 1,052 million, or 22 per cent of the total, represented repurchases by the remaining 60 members that made repurchases during the financial year.

The largest amount, 53 per cent of the total, was repurchased with respect to purchases made under

stand-by and extended arrangements. About 43 per cent of total repurchases related to purchases made under the oil facility for 1974 and 1975. The remaining SDR 196 million represented mainly repurchases in respect of purchases made under the compensatory financing facility but also included SDR 22 million repurchased in connection with the third distribution of gold. Almost one half (SDR 2,391 million) of the total repurchases was discharged by seven members in advance of the due dates for repurchases, the largest part of which represented repurchases by two members, Italy (SDR 544.7 million) and the United Kingdom (SDR 1,538 million).

The Executive Board reviewed the experience with the guidelines for early repurchases adopted in March 1978.<sup>18</sup> Under these guidelines, members that have made purchases subject to the early repurchase provision of the amended Articles and whose balance of payments and reserve position is judged sufficiently strong in the context of the operational budget and designation plan are expected to make early repurchases in amounts that are based on the level of a member's gross reserves and on changes in these reserves. Specifically, members would be expected to repurchase holdings of their currency equivalent to 1.5 per cent of their latest gross reserves plus (minus) 5 per cent of the increase (decrease) in gross reserves over the latest six-month period for which data are available. Expected repurchases are limited to 4 per cent of a member's latest gross reserves and to an amount that would not reduce these reserves below 250 per cent of the member's quota. During the review of the guidelines, the Executive Board decided that cumulative expected repurchases during any period of four quarters should not exceed 10 per cent of a member's latest gross reserves. The amended guidelines also specify that a member's repurchases made in advance of maturity, or sales of its currency, that exceed the minimum reduction expected during a quarter would be taken into account when determining expected repurchases during the following five quarters.<sup>19</sup>

The total amount of early repurchases that were calculated for the quarterly periods June 1, 1978–May 31, 1979 was equivalent to SDR 2,498.5 million, and the period for repurchase of amounts calculated for the last quarter ended on May 31, 1979.

By April 30, 1979 early repurchases totaling SDR 1,885.5 million were met in part by maturing obligations (SDR 308.2 million), by advance repurchases and sales of currencies made before the calculations (SDR 985.2 million), and by repurchases made under the guidelines (SDR 592.1 million).

<sup>18</sup> See Executive Board Decision No. 5704-(78/39), adopted March 22, 1978. (See *Annual Report, 1978*, pages 125–26.)

<sup>19</sup> See Executive Board Decision No. 6172-(79/101), adopted June 28, 1979 and reproduced in Appendix II.

The equivalent of SDR 564.4 million was repurchased in partial and full discharge of obligations incurred under the former Article V, Section 7(b) as of April 30, 1977 and 1976. About one half of this amount accounts for repurchases by India (SDR 188.8 million) and Mexico (SDR 92.5 million).

## Operational Budget

Article V, Section 3(d) prescribes that the Fund shall establish policies and procedures for selection of currencies to be sold that take into account, in consultation with members, their balance of payments and reserve positions, and developments in the exchange markets, as well as the desirability of promoting over time balanced positions in the Fund.

During the year, the Executive Board reviewed the policies and procedures relating to the criteria for judging members' economic positions for the purpose of their inclusion in the quarterly operational budgets, and the role that the SDR should assume in the financing of transactions and operations of the General Resources Account. Pending the conclusion of these reviews, the operational budgets continued to be prepared and executed in a flexible manner, with the aim of using currencies in broad proportion to the individual amounts included in each budget. The proposed use of currencies and SDRs in Fund transactions and operations is subject to approval by the Executive Board, and is no longer agreed on the basis of consultations with member countries through their Executive Directors.

In view of the continued high level of the holdings of SDRs in the Fund's General Resources Account, and the emphasis on the role of the SDR as a means of payment, as well as to conserve its holdings of usable currencies, the Fund has included, in the operational budgets since March 1977, substantial proportions of SDRs in projected purchases, and has generally sold SDRs on a priority basis, i.e., before sales of currencies. Members were able to use SDRs immediately to receive currency through a transaction with designation, if they so desired. Of total sales to members through the operational budget amounting to SDR 1,345 million, about SDR 1,106 million (82 per cent) was made in SDRs. At the request of members, SDR 997.4 million was exchanged for currencies, mainly U.S. dollars.

During the first few months of the financial year, currencies of certain debtor members whose economic situation had sufficiently improved were included for sales in the operational budgets, as these members wanted to reduce their indebtedness by sales of their currencies in addition to making repurchases. Throughout the year currencies of members with

remunerated reserve positions have been included in amounts proportionate to their gold and foreign exchange holdings. (For all operational purposes, such as the designation plan, the operational budget, and early repurchases, the Fund continues to value gold held in members' reserves at SDR 35 per fine ounce.) In the latter part of the financial year, however, priority was given to sales of SDRs, and currencies were used only for payments of interest on the Fund's outstanding borrowings and for repayments of loans under the oil facility when these could not be executed simultaneously, with related repurchases by members. In view of the weakness of the U.S. balance of payments, U.S. dollars were not included for sales to other members. Nevertheless, at the option of lenders, the largest portion of the Fund's interest payments continued to be made with U.S. dollars. Furthermore, a large number of repayments to lenders under the oil facility and associated repurchases by members were also settled in U.S. dollars. However, most of these transactions were executed simultaneously so that the U.S. position in the Fund was not affected.

In accordance with established practice, large individual transactions were not included in the operational budgets. The use of currencies in repurchases totaling SDR 1.3 billion by the United Kingdom, related repayments to lenders under the General Arrangements to Borrow and the Swiss National Bank, and the reserve tranche purchases by the United States equivalent to SDR 2,275 million was authorized by the Executive Board on the basis of special budgets. These purchases were made in deutsche mark and Japanese yen and were financed from the Fund's own resources in the equivalent of SDR 1,498 million, and Fund's borrowings under the General Arrangements to Borrow equivalent to SDR 777.3 million. As a result, the holdings of deutsche mark and Japanese yen in the General Resources Account were significantly reduced. In order to restore these holdings to a level that would enable the Fund to respond to members' requests for purchases of these currencies in the future, operational budgets provided for the use of deutsche mark and Japanese yen in repurchases. Amounts for these currencies in the budgets were calculated in proportion to these members' reserve positions in the Fund, excluding their loan claims on the Fund.

The Fund's holdings of usable currencies, which had doubled during 1977/78, continued to increase during the first six months of the past financial year. They reached a peak of SDR 17 billion at the end of October 1978, when the holdings of four usable currencies (deutsche mark, French franc, Japanese yen, and U.S. dollar) totaled about 55 per cent of aggregate holdings of usable currencies (SDR 17 billion), with the U.S.

dollar representing 32 per cent of the total. However, largely as a result of the U.S. drawing in the reserve tranche during 1978/79, the holdings of usable currencies declined to SDR 8.8 billion on April 30, 1979, which was about 21 per cent below the level at the end of April 1978.

The large inflow of currencies during the first half of the year was mainly the result of members' subscription payments of about SDR 9.8 billion under the Sixth General Review of Quotas. But the marked decline in the volume of usable currencies during the remainder of the year was attributable mainly to the reserve tranche purchases by the United States, in November 1978, of deutsche mark and Japanese yen totaling SDR 2.3 billion. While the smaller purchase equivalent to SDR 777 million was financed by borrowings under the General Arrangements to Borrow, and had no impact on the volume of the Fund's usable resources, the larger purchase in the equivalent of SDR 1.5 billion, which was financed with the Fund's own resources, reduced the Fund's holdings of deutsche mark and Japanese yen to a level that no longer permitted the use of these currencies in payments by the Fund.

The total amount of the Fund's usable assets (usable currencies, SDRs, and gold) decreased during the year by about SDR 2.9 billion, to about SDR 14.1 billion on April 30, 1979. The holdings of SDRs decreased by about SDR 81 million, to SDR 1.29 billion. There was also a contraction of about SDR 6 billion in the volume of the Fund's immediate liquid liabilities (outstanding reserve positions, including loan claims on the Fund, and undrawn balances under current stand-by and other arrangements) to SDR 15.4 billion at the end of the financial year 1978/79, or about two thirds of the amount outstanding on April 30, 1978. This contraction was due largely to the repayments totaling about SDR 3.8 billion of loans made under the GAB and borrowing agreements for the financing of transactions under the oil facility. The Fund repaid in full the outstanding balance equivalent to SDR 1.7 billion of borrowings under the GAB and from the Swiss National Bank made for financing purchases by the United Kingdom and Italy. Furthermore, the balance of outstanding loans under the oil facility was reduced by the equivalent of about SDR 2.1 billion in connection with members' repurchases made under the facility.

During the financial year the Fund's outstanding indebtedness was reduced to about SDR 5 billion at the end of April 1979, compared with SDR 8.1 billion a year earlier. The claims on the Fund's assets were also reduced with the expiration of the stand-by arrangements for the United Kingdom and Italy, which provided for the use of Fund resources up to a total of SDR 2.1 billion at April 30, 1978. Thus, the amount

of liquid liabilities exceeded the Fund's usable assets by about SDR 1.3 billion at the end of the financial year 1978/79.

### **Borrowing by the Fund**

The Fund is authorized under its Articles of Agreement to supplement its resources by borrowing. Since 1973/74 the Fund has supplemented its resources by substantial borrowing from some of its members and Switzerland. But during 1978/79 there was a net reduction of about SDR 3 billion in the Fund's total outstanding borrowing, from about SDR 8 billion to about SDR 5 billion (13 per cent of total quotas at the end of April 1979). The Fund repaid all outstanding borrowings under the GAB, and from the Swiss National Bank, amounting to SDR 1.7 billion as of April 30, 1978, of which SDR 1.4 billion was repaid in connection with repurchases by the United Kingdom and Italy in respect of purchases under their respective stand-by arrangements. The remainder (SDR 297.8 million), which represented a claim by the United States under the GAB, also related to purchases by the United Kingdom, was repaid with the Fund's own resources. As a result of the reserve tranche purchases by the United States, the Fund's holdings of U.S. dollars had increased to a level sufficiently above working requirements to enable the Fund to make the repayment. In total, since April 1974 the Fund has borrowed or made arrangements to borrow up to the equivalent of about SDR 20 billion, about 50 per cent of the sum of members' quotas.

### **General Arrangements to Borrow**

The General Arrangements to Borrow (GAB), which enable the Fund to supplement its resources by borrowing, were originally concluded in 1962 between the Fund and ten industrial member countries. Subsequently, Switzerland became associated with the GAB under an agreement of June 11, 1964 with the Fund, which has been extended until October 23, 1980. The amendments to the provisions of the GAB to make them conform to the Second Amendment of the Articles of Agreement came into effect on August 11, 1978 when they were concurred in by all ten of the participants in the GAB. The GAB have been extended a number of times, and were last renewed for a period of five years from October 24, 1975. The Fund has to decide on their renewal and modification, if any, not later than 12 months before that period, namely, by October 23, 1979. The maximum credit available to the Fund through the GAB (excluding the Swiss National Bank) is the equivalent

of about SDR 6.5 billion in lenders' currencies. The balance available as of April 30, 1979 was SDR 5.8 billion.

During the year 1978/79, the only borrowings by the Fund under the GAB were for an amount equivalent to SDR 777.3 million to finance the reserve tranche purchase made by the United States, which comprised the equivalent of SDR 583 million from the Deutsche Bundesbank and SDR 194 million from Japan. The GAB have been used on prior occasions to help to finance transactions with the United Kingdom, France, and Italy. The borrowings from the Swiss National Bank on the occasion of the purchases by the United Kingdom and Italy in the previous year, which amounted to SDR 57.1 million and SDR 7.5 million, respectively, were subsequently repaid.

The Ministers and Governors of the Group of Ten endorsed the report of their Deputies on the adequacy and role of the GAB, which also noted that the amount of the GAB and the relative contributions by participants could be considered at the time of renewal. They also accepted the recommendation of the Deputies that the liquidity of the GAB claims should be enhanced to a similar degree as for the claims under the supplementary financing facility. In March 1979 the Executive Board decided to allow the transfer, under certain terms and conditions, of all or part of claims for repayment to certain GAB participants and the Swiss National Bank.

## Oil Facility

In the course of the year, the Fund repaid the equivalent of about SDR 2 billion to 17 lenders that had made loans to the Fund in connection with the oil facility. Several of the repayments were in advance of the original repayment schedules, as members made "early" repurchases under the guidelines that they attributed to the oil facility purchases. By April 30, 1979, the Fund had repaid the equivalent of SDR 2.6 billion of indebtedness incurred in connection with the oil facility; the balance of indebtedness on that date amounted to the equivalent of SDR 4.3 billion. (See Appendix I, Table I.12.)

## Supplementary Financing Facility

As noted in the 1978 Annual Report, the Fund decided to establish lines of credit from a group of lenders with strong external positions in order to be able to finance transactions under the supplementary financing facility on the scale envisaged and without endangering the Fund's liquidity. By April 30, 1979, a total of 13 Fund members and the Swiss National Bank had con-

cluded agreements to lend the Fund a total of SDR 7,784 million to finance transactions under the facility.<sup>20</sup> The individual lenders, amounts, and currencies to be made available under the agreements are as follows:

<i>Lender</i>	<i>Amount (millions of SDRs)</i>	<i>Currency</i>
Abu Dhabi	150	U.S. dollars
Austrian National Bank	50	U.S. dollars
National Bank of Belgium	150	Belgian francs
Canada	200	U.S. dollars
Deutsche Bundesbank	1,050	U.S. dollars
Banco de Guatemala	30	U.S. dollars
Japan	900	Japanese yen
Central Bank of Kuwait	400	Kuwaiti dinars
The Netherlands Bank	100	U.S. dollars
Central Bank of Nigeria	220	U.S. dollars
Saudi Arabian Monetary Agency	1,934	Saudi Arabian riyals
Swiss National Bank	650	U.S. dollars
United States	1,450	U.S. dollars
Central Bank of Venezuela	500	Venezuelan bolívars
<b>Total</b>	<b>7,784</b>	

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

The rate of interest payable by the Fund on the amounts made available to it will be at a rate equal to the average yield for each six-month period starting July 1, 1978 for U.S. Government securities with a maturity of five years, rounded upward to the nearest  $\frac{1}{8}$  of 1 per cent. For the six-month period ended June 30, 1979, this rate was 9.25 per cent a year. The first borrowing by the Fund on the resources available under the supplementary financing facility was made in May 1979, and at the end of June the Fund had borrowed a total of SDR 47.1 million from four lenders.

The creditor's loan claims on the Fund will be encashable on demand by the Fund if the creditor represents that it has a balance of payments need, and lenders will be able, without prior reference to the Fund, to transfer their claims to any other lender, any Fund member, or certain other official entities at prices agreed between the transferor and transferee. Thus, the creditor's loan claims on the Fund are highly liquid.

## Gold Sales

The Fund continued its gold sales program under which 50 million ounces (1,555 tons) of gold are to be sold over a four-year period. One half of this amount is to be sold at the former official price of SDR 35 an ounce to countries that were members of the Fund on August 31, 1975, and the profits from the sale of the other half are to be used for the benefit of developing countries. During the financial year, the Fund sold a total of 13.5 million fine ounces (416.9 tons) of gold.

<sup>20</sup> The lending of U.S. dollars by sources other than the United States is subject to the concurrence of the United States, which has been given.

Eligible member countries acquired 6.3 million ounces (196 tons); and 7.16 million ounces (222.7 tons) were sold to both competitive and noncompetitive bidders in the auctions.

## Gold Auctions

There were few changes in the Fund's gold auction procedures during the year. Auctions continued to be held once every month, as they had been since March 1977, but in view of gold sales to noncompetitive bidders—discussed below—the amount of gold auctioned each month was reduced from 525,000 ounces (16.3 tons) to 470,000 ounces (14.6 tons) beginning with the June 1978 auction and to 444,000 ounces (13.8 tons) from June 1979. In addition, the Executive Board reviewed and adjusted the terms and conditions for the auctions following the entry into force of the Second Amendment of the Fund's Articles. Since the Amend-

ment, member countries have been free to buy gold at any price, and thus official agencies of members are no longer restricted from participation in the auctions. However, no such participation has been recorded, apart from the noncompetitive bids received from developing countries described below. It also became possible for the Fund to sell gold directly on the market, rather than replenishing against gold its holdings of the currencies of some member countries, which in turn sold the gold to the Trust Fund at the official price.

The auctions, which since March 1978 have been held on the bid price method under which bidders pay the price they actually bid, continued to attract substantial participation. Bidding during the year ranged from 690,000 ounces (21.5 tons) in the November 1978 auction to about 1.5 million ounces (46.7 tons) in most of the auctions in 1979; bids in all auctions except one exceeded the amount on sale by more than 50 per cent, and frequently by more than 100 per cent. (See Table 25.) As in previous years, the major international

**Table 25. Fund Gold Auctions: Summary Statistics, June 2, 1976–July 3, 1979**

Date (1)	Pricing Method (2)	Place of Delivery (3)	Ounces Bid (Thou- sands) (4)	Sub- scription Ratio <sup>1</sup> (5)	Ounces Awarded to Noncom- petitive Bidders (6)	Competitive Bids				No. of Non- competitive Bids (11)	Price Range of Successful Bids (US\$ per fine ounce) (12)	Average Award Price (13)	Profits (In millions of U.S. dollars) (14)
						Number of bidders (7)	Successful (8)	Number of bids (9)	Successful (10)				
1976													
June 2	Common	New York	2,320.0	2.97	—	30	20	220	59	—	126.00–134.00	126.00	67.10
July 14	Common	New York	2,114.0	2.71	—	23	17	196	56	—	122.05–126.50	122.05	64.00
Sept. 15	Bid	New York	3,662.4	4.70	—	23	14	380	41	—	108.76–114.00	109.40	53.82
Oct. 27	Bid	New York	4,214.4	5.40	—	24	16	383	37	—	116.77–119.05	117.71	60.25
Dec. 8	Common	London	4,307.2	5.52	—	25	13	265	33	—	137.00–150.00	137.00	75.35
1977													
Jan. 26	Common	New York	2,003.2	2.57	—	21	15	192	49	—	133.26–142.00	133.26	72.50
Mar. 2	Bid	New York	1,632.8	3.11	—	21	7	187	14	—	145.55–148.00	146.51	55.60
Apr. 6	Bid	New York	1,278.0	2.43	—	18	11	136	22	—	148.55–151.00	149.18	57.02
May 4	Bid	New York	1,316.4	2.51	—	17	14	107	38	—	147.33–150.26	148.02	56.37
June 1	Common	New York	1,014.0	1.93	—	14	13	75	35	—	143.32–150.00	143.32	53.87
July 6	Common	Paris	1,358.4	2.59	—	15	15	83	35	—	140.26–145.00	140.26	52.16
Aug. 3	Common	London	1,439.2	2.74	—	18	16	136	44	—	146.26–150.00	146.26	55.31
Sept. 7	Bid	New York	1,084.4	2.07	—	15	11	115	21	—	147.61–149.65	147.78	56.24
Oct. 5	Bid	New York	971.2	1.85	—	17	12	103	32	—	154.99–157.05	155.14	59.97
Nov. 2	Bid	London	1,356.4	2.58	—	18	7	90	21	—	161.76–163.27	161.86	63.29
Dec. 7	Common	New York	1,133.6	2.16	—	19	19	108	58	—	160.03–165.00	160.03	62.13
1978													
Jan. 4	Common	New York	984.8	1.88	—	19	19	103	64	—	171.26–180.00	171.26	67.68
Feb. 1	Common	Paris	598.4	1.14	—	17	17	76	62	—	175.00–181.25	175.00	69.65
Mar. 1	Bid	New York	1,418.0	2.70	—	19	16	127	76	—	181.13–185.76	181.95	72.92
Apr. 5	Bid	New York	1,367.6	2.60	—	21	15	122	30	—	177.61–180.26	177.92	70.78
May 3	Bid	London	3,104.0	5.91	—	24	17	192	36	—	170.11–171.50	170.40	66.83
June 7	Bid	New York	1,072.4	2.28	925.2	21	15	137	28	5	182.86–183.92	183.09	195.64
July 5	Bid	New York	797.2	1.70	20.8	22	19	101	44	2	183.97–185.01	184.14	68.96
Aug. 2	Bid	New York	1,467.6	3.12	70.0	21	20	117	42	2	203.03–205.11	203.28	85.84
Sept. 6	Bid	New York	773.2	1.65	133.6	20	10	89	25	2	212.39–213.51	212.50	101.42
Oct. 4	Bid	London	805.6	1.71	134.4	18	12	76	25	1	223.57–224.62	223.68	107.74
Nov. 1	Bid	New York	689.6	1.47	80.0	14	7	50	24	1	223.03–230.00	224.02	98.37
Dec. 6	Bid	Paris	1,965.2	4.18	20.0	16	13	102	31	1	195.51–196.75	196.06	74.23
1979													
Jan. 3	Bid	New York	1,479.6	3.15	16.4	17	9	159	23	1	219.13–221.00	219.34	83.93
Feb. 7	Bid	New York	1,489.6	3.17	59.2	19	5	123	11	1	252.47–252.77	252.53	109.60
Mar. 7	Bid	London	1,534.4	3.26	—	18	17	127	50	—	241.28–243.26	241.68	92.62
Apr. 4	Bid	New York	1,186.8	2.53	—	17	14	107	44	—	238.71–240.27	239.21	91.37
May 2	Bid	New York	1,514.8	3.22	20.0	20	17	155	56	1	245.86–247.01	246.18	98.79
June 6	Bid	New York	1,452.4	3.27	—	19	5	109	19	—	280.22–281.37	280.39	104.73
July 3	Bid	New York	1,518.8	3.42	—	20	13	113	23	—	281.06–281.87	281.52	104.84

<sup>1</sup> The ratio of total bids to the amount on auction, i.e., 780,000 ounces in the auctions from June 1976 through January 1977, 525,000 ounces in auctions from March 1977 to May 1978, 470,000 ounces in auctions from June 1978 to May 1979, and 444,000 ounces since that time.

gold dealers usually participated in the auctions; during the year, the number of bidders ranged from 14 to 24, and that of successful bidders from 5 to 20. The sales price in the auctions remained close to, and over the year rose sharply parallel to, the price in the international gold market. The Fund's average sales prices generally were within a range of US\$1 above or below the average London fixing price on the day of the auction: a spread considerably lower than the average day-to-day fluctuation in market prices. Somewhat larger differences—once below and once above—occurred on two occasions when conditions in the market on the day of the auction were particularly volatile.

### Noncompetitive Bidding

Developing countries that can participate in the direct distribution of profits from gold sales had the option after the Second Amendment to purchase gold in the auctions through noncompetitive bids.<sup>21</sup> Members that retained this option were entitled to submit noncompetitive bids for that part of 25 million ounces of gold that corresponded to their share in Fund quotas on August 31, 1975 in one or more of the auctions that were held before the end of May 1979. Of the 104 member countries that were eligible to do so, 40 members, with a share in Fund quotas on August 31, 1975 of 14.6 per cent, retained the option and were thus entitled to submit noncompetitive bids up to a total of 3.7 million ounces (115.1 tons). Of these 40 members, 13 exercised the option and acquired 1.48 million ounces (46.0 tons) of gold; 9 countries bought the total amount they were entitled to purchase, while 4 members submitted noncompetitive bids for only a part of their entitlement. (See Table 26.)

The total proceeds of sales of gold during the financial year amounted to the equivalent of SDR 1,179.2 million, of which SDR 250.5 million represented the capital value of the gold sold and was added to the currency holdings of the General Resources Account, while the remainder (SDR 928.7 million) represented profits that accrued to the Trust Fund.

After completion of the third year of the gold sales program and the end of the period during which noncompetitive bids could be submitted, the Executive Board in May 1979 reviewed the gold sales policies and procedures, and decided upon the terms and conditions for the fourth and last year of the sales period. The only important change in the terms was a reduction in the amount of gold to be auctioned every month from 470,000 ounces (14.6 tons) to 444,000 ounces (13.8 tons). This adjustment was made in the light of the

**Table 26. Countries Submitting Noncompetitive Bids, June 1978–April 1979**

(In thousands of fine ounces)

Country	Entitlement	Award
Colombia	134.4	134.4
Cyprus	22.4	4.0
India	804.8	804.8
Kenya	41.0	41.0
Korea	68.8	68.8
Malaysia	159.2	159.2
Mauritius	18.8	18.8
Mexico	316.8	60.0
Nepal	10.8	10.8
Paraguay	16.4	16.4
Philippines	132.8	132.8
Tanzania	36.0	9.2
Uruguay	59.0	20.0
Subtotal	1,821.2	1,480.2
Other countries entitled to submit noncompetitive bids	1,844.6	
Total	3,665.8	

amount of gold sold to member countries in noncompetitive bidding, and permits an equal amount of gold to be sold in the 12 auctions in the last year of the sales program.

### Gold Distribution

The gold sales program pursuant to the arrangements agreed by the Interim Committee in August 1975 and January 1976 provided for sale of 25 million ounces of gold at the former official price of SDR 35 per fine ounce in four annual installments to all countries that were members of the Fund as of August 31, 1975 and to Papua New Guinea; each member's share was calculated in proportion to its quota as of that date. As part of the program, the Fund sold during the financial year a total of 6,297,320.573 fine ounces (195.9 tons) of gold (SDR 220.4 million) to 126 members. Virtually all of these sales represented the third distribution of gold to members, which amounted to 6,127,427.940 fine ounces—190.6 tons—(SDR 214.5 million). The remainder, 169,893.633 fine ounces—5.3 tons—(SDR 5.9 million), was sold at the beginning of the financial year to 5 of 11 members that for balance of payments reasons had postponed their participation in the previous distributions until after the Second Amendment came into effect, when they were able to make the purchase with their own currency. The 5 members were Madagascar, the Philippines, Sudan, Uganda, and Zaïre. Madagascar had requested postponement only in the second distribution, while the four others had postponed participation in both previous distributions. Sales to the other 6 members that had requested postponement in the first two distributions had been com-

<sup>21</sup> See *Annual Report, 1978*, page 71.



pleted in the previous financial year. Three of these—Barbados, Lesotho, and Zambia—had requested postponement of participation in both the first and second distributions; Bolivia, Morocco, and Peru had postponed participation only in the second distribution. The total gold sold includes 1,713.233 fine ounces (0.05 ton), amounting to SDR 59,963, that were purchased in July 1978 by Equatorial Guinea in respect of the second distribution, after a delay for technical reasons.

The bulk of the third gold distribution took place in December 1978, with sales of 5,741,543 fine ounces—178.6 tons—(SDR 201 million) to 90 members, while another 334,528 fine ounces—10.4 tons—(SDR 11.7 million) were sold in January 1979 to 33 members, and the remaining amount of 51,356 fine ounces—1.6 tons—(SDR 1.8 million) was sold to three members in February and March 1979.<sup>22</sup> With the completion of the third distribution, the Fund had sold a total of 18,384,401 fine ounces (571.8 tons) of gold (SDR 643.5 million) out of the 25 million ounces (777.6 tons) to be distributed.

The amended Articles provide for the sale of gold to all participating members in exchange for their own currency, with no handling charge being levied. The Fund's holdings of a member's currency in excess of quota acquired as a result of payments for gold are subject to charges at the rate that applies to holdings from a purchase in the credit tranches, and must be repurchased not later than two years after the sale of gold to the member. In March 1979 the Executive Board adopted a decision that requires a member whose balance of payments and reserve position is considered sufficiently strong in the context of operational budgets to repurchase within 30 days from the decision adopting the budget, or 30 days from the date of distribution, whichever is later.

## Charges and Remuneration

The rates of charges levied by the Fund remained unchanged during the financial year, although two amendments were made to the Rules that govern the charges levied by the Fund.

First, Rule I-7(5)(b)(i) governing the rate of charge levied by the Fund for the first 12 months that a purchase is outstanding was amended with effect from the date of the first allocation of SDRs in the third basic period (January 1, 1979). This amendment did not alter the rate of charge for the first 12 months, which remained at 4.375 per cent per annum. Rather, the

amendment has to do with the procedures for adjusting the rate of charge as it relates to the rate of remuneration. Prior to the amendment of the Rule, whenever the margin between the rate of charge for the first 12 months was reduced to less than  $\frac{1}{4}$  of 1 per cent above the rate of remuneration, the Executive Board was to promptly review the Fund's financial position, the rate of remuneration, and the rate of charge for the first 12 months and to take such action as it considered necessary to safeguard the financial position of the Fund. If a new decision on the rate of charge or on the rate of remuneration was not taken, then the rate of charge for the first 12 months would increase to  $\frac{1}{4}$  of 1 per cent above the rate of remuneration.

The amendment provides that the review of all aspects of the Fund's financial position by the Executive Board now shall take place whenever in any period of 6 successive months the Fund's total expenses exceed its income and further that the rate of charge for the first 12 months shall be  $\frac{1}{4}$  of 1 per cent above the rate of remuneration unless, as a result of the review of the Fund's financial position, the Executive Board decides within one month after the end of any 6-month period in which the Fund's expenses exceed its income that a different rate shall apply.

Second, in December 1978 the Fund reviewed the schedule of charges, adopted in April 1978, applicable to balances acquired by the Fund under the regular credit tranches (i.e., excluding those under a special policy) that would raise the Fund's holdings of a member's currency above 200 per cent of quota, or to balances that would raise the Fund's holdings of a member's currency acquired in purchases under the extended Fund facility to more than 140 per cent of quota. As a result of the review, it was decided that the schedule would apply to holdings acquired by the Fund as a result of stand-by or extended arrangements taking effect before the earlier of two dates—July 1, 1979, or the date on which the supplementary financing facility came into effect. This schedule ceased to apply after the supplementary financing facility became operational on February 23, 1979, except for outstanding arrangements that would permit drawings above the specified levels. At June 30, 1979 the Fund held the currency of one member in excess of 200 per cent of quota as the result of a purchase made under a stand-by arrangement taking effect prior to February 23, 1979. The rate of charge applicable to the amount in excess of 200 per cent of quota for the six months ended June 30, 1979 was 9.50 per cent per annum.

In May and June 1979 the first purchases were made under the supplementary financing facility. The rate of charges applicable to holdings resulting from such purchases for the six months ended June 30, 1979 was 9.45 per cent per annum (0.20 per cent

<sup>22</sup> Arrangements have not been completed with regard to the distribution to Democratic Kampuchea and the Republic of China.

above the rate of interest paid by the Fund on amounts borrowed from lenders under the supplementary financing facility).

The seven schedules of charges currently in effect are reproduced in Appendix I, Table I.14.

There was an important change during the year in the level of the interest rate on the SDR and the rate of remuneration on the creditor positions in the Fund. Following a review by the Executive Board, Rule T-1(b) was amended to set the rate of interest on the SDR at four fifths of an interest rate basket of the short-term market interest rates in the United States, the Federal Republic of Germany, the United Kingdom, France, and Japan, rounded to the nearest  $\frac{1}{4}$  of 1 per cent.<sup>23</sup> Concurrently, Rule I-10, which governs the rate of remuneration, was amended to make it equal to 90 per cent of the rate of interest on the SDR.<sup>24</sup> Prior to the amendment of these Rules, the rate of interest on the SDR and the rate of remuneration were the same and were equal to three fifths of the combined market rates,

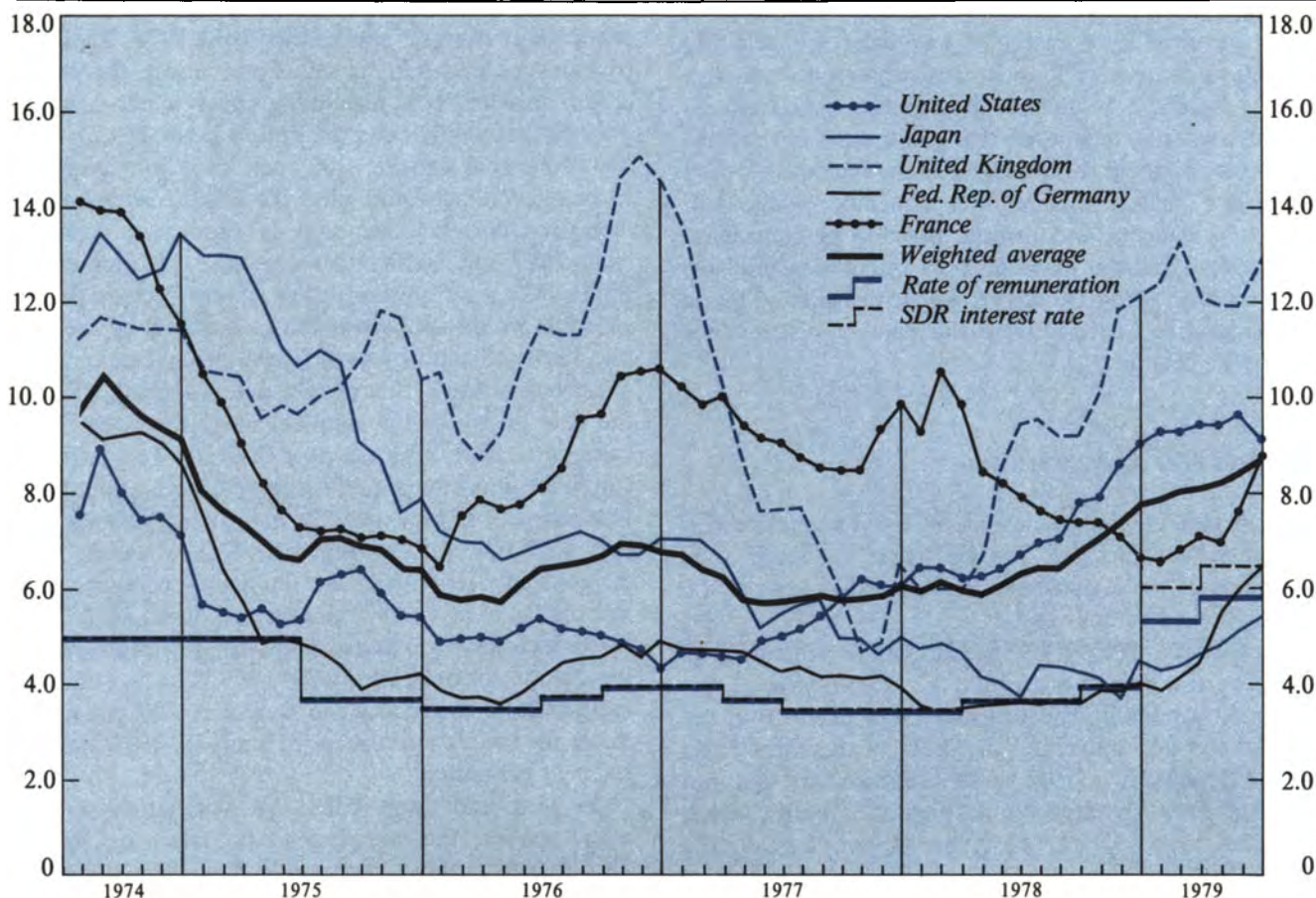
<sup>23</sup> Executive Board Decision No. 5933-(78/168) S, adopted October 25, 1978 and reproduced in Appendix II.

<sup>24</sup> Executive Board Decision No. 5934-(78/168), adopted October 25, 1978 and reproduced in Appendix II.

i.e., the weighted average of daily interest rates of specified market obligations in the financial markets of the United States, the Federal Republic of Germany, the United Kingdom, France, and Japan, rounded to the nearest  $\frac{1}{4}$  of 1 per cent. (The combined calculated market interest rate is based on short-term rates for the six-week period ending on the fifteenth day of the last month before the calendar quarter for which the rate is determined.) The amended Rules came into effect on January 1, 1979, the date of the first allocation of SDRs in the third basic period.

The interest rate on the SDR and the rate of remuneration, which were fixed at 3.75 per cent per annum at the beginning of the financial year, remained at that level for the calendar quarter beginning July 1, 1978, but were increased to 4 per cent per annum on October 1, 1978. In accordance with the amended Rule T-1(b) and, as a result of the increase in the combined calculated market rate, the rate of interest on the SDR was set at 6 per cent and the rate of remuneration at 5.4 per cent, i.e., at 90 per cent of the interest rate on the SDR, for the calendar quarter beginning January 1, 1979. The rates were increased further in the quarter

**Chart 19. Rate of Remuneration, SDR Interest Rate, and Short-Term Interest Rates, July 1974–June 1979<sup>1</sup>**



<sup>1</sup> 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 market rate (unconditional).

beginning April 1, 1979, following an increase in the combined calculated market rate, when the rate of interest on the SDR was set at 6.5 per cent and the rate of remuneration at 5.85 per cent. (See Chart 19.) As a result of the increase in the rate of interest on the SDR and in the rate of remuneration, the rates at which the Fund's holdings of currencies attract charges for the first two years have been below the rate of remuneration paid by the Fund since January 1, 1979.

The decisions taken with respect to the relationship of the rate of interest on the SDR to combined calculated market interest rates and of the rate of remuneration to the rate of interest on the SDR provide further that, shortly before the end of each financial year, the Fund shall consider whether the net income of the Fund for a financial year is adequate to permit the rate of remuneration to be raised to a level above 90 per cent but not above 100 per cent of the average annual rate of interest on the SDR. The review was made for the financial year ended April 30, 1979, and in the light of the changes that had taken place in the Fund's financial position it was decided not to raise the rate of remuneration for the period January 1–April 30, 1979 above 90 per cent of the rate of interest on the SDR, nor to reduce charges with effect from May 1, 1979.

## Income, Expenses, and Reserves

During the financial year ended April 30, 1979, the Fund's operational income from periodic charges, service charges, and interest on holdings of SDRs in the General Resources Account amounted to SDR 753 million, which represents a decrease of SDR 86 million (10 per cent) from that of the previous year. Operational expenses—the payment of remuneration on creditor positions and interest and transfer charges on Fund borrowing—decreased by a greater amount, by SDR 108 million (15 per cent), from SDR 742 million in 1978 to SDR 634 million in 1979. As a result, net operational income increased from SDR 98 million in 1978 to SDR 120 million in 1979. Administrative and other expenses increased by SDR 3 million, to SDR 73 million. For the financial year as a whole, the Fund had a surplus of income over expenses of SDR 46 million, compared with SDR 27 million in 1978. The surplus of income over expenses for the financial year ended April 30, 1979, which was the second surplus since 1970/71, was placed to the Special Reserve. The total reserves at April 30, 1979 amounted to SDR 760 million.

Income from periodic charges levied by the Fund on its average holdings of members' currencies amounted to SDR 678 million, which represents a decrease of 14 per cent from that of the previous year. (See Table 27.) The most significant factor contributing to this decrease

was the substantial repurchases (SDR 2,073 million) of balances outstanding under the oil facility. For the year as a whole excluding balances under the oil facility, there was a decline of SDR 1,156 million in the average daily balances on which the Fund levies charges. This decline in the average daily balances reflects the effects of the large volume of repurchases that took place at the end of 1977/78 and the excess of repurchases over purchases that occurred during 1978/79. Total outstanding purchases on which charges are levied declined from SDR 12.1 billion at April 30, 1978 to SDR 8.9 billion at April 30, 1979. Over the year, the average rate of charge, other than that applicable to the oil facility, increased from 4.77 per cent per annum to 5.04 per cent per annum, reflecting the progression in the rates of charges over the time that the balances remain outstanding.

Income from service charges decreased from SDR 11.8 million in 1977/78 to SDR 6.2 million in 1978/79, reflecting a lower volume of purchases in the credit tranches and under special policies of the Fund. Stand-by charges accruing to the Fund on undrawn amounts of stand-by arrangements amounted to SDR 11.9 million in 1978/79, against SDR 1.1 million in 1977/78.

Interest received on holdings of SDRs in the General Resources Account amounted to SDR 57.1 million, an increase of 43 per cent over the SDR 39.8 million received in 1977/78. This increase is attributable to an increase in the average daily balance of SDR holdings by the Fund and the increase in the average rate of interest on the SDR from 3.56 per cent per annum in 1977/78 to 4.42 per cent per annum in 1978/79. (See Table 27.)

In the financial year 1978/79, remuneration paid by the Fund on creditor positions decreased by 14 per cent from that of the previous year, to SDR 172 million. The decrease is attributable to a reduction in the average daily balances on which remuneration is paid, from SDR 5,636 million in 1977/78 to SDR 3,903 million in 1978/79, reflecting the effects in 1978/79 of the large volume of repurchases that occurred at the end of 1977/78 and during 1978/79 and the effects of the monthly gold sales on remunerated positions. While the average of the remunerated positions was reduced, the rate of remuneration increased considerably, rising on average from 3.56 per cent per annum in 1977/78 to 4.40 per cent in 1978/79. (See Table 27.)

The net decrease of SDR 3,025 million in the outstanding borrowing by the Fund, from SDR 8,059 million on April 30, 1978 to SDR 5,034 million on April 30, 1979, reflected repayments of SDR 2,072 million by the Fund of amounts borrowed under the oil facility in connection with members' repurchases. In addition, during the year net repayments by the Fund to lenders under the GAB and under the agree-

**Table 27. Summary of Average Rates of Periodic Charges, Interest on SDR Holdings, Remuneration, and Interest on Borrowing, Financial Years Ended April 30, 1978 and 1979**

(Balances and charges in millions of SDRs)

	1979	1978	1979	1978
	Including the oil facility		Excluding the oil facility	
Income from periodic charges				
Average daily balances	10,868	13,007	5,474	6,630
Total charges for the period	678.1	786.6	275.9	316.0
Average annual rate	6.24	6.05	5.04	4.77
Interest on SDR holdings				
Average daily balances	1,293	1,118	1,293	1,118
Total interest for the period	57.1	39.8	57.1	39.8
Average annual rate	4.42	3.56	4.42	3.56
Combined income				
Average daily balances	12,161	14,125	6,767	7,748
Total income for the period	735.2	826.4	333.0	355.8
Average annual rate	6.05	5.85	4.92	4.59
Remuneration expense				
Average daily balances	3,903	5,636	3,903	5,636
Total remuneration for the period	171.7	200.9	171.7	200.9
Average annual rate	4.40	3.56	4.40	3.56
Interest on borrowing				
Average daily balances	6,953	8,116	1,539	1,600
Total interest for the period	458.1	537.1	70.7	71.5
Average annual rate	6.59	6.62	4.60	4.47
Combined expense				
Average daily balances	10,856	13,752	5,442	7,236
Total expense for the period	629.8	738.0	242.4	272.4
Average annual rate	5.80	5.37	4.45	3.76
Excess of average daily income-earning balances over average daily interest-costing balances	+1,305	+373	+1,325	+512
Margin between the combined average annual rate of income and the combined average rate of expense	+0.25	+0.48	+0.47	+0.83
Excess of periodic charges and interest on SDR holdings over remuneration and interest	+105.4	+88.4	+90.6	+83.4

ment with the Swiss National Bank amounted to SDR 953 million. Interest paid on all outstanding borrowing decreased from SDR 537 million in 1978 to SDR 458 million in 1979. Of these amounts, SDR 387 million was paid under the oil facility borrowing agreements (SDR 465 million in 1978), and SDR 71 million was paid under the GAB and other borrowing (SDR 72 million in 1978).

The combined average cost of all capital resources provided to the Fund increased to 5.80 per cent in 1978/79, from 5.37 per cent in 1977/78. This increase was attributable mainly to the increase in the rate of remuneration paid by the Fund on members' creditor positions. There was also an increase in the average annual rate of income earned by the Fund, from 5.85 per cent in 1978 to 6.05 per cent in 1979.

Although for the financial year as a whole there was a positive spread between the average annual rate of income and the average annual rate of expense, the spread became negative during April 1979. This is the result of the considerable rise in the rate of remuneration, which since January 1, 1979 has exceeded the rate of charge for the first two years that balances are

outstanding. Consequently, the Fund's income dropped significantly in the latter part of the financial year and was prevented from developing into a deficit position by the fact that balances on which the Fund earns income at April 30, 1979 exceeded balances on which the Fund incurs costs by SDR 1,356 million. For the year as a whole, this excess averaged SDR 1,305 million (SDR 1,325 million, exclusive of the oil facility).

### The Subsidy Account

The Subsidy Account, which is administered by the Fund, was established by the Executive Board on August 1, 1975 to assist the Fund's most seriously affected (MSA) members to meet the cost of using the 1975 oil facility; 18 such members received payments from the Account for a total of SDR 551.03 million (Table 28). The Subsidy Account, like the Trust Fund, constitutes an arrangement that is separate from the Fund's own accounts and resources. The Subsidy Account was established to reduce the effective rate of annual charge payable on drawings under the 1975 oil

**Table 28. Subsidy Account: Total Use of 1975 Oil Facility by Most Seriously Affected (MSA) Members and Subsidy Paid for the Years Ended April 30, 1978 and 1979<sup>1</sup>**

(In millions of SDRs)

Country	Total Use of 1975 Oil Facility	Subsidy at 5 Per Cent for Year Ended	
		April 30, 1978	April 30, 1979
Bangladesh	40.47	2.02	2.00
Cameroon	11.79	0.59	0.58
Central African Empire	2.66	0.13	0.13
Egypt	31.68	1.58	1.58
Haiti	4.14	0.21	0.20
India	201.34	7.46	2.17
Ivory Coast	10.35	0.52	0.23
Kenya	27.93	1.40	1.37
Mali	3.99	0.20	0.20
Mauritania	5.32	0.27	0.26
Pakistan	111.01	5.55	5.41
Senegal	9.91	0.50	0.48
Sierra Leone	4.97	0.25	0.24
Sri Lanka	34.13	1.71	1.69
Sudan	18.30	0.92	0.90
Tanzania	20.61	1.03	0.99
Western Samoa	0.42	0.02	0.02
Yemen, People's Democratic Republic of	12.02	0.60	0.58
Total	551.03	24.95	19.10

<sup>1</sup> Purchases began in July 1975 and continued until May 1976. The subsidy amounts shown are calculated as a percentage per annum of the average daily balances, subject to charges, of the Fund's holdings of each eligible member's currency outstanding under the 1975 oil facility during the year. Since the average cost of using the facility is about 7.7 per cent per annum, a rate of subsidy of 5 per cent would reduce the effective cost of using the facility by MSA countries to 2.7 per cent.

facility by about 5 percentage points per annum. The actual amounts of annual subsidy payments to eligible members are calculated as a percentage per annum of the average daily balances, subject to charges, of the Fund's holdings of each eligible member's currency outstanding under the 1975 oil facility.

The Subsidy Account is funded by contributions from 24 members of the Fund and Switzerland (Table 29). These contributions are received either in U.S. dollars or in the member's own currency with immediate conversion into U.S. dollars. The funds have been invested in U.S. Treasury bills or notes, as far as possible, on dates appropriate to the disbursement requirements of the Subsidy Account. Contributions totaling SDR 160.5 million are anticipated over the life of the Account, and contributions, either in whole or in part, from all members and Switzerland, amounted to some SDR 120.9 million as of April 30, 1979. Among the contributing countries, Austria, Canada, Italy, Luxembourg, the Netherlands, Norway, South Africa, and Switzerland have paid their contributions in full. During 1978/79, Brazil, the Federal Republic of Germany, Sweden, Venezuela, and Yugoslavia completed payment of their full contributions;

and further installments were received from Australia, Belgium, Finland, France, Japan, New Zealand, Spain, and the United Kingdom.

For the financial year ended April 30, 1979, the Executive Board decided that the rate of subsidy would continue to be 5 per cent as in the previous three years, thus reducing the effective interest cost to recipients from about 7.7 per cent to 2.7 per cent per annum. This rate involved payments by the Subsidy Account totaling SDR 13.8 million in 1975/76, SDR 27.5 million in 1976/77, SDR 24.9 million in 1977/78, and SDR 19.1 million for the year ended April 30, 1979. (See Table 28.) The reduction in the amount of subsidy reflected repurchases made with respect to drawings under the oil facility.

The 1975 decision establishing a Subsidy Account was amended in November 1978 in order to permit any surplus, after provision has been made to pay the original beneficiaries at the rate of 5 per cent, to be used to make payments at a rate not exceeding 5 per cent to seven additional beneficiaries, namely, Grenada, Malawi, Morocco, Papua New Guinea, the Philippines, Zaïre, and Zambia. With the addition of these members, the list of beneficiaries includes all members eligible to receive assistance from the Trust Fund that

**Table 29. Subsidy Account: Contributions**

(In millions of SDRs)

Contributor	Anticipated Total Contributions <sup>1</sup>	Contributions Received as of April 30, 1979
Australia	5.700	4.570
Austria	2.300	2.300
Belgium	5.600	3.360
Brazil	1.850	1.850
Canada	9.500	9.500
Denmark	2.200	0.960
Finland	1.600	1.200
France	12.900	9.773
Germany, Fed. Rep. of	13.700	13.719
Greece	0.600	0.150
Iran	6.000	4.500
Italy	8.600	8.600
Japan	10.300	6.348
Luxembourg	0.110	0.108
Netherlands	6.000	6.000
New Zealand	1.700	0.918
Norway	2.100	2.100
Saudi Arabia	40.000	19.810
South Africa	1.350	1.350
Spain	3.400	1.960
Sweden	2.800	2.800
Switzerland	3.285	3.285
United Kingdom	12.050	8.876
Venezuela	6.000	6.000
Yugoslavia	6.900	0.900
Total	160.545	120.938

<sup>1</sup> In some cases, subject to final agreement on amount and 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.



have used the 1975 oil facility. The Subsidy Account, however, does not as yet hold a surplus of assets that could be used to make payments to these additional beneficiaries. Moreover, the exact timing of remaining contributions is not known, and a reasonable estimate of investment income on these amounts cannot yet be made.

## The Trust Fund

The Trust Fund, established by the Executive Board in May 1976 and administered by the Fund, provides additional balance of payments assistance on concessionary terms to eligible developing member countries that qualify for assistance by carrying out programs of balance of payments adjustment.<sup>25</sup> The resources of the Trust Fund comprise profits realized from the sale of 25 million ounces of the Fund's gold for the benefit of developing countries in accordance with the views expressed at the Interim Committee meeting in September 1975, income from investments, income from loans already made to members, and other transfers to the Trust.

As mentioned in the 1978 Annual Report, the Executive Board decided that the operations of the Trust Fund would be divided into two periods, each of two years' duration. The first of the two-year periods ended on June 30, 1978, and the second period covers the two years July 1, 1978–June 30, 1980. Profits from the sale of 12.5 million ounces of gold are available for disbursements in each of the two periods of the Trust Fund. The disbursements are made on the basis of quotas in the Fund in 1975.

For the Trust Fund's first two-year period, total profits from the sale of gold were about US\$1,305 million, of which US\$363 million was paid directly—as agreed in principle by the Interim Committee—to 104 developing members with 27.77 per cent of Fund quotas as of August 31, 1975. The amount of profit paid to each member was calculated on the basis of its share of Fund quotas at August 31, 1975. The remainder of the profits from gold sales was thus available to the Trust Fund to provide loan assistance. Of the eight members of the Organization of Petroleum Exporting Countries (OPEC), six have made irrevocable transfers of their shares of profits to the Trust Fund in order to increase the Trust's resources for loan assistance. Yugoslavia made a similar transfer of one third of its share of profits, and Romania has decided to lend 10 per cent of its share. As mentioned in the 1978

Annual Report, balance of payments assistance of over US\$1 billion (SDR 841 million) was provided to 43 of the 61 eligible members that had qualified for the first period.<sup>26</sup>

The total amount of loans made to qualified members in the Trust's first period (SDR 841 million) represented over 40 per cent of these members' quotas (the equivalent of more than one and a half tranches), or one half or more of the assessed need for almost three fourths of the qualified members. Moreover, for almost all the 23 members that used the Fund's resources and received Trust loans, the total of Fund-related financing covered the assessed needs in the program periods. During the first period of the Trust Fund the total amount of Trust assistance, including the distribution of profits, amounted to SDR 1,133 million, which exceeded the amount of balance of payments financing received by these members from the Fund itself.

For the Trust Fund's second period, 59 members are eligible for assistance; compared with the list for the first period, Guatemala, Mauritius, and Paraguay are excluded and Zambia has been added. Loans are to be made on the basis of 12-month balance of payments programs, of at least first credit tranche conditionality, that are separate from the ones used as the basis of loans for the first period. Moreover, in considering a program for the second period, the Fund as Trustee must take into account the progress made by the member toward strengthening its balance of payments position under the program in the first period. The Trust Instrument provides that these programs are to begin no later than May 1, 1980. The terms and conditions of the loans are otherwise the same as those in the first period. The Trust loans must be the same percentage of members' quotas on December 31, 1975, subject to any limitation of need as decided by the Trustee after a re-examination if necessary. The loans are being made in U.S. dollars, but the amounts of the loans are denominated in SDRs. They bear interest at a rate of  $\frac{1}{2}$  of 1 per cent per annum, which is payable half-yearly in currency specified by the Fund (U.S. dollars, so far), and, unless otherwise decided, are to be repaid in ten semiannual installments between six and ten years from the dates of the loan disbursements. With these provisions and at the current levels of market interest rates, the loans have a grant content of about 50 per cent. Moreover, there is the provision that toward the end of five years after the first interim disbursement, namely, about January 1982, the Trustee shall review the terms of repayment on the basis of uniform criteria. It has also been decided that, to the extent practicable, the Trust shall make loans at quar-

<sup>25</sup> The establishment and operation of the Trust Fund were discussed in *Annual Report, 1978*, pages 76–78, *Annual Report, 1977*, pages 66–67, and *Annual Report, 1976*, pages 60 and 111–17. The report of the Audit Committee for the year ended April 30, 1979 is reproduced in Appendix VIII.

<sup>26</sup> See *Annual Report, 1978*, pages 77 and 108.



terly intervals during the remainder of the second period.

The profits from sales of gold in the Trust's second period to July 1979 totaled US\$1,426 million. Of this amount, US\$396 million was to be paid directly to the 104 members in July 1979 in the third of the annual distributions of profits. The remainder of the profits, together with irrevocable transfers by certain OPEC members and Yugoslavia and investment income less valuation adjustments and expenses, totaled SDR 890 million (about US\$1,160 million). This amount, which is available for loans, was used to make interim loan disbursements in January and July 1979 to the members that had qualified for the July 1979 disbursements. (See Appendix I, Table I.15.) The interim disbursements are made on the assumption that all 59 eligible members will qualify for loans in the second period.

As mentioned in the 1978 Annual Report, the assets held in the Trust pending disbursement were held throughout the first period in U.S. Government obligations, with the concurrence of the United States. It was also mentioned that, in the light of the international character of the Trust and in order to maintain the assets for loans in terms of the SDR, the Executive Board as Trustee had decided in June 1978 that, in principle, the investments of the Trust should be held in SDR-denominated assets or in a combination of currencies that would, to the maximum extent practicable, correspond to the composition of the SDR basket. It was also decided that the Trustee could consider placing SDR-denominated deposits with the BIS. SDR deposits were made with the BIS in the period July–November 1978 with the profits from the monthly auctions that were to be held for subsequent loan assistance.

The decision on investment diversification was reviewed in December 1978, at which time the Executive Board reaffirmed the earlier principle and decided to broaden considerably the decision to invest in SDR-denominated deposits. The decision on Trust Fund diversification now provides that if the Managing Director considers an offer by the BIS as not sufficiently attractive, he must inform the Executive Board and make other proposals for investment in SDR-denominated obligations, which may include obligations of international financial organizations or members or national official financial institutions of members or commercial banks.<sup>27</sup> On each occasion since December 1978, the Managing Director has found the offers by the BIS to be satisfactory in the light of comparable market rates and prevailing conditions, and all the SDR deposits so far have been made with the BIS. The deposits with the BIS in the year to

July 1979 totaled SDR 825 million at an average interest rate of 8.6 per cent per annum. The maturities of these deposits were up to one year; thus, some have already matured and have been used for loan payments or reinvested in deposits with the BIS.

The remainder of the Trust's assets held for the distribution of profits continued to be invested in U.S. Government obligations. In all its investments, the Trustee continued the practice, as far as possible, of investing funds as soon as they were available for investment with maturities matching the expected timing and amounts of Trust disbursements.

## Training and Technical Assistance

Training and technical assistance continued to be made available to member countries in the fields of fiscal, monetary, and balance of payments policies, banking, mobilization of domestic savings, exchange and trade systems, government finance, and statistics. This assistance included training at headquarters, staff missions, and the stationing of staff members and outside experts in member countries and was in addition to the assistance that was made available to members through the Fund's regular consultation procedures under Article IV. During the year the Executive Board carried out a thorough review of the policies and practices of the Fund's specialized technical assistance services and decided that, in future, such reviews would take place not less frequently than every five years.

During the financial year, the IMF Institute conducted nine training courses, which were attended by 253 officials of governments and central banks of member countries. Since its inception in 1964, Institute courses have been attended by 2,380 officials from 132 member countries.

The Institute's main course, on Financial Analysis and Policy, was conducted twice in English and once each in French and Spanish. The course, which runs for 19 weeks in English and 21 weeks in French and Spanish, presents an exposition of the Fund's procedures and policies, examines the modern tools of economic analysis and forecasting, and provides a thorough study of the instruments of monetary, fiscal, and balance of payments policies that are used to achieve economic objectives under changing national and international conditions.

The 8-week course on Balance of Payments Methodology was presented twice (in English) this year in collaboration with the Bureau of Statistics. It concentrates on the balance of payments concepts and definitions used in the Fund and serves as a medium for assisting member countries in their efforts to improve their balance of payments statistics. The 10-week course

<sup>27</sup> Executive Board Decision No. 5973-(78/189) TR, adopted December 4, 1978 and reproduced in Appendix II.

on Public Finance, offered twice (in French and Spanish) in cooperation with the Fiscal Affairs Department, deals with the objectives, instruments, and procedures of public finance, emphasizing the fiscal problems of developing countries. In addition, a 5-week course on Government Finance Statistics was conducted for the first time in Spanish in cooperation with the Bureau of Statistics. It presents the concepts, definitions, and procedures set out in the *Draft Manual on Government Finance Statistics* for compiling statistics from accounts of the government and other parts of the public sector.

The Central Banking Service has continued to provide technical assistance on all aspects of the establishment, organization, and operation of central banks or similar monetary institutions. During the past financial year, 56 member countries, 2 territories of present members, and 5 multinational institutions received technical assistance, either in the form of outside experts recruited by the Fund or through the provision of advisory services by regular staff members.

Experts on long-term assignments (six months or more) served in advisory or executive capacities in 46 countries and 5 multinational institutions and short-term consultants visited 3 additional countries. The assignment of these experts provided technical assistance primarily in research and statistics, organization and management, and bank supervision. However, the assistance also covered foreign exchange operations or exchange control, general banking operations, accounting, and the establishment of training programs. All experts are required to train local staff. Experts are, for the most part, drawn from present or past staff of established central banks, but while in the field receive support and specialized assistance from staff at headquarters.

The technical assistance provided through advisory services is 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, including the World Bank. These services cover a wide range of central banking and related activities, such as drafting or amending central and general banking legislation (in cooperation with the Fund's Legal Department), administration and organization of central monetary authorities, and development of local financial markets and institutions. Much of this work is carried out by staff at headquarters, but the advice is supplemented by visits in the field when a review of specific recommendations becomes desirable. During the financial year ended April 30, 1979, advisory services requiring staff missions were provided to 15 countries.

The Fiscal Affairs Department has again provided technical assistance through staff missions, staff assign-

ments in the field, and use of the services of members of the panel of fiscal experts. The principal fields in which assistance was given were tax policy, tax and customs administration, budget systems and procedures, accounting, auditing and financial reporting, and general financial management. The number of countries utilizing all forms of technical assistance was 35, compared with 41 in the previous financial year. Five countries received assistance for the first time. Of the 59 individual field assignments carried out in the financial year, 38 were long-term assignments and 21 short-term assignments, while 359 man-months were spent in the field. Technical assistance work for the year was divided among 37 panel members and 24 staff members. As part of the continuing review, members of the staff visited a number of countries to inspect progress and to advise on requests for further assistance. Another important element of technical assistance provided by the Fiscal Affairs Department is the work of staff members at headquarters in supporting and controlling the work of field experts.

Technical assistance in the statistical field has continued to be provided by the Bureau of Statistics. Such assistance has included the improvement of existing central bank bulletins and the establishment of new bulletins, as well as assistance to members in the compilation of balance of payments and government finance statistics. The assistance took the form of lectures, discussions, and work on data with national officials and technicians, using concepts and classification standards for the assembly of data relevant to the analysis of monetary and payments problems. In improving the statistical control of central bank bulletins, the emphasis has been on the presentation of financial and general statistics. In its assistance in the fields of balance of payments and government finance statistics, the Bureau has focused on applying to national source materials the conceptual framework and classification standards given in the Fund's *Balance of Payments Manual* and the *Draft Manual on Government Finance Statistics*. This assistance has been supported by courses in these areas of statistics given by the IMF Institute in Washington.

During the financial year, the Bureau's overall technical assistance activities resulted in 53 visits to 43 countries and in a substantial improvement of the statistics assembled in central banks, ministries of finance, and other data-compiling agencies.

## Relations with Other International Organizations

The Fund's enhanced role under the Second Amendment emphasized the importance of its relationships

with other international and regional organizations in the economic and financial area. Close collaboration on matters of common concern was maintained with the World Bank; the United Nations (UN) and its relevant organs; the Organization for Economic Cooperation and Development (OECD); the General Agreement on Tariffs and Trade (GATT); the Commission of the European Communities (CEC); the Bank for International Settlements (BIS); the Organization of American States (OAS), particularly its Inter-American Economic and Social Council and its Permanent Executive Committee (CEPCIES); and regional financing and development institutions in Africa, Asia, Latin America and the Caribbean, and the Middle East. Representatives of those organizations were present as observers at the Annual Meeting of the Board of Governors of the Fund, held jointly with that of the World Bank and its affiliates, in Washington in September 1978. Several of them also attended the two meetings of the Interim Committee held in Washington, one just before the Annual Meeting and the other on March 7, 1979, as well as meetings of the Development Committee held just prior to and during the Annual Meeting.

Full-scale liaison activities are carried out by the Special Representative to the United Nations; the European Office in Paris, particularly with regard to the OECD, CEC, and the BIS; and the Geneva Office, especially with the UN Conference on Trade and Development (UNCTAD), the GATT, and other relevant agencies. This is supplemented by specific assignments of senior officials and technical specialists from headquarters, as well as resident representatives in the field, as required. These contacts involve attendance at meetings at ministerial, plenary, and subsidiary levels, participation in seminars and expert groups, informal exchange of views, and exchange of pertinent documents and information, often on a year-round basis.

The Managing Director participated in the meeting of the OECD Ministerial Council on June 15, 1978, at which he spoke on the problem of balance of payments adjustment and the importance of flexible demand management policies and appropriate differentiation of growth rates. The annual address to the UN Economic and Social Council (ECOSOC) was delivered on behalf of the Managing Director by the Economic Counsellor of the Fund on July 10, 1978. During the year under review, the Managing Director continued to monitor the arrangements on sterling balances administered by the BIS, with the support of the central banks of the Group of Ten countries and Switzerland, until the termination of those arrangements, along with the BIS facility, on February 7, 1979. The Managing Director also attended the monthly meeting of the BIS in Basle

in September 1978, when the sterling arrangements were reviewed. He also attended the first 1979 regular session of the UN Administrative Committee on Coordination (ACC) in Geneva, and other staff participated in preparatory and subsidiary interagency meetings. Concurrently with meetings of the Interim Committee, the Managing Director also attended meetings of the Ministers of the UNCTAD Intergovernmental Group of Twenty-Four on International Monetary Affairs and meetings of the Group of Ten ministers and governors of central banks, while staff members attended meetings at the Deputies' level, as well as other Group of Ten Deputies' meetings.

Standing arrangements with the GATT for collaboration with respect to consultations with common members on trade restrictions imposed for balance of payments reasons entailed staff participation in those consultations and the provision of pertinent documents. Staff representatives also attended the 34th session of the CONTRACTING PARTIES and meetings of the Council of Representatives and Working Party on Specific Duties, and kept close watch on developments in the Multilateral Trade Negotiations that were concluded in April 1979.

Aid coordination and debt renegotiation efforts involving developing countries are among the particular concerns of the Fund. The Fund took part in meetings of the World Bank's Consultative Groups on Aid Coordination for Egypt, the Philippines, Thailand, and Zambia; the India and Pakistan consortia; and the Aid Groups for Bangladesh, Burma, Nepal, and Sri Lanka, also held under the auspices of the World Bank. In addition, the Fund provided technical assistance and participated in meetings relating to the Caribbean Group for Cooperation in Economic Development, an aid group organized by the World Bank. As in previous years, Fund representatives participated in meetings and provided pertinent documents to the Inter-Governmental Group on Indonesia (IGGI), convened by the Government of the Netherlands, and attended meetings of the OECD-sponsored Turkish Consortium. Fund staff also took part in international coordination meetings on a financial and economic recovery plan for Zaïre, convened by the Belgian Government in Brussels; meetings on debt rescheduling for Peru, convened by the Government of France under the framework of the Paris Club; an informal meeting of creditors of Gabon, held in Paris under the auspices of the French Government; and meetings of the OAS Joint Commission for the Implementation of External Cooperation with Haiti, held in Port-au-Prince.

Reflecting its experience in economic and financial matters, the Fund was called upon to provide technical

assistance to a number of international and regional organizations. At the request of the Center for Latin American Monetary Studies (CEMLA), an expert was assigned to develop a training program in bank examination and supervision, and, as before, staff lecturers contributed to CEMLA's training program on monetary policy and programming in Mexico City and Washington. In response to a request from the South-East Asian Central Bank's (SEACEN) Research and Training Centre, a study was prepared on the monetary policy experience of SEACEN countries, which also involved staff participation in a seminar held in Kuala Lumpur and presentation of an overview of the study at the Annual Governors Conference of SEACEN at Baguio, Philippines. Technical specialists from the Fund gave lectures at the East African Management Institute's Workshop in Public Finance and Taxation held in Arusha, Tanzania, and at the 12th South-East Asia, New Zealand and Australia (SEANZA) Central Banking Course held in Seoul, Korea. In cooperation with the BIS, the OECD, and the World Bank, and at the request of the Group of Ten and Switzerland, the Fund assisted in preparation of a brochure setting out the kinds of information about countries' external indebtedness that are presently made publicly available by international organizations.

Commodity matters, on which the Fund focuses particular attention in connection with its compensatory financing and buffer stock facilities, occasioned staff attendance at the UN Cocoa Conference, 1979; the UN Conference on Olive Oil, 1979; the UN Conference on Natural Rubber, as well as Preparatory Group meetings; the resumed UN Conference to Negotiate an International Arrangement to Replace the International Wheat Agreement, 1971, as extended, and meetings of the Conference's Interim Committee; meetings of the UNCTAD's Integrated Program for Commodities, including its Negotiating Conference on a Common Fund, the 5th and 6th Preparatory Meetings on Copper and the Working Group on Copper, the 3rd Preparatory Meeting on Cotton and Cotton Yarns, and the 6th Preparatory Meeting on Jute. Fund representatives also attended the 32nd Session of the International Coffee Council and the 25th Assembly of the International Rubber Study Group.

As follow-up to a conference of experts on the methodology of balance of payments analysis held in 1976, the Fund conducted a Conference on Methods of Assessing Countries' External Positions, at the Paris Office in October 1978, which was attended by official experts from 13 industrialized member countries of the Fund and Switzerland, plus representatives of the OECD, the BIS, and the European Communities.

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

Membership in the Fund rose from 134 to 138, and participation in the Special Drawing Rights Department from 128 to 137 during 1978/79. The four new members, which also became participants in the Special Drawing Rights Department, were the Solomon Islands, which joined the Fund on September 22, 1978, with a quota of SDR 2.1 million; Cape Verde, on November 20, 1978, with a quota of SDR 2 million; Dominica, on December 12, 1978, with a quota of SDR 1.9 million; and Djibouti, on December 29, 1978, with a quota of SDR 3.8 million. Five members—Lebanon, Libyan Arab Jamahiriya, Saudi Arabia, Singapore, and the United Arab Emirates—that had not previously been participants in the Special Drawing Rights Department deposited their instruments of participation with the Fund before December 31, 1978. Accordingly, they were able to take part in the allocation of special drawing rights for the third basic period, for which the first allocation was made as of January 1, 1979. At the end of the financial year, applications for membership by St. Lucia and St. Vincent were under consideration by the Executive Board.

The Executive Directors extended the period for consent to increases in quotas under the Board of Governors Resolution on Increases in Quotas of Members—Sixth General Review until October 31, 1978. However, by September 13, 1978, all eligible members except one had consented to increases under the Resolution, and had completed payment for their increases, which brought them into effect. Democratic Kampuchea did not consent to its increase in quota within the period provided. Singapore consented to an increase that was less than the full amount specified by the Board of Governors Resolution.

Provisions for a further increase in quotas under the Seventh General Review of Quotas are discussed on pages 61–62.

With the increases in quotas under the Sixth General Review and the quotas of new members, the aggregate of quotas of Fund members on April 30, 1979 was SDR 39,011.2 million, compared with SDR 32,346.4 million a year earlier.

## **Executive Directors and Staff**

A list of Executive Directors and their voting power on April 30, 1979 is given in Appendix IV. The changes in membership of the Executive Board during 1978/79 are shown in Appendix V.

In the year ended April 30, 1979, there were 80 appointments to the Fund's regular staff and 87 separations. At the end of the financial year, the staff numbered 1,379 and was drawn from 87 countries. These figures do not include Advisors and Assistants to Executive Directors.

### **Publications**

The list of publications issued by the Fund during 1978/79 is shown in Appendix I, Table I.19.

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# **Appendix I**

## **The Fund in 1978/79**

The tables in this appendix supplement the information given in Chapter 3 on the activities of the Fund during the financial year ended April 30, 1979. In some tables in this appendix, however, data covering longer periods are included, viz., Table I.1 on exchange rates and exchange arrangements, Table I.14 setting out the charges on the use of the Fund's resources, Table I.15 on the distribution of profits from gold sales, Table I.16 on Trust Fund loans, and Table I.18 on increases in quotas.

**Table I.1. Exchange Rates and Exchange Arrangements, June 30, 1979**

(Currency units per unit listed)

Member	Currency	Exchange Rate Maintained Against						Other currencies in a cooperative arrangement <sup>2,3</sup>	Exchange Rates Otherwise Determined <sup>2,4</sup>
		U.S. dollar <sup>1</sup>	Pound sterling <sup>1</sup>	French franc <sup>1</sup>	Other single currency <sup>1</sup>	Special drawing right <sup>1</sup>	Currency composite other than SDR <sup>2</sup>		
Afghanistan	Afghani	—	—	—	—	—	—	—	43.50
Algeria <sup>5</sup>	dinar	—	—	—	—	—	3.8625	—	—
Argentina	peso	—	—	—	—	—	—	—	1,316.50
Australia	dollar	—	—	—	—	—	—	—	0.891981
Austria	schilling	—	—	—	—	—	13.5825	—	—
Bahamas <sup>5</sup>	dollar	1.00	—	—	—	—	—	—	—
Bahrain	dinar	—	—	—	—	—	—	—	0.38585
Bangladesh <sup>5</sup>	taka	—	33.00	—	—	—	—	—	—
Barbados	dollar	2.00	—	—	—	—	—	—	—
Belgium <sup>5</sup>	franc	—	—	—	—	—	—	29.615	—
Benin	franc	—	—	50.00	—	—	—	—	—
Bolivia	peso	20.00	—	—	—	—	—	—	—
Botswana	pula	0.828157	—	—	—	—	—	—	—
Brazil <sup>5</sup>	cruzeiro	—	—	—	—	—	—	—	25.515 <sup>6</sup>
Burma	kyat	—	—	—	—	8.50847	—	—	6.590
Burundi	franc	90.00	—	—	—	—	—	—	—
Cameroon	franc	—	—	50.00	—	—	—	—	—
Canada	dollar	—	—	—	—	—	—	—	1.1678
Cape Verde	escudo	—	—	—	—	—	37.49531	—	—
Central African Empire	franc	—	—	50.00	—	—	—	—	—
Chad	franc	—	—	50.00	—	—	—	—	—
Chile	peso	—	—	—	—	—	—	—	36.89
China	new Taiwan dollar	—	—	—	—	—	—	—	36.00
Colombia <sup>5</sup>	peso	—	—	—	—	—	—	—	42.71 <sup>6</sup>
Comoros	franc	—	—	50.00	—	—	—	—	—
Congo	franc	—	—	50.00	—	—	—	—	—
Costa Rica <sup>5</sup>	colón	8.57	—	—	—	—	—	—	—
Cyprus	pound	—	—	—	—	—	0.352734	—	—
Denmark	krone	—	—	—	—	—	—	5.31	—
Djibouti	franc	117.721	—	—	—	—	—	—	—
Dominica <sup>5</sup>	East Caribbean dollar	2.70	—	—	—	—	—	—	—
Dominican Republic <sup>5</sup>	peso	1.00	—	—	—	—	—	—	—
Ecuador <sup>5</sup>	sucre	25.00	—	—	—	—	—	—	—
Egypt <sup>5</sup>	pound	0.70	—	—	—	—	—	—	—
El Salvador	colón	2.50	—	—	—	—	—	—	—
Equatorial Guinea <sup>5</sup>	ekuele	—	—	—	—	90.00	—	—	69.71
Ethiopia <sup>5</sup>	birr	2.07	—	—	—	—	—	—	—
Fiji	dollar	—	—	—	—	—	0.82939	—	—
Finland	markka	—	—	—	—	—	3.897	—	—
France	franc	—	—	—	—	—	—	4.285	—
Gabon	franc	—	—	50.00	—	—	—	—	—
Gambia, The	dalasi	—	4.00	—	—	—	—	—	—

APPENDIX I (continued). THE FUND IN 1978/79



Germany, Federal	deutsche mark	—	—	—	—	—	—	1.8482	—
Republic of	cedi	—	—	—	—	—	—	—	2.75
Ghana <sup>5</sup>	drachma	—	—	—	—	—	—	—	36.824
Greece									
Grenada <sup>5</sup>	East Caribbean dollar	2.70	—	—	—	—	—	—	—
Guatemala	quetzal	1.00	—	—	—	—	—	—	—
Guinea	syli	—	—	—	—	24.6853	—	—	19.1196
Guinea-Bissau	peso	—	—	—	—	44.00	—	—	34.08
Guyana	dollar	2.55	—	—	—	—	—	—	—
Haiti	gourde	5.00	—	—	—	—	—	—	—
Honduras	lempira	2.00	—	—	—	—	—	—	—
Iceland <sup>5</sup>	króna	—	—	—	—	—	—	—	344.00
India	rupee	—	—	—	—	—	—	—	8.001291
Indonesia	rupiah	—	—	—	—	—	—	—	625.00
Iran <sup>5</sup>	rial	—	—	—	—	—	—	—	70.475
Iraq	dinar	0.295314	—	—	—	—	—	—	—
Ireland <sup>5</sup>	pound	—	—	—	—	—	—	0.489956	—
Israel	pound	—	—	—	—	—	—	—	25.2451
Italy <sup>5</sup>	lira	—	—	—	—	—	—	832.75	—
Ivory Coast	franc	—	—	50.00	—	—	—	—	—
Jamaica	dollar	1.78142	—	—	—	—	—	—	—
Japan	yen	—	—	—	—	—	—	—	217.00
Jordan	dinar	—	—	—	—	0.387	—	—	0.299745
Kampuchea, Democratic <sup>7</sup>		—	—	—	—	—	—	—	—
Kenya	shilling	—	—	—	—	9.66	—	—	7.482
Korea	won	485.00	—	—	—	—	—	—	—
Kuwait	dinar	—	—	—	—	—	0.27586	—	—
Lao People's Democratic Republic	kip of liberation	400.00	—	—	—	—	—	—	—
Lebanon	pound	—	—	—	—	—	—	—	3.245
Lesotho	rand	—	—	—	1.00 <sup>8</sup>	—	—	—	—
Liberia	dollar	1.00	—	—	—	—	—	—	—
Libya	dinar	0.296053	—	—	—	—	—	—	—
Luxembourg <sup>5</sup>	franc	—	—	—	—	—	—	29.615	—
Madagascar	franc	—	—	50.00	—	—	—	—	—
Malawi	kwacha	—	—	—	—	1.05407	—	—	0.816414
Malaysia	ringgit	—	—	—	—	—	2.1766	—	—
Maldives <sup>5</sup>	rupee	3.93	—	—	—	—	—	—	—
Mali	franc	—	—	100.00	—	—	—	—	—
Malta	pound	—	—	—	—	—	0.357398	—	—
Mauritania	ouguiya	—	—	—	—	—	45.87	—	—
Mauritius <sup>5</sup>	rupee	—	—	—	—	7.713759	—	—	5.97458
Mexico	peso	—	—	—	—	—	—	—	22.84
Morocco <sup>5</sup>	dirham	—	—	—	—	—	3.90405	—	—
Nepal <sup>5</sup>	rupee	12.00	—	—	—	—	—	—	—
Netherlands	guilder	—	—	—	—	—	—	2.03	—
New Zealand	dollar	—	—	—	—	—	—	—	0.988826
Nicaragua <sup>5</sup>	córdoba	10.00	—	—	—	—	—	—	—
Niger	franc	—	—	50.00	—	—	—	—	—
Nigeria	naira	—	—	—	—	—	—	—	0.641026
Norway	krone	—	—	—	—	—	5.098	—	—
Oman	rial Omani	0.3454	—	—	—	—	—	—	—
Pakistan	rupee	9.90	—	—	—	—	—	—	—

APPENDIX I (continued). THE FUND IN 1978/79

**Table I.1 (concluded). Exchange Rates and Exchange Arrangements, June 30, 1979**

(Currency units per unit listed)

Member	Currency	Exchange Rate Maintained Against						Other currencies in a cooperative arrangement <sup>2,3</sup>	Exchange Rates Otherwise Determined <sup>2,4</sup>
		U.S. dollar <sup>1</sup>	Pound sterling <sup>1</sup>	French franc <sup>1</sup>	Other single currency <sup>1</sup>	Special drawing right <sup>1</sup>	Currency composite other than SDR <sup>2</sup>		
Panama	balboa	1.00	—	—	—	—	—	—	—
Papua New Guinea	kina	—	—	—	—	—	0.710289	—	—
Paraguay <sup>5</sup>	guaraní	126.00	—	—	—	—	—	—	—
Peru <sup>5</sup>	sol	—	—	—	—	—	—	—	225.18 <sup>6</sup>
Philippines	peso	—	—	—	—	—	—	—	7.35
Portugal	escudo	—	—	—	—	—	—	—	49.043 <sup>6</sup>
Qatar	riyal	—	—	—	—	—	—	—	3.7435
Romania <sup>5</sup>	leu	12.00	—	—	—	—	—	—	—
Rwanda	franc	92.84	—	—	—	—	—	—	—
São Tomé and Príncipe	dobra	—	—	—	—	45.25	—	—	35.0477
Saudi Arabia	riyal	—	—	—	—	—	—	—	3.375
Senegal	franc	—	—	50.00	—	—	—	—	—
Seychelles	rupee	—	13.3333	—	—	—	—	—	—
Sierra Leone	leone	—	—	—	—	1.36693	—	—	1.05874
Singapore	dollar	—	—	—	—	—	2.1745	—	—
Solomon Islands	dollar	—	—	—	0.95238 <sup>9</sup>	—	—	—	—
Somalia <sup>5</sup>	shilling	6.2950	—	—	—	—	—	—	—
South Africa <sup>5</sup>	rand	—	—	—	—	—	—	—	0.847458
Spain	peseta	—	—	—	—	—	—	—	66.008
Sri Lanka	rupee	—	—	—	—	—	—	—	15.625
Sudan <sup>5</sup>	pound	0.40	—	—	—	—	—	—	—
Suriname	guilder	1.785	—	—	—	—	—	—	—
Swaziland	lilangeni	—	—	—	1.00 <sup>8</sup>	—	—	—	—
Sweden	krona	—	—	—	—	—	4.2797	—	—
Syrian Arab Republic	pound	3.925	—	—	—	—	—	—	—
Tanzania	shilling	—	—	—	—	—	8.24489	—	—
Thailand	baht	—	—	—	—	—	20.425	—	—
Togo	franc	—	—	50.00	—	—	—	—	—
Trinidad and Tobago	dollar	2.40	—	—	—	—	—	—	—
Tunisia	dinar	—	—	—	—	—	0.408725	—	—
Turkey <sup>5</sup>	lira	—	—	—	—	—	—	—	35.35
Uganda	shilling	—	—	—	—	9.66	—	—	7.482
United Arab Emirates	dirham	—	—	—	—	—	—	—	3.80
United Kingdom <sup>5</sup>	pound	—	—	—	—	—	—	—	0.46117
United States	dollar	—	—	—	—	—	—	—	1.00
Upper Volta	franc	—	—	50.00	—	—	—	—	—
Uruguay <sup>5</sup>	new peso	—	—	—	—	—	—	—	7.918
Venezuela <sup>5</sup>	bolívar	4.2925	—	—	—	—	—	—	—
Viet Nam <sup>5</sup>	dong	—	—	—	—	2.66358	—	—	2.06304
Western Samoa <sup>5</sup>	tala	—	—	—	—	—	—	—	0.8884
Yemen Arab Republic	rial	4.5625	—	—	—	—	—	—	—
Yemen, People's Democratic Republic of	dinar	0.345395	—	—	—	—	—	—	—

Yugoslavia	dinar	—	—	—	—	—	—	19.0978
Zaire <sup>5</sup>	zaire	—	—	—	—	—	—	1.54777
Zambia	kwacha	—	—	—	—	0.976311	—	0.756187

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

<sup>2</sup> Market rates in currency units per U.S. dollar.

<sup>3</sup> Belgium, Denmark, France, the Federal Republic of Germany, Ireland, Italy, Luxembourg, and the Netherlands are participating in the European Monetary System and maintain maximum margins of 2.25 per cent (in the case of the Italian lira, 6 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.

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

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

<sup>5</sup> Member maintains multiple currency practices and/or dual exchange market. A description of the member's exchange system as of December 31, 1978 is given in the *Annual Report on Exchange Arrangements and Exchange Restrictions, 1979*.

<sup>6</sup> Exchange rates adjusted according to a set of indicators.

<sup>7</sup> Information not available.

<sup>8</sup> Per South African rand.

<sup>9</sup> Per Australian dollar.

**Table I.2. Allocation of Special Drawing Rights, January 1, 1979**

Participant	SDRs	Participant	SDRs
Afghanistan	4,680,000	Lesotho	728,000
Algeria	29,640,000	Liberia	3,848,000
Argentina	55,640,000	Libya	19,240,000
Australia	82,160,000	Luxembourg	3,224,000
Austria	34,320,000	Madagascar	3,536,000
Bahamas	3,432,000	Malawi	1,976,000
Bahrain	2,080,000	Malaysia	26,312,000
Bangladesh	15,808,000	Maldives	93,600
Barbados	1,768,000	Mali	2,808,000
Belgium	92,560,000	Malta	2,080,000
Benin	1,664,000	Mauritania	1,768,000
Bolivia	4,680,000	Mauritius	2,808,000
Botswana	936,000	Mexico	55,640,000
Brazil	69,160,000	Morocco	15,600,000
Burma	7,592,000	Nepal	1,976,000
Burundi	2,392,000	Netherlands	98,592,000
Cameroon	4,680,000	New Zealand	24,128,000
Canada	141,128,000	Nicaragua	3,536,000
Cape Verde	208,000	Niger	1,664,000
Central African Empire	1,664,000	Nigeria	37,440,000
Chad	1,664,000	Norway	30,680,000
Chile	22,568,000	Oman	2,080,000
China	57,200,000	Pakistan	29,640,000
Colombia	20,072,000	Panama	4,680,000
Comoros	239,200	Papua New Guinea	3,120,000
Congo	1,768,000	Paraguay	2,392,000
Costa Rica	4,264,000	Peru	17,056,000
Cyprus	3,536,000	Philippines	21,840,000
Denmark	32,240,000	Portugal	17,888,000
Djibouti	395,200	Qatar	4,160,000
Dominica	197,600	Romania	25,480,000
Dominican Republic	5,720,000	Rwanda	2,392,000
Ecuador	7,280,000	São Tomé and Príncipe	208,000
Egypt	23,712,000	Saudi Arabia	62,400,000
El Salvador	4,472,000	Senegal	4,368,000
Equatorial Guinea	1,040,000	Seychelles	135,200
Ethiopia	3,744,000	Sierra Leone	3,224,000
Fiji	1,872,000	Singapore	5,096,000
Finland	27,248,000	Solomon Islands	218,400
France	199,576,000	Somalia	2,392,000
Gabon	3,120,000	South Africa	44,096,000
Gambia, The	936,000	Spain	57,928,000
Germany, Fed. Rep. of	224,224,000	Sri Lanka	12,376,000
Ghana	11,024,000	Sudan	9,152,000
Greece	19,240,000	Suriname	2,600,000
Grenada	312,000	Swaziland	1,248,000
Guatemala	5,304,000	Sweden	46,800,000
Guinea	3,120,000	Syrian Arab Republic	6,552,000
Guinea-Bissau	405,600	Tanzania	5,720,000
Guyana	2,600,000	Thailand	18,824,000
Haiti	2,392,000	Togo	1,976,000
Honduras	3,536,000	Trinidad and Tobago	8,528,000
Iceland	3,016,000	Tunisia	6,552,000
India	119,080,000	Turkey	20,800,000
Indonesia	49,920,000	Uganda	5,200,000
Iran	68,640,000	United Arab Emirates	12,480,000
Iraq	14,664,000	United Kingdom	304,200,000
Ireland	16,120,000	United States	874,120,000
Israel	21,320,000	Upper Volta	1,664,000
Italy	128,960,000	Uruguay	8,736,000
Ivory Coast	7,904,000	Venezuela	68,640,000
Jamaica	7,696,000	Viet Nam	9,360,000
Japan	172,536,000	Western Samoa	312,000
Jordan	3,120,000	Yemen Arab Republic	1,352,000
Kampuchea, Democratic	2,600,000	Yemen, People's Democratic Republic of	4,264,000
Kenya	7,176,000	Yugoslavia	28,808,000
Korea	16,640,000	Zaire	15,808,000
Lao People's Democratic Republic	1,664,000	Zambia	14,664,000
Lebanon	1,248,000	Total	4,032,724,800

**Table I.3. Transfers of Special Drawing Rights, January 1, 1970–April 30, 1979**  
(In millions of SDRs)

	Jan. 1, 1970– Apr. 30, 1970	Financial Years Ended April 30									Total Jan. 1, 1970– Apr. 30, 1979
		1971	1972	1973	1974	1975	1976	1977	1978	1979	
Transfers between participants											
Transactions with designation	155	348	267	117	60	440	292	119	398	1,080	3,275
Transactions by agreement	<u>20</u>	<u>286</u>	<u>380</u>	<u>303</u>	<u>996</u>	<u>249</u>	<u>176</u>	<u>317</u>	<u>927</u>	<u>1,533</u>	<u>5,187</u>
	175	633	647	420	1,056	688	468	436	1,325	2,613	8,462
General Resources Account											
Transfers from participants											
Repurchases (net)	183	357	501	68	29	24	440	73	844	502	3,021
Charges (net)	29	66	30	30	29	92	354	709	801	715	2,854
Quota payments	—	—	—	—	—	—	—	—	201	19	220
Assessments	1	1	1	1	1	1	2	1	1	2	11
Interest received on General Resources Account holdings	—	<u>4</u>	<u>7</u>	<u>10</u>	<u>8</u>	<u>21</u>	<u>21</u>	<u>23</u>	<u>40</u>	<u>57</u>	<u>192</u>
	213	429	540	108	67	138	817	805	1,887	1,295	6,298
Transfers to participants											
Purchases	—	—	—	292	7	4	443	25	662	1,106	2,540
Reconstitution <sup>1</sup>	—	—	46	107	157	117	404	445	474	75	1,826
Replenishment of participants' currencies	—	123	21	—	—	—	—	—	—	—	145
Remuneration	—	18	15	2	20	6	10	24	122	136	354
Distribution of net income	—	9	8	—	—	—	—	—	—	—	17
Restoration of participants' holdings <sup>2</sup>	—	—	29	—	—	—	—	—	—	—	29
Interest, transfer charges on Fund borrowings	—	—	—	—	—	—	8	—	29	12	49
Other	—	<u>1</u> <sup>3</sup>	—	—	—	—	—	—	—	<u>46</u> <sup>4</sup>	<u>47</u>
	—	151	120	401	185	127	865	495	1,287	1,375	5,007
Total transfers	388	1,213	1,307	929	1,308	953	2,150	1,736	4,499	5,283	19,767
General Resources Account holdings at end of period	213	490	910	617	499	510	461	771	1,371	1,290	1,290

<sup>1</sup> Including amounts acquired as part of purchases.

<sup>2</sup> To offset the effect of failure to fulfill the requirement of balance of payments need when using SDRs in transactions with designation.

<sup>3</sup> To enable participants to pay assessments and net charges in the Special Drawing Rights Department.

<sup>4</sup> Repayments of Fund borrowings (SDR 38 million) and transfers to enable participants to pay charges in the General Resources Account (SDR 8 million).

**Table I.4. Summary of Transactions and Operations in Special Drawing Rights, Financial Year Ended April 30, 1979**  
(In thousands of SDRs)

Holders	Holdings on April 30, 1978	Allocation as of Jan. 1, 1979	Transactions and Operations						Interest, Charges, and Assessment (Net)	Positions at April 30, 1979		
			With other participants			With the General Resources Account		Holdings		Net cumulative allocations	Holdings as per cent of net cumulative allocations	
			Received		Used	Received	Used					
			Through designation	By agreement								
PARTICIPANTS												
Afghanistan	5,377	4,680	1,000	—	—	—	1	-331	10,725	17,433	61.5	
Algeria	46,354	29,640	—	—	—	1	—	+270	76,265	69,930	109.1	
Argentina	107,366	55,640	23,500	41,158	—	—	3,420	-45	224,199	208,160	107.7	
Australia	107,037	82,160	—	—	—	—	11,503	-5,827	171,867	307,805	55.8	
Austria	97,269	34,320	6,500	—	—	5,823	—	+1,317	145,229	111,065	130.8	
Bahamas	—	3,432	—	—	—	—	—	—	3,432	3,432	100.0	
Bahrain	—	2,080	—	—	—	82	—	+3	2,165	2,080	104.1	
Bangladesh	1,134	15,808	—	7,600	—	—	11,412	-3	13,127	15,808	83.0	
Barbados	2,684	1,768	—	—	—	—	267	-12	4,173	4,537	92.0	
Belgium	414,135	92,560	—	—	—	—	—	+9,369	516,065	301,906	170.9	
Benin	4,444	1,664	—	—	—	—	—	-1	6,107	6,113	99.9	
Bolivia	6,400	4,680	—	—	—	8,000	453	+8	18,635	17,433	106.9	
Botswana	1,567	936	—	—	—	—	—	—	2,503	2,505	99.9	
Brazil	173,958	69,160	25,300	—	—	1,835	—	+1,462	271,715	221,680	122.6	
Burma	7,658	7,592	—	—	11,500	22,556	18,317	-753	7,237	28,436	25.4	
Burundi	3,672	2,392	687	—	—	—	1,219	-163	5,370	8,959	59.9	
Cameroon	4,363	4,680	—	—	—	2,119	5,496	-365	5,302	15,193	34.9	
Canada	399,665	141,128	2,000	—	47,866	8,122	—	+1,557	504,606	499,748	101.0	
Cape Verde	—	208	—	—	—	—	—	—	208	208	100.0	
Central African Empire	1,789	1,664	—	—	—	—	942	-141	2,370	6,029	39.3	
Chad	1,552	1,664	—	—	—	265	1,242	-141	2,098	6,113	34.3	
Chile	59,639	22,568	6,500	150	—	—	70,738	-1,290	16,830	77,222	21.8	
China	—	57,200	—	—	—	—	—	-7	57,193	57,200	100.0	
Colombia	27,480	20,072	14,000	—	—	1,270	—	-854	61,968	74,513	83.2	
Comoros	—	239	—	—	—	—	—	—	239	239	100.0	
Congo	1,554	1,768	—	—	—	152	1,687	-144	1,643	6,217	26.4	
Costa Rica	4,732	4,264	—	—	—	—	2,728	-360	5,908	15,280	38.7	
Cyprus	3,699	3,536	—	—	—	9,900	2,644	-149	14,342	12,434	115.3	
Denmark	97,552	32,240	3,000	—	—	359	—	+719	133,870	115,004	116.4	
Djibouti	—	395	—	—	—	—	—	—	395	395	100.0	
Dominica	—	198	—	—	—	—	—	—	198	198	100.0	
Dominican Republic	4,941	5,720	—	—	17,510	18,617	1,904	-462	9,402	20,255	46.4	
Ecuador	10,115	7,280	500	—	—	—	—	-38	17,857	18,509	96.5	
Egypt	18,993	23,712	—	—	60,000	60,174	22,855	-2,681	17,343	88,956	19.5	
El Salvador	7,630	4,472	1,000	—	—	—	206	-190	12,706	16,127	78.8	
Equatorial Guinea	1,701	1,040	—	—	—	—	238	-49	2,455	3,752	65.4	
Ethiopia	—	3,744	—	—	7,335	7,357	1	—	3,765	3,744	100.6	
Fiji	1,229	1,872	—	250	—	13	270	-6	3,088	3,250	95.0	
Finland	37,602	27,248	8,303	30,000	—	—	13,652	-753	88,748	88,718	100.0	
France	224,422	199,576	113,181	—	—	12,763	—	-9,540	540,402	684,556	78.9	
Gabon	4,605	3,120	—	—	10,028	10,051	128	-12	7,608	7,911	96.2	
Gambia, The	768	936	—	—	4,750	7,036	3,007	-56	927	3,267	28.4	
Germany, Fed. Rep. of	823,603	224,224	39,550	702,225	192,911	18,759	—	+25,503	1,640,953	766,624	214.0	
Ghana	10,296	11,024	—	1,177	44,631	44,711	2,892	-964	18,721	41,147	45.5	
Greece	15,839	19,240	—	—	—	7,179	18,541	-1,584	22,133	65,434	33.8	



Grenada	2	312	—	16	—	—	258	-2	71	312	22.7
Guatemala	11,479	5,304	—	—	—	124	—	-14	16,892	17,172	98.4
Guinea	1,753	3,120	—	—	—	—	3,402	-362	1,109	11,424	9.7
Guinea-Bissau	—	406	—	—	2,176	1,900	6	-6	118	406	29.1
Guyana	2,383	2,600	—	—	8,875	12,209	1,203	-187	6,927	9,380	73.8
Haiti	2,782	2,392	—	1,500	—	—	624	-128	5,922	8,959	66.1
Honduras	3,250	3,536	975	—	—	23	320	-240	7,224	12,053	59.9
Iceland	5,571	3,016	—	—	—	98	7,014	-257	1,414	10,435	13.6
India	172,614	119,080	88,575	—	—	—	6,126	-5,019	369,124	445,300	82.9
Indonesia	19,964	49,920	32,585	—	—	11,886	27	-1,845	112,483	140,076	80.3
Iran	72,943	68,640	22,635	—	—	695	—	+1,280	166,193	130,536	127.3
Iraq	34,533	14,664	17,957	—	—	26	—	+962	68,142	37,881	179.9
Ireland	45,772	16,120	4,000	—	—	1,302	—	+426	67,620	55,333	122.2
Israel	24,640	21,320	—	62,000	53,000	59,400	97,033	-1,049	16,278	64,130	25.4
Italy	208,355	128,960	122,276	—	—	—	92,593	-5,090	361,909	446,960	81.0
Ivory Coast	8,077	7,904	—	—	—	—	740	-315	14,926	22,172	67.3
Jamaica	7,606	7,696	—	1,100	70,150	65,925	9,502	-716	1,959	25,369	7.7
Japan	498,222	172,536	29,800	500,000	—	25,444	—	+19,886	1,245,888	549,936	226.6
Jordan	7,361	3,120	—	—	—	—	11	-12	10,458	10,707	97.7
Kampuchea, Democratic	—	2,600	—	—	—	—	—	-696	1,904	11,117	17.1
Kenya	13,453	7,176	—	2,375	23,905	23,948	5,857	-204	16,987	22,776	74.6
Korea	9,531	16,640	20,560	4,889	—	—	18,405	-419	32,797	38,870	84.4
Lao People's Democratic Republic	1,351	1,664	—	—	4,000	4,000	869	-161	1,985	6,113	32.5
Lebanon	—	1,248	—	—	—	—	—	—	1,248	1,248	100.0
Lesotho	414	728	—	—	—	—	—	-53	1,089	2,297	47.4
Liberia	3,103	3,848	—	—	9,250	9,508	70	-288	6,851	13,385	51.2
Libya	—	19,240	—	—	—	—	—	-2	19,238	19,240	100.0
Luxembourg	7,447	3,224	—	—	—	136	—	+10	10,816	10,569	102.3
Madagascar	5,784	3,536	—	4,000	—	—	2,734	-36	10,550	12,266	86.0
Malawi	3,693	1,976	—	—	—	—	507	-81	5,082	7,061	72.0
Malaysia	28,326	26,312	17,278	—	—	151	4	-1,049	71,014	86,930	81.7
Maldives	—	94	—	—	—	—	—	—	94	94	100.0
Mali	2,386	2,808	—	—	3,200	858	838	-290	1,723	10,350	16.6
Malta	5,507	2,080	—	—	—	315	—	+33	7,934	7,168	110.7
Mauritania	648	1,768	—	—	—	764	971	-179	2,030	6,217	32.6
Mauritius	1,997	2,808	—	—	10,470	7,990	552	-310	1,462	10,182	14.4
Mexico	43,127	55,640	9,152	50,000	—	—	14,893	-3,304	139,722	179,810	77.7
Morocco	8,329	15,600	—	4,335	34,400	40,000	7,967	-1,278	24,619	54,789	44.9
Nepal	1,372	1,976	—	—	4,500	4,500	1,285	-47	2,017	4,191	48.1
Netherlands	433,925	98,592	11,510	—	189,989	—	—	+3,168	357,206	335,052	106.6
New Zealand	38,382	24,128	—	13,000	—	13,000	48,860	-1,515	38,134	93,530	40.8
Nicaragua	4,558	3,536	—	—	5,757	5,757	256	-211	7,627	12,479	61.1
Niger	4,381	1,664	—	—	—	—	—	-4	6,041	6,113	98.8
Nigeria	66,462	37,440	—	—	—	336	—	+965	105,204	82,995	126.8
Norway	93,416	30,680	2,000	—	—	2,978	—	+929	130,003	107,000	121.5
Oman	741	2,080	—	—	—	—	—	—	2,821	2,822	100.0
Pakistan	19,808	29,640	—	30,124	—	644	26,415	-2,680	51,121	111,279	45.9
Panama	3,871	4,680	—	1,000	—	1,113	4,745	-413	5,506	17,052	32.3
Papua New Guinea	801	3,120	—	5,500	—	—	6,137	+20	3,305	3,120	105.9
Paraguay	6,577	2,392	—	—	—	63	—	+2	9,034	8,959	100.8
Peru	3,902	17,056	—	6,306	110,550	105,771	12,336	-1,887	8,262	57,535	14.4
Philippines	11,714	21,840	—	—	84,076	104,013	24,968	-1,921	26,601	73,335	36.3
Portugal	190	17,888	—	—	—	—	10,776	-76	7,226	17,888	40.4
Qatar	—	4,160	—	—	—	—	—	-1	4,159	4,160	100.0
Romania	3,705	25,480	—	—	71,310	77,633	23,647	-75	11,786	25,480	46.3

**Table I.4 (concluded). Summary of Transactions and Operations in Special Drawing Rights, Financial Year Ended April 30, 1979**  
(In thousands of SDRs)

Holders	Holdings on April 30, 1978	Allocation as of Jan. 1, 1979	Transactions and Operations						Positions at April 30, 1979		
			With other participants			Interest, Charges, and Assessment (Net)	Holdings	Net cumulative allocations	Holdings as per cent of net cumulative allocations		
			Received		Used					With the General Resources Account	
			Through designation	By agreement						Received	Used
PARTICIPANTS											
Rwanda	3,206	2,392	—	—	—	184	1,000	-192	4,590	8,959	51.2
São Tomé and Príncipe	—	208	—	—	—	—	—	—	208	208	100.0
Saudi Arabia	—	62,400	—	—	—	—	—	-8	62,392	62,400	100.0
Senegal	2,165	4,368	—	—	14,850	25,016	3,274	-199	13,226	15,810	83.7
Seychelles	—	135	—	—	—	—	—	—	135	135	100.0
Sierra Leone	761	3,224	—	—	—	632	3,359	-368	890	11,069	8.0
Singapore	—	5,096	—	—	—	—	—	-1	5,095	5,096	100.0
Solomon Islands	—	218	—	—	981	1,050	220	-1	66	218	30.2
Somalia	4,097	2,392	—	—	—	—	1	-115	6,373	8,959	71.1
South Africa	32,920	44,096	—	20,000	—	—	57,881	-2,991	36,144	133,016	27.2
Spain	123,813	57,928	22,499	—	—	—	44,350	-1,136	158,754	184,063	86.3
Sri Lanka	15,059	12,376	—	—	53,000	73,195	14,762	-539	32,330	46,354	69.7
Sudan	868	9,152	—	1,200	24,352	27,242	12,910	-1,130	70	34,064	0.2
Suriname	—	2,600	—	—	—	—	—	—	2,600	2,600	100.0
Swaziland	809	1,248	—	—	—	150	—	-82	2,125	3,960	53.7
Sweden	107,042	46,800	10,000	—	—	—	—	+175	164,016	153,825	106.6
Syrian Arab Republic	5,992	6,552	—	—	—	—	1	-510	12,032	23,586	51.0
Tanzania	4,755	5,720	1,000	3,900	8,824	5,764	4,935	-420	6,961	20,042	34.7
Thailand	30,154	18,824	—	—	107,749	107,863	5,513	-79	43,499	47,366	91.8
Togo	4,672	1,976	—	—	—	—	282	-32	6,334	7,061	89.7
Trinidad and Tobago	11,868	8,528	7,925	—	—	72	—	-209	28,184	29,339	96.1
Tunisia	9,238	6,552	—	—	—	—	993	-283	14,514	21,265	68.3
Turkey	16,217	20,800	—	16,031	62,849	40,207	27,691	-2,629	86	71,107	0.1
Uganda	6,419	5,200	—	3,310	—	—	6,060	-348	8,521	19,096	44.6
United Arab Emirates	—	12,480	—	—	—	—	—	-2	12,478	12,480	100.0
United Kingdom	500,720	304,200	334,650	—	—	—	361,541	-24,595	753,433	1,310,520	57.5
United States	2,176,871	874,120	45,750	—	1,100,000	75,875	—	-27,803	2,044,813	3,168,100	64.5
Upper Volta	4,423	1,664	—	—	—	—	—	-2	6,085	6,113	99.5
Uruguay	8,557	8,736	5,750	1,630	—	—	3,609	-600	20,465	32,673	62.6
Venezuela	147,549	68,640	7,300	—	—	29,023	—	+2,469	254,981	180,930	140.9
Viet Nam	3,265	9,360	—	—	—	4,500	2,198	-649	14,279	29,118	49.0
Western Samoa	36	312	—	—	2,537	2,374	121	-12	52	524	9.9
Yemen Arab Republic	2,128	1,352	1,000	—	—	92	—	+38	4,610	3,482	132.4
Yemen, People's Democratic Republic of	3,374	4,264	—	750	—	566	2,287	-322	6,344	14,137	44.9
Yugoslavia	7,783	28,808	19,750	17,500	—	—	33,346	-2,586	37,909	98,099	38.6
Zaire	710	15,808	—	—	11,944	12,887	12,279	-1,711	3,471	54,997	6.3
Zambia	9,541	14,664	—	—	143,750	141,375	11,406	-786	9,638	39,252	24.6
Total Participants	7,944,045	4,032,725	1,079,949	1,533,026	2,612,974	1,377,721	1,237,728	-59,112	12,057,651	13,347,560	
GENERAL RESOURCES ACCOUNT	1,371,080	—	—	—	—	1,237,728	1,377,721	+58,822	1,289,909	—	
Total	9,315,126	4,032,725	1,079,949	1,533,026	2,612,974	2,615,449	2,615,449	-290 <sup>1</sup>	13,347,560	13,347,560	

<sup>1</sup> Reflects settlement of unpaid charges by Democratic Kampuchea. (See Balance Sheet of the Special Drawing Rights Department as at April 30, 1979, Note 2, reproduced in Appendix VIII.)

**Table I.5. Currencies Transferred for Special Drawing Rights, January 1, 1970–April 30, 1979**  
(In millions of SDRs)

	Jan. 1, 1970– Apr. 30, 1970	1971	1972	1973	1974	1975	1976	1977	1978	1979	Total Jan. 1, 1970– Apr. 30, 1979
Financial Years Ended April 30											
Transactions with designation											
Belgian francs											
Provided directly to participants	1.0	—	—	—	—	—	—	—	—	—	1.0
Deutsche mark											
Exchanged for U.S. dollars	—	—	—	—	3.0	2.0	—	2.0	10.0	—	17.0
French francs											
Provided directly to participants	—	3.5	22.3	—	—	—	—	19.0	—	25.5	70.4
Exchanged for deutsche mark	—	—	—	—	—	—	—	—	—	12.6	12.6
Exchanged for pounds sterling	—	8.0	—	—	—	—	—	—	—	—	8.0
Exchanged for U.S. dollars	—	14.0	21.0	—	—	104.0	80.5	16.0	5.0	75.0	315.3
	—	25.5	43.3	—	—	104.0	80.5	35.0	5.0	113.2	406.4
Italian lire											
Provided directly to participants	—	4.0	—	—	—	—	—	—	—	—	4.0
Mexican pesos											
Exchanged for U.S. dollars	—	—	—	—	—	1.0	—	—	—	—	1.0
Pounds sterling											
Provided directly to participants	—	27.4	56.3	59.9	—	—	—	1.5	—	41.2	186.3
Exchanged for French francs	—	6.7	1.3	—	—	—	—	—	—	—	8.0
Exchanged for 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	—	41.2	326.2
U.S. dollars											
Provided directly to participants	148.9	227.1	112.5	51.2	54.1	321.1	207.2	61.0	383.1	881.8	2,447.9
Exchanged for deutsche mark	—	—	—	—	—	—	—	—	—	37.5	37.5
Exchanged for French francs	5.1	3.6	—	—	—	—	—	—	—	—	8.6
Exchanged for Japanese yen	—	—	—	—	—	—	—	—	—	6.3	6.3
Exchanged for pounds sterling	—	7.5	—	—	—	11.5	—	—	—	—	19.0
	154.0	238.2	112.5	51.2	54.1	332.6	207.2	61.0	383.1	925.6	2,519.4
Total	155.0	347.6	266.8	116.6	60.1	440.6	291.7	118.8	398.1	1,079.9	3,275.0
Transactions without designation											
Australian dollars	—	—	—	—	—	—	—	—	1.0	—	1.0
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	110.5	740.5	1,134.7
French francs	—	—	—	—	588.5	—	78.3	2.7	—	—	669.6
Japanese yen	—	—	—	—	—	—	—	—	—	500.0	500.0
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	815.9	292.5	1,867.9
Total	20.0	285.5	380.0	303.5	995.9	248.5	176.6	317.1	927.4	1,533.0	5,187.5

**Table I.6. Purchases of Currencies and Special Drawing Rights from the Fund, Financial Year Ended April 30, 1979**  
(In millions of SDRs)

Member Purchasing	Within Reserve Tranche	Within Credit Tranches		Under Decision on			Purchases of		Total Purchases
		Under stand-by arrangements	Other <sup>1</sup>	Com-pensatory financing	Buffer stock	Extended Fund facility	Currencies	Special drawing rights	
Bolivia	—	—	—	15.00	—	—	7.00	8.00	15.00
Burma	—	22.50	—	—	—	—	—	22.50	22.50
China	29.86	—	—	—	—	—	29.86	—	29.86
Cyprus	—	—	—	9.90	—	—	—	9.90	9.90
Dominican Republic	—	—	—	6.00	11.51	—	—	17.51	17.51
Egypt	—	—	—	—	—	75.00	15.00	60.00	75.00
Ethiopia	7.34	—	—	—	—	—	—	7.34	7.34
Gabon	2.53	7.50	—	—	—	—	—	10.03	10.03
Gambia, The	—	2.53	—	4.50	—	—	—	7.03	7.03
Ghana	12.63	32.00	—	—	—	—	—	44.63	44.63
Guinea-Bissau	0.80	—	—	1.10	—	—	—	1.90	1.90
Guyana	—	6.25	—	8.75	—	—	3.00	12.00	15.00
Israel	—	—	—	72.40	—	—	13.00	59.40	72.40
Jamaica	—	—	—	15.75	—	70.00	20.00	65.75	85.75
Kenya	6.66	17.25	—	—	—	—	—	23.91	23.91
Lao People's Democratic Republic	—	—	4.00	—	—	—	—	4.00	4.00
Liberia	—	9.25	—	—	—	—	—	9.25	9.25
Mauritius	—	7.97	—	—	—	—	—	7.97	7.97
Morocco	—	—	—	56.00	—	—	16.00	40.00	56.00
Nepal	—	—	—	9.50	—	—	5.00	4.50	9.50
Netherlands	99.97	—	—	—	—	—	99.97	—	99.97
Nicaragua	6.76	—	—	—	—	—	1.00	5.76	6.76
Peru	—	44.00	—	61.50	—	—	—	105.50	105.50
Philippines	—	—	—	—	36.08	57.00	7.00	86.08	93.08
Romania	—	39.13	—	41.25	—	—	9.00	71.38	80.38
Senegal	—	—	—	21.00	—	—	—	21.00	21.00
Solomon Islands	—	—	—	1.05	—	—	—	1.05	1.05
Sri Lanka	—	38.00	—	—	—	40.00	5.00	73.00	78.00
Sudan	—	—	21.00	21.30	—	—	17.00	25.30	42.30
Swaziland	0.15	—	—	—	—	—	—	0.15	0.15
Tanzania	5.76	—	—	—	—	—	—	5.76	5.76
Thailand	32.50	45.25	—	68.75	—	—	38.75	107.75	146.50
Turkey	—	40.00	—	1.00	—	—	1.00	40.00	41.00
United States	2,275.08	—	—	—	—	—	2,275.08	—	2,275.08
Viet Nam	—	—	22.50	—	—	—	18.00	4.50	22.50
Western Samoa	0.36	0.73	—	1.25	—	—	—	2.34	2.34
Zambia	—	125.00	—	48.75	—	—	33.00	140.75	173.75
<b>Total</b>	<b>2,480.40</b>	<b>437.35</b>	<b>47.50</b>	<b>464.75</b>	<b>47.59</b>	<b>242.00</b>	<b>2,613.66</b>	<b>1,105.92</b>	<b>3,719.58</b>

<sup>1</sup> 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.)

**Table I.7. Repurchases of Currencies from the Fund, Financial Year Ended April 30, 1979**  
(In millions of SDRs)

Member Repurchasing	Repurchases in Respect of			Total	Advance repurchases	Of Which	
	Purchases under oil facility	Purchases in the tranches	Other			Repurchases under Article V, Section 7(b) in effect before the Second Amendment	Repurchases in accordance with guidelines for early repurchases
Afghanistan	—	— <sup>1</sup>	—	— <sup>1</sup>	—	—	—
Argentina	—	145.8	42.7	188.5	188.5	—	—
Bahamas	—	—	— <sup>1</sup>	— <sup>1</sup>	—	— <sup>1</sup>	—
Bangladesh	16.1	12.3	—	28.4	—	—	—
Burma	—	7.2	15.0	22.2	—	—	—
Burundi	—	—	1.2	1.2	—	1.2	—
Cameroon	1.6	3.4	—	5.1	—	—	—
Central African Empire	1.0	0.3	—	1.3	—	—	—
Chad	0.6	1.4	—	2.0	—	—	—
Chile	80.4	—	—	80.4	1.2	14.2	57.5
China	—	29.9	—	29.9	—	—	—
Congo	—	1.1	—	1.1	—	1.1	—
Costa Rica	12.4	—	—	12.4	—	10.7	—
Cyprus	6.0	—	3.6	9.6	—	5.5	3.6
Dominican Republic	—	10.7	—	10.7	—	—	—
Ecuador	—	8.3	— <sup>1</sup>	8.3	—	8.3	—
Egypt	—	24.0	5.0	29.0	—	—	—
Equatorial Guinea	—	0.2	—	0.2	—	—	—
Finland	57.8	47.5	—	105.3	—	—	57.8
Gambia, The	—	—	3.5	3.5	—	3.5	—
Ghana	7.2	13.3	—	20.5	—	—	—
Greece	33.0	—	—	33.0	—	4.7	—
Grenada	— <sup>1</sup>	0.2	—	0.2	—	—	—
Guinea	0.9	0.9	4.5	6.3	—	—	—
Haiti	1.5	4.2	—	5.7	—	—	—
Honduras	10.5	—	—	10.5	—	6.3	4.3
Iceland	5.9	6.9	—	12.8	—	1.3	—
India	201.3	—	—	201.3	12.5	188.8	—
Indonesia	—	—	— <sup>1</sup>	— <sup>1</sup>	—	— <sup>1</sup>	—
Israel	25.7	62.3	1.0	88.9	—	—	—
Italy	753.9	90.0	2.1	846.0	544.7	—	81.7 <sup>2</sup>
Ivory Coast	11.6	—	12.6	24.1	—	13.0	6.3
Jamaica	—	—	13.3	13.3	—	10.3	—
Jordan	—	—	— <sup>1</sup>	— <sup>1</sup>	—	—	—
Kenya	3.1	2.4	—	5.5	—	—	2.4
Korea	140.7	—	—	140.7	—	4.1	128.3
Lao People's Dem. Rep.	—	—	0.4	0.4	—	—	—
Madagascar	0.8	2.7	—	3.4	—	0.5	—
Malawi	0.1	3.7	—	3.9	—	—	—
Maldives	—	—	0.2	0.2	—	—	—
Mali	1.3	—	1.1	2.4	—	—	—
Mexico	—	103.1	—	103.1	7.5	92.5	3.1
Nepal	—	3.5	1.0	4.5	—	4.5	—
New Zealand	35.6	26.0	11.5	73.1	—	—	—
Nicaragua	6.8	—	—	6.8	—	6.8	—
Pakistan	40.8	25.0	—	65.8	—	—	—
Panama	2.5	4.0	—	6.5	—	—	—
Papua New Guinea	—	—	5.0	5.0	—	5.0	—
Philippines	12.1	67.6	—	79.7	—	38.7	—
Portugal	7.2	29.3	—	36.4	—	—	—
Romania	—	50.0	—	50.0	—	—	—
Rwanda	—	—	1.2	1.2	—	—	—
Senegal	5.1	2.4	0.9	8.4	—	—	—
Sierra Leone	1.2	3.0	—	4.2	—	—	—
South Africa	—	120.0	—	120.0	—	74.5	—
Spain	267.0	98.8	—	365.8	—	—	230.0
Sri Lanka	12.2	8.5	2.6	23.3	—	—	—
Sudan	8.3	18.0	4.0	30.3	—	—	—
Suriname	—	—	4.8	4.8	—	—	—
Tanzania	9.6	—	—	9.6	—	—	—
Togo	—	—	7.5	7.5	—	7.5	—
Turkey	35.4	—	—	35.4	—	—	—
Uganda	14.0	—	—	14.0	—	13.3	—
United Kingdom	62.5	1,538.0	21.0	1,621.4	1,538.0	—	— <sup>3</sup>
Uruguay	89.6	—	25.9	115.5	98.2	17.3	—

**Table 1.7 (concluded). Repurchase of Currencies from the Fund, Financial Year Ended April 30, 1979**  
(In millions of SDRs)

Member Repurchasing	Repurchases in Respect of			Total	Advance repurchases	Of Which	
	Purchases under oil facility	Purchases in the tranches	Other			Repurchases under Article V, Section 7(b) in effect before the Second Amendment	Repurchases in accordance with guidelines for early repurchases
Western Samoa	— <sup>1</sup>	—	0.2	0.2	—	—	—
Yemen, People's Dem. Rep. of	3.8	2.8	0.5	7.1	—	—	—
Yugoslavia	76.0	—	—	76.0	—	30.8	17.1
Zaire	8.4	8.1	—	16.5	—	—	—
Zambia	1.2	3.8	3.8	8.8	—	—	—
Total	2,072.7	2,590.5	196.0	4,859.2	2,390.6	564.4	592.1

<sup>1</sup> Less than SDR 50,000.<sup>2</sup> Italy discharged the equivalent of SDR 568.4 million in early repurchases during the period ended April 30, 1979, which were in part discharged by repurchases made in respect of maturing obligations and by advance repurchases.<sup>3</sup> Early repurchases equivalent to SDR 410.3 million were discharged by advance repurchases and by sales of currency.**Table I.8. Fund Stand-By Arrangements for Members, Financial Year Ended April 30, 1979**  
(In millions of SDRs)

Member	Total Number of Stand-Bys Approved for Member	Date of Inception	Date of Expiration	Amount Approved 1977/78	Amount Not Purchased at Expiration	Amount Approved 1978/79	Amount Not Purchased April 30, 1979
Argentina	9	Sept. 6, 1977	Sept. 15, 1978	159.50	159.00		
Burma	5	May 6, 1977	May 5, 1978	35.00	—		
		July 28, 1978	July 27, 1979			30.00	7.50
Congo	2	Apr. 25, 1979	Apr. 24, 1980			4.00	4.00
Gabon	1	May 31, 1978	May 30, 1979			15.00	7.50
Gambia, The	1	May 18, 1977	May 17, 1978	2.53	—		
Ghana	5	Jan. 10, 1979	Jan. 9, 1980			53.00	21.00
Guyana	11	Aug. 15, 1978	Aug. 14, 1979			6.25	—
Haiti	17	Aug. 2, 1977	Aug. 1, 1978	6.90	6.90		
Italy	2	Apr. 25, 1977	Dec. 31, 1978	(450.00) <sup>1</sup>	450.00		
Jamaica	3	Aug. 11, 1977	Aug. 10, 1979 <sup>2</sup>	64.00	44.80		
Kenya	1	Nov. 13, 1978	Nov. 12, 1979			17.25	—
Korea	12	May 6, 1977	Dec. 31, 1977	20.00	20.00		
Liberia	13	Mar. 21, 1979	Mar. 20, 1980			9.25	—
Madagascar	1	Dec. 21, 1977	Dec. 20, 1978	9.43	—		
Mauritania	1	May 25, 1977	May 24, 1978	4.71	—		
Mauritius	1	Feb. 24, 1978	Feb. 23, 1979	7.97	—		
Panama	12	June 9, 1978	June 8, 1979 <sup>3</sup>		25.00	25.00	
		Mar. 23, 1979	Mar. 22, 1980			30.00	30.00
Peru	18	Nov. 18, 1977	Dec. 31, 1979 <sup>4</sup>	90.00	80.00		
		Sept. 15, 1978	Dec. 31, 1980			184.00	140.00
Portugal	1	June 5, 1978	June 4, 1979			57.35	57.35
Romania	2	Sept. 9, 1977	Sept. 8, 1978	64.13	—		
Senegal	1	Mar. 30, 1979	Mar. 29, 1980			10.50	10.50
Sierra Leone	4	June 3, 1977	June 2, 1978	9.02	2.02		
Spain	1	Feb. 6, 1978	Feb. 5, 1979	143.19	143.19		
Sri Lanka	7	Dec. 2, 1977	Dec. 1, 1978	93.00	—		
Thailand	1	July 1, 1978	June 30, 1979			45.25	—
Turkey	11	Apr. 24, 1978	Apr. 23, 1980	300.00			210.00
United Kingdom	11	Jan. 3, 1977	Jan. 2, 1979	(3,360.00) <sup>1</sup>	1,720.00		
Uruguay	10	Sept. 14, 1977	Sept. 13, 1978	25.00	25.00		
		Mar. 16, 1979	Mar. 15, 1980			21.00	21.00
Western Samoa	3	Feb. 6, 1978	Feb. 5, 1979	0.73	—		
Zambia	3	Apr. 26, 1978	Apr. 25, 1980	250.00			125.00
Total				1,285.09	2,675.91	507.85	633.85

<sup>1</sup> Amount approved in 1976/77, not included in total.<sup>2</sup> Canceled as of June 9, 1978.<sup>3</sup> Canceled as of March 22, 1979.<sup>4</sup> Canceled as of September 14, 1978.

**Table I.9. Summary of Members' Purchases and Repurchases, Years Ended April 30, 1948-79**

(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
1978	2,503.01	4,485.01
1979	3,719.58	4,859.18
Total	48,685.94 <sup>1</sup>	28,559.88 <sup>2</sup>

<sup>1</sup> Includes purchases that are not subject to repurchase.<sup>2</sup> Excludes sales of currency and adjustments that have the effect of repurchase.**Table I.10. Summary of Stand-By Arrangements That Became Effective During the Financial Years Ended April 30, 1953-79<sup>1</sup>**

(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
1978	18	1,285.09
1979	14	507.85
Total	430	28,797.52

<sup>1</sup> 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.11. Status of General Arrangements to Borrow (GAB)<sup>1</sup> on April 30, 1979**

(In millions of SDR equivalents)

Participants	Maximum Amounts of Credit Arrangements	Fund Indebtedness
Belgium	194.8	—
Canada	148.7	—
Deutsche Bundesbank	1,652.5	582.9
France	487.9	—
Italy	318.7	—
Japan	1,222.7	194.3
Netherlands	277.2	—
Sveriges Riksbank	92.3	—
United Kingdom	577.5	—
United States	1,571.5	—
Total	6,543.8	777.3

<sup>1</sup> See the Balance Sheet of the General Department—General Resources Account as at April 30, 1979, Note 5, reproduced in Appendix VIII.



**Table I.12. Borrowing in Connection with Purchases Under the Oil Facility and Repayments to Lenders, September 4, 1974–April 30, 1979**

(In millions of SDRS)

Lender	Amount Borrowed	Amount Repaid up to April 30, 1978	Amount Repaid May 1, 1978–April 30, 1979	Balance Outstanding as of April 30, 1979
Abu Dhabi	100.00	18.78	27.90	53.32
Austrian National Bank	100.00	6.51	22.03	71.46
National Bank of Belgium	200.00	—	18.70	181.30
Canada	246.93	84.07	67.52	95.33
Deutsche Bundesbank	600.00	47.34	175.82	376.84
Central Bank of Iran	990.00	90.66	375.27	524.07
Central Bank of Kuwait	685.00	26.25	177.53	481.21
Netherlands	350.00	6.38	145.60	198.02
Nigeria	300.00	6.26	44.19	249.55
Bank of Norway	100.00	2.61	22.68	74.71
Central Bank of Oman	20.50	5.94	4.30	10.26
Saudi Arabian Monetary Agency	2,250.00	159.13	719.27	1,371.60
Sveriges Riksbank	50.00	—	0.85	49.15
Swiss National Bank	100.00	—	9.78	90.22
Switzerland	150.00	12.72	17.85	119.43
Central Bank of Trinidad and Tobago	10.00	—	0.20	9.80
Central Bank of Venezuela	650.00	107.05	242.55	300.40
Total	6,902.43	573.70	2,072.05	4,256.68

**Table I.13. Extended Fund Facility Arrangements for Members, July 7, 1975–April 30, 1979**

(In millions of SDRs)

Member	Date of Inception	Date of Expiration	Total Amount of Arrangement	Amount Not Purchased at Expiration	Amount Not Purchased as of April 30, 1979	
					Available subject to phasing	Of total amount approved
Approved in Previous Financial Years						
Kenya	7/7/75	7/6/78	67.2	59.5		
Philippines	4/2/76	4/1/79	217.0	—		
Mexico	1/1/77	12/31/79	<u>518.0</u>	<u>—</u>	<u>518.0<sup>1</sup></u>	<u>518.0<sup>1</sup></u>
Subtotal			802.2	59.5	518.0	518.0
Approved During Financial Year 1978/79						
Egypt	7/28/78	7/27/81	600.0		175.0	525.0
Haiti	10/25/78	10/24/81	32.2		10.7	32.2
Jamaica	6/9/78	6/8/81	200.0		—	130.0
Sri Lanka	1/1/79	12/31/82	<u>260.3</u>	<u>—</u>	<u>40.0</u>	<u>220.3</u>
Subtotal			<u>1,092.5</u>	<u>—</u>	<u>225.7</u>	<u>907.5</u>
Total			1,894.7	59.5	743.7	1,425.5

<sup>1</sup> Includes augmentation by repurchases equivalent to SDR 100 million.

**Table I.14. Schedules of Fund Charges**

CHARGES ON TRANSACTIONS EFFECTED FROM JULY 1, 1974 Charges in per cent per annum <sup>1</sup> payable on holdings in excess of quota and holdings representing transactions effected under compensatory financing and buffer stock financing, for period stated:		CHARGES ON TRANSACTIONS EFFECTED UNDER THE EXTENDED FUND FACILITY Charges in per cent per annum <sup>1</sup> payable on holdings in excess of quota, for period stated:	
Service charge	0.5	Service charge	0.5
Up to 1 year	4.375	Up to 1 year	4.375
1 to 2 years	4.875	1 to 2 years	4.875
2 to 3 years	5.375	2 to 3 years	5.375
3 to 4 years	5.875	3 to 4 years	5.875
4 to 5 years	6.375	4 to 5 years	6.375
		5 to 6 years	6.875
		6 to 7 years	6.875
		7 to 8 years	6.875
CHARGES ON TRANSACTIONS EFFECTED UNDER THE OIL FACILITY FOR 1974 Charges in per cent per annum <sup>1</sup> payable on holdings for period stated:		CHARGES ON TRANSACTIONS EFFECTED UNDER THE OIL FACILITY FOR 1975 Charges in per cent per annum <sup>1</sup> payable on holdings for period stated:	
Service charge	0.5	Service charge	0.5
Up to 1 year	6.875	Up to 1 year	7.625
1 to 2 years	6.875	1 to 2 years	7.625
2 to 3 years	6.875	2 to 3 years	7.625
3 to 4 years	7.000	3 to 4 years	7.750
4 to 5 years	7.125	4 to 5 years	7.875
5 to 6 years	7.125	5 to 6 years	7.875
6 to 7 years	7.125	6 to 7 years	7.875
CHARGES ON TRANSACTIONS EFFECTED FROM MAY 1, 1963 AND UP TO JUNE 30, 1974 Charges in per cent per annum <sup>1</sup> for period stated and for portion of holdings in excess of quota by (per cent)			
More than But not more than	0 50	50 100	100
Service charge	0.5	0.5	0.5
0 to 3 months	0.0	0.0	0.0
3 to 6 months	2.0	2.0	2.0
½ to 1 year	2.0	2.0	2.5
1 to 1½ years	2.0	2.5	3.0
1½ to 2 years	2.5	3.0	3.5
2 to 2½ years	3.0	3.5	4.0
2½ to 3 years	3.5	4.0	4.5
3 to 3½ years	4.0	4.5	5.0
3½ to 4 years	4.5	5.0	
4 to 4½ years	5.0		
CHARGES ON TRANSACTIONS FINANCED WITH FUND BORROWING UNDER THE SUPPLEMENTARY FINANCING FACILITY Charges in per cent per annum <sup>1</sup> payable on holdings for period stated:		CHARGES ON TRANSACTIONS EFFECTED IN EXCESS OF 200 PER CENT OF MEMBERS' QUOTAS UNDER STAND-BY ARRANGEMENTS OR IN EXCESS OF 140 PER CENT OF QUOTAS UNDER THE EXTENDED FUND FACILITY Charges in per cent per annum <sup>1</sup> payable on holdings for period stated:	
Service charge	0.5	Service charge	0.5
Up to 3½ years	Rate of interest paid by the Fund plus 0.20 per cent	Each six months	Average yield to constant five-year maturity of U.S. Government securities, rounded to next 0.25 per cent, plus 0.25 per cent
3½ to 4½ years	Rate of interest paid by the Fund plus 0.325 per cent		
Over 4½ years	Rate of interest paid by the Fund plus 0.375 per cent		

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

**Table I.15. Direct Distribution of Profits from Gold Sales in July 1979**

Member	Share in Quotas (Per cent)	Amount (U.S. dollars)	Member	Share in Quotas (Per cent)	Amount (U.S. dollars)
Afghanistan	0.127	1,811,020	Malaysia	0.637	9,083,620
Algeria	0.445	6,345,700	Mali	0.075	1,069,500
Argentina	1.506	21,475,560	Malta	0.055	784,300
Bahamas	0.068	969,680	Mauritania	0.045	641,700
Bahrain	0.034	484,840	Mauritius	0.075	1,069,500
Bangladesh	0.428	6,103,280	Mexico	1.267	18,067,420
Barbados	0.045	641,700	Morocco	0.387	5,518,620
Benin	0.045	641,700	Nepal	0.042	598,920
Bolivia	0.127	1,811,020	Nicaragua	0.092	1,311,920
Botswana	0.017	242,420	Niger	0.045	641,700
Brazil	1.506	21,475,560	Nigeria	0.462	6,588,120
Burma	0.205	2,923,300	Oman	0.024	342,240
Burundi	0.065	926,900	Pakistan	0.804	11,465,040
Cameroon	0.120	1,711,200	Panama	0.123	1,753,980
Central African Empire	0.045	641,700	Papua New Guinea	0.068	969,680
Chad	0.045	641,700	Paraguay	0.065	926,900
Chile	0.541	7,714,660	Peru	0.421	6,003,460
Colombia	0.537	7,657,620	Philippines	0.531	7,572,060
Congo	0.045	641,700	Portugal	0.401	5,718,260
Costa Rica	0.110	1,568,600	Qatar	0.068	969,680
Cyprus	0.089	1,269,140	Romania	0.650	9,269,000
Dominican Republic	0.147	2,096,220	Rwanda	0.065	926,900
Ecuador	0.113	1,611,380	Saudi Arabia	0.459	6,545,340
Egypt	0.644	9,183,440	Senegal	0.116	1,654,160
El Salvador	0.120	1,711,200	Sierra Leone	0.086	1,226,360
Equatorial Guinea	0.027	385,020	Singapore	0.127	1,811,020
Ethiopia	0.092	1,311,920	Somalia	0.065	926,900
Fiji	0.045	641,700	Sri Lanka	0.335	4,777,100
Gabon	0.051	727,260	Sudan	0.246	3,507,960
Gambia, The	0.024	342,240	Swaziland	0.027	385,020
Ghana	0.298	4,249,480	Syrian Arab Republic	0.171	2,438,460
Grenada	0.007	99,820	Tanzania	0.144	2,053,440
Guatemala	0.123	1,753,980	Thailand	0.459	6,545,340
Guinea	0.082	1,169,320	Togo	0.051	727,260
Guyana	0.068	969,680	Trinidad and Tobago	0.216	3,080,160
Haiti	0.065	926,900	Tunisia	0.164	2,338,640
Honduras	0.086	1,226,360	Turkey	0.517	7,372,420
India	3.218	45,888,680	Uganda	0.137	1,953,620
Indonesia	0.890	12,691,400	United Arab Emirates	0.051	727,260
Iran	0.657	9,368,820	Upper Volta	0.045	641,700
Iraq	0.373	5,318,980	Uruguay	0.236	3,365,360
Ivory Coast	0.178	2,538,280	Venezuela	1.130	16,113,800
Jamaica	0.181	2,581,060	Viet Nam	0.212	3,023,120
Jordan	0.079	1,126,540	Western Samoa	0.007	99,820
Kampuchea, Democratic	0.086	1,226,360	Yemen Arab Republic	0.034	484,840
Kenya	0.164	2,338,640	Yemen, People's Democratic Republic of	0.099	1,411,740
Korea	0.274	3,907,240	Yugoslavia	0.709	10,110,340
Kuwait	0.223	3,179,980	Zaire	0.387	5,518,620
Lao People's Democratic Republic	0.045	641,700	Zambia	0.260	3,707,600
Lebanon	0.031	442,060			
Lesotho	0.017	242,420	Total	27.771	396,014,460
Liberia	0.099	1,411,740			
Libya	0.082	1,169,320			
Madagascar	0.089	1,269,140			
Malawi	0.051	727,260			

**Table I.16. Trust Fund Loans to July 1979 for the Second Period,  
July 1, 1978–June 30, 1980<sup>1</sup>**

(In millions of SDRs)

Member	Quota (at December 31, 1975)	Amount
Bangladesh	125.0	29.625
Burma	60.0	14.220
Congo	13.0	3.081
Egypt	188.0	44.556
Ethiopia <sup>2</sup>	27.0	6.399
Ghana	87.0	20.619
Guinea	24.0	5.688
Haiti	19.0	4.503
Honduras <sup>2</sup>	25.0	5.925
Kenya	48.0	11.376
Lesotho	5.0	1.185
Liberia	29.0	6.873
Mali	22.0	5.214
Mauritania	13.0	3.081
Morocco	113.0	26.781
Nepal	14.0 <sup>3</sup>	3.318
Philippines	155.0	36.735
Senegal	34.0	8.058
Sri Lanka	98.0	23.226
Sudan	72.0	17.064
Swaziland <sup>2</sup>	8.0	1.896
Tanzania	42.0	9.954
Thailand	134.0	31.758
Togo	15.0	3.555
Western Samoa	2.0	0.474
Yemen, People's Democratic Republic of	29.0	6.873
Zambia	76.0	18.012
Total	1,477.0	350.049

<sup>1</sup> Requests from two members for Trust Fund loans for the second period had not yet been considered by the Executive Board as at July 31, 1979.

<sup>2</sup> Loan payment to be made subject to the member accepting the terms of the loan agreement.

<sup>3</sup> Amount to which Nepal had consented as at December 31, 1975.

**Table I.17. Members That Have Accepted the Obligations of Article VIII, April 30, 1979**

Member	Effective Date of Acceptance
Argentina	May 14, 1968
Australia	July 1, 1965
Austria	August 1, 1962
Bahamas	December 5, 1973
Bahrain	March 20, 1973
Belgium	February 15, 1961
Bolivia	June 5, 1967
Canada	March 25, 1952
Chile	July 27, 1977
Costa Rica	February 1, 1965
Denmark	May 1, 1967
Dominican Republic	August 1, 1953
Ecuador	August 31, 1970
El Salvador	November 6, 1946
Fiji	August 4, 1972
France	February 15, 1961
Germany, Fed. Rep. of	February 15, 1961
Guatemala	January 27, 1947
Guyana	December 27, 1966
Haiti	December 22, 1953
Honduras	July 1, 1950
Ireland	February 15, 1961
Italy	February 15, 1961
Jamaica	February 22, 1963
Japan	April 1, 1964
Kuwait	April 5, 1963
Luxembourg	February 15, 1961
Malaysia	November 11, 1968
Mexico	November 12, 1946
Netherlands	February 15, 1961
Nicaragua	July 20, 1964
Norway	May 11, 1967
Oman	June 19, 1974
Panama	November 26, 1946
Papua New Guinea	December 4, 1975
Peru	February 15, 1961
Qatar	June 4, 1973
Saudi Arabia	March 22, 1961
Seychelles	January 3, 1978
Singapore	November 9, 1968
South Africa	September 15, 1973
Suriname	June 29, 1978
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.18. Increases in Quotas Under the Board of Governors Resolution No. 31-2, July 1, 1978-June 30, 1979<sup>1</sup>**

(In millions of SDRs)

Member	Quota on Mar. 31, 1978	New Quota (Sixth Review)	Effective Date of Change
Australia	665.00	790.00	Sept. 13, 1978
Equatorial Guinea	8.00	10.00	Aug. 2, 1978
Iraq	109.00	141.00	Aug. 10, 1978
Jordan	23.00	30.00	Sept. 7, 1978
Mauritania	13.00	17.00	Aug. 2, 1978
Oman	7.00	20.00	July 1, 1978
Syrian Arab Republic	50.00	63.00	July 15, 1978

<sup>1</sup> Democratic Kampuchea had not consented to its increase in quota on June 30, 1979. The quota of China was not increased under the Sixth General Review of Quotas. Suriname, Cape Verde, the Solomon Islands, Dominica, and Djibouti became members after April 1, 1978.

**Table I.19. Publications Issued, Financial Year Ended April 30, 1979****Reports and Other Documents**

*Annual Report of the Executive Board for the Financial Year Ended April 30, 1978*  
(English, French, German, and Spanish). Free

*By-Laws, Rules and Regulations*  
Thirty-Fifth Issue (English, French, and Spanish). Free

*Selected Decisions of the International Monetary Fund and Selected Documents*  
Supplement to Eighth Issue (English). Free

*Summary Proceedings of the Thirty-Third Annual Meeting of the Board of Governors* Free

*Twenty-Ninth Annual Report on Exchange Restrictions* Free

**Subscription Publications**

*Balance of Payments Yearbook*  
Vol. 30. Annual, 11 monthly booklets, and supplement.  
US\$20.00 a year. US\$8.00 to university libraries, faculty members, and students.

*Direction of Trade*  
Monthly, with annual supplement.  
US\$16.00 a year. US\$6.00 to university libraries, faculty members, and students.

*International Financial Statistics*  
Monthly, with annual supplement (English, French, and Spanish).  
US\$35.00 a year. US\$14.00 to university libraries, faculty members, and students.

*Staff Papers*  
Four times a year. US\$7.00 a year. US\$3.00 to university libraries, faculty members, and students.  
University libraries, faculty members, and students may obtain the four subscription publications listed above at the reduced rate of US\$26.00 for all four publications.

*Government Finance Statistics Yearbook*  
Vol. II, 1978. (Introduction and titles of lines in English, French, and Spanish). US\$10.00. US\$4.00 to university libraries, faculty members, and students.

For users of Fund publications that have access to a computer, tape subscriptions to the *Balance of Payments Yearbook*, *Direction of Trade*, *Government Finance Statistics*, and *International Financial Statistics* are available at US\$1,000.00 a year each. This price includes the book version of the publication. The price to universities is US\$400.00 a year for each subscription.

**Books**

*Legal and Institutional Aspects of the International Monetary System: Selected Essays*  
By Joseph Gold. US\$17.50.

*Surveys of African Economies*  
US\$5.00 a volume

Volume 7, covering Algeria, Mali, Morocco, and Tunisia, was published in French.

The volumes in this series are available to university libraries, faculty members, and students at a reduced price of US\$2.50 a volume.

*IMF Glossary, English-French-Spanish*  
By Fund's Bureau of Language Services US\$5.00.

**Pamphlet Series**

No. 20 *Voting Majorities in the Fund: Effects of Second Amendment of the Articles*  
By Joseph Gold (French and Spanish). Free

No. 21 *International Capital Movements Under the Law of the International Monetary Fund*  
By Joseph Gold (French). Free

No. 23 *Use, Conversion, and Exchange of Currency Under the Second Amendment of the Fund's Articles*  
By Joseph Gold (English). Free

No. 24 *The Rise in Protectionism*  
By Trade and Payments Division (English). Free

No. 25 *The Second Amendment of the Fund's Articles of Agreement*  
By Joseph Gold (English). Free

No. 26 *SDRs, Gold, and Currencies: Third Survey of New Legal Developments*  
By Joseph Gold (English; Résumé also in German). Free

No. 27 *Financial Assistance by the International Monetary Fund: Law and Practice*  
By Joseph Gold (English). Free

No. 28 *Thoughts on an International Monetary Fund Based Fully on the SDR*  
By J. J. Polak (English). Free

**Other**

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

*IMF Survey*  
Twice monthly but only once in December (English, French, and Spanish). Private firms and individuals are charged for delivery at the annual rate of US\$10.00.

## Appendix II

# Principal Policy Decisions of the Executive Board and Reports to the Board of Governors

### A. Increases in Quotas of Fund Members—Seventh General Review

#### *Report of the Executive Board to the Board of Governors*

1. Article III, Section 2(a) of the Articles of Agreement provides that "The Board of Governors shall at intervals of not more than five years conduct a general review, and if it deems it appropriate propose an adjustment, of the quotas of the members. It may also, if it thinks fit, consider at any other time the adjustment of any particular quota at the request of the member concerned." This report and the attached Resolution on increases in quotas under the current, i.e., the seventh, general review are submitted to the Board of Governors in accordance with Article III, Section 2.

In their Resolution of March 22, 1976,<sup>1</sup> the Board of Governors decided that "The seventh general review of quotas shall be completed by February 9, 1978." The review was not completed by that date. At its meeting in Mexico City in April 1978, considerable progress was made by the Interim Committee toward achieving a consensus on the Seventh Review as reflected in the communiqué issued at the end of its meeting on April 30, 1978.

2. At the last meeting of the Interim Committee in Washington in September 1978, understandings were reached on all major issues of the Seventh Review, as reflected in the relevant passages from the Committee's communiqué of September 24, 1978, as follows:

The Committee resumed its discussion of the Seventh General Review of Quotas and considered three major issues relating to it: the size of the overall increase in quotas, selective quota adjustments, and the method of payment of the increases in quotas. These issues were considered by the Committee in conjunction with the various issues relating to the SDR with which they are regarded as interrelated. The Committee recalled its view that there was a need for an increase in total quotas under the Seventh Review that would be adequate to meet the expected need for conditional liquidity over the next five years. The Committee also recalled its view that an adequate increase would strengthen the available sources of balance of payments financing by enhancing the ability of the Fund to provide such financing without heavy recourse to borrowing and by furthering the process of international adjustment.

The Committee's view was that an increase in the overall size of quotas of 50 per cent would be appropriate to bring about a better balance between the size of the Fund's resources and the need of members for balance of payments financing over the medium term. The Committee noted that the Executive Board does not intend to propose a general adjustment in quotas for five years after the Board of Governors approves the increase in quotas under the Seventh Review, unless there is a major change in the world economy and its financing needs.

The Committee noted with satisfaction that agreement had been reached on selective quota increases for 11 developing member countries: Iraq, Iran, Korea, Kuwait, Lebanon, Libya, Oman, Qatar, Saudi Arabia, Singapore, and the United Arab Emirates.

Taking into account the conclusions reached on the issues relating to SDRs, including allocations of SDRs, the Committee was of the view that, for the quota increases proposed as a result of this review, participants in the Special Drawing Rights Department should pay 25 per cent of the quota increase in SDRs and that nonparticipants should pay the equivalent of 25 per cent of the increase in foreign exchange.

<sup>1</sup> See *Annual Report, 1976*, page 108.



The Committee agreed to request the Executive Board to prepare and complete by November 1, 1978, for final decision and vote by the Board of Governors before the end of the year, a proposed resolution on increases in the quotas of members, which would include necessary provisions dealing with participation, the effective date of quota increases, and the method of payment of the increases in accordance with the understandings reached in the Committee.

The communiqué also included the following passage:

The Committee reached the conclusions . . . [on the issues related to SDRs] . . . with the understanding that these conclusions are interrelated and must be adopted in their entirety together with the understandings reached by the Committee on the Seventh General Review of Quotas. In the view of the Committee, therefore, decisions on all these issues relating to SDRs and on the Seventh General Review should be taken at the same time.

3. The Executive Board has considered a number of factors, both of a qualitative and quantitative nature, that affect the expected need for conditional liquidity and the Fund's ability to finance that need over the medium term without heavy reliance on borrowing. One factor is the extent of the growth of, and possible fluctuations in, the value of international transactions; another factor is the likely continuation of relatively large payments imbalances for many countries in the next few years. In these circumstances, the demand for balance of payments financing may well rise, and the Fund's resources should be sufficient to permit the Fund to finance a reasonable share of that demand.

Furthermore, the Executive Board, while acknowledging the contribution made by the international capital markets to the effective functioning of the international monetary system over the last few years, believes that an increase in Fund quotas can promote the process of international adjustment in ways that could not be achieved through the private markets. The Fund provides its members with balance of payments financing on the understanding that these members will follow appropriate policies of economic adjustment. In these circumstances, members' access to the Fund's resources must be sufficiently large to induce members with substantial balance of payments needs to use those resources and to pursue economic policies and programs which the Fund is able to support. While access to the Fund's resources in terms of quota is now considerably in excess of the traditional policy norm of 100 per cent of quota under the credit tranche policy, the ratio between access to Fund credit and payments imbalances is considered to be lower than a decade ago.

In recent years, the Fund has established or expanded a number of special facilities to help deal with certain balance of payments problems of its members. Some of them, notably the Extended Fund Facility and the expanded Compensatory Financing Facility, which are of a continuing character, have increased access to Fund resources in relation to quota without additional financing being available to the Fund. On the other hand, borrowing by the Fund for the Oil Facilities of 1974 and 1975 and the Supplementary Financing Facility, which is expected to come into operation shortly, entailed, or will entail, the creation of claims on the Fund's general resources which are encashable on demand if a lender has a balance of payments need. Moreover, as was the case with the Oil Facilities, the resources provided under the Supplementary Financing Facility will augment members' access for a limited period of time only. At the end of that period, the Fund will be faced with both a reduction in the resources available to meet the needs of members and possibly large liquid liabilities relative to its quotas.

In view of the possibility of large payments imbalances over the next few years and the distribution of such imbalances, the Fund's liquidity position is likely to be vulnerable, even though the volume of usable currencies available to the Fund has recently increased. Resources made available through increases in quotas give the Fund a more assured access to resources than borrowing.

In light of the above considerations, the Executive Board is of the view that, in general, increased access to the Fund's resources should, over the longer run, normally result from an increase in Fund quotas.

4. For these reasons, and in accordance with the understandings reached by the Interim Committee at its meeting on September 24, 1978, the Executive Board now proposes to the Board of Governors increases in Fund quotas of 50 per cent for most members and special increases for 11 members. The Executive Board does not intend to propose a general adjustment of quotas for five years after the Board of Governors adopts this Resolution, unless there is a major change in the world economy and its financing needs.

5. The Executive Board will review the customary method of calculating quotas after the Seventh General Review of Quotas has been completed. In the context of the next general review of quotas, the Executive Board will examine the quota shares of members in relation to their positions in the world economy with a view to adjusting those shares better to reflect members' relative economic positions while having regard to the desirability of an appropriate balance in the composition of the Executive Board.

6. Under the proposed Resolution, a member will be able to consent to the increase in its quota at any time on or before November 1, 1980. Therefore, unless this period is extended by the Executive Board, members will have until November 1, 1980 to take whatever action may be necessary under their laws to enable them to give their consent.

7. It is proposed that the increase in a member's quota will take effect on the latest of the following three dates:

(a) The date on which the Fund receives the member's consent to the increase in quota;

(b) The date of the payment of the increase in subscription; and

(c) The date on which the Fund determines that the participation requirement in paragraph 2 of the proposed Resolution has been satisfied. The proposed Resolution provides, however, that if the participation requirement in paragraph 2 has not been met by June 30, 1980, no increase in quotas under the Seventh Review would become effective until after October 5, 1980, so that there would be no changes in quotas during, or shortly before, the 1980 Annual Meeting of the Board of Governors, when the next election of Executive Directors will take place. If the participation requirement were met during the period July 1 to October 5, 1980, increases in quotas would become effective only after October 5, 1980.

The participation requirement in paragraph 2 is reached when the Fund determines that members having not less than 75 per cent of the total of quotas on November 1, 1978 have consented to increases in their quotas. In determining whether this degree of participation has been reached, the Fund will take into account all consents to increases, whether they are increases to the maximum amount provided for or to a smaller amount.

8. The proposed Resolution does not provide for increases in quotas by fixed installments. A member will be able, however, to consent to an increase smaller than the maximum provided for. The member will be able to consent to further increases, up to the maximum provided for, at a later date, provided it is within the period for consent under paragraph 3 of the proposed Resolution.

9. The proposed Resolution provides that a member must pay the increase in its subscription within 30 days after (a) the date on which the member notifies the Fund of its consent, or (b) the date on which the participation requirement is met, whichever is the later.

10. Reflecting the understandings reached at the September 1978 meeting of the Interim Committee, 25 per cent of the increase in quotas proposed as a result of the current review should be paid in SDRs for those members that are participants in the Special Drawing Rights Department, and 25 per cent of the increase in the quotas of nonparticipants should be paid in the currencies of other members specified by the Fund, subject to their concurrence. The balance of the increase shall be

in a member's own currency. These payments are in accordance with the prescription of Article III, Section 3(a), and therefore it is not necessary to include any provision for the payment of increases in the Resolution.

11. In accordance with paragraph 3 of the Interim Committee's communiqué of September 24, 1978, the Executive Board has taken decisions on aspects of the special drawing right that are referred to in paragraph 5 of that communiqué. These decisions will become effective on the dates referred to in them if the proposed Resolution and the Resolution on allocations of SDRs become effective. The proposed Resolution provides that it will become effective if it and the proposed Resolution on the Allocation of Special Drawing Rights are adopted by the necessary majority of the total voting power for each.

12. The Executive Board recommends adoption of the attached Resolution. The attached Resolution is designed to enable the Board of Governors to vote at one time on all matters connected with the increases in quotas under the Resolution.

October 25, 1978

*Resolution Submitted to the Board of Governors*

*Increases in Quotas of Members—Seventh General Review*

WHEREAS the Executive Board has submitted to the Board of Governors a report entitled "Increases in Quotas of Fund Members—Seventh General Review" containing recommendations on increases in the quotas of individual members of the Fund; and

WHEREAS the Executive Board has recommended the adoption of the following Resolution of the Board of Governors, which Resolution proposes increases in the quotas of members of the Fund as a result of the Seventh General Review of Quotas and deals with certain related matters, by vote without meeting pursuant to Section 13 of the By-Laws of the Fund;

NOW, THEREFORE, the Board of Governors hereby RESOLVES that:

1. The International Monetary Fund proposes that, subject to the provisions of this Resolution, the quotas of members of the Fund shall be increased to the amounts shown against their names in the Annex to this Resolution, provided that any member may consent to an increased quota that is smaller than the one shown in the Annex, and may consent thereafter to further increases that raise its quota to the amount shown against its name in the Annex not later than the date prescribed by or under paragraph 3 below.

2. A member's increase in quota as proposed by this Resolution shall not become effective unless the member has notified the Fund of its consent to the increase not later than the date prescribed by or under paragraph 3 below and has paid the increase in quota in full, provided that (a) no increase in quota shall become effective before the date of the Fund's determination that members having not less than three fourths of the total of quotas on November 1, 1978 have consented to increases in their quotas, and (b) if the determination has not been made before July 1, 1980, no increase in quota shall become effective until after October 5, 1980.

3. Notices in accordance with paragraph 2 above shall be executed by a duly authorized official of the member and must be received in the Fund not later than November 1, 1980, provided that the Executive Board may extend this period as it may determine.

4. Each member shall pay to the Fund the increase in its quota within 30 days after the later of (a) the date on which it notifies the Fund of its consent or (b) the date of the Fund's determination under paragraph 2 above. If this determination is made in the period between July 1 and October 5, 1980, for the purpose of this paragraph it shall be deemed to have been made on October 5, 1980.

5. This Resolution shall become effective if it and the Proposed Resolution on Allocation of Special Drawing Rights for the Third Basic Period are adopted by the necessary majority of the total voting power for each.

## ANNEX

<u>Proposed Maximum Quota</u> <i>(In millions of SDRs)</i>	<u>Proposed Maximum Quota</u> <i>(In millions of SDRs)</i>
1. Afghanistan ..... 67.5	41. Ghana ..... 159.0
2. Algeria ..... 427.5	42. Greece ..... 277.5
3. Argentina ..... 802.5	43. Grenada ..... 4.5
4. Australia ..... 1,185.0	44. Guatemala ..... 76.5
5. Austria ..... 495.0	45. Guinea ..... 45.0
6. Bahamas ..... 49.5	46. Guinea-Bissau ..... 5.9
7. Bahrain ..... 30.0	47. Guyana ..... 37.5
8. Bangladesh ..... 228.0	48. Haiti ..... 34.5
9. Barbados ..... 25.5	49. Honduras ..... 51.0
10. Belgium ..... 1,335.0	50. Iceland ..... 43.5
11. Benin ..... 24.0	51. India ..... 1,717.5
12. Bolivia ..... 67.5	52. Indonesia ..... 720.0
13. Botswana ..... 13.5	53. Iran ..... 1,075.0
14. Brazil ..... 997.5	54. Iraq ..... 234.1
15. Burma ..... 109.5	55. Ireland ..... 232.5
16. Burundi ..... 34.5	56. Israel ..... 307.5
17. Cameroon ..... 67.5	57. Italy ..... 1,860.0
18. Canada ..... 2,035.5	58. Ivory Coast ..... 114.0
19. Central African Empire ..... 24.0	59. Jamaica ..... 111.0
20. Chad ..... 24.0	60. Japan ..... 2,488.5
21. Chile ..... 325.5	61. Jordan ..... 45.0
22. China, Republic of ... 550.0	62. Kampuchea, Democratic ..... 25.0
23. Colombia ..... 289.5	63. Kenya ..... 103.5
24. Comoros ..... 3.5	64. Korea ..... 255.9
25. Congo, People's Republic of the ..... 25.5	65. Kuwait ..... 393.3
26. Costa Rica ..... 61.5	66. Lao People's Democratic Republic ..... 24.0
27. Cyprus ..... 51.0	67. Lebanon ..... 27.9
28. Denmark ..... 465.0	68. Lesotho ..... 10.5
29. Dominican Republic .. 82.5	69. Liberia ..... 55.5
30. Ecuador ..... 105.0	70. Libya ..... 298.4
31. Egypt ..... 342.0	71. Luxembourg ..... 46.5
32. El Salvador ..... 64.5	72. Madagascar ..... 51.0
33. Equatorial Guinea .... 15.0	73. Malawi ..... 28.5
34. Ethiopia ..... 54.0	74. Malaysia ..... 379.5
35. Fiji ..... 27.0	75. Maldives ..... 1.4
36. Finland ..... 393.0	76. Mali ..... 40.5
37. France ..... 2,878.5	77. Malta ..... 30.0
38. Gabon ..... 45.0	78. Mauritania ..... 25.5
39. Gambia, The ..... 13.5	79. Mauritius ..... 40.5
40. Germany, Federal Republic of ..... 3,234.0	80. Mexico ..... 802.5

Proposed Maximum Quota (In millions of SDRs)	Proposed Maximum Quota (In millions of SDRs)
81. Morocco .....225.0	111. Sudan .....132.0
82. Nepal .....28.5	112. Suriname .....37.5
83. Netherlands .....1,422.0	113. Swaziland .....18.0
84. New Zealand .....348.0	114. Sweden .....675.0
85. Nicaragua .....51.0	115. Syrian Arab Republic .....94.5
86. Niger .....24.0	116. Tanzania .....82.5
87. Nigeria .....540.0	117. Thailand .....271.5
88. Norway .....442.5	118. Togo .....28.5
89. Oman .....35.1	119. Trinidad and Tobago ..123.0
90. Pakistan .....427.5	120. Tunisia .....94.5
91. Panama .....67.5	121. Turkey .....300.0
92. Papua New Guinea ....45.0	122. Uganda .....75.0
93. Paraguay .....34.5	123. United Arab Emirates .....202.6
94. Peru .....246.0	124. United Kingdom ....4,387.5
95. Philippines .....315.0	125. United States .....12,607.5
96. Portugal .....258.0	126. Upper Volta .....24.0
97. Qatar .....66.2	127. Uruguay .....126.0
98. Romania .....367.5	128. Venezuela .....990.0
99. Rwanda .....34.5	129. Viet Nam, Socialist Republic of .....135.0
100. São Tomé and Príncipe ..3.0	130. Western Samoa .....4.5
101. Saudi Arabia .....1,040.1	131. Yemen Arab Republic ..19.5
102. Senegal .....63.0	132. Yemen, People's Democratic Republic of .....61.5
103. Seychelles .....2.0	133. Yugoslavia .....415.5
104. Sierra Leone .....46.5	134. Zaïre .....228.0
105. Singapore .....92.4	135. Zambia .....211.5
106. Solomon Islands .....3.2	
107. Somalia .....34.5	
108. South Africa .....636.0	
109. Spain .....835.5	
110. Sri Lanka .....178.5	

*Board of Governors Resolution No. 34-2  
Adopted December 11, 1978*

## **B. Allocation of Special Drawing Rights for the Third Basic Period**

*Proposal by the Managing Director of the  
International Monetary Fund*

### **Introduction**

Article XVIII, Section 4(a) and (b) of the Articles of Agreement of the Fund provides in relevant part that:

“(a) Decisions under Section 2(a), (b), and (c) or Section 3 of this Article shall be made by the Board of Governors on the basis of proposals of the Managing Director concurred in by the Executive Board.

(b) 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.”

On June 29, 1977, the Managing Director made a report to the Board of Governors entitled “Report by the Managing Director to the Board of Governors and to the Executive Directors on the Allocation of Special Drawing Rights (Article XXIV, Section 4(c)),”<sup>2</sup> which concluded that, with respect to the third basic period, which would start on January 1, 1978, the Managing Director was not in a position to make a proposal before January 1, 1978.

The Report referred to above noted that the Managing Director can make a proposal at any time during the third basic period when he is satisfied that the requisite conditions of Article XVIII, Section 4(b) are fulfilled, and indeed is obliged to do so by Article XVIII, Section 4(c).

Pursuant to Article VIII, Section 4(a) and (b), I am now submitting to the Board of Governors a proposal for allocation of special drawing rights during the third basic period. Before making this proposal, I have satisfied myself, as required by Article XVIII, Section 4(b), that the proposal will be consistent with the provisions of Section 1(a) of that Article. Section 1(a) provides that:

“(a) 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.”

In addition, consultations have been conducted pursuant to Article XVIII, Section 4(b), which have enabled me to ascertain that there is broad support among participants for the proposal set forth in this Report. I refer in particular to paragraph 4 of the Press Communiqué of the Interim Committee of the Board of Governors of the International Monetary Fund, issued after its meeting on September 24, 1978, which states: “In the Committee’s view the Fund should make allocations of 4 billion SDRs in each of the next three years 1979 to 1981.”

Parts I and II of this Report, which follow, discuss the reasons underlying my proposal and explain its various features. Part III includes the proposal and the draft of a resolution of the Board of Governors approving allocation of special drawing rights in accordance with this proposal.

## Part I. Need to Supplement Reserves

### 1. Basis for allocation

This proposal to allocate special drawing rights is made in accordance with my conclusion that, as required by Article XVIII, Section 1(a), there is at present “a long-term global need . . . to supplement existing reserve assets.” The basis for this conclusion is set forth below.

With greater exchange rate flexibility, countries might have been expected to make do with much smaller reserves. Moreover, important changes have taken place in world financial markets in the last decade, and most countries can obtain reserves by making use of international money and capital markets.

Experience shows, however, that countries want to increase their reserves as the level of their international transactions rises, and such increases can be expected to continue in the coming years. While it is true that most countries have a means for satisfying their need for reserves when international capital markets are as free as they are today, the decision to allocate special drawing rights does not depend on a

<sup>2</sup> Refers to Articles of Agreement in effect before the Second Amendment.

finding that the long-term global need cannot be met except by allocation. A characteristic of a system in which countries add to their gross reserves as their international indebtedness increases is that they are faced with the need for periodic refinancing. This difficulty does not arise when additions to net reserves are made through allocation of special drawing rights.

Another consideration is the objective of making the special drawing right the principal reserve asset of the international monetary system, as set out in Article VIII, Section 7 and Article XXII. Exclusive reliance on the accumulation of reserve currencies to provide the needed reserve increases would hardly be compatible with that objective. Although the role of the special drawing right does not depend on purely quantitative considerations, the amount of special drawing rights in existence is nonetheless relevant. The volume of special drawing rights has not increased since the beginning of 1972, and thus the share of this component in international liquidity has been progressively reduced. When allocation of special drawing rights for 1970–72 was decided upon at the end of 1969, it was thought that thereafter special drawing rights might well account for the bulk of reserve increases. In the event, holdings of reserve currencies have increased much faster than expected, and the actual share of holdings of special drawing rights in reserves excluding gold has declined from about 10 per cent at the beginning of 1972 to about 4 per cent at present. In the absence of allocation, the special drawing right would continue its rapid decline as a proportion of reserves.

In view of these considerations, I have concluded that, in accordance with the Articles, a decision should be taken to resume allocation of special drawing rights.

## *2. Size and period of allocation*

Views on the desirable size of allocations of special drawing rights naturally take into account the present magnitude and expected growth of official reserves. The growth of official reserves in turn bears a relationship to the value of world trade, which for the next five years can conservatively be estimated to increase by some 10 per cent a year. The ratio of official reserves to the value of international trade has varied, however, from one period to another, and the increase in reserves could thus be above or below that rate. With the present level of members' holdings of foreign exchange and Fund-related assets of SDR 230 billion, an average increase of SDR 20 billion a year over the next five years would appear to be a low estimate of the likely growth. Figures of this kind do not, of course, provide precise guidance for determining the appropriate level and time of allocations of special drawing rights, but do offer some point of reference for consideration in making such decisions.

It can be maintained, although this view is not universally shared, that with a highly elastic supply of reserves available through international capital markets, a substantial part of any allocation of special drawing rights could be expected to substitute for increases in official holdings of foreign exchange that would otherwise have taken place. This line of reasoning would suggest that any expansionary effects of allocation would be limited in size. Whatever view is taken of these issues, there can be no question that in the world of today the possible effects on expectations with respect to inflation of a decision to allocate special drawing rights also need to be taken into account. This consideration suggests that allocations at this time should be modest in terms of both annual size and the length of the period for which they should be made.

I have therefore concluded that the Fund should make allocations of SDR 4 billion in each of the next three years 1979 to 1981. In specifying these amounts, I have also had in mind the agreement that has been reached that special drawing rights will be used in partial payment for the quota increases that are to take place under the Seventh General Review of Quotas. The first allocation would be made as of the first day of the month following the effective date of the resolution of the



Board of Governors, and the succeeding two allocations would be made as of the same day in each of the subsequent two years.

## Part II. Elements of the Proposal

### 3. *Proposed basic period*

Article XVIII, Section 2(a) specifies that: "Decisions of the Fund to allocate or cancel special drawing rights shall be made for basic periods which shall run consecutively and shall be five years in duration." That same section, however, allows the Fund to provide that the duration of a basic period shall be other than five years.

On the occasion of the first decision to allocate, a basic period of three years running from January 1, 1970 was prescribed. The second basic period thus began on January 1, 1973; as the Fund did not provide otherwise, that period ran for five years, with the current, i.e., third, basic period beginning on January 1, 1978.

It is proposed that allocations now be made under Article XVIII, Sections 2(c) and 4(c) (ii) for three years of the third basic period, and that the basic period end on the final day of the year in which the last of the three annual allocations is made. The third basic period that began on January 1, 1978 would thus have a terminal date of December 31, 1981 and a duration of four years, with allocations in the last three of those four years.

### 4. *Participation during basic period*

Article XVIII, Section 2(d) deals with members that become participants after a basic period begins—on this occasion, as from January 1, 1978. New participants may be new or existing members. New participants would include two classes: (a) those that were not participants at the start of the third basic period but that were participants on the effective date of the proposed resolution and (b) those that become participants after the effective date of the resolution. Article XVIII, Section 2(d) declares that a new participant shall not receive allocations in the basic period in which it becomes a participant but authorizes the Fund to decide to permit the member to receive allocations made after it becomes a participant. The decision referred to is taken by the Executive Board by a majority of the votes cast. I would expect that the Executive Board would react sympathetically to any request by a new participant, whether in class (a) or (b), above, to receive allocations made in the third basic period after it becomes a participant.

### 5. *Allocations as percentages of quotas*

Article XVIII, Section 2(b) provides that: "The rates at which allocations are to be made shall be expressed as percentages of quotas on the date of each decision to allocate," but the Fund, under Section 2(c) of the same Article, may provide that the basis for allocations shall be quotas on dates other than the dates of decisions to allocate.

On the assumption that the only members receiving allocations were those that are at present participants, the rate for the first allocation would be 10.6 per cent of quotas. The method adopted to express the percentages of quotas for the proposal is designed to ensure that each of the three allocations will be close to SDR 4 billion and that the total amount allocated will be close to SDR 12 billion.<sup>3</sup> Specifically, the total would not be increased if the Executive Board should decide, by the date that the resolution of the Board of Governors becomes effective, to make new participants in class (a) of section 4, above, i.e., members that were not participants at the start of the third basic period but were participants on the effective date of the resolution, eligible to receive the allocations for that period.

The total amount of allocations would be reduced, however, if participants entitled to receive allocations "opt out."<sup>4</sup> In contrast, the total amount of allocations

<sup>3</sup> Because the percentage is to be rounded to the nearest one tenth of 1 percentage point, an allocation could in practice exceed or fall short of the desired amount by not more than one twentieth of 1 percentage point of total quotas, i.e., a difference in absolute terms that would not be greater than about SDR 19 million on the basis of quotas at the present time.

<sup>4</sup> For a participant to be able to "opt out," in accordance with Article XVIII, Section 2 (e), it must not have voted in favor of the resolution and must inform the Fund before the first allocation under the resolution that it does not wish to receive allocations under that resolution.

would be increased when any new participants in class (b) of section 4, above, i.e., those that become participants after the effective date of the resolution, are made eligible, by a decision of the Executive Board, to receive allocations made after they become participants.

The proposal also provides that the basis for each allocation shall be quotas on the day before that allocation. This provision is intended to deal with the expectation that increases in quotas under the Seventh General Review are to take place during the third basic period. It would have the result that all participants for which new quotas had gone into effect by the day prior to the allocation in question would receive allocations based on their share in the total quotas prevailing on that day, and that those participants whose new quotas had not gone into effect would receive a much reduced share.

#### 6. *Interrelated issues*

The draft resolution provides that it would not become effective unless the draft resolution on the Seventh General Review of Quotas that is being proposed for simultaneous adoption by the Board of Governors is adopted.<sup>5</sup> This provision of the draft resolution on allocation is in accordance with paragraph 3 of the Interim Committee's communiqué of September 24, 1978. In accordance with the same paragraph, the Executive Board has taken decisions on aspects of the special drawing right that are referred to in paragraph 5 of the communiqué. These decisions will become effective on the dates provided for in the decisions if the draft resolution becomes effective.

#### Part III. Proposal for the Allocation of Special Drawing Rights

I hereby propose that the Fund allocate special drawing rights to the participants in the Special Drawing Rights Department, in accordance with the Articles of Agreement, as follows:

1. The third basic period, which began on January 1, 1978, shall end on December 31, 1981.
2. Allocations during this basic period shall be made as of the first day of the month following the effective date of the resolution of the Board of Governors and as of the same date in each of the subsequent two years.
3. The rate for each participant receiving an allocation shall be the percentage, rounded to the nearest one tenth of 1 percentage point, resulting from dividing SDR 4 billion by the total of quotas on the day before allocation of those participants that were eligible to receive allocations on the date on which this resolution becomes effective.

I further recommend that in accordance with the foregoing proposal, which has been concurred in by the Executive Board on October 25, 1978, the Board of Governors adopt the following proposed resolution.

*October 25, 1978*

#### *Resolution Submitted to the Board of Governors*

##### Allocation of Special Drawing Rights for the Third Basic Period

WHEREAS the Managing Director has submitted a proposal for the allocation of special drawing rights pursuant to Article XVIII, Section 4, of the Articles of Agreement of the International Monetary Fund;

WHEREAS in the Report containing his proposal, the Managing Director has declared that, before making the proposal, he had satisfied himself that the proposal would be consistent with the provisions of Article XVIII, Section 1(a), and that,

<sup>5</sup> See pages 121–23.

after consultation, he has ascertained that there is broad support among participants for the proposal; and

WHEREAS the Executive Board has concurred in the proposal of the Managing Director;

NOW, THEREFORE, the Board of Governors, being satisfied that the proposal of the Managing Director meets the principles governing the allocation of special drawing rights set forth in Article XVIII, Section 1(a) hereby RESOLVES that:

1. The third basic period, which began on January 1, 1978, shall end on December 31, 1981.

2. The Fund shall make allocations to participants in the Special Drawing Rights Department that are eligible, in accordance with the Articles of Agreement, to receive allocations during the third basic period.

3. Allocations shall be made as of the first day of the month following the date on which this resolution becomes effective and as of the same date in each of the subsequent two years.

4. The rate for the allocations to participants eligible to receive allocations in accordance with 2 above shall be the percentage, rounded to the nearest one tenth of 1 percentage point, resulting from dividing SDR 4 billion by the total of quotas on the day before allocation of those participants that were eligible to receive allocations on the date on which this resolution becomes effective.

5. This resolution shall become effective if it and the proposed resolution on the Seventh General Review of Quotas are adopted by the necessary majority of the total voting power for each.

*Board of Governors Resolution No. 34-3  
Adopted December 11, 1978*

### **C. Rate of Interest on Special Drawing Rights, Rate of Remuneration, and Rates of Periodic Charges**

#### *(a) Rate of Interest on Special Drawing Rights: Rule T-1(b)*

Rule T-1(b) shall be amended as follows with effect from the date of the first allocation of special drawing rights in the third basic period:

Unless the Executive Board decides otherwise, the rate of interest on holdings of special drawing rights for each calendar quarter shall be four fifths of the combined market interest rate as determined in (c) below, provided that the rate shall be rounded to the nearest  $\frac{1}{4}$  of 1 per cent.

*Decision No. 5933-(78/168) S  
October 25, 1978, effective December 11, 1978*

#### *(b) Rate of Remuneration: Rule I-10*

Rule I-10 shall be amended as follows with effect from the date of the first allocation of special drawing rights in the third basic period:

- (a) The rate of remuneration shall be equal to 90 per cent of the rate of interest on the special drawing right under Rule T-1(b).
- (b) The Fund shall review the rate of remuneration on the occasion of the quarterly review of the rate of interest paid by it on holdings of special drawing rights.
- (c) Shortly before the end of each financial year the Fund shall consider whether the estimated net income of the Fund for that year was sufficiently large to permit the average annual rate of remuneration for that year to be raised to a level above 90 per cent but not above 100 per cent

of the average annual rate of interest on the special drawing right. In considering whether to establish a higher rate of remuneration for a particular year, the Fund shall also consider the possibility of reducing the rates of charges applicable under Rule I-7(5)(b)(i) from the beginning of the subsequent financial year.

*Decision No. 5934-(78/168)*  
*October 25, 1978, effective December 11, 1978*

*(c) Rates of Periodic Charges: Rule I-7(5)(b)(i)*

Rule I-7(5)(b)(i) shall be amended as follows with effect from the date of the first allocation of special drawing rights in the third basic period:

[I-7(5) The charge on a segment that is not subject to another schedule of charges and that is in excess of quota after exclusion of any segments subject to [charges under special facilities], shall be . . . (b) if the segment includes holdings acquired on or after July 1, 1974]

4¾ per cent per annum for the first twelve months, provided that if in any period of six successive months the Fund's total expenses exceeded its income the Executive Board will promptly review all aspects of the Fund's financial position, including the rate of remuneration pursuant to Rule I-10 and the rate of charge for the first twelve months, and take such action as it considers necessary to safeguard the financial position of the Fund, and provided further that the rate of charge for the first twelve months shall be ¼ of 1 per cent above the rate of remuneration, unless, as a result of this review, the Executive Board decides within one month after the end of any such six-month period that a different rate of charge shall apply.

*Decision No. 5935-(78/168)*  
*October 25, 1978, effective December 11, 1978*

#### **D. Special Drawing Rights: Allocations to New Participants**

Pursuant to Article XVIII, Section 2(d), it is decided that members that have, or will, become participants in the Special Drawing Rights Department between January 1, 1978 and December 31, 1978 and have informed the Fund that they wish to receive allocations of special drawing rights during the third basic period shall receive allocations in accordance with the Resolution of the Board of Governors on allocations of special drawing rights for the third basic period.

*Decision No. 5956-(78/180) S*  
*November 17, 1978*

#### **E. Special Drawing Rights: Reconstitution**

*(a) Reduction in the Minimum Average Holdings of SDRs*

I. The Executive Board, having reviewed the rules for reconstitution in accordance with Article XIX, Section 6(b), decides as follows with respect to the five-year periods ending after the date of the first allocation of special drawing rights in the third basic period:

1. The requirement under Schedule G, Paragraph 1(a)(i), regarding the maintenance of a minimum average of total daily holdings of special drawing rights shall be 15 per cent instead of 30 per cent.

2. For the purposes of calculations under Schedule G, Paragraph 1(a)(ii), that are made after the resolution on allocations becomes effective but before the

date of the first allocation of special drawing rights in the third basic period, the minimum average daily holdings of special drawing rights required under Schedule G, Paragraph 1(a)(i), shall be 15 per cent.

3. For the purposes of calculations under Schedule G, Paragraph 1(a)(ii), it shall be assumed that no allocations or cancellations of special drawing rights will be made after the third basic period.

II. The Executive Board will consider further in the light of experience the requirement under Schedule G, Paragraph 1(a)(i), as amended by this decision.

*Decision No. 5936-(78/168) S*  
*October 25, 1978*

*(b) Obligation of a Participant That Has Received a First Allocation of SDRs  
Less Than Five Years Prior to the End of a Reconstitution Period*

The Executive Board, having reviewed the rules for reconstitution in accordance with Article XIX, Section 6(b), decides that the requirement in Paragraph 1(a)(i) of Schedule G, as modified by Decision No. 5936-(78/168) S, October 25, 1978, shall apply to a participant for the reconstitution period ending five years after the first allocation of special drawing rights to it, and for the five-year period terminating at the end of each calendar quarter thereafter.

*Decision No. 6063-(79/43)*  
*March 14, 1979*

**F. Special Drawing Rights: Additional Uses**

*(a) Use in Settlement of Financial Obligations*

A. In accordance with Article XIX, Section 2(c), the Fund prescribes that:

1. A participant, by agreement with another participant, may use SDRs to settle a financial obligation to the other participant, other than an obligation to make a donation, if

- (a) the obligation is denominated in
  - (i) SDRs, or
  - (ii) the currency of a member, or
  - (iii) the currency of a nonmember or another unit of account that is composed of currencies and is applied under an intergovernmental agreement, in respect of which arrangements have been completed for determination by the Fund of equal value in terms of the SDR on the basis of Article XIX, Section 7(a) and Rule O-2; and
- (b) the amount of SDRs to be used in the settlement of an obligation referred to in (a) (ii) or (a) (iii) above is equal in value, in terms of the SDR, at the time of settlement, to the amount of the obligation.

2. The calculations under 1(b) above shall be made at the exchange rate of the third business day preceding the value date or of the second business day preceding the value date if agreed between the parties.

3. Participants intending to use or acquire SDRs under 1(a) above shall inform the Fund of the denomination and amount of the obligation and the intended value date of the operation. As required by Rule P-7 the lender and the borrower shall declare that the intended use of SDRs will be in accordance with this prescription.

4. Transfers of SDRs under this prescription shall be made only upon the receipt by the Fund of instructions from the transferor and the transferee.

B. The Fund shall record operations under this prescription in accordance with Rule P-9.

C. The Fund shall review this decision prior to June 30 of each year.

*Decision No. 6000-(79/1) S*

*December 28, 1978*

*(b) Use in Loans*

A. In accordance with Article XIX, Section 2(c), the Fund prescribes that:

1. A participant, by agreement with another participant, may make a loan of SDRs to the other participant if

- (a) the principal amount of the loan is denominated in
  - (i) SDRs, or
  - (ii) the currency of a member, or
  - (iii) the currency of a nonmember or another unit of account that is composed of currencies and is applied under an intergovernmental agreement, in respect of which arrangements have been completed for determination by the Fund of equal value in terms of the SDR on the basis of Article XIX, Section 7(a) and Rule O-2; and
- (b) the amount of SDRs used in a loan referred to in (a)(ii) or (a)(iii) above is equal in value, in terms of the SDR, at the time of the use, to the amount of the loan; and
- (c) the borrower has undertaken the following obligations under the loan agreement:
  - (i) if the loan is denominated in SDRs, to repay with the same amount of SDRs, or the equivalent, at the time of repayment, in the currency of a member on the basis of Article XIX, Section 7(a) and Rule O-2, or in the currency of a nonmember or another unit of account under (a)(iii) above in accordance with the arrangements for valuation referred to therein;
  - (ii) if the loan is denominated in the currency of a member and is to be repaid in SDRs, to repay with the equivalent in SDRs, at the time of repayment, on the basis of Article XIX, Section 7(a) and Rule O-2;
  - (iii) if the loan is under (a)(iii) above and is to be repaid in SDRs, to repay with the equivalent in SDRs, at the time of repayment, in accordance with the arrangements for valuation referred to in (a)(iii) above.

2. The calculations under 1(b) and (c) above shall be made at the exchange rate of the third business day preceding the value date or of the second business day preceding the value date if agreed between the parties.

3. Repayment and the payment of interest with SDRs shall be made in accordance with the prescription of the use of SDRs in the settlement of financial obligations.

4. Participants intending to lend or borrow SDRs under this prescription shall inform the Fund of the amount and value date of the loan, the denomination, rate of interest, maturity, and means of repayment agreed between the parties. As required by Rule P-7 the lender and the borrower shall declare that the intended use of SDRs will be in accordance with this prescription.

5. Transfers of SDRs under this prescription shall be made only upon the receipt by the Fund of instructions from the transferor and the transferee.

B. The Fund shall record operations under this prescription in accordance with Rule P-9.

C. The Fund shall review this decision prior to June 30 of each year.

*Decision No. 6001-(79/1) S*  
*December 28, 1978*

*(c) Prescription Under Article XIX, Section 2(c) of  
Use of SDRs by Participants in Pledges*

In accordance with Article XIX, Section 2(c), the Fund prescribes that:

1. A participant, by agreement with another participant, may pledge SDRs to secure the performance of a financial obligation to the other participant, other than an obligation to make a donation, if the obligation is denominated in

- (i) SDRs, or
- (ii) the currency of a member, or
- (iii) the currency of a nonmember or another unit of account that is composed of currencies and is applied under an intergovernmental agreement, in respect of which arrangements have been completed for determination by the Fund of equal value in terms of the SDR on the basis of Article XIX, Section 7(a) and Rule O-2.

2. Participants intending to engage in an operation involving the pledge of SDRs as pledgor or pledgee shall inform the Fund of the terms of the pledge relating to the amount and denomination of the obligation to be secured by the pledge, the amount of SDRs to be pledged, the effective date of the pledge, and the party or other entity designated by the parties to the operation to give instructions to the Fund to terminate the pledge in whole or in part or to transfer the pledged SDRs to the pledgee. As required by Rule P-7 the parties to the operation shall declare that the intended use of SDRs will be in accordance with this prescription.

3. The Fund shall record a pledge of SDRs under this prescription only upon receipt by the Fund of instructions from the parties to the operation. A change in the terms of the pledge referred to in 2 above, if consistent with this prescription, shall take effect upon receipt by the Fund of instructions from the parties to the operation. The amount of SDRs to be pledged shall be set aside and shall not be used during the period of the pledge except in accordance with instructions authorized by the terms of the pledge or in order to discharge an obligation of the pledgor under the Articles of Agreement.

4. The amount of SDRs to be transferred to the pledgee in accordance with instructions authorized by the terms of the pledge in satisfaction of the secured obligation shall discharge an equal amount, in terms of the SDR, of the secured obligation at the time of the transfer. Calculations for this purpose shall be made at the exchange rate of the third business day preceding the date of the transfer or of the second business day preceding the date of the transfer if agreed between the parties.

5. The Fund shall give adequate notice to the parties to an operation under this prescription before pledged SDRs are to be transferred

- (a) in accordance with the terms of the pledge; or
- (b) in order to discharge an obligation of the pledgor under the Articles of Agreement.

6. The notice under 5(b) above may include advice on the ways in which the obligation could be discharged without the use of pledged SDRs, or in which the pledge of SDRs could be restored.



7. The Fund shall record operations under this prescription in accordance with Rule P-9.

8. The Fund shall review this decision prior to June 30 of each year.

*Decision No. 6053-(79/34) S*

*February 26, 1979*

*(d) Prescription Under Article XIX, Section 2(c) of Use of SDRs by Participants in Transfers as Security for the Performance of Financial Obligations*

In accordance with Article XIX, Section 2(c), the Fund prescribes that:

1. A participant, by agreement with another participant, may transfer SDRs to the other participant in order to secure the performance of a financial obligation to the other participant, other than an obligation to make a donation, if the obligation is denominated in

- (i) SDRs, or
- (ii) the currency of a member, or
- (iii) the currency of a nonmember or another unit of account that is composed of currencies and is applied under an intergovernmental agreement, in respect of which arrangements have been completed for determination by the Fund of equal value in terms of the SDR on the basis of Article XIX, Section 7(a) and Rule O-2.

2. Participants intending to engage, as transferor or transferee, in an operation involving the transfer of SDRs as security shall inform the Fund of the terms of the security arrangement relating to the amount and denomination of the obligation to be secured, the amount of SDRs to be transferred, the effective date of the transfer, any agreement by the parties regarding SDRs received from the Fund as interest in respect of the transferred SDRs, and the party or other entity designated by the parties to the operation to give instructions to the Fund for the retransfer. As required by Rule P-7 the parties to the operation shall declare that the intended use of SDRs will be in accordance with this prescription.

3. The Fund shall record a transfer of SDRs under this prescription upon the receipt by the Fund of instructions from the parties to the operation. A change in the terms of the security arrangement referred to in 2 above, if consistent with this prescription, shall take effect upon receipt by the Fund of instructions from the parties to the arrangement. At the request of the parties, the amount of SDRs transferred as security shall be set aside and shall not be used during the period of the security arrangement except in accordance with instructions authorized by the terms of the arrangement or in order to discharge an obligation of the transferee under the Articles of Agreement.

4. The amount of SDRs transferred as security shall be retransferred in accordance with instructions authorized by the terms of the security arrangement, or retained in the absence of such instructions. The amount of SDRs retained shall discharge an equal amount, in terms of the SDR, of the secured obligation at the time of the retention. Calculations for this purpose shall be made at the exchange rate of the third business day preceding the date of retention or of the second business day preceding the date of retention if agreed between the parties.

5. The Fund shall give adequate notice to the parties to an operation under this prescription before the amount of SDRs held by the transferee as security are to be

- (a) retransferred in accordance with the terms of the arrangement; or
- (b) reduced in order to discharge an obligation of the transferee under the Articles of Agreement.

6. The notice under 5(b) above may include advice on the ways in which the obligation could be discharged without the use of the SDRs held as security, or in which these holdings could be restored.

7. The Fund shall record operations under this prescription in accordance with Rule P-9.

8. The Fund shall review this decision prior to June 30 of each year.

*Decision No. 6054-(79/34) S*  
*February 26, 1979*

## **G. Trust Fund**

### *(a) Amendment of Section III, Paragraph 4(a) of the Trust Instrument*

Section III, Paragraph 4(a) of the Instrument to Establish the Trust Fund annexed to Decision No. 5069-(76/72),<sup>6</sup> adopted May 5, 1976, is modified to read as follows:

The Trustee may invest balances of currency held by the Trust with the concurrence of the member whose currency is to be used. The Trustee may invest in (i) marketable obligations of international financial organizations, (ii) marketable obligations denominated in special drawing rights issued by members or national official financial institutions of members, (iii) marketable obligations issued by, and denominated in the currency of, the member, or its national official financial institutions, whose currency is used to make an investment, and (iv) deposits denominated in special drawing rights with commercial banks.

*Decision No. 5972-(78/189)*  
*December 4, 1978*

### *(b) Diversification of Trust Fund Investments*

1. The Fund, recognizing that the SDR is the unit of account in which the assets of the Trust established by Decision No. 5069-(76/72),<sup>7</sup> adopted May 5, 1976, are valued, concludes that it would be desirable to continue to maintain, in a manner compatible with the operational needs of the Trust, the currency assets of the Trust, other than those that need to be distributed directly to developing countries in proportion to their quotas on August 31, 1975, in assets denominated in SDRs or in a combination of currencies that would, to the maximum extent practicable, correspond to the composition of the SDR basket.

2. The Managing Director shall place in deposits, denominated in SDRs, with the Bank for International Settlements (BIS) the profits from the gold sales realized in the remainder of the auctions to be held under Paragraph 7, Schedule B, with the exception of the portion of these profits that is to be distributed directly to developing countries in proportion to their quotas on August 31, 1975, unless the Managing Director considers that the terms offered by the BIS on an intended deposit denominated in SDRs are not sufficiently attractive. In that event the Managing Director shall inform the Executive Board and make other proposals to it for investment in SDR-denominated obligations, which may include obligations of international financial organizations or members or national official financial institutions of members or commercial banks. If it is not possible to make investments in SDR-denominated obligations on terms that are sufficiently attractive, the Managing Director shall make other proposals for investment.

*Decision No. 5973-(78/189) TR*  
*December 4, 1978*

<sup>6</sup> See *Annual Report, 1976*, page 115.

<sup>7</sup> See *Annual Report, 1976*, pages 111-17.

**H. Oil Facility: Transferability of Claims**

1. The Executive Board has reviewed paragraph 8 of the form letter in the Annex to Executive Board Decision No. 4242-(74/67),<sup>8</sup> adopted June 13, 1974, as amended.

2. The holders of claims to repayment by the Fund arising under agreements to borrow entered into by the Fund pursuant to Executive Board Decision No. 4242-(74/67) and Executive Board Decisions No. 4635-(75/47)<sup>9</sup> and No. 4916-(75/208)<sup>10</sup> for the purpose of financing the 1974 and 1975 oil facilities are authorized to transfer all or part of the claims to repayment on the terms and conditions set forth below:

(a) For value agreed between transferor and transferee, transfers may be made at any time of all or part of a claim to repayment in accordance with the following provisions:

(i) Transfers may be made to any member, a member's national official financial institution (hereinafter referred to as an "institution of the member"), or any institution that performs functions of a central bank for more than one member, or to any lender to the Fund under the decisions cited in the preamble to this paragraph 2.

(ii) The transferor of a claim shall inform the Fund promptly of the claim that is being transferred, the transferee, the amount of the transfer, the agreed value for the transfer, and the value date. The transfer shall be registered by the Fund if it is in accordance with the terms and conditions of this decision. The transfer shall be effective as of the value date agreed between the transferor and transferee.

(iii) If all or part of a claim is transferred during a quarterly period as described in the standard paragraph 4 of the agreement as set forth in the Annex to Executive Board Decision No. 4242-(74/67), the Fund shall pay interest on the amount of the claim transferred for the whole of that period to the transferee.

(iv) The claim of a transferee shall be the same in all respects as the claim of the transferor and subject to the same provisions, except that:

a. The provision for encashment by the Fund set forth in paragraph 5(c) of the Annex to Executive Board Decision No. 4242-(74/67) shall apply only if, at the time of the transfer, the transferee is a member, or the institution of a member, that is in a net creditor position in the Fund and in the opinion of the Fund the member's currency could be used in net sales in the Fund's operational budgets for the foreseeable future;

b. In place of paragraph 6 of the original agreement on the means of repayment and payment of interest, the following text shall apply:

6. The Fund shall consult the transferee in order to agree on the means in which payment of interest and repayment will be made, but, if agreement is not reached, the Fund shall have the option to make payment or repayment in the currency of the transferee or any freely usable currency or currencies, or some combination of these currencies. In addition, if the transferee is a participant in the Special Drawing Rights Department, or a prescribed holder of special drawing rights, the Fund may make payment or repayment, in whole or in part, in SDRs.

3. In accordance with paragraph 8 of the form letter in the Annex to Executive Board Decision No. 4242-(74/67) adopted June 13, 1974, as amended, transfers other than those subject to paragraph 2 above may be made on such terms and conditions and to such transferees as the Fund may prescribe.

4. On request, the Fund shall assist in seeking to arrange transfers.

*Decision No. 5974-(78/190)  
December 4, 1978*

<sup>8</sup> See *Annual Report, 1974*, pages 124-26.

<sup>9</sup> See *Annual Report, 1975*, pages 94-95.

<sup>10</sup> *Selected Decisions of the International Monetary Fund and Selected Documents* (Eighth Issue, Washington, 1976), page 128.

**I. Transferability of Claims on Fund Under Oil Facility and Supplementary Financing Facility: Meaning of "Net Creditor Position in Fund"**

For the purposes of Paragraph 3 of Executive Board Decision No. 5509-(77/127)<sup>11</sup> of August 29, 1977, Paragraph 8(d) of the letter annexed to that Decision, and Paragraph 2(a)(iv)a of Executive Board Decision No. 5974-(78/190)<sup>12</sup> of December 4, 1978, a member shall be considered to have a "net creditor position in the Fund" if the member has a reserve tranche position on which it receives remuneration and the Fund's holdings of the member's currency do not include any balances subject to repurchase under Schedule B or any balances subject to charges under Article V, Section 8(b) of the Articles of Agreement.

*Decision No. 6008-(79/3)  
January 5, 1979*

**J. Surveillance: Procedures**

1. *Review.* The Executive Board has reviewed the procedures relating to the Fund's surveillance over members' exchange rate policies. These procedures, and the procedures for regular consultations under Article IV, will be reviewed again by the Executive Board in December 1979. The Executive Board will review the document "Surveillance over Exchange Rate Policies" at an appropriate time not later than April 1, 1980, as provided for in paragraph 2 of Decision No. 5392-(77/63),<sup>13</sup> adopted April 29, 1977. . . .

3. *Supplemental surveillance procedure . . . .* Whenever the Managing Director considers that a modification in a member's exchange arrangements or exchange rate policies or the behavior of the exchange rate of its currency may be important or may have important effects on other members, whatever the member's exchange arrangements may be, he shall initiate informally and confidentially a discussion with the member before the next regular discussion under Article IV. If he considers after this prior discussion that the matter is of importance, he shall initiate and conduct an ad hoc consultation with the member and shall report to the Executive Board, or informally advise the Executive Directors, on the consultation as promptly as the circumstances permit after conclusion of the consultation. This procedure will supplement the proceedings in Executive Board Decision No. 5392-(77/63), adopted April 29, 1977.

*Decision No. 6026-(79/13)  
January 22, 1979*

**K. Guidelines on Conditionality**

The Executive Board agrees to the text of the guidelines on conditionality for the use of the Fund's resources and for stand-by arrangements as set forth [below].

*Decision No. 6056-(79/38)  
March 2, 1979*

*Use of Fund's General Resources and Stand-By Arrangements*

1. Members should be encouraged to adopt corrective measures, which could be supported by use of the Fund's general resources in accordance with the Fund's policies, at an early stage of their balance of payments difficulties or as a precaution

<sup>11</sup> See *Annual Report, 1978*, page 115.

<sup>12</sup> See page 135.

<sup>13</sup> See *Annual Report, 1977*, pages 107-109.

against the emergence of such difficulties. The Article IV consultations are among the occasions on which the Fund would be able to discuss with members adjustment programs, including corrective measures, that would enable the Fund to approve a stand-by arrangement.

2. The normal period for a stand-by arrangement will be one year. If, however, a longer period is requested by a member and considered necessary by the Fund to enable the member to implement its adjustment program successfully, the stand-by arrangement may extend beyond the period of one year. This period in appropriate cases may extend up to but not beyond three years.

3. Stand-by arrangements are not international agreements and therefore language having a contractual connotation will be avoided in stand-by arrangements and letters of intent.

4. In helping members to devise adjustment programs, the Fund will pay due regard to the domestic social and political objectives, the economic priorities, and the circumstances of members, including the causes of their balance of payments problems.

5. Appropriate consultation clauses will be incorporated in all stand-by arrangements. Such clauses will include provision for consultation from time to time during the whole period in which the member has outstanding purchases in the upper credit tranches. This provision will apply whether the outstanding purchases were made under a stand-by arrangement or in other transactions in the upper credit tranches.

6. Phasing and performance clauses will be omitted in stand-by arrangements that do not go beyond the first credit tranche. They will be included in all other stand-by arrangements but these clauses will be applicable only to purchases beyond the first credit tranche.

7. The Managing Director will recommend that the Executive Board approve a member's request for the use of the Fund's general resources in the credit tranches when it is his judgment that the program is consistent with the Fund's provisions and policies and that it will be carried out. A member may be expected to adopt some corrective measures before a stand-by arrangement is approved by the Fund, but only if necessary to enable the member to adopt and carry out a program consistent with the Fund's provisions and policies. In these cases the Managing Director will keep Executive Directors informed in an appropriate manner of the progress of discussions with the member.

8. The Managing Director will ensure adequate coordination in the application of policies relating to the use of the Fund's general resources with a view to maintaining the nondiscriminatory treatment of members.

9. The number and content of performance criteria may vary because of the diversity of problems and institutional arrangements of members. Performance criteria will be limited to those that are necessary to evaluate implementation of the program with a view to ensuring the achievement of its objectives. Performance criteria will normally be confined to (i) macroeconomic variables, and (ii) those necessary to implement specific provisions of the Articles or policies adopted under them. Performance criteria may relate to other variables only in exceptional cases when they are essential for the effectiveness of the member's program because of their macroeconomic impact.

10. In programs extending beyond one year, or in circumstances where a member is unable to establish in advance one or more performance criteria for all or part of the program period, provision will be made for a review in order to reach the necessary understandings with the member for the remaining period. In addition, in those exceptional cases in which an essential feature of a program cannot be formulated as a performance criterion at the beginning of a program year because of substantial uncertainties concerning major economic trends, provision will be made for a review by the Fund to evaluate the current macroeconomic policies

of the member, and to reach new understandings if necessary. In these exceptional cases the Managing Director will inform Executive Directors in an appropriate manner of the subject matter of a review.

11. The staff will prepare an analysis and assessment of the performance under programs supported by use of the Fund's general resources in the credit tranches in connection with Article IV consultations and as appropriate in connection with further requests for use of the Fund's resources.

12. The staff will from time to time prepare, for review by the Executive Board, studies of programs supported by stand-by arrangements in order to evaluate and compare the appropriateness of the programs, the effectiveness of the policy instruments, the observance of the programs, and the results achieved. Such reviews will enable the Executive Board to determine when it may be appropriate to have the next comprehensive review of conditionality.

## **L. Guidelines for Early Repurchase**

### *Preamble*

This decision sets forth guidelines for members regarding early repurchase under the first sentence of Article V, Section 7(b) when the balance of payments and reserve position of members improves. The guidelines apply to the Fund's holdings of currency that result from the purchases under Article V, Section 3 that are referred to in the following sentence and are subject to repurchase under the provisions of the Articles and policies of the Fund. This decision, and any future changes in it, shall apply in respect of holdings of currency resulting from purchases made either (i) under stand-by or extended arrangements approved by the Fund after October 1, 1977, or (ii) after the date of this decision, but not under stand-by or extended arrangements approved by the Fund before October 1, 1977. Decision No. 5704-(78/39)<sup>14</sup> shall continue to apply in respect of holdings of currency resulting from purchases made after April 1, 1978 and before the date of this decision that were not made under a stand-by or extended arrangement.

The Fund's authority to select the currencies to be used in purchases in accordance with the Articles and its policies is not modified by these guidelines.

1. A member's balance of payments and reserve position will be deemed normally to have improved sufficiently for early repurchases to be expected in accordance with these guidelines if the member's position is judged sufficiently strong for the purposes of a quarterly designation plan and operational budget as determined by the Fund from time to time in the light of the relevant factors. A member that makes a purchase in the credit tranches or under a special policy of the Fund will not be expected, however, to make early repurchases until the quarter following the second full quarter after its purchase.

2. During the quarter following the decisions adopting the designation plan and operational budget, it will be expected that the Fund's holdings of the member's currency will be reduced by a specified amount, either by repurchases or by sales of the member's currency, or by some combination of the two. The method employed will be at the option of the member.

3. Subject to paragraphs 4 and 5 below, the specified amount for the expected quarterly repurchase will be 1.5 per cent of the member's gross reserves plus (minus) 5 per cent of the increase (decrease) in gross reserves over the latest six-month period for which data are available ("latest gross reserves"). The quarterly amount will be subject to a limit of 4 per cent of the member's latest gross reserves. A quarterly repurchase will be limited to an amount that will not (i) reduce the member's latest gross reserves below 250 per cent of the member's quota, and (ii) exceed, together with the member's early repurchases and sales of its currency during the preceding three quarters, 10 per cent of these reserves.

<sup>14</sup> See *Annual Report, 1978*, pages 125–26.

4. The specified amount in accordance with paragraph 3 above will represent the minimum reduction in the Fund's holdings of the member's currency expected during the quarter. Repurchases by the member and sales of the member's currency during the quarter will be included in calculating the reductions for this purpose. If the member's repurchases made during a quarter in advance of repurchase maturities, or the sale of its currency during that quarter, exceed the minimum reduction expected during that quarter, the excess will give rise to a credit that will meet pro tanto the expectations of early repurchase for the next five quarters. At the end of a quarter the credit will be reduced by the larger of (i) the repurchase expectation for the quarter that is deemed to be satisfied by the credit, and (ii) the repurchase obligations that would have matured during the quarter but have been discharged by the advance repurchase or by the sale.

5. If, during the two quarters prior to the date when a member is added to the list of members whose positions are considered sufficiently strong for the purposes of the quarterly designation plan and operational budget, the member's repurchases in advance of maturity, or the sale of its currency, exceed the minimum reduction expected during those two quarters, a credit will be given in accordance with paragraph 4 above. Any credit still available when a member's balance of payments and reserve position is no longer considered sufficiently strong for the purposes of a quarterly designation plan and operational budget will continue to apply in accordance with paragraph 4 above.

6. If a member has opted to have its currency sold, it will be included in the operational budget for the amount calculated in accordance with paragraphs 3, 4, and 5 above, less the amount of its repurchase obligations maturing during the quarter. If the Fund has not sold the currency in the specified amount before the end of the second month of the quarter, the member will be expected to repurchase any balance remaining before the end of the quarter.

7. In each operational budget the Managing Director will report on the observance by members of the guidelines for early repurchase.

8. This decision will be reviewed from time to time in the light of experience.

*Decision No. 6172-(79/101)*

*June 28, 1979*



# Appendix III

## Press Communiqués of the Interim Committee of the Board of Governors on the International Monetary System<sup>1</sup>

*Press Communiqué, Eleventh Meeting, Washington, September 24, 1978*

1. The Interim Committee of the Board of Governors of the International Monetary Fund held its eleventh meeting in Washington, D.C. on September 24, 1978, under the chairmanship of Mr. Denis Healey, Chancellor of the Exchequer of the United Kingdom. Mr. J. de Larosière, Managing Director of the International Monetary Fund, participated in the meeting. The following observers attended during the Committee's discussions: Mr. Gamani Corea, Secretary-General, UNCTAD; Mr. Ali M. Jaidah, Secretary-General, OPEC; Mr. René Larre, General Manager, BIS; Mr. Emile van Lennep, Secretary-General, OECD; Mr. F. Leutwiler, President, Swiss National Bank; Mr. Olivier Long, Director-General, GATT; Mr. Robert S. McNamara, President, IBRD; Mr. François-Xavier Ortoli, Vice-President, CEC; Mr. Jean Ripert, Under-Secretary-General for International Economic and Social Affairs, UN; and Mr. Cesar E. A. Virata, Chairman, Development Committee.

2. The Committee discussed the world economic outlook and the working of the international adjustment process.

The Committee recognized that progress had been made on various fronts in overcoming the serious difficulties that had beset the world economy during the years 1973–75. In countries that had taken policy measures to adjust to the disturbances of those years, the favorable effects were clearly evident. Nevertheless, the Committee noted, the current situation remained unsatisfactory in several important respects.

The Committee expressed concern that in most member countries rates of price increase continued to be much too high and substantial underutilization of economic resources, including high levels of unemployment, continued to prevail. On the international adjustment process, the Committee noted that wide differences in rates of inflation and growth in domestic demand had contributed to the continuation of large deficits and surpluses on current account among the industrial countries. These imbalances had resulted in unstable foreign exchange markets during the past year, and that this instability, in turn—through its effects on prices, confidence, and investment—had made the formulation and implementation of policies more difficult. The Committee emphasized that a return to exchange market stability would require the adoption of national policies to reduce inflation and to achieve more convergent rates of growth in domestic demand. In a further observation on the adjustment process, the Committee noted that a number of nonindustrial countries were encountering difficult problems of adjustment and external financing, in part because of the slow pace of world trade.

The Committee noted that inflation has continued to subside in a number of industrial countries but that it has tended to accelerate in some others, including the United States, where inflation has become the top priority of economic policy.

<sup>1</sup> No communiqués were issued by the Development Committee during 1977/78. The following announcement was issued on September 27, 1978: "At its eleventh meeting on September 27, 1978, in Washington, D.C., the Development Committee selected the Honorable Cesar E. A. Virata, Minister of Finance of the Philippines, as Chairman for a further period of two years."

With respect to growth and resource utilization in the industrial world, the Committee's concern focused mainly on the abnormally high unemployment rates and substantial slack in industrial capacity prevailing outside the United States. Attention was drawn to the marked differences in growth rates in recent years between the United States, where a relatively full cyclical recovery has taken place, and most of the other industrial countries, where real economic activity has not generally expanded fast enough since 1975 to reduce unemployment.

The Committee noted that in the group of non-oil developing countries the average rate of growth in total output had been relatively well sustained, but at a level appreciably below that of the 1967–72 period, so that only little room was left for gains in real income.

The Committee reiterated its concern about the risk of increasing resort to protectionism, and stressed the importance of an early and successful completion of the Multilateral Trade Negotiations.

In its discussion of the current situation and outlook, the Committee concluded that a welcome change in international trade flows was emerging. This reflected the effects of changes in exchange rates for major currencies that had taken place over the past year and a half. The effects on exports and imports in volume terms, which take considerable time to come through, were beginning to produce favorable shifts in the current account balances of the United States, Japan, and certain other countries. These shifts, the Committee observed, may be expected to increase and, over time, could lead to a substantial improvement in the current account balances of industrial countries, provided that the pattern of price increases and growth rates in domestic demand among countries was an appropriate one. Achievement of such a pattern, the Committee stressed, would require that countries adopt internal measures to offset the expansionary effects of exchange rate depreciation and the deflationary effects of exchange rate appreciation.

The Committee reaffirmed the conviction it expressed at the April 1978 meeting in Mexico City that a coordinated strategy of policy, including measures with respect to energy, was needed in present circumstances in order to encourage noninflationary growth of the world economy and to ensure a reduction in imbalances in international payments, thereby promoting underlying conditions conducive to economic and financial stability as well as to greater stability in exchange markets. The Committee emphasized that implementation of such a strategy for the medium term would require each country to contribute to growth of the world economy in relation to the strength of its external position and the success of its anti-inflation policy.

Successful pursuit of a medium-term strategy in the industrial countries would lead, in the Committee's view, to marked improvement of the global environment for trade and development, with substantial benefits for the developing countries and other primary producing countries. The Committee believed that an improved world trading environment would help to arrest the recent ominous tendency toward use of protectionist trade measures. In addition, the Committee emphasized the desirability of measures on the part of the developed countries to open their markets more widely to products of the developing countries, to provide those countries more generous access to their capital markets, and—more generally—to assure the developing countries an adequate inflow of real resources, including a more satisfactory level of official development assistance.

3. The Committee considered a number of questions concerning the SDR on the basis of a report of the Executive Board on the subject. The Committee reached the conclusions set forth in paragraphs 4 and 5 below with the understanding that these conclusions are interrelated and must be adopted in their entirety together with the understandings reached by the Committee on the Seventh General Review of Quotas. In the view of the Committee, therefore, decisions on all these issues relating to SDRs and on the Seventh General Review should be taken at the same time.

4. The Committee discussed the question of the resumption of allocations of SDRs and, in that connection, took into account the various views and considerations presented in the report of the Executive Board. The Committee agreed to recommend that a decision to allocate SDRs, on the basis of a proposal to be made by the Managing Director concurred in by the Executive Board by November 1, 1978, should be acted on by the Board of Governors before the end of the year in order to help meet the long-term global need to supplement existing reserve assets in a desirable manner. Such an allocation would also help to promote the objective of the amended Articles of making the SDR the principal reserve asset in the international monetary system. In the Committee's view the Fund should make allocations of 4 billion SDRs in each of the next three years 1979 to 1981.

5. The Committee reached the following conclusions with regard to other aspects of the SDR.

(a) It was agreed that the interest rate on the SDR should be increased from 60 per cent of the weighted average of the short-term interest rates in the five member countries with the largest quotas to 80 per cent of that average and that the rate of remuneration should be set at 90 per cent of the interest rate on the SDR, that is, at 72 per cent of the combined market rate. This change would be subject to the following understandings: (i) Shortly before the end of each financial year, the Fund would consider whether the estimated net income of the Fund for that year was sufficiently large to permit the average annual rate of remuneration applicable for that year to be raised to a level above 90 but not above 100 per cent of the average annual rate of interest on the SDR and, in this connection, would also consider the possibility of lowering periodic charges on the Fund's currency holdings in the future. (ii) At the time that the Executive Board decides to adopt the new formula for the rate of remuneration, it would take a decision to prevent an automatic increase in the initial rate of periodic charges on the Fund's holdings that would otherwise occur under the Fund's Rules and Regulations. The Executive Board would review the Fund's financial position, and would take such action as might be necessary to protect that position, if the Fund's total expenses exceeded its income in any period of six successive months.

(b) The Committee noted that the Executive Board had been pursuing its work with regard to additional types of uses of SDRs, namely, for loans, collateral security, and the direct settlement of obligations, that could be permitted by the Fund in accordance with the provisions of the amended Articles and expressed the hope that the Executive Board would complete this work, take the necessary decisions in the near future, and report on them to the Committee at its next meeting.

(c) The Committee endorsed the view of the Executive Board that the requirement of reconstitution of special drawing rights, namely, the obligation to maintain a minimum average balance of SDRs over specified periods, should be reduced from 30 to 15 per cent of net cumulative allocations and that this requirement should be considered further in the light of experience.

(d) The Committee noted that the Executive Board intends to keep under review the question of a Substitution Account.

6. The Committee resumed its discussion of the Seventh General Review of Quotas and considered three major issues relating to it: the size of the overall increase in quotas, selective quota adjustments, and the method of payment of the increases in quotas. These issues were considered by the Committee in conjunction with the various issues relating to the SDR with which they are regarded as inter-related. The Committee recalled its view that there was a need for an increase in total quotas under the Seventh Review that would be adequate to meet the expected need for conditional liquidity over the next five years. The Committee also recalled its view that an adequate increase would strengthen the available sources of balance of payments financing by enhancing the ability of the Fund to provide such financ-

ing without heavy recourse to borrowing and by furthering the process of international adjustment.

The Committee's view was that an increase in the overall size of quotas of 50 per cent would be appropriate to bring about a better balance between the size of the Fund's resources and the need of members for balance of payments financing over the medium term. The Committee noted that the Executive Board does not intend to propose a general adjustment in quotas for five years after the Board of Governors approves the increase in quotas under the Seventh Review, unless there is a major change in the world economy and its financing needs.

The Committee noted with satisfaction that agreement had been reached on selective quota increases for 11 developing member countries: Iraq, Iran, Korea, Kuwait, Lebanon, Libya, Oman, Qatar, Saudi Arabia, Singapore, and the United Arab Emirates.

Taking into account the conclusions reached on the issues relating to SDRs, including allocations of SDRs, the Committee was of the view that, for the quota increases proposed as a result of this review, participants in the Special Drawing Rights Department should pay 25 per cent of the quota increase in SDRs and that nonparticipants should pay the equivalent of 25 per cent of the increase in foreign exchange.

The Committee agreed to request the Executive Board to prepare and complete by November 1, 1978, for final decision and vote by the Board of Governors before the end of the year, a proposed resolution on increases in the quotas of members, which would include necessary provisions dealing with participation, the effective date of quota increases, and the method of payment of the increases in accordance with the understandings reached in the Committee.

7. In view of the need of a number of members for prompt financial assistance on the scale envisaged by the Supplementary Financing Facility, the Committee stressed again the importance it attached to the entry into operation of the Facility at the earliest possible date and urged all members that are expected to contribute to the financing of the Facility to take the necessary action so that it could be brought into operation at the earliest possible date.

8. The Committee noted that, in accordance with the Committee's request, the Executive Board has begun a review of the conditionality attaching to the use of the Fund's resources and that it intends to resume its consideration of the subject as soon as possible after the Annual Meeting of the Board of Governors.

9. The Committee agreed to hold its next meeting in Washington, D.C. in the spring of 1979.

*Press Communiqué, Twelfth Meeting, Washington, March 7, 1979*

1. The Interim Committee of the Board of Governors of the International Monetary Fund held its twelfth meeting in Washington, D.C. on March 7, 1979, under the chairmanship of Mr. Denis Healey, Chancellor of the Exchequer of the United Kingdom. Mr. J. de Larosière, Managing Director of the International Monetary Fund, participated in the meeting. The Committee welcomed Mr. Abdul Aziz Al-Quraishi, Governor of the Saudi Arabian Monetary Agency, Alternate for Mr. Mohammed Abal-Khail, Minister of Finance and National Economy of Saudi Arabia, on the occasion of the addition of a Saudi Arabian member to the Interim Committee.

The following observers attended during the Committee's discussions: Mr. Gamani Corea, Secretary-General, UNCTAD; Mr. Jean Ripert, Under-Secretary-General for International Economic and Social Affairs, UN; Mr. Pierre Languetin, General Manager, Swiss National Bank; Mr. René Larre, General Manager, BIS; Mr. Emile van Lennep, Secretary-General, OECD; Mr. Olivier Long, Director-General, GATT; Mr. Ugo Mosca, Director General for Economic and Financial Affairs,

CEC; Mr. René G. Ortiz, Secretary-General, OPEC; Mr. Ernest Stern, Vice President, Operational Staff, IBRD; and Mr. Cesar E. A. Virata, Chairman, Development Committee.

2. The Committee discussed the world economic outlook and the working of the international adjustment process.

The Committee found that the international economic picture remains unsatisfactory in some important respects, but looked forward to an improved payments situation among the industrial countries in 1979.

The Committee noted that although in some industrial countries growth of output had picked up, in most of them it continued at rates that were inadequate to reduce the prevailing high levels of unemployment and to stimulate stronger investment. Indeed, medium-term prospects for economic growth in the industrial countries were somewhat less favorable than they appeared at the time of the Committee's previous meeting last September. In this environment, the volume of world trade was expanding at a slow pace and pressures for protectionist trade measures were spreading. It is hoped that the impending conclusion of the Multilateral Trade Negotiations in Geneva will help to reverse the trend toward protectionism.

The Committee was particularly concerned that rates of price increase remained much too high in many of the industrial countries. In some of them, particularly in Europe, inflationary tendencies would seem to require more moderate growth of money incomes. Indeed, the problem of inflation appeared to have become even more difficult over the past several months. This situation required stronger efforts to combat the persistent strength of price and cost pressures, since in many countries further progress in reducing inflation was an essential precondition for the resumption of vigorous economic growth.

A source of special concern to the Committee was the fact that many nonindustrial, or primary producing, countries continue to suffer from subnormal growth rates and high inflation rates. Although some of the primary producing countries have taken successful adjustment action, the general picture for that group, in the Committee's view, is far from satisfactory. The Committee noted with concern the renewed rise in the balance of payments deficits on current account of most developing countries.

The Committee noted the prospect of a better distribution of current account balances among the major industrial countries in 1979 than in 1978—an improvement that would result from the effects of past exchange rate changes and of welcome shifts in growth rates of domestic demand, especially in the United States, the Federal Republic of Germany, and Japan. Realization and maintenance of this improvement, the Committee emphasized, would depend on the pursuit of appropriate national economic policies. The Committee believed that reduced payments imbalances would facilitate the attainment of greater exchange market stability and it noted the improvement achieved in this respect over recent months, following the important policy measures announced by the U.S. authorities on November 1, 1978.

Concern was expressed about the potentially unfavorable impact on many member countries of the recent emergence of uncertainties relating to the supply and price of oil. The Committee welcomed recent moves towards greater conservation of energy.

The Committee believed that the current situation called for maximum coordinated efforts on the part of member countries to follow appropriate policies to deal with problems of economic growth, inflation, and the balance of payments. The strategy envisaged was one geared to the existing diversity of economic positions among countries, to be implemented by economic measures tailored to their particular circumstances.

The Committee considered it especially important that economic policies of the industrial countries take account of the economic needs of the developing countries. Apart from the major contribution on this score that could be made through suc-

successful implementation of a coordinated medium-term strategy for growth and balance of payments adjustment, the Committee urged the industrial countries to make every effort to improve market access for the exports of developing countries and to expand the flow of official development assistance.

3. The Committee emphasized the importance of a high degree of international economic cooperation and, with this objective in mind, stressed the necessity of active surveillance by the Fund over the exchange rate and related policies of all members as a means of strengthening the adjustment process.

4. The Committee welcomed the recent entry into effect of the Supplementary Financing Facility, which will enhance the Fund's ability to assist members facing serious payments imbalances that are large in relation to their quotas. The Committee reiterated its view that the Executive Board should consider the question of a subsidy account that would make it possible to alleviate the burden of the charges on low-income members of the Fund using the Facility.

5. The Committee also welcomed the decisions taken by the Executive Board under which SDRs can be used for making loans, settling obligations directly, and in providing security in the form of pledges and transfers subject to retransfer, and endorsed the intention of the Executive Board to pursue and complete, as soon as possible, its work on other types of operations involving uses of SDRs, in particular the use of SDRs in swaps, forward operations in SDRs, and donations of SDRs. The Committee also endorsed the intention of the Executive Board to consider increasing the number of official institutions that might, as other holders, be authorized to acquire, hold, and use SDRs.

6. The Committee considered a report by the Executive Board on an Account, to be administered by the Fund, that would accept deposits of foreign exchange from members of the Fund on a voluntary basis in exchange for an equivalent amount of SDR-denominated claims. The purpose of such an Account would be to take a further step toward making the SDR the principal reserve asset in the international monetary system. There was broad support in the Committee for active consideration in the Executive Board of such an Account, and the Executive Board has been asked to present its conclusions to the next meeting of the Committee.

7. The Committee agreed to hold its next meeting in Belgrade, Yugoslavia, on Monday, October 1, 1979, on the occasion of the next Annual Meeting of the Board of Governors. The Committee accepted with pleasure the invitation of the German Government to hold a meeting in Germany in the spring of 1980.

# Appendix IV

## Executive Directors and Voting Power

### on April 30, 1979

Director <i>Alternate</i>	Casting Votes of	Votes by Country	General Department		Special Drawing Rights Department	
			Total votes <sup>1</sup>	Per cent of Fund total <sup>2</sup>	Total votes <sup>1</sup>	Per cent of Fund total <sup>2</sup>
<b>APPOINTED</b>						
Sam Y. Cross <i>Thomas Leddy</i>	United States	84,300	84,300	19.85	84,300	19.98
William S. Ryrie <i>Pendarell Kent</i>	United Kingdom	29,500	29,500	6.95	29,500	6.99
Eckard Pieske <i>Gerhard Laske</i>	Germany, Fed. Rep. of	21,810	21,810	5.14	21,810	5.17
Paul Mentré de Loye <i>Denis Samuel-Lajeunesse</i>	France	19,440	19,440	4.58	19,440	4.61
Masanao Matsunaga <i>Rei Masunaga</i>	Japan	16,840	16,840	3.97	16,840	3.99
Mahsoun B. Jalal <i>Yusuf A. Nimatallah</i>	Saudi Arabia	6,250	6,250	1.47	6,250	1.48
<b>ELECTED</b>						
Joaquín Muns (Spain) <i>Ariel Buira (Mexico)</i>	Costa Rica El Salvador Guatemala Honduras Mexico Nicaragua Spain Venezuela	660 680 760 590 5,600 590 5,820 <u>6,850</u>	21,550	5.08	21,550	5.11
H.O. Ruding (Netherlands) <i>Tom de Vries (Netherlands)</i>	Cyprus Israel Netherlands Romania Yugoslavia	590 2,300 9,730 2,700 <u>3,020</u>	18,340	4.32	18,340	4.35
Bernard J. Drabble (Canada) <i>Donal Lynch (Ireland)</i>	Bahamas Barbados Canada Grenada Ireland Jamaica	580 420 13,820 280 1,800 <u>990</u>	17,890	4.21	17,890	4.24
Lamberto Dini (Italy) <i>Costa P. Caranicas (Greece)</i>	Greece Italy Malta Portugal	2,100 12,650 450 1,970	17,170	4.04	17,170	4.07

APPENDIX IV (continued). EXECUTIVE DIRECTORS AND VOTING POWER

Director Alternate	Casting Votes of	Votes by Country	General Department		Special Drawing Rights Department		
			Total votes <sup>1</sup>	Per cent of Fund total <sup>2</sup>	Total votes <sup>1</sup>	Per cent of Fund total <sup>3</sup>	
<b>ELECTED</b> (continued)							
Robert J. Whitelaw (Australia)	Australia	8,150					
R. J. Lang (New Zealand)	Korea	1,850					
	New Zealand	2,570					
	Papua New Guinea	550					
	Philippines	2,350					
	Seychelles	263					
	Solomon Islands	271					
	Western Samoa	280	16,284	3.84	16,284	3.86	
Mohamed Finaish (Libya)	Bahrain	450					
Kadhim A. Al-Eyd (Iraq)	Iraq	1,660					
	Jordan	550					
	*Kuwait	2,600					
	Lebanon	370					
	Libya	2,100					
	Maldives	259					
	Pakistan	3,100					
	Qatar	650					
	Somalia	480					
	Syrian Arab Republic	880					
	United Arab Emirates	1,450					
	Yemen Arab Republic	380					
	Yemen, People's Dem. Rep. of	660	15,589	3.67	12,989	3.08	
	Jacques de Groote (Belgium)	Austria	3,550				
Heinrich G. Schneider (Austria)	Belgium	9,150					
	Luxembourg	560					
	Turkey	2,250	15,510	3.65	15,510	3.68	
Jahangir Amuzegar (Iran)	Afghanistan	700					
Mohammed Yeganeh (Iran)	Algeria	3,100					
	Ghana	1,310					
	Iran	6,850					
	Morocco	1,750					
	Oman	450					
	Tunisia	880	15,040	3.54	15,040	3.56	
Alexandre Kafka (Brazil)	Brazil	6,900					
T. Ainsworth Harewood (Trinidad and Tobago)	Colombia	2,180					
	Dominican Republic	800					
	Guyana	500					
	Haiti	480					
	Panama	700					
	Peru	1,890					
	Suriname	500					
	Trinidad and Tobago	1,070	15,020	3.54	15,020	3.56	
S. D. Deshmukh (India)	Bangladesh	1,770					
Vacant	India	11,700					
	Sri Lanka	1,440	14,910	3.51	14,910	3.53	
Matti Vanhala (Finland)	Denmark	3,350					
Gisli Blöndal (Iceland)	Finland	2,870					
	Iceland	540					
	Norway	3,200					
	Sweden	4,750	14,710	3.46	14,710	3.49	



APPENDIX IV (concluded). EXECUTIVE DIRECTORS AND VOTING POWER

Director <i>Alternate</i>	Casting Votes of	Votes by Country	General Department		Special Drawing Rights Department	
			Total votes <sup>1</sup>	Per cent of Fund total <sup>2</sup>	Total votes <sup>1</sup>	Per cent of Fund total <sup>2</sup>
<b>ELECTED (concluded)</b>						
Byanti Kharmawan (Indonesia) <i>Savenaca Siwatibau (Fiji)</i>	Burma	980				
	Fiji	430				
	Indonesia	5,050				
	Lao People's Dem. Rep.	410				
	Malaysia	2,780				
	Nepal	440				
	Singapore	740				
	Thailand	2,060				
	Viet Nam	1,150	14,040	3.31	14,040	3.33
Festus G. Mogae (Botswana) <i>Semyano Kiingi (Uganda)</i>	Botswana	340				
	Burundi	480				
	Ethiopia	610				
	Gambia, The	340				
	Guinea	550				
	Kenya	940				
	Lesotho	320				
	Liberia	620				
	Malawi	440				
	Nigeria	3,850				
	Sierra Leone	560				
	Sudan	1,130				
	Swaziland	370				
	Tanzania	800				
	Uganda	750				
	Zambia	1,660	13,760	3.24	13,760	3.26
	Samuel Nana-Sinkam (Cameroon) <i>Abderrahmane Alfidja (Niger)</i>	Benin	410			
Cameroon		700				
Central African Empire		410				
Chad		410				
Comoros		273				
Congo		420				
Equatorial Guinea		350				
Gabon		550				
Guinea-Bissau		289				
Ivory Coast		1,010				
Madagascar		590				
Mali		520				
Mauritania		420				
Mauritius		520				
Niger		410				
Rwanda		480				
São Tomé and Príncipe		270				
Senegal		670				
Togo		440				
Upper Volta		410				
Zaire		1,770	11,322	2.67	11,322	2.68
Francisco Garcés (Chile) <i>Julio C. Gutiérrez</i> (Paraguay)	Argentina	5,600				
	Bolivia	700				
	Chile	2,420				
	Ecuador	950				
	Paraguay	480				
	Uruguay	1,090	11,240	2.65	11,240	2.66
			410,515 <sup>3</sup>	96.68 <sup>2</sup>	407,915 <sup>3</sup>	96.66 <sup>2</sup>

\* Not a participant in the Special Drawing Rights Department.

<sup>1</sup> Voting power varies on certain matters pertaining to the General Department with use of the Fund's resources in that Department. In voting on matters relating exclusively to the Special Drawing Rights Department, only the number of votes allotted to members which are participants may be cast.

<sup>2</sup> Percentages of total votes of members in the General Department (424,612) and total votes of participants in the Special Drawing Rights Department (422,012), respectively. The sum

of the individual percentages may differ from the percentages of the totals because of rounding.

<sup>3</sup> This total does not include the votes of China, Egypt, Democratic Kampuchea, and South Africa, which did not participate in the 1978 Regular Election of Executive Directors, and of Cape Verde, Djibouti, and Dominica, which became members after that election. The combined votes of those members total 14,097—3.32 per cent of those in the General Department and 3.34 per cent of those in the Special Drawing Rights Department, respectively.

## **Appendix V**

### **Changes in Membership of Executive Board**

Changes in the membership of the Executive Board between May 1, 1978 and April 30, 1979 were as follows:

Jacques Henri Wahl (France) resigned as Executive Director for France, effective September 4, 1978.

Paul Mentré de Loye (France) was appointed Executive Director by France, effective September 5, 1978.

Denis Samuel-Lajeunesse (France), formerly Alternate Executive Director to Jacques Henri Wahl (France), was appointed Alternate Executive Director to Paul Mentré de Loye (France), effective September 5, 1978.

Muhammad Al-Atrash (Syrian Arab Republic) completed his term of service as Executive Director for Bahrain, Egypt, Iraq, Jordan, Kuwait, Lebanon, Libya, Pakistan, Qatar, Saudi Arabia, Somalia, Syrian Arab Republic, United Arab Emirates, and Yemen Arab Republic, effective October 31, 1978.

Néstor O. Caldera (Nicaragua) completed his term of service as Alternate Executive Director to Eduardo Mayobre (Venezuela), effective October 31, 1978.

Eduardo O. de Toledo (Spain) completed his term of service as Alternate Executive Director to Lamberto Dini (Italy), effective October 31, 1978.

Frede Hollensen (Denmark) completed his term of service as Executive Director for Denmark, Finland, Iceland, Norway, and Sweden, effective October 31, 1978.

Ernest Leung (Philippines) completed his term of service as Alternate Executive Director to Robert J. Whitelaw (Australia), effective October 31, 1978.

Eduardo Mayobre (Venezuela) completed his term of service as Executive Director for Costa Rica, El Salvador, Guatemala, Honduras, Mexico, Nicaragua, and Venezuela, effective October 31, 1978.

Wila D. Mung'omba (Zambia) completed his term of service as Executive Director for Botswana, Burundi, Ethiopia, The Gambia, Guinea, Kenya, Lesotho, Liberia, Malawi, Nigeria, Sierra Leone, Sudan, Swaziland, Tanzania, Uganda, and Zambia, effective October 31, 1978.

Kiat Chong Ng (Singapore) completed his term of service as Alternate Executive Director to Byanti Kharmawan (Indonesia), effective October 31, 1978.

Dante Simone (Argentina) completed his term of service as Executive Director for Argentina, Bolivia, Chile, Ecuador, Paraguay, and Uruguay, effective October 31, 1978.

Jahangir Amuzegar (Iran), formerly Executive Director for Afghanistan, Algeria, Ghana, Greece, Iran, Morocco, Oman, Tunisia, and People's Democratic Republic of Yemen, was elected Executive Director by Afghanistan, Algeria, Ghana, Iran, Morocco, Oman, and Tunisia, effective November 1, 1978.

Jacques de Groote (Belgium) was re-elected Executive Director by Austria, Belgium, Luxembourg, and Turkey, effective November 1, 1978.

Heinrich G. Schneider (Austria) was reappointed Alternate Executive Director to Jacques de Groote (Belgium), effective November 1, 1978.

S. D. Deshmukh (India) was re-elected Executive Director by Bangladesh, India, and Sri Lanka, effective November 1, 1978.

Warnasena Rasaputram (Sri Lanka) was reappointed Alternate Executive Director to S. D. Deshmukh (India), effective November 1, 1978. He resigned, effective March 20, 1979.

Lamberto Dini (Italy), formerly Executive Director for Italy, Malta, Portugal, and Spain was elected Executive Director by Greece, Italy, Malta, and Portugal, effective November 1, 1978.

Costa P. Caranicas (Greece), formerly Alternate Executive Director to Jahangir Amuzegar (Iran), was appointed Alternate Executive Director to Lamberto Dini (Italy), effective November 1, 1978.

Bernard J. Drabble (Canada) was re-elected Executive Director by Bahamas, Barbados, Canada, Grenada, Ireland, and Jamaica, effective November 1, 1978.

Donal Lynch (Ireland) was reappointed Alternate Executive Director to Bernard J. Drabble (Canada), effective November 1, 1978.

Mohamed Finaish (Libya) was elected Executive Director by Bahrain, Iraq, Jordan, Kuwait, Lebanon, Libya, Maldives, Pakistan, Qatar, Somalia, Syrian Arab Republic, United Arab Emirates, Yemen Arab Republic, and People's Democratic Republic of Yemen, effective November 1, 1978.

Kadhim A. Al-Eyd (Iraq), formerly Alternate Executive Director to Muhammad Al-Atrash (Syrian Arab Republic), was appointed Alternate Executive Director to Mohamed Finaish (Libya), effective November 1, 1978.

Francisco Garcés (Chile), formerly Alternate Executive Director to Dante Simone (Argentina), was elected Executive Director by Argentina, Bolivia, Chile, Ecuador, Paraguay, and Uruguay, effective November 1, 1978.

Julio C. Gutiérrez (Paraguay) was appointed Alternate Executive Director to Francisco Garcés (Chile), effective November 1, 1978.

Mahsoun B. Jalal (Saudi Arabia) was appointed Executive Director by Saudi Arabia, effective November 1, 1978.

Alexandre Kafka (Brazil), formerly Executive Director for Brazil, Colombia, Dominican Republic, Guyana, Haiti, Panama, Peru, and Trinidad and Tobago, was elected Executive Director by Brazil, Colombia, Dominican Republic, Guyana, Haiti, Panama, Peru, Suriname, and Trinidad and Tobago, effective November 1, 1978.

Byanti Kharmawan (Indonesia), formerly Executive Director for Burma, Fiji, Indonesia, Korea, Lao People's Democratic Republic, Malaysia, Nepal, Singapore, Thailand, and Viet Nam, was elected Executive Director by Burma, Fiji, Indonesia, Lao People's Democratic Republic, Malaysia, Nepal, Singapore, Thailand, and Viet Nam, effective November 1, 1978.

Savenaca Siwatibau (Fiji) was appointed Alternate Executive Director to Byanti Kharmawan (Indonesia), effective November 1, 1978.

Festus G. Mogae (Botswana), formerly Alternate Executive Director to Wila D. Mung'omba (Zambia), was elected Executive Director by Botswana, Burundi, Ethiopia, The Gambia, Guinea, Kenya, Lesotho, Liberia, Malawi, Nigeria, Sierra Leone, Sudan, Swaziland, Tanzania, Uganda, and Zambia, effective November 1, 1978.

Semyano Kiingi (Uganda) was appointed Alternate Executive Director to Festus G. Mogae (Botswana), effective November 1, 1978.

Joaquín Muns (Spain) was elected Executive Director by Costa Rica, El Salvador, Guatemala, Honduras, Mexico, Nicaragua, Spain, and Venezuela, effective November 1, 1978.

Ariel Buira (Mexico) was appointed Alternate Executive Director to Joaquín Muns (Spain), effective November 1, 1978.

Samuel Nana-Sinkam (Cameroon), formerly Executive Director for Benin, Cameroon, Central African Empire, Chad, Congo, Equatorial Guinea, Gabon, Ivory Coast, Madagascar, Mali, Mauritania, Mauritius, Niger, Rwanda, Senegal, Togo, Upper Volta, and Zaïre, was elected Executive Director by Benin, Cameroon, Central African Empire, Chad, Comoros, Congo, Equatorial Guinea, Gabon, Guinea-Bissau, Ivory Coast, Madagascar, Mali, Mauritania, Mauritius, Niger, Rwanda, São Tomé and Príncipe, Senegal, Togo, Upper Volta, and Zaïre, effective November 1, 1978.

Abderrahmane Alfidja (Niger) was reappointed Alternate Executive Director to Samuel Nana-Sinkam (Cameroon), effective November 1, 1978.

H.O. Ruding (Netherlands) was re-elected Executive Director by Cyprus, Israel, Netherlands, Romania, and Yugoslavia, effective November 1, 1978.

Tom de Vries (Netherlands) was reappointed Alternate Executive Director to H.O. Ruding (Netherlands), effective November 1, 1978.

Matti Vanhala (Finland), formerly Alternate Executive Director to Frede Hollensen (Denmark), was elected Executive Director by Denmark, Finland, Iceland, Norway, and Sweden, effective November 1, 1978.

Gísli Blöndal (Iceland) was appointed Alternate Executive Director to Matti Vanhala (Finland), effective November 1, 1978.

Robert J. Whitelaw (Australia), formerly Executive Director for Australia, New Zealand, Papua New Guinea, Philippines, and Western Samoa, was elected Executive Director by Australia, Korea, New Zealand, Papua New Guinea, Philippines, Seychelles, Solomon Islands, and Western Samoa, effective November 1, 1978.

R.J. Lang (New Zealand) was appointed Alternate Executive Director to Robert J. Whitelaw (Australia), effective November 1, 1978.

Mohammed Yeganeh (Iran) was appointed Alternate Executive Director to Jahangir Amuzegar (Iran), effective December 19, 1978.

Yusuf A. Nimatallah (Saudi Arabia) was appointed Alternate Executive Director to Mahsoun B. Jalal (Saudi Arabia), effective January 15, 1979.

Thomas Leddy (United States) resigned as Alternate Executive Director to Sam Y. Cross (United States), effective April 30, 1979.

# APPENDIX V (concluded). CHANGES IN MEMBERSHIP OF EXECUTIVE BOARD

The following served at certain times during 1978/79 as Temporary Alternate Executive Directors to the Executive Directors indicated:

## Temporary Alternate Executive Director

Miguel J. Acevedo (Mexico)  
Tengku Khatijah Ahmad (Malaysia)  
José Roberto Novaes de Almeida (Brazil)  
Saleh A. Al-Hegelan (Saudi Arabia)  
Valery D. Amiel (Israel)  
Hossein G. Askari (United States)  
Ejmar Avillez (Brazil)  
Christopher J. Bailey (United Kingdom)  
Tomás J.T. Baliño (Argentina)

Dominique Berthet (France)  
Jean-Marc Bisson (Canada)  
Christian Bouchard (Gabon)  
Néstor O. Caldera (Nicaragua)  
Pierre-Henri Cassou (France)  
Chinyamata Chipeta (Malawi)

Juan-María Cock-Londoño (Colombia)  
Roger De Beckker (Belgium)  
Claudio De Blois (Venezuela)  
K.L. Deshpande (India)  
Wolf-Dieter Donecker (Germany, Fed. Rep. of)  
Luis Eduardo Escobar (Chile)

Ömer Esener (Turkey)  
José Fajgenbaum (Argentina)  
Anthony C. Fenwick (New Zealand)  
Edward P. Fine (Canada)  
Hans Flinch (Denmark)  
J.A. Fraser (Australia)  
Jean Guill (Luxembourg)  
Samuel P.O. Itam (Sierra Leone)  
Ashraf Janjua (Pakistan)  
Trond M. Johansen (Norway)  
Ahmad Karimi (Iran)  
Robin D. Kibuka (Uganda)

Kyung Woo Kim (Korea)  
Motoo Kusakabe (Japan)  
J. Paul McIntyre (United Kingdom)  
Gert Meissner (Germany, Fed. Rep. of)  
Stefano Micossi (Italy)  
Alain L. Morales (Venezuela)  
Andrew K. Mullei (Kenya)

Hicham Mutewalli (Syrian Arab Republic)  
Ronald E. Myers (United States)  
Patrick Peroz (France)  
Barry Hope Potter (United Kingdom)  
Antonio V. Romualdez (Philippines)  
Emilio Sacerdoti (Italy)  
Saad E. Shabrawi (Egypt)  
Mohammad Shadman (Iran)  
Jon Shields (United Kingdom)  
Germán Suárez (Peru)  
Sharad P. Upasani (India)  
Avraham van der Hal (Israel)  
Anne van 't Veer (Netherlands)  
Kenny Kay Kee Wee (Singapore)  
J.J. Wijenberg (Netherlands)

## Executive Director for whom Temporary Alternate Served

Eduardo Mayobre (Venezuela)  
Byanti Kharmawan (Indonesia)  
Alexandre Kafka (Brazil)  
Mahsoun B. Jalal (Saudi Arabia)  
H.O. Ruding (Netherlands)  
Mahsoun B. Jalal (Saudi Arabia)  
Alexandre Kafka (Brazil)  
William S. Ryrie (United Kingdom)  
Dante Simone (Argentina)  
Francisco Garcés (Chile)  
Jacques Henri Wahl (France)  
Bernard J. Drabble (Canada)  
Samuel Nana-Sinkam (Cameroon)  
Joaquín Muns (Spain)  
Paul Mentré de Loye (France)  
Wila D. Mung'omba (Zambia)  
Festus G. Mogae (Botswana)  
Alexandre Kafka (Brazil)  
Jacques de Groote (Belgium)  
Eduardo Mayobre (Venezuela)  
S.D. Deshmukh (India)  
Eckard Pieske (Germany, Fed. Rep. of)  
Dante Simone (Argentina)  
Francisco Garcés (Chile)  
Jacques de Groote (Belgium)  
Francisco Garcés (Chile)  
Robert J. Whitelaw (Australia)  
Bernard J. Drabble (Canada)  
Matti Vanhala (Finland)  
Robert J. Whitelaw (Australia)  
Jacques de Groote (Belgium)  
Wila D. Mung'omba (Zambia)  
Mohamed Finaish (Libya)  
Frede Hollensen (Denmark)  
Jahangir Amuzegar (Iran)  
Wila D. Mung'omba (Zambia)  
Festus G. Mogae (Botswana)  
Byanti Kharmawan (Indonesia)  
Masanao Matsunaga (Japan)  
William S. Ryrie (United Kingdom)  
Eckard Pieske (Germany, Fed. Rep. of)  
Lamberto Dini (Italy)  
Joaquín Muns (Spain)  
Wila D. Mung'omba (Zambia)  
Festus G. Mogae (Botswana)  
Muhammad Al-Atrash (Syrian Arab Republic)  
Sam Y. Cross (United States)  
Paul Mentré de Loye (France)  
William S. Ryrie (United Kingdom)  
Robert J. Whitelaw (Australia)  
Lamberto Dini (Italy)  
Muhammad Al-Atrash (Syrian Arab Republic)  
Jahangir Amuzegar (Iran)  
William S. Ryrie (United Kingdom)  
Alexandre Kafka (Brazil)  
S.D. Deshmukh (India)  
H.O. Ruding (Netherlands)  
H.O. Ruding (Netherlands)  
Byanti Kharmawan (Indonesia)  
H.O. Ruding (Netherlands)

## Appendix VI

### Administrative Budget

#### Administrative Budget as Approved by the Executive Board for the Financial Year Ending April 30, 1980 Compared with Actual Expenses for the Financial Years Ended April 30, 1978 and 1979

(Values expressed in special drawing rights)<sup>1</sup>

Object of Expense	Financial Year Ended April 30, 1978	Financial Year Ended April 30, 1979		Financial Year Ending April 30, 1980
	Actual Expenses	Revised Budget	Actual Expenses	Budget
<b>I. PERSONNEL EXPENSES</b>				
Salaries .....		33,426,529	33,414,852	35,177,490
Other personnel expenses .....		20,541,586	20,439,734	22,806,046
Total .....		53,968,115	53,854,586	57,983,536
<b>II. TRAVEL EXPENSES</b>				
Business travel .....		4,249,016	4,247,586	5,602,312
Other travel .....		3,591,138	3,523,774	3,850,116
Total .....		7,840,154	7,771,360	9,452,428
<b>III. OTHER ADMINISTRATIVE EXPENSES</b>				
Communications .....		2,092,978	1,988,681	2,223,638
Building occupancy .....		2,729,380	2,587,661	2,742,226
Books and printing .....		1,033,726	971,250	1,174,678
Supplies and equipment .....		1,274,954	1,273,305	1,402,542
Data processing services .....		1,210,114	1,189,485	1,386,828
Miscellaneous .....		1,582,321	1,580,928	1,343,612
Total .....		9,923,473	9,591,310	10,273,524
<b>TOTAL<sup>2</sup> .....</b>	<b>67,598,265<sup>3</sup></b>	<b>71,731,742</b>	<b>71,217,256</b>	<b>77,709,488</b>

<sup>1</sup> The administrative budget is expressed in terms of U.S. dollars and converted to SDR equivalents.

<sup>2</sup> Net administrative expenses for the financial year ended April 30, 1978 totaled SDR 65,898,262 after deduction of the amounts reimbursed to the General Resources Account by assessments levied on the net cumulative allocations of participants in the Special Drawing Rights Department (SDR 900,003)

and for the estimated expenses of conducting the business of the Trust Fund (SDR 800,000). For the year ended April 30, 1979, net administrative expenses amounted to SDR 68,616,776 after similar deductions of SDR 1,700,480 and SDR 900,000, respectively.

<sup>3</sup> The budget for the financial year 1977/78 was approved in terms of 14 categories of expense in use prior to May 1, 1978.

# Appendix VII

## Comparative Statement of Income and Expenses

(Values expressed in special drawing rights)

	Financial Year Ended April 30		
	1977	1978	1979
<b>OPERATIONAL INCOME</b>			
Operational charges			
Received in special drawing rights .....	24,085,973	12,568,098	16,064,683
Received in members' currencies .....	304,824	596,213	2,004,567
Total .....	24,390,797	13,164,311	18,069,250
Periodic charges			
Received in special drawing rights .....	725,905,080	782,196,060	670,718,180
Received in members' currencies .....	768,457	3,709,728	7,383,406
Amounts receivable .....	602,557	703,745	—
Total .....	727,276,094	786,609,533	678,101,586
Interest on holdings of special drawing rights .....	22,980,889	39,800,980	57,121,423
Total Operational Income .....	774,647,780	839,574,824	753,292,259
Deduct: Operational expenses			
Remuneration			
Paid in special drawing rights .....	121,774,346	136,279,725	139,726,705
Paid in members' currencies .....	105,104,238	64,579,373	32,016,137
Total .....	226,878,584	200,859,098	171,742,842
Transfer charges and interest on indebtedness			
Paid in special drawing rights .....	352,214	35,484,744	6,877,979
Paid in members' currencies .....	500,330,420	505,241,877	455,080,416
Total .....	500,682,634	540,726,621	461,958,395
Other .....	7,046	1,215	5,556
Total Operational Expenses .....	727,568,264	741,586,934	633,706,793
NET OPERATIONAL INCOME .....	47,079,516	97,987,890	119,585,466
<b>EXPENSES<sup>1</sup></b>			
Administrative budget expenses .....	60,782,287 <sup>2</sup>	65,898,262 <sup>2</sup>	68,616,776 <sup>2</sup>
Fixed property expenses .....	64,437	12,822	21,468
Amortization of past service liabilities .....	4,392,696	4,392,696	4,711,155
Net valuation adjustment loss .....	31,088	207,436	87,699
TOTAL EXPENSES <sup>1</sup> .....	65,270,508	70,511,216	73,437,098
EXCESS OF (EXPENSES) OR INCOME .....	(18,190,992)	27,476,674	46,148,368

<sup>1</sup> Excludes operational expenses which have been deducted from operational income.

<sup>2</sup> After deduction of SDR 1,000,045 for financial year 1977, SDR 900,003 for financial year 1978 and SDR 1,700,480 for financial year 1979 reimbursed to the General Resources Account by assessments levied on the net cumulative allocations of participants in the Special Drawing Rights Department; and SDR 800,000 for financial years 1977 and 1978, and SDR 900,000 for financial year 1979 reimbursed to the General Resources Account for the estimated expenses of conducting the business of the Trust Fund.

## Appendix VIII

### **Financial Statements of the General Department—General Resources Account, Special Drawing Rights Department, Subsidy Account, Trust Fund, and Staff Retirement Fund**

#### REPORT OF THE EXTERNAL AUDIT COMMITTEE

##### GENERAL DEPARTMENT

##### GENERAL RESOURCES ACCOUNT

Washington, D.C.  
June 29, 1979

#### AUTHORITY FOR THE AUDIT

The audit for the year ended April 30, 1979 was carried out pursuant to Section 20(b) of the By-Laws of the International Monetary Fund.

#### SCOPE OF THE AUDIT

We have examined the balance sheet of the International Monetary Fund, General Department—General Resources Account, as at April 30, 1979, and the related statements of income and expense, reserves and changes in financial position for the year then ended.

Our examination was made in accordance with generally accepted auditing standards and accordingly included such tests of the accounting records, after evaluating the extent and results of the tests which we observed to have been carried out by the Internal Auditor, and such other auditing procedures as we deemed necessary in the circumstances.

#### AUDIT OPINION

In our opinion, the financial statements referred to above give a true and fair view of the financial position of the International Monetary Fund, General Department—General Resources Account, as at April 30, 1979, and the results of its operations and transactions and changes in reserves and 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/ Harold E. Hayes, Chairman (Canada)  
/s/ Stefan Svavarsson (Iceland)  
/s/ Gamini C. B. Wijeyesinghe (Sri Lanka)



INTERNATIONAL MONETARY FUND  
GENERAL DEPARTMENT  
(Note 1)  
GENERAL RESOURCES ACCOUNT  
BALANCE SHEET  
as at April 30, 1979

Amounts expressed in special drawing rights  
(Note 2)

	<u>1979</u>	<u>1978</u>
<b>ASSETS</b>		
GOLD WITH DEPOSITORIES (Note 2) .....	4,054,521,924	4,507,056,460
SPECIAL DRAWING RIGHTS .....	1,289,908,976	1,371,080,136
CURRENCIES AND SECURITIES (Notes 3 and 4) .....	39,566,726,681	35,355,508,778
SUBSCRIPTIONS TO CAPITAL—RECEIVABLE		
Balances of initial quotas—not due .....	7,700,000	31,847,187
Balances of increases in quota—not due (Contra) .....	<u>—</u>	<u>6,003,000,000</u>
	<u>7,700,000</u>	<u>6,034,847,187</u>
CHARGES RECEIVABLE FROM MEMBERS (Note 4) .....	152,298,213	188,640,922
OTHER ASSETS (Notes 2 and 6) .....	<u>9,917,387</u>	<u>13,505,002</u>
TOTAL ASSETS .....	<u><u>45,081,073,181</u></u>	<u><u>47,470,638,485</u></u>
 <b>CAPITAL, RESERVES, AND LIABILITIES</b>		
CAPITAL		
Subscriptions of members .....	39,011,200,000	32,346,400,000
RESERVES (Note 7) .....	760,109,459	713,961,091
SUBSCRIPTIONS IN RESPECT OF INCREASES IN QUOTAS CONSENTED TO BUT NOT YET EFFECTIVE (Contra) .....	<u>—</u>	<u>6,003,000,000</u>
INDEBTEDNESS (Note 5)		
Oil facility .....	4,256,676,805	6,328,726,384
General Arrangements to Borrow and other borrowing .....	<u>777,254,000</u>	<u>1,730,000,000</u>
	<u>5,033,930,805</u>	<u>8,058,726,384</u>
REMUNERATION PAYABLE TO MEMBERS (Note 4) .....	171,742,842	200,859,098
INTEREST PAYABLE ON INDEBTEDNESS .....	93,745,621	130,751,564
OTHER LIABILITIES (Note 6) .....	<u>10,344,454</u>	<u>16,940,348</u>
TOTAL CAPITAL, RESERVES, AND LIABILITIES .....	<u><u>45,081,073,181</u></u>	<u><u>47,470,638,485</u></u>

The accompanying notes are an integral part of the financial statements.

/s/ W.O. HABERMEIER  
Treasurer

/s/ J. DE LAROSIÈRE  
Managing Director

INTERNATIONAL MONETARY FUND  
GENERAL DEPARTMENT  
(Note 1)  
GENERAL RESOURCES ACCOUNT  
STATEMENT OF INCOME AND EXPENSE  
for the year ended April 30, 1979  
Amounts expressed in special drawing rights  
(Note 2)

	1979	1978
OPERATIONAL INCOME		
Periodic charges (Note 4) .....	678,101,586	786,609,533
Interest on holdings of special drawing rights .....	57,121,423	39,800,980
Service charges .....	6,195,930	11,836,565
Other .....	11,873,320	1,327,746
	<u>753,292,259</u>	<u>839,574,824</u>
OPERATIONAL EXPENSE		
Remuneration (Note 4) .....	171,742,842	200,859,098
Interest on indebtedness .....	458,072,124	537,076,618
Other .....	3,891,827	3,651,218
	<u>633,706,793</u>	<u>741,586,934</u>
NET OPERATIONAL INCOME .....	<u>119,585,466</u>	<u>97,987,890</u>
ADMINISTRATIVE EXPENSE		
Administrative budget (Note 8)		
Personnel		
Salaries .....	33,414,852	32,614,664
Other (Note 6) .....	20,439,734	18,692,128
	<u>53,854,586</u>	<u>51,306,792</u>
Travel		
Business .....	4,247,586	4,385,656
Other .....	3,523,774	3,750,667
	<u>7,771,360</u>	<u>8,136,323</u>
Other		
Communications .....	1,988,681	1,894,907
Building occupancy .....	2,587,661	2,138,269
Books and printing .....	971,250	960,810
Supplies and equipment (Note 2) .....	1,273,305	711,977
Data processing services .....	1,189,485	1,256,271
Miscellaneous .....	1,580,928	1,192,916
	<u>9,591,310</u>	<u>8,155,150</u>
Total administrative budget .....	<u>71,217,256</u>	<u>67,598,265</u>
Less amounts recovered from:		
Participants in the Special Drawing Rights Department .....	1,700,480	900,003
Trust Fund .....	900,000	800,000
	<u>2,600,480</u>	<u>1,700,003</u>
Net administrative budget .....	68,616,776	65,898,262
Fixed property (Note 2) .....	21,468	12,822
Amortization of past service liabilities (Note 6) .....	4,711,155	4,392,696
Net valuation adjustment .....	87,699	207,436
TOTAL ADMINISTRATIVE EXPENSE .....	<u>73,437,098</u>	<u>70,511,216</u>
NET INCOME .....	<u>46,148,368</u>	<u>27,476,674</u>

The accompanying notes are an integral part of the financial statements.

INTERNATIONAL MONETARY FUND  
 GENERAL DEPARTMENT  
 (Note 1)  
 GENERAL RESOURCES ACCOUNT  
 STATEMENT OF RESERVES  
 for the year ended April 30, 1979  
 (Note 7)

Amounts expressed in special drawing rights  
 (Note 2)

	<u>1979</u>	<u>1978</u>
<b>SPECIAL RESERVE</b>		
Balance at beginning of year .....	348,381,388	320,904,714
Add net income for year .....	<u>46,148,368</u>	<u>27,476,674</u>
Balance at end of year .....	<u>394,529,756</u>	<u>348,381,388</u>
<b>GENERAL RESERVE</b>		
Balance at beginning and end of year .....	<u>365,579,703</u>	<u>365,579,703</u>
<b>TOTAL RESERVES</b> .....	<u><u>760,109,459</u></u>	<u><u>713,961,091</u></u>

The accompanying notes are an integral part of the financial statements.

INTERNATIONAL MONETARY FUND  
 GENERAL DEPARTMENT  
 (Note 1)  
 GENERAL RESOURCES ACCOUNT  
 STATEMENT OF CHANGES IN FINANCIAL POSITION  
 for the year ended April 30, 1979  
 Amounts expressed in special drawing rights  
 (Note 2)

	<u>1979</u>	<u>1978</u>
Resources were applied to:		
Increase in currency holdings:		
Changes in holdings which did not affect amounts on which the Fund levies charges or pays remuneration .....	7,160,793,064	2,398,558,829
Changes in holdings which reduced creditor positions on which the Fund pays remuneration .....	243,247,148	2,321,861,231
Changes in holdings which decreased amounts on which the Fund levies charges .....	(3,192,822,309)	(1,375,812,152)
	<u>4,211,217,903</u>	<u>3,344,607,908</u>
Repayments of borrowing:		
Oil facility .....	2,072,049,579	373,361,251
General Arrangements to Borrow and Swiss National Bank .....	<u>1,730,000,000</u>	<u>—</u>
	<u>3,802,049,579</u>	<u>373,361,251</u>
Decrease in the excess of other liabilities over other assets .....	8,640,582	21,391,661
	<u>8,021,908,064</u>	<u>3,739,360,820</u>
Resources were provided by:		
Subscriptions:		
Increases in quotas .....	6,655,000,000	3,101,600,000
Quotas of new members .....	<u>9,800,000</u>	<u>28,300,000</u>
	6,664,800,000	3,129,900,000
Borrowing:		
General Arrangements to Borrow and Swiss National Bank .....	777,254,000	730,000,000
Sales of gold .....	452,534,536	451,970,610
Decrease in holdings of special drawing rights .....	81,171,160	(599,986,464)
Net income .....	<u>46,148,368</u>	<u>27,476,674</u>
	<u>8,021,908,064</u>	<u>3,739,360,820</u>

The accompanying notes are an integral part of the financial statements.

INTERNATIONAL MONETARY FUND  
GENERAL DEPARTMENT  
NOTES TO THE FINANCIAL STATEMENTS

**1. General Department**

Under the Articles of Agreement, the General Department consists of the General Resources Account, the Special Disbursement Account, and the Investment Account. The Special Disbursement Account and the Investment Account are not operative. All operations and transactions on the account of the Fund are conducted through the General Resources Account.

*General Resources Account*

Assets held in the General Resources Account comprise gold, currencies of the Fund's member countries, and special drawing rights (SDRs). The Fund's resources in the General Resources Account are made available to members in accordance with the Fund's policies either in the form of currencies or SDRs which members purchase against the payment of their own currencies. The amount of such use is related to a member's quota in the Fund.

In addition to purchases under the Fund's regular facilities, members may use the Fund's resources under decisions on compensatory financing (to assist members, particularly primary exporters, encountering payments difficulties produced by temporary shortfalls attributable to circumstances beyond their control) and buffer stock financing (to assist members in connection with the financing of international buffer stocks of primary products), the extended Fund facility (to provide medium-term assistance to members to make structural adjustments in their economies), and the supplementary financing facility (to assist members facing serious payments imbalances that are large in relation to their quotas). Members were also able to use the oil facility (for balance of payments problems caused by increases in the cost of petroleum and petroleum products). Use of the Fund's resources is dependent on members having a balance of payments need.

Gold transactions, receipt of SDRs in payment of charges and repurchases by members, and use of SDRs by the Fund, take place through the General Resources Account.

**2. Accounting Practices***Unit of Account*

The accounts of the General Resources Account are expressed in terms of the SDR, the currency value of which is determined by a standard basket of the currencies of sixteen members. Members' currencies and securities are converted into equivalent amounts of SDRs on the basis of representative rates of exchange determined in accordance with decisions of the Executive Board. Gold with depositories is valued on the basis that one unit of special drawing rights is equivalent to 0.888671 gram of fine gold.

*Property, Furniture, and Equipment*

The established policy of the Fund is to charge as an expense of each accounting period the total costs incurred for fixed property, furniture, and equipment. As at April 30, 1979, the net balance of the Fund's property accounts, at cost, which had been charged to expense, amounted to SDR 63,868,664 (SDR 63,568,569 at April 30, 1978).

*Income and Expense*

The Fund maintains its books of accounts on an accrual basis and accordingly follows a policy of recognizing income as it is earned and of recording expenses as they are incurred. It is the

practice of the Fund to make all calculations on the basis of the exact number of days in the financial year.

**3. Currencies and Securities with Depositories**

Each member has the option to substitute nonnegotiable and noninterest-bearing securities for that amount of the member's currency held by the Fund which is in excess of  $\frac{1}{4}$  of 1 per cent of the member's quota.

A currency held by the Fund is revalued whenever that 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. Whenever the Fund revalues its holdings of a member's currency, an account receivable or an account payable is established for the amount of currency payable by or to the member in order to maintain the value of the currency in terms of the SDR. The balances of the accounts receivable or payable are included as part of the Fund's currency holdings. At April 30, 1979, accounts receivable amounted to SDR 1,818,697,327 and accounts payable amounted to SDR 739,571,340.

**4. Operational Transactions**

During the year ended April 30, 1979, members' purchases amounted to SDR 3,720 million of which SDR 2,480 million was in the reserve tranche, SDR 485 million was under the Fund's regular policies, SDR 465 million was under compensatory financing, SDR 48 million was under buffer stock financing, and SDR 242 million was under the extended Fund facility. Over the same period, repurchases by members totaled SDR 4,859 million. Purchases in the reserve tranche made after April 1, 1978 are not subject to repurchase.

Outstanding purchases of members were as follows (in millions of SDRs):

	April 30	
	1979	1978
Reserve tranche	314	1,358
Regular facilities	2,316	3,420
Compensatory financing	2,945	2,668
Buffer stock financing	48	—
Extended Fund facility	407	175
Oil facility	4,240	6,313
Total	10,270	13,934

The Fund levies charges on its holdings of a member's currency to the extent that the holdings (i) have been acquired under a policy that has been the subject of an exclusion, or (ii) exceed the member's quota after deducting holdings that are the subject of an exclusion. Remuneration is paid on the amounts by which 75 per cent of a member's quota on April 1, 1978, adjusted for increases or decreases in the member's quota after that date, exceeds the Fund's holdings of the member's currency after deducting amounts that are the subject of an exclusion. At April 30, 1979 the total holdings on which the Fund levies charges amounted to SDR 8,873 million and total creditor positions on which the Fund pays remuneration amounted to SDR 3,773 million.

Members incur certain obligations to the Fund with the use of Fund resources from the General Resources Account. One member, Democratic Kampuchea, has not fulfilled its financial obligations to repurchase a part of the Fund's holdings of the member's currency, to pay charges on currency balances held by the Fund, and to submit information on monetary reserves.

At April 30, 1979 unpaid charges receivable from Democratic Kampuchea amounted to SDR 2,632,396 and are included in the balance sheet as charges receivable and as a deferred credit; SDR 1,882,511 of these charges relates to previous periods and has been deducted from income for the current year. On December 19, 1978 the Executive Board decided that Democratic Kampuchea may not make use of the general resources of the Fund until such time as Democratic Kampuchea is fulfilling its obligations under the Articles of Agreement to which Article XXVI, Section 2(a), applies.

## 5. Indebtedness

### *Oil Facility*

The Fund has entered into borrowing agreements with various members and Switzerland, or institutions within their territories, under which these lenders agreed to provide the Fund with specified currencies to finance purchases of currencies from the Fund by other members under the oil facility. The outstanding borrowings carry interest rates of 7 per cent for amounts called under the 1974 borrowing agreements and 7¼ per cent for amounts called under the 1975 borrowing agreements. Any calls made by the Fund under these agreements are repayable in installments beginning not later than 3½ years, to be completed not later than 7 years, after the date of the calls, except that the calls under the borrowing agreements with Canada and the Deutsche Bundesbank are repayable at the end of five years.

### *Supplementary Financing Facility*

The supplementary financing facility entered into force on February 23, 1979. The Fund has entered into borrowing agreements with 14 members, or institutions within their territories, and with the Swiss National Bank under which the lenders have agreed to make resources available to the Fund, at call, up to SDR 7.784 billion over the next five years to finance purchases by members under this facility. Interest to be paid by the Fund on amounts borrowed under the borrowing agreements is based on the average yield on U.S. Government securities with a maturity of five years. At April 30, 1979 the Fund had not borrowed resources under these arrangements.

### *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 for which it incurred the indebtedness, provided that the rate of interest shall be not less than 4 per cent per annum on any part of the indebtedness. Any calls made by the Fund under the GAB are repayable within five years.

At April 30, 1979 the interest rate being paid by the Fund on indebtedness under the General Arrangements to Borrow was 4 per cent per annum.

### *Other*

The Swiss National Bank entered into a borrowing agreement with the Fund under which it agreed to lend to the Fund U.S. dollars equivalent to SDR 337.5 million for exchange transactions under stand-by arrangements. The other terms and condi-

tions of this borrowing were similar to those of the General Arrangements to Borrow. At April 30, 1979 all amounts borrowed by the Fund from the Swiss National Bank had been repaid.

## 6. 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 a notional gross salary, and the employer contributes that part of the costs and expenses of the Plan not provided by the contributions of the participants.

A past service liability amounting to SDR 17,570,796, resulting from certain improvements in the benefits provisions of the Plan and changes in the rates of contribution and funding arrangements which were approved in August 1976, was discharged on September 1, 1976 by a payment from the General Resources Account to the Staff Retirement Plan. This amount is being charged against the income of the General Resources Account over a period of four years. Accordingly, SDR 4,392,696 was charged against income in 1977, 1978, and 1979; the remaining balance of SDR 4,392,708 is included as a deferred charge in Other Assets. A past service liability amounting to SDR 318,459 resulting from additional plan amendments approved in June 1978 was paid and charged against income during the current year.

Experience gains and losses of the Plan, as determined by the actuary engaged by the Pension Committee, are amortized over a period of 15 years. The unamortized experience losses at April 30, 1979 amounted to SDR 26.7 million (calculated at the SDR value of the U.S. dollar on that date). Payments over the next 15 years to amortize the actuarial experience losses are estimated to be approximately SDR 37.1 million (at the April 30, 1979 SDR/US\$ rate), of which SDR 2.8 million was paid on May 1, 1979.

Contributions by the employer to the Staff Retirement Fund for the year ended April 30, 1979 amounted to SDR 10,397,949, including SDR 2,609,567 for the amortization of actuarial experience losses (SDR 1,989,282 in 1978) and SDR 1,515,758 to fund cost of living supplements to beneficiaries (SDR 1,208,242 in 1978).

## 7. Reserves

The Fund determines annually what part of its net income shall be placed to the General Reserve or to the Special Reserve, and what part, if any, shall be distributed. The Fund may use the Special Reserve for any purpose for which it may use the General Reserve, except distribution.

Income from investments in U.S. Government securities was placed to the Special Reserve from November 1, 1957 until February 15, 1972 when the investment program was terminated. A decision by the Executive Board provides that any administrative deficit for any financial year must be written off first against this Reserve.

Net income for the year ended April 30, 1979 has been placed to the Special Reserve by decision of the Executive Board.

## 8. Administrative Budget

The budget for 1978 has been restated to conform to the 1979 presentation.

REPORT OF THE EXTERNAL AUDIT COMMITTEE  
SPECIAL DRAWING RIGHTS DEPARTMENT

Washington, D.C.  
June 29, 1979

AUTHORITY FOR THE AUDIT

The audit for the year ended April 30, 1979 was carried out pursuant to Section 20(b) of the By-Laws of the International Monetary Fund.

SCOPE OF THE AUDIT

We have examined the balance sheet of the International Monetary Fund, Special Drawing Rights Department as at April 30, 1979, and the related statement of source and use of special drawing rights for the year then ended.

Our examination was made in accordance with generally accepted auditing standards and accordingly included such tests of the accounting records, after evaluating the extent and results of the tests which we observed to have been carried out by the Internal Auditor, and such other auditing procedures as we deemed necessary in the circumstances.

AUDIT OPINION

In our opinion, the financial statements referred to above give a true and fair view of the allocations and holdings of special drawing rights of the International Monetary Fund, Special Drawing Rights Department as at April 30, 1979, and the source and use of special drawing rights for the year then ended on a basis consistent with that of the preceding year.

EXTERNAL AUDIT COMMITTEE:

/s/ Harold E. Hayes, Chairman (Canada)  
/s/ Stefan Svavarsson (Iceland)  
/s/ Gamini C. B. Wijeyesinghe (Sri Lanka)

INTERNATIONAL MONETARY FUND  
SPECIAL DRAWING RIGHTS DEPARTMENT  
(Note 1)  
BALANCE SHEET  
as at April 30, 1979

Amounts expressed in special drawing rights

	<u>1979</u>	<u>1978</u>
<b>ALLOCATIONS AND UNPAID CHARGES</b>		
Net cumulative allocations of special drawing rights to participants .....	13,347,560,200	9,314,835,400
Charges due but not paid .....	<u>—</u>	<u>290,144</u>
	<u>13,347,560,200</u>	<u>9,315,125,544</u>
 <b>HOLDINGS</b>		
<b>Participants</b>		
Holdings above allocations, comprising		
Allocations .....	4,085,312,000	2,644,257,000
Net receipt of SDRs .....	<u>2,150,197,637</u>	<u>1,023,298,554</u>
	<u>6,235,509,637</u>	<u>3,667,555,554</u>
Holdings below allocations, comprising		
Allocations .....	9,262,248,200	6,670,578,400
Net use of SDRs .....	<u>3,440,106,613</u>	<u>2,394,088,546</u>
	<u>5,822,141,587</u>	<u>4,276,489,854</u>
Total holdings by participants .....	12,057,651,224	7,944,045,408
General Resources Account .....	<u>1,289,908,976</u>	<u>1,371,080,136</u>
	<u>13,347,560,200</u>	<u>9,315,125,544</u>

The accompanying notes are an integral part of the financial statements.

/s/ W.O. HABERMEIER  
Treasurer

/s/ J. DE LAROSIÈRE  
Managing Director



INTERNATIONAL MONETARY FUND  
SPECIAL DRAWING RIGHTS DEPARTMENT  
(Note 1)

STATEMENT OF SOURCE AND USE OF SPECIAL DRAWING RIGHTS  
for the year ended April 30, 1979

Amounts expressed in special drawing rights

	Participants	General Resources Account	Total	
			1979	1978
Total Holdings at beginning of year .....	7,944,045,408	1,371,080,136	9,315,125,544	9,314,835,400
Source of Special Drawing Rights				
Allocations .....	4,032,724,800		4,032,724,800	—
Transactions with Designation .....	1,079,948,611		1,079,948,611	398,117,289
Transactions by Agreement .....	1,533,025,735		1,533,025,735	927,413,052
Net Interest .....	71,051,288	57,121,423	128,172,711	96,589,688
Transfers Between Participants and the General Resources Account				
Purchases .....	1,105,921,875		1,105,921,875	662,125,000
Repurchases .....	—	501,870,191	501,870,191	855,072,088
Charges .....	2,463,041	717,142,717	719,605,758	816,300,920
Reimbursement of Special Drawing Rights Department Expenses (Assessment) .....		1,700,480	1,700,480	900,003
Remuneration .....	136,279,725		136,279,725	121,774,346
Reconstitution .....	75,145,184		75,145,184	474,014,488
Interest on Fund Borrowings				
Under General Arrangements to Borrow ....	8,954,109		8,954,109	17,751,411
Under Oil Facility .....	—		—	10,172,058
Quota Payments .....		18,715,000	18,715,000	201,400,000
Other				
Repayment of Fund Borrowings .....	37,662,714		37,662,714	—
Transfer Charges .....	2,914,703		2,914,703	1,208,026
Acquisitions to Pay Charges .....	8,379,620		8,379,620	—
Accounts Receivable (Unpaid Charges) .....	—		—	290,144
	8,094,471,405	1,296,549,811	9,391,021,216	4,583,128,513
Use of Special Drawing Rights				
Transactions with Designation .....	1,079,948,611		1,079,948,611	398,117,289
Transactions by Agreement .....	1,533,025,735		1,533,025,735	927,413,052
Net Charges .....	128,172,711		128,172,711	96,589,688
Transfers Between Participants and the General Resources Account				
Purchases .....		1,105,921,875	1,105,921,875	662,125,000
Repurchases .....	501,870,191		501,870,191	855,072,088
Charges .....	717,142,717	2,463,041	719,605,758	816,300,920
Reimbursement of Special Drawing Rights Department Expenses (Assessment) .....		1,700,480	1,700,480	900,003
Remuneration .....		136,279,725	136,279,725	121,774,346
Reconstitution .....		75,145,184	75,145,184	474,014,488
Interest on Fund Borrowings				
Under General Arrangements to Borrow ...		8,954,109	8,954,109	17,751,411
Under Oil Facility .....		—	—	10,172,058
Quota Payments .....	18,715,000		18,715,000	201,400,000
Other				
Repayment of Fund Borrowings .....		37,662,714	37,662,714	—
Transfer Charges .....		2,914,703	2,914,703	1,208,026
Acquisitions to Pay Charges .....		8,379,620	8,379,620	—
Settlement of Unpaid Charges .....	290,144		290,144	—
	3,980,865,589	1,377,720,971	5,358,586,560	4,582,838,369
Total Holdings at end of year .....	12,057,651,224	1,289,908,976	13,347,560,200	9,315,125,544

The accompanying notes are an integral part of the financial statements.

INTERNATIONAL MONETARY FUND  
SPECIAL DRAWING RIGHTS DEPARTMENT  
NOTES TO THE FINANCIAL STATEMENTS

**1. Special Drawing Rights Department**

All transactions and operations involving special drawing rights are conducted through the Special Drawing Rights Department. Special drawing rights are allocated by the Fund to members that are participants in the Special Drawing Rights Department in proportion to their quotas in the Fund. Three allocations were made, in 1970, 1971, and 1972, aggregating SDR 9.3 billion. In accordance with Board of Governors Resolution No. 34-3, SDR 4 billion was allocated to participants as of January 1, 1979 and further allocations of SDR 4 billion each year are to be made as of January 1 in 1980 and 1981. Special drawing rights do not constitute claims by holders against the Fund to provide currency, except in connection with the termination of participation or liquidation.

**2. Uses of Special Drawing Rights**

A participant can use its special drawing rights in transactions and certain operations by agreement with another participant, and in certain operations involving the General Resources Account, such as the payment of charges and the discharge of repurchase obligations. In addition, the Fund ensures, by designating participants to provide freely usable currency in exchange for special drawing rights, that a participant can use its special drawing rights to obtain such currency if it has a need because of its balance of payments or its reserve position or developments in its reserves. A participant is not obliged to provide currency for special drawing rights beyond the point at which its holdings of special drawing rights in excess of its net cumulative allocation are equal to twice its net cumulative allocation or such higher limit as may be agreed between a participant and the Fund. A participant may, however, provide currency in excess of the obligatory limit or any agreed higher limit.

**3. Reconstitution Requirements**

A participant is required to maintain, over five-year periods ending in successive calendar quarters, a minimum level of average daily holdings of special drawing rights in relation to its average daily net cumulative allocation. For the five-year periods ended on or before December 31, 1978 the required average was 30 per cent; for periods ending after that date the required average is 15 per cent.

**4. Interest, Charges, and Assessment**

Interest is paid to each holder on its holdings of special drawing rights and charges are levied at the same rate by the Fund on each participant's net cumulative allocation plus any negative balance of the participant or unpaid charges. Net interest or net charges are settled by crediting or debiting individual holdings accounts on April 30 each year. The Fund is required to pay interest to each holder, whether or not sufficient charges are received. The expenses of conducting the business of the Special Drawing Rights Department are paid by the Fund from the General Resources Account which is reimbursed in special drawing rights at the end of each financial year. For this purpose, the Fund levies an assessment, at the same rate for all participants, on their net cumulative allocations.

**5. Suspension of Right to Use Special Drawing Rights**

On December 19, 1978 the Executive Board decided to suspend the right of Democratic Kampuchea to use special drawing rights acquired after the date of the suspension because the Fund found that Democratic Kampuchea had failed to meet certain obligations in the Special Drawing Rights Department.

REPORT OF THE EXTERNAL AUDIT COMMITTEE  
SUBSIDY ACCOUNT

Washington, D.C.  
June 29, 1979

AUTHORITY FOR THE AUDIT

The audit for the year ended April 30, 1979 was carried out pursuant to Section 20(b) of the By-Laws of the International Monetary Fund.

SCOPE OF THE AUDIT

We have examined the statement of financial position of the Subsidy Account administered by the International Monetary Fund, showing the changes in the Account for the year ended April 30, 1979, and the financial position as at that date.

Our examination was made in accordance with generally accepted auditing standards and accordingly included such tests of the accounting records, after evaluating the extent and results of the tests which we observed to have been carried out by the Internal Auditor, and such other auditing procedures as we deemed necessary in the circumstances.

AUDIT OPINION

In our opinion, the financial statement referred to above gives a true and fair view of the operations of the Subsidy Account for the year ended April 30, 1979, and its financial position as at that date, in conformity with generally accepted accounting principles applied on a basis consistent with that of the preceding year.

EXTERNAL AUDIT COMMITTEE:

/s/ Harold E. Hayes, Chairman (Canada)  
/s/ Stefan Svavarsson (Iceland)  
/s/ Gamini C. B. Wijeyesinghe (Sri Lanka)

## INTERNATIONAL MONETARY FUND

## SUBSIDY ACCOUNT

(Note 1)

## STATEMENT OF FINANCIAL POSITION

Changes during year and Position as at April 30, 1979

Amounts expressed in special drawing rights

(Note 2)

	1979	1978
Balance at beginning of year .....	<u>58,746,352</u>	<u>50,630,093</u>
Contributions received (Note 2) .....	23,668,092	35,437,047
Interest earned on investments .....	3,259,513	2,404,139
Valuation loss .....	(988,127)	(2,218,982)
	<u>25,939,478</u>	<u>35,622,204</u>
	84,685,830	86,252,297
Less: Subsidy payments (Note 3) .....	<u>24,950,431</u>	<u>27,505,945</u>
Balance at end of year .....	<u>59,735,399</u>	<u>58,746,352</u>
Balance represented by:		
Currency on deposit .....	2,297,338	2,524,655
Investments in United States Government obligations, at cost ( <i>market value SDR 55,473,545—1979, SDR 54,559,105—1978</i> ) .....	55,829,893	54,715,759
Accrued interest receivable .....	<u>1,608,168</u>	<u>1,505,938</u>
Total assets .....	<u>59,735,399</u>	<u>58,746,352</u>

The accompanying notes are an integral part of the financial statement.

/s/ W. O. HABERMEIER  
Treasurer

/s/ J. DE LAROSIÈRE  
Managing Director

INTERNATIONAL MONETARY FUND  
SUBSIDY ACCOUNT  
NOTES TO THE FINANCIAL STATEMENT

**1. Purpose**

The Subsidy Account, which is administered by the Fund, was established to assist the most seriously affected (MSA) members to meet the interest cost of using resources made available through the Fund's oil facility for 1975. The assets of the Subsidy Account are separate from the assets of all other accounts of the Fund and are not used to discharge liabilities or to meet losses incurred in the administration of other accounts.

**2. Accounting Practices**

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 currencies of sixteen members.

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 contribu-

tions to the Subsidy Account at April 30, 1979 amounted to SDR 120,938,311.

It is the practice of the Fund to make all calculations on the basis of the exact number of days in the financial year.

**3. Subsidy Payments**

The rate of subsidy for the financial years ended April 30, 1976 through 1979 was set by the Fund at five per cent per annum of the average daily balances in each year of the Fund's holdings of recipient members' currencies subject to the schedule of charges applicable to the oil facility for 1975. Subsidy payments are made after the end of each financial year in U.S. dollars at the SDR/US\$ rate determined for the date of payment. Subsidy payments for the financial year ended April 30, 1979 amounted to SDR 19,099,585 and were made on May 31, 1979.

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REPORT OF THE EXTERNAL AUDIT COMMITTEE

TRUST FUND

Washington, D.C.

June 29, 1979

AUTHORITY FOR THE AUDIT

The audit for the year ended April 30, 1979 was carried out pursuant to Section 20(b) of the By-Laws of the International Monetary Fund.

SCOPE OF THE AUDIT

We have examined the balance sheet of the Trust Fund administered by the International Monetary Fund as at April 30, 1979, and the related statements of income and expense and trust resources for the year then ended.

Our examination was made in accordance with generally accepted auditing standards and accordingly included such tests of the accounting records, after evaluating the extent and results of the tests which we observed to have been carried out by the Internal Auditor, and such other auditing procedures as we deemed necessary in the circumstances.

AUDIT OPINION

In our opinion, the financial statements referred to above give a true and fair view of the financial position of the Trust Fund as at April 30, 1979, and of the results of its operations 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/ Harold E. Hayes, Chairman (Canada)

/s/ Stefan Svavarsson (Iceland)

/s/ Gamini C. B. Wijeyesinghe (Sri Lanka)

## INTERNATIONAL MONETARY FUND

## TRUST FUND

(Note 1)

## BALANCE SHEET

as at April 30, 1979

Amounts expressed in special drawing rights

(Note 2)

	1979	1978
<b>ASSETS</b>		
Gold .....	—	18,370,198
Sight deposits .....	40,561	27,748
Term deposits .....	534,534,618	—
Investments, at cost ( <i>market value SDR 235,576,501—1979, SDR 545,409,986—1978</i> ) .....	232,464,576	542,876,475
Loans (Note 3) .....	969,864,424	299,809,000
Accrued interest on investments and term deposits .....	21,449,855	2,698,486
Accrued interest on loans .....	1,536,003	434,669
Total .....	<u>1,759,890,037</u>	<u>864,216,576</u>
 <b>TRUST RESOURCES AND LIABILITIES</b>		
Trust resources (Note 4) .....	1,751,394,949	864,216,576
Liabilities—		
Undistributed profits from sale of gold .....	8,495,088	—
Total .....	<u>1,759,890,037</u>	<u>864,216,576</u>

The accompanying notes are an integral part of the financial statements.

/s/ W.O. HABERMEIER  
Treasurer/s/ J. DE LAROSIÈRE  
Managing Director

INTERNATIONAL MONETARY FUND  
TRUST FUND  
(Note 1)  
STATEMENT OF INCOME AND EXPENSE  
for the year ended April 30, 1979  
Amounts expressed in special drawing rights  
(Note 2)

	<u>1979</u>	<u>1978</u>
<b>Income:</b>		
Net proceeds realized from the sale of gold .....	928,701,768	668,761,378
Investment income .....	43,458,376	32,233,823
Interest income on loans .....	3,704,818	792,763
	<u>975,864,962</u>	<u>701,787,964</u>
<b>Expense:</b>		
Administrative expense (Note 2):		
Staff salaries and benefits, and other services .....	834,746	725,395
Gold weighing and handling charges .....	58,570	67,230
Data processing services .....	5,682	5,434
Other .....	1,002	1,941
Total administrative expense .....	<u>900,000</u>	<u>800,000</u>
Exchange valuation loss .....	20,634,242	34,897,408
	<u>21,534,242</u>	<u>35,697,408</u>
Net income .....	<u>954,330,720</u>	<u>666,090,556</u>

The accompanying notes are an integral part of the financial statements.



INTERNATIONAL MONETARY FUND  
TRUST FUND  
(Note 1)  
STATEMENT OF TRUST RESOURCES  
for the year ended April 30, 1979  
Amounts expressed in special drawing rights  
(Note 2)

	<u>1979</u>	<u>1978</u>
Balance at beginning of year .....	864,216,576	396,495,877
Net income for year .....	<u>954,330,720</u>	<u>666,090,556</u>
Total resources before distribution of profits to developing countries .....	<u>1,818,547,296</u>	<u>1,062,586,433</u>
Distribution of profits to developing countries (Note 4)		
Amount disbursed .....	62,057,738	222,555,762
Amount pending disbursement .....	<u>8,495,088</u>	<u>—</u>
Contributions received .....	70,552,826	222,555,762
	<u>3,400,479</u>	<u>24,185,905</u>
Balance at end of year .....	<u><u>1,751,394,949</u></u>	<u><u>864,216,576</u></u>

The accompanying notes are an integral part of the financial statements.

INTERNATIONAL MONETARY FUND  
TRUST FUND  
NOTES TO THE FINANCIAL STATEMENTS

**1. Purpose**

The Trust, which is administered by the Fund as Trustee, was established in 1976 to provide balance of payments assistance on concessional terms to eligible members that qualify for assistance. The resources of the Trust are separate from the assets of all other accounts of the Fund and are not used to discharge liabilities or to meet losses incurred in the administration of other accounts.

**2. 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.

*Calculations*

It is the practice of the Fund to make all calculations on the basis of the exact number of days in the accounting year.

*Administrative Expense*

The expenses of conducting the business of the Trust Fund that are paid from the General Resources Account of the IMF

are reimbursed by the Trust on the basis of a reasonable estimate of these expenses by the IMF.

**3. 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.

**4. Trust Resources**

The International Monetary Fund has decided that the Trustee will undertake other activities in connection with the distribution of profits from the sale of gold for the benefit of developing members. Each recipient's share is calculated on the basis of the shares 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. At April 30, 1979 the Trust resources include the equivalent of SDR 243.8 million for direct distribution of profits to certain developing members, subject to decisions by the Fund as Trustee.

REPORT OF THE EXTERNAL AUDIT COMMITTEE  
STAFF RETIREMENT FUND

Washington, D.C.  
June 29, 1979

AUTHORITY FOR THE AUDIT

The audit for the year ended April 30, 1979 was carried out pursuant to Section 20(b) of the By-Laws of the International Monetary Fund.

SCOPE OF THE AUDIT

We have examined the balance sheet of the Staff Retirement Fund administered by the International Monetary Fund as at April 30, 1979, and the related statement of changes in reserves for the year then ended.

Our examination was made in accordance with generally accepted auditing standards and accordingly included such tests of the accounting records, after evaluating the extent and results of the tests which we observed to have been carried out by the Internal Auditor, and such other auditing procedures as we deemed necessary in the circumstances.

AUDIT OPINION

In our opinion, the financial statements referred to above give a true and fair view of the financial position of the Staff Retirement Fund as at April 30, 1979, and of the changes in reserves 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/ Harold E. Hayes, Chairman (Canada)  
/s/ Stefan Svavarsson (Iceland)  
/s/ Gamini C. B. Wijeyesinghe (Sri Lanka)

## INTERNATIONAL MONETARY FUND

## STAFF RETIREMENT FUND

(Note 1)

## BALANCE SHEET

as at April 30, 1979

Amounts expressed in U.S. dollars

	<u>1979</u>	<u>1978</u>
<b>ASSETS</b>		
Cash at banks .....	63,628	24,856
Investments (Note 2)		
Bonds (market value \$53,674,073—1979, \$48,701,923—1978) .....	58,120,307	52,102,965
Stocks (market value \$74,703,015—1979, \$57,608,756—1978) .....	76,628,876	62,859,502
Total .....	134,749,183	114,962,467
Accrued interest on bonds, accrued contributions receivable, and miscellaneous accounts receivable .....	759,280	643,794
Total Assets .....	<u>135,572,091</u>	<u>115,631,117</u>
 <b>RESERVES AND LIABILITIES</b>		
Reserves		
Participants' Account .....	25,616,368	21,782,780
Accumulation Account .....	63,511,818	52,308,376
Retirement Reserve Account .....	46,441,420	41,534,435
Total Reserves .....	135,569,606	115,625,591
Accounts Payable .....	2,485	5,526
Total Reserves and Liabilities .....	<u>135,572,091</u>	<u>115,631,117</u>

The accompanying notes are an integral part of the financial statements.

/s/ W.O. HABERMEIER  
Treasurer

/s/ J. DE LAROSIÈRE  
Managing Director

INTERNATIONAL MONETARY FUND  
STAFF RETIREMENT FUND  
(Note 1)  
STATEMENT OF CHANGES IN RESERVES  
for the year ended April 30, 1979  
Amounts expressed in U.S. dollars

	<u>1979</u>	<u>1978</u>
Contributions:		
Participants .....	3,950,821	3,547,402
International Monetary Fund .....	13,406,295	10,784,528
Participants restored to service .....	105,698	48,543
Transfers (net) from retirement plans of other international organizations .....	(113,125)	(79,855)
Total Contributions .....	<u>17,349,689</u>	<u>14,300,618</u>
Investment Income:		
Interest and dividends .....	7,197,272	5,224,376
Amortization of accumulated discounts .....	38,738	35,968
Amortization of net realized losses on bonds .....	(239,721)	(240,016)
Recognized market appreciation on equity investments .....	229,700	(435,000)
Net Investment Income .....	<u>7,225,989</u>	<u>4,585,328</u>
Payments:		
Pensions and other benefits .....	3,801,233	3,346,111
Contributions, benefits, and interest paid to participants upon withdrawal .....	606,617	358,072
Commutated benefits .....	—	274,635
Death benefits .....	223,813	70,293
Total Payments .....	<u>4,631,663</u>	<u>4,049,111</u>
Increase in Reserves during year .....	19,944,015	14,836,835
Reserves at beginning of year .....	<u>115,625,591</u>	<u>100,788,756</u>
Reserves at end of year .....	<u>135,569,606</u>	<u>115,625,591</u>

The accompanying notes are an integral part of the financial statements.

INTERNATIONAL MONETARY FUND  
STAFF RETIREMENT FUND  
NOTES TO THE FINANCIAL STATEMENTS

**1. Purpose**

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 normal contribution is 21 per cent of participants' notional gross salaries (14 per cent from the employer and 7 per cent from participants).

**2. Investments***Valuation*

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," as referred to below, 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.

*Investment Portfolio*

The investments at April 30, 1979 and 1978 were as follows (in U.S. dollars):

	1979	1978
<b>Bonds</b>		
Amortized cost:		
Notes insured by		
U.S. Government .....	2,495,457	10,107,181
International development		
banks .....	5,063,185	5,816,334
Corporate .....	13,943,731	10,967,099
Commercial paper .....	5,745,000	3,430,000
Certificates of deposit .....	28,700,000	19,684,900
Repurchase agreement .....	1,368,000	1,050,000
Total amortized cost ....	57,315,373	51,055,514
Add: Net realized losses ...	2,397,330	2,400,126
Funds originally invested ....	59,712,703	53,455,640
Deduct: Amortized net		
realized losses .....	1,592,396	1,352,675
Adjusted book value		
of bonds .....	58,120,307	52,102,965

	1979	1978
<b>Stocks</b>		
Cost:		
Preferred Convertible .....	—	232,682
Common .....	77,477,922	64,001,601
Total cost .....	77,477,922	64,234,283
Deduct: Net realized gains ..	614,746	910,781
Funds originally invested ....	76,863,176	63,323,502
Recognized appreciation .....	(234,300)	(464,000)
Adjusted book value		
of stocks .....	76,628,876	62,859,502
Total investments at		
adjusted book value ...	134,749,183	114,962,467

**3. Actuarial Valuation**

The most recent valuation of the Plan by the actuary engaged by the Pension Committee was made as at April 30, 1978. The actuary's valuation showed an experience loss for the year then ended of \$4.1 million. Experience losses are amortized by contributions from the employer over a period of fifteen years. At April 30, 1979 the unamortized experience losses amounted to \$34.0 million (SDR 26.7 million).

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An asterisk (\*) denotes a table; a dagger (†) denotes a chart; fn. denotes a footnote.

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