Annual Report 1981

International Monetary Fund

ANNUAL REPORT
1981

International Standard Serial Number: ISSN 0250-7498

INTERNATIONAL MONETARY FUND

ANNUAL REPORT

OF THE

EXECUTIVE BOARD FOR THE

FINANCIAL YEAR ENDED APRIL 30, 1981

WASHINGTON, D.C.

This page intentionally left blank

Contents

LIST OF TABLES

LIST OF CHARTS

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., 1972–80 or January–June) to indicate the years or months covered, including the beginning and ending years or months;

(/) is used between years (e.g., 1979/80) 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 8 and 12.

This page intentionally left blank

International Monetary Fund

J. de Larosière
Managing Director and Chairman of the Executive Board

William B. Dale
Deputy Managing Director

Executive Directors	**Alternate Executive Directors**
Richard D. Erb	Donald E. Syvrud
John Anson	Christopher Taylor
Gerhard Laske	Guenter Winkelmann
Paul Mentré de Loye	Thierry Aulagnon
Teruo Hirao	Akira Nagashima
Yusuf A. Nimatallah	
Ariel Buira	Miguel A. Senior
Robert K. Joyce	Michael Casey
J. J. Polak	Tom de Vries
Giovanni Lovato	Costa P. Caranicas
A. R. G. Prowse	Benito Legarda
Mohamed Finaish	Tariq Alhaimus
Jacques de Groote	Heinrich G. Schneider
M. Narasimham	D. Lakshman Kannangara
Jón Sigurdsson	Leiv Vidvei
Semyano Kiingi	N'Faly Sangare
Byanti Kharmawan	Vijit Supinit
Alexandre Kafka	José Gabriel-Peña
Morteza Abdollahi	Omar Kabbaj
ZHANG Zicun	TAI Qianding
Juan Carlos Iarezza	Raúl Salazar
Samuel Nana-Sinkam	Abderrahmane Alfidja

Senior Officers

Counsellor	Walter O. Habermeier*
Economic Counsellor	William C. Hood*
Counsellor	L. A. Whittome*
Adjustment Studies	Charles F. Schwartz, *Director*
Administration Department	Roland Tenconi, *Director*
African Department	J. B. Zulu, *Director*
Asian Department	Tun Thin, *Director*
Central Banking Department	P. N. Kaul, *Director*
European Department	L. A. Whittome, *Director*
Exchange and Trade Relations Department	C. David Finch, *Director*
External Relations Department	Azizali F. Mohammed, *Director*
Fiscal Affairs Department	Vito Tanzi, *Director*
IMF Institute	Gérard M. Teyssier, *Director*
Legal Department	George Nicoletopoulos, *Director*
Middle Eastern Department	A. Shakour Shaalan, *Director*
Research Department	William C. Hood, *Director*
Secretary's Department	Leo Van Houtven, *Secretary*
Treasurer's Department	Walter O. Habermeier, *Treasurer*
Western Hemisphere Department	E. Walter Robichek, *Director*
Bureau of Language Services	Bernardo T. Rutgers, *Director*
Bureau of Statistics	Werner Dannemann, *Director*
Office in Europe (Paris)	Aldo Guetta, *Director*
Office in Geneva	Fernando A. Vera, *Director*
Chief Editor	Norman K. Humphreys

*Alphabetical listing.

August 13, 1981

This page intentionally left blank

LETTER OF TRANSMITTAL
TO THE BOARD OF GOVERNORS

August 13, 1981

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, 1981, 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, 1982 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 Plan for the year ended April 30, 1981, 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

This page intentionally left blank

Chapter 1
Developments in the World Economy

Introduction

The world economic situation during 1980 and the first half of 1981 was difficult and disappointing in important respects. Nevertheless, signs of progress in dealing with some of the severe economic problems of recent years have begun to emerge. Both the encouraging aspects of the situation and the difficulties confronting national authorities, as well as the policies being utilized to meet those difficulties, are outlined in the following paragraphs and discussed more fully in later sections of this chapter, as well as in Chapter 2.

For the past two years, dominant characteristics of the world economic picture have included the continuation of inflation at very high rates in many countries; the marked slowing of growth in the industrial countries, resulting in high unemployment and a slowdown in world trade expansion; and external imbalances on current account that have been both extremely large—reflecting major changes in terms of trade—and unusually volatile for some individual countries. Sharply increased deficits on current account have generated financing problems for many countries. Although international flows of credit through private market channels have been remarkably well sustained, a number of the non-oil developing countries, particularly among those with low per capita incomes and limited access to capital markets, have not obtained enough financing to sustain the growth of imports needed to achieve satisfactory domestic development.

Among the industrial countries, the magnitude and rapid shifting of external imbalances on current account have contributed to exceptionally wide movements of exchange rates for major currencies. The complexity of pressures in exchange markets, as well as their variability, has been compounded by sharp differences among the industrial countries with respect to monetary conditions, interest rates, and rates of inflation, with unusually large capital movements having taken place. Changes in exchange rates of magnitudes not witnessed since the currency realignments of the early 1970s have resulted, and the instability of exchange rates, in turn, has added to the difficulties of domestic economic and financial management in some countries. Upward pressures on prices and wages have been intensified, in countries with sharply depreciating currencies, for example, while producers in some of the countries with markedly appreciating currencies have found their international competitive positions impaired.

The prevalence of wide differences in rates of inflation, and in the particular actions of national authorities to deal with inflation, has underlain many of the exchange market pressures of recent years. Not infrequently, monetary policies deemed appropriate for domestic purposes have contributed to conditions in financial markets that were not conducive to short-term external equilibrium and orderly exchange markets. By the same token, monetary policies designed to give substantial weight to external objectives have sometimes threatened to produce unwanted domestic consequences. The authorities of some countries have felt themselves confronted by a dilemma when making decisions on policy objectives and means of implementation.

A particular source of uncertainty and international concern during 1980 and the first half of 1981 was the prevalence of very high rates of interest, in real as well as nominal terms. These interest rates resulted from the interaction of firmer monetary restraint in a number of the industrial countries with the momentum of the ongoing inflation after a long period of generally inadequate fiscal restraint. Although there are sound theoretical and practical reasons to anticipate a substantial decline in nominal interest rates when inflationary expectations subside, the absence of a reliable basis for gauging the timing of any such change in expectations has tended to maintain uncertainty about the prospects for interest rates.

Meanwhile, the present levels of real interest rates are creating a drain on the international purchasing power of most net debtor countries. This problem is especially serious for the non-oil developing countries at a time when their international purchasing power is already under pressure because of deterioration in their terms of trade, weak markets for their exports, and relatively slow growth in flows of concessional assistance to low-income countries. Any decline in nominal interest rates in major financial centers will be rather quickly reflected in the nominal value of external interest payments by developing countries relying heavily on market finance (because of the prevalence of flexible interest rates—linked to London market rates—on a considerable proportion of their outstanding debt). However, any such decline might be short-lived if inflation and inflationary expectations are not curbed. In view of the imperative need for the industrial countries to control inflation, there seems to be a strong prospect that real interest rates will remain well above the abnormally low or negative levels of the 1970s. The likelihood that external borrowing will remain more costly in real terms than it has been for many years underscores the need for prudent adjustment measures in many of the borrowing countries.

Among the encouraging aspects of the world economic situation at mid-1981 were indications that the inflationary surge of 1979 and 1980 has abated. An opportunity is now presented for its reversal. Monetary expansion in the major industrial countries has been considerably restrained, and might be brought under lasting control if policies of restraint are not relaxed prematurely and are accompanied by appropriate fiscal policies. Although the desired results of firmer monetary control can appear only with an uncertain lag, substantial progress has been made toward establishment of a monetary environment conducive to more stable prices.

One of the obstacles to achievement of a less inflationary monetary environment is clearly the prevalence in many countries of government expenditures at levels beyond those which the public is willing to cover through payment of taxes. The resultant fiscal deficits have made governments strong competitors in credit markets, and have thus contributed to the upward pressure on interest rates. Here, too, however, a considerable shift in direction seems to be in process. Most governments in the larger countries are engaged in strenuous efforts to tighten their fiscal policies, and some of them are working to limit or reduce the role of government in the economy. These efforts do not appear to have been made in vain. With allowance for the more or less automatic effects of the current international recession on both revenues and expenditures, fiscal positions have been appreciably less expansionary in this recession, as noted in the next section, than they were in the 1974–75 recession.

An indication that the more restrained financial policies of the past two years have not been ineffectual is the flattening or deceleration of price increases in a number of countries since the first half of 1980. This development, which has recently been offset in a number of countries by the impact of currency depreciation on import prices, is in part a reflection of the relative stabilization of oil prices after two years of large increases. However, the incipient tapering of inflation rates also reflects a considerable degree of success, in most of the industrial countries, in containing secondary repercussions of the 1978–80 upsurge in energy costs. In this respect, adjustment to the latest round of oil price increases has been much better managed than was the adjustment of the mid-1970s. In particular, the rise in wages has been distinctly more moderate in relation to current increases in consumer prices during the period 1978–81 than it was following the oil price increases of 1973–74.

A related development of hopeful significance is that the former close linkage between economic growth and oil consumption appears to have been severed during the past few years. After a decline of 3 per cent from 1979, total energy consumption in the industrial countries during 1980 was approximately the same as in 1973 despite a 19 per cent growth of real gross national product (GNP) over the period. In addition, more rapid substitution of non-oil sources for oil has emerged in recent years. Consumption of non-oil energy in the industrial countries is estimated to have risen by 7 per cent from 1978 to 1980, compared with an 8 per cent decline in the consumption of oil. These developments both reflect and support the policy that has now been adopted in most industrial countries of allowing a full pass-through of oil price increases so as to encourage conservation of energy and substitution of alternative energy sources for oil.

Another reassuring aspect of developments over the past two years is the smooth fashion in which the recycling of the large cash surpluses accumulated by the oil exporting countries has been carried out, mainly through private market channels. Many borrowing countries, despite the rise in real costs of credit, have gained valuable time for adaptation and adjustment through the continuation on a large scale of international lending by private financial institutions. Private facilities have been supplemented by expanded activities of international agencies, including the Fund; and the Fund, in particular, now has in place and in prospect arrangements that permit further enlargement of its role. Member countries making sufficiently strong efforts to adjust their external payments imbalances may be permitted to draw on Fund credit up to 450 per cent of their newly increased quotas over a three-year period (subject to a cumulative ceiling of 600 per cent of quota), not counting any drawings under the low-conditionality facilities for compensatory and buffer stock financing. The new policies under which these expanded resources have become available are detailed in Chapter 3.

A vital feature of this expansion of resources available through the Fund is the linkage of substantial financial support with strong programs of economic adjustment in the member countries utilizing it. In line with the Fund's conviction that balance of payments financing and adjustment of external deficits to levels that can be managed on a sustainable basis must go hand in hand, some three fourths of the Fund's large new lending commitments currently involve high conditionality—that is, commitments by the members concerned to rigorous adjustment policies. At the end of June 1981, upper credit tranche and extended arrangements were in effect with 39 members, about four times as many as (on average) during the five years preceding 1979, and they involved large sums. During 1980, new loan commitments and other use of Fund resources reached a total of SDR 9.5 billion, some two to three times the level of previous years; and the corresponding total for the first half of 1981 alone was even larger—nearly SDR 10 billion. The programs underlying these figures offer solid grounds for hope that orderly adjustment toward viable external positions for the longer run will be widely carried out.

Domestic Activity and Policies

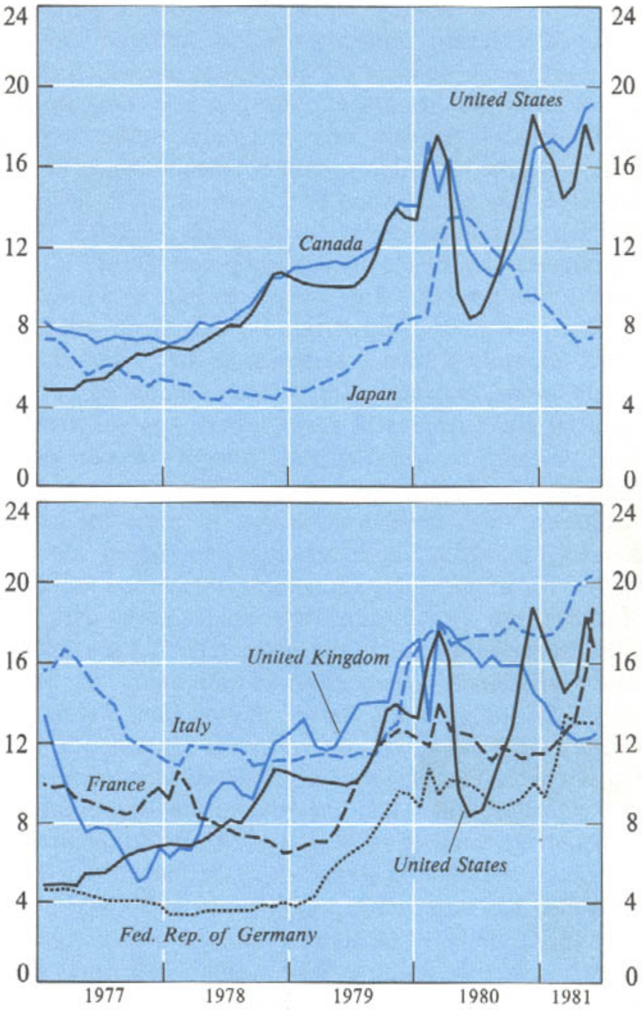
Industrial Countries

Stance of policies.—Financial policies throughout the industrial world during 1980 and the first half of 1981 were directed toward controlling inflation. This thrust had already become dominant in 1979. Thus, the communiqué issued by the Interim Committee after its meeting in Belgrade on October 1, 1979 had emphasized that "the main task of economic policy was to contain inflationary pressures and to reduce inflationary expectations," and also had noted the Committee's "satisfaction that reduction of inflation was being given priority in the economic policies of industrial countries." Such views were stated by the Interim Committee at each of its two meetings during 1980 and again at its meeting in Libreville in late May 1981, when the Committee "reaffirmed its conviction that the fight against inflation must continue to receive the highest priority."

As in 1979, the brunt of the anti-inflation thrust of policies in 1980 and the first half of 1981 was borne by monetary policy. This emphasis was most apparent with respect to interest rates, which reached record levels in most industrial countries, first in the spring of 1980 and again a year later (Chart 1). While the rise in interest rates had much to do with financial developments in the United States, it also reflected the rise in inflationary

Chart 1. Major Industrial Countries: Short-Term Interest Rates, 1977–June 1981 [1]

(In per cent per annum)



[1] The rates shown are monthly averages of daily rates on money market instruments of about 90 days' maturity except for Japan, for which the discount rate on two-month (private) bills is used.

expectations and the tightening of monetary policy in other countries. Long-term government bond yields were significantly higher in 1980 than in 1979 or 1978 in each of the major industrial countries. The changes from 1978 to 1980 ranged from 1¼ percentage points in the United Kingdom (where nominal rates had already become quite high) to 4 percentage points in France, and averaged 3 percentage points. The increases in three-month money market interest rates, which are more reflective of short-term monetary actions, were considerably larger. The increases from 1978 to 1980 ranged from 4¼ percentage points to 6½ percentage points, and averaged 5¼ percentage points. The yield curve has become inverted, much to the detriment of the bond market and of long-term financing arrangements generally.

Increases in interest rates of this magnitude exceeded by a considerable margin the concurrent rise in inflation, so that they reflected changes in real as well as nominal terms. Any estimate of the extent of the rise in real terms is of course dependent upon the statistical gauge of expected inflation chosen to adjust nominal interest rates. Although this is a difficult matter on which there is not definitive agreement, changes over time in the GNP deflator provide one acceptable indication of changes in the "inflation-premium" component of interest rates. The acceleration in the rise of GNP deflators in the major industrial countries from 1978 to 1980 amounted to about 1¾ percentage points, from 7¼ per cent to 8½ per cent. This was about half as a large as the increase in long-term bond yields from 1978 to 1980, and only a third as large as the increase in three-month money market rates. Clearly, therefore, a key financial development of recent years was the rise in real interest rates, which moved decisively into the positive range for the first time since the 1960s.

Interest rates continued to rise in most industrial countries in 1981. The exceptions were Japan and the United Kingdom, where short-term rates in the first half of 1981 were 2 to 3 percentage points lower than the 1980 averages. In part, this easing reflected a slackening of inflationary expectations in both countries. Elsewhere, despite generally stable inflation rates (as measured by GNP deflators), interest rates continued to rise sharply in the first half of 1981. Short-term interest rates in the United States and Canada were 4–5 percentage points above those of 1980 as a whole, while such rates in France, the Federal Republic of Germany, and Italy were 1 to 2½ percentage points above 1980 levels. By May 1981, the levels of nominal interest rates in all five countries were well above their spring 1980 peaks and real interest rates had also continued their rapid advance.

The restrictiveness of monetary policy was also evident in a general slowing of the rates of monetary expansion. This was most apparent with respect to narrow money (generally, M_1), which slowed dramatically because of the very high opportunity cost of holding money. In most of the larger industrial countries, the growth of M_1 during the course of 1980 was significantly below that of 1978 or 1979. (See Chart 2 and Table 14.) The most marked reductions over the two years from 1978 to 1980 occurred in the Federal Republic of Germany, Japan, the United Kingdom, and Italy, where decelerations ranging from 10 to 15½ percentage points were achieved. In part because of the strength of nominal demand, the reduction achieved in the United States was much more modest.

The inflation-driven strength of nominal demand also helps account for the somewhat mixed record with respect to the expansion of broad money among the larger industrial countries. As shown in Chart 2, four of these countries—the Federal Republic of Germany, Italy, Japan, and France—achieved substantial reductions in the rate of M_2 expansion from 1978 to 1980. In Canada, the deceleration started later, but was substantial from 1979 to 1980. In the United States and the United Kingdom, however, the expansion of broad money tended to rise from end-1978 to end-1980.

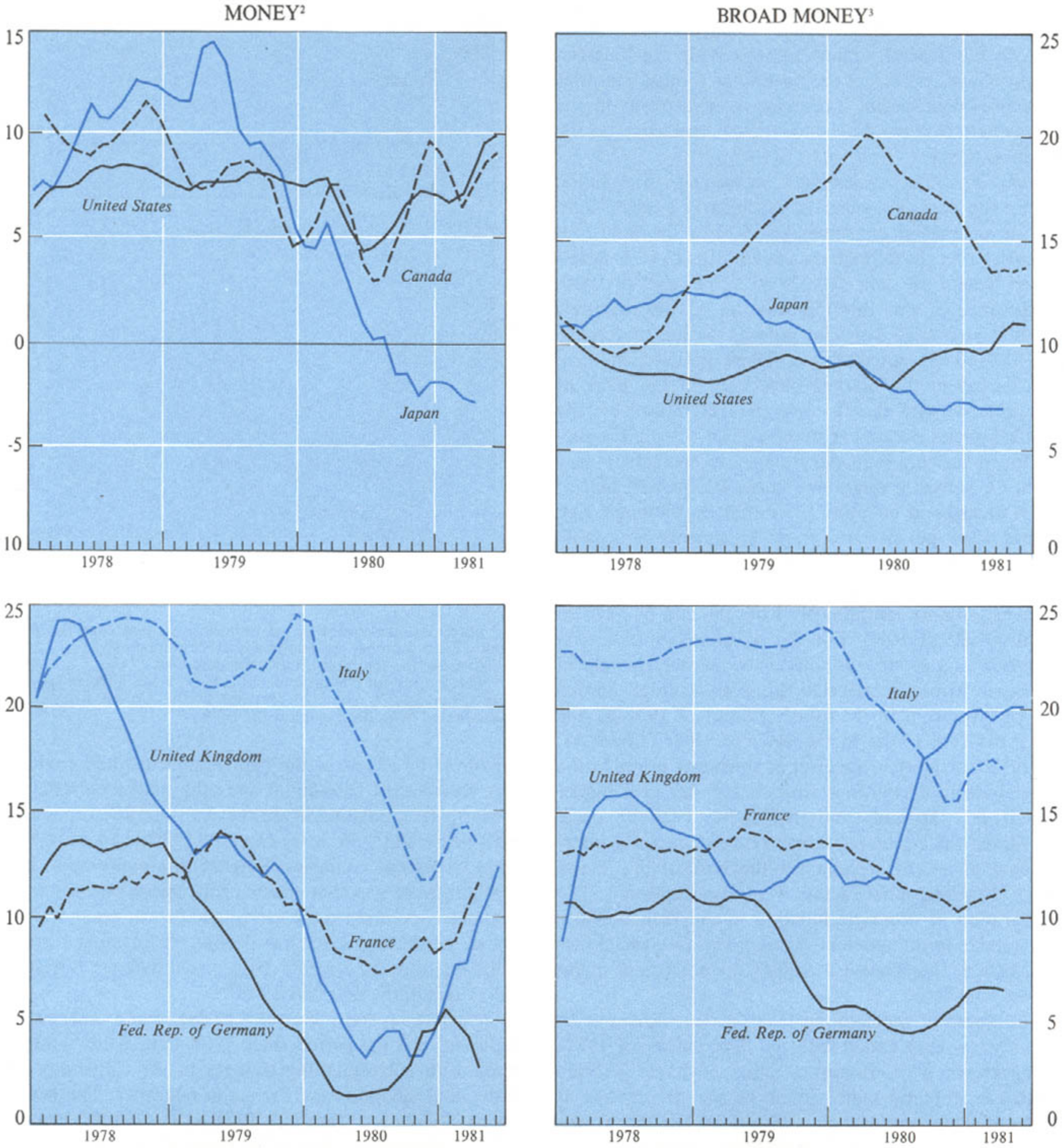
Recent fiscal developments have provided a lesser degree of restraint than the dramatic changes that have occurred in the monetary sphere. Actual fiscal balances in per cent of GNP changed only fractionally in each of the major industrial countries other than the United States from 1979 to 1980, and on average not at all. Although these results occurred during a cyclical slowdown that tended, in itself, to reduce the growth of revenues and raise various types of government payments, and thus to increase deficits, the fiscal restraint involved in offsetting this tendency was relatively moderate. In the United States, the drift toward progressively lower deficits initiated in 1976 was reversed in 1980, when the federal deficit increased by almost 1½ per cent of GNP, in part because of the workings of the automatic stabilizers in response to the slowing of the economy. However, on present fiscal plans, this increase in the deficit would be reversed in 1981, so that the 1981 deficit would amount to the same proportion of GNP as that of 1979 (1.2 per cent).

Reduction of the public sector deficit—more pronounced than in 1980—pervades the budgetary plans of most industrial countries for the calendar year 1981. With allowance for the state of demand and capacity utilization, central government budgets in the ten countries covered in a staff survey are expected to have net contractionary effects ranging from the equivalent of ½ per cent to 2½ per cent of GNP, and averaging 1 per cent.

The restrictive shift in fiscal policy stems from two factors. One is the sheer magnitude of existing fiscal deficits, which remain large by historical standards in virtually all industrial countries. In most of these countries, budget deficits in 1980 were still larger in relation to GNP than the recession-swollen deficits of 1976. Another factor is the widespread disillusionment with the results, in terms of growth and employment, of the large fiscal imbalances of the second half of the 1970s. This, together with increased concern about the financial implications of public sector deficits, has focused the overall thrust of fiscal policy mainly on reductions of public sector deficits over the medium term.

In his concluding remarks to the Board of Governors at the Annual Meeting in 1979, the Managing Director noted that the statements by Governors during the meeting had shown agreement that "inflation must be tackled with greater determination and accorded higher priority among the objectives of national economic policy," and that "inflation had to be dealt with not only through the control of demand—by means of a decisive use of fiscal and monetary policies—but also through greater emphasis on supply policies directed toward longer-term problems of a structural nature." Since then, the relevance and importance of supply policies have been em-

Chart 2. Major Industrial Countries: Monetary Aggregates, 1978–June 1981
(Percentage changes)[1]



[1] Average of three months ended in the month indicated over corresponding three months a year earlier.
[2] In general, M_1.
[3] In general, M_2 or nearest equivalent.

phasized increasingly by governments, as well as by the Fund in the programs that it supports. Among the measures adopted or proposed by various governments in the industrial countries are reductions of marginal tax rates to increase the net returns available to individuals and business enterprises for saving and investment; substantially more generous allowances than those heretofore available for depreciation of capital assets; and measures designed to encourage reliance on market forces. Further, in the general context of improving the long-run supply characteristics of their economies, most countries have provided special incentives to investment in the energy field that would reduce their dependence on the world oil market.

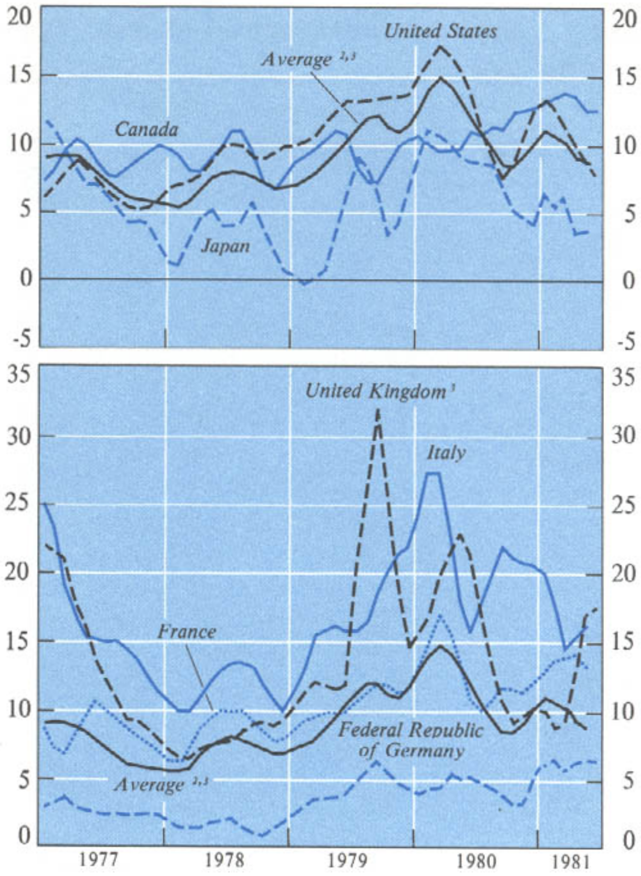
Inflation.—The widespread worsening of inflation during the past few years is particularly evident from the movements of consumer prices. For the industrial countries as a group, increases in consumer prices accelerated from 7 per cent in 1978 to 12 per cent in 1980. In the face of this development, all of the countries adopted restrictive financial policies during the course of 1979–80, as noted above. These policies, in turn, contributed to the marked slowdown in the pace of economic activity that is now evident. However, the tighter policies do appear to have been reasonably successful in limiting secondary effects of the inflationary spiral on domestic wages and costs. By the first half of 1981, changes in cost and price indices, although high in historical perspective, were in general noticeably lower than the peak rates of 1980.

As measured by consumer prices, the rate of inflation worsened almost continuously from the end of 1978 to the first half of 1980. For the seven major industrial countries as a group, the quarter-to-quarter changes in consumer prices accelerated from an average annual rate of 7 per cent in the fourth quarter of 1978 to one of 15 per cent in the first quarter of 1980 (Chart 3). By the latter quarter, the level of consumer prices in the larger industrial countries was some 5 per cent higher than if inflation had continued at the 1976–78 pace. The direct effects of the concurrent increases in international oil prices account for the bulk of this increment. However, other factors were also important. The acceleration of domestic inflation in the United States was notable in that context, as were various special factors, such as the changes in value-added tax rates in the United Kingdom.

The phase of accelerating inflation (as measured by consumer prices) ended with the first quarter of 1980. A significant deceleration of price advances became evident in all of the major countries after the middle of the year. This deceleration was interrupted during the next two quarters, in the United States principally by a rise in food prices and the elimination of controls on domestic oil prices, and in the continental European

Chart 3. Major Industrial Countries: Consumer Prices, 1977–June 1981

(Percentage changes)[1]



[1] Three months ended in the months indicated over the preceding three months; seasonally adjusted, annual rates.
[2] Average for the major industrial countries.
[3] The figures for the second half of 1979 are affected by the approximately 3¾ per cent increase in the United Kingdom's value-added tax, effective June 18, 1979.

countries by effects of the depreciation of their currencies vis-à-vis the U.S. dollar and other major currencies. Nevertheless, inflation in the first half of 1981 remained well below the peak rates of early 1980 in most of the large industrial countries. Further, the expectation toward midyear was that effects of the special factors that had been operative in the fourth and first quarters would wane, permitting a further decline in consumer price inflation from the roughly 10 per cent average rate still prevailing in the first half of 1981.

The flare-up and subsequent easing of consumer price inflation over the period since 1978 have gone hand in hand with corresponding changes in the dispersion of individual inflation rates for major countries. The worsening of inflation from late 1978 to early 1980 engendered a marked increase in the range of such rates, from 9 percentage points in 1978 to 22 points in the first quarter of 1980 (in terms of annual rates). As in the past, this increased dispersion resulted from relatively large changes in rates that were already high. However, the subsidence of inflation evident since the beginning of 1980 has been accompanied by a narrowing of the range, which was reduced to 12 percentage points by the first quarter of 1981. (See Chart 3.)

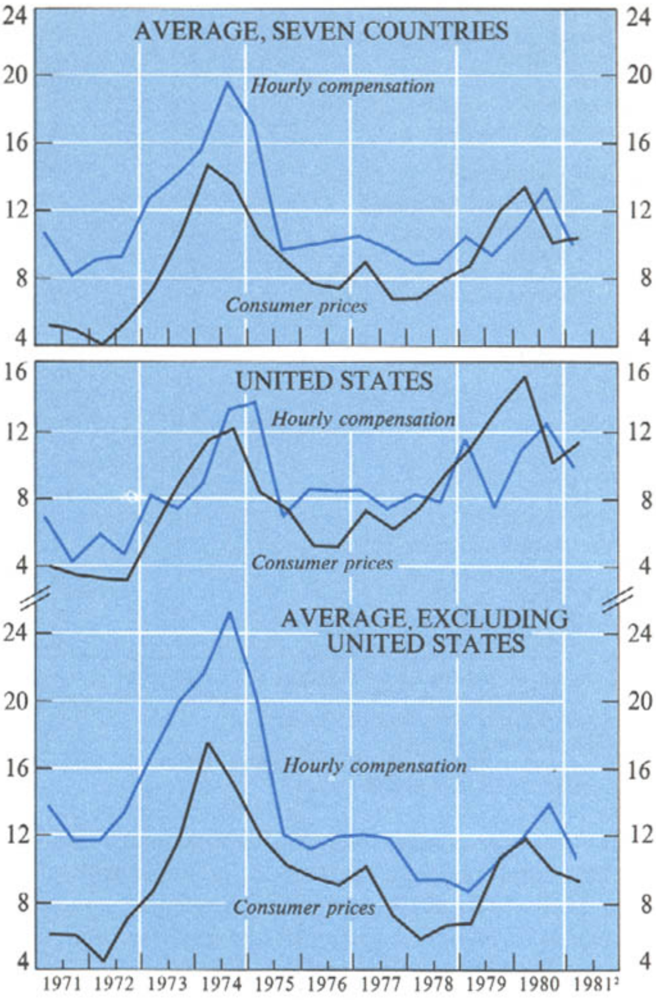
Consumer prices are typically the focal point of popular concern about inflation. However, the inclusion of imported goods and services in the commodity coverage of consumer price indices makes these misleading indicators of domestic inflationary forces when the terms of trade change substantially, as they have done over the past several years. It is important, therefore, to look at measures of inflation that are more directly reflective of developments within the industrial countries.

One such measure, the rate of increase in hourly compensation of employees in the manufacturing sector, points up the generally moderate tone of wage claims (relative to consumer price movements) in the major industrial countries (Chart 4). For the group as a whole, rates of increase in hourly compensation began to accelerate in the first half of 1979, but the acceleration remained significantly less than that of consumer price increases until the middle of 1980, so that the rise in real wages was moderated. Indeed, average real wages in the industrial countries declined for the first time in at least 20 years in the second half of 1979 and fell further in the first half of 1980. Some recovery of this loss in real income of workers became evident during the middle quarters of 1980, when the rise in wage claims gained momentum despite a substantial slowing in the pace of consumer price inflation; but this recovery did not make up for the preceding losses, and it was short-lived. By the fourth quarter of 1980, nominal wage increases were moderating sharply, and they dropped in the early part of 1981 to rates roughly comparable with those for consumer prices. Thus, while average wages did respond (with a lag) to the acceleration of consumer price inflation, the cumulative response was muted and involved a persistent shortfall in real wage gains. For the entire group of industrial countries, the net change in real wages over the nine quarters ended with the first quarter of 1981 was slightly negative. This result contrasted sharply with increases averaging 3½ per cent per annum in the period 1973–75—also a period of deterioration in the external terms of trade—and 2¼ per cent in 1976–78.

The recent general pattern of relatively moderate wage responses to the acceleration of inflation was evident in nearly all of the industrial countries. There was, however, a difference of degree between the experience of the United States and that of the other countries (Chart 4). The bulk of the outright losses of real wages occurred in the United States, where past responses of hourly compensation to increases in consumer prices have typically been long delayed. Nevertheless, it is significant that advances in real wages in the other industrial countries did not accelerate, on average, from the first half of 1979 to the first half of 1980. In the light of the historical record shown in Chart 4, this result attests to the moderation of wage increases in most of those countries, as well as in the United States.

Chart 4. Major Industrial Countries: Hourly Compensation in Manufacturing and Consumer Prices, 1971–First Half 1981

(Percentage changes)[1]



[1] Over preceding half year; seasonally adjusted, annual rates.
[2] Partially estimated.

The most comprehensive indicator of "internal" inflationary pressures, the GNP deflator, also suggests that the acceleration of domestic inflation has been reasonably well contained in most industrial countries. For the entire group, the average rate of increase in the deflator rose from 7½ per cent in the period 1976–78 to 7¾ per cent in 1979 and 9 per cent in 1980. (See Table 1.) Such an increase in domestic inflation, to rates higher than those recorded in any previous years except 1974

Table 1. Industrial Countries: Changes in Output and Prices, 1962–80 [1]

(In per cent)

	Average 1962-72 [2]	Change from Preceding Year							
		1973	1974	1975	1976	1977	1978	1979	1980
Real GNP									
Canada	5.5	7.5	3.6	1.2	5.5	2.1	3.7	3.0	—
United States	4.0	5.8	−0.6	−1.1	5.4	5.5	4.8	3.2	−0.2
Japan	10.4	10.0	−0.3	1.4	6.5	5.3	5.1	5.6	4.2
France [3]	5.5	5.4	3.2	0.2	5.2	3.1	3.7	3.5	1.2
Germany, Fed. Rep. of	4.5	4.9	0.5	−1.8	5.2	2.8	3.6	4.5	1.8
Italy [3]	4.8	6.9	4.2	−3.5	5.9	1.9	2.7	4.9	4.0
United Kingdom [3]	2.9	7.1	−2.0	−1.1	2.8	1.6	3.9	1.7	−1.7
Other industrial countries [4]	4.9	5.4	3.5	−0.2	3.7	1.6	2.2	2.8	1.8
All industrial countries	4.8	6.3	0.7	−0.6	5.2	3.9	4.0	3.7	1.2
Of which,									
Seven larger countries above	4.8	6.4	0.3	−0.7	5.4	4.3	4.4	3.8	1.2
European countries	4.5	5.8	2.0	−1.1	4.6	2.2	3.1	3.5	1.4
GNP deflator									
Canada	3.6	9.1	15.3	10.8	9.5	7.1	6.3	10.4	10.6
United States	3.6	5.7	8.7	9.3	5.2	5.8	7.3	8.5	9.0
Japan	5.0	10.0	20.0	8.6	4.8	5.7	4.6	2.5	3.1
France [3]	4.8	7.8	11.1	13.4	9.9	9.0	9.5	10.1	11.6
Germany, Fed. Rep. of	4.0	6.0	6.8	6.7	3.2	3.8	3.9	3.9	5.0
Italy [3]	5.1	11.7	18.3	17.4	18.0	19.1	13.9	15.7	20.3
United Kingdom [3]	5.2	7.0	15.0	26.9	14.6	13.9	10.6	14.8	18.8
Other industrial countries [4]	5.6	9.4	12.3	13.0	10.5	10.3	8.9	7.6	9.0
All industrial countries	4.1	7.3	11.6	11.2	7.4	7.6	7.5	7.8	9.0
Of which,									
Seven larger countries above	4.0	7.0	11.5	10.9	6.9	7.1	7.2	7.9	9.0
European countries	5.0	8.2	11.6	13.7	9.7	9.8	8.5	8.5	10.7

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

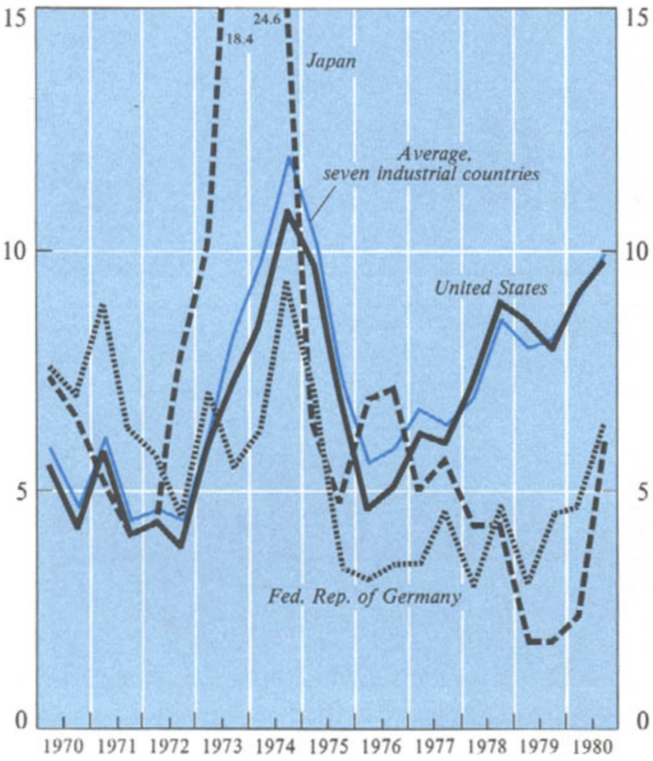
and 1975, represented a serious setback in the context of the efforts made by the authorities to control inflation. In the perspective of prior experience, however, the extent to which the authorities have so far been able to contain the secondary repercussions of the rise in consumer prices can be viewed with some gratification. The recent record in this respect is considerably more satisfactory than that of the period 1972–74, when the acceleration of the rise in GNP deflators (about 7 percentage points) was not much less than that for consumer prices (9 percentage points). The cumulative acceleration shown by the GNP deflators from 1978 to 1980, in contrast, amounted to only 1¾ percentage points, compared with more than 4½ percentage points for consumer prices. Clearly, the feedback of consumer price changes onto domestic wages and costs has been much better contained over the past two years than it was in the mid-1970s. Continued vigilance on this front is nevertheless essential to prevent renewed pressures from developing, as they did in a number of European countries in 1975 and 1976.

The acceleration of domestic inflation since 1978 has been pervasive. In every industrial country except Spain and New Zealand, the rise in the GNP deflator was larger in 1980 than in 1979. As noted above, the sharpest increases occurred in countries where inflation was already high in 1979—notably, in the United Kingdom and Italy, where the 1980 increases amounted to 19 per cent and 20 per cent, respectively. In each case, that figure was some 4 percentage points higher than in 1979. In the United Kingdom, however, the increase was due partly to the previous year's shift to greater reliance on value-added taxes. Moreover, in contrast to developments in other industrial countries, a marked deceleration of domestic inflation became apparent in the United Kingdom during the course of 1980. Elsewhere in the industrial group, the rise in domestic inflation from 1979 to 1980 generally ranged from ½ per cent to 1½ per cent. Japan and the Federal Republic of Germany remained low-inflation countries (their GNP deflators rising in 1980 by 3 per cent and 5 per cent, respectively), while the deflators for the United States, France, and Canada rose at rates (9 to 11½ per cent) not far from the average. The inflation rate as measured by the GNP deflator changed the least from 1979 to 1980 in Canada, but in that country remained at a level (10½ per cent) that compared unfavorably with the Canadian price performance of 1977 and 1978.

Viewed from a longer perspective, the pattern of relative inflation rates has shifted significantly since the early 1970s. The largest industrial country, the United States, has shifted from having an inflation rate well below the industrial country average in the early years of the past decade to having one recently near or a little above the average. In terms of GNP deflators, for example, U.S. price increases were consistently below the average for the other industrial countries by some 2 percentage points throughout the first half of the 1970s. However, the margin narrowed after the middle of the decade and was reversed for a time during 1978 and 1979. Both the Federal Republic of Germany and Japan shifted in the opposite direction, from average or slightly above average rates of inflation at the beginning of the decade to outstandingly low rates in recent years. (See Chart 5.) Nevertheless, the "center of gravity" of global price developments has been raised to a degree that could hinder the reduction of global inflation if the U.S. inflation rate is not lowered in the years ahead. Moreover, avoidance of excessive variability of exchange rates for major currencies is also likely to depend partly on a narrowing of the dispersion of inflation rates, especially among the largest industrial countries.

Chart 5. Major Industrial Countries: GNP Deflators, 1970–80

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



Output, demand, and employment.—In 1980, after four years of growth at about 4 per cent per annum, real GNP of the industrial countries rose by only 1¼ per cent. (See Table 1.) This marked slowdown reflected a variety of factors, including the sharp cyclical dip in aggregate demand in the United States, the widespread application of restrictive financial policies to contain the flare-up of inflation after 1978, and the deflationary consequences of the rise in oil import payments during 1979 and 1980. These pervasive influences on real demand and output in the industrial world persisted into 1981. At midyear, the expectation with respect to real GNP in the industrial countries was that the average rate of expansion for the group as a whole from 1980 to 1981 would remain in the 1 to 2 per cent range.

A more precise record of the course of developments over the past two years is provided by the seasonally adjusted quarterly data available for the major industrial countries. These data show that real growth of aggregate GNP in those seven countries was relatively well sustained through the first quarter of 1980, but turned sharply negative in the second. (See Chart 6.) Although it then returned to the positive range over the following three quarters, vigor was not restored. Because of the depth of the decline in the second quarter and the modest average pace of the subsequent recovery, the level of output in the seven major industrial countries toward the end of 1980 was no higher than it had been a year earlier.

The decline in real GNP in the second quarter of 1980 was large, averaging 6½ per cent at annual rates, and affected all of the major countries except Japan. The largest declines occurred in the United Kingdom, the United States, and the Federal Republic of Germany, where they amounted (at annual rates) to 12 per cent, 10 per cent, and 8 per cent, respectively. For Canada, France, and Italy, more moderate declines—all in the range of 1½ to 4½ per cent—were registered.

Both before and after the second quarter of 1980, the path of cyclical developments in the United States and Canada differed considerably from that followed by the major European economies. Growth of output in North America, which had been quite weak over the year from early 1979 to early 1980, strengthened appreciably after the sharp dip in the second quarter of 1980. Over the succeeding three quarters, through the first quarter of 1981, it averaged about 4½ to 5 per cent, in terms of annual rates, in both the United States and Canada. In Europe, the changes of pace over the same two-year period were just the reverse. Growth was strong through the first quarter of 1980, but very sluggish thereafter. Each of the major European industrial countries experienced at least one further quarterly decline in real GNP after the second quarter of 1980, and the aggregate output of these four countries in the first quarter of 1981

Chart 6. Major Industrial Countries: Growth of Real GNP/GDP, 1977–First Quarter 1981

(In per cent)

was no larger than in the three months before mid-1980. Economic activity was particularly depressed in the United Kingdom, where real gross domestic product (the "output" estimate) in early 1981 was 5½ per cent below the level of the corresponding period a year earlier. In Japan, on the other hand, partly because of strong growth of exports, national output continued to increase, at a rate averaging more than 3½ per cent from the second quarter of 1980 to the first quarter of 1981.

Preliminary indicators suggest that some convergence of cyclical paths occurred in the second quarter of 1981. At midyear, a marked slowdown in the United States was apparent, while evidence was accumulating that the recession in Europe might be passing its trough. However, the emerging rates of expansion were expected to remain low for some time.

The impact of recessionary forces on the economies of the industrial countries during 1979 and 1980 was felt first and most strongly on aggregate domestic demand, rather than on total output. Growth of nominal demand in the major industrial countries was reduced from 12½ per cent in 1979 to 10½ per cent in 1980, mainly through widespread application of policies of financial restraint, while inflation (as measured by the domestic demand deflator) accelerated from 8 per cent in 1979 to 10 per cent in 1980. The result was a sharp curtailment of growth of domestic demand in real terms, from 4 per cent in 1979 to virtually no increase in 1980. The corresponding slowdown in real GNP growth was much less pronounced—from 3¾ per cent in 1979 to 1¼ per cent in 1980—chiefly because of the impact of increased exports to the oil exporting countries on the real foreign balances of industrial countries.

All of the main components of domestic demand in the industrial countries were affected by the slowdown. The growth of consumer expenditures in real terms slowed more or less in step with that of real disposable income. Real investment outlays rose less rapidly in most industrial countries and turned downward in a few of them, including the United States and the United Kingdom. The relationship of changes in consumer spending to those in investment spending, however, differed considerably from that typical of previous recessions, and especially from corresponding developments in 1975. In that year, as shown in the accompanying tabulation, real consumption was markedly more buoyant than total output, rising by 2½ per cent while real GNP was declining by ¾ of 1 per cent. From 1979 to 1980, on the other hand, both consumption and GNP increased in real terms at similar rates.

An even more striking difference was that the volume of gross nonresidential fixed investment in the major industrial countries expanded by about 1½ per cent in 1980, in contrast to a decline of 8 per cent in 1975.

Major Industrial Countries: Changes in Real Demand and Output [1]

(In per cent)

	1975	1980
GNP	−0.7	1.2
Consumption	2.5	1.2
Gross nonresidential fixed investment	−8.1	1.6

[1] Averages of percentage changes for individual countries, weighted by the average U.S. dollar value of their respective GNPs over the previous three years.

Even after allowance for the difference in depth of the two recessions, the degree to which business fixed investment was sustained in the past year is noteworthy. Moreover, the 1980 pattern of relatively buoyant investment and subdued consumption appears to be persisting in 1981.

Although the reasons for this departure from earlier cyclical patterns are not entirely clear, a few pertinent factors can be cited. With respect to consumption, the shift from a less than proportional to a fully proportional response in the cyclical downswing appears to have stemmed mainly from differences in the role of fiscal policy. In previous recessions, various fiscal supports were widely provided to cushion declines in real disposable income of households, but recent fiscal policies have been essentially neutral on that score. Increases in government transfer payments have been approximately offset by increases in taxes, in sharp contrast to the experience of 1975, when tax cuts and increases in transfers together accounted for almost all of a 2¾ per cent rise in real disposable income.

Fiscal policy has begun to play a supportive role in the recent relative buoyancy of nonresidential fixed investment. However, the impact of most of the fiscal incentives for investment that are being offered or proposed by governments of a number of industrial countries remains to be felt in 1981 and later years. In general, as noted in the previous section, these plans to stimulate investment are being put forward in the context of "supply" policies aimed at improving productivity.

Another major factor tending to boost capital spending in most industrial countries is the sharply increased relative price of energy now prevailing. Investment demand in the energy field itself has been stimulated by efforts to reduce dependence on imported oil, and stimulus for a broader range of capital spending is coming from efforts to reduce the energy intensity of production.

Because of the weakening of growth in total economic activity, increases in employment slackened and unemployment rates rose during both 1980 and the first part of 1981. For the industrial countries as a group, the rise in employment slowed from 1¾ per cent in 1979 to ½ per cent in 1980—a rate that carried over into the early part of 1981. This softening of the demand for labor was less than commensurate with the corresponding shortfall in output. Consequently, productivity growth in the industrial countries dropped from 2 per cent in 1979 to less than 1 per cent in 1980.

Cumulatively, the increase in real GNP per employee from 1973 to 1980 was equivalent to 1½ per cent per annum, compared with 3¾ per cent over the previous decade. However, the weakness of productivity gains served to hold down the rise in unemployment. Even so, the growth of employment fell well short of what would have been necessary to absorb normal increases in the labor force. Accordingly, unemployment rose to 5¾ per cent of the combined labor force of the industrial countries in 1980, and to 6½ per cent in the first half of 1981, compared with 5 per cent in 1979 and 5½ per cent in 1975. Mainly because of the differing national developments with respect to growth of output, the rise in unemployment has not been uniform. Among the larger industrial countries, the most notable increases were those in the United States, the Federal Republic of Germany, France, and the United Kingdom.

Oil Exporting Countries

The few years preceding the large oil price increases of 1979 and 1980 were a period of generally cautious and restrained demand management policies in the oil exporting countries. These policies, stemming mainly from concern on the part of the authorities about inflation and other undesirable (including noneconomic) effects of unduly rapid development, continued into 1979, a year of generally moderate growth in the non-oil sectors of the 12 countries in the group. Although rapid advances were maintained in a few countries with particularly strong external positions (notably Saudi Arabia and Iraq), the severe impairment of economic activity in Iran (which has a large weight in statistical composites for the group) held the average rate of growth in real non-oil gross domestic product (GDP) for the group as a whole to about 2 per cent in 1979. (See Table 2.)

Toward the end of 1979, a general tendency to relax financial policies became apparent in the oil exporting

Table 2. Developing Countries: Changes in Output, 1967–80 [1]

(In per cent)

	Average 1967–72[2]	Change from Preceding Year							
		1973	1974	1975	1976	1977	1978	1979	1980
Oil exporting countries[3]	9.0	10.7	8.0	−0.3	12.3	5.9	1.9	2.3	−3.0
Oil sector	...	13.2	−1.0	−11.1	13.5	1.8	−4.2	2.8	−12.5
Non-oil sectors	...	9.7	12.3	12.4	11.3	8.9	6.0	2.1	3.9
Non-oil developing countries[3]	...	...	...	...	...	5.3	6.5	5.2	4.8
Excluding China	5.8	6.3	5.6	4.0	5.4	4.8	5.5	4.9	4.4
By area									
Africa	5.0	3.6	6.9	1.9	4.2	1.4	2.2	3.2	4.9
Asia	...	...	...	...	...	7.0	9.7	4.7	4.9
Excluding China	4.6	5.4	4.0	6.1	6.4	6.4	8.3	3.3	3.5
Europe	6.1	5.6	4.1	4.3	7.1	5.2	5.3	4.4	2.0
Middle East	7.4	5.1	3.2	4.8	3.7	5.8	8.0	6.3	5.1
Western Hemisphere	7.2	8.3	7.2	2.8	4.6	4.4	4.6	6.5	5.8
By analytical group									
Net oil exporters[4]	6.0	7.5	6.1	5.3	4.8	3.2	5.8	7.1	6.7
Net oil importers	...	...	...	...	...	5.6	6.6	4.9	4.2
Excluding China	5.8	6.0	5.5	3.7	5.5	5.1	5.5	4.5	4.0
Major exporters of manufactures[5]	8.1	9.6	6.6	3.4	6.1	5.1	5.2	6.5	4.7
Low-income countries[6]	...	...	...	...	...	6.3	8.8	3.5	5.0
Excluding China	3.4	2.9	3.2	5.7	3.4	4.7	6.0	0.2	3.1
Other net oil importers	5.5	4.1	6.0	2.6	6.4	5.4	5.6	4.1	3.4

[1] Data in this table cover all Fund members except those listed in Table 1, together with a few territories for which balance of payments statistics are readily available. The figures are averages of percentage changes in real GDP for individual countries weighted by the average U.S. dollar value of GDPs over the previous three years.

[2] Compound annual rates of change.

[3] These groups, and each of the regional subgroups of non-oil developing countries, conform to the classification now used in *International Financial Statistics*. The main group of "oil exporting countries" comprises only countries meeting both of the following criteria (applied at present to 1977–79 averages): that oil exports (net of any imports of crude oil) account for at least two thirds of the country's total exports; and that such net exports are at least 100 million barrels a year (roughly equivalent to 1 per cent of annual world exports of oil).

[4] Comprise Bahrain, Bolivia, Congo, Ecuador, Egypt, Gabon, Malaysia, Mexico, Peru, the Syrian Arab Republic, Trinidad and Tobago, and Tunisia. Although these countries export more oil than they import, none of them satisfies both of the criteria mentioned in footnote 3.

[5] Include Argentina, Brazil, Greece, Hong Kong, Israel, Korea, Portugal, Singapore, South Africa, and Yugoslavia.

[6] Comprise 40 countries whose per capita GDP, as estimated by the World Bank, did not exceed the equivalent of US$350 in 1978.

countries. This tendency, which was responsive to a revival of popular expectations engendered by the renewed upsurge in oil export earnings, was manifested chiefly in an increase of government spending. With that impetus, the average rate of growth in real non-oil GDP rose to about 4 per cent in 1980, notwithstanding the persistence of slack economic activity in Iran and the effects, both there and in Iraq, of the conflict between those two countries in the latter part of the year. As in the immediately preceding years, the highest growth rate among the oil exporting countries was that of Saudi Arabia.

The step-up of economic activity in the non-oil sectors in 1980 was accompanied by a noticeable upturn in rates of inflation. Consumer prices in the oil exporting countries are estimated to have risen, on average, by 13½ per cent in 1980, compared with about 11 per cent in 1979. This acceleration reflected particularly large increases for Iran and for Venezuela, in the latter country partly in response to a policy of releasing previously suppressed inflationary pressures through cutbacks of price controls and subsidies.

The shift by the oil exporting countries toward more expansionary policies, although widespread, has remained much more gradual than the corresponding shift following the 1973–74 oil price increases. Avoidance of the inflationary pressures experienced in that earlier period has been given a high priority by the authorities of most countries in the group. Some of them, recognizing the risks of misallocation of resources, have been reappraising the development experience of the past several years and deferring investment decisions while preparing new development plans.

In the countries with particularly strong external positions and generally small populations, progress in developing an adequate physical and social infrastructure has paved the way for a shift in investment priorities toward more directly productive ventures. Nevertheless, in part because concern about the social and economic implications of further additions to the expatriate labor force has led to policies aimed at moderating such additions, it is likely that medium-term economic growth in this group of countries will fall short of the high rates of the mid-1970s.

In the oil exporting countries with relatively large populations and more diversified economies, the increases in financial resources during 1979 and 1980 have generally tended to encourage and permit accelerated domestic economic expansion. However, in these countries also, adoption of strongly expansionary policies has been deterred by the desire to avoid a revival of inflationary pressures and to give priority to social objectives. In addition, the authorities in some of these countries are anxious to protect their external payments positions against recurrence of the sizable current account deficits and heavy external borrowing requirements experienced in 1978.

At present, some acceleration of economic activity appears to be continuing in most of the oil exporting countries. On the assumption that the conflict between Iran and Iraq brings little further destruction in the coming months, an appreciable further rise in the average rate of growth in real non-oil GDP for the oil exporting group is thus in prospect for 1981. However, the 1980 upturn in the average rate of inflation is not projected to continue in 1981. Both the prevalence of relatively cautious demand management policies and the absence of significant supply bottlenecks—thanks to the expansion of infrastructure in recent years—militate against a repetition of the 1974–76 experience with respect to inflation. With a much smaller rise in import prices than in recent years, the average rate of inflation in the oil exporting countries is expected to decline somewhat in 1981.

Because of the sharp rise in oil prices, the proportion of nominal GDP of the oil exporting countries originating in the oil sector rose from a little over one third in 1978 to nearly one half in 1980. However, in the aggregate, the substantial drop in the volume of oil output in 1980 more than offset the increase in non-oil production, resulting in a 3 per cent decline in total real GDP of this group of countries. The contrasting movements of oil and non-oil output are expected to extend into 1981, when total real GDP is expected to change little. Despite the lack of growth in total real GDP since 1978, real national income of the oil exporting countries—a measure that takes account of changes in the terms of trade—has increased substantially.

Non-Oil Developing Countries

A wide variety of domestic developments was evident in 1980 and the first half of 1981 among the non-oil developing countries. In the discussion that follows, an effort is made to depict some of the salient distinctions within this group of some 110 countries by focusing attention on selected analytical and regional subgroups.

For the group as a whole, 1980 was a year of high inflation and reduced growth in output. The average increase in real GDP was a little less than 5 per cent, compared with 5¼ per cent in 1979 and 6½ per cent in 1978. (See Table 2.) All these figures are increased appreciably by the inclusion of data for the People's Republic of China, which was not covered in previous Annual Reports and for which data are available only from 1977 to date. Apart from that country, the average 1980 growth rate was about 4½ per cent, considerably below the average of close to 6 per cent for nonrecession years of the late 1960s and 1970s.

At least in part, this shortfall was a reflection of the impact of the current recession in the industrial countries, which has markedly affected the predominant markets for exports of the non-oil developing countries. The recession has tended not only to inhibit the expansion of export volume but also to exert a progressively stronger downward influence on primary commodity prices. The index of such prices (expressed in U.S. dollars) rose substantially less rapidly in 1980 than in the previous year; and it declined in most months from October 1980 through June 1981. As noted in a later section of this chapter, the combination of slower growth of export volume and falling terms of trade cut into the purchasing power of export earnings, and a rising share of those earnings was diverted into interest payments on external debt.

For many developing countries, the inflow of real resources obtainable from abroad was thus limited, despite a sharp expansion in the net flow of funds acquired through foreign borrowing. Confronted with a squeeze on the total availablility of resources for consumption and investment, some of the affected countries were unable to avoid constraints on the pace of their developmental spending, and these constraints reinforced the negative impact of the international recession on total demand for their domestic output.

During the latter part of 1980 and the first half of 1981, another factor tending to retard the expansion of output in many developing countries was the emergence of more restrained fiscal and monetary policies. Such policies were adopted to combat inflation, or to curb import demands and external deficits on current account, or both. To some extent, the slowing of growth now in process thus reflects implementation of adjustment measures made necessary by the prevalence of internal and external imbalances. However, the shifts away from accommodative financial policies came generally too late to prevent a worsening of inflation for 1980 as a whole. That year's monetary expansion in the non-oil developing countries was larger by about one fifth, on average, than the corresponding expansion in 1979.

Growth of domestic credit, to which the progressive increases of recent years in the average size of central government fiscal deficits have contributed, was the primary force behind the 1980 acceleration in rates of monetary expansion and price inflation. These developments reflected the efforts of many non-oil developing countries to maintain adequate growth in the face of soaring import costs and softening of export markets. Such efforts, however, often came into conflict with other objectives. The tightening of financial policies that began in many countries during the latter part of 1980 appears, as already mentioned, to represent a shift toward renewed emphasis on containment of inflation and of external imbalances.

The only major subgroup of non-oil developing countries maintaining strong domestic growth in 1980 was that comprising the net exporters of oil.[1] These countries, whose terms of trade gains in both 1979 and 1980 contrasted sharply with the deteriorating terms of trade of other non-oil developing countries, also enjoyed especially good access to international credit markets. With these advantages, they were able to sustain real growth in 1980 at a rate approaching 7 per cent—by far the highest average recorded for any of the subgroups distinguished in Table 2. This pace is not expected to slacken in 1981.

In 1979, the growth performance of the net oil exporting subgroup was almost matched by that of the developing countries that have become major exporters of manufactures. For this latter subgroup, average increases in GDP had generally exceeded those of most other non-oil developing countries by a considerable margin earlier in the 1970s, as well as during the 1960s. In 1980, however, total real output of this group of manufacturing exporters rose considerably less rapidly than that of the net oil exporters—and, indeed, no faster than the average for all non-oil developing countries. The manufacturing exporters were especially vulnerable to the slackening of demand in the industrial countries, as well as to protectionist measures taken by some of these countries.

Slack demand in the industrial world was also a factor in the relatively weak rates of growth in real GDP recorded in 1980 for both the middle-income exporters of primary products[2] and most of the low-income countries (whose exports, in most cases, also consist mainly of primary products). This weakness was especially marked for the numerous small countries in the low-income group. Although the growth rate for that subgroup as a whole was bolstered in 1980 by comparatively sizable gains in the two largest low-income countries (the People's Republic of China and India), real GDP expansion in the other 38 low-income countries is estimated to have amounted to only 3 per cent in 1980. For them, it was the second consecutive year of growth at that disappointingly low rate, barely sufficient to prevent complete stagnation of per capita income. Even with the higher increases for China and India included, the average per capita increase in real income in the low-income countries—which contain some two thirds of the population of the entire developing world—was not much above 2 per cent in 1980.

[1] See Table 2, footnote 4, for identification of these countries.
[2] That is, the "other net oil importers" in Table 2. More precisely, this subgroup comprises middle-income countries that, in general, export mainly primary agricultural and mineral products.

With respect to growth of national output in real terms, the middle-income exporters of primary products did not fare much better in 1980 than the 38 low-income countries mentioned above. Their real GDP gains averaged some 3½ per cent—by far the lowest annual increase since 1975. Like most of the low-income countries, these middle-income countries were confronted by a sharply adverse swing in the terms of trade that limited their access to resources for development. For many countries in both of these subgroups, agricultural protectionism in potential market areas also constituted an obstacle to expansion of export earnings. By the first half of 1981, a good many countries were finding it necessary to restrain aggregate demand in order to keep their external balances within manageable bounds.

Regionally, the best growth records among non-oil developing countries in both 1979 and 1980 were those of the Western Hemisphere area (comprising Latin America and the Caribbean), where several of the largest countries are either major exporters of manufactures or net exporters of oil, and of the Middle East, where a number of countries continued to benefit from strong demand among neighboring countries in the main oil exporting group. At the other extreme were the developing countries in the European area, whose average increase in real GDP from 1979 to 1980 was only 2 per cent. This figure reflects implementation of more restrictive financial policies in several key countries of the area, as well as the heavy dependence of their exporting industries on markets in the industrial countries. Similar factors were operative in a number of non-oil developing countries in the Asian region, where real output outside the People's Republic of China rose by only 3½ per cent in 1980. In Africa, apart from South Africa, the average was also about 3½ per cent. In a number of African countries, agricultural output remained low in the aftermath of drought in the Sahelian region, and some countries suffered severe economic disruptions as a result of civil disorders.

The economic record of the non-oil developing countries in 1980 was marred by another sharp rise in the rate of inflation, which had already turned upward in 1979. As measured by a weighted average of consumer price increases, the inflation rate for the whole group reached 32 per cent in 1980, compared with 24 per cent for the previous year and 19 per cent in 1978. (See Table 3.) This disturbing flare-up of inflation reflected both the sharp rise in costs of imported goods and the pursuit of expansionary financial policies by a majority of the non-oil developing countries during 1979 and part of 1980. However, as already noted, a shift away from strongly expansionary policies has become evident in many countries over the past year. If the numerous adjustment programs that have been instituted with a view to improving both internal demand/supply relationships and external balances are appropriately implemented, some easing of the average rate of inflation among non-oil developing countries in 1981 would seem likely.

Within the non-oil developing group, rates of inflation for individual countries are considerably more varied than are their respective growth rates. Because a number of the larger developing countries in some areas (especially in Latin America and Europe, although not in Asia) are among those that have experienced relatively high rates of inflation, the weighted averages of such rates are not necessarily representative of the majority of countries in any of the regional or analytical subgroups shown in Table 3. In order to provide an indication of the skew in the distribution of individual inflation rates, that table gives median rates for each subgroup (and for the whole non-oil developing group), as well as weighted average rates. In general, the median rates for recent years are both substantially lower and less variable from year to year than are the weighted average rates. The difference in levels of the respective measures signifies that the majority of non-oil developing countries have had inflation rates less than half as high as the weighted average, but also underscores the economic importance of a number of the countries with particularly high rates of inflation.

This last consideration is especially relevant to the regional data for the Western Hemisphere. That area includes several large countries with traditionally rapid increases in prices, giving it not only the highest average rate of inflation among the regional subgroups but also the widest dispersion of individual rates. Even the median rate for the Western Hemisphere group was higher than that for any other region in 1980, but the difference was much smaller than that with respect to weighted averages.

To a lesser degree, a broadly similar contrast between the median and average rates also characterized the European developing countries in 1980. In the Asian area, on the other hand, recent rates of inflation in the largest developing countries—the People's Republic of China and India—had differed much less strikingly from those in the majority of smaller countries. In 1980, the two figures for the Asian group were of the same order of magnitude (Table 3), and both of them—but especially the average rate—were low in comparison with corresponding figures for other regions. This result can probably be attributed, at least in considerable part, to the relatively conservative financial policies traditionally followed by many of the Asian developing countries.

Table 3. Developing Countries: Changes in Consumer Prices, 1967–80 [1]
(In per cent)

	Average 1967–72 [2]	Change from Preceding Year 1973	1974	1975	1976	1977	1978	1979	1980
Oil exporting countries									
Weighted average [3]	8.0	11.3	17.0	18.8	16.8	15.5	10.2	10.8	13.4
Non-oil developing countries									
Weighted average [3]	...	...	...	...	...	22.7	19.4	24.5	32.5
Excluding China	9.1	22.1	28.7	27.0	27.6	27.1	23.7	28.9	37.7
Median [4]	4.3	10.4	18.4	15.4	10.0	11.8	9.9	12.2	15.0
By area									
Weighted averages [3]									
Africa	4.6	9.8	15.3	15.1	15.0	19.2	15.6	19.2	19.4
Asia	...	...	...	...	...	5.1	2.3	6.4	12.2
Excluding China	6.7	19.5	28.8	10.6	0.5	6.8	5.2	9.5	16.2
Europe	6.2	12.7	17.5	14.7	12.5	16.2	21.1	27.5	40.3
Middle East	4.2	12.5	22.0	21.5	19.2	19.5	21.3	25.8	44.4
Western Hemisphere	15.4	32.1	37.5	52.0	66.2	51.4	42.4	49.3	60.2
Medians									
Africa	4.3	9.4	16.4	16.0	10.7	14.6	10.5	11.9	14.0
Asia [4]	4.1	14.0	24.3	10.5	6.2	7.6	6.0	8.2	14.4
Europe	3.8	12.9	16.2	13.4	11.6	12.2	12.5	19.0	16.6
Middle East	4.4	17.1	20.1	14.1	14.1	14.3	10.8	12.1	18.2
Western Hemisphere	4.5	12.9	19.5	17.0	9.7	11.4	10.7	17.5	19.5
By analytical group									
Weighted averages [3]									
Net oil exporters	4.1	11.1	20.6	14.6	14.9	22.8	17.7	17.7	24.7
Net oil importers	...	...	...	...	...	22.7	19.7	25.6	33.5
Excluding China	10.0	24.1	30.2	29.4	30.2	27.9	24.9	31.1	40.2
Major exporters of manufactures	14.1	21.3	24.9	40.1	55.8	40.9	37.3	44.6	56.0
Low-income countries	...	...	...	...	...	6.2	2.1	6.6	11.1
Excluding China	6.6	22.0	30.1	12.0	—	11.2	6.7	11.5	15.9
Other net oil importers	8.6	31.9	40.3	29.0	19.7	20.8	19.3	24.2	32.6
Medians									
Net oil exporters	3.8	11.2	18.7	15.5	10.5	12.1	11.0	9.9	16.0
Net oil importers [4]	4.3	10.3	18.4	15.3	9.9	11.6	9.5	12.2	15.0
Major exporters of manufactures	6.4	18.2	24.3	15.2	13.3	12.2	14.4	19.0	25.0
Low-income countries [4]	4.3	10.0	17.9	18.9	8.5	11.6	9.4	11.0	13.6
Other net oil importers	3.9	10.6	18.4	13.3	9.7	11.5	9.4	12.6	16.5

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

International Trade and Payments

Global Perspectives

International trade and payments developments of the past two years featured unusually pronounced changes in the terms of trade of major groups of countries, large swings in their current account balances, with accompanying shifts in capital movements, and substantial changes in exchange rates, including wide short-term variations in response to changes in monetary conditions and interest rates in the major industrial countries. (See Table 4.) These changes occurred against a background of continuing high—and quite uneven—rates of inflation and, during 1980 and the first half of 1981, very slow growth of world trade.

The relative importance of sources of change in the terms of trade in the past two years can be inferred from the following: the terms of trade of the oil exporting countries rose by 28 per cent in 1979 and another 42 per cent in 1980 (Table 5); those of the industrial countries fell by 3 per cent in 1979 and 6½ per cent in 1980; and the terms of trade of the oil importing developing countries were reduced by about 8½ per cent over the two years. (Because the non-oil terms of trade of this last group displayed moderate cyclical strength in 1979, but were cyclically weak during the last two or three quarters of 1980, the group's overall terms of trade deterioration over both years was concentrated in the second.)

Mainly in reflection of changes in terms of trade, but under the influence also of the cyclical slowdown in world trade stemming from the recession in the industrial countries, swings in the current account balances of major groups of countries in 1979 and 1980 were by far the largest since the middle 1970s. (See Table 6.) From 1978 to 1980, the increase in the current account surplus of the oil exporting countries amounted to nearly $110 billion, while the current account balance of the industrial countries shifted by $75 billion in the opposite direction—from a surplus of $31 billion (excluding official transfers) in 1978 to a deficit of $44

Table 4. World Trade Summary, 1962–80 [1]

(Percentage changes)

	Average 1962–72 [2]	Change from Preceding Year 1973	1974	1975	1976	1977	1978	1979	1980
World trade [3]									
Volume	8.5	12.5	5.0	−4.0	11.0	5.0	5.5	6.5	1.5
Unit value *(in U.S. dollar terms)*	3.0	22.5	39.0	8.5	1.5	8.5	10.0	18.0	20.0
(in SDR terms)	2.0	11.5	38.0	7.5	7.0	7.5	2.5	14.5	19.0
Volume of trade									
Exports									
Industrial countries	8.8	13.7	6.7	−4.0	10.7	5.1	5.9	6.9	4.5
Developing countries									
Oil exporting countries	9.2	13.2	−0.9	−11.5	14.6	0.2	−3.7	3.0	−13.2
Non-oil developing countries	6.7	10.1	1.5	0.3	13.9	3.9	11.2	9.2	7.9
Imports									
Industrial countries	9.1	12.2	0.4	−8.1	14.2	4.1	5.4	8.1	−0.8
Developing countries									
Oil exporting countries	8.4	20.3	38.5	41.4	20.4	14.6	5.2	−11.6	15.4
Non-oil developing countries	6.2	13.9	7.5	−4.0	2.4	6.7	7.8	11.9	5.8
Unit value of trade *(in SDR terms)* [4]									
Exports									
Industrial countries	2.3	9.3	23.7	10.1	5.7	6.7	5.5	11.8	12.3
Developing countries									
Oil exporting countries	2.6	27.6	202.2	4.1	11.6	8.4	−6.3	41.2	57.7
Non-oil developing countries	1.3	20.6	35.1	−2.2	9.5	12.9	−2.9	14.0	16.3
Imports									
Industrial countries	2.0	11.7	40.2	7.8	6.3	8.0	2.6	15.4	20.4
Developing countries									
Oil exporting countries	2.1	12.5	26.8	10.0	5.7	7.8	5.0	10.5	11.2
Non-oil developing countries	1.6	13.2	45.0	7.4	7.1	6.2	2.9	14.5	20.0

[1] For classification of countries in groups shown here, see Tables 1 and 2. Excludes data for the People's Republic of China prior to 1977.
[2] Compound annual rates of change.
[3] Averages based on data for the three groups of countries shown separately below and on partly estimated data for other countries (mainly, the Union of Soviet Socialist Republics and other nonmember countries of Eastern Europe). Figures are rounded to the nearest ½ of 1 percentage point.
[4] For years prior to 1970, an imputed value of US$1.00 has been assigned to the SDR.

Table 5. Terms of Trade Developments, 1962–80 [1]

(Percentage changes)

	Average 1962–72 [2]	Change from Preceding Year 1973	1974	1975	1976	1977	1978	1979	1980
Industrial countries	0.2	−1.7	−11.7	2.1	−0.8	−1.2	2.8	−3.1	−6.7
Developing countries									
Oil exporting countries	0.5	13.4	138.3	−5.4	5.6	0.6	−10.8	27.8	41.8
Non-oil developing countries	−0.3	6.5	−6.9	−8.9	2.2	6.3	−5.6	−0.5	−3.1
Memorandum item									
World trade prices (*in U.S. dollar terms*) for major commodity groups [3]									
(a) Manufactures	3.0	17.7	21.8	12.3	—	9.0	14.7	14.5	11.0
(b) Oil	3.0	40.6	225.8	5.3	6.2	9.3	0.1	48.1	62.5
(c) Non-oil primary commodities (*market prices*)	2.5	53.7	27.8	−18.2	13.3	20.6	−4.6	16.5	9.6

[1] Based on foreign trade unit values except where indicated. For classification of countries in groups shown here, see Tables 1 and 2. Excludes data for the People's Republic of China prior to 1977.
[2] Compound annual rates of change.
[3] As represented, respectively, by (a) the United Nations' export unit value index for manufactures of the developed countries; (b) the oil export unit values of the oil exporting countries; and (c) the *International Financial Statistics* index of market quotations for non-oil primary commodities.

billion in 1980—and the aggregate current account deficit of the non-oil developing countries more than doubled, to $82 billion. For the industrial and oil exporting groups of countries, partial reversals of these shifts are expected in 1981, reflecting rapid increases in imports of the oil exporters and further declines in the volume of their exports. The combined deficit of the non-oil developing countries, on the other hand, is expected to rise further.

The large and sudden shifts in current account bal-

Table 6. Payments Balances on Current Account, 1973–81[1]
(In billions of U.S. dollars)

	1973	1974	1975	1976	1977	1978	1979	1980	1981[2]
Industrial countries	19.7	−11.6	17.6	−0.2	−4.6	30.8	−7.8	−44.1	−29
Seven larger countries	14.1	−3.7	23.2	9.1	8.0	34.2	4.7	−15.7	−1
Other countries	5.5	−7.9	−5.5	−9.3	−12.6	−3.4	−12.5	−28.4	−28
Developing countries									
Oil exporting countries	6.6	67.8	35.0	40.0	31.1	3.3	68.4	112.2	96
Non-oil developing countries[3]	−11.5	−36.8	−46.5	−32.9	−28.6	−37.5	−57.6	−82.1	−97
By area									
Africa	−2.0	−4.8	−9.2	−8.0	−6.0	−7.3	−5.8	−7.3	−14
Asia[3]	−2.5	−9.8	−9.0	−3.5	−0.7	−5.8	−14.1	−23.7	−25
Europe	0.3	−4.3	−4.7	−4.1	−7.6	−5.2	−8.5	−10.3	−9
Middle East	−2.6	−4.5	−7.0	−5.4	−5.2	−6.3	−8.3	−7.7	−8
Western Hemisphere	−4.7	−13.4	−16.6	−11.9	−9.1	−12.9	−20.9	−33.1	−40
Total[4]	14.8	19.4	6.1	6.9	−2.1	−3.4	3.0	−14.0	−30

[1] On goods, services, and private transfers. For the industrial countries, alternative current account balances including official transfers are given for the years 1977–80 in Table 9. Projected 1981 balances including official transfers are $50 billion for the industrial countries as a group, $18½ billion for the larger countries, and $31½ billion for the other industrial countries. For classification of countries in groups shown here, see Tables 1 and 2.
[2] Fund staff projections.
[3] Excludes data for the People's Republic of China prior to 1977.
[4] Reflects errors, omissions, and asymmetries in reported balance of payments statistics plus balance of listed groups with other countries (mainly, the Union of Soviet Socialist Republics and other nonmember countries of Eastern Europe and, for years prior to 1977, the People's Republic of China).

ances since 1978 have required equally sharp alteration of global flows of capital and reserves. The non-oil developing countries greatly expanded their external borrowing, despite rising interest rates in world financial centers, and in 1980 virtually ceased the earlier accumulation of reserves, while most of the industrial countries shifted from net lending (and/or reserve accumulation) in international markets to net borrowing. The counterpart of these new or vastly increased capital inflows, of course, was the external investment by the oil exporting countries of the enlarged national savings made possible by the rise in oil prices. Predominantly, this investment (described more fully in a later section of this chapter) took the form of placements of funds in banks and securities markets in the industrial countries; and the funds so placed were then channeled by the financial institutions and markets that received them to borrowers in both the industrial countries and the non-oil developing countries. Table 7 summarizes the components of these "recycling" flows (comprising a substantial proportion of the total) that were channeled through banks reporting to the Bank for International Settlements.

The upper section of the table ("Sources") shows how these banks increased their borrowing from both the oil exporting countries and the industrial countries after 1978, while receiving a smaller flow of deposits from non-oil developing countries and from unspecified (mainly Eastern European) countries. The middle section ("Uses") shows how the same banks increased their lending to non-oil developing countries, as well as to the industrial countries, from 1978 to 1980, while sharply reducing the flow of new loans to the oil exporting countries and the Eastern European countries. The lower part of the table, recapitulating the net movements of funds among broad groups of countries that resulted from the combined borrowing and lending of the reporting banks, shows the marked shift in the pattern of these net flows from 1978 to 1980. In the former year, funds raised entirely in the industrial countries were recycled to all three of the other groups listed in the table, with less than half of the net total going to the non-oil developing countries. In 1980, on the other hand, funds raised predominantly in the oil exporting countries and only secondarily (on a net basis) in the industrial countries were recycled exclusively (again, on a net basis) to non-oil developing countries.

As can be seen from comparison of the net banking flows recorded in the lower part of Table 7 with the more comprehensive net capital movements summarized in Table 8, large sums also moved outside the banking channels covered in Table 7. Some of the largest of these movements were the placements of funds belonging to the oil exporting countries directly in nonbank assets in the industrial countries; the flows of official loans and transfers from both industrial and oil exporting countries to non-oil developing countries (Table 11); and movements of direct investment capital from industrial to developing countries (much of which is also recorded in Table 11).

On the whole, the recycling process worked smoothly and effectively during the past two years. Huge sums were transferred from new or greatly expanded savings in the surplus countries to borrowers elsewhere, largely through decentralized operation of normal forces in financial markets. Those mechanisms were supple-

Table 7. International Banking: Global Sources and Uses of Funds, 1975–80 [1]

(In billions of U.S. dollars)

	1975	1976	1977	1978	1979	1980
Sources						
Changes in						
Gross liabilities	89	98	114	194	263	215
Interbank deposits	39	36	34	105	88	67
Net liabilities	50	62	80	89	175	148
Of which, to residents of						
Industrial countries [2]	43	31	51	58	113	98
Oil exporting countries	12	12	13	7	37	38
Non-oil developing countries	4	14	13	17	16	6
Other countries, including n.e.o. [3]	–9	5	3	7	9	6
Uses						
Changes in						
Gross claims	115	106	110	215	218	212
Interbank deposits [4]	39	36	34	105	88	67
Net claims	76	70	76	110	130	145
Of which, on residents of						
Industrial countries [2]	40	31	43	46	70	87
Oil exporting countries	7	9	10	17	7	5
Non-oil developing countries	32	25	13	31	42	47
Other countries, including n.e.o. [3]	–3	5	10	16	11	6
Memorandum item: Net sources (+)/uses (–) of international banking funds						
Industrial countries [2]	29	8	4	33	–2	8
On account of						
Residents	26	9	–4	21	–45	–3
Nonresidents	3	–1	8	12	43	11
Oil exporting countries	6	3	3	–10	30	33
Non-oil developing countries	–28	–11	—	–14	–26	–41
Other countries, including n.e.o. [3]	–6	—	–7	–9	–2	—

Source: Bank for International Settlements (BIS).

[1] The figures in this table, being taken from records of banks as reported to their respective national authorities, are not necessarily fully consistent with the balance of payments statistics summarized in Tables 8 and 9. In principle, however, changes in banking claims on, and liabilities to, nonresidents, as shown above, are components of the capital flows shown in the other two tables. For classification of countries in groups shown here, see Tables 1 and 2.

[2] Including branches of U.S. banks in the main offshore banking centers.

[3] In addition to countries not specified above, or amounts unallocated, this item includes the effects of any mismatching of assets and liabilities ensuing from the assumption noted in footnote 4 or, in 1975, from a discontinuity in the classification of countries in the BIS reports on which this table is based.

[4] Assumed equal to the BIS measure of such interbank deposits from the liability side.

mented, however, by arrangements for expanded flows through the Fund and other international institutions, as well as by various intergovernmental loans under special bilateral arrangements.

The large and growing transmission of financial resources through the recycling mechanism during 1979 and 1980 coincided with a widespread shift of policies in the major industrial countries toward more determined efforts to bring inflation under control. In particular, firmer emphasis was placed on slowing the growth of monetary aggregates in order to contain the expansion of nominal demand. The stronger emphasis on quantitative aspects of monetary restraint interacted with changing pressures of underlying demand and shifts in market expectations to produce both an unprecedentedly high level of interest rates in the major industrial countries, greatly increasing the real costs of borrowing for other countries. The fluctuations in those interest rates, as well as the differentials among them, were exceptionally wide. The main focus of attention was on interest rate relationships between the United States and the continental European countries, but also involved, at times, the U.K. or Japanese financial markets. During a period also featuring severe and rapidly changing imbalances in current account positions, as well as periodic social and political uncertainties, the result was an emergence of strong and variable pressures in exchange markets. As noted in a later section, the management of exchange rates and related issues became more difficult and complex for a number of countries than at any time since the early 1970s.

Some of the continental European countries whose currencies depreciated sharply during the latter part of 1980 and the first half of 1981 faced dilemmas in their efforts to reconcile conflicting policy objectives. Although stringent monetary conditions were needed to prevent outflows of interest-sensitive capital and further depreciation of effective exchange rates, levels of domestic employment and investment were such as to make high interest rates unwelcome. On the other hand, acceptance of more rapid exchange rate depreciation would have made it even more difficult for the countries concerned to hold down domestic inflation and wage demands at a time of sharp increase in do-

Table 8. Global Balance of Payments Summary, 1977–80

(In billions of U.S. dollars)

		Balance on: Trade	Balance on: Services and private transfers	Balance on: Current account excluding official transfers	Capital Account Balance [1]	Change in Liabilities to Foreign Official Agencies [2]	Balance Financed by Changes in Reserve Assets [3]
Industrial countries [4]	1977	−18.3	13.7	−4.6	3.6 [5]	39.5	38.6
	1978	7.4	23.4	30.8	−18.1 [5]	32.2	44.9
	1979	−37.6	29.8	−7.8	32.4 [5]	−13.5	11.1
	1980	−67.2	23.1	−44.1	51.3 [5]	24.5	31.7
Oil exporting countries [4]	1977	61.5	−30.4	31.1	−20.8	—	10.3
	1978	41.1	−37.8	3.3	−13.3	—	−10.0
	1979	111.0	−42.6	68.4	−54.4	—	14.0
	1980	163.0	−50.8	112.2	−92.5	—	19.7
Non-oil developing countries [4]	1977	−23.3	−5.3	−28.6	41.3	−0.6	12.1
	1978	−33.0	−4.4	−37.5	53.8	−0.5	15.8
	1979	−48.4	−9.3	−57.6	67.5	0.2	10.1
	1980	−65.2	−16.9	−82.1	80.3	3.0	1.2
By analytical group [4]							
Net oil exporters	1977	−3.6	−3.2	−6.8	8.8	−0.1	1.9
	1978	−4.0	−3.6	−7.6	8.7	—	1.1
	1979	−2.7	−5.3	−8.0	11.1	−0.1	3.0
	1980	−2.2	−8.3	−10.5	13.7	0.4	3.6
Net oil importers	1977	−19.7	−2.1	−21.8	32.4	−0.5	10.1
	1978	−29.0	−0.8	−29.8	45.0	−0.5	14.7
	1979	−45.7	−4.0	−49.7	56.5	0.3	7.1
	1980	−63.0	−8.6	−71.5	66.6	2.6	−2.4
Major exporters of manufactures	1977	−8.5	0.5	−8.1	12.7	−0.2	4.4
	1978	−9.9	—	−9.9	20.3	−0.7	9.7
	1979	−18.8	−2.9	−21.7	23.9	−0.4	1.8
	1980	−24.5	−7.2	−31.7	27.8	0.5	−3.4
Low-income countries	1977	−2.2	−0.2	−2.4	6.2	−0.3	3.5
	1978	−8.3	1.2	−7.1	8.1	−0.2	0.8
	1979	−12.6	1.6	−11.0	13.1	0.2	2.3
	1980	−18.1	2.4	−15.8	13.7	0.6	−1.5
Other net oil importers	1977	−9.0	−2.4	−11.3	13.5	—	2.2
	1978	−10.8	−2.1	−13.0	16.8	0.4	4.2
	1979	−14.3	−2.6	−16.9	19.4	0.5	3.0
	1980	−20.4	−3.7	−24.0	25.0	1.5	2.5
Total, all countries [6]	1977	19.9	−22.0	−2.1	24.2	38.9	61.0
	1978	15.5	−18.8	−3.4	22.4	31.7	50.7
	1979	25.0	−22.1	3.0	45.5	−13.3	35.2
	1980	30.6	−44.6	−14.0	39.1	27.5	52.6

[1] This balance is computed as the difference between the balance financed by changes 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, SDR allocations, valuation adjustments, and gold monetization. (See also footnote 2.)

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

[3] The changes in reserve assets indicated here are calculated as the changes in U.S. dollar equivalents of period-end stocks of total reserves with gold valued at SDR 35 per ounce. It may be noted that official agencies of some countries hold external financial claims that are not classified as reserves. Changes in such claims are included in the column "Capital Account Balance" of this table. The dividing line between capital movements and reserve asset changes remains particularly uncertain for some oil exporting countries.

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

[5] See footnote 6.

[6] 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 smaller net capital inflow and a larger aggregate change in liabilities to foreign official agencies. If identified Eurocurrency reserve placements (shown in terms of SDRs in Table 21 of this Report) were assumed to have been placed in industrial countries, then the adjusted net capital inflows to those countries would amount to −$14.8 billion, −$19.8 billion, $29.7 billion, and $41.7 billion over the years 1977, 1978, 1979, and 1980, respectively.

mestic currency costs of imports—most notably of oil—and deterioration of the terms of trade.

For the non-oil developing countries, with their almost universal capital-importing balance of payments structure, the sharply altered relationship between interest rates and inflation rates in the industrial countries that has emerged over the past two years presents some serious short-range problems, whatever its promise for ultimate benefits in the form of worldwide reductions of inflation. Rates of increase in GNP deflators and export prices of the industrial countries finally began to subside in the latter part of 1980 and the first half of 1981, with a good prospect of further declines in the average rate of inflation in those countries over the next year or two. Given this situation, borrowers in the developing countries cannot realistically expect their own export prices, even after the trough of the current international recession is passed, to rise fast enough to negate much of the real cost of debt service, as they did during most of the past decade. In that period, nominal interest rates were considerably lower than at present and real interest rates (as computed *ex post*) were negative much of the time, so that interest and amortization payments on external loans typically became less costly in terms of current export earnings at the time of payment than at the time when the obligations were incurred. At current interest and inflation rates, this relationship is reversed, and the prospect that substantially positive real interest rates may persist for some time could prove a significant deterrent to borrowing by oil importing developing countries. Avoidance of the sharply increased real cost of such borrowing has become an important inducement for adjustment of external payments imbalances, not only for developing countries but also for a number of the industrial countries.

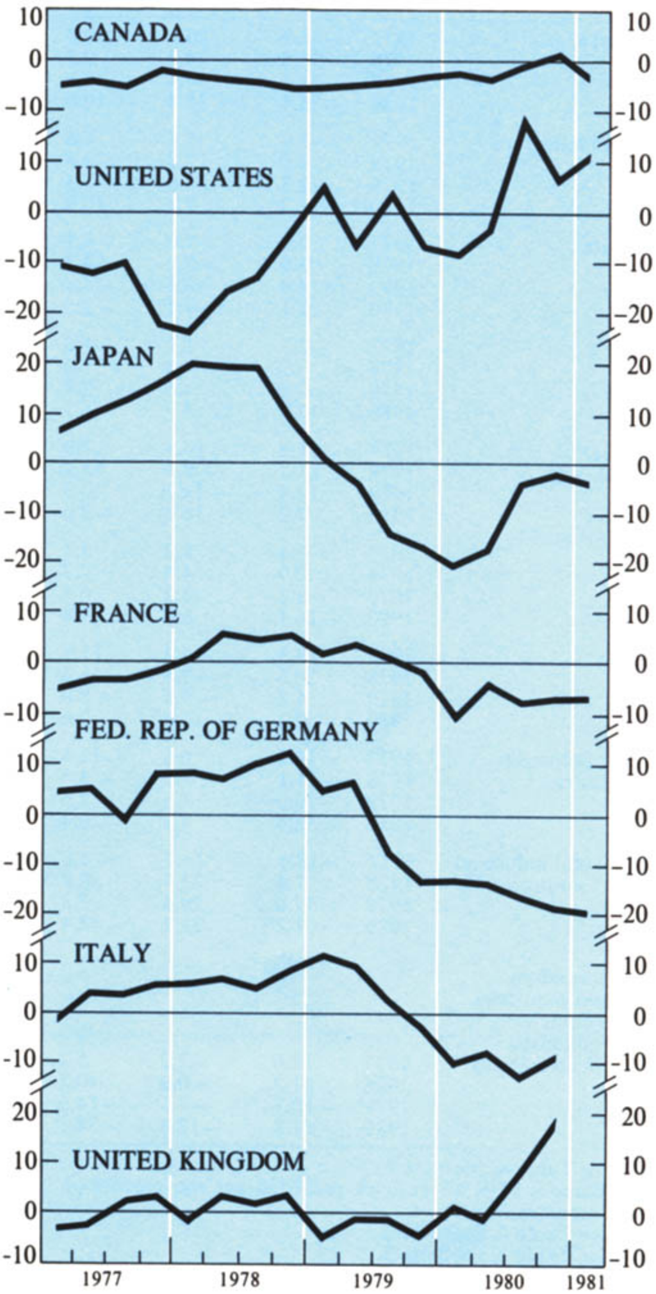
More specific aspects of recent developments in the external payments positions of particular groups of countries, and of a few of the large industrial countries individually, are discussed in the following sections. They deal first with the industrial countries, reviewing both the evolution of current account balances and changes in exchange rates, and then, successively, with the oil exporting countries and the non-oil developing countries.

Industrial Countries

Current account developments.—The negative changes in the combined current account balance of the industrial countries in 1979 and 1980 were not only exceptionally large but also unevenly distributed among countries in the group. Over the two-year period, the cumulative net change, in terms of balances including official transfers, amounted to $80 billion. Within that net total, however, were opposite (positive) movements for three of the seven major industrial countries. These totaled $25 billion, of which the United States alone accounted for $18 billion. They left the U.S. and U.K. current accounts in surplus and Canada with its smallest deficit since 1973. (See Chart 7.)

Chart 7. Major Industrial Countries: Payments Balances on Current Account, Including Official Transfers, 1977–First Quarter 1981 [1]

(In billions of U.S. dollars)



[1] Seasonally adjusted, annual rates.

Negative changes in the current account balances of the other four major industrial countries from 1978 to 1980 totaled $79 billion, of which Japan and the Federal Republic of Germany accounted for more than $50 billion. All four of these large industrial countries recorded sizable deficits for 1980, in contrast to their surpluses in 1978 (Table 9). Collectively, the smaller industrial countries also had a large current account deficit (some $32 billion), reflecting a deterioration of $26 billion from their combined position in 1978. All of these smaller countries except Norway and Australia shared in the deterioration, and Norway was the only

Table 9. Industrial Countries: Balance of Payments Summaries, 1977–80
(In billions of U.S. dollars)

		Balance on			Capital Account Balance			Changes in Liabilities to Foreign Official Agencies [3]	Balance Financed by Changes in Reserve Assets [4]	Memo: Current Account Including Official Transfers
		Trade	Services and private transfers	Current account excluding official transfers	Total [1]	Long-term capital and official transfers	Other [2]			
United States	1977	–30.9	20.9	–10.0	–24.3	–17.9	–6.4	35.4	1.1	–14.1
	1978	–33.8	24.3	–9.5	–21.4	–14.7	–6.7	31.1	0.2	–14.2
	1979	–27.3	34.1	6.8	7.2	–18.5	25.7	–13.6	0.4	1.6
	1980	–25.4	35.4	10.0	–17.4	–14.7	–2.7	14.8	7.4	3.5
United Kingdom	1977	–3.9	5.6	1.6	12.5	3.5	9.0	2.7	16.8	–0.3
	1978	–3.0	7.8	4.8	–6.9	–8.7	1.8	–1.9	–4.0	1.4
	1979	–7.3	8.8	1.5	1.8	–10.8	12.6	0.2	3.5	–2.9
	1980	2.3	7.9	10.2	–13.9	–15.0	1.1	4.6	0.9	6.0
Canada	1977	2.9	–7.0	–4.1	2.9	3.7	–0.8	—	–1.2	–4.1
	1978	3.9	–8.0	–4.1	4.1	3.1	1.0	—	—	–4.3
	1979	4.0	–8.3	–4.4	3.7	3.3	0.5	—	–0.7	–4.2
	1980	7.1	–9.1	–2.0	2.1	1.2	0.9	—	0.1	–1.6
France	1977	–2.7	1.1	–1.6	2.7	–0.7	3.4	–0.6	0.5	–3.0
	1978	0.7	4.5	5.2	–1.8	–4.5	2.7	0.3	3.7	3.8
	1979	–2.0	4.8	2.8	4.5	–7.1	11.6	0.1	7.4	1.1
	1980	–12.0	5.9	–6.1	15.2	–10.9	26.1	0.5	9.6	–7.8
Germany, Fed. Rep. of	1977	18.4	–10.5	7.9	–4.6	–9.6	5.0	1.6	4.9	3.9
	1978	23.2	–9.9	13.3	–2.4	–5.8	3.4	3.2	14.1	9.0
	1979	14.4	–14.7	–0.3	3.7	0.1	3.6	–0.3	3.1	–6.1
	1980	7.2	–16.2	–9.0	–1.1	–2.9	1.8	5.4	–4.7	–15.4
Italy	1977	–0.1	3.2	3.1	2.9	0.4	2.5	–1.0	5.0	2.5
	1978	2.9	4.8	7.7	–3.5	–0.4	–3.1	–0.9	3.3	6.2
	1979	–1.1	7.2	6.1	1.8	–2.0	3.8	–1.5	6.4	5.1
	1980	–16.1	6.8	–9.4	13.9	5.1	8.8	0.3	4.8	–9.8
Japan	1977	17.3	–6.2	11.1	–4.5	–3.4	–1.1	—	6.7	10.9
	1978	24.6	–7.8	16.8	–6.6	–12.6	6.0	—	10.2	16.5
	1979	1.8	–9.8	–8.0	–4.9	–13.4	8.5	—	–12.9	–8.7
	1980	2.1	–11.6	–9.5	14.5	1.1	13.4	—	5.1	–10.7
Other industrial countries [5]	1977	–19.2	6.6	–12.6	16.1	6.7	9.4	1.4	4.9	–14.5
	1978	–11.1	7.7	–3.4	20.4	–1.1	21.5	0.4	17.4	–5.3
	1979	–20.0	7.5	–12.5	14.7	–4.3	19.0	1.7	3.9	–14.4
	1980	–32.4	4.1	–28.4	37.8	6.1	31.7	–1.1	8.3	–31.6
Total industrial countries	1977	–18.3	13.7	–4.6	3.6 [6]	–17.1	20.8	39.5	38.6	–18.7
	1978	7.4	23.4	30.8	–18.1 [6]	–44.7	26.6	32.2	44.9	13.1
	1979	–37.6	29.8	–7.8	32.4 [6]	–52.8	85.2	–13.5	11.1	–28.4
	1980	–67.2	23.1	–44.1	51.3 [6]	–30.0	81.1	24.5	31.7	–67.4
Memorandum Total industrial countries excluding United States	1977	12.6	–7.2	5.4	27.9	0.7	27.3	4.1	37.5	–4.6
	1978	41.2	–0.9	40.3	3.3	–30.0	33.3	1.1	44.7	27.3
	1979	–10.3	–4.3	–14.6	25.2	–34.3	59.5	0.1	10.7	–30.0
	1980	–41.8	–12.3	–54.1	68.7	–15.3	83.9	9.7	24.3	–70.9

[1] See Table 8, footnote 1.
[2] Includes SDR allocations, recorded net movements of short-term capital, net errors and omissions, valuation adjustments, and gold monetization.
[3] See Table 8, footnote 2.
[4] See Table 8, footnote 3.
[5] Australia, Austria, Belgium-Luxembourg, Denmark, Finland, Iceland, Ireland, the Netherlands, New Zealand, Norway, Spain, Sweden, and Switzerland.
[6] See Table 8, footnote 6.

one with a significant current account surplus in 1980.

Among the foregoing changes, particular significance must be attached to the shift of the U.S. current account into surplus. This was instrumental, along with the tightening of U.S. monetary conditions during the past two years, in moving the U.S. dollar from a condition of weakness toward the end of 1978 to one of strength by mid-1981. The improvement of the U.S. trade balance from 1978 to 1980, which occurred despite an increase of more than $35 billion in oil imports, reflected two principal factors: comparative cyclical conditions—stemming from earlier onset of the recession in the United States than in most of the other industrial countries—that favored such a development, at least through mid-1980; and a comparative cost-price position, following the depreciation of the U.S. dollar during 1977 and 1978, that appears to have made U.S. manufactures considerably more competitive in international trade than in earlier years of the decade. In addition, a substantial part of the improvement in the U.S. current account balance stemmed from rising net receipts for services, including income on foreign investments.

The 1978–80 strengthening of the U.K. and Canadian current account balances (as well as Norway's) reflected oil trading positions quite different from those of most industrial countries. In the United Kingdom, growing importance of oil production played a major role in the emergence of a sizable current account surplus, and this was reinforced by the dampening of import demand resulting from the severity of the U.K. recession. These factors more than compensated for the weakness of U.K. export growth, which reflected the impact of both relatively high inflation and an appreciating exchange rate on the competitiveness of British manufactures. Although Canada's balance of trade in oil and natural gas did not improve over the past two years, national production of oil and gas was sufficient to meet a high proportion of domestic demand, and thus avert any severely negative impact of the increase in oil prices on the balance of payments. The improvement of the Canadian current account balance from 1978 to 1980, centered in the merchandise trade accounts, stemmed mainly from substantial improvement in the terms of trade, reflecting comparatively buoyant prices for most of Canada's principal exports of primary products.

The two largest declines in current account balances from 1978 to 1980—those for Japan and the Federal Republic of Germany—were dominated by large increases in payments for oil imports. For Japan, indeed, the deterioration of the oil trade balance exceeded that in the overall trade balance, which benefited from a 17 per cent increase in export volume in 1980. This increase, assisted by the effects of a favorable evolution of unit labor costs and of the sharp depreciation of the Japanese yen during 1979 on Japan's international competitive position, followed two years of unusual declines in Japan's share of world markets, caused partly by the pre-1979 appreciation of the yen.

Germany's trade balance, aside from the increasing oil import bill, was adversely affected during 1979 and 1980 by a widening of the degree to which the country's cyclical position was less slack than the average position of its trading partners. Lagged effects of the appreciation of the deutsche mark through 1979 may also have contributed to the erosion of the trade surplus, but Germany's international competitive position was improving during 1980, when the relatively low rate of increase in German prices was reinforced during the latter part of the year by depreciation of the deutsche mark—a combination that continued during the first half of 1981.

The negative changes in the current account balance of the Federal Republic of Germany were not confined to the trade account. Growth of net external payments for services and transfers during the past two years was also an important contributing factor.

For France and Italy, too, the predominant elements in the 1978–80 deterioration of current account balances were the respective increases in net deficits on trade in oil. In both countries, however, the volume of non-oil imports considerably outpaced the real growth of exports over this two-year period. Indeed, Italy's export volume declined by about 8 per cent in 1980, a year of moderate growth in its export markets. Both countries, however, were able to offset part of the deterioration in the trade accounts by increasing their net receipts from services and transfers.

The deterioration of $26 billion in the combined current account balance of the smaller industrial countries from 1978 to 1980 was much larger in relation to their economies than the concurrent deterioration in the combined accounts of the seven large industrial countries. For the smaller countries as a group, the deterioration amounted to 2¼ per cent of GNP, raising their deficit to 3 per cent of GNP in 1980. The corresponding deterioration for the large countries was equivalent to only 1 per cent of their aggregate GNP. This difference reflected a much smaller decline in oil import volumes, and stronger growth of non-oil imports in real terms, for the smaller countries than for the seven larger ones. In addition, the increase in the volume of non-oil exports was weaker for the smaller countries, partly because of their weaker linkages with the rapidly expanding markets in the oil exporting countries.

Within the group of smaller industrial countries, the current account changes from 1978 to 1980 (shown for the group as a whole in Tables 6 and 9) were far from uniform. Deteriorations in the range of 4–7 per cent, when expressed as percentages of GNP, were experienced by six of the countries—Spain, Sweden, Belgium, Finland, Switzerland, and Ireland. At the other end of the spectrum, the current account balances of Norway and Australia improved, and the deteriorations experienced by Denmark and the Netherlands were equivalent to less than 1 per cent of GNP. The current accounts of the last two countries were improving in the latter part of 1980 and the first part of 1981. Several of the smaller industrial countries whose current account deficits rose sharply in 1980 have relied on programs of official foreign borrowing to assure the financing of their current account deficits, and most of them have pursued restrictive monetary policies at least partly for that purpose. Little change in either the level or the distribution of the total current account deficit of the smaller industrial countries is expected for 1981.

Exchange rate developments.—The period since about the middle of 1980 has been one of substantial changes in exchange rates for major currencies and of intermittent pressures in markets for foreign exchange. Exchange rate developments of the past year have thus contrasted with those between the exchange crisis of October 1978 and mid-1980, a period characterized in last year's Annual Report as "one of broad—although by no means uninterrupted—stability of effective exchange rates for most of the major currencies."

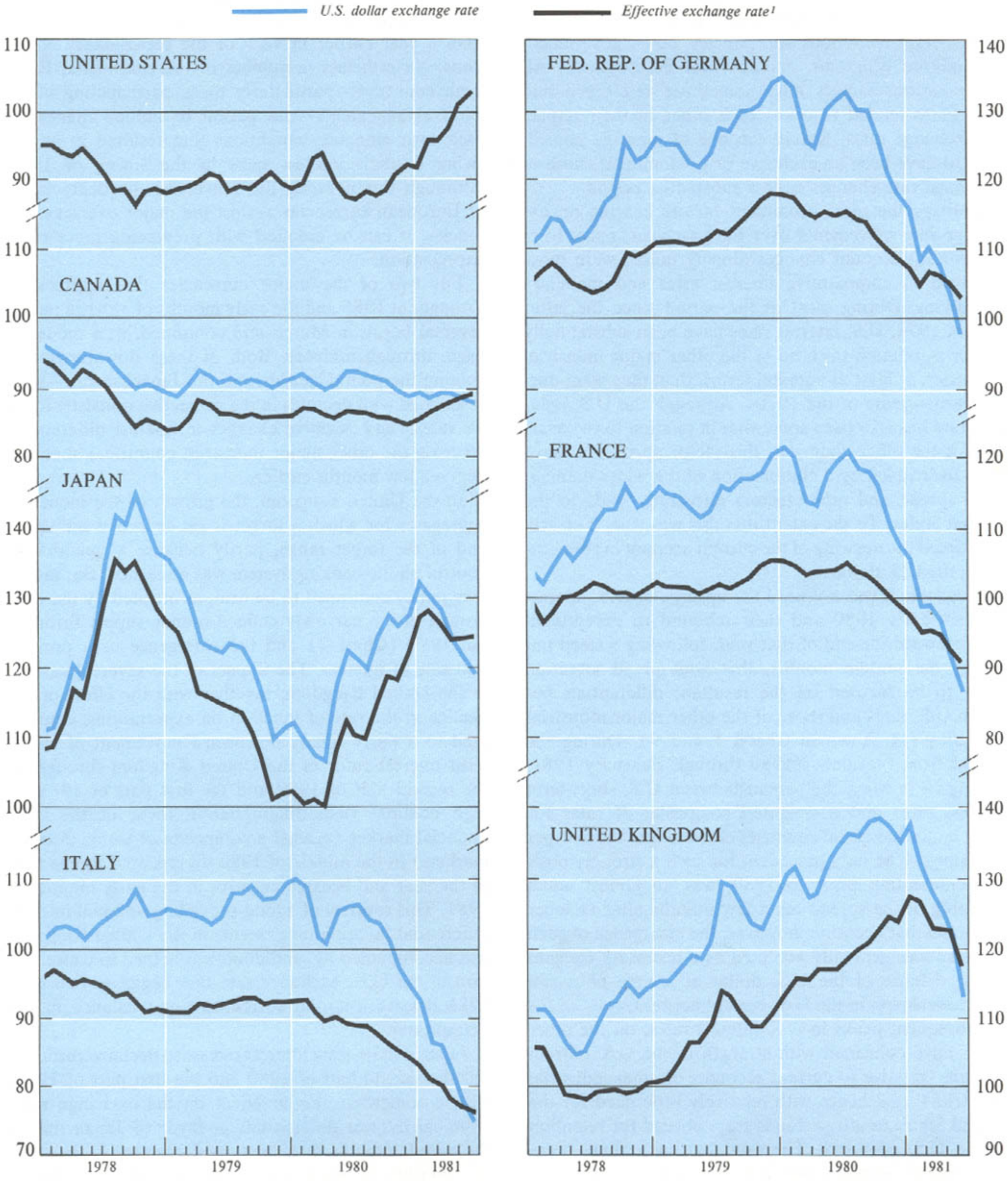
Even with respect to that earlier period, exceptions were mentioned in the 1980 Report. Attention was called, for example, to the strong appreciation of the pound sterling from November 1979 to mid-1980 and to the rapid depreciation and recovery of the Japanese yen over the same period, as well as to a brief upsurge and relapse of the effective rate for the U.S. dollar in the first six months of 1980. These short-lived movements of the dollar reflected the initial climb of U.S. interest rates to unprecedented levels following the adoption by the Federal Reserve System of new operating procedures (placing greater emphasis on bank reserves) and then the precipitous drop in those rates as the onset of the U.S. recession brought a sudden (and temporary) easing of demands for credit in the United States. (See Chart 1.)

After about the middle of 1980, the general stability of exchange rates that had prevailed since the October 1978 crisis disappeared under the combined pressures of rapid shifts in current account balances, marked differences in rates of inflation and demand conditions, wide and fluctuating interest-rate differentials (often not in line with relevant inflation-rate differentials), and changes in financial policies (including those relating to intervention in exchange markets) in some of the major industrial countries. The period from mid-1980 to mid-1981 was one of marked change in the effective exchange rate of every major currency except the Canadian dollar, and of considerably larger movements of nominal rates between some pairs of those currencies. In general, the movement was sharply downward for the continental European currencies and sharply upward for the U.S. dollar, the Japanese yen, and—until January 1981—the pound sterling. (See Chart 8.) The Canadian dollar also appreciated by several percentage points in effective terms, while effective rates for most currencies of the smaller industrial countries declined (as did the pound sterling soon after the turn of the year). These declines were greatest for participants in the European Monetary System (EMS) and the small central European countries whose economies are closely integrated with those of the EMS group. The Norwegian krone and Swedish krona showed less effective depreciation than the other European currencies, but Australia was the only one of the smaller industrial countries whose effective exchange rate appreciated significantly from mid-1980 to mid-1981.

Apart from the March 1981 devaluation of the Italian lira within the EMS framework, changes in bilateral rates between European currencies were relatively small, being limited in many cases by the nature of the commitments made by EMS members and in other cases by the pursuit of policies adopted by nonmembers in broad accord with the EMS arrangements. Bilateral rates between continental European currencies and the appreciating currencies of the large industrial countries elsewhere, on the other hand, showed much wider movements than any of the relevant effective rates.

Of the four major currencies (including the Canadian dollar) that appreciated over the year to mid-1981, three were currencies of countries whose current account balances improved in 1980, contrary to the general tendency for industrial countries in that year. The fourth appreciating currency was that of Japan, whose current account balance deteriorated only slightly on an annual basis from 1979 to 1980 and improved strongly during the latter year. This improvement now appears to be extending into 1981, along with that of the U.S. and U.K. current account balances. Conversely, all of the continental European countries whose currencies have depreciated substantially since mid-1980 are countries whose current accounts swung into deficit in 1980 (Chart 7) and appear to be remaining in deficit to a similar degree in 1981. Because of the sheer weight of current account purchases and sales among all the transactions affecting supply and demand in foreign exchange markets, it is very difficult to doubt the strong influence of the contrasting current account changes just described, and perhaps of expectational shifts prompted by them, on the general direction and degree of recent broad swings in exchange rates.

Chart 8. Major Industrial Countries: Exchange Rates, 1978–June 1981
(Indices, 1977=100)



[1] Based on the Fund's multilateral exchange rate model.

Many other factors, however, have also played substantial roles, either as underlying influences of a broad character or as temporary elements affecting the actions and attitudes of market participants. Actual and expected differentials in rates of inflation, for example, remain pertinent considerations, as do major changes in monetary conditions and policies, taxes, government expenditure programs, and resource development. All these various factors have sometimes reinforced and sometimes tended to offset each other in their impact on exchange rates. Rarely can one of them be considered to have been an exclusive or predominant cause of exchange rate changes over a substantial period.

Perhaps the most prominent factors bearing on exchange rate movements over the past year, apart from the current account changes already noted, were those involved in comparative interest rates and monetary conditions. During most of the period since the latter part of 1978, U.S. interest rates have been substantially higher in relation to those of the other major industrial countries, at least in nominal terms, than they were during earlier years of the 1970s. Although the U.S. inflation rate has also risen somewhat in relation to the average for the other countries, this factor appears to have been overridden by a combination of the wider nominal yield spread and other factors attracting funds to the United States. To the extent that this was true, it clearly reinforced the upswing of the current account in strengthening the U.S. dollar.

However, it was not until the upsurge of U.S. interest rates in early 1980 and their rebound to exceptional levels toward the end of that year, following a steep fall during the middle months, that widespread attention came to be focused on the resultant differentials between U.S. rates and those of the other major industrial countries (as shown in Charts 1 and 9). During the period from November 1980 through February 1981, and again in May, the spread between U.S. short-term interest rates and a weighted composite of rates for other major industrial countries climbed into the 5–6 per cent range. The only precedent for such a strongly positive differential, prior to 1980, was an almost equal widening of the spread for a few months after October 1978. On that occasion, however, the emergence of such a spread was generally accepted as a necessary element in the defense of the U.S. dollar at a time of recent severe weakness in the U.S. current account.

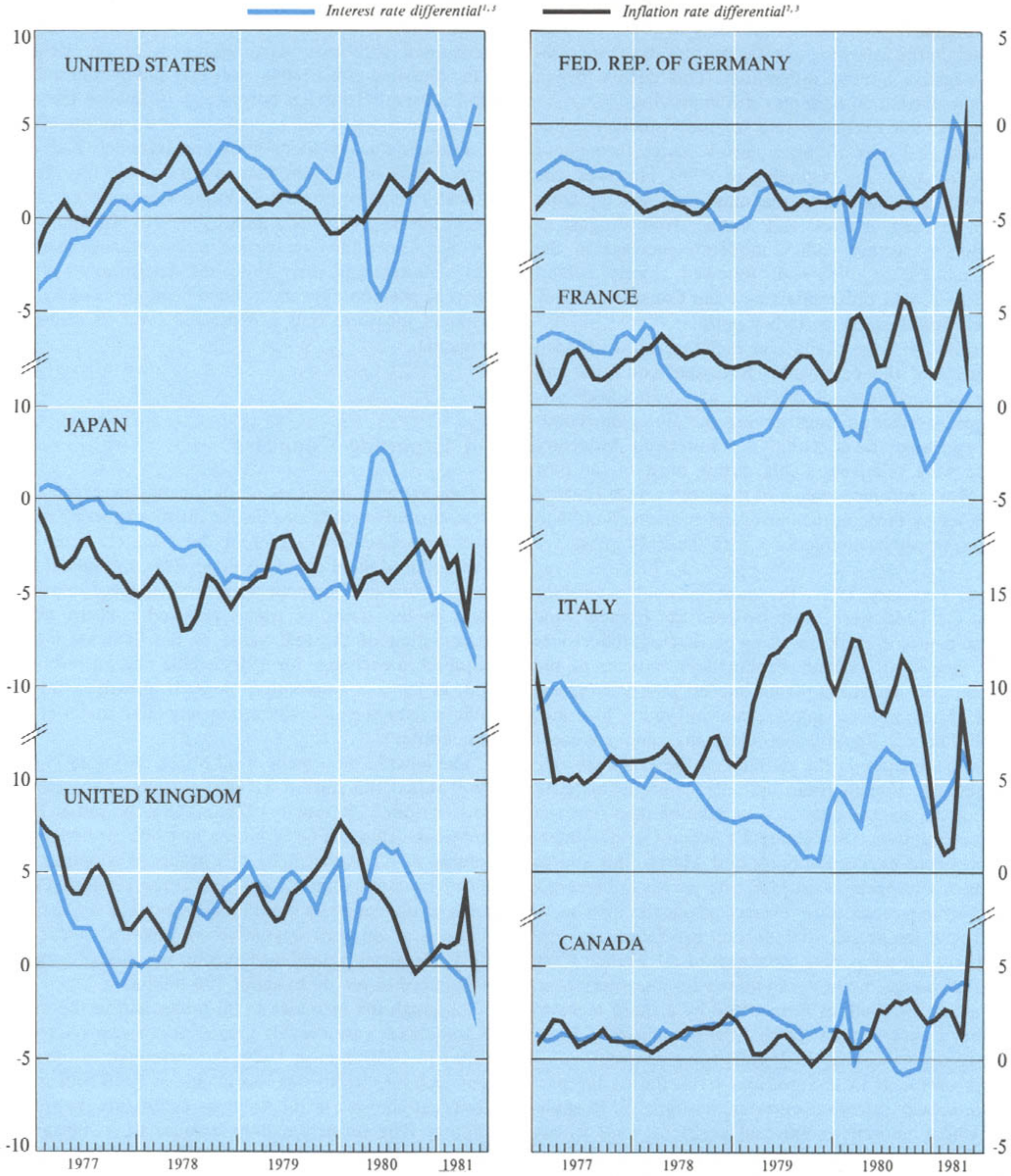
Subsequent peaks in U.S. interest rates, on the other hand, have coincided with strength in the U.S. current account (relative to current accounts of other industrial countries), and hence with relatively little need for the United States to attract funds from abroad for retention in the U.S. economy. The fact that such funds were nevertheless attracted was a by-product of a domestic monetary policy aimed more firmly than in previous years at reduction of inflation. The most recent upsurge of U.S. interest rates differed from that of early 1980 in that it came at a time when maintenance by European authorities of the stringent monetary conditions needed to prevent loss of interest-sensitive funds was generally less appropriate for their domestic economic situation than a year earlier in view of the recessionary conditions. Nevertheless, a number of the continental European countries—particularly those participating in the EMS arrangements—did permit or induce changes in their own monetary conditions that resulted in an upswing in their interest rates in the spring of 1981. Although this upswing did not arrest the depreciation of European currencies against the major overseas currencies, it can be credited with preventing more rapid depreciation.

For two of the major currencies that appreciated throughout 1980 and the early months of 1981, a partial reversal began in March and continued, at a moderate pace, through midyear. Both of these downturns—involving the pound sterling and the Japanese yen—were associated with declines in the respective domestic interest rates (and negative changes in interest differentials vis-à-vis the other major industrial countries) that had begun a few months earlier.

In the United Kingdom, the growth of the monetary aggregates for which a target is set exceeded the upper end of the target range, partly because a quantitative control on the banking system was abolished. But monetary policy continued to be firm, as attested by the slow growth of the narrowly defined money supply throughout 1980 (Chart 2) and the emergence of a positive real rate of interest. The impact of the severe recession in the United Kingdom, together with the effect of the decline in the rate of inflation on expectations, contributed to a fairly steady downward movement of short-term interest rates in the United Kingdom throughout the second half of 1980 and the first part of 1981. A high nominal yield differential in favor of the U.K. financial market (against a composite of yields in other markets) in the middle of 1980 disappeared by the turn of the year and became negative in the early months of 1981. This reversal of a long-prevailing nominal interest differential favoring investments in the United Kingdom was accompanied by, and doubtless helped to cause, the turn in the U.K. exchange rate that began in February 1981 despite a strong current account balance in the first quarter.

Japan's short-term interest rates also declined throughout the second half of 1980 and the first part of 1981, with a somewhat similar effect on the exchange rate. Nominal interest differentials in favor of Japan during the middle months of 1980 turned negative in the closing months and markedly so by the second quarter of 1981. Despite this widening of an adverse interest dif-

Chart 9. Major Industrial Countries: Interest and Inflation Rate Differentials, 1977–May 1981



[1] The rates shown are monthly averages of daily rates on money market instruments of about 90 days' maturity except for Japan, for which the discount rate on two-month (private) bills is used.
[2] Average rate of change in the deflator for private final domestic demand in the current quarter and the next two quarters.
[3] Differential between each country's own interest or inflation rate and a weighted average of the interest or inflation rates of those partner countries whose currencies are included in the SDR basket. The weights are those of the SDR calculation for January 1, 1981.

ferential, the effective exchange rate for the Japanese yen continued to rise through February 1981, reflecting the improvement of the current account balance and the performance of the Japanese economy. However, it then fell back in the following months because of the increasingly negative interest differential. This decline began while the current account was still improving.

The effective exchange rate for the Canadian dollar has fluctuated only within a narrow range throughout the period since the beginning of 1980. However, the principal movements over that time—a slight dip from March to May of 1980 and another from August to December, together with a moderate increase in the early months of 1981—all followed closely behind changes in yield differentials between Canadian money markets and those of its trading partners.

Despite the large changes in exchange rates between currencies of the continental European countries and major currencies outside that area, and despite wide differences in inflation rates among the European countries, exchange rates within the European Monetary System were relatively stable during most of the past year. Moreover, movements of these rates were broadly paralleled by those in the currencies of Switzerland and Austria, whose economic links with the EMS group are close.

Until February 1981, the most noticeable tensions within the EMS were those between the French franc and the deutsche mark, resulting partly from differences in the respective current account developments of the two countries and partly from interest rate arbitrage at a time of high nominal interest rates in France, low rates in the Federal Republic of Germany, and sufficient market confidence in the stability of the exchange rate between the French franc and the deutsche mark to override the marked difference in inflation rates between the two countries. (See Chart 9.) When German interest rates rose during February and March, this source of tension disappeared. In May, the pressures involving these two currencies were reversed as uncertainties associated with the presidential election in France triggered a marked, but temporary, weakness of the French franc in the exchange markets, countered by intervention on the part of the Bank of France and by a sharp increase in French interest rates. During the latter part of May, these pressures against the French franc abated.

Pressures also arose at various times during the past year or so with respect to currencies of three EMS countries whose underlying external positions were widely regarded by market participants as relatively weak. In Italy, where the extremely high and persistent inflation rate was a major source of weakness in the balance of payments, the authorities took countervailing action in March 1981, devaluing the Italian lira by 6 per cent in terms of EMS central rates, raising the discount rate and reserve requirements for the banking system, and announcing their intention to reduce the government deficit through measures on both the revenue and the expenditure sides of the budget. The Belgian authorities, confronted with protracted weakness of the Belgian franc, pursued a restrictive monetary policy and undertook substantial foreign borrowings to finance the current account deficit and support the exchange rate. Notwithstanding heavy intervention and extremely high real interest rates in Belgium, that country's EMS divergence indicator remained below its lower threshold for many weeks during the first few months in 1981. In Denmark, where considerable intervention in the exchange markets was undertaken in early 1980, the deterioration of the external position appears to have been checked by adjustment measures and a depressed level of domestic demand.

Oil Exporting Countries

International implications of the re-emergence of a large current account surplus for the oil exporting countries were discussed earlier in this chapter. From the standpoint of these countries themselves, the salient features of this development were another large improvement in the terms of trade; renewed concern about preservation of the real value of the financial claims acquired in exchange for a depletable natural resource; and, in 1980, a resumption of rapid growth in import volume (at a rate not matched by any other major group of countries).

The upward movement of oil prices during 1979 and 1980 raised the current account surplus of the oil exporters from $3 billion in 1978 to $68½ billion in 1979 and to an estimated $112 billion in 1980. Although the volume of oil exported by this group of countries declined by more than 12 per cent from 1978 to 1980, some of the countries continued to produce and export volumes of oil well beyond their financial needs. In 1981, the group's combined surplus on current account is expected to recede to about $96 billion.

Although the increases in oil prices and in the terms of trade were considerably greater (on a year-over-year basis) in 1980 than in 1979, the increment in the current account surplus was less sizable in 1980 because of divergent changes in the volumes of oil exports and of imports. The former, mainly because of a substantial decline in world oil consumption, fell by about 14 per cent in 1980 after having risen slightly in 1979. Imports by the oil exporting countries, on the other hand, rose in 1980 by about 15 per cent in real terms (and 29 per cent in terms of U.S. dollars), following a 12 per cent decline in real terms in 1979. That decline was primarily a reflection of the unsettled economic conditions in Iran, and the upsurge of the oil exporters' imports in 1980—associated mainly with the recent shift toward more expansionary policies—would have been somewhat larger in the absence of the recent hostilities between Iran and Iraq.

Part of the large rise in the trade surplus of the oil exporting countries from 1978 to 1980 was offset by increases in net payments for services and private transfers. These increases occurred despite the tendency of some countries to curb the growth in the number of expatriate workers, and despite a near doubling of income received on foreign investments as both holdings of assets abroad and international interest rates rose sharply.

Of the oil exporters' aggregate current account surplus of $112 billion in 1980, more than $100 billion was accounted for by the six countries (Kuwait, Iraq, Libyan Arab Jamahiriya, Qatar, Saudi Arabia, and the United Arab Emirates) whose current accounts had remained in surplus throughout the 1970s. This concentration was considerably higher than that occurring in 1974, when the same six countries accounted for less than two thirds of the total. Their share of total oil export volume of the whole group was about 70 per cent in 1980, compared with one half in 1974, reflecting both the rise in the volume of Saudi Arabian exports and the substantial decline in Iran's exports after 1978.

The expectation of a decline in the current account surplus of the oil exporting countries in 1981 reflects mainly the probability of continued relatively strong import demand in these countries and a further substantial drop in the volume of their oil exports, stemming from the continuing fall in world oil consumption. Although the oil market has softened considerably since the beginning of the year, the terms of trade of the oil exporting countries are expected to show a further improvement mainly because of the continuous upward movement of oil prices throughout 1980 and smaller import price advances in U.S. dollar terms from 1980 to 1981.

Information on the disposition of the current account surplus of the oil exporting countries continues to be uncertain because of the lack of complete balance of payments statistics for some members of the group and gaps in the coverage of data from alternative sources. The available estimates indicate that the cash surplus available for disposition in 1980, as in other years since 1975, exceeded the current account surplus because of substantial net external borrowing by some of the oil exporting countries. More than one third of the 1980 cash surplus is estimated to have been placed in highly liquid form, such as bank deposits and short-term government securities of major industrial countries, while slightly more than half was absorbed by acquisitions of longer-term or less liquid assets in the industrial countries.

Almost one tenth of the total cash surplus in 1980 went directly into grants or loans to other developing countries and contributions to regional or international development agencies. This outflow of funds, mainly on a concessional basis, has been the most stable element in the disposition of the surplus throughout the period since 1974. It increased in both 1979 and 1980, and the upward trend is expected to continue during 1981, reflecting growth of contributions or capital commitments to both bilateral and multilateral development agencies (particularly the OPEC Fund for International Development).

The proportion of placements in liquid assets was much lower, and that of longer-term investments much higher, in 1980 than in 1979, when about two thirds of the available cash surplus was placed in bank deposits and money market instruments. This pattern of initially high concentration in liquid assets, followed by a shift toward longer-term investments, was broadly similar to the sequence observed during the period 1974–76. The shift appears likely to continue through 1981 in view of the present concentration of the surplus in countries with already large holdings of liquid external assets, as well as the magnitude of capital outflows from the private sectors of the oil exporting countries.

In 1980, net investments by the oil exporting countries in claims on the Fund and the World Bank represented only 1 per cent of the cash surplus at the disposal of those countries. However, this share is expected to be significantly larger in 1981, reflecting particularly the recent loan agreement between Saudi Arabia and the Fund. (See Chapter 3, page 91).

Non-Oil Developing Countries

The aggregate current account deficit of the non-oil developing countries was pushed upward dramatically in 1979 and 1980. By the latter year, it had reached $82 billion, compared with $38 billion in 1978; and a further increase to $97 billion is projected for 1981.

The external financing problems associated with this rapid growth of the current account deficit have attracted a great deal of attention, and are discussed at some length below. However, the changes in external transactions of the non-oil developing countries that have generated the enlarged flows of financing also carry strong implications with respect to more fundamental factors, such as the availability of real resources for development. Examination of some of these implications may help to provide perspective for discussion of financing problems.

Factors in current account deficits.—Key elements of

Table 10. Non-Oil Developing Countries: Current Account Deficits as Percentage of GDP, 1973–80 [1]

	1973	1974	1975	1976	1977	1978	1979	1980
Weighted averages [2]								
Non-oil developing countries	2.0	5.0	5.8	3.7	3.0	3.2	4.0	4.8
Net oil exporters	2.9	4.5	7.3	5.3	4.4	4.3	3.8	3.8
Net oil importers	1.8	5.1	5.5	3.4	2.7	3.0	4.0	4.9
Major exporters of manufactures	1.5	6.2	6.0	3.2	1.9	2.0	3.5	4.3
Low-income countries	3.1	4.9	4.7	2.6	1.8	3.1	4.0	4.7
Other net oil importers	0.9	3.1	5.3	4.3	4.8	4.8	5.0	6.5
Medians								
Non-oil developing countries	4.1	6.0	8.9	6.7	6.4	7.4	7.6	10.1
Net oil exporters	3.1	1.9	7.0	6.7	5.9	6.9	5.8	3.4
Net oil importers	4.2	6.2	9.1	6.7	6.6	7.4	7.7	10.6
Major exporters of manufactures	0.4	6.2	4.9	4.0	3.0	3.0	4.8	4.2
Low-income countries	7.9	10.1	11.8	9.4	8.6	13.9	11.2	13.9
Other net oil importers	2.6	3.6	7.4	6.4	5.9	6.7	7.2	10.1
Memorandum item								
Weighted averages (including People's Republic of China)								
Non-oil developing countries	...	...	...	...	2.5	2.7	3.5	4.2
Low-income countries	...	...	...	...	0.7	1.7	2.2	2.8

[1] Excludes data for the People's Republic of China, except where noted. For classification of countries in groups shown here, see Table 2.
[2] Ratios of current account balances to GDP for individual countries, averaged on the basis of current GDP weights. Such estimates correspond exactly to those obtained through calculation for any particular grouping of countries of the ratio of the sum of the current account balances to the corresponding sum of GDP values.

the rise in current account deficits of non-oil developing countries since 1978 have included a retardation of growth in the volume of exports, deterioration of the terms of trade (reflecting primarily the advances in oil prices during 1979 and 1980), and an upsurge of interest payments on external debt. (See Table 10.) The first two of these factors produced an erosion of growth in the purchasing power of export earnings, and the third factor diverted a significant portion of the rise in potential purchasing power away from procurement of imports. Consequently, expansion of import volume was sharply reduced in 1980, despite the upsurge of external borrowing undertaken to sustain the inflow of needed resources.

The slowing of export volume growth since 1979 has stemmed mainly from a generally unfavorable evolution of conditions in major markets for exports of the non-oil developing countries. With demand in the industrial countries weakened by the recession, the strong export volume gains of 1978 moderated appreciably in 1979; further reduction in these gains is estimated to have occurred in 1980 and to be continuing in 1981. An annual rate of increase on the order of 7–8 per cent since the end of 1979 contrasts with a prerecession increase of 11 per cent in 1978 and an average of well over 9 per cent during the late 1960s and early 1970s.

The recession-induced slack in demand in the industrial countries also underlay a marked weakening of primary commodity prices during the latter part of 1980 and the first half of 1981. Particularly since around the turn of the year, this weakening has become the principal factor in the continuing deterioration of the terms of trade of the non-oil developing countries. During 1979 and much of 1980, this deterioration had resulted chiefly from the rise in prices of oil imports, as prices for non-oil exports and imports moved along broadly parallel paths during that period.

For the main group of oil importing countries, the impact of declining terms of trade and reduced export volume growth on the real import purchasing power of export earnings has been severe—indeed, for the low-income countries, almost devastating. Even for the whole group of net oil importers, including the relatively prosperous exporters of manufactures, the rise in purchasing power of exports[3] dropped to 1 per cent in 1980, compared with 5 per cent during each of the previous two years and well over 10 per cent in the period of bouyant primary commodity prices (1976–77). And for the low-income countries, the purchasing power of export earnings actually declined by about 6 per cent in 1980, after having already undergone a cumulative decline of almost equal magnitude during the preceding two years. The only group of non-oil developing countries with buoyant export earnings expressed in terms of external purchasing power was the subgroup comprising net exporters of oil.

The foregoing considerations explain to a considerable extent both the marked reduction of real import growth for the entire group of non-oil developing countries in 1980 and the sharp contrasts among the main subgroups of such countries with respect to import trends. Even though many countries borrowed heavily

[3] That is, the value of export earnings deflated by an appropriate index of import prices.

to avoid undue curtailment of imports, the 1980 increase in imports of the group as a whole was only half as large in real terms as that of the previous year—6 per cent versus 12 per cent. In 1979 and 1980, however, these increases reflected the peculiarly favorable position of the net oil exporters in the group. Their imports rose in volume by some 16–18 per cent in each of those years. For the oil importing developing countries, however, total growth of import volume was cut back from 8½ per cent in 1979 (roughly equal to the average over the late 1960s and early 1970s) to 3½ per cent in 1980. An equally low or lower rate of increase in the volume of imports into these countries is expected in the current year.

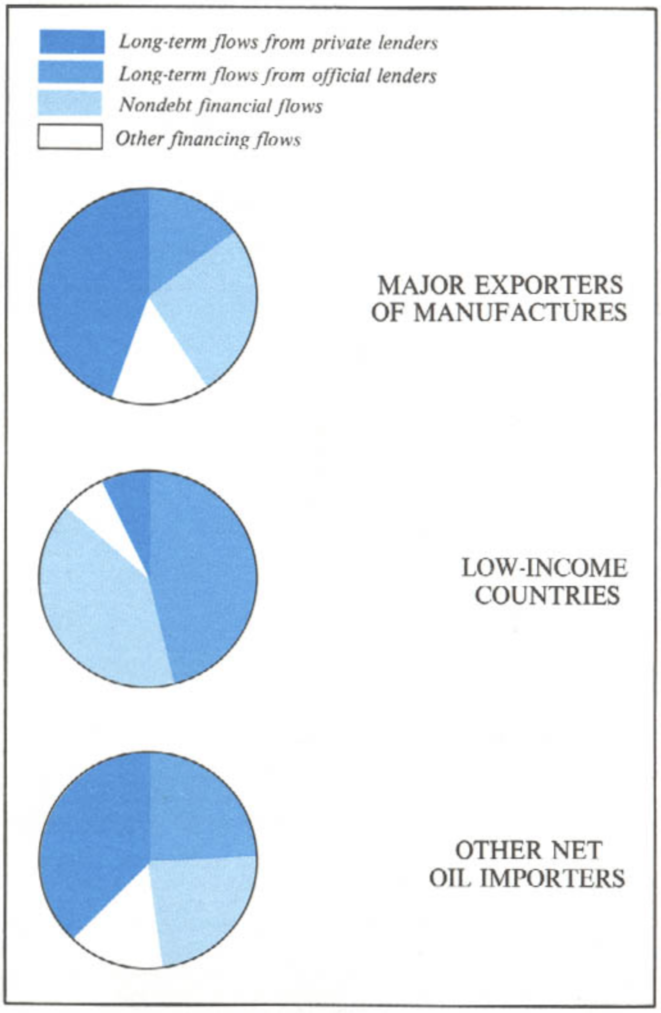
This flattening of import growth—due in part to limited growth of official development assistance and the high cost of private capital—is tending to constrain the total availability of resources and thus, for many countries, to make it more difficult to maintain a desirable pace of development. Given the deterioration of the terms of trade over the past several years, and the consequent rise in the real cost of obtaining supplementary resources from abroad, maintenance of investment programs geared to developmental objectives would require a significant shift of domestic resources from consumption to investment and probably also larger inflows of official development assistance and other capital. For many developing countries, and especially for those in the low-income group whose living standards are already minimal, such a shift is generally not feasible. In these cases, the constraint on the inflow of external resources can only limit the expansion of productive investment and prevent or delay a badly needed acceleration of growth in productivity and per capita incomes.

Efforts to avoid such results have led many countries to increase their net external borrowing very sharply in recent years. Import expansion has thus been better sustained than the purchasing power of export earnings. However, the resultant increase in outstanding debt, coupled with the marked rise in interest rates in major financial centers, has itself created a further drain on the availability of foreign exchange to pay for imports of goods and services. Interest payments by the non-oil developing countries on medium-term and long-term external debt more than doubled from 1978 to 1980, exceeding $30 billion in the latter year. Such payments thus absorbed about 7½ per cent of receipts from exports of goods and services in 1980, compared with 5½ per cent in 1978. Increases in interest payments on short-term external debt, although not reported separately in available statistics on investment income flows, undoubtedly accounted for a further absorption of export earnings. Moreover, while the rise in interest rates also boosted interest receipts of the non-oil developing countries on their reserves and other external financial claims, these asset holdings were increasing much less rapidly than external debt, especially in short-term forms. The rise in interest rates, accordingly, has produced an essentially one-sided effect on the payments balances of many developing countries over the past two years.

Unlike some of the other adverse influences on external payments positions of non-oil developing countries during this period, the rise in interest rates did not bear as heavily on the low-income countries as on the middle-income groups. The large reliance of the low-income countries on official financing, much of it on a concessional basis, and their relatively slight use of credit from private financial intermediaries on market terms (Chart 10) have prevented an upsurge of interest payment commensurate with that experienced by all of the other subgroups of non-oil developing countries. This

Chart 10. Oil Importing Developing Countries: Financing of Current Account Deficits and Reserve Accretions, 1977–80 Average

(Proportions of total financing requirement)



upsurge has been especially marked for the middle-income exporters of primary products (the "other" net oil importers), whose use of external credit from private financial institutions remained on a considerably smaller scale than that of the major exporters of manufactures or the net oil exporters through the middle 1970s, but has been rising more rapidly over the past few years.

In absolute terms, however, it is the major exporters of manufactures that have been most affected by the rise in interest rates. This small subgroup accounts for a large share of the total external indebtedness of the non-oil developing countries, and particularly of debt owed to private foreign financial institutions.

Despite the rise in interest payments, adverse changes in the balance of external service transactions since 1978 have been dwarfed by the deterioration of trade balances. Here, of course, the experience of the oil importing countries diverged sharply from that of the net exporters of oil. For the latter, a $16 billion rise in their combined oil trade surplus from 1978 to 1980 roughly matched the concurrent increase in their non-oil trade deficit, leaving a rise in payments of investment income as the main factor contributing to a moderate net increase in the collective current account deficit of the oil exporting subgroup. For the nearly 100 developing countries that are net importers of oil, on the other hand, the composition of changes in their combined trade balance was just the reverse. The net deficit on trade in oil rose by some $40 billion from 1978 to 1980, while the balance of non-oil trade swung into moderate surplus. This improvement of the non-oil trade balance, along with an increase in net receipts from various services and private transfers, was sufficient to offset the substantial rise in external payments of interest and other forms of investment income. For the oil importing countries as a group, the increase in their current account deficit from 1978 to 1980 was thus about the same—some $40 billion—as the growth of their oil trade deficit. Within this group, the ratio of net oil imports to total imports is estimated to have reached 22 per cent in 1980, compared with about 14 per cent in 1978 and 6½ per cent in 1973, prior to the first round of major increases in oil prices.

Pattern of financing.—To manage the financing of the enlarged current account deficit of 1980, the non-oil developing countries not only raised their net foreign borrowing by some $16 billion over the already expanded 1979 total but also reduced their combined annual accumulation of reserves to a small amount. (See Table 11, which details the capital and reserve accounts

Table 11. Non-Oil Developing Countries: Current Account Financing, 1973–80 [1]
(In billions of U.S. dollars)

	1973	1974	1975	1976	1977	1978	1979	1980
Current account deficit [2]	11.5	36.8	46.5	32.9	28.6	37.5	57.6	82.1
Financing through transactions that do not affect net debt positions	10.4	12.8 [3]	12.0	11.9	14.6	15.3	21.6	20.6
Net unrequited transfers received by governments of non-oil developing countries	5.6	6.9 [3]	7.3	7.4	8.2	7.8	10.4	10.6
SDR allocations, valuation adjustments, and gold monetization	0.4	0.5	–0.7	–0.3	1.0	1.2	3.0	2.1
Direct investment flows, net	4.4	5.4	5.3	4.8	5.4	6.2	8.2	7.9
Net borrowing and use of reserves [4]	1.1	24.0 [3]	34.6	21.0	14.0	22.2	36.1	61.5
Reduction of reserve assets (accumulation –)	–9.9	–1.4	2.5	–12.5	–12.1	–15.8	–10.1	–1.2
Net external borrowing [5]	11.0	25.4 [3]	32.1	33.5	26.1	38.0	46.2	62.7
Long-term borrowing	11.4	19.8 [3]	26.7	28.2	27.7	35.1	44.7	48.1
From official sources	5.7	9.9 [3]	11.7	10.8	12.5	14.3	14.5	21.0
From private sources	10.4	13.5	14.9	19.0	21.3	27.0	33.1	27.2
From financial institutions	*9.0*	*12.3*	*13.2*	*16.1*	*17.6*	*23.0*	*32.1*	*24.2*
From other lenders	*1.4*	*1.2*	*1.8*	*2.9*	*3.6*	*4.0*	*1.0*	*3.0*
Residual flows, net [6]	–4.7	–3.6	0.1	–1.6	–6.1	–6.1	–2.9	–0.1
Use of reserve-related credit facilities [7]	—	1.5	2.3	3.7	–0.6	–0.5	0.2	3.0
Other short-term borrowing, net	—	5.1	7.8	4.9	–0.5	2.2	7.6	11.6
Residual errors and omissions [8]	–0.4	–1.0	–4.7	–3.3	–0.5	1.2	–6.3	

[1] Excludes data for the People's Republic of China prior to 1977. For country classification, see Table 2.
[2] Net total of balances on goods, services, and private transfers, as defined for the Fund's *Balance of Payments Statistics* purposes (with sign reversed).
[3] 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.
[4] That is, financing through changes in net debt positions (net borrowing, less net accumulation—or plus net liquidation—of official reserve assets).
[5] 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.
[6] These residual flows comprise two elements: (1) net changes in long-term external assets of non-oil developing countries; and (2) residuals and discrepancies that arise from the mismatching of creditor-source data, taken from debt records, with capital flow data taken from national balance of payments records.
[7] Comprises use of Fund credit and short-term borrowing by monetary authorities from other monetary authorities.
[8] Errors and omissions in reported balance of payments statements for individual countries, and minor omissions in coverage.

of this group.) Indeed, with import prices rising by one fifth in 1980, that year's small increase in the nominal value of reserve holdings (only $1¼ billion) was tantamount to a sharp reduction of reserves in real terms. Many individual developing countries did reduce their reserves, even in nominal terms, in the effort to sustain imports. Moreover, a number of countries averted still further impairment of their gross international liquidity positions only through official borrowing, including use of Fund credit.

Another sign of widespread pressure on external financial positions during 1980 was the fact that much of the year's rise in foreign borrowing took forms significantly different from those that had predominated in the borrowing pattern of recent years. In particular, use of short-term credit was stepped up sharply. There was also a considerable increase—of a more sustainable character—in net long-term borrowing from official sources (including international development lending institutions). On the other hand, the net inflow of long-term loans from private financial institutions showed a marked decline, reflecting both caution of the lending institutions regarding the pace of further growth of their claims on some developing countries and resistance among borrowers to the high cost of loans from commercial banks.

Inflows of direct investment capital were also lower in 1980 than in 1979. Neither these inflows nor receipts of official transfers (the other principal form of non-debt financing) have kept pace with the rise in net external borrowing by non-oil developing countries in recent years. Whereas such borrowing was almost 70 per cent larger in 1980 than in 1978, the concurrent increases in direct investment and official transfers were on the order of one fourth and one third, respectively.

Both the cutback in reserve accumulation and the sharply increased role of short-term (or unidentified) credits in the financing of the 1980 current account deficit of the non-oil developing countries were strongly reminiscent of the changes in the financing pattern that accompanied the upsurge of the current account deficit in 1975. Precedent for several other recent changes in the pattern can also be seen in the 1975 experience. On both occasions, increases in use of reserve-related credit facilities were of considerable importance, and long-term capital inflows from official sources also rose, while earlier rapid growth in net borrowing from private financial institutions was either greatly slowed (1975) or reversed (1980). Clearly, the first three of the foregoing points of similarity are symptomatic of strains encountered in dealing with swollen current account deficits. To a considerable extent, the indicated forms of financing on both occasions reflected temporary responses to external shock, rather than viable solutions of persisting external financial problems. Reliance on such temporary sources of funds will in due course have to be replaced either by sustainable longer-term credits or by downward adjustment of the associated current account deficits, probably involving lower growth rates.

The strains implicit in the 1980 financing patterns sketched above are most evident in the accounts of the low-income countries, which, as a group, suffered relatively substantial losses of reserves in 1980. Since reserves of many of these countries were already inadequate or barely adequate, and since such countries do not, typically, have ready access to private sources of credit, the impairment of their international financial positions threatens serious hardship unless larger inflows of aid and official capital can be arranged. Inflows of these types—on which the low-income countries are much more dependent than any of the other subgroups of non-oil developing countries—did rise in 1980, but not enough to assure an adequate inflow of real resources, even with the reduction of reserves that occurred.

The major exporters of manufactures also reduced their reserves and expanded their short-term indebtedness during 1980. Most of the countries in this subgroup, however, had been accumulating reserves for several prior years, in some cases on a substantial scale, and were in relatively strong external financial positions before the latest upsurge in current account deficits. They were thus able to withstand a considerable erosion of those positions without serious damage. For some of these countries, in fact, the rundown of reserves was less a necessity than a means of minimizing undue use of private market credit at a time when its net cost was relatively high. The largest share of the 1980 cutback in borrowing from foreign commercial banks by non-oil developing countries was concentrated in the exporters-of-manufactures subgroup.

With regard to current account financing, as in other respects, recent experience of the net oil exporting subgroup has diverged from that of the oil importing countries. The oil exporters did not noticeably increase their reliance on short-term credit, and they continued to accumulate reserves in sizable amounts during 1980, despite an increase in their current account deficit. Having particularly ready access to private financial markets, they easily covered both that deficit and the additions to reserves through increased borrowing, mainly in the form of long-term capital from private financial institutions.

External debt and debt service.—The heavy net borrowing of recent years has resulted, of course, in broadly commensurate increases in the outstanding external debt of the non-oil developing countries.[4] Available estimates

[4] Mainly because of valuation changes, especially for debt denominated in currency units other than U.S. dollars, changes in reported debt do not exactly match the net long-term capital flow estimates given in Table 11.

of the long-term and medium-term components of such debt (including rough estimates of private debt without a guarantee from the authorities of the borrowing country—a component not covered in previous Annual Reports) indicate a total of $370 billion at the end of 1980, nearly $100 billion above the amount outstanding at the end of 1978 and more than 3½ times the end-1973 total. (See Table 12.) These nominal comparisons, however, do not give a meaningful view of the scale of changes in debt over a period of high inflation and substantial real growth. A more realistic notion of the changes in the scale of the debt can be obtained by comparing it with other basic economic variables that also reflect inflation and growth.

This purpose is served by Chart 11, which shows ratios of external debt to exports of goods and services and to GDP, both for the non-oil developing countries as a group and for the principal analytical subgroups of such countries distinguished in this Report. In general, the record depicted by the chart is one of increasing magnitude of debt in relation to both exports and GDP from 1974 through 1978, followed by moderate declines in the ratios over the next two years. These declines reflected at least three significant factors: the recent substitution of short-term for long-term borrowing; the virtual cessation of reserve accumulation by the non-oil developing countries, which had given rise to a sizable portion of their borrowing for several preceding years; and the fact that a given year's inflation, although fully reflected in that year's exports or GDP, affects only the newly incurred component of the year-end debt.

Chart 11 also brings out some important differences among subgroups of countries with respect to the relative magnitude of external debt and recent changes therein. It may be noted, for example, that the debt/export ratios are much higher for the low-income countries than for the others, while those for the major exporters of manufactures are relatively low, even though the latter subgroup accounts for a large share (nearly two fifths) of the aggregate external debt of the non-oil developing countries. The ratios for the exporters of manufactures declined sharply from 1978 to 1980, reflecting the relative buoyancy of their exports, and this was doubly true for the net exporters of oil. Only for the middle-income exporters of primary products (the "other" subgroup) was there an increase in the debt/GDP and debt/export ratios in 1979 and 1980. These countries began to step up their external borrowing later than the two other middle-income subgroups, but in recent years have been rapidly gaining (and using) access to international credit markets. Despite this trend, the role of private financial institutions as suppliers of external credit remains smaller in the debt structure of the primary product exporters than in the debt structure of the other middle-income subgroups.

The rise in total external debt and the shift toward private financial markets as sources for larger shares of the funds borrowed by non-oil developing countries during the 1970s have had a marked impact on the level of debt service payments. Since 1978, the upward tendency has been greatly reinforced by the general esca-

Table 12. Non-Oil Developing Countries: Long-Term External Debt, 1973–80 [1]

(In billions of U.S. dollars)

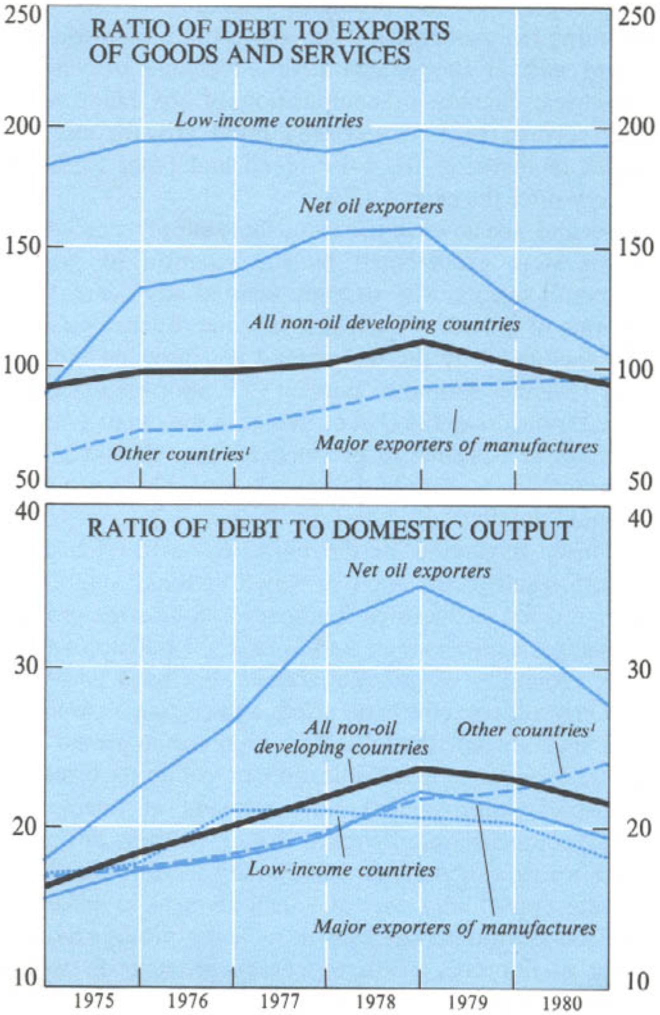
	1973	1974	1975	1976	1977	1978	1979	1980
Total outstanding debt of non-oil developing countries	97.3	120.6	147.1	175.6	216.7	272.7	322.8	370.1
By type of creditor								
Official creditors	49.1	59.3	69.3	81.2	97.8	117.8	134.8	155.8
Governments	36.9	44.2	50.4	58.5	68.9	81.6	92.1	106.0
International institutions	12.2	15.2	18.8	22.7	28.9	36.2	42.8	49.8
Private creditors	48.3	61.2	77.9	94.4	118.9	154.9	188.0	214.3
Unguaranteed debt	21.4	26.0	32.0	37.5	43.1	51.4	60.7	68.2
Guaranteed debt	27.0	35.2	46.0	57.0	75.8	103.5	127.3	146.1
To financial institutions	13.1	21.7	29.8	39.0	54.3	73.9	96.1	112.8
Other private creditors	13.8	13.5	16.1	18.0	21.5	29.6	31.2	33.3
By area								
Africa	12.9	15.7	19.7	23.8	31.1	38.3	42.9	47.8
Asia	27.0	31.5	36.7	43.5	52.7	62.6	72.0	85.0
Europe	12.2	14.6	16.7	19.6	24.9	33.1	45.5	52.7
Middle East	8.5	10.1	13.1	16.0	20.3	24.6	28.6	32.1
Western Hemisphere	36.7	48.6	60.9	72.7	87.7	114.1	133.9	152.5
By analytical group								
Net oil exporters	15.6	20.7	31.0	38.8	50.4	61.5	68.7	77.4
Net oil importers	81.7	99.9	116.1	136.8	166.2	211.2	254.2	292.6
Major exporters of manufactures	38.9	47.6	56.3	66.9	80.7	107.9	128.6	143.0
Low-income countries	21.6	25.8	29.1	34.0	40.2	46.2	52.3	60.7
Other net oil importers	21.2	26.5	30.7	35.9	45.3	57.1	73.3	88.9

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

[1] Excludes data for the People's Republic of China prior to 1977. For classification of countries in groups shown here, see Table 2.

Chart 11. Non-Oil Developing Countries: Ratios of Debt to Exports of Goods and Services and to Domestic Output, 1974–80

(In per cent)



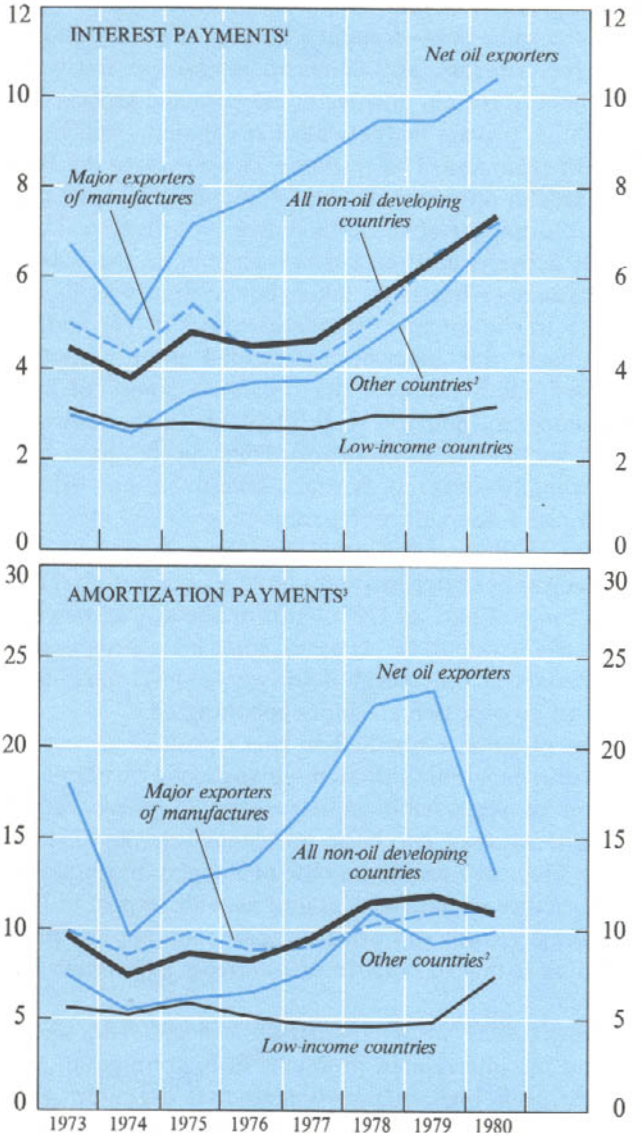
[1] Consisting of middle-income countries that, in general, export mainly primary products.

lation of interest rates in major financial markets. The rise in interest payments by non-oil developing countries, already discussed in the review of developments with respect to their current account balances, is placed in a somewhat different perspective in Chart 12, which relates these payments to exports of goods and services in order to make rough allowance for changes over time in the scale of nominal values. As the chart shows, the burden on export earnings created by the increase in long-term interest payments since the middle 1970s is substantial, averaging about 3 percentage points and strongly affecting all of the subgroups shown in the chart except the low-income countries. Among the latter, the rise in the ratio of interest payments to export earnings was only about ½ of 1 per cent from the mid-1970s to 1980, but it now seems to be accelerating somewhat.

The chart also shows the substantial increases of recent years in the ratio of debt amortization payments to export earnings. These increases reflect a shortening of the average maturity of the debt, associated with the

Chart 12. Non-Oil Developing Countries: External Debt Service Payments, 1973–80

(In per cent)



[1] Annual interest payments as percentage of annual exports of goods and services.
[2] Consisting of middle-income countries that, in general, export mainly primary products.
[3] Annual amortization payments as percentage of annual exports of goods and services.

larger proportion of commercial market financing, as well as the rise in total indebtedness. For non-oil developing countries as a group, the higher amortization payments can be readily absorbed through "rolling over" of maturing debt, and in any case are not a burden on the current account of the balance of payments. Higher amortization payments, however, can present serious problems for any individual country whose ability to refinance maturing debt may become impaired for whatever reason.

Policy Issues

The world economic situation, as described above, is a troublesome one—fraught with problems and difficulties. Nevertheless, any balanced assessment must also take note of certain positive or encouraging aspects. For one thing, private markets have so far done well in the recycling process. The response of policies to the large increases in oil prices during 1979 and 1980—with the threefold impact of those increases on prices, real economic activity, and the current account of the balance of payments—has been much better than was the response to the oil price increases of 1973–74, and the adjustment this time has proceeded more smoothly. Primarily as a result of the restrictive stance of fiscal and monetary policies, wage increases in the industrial countries have been more restrained, profits have been less severely squeezed, business investment has held up better, and secondary repercussions of oil price increases on the general price level have been limited—with consumer price increases having subsided markedly since the first part of 1980. Also important, as noted in the Introduction to this chapter, some clear progress has been made in the energy field, where developments of the past year or two are more encouraging.

The progress embodied in these positive aspects of the world economic situation—if sustained by continued pursuit of responsible policies—should prove helpful in the tackling of two basic problems over the next few years. One such problem is the prolonged disappointing performance of industrial countries with respect to both economic growth and price stability. Another key problem area is that of balance of payments adjustment and financing.

"Stagflation" in the industrial world.—The factors behind the interrelated problems of high inflation, slow growth, and high unemployment that are now widespread throughout the industrial world were built up during the 1960s and the 1970s. In retrospect, the causes of this "stagflation" are attributable largely to three broad (and partly overlapping) developments.

First, various economic, social, and political factors brought about a reduction in the rate of growth of real per capita income and an increase in the average rate of unemployment. Prominent among these factors were excessive expansion of government services and transfers, financed in large part through higher marginal tax rates on incomes and money creation; the decline in the rate of growth of productivity, stemming from a variety of complex factors; problems of industrial structure resulting from changes in the composition of world demand and in the comparative advantage of various countries; changes in composition of the labor force that accompanied its generally rapid growth; and the major increases in the price of oil and other forms of energy since the early 1970s.

Second, the adverse effects of these supply-side developments were exacerbated by the reaction of private economic agents, who strongly resisted any decrease in the rate of growth of their real incomes. Such resistance was facilitated by the widespread and growing indexation (whether formal or implicit) of labor incomes and social transfers to the cost of living. In the circumstances of a marked decline in productivity growth and in the external terms of trade, this mechanism obviously contributed to inflation.

Third, stagflation in the industrial world has also been a result of the ways in which national authorities have reacted to the forces tending to depress the growth of real per capita income and to raise the unemployment rate. Examples of policy reactions that have had particularly adverse effects on prices and employment in recent years include the following: increases in protectionist trade measures, subsidization of declining firms or industries, improvement and extension of unemployment compensation benefits that (however desirable from a social or political standpoint) have reduced the private opportunity cost of unemployment in some industrial countries, and failure to make prompt adjustment of domestic prices of energy products to world market levels.

Whereas other specific examples along the foregoing lines could be cited, by far the most disappointing results of national economic policy have occurred in the area of demand management. In many cases, national authorities sought to offset or cushion the harshness of economic developments through recourse to expansionary monetary and fiscal measures. At least in part, such efforts reflected a lag in recognition that the slowing of growth of potential output had become a new limiting factor. Since increases in aggregate nominal demand could not change what was happening on the side of supply, including the rate of technical progress, their effects were ultimately felt on the price level. These repeated experiences were gradually, but firmly, translated into higher inflationary expectations on the part of the public, making the problem of inflation more intractable.

Even after quantitative targets for the growth of monetary aggregates had been established in anti-inflation programs during the latter part of the 1970s, these targets were frequently missed. Further, government expenditure programs that had been built up during the 1960s and the first half of the 1970s proved difficult to cut back in the interest of inflation control. The examples of ineffective monetary targeting, together with the continuation of sizable fiscal deficits widely expected to involve monetary creation for their financing, have contributed to the persistence of inflationary expectations notwithstanding the weakness in real activity.

In sum, as the foregoing sketch has attempted to indicate, the current problem of stagflation in the industrial world has stemmed from a variety of long-term developments that have caused both (i) structural imbalances and impairment of productive efficiency and (ii) a severe worsening of inflation and a buildup of inflationary expectations. It seems clear that the degree of rigidity and inflexibility in the economies of many industrial countries has increased markedly over the past decade or so, and that failure to control the growth of nominal demand has adversely affected public perception of the efficacy of national economic policies.

Since the origins of stagflation in industrial countries are both complex and deep rooted, the policy approach to deal with this problem has to be multipronged. Although policies will have to differ among countries, in order to take account of their respective economic situations and objectives, the crucial elements of the needed general approach may be readily defined.

Moderation of inflation in the industrial countries is unlikely to occur without a reduction in rates of growth of aggregate nominal demand that is sufficiently marked and prolonged to break inflationary expectations. Such control of nominal demand requires steady and careful restraint on the growth of monetary aggregates, coupled with a consistent fiscal policy doubtless entailing, in most countries, a reduction in the size of present budget deficits. The advantages of a consistent, supportive fiscal policy are that it facilitates achievement of the monetary targets and reduces the likelihood that monetary policy, through its impact on real interest rates, will have seriously disturbing effects on private investment and exchange rates.

Control of nominal demand is essential for the purpose of reducing inflation and providing an economic environment conducive to the revival of private investment and the restoration of sustainable economic growth. But a policy of marked reduction in the growth of nominal demand—depending on the effect it has on expectations—could have an adverse impact on output and employment for a considerable period of time and thus prove politically difficult to maintain. If the fight against inflation and unemployment in the industrial countries is to be successful over time, an integrated policy approach is required, one that includes supporting or supplementary measures directed mostly toward problems of supply. Some of these measures may be designed to improve efficiency in the goods and labor markets through the gradual removal of existing rigidities and inefficiencies. Also important are measures to eliminate disincentives—and provide positive encouragement—to saving and investment. Other fundamental measures should aim at more efficient use of energy resources and development of additional sources of energy. Also, the policy of reducing the rate of growth of aggregate nominal demand over the medium term should be accompanied by a policy seeking to achieve a consistent reduction in the growth of nominal incomes. During the 1970s, most attempts to establish formal incomes policies encountered failure because they lacked adequate support of the private sector or of public policies in the fiscal and monetary fields. In addition, this is a controversial area—strongly affected by political, social, and institutional considerations—in which few generalizations are applicable to individual countries. In some countries, nevertheless, flexible or informal policies to restrain the growth of incomes can serve as useful adjuncts to fiscal and monetary policies. Such policies would seem to be especially appropriate at the present time in view of the need for public understanding of the inflationary mechanism, and of the limitations on real income gains that are implied by the rapid escalation of energy prices and by the weak behavior of productivity growth in many countries during recent years.

The need for an integrated policy approach in tackling stagflation in the industrial world can hardly be emphasized too strongly. Admittedly, it involves a difficult process requiring firmness and patience on the part of the authorities—a process that cannot successfully be cut short through resort to fiscal and monetary expansion. This would only impair the anti-inflation policy stance of the authorities and ratchet the economy to an ever higher rate of inflation that, in due course, would call for a still more costly process of adjustment.

Payments adjustment and financing.—In this broad area, three important problems command attention.

One problem concerns the outlook for adjustment between oil exporting and oil importing countries over the medium term. As described earlier in this chapter, the imbalance in current account positions between oil exporting and oil importing countries is now quite large; and it may be expected to remain sizable for a number of years if, among other things, the authorities in the oil exporting countries hold to their intention of pursuing relatively cautious policies so as to minimize inflationary pressures and foster balanced development of their economies. Also, the current market situation notwithstanding, the uncertainties to be faced in the next few years regarding the supply/demand balances in the oil and energy markets could be considerable.

With respect to policy approach, the rate of domestic absorption in the oil exporting countries should not be expected to accelerate beyond that desired by the authorities of those countries in their own national interests. As already emphasized, the international adjustment process requires the oil importing countries to bring about a more efficient and broader-based use of energy. Further, the transfer of goods and services from oil importing to oil exporting countries should be facilitated by increasing the capital stock in oil importing countries and allowing for a better adjustment of the real wage rate to the decline experienced by those countries in their external terms of trade.

Another problem concerns the weakness of the external positions of some of the smaller industrial countries, which have built up large current account deficits in the past few years. The financing of such deficits is not expected, in general, to pose problems, but the external adjustment difficulties of these countries are now having significant effects on their volume of exports and level of economic activity.

The payments imbalances in these smaller industrial countries are due as much to domestic as to international developments. Most of them experienced a sharp decline in the share of national income going to profits during the 1970s because of three developments: the rapid expansion of social transfers financed by employer contributions, the granting of major increases in nominal wage rates during the first half of the 1970s, and the use of indexation schemes that, during the latter part of the 1970s, tended to prevent real wage rates and social transfers from adjusting to the fall in terms of trade resulting from the increases in energy prices.

The decline in the profits share has been particularly marked in the manufacturing sectors that provide the bulk of export earnings. Because these countries have small and open economies, the burden of adjustment has been borne by profits in the traded goods sectors whenever costs have tended to increase more than in partner countries. With the deterioration in profit margins, marginal firms have been closed and new investment has been discouraged. The traded goods sectors have shrunk in relative terms and the smaller production bases have led to reduced market shares in both domestic and foreign markets. Unless adequate profit margins are restored, particularly in the manufacturing sector, it is difficult to see how external imbalances can be reduced or eliminated.

The third, and most severe, problem in the field of balance of payments adjustment stems from the weakness of the external positions of many non-oil developing countries. Here, the main focus of concern is on two subgroups of non-oil developing countries—the low-income countries and the middle-income countries exporting mainly primary products (the "other net oil importers" in Table 8), which together comprise about 90 developing countries that are net oil importers but not major exporters of manufactures. Many of the countries in these subgroups do not produce the kinds of goods and services most in demand by oil exporting countries and are thus handicapped in trying to offset their rising import bill by additional exports to those countries. More importantly, the countries in these subgroups typically export primary commodities for which world demand has recently been weak because of the sluggish rate of economic growth in the industrial world. As a result, the growth of their export volumes since the early 1970s has been quite moderate. Taking into account the decline in their terms of trade, the "real" export earnings (export earnings deflated by import prices) of the low-income countries actually declined over this period, while those of the middle-income exporters of primary products increased at an average rate of only about 1 per cent a year. In addition, these two subgroups of non-oil developing countries have been severely affected by the decrease in the real value of the flow of official transfers from industrial countries in recent years, as well as by the difficulty of exporting to the industrial countries in the face of protectionist measures against both agricultural and manufactured products.

So far, these two subgroups have, on the whole, succeeded in sustaining economic growth (at an average of 4 to 4½ per cent a year) without excessive increases in their ratios of debt or debt service payments to exports of goods and services, although difficulties have arisen in a number of individual countries. As one looks ahead, however, it is apparent that the burden of external indebtedness may become more serious in some of these countries over the medium term. First, a major reason why the debt situation of these two subgroups was still generally manageable at the end of 1980 was the large negative *ex post* real interest rates that they had experienced in the previous several years.[5] The large increase in real interest rates that occurred in world financial markets in 1980–81 (and which may not be reversed over the next few years), along with the gradual change in the structure of commitments that has been taking place (toward debt contracted at market-related interest rates), will inevitably tend to increase considerably the real debt service burden of many

[5] That is, the average nominal interest rates on the external debt of these two subgroups of non-oil developing countries during the period 1974–79 was much smaller than the average annual rate of increase in their export prices. (For a fuller discussion of this matter, see *World Economic Outlook: A Survey by the Staff of the International Monetary Fund* (Washington, June 1981), page 11.)

countries in the two subgroups under discussion. Second, the current account deficits of these subgroups were much larger in 1980 than in the period 1974–79, and they are likely to increase further in 1981 and 1982 as a result of recession and slow growth in the industrial world.

As discussed in Chapter 2, structural actions and exchange rate changes, accompanied by supportive demand management policies, have a crucial role to play in the adjustment process of many developing countries. In the final analysis, however, it must be recognized that the prospects for developing countries—despite their own best adjustment efforts—could soon become critical if the real price of oil were to increase further and growth in industrial countries were to continue at a low rate. Under such conditions, it is uncertain whether many of the middle-income primary producers and low-income countries could even maintain rates of economic growth sufficient to prevent outright declines in per capita real income.

* * * * *

The two major policy issues that have just been discussed—stagflation in the industrial countries and problems of balance of payments adjustment and financing—are closely interrelated and global in scope, involving a large number of Fund member countries. Thus, it seems clear that a solution to these problems can be achieved more readily if there is an enhanced degree of international cooperation among individual countries and groups of countries. In the case of the major industrial countries, cooperation should include concerted efforts to address the underlying causes of stagflation and to conduct fiscal and monetary policies so as to ensure a satisfactory degree of stability of real exchange rates among the key currencies, a topic to be discussed in Chapter 2. International cooperation is also crucial from the standpoint of preventing the expansion of world trade from being stifled by increased protectionism, particularly in the industrial world. Further, especially for the low-income developing countries, increased efforts by industrial and oil exporting nations to provide grants and concessionary loans are vitally necessary.

The Fund is playing an active role in helping member countries to deal with policy issues. In its regular consultations with individual members, the Fund provides assistance in the diagnosis of economic problems and in the prescription of requisite policies. It also provides a forum for dialogue and cooperation through its periodic reviews of economic developments and policies in the context of the World Economic Outlook. Both of these activities are pursued in connection with the Fund's general responsibility for surveillance over member countries' exchange rate policies.

In the area of adjustment and financing, the role of the Fund is being sharply expanded. Since the outlook for the next few years is for large and persistent payments imbalances, adjustment has become imperative in many countries and may require more time and may have to include measures directed toward structural problems. In order to support its adjustment programs with member countries, the Fund has increased its resources and has enlarged the access of members to them (as described in Chapters 2 and 3). These new approaches of the Fund have found a rapid response on the part of member countries. As pointed out in the Introduction to this chapter, the activity of the institution is at a very high level in regard to both the number of arrangements with members involving high conditionality and the total amount of resources being made available.

The opportunity of addressing and overcoming the problems of stagflation in the industrial world and of balance of payments adjustment and financing is clearly an extremely important one for the Fund and its members. Success in handling these problems over the medium term—during what could be a very difficult period of adjustment—would set the stage for resumption of satisfactory growth with better price performance in the industrial world during the second half of the 1980s, while also fostering exports and economic growth in the non-oil developing countries and enabling many of them to reduce the burden of external indebtedness. On the other hand, failure to come to grips with the basic problems discussed above would be very costly in terms of national and world economic performance throughout the current decade. The stakes are thus high; the premium on pursuit of sound and cooperative policies is unquestionably great.

Chapter 2
Developments in the International Monetary System

The behavior of exchange rates during 1980 and the first half of 1981 reflected the fundamental problems of the international economy during this period. Continued divergences among rates of inflation and growth of real output in the industrial countries, as well as sizable changes in current account positions, contributed to sustained movements in exchange rates during the 18-month period ended in mid-1981. Viewed from a medium-term perspective of two to three years, exchange rates of industrial countries have generally moved in the direction suggested by the evolution of current account imbalances. During the period under review in this Report, however, short-run fluctuations in interest rate differentials between major industrial countries were much larger than in previous years and were associated with high short-run variability of bilateral exchange rates. The non-oil developing countries, which faced an especially difficult economic environment, had an important stake in maintaining exchange arrangements that would moderate the effects on them of exchange rate fluctuations among major currencies and in pursuing national exchange rate policies that would avoid a further weakening in current account positions already impaired by external circumstances. For oil exporting countries, too, exchange rate developments had an important role to play by affecting the competitiveness and profitability of the non-oil sector and hence the success of efforts to diversify production and exports. These topics of exchange rate behavior and international adjustment, as well as the important role of the Fund in surveillance over members' exchange rate policies, are treated in the first part of this chapter.

Recent developments in the international monetary system have had a substantial impact on the volume, distribution, and composition of international liquidity. The level and pattern of international reserves have been affected especially by the recycling of net current account earnings of oil exporting countries, largely through international capital markets, as well as by exchange market intervention, increased holdings of European Currency Units (ECUs), SDR allocations, and increases in reserve positions in the Fund. The recent and prospective future growth of international liquidity, supplied by financial markets as well as by the Fund, raises issues with regard to the adequacy of international reserves, the role of the SDR in the international monetary system, and the Fund's contribution in providing conditional liquidity and supplementing the global supply of reserve assets. These matters are discussed in the second part of this chapter.

Exchange Rate Arrangements and Policies

Recent developments in the exchange rate system, discussed in the following section, were marked by large exchange rate changes related both to differences among the internal monetary developments in several major countries and to large shifts in current account balances. This part of the chapter also discusses, against this background, the efforts of the developing countries to adapt their exchange arrangements and policies to the rapid, and mostly unfavorable, changes in their external environment that have been taking place. In assessing these developments, Fund surveillance over exchange rate policies of members must take into account not only the need for achieving external balance but also the political and economic desirability of meeting domestic objectives.

Exchange Rate Experience of Industrial Countries

Analysis of the evolution of exchange rates among the industrial countries is complicated by the interdependence among changes in exchange rates, monetary and other policies undertaken by those countries, and other factors affecting their current account positions. While most countries in the world, including most of the smaller industrial countries, peg their currencies to one of the major currencies or to baskets that include these currencies, the rates among the major currencies themselves—except for rates between currencies of participants in EMS intervention arrangements—are subject to wide variation and are determined principally by financial policies and current account developments in the countries concerned. Monetary policies and current account positions have both a direct impact on the demand for, and supply of, the domestic currency in the foreign exchange market and an indirect effect brought about by altering the expectations of investors with regard to future exchange rates and thereby inducing portfolio shifts among assets denominated in different currencies. Exchange rate movements, in turn, have a major impact on current account developments, which tend, however, to be more heavily influenced in the short run by cyclical changes in real income. The following sections describe salient aspects of these interdependent processes.

Exchange Rate Developments [1]

The year 1980 and the first half of 1981 witnessed unusually large changes in the effective exchange rates for currencies of certain industrial countries (Chart 8) and some even larger changes in certain bilateral rates. The Japanese yen showed the largest effective appreciation, rising by 22 per cent from December 1979 to June 1981. The effective exchange value of the U.S. dollar appreciated rapidly in the last quarter of 1980 and the early months of 1981, reaching in June a level 16 per cent higher than its level in December 1979. At the other extreme, the currencies of participants in the European Monetary System (EMS) and Switzerland depreciated sharply, and the currencies of most other industrial countries also depreciated. The deutsche mark, for example, depreciated by 13 per cent on an effective basis, by 27 per cent against the dollar, and by 32 per cent against the yen.

In contrast to these large changes in exchange rates between certain major currencies, nominal rates among EMS participants were stable. This stability resulted partly from the fairly heavy official intervention in exchange markets that was required at times to maintain margins and partly from interest rate policies designed for this purpose. The similarity of current account developments among EMS participants also contributed to maintaining stable exchange rates. There has been only one currency realignment since the end of 1979—the lowering of the central rate of the Italian lira vis-à-vis the ECU by 6 per cent in March 1981. There remained, however, considerable differences among EMS participants' rates of inflation, which in 1980 ranged from 5.5 per cent for the Federal Republic of Germany to 21 per cent for Italy.[2]

Those exchange rates that registered wide swings from year to year, as discussed earlier, also showed substantial short-run variability in 1980 and the first half of 1981. There were, however, noticeable differences between the evolution of the variability of import-weighted effective exchange rates and that of U.S. dollar exchange rates (Table 13).[3] The variability of effective exchange rates for most industrial countries—and notably for the smaller industrial countries—was lower or only slightly higher in 1980 than in 1979 and was lower than in any other year since 1973. In contrast, the variability of dollar exchange rates increased substantially in 1980 compared with 1979, returning to or exceeding levels prevailing during the earlier years of floating rates.

Exchange Rates and Interest Rates

The sharp changes in U.S. short-term interest rates over the past year and a half have resulted in large variations in interest rate differentials between the United States and other major industrial countries. These movements have been associated with fluctuations in U.S. dollar exchange rates taking place over the same period. Attention has been attracted, in particular, by the sharp appreciation of the U.S. dollar at times of relatively large interest differentials in favor of the United States, for instance in February and March 1980 and again in the last quarter of that year and the first half of 1981. There exists, however, a range of views on the relationship between exchange rates and interest rates. Salient aspects of this relationship are discussed in this section.

An analysis of the recent interaction between interest rates and exchange rates must start with the observation that changes in both of these variables depend upon such factors as the growth in supply of and the demand for money and other financial assets in different economies and the expectations of the market with regard to rates of inflation in different countries. Broadly speaking, both interest rates and exchange rates depend on domestic monetary and fiscal policies, and divergences among countries in the policies they are following there-

[1] These developments are described in detail in Chapter 1.

[2] Figures refer to the increase in average consumer prices from 1979 to 1980.

[3] Import-weighted effective rates were chosen for this comparison rather than the MERM-weighted rates used in Chart 8 because MERM-weighted rates are not available for developing countries.

Table 13. Average Monthly Variability of Effective Exchange Rates and U.S. Dollar Exchange Rates, January 1974–December 1980[1]

	Effective Exchange Rate[2]				Dollar Exchange Rate			
	1974–77	1978	1979	1980	1974–77	1978	1979	1980
Industrial countries	1.28	1.44	0.96	1.03	1.89	2.27	1.37	2.18
Canada	1.03	1.40	1.21	0.78	0.98	1.14	1.18	1.04
France	1.34	1.61	0.64	0.89	1.98	2.22	1.40	2.59
Germany, Federal Republic of	1.22	1.33	0.64	0.96	2.11	2.63	1.47	2.72
Italy	1.60	0.73	0.68	1.15	2.11	1.64	1.26	2.58
Japan	1.48	3.13	2.03	3.34	1.62	3.73	2.23	3.76
United Kingdom	1.23	1.61	2.16	0.96	1.80	2.33	2.63	2.10
United States	0.62	0.94	0.60	1.18	—	—	—	—
Other industrial countries	1.41	1.51	0.94	0.95	2.26	2.64	1.44	2.41
Developing countries[3]	1.41	1.66	1.47	1.45	1.32	1.49	1.33	1.51
Pegged to U.S. dollar	1.05	1.55	1.51	1.24	0.49	0.53	0.80	0.00
Pegged to SDR	1.66	1.99	2.58	1.97	1.52	2.58	2.60	2.24
Pegged to French franc	0.66	0.70	0.37	0.46	1.99	2.22	1.41	2.58
Other developing countries	1.87	1.96	1.52	1.81	1.72	1.76	1.42	2.20

[1] Variability is defined here as the standard deviation of monthly percentage changes in effective exchange rates and in U.S. dollar exchange rates over each period. Figures for groups of countries are simple averages of those for the countries in each group.
[2] Monthly import-weighted effective exchange rates are used in these calculations. Weights are based on 1977 imports as reported in International Monetary Fund, *Direction of Trade* (various issues).
[3] Countries are classified according to their exchange arrangements on January 31, 1981.

fore result both in divergences among their interest rates and in exchange rate movements.

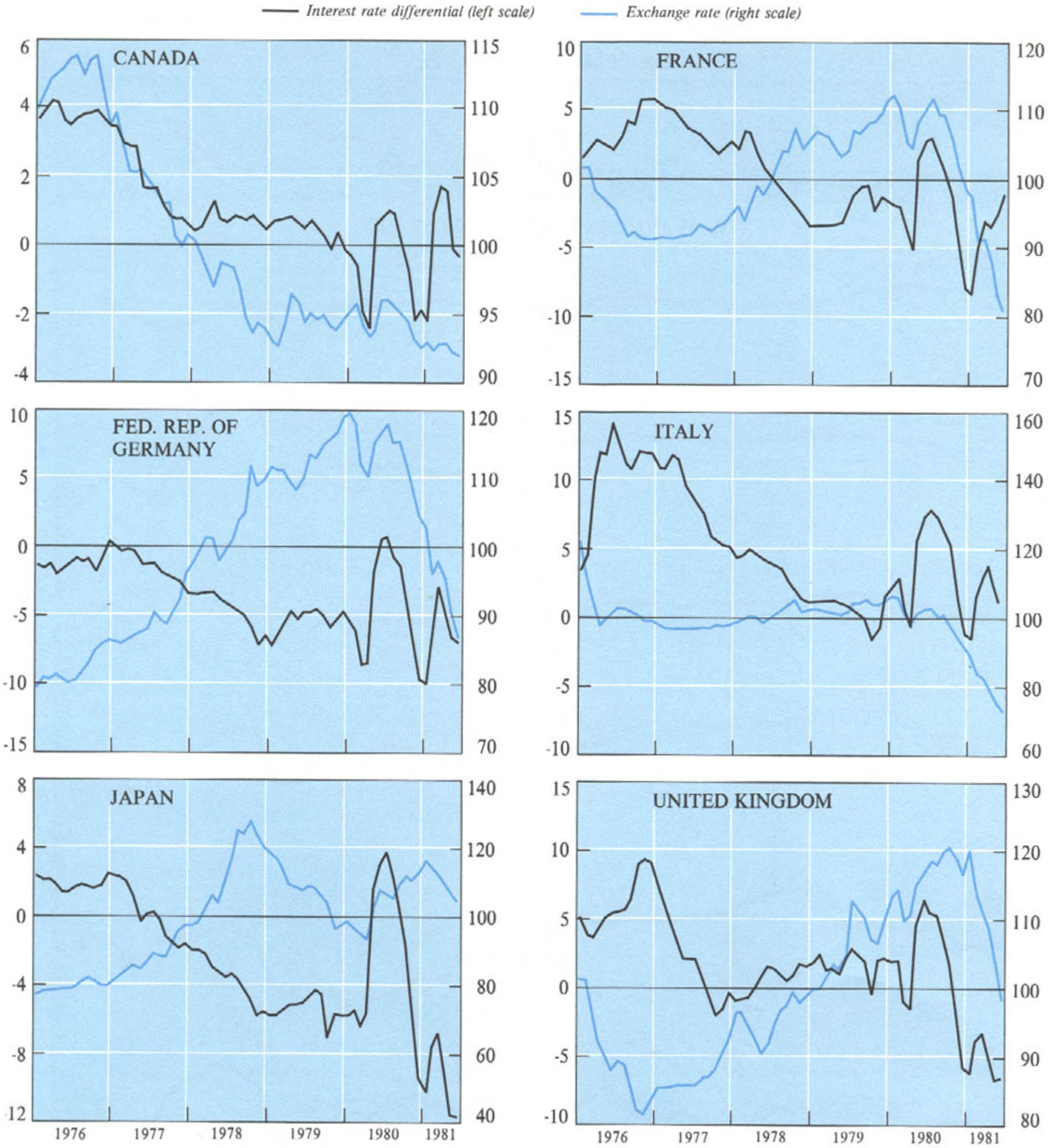
When financial markets are internationally integrated, differences between interest rates in two countries ordinarily reflect differences between their expected rates of inflation. In addition, interest arbitrage brings about the equality of the interest rate differential with the forward discount on the currency of the country with the higher rate of inflation, indicating also that its currency is expected by the market to depreciate at a rate equal to the difference between the expected rates of inflation. Because of the impact of these expectations on the evolution of spot exchange rates, there will be a tendency for spot rates to move at the expected rate of depreciation. This tendency is not disturbed by changes in nominal interest differentials that merely reflect changes in expected inflation rates, since such interest rate changes do not create new inducements for international capital movements.

Interest rates also change, however, in response to factors other than altered expectations with respect to inflation. Such movements in real interest rates change expected yields of assets denominated in different currencies and may thus, by inducing an inflow of capital, lead to an initial appreciation of the currency of the country whose relative interest rate has risen. This appreciation will continue until the yield incentive is eliminated. Once these initial changes in exchange rates have occurred, exchange rates can again be expected to move in line with expected relative rates of inflation, at any rate in the absence of unanticipated disturbances.

Because of the influences on interest rates and exchange rates described above, the observed movements of interest rates and exchange rates can be either in the same or opposite directions. The interpretation of the experience of recent years is complicated by this dual relationship and by the fact that exchange rates are subject to a number of other factors, such as sharp shifts in current account balances and announcements of important changes in economic policies, which may have more important effects than do interest rate differentials. Thus, there are some clearly observable relationships for certain periods—for instance, for the Federal Republic of Germany in 1978 and 1979 (Chart 13)—when a stable interest rate differential is associated with a steady exchange rate movement in the direction and of the magnitude to be expected if both rates mainly reflected expected rates of inflation. There are, however, other times, notably during 1980 for the six major industrial countries shown in Chart 13, when the large changes of interest rate differentials that took place appear to reflect chiefly changes in real interest rates and therefore produce exchange rate changes in the opposite direction; changes in real interest rates since 1978 are shown in Chart 14. At yet other times—for instance, for Japan in 1978 and 1979—large fluctuations in exchange rates, in the face of stable interest rate differentials, suggest that exchange rate developments were dominated by factors other than those relating to interest rates.

The general rise in nominal and real interest rates in the industrial countries has in part reflected reductions in the growth of monetary aggregates resulting from the efforts of these countries to restrain inflation. In 1980, the major industrial countries succeeded, with some important exceptions, in lowering growth rates for

Chart 13. Six Industrial Countries: Interest Rate Differentials and Exchange Rates, January 1976–June 1981 [1]

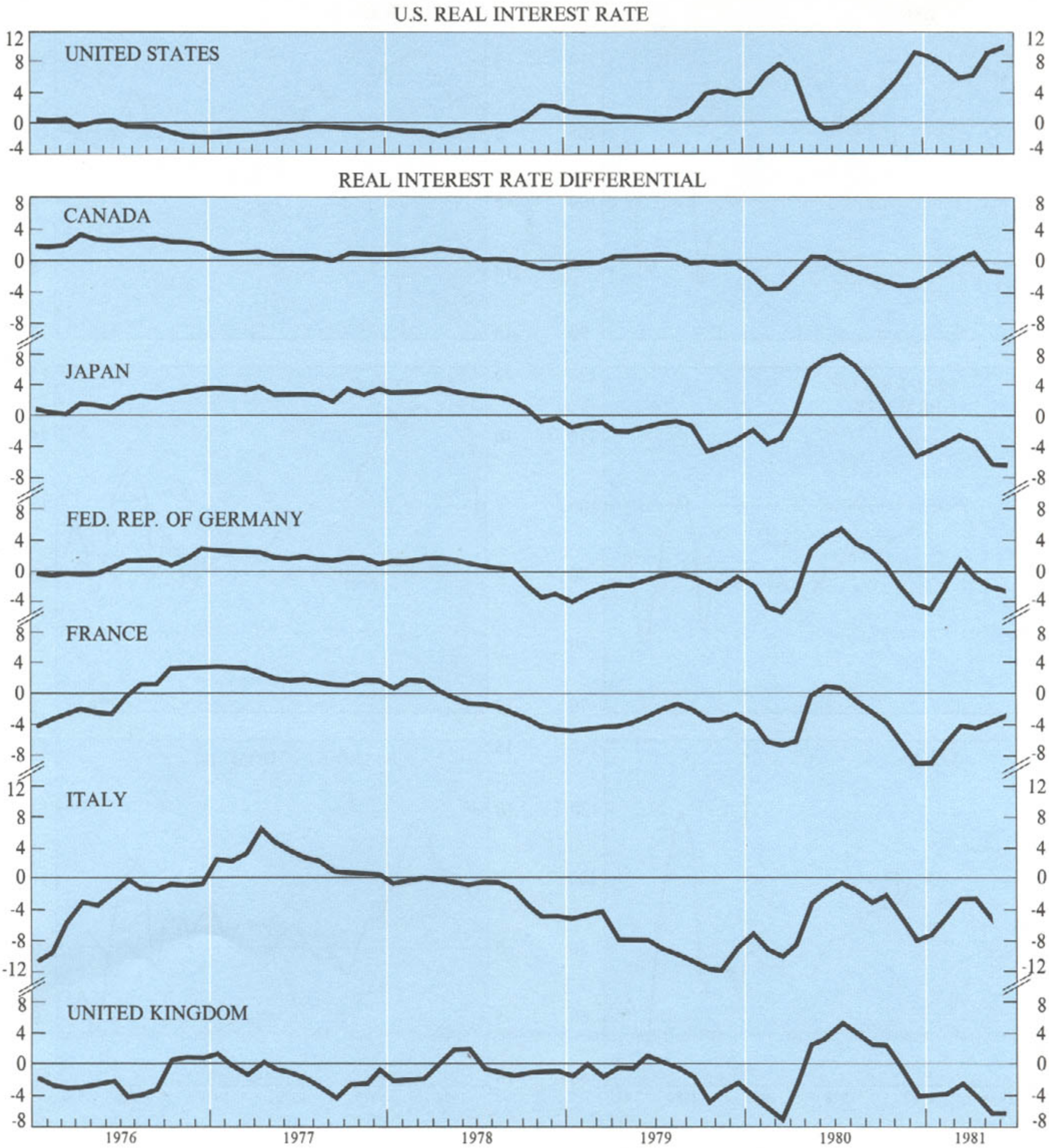


Source: International Monetary Fund, *International Financial Statistics*.

[1] The interest rate differential is the excess of the short-term domestic interest rate (the call money rate for France, the Federal Republic of Germany, Italy, and Japan, and the treasury bill rate for Canada and the United Kingdom) over the U.S. federal funds rate. Exchange rates are monthly averages of daily rates in U.S. dollars per unit of local currency and are expressed as an index, with the average daily rate over the entire period being equal to 100.

Chart 14. Seven Industrial Countries: Real Short-Term U.S. Interest Rate and Differentials Between U.S. and Domestic Rates,[1] January 1976–June 1981

(In per cent per annum)



[1] The real interest rates are calculated by deflating the nominal interest rates used in Chart 13 by a measure of the expected rate of inflation. This measure is the average rate of change of the price deflator for private domestic demand in the quarter containing the month for which the calculation is made and the following two quarters. Fund staff projections of this deflator are used for the second, third, and fourth quarters of 1981. The real interest rate differential is the excess of the country's real interest rate over the U.S. real interest rate.

narrow money, as well as for more broadly defined monetary aggregates, compared with 1979. (See Table 14 for data and definitions.) The unusually great variability of interest rate differentials between the United States and other industrial countries can be attributed in part to the problems encountered by the United States in gradually reducing monetary expansion to targeted growth rates. These problems were manifested by sharp changes in domestic demand for money and credit in the United States during 1980 and the first half of 1981, stemming from the temporary imposition of selective credit controls and large shifts in economic activity, which resulted in substantial movements in interest rates.

Although changes in interest differentials tended to move together with daily and weekly movements in U.S. dollar exchange rates throughout most of the period, other influences, such as current account developments, reduced the correlation between exchange rates and interest differentials over longer intervals (Chart 13). For example, by the beginning of the second quarter of 1981 interest rate differentials in favor of the U.S. dollar vis-à-vis most other major currencies had narrowed, but the dollar continued to appreciate (Chart 8). Moreover, although the EMS currencies and the Canadian dollar seemed to be sensitive to interest rate differentials, other major currencies, such as the Japanese yen and the pound sterling, appreciated against the U.S. dollar in 1980.

As already noted, the type of relationship observed between interest rate differentials and changes in U.S. dollar exchange rates during 1980 is not apparent for earlier years or for the early months of 1981 (Chart 13). In 1980, time periods in which interest rate differentials favored U.S. dollar-denominated financial assets generally coincided with appreciation of the U.S. dollar. It is worth noting that in some instances the magnitude of this appreciation suggested a volatile reaction of the market's expectations with regard to future dollar exchange rates. For example, while the average interest differential in favor of assets denominated in U.S. dollars compared with assets denominated in deutsche mark over the four quarters ended in March 1981 was about 4 per cent, the U.S. dollar actually appreciated by 8 per cent per annum against the deutsche mark over this period. There is thus no straightforward, mechanical relationship between the magnitudes of interest rate differentials and those of exchange rate changes.

There is, however, a clear indication that an increase in the size of short-run changes in interest rate differentials has in general been accompanied by an increase in the variability of exchange rates, although this seems to have been less true for Canada and the United Kingdom than for other major industrial countries (Chart 15). For Canada, the variability of both rates was much lower, and changed less from year to year, than for the other countries shown in Chart 15. In the fourth quarter of 1978, and again in 1980 and 1981, sharp changes in interest differentials, owing largely to developments in the United States, coincided with sharp month-to-month changes in exchange rates, ranging from 2 to 4 percentage points for the currencies shown. Similar developments also took place in the smaller industrial countries.

Just as greater volatility of interest differentials between assets denominated in U.S. dollars and in other currencies in 1980 has been associated with the variability of U.S. dollar exchange rates, closer correspondence of interest rate policies among EMS participants, as well as intervention policies, have contributed to offsetting both external and internal influences that would otherwise have disturbed the stability of exchange rates among the currencies of these countries. Although considerable differences in interest rates had been observed throughout the 1970s among the countries now participating in the EMS—perhaps reflecting persistent differentials in actual or anticipated inflation rates—establishment of the EMS in March 1979 coincided with a

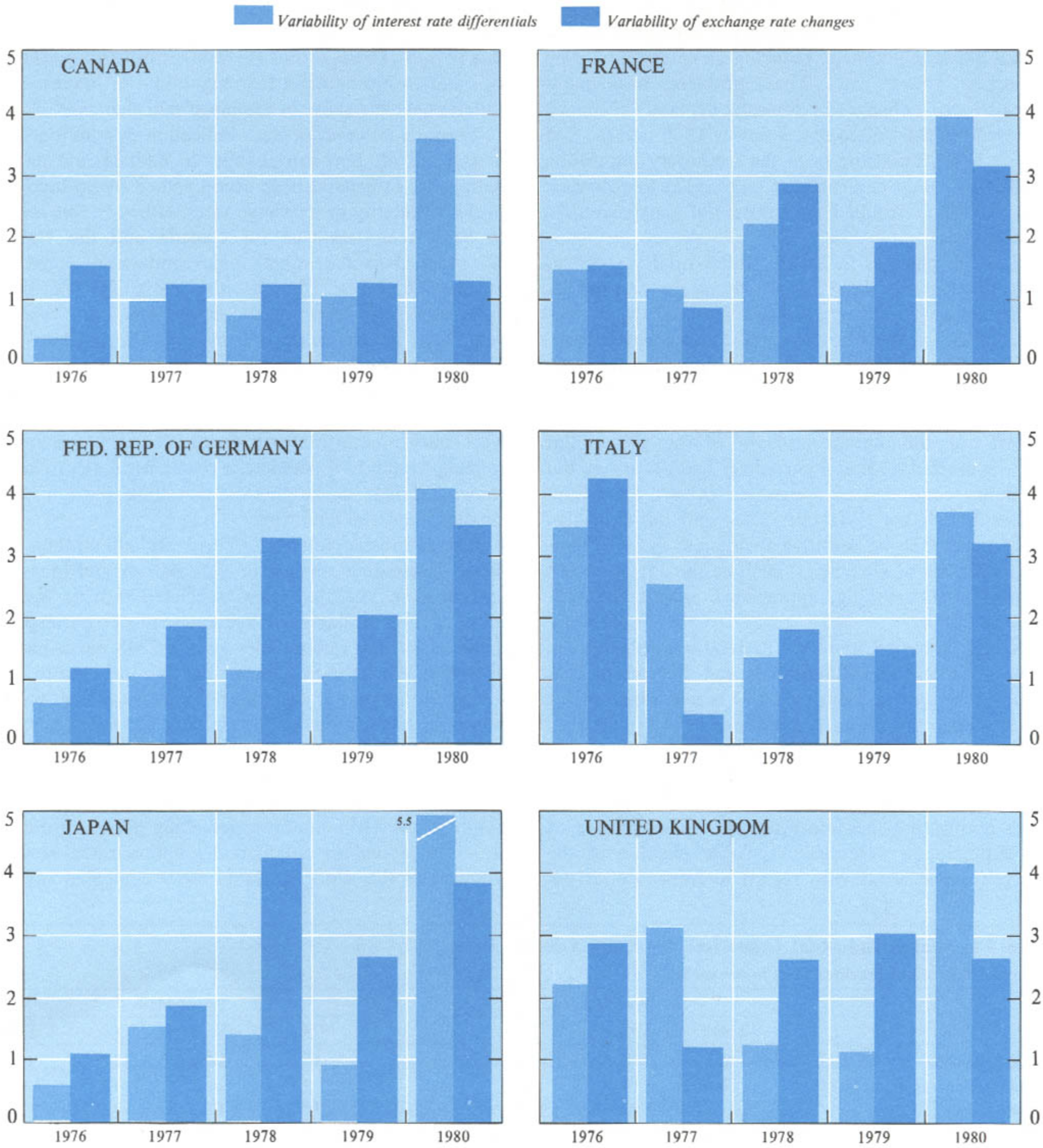
Table 14. Seven Industrial Countries: Monetary Growth Rates, 1974–80
(Change from end of previous year, in per cent)

	Narrow Money[1]				Broad Money[1]			
	1974–77[2]	1978	1979	1980	1974–77[2]	1978	1979	1980
United Kingdom	15.5	16.4	9.1	3.9	10.3	14.6	12.5	18.2
Germany, Federal Republic of	10.0	14.0	2.0	4.1	9.1	10.2	4.8	4.6
France	11.6	11.1	11.8	6.4	15.1	12.2	13.9	8.3
Italy	15.7	26.6	23.7	12.9	20.8	23.0	19.4	11.7
Canada	7.9	7.0	1.4	10.7	16.9	16.9	17.6	9.7
Japan	10.8	13.4	3.0	–2.0	12.6	13.1	8.4	6.8
United States	5.5	7.3	6.0	4.0	8.4	10.2	7.2	10.9

Source: International Monetary Fund, *International Financial Statistics* (various issues).
[1] Narrow money is defined as the sum of currency outside banks and private sector demand deposits. Broad money consists of the sum of narrow money and quasi-money comprising the time deposits, savings deposits, and foreign currency deposits of residents.
[2] Annual average rates.

Chart 15. Six Industrial Countries: Variability of Differentials Between Domestic and U.S. Interest Rates and of Changes in U.S. Dollar Exchange Rates, 1976–80 [1]

(In per cent)



Source: Board of Governors, U.S. Federal Reserve System.

[1] For each year, variability is measured as the standard deviation of daily interest rate differentials and of percentage changes in exchange rates from the corresponding date of the previous month. The interest rate differential is the excess of the U.S. federal funds rate over the three-month local interbank lending rate, except for Canada and Japan, for which the local rates are the three-month finance company rate and the two-month money market rate, respectively.

marked reduction in these differentials, and this reduction, together with the subsequent maintenance of stable differentials, might be expected to reduce short-term strains in exchange rates among the participating countries.

The need for strong measures to counteract inflation through control of monetary aggregates is widely acknowledged. The high real interest rates sometimes resulting from these measures may, while they last, dampen economic activity and investment. Further costs may arise from fluctuations in interest rates and exchange rates, chiefly because of induced changes in patterns of international trade and investment that may be inconsistent with longer-run values of these rates. While such distortions may often be small because of the long lags between movements of exchange rates or interest rates and decisions regarding production and investment, they may be sizable in countries in which domestic prices and wages respond rapidly, especially in an upward direction, to movements in the exchange rate.

Exchange Market Intervention

The principal purpose of official intervention in exchange markets is to reduce short-run exchange rate fluctuations, or "smooth" medium-term movements in exchange rates, through the purchase of foreign exchange when the home currency tends to appreciate and the sale of foreign exchange when the home currency tends to depreciate. Such intervention tends to lower the money supply in countries whose currencies are depreciating while raising it in countries with appreciating currencies. These changes in money supply, if permitted to occur, would contribute to the adjustment of the underlying imbalance being financed by the intervention. When these induced changes in money supply conflict with national monetary targets, however, it may be decided to "sterilize" the intervention by taking offsetting domestic monetary measures, even at the cost of weakening international adjustment through monetary effects.

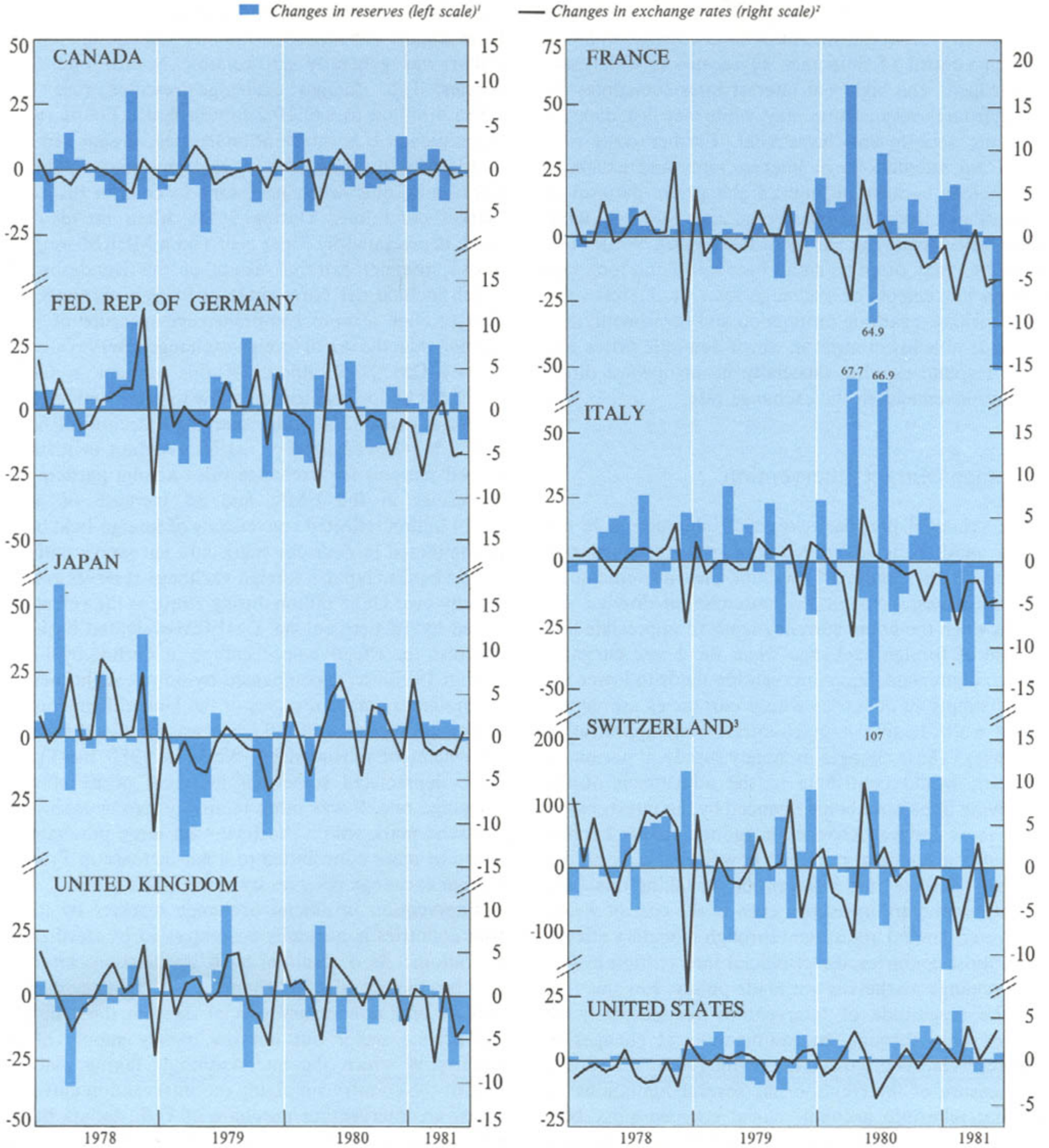
For most countries, direct official intervention in foreign exchange markets is not made public. For this reason, the magnitude of intervention can generally be assessed only through an examination of changes in gross reserves. As discussed in previous Annual Reports, this measure of intervention has several limitations: it does not take into account official compensatory borrowing in foreign currencies or swap transactions, and monthly data may hide information on intervention that is reversed within a month. It is possible that a more adequate measure of intervention would produce a closer relationship between changes in reserves and in exchange rates, such as that shown in Chart 16 for Japan.

Day-to-day changes in official intervention often offset each other over time. At times, however, there are extended episodes of intervention in one direction that reveal an attempt to counteract, or slow the pace of, exchange rate changes. For example, during the period from August 1980 through January 1981, when the U.S. dollar was generally appreciating against other currencies, U.S. foreign exchange reserves rose from US$5.4 billion to US$10.7 billion. Since February, the magnitude of U.S. intervention has been greatly reduced, and in May the U.S. authorities announced a policy of intervening only when necessary to counter disorderly market conditions. During 1980, when the deutsche mark depreciated by 7 per cent (on a MERM-weighted basis), the net external assets of the Bundesbank—which include net borrowings of foreign exchange and thus provide a more comprehensive measure of intervention than the use of foreign exchange reserves alone—fell by DM 16.5 billion. Of this amount, a fall of DM 12.5 billion was associated with intervention in the deutsche mark/U.S. dollar market; a decline of nearly DM 8 billion consisted of net intervention to maintain agreed margins for exchange rates among participating currencies in the EMS; and an increase of about DM 4 billion reflected conversions of foreign-held bonds denominated in deutsche mark and net swaps with domestic banks. Japan's foreign exchange reserves rose by slightly over US$5 billion during 1980, as the yen appreciated by 18 per cent on a MERM-weighted basis. By contrast, the effective appreciation of sterling by 11 per cent in 1980 was accompanied by only a slight increase in foreign exchange reserves of the United Kingdom; an additional moderating influence was provided by early repayment of official debt. While in 1980 the French franc depreciated somewhat in terms of its effective exchange rate, it was often relatively strong against the deutsche mark within the EMS and large purchases of deutsche mark contributed to a net increase in France's foreign exchange reserves by some US$9 billion.

Intervention in official exchange markets by industrial countries is normally accompanied by sterilization operations. As a result of such sterilization, intervention has the net effect of changing the currency denomination of nonmonetary official debt in the hands of the private sector but not the money supply of the country in which the intervention is taking place or that of the country supplying the intervention currency. Thus, an intervention purchase of U.S. dollars by the authorities in the Federal Republic of Germany need not directly affect monetary aggregates in either that country or the United States if the additional U.S. dollar holdings of the German authorities are invested by them in U.S. dollar-denominated government securities purchased in the U.S. market and if the impact of the intervention on the German money supply is

Chart 16. Eight Industrial Countries: Monthly Changes in Official Reserves Relative to Exports and in Exchange Rates, January 1978–June 1981

(In per cent)



[1] Changes in reserves are defined here as the total of changes in foreign exchange holdings, reserve positions in the Fund, and holdings of SDRs, minus changes in the use of Fund credit and cumulative SDR allocations. In calculating these changes, foreign exchange holdings are valued in U.S. dollars and are corrected for valuation changes, and all changes in SDR-denominated reserve components are converted into U.S. dollars at average monthly exchange rates. The figures for 1979–81 have been adjusted by excluding the value of ECUs issued against gold holdings of EMS members. For each country, the change in reserves is expressed as a percentage of average monthly exports for the period 1978–79.

[2] The exchange rate at the end of each month is measured in U.S. dollars per unit of domestic currency for all countries except the United States, for which the effective exchange rate derived from the Fund's multilateral exchange rate model is used.

[3] The left scale for Switzerland is different from that used for the other countries because of the exceptionally large magnitudes of reserve changes relative to exports.

offset by a sale of securities denominated in deutsche mark in the German market.

A more direct method of intervening without affecting the domestic monetary base makes use of official compensatory borrowing by offering bonds denominated in foreign currencies in the private market. This technique, which has been used in several industrial countries, has the effect of diminishing the supply of domestic currency assets in private portfolios and thereby reducing pressure against that currency in the foreign exchange market. At the same time, the currency composition of official debt held by the private sector is changed in a single operation without either affecting the monetary base of the intervention country or involving exchange market transactions by the monetary authorities. By contrast, swaps of spot and forward exchange between the monetary authorities and the private sector have a temporary effect on the money supply and have indeed been used as a means of controlling the domestic monetary base.

Fully sterilized exchange market intervention—that is, intervention that alters only the relative supplies of securities denominated in different currencies without affecting the domestic money supply—has on occasion accommodated short-run changes in the demand for assets denominated in different currencies that were generated by changes in interest rates believed by the market to be temporary. The usefulness and the limitations of official intervention in foreign exchange markets are discussed below in the context of the Fund's surveillance over the exchange rate policies of members.

Exchange Rates and Current Account Positions

Previous Annual Reports have emphasized the contribution that exchange rate changes can make toward reducing existing current account imbalances while at the same time pointing out the factors that can delay and offset this contribution. During the past two years, there have been rather dramatic changes in current account balances, particularly among the three largest industrial countries. Both cyclical movements in income and prior movements of countries' exchange rates have contributed to these shifts in current account balances. An equally notable development, however, has been the effect that current account imbalances themselves have had on exchange rate movements. Indeed, experience suggests that lines of influence run in both directions, with current account imbalances being affected by past movements of exchange rates and in turn affecting current movements.

Current account positions (excluding official transfers) for the seven major industrial countries during 1980 can be put into perspective by comparison with the situation in 1978 (Table 15). At that time, the U.S. current account was in deficit by roughly US$10 billion, while the Federal Republic of Germany and Japan had a combined current account surplus of more than US$30 billion. Just two years later, the U.S. current account was in surplus by US$10 billion while the other two countries had shifted to a joint deficit of almost US$19 billion. Over the same period, the current accounts of France and Italy went from surpluses to deficits, the current account deficit of Canada was reduced sharply, and the United Kingdom's current account surplus more than doubled.[4] While changes in the nominal value of net oil imports and other structural changes were an important element in current account developments during this period (Table 15, row 1, memorandum item), the exchange rate played a role in the adjustment process in each of the seven major industrial countries. The size of this role, however, was conditioned by a number of factors that bear careful examination.

The first such factor is the behavior of product and factor prices in a country relative to movements in those prices in competitor countries. To take this factor into account, the influence of exchange rates on trade flows should be assessed in terms of changes in real (rather than nominal) exchange rates, that is, exchange rates adjusted for relative movements in prices or labor costs.

The contrast between nominal and real changes in effective exchange rates is shown in rows 2 and 3 of Table 15, with the change in relative unit labor costs being employed as the price-cost index by which the nominal rate is corrected. For example, movements in real effective exchange rates from 1976 to 1980 were appreciably smaller than changes in nominal rates for both the United States and the Federal Republic of Germany, so that price changes offset much of the change in competitiveness initiated by a change in the nominal exchange rate. There was also a marked contrast between the behavior of nominal and real exchange rates for the Japanese yen over the same period. Labor cost behavior in Italy was sufficiently inflationary relative to that in competitor countries to eliminate the improvement in competitiveness initially resulting from a 10 per cent depreciation of the lira. In the United Kingdom, the increase in relative labor costs combined with relative exchange rate movements during this period to produce a large decline in that country's competitive position.

Another major factor affecting the influence of exchange rates on the current account is the period required for the full response to changes in the prices of traded goods to take effect. On the basis of results

[4] Current account developments for these countries, as well as for the smaller industrial countries, are described in Chapter 1.

Table 15. Seven Major Industrial Countries: Current Account Balances, Nominal and Real Exchange Rates, and Relative Cyclical Positions, 1978–80

	United States	Fed. Rep. of Germany	Japan	Italy	France	United Kingdom	Canada
				(In billions of U.S. dollars)			
(1) Current account balance [1]							
1978	–9.5	13.3	16.8	7.7	5.2	4.8	–4.1
1979	6.8	–0.3	–8.0	6.1	2.8	1.5	–4.4
1980	10.0	–9.0	–9.5	–9.4	–6.1	10.2	–2.0
Memorandum item							
Net oil imports [2]							
1978	40.7	14.7	25.5	8.7	11.7	3.8	1.0
1979	58.0	24.4	37.8	12.1	16.7	1.6	0.4
1980	76.1	31.7	57.6	21.4	27.8	–0.6	2.0
				(In per cent)			
(2) Change in nominal effective exchange rate [3]							
1978–80	–4.0	5.6	–12.5	–6.9	1.0	17.3	–4.0
1976–80	–14.0	20.1	15.5	–22.0	–6.8	10.2	–20.1
(3) Change in real effective exchange rate [4]							
1978–80	2.1	–1.2	–26.9	2.7	6.2	44.1	–4.2
1976–80	–8.0	6.2	–15.5	1.0	2.1	51.4	–21.1
(4) Change in relative cyclical positions [5]							
1978–80	–5.0	4.3	9.6	6.3	–2.2	–8.0	0.3

Sources: International Monetary Fund, *World Economic Outlook* and Fund staff estimates.
[1] Current account balance excluding official transfers.
[2] Comprise crude oil and petroleum products.
[3] These effective exchange rates are based on the weights used by the Fund for international cost and price comparisons; these weights differ somewhat from those derived from the multilateral exchange rate model, which are used to calculate the effective exchange rates published in *International Financial Statistics* and shown elsewhere in this Report. Positive (negative) entry indicates appreciation (depreciation).
[4] Change in ratio of own to competitors' indices for unit labor cost, adjusted for changes in nominal effective exchange rate; the weights used for this calculation are those referred to in footnote 3. Positive (negative) entry indicates worsening (improving) competitive position.
[5] Change in ratio of own to competitors' resource utilization in manufacturing, where resource utilization is defined as ratio of actual output in manufacturing sector to staff estimates of potential output in that sector. Positive (negative) entry indicates increase (decrease) in resource utilization relative to that of competitors.

of empirical studies, two conclusions may be drawn. One is that, over periods of two to three years, the demand for exports and imports is fairly price elastic in most industrial countries, although the full effect of changes in exchange rates takes even longer to be worked out; the supply response is especially slow when economies are operating close to full capacity. The second conclusion is that the price elasticities of demand are much smaller over the span of a year than over the longer run. This evidence suggests that the equilibrating effect of exchange rate changes on the current account will take place only gradually and will usually not be apparent from a comparison of contemporaneous exchange rate changes and current account positions. In fact, as noted in previous Annual Reports, the tendency in most countries for import prices to change more rapidly in terms of local currency than do export prices, coupled with a slow response in the volume of imports and exports, often produces a short-term worsening (improvement) of the trade balance in response to an exchange rate depreciation (appreciation)—the so-called J-curve effect. The lagged response of the trade balance to exchange rate changes may in turn contribute to exchange rate adjustments that are so large as to bring about, over time, an overcorrection of the initial current account imbalance.

Thus, conclusions about the effect of exchange rate changes on current account positions must take into account the timing of the response. Specifically, it may be noted that the improvement in the U.S. current account balance from 1978 to 1980 was accompanied by a real appreciation of the dollar of 2 per cent over the same period but appears associated with a real depreciation of 8 per cent for 1976–80. Similar marked differences are also evident for the Federal Republic of Germany, Japan, and Canada, again suggesting that changes in the current account are better explained by movements in real exchange rates over a longer past period than by current or recent changes in nominal exchange rates.

Yet a further important influence affecting the impact of exchange rate movements on current accounts is the evolution of cyclical changes in real income in the countries concerned. Again, it is worthwhile to note a broad conclusion of empirical work, namely, that the sum of income elasticities of the demand for imports and exports is, for periods of less than a year, anywhere from two to four times larger than the sum of the relative price elasticities. In recent years, countries' trade and current account balances have therefore tended to be dominated in the short run by their cyclical real income positions compared with those of other countries, except in a few instances when proportionate changes in real effective exchange rates were relatively large. As a result, trade and current account balances generally improve in countries whose real income is cyclically relatively low.[5] When a country's cyclical real income position strengthens relative to that of other countries, its current account may well deteriorate even though its nominal, or even its real, exchange rate may simultaneously depreciate.

An examination of changes in relative cyclical positions[6] between 1978 and 1980 for each of the seven major industrial countries shows that the large positive change in the U.S. current account balance from 1978 to 1980 was accompanied by a reduction in its relative cyclical position, while the deterioration in both the German and Japanese current accounts was associated with a relative strengthening in cyclical real income (Table 15, row 4). The improvement in the relative cyclical position of Italy was a major factor in that country's deteriorating current account balance, and the fall in the relative cyclical position of the United Kingdom contributed significantly to its current account surplus in 1980. In Canada and France, cyclical developments in real income were slight in comparison with partner countries and hence exerted less influence on the current account.

The impact of exchange rate movements on the current account is also affected by the commodity composition of a country's foreign trade. Changes in relative prices have been shown to exert a greater influence on the volume of exports and imports of manufactured goods than on those of primary commodities. The independent effect of changes in real exchange rates on the balance of manufacturing trade will, therefore, tend to be more pronounced than the effect on the current account balance as a whole. Clearly, when changes in prices of major primary products, such as oil, are very large relative to exchange rate changes, and when such commodities are relatively important in a country's foreign trade, the link between observed changes in exchange rate and current account balances will be further modified, as has undoubtedly been true since 1978.

The experience of industrial countries over the last few years thus suggests that exchange rate changes do work to correct—perhaps even reverse—current account imbalances. At the same time, current account imbalances are strongly influenced by relative cyclical movements in economic activity and themselves affect exchange rates, either directly by changing the proportion of foreign to domestic assets in portfolios in the process of financing the imbalances, or via expectations about future exchange rates. In the first instance, exchange rates will move to the extent that asset holders attempt to maintain the portfolio composition existing prior to an increase in the current account imbalance. In countries with unrestricted capital movements, this direct role of current account imbalances in the determination of exchange rates is likely to be minor compared with its role via expectations, because of the small magnitude of these imbalances relative to that of internationally transferable assets. The foreign exchange market can be regarded as operating like an asset market, with the exchange rate being the price that brings the demand for assets denominated in different currencies into balance with their supply. The demand for such assets depends in turn upon the expected rates of return, which are determined in part by expected changes in exchange rates. Since the stocks of internationally mobile assets in industrial countries are always much larger than asset flows deriving from current income, attempts to change international portfolios have a potentially much larger impact on the foreign exchange market than do changes in current account balances.

Viewed in this perspective, expectations about future exchange rates become a major determinant of present exchange rates. The factors presumed to affect expectations about future exchange rates are numerous and wide ranging—e.g., inflation differentials, monetary and fiscal policies, interest rates, relative competitive positions, trade and current account balances, and political uncertainties. One popular view influencing these expectations is that countries cannot indefinitely sustain large accumulations of current account imbalances in either direction. Thus, where future macroeconomic policies are not expected to be adequate for reducing existing current account imbalances, there is a strong presumption that real exchange rates will eventually play a role in restoring balance. In this way, current account surpluses or deficits can give rise to expectations with respect to appreciation or depreciation of the exchange rate in the future, and hence to anticipatory movements in the present exchange rate as well. More precisely,

[5] In contrast, empirical work does not support the presumption that countries with relatively high *trend* growth rates of real income will display a tendency toward current account deficit.

[6] Each country's cyclical position is defined as the ratio of actual output to estimated "potential output" in the manufacturing sector. A negative entry in row 4 of Table 15 indicates that the country's resource utilization in manufacturing during the period 1978–80 fell relative to that of its trading partners.

inasmuch as the current rate already reflects all publicly available information, *un*expected current account imbalances (so-called current account "surprises") will give rise to present exchange rate changes, as market participants re-evaluate their predictions about future exchange rates. For example, an unexpected change in the price of a major traded commodity will affect exchange rates because of expectations regarding the different effects of the price change on the current account balances of various countries.

A key implication of the feedback of current account imbalances on exchange rates is that periods of especially large imbalances are also apt to be periods of relatively large exchange rate changes, particularly if the size of these imbalances is unexpected. Accordingly, although current account balances are only one of many factors affecting exchange rates, countries with current account surpluses that are large relative to normal capital flows tend to have appreciating currencies more often than do countries with deficits or with moderate current account surpluses, and the currencies of countries with correspondingly large deficits tend to depreciate.

Although the interest of the authorities in exchange rate developments is often directed at their impact on the current account, their effect on international capital flows can also be significant. Unlike the current account, however, the capital account responds not so much to the existing level of the exchange rate as to expected future changes in the rate. This is true for both short-term and long-term financial capital. Direct investment is motivated principally by a number of additional considerations based on a long time horizon, such as the anticipated future relationship between exchange rates and relative prices. Nevertheless, the present level of spot exchange rates can have some immediate effects on such capital movements. For instance, the depreciation of a country's currency, by improving the profitability and competitiveness of its export industries, can induce foreign direct investment in those industries. Short-term capital, too, responds to expectations of future changes in exchange rates, which can be affected by current exchange rate movements. For example, if such capital has previously fled the country in anticipation of a depreciation, the depreciation, when it occurs, may prompt a reflow of funds under the assumption that further depreciation is unlikely. Again, to the extent that international investors wish to hold a fixed proportion of their assets in domestic currency instruments, a depreciation, by lowering the proportion of domestic to foreign currency assets, can lead to an increased demand for domestic assets so as to restore the original asset proportions.

Exchange Rate Experience of Developing Countries

The last two years have been particularly difficult for most non-oil developing countries. The adjustment problems of these countries have been aggravated by subnormal expansion of export volumes resulting from the slow growth experienced in the industrial countries, and by a general weakening of their terms of trade due in part to increases in oil prices. At the same time, these countries had to contend with a marked rise in interest rates and substantial fluctuations in exchange rates among major currencies. The following sections review the impact of these developments on the economies of developing countries and discuss the use of exchange rate policies for dealing with their adjustment problems.

Impact of Interest Rate and Exchange Rate Developments in the Industrial Countries

Impact of Higher Interest Rates

To finance their large current account deficits, a number of non-oil developing countries have relied extensively on external borrowing from private sources; this has not been true, however, for many low-income countries. The upward movement in interest rates has affected service payments not only on newly contracted debt but also on outstanding medium-term and long-term debt that is subject to floating interest rates. While the importance of such debt differs considerably from country to country, there has been over the last decade a shift by many middle-income non-oil developing countries away from multilateral and bilateral official sources of financing toward commercial sources, particularly financial institutions. Because such financing is frequently subject to floating interest rates, interest payments on total debt outstanding from these sources responds quite quickly to changes in interest rates. The six-month London interbank offered rate (LIBOR) on dollar deposits—the key rate for many developing countries—rose from an average of 9.2 per cent in 1978 to 12.2 per cent in 1979 and to 14 per cent in 1980. In addition, higher interest rates in international capital markets eventually affect the cost of borrowing from official institutions that raise a part of their resources in the market or at market-related rates. This factor is of particular importance to many low-income developing countries, which have made, or have been able to make, only limited use of the private capital markets and have thus relied primarily on official institutions for financing.

Together with the rapid expansion of outstanding external debt, the rise in interest rates has substantially increased the interest service payments made by the non-oil developing countries.[7] For the group as a whole, investment income payments, consisting primarily of interest on external debt, rose from an estimated US$27 billion in 1978 to US$50 billion in 1980 and had a major adverse impact on the combined current account deficit. A rise in nominal interest rates shortens the real amortization period, compared with the one originally contracted, and increases the perceived country risk through the negative effect on the current account balance just mentioned. To the extent that the rise in nominal interest rates reflects increased inflation rates, these adverse effects are somewhat mitigated by the gradual reduction over time in the real value of the outstanding debt. Increases in real interest rates, however, are more likely to have a net adverse impact, especially if they occur at a time of decelerating rates of inflation.

An additional complicating element has been the variability of interest rates. The six-month LIBOR on dollar deposits rose from 14 per cent in December 1979 to 19 per cent in March 1980, then fell back to below 10 per cent in June and July 1980 before rising to 17 to 18 per cent late in 1980 and continuing at 15 to 18 per cent during the first half of 1981. Such fluctuations affect not only foreign exchange and budgetary management, because of the repercussions on current net interest payments, but have also complicated the task of calculating the balance between the return to, and the cost of, future borrowing.

In financing their current account deficits in 1980, a number of non-oil developing countries reduced their rate of reserve accumulation and increased their reliance on short-term borrowing from nonofficial sources. While this weakening of their external financial positions has affected the ability of some countries to roll over maturing loans and to attract additional current account financing from private sources, such difficulties have arisen only occasionally, and the growth in debt service in most developing countries has not exceeded servicing capacity. Nevertheless, the positive real interest rates on external borrowing that had clearly emerged by 1980—in contrast to the situation in the mid-1970s—have provided an added inducement for non-oil developing countries to carry out effective adjustment programs rather than to rely on borrowing for the financing of payments imbalances.

The task of sustaining investment has been made more difficult by the high rates of interest in industrial countries. On the one hand, in those developing countries that are relatively free from restrictions on capital movements, rising interest rates abroad have encouraged capital outflows and resulted in upward pressure on domestic interest rates, thus tending to discourage borrowing for investment from both local and external sources. On the other hand, the higher domestic interest rates have failed to stimulate domestic savings appreciably, partly because real interest rates remained negative in many developing countries. In addition, for most non-oil developing countries, the higher costs of external financing, owing to higher interest rates abroad, reduced their ability to import capital goods and intermediate products, thus further dampening domestic investment.

The rise in interest rates in industrial countries also had a number of adverse effects on oil exporting countries, even those with substantial current account surpluses and large holdings of foreign assets. In several of the capital surplus countries with open economies and virtually unrestricted capital movements, private capital outflows increased substantially in response to the widening of interest rate differentials in favor of Eurocurrency investments. As the market's demand for funds to finance these capital outflows increased, bank credit to the private sector expanded rapidly and strained local banking systems in these countries. The reluctance of the authorities, owing to economic and social considerations, to raise domestic interest rates restricted the ability of central banks to contain capital outflows. The increase in capital outflows during the period under review limited the availability of funds for domestic investment purposes and restricted the rate of growth of absorptive capacity in several of these economies. In some cases, the authorities allowed a marginal increase in the domestic interest rates or permitted their currencies to appreciate in an attempt to reduce the attractiveness of foreign currency investments. Both measures, however, were adopted with some reluctance, out of concern for adversely affecting domestic investment and diversification efforts through an increase in local costs.

Effects of Exchange Rate Fluctuations

Many developing countries continue to align their currencies to one of the major currencies (Table 16), and the stability of exchange rates for their currencies thus tends to depend chiefly on the stability of rates among the major currencies. Other countries are able to reduce the overall variability of their exchange rates by pegging to a basket of currencies.

The variability of bilateral rates vis-à-vis the U.S. dollar increased from 1979 to 1980 for the currencies of developing countries other than those pegged to the U.S. dollar or the SDR (Table 13), while the variability of effective exchange rates was relatively low. Short-term variations in the bilateral exchange rates

[7] Further information on recent trends in the external indebtedness of the non-oil developing countries is provided in Chapter 1.

Table 16. Exchange Arrangements of Fund Members, June 30, 1981

Type of Exchange Arrangement	Industrial Countries	Developing Countries: Oil exporting countries	Non-oil developing countries: Net oil exporters	Non-oil developing countries: Major exporters of manufactures	Non-oil developing countries: Other developing countries	Total
Currency pegged to						
U.S. dollar	—	4	4	—	30	38
French franc	—	—	2	—	12	14
Other currencies	—	—	—	—	4	4
SDR	—	1	—	—	13	14
Other composite	4	2	2	1	13	22
Adjusted according to a set of indicators	—	—	1	2	1	4
Cooperative exchange arrangements	8	—	—	—	—	8
Other	8	5	3	6	14	36
Total	20	12	12	9	87	140[1]

[1] Excluding Democratic Kampuchea, for which no current information is available.

between major currencies can impose significant costs on the developing countries. With contracts typically denominated in foreign currencies, such fluctuations can, for example, increase short-term uncertainty and risk for importers and exporters if, as is true for many of these countries, adequate forward exchange facilities are not available. Official agencies, such as the central government and the monetary authorities, whose activities involve inflows and outflows of foreign exchange can also incur similar costs.

Apart from increasing short-run uncertainties, large fluctuations in exchange rates among major currencies affect other key variables in the economies of the developing countries. Changes in exchange rates among the currencies of industrial countries have recently been considerably larger than movements in relative prices, leading to variations in the relative export prices of the industrial countries and thus in the import prices faced by individual developing countries, which typically have well-established and persistent patterns of imports. For example, the prices of imported plant, equipment, and intermediate goods tend to be fixed in terms of the exporter's currency, and exchange rate fluctuations are thus translated into changes in the costs faced by the importing sectors with respect to goods imported from countries to whose currencies the local currency is not pegged. This in turn affects the domestic price level, real incomes, and the internal terms of trade in the importing country.

Since countries are often more sensitive to fluctuations in certain bilateral exchange rates than in others, the extent to which developing countries incur costs associated with fluctuations of exchange rates among major currencies can be influenced by the choice of an exchange rate regime. It should also be noted that the incidence of the various types of cost will vary with the choice of exchange rate regime; a policy of minimizing the impact of fluctuations in exchange rates on domestic prices will not necessarily minimize, for example, the impact on domestic incomes or on the trade balance. For this reason, it is unlikely that the choice of an exchange rate regime by member countries has been dominated by the desire to achieve stability with respect to any one objective. Moreover, although the incidence of costs associated with exchange rate fluctuations may be expected to influence the choice of exchange arrangement by member countries, there are other broader considerations that have influenced this choice, such as the importance of historical links between certain countries, the expected medium-term behavior of major currencies, and the role of the exchange rate in setting the framework of domestic economic policies. The diversity of these considerations, and the varying circumstances in which developing countries find themselves, explain the variety of exchange arrangements that have in fact been adopted by these countries (Table 16).[8]

Exchange Rates and Current Account Positions

When exchange rates, internal prices, or foreign prices are expected to maintain themselves at levels at which they would induce an unsustainable current account deficit or undesired internal repercussions, policies to achieve adjustment must be set in train. Most developing countries cannot influence the foreign currency prices for imports and exports, so that exchange rate and other policies cannot affect the external terms of trade for these countries. These policies can, however, influence relative prices between traded and nontraded goods. A country that pegs to an external stand-

[8] Members' exchange rate arrangements on June 30, 1981 and the changes in those arrangements since June 30, 1980 are shown in Table 17.

ard but pursues policies leading to higher rates of inflation than its trading partners experiences a reduction in competitiveness (or relative domestic profitability) in the sectors producing import substitutes and exports. To the extent that this reduction persists, it may over time induce a reallocation of resources away from these sectors. These considerations apply both to the non-oil developing countries and to the oil exporting countries but, because of their differing circumstances, merit separate discussion for each group.

Non-Oil Developing Countries

In some non-oil developing countries, there has been a continuing reluctance to adjust nominal exchange rates to changing economic circumstances. With inflation in a number of these countries recently running at rates higher than in their major trading partners, the difficulty of reducing their current account deficits has been increased by shifts in relative prices unfavorable to the sectors producing exports and substitutes for imports. To gain perspective on the adjustment problems currently faced by the non-oil developing countries, it is useful to review briefly the adjustment experience during the period after the first round of oil price increases in 1973–74.

The experience and policy responses of non-oil developing countries during that period varied considerably. Key structural differences among countries with regard to dependence on imported oil, the pattern of trade and output, and the types of social and political institutions were clearly important in determining the extent and speed of adjustment. Countries with the capability of exporting manufactures were in a better position than other non-oil developing countries to improve their external position by redirecting existing output toward net exports, and were generally more successful than other non-oil developing countries in achieving reasonably high rates of real growth.[9] Many of these countries, however, also faced the need to change the sectoral pattern of output by redeploying factors of production into their traded goods sectors, and in a number of countries—for example, Brazil, Korea, Portugal, and Uruguay—the oil price increase prompted the authorities either to undertake structural reforms and a reorientation of development strategy toward export-oriented manufacturing or to intensify existing efforts in these directions. The implementation of such growth strategies enabled these countries to attract relatively large flows of external savings, thereby reducing the need to finance the required investment in their traded-goods sectors through reductions in domestic consumption. The emphasis on structural change often required, apart from the implementation of consistent demand management policies, active use of supporting policies to assist the transfer of resources to the traded-goods sector. Changes in the composition of public investment, the use of tax and other policies for the encouragement of investment in the industries producing traded goods, and modification of pricing policies played important roles. Moreover, some exporters of manufactures with relatively high inflation rates changed their nominal exchange rates frequently in order to maintain competitiveness and to prevent appreciation of their real effective exchange rates.

For middle-income primary producers and countries in the low-income group, the potential to adopt similar strategies for growth and adjustment was more limited. Nevertheless, the authorities in a number of predominantly primary producing countries were successful in promoting diversification by providing incentives and support to sectors producing manufactures, including processed primary products, for export and for import substitution. Some of the middle-income primary producers were able to increase their medium-term borrowing abroad on commercial terms to finance investment and ease the process of adjustment; their access to external capital markets afforded them the opportunity to pursue policies for promoting the required investment without abrupt changes in the pattern of domestic saving and consumption. Countries in the low-income group, which have particularly low savings rates and faced impediments to borrowing in international capital markets, depended for these reasons to a much larger extent on official sources of financing. Many of these countries were less successful in avoiding a reduction in economic growth and in maintaining investment and imports. Postponement of the required structural adjustment left these countries especially vulnerable to the impact of further external shocks.

The vulnerability of many non-oil developing countries to the most recent oil price increases reinforces the need for available financing to be used in ways that improve the prospects for real growth and promise the attainment of sustainable external positions. Lower real exchange rates in a number of these countries would enhance their efforts at raising their capacity for supplying exports and thus to alleviate their adjustment problems.

One of the key elements in adjustment by the non-oil developing countries will necessarily be the growth in external markets for their exports. In this respect, the

[9] The average percentage changes in real output in the period 1975–79 were 3 per cent for the low-income countries (excluding China and India), 4 per cent for India, and 5 per cent for major exporters of manufactures and other net oil importers. (Data for China are not available for years prior to 1977.) The net oil exporters not included in the group of oil exporting countries also achieved relatively high rates of real growth, and include some countries with characteristics similar to the major exporters of manufactures and some more similar to countries in the oil exporting group.

present environment may be less favorable than that prevailing after the oil price increases of 1973–74. The current recession in the industrial countries, although less severe than that in 1974–75, is widely expected to be followed by a less rapid recovery; even in the absence of further shocks, the growth performance of these countries is unlikely to improve much, if at all, over that experienced in the recent past. Moreover, existing protectionist measures in some industrial countries, and any additional measures that might be taken if the recent upsurge in protectionist sentiment continues, endanger the access of developing countries to export markets, particularly those for manufactures. It must be added, however, that the exploitation of such opportunities would do little to improve the prospects of low-income countries lacking the possibility of early diversification of their production structure.

Export growth in the developing countries has in recent years become somewhat less dependent on growth in the industrial countries, and, since 1973, exports to other developing countries have grown as a proportion of total exports of non-oil developing countries. This experience suggests that the further growth of such trade could over time assist export-oriented development strategies, improve resource allocation, and thereby provide an impetus to the growth of output in these countries. To this end, trade liberalization among developing countries, especially those exporting manufactures and other middle-income countries, may play a useful role. Here again, though, the potential gains derived from such arrangements by low-income primary producing countries are far more limited.

Exchange rate policies in the non-oil developing countries also have an impact on their external capital flows. Capital movements undertaken by residents are strongly influenced by exchange rate expectations. For instance, if the local currency is regarded as overvalued and thus due for an eventual depreciation, capital flight will occur, while the devaluation of the local currency, if considered adequate to correct the previous overvaluation and especially if combined with the liberalization of exchange controls, will tend to induce a reflow of funds. The effect of exchange rate changes on direct foreign investment, however, is less marked than the impact on financial flows, since direct investment is typically motivated less by short-run exchange rate developments than by long-run considerations, such as expected market developments and the long-run relation between exchange rates and prices. In general, countries that have shown a tendency to maintain overvalued exchange rates, accompanied by the exchange and trade controls required to maintain such rates, have been less successful in attracting foreign investment than countries with a record of adjusting exchange rates promptly when the need to do so arises.

Oil Exporting Countries

Some of the oil exporting countries again face large surpluses as a result of decisions to maintain high rates of oil production in excess of those required to provide for their immediate development needs. For excessive current account surpluses arising from other causes, the process of adjustment would typically call for increased expenditures and appreciation in real exchange rates. This was broadly what occurred in these oil exporting countries in the mid-1970s. While their large current account surpluses were reduced as consumption and investment expenditures increased, these adjustments also brought about relatively high rates of domestic inflation and difficulties in the implementation of balanced development policies. These outcomes have brought into focus the special adjustment problems of oil exporting countries and the difficulties of defining the appropriate role of the exchange rate and other policy instruments in the situation of these countries.

These adjustment problems typically differ from those of other developing countries because of certain special characteristics of the oil exporting countries. The accrual of oil revenues directly to governments makes the process of external adjustment through monetary channels less automatic than in other countries, and also affords the governments a leading role in directing the pattern of domestic consumption and of foreign and domestic investment. In many of the oil exporting countries, the ability to promote adjustment through rapid absorption is constrained by shortages of certain factors of production; in particular, countries with indigenous populations that are small relative to their oil resources face the high social and economic costs of importing skilled and unskilled labor required for infrastructural and industrial development.

More fundamentally, the oil exporting countries are highly dependent, in terms of both export earnings and national income, on the exploitation of an exhaustible natural resource. The strategic problem confronting the oil exporting countries is to decide on the optimal rate of exploiting their known oil reserves so as to secure for their societies the greatest possible benefits of present and future consumption. The basic options are to conserve oil underground and exchange it for consumption goods at a later time; to produce oil and exchange it for current consumption goods; and to invest current oil revenues in real or financial assets so as to command a stream of consumption benefits in the future. The determination of the optimal rate of oil extraction and the choice among alternative uses of oil revenues are highly complex decisions, depending on such factors as the overall world demand for oil, the size of petroleum reserves, current and expected oil prices, the preference between current and future consumption, the expected real rates of return on financial and real assets, and the structural characteristics of the economies concerned. From the point of view of safeguarding future income and consumption, investment in real domestic non-oil assets has the advantage of enabling the oil exporting countries not only to transfer income from the present to the future but also to provide the avenue through which the productive base of the economy can be broadened and its dependence on oil reduced; as discussed above, implementation of investment programs has been complicated by the high interest rates prevailing in the industrial countries. Those oil exporting countries that will in the foreseeable future require alternative sources of foreign exchange earnings must seek development and diversification of their non-oil export sectors, and it is with regard to this objective that real exchange rates play an important role.

In oil exporting countries, as in other countries, the importance of the exchange rate stems from its role in influencing the relative price of traded goods and non-traded goods, the competitiveness of the sectors producing exports and import substitutes, and the relative profitability of investment in those sectors. While the leading role of governments in directing expenditure patterns and investment decisions in some oil exporting countries may weaken the influence of relative prices, the market nevertheless often plays a significant role in price and interest rate determination. Moreover, even in countries in which that role may be small, measures of relative scarcities are important signals to take into account when determining government policies affecting resource allocation. Relatively high real exchange rates, which would in general be appropriate for countries with substantial current account surpluses, could impede the achievement of certain development objectives in oil exporting countries, including the diversification of exports.

Like most developing countries, the oil exporting countries have generally chosen to peg their currencies at fixed nominal exchange rates to a major foreign currency or a basket of currencies. Movements in real effective exchange rates therefore depend primarily on the rate of domestic inflation relative to that of their major trading partners. In these circumstances, the effectiveness of a policy of export diversification depends not only on exchange rates but also on the monetary and fiscal policies pursued. Relative price advantages originally conferred by a given nominal exchange rate can quickly be eroded if attempts are made to expand output beyond the capacity of the economy. In these circumstances, moveover, the attempt to maintain a favorable competitive position for the non-oil external sector, or even to promote diversification, through exchange rate depreciation would jeopardize domestic price stability and would thus tend to undermine the objective sought.

Surveillance over Exchange Rate Policies

Exchange rate developments during 1980 and the first half of 1981 have highlighted the importance of the Fund's obligation to exercise firm surveillance over its members' exchange rate policies. The important role of surveillance has also been stressed by a number of Governors at the 1980 Annual Meetings, who stated that the Fund should exercise its surveillance in a forceful manner with full attention given to the need for policies aimed at strengthening underlying conditions and stabilizing exchange rates, in particular in the larger industrial countries, as well as for international cooperation and a multilateral approach to the problems of adjustment and financing. The focus of this section is on recent exchange rate developments and the key aspects of surveillance that they evoke. Certain procedural questions as well as a number of recent changes in exchange rate arrangements adopted by the Fund's members are also considered. A more general review of the principles and procedures of surveillance can be found in last year's Annual Report.

Key Aspects of Surveillance

The appropriateness of the exchange rate policy of a country can be assessed only in the context of its overall economic strategy. The Fund's surveillance over exchange rate policies, therefore, involves assessments, case by case, of the economic policies of countries in an attempt to ascertain whether these policies are consistent with the countries' broad obligations under Article IV and the three principles for the guidance of members' exchange rate policies adopted by the Fund in April 1977, which state:

> A. A member shall avoid manipulating exchange rates or the international monetary system in order to prevent effective balance of payments adjustment or to gain an unfair competitive advantage over other members.
> B. A member should intervene in the exchange market if necessary to counter disorderly conditions which may be characterized inter alia by disruptive short-term movements in the exchange value of its currency.
> C. Members should take into account in their intervention policies the interests of other members, including those of the countries in whose currencies they intervene.[10]

In this context, recent exchange rate developments have brought into focus two aspects of surveillance, namely, the relation between exchange rates and de-

[10] Executive Board Decision No. 5392-(77/63), adopted April 29, 1977. See *Annual Report, 1977*, pages 107–109.

mand management policies, and the role of exchange rates in the adjustment process. With respect to the first of these issues, the experience of the past year and a half provides ample evidence that exchange rates can be affected not only by deliberate manipulation using monetary and other policy instruments but also by policies that are being pursued primarily for domestic purposes. If the country in question is one of the major industrial countries, the exchange rate consequences of domestic policies may be a source of concern for the rest of the world. The Fund must, therefore, at times assess whether the need to achieve certain domestic objectives justifies the use of policies whose effects on exchange rates may be judged to be adverse from the point of view of other countries, or whether it would be possible to use alternative policy mixes that may be as effective for domestic purposes and have more acceptable exchange rate implications. As regards the role of exchange rates in the adjustment process, it must be acknowledged that this role, from the standpoint of an individual country, cannot be divorced from the choice of strategy for fighting inflation or from an analysis of the effectiveness of alternative means available to the country for influencing the allocation of its resources. At the same time, however, the objective of effective balance of payments adjustment must not be neglected, whether the country is small or large, and the Fund consequently has to assess the appropriateness of the overall policy design. These two questions are discussed below.

Demand Management Policies and Exchange Rates

Issues relating to the connection between demand management and exchange rate policies came to the fore in 1980 and the first half of 1981 in the context of the generally high, and also variable, interest rates in the United States. The Fund has stressed for some time that the first priority of economic policy at the present time must be to counter inflationary pressures, and in that context it is crucial that the authorities be seen to maintain a firm strategy of reducing their monetary growth rates over time. Thus, the Fund can only welcome the policy stance of the U.S. monetary authorities that aims at keeping the growth of the monetary aggregates within progressively reduced target ranges, implying considerable restraint on the growth of nominal gross national product (GNP). As discussed above, such a policy has resulted in U.S. interest rates that were high not only in nominal terms but also in real terms. This has tended, inter alia, to dampen the level of economic activity in the United States and to strengthen the U.S. current account. Both the interest rate and the current balance effects have tended to increase the external value of the U.S. dollar. This in turn has contributed to the pressure on a number of other countries, especially industrial countries, to boost their interest rates in order to limit the depreciation of their exchange rates and the resulting increase in the local currency prices of tradable goods in their markets. It is difficult to assess how harmful this move toward high nominal and real interest rates has been in those industrial countries that, while suffering from recessionary tendencies, were faced by rising inflation rates, but it is clear that many of the national authorities concerned considered that they had been constrained to adopt interest rate policies and credit market measures that were more restrictive than needed from a purely domestic standpoint given the appropriately cautious nature of their fiscal policies.

The strong impact that monetary policies may have on exchange rates provides a further reason for the need, discussed in Chapter 1, to use a more broadly based policy approach to counter the forces of inflation. A more appropriate mix of fiscal and monetary policies, in particular, can play an important role in easing pressures in money and capital markets and in reducing real interest rates. Supply policies that enhance competitive mechanisms in markets for goods and labor, such as reductions in import controls or duties and the easing of government regulations, as well as flexible forms of incomes policy, can also play similar roles.

To the extent that such policy measures succeed in reducing the appreciation of the real exchange rate typically accompanying a shift toward a more vigorous anti-inflationary monetary policy, they would also limit the help that the country is getting in its fight against inflation from the moderating influence of the exchange rate appreciation on the local currency prices of tradable goods and, possibly, from gains in the terms of trade. For a country to seek an appreciation of its real exchange rate on this ground, however, would be a misguided decision, since an appreciation of the real exchange rate will soon worsen the foreign trade performance of the country, while the high real interest rates would add to unemployment and weaken investment. A more important factor limiting the use of fiscal and incomes policies as well as supply measures for offsetting the exchange rate effects of a restrictive monetary policy is the existence of social and political constraints on the use of these policies.

In view of these constraints, considerable interest attaches to the question of the extent to which intervention in the foreign exchange markets and the use of official compensatory borrowing can in present circumstances play a role in moderating the real exchange rate effects of short-term divergences in monetary policies of countries with floating currencies. There are different views on this issue. On one side, internationally coordinated intervention in the past is seen to have exercised a stabilizing influence on exchange rates. In March 1980, for example, the Japanese authorities announced that the United States would intervene, together with Japan, to support the yen, in close consultation with the Federal Republic of Germany and Switzerland. This announcement and the subsequent intervention, in conjunction with a number of other measures, seem to have had a certain stabilizing effect on exchange markets. Another view puts more weight on the limits to the effectiveness of intervention in a world in which national capital markets have become closely integrated. In particular, if the divergence in monetary policies is sustained for some time and the authorities are unwilling to accept the monetary effects of their intervention, it is unlikely that intervention alone can be successful in offsetting the effect of this divergence on exchange rates. Moreover, exchange market pressures perceived by the authorities as resulting from abnormal real interest rate differentials may sometimes also reflect underlying balance of payments disequilibria; intervention guided by such perceptions may have a destabilizing effect on exchange rates by delaying balance of payments adjustment. Despite these differences of view, there is broad agreement that the injunction concerning intervention to counter disorderly market conditions contained in the second exchange rate principle quoted above should not be interpreted too narrowly, that intervention is not an effective alternative to the use of a more broadly based policy approach to counter the forces of inflation, and that it should not be used to delay balance of payments adjustment needed in the light of underlying conditions.

This being said, the magnitude of the effect of divergences in monetary policies on real exchange rates during 1980 and the first half of 1981 should not be exaggerated. The main problem during that period was that the pressures on exchange rates arising from the restrictive monetary policy in the United States were added, for the EMS countries, to the pressures that resulted from their large current account deficits. The large changes in real exchange rates between the United States and the EMS countries over the past 18 months can thus not be viewed as being caused solely by divergences in monetary policies, and attempts to moderate these changes should not be limited to the reduction of such divergences. For Japan, an initially weak current account position gave rise to similar problems in the early part of 1980, but during the rest of 1980 and so far in 1981 a much-improved current account position as well as a generally better underlying position allowed the yen to strengthen considerably despite the maintenance of relatively low interest rates in Japan.

Another aspect of the relationship between demand management and exchange rate policies is its bearing on the short-run stability of interest rates and exchange rates. A policy of maintaining stable rates of growth of the monetary aggregates over the short run may have advantages in terms of stabilizing the expectations of private market participants. At the same time, it cannot be assumed that the demand for money will necessarily grow at a steady rate all the time. Faced by an inflexible supply, shifts in money demand may tend to result in significant fluctuations in real interest rates and exchange rates. For example, the analysis presented earlier in this Report stressed the importance of short-run changes in U.S. economic activity as a factor behind the large fluctuations in U.S. interest rates over the past 18 months. There is thus at times a difficult choice to be made between short-term stability of the monetary aggregates and short-term stability of real interest rates and exchange rates—two obviously desirable targets. Here again intervention may at times play a useful role in limiting short-term movements in exchange rates, but when interest rate fluctuations are as large as they have been in the recent experience of the United States it may not be possible to avoid exchange rate adjustments.

Role of Exchange Rates in the Adjustment Process

The issue concerning the role of the exchange rate in the adjustment process also raises difficult problems from the standpoint of the Fund's surveillance over exchange rate policies. Both the advantages and disadvantages of exchange rate flexibility in this context have come to be appreciated more fully in recent years, but a considerable margin for differences of view remains. Two things are clear, however. First, as long as a country has major chronic inflationary problems, there is no realistic alternative to continuous or frequent adjustments of its exchange rate. Second, when an improvement of a country's external position is needed, certain conditions must be met if, starting from a position of external disequilibrium, a change in the exchange rate is to result in a smooth and lasting adjustment. These conditions include the absence or gradual reduction of: (i) the widespread indexation of nominal wages on a price index that includes import prices, (ii) excess demand conditions owing to expansionary monetary or fiscal policies, (iii) official price regulations and practices that prevent the most crucial domestic prices for tradable goods from reflecting world market prices, and (iv) regulations or rigidities that substantially impair the reallocation of available productive resources. Social goals may have to be sacrificed, at least temporarily, to meet these conditions, but the removal of regulations and rigidities can also at times be useful from a social viewpoint.

These conditions are important not only for a smooth adjustment through exchange rate flexibility but also for the success of any other kind of adjustment policy. Indexation of nominal wages on the consumer price index, for example, is likely to lead to increased adjustment problems during a period of worsening terms of trade, no matter what the exchange rate policy of the authorities may be. If such a form of indexation is combined with a flexible exchange rate policy, the outcome may be inflation if the authorities follow an accommodating monetary policy and unemployment if they do not. With a fixed exchange rate, the result will tend to be a persistent balance of payments deficit and, if the country is a small open economy, unemployment as well. Thus, the Fund has continuously stressed the importance of eliminating, or at least reducing, rigid forms of wage indexation (in particular, when import prices are not excluded), excess demand conditions, price regulations, and other regulations or rigidities hindering the optimal allocation of resources, no matter what exchange rate regime is chosen by the country.

Once the conditions for adjustment have been secured or restored, the issue of the role of the exchange rate must be assessed in a pragmatic way on the basis of the particular conditions prevailing in the country concerned and the policy strategy of its authorities. A country with an unsustainable external deficit that is not simply the reflection of excess demand conditions will often be faced with the need to restore adequate incentives for investment and production in the tradable goods sector. This can be done by reducing the rate of growth in nominal production costs per unit of output substantially below those observed in trading partner countries, or by letting the exchange rate depreciate and then preventing nominal production costs from increasing at a rate that offsets the gains in competitiveness resulting from the exchange rate depreciation. Neither alternative is easy to carry out. Both will require an overall adjustment program aimed at reducing the rate of growth of nominal domestic demand, while allowing for enhanced investment in the sector producing tradable goods. As regards the first alternative, it may be difficult enough in practice to bring the rate of inflation back into line with the average prevailing in competitor countries; to reduce it even further so as to avoid the need for a devaluation may be a formidable task. The alternative of depreciation, while not painless, may thus in many cases be the only feasible solution if investment and production incentives in the sector producing tradable goods have to be improved.

As discussed above, the role of the exchange rate can be particularly important for an individual primary producing country that has a serious external adjustment problem. A single country is normally faced with a highly price-elastic foreign demand for its output, so that the volume of its exports can be seriously affected by a lack of cost competitiveness. Although the country normally has little influence over world market prices for its exports, the quantities of goods that it will export at these prices will decline if their local currency equivalent makes production unprofitable.

Account must, however, be taken of difficulties in the implementation of exchange rate policies that are particularly important for developing countries and may require that exchange rate action be combined with supportive measures. These difficulties are of several types.

(i) The process of changing resource allocation is often costly and requires a substantial amount of time because of the low mobility of resources in the short run. This makes it particularly important to avoid delays in necessary exchange rate realignments and to secure adequate medium-term financing in order to ensure an orderly adjustment process. Financing at concessionary rates is needed, at least for the low-income developing countries.

(ii) A change in the exchange rate needs to be supported by other measures aimed at improving resource allocation. There is often a tight interdependence between the exchange rate policy of the authorities and the pricing policies of marketing boards, which have a major impact on producers' attitudes. Thus, producer prices in domestic currency normally have to be increased when an exchange rate depreciation occurs, and, conversely, a depreciation is frequently felt to be the only means of raising producer prices without unduly increasing the deficit of marketing boards. Import taxation and export subsidies may also have to be modified. Further, many of the investment decisions are made in the public sector, and it is important that these decisions reflect economic returns.

(iii) Changes in exchange rates have effects on the distribution of real incomes that may create social and political difficulties for the authorities. While it is difficult to generalize on this question, a devaluation will tend to increase the real incomes of entrepreneurs and workers in export sectors and sectors competing with imports and decrease the real incomes of certain other social groups, such as those urban higher-income groups that have a relatively high propensity to consume imported goods and those farmers that do not produce for export and need imported fertilizers and other inputs. Moreover, changes in exchange rates may sometimes impair a country's fiscal position by increasing fiscal expenditures more than tax revenues. Supportive fiscal measures may thus be required.

(iv) It should be stressed that developing countries cannot expand their exports, especially their emerging exports of agriculturally based products and manufactures, if importing countries, in particular the industrial countries, use protective measures directed against the importation of these products. New restrictive measures should be avoided, and, often, existing protective barriers will have to be lowered if the adjustment process of developing countries is to be successful.

In centrally planned economies, where imports, capital movements, investment, and prices are controlled, the influence of the overall domestic price level on the foreign trade performance is weakened and the market mechanism is playing a less significant role. The exchange rate need not be relied upon to produce balance of payments adjustment. As in the case of other economies, however, exchange rate and price policies may be significant in promoting efficiency and proper allocation of resources.

While the characteristics of major oil exporting countries differentiate them from other countries in regard to the working of the external adjustment process and the role of the exchange rate, the structure of costs and prices in these countries also plays a significant role in the allocation of resources and, therefore, calls for attention to issues of exchange rate policy. In particular, the desirability of encouraging economic diversification by promoting the production of non-oil traded goods argues against permitting exchange rate developments that undercut domestic competitiveness.

The importance of exchange rate policy in the design of an adjustment program has led a number of developing countries to include exchange rate adjustments in economic programs supported by resources from the Fund. Mindful of the political and social problems involved, the Fund itself in connection with such arrangements has refrained from insisting on change in the exchange rate except where it was clear that such a change was needed. The approach whereby a stand-by arrangement remains in effect after a certain period (generally, six months) only if the national authorities and the Fund reach agreement on the issue of the exchange rate following the completion of a joint exchange rate study has on occasion been used to ensure better-informed decisions.

In some recent instances, the authorities in certain developing countries have recognized the need for an exchange rate adjustment but have been reluctant to implement it for fear of particular consequences that are regarded as undesirable for social, political, or economic reasons. In these situations, a search has been made for alternatives to an exchange rate adjustment in the form of a simultaneous application of export subsidies and import surcharges. In practice, however, this approach has drawbacks. Since it is ordinarily the intention to avoid full equivalence to an exchange rate adjustment, the subsidies and surcharges usually cover only selected exports and imports. They result thus in a multiplicity of effective exchange rates and, if maintained over protracted periods, entail potentially serious distortions in the structure of prices and costs. The existence of such schemes not only tends to discourage efficiency on the part of particular producers and industries but also gives rise to pressures for measures to create additional incentives, so that over time the system of trade restrictions tends to become more complex and to entail increasing administrative costs, inefficiencies, and room for abuse. In addition, such schemes have frequently led to a worsening of the budgetary position.

It is often preferable for the required measures to include a one-step adjustment in a unitary exchange rate. In circumstances where this option is excluded from consideration for political or other reasons, three alternative approaches are possible. One approach that has been followed is to adjust the unitary exchange rate in smaller steps until the appropriate exchange rate has been reached. Another approach has involved the adoption of a dual exchange rate system, taking the form of a floating rate or of a fixed uniform rate of subsidies and surcharges for certain current account items. The third, and least preferable, option has been to introduce different rates for the export subsidy and the import surcharge, or a variety of rates within the export or import group. Because of the complexity, significant unfavorable impact on resource allocation, and administrative cost of the second and third of these solutions, the Fund has continued to discourage members from using them except temporarily, when no other approach seemed feasible.[11]

Review of Procedures for Surveillance

In the review of the implementation of the Fund's surveillance over members' exchange rate policies completed by the Executive Board in June 1980, it was concluded that the strengthening of Fund surveillance should be accomplished through effective implementation of existing procedures, which were considered to be sufficiently flexible for this purpose. In the review of April 1981, the conclusion with respect to the adequacy of these procedures was reiterated and stress was laid on the need to give adequate attention in the implementation of existing procedurese to longer-run considerations in the assessment of members' exchange rate

[11] It will be recalled that the Principles of Fund Surveillance over Exchange Rate Policies mention the following as among the developments that might indicate the need for discussion with a member: "2. (iii) (a) the introduction, substantial intensification, or prolonged maintenance, for balance of payments purposes, of restrictions on, or incentives for, current transactions or payments, . . ." (Executive Board Decision No. 5392-(77/63), adopted April 29, 1977. See *Annual Report, 1977*, page 108.)

policies, including the prospective evolution of external indebtedness. Accordingly, no changes in procedures have been introduced, and the description of the procedures given in the 1980 Annual Report remains valid. These procedures have, nevertheless, continued to evolve with respect to the role of the World Economic Outlook exercise, the supplemental consultation procedure, and the annual Article IV consultation missions.

The World Economic Outlook discussions provide an essential background to the Fund's surveillance activities in individual member countries. These discussions are the principal means by which the Executive Board reviews, at frequent and regular intervals, broad developments in exchange rates and the working of the international adjustment process as a whole. They ensure that each member's external position is assessed in the context of the global need for adjustment, and that its adjustment process is viewed as an integral part of what must be a multilateral process. Recent World Economic Outlook exercises have also been used to analyze global adjustment needs in a medium-term framework extending through the mid-1980s. This was done by developing various "scenarios" that focus mainly on medium-term prospects for the external positions and growth rates of various analytical subgroups of non-oil developing countries. Such an analysis is particularly appropriate at the present time given the magnitude and structural nature of the adjustment problems now facing the world economy.

In the course of the review of June 1980, it was also agreed that the Fund should make more active use of supplemental surveillance consultations with members.[12] The importance of discretion and caution in initiating such consultations was emphasized. Supplemental consultations provide a mechanism for timely contact with members and enable the Fund to analyze important developments during the interval between regular Article IV consultations, without the presumption that the member concerned has not complied with its obligations under Article IV. Difficulties may indeed arise in initiating such consultations because of the formality associated with any consultation and the need for discretion and caution. During 1980 and the first half of 1981, the Managing Director took up issues of interest in informal discussions with Executive Directors and with members. Moreover, the staff has had close contacts with the authorities of a number of countries with respect to their exchange rate developments, in addition to the regular Article IV consultation discussions; in one case, the staff contact took the form of a special mission. This informal, low-key approach has proved useful in implementing the intent of the decision cited above. The Managing Director will continue to assess the need for supplemental surveillance consultations and to evolve these procedures with a view to strengthening their effectiveness, taking into account the nature of developments and the requirements of caution and confidentiality.

The consultations under Article IV comprehend the regular consultations to be conducted under Articles VIII and XIV, which are, in principle, to be held annually. The Executive Board decided that these annual consultations would be conducted in accordance with the procedures already adopted for the consultations that had been held before under Articles VIII and XIV, adapted and extended to meet the requirements of surveillance under Article IV.[13] The Executive Board has also stressed that such consultations should lead to reports including frank analyses by the Fund staff of the exchange rate policies of all members. A total of 94 consultations under Article IV were initiated in 1980, and 90 consultations were completed; of the latter number, 26 were in respect of consultations initiated in 1979. The average interval between consultations with members was approximately 18 months over the past two years. Consultations with approximately one third of the Fund members, including those of major importance in the international adjustment process, continued on a roughly annual cycle, while the average interval between consultations with other members was approximately 21 months. In 27 of the 61 instances in the last two years in which the interval between consultations has exceeded 18 months, the Executive Board reviewed members' economic situations and prospects on the occasion of requests for use of Fund resources or reviews of existing programs.

Changes in Exchange Arrangements

Since the Second Amendment to the Articles of Agreement entered into force, all countries are required to notify the Fund promptly of changes in their exchange arrangements. From the end of June 1980 to the end of June 1981, five members notified the Fund of changes in their exchange arrangements. These changes, as well as the exchange rate arrangements that countries adhered to on June 30, 1981, are indicated in Table 17.

[12] Executive Board Decision No. 6026-(79/13), adopted January 22, 1979. (See *Annual Report, 1979,* page 136.)

[13] Executive Board Decision No. 5604-(77/173), adopted December 21, 1977, and Executive Board Decision No. 5695-(78/36), adopted March 20, 1978.

Table 17. Exchange Rate Arrangements, June 30, 1981 [1]

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

[1] No current information on the exchange rate system of Democratic Kampuchea is available.

[2] Costa Rica, Guyana, Morocco, Peru, and Uganda changed their exchange rate arrangements during the year ended June 30, 1981. The currencies of Costa Rica and Guyana were previously pegged on the U.S. dollar. The currencies of Uganda and Morocco were pegged on the SDR and on another currency composite, respectively. Peru was previously classified in the "other" category.

International Liquidity and Reserves

In recent years, international liquidity and official reserve holdings have continued to be influenced by changes in the international monetary system. The global stock of reserves has been affected by the exchange arrangements adopted by member countries and their economic policies, by the manner in which the net current account earnings of the oil exporting countries were recycled, as well as by the allocation of SDRs, increases in Fund quotas, and the continued expansion of holdings of ECUs. The SDR value of various reserve components has also been influenced by movements in exchange rates and the price of gold.

This part of the chapter describes the recent changes in the level and composition of international reserves. Following an examination of the behavior of the overall stock of international reserves, changes in reserves are separated into those produced by transactions and those that resulted from variation in the SDR prices of the various reserve components. There is next an analysis of the sources of growth in conditional and unconditional liquidity as provided by the Fund and international financial markets. The role of the Eurocurrency markets is further examined in terms of their contribution to the recycling of the net earnings on current account of the oil exporting countries during the periods 1973–74 and 1979–80. The final sections review the adequacy of international reserves and the role of the Fund in the international monetary system.

Recent Developments in International Reserves

During 1980, the growth of total reserves excluding gold accelerated to 19 per cent—an increase of SDR 51 billion—in comparison with annual growth rates of 11 per cent in 1979 and 8 per cent in 1978 (Table 18). Holdings of foreign exchange and Fund-related assets—SDRs and reserve positions in the Fund—grew at comparable rates in 1980, 19 per cent and 18 per cent, respectively. This contrasts with the years 1978–79, when foreign exchange holdings grew much more rapidly than Fund-related assets. As in 1979, a significant proportion of the increase in foreign exchange reserves was accounted for by larger holdings of ECUs. The increase in total foreign exchange reserves of SDR 47 billion in 1980 was composed of a rise in holdings of foreign currencies of SDR 32 billion and an increase in ECUs of SDR 15 billion. As will be discussed below, the higher SDR value of ECUs primarily reflected valuation adjustments associated with a higher ECU price of gold. Holdings of Fund-related assets grew by SDR 4 billion in 1980, compared with an increase of only SDR 1 billion in 1979. This more rapid growth reflected in part increased borrowing from the Fund by members. SDR holdings at the end of 1980 were depressed by payment in SDRs of 25 per cent of the quota increase that went into effect in November. As a result of this SDR payment, the Fund's General Resources Account became the largest SDR holder, with holdings of SDR 5.6 billion at the end of 1980. Despite the SDR allocation and the heavier use of Fund resources in recent years, the share of Fund-related assets in total reserves excluding gold at the end of 1980 was lower (9 per cent) than it had been at the end of 1973 (13 per cent).

All three major country groups experienced increases in their holdings of total reserves excluding gold in 1980. For the industrial countries, holdings of non-gold reserves grew at approximately the same rate (20 per cent) as the average for all countries. The major oil exporters increased their holdings by 32 per cent, while those of the non-oil developing countries increased much more slowly, by 4 per cent. For the latter group of countries, this was a much slower rate than in 1979 (11 per cent) or 1978 (21 per cent). The sharp reduction in the growth of the reserves of non-oil developing countries as a group accompanied the weakening of their external payments positions resulting from such causes as cyclical factors affecting export receipts, higher import costs, and increased debt service. The development of non-gold reserves was even more unfavorable for some subgroups of developing countries: those of the low-income countries declined by 5 per cent and those of the group of major exporters of manufactures fell by 10 per cent in the course of 1980.

Holdings of ECUs have continued to expand, reflecting primarily the revaluations of gold deposits with the European Monetary Cooperation Fund. This agency values the gold deposited by member countries at the lower of: (1) the average market price over the preceding six months, or (2) the average market price on the penultimate working day preceding the swap period for which the ECU price of gold holdings is to be established.[14] According to this formula, the price of gold used by the EMS, which had risen from ECU 165 per ounce at the time of the first swap period on March 13, 1979 to ECU 211 at the end of 1979, continued to increase, reaching ECU 425 at the end of 1980 and approximately the same value at mid-1981. During 1979, the resulting revaluation of the deposited gold stock, which remained unchanged at approximately 85 million ounces after July 1979, equaled almost SDR 5 billion. The impact of this revaluation (net of the effect on any change in physical gold holdings) was

[14] See *Annual Report, 1980,* page 60, for a detailed discussion of this valuation technique.

Table 18. Official Holdings of Reserve Assets, End of Selected Years 1973–80 and End of May 1981 [1]
(In billions of SDRs)

	1973	1975	1976	1977	1978	1979	1980	May 1981
All countries								
Total reserves excluding gold								
Fund-related assets								
Reserve positions in the Fund	6.2	12.6	17.7	18.1	14.8	11.8	16.8	17.9
Special drawing rights	8.8	8.8	8.7	8.1	8.1	12.5	11.8	16.3
Subtotal, Fund-related assets	15.0	21.4	26.4	26.2	22.9	24.3	28.6	34.2
Foreign exchange	101.5	137.4	160.3	200.3	221.2 [2]	246.2	293.3	309.8
Total reserves excluding gold	116.5	158.8	186.7	226.5	244.2 [2]	270.5	321.9	344.0
Gold [3]								
Quantity *(millions of ounces)*	1,018	1,018	1,013	1,015	1,022	930 [4]	938	939
Value at London market price	94.7	121.9	117.5	137.8	177.3	361.5	433.5	384.7
Industrial countries								
Total reserves excluding gold								
Fund-related assets								
Reserve positions in the Fund	4.9	7.7	11.8	12.2	9.6	7.7	10.7	11.6
Special drawing rights	7.1	7.2	7.2	6.7	6.4	9.3	8.9	12.0
Subtotal, Fund-related assets	12.0	14.9	19.0	18.9	16.0	17.1	19.6	23.7
Foreign exchange	65.7	68.7	73.7	100.0	127.2	135.9	164.2	167.0
Total reserves excluding gold	77.7	83.7	92.7	118.9	143.1	153.0	183.8	190.6
Gold [3]								
Quantity *(millions of ounces)*	874	872	872	881	884	789 [4]	788	788
Value at London market price	81.3	104.5	101.2	119.6	153.4	306.7	364.2	322.6
Oil exporting countries								
Total reserves excluding gold								
Fund-related assets								
Reserve positions in the Fund	0.3	4.3	5.4	5.4	4.4	3.0	4.1	4.4
Special drawing rights	0.3	0.3	0.3	0.4	0.5	1.0	1.2	1.9
Subtotal, Fund-related assets	0.6	4.6	5.8	5.8	4.9	4.0	5.3	6.3
Foreign exchange	10.2	42.4	49.1	55.2	40.1 [2]	51.0	67.1	79.7
Total reserves excluding gold	10.8	47.1	54.9	61.0	45.0 [2]	55.0	72.4	86.0
Gold [3]								
Quantity *(millions of ounces)*	34	35	37	34	36	37	40	41
Value at London market price	3.1	4.2	4.3	4.7	6.3	14.2	18.5	16.9
Non-oil developing countries								
Total reserves excluding gold								
Fund-related assets								
Reserve positions in the Fund	0.9	0.6	0.5	0.5	0.9	1.0	2.1	1.9
Special drawing rights	1.4	1.2	1.1	1.1	1.2	2.1	1.7	2.4
Subtotal, Fund-related assets	2.4	1.8	1.6	1.6	2.1	3.2	3.8	4.4
Foreign exchange	24.8	25.3	36.3	44.0	52.9	58.2	60.2	60.8
Total reserves excluding gold	27.2	27.1	37.8	45.6	55.0	61.3	64.0	65.1
Gold [3]								
Quantity *(millions of ounces)*	109	108	101	98	99	102	107	107
Value at London market price	10.1	13.0	11.8	13.3	17.2	39.7	49.5	43.9

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

[1] "Fund-related assets" comprise reserve positions in the Fund and SDR holdings of all Fund members and Switzerland. Claims by Switzerland on the Fund are included in the line showing reserve positions in the Fund. The entries under "Foreign exchange" and "Gold" comprise official holdings of the Netherlands Antilles, Switzerland, and Fund members for which data are available. Figures for 1973 include official French claims on the European Monetary Cooperation Fund.

[2] 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.

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

[4] The decrease recorded in the quantity of countries' official gold holdings from the end of 1978 to the end of 1979 reflects mainly the deposit by the nine member countries of the European Monetary System of 20 per cent of their gold holdings with the European Monetary Cooperation Fund. The European Currency Units (ECUs) issued in return for these deposits are shown as part of the countries' official foreign exchange holdings.

even larger in 1980, when the rise in the ECU price of gold resulted in an increase of SDR 17.5 billion in foreign exchange reserves.

The SDR value of ECUs outstanding was also affected during 1980 by the fact that the ECU depreciated against the U.S. dollar to an even greater extent than against the SDR. The dollar appreciation would by itself have caused more ECUs to be issued against dollar deposits in the EMS. However, sales of U.S. dollars by members of the EMS in an attempt to slow the dollar appreciation were sufficient to bring about a decline in dollar deposits in the European Monetary Cooperation Fund and, thereby, a reduction of SDR 2.6 billion in ECUs issued against dollars. On balance, the increase in

ECUs from SDR 32.5 billion at the end of 1979 to SDR 47.5 billion at the end of 1980 reflected the fact that the increase in the SDR value of ECUs issued against gold (SDR 17.6 billion)[15] far outweighed the decline in the SDR value of ECUs issued against dollars (SDR 2.6 billion).

During the first five months of 1981, total non-gold reserves continued to expand at nearly the same annual rate as in 1980. Holdings of SDRs at the end of May 1981 reflected the SDR allocation at the beginning of the year. When combined with the change in reserve positions in the Fund, this resulted in an increase of 20 per cent in the holdings of Fund-related assets during the first five months of 1981, which accounted for approximately one fourth of the growth in total non-gold reserves of SDR 22 billion. Foreign exchange reserves grew by SDR 17 billion.

This pattern of more rapid growth of Fund-related assets than of foreign exchange reserves during the first part of 1981 was observed in all major country groups. The oil exporting countries experienced a uniform expansion of Fund-related assets (up 19 per cent) and foreign exchange reserves (up 19 per cent) during the first five months of the year. While the holdings of Fund-related assets of the non-oil developing countries increased by 16 per cent during this period, their foreign exchange reserves expanded hardly at all. The industrial countries increased their holdings of Fund-related assets and foreign exchange reserves by 21 per cent and 2 per cent, respectively.

The position of gold in the reserve portfolios of countries is difficult to gauge, since various methods of valuing gold holdings are in use. As already discussed, for example, the European Monetary Cooperation Fund values its gold deposits on the basis of the lower of the average market price over the preceding six months or the market price just prior to its swap periods. Since other authorities have used quite different valuation policies (some of which are not publicly announced), the total of official gold reserves as valued by holders is not available. In this Report, official gold holdings are for expository purposes valued at the market price of gold in London at the specified dates.

The physical stock of gold in official reserves has remained almost unchanged at about 1 billion ounces during the past decade, except for a decline by about 9 per cent in 1979 as a result of the deposit of gold in the European Monetary Cooperation Fund. The market value of gold (in SDRs), however, increased 12-fold from the end of 1970 to the end of 1980. While the market value of gold reserves was somewhat smaller than that of non-gold reserves in 1973, it was somewhat larger in mid-1981. The rate of increase in the value of gold reserves has been uneven because of the variable rate of change in the price of gold. For example, the SDR price of gold doubled between the end of March 1973 and the end of 1974, declined by one fourth during the following two years, and quadrupled between the end of 1976 and the end of 1980. The recent growth in the market value of gold reserves was reversed by a sharp reduction (by 11 per cent) in the value of this reserve component during the first five months of 1981, reflecting a decline in the market price.

The importance of gold reserves relative to non-gold reserves varies among country groups. At the end of May 1981, the market value of gold reserves was 169 per cent of that of non-gold reserves for the industrial countries, 67 per cent for the non-oil developing countries, and 20 per cent for the oil exporting countries.

Foreign Exchange Reserves

The growth of the foreign exchange component of reserves reflected the effects of foreign exchange transactions of monetary authorities and changes in the SDR prices of currencies and the ECU. This section reviews the relative importance of these price and quantity changes, and then compares the size of the cumulative interest-adjusted foreign exchange gains or losses on different types of foreign exchange holdings.

Currency Composition

The currency composition of the increase in foreign exchange reserves in 1980 provides some evidence that the currency diversification of foreign exchange holdings noted in last year's Annual Report has continued (Table 19). While holdings of U.S. dollars increased by SDR 11 billion, the principal non-dollar currencies held in official reserves—the deutsche mark, the Swiss franc, the Japanese yen, the pound sterling, the French franc, and the Netherlands guilder—grew by SDR 19 billion. This change in the composition of reserve holdings was not as large as that in 1979, when U.S. dollar holdings declined by SDR 15 billion and holdings of the principal non-dollar currencies increased by SDR 9 billion. The increase in the U.S. dollar component in 1980 reflected both an appreciation of the dollar relative to the SDR, by 3 per cent, and an increase in the quantity of dollars held.

A direct comparison of the changes in 1980 with those in 1979 is, however, made difficult by the effects of the establishment of the EMS. The largest part of the decline in holdings of U.S. dollars in 1979 was the

[15] This reflects the effect of the changes in both gold prices and physical holdings of gold.

Table 19. Quantity and Price Changes Affecting the SDR Value of Official Holdings of Foreign Exchange, by Currency and in Total, End of First Quarter 1973–End of 1980 [1]

(In millions of SDRs)

	1976	1977	1978	1979	1980	1973:I to 1980:IV
U.S. dollar						
Starting value	105,657	122,822	152,232	162,045	146,945	65,607
Quantity change	16,486	36,027	20,433	−13,737 [2]	5,548	101,648
Price change	679	−6,618	−10,620	−1,363	4,981	−9,782
Total change	17,166	29,409	9,813	−15,100	10,529	91,866
Pound sterling						
Starting value	5,052	3,012	3,259	3,202	4,120	4,602
Quantity change	−1,295	32	−34	622	2,164	3,008
Price change	−745	216	−23	296	586	−740
Total change	−2,040	248	−57	917	2,749	2,268
Deutsche mark						
Starting value	8,208	10,391	14,869	19,705	22,949	5,190
Quantity change	1,162	3,508	3,636	2,340	11,785	24,970
Price change	1,021	970	1,199	904	−2,532	2,041
Total change	2,183	4,478	4,835	3,244	9,253	27,011
French franc						
Starting value	1,626	1,421	1,464	1,953	2,095	909
Quantity change	−66	27	402	90	1,034	2,197
Price change	−139	16	87	53	−232	−209
Total change	−205	43	489	142	802	1,989
Swiss franc						
Starting value	2,078	2,261	3,914	4,148	6,386	1,075
Quantity change	21	1,103	−311	2,153	3,508	7,089
Price change	162	549	545	86	−572	1,158
Total change	183	1,653	234	2,238	2,936	8,247
Netherlands guilder						
Starting value	745	768	824	1,017	1,396	287
Quantity change	−51	32	119	350	851	1,733
Price change	73	24	74	29	−142	84
Total change	23	56	193	379	708	1,818
Japanese yen						
Starting value	697	1,003	2,086	3,714	5,767	0
Quantity change	269	872	1,270	3,033	1,239	7,373
Price change	36	211	358	−980	1,419	1,052
Total change	306	1,083	1,627	2,053	2,659	8,425
ECU						
Starting value	—	—	—	0	32,509	0
Quantity change [3]	—	—	—	27,943	−2,840	25,103
Price change	—	—	—	4,566	17,861	22,427
Total change	—	—	—	32,509	15,021	47,530
Sum of above						
Starting value	124,063	141,678	178,648	195,784	222,167	77,670
Quantity change	16,526	41,601	25,515	22,794	23,289	173,121
Price change	1,087	−4,632	−8,380	3,591	21,369	16,031
Total change	17,616	36,970	17,134	26,382	44,657	189,154
Total official holdings [4]						
Starting value	137,401	160,348	200,306	221,211	246,239	98,344
Total change	22,947	39,958	20,905	25,028	47,025	194,920
Ending value	160,348	200,306	221,211	246,239	293,264	293,264

Source: Fund staff estimates.

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

For details for the period 1973–75, see *Annual Report, 1980,* Table 15, page 62.

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

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

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

result of deposits of U.S. dollars (equivalent to SDR 13 billion) by EMS member countries in the European Monetary Cooperation Fund against an equivalent amount of ECUs issued to the depositors. These ECUs, as well as those issued against gold deposits, are counted as part of foreign exchange reserves, while the U.S. dollars and the gold deposited with the European Monetary Cooperation Fund are not counted as part of countries' reserves. As discussed earlier, there were no corresponding large-scale deposits of dollars or gold in the European Monetary Cooperation Fund during 1980, and most of the increase in ECU holdings in the last year has resulted from the revaluation of gold deposits. While almost three fourths of the increase of SDR 26 billion in identified foreign exchange reserves in 1979 stemmed from ECUs issued against gold, this share dropped to only two fifths of the increase of SDR 45 billion in 1980. If ECUs issued against U.S. dollars were counted as dollars and ECUs issued against gold were excluded from foreign exchange reserves, there would have been only a small decline (SDR 2 billion) in official holdings of U.S. dollars and an increase (SDR 7 billion) in total identified foreign exchange reserves in 1979. In contrast, there would have been increases in both dollar holdings (SDR 8 billion) and total foreign exchange reserves (SDR 27 billion) in 1980. Thus, although both adjusted and unadjusted figures show that holdings of non-dollar foreign exchange reserve assets increased relative to dollar reserve assets in both 1979 and 1980, the currency diversification of official reserve assets took place at a slower rate than suggested by the unadjusted figures.

The SDR value of official holdings of foreign exchange has been altered by changes in the quantity and the SDR price of each component currency (Table 19). The depreciation of the U.S. dollar relative to the SDR during the years 1977–79 reduced the SDR value of U.S. dollar holdings by SDR 19 billion, which offset almost half the increase of SDR 43 billion in the volume of U.S. dollar reserves. The appreciation of the U.S. dollar relative to the SDR in 1980 implied that almost one half of the increase in total U.S. dollar holdings was accounted for by price changes.

While exchange rate movements have often been important in explaining year-to-year changes in the SDR values of individual currency components, quantity changes have dominated over the period between the end of March 1973 and the end of 1980. Over the entire period, the increase of SDR 92 billion in holdings of U.S. dollars consisted of a rise of SDR 102 billion in the quantity of dollars and an offset of SDR 10 billion attributable to a depreciation of the U.S. dollar relative to the SDR.

For the other national currencies, price changes contributed at most 14 per cent (for the Swiss franc) to the total increase in official holdings of these assets during the period 1973–80. For the ECU, however, price effects explained almost 50 per cent of the total increase in ECU holdings over a period of less than two years. As discussed earlier, this reflected primarily the effects of the revaluation of gold deposits in the European Monetary Cooperation Fund.

The increase in total holdings of separately identified national currencies (excluding ECUs) of SDR 142 billion between the end of March 1973 and year-end 1980 was the result of an increase of SDR 148 billion in the volume offset by a decline of SDR 6 billion in the SDR value of currency holdings. When ECU holdings are included, the decline in the SDR value of foreign exchange reserves owing to exchange rate movements was more than offset by an increase of SDR 22 billion in ECUs induced by the rise in the market price of gold, so that exchange rate and other price changes actually increased the value of reserve holdings by SDR 16 billion.

The differing rates of growth of holdings of individual currencies and ECUs imply that the currency composition of foreign exchange reserves continued to change (Table 20). The share of the U.S. dollar in the SDR value of foreign exchange reserves identified by currency continued its decline from a peak of 87 per cent in 1976 to 59 per cent by the end of 1980. The 1979 and 1980 shares for the U.S. dollar were affected by the substitution of ECUs for U.S. dollars in the reserves of the members of the EMS, as already described. If ECUs issued against U.S. dollars were added to dollar holdings and ECUs issued against gold were eliminated from total foreign exchange reserves, then the share of U.S. dollars in total foreign exchange reserves identified by currency would have been 79 per cent at the end of 1979 and 73 per cent at the end of 1980.

The recent change in the U.S. dollar share in foreign exchange reserves was influenced by a number of factors, including official intervention policies and changes in the SDR values of individual currencies. Official exchange market interventions designed to slow the appreciation of the U.S. dollar against other currencies have often resulted in sales of dollars from official holdings, which have reduced the share of the dollar in official reserves. Exchange rate changes have also affected total foreign exchange reserves measured in SDRs, as well as the share of individual currencies in foreign exchange reserves, because the composition of these holdings differs from that of the SDR itself. In 1980, the rise in the SDR prices of the U.S. dollar, sterling, and the yen not only added more to the SDR value of foreign exchange reserves than was subtracted by the fall in the SDR prices of the deutsche mark and the French franc (thereby increasing the SDR value of

Table 20. Share of National Currencies in SDR Value of Total Official Holdings of Foreign Exchange, End of Selected Quarters, 1973–80 [1]

(In per cent)

	1973:I	1975:IV	1976:IV	1977:IV	1978:IV	1979:IV	1980:IV	1979:IV Excluding ECU [2]	1980:IV Excluding ECU [2, 3]
U.S. dollar	84.5	85.2	86.7	85.2	82.8	66.1 [4]	59.0 [5]	78.9	73.1
Pound sterling	5.9	4.1	2.1	1.8	1.6	1.9	2.6	2.0	3.0
Deutsche mark	6.7	6.6	7.3	8.3	10.1	10.3	12.1	11.3	14.0
French franc	1.2	1.3	1.0	0.8	1.0	0.9	1.1	1.0	1.3
Swiss franc	1.4	1.7	1.6	2.2	2.1	2.9	3.5	3.2	4.1
Netherlands guilder	0.4	0.6	0.5	0.5	0.5	0.6	0.8	0.7	0.9
Japanese yen	—	0.6	0.7	1.2	1.9	2.6	3.2	2.8	3.7
ECU	—	—	—	—	—	14.6 [4]	17.8 [5]	—	—
Total	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0

Sources: Various Fund publications and Fund staff estimates.

[1] The detail in each of the columns may not add to 100 because of rounding.

[2] In this alternative calculation, the SDR value of European Currency Units (ECUs) issued against U.S. dollars (SDR 12,784 million at the end of 1979 and SDR 10,176 million at the end of 1980) is added to the SDR value of U.S. dollars, but the SDR value of ECUs issued against gold (SDR 19,725 million at the end of 1979 and SDR 37,354 million at the end of 1980) is excluded from the total distributed here.

[3] The five-currency basket SDR has weights of 42 per cent for the U.S. dollar, 19 per cent for the deutsche mark, and 13 per cent for each of the pound sterling, the French franc, and the Japanese yen.

[4] The share of U.S. dollars would rise by 5.8 percentage points and that of the ECU would fall by the same amount if ECUs issued against U.S. dollars were treated as U.S. dollars in foreign exchange reserves.

[5] The share of U.S. dollars would rise by 3.8 percentage points and that of the ECU would fall by the same amount if ECUs issued against U.S. dollars were treated as U.S. dollars in foreign exchange reserves.

foreign exchange reserves) but also influenced the shares of the individual currencies.

The shares of the non-dollar national currencies in total identified foreign exchange reserves continued the trends evident in earlier years, except for the pound sterling. Holdings of the deutsche mark, the Swiss franc, and the Japanese yen increased as a proportion of total reserves. While the shares of the French franc and the Netherlands guilder rose marginally, the pound sterling reversed the trend toward a declining share evident through 1978 and increased its proportion. This latter development reflected both an increase in the volume of sterling held and the effect of an appreciation of the pound sterling relative to the SDR. The greater proportion for the Japanese yen in 1980 also reflected an appreciation of the yen relative to the SDR.

Rates of Return on Major Currencies

One important element influencing the diversification of reserve holdings has been the relation between rates of return (including both interest income and exchange gain or loss) earned on foreign exchange holdings denominated in various currencies. From the second quarter of 1973, the first full quarter after the transition to floating among the major currencies, to the first quarter of 1981, there has been remarkably little net movement in the SDR value of the U.S. dollar. At the end of this period, that value was a mere 3 per cent below the starting value of SDR 0.83 per dollar. As the SDR value of the U.S. dollar was approximately the same at the end of the second quarter of 1973 and at the end of the first quarter of 1981, there would have been little difference in the value of currency holdings in terms of the dollar or of the SDR. The SDR values of the pound sterling and the French franc were, however, 11 per cent below their starting levels. Conversely, the SDR values of the deutsche mark and the Japanese yen were more than 25 per cent higher in the first quarter of 1981 than in the second quarter of 1973.

During the period, interest differentials have compensated for part of the actual exchange rate movements and, as a result, have narrowed the differences in the growth of the SDR value of investments in national currencies. Countries that have experienced above-average inflation rates and protracted declines in the SDR value of their currencies, such as the United Kingdom and France, have tended to maintain higher nominal interest rates than countries in the opposite circumstances, such as the Federal Republic of Germany and Japan.

The interest rates referred to are the same as those used in calculating the combined market interest rate on which the SDR interest rate is based.[16] The weights used in combining these rates change continuously with changes in the SDR value of the national currency amounts included in the SDR, and interest on official holdings of SDRs has been paid at 100 per cent of the combined market rate only since May 1981. Nevertheless, it is of interest to compare the growth in the SDR value of investments in national currencies with the hypothetical growth of the SDR itself under the assumptions that its currency composition had all along been that which became effective at the beginning of 1981 and that interest had been earned on it at the full combined market rate.

The procedure is as follows: The average interest rates quoted in any quarter yield the interest returns realized during the next quarter in specified currencies. Converting the resulting sums of principal and interest, invested and reinvested with quarterly compounding, from national currency units to SDRs by use of the average quarterly SDR price per unit of national currency shows how the SDR value of one SDR's worth of national currency originally invested during the second quarter of 1973 would have grown compared with an investment of SDR 1 in the SDR itself (Chart 17).

Upon realization in the second quarter of 1981, the SDR value of an investment in SDRs would have increased by 96 per cent, compared with 103 per cent for the pound sterling, 90 per cent for the U.S. dollar, and 86 per cent for the French franc. The SDR values of investments in deutsche mark and Japanese yen would have increased considerably faster, rising by 121 per cent and 137 per cent, respectively. Furthermore, one or the other of these two currencies would have given the highest average rate of return for any period starting with the second quarter of 1973. However, investments in Japanese yen would have been unprofitable relative to the other currencies from 1978 to 1979; more recently, investments in deutsche mark would have performed poorly compared with other currencies.

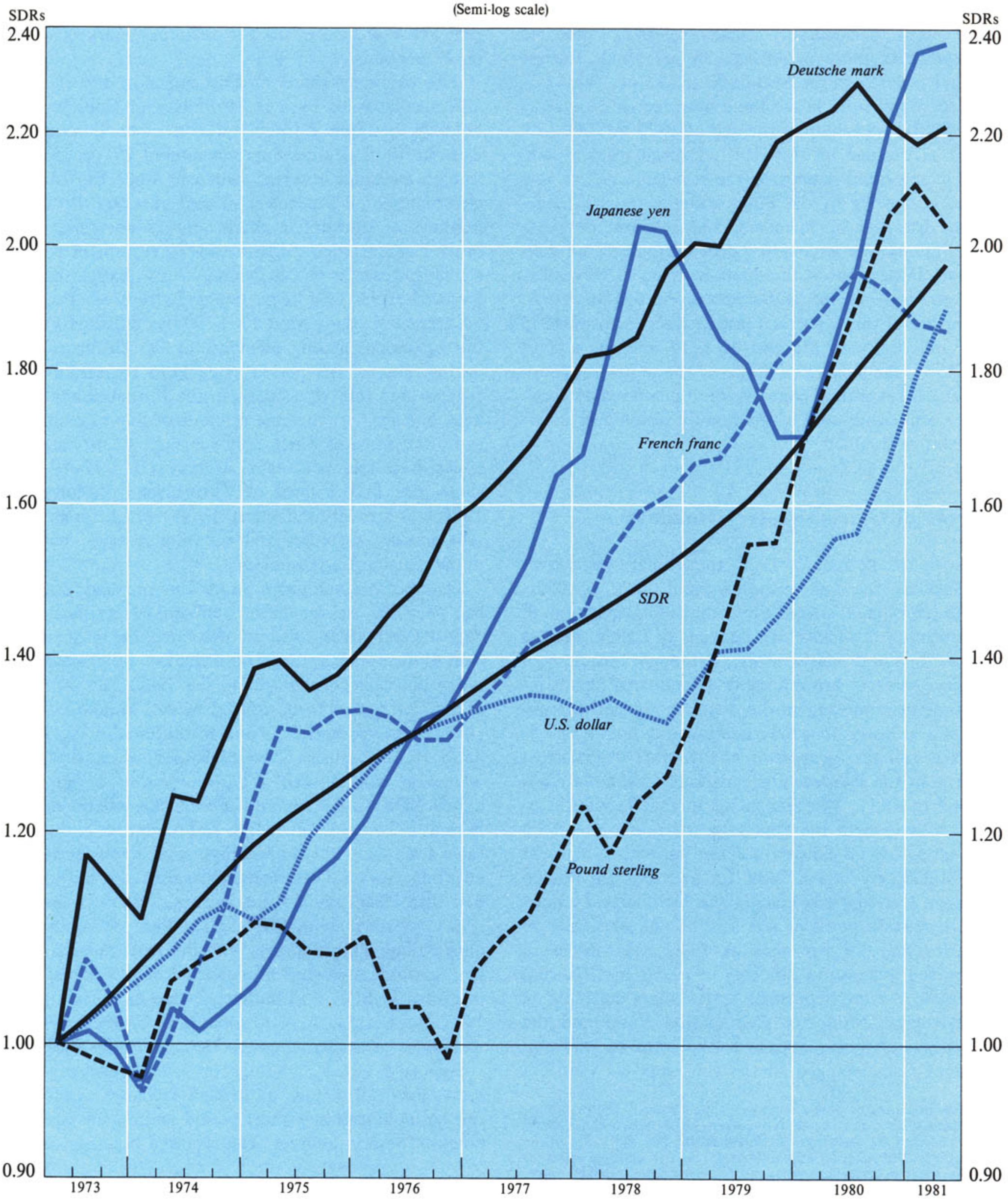
Fund-Related Assets

Holdings of Fund-related assets rose at a rapid pace in 1980 and the first half of 1981 as a result of SDR allocations and large drawings by members. The share of Fund-related assets in international reserves excluding gold of 10 per cent at the end of May 1981 was well below the share of 13 per cent at the end of March 1973. Allocations of SDRs during the third basic period, which were completed in January 1981, have raised the cumulative amount of SDRs issued from SDR 9.3 billion to SDR 21.4 billion. Relatively large holdings of SDRs by the Fund's General Resources Account (SDR 5.1 billion at the end of May 1981) resulting from the payment in SDRs of part of the increased quota subscriptions in December 1980 reduced members' SDR holdings to SDR 16.3 billion at the end of May of this year. The share of these SDR holdings in total reserves excluding gold at the end of May 1981 was less than 5 per cent, which is less than two thirds of the share in 1973. The ratio of allocated SDRs to non-gold reserves in 1981 was also below that in 1973. Reserve positions in the Fund advanced rapidly in 1980 and to date in 1981, as the scale on which the Fund provides balance of payments financing to its members increased. Reserve positions in the Fund as a proportion of total reserves excluding gold equaled 5 per cent in May 1981—the same as the share at the end of 1973.

SDRs are held by member countries, the Fund's General Resources Account, and certain other prescribed official institutions. As a result of the transfers of SDRs in connection with quota subscriptions, the Fund's General Resources Account became a major holder of SDRs in 1981, accounting for approximately 25 per cent of outstanding SDRs. There have also been shifts in SDR holdings between the various major country groups. At the end of May 1981, only the oil exporting countries held SDRs in excess of their allocations (128 per cent), while industrial countries held 83 per cent of their allocations and non-oil developing countries' holdings were 43 per cent of their allocations. These proportions reflect both the payment of 25 per cent of recent quota increases in SDRs and the transfer of allocated SDRs among member countries. The effect of the quota payment can be removed by considering the proportions of the cumulative SDR allocations held at the end of November 1980, immediately before the quota increase became effective. At that time, the industrial countries held SDRs slightly in excess of their allocations (101 per cent), while the SDR holdings of oil exporting countries were 143 per cent of their allocations and those of the non-oil developing countries were only 64 per cent. Even within each of the three country groups, there was considerable variability in the proportions of allocated SDRs held by individual countries. For instance, the Federal Republic of Germany and Japan had holdings equal to 179 per cent and 217 per cent, respectively, of their

[16] At the start of 1981, these bond-equivalent rates were (a) the market yields for three-month U.S. and U.K. Treasury bills with an initial weight of 42 per cent and 13 per cent, respectively; (b) the three-month interbank deposits rate in the Federal Republic of Germany with a weight of 19 per cent; (c) the three-month interbank money rate against private paper in France with a weight of 13 per cent; and (d) the discount rate on two-month (private) bills in Japan, also with a 13 per cent weight. For the calculation described in the text, this latter rate was estimated prior to October 1980 by making use of the observation that the level of the Japanese call money rate (unconditional), used in the first and second SDR interest rate baskets, was close during the period of overlap to that of the two-month rate currently used before converting that rate from a discount basis to a bond-equivalent basis.

Chart 17. Growth of Investments in Specified National Currencies and SDRs, Second Quarter 1973–Second Quarter 1981 [1]



[1] Cumulative value (in SDRs) of investments in the SDR and in short-term assets denominated in the five major currencies of which the SDR is composed, each investment amounting to SDR 1.00 in the second quarter of 1973. The five national assets are described in footnote 16 in the text. For this calculation, the SDR was assumed, throughout the period shown, to have had the present currency composition (i.e., the five-currency basket that became effective on January 1, 1981) and to have earned interest at the full combined (weighted average) market rate of interest on the five national assets.

cumulative allocations of SDRs, while the United States held 77 per cent of its cumulative allocation.[17] The SDR holdings of non-oil developing countries in Asia (78 per cent) and the Western Hemisphere (88 per cent) were considerably closer to their allocated amounts than those in Africa (34 per cent), Europe (26 per cent), and the Middle East (23 per cent).

Reserve positions in the Fund have increased sharply from SDR 11.8 billion at the end of 1979 to SDR 17.9 billion at the end of May 1981. Overall reserve positions in the Fund change as the result of such factors as net borrowing by the Fund under various arrangements, drawings by members, and payment of quota subscriptions in assets other than currency. The payment of 25 per cent of the quota increase of November 1980 in the form of SDRs accounted for the major proportion of this latest increase in reserve positions in the Fund. Between the end of 1979 and the end of May 1981, the reserve positions of the industrial countries and oil exporting countries both increased by about 50 per cent, while that of the non-oil developing countries almost doubled.

Sources of Official Reserve Holdings

During the period 1973–80, the primary sources of international reserves excluding gold have been the growth of official claims on countries, acquisition of Eurocurrency deposits,[18] the issuance of ECUs, and the increase in Fund-related assets. Although most foreign exchange reserves are represented by official claims on countries denominated in the debtor countries' currencies, official institutions have continued to hold a significant but declining proportion of their foreign exchange reserves in the Eurocurrency markets (Table 21). At the end of 1975, 33 per cent of foreign exchange reserves was held in the Eurocurrency markets and 60 per cent as official claims on countries, with 7 per cent unidentified. By 1980, only 25 per cent of foreign exchange reserves was held in the Eurocurrency market, whereas 56 per cent was held as official claims on countries and 16 per cent as ECUs. As discussed earlier, the increase in holdings of ECUs in 1979 and 1980 reflected the deposit of both dollars and gold in the European Monetary Cooperation Fund and the revaluation of these deposits as the price of gold and exchange rates changed. If the gold deposits were excluded from foreign exchange reserves and the dollar deposits were added to official claims on the United States, the proportion of foreign exchange reserves in 1980 represented by official claims would rise to 68 per cent and that held in the Eurocurrency markets would be 29 per cent.

The declining share of Eurocurrency deposits was also accompanied by a redistribution of Eurocurrency holdings between Eurodollars and other Eurocurrencies. In 1975, Eurodollars constituted 27 per cent of foreign exchange reserves, whereas other Eurocurrencies represented 5 per cent of such reserves. By 1980, holdings of Eurodollars were only 18 per cent, while other Eurocurrencies constituted 7 per cent of foreign exchange reserves.[19] The decline in the relative share of Eurocurrencies in foreign exchange reserves that has occurred over the period 1975–80 has reflected in part the agreement among members of the Group of Ten during most of the period since 1971 to refrain from redepositing reserve accruals in the Eurocurrency markets, and the fact that the reserves of the oil exporting countries, some of which hold substantial Eurocurrency assets, were relatively stable in the years 1977–79. The sharp rise in the level of Eurocurrency holdings in 1980 was strongly influenced by the much larger current account surpluses and resulting reserve increases of the oil exporting countries.

One recent development in the Eurocurrency markets has been the emergence of SDR-linked certificates of deposits and bonds. In terms of volume, the most significant SDR market is the deposit market, in which banks index the value of deposits to the SDR. The principal depositors appear to be central banks, Middle Eastern governments or agencies, and institutions in the international oil business. The SDR deposit market is a wholesale market with a typical deposit of approximately SDR 10 million, and deposit rates are quoted for periods of between one month and 6 months, and sometimes for 12 months. In addition, some banks occasionally offer forward transactions against the SDR. The first three SDR bond issues occurred in 1975, but by late 1980 only about SDR 200 million of bonds was outstanding. This contrasts with the SDR deposit market, in which a single Eurocurrency bank had deposits in excess of SDR 250 million. In the early months of 1981, however, there were some large syndicated loans and issues of corporate notes denominated in SDRs.

Reported official holdings of foreign exchange reserves may not include all foreign exchange assets that can be mobilized in a short period and do not indicate potential reserve sources. The reported holdings of for-

[17] U.S. holdings of SDRs have been substantially below cumulative allocations ever since November 1978, when the United States reduced its holdings of SDRs from 100 per cent of its cumulative allocation to approximately 50 per cent in order to acquire foreign currency balances for exchange market intervention.

[18] The term "Eurocurrency deposits" is used to denote deposits denominated in a currency other than the currency of the country in which the bank accepting the deposit is situated.

[19] If the dollar deposit component of ECUs were redistributed to dollar claims and the gold component were excluded, then Eurodollars would constitute 21 per cent and other Eurocurrencies 8 per cent of foreign exchange reserves at the end of 1980.

Table 21. Sources of Official Holdings of Foreign Exchange Reserves, End of Years 1973 and 1975–80 [1]
(In billions of SDRs)

	1973	1975	1976	1977	1978	1979	1980
Official claims on countries							
United States [2]	55.4	68.9	79.2	103.8	120.4	108.6	123.1
Other countries	11.9	14.0	13.7	16.6	18.2	26.2	40.3
Subtotal	67.3	82.9	92.9	120.4	138.6	134.8	163.4
Identified official holdings of Eurocurrencies							
Eurodollars	18.5	37.7	45.3	53.2	48.0	48.7	53.3
Other currencies	5.3	7.2	7.6	12.6	14.6	15.3	20.3
Subtotal	23.8	44.9	52.9	65.8	62.6	64.0	73.6
European Currency Units	—	—	—	—	—	32.4	47.5
Residual [3, 4]	10.4	9.6	14.5	14.1	20.0	15.0	8.8
Total official holdings of foreign exchange	101.5	137.4	160.3	200.3	221.2	246.2	293.3

Sources: *International Financial Statistics* and Fund staff information and estimates.
[1] Official foreign exchange reserves of Fund members (except for the People's Republic of China, for which data are not available), plus Netherlands Antilles and Switzerland. Beginning in 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. Data for the end of 1980 are preliminary.
[2] Covers only claims of countries, including those denominated in the claimant's own currency.
[3] Part of this residual occurs because some member countries do not classify all the foreign exchange claims that they report to the Fund. Includes identified official claims on the International Bank for Reconstruction and Development, on the International Development Association, and the statistical discrepancy.
[4] There are differences between this table and Table 19 owing to different data sources. This table uses U.S. statistics on official claims on the United States to identify such holdings, while Table 19 is based on the survey on the composition of monetary authorities' gross claims on foreigners conducted by the Fund.

eign exchange reserves may understate actual holdings because central banks sometimes place a portion of their reserves in the commercial banking system under repurchase agreement, and these holdings are not included in reported reserves. Some countries also exclude reserves held as cover against the issue of domestic notes and the foreign exchange assets of quasi-official agencies (e.g., national oil companies). Moreover, central banks can increase their actual gross foreign exchange position by borrowing from the Eurocurrency markets or their potential reserve position by arranging for lines of credit that can be drawn upon at some future time. In addition, countries can obtain additional foreign exchange resources by drawing from the Fund. Finally, central banks have arranged for swaps of domestic currency assets with central banks in other countries up to specified limits. Until such time as these swaps are actually used, they would not be counted as part of foreign exchange reserves.

International Liquidity and Adjustment: The Recycling Problem

During 1980, developments in international capital markets were dominated by the recycling of net current account earnings of the oil exporting countries. Despite the many concerns that were expressed early in the year about the difficulties involved in successfully managing the international flow of funds associated with the latest rise in the price of oil, the recycling process has generally worked well. In 1980, the average oil export price rose to US$31 a barrel from US$19 a barrel in 1979 and US$13 a barrel in 1978. As a result of these price changes, the current account surplus of the oil exporting countries increased from an annual average of US$25 billion during the years 1976–78 to US$68 billion in 1979 and to US$112 billion in 1980. At the same time, the current account balance (excluding official transfers) of the industrial countries as a group slipped from an average surplus of US$7 billion in the years 1976–78 to a deficit of US$44 billion in 1980, and the non-oil developing countries increased their current account deficit from an average of US$33 billion in the period 1976–78 to US$82 billion in 1980.[20]

To finance these current account deficits, countries increased their borrowing and reduced their accumulation of reserve assets. The flow of new external borrowing (net of repayments) of the non-oil developing countries rose by almost two thirds from 1978 to 1980. This increased credit extension was facilitated by the fact that in 1980 approximately 40 per cent of the combined surplus of oil exporting countries was deposited in banks.

To evaluate the magnitude of the recycling problem, it is useful to compare the size of the flows associated with the recycling in the years 1979–80 with that observed in 1973–74. The recent shift in payments imbal-

[20] See also Chapter 1.

ances was quite similar to the corresponding change from 1973 to 1974. During both periods, the industrial countries moved from a substantial surplus to a deficit; the surplus of the oil exporting countries increased sharply; and the deficit of the non-oil developing countries increased significantly (Table 11). As a result of the oil price increase in 1973, the oil exporting countries experienced a current account surplus of US$68 billion in 1974, compared with an average surplus of US$4 billion in the period 1971–73. The industrial countries moved from an average current account surplus of US$18 billion in the period 1971–73 to a deficit of US$13 billion in 1974, and the non-oil developing countries increased their current account deficit to US$37 billion in 1974 from an average of US$12 billion in the period 1971–73. As part of the process of intermediation between deficit and surplus countries, international bank lending, net of redepositing, rose from an average of US$27 billion in the period 1971–73 to US$50 billion in 1974. This implied more than doubling the net external borrowing of the non-oil developing countries. As a result of this increased borrowing, the ratio of long-term external debt of the non-oil developing countries to exports of goods and services rose from 89 per cent in 1973 to 98 per cent in 1975, and the ratio of this external debt to the gross domestic product (GDP) increased from 17 per cent to 18 per cent.

In a number of respects, the international banking system was better prepared to continue the international financial intermediation process in 1979–80 than during the years 1974–75. The aggregate current account deficit of the non-oil developing countries in 1980 was considerably smaller relative to the recent scale of international banking flows than in 1974. Major banks had also improved their standards for managing international assets and liabilities, and supervisory and regulatory authorities have been paying closer attention to the prudential aspects of international banking. As discussed earlier, bank lending to non-oil developing countries continued to expand during 1979 and 1980. Even though expansion of syndicated loans seems to have slowed, there was considerable growth in the form of unpublicized bank lending. The ratio of long-term external debt of the non-oil developing countries to their exports has not risen but actually declined somewhat from 1979 to 1980,[21] and the ratio of this debt to GDP has remained approximately constant between one fourth and one fifth, which is, however, still well above the ratio observed in the years 1973–74. The indebtedness position of these countries appears to have worsened, however, by recent changes in the maturity composition from long-term debt, to which reference was made above, to short-term debt, which is less fully covered in the reported data.

[21] This ratio is now lower than at any time since 1974.

Despite this relatively positive overall picture, there are still some issues of concern for the near term. In the first place, the cost of bank borrowing, as distinct from its availability, may become a serious consideration for a number of countries, especially if high nominal and real interest rates continue to prevail in the industrial countries. The higher level of interest rates is perhaps one of the major differences between the periods 1979–80 and 1973–74. Moreover, political or economic crises may seriously limit the access of some countries to the international capital markets.

During the second half of the 1970s, increasing attention was focused on the prudential aspects of international banking. The authorities were concerned with two objectives: preserving the soundness of banks and maintaining adequate growth of their lending. Relative to total bank assets, bank exposure to the non-oil developing countries is now much higher than it was in 1974. This greater exposure, especially to certain countries, and a decline in the ratio of bank capital to total assets, have been cited as sources of some concern within the banking community. In dealing with the prudential behavior of banks, the regulatory authorities have directed attention to the questions of risk exposure and capital adequacy. The authorities in a number of countries now require the reporting of consolidated balance sheets for domestic banks and their foreign branches and subsidiaries, as well as of consolidated positions vis-à-vis particular countries.

The Adequacy of International Reserves

The adequacy of the level and distribution of any given stock of international reserves can be judged in terms of how well it satisfies the effective demand for international assets to be held in official reserves, both in the aggregate and in individual countries. The demand for reserves reflects such factors as the degree of openness of the economies involved, the variability of payments imbalances, and the cost of holding reserves. With the rapid growth of international financial markets, the supplies of the principal components of international reserves have become increasingly responsive to changes in the demand for reserves. This means that there is unlikely to be a general shortage of reserves. There are still, however, the questions of the net cost at which these reserves are obtained and of their distribution.

One way of examining some of the factors that have influenced the demand for and holding of reserves is to consider the ratio of reserves to imports. Considering, first, developments in the ratio of non-gold reserves to imports, the ratio for all countries combined has fallen from 25 per cent in 1973 to 20 per cent in 1980. This aggregate ratio has encompassed somewhat diverse tendencies among the major country groups. The ratio for the major industrial countries declined even more rapidly, from 23 per cent in 1973 to 16 per cent in 1980. In contrast, the ratio for oil exporting countries increased from 59 per cent to 63 per cent during the corresponding period, although in 1980 this ratio was considerably lower than its peak of about 100 per cent in 1975. For the non-oil developing countries, the ratio of non-gold reserves to imports declined from 30 per cent to 22 per cent.

Another way of putting the magnitude of recent reserve changes in perspective involves expressing reserves in "real terms," for instance, in terms of purchasing power over exports or imports in 1973. International reserves excluding gold deflated by world export prices (measured in SDRs) increased from an average stock of SDR 204 billion in 1973 to SDR 218 billion in 1980. During the same period, the comparable real reserves of the industrial countries fell from SDR 141 billion to SDR 124 billion, and those of the non-oil developing countries rose slightly, from SDR 44 billion to SDR 46 billion. The reserves of the oil exporters deflated by world export prices increased from SDR 18 billion to SDR 47 billion, reflecting the sharp increase in their current account surpluses. Holdings of real reserves have thus increased significantly only in the oil exporting countries.

This decline in the demand for non-gold reserves relative to imports could in part reflect the fact that the value of official gold holdings has risen sharply since 1973. While the ratio of non-gold reserves to imports declined from 25 per cent to 20 per cent between 1973 and 1980, the ratio of gold reserves (valued at market prices) to imports rose from 17 per cent to 27 per cent. As a result, the ratio of total reserves—non-gold reserves plus gold reserves valued at market prices—to imports rose from 43 per cent to 48 per cent during this period. Since the importance of gold in total reserves varies among countries, the global rise in the market value of reserves including gold relative to the value of imports was not shared by all countries; for instance, the ratio of the market value of total reserves to imports of the non-oil developing countries actually declined from 1973 (40 per cent) to 1980 (37 per cent).

The distribution of reserves, measured relative to imports as a scale factor, is illustrated in Chart 18, where the frequency distributions for the average ratios of reserves excluding gold to imports are presented for the industrial countries, the oil exporting countries, and the non-oil developing countries for the three-year period 1971–73 and for the period from the third quarter of 1979 through the second quarter of 1980. The median value of the distribution of the ratios for individual countries is also reported. As discussed earlier, the group ratios for the industrial countries and the non-oil developing countries have generally been declining since 1973, while that for the oil exporting countries has risen.

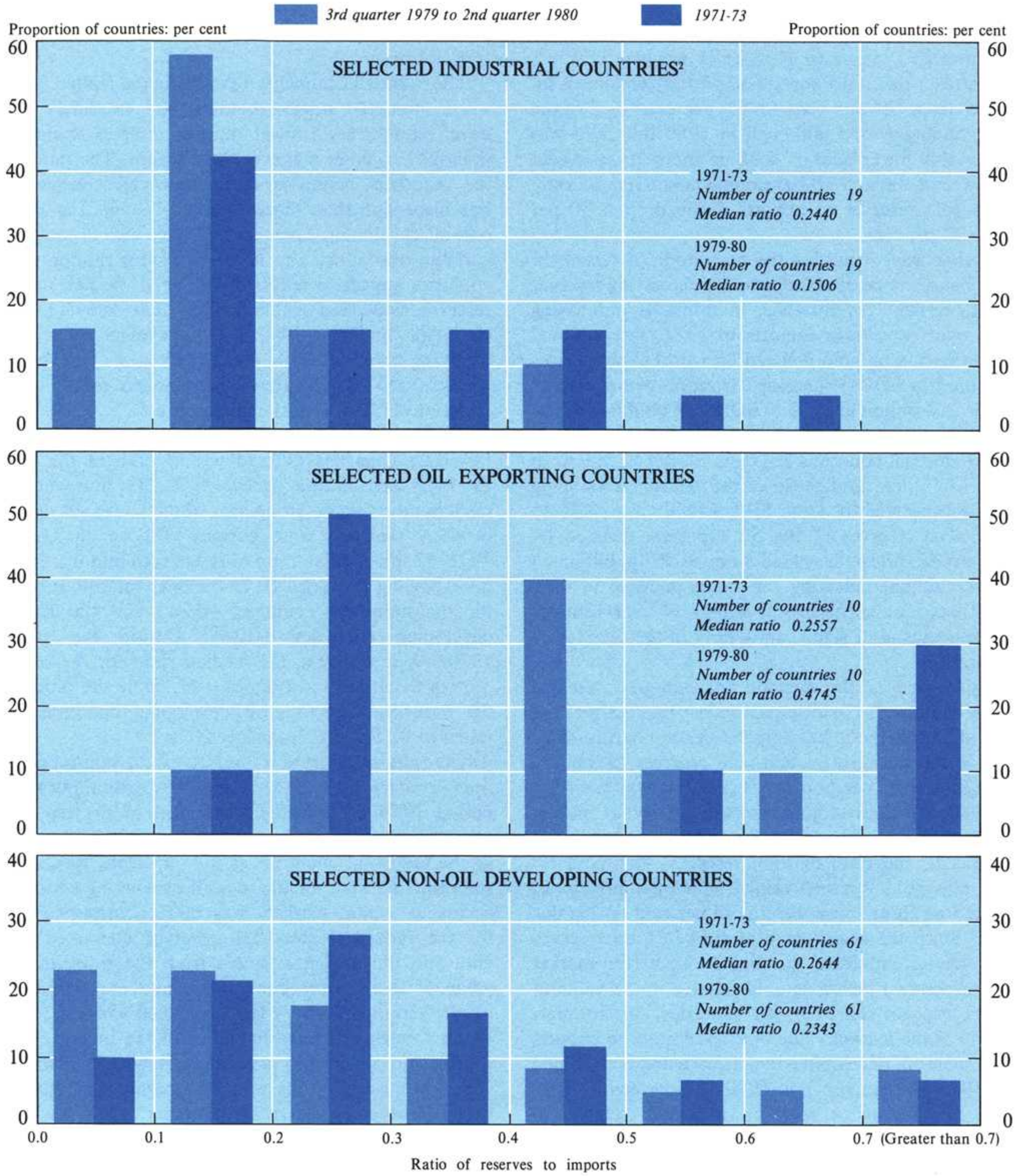
The industrial countries (excluding the United States, whose non-gold reserve holdings are extremely low) have, on average, a lower ratio of reserves to imports than the two other major country groups. The ratios for the industrial countries show, however, considerably less dispersion than those for the oil exporting or the non-oil developing countries and have also become less variable over time. The lower ratios for the industrial countries appear to reflect a relatively low demand for reserves associated with the facts that some of these countries can finance balance of payments deficits by incurring liabilities in their own currencies and that all of them are likely to have good access to the credit facilities of international capital markets.

The ratios of reserves to imports for individual oil exporting countries differed widely both in the years 1971–73 and in the period 1979/80; however, the median ratio for the group as a whole increased sharply between the two time periods. During the period 1971–73, the median ratio of reserves to imports for the oil exporting countries (0.26) was about equal to that for the industrial countries (0.24) and the non-oil developing countries (0.26). During the period 1979/80, in contrast, the median ratio for the oil exporting countries had risen to 0.47, while the ratios for the industrial and non-oil developing countries had fallen to 0.15 and 0.23, respectively.

The ratio of reserves to imports of the non-oil developing countries shows the greatest dispersion, but in the period 1979/80 almost 75 per cent of the reporting countries observed ratios that were no higher than that of the industrial countries as a group. This was so despite the fact that, for the non-oil developing countries, access to capital markets was more constrained than for the industrial countries, reserves contained little gold and thus did not benefit from the rising market value of this reserve component, and the sources of export earnings were far less diversified and less stable. When foreign exchange liabilities of the monetary authorities are taken into account, a number of countries with low reserve ratios also had negative net foreign exchange reserves. There are, however, also a few non-oil developing countries with ratios of reserves to imports that are significantly higher (0.8 and above) than those in the groups of industrial and oil exporting countries.

The preceding analysis suggests that the ample availability of international credit to many countries has generally ensured adequate growth of the overall stock of reserves. Most countries are able to acquire the reserves

Chart 18. Distribution of Ratios of Non-Gold Reserves to Imports [1]



[1] For the most recent 12-month period for which data are available, third quarter of 1979 to second quarter of 1980, the ratios used in this chart are the means of the quarterly ratios of the average stock of reserves to imports (at annual rates). For the historical comparison period, 1971–73, the ratios are the means of the annual ratios for these three years.
[2] Excludes the United States.

effectively demanded by them, either through exchange market intervention at exchange rates consistent with external surpluses or through borrowing in international capital markets. In many countries with small non-gold reserves relative to the value of external trade, the effective demand for reserves is, for one reason or another, relatively low. A conspicuous example is the United States, whose ratio of non-gold reserves to imports at the end of 1980 was only 6 per cent but whose need for such reserves was also small. Reliance on floating exchange rates may reduce the demand for reserves relative to trade of a number of countries in comparison with their reserve needs under the par value system in the 1950s and 1960s. On the other hand, the large size and considerable variability of payments imbalances in recent years has no doubt increased the demand for reserves of many countries. A number of oil exporting countries hold large reserves relative to imports not so much because their reserve needs are large but because reserves constitute a temporary investment of their large net current account earnings.

Although reserves can be borrowed, often (but not always) at a relatively small net cost, these credits must be repaid, or at any rate periodically refinanced. Moreover, a number of countries can borrow only at interest rates that contain a high spread over deposit rates, and some have only limited access, or no access, to international capital markets because of their unfavorable economic prospects and the precarious outlook for their balance of payments. Reserves earned through balance of payments surpluses do not have these drawbacks. An adequate evolution of a country's reserve holdings in the long run is, therefore, closely linked to satisfactory balance of payments adjustment with appropriate allowance for the need for some reserve accumulation, if that need should exceed the country's share in SDR allocations.

The Role of Fund Liquidity in the International Monetary System

Provision of liquidity, unconditional and conditional, is one of the principal functions of the Fund. Unconditional liquidity is supplied through the allocation of SDRs and, as a by-product of the extension of Fund credit, through the growth of reserve positions in the Fund. Conditional liquidity is made available through the Fund's various lending programs and facilities. In allocating SDRs, the Fund directly provides reserve assets under rules set out in the Articles of Agreement; this topic is related to the discussion of the preceding section and will, therefore, be taken up first.

Unconditional Liquidity

The characteristics of the SDR have been considerably improved during the last year. Since January 1, 1981, the SDR is based on a new currency basket, containing five major currencies, which is used to determine both the value of the SDR and its interest rate. With effect from May 1, 1981, the SDR interest rate was increased from 80 per cent to 100 per cent of the combined market interest rate (the weighted average of short-term market yields in the five countries whose currencies are in the SDR basket). At that time, the reconstitution requirement on SDR holdings was also eliminated (with effect from April 30, 1981).[22] These measures improved the asset quality of the SDR and enhanced the role of the SDR in the international monetary system. As a result, there has been further development of the private market in financial assets denominated in SDRs. The SDR has also been increasingly used by other international institutions, and most recently the International Bank for Reconstruction and Development, the International Development Association, and the Central Bank for West African States have been prescribed as authorized holders of SDRs.

With the final allocation (SDR 4 billion) for the third basic period at the beginning of 1981, there has now been a cumulative allocation of SDR 21.4 billion. The fourth basic period starts at the beginning of 1982. As of June 30, 1981, consensus with respect to SDR allocation in the fourth basic period had not yet been reached, and, as provided in the Articles of Agreement, the Managing Director has made a report to the Board of Governors and to the Executive Board indicating that as of that date he was not in a position to make a proposal regarding allocations during the fourth basic period that has broad support among Fund members. At its meeting in Libreville, Gabon, in May 1981, the Interim Committee urged the Executive Board to continue its deliberations on the subject to enable the Managing Director to submit to the Board of Governors at the earliest possible date a proposal that would command the necessary support among members. In reaching decisions on allocation, the Fund is guided by certain provisions of the Articles of Agreement, which require that there be a long-term global need to supplement existing reserve assets and that SDR allocations be consistent with the objective of avoiding economic stagnation and deflation as well as excess demand and inflation in the world. Moreover, the size of SDR allocations has significance for the objective of making the SDR the principal reserve asset in the international monetary system.

As has been discussed earlier, the rapid growth of

[22] See Chapter 3.

non-gold international reserves that has occurred in recent years has primarily taken the form of larger foreign exchange holdings. Accordingly, the share of cumulative SDR allocations in total non-gold reserves declined from 10.5 per cent at the beginning of 1972, just after the last allocation of the first basic period, to 6.6 per cent at the beginning of 1981. Past experience indicates that, with the expansion of international transactions in goods, services, and financial assets, further growth of international reserves is likely to occur. A large part of the total reserve increment will certainly be generated through international financial markets. If a portion of the required reserve increment were, however, to take the form of allocated SDRs, this could satisfy part of the rising demand for reserves without depending on international credit markets; it could also accommodate some tendency toward asset diversification without adding to existing pressures in foreign exchange markets and help to maintain the position of the SDR relative to other reserve assets in the international monetary system. In the present circumstances of the world economy, characterized by sluggish growth and entrenched inflationary pressure, it is of course important that decisions on SDR allocation avoid giving wrong signals to the private sector while aiming at the objectives discussed above.

Conditional Liquidity

Members' quota subscriptions are the basic source of funds used for the extension of conditional credit by the Fund. A country making use of the Fund's resources is generally required to undertake an economic program designed to achieve a viable balance of payments position over an appropriate period of time. The criteria for the provision of Fund support are uniform for all members, in the sense that all members in a particular situation are entitled to receive the same treatment, given their needs and their adjustment efforts. The Fund recognizes that to rectify a country's balance of payments position may, under present circumstances, require structural changes and that these adaptations may take longer than the one to three years normally set for Fund programs. While macroeconomic policies must ensure that the demand for resources is kept in close balance with supply, increased attention has been devoted to the impact of policy measures on the incentives and the capacity to augment supply. To this effect, collaboration with the International Bank for Reconstruction and Development has been intensified. In addition, since payments imbalances are now often large relative to quotas, the Fund has taken steps to enlarge access to its resources. As a general norm, and apart from drawings under certain low-conditionality facilities, members may now use the Fund's resources up to 150 per cent of their new quotas in any year and up to 450 per cent over three years, with a cumulative limit of 600 per cent of quota.[23]

To ensure that there are adequate funds available to support members' adjustment programs, the Fund has periodically increased its quotas and, when necessary, made use of borrowing facilities. Quotas were increased by 50 per cent as a result of the Seventh General Review of Quotas, which became effective in November 1980. In addition to this general quota increase, some members had special increases, chiefly the major oil exporting countries. Most recently, the Saudi Arabian quota in the Fund was doubled to SDR 2.1 billion and the quota of the People's Republic of China was increased to SDR 1.8 billion. It has been decided that the Eighth General Review will be the occasion to review the criteria by which quotas are calculated and to reflect in the quota structure the evolution in members' positions in the world economy.

While work has begun on the Eighth General Review, it may be some time before the Fund obtains sufficient additional resources from quota subscriptions. Given the current high rate of use of Fund resources, it is anticipated that the Fund will need to undertake supplementary borrowings of the order of SDR 6–7 billion a year over the next two or three years. In the first half of 1981, the Fund has concluded borrowing arrangements with the Saudi Arabian Monetary Agency, under which the Fund will be able to borrow up to SDR 4 billion in each of the next two years, with the possibility of additional amounts in the third year. In addition, the Fund has made arrangements for short-term financing of about SDR 1.3 billion from central banks of 16 industrial countries. About one half of this amount is available under a borrowing agreement with the Bank for International Settlements and the remainder under direct bilateral arrangements with the 16 central banks.[24] These resources will contribute to financing of country programs under the Fund's policy of giving members enlarged access to its resources. While the Fund is exploring further bilateral borrowing arrangements with members and central banks of members, it may also have recourse to the private capital markets, if indispensable to finance continued expansion of its operations.

[23] See Chapter 3.
[24] For details, see Chapter 3.

Chapter 3
Activities of the Fund

An Overview

Recent and prospective changes in the world economy have had a pronounced impact on the scale of activities as well as on the policies and procedures of the Fund. In addition, the Fund has taken a number of major decisions to further the objective of making the SDR the principal reserve asset in the international monetary system.

The financial activity of the Fund reached a new peak in terms of the number of arrangements with members involving high conditionality in the use of the Fund's resources, the total amount of resources committed under existing arrangements, and the magnitude of actual purchases. Total volume of resources made available to member countries as conditional liquidity (i.e., in response to balance of payments need through the General Resources and Administered Accounts) and as unconditional liquidity (i.e., through SDR allocations) during the financial year ended April 30, 1981 amounted to SDR 9.5 billion, of which non-oil developing countries accounted for about SDR 6.6 billion. This figure is made up of gross purchases from the General Resources Account, Trust Fund loans, oil facility subsidy account payments, and SDR allocations. (See Table 22.) In 1980/81 members made net purchases from the Fund of about SDR 1.9 billion, marking a reversal of the trend of net repurchases during the preceding three years. In addition, about SDR 400 million of profits from gold sales was distributed to developing member countries during 1980/81, representing a once-for-all transfer of resources to members that was unrelated to balance of payments needs. The increase in financial activity, amounting to about 30 per cent over the previous year, reflected the large and widespread payments imbalances of members and the Fund's policy of enlarged access under its stand-by and extended arrangements.

New commitments under 32 stand-by and extended arrangements approved during 1980/81 totaled SDR 9.5 billion, compared with commitments under 28 such arrangements for a total of SDR 3 billion in the previous year. At the end of the financial year, the Fund had stand-by and extended arrangements with 37 members.

Both the nature and the magnitude of the Fund's balance of payments assistance to member countries reflected the character of members' payments imbalances and the need for adjustment. In recent years members have been more willing to seek the Fund's assistance in financing and implementing adjustment programs and have been willing to do so at an early stage of their balance of payments problems. About two thirds of the assistance provided by the Fund in the period 1974–78 was low-conditionality finance drawn under the oil facility and compensatory financing facility. In contrast, in the past two years about three fourths of the finance from regular Fund resources has been made available under programs of upper credit tranche conditionality. This change reflects, among other factors, the emergence of persistent and large-scale imbalances and the recognition by members that such imbalances require stronger adjustment programs.

The twin elements in enabling the Fund to play its role in the adjustment and financing process have been both the increase in its resources, regular and borrowed, and the enlargement of members' access to them. The primary source of the Fund's financing is the quota subscribed by each of its members. The increase proposed in the Seventh General Review of Quotas came into effect in November 1980 and raised the Fund's regular resources from SDR 39 billion to SDR 60 billion. Work on the Eighth General Review of Quotas has been initiated. It has been agreed that the Eighth General Review should not only cover the question of the overall size of the Fund but also include selective adjustments in members' quotas. The aim of such adjustments would be to better reflect in the Fund's quota structure the developments in individual member's positions in the world economy, while taking into account the world

Table 22. Selected Financial Activities by Type and Country, 1975–81
(In millions of SDRs)

	Financial Years Ended April 30							
	1975	1976	1977	1978	1979	1980	1981	1975–81
				By Type				
General Resources Account								
Gross purchases [1]	4,121.3	5,267.4	4,749.7	2,367.3	1,239.2	2,210.8	4,385.9	24,341.6
Net purchases [2]	(3,741.8)	(4,866.6)	(3,899.6)	(−1,861.8)	(−3,267.2)	(−1,041.8)	(1,924.2)	(8,261.4)
Administered Accounts								
Trust Fund loans	—	—	31.7	268.2	670.0	961.7	1,059.9	2,991.5
Oil facility subsidy account payments (grants)	—	13.8	27.5	25.0	19.1	27.8	50.1	163.3
SDR allocations	—	—	—	—	4,032.6	4,033.2	4,052.5	12,118.3
Total	4,121.3	5,281.2	4,808.9	2,660.5	5,960.9	7,233.5	9,548.4	39,614.7
				By Country				
Industrial countries	2,103.6	2,391.3	2,198.1	1,438.8	2,593.7	2,617.6	2,543.9	15,887.0
United States	—	—	—	—	874.1	874.1	857.3	2,605.5
United Kingdom	—	1,000.0	1,700.0	1,250.0	304.2	304.2	298.3	4,856.8
Italy	1,675.1	780.2	—	90.0	129.0	128.9	126.5	2,929.7
Others	428.5	611.1	498.1	98.8	1,286.4	1,310.4	1,261.8	5,495.0
Developing countries	2,017.7	2,889.9	2,610.8	1,221.7	3,367.2	4,615.9	7,004.2	23,727.3
Oil exporting	—	—	—	—	369.3	369.3	380.3	1,118.9
Non-oil developing	2,017.7	2,889.9	2,610.8	1,221.7	2,997.9	4,246.6	6,624.0	22,608.3
Africa	*243.6*	*580.5*	*635.3*	*336.6*	*861.7*	*1,262.6*	*1,472.9*	*5,393.2*
Asia	*926.5*	*882.0*	*603.8*	*435.4*	*1,011.5*	*1,197.4*	*3,448.3*	*8,505.1*
Europe	*380.0*	*611.5*	*340.1*	*271.6*	*249.0*	*765.8*	*981.2*	*3,599.2*
Middle East	*158.8*	*133.6*	*199.5*	*143.1*	*289.7*	*152.4*	*75.7*	*1,152.2*
Western Hemisphere	*308.8*	*682.3*	*832.1*	*35.0*	*586.0*	*868.4*	*646.0*	*3,958.6*
All countries	4,121.3	5,281.2	4,808.9	2,660.5	5,960.9	7,233.5	9,548.4	39,614.7
Memorandum								
Stand-by and extended arrangements as of April 30								
Commitments	389.8	1,472.2	5,197.6	1,285.1	1,600.4	3,049.7	9,475.1	22,469.9
Undrawn balances	156.0	1,085.8	3,581.1	3,638.8	1,377.5	2,718.0	8,076.4	—
Gold distribution [3]	—	—	209.7	212.6	220.4	230.8	—	873.5
Profits from gold sales distributed to developing countries [4]	—	—	—	222.6	70.6	302.4	400.2	995.8

[1] Excluding drawings in the reserve tranche.
[2] Excluding purchases and repurchases in the reserve tranche; net repurchases (—).
[3] Valued at SDR 35 per fine ounce.
[4] Distribution in U.S. dollars. SDR amounts based on SDR/U.S. dollar rate in effect at time of distribution.

economic conditions and the Fund's liquidity position.

Over time, the total of Fund quotas has fallen as a proportion of world imports, from 12 per cent in 1965 to only about 4 per cent in 1980 and even more so in relation to the balance of payments deficits experienced by a large number of Fund members. The Fund's quota base has thus been sharply eroded in real terms over the last 15 years, and it has had to enlarge progressively, in terms of quotas, the access that members have to its resources so as to be able to make an adequate contribution to the adjustment process. In the 1970s a member could normally purchase up to the equivalent of 100 per cent of its quota (or 165 per cent of quota in the case of an extended arrangement) to support high-conditionality adjustment programs. Following the most recent actions of the Fund in January 1981, members making strong balance of payments adjustment efforts may now purchase up to 150 per cent a year for three years of their recently increased quotas, within an overall limit of the Fund's holdings of a member's currency of 600 per cent of quota, excluding any outstanding purchases under the low-conditionality facilities for oil, compensatory, and buffer stock financing and net of scheduled repurchases.

The effective financing capacity of the Fund depends not only upon total quotas but also on its liquidity position in terms of the relationship between its stock of immediately usable currencies and SDRs in the General Resources Account and its commitments to provide resources and to meet other calls that may be made on it. The Fund's liquidity position has been adequate so far, but it has been agreed that the Fund should strengthen its liquidity position in keeping with the more active role that is being played by the Fund under the enlarged access policy. Substantial borrowings are required to supplement the regular resources of the Fund. These borrowings, which are forecast at SDR 6–7 billion a year during the next three years, should also enable the Fund to play a suitable role in the recycling of the increases in reserves, which are concentrated among a small number of members.

A major element in the Fund's borrowing program was put in place with the conclusion of an agreement with the Saudi Arabian Monetary Agency under which the Fund will be able to borrow up to SDR 4 billion a year in each of the next two years, with a possible additional amount in the third year. This borrowing, together with a doubling of the Saudi Arabian quota in the Fund to SDR 2.1 billion, will significantly enlarge the liquid resources of the Fund to meet its substantial prospective commitments. In addition, the Fund has arranged for short-term financing of at least SDR 1.3 billion from central banks of industrial countries. The Fund is also continuing to explore the possibility of future borrowing from the private market.

Effective May 1, 1981, the Executive Board took important decisions under which a member using the credit tranches or the extended Fund facility would have the option to either use or retain a reserve tranche position.[1] These decisions will give members greater flexibility in timing the use of their reserve tranche position. In conjunction with the raising of the rate of remuneration on Fund creditor positions from 72 per cent to 85 per cent of the combined market interest rate, the decisions also improve the attractiveness of the reserve tranche position for members.

On May 13, 1981, the Executive Board adopted a decision on compensatory financing of fluctuations in the cost of cereal imports for assisting members that encounter a balance of payments difficulty produced by an excess in the cost of their cereal imports largely attributed to factors beyond a member's control.[2] This assistance will be integrated with that available under the compensatory financing facility for shortfalls in export earnings, with an overall purchase limit of 125 per cent of quota. While the integrated facility will be available to all members of the Fund, it is expected to be of particular benefit to low-income countries, which are usually most susceptible to balance of payments disruption caused by export shortfalls or sharp increases in import prices of cereals. Cereals account for more than three fourths of the calorie content of all foods imported by low-income countries and for about 25 per cent of the world trade in agricultural products.

The Trust Fund, established in May 1976 to provide additional balance of payments assistance on concessionary terms to eligible member countries, made its final loan disbursement on March 31, 1981. (See Table 32.) This marked the completion of its operational objectives, and the process of winding it up began on April 30, 1981. Total loans outstanding to 55 members as at the end of the year 1980/81 amounted to SDR 2.9 billion. Part of the loan repayments to the Trust Fund (about SDR 1,500 million) will be used for further concessional assistance to low-income developing countries and up to SDR 750 million to finance in part the newly created administered account of the Fund, the supplementary financing facility subsidy account. This account is intended to reduce the cost of using the Fund's resources under the supplementary financing facility as well as under the policy on exceptional use of the Fund's resources. The account will be supplemented by donations and borrowing to be agreed between the Fund and the lenders.

During the year, the Executive Board decided, after a comprehensive review, to simplify the structure of the Fund's charges by introducing a single rate of charge of 6.25 per cent on members' use of the Fund's ordinary resources, together with provision for periodic reviews of the Fund's income position.[3] While the level of charges has been raised somewhat, charges for the use of ordinary resources still contain an important element of concessionality. Charges on Fund assistance financed with borrowed resources will, however, reflect the cost of borrowed funds.

The Executive Board also took the following major decisions to further enhance the role of the special drawing right as an international reserve asset. The valuation basket of the SDR was reduced from 16 currencies to 5 currencies and unified with the SDR interest rate basket, with effect from January 1, 1981. The SDR rate of interest was raised from 80 per cent to 100 per cent of the combined market interest rate, with effect from May 1, 1981. The reconstitution requirement whereby each member was obliged to maintain over time a minimum average level of SDR holdings of 15 per cent of its net cumulative allocation of SDRs was abrogated with effect from April 30, 1981. SDRs are now freely transferable, by agreement between participants, in transactions and operations that include purchases and sales of SDRs, both spot and forward, loans, donations (grants), swaps, and pledges of SDRs. The first use of

[1] Executive Board Decisions No. 6830-(81/65) and No. 6831-(81/65), adopted April 22, 1981 and reproduced in Appendix II.

[2] Executive Board Decisions No. 6860-(81/81), No. 6861-(81/81), and No. 6862-(81/81), adopted May 13, 1981 and reproduced in Appendix II.

[3] Executive Board Decision No. 6834-(81/65), adopted April 22, 1981 and reproduced in Appendix II.

SDRs in loans and in settlement of financial obligations took place during the year. The SDR is also finding increasing acceptance as a unit of account for private contracts as well as for use by other international and interregional organizations. The third and final allocation of SDRs (SDR 4,053 million) in the third basic period, January 1, 1978–December 31, 1981, was made as of January 1, 1981 to all 141 Fund members, bringing the total of SDRs to SDR 21.4 billion. Four more official institutions were prescribed as "other holders" of SDRs, and the first transactions and operations in SDRs involving "other holders" took place during the year.

During 1980/81, regular consultations were completed for 91 countries under Article IV. The consultations, which are the principal means of carrying out the Fund's surveillance over the exchange rate policies of individual member countries, were supplemented by ad hoc consultations and by special consultations with member countries in connection with periodic reviews of the World Economic Outlook by the Executive Board.

The Fund's training and technical assistance programs continued to be made available to members in the monetary, banking, fiscal, and balance of payments fields, as well as in other areas of special interest to the Fund, in response to requests from members.

Transactions and Operations in the General Resources Account

In 1980/81, total new commitments under stand-by and extended arrangements reached a peak of SDR 9.5 billion. Total purchases in 1980/81, all made by developing countries, amounted to the equivalent of SDR 4.9 billion. (See Table 23.)

During the year, 21 stand-by and 11 extended arrangements were approved for a total of about SDR 9.2 billion; in addition, the arrangements for Panama and Sudan were augmented by SDR 251 million. Of the total, SDR 2.8 billion was committed from the Fund's ordinary resources and SDR 6.6 billion from the supplementary financing facility. The undrawn balances under stand-by and extended arrangements at the end of April 1981 amounted to about SDR 8.1 billion. (See Appendix I, Tables I.2 and I.7.)

Total repurchases during the year, at SDR 2.9 billion, were considerably lower than in the preceding three

Table 23. Flow of Transactions in the General Resources Account and Resulting Stocks, Financial Years Ended April 30, 1975–81

(In millions of SDRs)

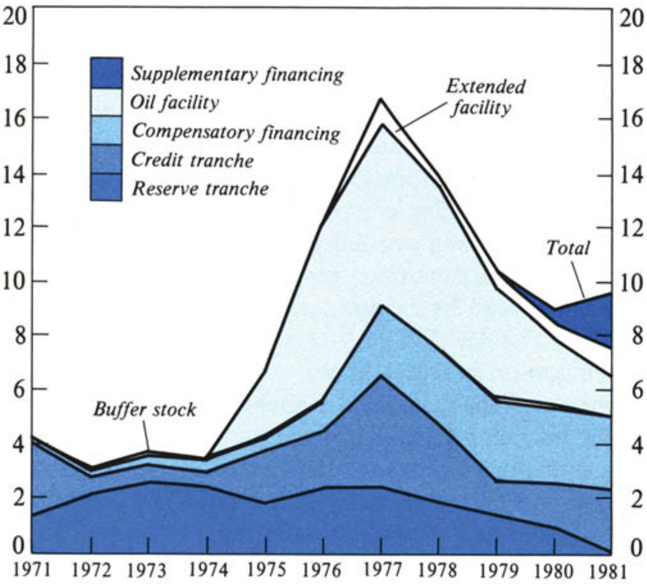
Type of Transaction	Financial Year Ended April 30 1975	1976	1977	1978	1979	1980	1981
Total purchases	5,102	6,591	4,910	2,503	3,720	2,433	4,860
Reserve tranche	981	1,324	161	136	2,480	222	474
Credit tranche	1,604	461	2,370	1,937	485	1,106	2,682
Buffer stock	—	5	—	—	48	26	—
Compensatory financing	18	828	1,753[1]	322	465	863	784
Extended facility	—	8	190	109	242	216	920
Oil facility	2,499	3,966	437	—	—	—	—
Total repurchases	518	960	868	4,485	4,859	3,776	2,853
Gold sales	—	—	411	452	453	419	—
Replenishment up to May 31, 1978	—	—	201	239	—	—	—
Competitive bids	—	—	—	—	181	187	—
Noncompetitive bids	—	—	—	—	51	1	—
In distributions	—	—	210	213	220	231	—
Outstanding borrowings							
In connection with oil facility	2,499	6,465	6,702	6,329	4,257	2,474	1,528
Under the General Arrangements to Borrow	—	—	911	1,576	777	777	777
From Swiss National Bank	—	—	89	154	—	—	—
Supplementary financing facility	—	—	—	—	—	502	2,018
Holdings of the General Resources Account at end of year							
Usable currencies[2]	10,100	7,800	5,300	11,200	8,800	10,600	23,440
SDRs	510	461	771	1,371	1,290	1,407	5,445
Gold[3]	5,370	5,370	4,959	4,507	4,055	3,636	3,620

[1] In addition, credit tranche purchases equivalent to SDR 39.56 million in the financial year ended April 30, 1976 were reclassified as having been made under the compensatory financing decision.
[2] "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.
[3] Valued at SDR 35 per fine ounce.

years, although much higher than in 1975–77. Almost one third of total repurchases were in respect of purchases made under the oil facility, while a somewhat larger amount related to purchases that had been made under the compensatory financing facility.

Outstanding purchases at the end of April 1981 amounted to SDR 9.9 billion, an increase of SDR 1 billion in the preceding 12 months. (See Chart 19.)

Chart 19. Use of Fund's Resources as at April 30, 1971–81
(In billions of SDRs)



Purchases

Reserve Tranche Purchases

Compared with the previous year, purchases in the reserve tranche more than doubled in 1980/81, to SDR 474 million. The increase was due largely to a purchase of SDR 368 million by the People's Republic of China; the remaining purchases, totaling SDR 106 million, were made by 15 other developing countries.

Purchases in the reserve tranche [4] have so far tended to reflect the general trend in the higher demand for the Fund's resources. This was so because the use of resources under stand-by and extended arrangements was predicated on the full prior use of any reserve tranche position that a member may have had at the time of requesting a purchase under the arrangement. Effective May 1, 1981, however, a member using the credit tranches or the extended Fund facility has the option of either using or retaining a reserve tranche position.[5] In addition, members indebted to the Fund, whose currency is sold by the Fund under operational budgets, have the option of attributing the reduction in the Fund's holdings either to any of their obligations to repurchase or to their reserve tranche position, except where the member has an outstanding purchase financed under the General Arrangements to Borrow.[6] Purchases in the reserve tranche are, however, still subject to balance of payments need, although not, under the Articles, subject either to prior challenge or to economic policy conditions. They are also not subject to repurchase. This new decision on the reserve tranche will be reviewed by the Executive Board before April 30, 1984.

Credit Tranche Purchases and Stand-By Arrangements

Purchases in the credit tranches in 1980/81 increased sharply, to SDR 2.7 billion from SDR 1.1 billion in 1979/80, most of them made under stand-by arrangements. All the credit tranche purchases were made by developing countries, the largest amounts purchased being by the People's Republic of China (SDR 450 million), Korea (SDR 384 million), Turkey (SDR 360 million), and Yugoslavia (SDR 376 million). Nearly half of the purchases under stand-by arrangements were financed from borrowed resources under the supplementary financing facility, compared with only SDR 383 million in 1979/80, when these supplementary financing facility resources were first used.

Twenty-one stand-by arrangements were approved for 19 members during the year in amounts totaling the equivalent of SDR 5 billion (compared with SDR 2.5 billion in the previous year), of which the largest amounts were for Yugoslavia (SDR 1,662 million) for a period of two years and 11 months, and for Turkey (SDR 1,250 million) for a period of three years. All the arrangements were in the upper credit tranches, except for those for the People's Republic of China, Cyprus, El Salvador, and Zimbabwe, which were first credit tranche arrangements. Among stand-by arrangements approved in 1980/81, those for 11 members included supplementary financing, of which 6 (Kenya, Korea, Malawi, Tanzania, Turkey, and Yugoslavia) were approved under the section of the decision that permits, in special circumstances, stand-by arrangements for amounts in excess of the normal maximum

[4] Which is measured by the extent to which the Fund's holdings of a member's currency in the General Resources Account, after deducting holdings excluded under Article XXX(*c*), are less than its quota.

[5] Executive Board Decision No. 6830-(81/65), adopted April 22, 1981 and reproduced in Appendix II.

[6] Executive Board Decision No. 6831-(81/65), adopted April 22, 1981 and reproduced in Appendix II.

entitlement. In all, 26 members purchased SDR 2.4 billion under stand-by arrangements in 1980/81; of the total, SDR 1.1 billion was drawn under the supplementary financing facility and the balance was purchased from ordinary resources.

Extended Fund Facility

Eleven arrangements were approved during 1980/81 under the extended Fund facility, which was established in September 1974 to provide medium-term assistance to members for longer periods and in amounts larger in relation to quotas than under the tranche policies, to overcome structural balance of payments maladjustments. The extended arrangement for Jamaica was canceled and a new one approved during the year. The arrangement with Morocco was also canceled and of the total amount of its arrangement (SDR 810 million) the equivalent of SDR 147 million was purchased prior to cancellation. A new arrangement was approved for Morocco amounting to SDR 817.05 million. The 11 arrangements, all with developing countries, totaled SDR 4.5 billion, of which SDR 3.0 billion was provided from the supplementary financing facility. Ten of the arrangements are in excess of the quota limit of 140 per cent and were approved in the light of the members' exceptional circumstances, particularly the balance of payments need relative to their quotas. A total of SDR 920 million was purchased under the 15 arrangements in force during the year, which included 4 approved in earlier financial years. Undrawn balances under the extended arrangements amounted to SDR 4,476 million on April 30, 1981.

The Executive Board reviewed the extended Fund facility and generally noted that the adjustment process in many countries was under growing external pressure and thus the longer periods of assistance under this facility would continue to be increasingly important. It was also agreed that the limit for maximum access to the Fund's ordinary resources should be maintained at 140 per cent of quota and the maximum repurchase period at 10 years.

Compensatory Financing Facility

Members' purchases under the compensatory financing facility are governed by Executive Board Decision No. 6224-(79/135),[7] adopted August 2, 1979, which provides for a quota limit of 100 per cent on outstanding purchases under the facility. The operation of the facility is kept under constant review by the Executive Board in the course of its consideration of requests for use of the facility by individual members.

Use of the facility has grown significantly since its major liberalizations in December 1975 and August 1979, both in absolute terms and also in relation to total use of Fund credit. The nearly SDR 1 billion purchased since the 1979 decision accounted for about one third of total purchases from the Fund during the period August 1979 to April 1981. As of the end of April 1981, outstanding compensatory financing purchases amounted to SDR 2.6 billion, which is also about one third of total purchases from the Fund.

Compensatory Financing of Fluctuations in the Cost of Cereal Imports

On May 13, 1981 the Executive Board adopted a decision on compensatory financing of fluctuations in the cost of cereal imports, which establishes, in conjunction with the existing compensatory financing facility, a means of providing assistance to members in the financing of temporary increases in the costs of cereal imports that are caused by factors largely beyond a member's control.[8] The decision integrates the assistance in respect of temporary increases in the cost of members' cereal imports with the assistance available under the compensatory financing facility in respect of temporary shortfalls in export receipts. Assistance available under the scheme will be additional to that available to members under the Fund's credit tranche and extended Fund facility policies. As with the compensatory financing facility, the drawings will "float" in the reserve tranche. The principal features of the new scheme are as follows:

1. It will be operative for an initial period of four years, and the Executive Board will review this decision not later than June 30, 1983, and when quota increases under the Eighth General Review of Quotas become effective. The cereals under the scheme are those covered by categories 041–046 of the Standard International Trade Classification and include wheat, rice, and coarse grains, such as maize, barley, sorghum, and millet.

2. A member can either request a purchase under the compensatory financing facility as it has been in operation since August 1979 [9] or it can base its request on the new decision, which integrates the compensation available for cereal import excesses with that available for export shortfalls. Once a member makes a request under the new decision, it is bound to continue to base

[7] See *Annual Report, 1980,* pages 136–38.

[8] Executive Board Decision No. 6860-(81/81), adopted May 13, 1981 and reproduced in Appendix II.

[9] Executive Board Decision No. 6224-(79/135), adopted August 2, 1979. See *Annual Report, 1980,* pages 136–38.

its future requests under that decision for the next three years.

3. Under the new decision, a member's purchase is subject to quota limits and is based on the net shortfall defined as the sum of two components:

(i) the export shortfall, which will continue to be calculated as the amount by which exports in a given year are below the geometric average of exports for a five-year period centered on the given year; and

(ii) the cereal import excess, calculated as the amount by which the cost of cereal imports in a given year exceeds the arithmetic average of the cost of cereal imports for the five-year period centered on the given year.

4. The quota limits applicable to outstanding purchases are as follows:

(a) Export shortfalls	100 per cent of quota
(b) Cereal import excesses	100 per cent of quota
(c) Total purchases ((a) plus (b))	125 per cent of quota

The Fund will indicate in an appropriate manner which purchases by a member are made pursuant to this decision, and the export shortfall component and the cereal import component of each purchase.

5. In dealing with a member's request, care will be taken to avoid overcompensation arising from such causes as: (i) previous compensatory purchases relating to overlapping shortfall years; and (ii) the grant element of food aid, to the extent that it is included in cereal import data.

6. A member making a purchase, besides demonstrating a balance of payments need to purchase, must represent that it will cooperate with the Fund in finding appropriate solutions for its balance of payments difficulties. When the requested purchase, by itself or taking into account previous compensatory financing purchases under the facility and the cereal decision, raises the member's outstanding purchases under the facility and compensation of cereal import costs above 50 per cent of its quota, the member must satisfy the Fund that it has been so cooperating.

7. Repurchases with respect to purchases under the new decision shall be made in equal quarterly installments, beginning three years and ending five years after the date of purchase.

Buffer Stock Facility

Since its establishment in 1969, the Fund's buffer stock facility has been used only in the case of contributions of Fund members to two commodity agreements. A total of SDR 30 million was purchased by five members for the Fourth International Tin Agreement. For the 1977 International Sugar Agreement, SDR 74 million was purchased by six members to enable them to meet their national stocking obligation. No purchases are currently outstanding under the facility. Under present policy, Fund assistance is available to members in balance of payments need for the purpose of financing the cost of their contributions to buffer stocks established under international agreements judged to be suitable for Fund financing. In accordance with criteria laid down in the 1969 decision, the Fund has so far authorized the use of Fund resources in connection with the tin, cocoa, and sugar buffer stocks, but drawings have been made only with respect to tin and sugar.

Supplementary Financing Facility

The supplementary financing facility was established on August 29, 1977 [10] and became operational on February 23, 1979. Its purpose is to enable the Fund to provide supplementary financing under stand-by or extended arrangements, 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. (See Table 24.)

To provide financing for the facility, the Fund entered into borrowing agreements with 14 lenders (4 members and 10 monetary authorities) for a total amount of SDR 7.8 billion. The borrowed resources available under the facility became fully committed on March 30, 1981.

The Fund established a subsidy account on December 17, 1980 to reduce the cost of using the supplementary facility for its low-income developing members. (For details, see the section on Administered Accounts.)

Policy of Enlarged Access to Fund Resources

In anticipation of the full commitment of resources from the supplementary financing facility, the Executive Board took a decision on March 11, 1981 adopting a policy of enlarged access to the Fund's resources until the Eighth General Review of Quotas becomes effective. The Fund will, thereby, continue to provide assistance to members facing payments imbalances that are large in relation to their quotas and who need resources in larger amounts and for longer periods than are available under the regular credit tranches.[11]

[10] Executive Board Decision No. 5508-(77/127), Section 5(f), adopted August 29, 1977. See *Annual Report, 1978,* page 113.

[11] Executive Board Decision No. 6783-(81/40), adopted March 11, 1981 and reproduced in Appendix II.

Table 24. Supplementary Financing Facility Commitments Outstanding and Purchases Under Stand-By and Extended Arrangements as at April 30, 1981
(In millions of SDRs)

Country	Quota	Arrangement	Amount	Supplementary Financing		
				Commitment	Purchases [1]	Undrawn balance
Bangladesh [2]	228.0	EFF	800.00	480.80	83.50	397.30
Costa Rica [3]	61.5	SBA	60.50	29.70	5.12	24.58
Dominica [4]	2.9	EFF	8.55	4.49	0.36	4.13
Guyana [5]	37.5	EFF	100.00	66.00	14.19	51.81
Ivory Coast [6]	114.0	EFF	484.50	324.90	22.09	302.81
Jamaica [7]	111.0	EFF	236.35	149.25	6.70	142.55
Kenya [8]	103.5	SBA	241.50	184.42	50.10	134.32
Korea [9]	255.9	SBA	576.00	454.31	57.84	396.47
Liberia [10]	55.5	SBA	65.00	36.90	18.90	18.00
Madagascar [11]	51.0	SBA	76.70	29.71	7.54	22.17
Malawi [12]	28.5	SBA	49.88	35.63	12.00	23.63
Mauritania [13]	25.5	SBA	29.70	17.40	6.08	11.32
Mauritius [14]	40.5	SBA	35.00	31.93	26.93	5.00
Morocco [15]	225.0	EFF	817.05	567.75	2.10	565.65
Pakistan [16]	427.5	EFF	1,268.00	869.00	112.00	757.00
Panama [17]	67.5	SBA	90.00	45.51	4.48	41.03
Philippines [18]	315.0	SBA	410.00	333.00	183.00	150.00
Senegal [19]	63.0	EFF	184.80	126.00	20.55	105.45
Sierra Leone [20]	46.5	EFF	163.70	99.51	—	99.51
Sudan [21]	132.0	EFF	427.00	303.80	75.50	228.30
Tanzania [22]	82.5	SBA	179.60	137.47	16.28	121.19
Togo [23]	28.5	SBA	47.50	29.87	7.25	22.62
Turkey [24]	300.0	SBA	1,250.00	1,211.40	321.40	890.00
Yugoslavia [25]	415.5	SBA	1,662.00	1,357.84	96.00	1,261.84
Total			9,263.33	6,926.59	1,149.91	5,776.68

[1] The amounts represent purchases made under those arrangements that were in effect as of April 30, 1981.
[2] Three-year extended Fund facility (EFF) arrangement approved December 8, 1980.
[3] Two-year stand-by arrangement (SBA) approved March 12, 1980.
[4] Three-year EFF arrangement approved February 6, 1981.
[5] Three-year EFF arrangement approved June 25, 1980.
[6] Three-year EFF arrangement approved February 27, 1981.
[7] Three-year EFF arrangement approved April 13, 1981.
[8] Two-year SBA approved October 15, 1980.
[9] One-year SBA approved February 13, 1981.
[10] Two-year SBA approved September 15, 1980.
[11] SBA approved for the period April 13, 1981 to June 26, 1982.
[12] SBA approved for the period May 9, 1980 to March 31, 1982.
[13] SBA approved for the period July 23, 1980 to March 31, 1982.
[14] One-year SBA approved September 5, 1980.
[15] EFF arrangement approved for the period March 9, 1981 to October 7, 1983.
[16] Three-year EFF arrangement approved November 24, 1980.
[17] SBA approved for the period April 18, 1980 to December 31, 1981.
[18] SBA approved for the period February 27, 1980 to December 31, 1981.
[19] Three-year EFF arrangement approved August 8, 1980.
[20] EFF arrangement approved for the period March 30, 1981 to February 22, 1984.
[21] Three-year EFF arrangement approved May 4, 1979 and augmented by SDR 227.00 million in November 1980.
[22] SBA approved for the period September 15, 1980 to June 30, 1982.
[23] Two-year SBA approved February 13, 1981.
[24] Three-year SBA approved June 18, 1980.
[25] SBA approved for the period January 30, 1981 to December 31, 1983.

The decision on enlarged access, which was to take effect with the full commitment of the supplementary financing facility and the conclusion of new borrowing agreements, became operative with the completion of a new borrowing agreement with the Saudi Arabian Monetary Agency on May 7, 1981. This was followed by other borrowing agreements with the Bank for International Settlements and four central banks.[12]

[12] Executive Board Decisions No. 6843-(81/75), adopted May 6, 1981, and No. 6863-(81/81) and No. 6864-(81/81), adopted May 13, 1981 and reproduced in Appendix II.

Under this policy the Fund will, as under the supplementary financing facility, authorize purchases under stand-by and extended arrangements to be financed in the same specified proportions from ordinary resources and borrowed resources in accordance with existing policies on phasing and performance criteria. Access to the Fund's resources under other Fund policies will remain available in accordance with the terms of those policies. The Fund will approve arrangements under the new decision only to the extent of available financing. The Fund will review this decision not later than

June 30, 1983 and annually thereafter as long as the decision remains in effect. The main features of the decision on enlarged access, which are broadly similar to those of the supplementary financing facility, are as follows:

A member requesting use of enlarged access to resources must satisfy the Fund that (i) it needs financing in excess of the amount available to it in the four credit tranches or under the extended Fund facility and its problem requires a relatively long period of adjustment and a maximum period for repurchase longer than the three to five years specified under a normal stand-by arrangement, and (ii) its program will be adequate to deal with its problems and is compatible with the Fund's policies on the use of its resources beyond the first credit tranche or under the extended Fund facility.

An arrangement providing for enlarged access may be approved at any time until the Eighth General Review of Quotas becomes effective, provided that the Fund may extend this period. A stand-by arrangement approved under this decision will normally exceed one year and may extend up to three years in exceptional cases. An extended arrangement will normally be for three years.

The amounts of the arrangements will be determined according to guidelines adopted by the Fund from time to time, and the apportionment of the amounts between ordinary and borrowed resources will be as follows:

(a) Under a stand-by arrangement in the ratio of 2 to 1 in the first credit tranche and of 1 to 1.2 in the next three credit tranches. Thereafter, purchases will be made with borrowed resources only.

(b) Under an extended arrangement purchases will be made with ordinary and borrowed resources in the ratio of 1 to 1 until the outstanding use of the upper credit tranches and the extended Fund facility equals 140 per cent of quota. Thereafter, purchases will be made out of borrowed resources.

The Fund will review from time to time the proportions of ordinary and borrowed resources and may modify them. Any modification in the proportions will apply uniformly both to arrangements approved after the modification and to amounts purchased after the modification under existing arrangements.

An arrangement under the decision on enlarged access may provide, in part, for supplementary financing if (i) it replaces an arrangement under the supplementary financing decision or (ii) supplementary financing becomes available because an arrangement is canceled or is not expected to be fully utilized. In this case, the supplementary financing will be used before other borrowed resources.

As under the supplementary financing facility, repurchases in respect of outstanding purchases financed by borrowed resources are to be made in equal semiannual installments beginning three and one-half years and ending seven years after the purchase. A repurchase in advance of the scheduled installments attributed to a purchase of borrowed resources must be accompanied by a repurchase in respect of the purchase made from ordinary resources if any part of that purchase is still outstanding. The amounts to be repurchased will be in the same proportions in which ordinary and borrowed resources were used in the purchases.

Provision is made for a waiver of the limitation of 200 per cent, in Article V, Section 3*(b)*(iii), of the level of the Fund's holdings of a member's currency. The Fund's credit tranche policies will be applied as if the Fund's holdings of a member's currency did not include holdings resulting from purchases of borrowed resources under this decision. Further, holdings resulting from such purchases will be excluded under Article XXX*(c)* for the purpose of defining reserve tranche purchases.

The Fund's Executive Board also adopted, in January 1981, new guidelines that enlarge the scale of Fund assistance to member countries following the completion of quota increases under the Seventh General Review. The new guidelines generally provide for members making strong adjustment efforts to have an annual access to Fund resources of up to 150 per cent of their new quotas or up to 450 per cent over a three-year period. Members' cumulative access, net of scheduled repurchases, would be up to 600 per cent of quota excluding outstanding drawings under the compensatory and buffer stock financing facilities or outstanding drawings under the oil facility. The new guidelines provide for absolute amounts of assistance 12½ per cent larger than those available earlier.[13]

The guidelines governing access under the new quotas allow for flexibility in application. Thus, in some cases, members will be able to borrow larger amounts than the limits would normally allow, as, for instance, when a member's quota is unusually low in relation to its economic size, or when a member has an exceptionally strong adjustment program. The Fund will also consider members' requests, on a case-by-case basis, for augmentation of the amounts of existing stand-by and extended arrangements in light of the new guidelines, taking into account the progress of the adjustment program in individual countries, normally at the end of the first year of an arrangement but some flexibility on the timing of such reviews will be allowed for.

The new guidelines will be reviewed by the Executive Board in the light of experience with members' adjust-

[13] On the basis of quotas prevailing in mid-1980 under the Sixth General Review of Quotas an annual limit of 200 per cent of quota, or a limit of 600 per cent of quota over a three-year period, was broadly accepted. In terms of the new quotas, the 200/600 per cent limits in effect until the Seventh Quota Review were equivalent in nominal amounts to 133.3/400 per cent. The new 150/450 per cent guidelines therefore represent an increase of one eighth over the amounts previously available.

ment programs, taking into account present and prospective arrangements under the enlarged access decision, the pace and modalities of the Fund's borrowing program, and the liquidity position of the Fund.

Repurchases

Total repurchases made in 1980/81 amounted to the equivalent of SDR 2,853 million, compared with SDR 3,776 million in 1979/80 and the peak of SDR 4,859 million in 1978/79.

There was a very marked decline during 1980/81 in the number and amounts of members' requests for rescheduling of their repurchases beyond their initial due dates. The Executive Board agreed to the requests of 22 members to reschedule their repurchases, totaling SDR 613 million, over periods up to five years from the date of purchase under facilities for which the repurchase period is three to five years. In the previous year, the Executive Board had agreed to the request of 37 members to reschedule their repurchases (totaling SDR 1,654 million).

None of the outstanding purchases fell during the year under the guidelines for early repurchases adopted by the Executive Board by decisions taken in March 1978 and June 1979.[14] Two members, Mauritius (SDR 9.2 million) and Sudan (SDR 4.5 million), made voluntary repurchases totaling SDR 13.7 million in advance of their scheduled repurchase commitments.

Fund Liquidity

The Fund's overall liquidity position—that is, the relationship between its immediately usable resources, or uncommitted ordinary resources, comprising SDRs in the General Resources Account and usable currencies and its liquid liabilities [15]—was considerably improved following the quota increases under the Seventh General Review in 1980. Usable currencies are currencies of those members that are considered by the Executive Board to be sufficiently strong, in the light of their balance of payments and gross reserve positions, to be subject to designation and for inclusion in the quarterly operational budget. Under existing decisions and policies of the Fund, currencies of members that have outstanding purchases are not proposed for sales, unless so requested by the member concerned. The Fund's holdings of gold, amounting to 103.440 million fine ounces, are not included in the total of immediately usable resources.

At the end of 1980/81, the Fund's usable uncommitted ordinary resources amounted to about SDR 28.6 billion (SDR 23.4 billion of usable currencies and SDR 5.2 billion in the General Resources Account), compared with outstanding borrowings (under the oil facility, the supplementary financing facility, and GAB) of SDR 4.3 billion and reserve tranche positions of Fund members totaling SDR 13.1 billion. These liquid claims on the Fund may be drawn upon or encashed by the creditor members in case of balance of payments need. The use of these claims has been modest to date, but the Fund must be able to meet demands for use or encashment of these claims not only for prudential reasons but also to maintain confidence in the Fund's ability to serve as an international monetary institution in which members also hold some of their liquid foreign reserves. The Fund's liquidity will be considerably enhanced, by some SDR 1 billion, once the payment for the special increase in Saudi Arabia's quota is completed. Moreover, the Fund has taken a decision under which it may agree with a "debtor" member concerning sales of its currency provided that the member is in a sufficiently strong external position.[16] Under this decision, the Fund began using pounds sterling in the quarterly period starting March–May 1981, to finance purchases by other members, although the United Kingdom has outstanding purchases under the oil facility. In practice, the bulk of the Fund's usable currency holdings usually tends to be represented by a small number of currencies. Thus at the end of the financial year 1980/81, the Fund's holdings of just five currencies accounted for a little over 70 per cent of total usable currency holdings.

The present relatively comfortable liquidity position has to be viewed in the light of the potential demands on the Fund's resources from (a) commitments under stand-by and extended arrangements, credit tranche purchases outside those arrangements under the compensatory and buffer stock financing facilities, and (b) possible use of creditor positions in the Fund, including reserve tranche positions and claims by special holders that may be encashed in case of balance of payments need, as well as future claims with encashment provisions that may alternatively be sold to the Fund. In view of these prospective demands, the Fund judges it prudent to strengthen its liquidity. The Fund will need adequate resources to finance purchases and to hold as liquid assets against borrowing until the next quota increases under the Eighth General Review are com-

[14] Executive Board Decisions No. 5704-(78/39), adopted March 22, 1978, and No. 6172-(79/101), adopted June 28, 1979. See *Annual Report, 1978*, pages 125–26, and *Annual Report, 1979*, pages 138–39. Also see *Annual Report, 1979*, page 75.

[15] Liquid liabilities are measured by the outstanding reserve positions of members and undrawn balances under stand-by and extended arrangements.

[16] Executive Board Decision No. 6774-(81/35), adopted March 5, 1981 and reproduced in Appendix II.

pleted. The Fund's new borrowing program is thus essentially designed to obtain bridging finance for the next few years.

Membership and Quotas

Membership and Participation in the Special Drawing Rights Department

Between May 1, 1980 and July 31, 1981, one new member joined the Fund and four countries applied for membership. Zimbabwe became a member of the Fund on September 29, 1980, raising the total membership to 141. Its initial quota of SDR 100 million was increased to SDR 150 million in connection with the Seventh General Review of Quotas. Zimbabwe also elected to participate in the Special Drawing Rights Department and, as a result, all Fund members were participants in that Department at the end of the financial year.

Vanuatu applied for membership during the year. On April 3, 1981 a Committee on Membership agreed to propose to the Executive Board a quota of SDR 6.9 million for Vanuatu. Effective June 15, 1981 the Board of Governors adopted the resolution on membership for Vanuatu. Antigua and Barbuda, Belize, and the Kingdom of Bhutan have also applied for membership in the Fund.

Seventh General Review of Quotas

The Seventh General Review of Quotas, which was initiated in 1976, became effective on November 29, 1980, following notification to the Fund by 127 members, representing 75.15 per cent of total Fund quotas on November 1, 1978, of their consent to the increase in quota. The Board of Governors Resolution on the Seventh General Review of Quotas, which was adopted on December 11, 1978, provided for a general quota increase of 50 per cent for all members except the People's Republic of China and Democratic Kampuchea, for which no increases were provided. In addition, selective quota increases were provided for 11 developing member countries: Iraq, Iran, Korea, Kuwait, Lebanon, Libyan Arab Jamahiriya, Oman, Qatar, Saudi Arabia, Singapore, and the United Arab Emirates. Members were required to pay 25 per cent of the increase in their quotas in SDRs, and the remainder in their own currencies. A member's increase in quota became effective upon payment of the required amount.

In all, the Seventh Review of Quotas provided for an increase in the total of Fund quotas from SDR 39,766.5 million to SDR 60,025.6 million, including provisions covering a special quota adjustment for the People's Republic of China (discussed below) and for members joining the Fund after November 1, 1978. After several extensions by the Fund, the time limit for consent to the proposed quota increases under the Seventh General Review was set at March 16, 1981. By that date the consents received from all countries except Iran had raised aggregate quotas to SDR 59,605.5 million. However, the Executive Board decided that it would give sympathetic consideration to any request for a special quota increase by Iran, up to the amount available under the Seventh General Review, provided that such a request was received by December 31, 1981. All other members except Oman had consented to the full increase provided for them. Oman consented to an increase to SDR 30 million, against a proposed maximum quota of SDR 35.1 million.

Special Quota Adjustments

Two members, the People's Republic of China and Saudi Arabia, requested and received special adjustments in their quotas during the year. China's quota had remained unchanged at SDR 550 million since the inception of the Fund. But following the Executive Board's decision on April 17, 1980 that the People's Republic of China represented China in the Fund, China requested a special increase in its quota commensurate with its economic size. On September 8, 1980, the Board of Governors authorized an ad hoc increase in the quota of China from SDR 550 million to SDR 1,200 million, as well as an increase of 50 per cent in its quota on the same terms and conditions as other members under the Seventh General Review of Quotas. These increases together raised China's quota from SDR 550 million to SDR 1,800 million (3.02 per cent of total quotas).

On December 1, 1980, Saudi Arabia requested a substantial increase in its quota. The Executive Board considered the request on March 27, 1981, and recommended to the Board of Governors that Saudi Arabia's quota be increased from SDR 1,040.1 million, following the Seventh General Review, to SDR 2,100 million, thereby increasing Saudi Arabia's share of total quotas from 1.74 per cent to approximately 3.5 per cent. In its recommendation to the Board of Governors, the Executive Board noted that Saudi Arabia's quota was out of line, taking account of its relative importance in the world economy and its uniquely large-scale lending to the Fund, in the past as well as prospectively, not only in absolute amounts but also in relation to its quota. In addition, in the light of Saudi Arabia's present and prospective balance of payments and reserve position, the Executive Board noted that the increase in its quota would also enlarge the usable resources available to the Fund. The Board of Governors authorized the recommended increase in Saudi Arabia's quota, effective April 27, 1981. Saudi Arabia consented to the increase by means of a letter dated May 31, 1981. The new quota will become effective when the full payment has been received by the Fund, at which time Fund quotas will total SDR 60,665.4 million. (Appendix I, Table I.13.)

Eighth General Review of Quotas

The Interim Committee of the Board of Governors of the Fund in a communiqué issued after its September 28, 1980 meeting indicated, inter alia, that while it would be necessary during the next few years for the Fund to resort to further borrowing, the Committee wished to stress its view that the Fund should continue to place primary reliance on subscriptions under members' quotas as a source of financing of the Fund's operations. In this connection, the Committee endorsed the intention of the Executive Board to begin preparatory work on the Eighth General Review of Quotas. The Committee noted that this review "will be the occasion to reflect in the quotas the developments in members' positions in the world economy, including a review of the criteria by which quotas are calculated."

The Interim Committee in a communiqué issued after its sixteenth meeting in Libreville, Gabon, on May 21, 1981, urged the Executive Board to intensify its work on the Eighth General Review of Quotas, taking into account world economic conditions and the Fund's liquidity position so that it would be in a position to make appropriate recommendations in due course. The process leading to the Eighth General Review of Quotas has been set in motion with the preliminary consideration by the Executive Board of the economic criteria entering into quota calculations.

Borrowing

To date, the Fund has supplemented its ordinary resources (i.e., from subscriptions to quotas) by borrowing from some of its members and Switzerland under the General Arrangements to Borrow, the oil facility, and the supplementary financing facility. To finance its growing commitments under the policy of enlarged access, the Fund has entered into new bilateral arrangements with the Saudi Arabian Monetary Agency (SAMA) and with the central banks or official agencies of 16 industrial countries under which they will make available to the Fund the equivalent of SDR 1.3 billion over a commitment period of two years. Discussions are under way with a number of other countries with strong balance of payments and reserve positions on possible medium-term borrowing arrangements similar to those arranged with SAMA and also with the monetary authorities of certain industrial countries and developing countries for placements of short-term paper issued by the Fund.

General Arrangements to Borrow

The General Arrangements to Borrow (GAB), originally concluded between the Fund and ten industrial member countries in 1962 for four years, have been extended a number of times, and most recently for another period of five years from October 24, 1980.[17] Switzerland's association with the GAB, under a separate agreement of June 11, 1964 with the Fund, has been extended until July 15, 1985, with an automatic extension until October 23, 1985 provided that the Swiss Parliament decides to extend the relevant Federal Decree until the latter date. The maximum credit available to the Fund through the GAB in lenders' currencies is equivalent to about SDR 6.5 billion, of which the balance on April 30, 1981, after adjusting for GAB resources already drawn upon, was about SDR 5.8 billion. The use of the GAB is limited to drawings by a participant and it is activated only to forestall or cope with an impairment of the international monetary system. The last use of the GAB was in connection with a reserve tranche purchase, equivalent to SDR 777 million, made in November 1978 by the United States; this amount is scheduled to be repaid by the Fund in November 1983.

Oil Facility

The borrowing agreements under this facility were originally entered into by the Fund with 17 lender countries, including Switzerland, in 1974 and 1975 for a total amount of SDR 6.9 billion. During 1980/81, the Fund repaid the equivalent of about SDR 1.0 billion to these lenders, and by April 30, 1981, the Fund had repaid the equivalent of SDR 5.4 billion of indebtedness incurred under the oil facility. The balance of indebtedness on that date amounted to SDR 1.5 billion and is expected to be fully repaid by mid-1983.

In November 1980, the Deutsche Bundesbank transferred to SAMA its claims under the oil facility totaling SDR 225 million. This was the first such transfer made in accordance with the Executive Board decision on transferability of oil facility claims.[18] Previous transfers

[17] Executive Board Decision No. 6241-(79/144), adopted August 24, 1979. See *Annual Report, 1980*, pages 139–40.

[18] Executive Board Decision No. 5974-(78/190), adopted December 4, 1978. See *Annual Report, 1979*, page 135.

of loan claims on the Fund had been made only among GAB participants. The transferred claims carry a five-year maturity in accordance with the relevant provision of the original oil facility borrowing agreement between the Deutsche Bundesbank and the Fund. Of the transferred claims, SDR 75 million was due for repayment in January 1981, although corresponding repurchases from the borrowers were not due at that time. However, following a proposal by SAMA, subsequently approved by the Executive Board, the maturity of these claims was extended from five years to seven years. This extension brought into line the maturity of the claims with most other existing oil facility claims. The remaining transferred claims, equivalent to SDR 150 million, were fully repaid to SAMA by May 10, 1981.

Supplementary Financing Facility

In 1979 the Fund entered into borrowing agreements with 13 members and the Swiss National Bank to provide, in different currencies, the equivalent of SDR 7.8 billion as supplementary financing. (See Appendix I, Table I.10.)

During the financial year, the Fund borrowed a total of SDR 1.5 billion under the facility, compared with SDR 502.4 million in the previous year. On April 30, 1981, SDR 5.8 billion was still undrawn but had been fully committed under existing stand-by and extended arrangements.

A creditor's loan claims on the Fund in connection with the supplementary financing facility are encashable virtually on demand by the Fund if the creditor represents that it has a balance of payments need, and lenders can, without prior consent of the Fund, transfer their claims to any other lender, any Fund member, or certain other official entities at prices agreed between the transferor and transferee. The first such transfer of claims took place in November 1980, when loan claims totaling SDR 172 million were transferred by the Deutsche Bundesbank to SAMA. The transferred claims carry a five-year maturity in accordance with the relevant provision of the borrowing agreement between the Deutsche Bundesbank and the Fund, whereas most other claims under the supplementary financing facility carry a seven-year maturity.

The interest payable by the Fund on its borrowings for the supplementary financing facility is at a rate equal to the average yield for each six-month period starting July 1, 1978 of U.S. Government securities with a maturity of five years, rounded upward to the nearest ⅛ of 1 per cent. Since June 1979, this rate has varied from 9.25 per cent to 11.625 per cent a year. For the six-month period ended June 30, 1981, the rate was 13.75 per cent a year (Table 25).

Table 25. Interest Paid by the Fund Under the Supplementary Financing Facility
(In per cent per annum)

Six Months Ended	Rate of Interest
June 30, 1979	9.25
December 31, 1979	9.875
June 30, 1980	11.375
December 31, 1980	11.625
June 30, 1981	13.75

Borrowing to Finance Enlarged Access

Saudi Arabian Monetary Agency

A large-scale borrowing agreement was concluded between the Fund and SAMA on May 7, 1981, whereby the Fund's policy of enlarged access also became operative.

SAMA has agreed to lend to the Fund up to SDR 4 billion in the first year of the commitment period and up to SDR 8 billion in the second year. The Saudi Arabian authorities have also indicated their intention to consider a further commitment for the third year if their balance of payments and reserve position so permits. The loans will be denominated in SDRs. Drawings under this borrowing agreement may be made by the Fund during a commitment period of six years, each call being subject to a 90-day notice period. After the first 90 days, the Fund will undertake to draw down at least SDR 1 billion in the first year and not more than SDR 4 billion in any one year without the further agreement of SAMA.

Interest will be paid by the Fund semiannually, on the basis of the weighted average rate of five-year government securities in each of the component currencies of the SDR. Each loan will be repayable in four equal annual installments, beginning at the end of the fourth year and ending after seven years. The Fund may repay any loan or installment in advance of maturity, subject to 60 days' notice to SAMA. SAMA will be entitled to obtain a suspension of calls by the Fund or repayment of outstanding loans in the event of a balance of payments need. The claims of SAMA will be transferable to any member of the Fund or a prescribed holder of SDRs, and SAMA will be able to obtain, at its request, promissory notes in bearer form, which would be transferable to other parties, official or private. The agreement provides that, if within the next two years the Fund agrees to more favorable financial terms with any other member or central bank of a member that is lending to the Fund, SAMA will also receive the benefit of these terms.

The agreement will be reviewed before the end of 18 months with a view to a possible further commitment. Any disputes under the agreement will be settled by mutual agreement and, failing such agreement, by international arbitration. Disputes on bearer notes, if the bearer-note option is taken by SAMA, will be subject to adjudication in an appropriate national judicial system, and, for this purpose only, the Fund will waive its immunity with respect to jurisdiction and execution.

Bank for International Settlements, Central Banks, and Other Monetary Authorities

By August 4, 1981, the Fund had agreed with the central banks or official agencies of 16 industrial countries that they will make available to the Fund the equivalent of SDR 1.3 billion over a commitment period of two years.[19] Of this amount, SDR 675 million is being made available to the Fund under a borrowing agreement with the Bank for International Settlements (BIS), and the balance is being borrowed by the Fund under direct bilateral arrangements with four lenders, namely, the National Bank of Belgium, Japan, the Swiss National Bank, and the Bank of England. The Fund has also entered into separate agreements with the Bank of Finland and the Reserve Bank of Australia. The Fund also expects to enter into arrangements with other central banks or official agencies of members other than those above on substantially the same terms as the agreement with the BIS, the main features of which are as follows:

BIS arrangement. (i) The BIS has opened a stand-by facility for the Fund for a commitment period of two years (from June 1, 1981 to May 31, 1983) of about SDR 675 million. The BIS arrangement covers the amounts that certain central banks are making available through the BIS.

(ii) The Fund is able to draw on the facility at seven business days' notice. There are no restrictions on the maximum amount of an individual drawing. Each drawing constitutes a loan with a nominal maturity of six months, which the Fund may opt to repay or to renew at maturity. The agreement gives the Fund the right to four renewals of the first drawing, which, if exercised, would extend the period to two and one-half years. In respect of subsequent drawings, the Fund will have the right of renewal for successive six-month periods, but not beyond two and a half years from the date of the first drawing. If the first drawing was made, for example, on June 30, 1981, the terminal date would be the end of December 1983. A drawing made on, say, June 30, 1982, would then run for eighteen months to the same terminal date. The Fund can delay its first drawing and thus extend into the future the period over which it can retain resources borrowed from the BIS, but under the agreement the terminal date would not go beyond January 31, 1985.

(iii) Drawings are denominated in SDRs, and the exchange rates for currencies against the SDR are those established under the Fund's Rules and Regulations. The vehicle currency is normally the U.S. dollar, subject to the concurrence of the U.S. authorities. If the Fund requests the BIS to make any payment in a currency other than the U.S. dollar, the BIS will do its best to meet the Fund's wishes.

(iv) The interest rate for each drawing, and for each renewal of a drawing, will be established three business days of the Fund prior to the value date. The BIS will calculate the rate of interest using the same method of calculation as used by the Fund for the recently concluded SAMA agreement, with the result of the calculation being rounded upward, if rounding is necessary, to the nearest 1/16 of 1 per cent. Interest will be paid at the end of each six-month period.

Direct arrangements with central banks. The Fund stands ready to enter into an agreement with any member, the central bank or other agency of any member, or any official entity that has been prescribed as an "other holder" of special drawing rights pursuant to Article XVII, Section 3 of the Fund's Articles of Agreement, under which such member, central bank, or other entity will commit itself to loan or invest in the Fund on terms and conditions that are substantially the same as those of the Agreement with the BIS, except for certain variations.[20]

Borrowed Resources Suspense Account

The Executive Board adopted decisions, effective May 5, 1981, on the establishment of a borrowed resources suspense account within the General Department for holding balances of currencies borrowed pending their use in transactions, or received in repurchases made before repayment can be made, and to invest these balances until they can be transferred to the General Resources Account for immediate use in a transaction or an operation.[21]

The Managing Director may now invest currencies held in the borrowed resources suspense account in deposits, denominated in SDRs, with the national official financial institution of a member issuing the cur-

[19] The 16 countries are Australia, Austria, Belgium, Canada, Denmark, Finland, France, the Federal Republic of Germany, Italy, Japan, the Netherlands, Norway, Spain, Sweden, Switzerland, and the United Kingdom.

[20] Executive Board Decision No. 6864-(81/81), adopted May 13, 1981 and reproduced in Appendix II.

[21] Executive Board Decisions No. 6844-(81/75) and No. 6845-(81/75), adopted May 5, 1981 and reproduced in Appendix II.

rency borrowed or to which the borrowed funds may be transferred for investment or with the Bank for International Settlements. The investment policy will take into account the operational needs of the General Resources Account.

Charges and Remuneration

During the year the Fund took major decisions effective May 1, 1981, to simplify the Fund's structure of charges and to provide for periodic reviews of the Fund's income position, including a mechanism to assure over time a positive net income for the Fund.

The Fund's schedules of charges applicable to the average daily balances of members' currencies held by the Fund in excess of quota or acquired by the Fund under policies that have been the subject of an exclusion (e.g., for purchases under the compensatory financing facility and buffer stock facility) were unchanged during the year ended April 30, 1981. The basic schedule that applied to currency balances resulting from purchases financed with the Fund's ordinary resources provided for rates that progressed from 4.375 per cent to 6.375 per cent per annum (to 6.875 per cent for purchases under the extended Fund facility) depending on the time that the balances were outstanding. For 1980/81 the average rate of charge on the use of ordinary resources was 5.30 per cent, virtually unchanged from the previous year. Including charges on the use of the oil and supplementary financing facilities, the average rate of charge for the year was 6.92 per cent.

During the year, the Fund undertook a comprehensive review of the level and the structure of the Fund's charges. This review took into account the relationship of the level of the Fund's charges to market rates of interest and the rate of remuneration paid by the Fund on creditor positions, the desirability that the rates of charges levied by the Fund should, to the extent possible, contain a degree of concessionality, and whether the rates of charges could and should be related to the degree of conditionality associated with the use of Fund resources under the various Fund facilities. In the light of the review, it was decided to simplify the structure of the Fund's charges by introducing a single rate of charge on members' use of the Fund's ordinary resources.[22] The single rate of charge is to be fixed by the Executive Board at the beginning of each financial year on the basis of the estimated income and expense of the Fund for the year and the target amount of net income for the year set by the Executive Board. Beginning May 1, 1981, the single rate of charge to be applied to currency holdings arising from purchases financed from the Fund's ordinary resources was set at 6.25 per cent per annum on the daily average outstanding balances of members' purchases. There were no changes in the schedules of charges applicable to currency balances acquired by the Fund from purchases under the oil and supplementary financing facilities. The service charge of 0.5 per cent, payable once per transaction except for purchases in the reserve tranche, which are free of charges, was also left unchanged, as was the charge of 0.25 per cent for stand-by and extended arrangements. Also, for the year beginning on May 1, 1981, the target is to attain balance between income and expense, and for succeeding years to obtain an amount of net income broadly equal to 3 per cent of the Fund's reserves at the beginning of each year.

During the past financial year, the Fund also established the rate of charge on the use by members of borrowed resources under the policy of enlarged access. The rate to be applied is equal to the net cost of such resources to the Fund plus a margin of 0.2 per cent per annum.

The rate of remuneration that the Fund pays to members on their creditor positions, which is linked directly to the SDR rate of interest, remained at 90 per cent of that rate throughout the year. But in April 1981, the Executive Board took important decisions on the SDR interest rate and the rate of remuneration.[23] Rule T-1 was amended to increase the rate of interest on the SDR from 80 per cent to 100 per cent of the combined market rate, rounded to two decimal places. At the same time, Rule I-10 was amended to set the rate of remuneration at 85 per cent of the rate of interest on the SDR, rounded to two decimal places. Although the rate of remuneration was reduced from 90 per cent to 85 per cent of the SDR interest rate, its relationship to the combined market rate of interest was raised from 72 per cent (90 per cent of 80 per cent) to 85 per cent. These amended rules came into effect on May 1, 1981. Consequently, for May and June 1981, the SDR rate of interest rose from 10.125 per cent per annum in April 1981 to 12.58 per cent and the rate of remuneration increased from 9.1125 per cent per annum to 10.69 per cent.

These changes accorded with the objective of keeping the rate of remuneration as high as possible relative to the SDR rate of interest while at the same time maintaining a sound income position for the Fund and concessional rates of charges.

[22] Executive Board Decision No. 6834-(81/65), adopted April 22, 1981 and reproduced in Appendix II.

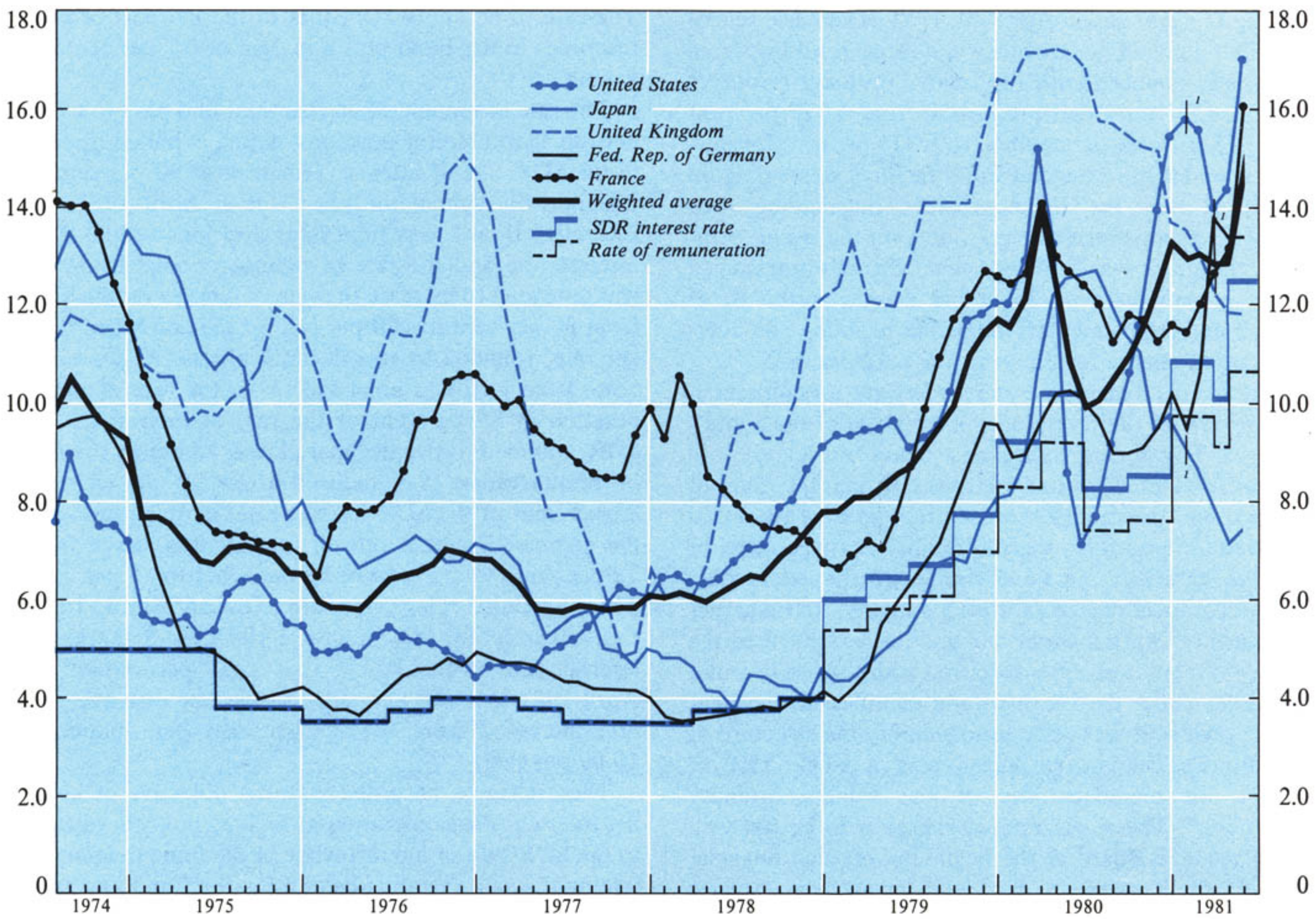
[23] Executive Board Decision No. 6833-(81/65) S, adopted April 22, 1981 and reproduced in Appendix II.

The SDR rates of interest and the rates of remuneration (Chart 20) applicable over the six quarters beginning April 1, 1980 were as follows:

Calendar quarter beginning	SDR interest rate	Rate of remuneration
April 1, 1980	10.25	9.225
July 1, 1980	8.25	7.425
October 1, 1980	8.50	7.65
January 1, 1981	10.875	9.7875
April 1, 1981–April 30, 1981	10.125	9.1125
May 1, 1981–June 30, 1981	12.58	10.69

Shortly before the end of the financial year, the Fund is required to consider whether the net income for the year is sufficient to allow the rate of remuneration to be raised to more than 90 per cent but not above 100 per cent of the SDR average rate of interest for the year. In considering whether a higher rate of remuneration would be paid for a particular year, the Fund is also required to consider the possibility of reducing its rates of charges for the use of its ordinary resources from the beginning of the subsequent financial year. The net income for the year ended April 30, 1981 was sufficient to permit adjusting the average annual rate of remuneration to 100 per cent of the average SDR rate of interest. However, the Executive Board decided to place the full amount of net income to the Special Reserve in the light of the proposals then under consideration: (i) to raise the SDR interest rate to 100 per cent of the combined market rate; (ii) to raise the rate of remuneration as a percentage of that rate; (iii) the restructuring of the Fund's charges; (iv) and the Fund's expanded borrowing program.

Chart 20. SDR Interest Rate, Rate of Remuneration, and Short-Term Interest Rates, July 1974–June 1981 [1]



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

Special Drawing Rights

During 1980/81, several decisions were taken by the Executive Board that further improve the characteristics of the SDR as an international reserve asset and continue the process of establishing the SDR as "the principal reserve asset in the international monetary system." [24]

The major developments relating to SDRs were as follows:

- The third and final allocation of SDRs (SDR 4,053 million) in the third basic period (January 1, 1978–December 31, 1981) was made as of January 1, 1981 to all 141 Fund members, bringing the total cumulative allocation of SDRs to SDR 21.4 billion.
- The valuation basket of the SDR was reduced from 16 currencies to 5 currencies and was unified with the SDR interest rate basket with effect from January 1, 1981.
- The rate of interest on the SDR was raised to 100 per cent of the combined market interest rate with effect from May 1, 1981.
- The reconstitution requirement whereby members were obliged to maintain, over time, a minimum average level of SDR holdings of 15 per cent of their net cumulative allocation, was eliminated, with effect from April 30, 1981.
- Four more official financial institutions were prescribed as "other holders" of SDRs, and the first transactions and operations in SDRs involving "other holders" took place during the year.

Valuation and Interest Rate Basket

In its communiqué issued after the meeting in Hamburg, Germany, on April 25, 1980, the Interim Committee endorsed the objectives of simplifying and further enhancing the attractiveness of the SDR as an international reserve asset and generally expressed the view that it would be desirable for the interest and valuation baskets for the SDR to be identical. Since 1974, the SDR valuation basket had comprised 16 currencies and the interest rate basket 5 currencies. After extensive discussions, the Executive Board decided in September 1980 to adopt the 5-currency basket for determining both the value of and interest rate on the SDR. The new basket came into effect on January 1, 1981.[25]

The agreed initial weights of the currencies in the basket—42 per cent for the U.S. dollar, 19 per cent for the deutsche mark, and 13 per cent each for the French franc, Japanese yen, and pound sterling—broadly reflect the relative importance of these currencies in international trade and payments, based on the value of the exports of goods and services of the member countries issuing these currencies and the balances of these currencies held as reserves by members of the Fund over the five-year period 1975–79. These agreed initial weights were converted into units of each of the 5 currencies in the new basket by using London noon exchange rates averaged over the three months ended December 31, 1980. As on previous occasions when the method of valuation of the SDR was changed, the continuity of value was preserved by ensuring that the value of the SDR on the last working day when the old basket was in use (i.e., December 31, 1980) was the same using both the old and new baskets. An illustrative calculation of the value of the SDR is given in Table 26.

Table 26. SDR Valuation, April 30, 1981

Currency (1)	Currency Amount Under Rule O-1 (2)	Exchange Rate[1] (3)	U.S. Dollar Equivalent[2] (4)
U.S. dollar	0.54	1.0000	0.540000
Deutsche mark	0.46	2.2145	0.207722
French franc	0.74	5.2540	0.140845
Japanese yen	34	215.13	0.158044
Pound sterling	0.071	2.1404	0.151968
			1.198579
	SDR value of US$1 =		0.834321
	U.S. dollar value of SDR =		1.19858

[1] Middle rate between buying and selling rates at noon in the London exchange market as determined by the Bank of England, expressed in currency units per U.S. dollar except for the pound sterling, which is expressed in U.S. dollars per pound sterling.

[2] The U.S. dollar equivalents of the currency amounts in column (2) at the exchange rates in column (3)—that is, column (2) divided by column (3) except for the pound sterling, for which the amounts in the two columns are multiplied.

From January 1, 1981, the U.S. dollar rate for the Japanese yen used in the daily calculation of the value of the SDR is obtained from the London exchange market rather than the Tokyo market.[26] As all the exchange rates used for calculating the value of the SDR are now obtained from the London market, it is easier for dealers in obligations denominated in SDRs to replicate the SDR in the private market.

The object of the change in the valuation basket is to simplify the SDR, making it more useful as a unit of account, and thereby to facilitate the wider use of SDR-denominated assets and liabilities in financial markets

[24] Article VIII, Section 7.

[25] Executive Board Decision No. 6631-(80/145) G/S, adopted September 17, 1980 and reproduced in Appendix II.

[26] Executive Board Decision No. 6709-(80/189) S, adopted December 19, 1980 and reproduced in Appendix II. If the London market is closed, the middle rates at noon in the New York exchange market are used. If these rates are also unavailable, the middle rates in the Frankfurt exchange market are used.

and in international transactions, resulting in a wider role for the SDR in the international monetary system. The 5-currency basket retains the properties of stability and representativeness that characterized the 16-currency basket, while providing a greater likelihood of constancy in the currency composition of the basket.

The list of currencies used in determining the value of the SDR, and the amount of each of these currencies, will be revised every five years beginning January 1, 1986, unless the Fund's Executive Board decides otherwise, so as to include the currencies of the five member countries of the Fund with the largest exports of goods and services during the five-year period ending 12 months before the effective date of the revision (for example, 1980–84 for the revision effective January 1, 1986). However, a currency will not replace another currency on the list unless the value of the exports of the country issuing the former currency over the relevant five-year period exceeds that of the country issuing the latter currency by at least 1 per cent. The amounts of the currencies in the revised valuation basket for the SDR will reflect both the values of the exports of goods and services and the balances of these currencies held by other members. These two factors will be assigned a similar relative importance to that given them in arriving at the agreed percentage weights of the current SDR basket.

Interest Rate

In a further step to enhance the attractiveness of the SDR, the Executive Board raised the interest rate on the SDR to the full combined interest market rate, effective May 1, 1981.[27] This completes the process whereby the rate of interest on the SDR has been raised, in steps, from its original 1½ per cent per annum to a full market-related interest rate. When the 5-currency valuation basket came into effect on January 1, 1981, several changes were made with respect to the determination of the rate of interest on the SDR.[28] First, the reference period for establishing the combined market interest rate was altered from the six-week period ending on the fifteenth day of the month before the calendar quarter for which the rate of interest is determined to the period of 15 business days preceding the last 2 business days of the month before the calendar quarter for which the rate of interest is determined. Second, the method of deriving the combined market rate from the interest rates on the 5 currencies in the SDR basket was also changed. Whereas, previously, fixed percentage weights were applied to each interest rate, for calendar quarters beginning January 1, 1981, each interest rate is multiplied by the number of units of the corresponding currency in the valuation basket and by the value in terms of SDRs of a unit of that currency. As a result, the percentage share of a currency in establishing the combined market rate will follow its percentage share in the valuation basket, and that share will vary as the exchange value of the currency varies in relation to that of the other currencies in the basket. Third, the rate of interest on the SDR became subject to review at the conclusion of each financial year rather than before the beginning of each calendar quarter.

All matters concerning the level and method of determination of the interest rate on the SDR, except the list and amounts of currencies included in the basket, are now subject to annual review about the end of the Fund's financial year. The quarterly review by the Executive Board of the level of the SDR interest rate (in relation to the combined market rate) is no longer required. Finally, the rounding of the interest rate on the SDR was changed to the nearest ⅛ of 1 per cent, rather than ¼ of 1 per cent. Subsequently, from May 1, 1981, when the interest rate on the SDR was raised to 100 per cent of the combined market rate, it was decided that the combined market interest rate would be rounded to the two nearest decimal places rather than the nearest ⅛ of 1 per cent.

A further technical change that came into effect on January 1, 1981 was that the interest rate used to represent the Japanese yen in determining the combined market interest rate was changed from the rate on call money (unconditional) to the discount rate on two-month (private) bills, which is considered more in line with the other instruments in the basket.[29]

Abrogation of Reconstitution

Effective April 30, 1981, the Executive Board abrogated the reconstitution requirement, whereby participants had been obliged to maintain, over time, a minimum average level of SDR holdings in relation to their net cumulative allocations.[30] This requirement, a feature of the SDR scheme from its inception, was designed to protect the SDR from undue use by ensuring that countries retained or restored a minimum level of SDR holdings. With the changes that have been made in recent years to widen the uses of SDRs and to increase the interest rate on the SDR, thereby making SDRs more attractive to hold, a compulsory holding requirement was considered to be no longer necessary or desirable. The required average holding was reduced

[27] Executive Board Decision No. 6833-(81/65) S, adopted April 22, 1981 and reproduced in Appendix II.
[28] Executive Board Decision No. 6632-(80/145) G/S, adopted September 17, 1980 and reproduced in Appendix II.
[29] Executive Board Decision No. 6708-(80/189) S, adopted December 19, 1980 and reproduced in Appendix II.
[30] Executive Board Decision No. 6832-(81/65) S, adopted April 22, 1981 and reproduced in Appendix II.

on January 1, 1979 from 30 per cent to 15 per cent of net cumulative allocation on the same date as the rate of interest was raised from 60 per cent to 80 per cent of the combined market interest rate. With the raising of the interest rate to the full combined market rate, it was decided to eliminate the remaining reconstitution requirement. Participants, however, are still expected to pay due regard to the desirability of pursuing over time a balanced relationship between their holdings of SDRs and their other reserves.

Throughout the period January 1, 1970 to April 30, 1981, the reconstitution obligation was fulfilled by all participants other than Democratic Kampuchea.[31]

Other Holders

The Fund has the authority to extend the range of official holders of SDRs beyond its member countries and the Fund's General Resources Account. In August 1980, the Fund prescribed the Arab Monetary Fund, Abu Dhabi, as an "other holder" of SDRs, and in December 1980 it so prescribed the International Bank for Reconstruction and Development and its affiliate, the International Development Association. In June 1981 the Central Bank for West African States was also prescribed as an "other holder" of SDRs, bringing the total number of prescribed "other holders" to ten. The "other holders" prescribed earlier are the Andean Reserve Fund, Bogotá; the Bank for International Settlements (BIS), Basle; the East Caribbean Currency Authority, St. Kitts; the International Fund for Agricultural Development, Rome; the Nordic Investment Bank, Helsinki; and the Swiss National Bank, Zurich. Each of these institutions can acquire and use SDRs voluntarily in transactions and operations by agreement with any other holder and with any of the Fund's member countries. "Other holders" have the same degree of freedom as Fund members to buy and sell SDRs both spot and forward, to borrow, lend, or pledge SDRs, to use SDRs in swaps, or to use or receive SDRs in donations (grants). They cannot, however, receive allocations of SDRs nor use SDRs in transactions with designation. During 1980/81, three "other holders" received SDRs in transactions and operations, and in July 1981 a fourth received SDRs in payment of a capital subscription.

SDR as a Unit of Account

The SDR, which is the unit of account for Fund transactions, is finding increasing acceptance as a unit of account (or as the basis for a unit of account) for private contracts and international treaties as well as for use by other international and regional organizations, e.g., the Arab Monetary Fund, the Asian Clearing Union, the Economic Community of West Africa, the Islamic Development Bank, and the Nordic Investment Bank.

The reduction in the number of currencies in the SDR valuation basket from 16 to 5 on January 1, 1981 has further enhanced its usefulness as a unit of account and has given fresh impetus to the issue of private financial obligations denominated in SDRs. Time deposits denominated in SDRs are accepted by more than 30 commercial banks in major financial centers and the Bank for International Settlements. In addition, a branch of one international bank has begun to offer demand-deposit accounts denominated in SDRs. It also offers clearance finance facilities for SDR-denominated bonds. One of the two major clearing systems for Eurobonds now accepts SDR deposits in payment for the purchase of SDR-denominated issues. Participants in the market are able to maintain cash accounts denominated in SDRs with the settlement system.

In January 1981 a group of London banks announced that they would issue and trade certificates of deposit (CDs) denominated in SDRs using uniform documentation and agreeing to repurchase CDs they had issued, thereby helping to establish a secondary market in which these CDs can be traded. It is estimated that these banks made "tap" issues (i.e., issued in response to investor demand) of such CDs of about SDR 150 million in the first two months of 1981, while about SDR 80 million in CDs were issued in offerings of fixed amounts, including two medium-term floating rate CDs totaling SDR 40 million. The interest rate on one of the floating rate CDs is based on an average of rates quoted by five reference banks on interbank SDR deposits; the other is based on the London interbank offered rate (LIBOR) of the component currencies. Prior to 1981, only two CD issues were denominated in SDRs, each of SDR 25 million.

In addition, the electricity authority of Italy (Ente Nazionale per L'Energia Elettrica) issued floating rate notes denominated in SDRs, totaling SDR 100 million. These notes mature in five years, and their interest rate is based on six-month Eurodeposit rates for the five currencies in the SDR basket. In February 1981, Sweden obtained a five-year syndicated loan consisting of one tranche of US$800 million, and a second tranche of the equivalent of about US$500 million denominated in SDRs. The Ivory Coast arranged an eight-year SDR-denominated loan of about SDR 83 million with a rate of interest based on an average of interbank rates on SDR-denominated six-month deposits. Also in February 1981, a bond issue of SDR 20 million was launched by the Nordic Investment Bank, bringing to nine the

[31] The right of Democratic Kampuchea to use SDRs has been suspended by decision of the Executive Board. Under Article XXIII, Section 2*(e)*, the Executive Board may, but need not, lift this suspension 180 days after June 30, 1981.

total number of bond issues denominated in SDRs since 1974. The total of these nine issues is about SDR 233 million, and the first of them matured in June 1980.

SDR as a Currency Peg

In addition to its role as a unit of account, the SDR also functions as a currency peg. When a member pegs its currency to the SDR, the value of its currency is fixed in terms of the SDR and then is set in terms of other currencies by reference to the SDR value of the other currencies as calculated and published by the Fund. At June 30, 1981, 14 member countries were pegging their currencies to the SDR.[32]

Allocations

The allocation of SDR 4,053 million made as of January 1, 1981 was the final allocation in the third basic period, which ends on December 31, 1981, and brought the total of SDRs to SDR 21,433 million. (See Appendix I, Table I.14.) Kuwait and Zimbabwe became participants in the Special Drawing Rights Department in 1980 and received allocations for the first time as of January 1, 1981. The amount allocated to each participant was equal to 6.8 per cent of the participant's quota in the Fund on December 31, 1980. For all but two participants, these quotas reflected increases under the Seventh General Review of Quotas. These two participants were Oman, which consented to the increase in its quota in February 1981, after the allocation had been made, and Iran, which did not consent to the increase in its quota.

The question of allocations of SDRs in the Fourth Basic Period, scheduled to begin on January 1, 1982, was discussed by the Executive Board in January and April 1981. But these discussions did not lead to a conclusion on the matter of allocation. The Interim Committee at its meeting on May 21, 1981 considered this question, taking account of the various relevant factors, including the importance of strengthening the role of the SDR as an international reserve asset and the need to avoid an undue increase in international liquidity. The Committee urged the Executive Board to continue its deliberations on the subject to enable the Managing Director to submit to the Board of Governors at the earliest possible date a proposal that would command the necessary support among members. The Managing Director's subsequent report to the Board of Governors and to the Executive Board, pursuant to Article XVIII, Section 4(*c*), concluded that he was not in a position to make, by June 30, 1981, a proposal that would command a broad support among the members of the Fund, and that as soon as there was such support he would submit a proposal that was consistent with the Articles.

[32] See Appendix I, Table I.1.

Transactions and Operations in SDRs Among Participants and Other Holders

Transactions and Operations by Agreement

The amount of SDRs transferred by participants and other holders in transactions by agreement amounted to SDR 419 million in the year ended April 30, 1981, somewhat higher than in the previous year. (See Table 27.)

Table 27. Use and Receipt of SDRs in Transactions by Agreement, Financial Year Ended April 30, 1981
(In millions of SDRs)

Holder	Use	Receipt
Bangladesh	—	3.7
Bolivia	—	4.5
Burma	—	23.5
Cameroon	—	0.4
Canada	106.3	—
Central African Republic	—	1.2
Chad	—	0.7
Congo	—	0.3
Costa Rica	—	2.6
Djibouti	—	0.2
Dominica	—	0.1
East Caribbean Currency Authority	—	0.5
El Salvador	—	2.4
Germany, Federal Republic of	310.9	—
Greece	—	6.6
Grenada	—	0.3
Guinea-Bissau	—	0.1
Guyana	—	0.6
Iceland		13.6
Israel	—	80.0
Jamaica	—	12.1
Lao People's Democratic Republic	—	0.1
Liberia	—	1.6
Madagascar	—	0.2
New Zealand	—	10.0
Nicaragua	—	1.9
Nordic Investment Bank	—	1.0
Panama	—	5.8
Peru	—	111.5
Romania	—	12.0
Rwanda	—	2.7
Solomon Islands	—	1.0
Sri Lanka	—	10.2
Tanzania		3.6
Turkey	—	47.6
Uganda	—	2.9
United Arab Emirates	1.3	—
Western Samoa	—	0.2
Zaïre	—	7.3
Zambia	—	13.2
Zimbabwe	—	32.5
Total	418.5	418.5

As in 1979/80, most of the transactions involved transfers by the Federal Republic of Germany and Canada under arrangements with the Fund for sales of SDRs in bilateral transactions to other participants that wish to acquire them, generally for use in Fund-related transactions, such as charges in the General Resources Account, net charges on the use of SDRs, or to comply with the reconstitution requirement. The abrogation of the reconstitution requirement may reduce the frequency of this type of transaction in future. A notable feature of the financial year was the first two acquisitions of SDRs totaling SDR 1.5 million by "other holders" in transactions by agreement. Information concerning the currencies transferred in exchange for SDRs in transactions by agreement is presented in Appendix I, Table I.17.

The Fund permits additional uses of SDRs by agreement by participants and other holders, namely, to buy and sell SDRs forward; to borrow, lend, or pledge SDRs; to use SDRs in swaps; or to make donations (grants) with SDRs. The first use of SDRs in loans and in settlement of financial obligations took place in July 1981. All decisions permitting additional uses of SDRs are to be reviewed by the Fund once each year.

Transactions with Designation

In 1980/81, in transactions with designation, in which the user is subject to a requirement of balance of payments need, 42 participants—all developing countries—used SDR 1,883 million in 72 transactions to obtain currency from other participants designated by the Fund. In these transactions, a total of 36 participants were designated to provide currency, the largest amounts being provided by the United States, the United Kingdom, and France. (See Table 28.) Of these transactions, 49 (amounting to SDR 1,490 million) repre-

Table 28. Use and Receipt of SDRs in Transactions with Designation, Financial Year Ended April 30, 1981
(In millions of SDRs)

Participant	Use	Receipt	Participant	Use	Receipt
Algeria	—	11.5	Mexico	—	59.6
Argentina	—	24.3	Morocco	172.4	—
Austria	—	5.0	Nepal	10.5	—
Bangladesh	69.7	—	Netherlands	—	39.8
Bolivia	14.4	—	Nigeria	—	24.4
Botswana	—	1.7	Norway	—	17.2
Brazil	—	2.3	Oman	—	1.0
Burma	5.5	—	Pakistan	42.9	—
Central African Republic	0.2	—	Paraguay	—	1.9
Chile	—	54.8	Philippines	18.1	—
China, People's Republic of	579.8	—	Romania	101.2	—
Colombia	—	10.9	Rwanda	—	1.2
Comoros	0.7	—	Saudi Arabia	—	43.7
Costa Rica	3.3	—	Senegal	14.1	—
Dominica	0.2	—	Sierra Leone	3.6	—
Ecuador	—	2.5	Singapore	—	6.9
El Salvador	11.0	—	Sri Lanka	21.9	—
Equatorial Guinea	6.4	—	South Africa	—	62.4
France	—	209.2	Spain	—	12.2
Germany, Federal Republic of	—	57.0	Sudan	13.2	—
Guatemala	—	1.8	Suriname	—	0.8
Guinea-Bissau	0.4	—	Tanzania	13.9	—
Guyana	11.9	—	Togo	10.6	—
Haiti	10.0	—	Trinidad and Tobago	—	5.6
Honduras	6.0	—	Turkey	14.6	—
India	211.0	8.0	Uganda	4.1	—
Indonesia	—	41.1	United Arab Emirates	—	5.8
Italy	—	57.0	United Kingdom	—	506.3
Ivory Coast	50.1	—	United States	—	551.7
Jamaica	28.4	—	Uruguay	—	2.8
Kenya	57.6	—	Venezuela	—	3.9
Korea	217.6	—	Viet Nam	28.4	—
Kuwait	—	2.0	Western Samoa	0.1	—
Lao People's Democratic Republic	0.8	—	Yugoslavia	22.7	—
Liberia	7.6	—	Zaïre	47.4	—
Libyan Arab Jamahiriya	—	37.4	Zambia	8.0	—
Madagascar	15.7	—	Zimbabwe	17.5	—
Malaysia	—	8.7	Total	1,882.9	1,882.9
Malta	—	0.5			
Mauritius	9.4	—			

sented the immediate use of SDRs acquired from the Fund's General Resources Account in purchase transactions, while the remainder represented the drawdown of participants' own SDR holdings in transactions with designation that were unrelated to purchases from the Fund. Details of the currencies transferred against SDRs in transactions with designation are given in Appendix I, Table I.17.

The method of calculating the amounts of designation in the quarterly designation plans was reviewed in March 1981 jointly with a review of the policy on sales of SDRs through the Fund's operational budgets, and it was decided to continue to use the existing method.

Transactions and Operations Between Participants and the General Resources Account

Payments of SDRs in respect of quota increases pursuant to the Seventh General Review of Quotas amounted to SDR 5,091 million, of which SDR 4,977 million was paid in December 1980. Reflecting understandings reached at the September 1978 meeting of the Interim Committee and in accordance with Article III, Section 3*(a)*, these payments represented 25 per cent of the quota increases. Consequently, at the end of December 1980 the SDR holdings of the General Resources Account totaled SDR 5,572 million, 32 per cent of total allocations—a record amount. As a result of net transfers of SDRs from the Fund since that date, holdings were SDR 5,445 million, 25 per cent of total allocations, on April 30, 1981.

Following the review of the appropriate policy on sales of SDRs through the Fund's operational budgets, the Executive Board decided to sell the amount of SDRs expected to be received in each quarterly period and to distribute the balance of purchases between SDRs and currency in such a manner as to reduce the level of SDR holdings by the General Resources Account to SDR 4.5 billion in early 1982, when this policy will be reviewed again.[33]

Inflows

Inflows of SDRs to the General Resources Account other than on account of quota payments were SDR 1,771 million in 1980/81, against SDR 1,629 million in 1979/80. Repurchases, discharged at the member's option with SDRs rather than currencies specified by the Fund, amounted to SDR 994 million, somewhat less than in 1979/80. Members using SDRs for repurchases included the United Kingdom (SDR 425 million), Peru (SDR 72 million), Israel (SDR 64 million), and Mexico (SDR 59 million).

Charges levied by the Fund on the use of its resources must be paid in SDRs, unless the member's holdings of SDRs are insufficient. During 1980/81, all charges were paid in SDRs, although a number of members with low holdings found it necessary to acquire SDRs for this purpose, either in transactions by agreement or from the Fund. The largest amounts of charges were paid by Turkey (SDR 60 million), the United Kingdom (SDR 51 million), and the Philippines (SDR 37 million).

Interest received on the Fund's holdings of SDRs amounted to SDR 266 million, substantially more than in previous years owing to both a higher average interest rate on the SDR and larger SDR holdings by the General Resources Account. The assessment, by which participants reimburse the Fund's General Resources Account for the expenses of conducting the business of the Special Drawing Rights Department, was SDR 2 million.

Outflows

There was a continued increase in the amount of SDRs transferred from the General Resources Account to members in purchases. These transfers amounted to SDR 2,033 million, against SDR 1,283 million in 1979/80, and accounted for 61 per cent of the total purchases during the year that were financed through the Fund's ordinary resources through the operational budget.

In May 1980, the Fund paid remuneration on members' net credit positions for 1979/80, including amounts in SDRs totaling SDR 220 million, to 44 members.

Some members lacked sufficient SDRs to make the required payment of 25 per cent of the amount of their quota increases in SDRs. Therefore, the Executive Board decided that the Fund would provide a member in this position, at its request, with SDRs from the General Resources Account against the currencies of other members, up to the amount that the member needed to be able to pay SDRs to increase its quota.[34] Subsequently, under this decision the Fund transferred a total of SDR 341 million to 44 members in exchange for currency, to enable them to have sufficient SDRs to pay for their quota increases. The Fund also transferred SDR 20 million to 6 participants to enable them to meet the reconstitution obligation. The decision under which participants obtained SDRs from the Fund in order to promote reconstitution was terminated on April 30,

[33] Executive Board Decision No. 6772-(81/35) G/S, adopted March 5, 1981 and reproduced in Appendix II.

[34] Executive Board Decision No. 6663-(80/160) S, adopted October 31, 1980 and reproduced in Appendix II.

1981 when the reconstitution requirement was abrogated.[35]

The Fund used a total of SDR 211 million to pay interest and to make repayments of principal to lenders to the Fund under the General Arrangements to Borrow, the oil facility, and the supplementary financing facility. The major part of these transfers (SDR 176 million) reflected interest payments and repayment of indebtedness under the oil facility to ten countries, including one "other holder" of SDRs.

Administered Accounts

The Fund administers as a Trustee, in addition to its Staff Retirement Plan, three accounts for member countries, namely, the oil facility subsidy account, the Trust Fund, and the newly created supplementary financing facility subsidy account. These administered accounts are independent of the Fund's General Department and the Special Drawing Rights Department.[36]

Oil Facility Subsidy Account

The oil facility subsidy account was established by the Executive Board on August 1, 1975 to assist Fund members most seriously affected by oil price increases to meet the cost of using the 1975 oil facility. Subsidy payments are calculated as a percentage per annum of the average daily balances, subject to charges, of the Fund's holdings of eligible members' currency outstanding under the 1975 oil facility. As on the occasion of each of the five previous annual reviews, the Executive Board, following the annual review for 1980/81, approved subsidy payments at the rate of 5 per cent per annum to the eligible beneficiaries. Consequently, subsidy payments totaling SDR 50 million were made to 23 eligible beneficiaries in June 1981. (See Table 29.)

Originally, the list of eligible beneficiaries was limited to those Fund members that were included in the United Nations list of countries most seriously affected by the increased price of oil. The UN list included 39 Fund members, but only 18 of those members made purchases under the 1975 oil facility, and these are the original beneficiaries of the subsidy account.[37] However, the decision establishing the subsidy account was amended in November 1978 to permit any surplus, after provision had been made to pay the original beneficiaries at the rate of 5 per cent per annum, to be used to make payments at a rate not exceeding 5 per cent per annum to 7 additional beneficiaries, namely, Grenada, Malawi, Morocco, Papua New Guinea, the Philippines, Zaïre, and Zambia. With the addition of these members, the list of beneficiaries included all members eligible to receive assistance from the Trust Fund that had also used the 1975 oil facility. The Executive Board decided that subsidy payments to Zambia should be made in respect of the average daily balances of its currency subject to charges from July 1, 1978 because

Table 29. Oil Facility Subsidy Account: Total Use of 1975 Oil Facility by Beneficiaries, and Subsidy Payments for Financial Year Ended April 30, 1981[1]
(In millions of SDRs)

	Total Use of 1975 Oil Facility	Subsidy at 5 Per Cent: Amount	Subsidy at 5 Per Cent: Cumulative to date
Original beneficiaries: Subsidy for financial year ended April 30, 1981			
Bangladesh	40.47	1.17	9.52
Cameroon	11.79	0.35	2.75
Central African Republic	2.66	0.07	0.63
Egypt	31.68	1.00	7.30
Haiti	4.14	0.12	0.98
India	201.34	—	26.95
Ivory Coast	10.35	—	1.42
Kenya	27.93	0.75	6.68
Mali	3.99	0.13	0.92
Mauritania	5.32	0.16	1.24
Pakistan	111.01	2.98	26.47
Senegal	9.91	0.25	2.40
Sierra Leone	4.97	0.16	1.15
Sri Lanka	34.13	1.00	8.01
Sudan	18.30	0.51	4.36
Tanzania	20.61	0.50	5.00
Western Samoa	0.42	0.01	0.10
Yemen, People's Democratic Republic of	12.02	0.35	2.82
Subtotal	551.03	9.51	108.68
Additional beneficiaries: Subsidy for financial years ended April 30, 1978–81			
Grenada	0.49	0.08	0.12
Malawi	3.73	0.64	0.87
Morocco	18.00	3.21	4.10
Papua New Guinea	14.80	1.93	2.73
Philippines	152.03	25.49	35.93
Zaïre	32.53	5.81	7.40
Zambia[2]	29.72	3.37	3.37
Subtotal	251.30	40.54	54.52
Total	802.33	50.05	163.20

[1] 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.

[2] Zambia received a subsidy only for the period July 1, 1978 to April 30, 1981.

[35] Executive Board Decision No. 5699-(78/38) G/S, adopted March 22, 1978. See *Annual Report, 1978,* page 123.

[36] Reports of the Audit Committee for the financial year ended April 30, 1981 are reproduced in Appendix VIII.

[37] The 18 original beneficiaries are Bangladesh, Cameroon, the Central African Republic, Egypt, Haiti, India, Ivory Coast, Kenya, Mali, Mauritania, Pakistan, Senegal, Sierra Leone, Sri Lanka, Sudan, Tanzania, Western Samoa, and the People's Democratic Republic of Yemen.

Zambia became eligible for assistance from the Trust Fund only in the Trust's second period, which began on that date.

The subsidy payments in June 1981 totaled SDR 9.5 million to 16 of the original beneficiaries for 1980/81 and SDR 40.5 million to the 7 additional beneficiaries for the financial years 1977/78–1980/81.[38] Of the 18 original beneficiaries, India and Ivory Coast did not receive a subsidy in 1981, as they no longer had purchases outstanding under the 1975 oil facility. The balance remaining in the subsidy account after these payments, together with expected contributions and investment income, will be available for subsidy payments to the eligible beneficiaries in future years. Since the average cost of using the 1975 oil facility was 7.875 per cent per annum for the original beneficiaries for 1980/81 and 7.74 per cent per annum for the additional beneficiaries for the financial years 1977/78–1980/81, the subsidy at the rate of 5 per cent effectively reduced the cost of using the facility to about 2.875 per cent for the original beneficiaries and to 2.74 per cent for the additional beneficiaries for the periods in question.

The 18 original beneficiaries, which had purchased a total of SDR 551 million under the 1975 oil facility, have received payments to date from the subsidy account totaling SDR 109 million. Members that were added to the list of beneficiaries in November 1978 and received subsidy payments for the first time in June 1980 have received a total of SDR 55 million. These 7 members had purchased a total of SDR 251 million under the 1975 oil facility (Table 29.)

The subsidy account is financed by contributions from 24 members of the Fund and Switzerland (Table 30). The funds received are invested in U.S. Government obligations until the subsidy payments are made to the beneficiaries. Promised contributions over the life of the subsidy account total SDR 160 million. Actual contributions to April 30, 1981 amounted to SDR 156 million.

Table 30. Oil Facility Subsidy Account: Contributions

(In millions of SDRs)

Contributors	Anticipated Total Contributions[1]	Contributions Received as of April 30, 1981
Australia	5.700	5.700
Austria	2.300	2.300
Belgium	5.600	5.040
Brazil	1.850	1.850
Canada	9.500	9.500
Denmark	2.200	1.577
Finland	1.600	1.600
France	12.900	12.373
Germany, Fed. Rep. of	13.700	13.720
Greece	0.600	0.597
Iran	6.000	6.000
Italy	8.600	8.600
Japan	10.300	9.537
Luxembourg	0.110	0.108
Netherlands	6.000	6.000
New Zealand	1.700	1.407
Norway	2.100	2.100
Saudi Arabia	40.000	40.000
South Africa	1.350	1.350
Spain	3.400	2.450
Sweden	2.800	2.800
Switzerland	3.285	3.285
United Kingdom	12.050	11.641
Venezuela	6.000	6.000
Yugoslavia	0.900	0.900
Total	160.545	156.436

[1] 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.

Trust Fund

The Trust Fund was established by the Executive Board in May 1976 to provide additional balance of payments assistance on concessionary terms to eligible developing member countries that qualified for assistance by carrying out programs of balance of payments adjustment.[39] The resources of the Trust Fund are derived mainly from the profits realized on the sale of 25 million ounces of the Fund's gold over four years for the benefit of developing member countries. Profits from the gold sales program, which was completed with the auction in May 1980, totaled US$4.6 billion, of which US$1.3 billion was paid directly to 104 developing countries on the basis of their share of quotas at August 31, 1975,[40] while the remainder—together with income from investments, income from outstanding loans to members, and other transfers to the Trust, less expenses—was available for concessionary lending. Loans totaling SDR 2.9 billion were made by the Trust Fund over a period of about four years ended on March 31, 1981, when the final loan disbursement was made. With this final loan disbursement, the operational objectives of the Trust were completed and, under the decision of the Executive Board, the process of winding up the Trust Fund began on April 30, 1981.[41]

While 104 developing members were eligible to participate in the direct distribution of profits from gold

[38] Zambia, one of the additional beneficiaries, received a subsidy for the period July 1, 1978 to April 30, 1981.

[39] The establishment and operation of the Trust Fund were discussed in *Annual Report, 1980,* pages 85–89, *Annual Report, 1979,* pages 86–87, *Annual Report, 1978,* pages 76–78, *Annual Report, 1977,* pages 66–67, and *Annual Report, 1976,* pages 60 and 111–17.

[40] The members that were eligible for the distribution of profits and the amounts paid to each member are set out in *Annual Report, 1980,* Appendix I, Table I.12, pages 119–20.

[41] Executive Board Decision No. 6704-(80/185) TR, adopted December 17, 1980 and reproduced in Appendix II.

sales, 7 members of the Organization of Petroleum Exporting Countries (OPEC)—Iraq, Kuwait, Libyan Arab Jamahiriya, Qatar, Saudi Arabia, the United Arab Emirates, and Venezuela—made irrevocable transfers of the full amounts of their profit shares to the Trust Fund to add to the resources available for loan assistance; the last such transfer was made by Libyan Arab Jamahiriya in November 1980. In addition, Yugoslavia transferred one third of its share of profits, and Romania made a loan of 10 per cent of its share, to the Trust Fund. The total value of the amounts transferred to the Trust by these members was US$125 million.

The total of loans and profits actually disbursed by the Trust Fund amounted to SDR 4 billion, of which over two thirds was disbursed during 1979/80 and 1980/81 (Table 31). The bulk of loan and profit disbursements occurred during the latter part of the Trust Fund program because of a large increase in available resources following the rise in gold prices during the last 12 months of the gold sales program. Disbursements to developing members in Africa and Asia amounted to about three fourths of the total disbursed by the Trust Fund. For members that qualified for loans in both periods of the Trust Fund, total disbursements of loans and profits represented about 57 per cent of their present quotas.

Table 31. Trust Fund: Loan Disbursements and Distribution of Profits from Gold Sales, by Region, 1977–81

(In millions of SDRs)[1]

	Financial Years Ended April 30					
	1977	1978	1979	1980	1981	Total
Africa	20.0	130.0	286.5	515.1	149.3	1,100.9
Asia	9.1	199.0	322.0	460.9	1,051.1	2,042.1
Of which, China	—	—	—	—	309.5	309.5
India	—	—	—	—	529.0	529.0
Europe	—	16.7	8.6	26.4	34.9	86.6
Middle East	1.6	61.5	87.4	124.6	61.3	336.4
Western Hemisphere	1.0	83.6	36.1	136.9	163.6	421.2
Total	31.7	490.8	740.6	1,263.9	1,460.2	3,987.2

[1] Amounts distributed as profits converted to SDRs at exchange rates prevailing on dates of payment.

The operations of the Trust Fund were divided into two periods, and profits from the sale of 12.5 million ounces of gold were available for loan disbursements in each of these two periods. The first period was two years in duration and ended on June 30, 1978, while the second period covered the subsequent years through February 28, 1981. Members were considered eligible for Trust Fund loans on the basis of a per capita income criterion [42] and qualified for Trust Fund loans on the basis of 12-month balance of payments programs of at least first credit tranche conditionality. Programs in support of loans in the second period had to be separate from those in the first period.

The Trust Fund provided balance of payments assistance for a total of SDR 841 million during the first period to 43 members that qualified for loans (or about one third of their present quotas) and a total of SDR 2,150 million was provided during the second period to 53 qualified members (or about one half of their present quotas).

The Executive Board decided in November 1980 to extend the second period by two months (to February 28, 1981) and the final date by which a program had to begin for a member to qualify for a loan (to January 1, 1981) so as to permit a greater number of eligible members to qualify for Trust Fund loan disbursements. At the same time, it was decided on the basis of newly available information on per capita income in 1975 to add two members—the People's Republic of China and Guyana—to the list of members eligible for loan assistance in the Trust's second period.[43] Both countries qualified for loans in the second period.

The total amount of loans to each qualified member in the second period represented the same percentage of members' quotas on December 31, 1975, subject to any limitation of need as decided by the Fund as Trustee after a re-examination if necessary. In the event, the Executive Board decided that no re-examination of need was required for any member that qualified for Trust assistance in either the first or the second period. The amount of loans to each qualified member in the Trust's second period was 56.3 per cent of its quota on December 31, 1975. The largest absolute amounts were disbursed to the People's Republic of China and India, which received loans totaling SDR 310 million and SDR 529 million, respectively.

Trust Fund loans are denominated in SDRs although disbursements were made in U.S. dollars. Interest at the rate of ½ of 1 per cent per annum on outstanding loans is payable half-yearly in a currency specified by the Fund (U.S. dollars, thus far). Loans are to be repaid in ten semiannual installments between six and ten years from the dates of the loan disbursement, except that loan disbursements made on March 31, 1981 that

[42] During the first period, 61 members were eligible for Trust assistance; these members were countries that were Fund members on August 31, 1975 and had per capita incomes of less than SDR 300 in 1973. For the Trust's second period, the cutoff point was a per capita income of less than US$520 in 1975; a total of 61 members were eligible on that basis for Trust Fund loans in the second period. Although the same number of members were eligible during both periods, the composition of the groups differed slightly in the two periods.

[43] Executive Board Decision No. 6676-(80/168) TR, adopted November 19, 1980 and reproduced in Appendix II.

amounted to about 0.4 per cent of quota are to be repaid in one installment not later than the end of the tenth year from the date of disbursement. In December 1980 the Executive Board carried out a review of the repayment terms of Trust Fund loans as called for in Section II of the Trust Fund Instrument. It was decided to confirm the original repayment terms and to allow the date of individual repayments to be deferred for a period of up to two years for countries experiencing hardship, to be determined on a case-by-case basis.

The assets of the Trust, pending disbursements as loans, were held in SDR-denominated deposits at the Bank for International Settlements in the period July 1978–March 1981; the average return on these deposits over the entire investment program was 11.1 per cent. The remainder of the Trust's assets was invested in U.S. Government obligations until used for the direct distribution of profits.

Following completion of the distribution of profits and in anticipation of the final loan disbursements, the Executive Board decided in December 1980 to terminate the Trust Fund as of April 30, 1981, or the date on which Trust Fund loan disbursements were completed.[44] As the final loan disbursements were made on March 31, 1981 (Table 32), the winding up process began on April 30, 1981. The responsibilities of the Fund as Trustee during this period will consist of the receipt and disposition of interest and loan repayments as well as completion of any unfinished business of the Trust Fund.[45]

As provided in the Trust Instrument, surplus assets accruing to the Trust Fund from interest and loan repayments will be transferred to the Special Disbursement Account, and the Executive Board decided to commit the first SDR 750 million of these assets to the supplementary financing facility subsidy account (discussed below). The Board also decided that SDR 1,500 million of these repayments would be used to provide balance of payments assistance on concessional terms, on a uniform basis, to low-income developing members in need of such assistance under arrangements similar to those set forth in the Trust Fund Instrument. The remaining assets shall be used to provide assistance in accordance with Article V, Section 12*(f)*(ii) of the Articles of Agreement under a decision of the Fund to be taken not later than June 30, 1986. If no such decision is reached, these assets will be added to the SDR 1,500 million available for balance of payments assistance as described above.

[44] Executive Board Decision No. 6704-(80/185) TR, adopted December 17, 1980 and reproduced in Appendix II.

[45] The Trust Fund holds US$3,990,776 that represents the share of Democratic Kampuchea in the direct distribution of profits from gold sales by the Fund. The Executive Board decided that the Trust shall continue to hold this amount until relations with Democratic Kampuchea have been restored.

Table 32. Trust Fund: Loan Disbursements, July 1, 1976–March 31, 1981
(In millions of SDRs)

Member	First Period[1]	Second Period[2]	Total
Bangladesh	51.809	70.347	122.156
Benin	5.388	7.316	12.704
Bolivia	15.336	20.823	36.158
Burma	24.868	33.767	58.635
Burundi	7.875	10.693	18.568
Cameroon	14.507	19.697	34.204
Central African Republic	5.388	7.316	12.704
Chad	5.388	—	5.388
China, People's Republic of	—	309.527	309.527
Congo	5.388	7.316	12.704
Egypt	77.921	105.802	183.723
El Salvador	—	19.697	19.697
Equatorial Guinea	—	4.502	4.502
Ethiopia	11.191	15.195	26.386
Gambia, The	2.901	3.939	6.841
Ghana	—	48.961	48.961
Grenada	0.829	1.126	1.955
Guinea	9.947	13.507	23.454
Guyana	—	11.256	11.256
Haiti	7.875	10.693	18.568
Honduras	—	14.069	14.069
India	—	529.009	529.009
Ivory Coast	21.553	29.264	50.817
Kenya	19.895	27.013	46.908
Lao People's Democratic Republic	5.388	7.316	12.704
Lesotho	2.072	2.814	4.886
Liberia	12.020	16.320	28.340
Madagascar	10.776	14.632	25.409
Malawi	6.217	8.442	14.659
Mali	9.118	12.381	21.500
Mauritania	5.388	7.316	12.704
Mauritius	9.118	—	9.118
Morocco	46.836	63.594	110.429
Nepal	5.803	7.879	13.682
Niger	5.388	7.316	12.704
Pakistan	97.401	132.252	229.654
Papua New Guinea	8.289	11.256	19.545
Philippines	64.244	87.230	151.474
Rwanda	—	10.693	10.693
Senegal	14.092	19.134	33.227
Sierra Leone	10.362	14.069	24.431
Somalia	—	10.693	10.693
Sri Lanka	40.618	55.152	95.771
Sudan	29.842	40.520	70.362
Swaziland	—	4.502	4.502
Tanzania	17.408	23.637	41.045
Thailand	55.540	75.412	130.952
Togo	6.217	8.442	14.659
Uganda	—	22.511	22.511
Upper Volta	5.388	7.316	12.704
Viet Nam	25.697	34.892	60.590
Western Samoa	0.829	1.126	1.955
Yemen, People's Democratic Republic of	12.020	16.320	28.340
Zaïre	46.836	63.594	110.429
Zambia	—	42.771	42.771
Total	840.968	2,150.366	2,991.335

[1] Ended June 30, 1978.
[2] Ended February 28, 1981.

Supplementary Financing Facility Subsidy Account

The question of a subsidy for low-income developing member countries designed to reduce the cost of using the Fund's resources under the supplementary financing facility and the policy on exceptional use of the Fund's resources has been under study for some time. The cost of using these resources is related to market interest rates and therefore could be substantially higher than charges on the use of the Fund's ordinary resources. Various ways of financing such subsidies were considered but the Executive Board agreed in principle in mid-1980 to establish a subsidy account, to be financed from the resources of the Trust Fund, voluntary contributions in the form of donations or concessional loans, and other sources. The Interim Committee welcomed this agreement in its communiqué of September 28, 1980.[46]

The supplementary financing facility subsidy account came into being on December 17, 1980 when the Executive Board formally adopted the Instrument establishing the account, which will be administered by the Fund as Trustee.[47] The aim is a subsidy account that will total SDR 1 billion, of which SDR 750 million will be from repayments of, and interest on, Trust Fund loans, and the balance from voluntary contributions and other sources, such as investment income. The amounts of subsidy payments to each eligible member will be calculated as a percentage per annum of the average daily balances of the Fund's holdings of the member's currency acquired as a result of all purchases under the supplementary financing facility and under the Fund's policy on exceptional use.[48]

Subsidy payments to eligible members will be made on a two-tier basis. Members with per capita incomes equal to or below the level of per capita income used to determine eligibility for assistance from the International Development Association (IDA) are eligible for the full rate of subsidy, which shall not exceed 3 per cent per annum. Other members, which are eligible for a subsidy of one half of the full rate, are those with per capita incomes in excess of the IDA level but not more than the per capita income of the member that had the highest per capita income in 1979 and was eligible to receive assistance from the Trust Fund. In no case will the payment of subsidies reduce the cost of using the supplementary financing facility or the policy on exceptional use below the level of prevailing charges on the Fund's ordinary resources under stand-by and extended facility arrangements. The amounts of the subsidy to eligible members will be paid annually as soon as practicable after the end of the Fund's financial year, on April 30.

On the basis of the latest available data provided by the World Bank prior to April 30, 1981, a total of 83 developing members had per capita incomes that would have made them eligible to receive a subsidy. (See Table 33.) Additions to the list of eligible members may be made next year if new members join the Fund and meet the per capita income criterion, or if existing members, whose per capita incomes in 1979 are at present estimated to be above the maximum limit, prove by April 1982 to have per capita incomes in 1979 below the limit. As of April 30, 1981, 20 of the present group of eligible members had purchases outstanding under the supplementary financing facility for a total amount equivalent to SDR 995 million, and the undrawn supplementary financing facility commitments to 18 of these members under stand-by and extended arrangements amounted to nearly SDR 3 billion. In addition, one member—Zambia—had a balance equivalent to SDR 11.6 million outstanding under the Fund's policy on exceptional use.

As part of the decision terminating the Trust Fund as of April 30, 1981, the Executive Board decided that the equivalent of SDR 750 million from repayments of, and interest on, Trust Fund loans shall be transferred, as received, to the supplementary financing facility subsidy account, through the Special Disbursement Account.[49] However, Trust Fund interest payments are small, and the repayments from Trust Fund loans are not scheduled to begin until July 1982 and will not benefit the supplementary financing facility subsidy account in a material way until 1983/84. Consequently, the Fund is authorized to arrange borrowings for the account which, in addition to donations, are expected to finance the early operations of the supplementary financing facility subsidy account. These borrowings, on concessional terms to be agreed between the Fund and lenders, will be repaid as amounts become available from the Special Disbursement Account.

The Managing Director has been in communication with 27 countries with a view to obtaining voluntary contributions in the form of grants or loans to the supplementary financing facility subsidy account; of these, 7 are oil exporting and 20 are industrial countries. To date, indications have been received from 13 countries that they would favorably consider making a contribution to the account: 5 of these countries have

[46] The text of the communiqué is reproduced in Appendix III.

[47] Executive Board Decision No. 6683-(80/185) G/TR, adopted December 17, 1980 and reproduced in Appendix II. Subject to the provisions of the Instrument, the Fund shall apply the same rules and procedures as apply to the operations and transactions of the General Resources Account.

[48] The establishment of the supplementary financing facility and the policy on exceptional use were described in *Annual Report, 1978,* pages 112–20.

[49] Executive Board Decision No. 6704-(80/185) TR, adopted December 17, 1980 and reproduced in Appendix II.

Table 33. Fund Members That Would Be Eligible to Receive a Subsidy on Basis of Per Capita Income Data Currently Available

Members Eligible for Full Rate of Subsidy

Afghanistan	Malawi
Bangladesh	Maldives
Benin	Mali
Bolivia	Mauritania
Burma	Nepal
Burundi	Nicaragua
Cameroon	Niger
Cape Verde	Nigeria
Central African Republic	Pakistan
Chad	Papua New Guinea
China, People's Republic of	Philippines
Comoros	Rwanda
Congo	St. Lucia
Djibouti	St. Vincent
Dominica	São Tomé and Principe
Egypt	Senegal
El Salvador	Sierra Leone
Equatorial Guinea	Solomon Islands
Ethiopia	Somalia
Gambia, The	Sri Lanka
Ghana	Sudan
Grenada	Swaziland
Guinea	Tanzania
Guinea-Bissau	Thailand
Guyana	Togo
Haiti	Uganda
Honduras	Upper Volta
India	Viet Nam
Indonesia	Western Samoa
Kampuchea, Democratic	Yemen Arab Republic
Kenya	Yemen, People's Democratic Republic of
Lao People's Democratic Republic	Zaïre
Lesotho	Zambia
Liberia	Zimbabwe
Madagascar	

Members Eligible for Reduced Rate of Subsidy

Botswana
Colombia
Dominican Republic
Ecuador
Guatemala

Ivory Coast
Jordan
Lebanon
Mauritius
Morocco

Paraguay
Peru
Syrian Arab Republic
Tunisia

already confirmed the amounts they will pay to the account and another country has indicated the amount that might be expected from it. Another 8 countries have the matter under consideration, and 6 countries have indicated that they are unable to contribute, at least for the time being. The receipt of the first contribution, in the form of a donation, of approximately SDR 4.1 million from the Netherlands on May 26, 1981, initiated the operational phase of the supplementary financing facility subsidy account. Subsequently, a loan agreement with Belgium for an interest-free loan of up to SDR 4.4 million was entered into by the Fund and the first payment under this agreement of SDR 0.8 million was received on July 9, 1981.

As a consequence of the supplementary financing facility subsidy account becoming operational, the Fund established a policy for the temporary investment of its assets that are not immediately needed to pay subsidies or to meet liabilities. The account may invest in marketable SDR-denominated assets so as to avoid exchange risks for the account (under Section 14 of the Instrument establishing the Account), and the Bank for International Settlements (BIS) has agreed to accept such deposits.[50] Accordingly, currencies received by the supplementary financing facility subsidy account will be placed in such deposits, unless the Managing Director considers that the terms offered by the BIS on an intended deposit are not sufficiently attractive, in which case he will so inform the Executive Board and make other proposals for investment in SDR-denominated obligations.

The Instrument provides that, on completion of all subsidy operations, the Fund will terminate the supplementary financing facility subsidy account. Any balances remaining after discharge of outstanding liabilities will be returned to the Special Disbursement Account up to the full amount transferred from Trust Fund loan repayments. Any additional balance will be used to reimburse the donors, pro rata, up to the amount of their donations.

Income, Expense, and Reserves

The net income of the Fund for the financial year ended April 30, 1981 amounted to SDR 80 million, compared with SDR 3 million in 1979/80. This outcome reflected a substantial increase in the operational income from periodic charges, service charges, and interest on the Fund's SDR holdings in the General Resources Account, which rose by SDR 268 million, (44 per cent) over the year, to a record SDR 882 million. Operational expenses—the payment of remuneration on creditor positions and of interest on Fund borrowing—increased by SDR 177 million (34 per cent) to SDR 702 million. As a result, net operational income increased from SDR 89 million in 1979/80 to SDR 180 million. Administrative and fixed property expense was SDR 100 million, some SDR 14 million above that for the previous year. The comparative details of the Fund's operational income and expense are presented in Appendix VII and details of administrative expenses in

[50] Executive Board Decision No. 6854-(81/78) SBS, adopted May 8, 1981 and reproduced in Appendix II.

Appendix VI. The net income for the financial year ended April 30, 1981 was placed to the Special Reserve, bringing the total of the Special and General Reserves of the Fund at April 30, 1981 to SDR 843 million.

The increase in net income in 1980/81 was due largely to the payment of the quota increases under the Seventh General Review of Quotas. The total increase in quotas amounted to SDR 19.8 billion, of which 25 per cent was paid in SDRs and the balance in members' own currencies. As a result, the Fund's holdings of SDRs in the General Resources Account, on which it earned the SDR rate of interest, increased by nearly SDR 5 billion in the period during which the quota payments were made (December 1, 1980 to February 13, 1981). At the same time, creditor positions on which the Fund paid remuneration increased by SDR 3.2 billion, and balances subject to charges decreased by SDR 0.4 billion.

Surveillance Procedures

The 1980 Annual Report described the procedures for surveillance in some detail. There were no changes in such procedures during the financial year 1980/81. The Executive Board conducted the annual review of the general implementation of the Fund's surveillance over members' exchange rate policies in April 1981. In this review, Executive Directors supported the continuation of existing procedures regarding surveillance within the framework of regular Article IV consultations with members, the World Economic Outlook discussions, and the supplemental consultations. Executive Directors concluded that the strengthening of Fund surveillance could be accomplished, with a more active stance, within this framework and without the need for new procedures. Executive Directors supported a more active use of the supplemental consultation procedure.[51] It was recognized that such supplemental consultations provide a mechanism for timely contact with members and enable the Fund to analyze important developments during the interval between regular Article IV consultations, without the presumption that the member concerned has not complied with its obligations under Article IV. Executive Directors emphasized the importance of discretion and caution in initiating such consultations, and agreed that an informal and low-key approach is useful in implementing the intent of the supplemental surveillance decision.

Consultations with Member Countries

Regular Article IV consultations are required for all members and constitute, inter alia, the centerpiece of the Fund's surveillance over the exchange rate policies of individual member countries. These consultations are required, in principle, to take place annually. They are to be completed not later than three months after the termination of discussions between the member and the staff by conclusions reached by the Executive Board. Where appropriate, the Executive Board also renders a decision concerning matters of Fund jurisdiction. In practice, there has been some shortfall from the objective of annual consultations, owing to the constraints of staff resources or to the wish of some members to modify the scheduling of the consultation. In 1980/81, the Fund completed 91 regular Article IV consultations, of which 54 were with countries availing themselves of the transitional arrangements of Article XIV, and 37 with countries that had formally accepted the obligations of Article VIII. Of those consultations completed in the financial year, 25 had been initiated in the previous financial year, whereas 21 of those initiated in 1980/81 remained outstanding at the end of the year. During 1980/81 one country—Zimbabwe—joined the Fund bringing total membership to 141, and 3 member countries (Uruguay, St. Lucia, and Djibouti) formally accepted the obligations of Article VIII, Sections 2, 3, and 4. At the end of the financial year, 53 members had Article VIII status, 87 members were availing themselves of the transitional arrangements of Article XIV, and one member—St. Vincent and the Grenadines—had yet to complete formal procedures to establish Article VIII or Article XIV status in the Fund.

In addition to regular Article IV consultations, as in previous years, special consultations were held with major industrial countries in connection with the World Economic Outlook reviews by the Executive Board.

Training and Technical Assistance

In June 1981, the Executive Board carried out a thorough review of the Fund's technical assistance activities and approved the flexible approach that it had adopted in responding to requests for technical assistance from members. During 1980/81, such assistance continued to be made available to members in the form of training at headquarters, staff missions, and the stationing of staff members and outside experts in member countries, as well as the assistance that is customarily provided through the Fund's consultation procedures under Article IV. Upon request, the Fund's area and functional departments furnish technical assistance on many economic and financial problems of the member countries.

During the financial year, the IMF Institute conducted nine training courses, for the first time offered a seminar on balance of payments management, and organized—with the Fiscal Affairs Department—a seminar

[51] Executive Board Decision No. 6026-(79/13), adopted January 22, 1979. See *Annual Report, 1979,* page 136.

on budgeting and expenditure control. Officials from member countries who attended the training courses totaled 270, an increase of 15.8 per cent over the previous year. The Institute has trained 2,883 participants from 135 countries since it was established in 1964.

The Institute's principal course, on Financial Analysis and Policy, describes the Fund's procedures and policies, and examines the tools of economic analysis and forecasting. It pays particular attention to the instruments of monetary, fiscal, and balance of payments policies that are being employed under changing national and international conditions. This course was offered twice in English (once, for the first time, with simultaneous translation into Arabic) and once each in French and Spanish. The courses conducted in English were of 19 weeks duration, while those in French and Spanish lasted 21 weeks each.

During the financial year, the eight-week course on Balance of Payments Methodology was presented twice (in English and Spanish) in collaboration with the Bureau of Statistics. It focuses on the concepts and definitions that are used in the Fund's *Balance of Payments Manual* and helps member countries to improve their balance of payments statistics. The ten-week course on Public Finance was offered twice (in English and Spanish) in cooperation with the Fiscal Affairs Department. It deals with the objectives, instruments, and procedures of public finance, emphasizing the fiscal problems of developing countries. For the first time, a six-week course on Government Finance Statistics was conducted in French, in cooperation with the Bureau of Statistics. This course applies the concepts, definitions, and procedures in the *Draft Manual on Government Finance Statistics* for compiling statistics from accounts in the public sector.

Technical assistance was provided by the Central Banking Department, in response to requests from appropriate authorities, both in the field through the assignment of resident experts and staff missions and from headquarters through advisory services. During the financial year, experts served in 111 assignments in executive or advisory positions with 51 central monetary institutions and provided about 70 man-years of assistance most of which was in the fields of research and statistics, bank supervision, banking and exchange operations, and controls. Departmental staff carried out nine advisory missions and participated in seven missions by other Fund departments. Advice was given on topics that include central banking and financial system legislation (in cooperation with the Legal Department), mobilization of savings, accounting systems, and bank supervision.

The Fiscal Affairs Department has continued to provide technical assistance in response to requests from member countries through staff missions, staff assignments in the field, and the services of the members of the panel of experts. Assistance was furnished mainly in the areas of fiscal policy, tax and customs administration, budget system and procedures, accounting, auditing, and financial reporting. During 1980/81, technical assistance was given to 38 countries, compared with 40 countries during 1979/80; one country received assistance for the first time. There were 36 long-term and 24 short-term assignments in the field, totaling 60 individual assignments and 294 man-months; 44 panel members and 30 staff members undertook technical assistance work. Staff members continuously visit countries to review progress and to advise on requests for further assistance. Yet another aspect of the technical assistance furnished by the Department is the work of staff members at headquarters to support and guide the field experts.

The Bureau of Statistics has continued to provide technical assistance in the statistical field through such activities as the improvement of existing central bank statistical bulletins (emphasizing financial and general statistics), the establishment of new bulletins, aid to members in compiling balance of payments and government finance statistics in keeping with the methodologies of Fund manuals, and advice on establishing computer systems to manage economic data bases. The assistance has taken the form of lectures, discussions, and working on data with national officials and technicians, using those concepts and classification standards for assembling data that are relevant for analyzing monetary and payments problems. The Bureau's assistance has focused on applying to national source materials the framework and standards presented in the Fund's *Balance of Payments Manual* and the *Draft Manual on Government Finance Statistics*.

During 1980/81, the Bureau of Statistics participated in 74 missions to 58 countries. Besides cooperating in the presentation of the IMF Institute courses on the balance of payments and government finance statistics, the Bureau responded to requests from 19 national and multinational institutions for ad hoc training of officials of central banks, ministries of finance, and other government agencies.

Relations with Other International Organizations

The increasing degree of interdependence in the world has enhanced the importance of the Fund's relations with other international and regional organizations in the economic and financial area. A close working relationship is maintained with the World Bank, which includes, inter alia, participation by staff of each of the organizations in missions of the other, as well as joint Fund-Bank missions, when deemed advisable. Additionally, the Fund collaborates on matters of common concern with 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 development and financial institutions in Africa, Asia and the Pacific area, Latin America and the Caribbean, and the Middle East. Ongoing liaison is maintained by the Special Representative to the United Nations; the European Office in Paris with respect to the BIS, CEC, and OECD; and the Geneva Office with respect to the GATT, the United Nations Conference on Trade and Development (UNCTAD) and its various bodies, and other organizations in the vicinity. Their efforts are supplemented, as required, by the assignment of headquarters staff and resident representatives in the field.

During the past year, the Managing Director delivered his traditional address to the UN Economic and Social Council (ECOSOC) in Geneva on July 4, 1980, and spoke at a meeting of the UN Administrative Committee on Coordination in New York on November 3. Also in November he participated in the monthly meeting of the BIS in Basle. As in prior years, the Managing Director attended meetings of the UNCTAD Intergovernmental Group of Twenty-Four on International Monetary Affairs and of the Group of Ten ministers and governors of central banks held concurrently with meetings of the Interim and Development Committees. Staff members attended relevant meetings of other international and regional organizations and participated in seminars, working groups, and training programs. Pertinent documents and information were also exchanged.

The Fund aims to assist regional organizations by sharing its technical expertise whenever possible. To this end, the staff prepared a study describing existing payments and trade arrangements in the 18-member Preferential Trading Area of Eastern and Southern African States and suggested possible improvements to these arrangements to promote intraregional trade for the Association of African Central Banks, at the request of the African Centre for Monetary Studies. Technical assistance was also provided to the Economic Community of West African States (ECOWAS) in connection with a study on currency convertibility among ECOWAS member countries. In response to a request from the Executive Secretariat of the Economic Commission for Latin America (ECLA), the Fund assisted with the preparation of a study of alternative strategies for opening the economies of developing countries. Staff also participated in the organization and conduct of a seminar on balance of payments methodology conducted by the Arab Monetary Fund.

Cooperation with member countries with respect to aid coordination involved participation in meetings of the World Bank Consultative Groups on Aid Coordination for Korea, Mauritius, the Philippines, Thailand, and Zaïre; the India and Pakistan consortia; and the Aid Groups for Bangladesh, Burma, and Sri Lanka. Staff also continued to participate in the work of the Caribbean Group for Cooperation in Economic Development, and to assist in the preparation of financial plans for the aid recipients of the Group. The Fund continued to provide assistance to members with respect to debt renegotiations. Fund representatives attended meetings in Paris on debt rescheduling for the Central African Republic, Liberia, Madagascar, Nicaragua, Pakistan, Sudan, Togo, Turkey, and Zaïre. Staff were also present at meetings of the Joint Commission for the Implementation of External Cooperation with Haiti, the Egypt Aid Donors' Group, and the Intergovernmental Aid Group for Indonesia.

In keeping with long-established arrangements for collaboration with the GATT regarding its consultations with common member countries on trade restrictions imposed for balance of payments purposes, Fund representatives participated in those consultations and provided background documents. Staff also attended the 36th session of the CONTRACTING PARTIES; meetings of the Council of Representatives, including a special session on notification and surveillance of trade policy measures and the international trading system; and meetings of various GATT committees and working parties. Staff continued the practice of attending relevant meetings of some of the other international organizations in Geneva and elsewhere, in particular those of UNCTAD, and to collaborate with those agencies in areas of mutual interest, such as aid and debt arrangements.

Executive Directors and Staff

A list of Executive Directors and their voting power on April 30, 1981 is given in Appendix IV. The changes in membership of the Executive Board during 1980/81 are shown in Appendix V.

In the year ended April 30, 1981, there were 144 appointments to the Fund's regular staff and 99 separations. At the end of the financial year, the staff numbered 1,462 and was drawn from 94 countries.

Publications

The list of publications issued by the Fund during 1980/81 is shown in Appendix I, Table I.18.

This page intentionally left blank

Appendices

List of Tables

Appendix I
The Fund in 1980/81

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, 1981. In two tables in this appendix, however, data covering longer periods are included, viz., Table I.1 on exchange rates and exchange arrangements and Table I.11 setting forth the charges on the use of the Fund's resources.

Table I.1. Exchange Rates and Exchange Arrangements, June 30, 1981
(Currency units per unit listed)

Member	Currency	Exchange Rate Maintained Against: U.S. dollar[1]	Pound sterling[1]	French franc[1]	Other single currency[1]	Special drawing right[1]	Currency composite other than SDR[2]	Other currencies in a cooperative arrangement[2,3]	Exchange Rates Otherwise Determined[2,4]
Afghanistan	Afghani	—	—	—	—	—	—	—	50.08
Algeria[5]	dinar	—	—	—	—	—	4.413	—	—
Argentina[5]	peso	—	—	—	—	—	—	—	4,525.0
Australia	dollar	—	—	—	—	—	—	—	0.871080
Austria	schilling	—	—	—	—	—	16.86	—	—
Bahamas[5]	dollar	1.00	—	—	—	—	—	—	—
Bahrain	dinar	—	—	—	—	—	—	—	0.377
Bangladesh[5]	taka	—	—	—	—	—	17.9741	—	—
Barbados[5]	dollar	2.01	—	—	—	—	—	—	—
Belgium[5]	franc	—	—	—	—	—	—	39.26	—
Benin	franc	—	—	50.00	—	—	—	—	—
Bolivia	peso	—	—	—	—	—	—	—	24.51
Botswana	pula	—	—	—	—	—	—	—	0.850919
Brazil[5]	cruzeiro	—	—	—	—	—	—	—	90.95[6]
Burma	kyat	—	—	—	—	8.50847	—	—	7.39481
Burundi	franc	90.00	—	—	—	—	—	—	—
Cameroon	franc	—	—	50.00	—	—	—	—	—
Canada	dollar	—	—	—	—	—	—	—	1.2005
Cape Verde[7]	escudo	—	—	—	—	—	—	—	—
Central African Republic	franc	—	—	50.00	—	—	—	—	—
Chad	franc	—	—	50.00	—	—	—	—	—
Chile	peso	39.00	—	—	—	—	—	—	—
China, People's Republic of[5]	yuan	—	—	—	—	—	1.7467	—	—
Colombia[5]	peso	—	—	—	—	—	—	—	52.94[6]
Comoros	franc	—	—	50.00	—	—	—	—	—
Congo	franc	—	—	50.00	—	—	—	—	—
Costa Rica[5]	colón	—	—	—	—	—	—	—	19.03
Cyprus	pound	—	—	—	—	—	0.438693	—	—
Denmark	krone	—	—	—	—	—	—	7.4975	—
Djibouti	franc	178.16	—	—	—	—	—	—	—
Dominica	East Caribbean dollar	2.70	—	—	—	—	—	—	—
Dominican Republic[5]	peso	1.00	—	—	—	—	—	—	—
Ecuador[5]	sucre	25.00	—	—	—	—	—	—	—
Egypt[5]	pound	0.70	—	—	—	—	—	—	—
El Salvador	colón	2.50	—	—	—	—	—	—	—
Equatorial Guinea[5]	epkwele	—	—	—	2.00[8]	—	—	—	—
Ethiopia	birr	2.07	—	—	—	—	—	—	—
Fiji	dollar	—	—	—	—	—	0.868810	—	—
Finland	markka	—	—	—	—	—	4.446	—	—
France	franc	—	—	—	—	—	—	5.7175	—
Gabon	franc	—	—	50.00	—	—	—	—	—
Gambia, The	dalasi	—	4.00	—	—	—	—	—	—
Germany, Federal Republic of	deutsche mark	—	—	—	—	—	—	2.3909	—
Ghana[5]	cedi	—	—	—	—	—	—	—	2.75
Greece[5]	drachma	—	—	—	—	—	—	—	58.415

Grenada[5]	East Caribbean dollar	2.70	—	—	—	—	—	—	—
Guatemala	quetzal	1.00	—	—	—	—	—	—	—
Guinea	syli	—	—	—	—	24.6853	—	—	21.4543
Guinea-Bissau	peso	—	—	—	—	44.00	—	—	38.2409
Guyana	dollar	—	—	—	—	—	—	—	3.00
Haiti	gourde	5.00	—	—	—	—	—	—	—
Honduras	lempira	2.00	—	—	—	—	—	—	—
Iceland[5]	króna	—	—	—	—	—	—	—	7.337
India	rupee	—	—	—	—	—	—	—	8.75026
Indonesia	rupiah	—	—	—	—	—	—	—	631.25
Iran[5]	rial	—	—	—	—	92.30	—	—	80.2190
Iraq	dinar	0.295314	—	—	—	—	—	—	—
Ireland	pound	—	—	—	—	—	—	0.656082	—
Israel	shekel	—	—	—	—	—	—	—	11.6760
Italy[5]	lira	—	—	—	—	—	—	1,191.50	—
Ivory Coast	franc	—	—	50.00	—	—	—	—	—
Jamaica[5]	dollar	1.781423	—	—	—	—	—	—	—
Japan	yen	—	—	—	—	—	—	—	225.80
Jordan	dinar	—	—	—	—	0.387	—	—	0.336346
Kampuchea, Democratic[7]		—	—	—	—	—	—	—	—
Kenya[5]	shilling	—	—	—	—	10.15	—	—	8.82135
Korea	won	—	—	—	—	—	—	—	685.10
Kuwait	dinar	—	—	—	—	—	0.28168	—	—
Lao People's Democratic Republic[5]	new kip	10.00	—	—	—	—	—	—	—
Lebanon	pound	—	—	—	—	—	—	—	4.30
Lesotho[5]	maloti	—	—	—	1.00[9]	—	—	—	—
Liberia	dollar	1.00	—	—	—	—	—	—	—
Libyan Arab Jamahiriya	dinar	0.296053	—	—	—	—	—	—	—
Luxembourg[5]	franc	—	—	—	—	—	—	39.26	—
Madagascar	franc	—	—	50.00	—	—	—	—	—
Malawi	kwacha	—	—	—	—	1.05407	—	—	0.916105
Malaysia	ringgit	—	—	—	—	—	2.3154	—	—
Maldives[7]	rupee	—	—	—	—	—	—	—	—
Mali	franc	—	—	100.00	—	—	—	—	—
Malta	pound	—	—	—	—	—	0.394415	—	—
Mauritania	ouguiya	—	—	—	—	—	48.84	—	—
Mauritius[5]	rupee	—	—	—	—	10.00	—	—	8.69112
Mexico	peso	—	—	—	—	—	—	—	24.4372
Morocco	dirham	—	—	—	—	—	—	—	5.45405
Nepal[5]	rupee	12.00	—	—	—	—	—	—	—
Netherlands	guilder	—	—	—	—	—	—	2.662	—
New Zealand	dollar	—	—	—	—	—	—	—	1.17288
Nicaragua[5]	córdoba	10.05	—	—	—	—	—	—	—
Niger	franc	—	—	50.00	—	—	—	—	—
Nigeria	naira	—	—	—	—	—	—	—	0.646162
Norway	krone	—	—	—	—	—	6.0075	—	—
Oman	rial Omani	0.3454	—	—	—	—	—	—	—
Pakistan	rupee	9.90	—	—	—	—	—	—	—
Panama	balboa	1.00	—	—	—	—	—	—	—
Papua New Guinea	kina	—	—	—	—	—	0.678702	—	—
Paraguay[5]	guaraní	126.00	—	—	—	—	—	—	—
Peru	sol	—	—	—	—	—	—	—	418.918
Philippines	peso	—	—	—	—	—	—	—	7.94900
Portugal	escudo	—	—	—	—	—	—	—	63.364[6]
Qatar	riyal	—	—	—	—	—	—	—	3.64

Table I.1 *(concluded)*. Exchange Rates and Exchange Arrangements, June 30, 1981
(Currency units per unit listed)

Member	Currency	Exchange Rate Maintained Against: U.S. dollar [1]	Pound sterling [1]	French franc [1]	Other single currency [1]	Special drawing right [1]	Currency composite other than SDR [2]	Other currencies in a cooperative arrangement [2,3]	Exchange Rates Otherwise Determined [2,4]
Romania [5]	leu	11.00	—	—	—	—	—	—	—
Rwanda	franc	92.84	—	—	—	—	—	—	—
St. Lucia	East Caribbean dollar	2.70	—	—	—	—	—	—	—
St. Vincent	East Caribbean dollar	2.70	—	—	—	—	—	—	—
São Tomé and Principe	dobra	—	—	—	—	45.25	—	—	39.3273
Saudi Arabia	riyal	—	—	—	—	—	—	—	3.405
Senegal	franc	—	—	50.00	—	—	—	—	—
Seychelles	rupee	—	—	—	—	7.2345	—	—	6.28759
Sierra Leone	leone	—	—	—	—	1.36693	—	—	1.18802
Singapore	dollar	—	—	—	—	—	2.132	—	—
Solomon Islands	dollar	—	—	—	1.00 [10]	—	—	—	—
Somalia [5]	shilling	12.59	—	—	—	—	—	—	—
South Africa [5]	rand	—	—	—	—	—	—	—	0.886289
Spain	peseta	—	—	—	—	—	—	—	95.148
Sri Lanka	rupee	—	—	—	—	—	—	—	18.76
Sudan [5]	pound	0.50	—	—	—	—	—	—	—
Suriname	guilder	1.785	—	—	—	—	—	—	—
Swaziland [6]	lilangeni	—	—	—	1.00 [9]	—	—	—	—
Sweden	krona	—	—	—	—	—	5.085	—	—
Syrian Arab Republic [5]	pound	3.925	—	—	—	—	—	—	—
Tanzania	shilling	—	—	—	—	—	8.30793	—	—
Thailand	baht	—	—	—	—	—	21.00	—	—
Togo	franc	—	—	50.00	—	—	—	—	—
Trinidad and Tobago	dollar	2.40	—	—	—	—	—	—	—
Tunisia	dinar	—	—	—	—	—	0.403875	—	—
Turkey [5]	lira	—	—	—	—	—	—	—	110.696
Uganda [7]	shilling	—	—	—	—	—	—	—	—
United Arab Emirates	dirham	—	—	—	—	—	—	—	3.671
United Kingdom	pound	—	—	—	—	—	—	—	0.514721
United States	dollar	—	—	—	—	—	—	—	1.00
Upper Volta	franc	—	—	50.00	—	—	—	—	—
Uruguay	new peso	—	—	—	—	—	—	—	10.7965
Venezuela [5]	bolívar	4.2925	—	—	—	—	—	—	—
Viet Nam [5]	dong	—	—	—	—	2.66358	—	—	2.31495
Western Samoa	tala	—	—	—	—	—	—	—	1.0488
Yemen Arab Republic	rial	4.5625	—	—	—	—	—	—	—
Yemen, People's Democratic Republic of	dinar	0.345399	—	—	—	—	—	—	—
Yugoslavia	dinar	—	—	—	—	—	—	—	33.9381
Zaïre	zaïre	—	—	—	—	6.34921	—	—	5.51817
Zambia	kwacha	—	—	—	—	1.02426	—	—	0.890196
Zimbabwe	dollar	—	—	—	—	—	0.698910	—	—

[1] Rates as notified to the Fund and in terms of currency units per unit listed.
[2] Market rates in currency units per U.S. dollar.
[3] 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.
[4] Under this heading are listed those members that describe their exchange rate arrangements variously as floating independently, adjusting according to a set of indicators (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.
[5] Member maintains multiple currency practices and/or dual exchange market. A description of the member's exchange system as of December 31, 1980 is given in the *Annual Report on Exchange Arrangements and Exchange Restrictions, 1981*.
[6] Exchange rates adjusted according to a set of indicators.
[7] Information not available.
[8] Per Spanish peseta.
[9] Per South African rand.
[10] Per Australian dollar.

Table I.2. Fund Stand-By Arrangements for Members, Financial Year Ended April 30, 1981
(In millions of SDRs)

Member	Total Number of Stand-Bys Approved for Member	Date of Inception	Date of Expiration	Amount Approved 1979/80	Amount Not Purchased at Expiration or Cancellation	Amount Approved 1980/81	Amount Not Purchased April 30, 1981
Bangladesh	3	July 30, 1979	July 29, 1980	85.00	—	—	—
Bolivia	12	Feb. 1, 1980	Jan. 31, 1981	66.38[1]	13.00	—	—
Central African Republic	2	Feb. 15, 1980	Feb. 14, 1981	4.00	—	—	—
		Apr. 10, 1981	Dec. 31, 1981	—	—	10.40	6.40
China, People's Republic of	1	Mar. 2, 1981	Dec. 31, 1981	—	—	450.00	—
Costa Rica	7	Mar. 12, 1980	Mar. 11, 1982	60.50[1]	—	—	45.12
Cyprus	1	July 16, 1980	July 15, 1981	—	—	8.50	—
El Salvador	12	June 23, 1980	June 22, 1981	—	—	10.75	—
Equatorial Guinea	1	July 1, 1980	June 30, 1981	—	—	5.50	2.50
Gambia, The	2	Nov. 2, 1979	Nov. 1, 1980	1.60	—	—	—
Grenada	3	Nov. 6, 1979	Dec. 31, 1980	0.65	—	—	—
Kenya	3	Aug. 20, 1979	Aug. 19, 1981	122.48[1, 2]	122.48	—	—
		Oct. 15, 1980	Oct. 14, 1982	—	—	241.50[3]	151.50
Korea	14	Mar. 3, 1980	Mar. 2, 1982	640.00[1, 4]	320.00	—	—
		Feb. 13, 1981	Feb. 12, 1982	—	—	576.00[3]	432.00
Lao People's Democratic Republic	1	Aug. 4, 1980	Aug. 3, 1981	—	—	14.00	3.00
Liberia	14	Sept. 15, 1980	Sept. 14, 1982	—	—	65.00[3]	33.00
Madagascar	3	June 27, 1980	June 26, 1982	—	54.45	10.00[5]	—
		Apr. 13, 1981	June 26, 1982	—	—	76.70[3]	55.20
Malawi	2	Oct. 31, 1979	Dec. 31, 1981	26.34[1, 6]	20.90	—	—
		May 9, 1980	Mar. 31, 1982	—	—	49.88[3]	27.88
Mauritania	2	July 23, 1980	Mar. 31, 1982	—	—	29.70[3]	20.80
Mauritius	3	Oct. 31, 1979	Oct. 30, 1981	73.03[1, 7]	33.03	—	—
		Sept. 5, 1980	Sept. 4, 1981	—	—	35.00[3]	5.00
Nicaragua	11	May 14, 1979	Dec. 31, 1980	34.00[8]	25.50	—	—
Panama	13	Apr. 18, 1980	Dec. 31, 1981	66.38[1, 9]	—	23.62[9]	76.57
Peru	19	Aug. 10, 1979	Dec. 31, 1980	285.00[1]	37.00	—	—
Philippines	15	June 11, 1979	Dec. 31, 1979	105.00	13.75	—	—
		Feb. 27, 1980	Dec. 31, 1981	410.00[3]	—	—	150.00
Rwanda	5	Oct. 31, 1979	Oct. 30, 1980	5.00	5.00	—	—
Sierra Leone	5	Nov. 2, 1979	Nov. 1, 1980	17.00	—	—	—
Somalia	8	Feb. 27, 1980	Feb. 26, 1981	11.50	5.50	—	—
Tanzania	2	Sept. 15, 1980	June 30, 1982	—	—	179.60[3]	154.60
Togo	2	June 11, 1979	Dec. 31, 1980	15.00	1.75	—	—
		Feb. 13, 1981	Feb. 11, 1983	—	—	47.50[3]	40.25
Turkey	13	July 19, 1979	July 18, 1980	250.00[1, 10]	20.00	—	—
		June 18, 1980	June 17, 1983	—	—	1,250.00[3]	890.00
Uganda	2	Jan. 4, 1980	Dec. 31, 1980	12.50	—	—	—
Uruguay	11	May 14, 1980	May 13, 1981	—	—	21.00	21.00
Western Samoa	4	Aug. 17, 1979	Aug. 16, 1980	0.75	0.75	—	—
Yugoslavia	8	May 23, 1979	May 22, 1980	69.25	—	—	—
		June 6, 1980	Dec. 31, 1981	—	139.33	200.00[11]	—
		Jan. 30, 1981	Dec. 31, 1983	—	—	1,662.00[3]	1,486.00
Zaïre	4	Aug. 27, 1979	Feb. 26, 1981	118.00	9.00	—	—
Zimbabwe	1	Apr. 8, 1981	Apr. 7, 1982	—	—	37.50	—
Total				2,479.36	821.44	5,004.15	3,600.82

[1] Supplementary financing facility amounts approved in 1979/80 are as follows: Bolivia, SDR 32.63 million, of which SDR 25.53 million was purchased; Costa Rica, SDR 29.70 million; Kenya, SDR 70.73 million, which was unused; Korea, SDR 480.00 million, of which SDR 161.83 million was purchased; Malawi, SDR 13.78 million, of which SDR 2.38 million was purchased; Mauritius, SDR 54.00 million, of which SDR 24.02 million was purchased; Panama, SDR 32.63 million; Peru, SDR 232.09 million, of which SDR 195.09 was purchased; Philippines, SDR 333.00 million; and Turkey, SDR 169.55 million, of which SDR 158.64 million was purchased.

[2] Canceled as of October 14, 1980.

[3] Amounts available under the supplementary financing facility are as follows: Kenya, SDR 184.42 million; Korea, SDR 454.31 million; Liberia, SDR 36.90 million; Madagascar, SDR 29.71 million; Malawi, SDR 35.63 million; Mauritania, SDR 17.40 million; Mauritius, SDR 31.93 million; Panama, SDR 12.88 million; Tanzania, SDR 137.47 million; Togo, SDR 29.87 million; Turkey, SDR 1,211.40 million; and Yugoslavia, SDR 1,357.84 million.

[4] Canceled as of February 12, 1981.

[5] Of the arrangement equivalent to SDR 64.45 million, the equivalent of SDR 10.00 million was purchased prior to cancellation on April 12, 1981; of this amount purchased, SDR 5.14 million was financed with supplementary financing facility resources.

[6] Canceled as of May 8, 1980.

[7] Canceled as of September 4, 1980.

[8] Canceled as of August 20, 1979.

[9] Stand-by arrangement augmented by SDR 23.62 million, of which SDR 12.88 million is available under the supplementary financing facility.

[10] Canceled as of June 17, 1980.

[11] Of the arrangement equivalent to SDR 339.33 million, the equivalent of SDR 200.00 million was purchased prior to cancellation on January 29, 1981; of this amount purchased, SDR 124.83 million was financed with supplementary financing facility resources.

Table I.3. Summary of Members' Purchases and Repurchases, Financial Years Ended April 30, 1948–81
(In millions of SDRs)

Year	Total Purchases by Members	Total Repurchases by Members
1948	606.04	—
1949	119.44	—
1950	51.80	24.21
1951	28.00	19.09
1952	46.25	36.58
1953	66.12	184.96
1954	231.29	145.11
1955	48.75	276.28
1956	38.75	271.66
1957	1,114.05	75.04
1958	665.73	86.81
1959	263.52	537.32
1960	165.53	522.41
1961	577.00	658.60
1962	2,243.20	1,260.00
1963	579.97	807.25
1964	625.90	380.41
1965	1,897.44	516.97
1966	2,817.29	406.00
1967	1,061.28	340.12
1968	1,348.25	1,115.51
1969	2,838.85	1,542.33
1970	2,995.65	1,670.69
1971	1,167.41	1,656.86
1972	2,028.49	3,122.33
1973	1,175.43	540.30
1974	1,057.72	672.49
1975	5,102.45	518.08
1976	6,591.42	960.10
1977	4,910.33	868.19
1978	2,503.01	4,485.01
1979	3,719.58	4,859.18
1980	2,433.26	3,775.83
1981	4,860.01	2,852.93
Total	55,979.21 [1]	35,188.65 [2]

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

Table I.4. Summary of Stand-By Arrangements That Became Effective During the Financial Years Ended April 30, 1953–81 [1]
(In millions of SDRs)

Year	Number	Amount
1953	2	55.00
1954	2	62.50
1955	2	40.00
1956	2	47.50
1957	9	1,162.28
1958	11	1,043.78
1959	15	1,056.63
1960	14	363.88
1961	15	459.88
1962	24	1,633.13
1963	19	1,531.10
1964	19	2,159.85
1965	24	2,159.05
1966	24	575.35
1967	25	591.15
1968	32	2,352.36
1969	26	541.15
1970	23	2,381.28
1971	18	501.70
1972	13	313.75
1973	13	321.85
1974	15	1,394.00
1975	14	389.75
1976	18	1,188.02
1977	19	4,679.64
1978	18	1,285.09
1979	14	507.85
1980	24	2,479.36
1981	21	5,004.15
Total	475	36,281.03

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

Table I.5. Purchases of Currencies and Special Drawing Rights from the Fund, Financial Year Ended April 30, 1981
(In millions of SDRs)

Member Purchasing	Within Reserve Tranche	Within Credit Tranche: Under stand-by arrangements: Ordinary resources	Within Credit Tranche: Under stand-by arrangements: Supplementary financing facility	Within Credit Tranche: Other [1]	Under Decision on Extended Fund facility: Ordinary resources	Under Decision on Extended Fund facility: Supplementary financing facility	Under Decision on Compensatory financing	Total Purchases	Purchases Financed with Ordinary resources: Currencies	Purchases Financed with Ordinary resources: Special drawing rights	Purchases Financed with Supplementary financing facility
Bangladesh	—	28.00	—	—	83.50	83.50	—	195.00	40.50	71.00	83.50
Bolivia	—	12.27	14.73	—	—	—	—	27.00	2.50	9.77	14.73
Central African Republic	—	4.00	—	—	—	—	9.00	13.00	12.77	0.23	—
Chad	—	—	—	—	—	—	7.10	7.10	7.10	—	—
China, People's Republic of	368.14	450.00	—	—	—	—	—	818.14	200.00	618.14	—
Comoros	0.78	—	—	—	—	—	—	0.78	0.30	0.48	—
Cyprus	6.11	8.50	—	—	—	—	—	14.61	6.11	8.50	—
Dominica	—	0.03	—	—	0.35	0.36	1.95	2.69	2.31	0.02	0.36
El Salvador	—	10.75	—	—	—	—	—	10.75	4.00	6.75	—
Equatorial Guinea	0.13	3.00	—	—	—	—	11.10	14.23	7.33	6.90	—
Grenada	0.20	—	—	—	—	—	2.10	2.30	2.30	—	—
Guyana	—	—	—	—	21.44	14.19	—	35.63	8.50	12.94	14.19
Haiti	4.39	—	—	5.75	10.80	—	—	20.94	15.19	5.75	—
India	—	—	—	—	—	—	266.00	266.00	55.00	211.00	—
Israel	25.63	—	—	—	—	—	—	25.63	25.63	—	—
Ivory Coast	9.50	—	—	28.50	22.09	22.09	—	82.18	10.00	50.09	22.09
Jamaica	—	—	—	21.83	38.10	6.70	37.00	103.63	57.00	39.93	6.70
Kenya	—	39.90	50.10	—	—	—	—	90.00	32.26	7.64	50.10
Korea	—	195.24	188.76	—	—	—	160.00	544.00	96.26	258.98	188.76
Lao People's Democratic Republic	—	11.00	—	—	—	—	—	11.00	4.86	6.14	—
Liberia	—	13.10	18.90	—	—	—	—	32.00	6.97	6.13	18.90
Madagascar	—	18.82	12.68	—	—	—	29.20	60.70	27.62	20.40	12.68
Malawi	—	10.00	12.00	—	—	—	—	22.00	10.00	—	12.00
Mauritania	—	2.82	6.08	—	—	—	—	8.90	2.82	—	6.08
Mauritius	—	12.16	37.84	—	—	—	40.50	90.50	36.80	15.86	37.84
Morocco	—	—	—	93.76	139.65	75.60	—	309.01	56.50	176.91	75.60
Nepal	—	—	—	—	—	—	10.49	10.49	—	10.49	—
Pakistan	—	—	—	68.87	112.00	112.00	—	292.87	89.71	28.30	174.86
Panama	8.07	8.95	4.48	—	—	—	—	21.50	17.02	—	4.48
Papua New Guinea	4.87	—	—	—	—	—	—	4.87	4.87	—	—
Peru	—	21.37	52.63	—	—	—	—	74.00	21.37	—	52.63
Philippines	—	77.00	163.00	—	—	—	—	240.00	30.91	46.09	163.00
Romania	—	—	—	—	—	—	121.25	121.25	45.00	76.25	—
St. Lucia	0.67	—	—	1.80	—	—	2.70	5.17	4.72	0.45	—
St. Vincent	0.32	—	—	0.42	—	—	1.30	2.04	1.84	0.20	—
Senegal	—	—	—	2.15	20.55	20.55	—	43.25	8.55	14.15	20.55
Sierra Leone	—	5.00	—	—	9.59	10.51	—	25.10	8.74	5.85	10.51
Sri Lanka	—	—	—	—	30.00	—	—	30.00	15.00	15.00	—
Sudan	—	—	—	19.85	43.00	43.00	67.50	173.35	110.35	20.00	43.00
Tanzania	—	8.72	16.28	—	—	—	15.00	40.00	8.72	15.00	16.28
Togo	3.33	13.25	7.25	—	—	—	—	23.83	13.25	10.58	—
Turkey	—	38.60	321.40	—	—	—	—	360.00	—	38.60	321.40
Viet Nam	—	—	—	28.40	—	—	—	28.40	—	28.40	—

Western Samoa	—	—	—	0.75	—	—	2.00	2.75	2.60	0.15	—
Yemen, People's Democratic Republic of	9.43	—	—	—	—	—	—	9.43	9.43	—	—
Yugoslavia	—	155.17	220.83	—	—	—	—	376.00	105.00	50.17	220.83
Zaïre	—	98.00	—	—	—	—	—	98.00	38.60	59.40	—
Zimbabwe	32.49	37.50	—	—	—	—	—	69.99	52.49	17.50	—
Total	474.08	1,283.12	1,126.96	272.09	531.07	388.50	784.19	4,860.01	1,318.80	1,970.14	1,571.07

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

Table I.6. Repurchases of Currencies from the Fund, Financial Year Ended April 30, 1981
(In millions of SDRs)

Member Repurchasing	Repurchases in Respect of: Purchases under oil facility	Purchases in the tranches	Other	Total
Australia	—	—	147.2	147.2
Bangladesh	23.0	5.9	43.5	72.4
Barbados	—	—	0.8	0.8
Burma	—	14.0	0.5	14.5
Cameroon	4.1	—	8.8	12.9
Central African Republic	1.4	—	4.3	5.7
Chad	0.5	—	2.7	3.2
Chile	46.4	—	—	46.4
Comoros	—	—	0.5	0.5
Congo	—	3.5	3.1	6.6
Costa Rica	9.4	—	—	9.4
Cyprus	7.5	—	4.7	12.2
Dominican Republic	—	7.5	22.3	29.8
Egypt	8.0	31.0	48.0	87.0
Equatorial Guinea	—	—	0.6	0.6
Fiji	—	—	6.5	6.5
Gabon	—	—	0.1	0.1
Ghana	9.7	—	—	9.7
Greece	38.8	—	15.0	53.8
Grenada	0.1	0.4	—	0.5
Guinea	0.9	1.4	—	2.3
Guyana	—	6.7	5.1	11.8
Haiti	2.2	—	—	2.2
Iceland	9.8	—	6.9	16.7
India	—	—	7.3	7.3
Israel	35.8	—	32.0	67.8
Jamaica	7.3	6.2	3.0	16.5
Kenya	6.9	—	0.4	7.3
Korea	25.0	—	—	25.0
Lao People's Democratic Republic	—	3.3	2.8	6.1
Liberia	—	2.4	—	2.4
Madagascar	2.5	1.2	0.4	4.1
Malawi	0.9	—	0.1	1.0
Mali	2.2	—	2.2	4.4
Mauritania	1.3	2.1	6.6	10.0
Mauritius	—	—	11.2	11.2[1]
Mexico	—	59.1	66.9	126.0
Morocco	4.5	47.3	57.5	109.3
Nepal	—	0.5	—	0.5
New Zealand	59.7	—	63.5	123.2
Nicaragua	—	—	17.6	17.6
Pakistan	59.0	6.0	66.0	131.0
Panama	6.1	—	7.2	13.3
Papua New Guinea	5.0	2.5	—	7.5
Peru	13.2	48.1	30.7	92.0
Philippines	38.0	—	77.1	115.1
Portugal	28.7	28.4	41.7	98.8
Romania	—	41.3	48.4	89.7
Senegal	6.4	—	0.9	7.3
Sierra Leone	2.5	1.7	7.0	11.2
South Africa	—	123.0	—	123.0
Spain	—	—	12.3	12.3
Sri Lanka	19.4	4.1	13.6	37.1
Sudan	11.8	—	22.2	34.0[2]
Tanzania	13.0	3.0	21.0	37.0
Thailand	—	—	50.3	50.3
Tunisia	—	—	24.0	24.0
Turkey	65.4	—	50.1	115.5
Uganda	—	—	10.0	10.0
United Kingdom	250.0	300.3	—	550.3

Table I.6 *(concluded)*. Repurchases of Currencies from the Fund, Financial Year Ended April 30, 1981

(In millions of SDRs)

Member Repurchasing	Repurchases in Respect of: Purchases under oil facility	Purchases in the tranches	Other	Total
Viet Nam	—	8.0	5.9	13.9
Western Samoa	0.1	—	0.5	0.6
Yemen, People's Democratic Republic of	6.4	3.7	1.4	11.5
Yugoslavia	52.8	—	—	52.8
Zaïre	19.4	11.3	51.3	82.0
Zambia	7.4	8.6	24.2	40.2
Total	912.5	782.5	1,157.9	2,852.9

[1] Of which, SDR 9.2 million represents an advance repurchase.
[2] Of which, SDR 4.5 million represents an advance repurchase.

Table I.7. Extended Fund Facility Arrangements for Members, July 7, 1975–April 30, 1981
(In millions of SDRs)

Member	Date of Inception	Date of Expiration	Total Amount of Arrangement	Amount Not Purchased at Expiration	Of Total Amount Approved, Amount Not Purchased as of April 30, 1981
Approved in previous financial years					
Egypt	7/28/79	7/27/81	600.00		525.00
Guyana	6/25/79	6/24/82	62.75 [1]	—	
Haiti	10/25/78	10/24/81	32.20		21.40
Honduras	6/28/79	6/27/81	47.60		31.60
Jamaica	6/09/78	6/08/81	200.00 [2]	130.00	
Jamaica	6/11/79	6/10/81	260.00 [3]		
Kenya	7/07/75	7/06/78	67.20	59.50	
Mexico	1/01/77	12/31/79	518.00 [4]	518.00	
Philippines	4/02/76	4/01/79	217.00	—	
Sri Lanka	1/01/78	12/31/81	260.30		150.30
Sudan	5/04/79	5/03/82	200.00 [5]		(125.00)
Subtotal			2,465.05	707.50	728.30
Approved during financial year 1980/81					
Bangladesh	12/08/80	12/07/83	800.00 [6]		633.00
Dominica	2/06/81	2/05/84	8.55 [7]		7.84
Gabon	6/27/80	12/31/82	34.00		34.00
Guyana	7/25/80	7/24/83	100.00 [8]		64.37
Ivory Coast	2/27/81	1/22/84	484.50 [9]		440.32
Jamaica	4/13/81	4/12/84	236.35 [10]		191.55
Morocco	10/08/80	10/07/83	147.00 [11]		—
Morocco	3/10/81	10/07/83	817.05 [12]		748.80
Pakistan	11/24/80	11/23/83	1,268.00 [13]		1,044.00
Senegal	8/08/80	8/07/83	184.80 [14]		143.70
Sierra Leone	3/30/81	2/22/84	163.70 [15]		163.70
Sudan	5/04/79	5/03/82	227.00 [5]		276.00 [16]
Subtotal			4,470.95		3,747.28
Total			6,936.00	707.50	4,475.58

[1] Canceled as of June 24, 1980.
[2] Canceled as of June 10, 1979.
[3] Canceled as of April 12, 1981.
[4] Includes augmentation by repurchases equivalent to SDR 100 million.
[5] Original arrangement for SDR 200.00 million was augmented by SDR 227.00 million (to SDR 427.00 million) in November 1980, of which SDR 303.80 million is available under the supplementary financing facility.
[6] Of which, SDR 480.80 million is available under the supplementary financing facility.
[7] Of which, SDR 4.49 million is available under the supplementary financing facility.
[8] Of which, SDR 66.00 million is available under the supplementary financing facility.
[9] Of which, SDR 324.90 million is available under the supplementary financing facility.
[10] Of which, SDR 149.25 million is available under the supplementary financing facility.
[11] Of the arrangement equivalent to SDR 810.00 million, the equivalent of SDR 147.00 million was purchased prior to cancellation on March 8, 1981; of this amount purchased, SDR 73.50 million was financed under the supplementary financing facility.
[12] Of which, SDR 567.75 million is available under the supplementary financing facility.
[13] Of which, SDR 869.00 million is available under the supplementary financing facility.
[14] Of which, SDR 126.00 million is available under the supplementary financing facility.
[15] Of which, SDR 99.51 million is available under the supplementary financing facility.
[16] Including SDR 125.00 million that was not purchased at the time of the augmentation.

Table I.8. Status of General Arrangements to Borrow (GAB)[1] on April 30, 1981

(In millions of SDR equivalents)

Participants	Maximum Amounts of Credit Arrangements	Fund Indebtedness
Belgium	173.6	—
Canada	150.8	—
Deutsche Bundesbank	1,507.0	582.9
France	431.2	—
Italy	260.3	—
Japan	1,319.4	194.3
Netherlands	246.2	—
Sveriges Riksbank	90.6	—
United Kingdom	637.8	—
United States	1,668.6	—
Total	6,485.6	777.3

[1] See the Balance Sheet of the General Department—General Resources Account as at April 30, 1981, Note 5, reproduced in Appendix VIII.

Table I.9. Borrowing in Connection with Purchases Under the Oil Facility and Repayments to Lenders, September 4, 1974–April 30, 1981

(In millions of SDRs)

Lender	Amount Borrowed	Amount Repaid up to April 30, 1980	Amount Repaid May 1, 1980–April 30, 1981	Balance Outstanding as of April 30, 1981
Abu Dhabi	100.00	65.43	19.22	15.35
Austrian National Bank	100.00	36.99	19.00	44.01
National Bank of Belgium	200.00	68.26	39.91	91.83
Canada	246.93	240.29	6.64	—
Deutsche Bundesbank	600.00	326.39	48.56	—[1]
Central Bank of Iran	990.00	764.13	90.51	135.36
Central Bank of Kuwait	685.00	406.52	112.50	165.98
Netherlands	350.00	237.42	43.69	68.89
Nigeria	300.00	125.50	69.21	105.29
Bank of Norway	100.00	38.36	14.80	46.84
Central Bank of Oman	20.50	13.24	3.61	3.65
Saudi Arabian Monetary Agency (SAMA)	2,250.00	1,493.94	356.89	624.22[1]
Sveriges Riksbank	50.00	10.68	12.50	26.82
Swiss National Bank	100.00	32.99	17.24	49.77
Switzerland	150.00	62.97	32.40	54.63
Central Bank of Trinidad and Tobago	10.00	2.91	2.50	4.59
Central Bank of Venezuela	650.00	502.59	56.51	90.90
Total	6,902.43	4,428.61	945.69	1,528.13

[1] Includes claims transferred to SAMA from the Deutsche Bundesbank on November 13, 1980.

Table I.10. Borrowing in Connection with Purchases Under the Supplementary Financing Facility, May 29, 1979–April 30, 1981

(In millions of SDRs)

		Amount Borrowed[1]		
Lender	Total Amount of Agreement	Up to April 30, 1980	May 1, 1980 to April 30, 1981	Balance Available as of April 30, 1981
Abu Dhabi	150.00	12.41	18.82	118.77
Austrian National Bank	50.00	—	15.53	34.47
Banque Nationale de Belgique	150.00	12.34	—	137.66
Canada	200.00	12.68	—	187.32
Deutsche Bundesbank	1,050.00	89.35	201.11[2]	759.54
Banco de Guatemala	30.00	—	8.00	22.00
Japan	900.00	79.63	152.99	667.38
Central Bank of Kuwait	400.00	23.13	80.95	295.92
De Nederlandsche Bank, N.V.	100.00	5.81	19.27	74.92
Central Bank of Nigeria	220.00	13.28	56.57	150.15
Saudi Arabian Monetary Agency	1,934.00	103.77	344.62	1,425.61
Swiss National Bank	650.00	45.00	131.42	473.58
United States	1,450.00	—	385.43	1,064.57
Central Bank of Venezuela	500.00	45.00	100.73	354.27
Total	7,784.00	502.39	1,515.45	5,766.16

[1] Out of total of SDR 6,926.59 million committed under stand-by (SDR 3,935.09 million) and extended (SDR 2,991.50 million) arrangements in effect on April 30, 1981.

[2] Claims totaling SDR 172.011 million under the supplementary financing facility were transferred by the Deutsche Bundesbank to the Saudi Arabian Monetary Agency against U.S. dollars on November 13, 1980.

Table I.11. Schedule of Fund Charges

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

	July 1, 1974 through March 31, 1977	April 1, 1977–April 30, 1981	From May 1, 1981
Purchases in the Credit Tranches and Under the Compensatory Financing and Buffer Stock Financing Facilities			
Service charge	0.5	0.5	0.5
Up to 1 year	4.0	4.375	6.25
1 to 2 years	4.5	4.875	6.25
2 to 3 years	5.0	5.375	6.25
3 to 4 years	5.5	5.875	6.25
4 to 5 years	6.0	6.375	6.25
Extended Fund Facility			
Service charge	0.5	0.5	0.5
Up to 5 years	[2]	[2]	6.25
5 to 6 years	6.5	6.875	6.25
6 to 7 years	6.5	6.875	6.25
7 to 10 years	6.5	6.875	6.25

Oil Facility

	For 1974	For 1975
Service charge	0.5	0.5
Up to 1 year	6.875	7.625
1 to 2 years	6.875	7.625
2 to 3 years	6.875	7.625
3 to 4 years	7.000	7.750
4 to 5 years	7.125	7.875
5 to 6 years	7.125	7.875
6 to 7 years	7.125	7.875

Supplementary Financing Facility	
Service charge	0.5
Up to 3½ years	Rate of interest paid by the Fund plus 0.2 per cent
Over 3½ years	Rate of interest paid by the Fund plus 0.325 per cent
Enlarged Access Policy	
Service charge	0.5
Periodic charge	Net cost of borrowing by the Fund plus 0.2 per cent

[1] Except for service charge, which is payable once per transaction and is stated as a per cent of the amount of the transaction.
[2] Same as for purchases in the credit tranches.

Table I.12. Members That Have Accepted the Obligations of Article VIII, April 30, 1981

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
Djibouti	September 19, 1980
Dominica	December 13, 1979
Dominican Republic	August 1, 1953
Ecuador	August 31, 1970
El Salvador	November 6, 1946
Fiji	August 4, 1972
Finland	September 25, 1979
France	February 15, 1961
Germany, Fed. Rep. of	February 15, 1961
Guatemala	January 27, 1947
Guyana	December 27, 1966
Haiti	December 22, 1953
Honduras	July 1, 1950
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
St. Lucia	May 30, 1980
Saudi Arabia	March 22, 1961
Seychelles	January 3, 1978
Singapore	November 9, 1968
Solomon Islands	July 24, 1979
South Africa	September 15, 1973
Suriname	June 29, 1978
Sweden	February 15, 1961
United Arab Emirates	February 13, 1974
United Kingdom	February 15, 1961
United States	December 10, 1946
Uruguay	May 2, 1980
Venezuela	July 1, 1976

Table I.13. Increases in Quotas, April 30, 1980 and April 30, 1981 [1]
(In millions of SDRs)

Member	Quota on April 30, 1980	Quota on April 30, 1981	Effective Date of Change
Afghanistan	45.0	67.5	12/1/80
Algeria	285.0	427.5	12/17/80
Argentina	535.0	802.5	12/24/80
Australia	790.0	1,185.0	12/24/80
Austria	330.0	495.0	12/29/80
Bahamas	33.0	49.5	12/18/80
Bahrain	20.0	30.0	12/24/80
Bangladesh	152.0	228.0	12/8/80
Barbados	17.0	25.5	12/16/80
Belgium	890.0	1,335.0	12/29/80
Benin	16.0	24.0	12/26/80
Bolivia	45.0	67.5	12/23/80
Botswana	9.0	13.5	12/19/80
Brazil	665.0	997.5	12/19/80
Burma	73.0	109.5	12/24/80
Burundi	23.0	34.5	12/26/80
Cameroon	45.0	67.5	12/29/80
Canada	1,357.0	2,035.5	12/22/80
Cape Verde	2.0	3.0	12/30/80
Central African Republic	16.0	24.0	12/29/80
Chad	16.0	24.0	12/29/80
Chile	217.0	325.5	12/29/80
China, People's Republic of	550.0	1,800.0	12/28/80
Colombia	193.0	289.5	12/24/80
Comoros	2.3	3.5	12/24/80
Congo	17.0	25.5	12/29/80
Costa Rica	41.0	61.5	12/26/80
Cyprus	34.0	51.0	12/29/80
Denmark	310.0	465.0	12/29/80
Djibouti	3.8	5.7	12/30/80
Dominica	1.9	2.9	12/18/80
Dominican Republic	55.0	82.5	12/29/80
Ecuador	70.0	105.0	12/23/80
Egypt	228.0	342.0	12/22/80
El Salvador	43.0	64.5	12/26/80
Equatorial Guinea	10.0	15.0	12/24/80
Ethiopia	36.0	54.0	12/30/80
Fiji	18.0	27.0	12/29/80
Finland	262.0	393.0	12/23/80
France	1,919.0	2,878.5	12/23/80
Gabon	30.0	45.0	12/29/80
Gambia, The	9.0	13.5	12/22/80
Germany, Federal Republic of	2,156.0	3,234.0	12/29/80
Ghana	106.0	159.0	12/29/80
Greece	185.0	277.5	12/29/80
Grenada	3.0	4.5	12/30/80
Guatemala	51.0	76.5	12/29/80
Guinea	30.0	45.0	12/31/80
Guinea-Bissau	3.9	5.9	12/24/80
Guyana	25.0	37.5	12/29/80
Haiti	23.0	34.5	12/11/80
Honduras	34.0	51.0	12/19/80
Iceland	29.0	43.5	12/5/80
India	1,145.0	1,717.5	12/17/80
Indonesia	480.0	720.0	12/17/80
Iran	660.0	660.0 [2]	—
Iraq	141.0	234.1	12/25/80
Ireland	155.0	232.5	12/23/80
Israel	205.0	307.5	12/22/80
Italy	1,240.0	1,860.0	12/29/80
Ivory Coast	76.0	114.0	12/26/80
Jamaica	74.0	111.0	12/29/80
Japan	1,659.0	2,488.5	12/22/80
Jordan	30.0	45.0	12/22/80
Kampuchea, Democratic	25.0	25.0	—

Table I.13 *(continued)*. Increases in Quotas, April 30, 1980 and April 30, 1981 [1]
(In millions of SDRs)

Member	Quota on April 30, 1980	Quota on April 30, 1981	Effective Date of Change
Kenya	69.0	103.5	12/29/80
Korea	160.0	255.9	12/29/80
Kuwait	235.0	393.3	12/17/80
Lao People's Democratic Republic	16.0	24.0	12/22/80
Lebanon	12.0	27.9	12/29/80
Lesotho	7.0	10.5	12/29/80
Liberia	37.0	55.5	12/31/80
Libyan Arab Jamahiriya	185.0	298.4	12/17/80
Luxembourg	31.0	46.5	12/19/80
Madagascar	34.0	51.0	12/29/80
Malawi	19.0	28.5	12/29/80
Malaysia	253.0	379.5	12/29/80
Maldives	0.9	1.4	12/20/80
Mali	27.0	40.5	12/22/80
Malta	20.0	30.0	12/29/80
Mauritania	17.0	25.5	12/24/80
Mauritius	27.0	40.5	12/22/80
Mexico	535.0	802.5	12/29/80
Morocco	150.0	225.0	12/29/80
Nepal	19.0	28.5	12/29/80
Netherlands	948.0	1,422.0	12/5/80
New Zealand	232.0	348.0	12/29/80
Nicaragua	34.0	51.0	12/23/80
Niger	16.0	24.0	12/26/80
Nigeria	360.0	540.0	12/22/80
Norway	295.0	442.5	12/29/80
Oman	20.0	30.0 [3]	2/13/81
Pakistan	285.0	427.5	12/22/80
Panama	45.0	67.5	12/26/80
Papua New Guinea	30.0	45.0	12/29/80
Paraguay	23.0	34.5	12/19/80
Peru	164.0	246.0	12/29/80
Philippines	210.0	315.0	12/29/80
Portugal	172.0	258.0	12/22/80
Qatar	40.0	66.2	12/29/80
Romania	245.0	367.5	12/29/80
Rwanda	23.0	34.5	12/23/80
St. Lucia	3.6	5.4	12/10/80
St. Vincent	1.7	2.6	12/29/80
São Tomé and Principe	2.0	3.0	12/24/80
Saudi Arabia	600.0	1,040.1 [4]	12/29/80
Senegal	42.0	63.0	12/30/80
Seychelles	1.3	2.0	12/17/80
Sierra Leone	31.0	46.5	12/29/80
Singapore	49.0	92.4	12/29/80
Solomon Islands	2.1	3.2	12/22/80
Somalia	23.0	34.5	12/16/80
South Africa	424.0	636.0	12/29/80
Spain	557.0	835.5	12/29/80
Sri Lanka	119.0	178.5	12/26/80
Sudan	88.0	132.0	12/9/80
Suriname	25.0	37.5	12/24/80
Swaziland	12.0	18.0	12/10/80
Sweden	450.0	675.0	12/29/80
Syrian Arab Republic	63.0	94.5	12/29/80
Tanzania	55.0	82.5	12/12/80
Thailand	181.0	271.5	12/29/80
Togo	19.0	28.5	12/26/80
Trinidad and Tobago	82.0	123.0	12/24/80
Tunisia	63.0	94.5	12/29/80
Turkey	200.0	300.0	12/24/80
Uganda	50.0	75.0	12/30/80
United Arab Emirates	120.0	202.6	12/10/80
United Kingdom	2,925.0	4,387.5	12/29/80
United States	8,405.0	12,607.5	12/30/80

Table I.13 *(concluded)*. Increases in Quotas, April 30, 1980 and April 30, 1981 [1]
(In millions of SDRs)

Member	Quota on April 30, 1980	Quota on April 30, 1981	Effective Date of Change
Upper Volta	16.0	24.0	12/26/80
Uruguay	84.0	126.0	12/8/80
Venezuela	660.0	990.0	12/22/80
Viet Nam	90.0	135.0	12/24/80
Western Samoa	3.0	4.5	12/29/80
Yemen Arab Republic	13.0	19.5	12/29/80
Yemen, People's Democratic Republic of	41.0	61.5	12/31/80
Yugoslavia	277.0	415.5	12/26/80
Zaïre	152.0	228.0	12/30/80
Zambia	141.0	211.5	12/29/80
Zimbabwe	—[5]	150.0	12/22/80

[1] Board of Governors Resolutions reflected in this table are No. 34-2 (Seventh Review), No. 34-1 (Dominica membership), No. 34-4 (Djibouti membership), No. 34-8 (Cape Verde addition to the Seventh General Review list), No. 34-9 (St. Lucia membership), No. 35-1 (St. Vincent membership), No. 35-5 (Zimbabwe membership), and No. 35-7 (People's Republic of China's increase in quota).
[2] Iran did not accept the quota increase to SDR 1,075.9 million provided for it under the Seventh General Review.
[3] The maximum quota provided for Oman under the Seventh General Review was SDR 35.1 million.
[4] The special quota increase to SDR 2,100.0 million, approved under Board of Governors Resolution No. 36-2, was consented to by Saudi Arabia by means of a letter dated May 31, 1981. The new quota will become effective when the full payment has been received by the Fund.
[5] Zimbabwe became a member of the Fund on September 29, 1980 with a quota of SDR 100.0 million.

Table I.14. Allocation of Special Drawing Rights, January 1, 1981

Participants	SDRs	Participants	SDRs
Afghanistan	4,590,000	Liberia	3,774,000
Algeria	29,070,000	Libyan Arab Jamahiriya	20,291,200
Argentina	54,570,000	Luxembourg	3,162,000
Australia	80,580,000	Madagascar	3,468,000
Austria	33,660,000	Malawi	1,938,000
Bahamas	3,366,000	Malaysia	25,806,000
Bahrain	2,040,000	Maldives	95,200
Bangladesh	15,504,000	Mali	2,754,000
Barbados	1,734,000	Malta	2,040,000
Belgium	90,780,000	Mauritania	1,734,000
Benin	1,632,000	Mauritius	2,754,000
Bolivia	4,590,000	Mexico	54,570,000
Botswana	918,000	Morocco	15,300,000
Brazil	67,830,000	Nepal	1,938,000
Burma	7,446,000	Netherlands	96,696,000
Burundi	2,346,000	New Zealand	23,664,000
Cameroon	4,590,000	Nicaragua	3,468,000
Canada	138,414,000	Niger	1,632,000
Cape Verde	204,000	Nigeria	36,720,000
Central African Republic	1,632,000	Norway	30,090,000
Chad	1,632,000	Oman	1,360,000
Chile	22,134,000	Pakistan	29,070,000
China, People's Republic of	122,400,000	Panama	4,590,000
Colombia	19,686,000	Papua New Guinea	3,060,000
Comoros	238,000	Paraguay	2,346,000
Congo	1,734,000	Peru	16,728,000
Costa Rica	4,182,000	Philippines	21,420,000
Cyprus	3,468,000	Portugal	17,544,000
Denmark	31,620,000	Qatar	4,501,600
Djibouti	387,600	Romania	24,990,000
Dominica	197,200	Rwanda	2,346,000
Dominican Republic	5,610,000	St. Lucia	367,200
Ecuador	7,140,000	St. Vincent	176,800
Egypt	23,256,000	São Tomé and Principe	204,000
El Salvador	4,386,000	Saudi Arabia	70,726,800
Equatorial Guinea	1,020,000	Senegal	4,284,000
Ethiopia	3,672,000	Seychelles	136,000
Fiji	1,836,000	Sierra Leone	3,162,000
Finland	26,724,000	Singapore	6,283,200
France	195,738,000	Solomon Islands	217,600
Gabon	3,060,000	Somalia	2,346,000
Gambia, The	918,000	South Africa	43,248,000
Germany, Federal Republic of	219,912,000	Spain	56,814,000
Ghana	10,812,000	Sri Lanka	12,138,000
Greece	18,870,000	Sudan	8,976,000
Grenada	306,000	Suriname	2,550,000
Guatemala	5,202,000	Swaziland	1,224,000
Guinea	3,060,000	Sweden	45,900,000
Guinea-Bissau	401,200	Syrian Arab Republic	6,426,000
Guyana	2,550,000	Tanzania	5,610,000
Haiti	2,346,000	Thailand	18,462,000
Honduras	3,468,000	Togo	1,938,000
Iceland	2,958,000	Trinidad and Tobago	8,364,000
India	116,790,000	Tunisia	6,426,000
Indonesia	48,960,000	Turkey	20,400,000
Iran	44,880,000	Uganda	5,100,000
Iraq	15,918,800	United Arab Emirates	13,776,800
Ireland	15,810,000	United Kingdom	298,350,000
Israel	20,910,000	United States	857,310,000
Italy	126,480,000	Upper Volta	1,632,000
Ivory Coast	7,752,000	Uruguay	8,568,000
Jamaica	7,548,000	Venezuela	67,320,000
Japan	169,218,000	Viet Nam	9,180,000
Jordan	3,060,000	Western Samoa	306,000
Kampuchea, Democratic	1,700,000	Yemen Arab Republic	1,326,000
Kenya	7,038,000	Yemen, People's Democratic Republic of	4,182,000
Korea	17,401,200	Yugoslavia	28,254,000
Kuwait	26,744,400	Zaïre	15,504,000
Lao People's Democratic Republic	1,632,000	Zambia	14,382,000
Lebanon	1,897,200	Zimbabwe	10,200,000
Lesotho	714,000	Total	4,052,494,000

Table I.15. Transfers of Special Drawing Rights, January 1, 1970–April 30, 1981
(In millions of SDRs)

	Annual Average Jan. 1, 1970– Apr. 30, 1975	Financial Years Ended April 30						Total Jan. 1, 1970– Apr. 30, 1981
		1976	1977	1978	1979	1980	1981	
Transfers among participants and other holders								
Transactions by agreement	419	176	317	927	1,533	362	418	5,968
Transactions with designation								
From holdings	260	292	116	54	74	346	392	2,675
From purchases of SDRs from Fund	—	—	3	344	1,006	1,025	1,490	3,855
	678	468	436	1,325	2,613	1,733	2,301	12,497
General Resources Account								
Transfers from participants								
Repurchases (net)	218	440	73	844	502	994	930	4,945
Charges (net)	52	354	709	801	715	553	574	3,981
Quota payments	—	—	—	201	19	1	5,091	5,312
Assessments	1	2	1	1	2	1	2	14
Interest received on General Resources Account holdings	9	21	23	40	57	82	266	540
	280	817	805	1,887	1,295	1,630	6,862	14,791
Transfers to participants and other holders								
Purchases	57	443	25	662	1,106	1,283	2,033	5,855
Reconstitution[1]	81	404	445	474	75	5	20	1,851
Replenishment of participants' currencies	27	—	—	—	—	—	—	145
Remuneration	11	10	24	122	136	140	220	714
Distribution of net income	3	—	—	—	—	—	—	17
Interest, transfer charges on Fund borrowings	—	8	—	29	12	21	50	121
Repayments of Fund borrowings	—	—	—	—	38	64	161	263
Other	6	—	—	—	8[2]	—	341[3]	379
	185	865	495	1,287	1,375	1,513	2,824	9,345
Total transfers	1,143	2,150	1,736	4,499	5,283	4,877	11,988	36,633
General Resources Account holdings at end of period	510	461	771	1,371	1,290	1,407	5,445	5,445

[1] Including amounts acquired as part of purchases.
[2] Transfers to enable participants to pay charges in the General Resources Account.
[3] Transfers to enable participants to pay quota increases.

Table I.16. Summary of Transactions and Operations in Special Drawing Rights, Financial Year Ended April 30, 1981

(In thousands of SDRs)

Holders	Total Holdings April 30, 1980	Allocation Jan. 1, 1981	Receipts from Participants and Other Holders		Transfers to Participants and Other Holders	Receipts from the General Resources Account	Transfers to the General Resources Account	Interest, Charges, and Assess-ment (Net)	Positions at April 30, 1981		
			Designated	Other					Holdings	Net cumulative allocations	Holdings as per cent of net cumulative allocations
PARTICIPANTS											
Afghanistan	17,737	4,590	—	—	—	8	5,625	−653	16,057	26,703	60.1
Algeria	108,436	29,070	11,479	—	—	146	35,625	−186	113,320	128,640	88.1
Argentina	319,255	54,570	24,303	—	—	2,908	66,875	+3,391	337,552	318,370	106.0
Australia	29,261	80,580	—	—	—	76,856	107,752	−35,488	43,457	470,545	9.2
Austria	197,620	33,660	5,000	—	—	12,207	41,250	+4,741	211,978	179,045	118.4
Bahamas	6,863	3,366	—	—	—	—	4,125	−159	5,945	10,230	58.1
Bahrain	4,252	2,040	—	—	—	—	2,500	−84	3,707	6,200	59.8
Bangladesh	21,989	15,504	—	3,700	69,670	71,488	29,450	−2,054	11,506	47,120	24.4
Barbados	4,557	1,734	—	—	—	—	3,037	−287	2,967	8,039	36.9
Belgium	585,885	90,780	—	—	—	25,169	111,250	+15,991	606,575	485,246	125.0
Benin	3,708	1,632	—	—	—	—	2,000	−458	2,882	9,409	30.6
Bolivia	3,209	4,590	—	4,533	14,363	13,993	9,348	−2,080	535	26,703	2.0
Botswana	3,439	918	1,670	—	—	62	1,125	+18	4,982	4,359	114.3
Brazil	379,496	67,830	2,300	—	—	4,368	83,125	+5,662	376,531	358,670	105.0
Burma	5,533	7,446	—	23,500	5,500	—	24,198	−3,061	3,720	43,474	8.6
Burundi	7,324	2,346	—	—	—	—	3,303	−511	5,856	13,697	42.8
Cameroon	495	4,590	—	383	—	5,624	7,463	−1,878	1,751	24,463	7.2
Canada	590,933	138,414	—	—	106,257	—	169,625	−14,955	438,511	779,290	56.3
Cape Verde	201	204	—	—	—	49	250	−28	176	620	28.5
Central African Republic	1,800	1,632	—	1,161	210	2,236	5,648	−754	217	9,325	2.3
Chad	871	1,632	—	650	—	1,670	3,900	−726	197	9,409	2.1
Chile	40,768	22,134	54,841	—	—	—	82,083	−7,178	28,482	121,924	23.4
China, People's Republic of	114,386	122,400	—	—	579,848	619,080	263,690	+144	12,472	236,800	5.3
Colombia	103,322	19,686	10,885	—	—	2,498	24,125	+519	112,784	114,271	98.7
Comoros	478	238	—	—	665	772	775	-36	12	716	1.6
Congo	2,422	1,734	—	290	—	2,122	4,919	−685	964	9,719	9.9
Costa Rica	5,540	4,182	—	2,550	3,250	5,095	11,566	−1,858	692	23,726	2.9
Cyprus	8,848	3,468	—	—	—	8,521	15,100	−660	5,077	19,438	26.1
Denmark	175,639	31,620	—	—	—	687	38,750	+1,346	170,542	178,864	95.3
Djibouti	454	388	—	150	—	3	475	−43	476	1,178	40.4
Dominica	177	197	—	80	204	186	353	−36	47	592	7.9
Dominican Republic	5,347	5,610	—	—	—	3,919	9,860	−2,250	2,766	31,585	8.8
Ecuador	26,472	7,140	2,456	—	—	63	8,750	−170	27,211	32,929	82.6
Egypt	13,586	23,256	—	—	—	25,484	41,454	−10,282	10,590	135,924	7.8
El Salvador	64	4,386	—	2,447	11,035	12,150	5,706	−2,058	248	24,985	1.0
Equatorial Guinea	1,453	1,020	—	—	6,400	6,908	2,165	−380	436	5,812	7.5
Ethiopia	3,630	3,672	—	—	—	2,085	6,146	−547	2,695	11,160	24.1
Fiji	5,127	1,836	—	—	—	—	2,415	−94	4,455	6,958	64.0
Finland	117,994	26,724	—	—	—	—	37,979	−1,346	105,393	142,690	73.9
France	883,674	195,738	209,208	—	—	7,184	239,875	−550	1,055,380	1,079,870	97.7
Gabon	10,103	3,060	—	—	—	—	4,634	−274	8,255	14,091	58.6
Gambia, The	1,352	918	—	—	—	36	1,474	−331	501	5,121	9.8
Germany, Fed. Rep. of	1,797,836	219,912	57,000	—	310,943	85,941	269,500	+64,043	1,644,290	1,210,760	135.8

Ghana	21,853	10,812	—	—	—	—	24,858	−3,957	3,850	62,983	6.1
Greece	2,464	18,870	—	6,620	—	23,124	41,302	−8,262	1,514	103,544	1.5
Grenada	218	306	—	251	—	374	921	−59	168	930	18.1
Guatemala	23,739	5,202	1,800	—	—	362	6,375	−21	24,707	27,678	89.3
Guinea	2,109	3,060	—	—	—	2,425	4,648	−1,283	1,664	17,604	9.5
Guinea-Bissau	463	401	—	60	360	76	552	−62	26	1,212	2.2
Guyana	1,829	2,550	—	600	11,938	15,636	7,030	−1,090	557	14,530	3.8
Haiti	7,505	2,346	—	—	10,000	5,810	4,011	−780	869	13,697	6.3
Honduras	10,831	3,468	—	—	6,000	—	4,965	−926	2,408	19,057	12.6
Iceland	2,899	2,958	—	13,606	—	—	18,009	−1,081	372	16,409	2.3
India	523,023	116,790	8,000	—	211,000	211,000	157,278	−9,787	480,747	681,170	70.6
Indonesia	185,115	48,960	41,129	—	—	640	60,000	−1,409	214,436	238,956	89.7
Iran	238,782	44,880	—	—	—	1,669	—	+3,882	289,213	244,056	118.5
Iraq	109,040	15,919	—	—	—	1,438	23,275	+4,613	107,734	68,464	157.4
Ireland	88,265	15,810	—	—	—	2,172	19,375	+1,066	87,939	87,263	100.8
Israel	27,508	20,910	—	80,000	—	—	101,376	−7,462	19,581	106,360	18.4
Italy	617,196	126,480	57,000	—	—	1,812	155,000	+2,814	650,303	702,400	92.6
Ivory Coast	12,224	7,752	—	—	50,090	50,201	10,305	−2,048	7,733	37,828	20.4
Jamaica	239	7,548	—	12,142	28,381	49,378	29,696	−3,251	7,978	40,613	19.6
Japan	1,514,966	169,218	—	—	—	65,187	207,375	+72,367	1,614,364	891,690	181.0
Jordan	15,224	3,060	—	—	—	198	3,750	+9	14,740	16,887	87.3
Kampuchea, Democratic	3,778	1,700	—	—	—	—	—	−940	4,538	15,417	29.4
Kenya	87,726	7,038	—	—	57,636	8,348	23,591	+533	22,417	36,990	60.6
Korea	30,419	17,401	—	—	217,624	260,323	73,518	−3,785	13,217	72,911	18.1
Kuwait	—	26,744	2,000	—	—	39,575	39,575	+15	28,759	26,744	107.5
Lao People's Democratic Republic	669	1,632	—	84	800	6,168	6,993	−717	43	9,409	0.5
Lebanon	2,496	1,897	—	—	—	1,479	3,975	−90	1,807	4,393	41.1
Lesotho	1,722	714	—	—	—	—	875	−155	1,406	3,739	37.6
Liberia	2,603	3,774	—	1,562	7,599	9,455	7,738	−1,629	428	21,007	2.0
Libyan Arab Jamahiriya	57,400	20,291	37,438	—	—	1,692	28,350	+2,298	90,769	58,771	154.4
Luxembourg	14,886	3,162	—	—	—	312	3,875	−16	14,468	16,955	85.3
Madagascar	161	3,468	—	150	15,700	22,879	8,667	−1,430	861	19,270	4.5
Malawi	4,234	1,938	—	—	—	101	5,412	−693	168	10,975	1.5
Malaysia	119,544	25,806	8,734	—	—	1,189	31,625	+202	123,850	139,048	89.1
Maldives	187	95	—	—	—	—	125	−5	153	282	54.0
Mali	3,234	2,754	—	—	—	1,114	5,350	−1,100	652	15,912	4.1
Malta	12,685	2,040	500	—	—	652	2,500	+330	13,707	11,288	121.4
Mauritania	2,321	1,734	—	—	—	997	3,791	−672	589	9,719	6.1
Mauritius	1,289	2,754	—	—	9,361	17,658	8,397	−1,178	2,765	15,744	17.6
Mexico	145,375	54,570	59,550	—	—	—	127,658	−8,694	123,144	290,020	42.5
Morocco	23,628	15,300	—	—	172,409	177,745	33,274	−5,607	5,383	85,689	6.3
Nepal	2,900	1,938	—	—	10,490	10,490	3,526	−428	885	8,105	10.9
Netherlands	515,469	96,696	39,827	—	—	36,214	118,500	+5,908	575,614	530,340	108.5
New Zealand	21,994	23,664	—	10,000	—	31,260	55,651	−9,867	21,400	141,322	15.1
Nicaragua	3,290	3,468	—	1,900	—	2,482	9,241	−1,420	480	19,483	2.5
Niger	7,699	1,632	—	—	—	128	2,000	−69	7,390	9,409	78.5
Nigeria	156,326	36,720	24,448	—	—	21,006	45,000	+3,070	196,570	157,155	125.1
Norway	179,828	30,090	17,176	—	—	11,212	36,875	+3,785	205,216	167,770	122.3
Oman	4,901	1,360	1,000	—	—	191	2,500	−26	4,926	6,262	78.7
Pakistan	45,674	29,070	—	—	42,858	91,718	56,793	−10,227	56,584	169,989	33.3
Panama	4,801	4,590	—	5,800	—	184	12,194	−1,805	1,376	26,322	5.2
Papua New Guinea	4,566	3,060	—	—	—	3,593	8,255	−543	2,422	9,300	26.0

Table I.16 *(concluded).* Summary of Transactions and Operations in Special Drawing Rights, Financial Year Ended April 30, 1981

(In thousands of SDRs)

Holders	Total Holdings April 30, 1980	Allocation Jan. 1, 1981	Receipts from Participants and Other Holders		Transfers to Participants and Other Holders	Receipts from the General Resources Account	Transfers to the General Resources Account	Interest, Charges, and Assess-ment (Net)	Positions at April 30, 1981		
			Designated	Other					Holdings	Net cumulative allocations	Holdings as per cent of net cumulative allocations
PARTICIPANTS											
Paraguay	11,823	2,346	1,900	—	—	202	2,875	+47	13,443	13,697	98.1
Peru	21,338	16,728	—	111,502	—	161	125,738	−5,606	18,385	91,319	20.1
Philippines	28,128	21,420	—	—	18,091	46,995	69,753	−8,407	292	116,595	0.3
Portugal	14,238	17,544	—	—	—	14,474	38,718	−3,125	4,412	53,320	8.3
Qatar	8,625	4,502	—	—	—	656	6,550	−145	7,088	12,822	55.3
Romania	20,638	24,990	—	12,000	101,240	98,640	46,981	−4,837	3,210	75,950	4.2
Rwanda	6,625	2,346	1,200	2,744	—	22	2,875	−391	9,671	13,697	70.6
São Tomé and Principe	416	204	—	—	—	—	250	−9	361	620	58.2
Saudi Arabia	255,549	70,727	43,728	—	—	92,479	110,025	+13,382	365,839	195,527	187.1
Senegal	6,760	4,284	—	—	14,147	14,989	8,646	−1,613	1,627	24,462	6.7
Seychelles	217	136	—	—	—	—	175	−12	166	406	40.9
Sierra Leone	739	3,162	—	—	3,600	8,804	7,671	−1,339	95	17,455	0.5
Singapore	18,266	6,283	6,900	—	—	805	10,850	+995	22,399	16,475	136.0
Solomon Islands	241	218	—	1,000	—	2	275	+42	1,229	654	187.7
Somalia	8,511	2,346	—	—	—	—	3,100	−394	7,363	13,697	53.8
South Africa	59,680	43,248	62,383	—	—	—	54,014	−10,494	100,803	220,360	45.7
Spain	298,135	56,814	12,209	—	—	—	95,511	+2,517	274,163	298,805	91.8
Sri Lanka	25,614	12,138	—	10,213	21,900	20,741	38,053	−4,631	4,121	70,868	5.8
St. Lucia	374	367	—	—	—	450	784	−27	381	742	51.3
St. Vincent	177	177	—	—	—	200	336	−7	210	354	59.4
Sudan	19,389	8,976	—	—	13,200	20,215	25,162	−3,399	6,819	52,192	13.1
Suriname	5,199	2,550	800	—	—	—	3,125	−95	5,329	7,750	68.8
Swaziland	3,265	1,224	—	—	—	55	1,500	−239	2,805	6,432	43.6
Sweden	227,674	45,900	—	—	—	4,789	56,250	+745	222,858	246,525	90.4
Syrian Arab Republic	17,654	6,426	—	—	—	—	7,906	−1,466	14,708	36,564	40.2
Tanzania	2,863	5,610	—	3,600	13,900	18,434	12,939	−2,468	1,199	31,372	3.8
Thailand	52,881	18,462	—	—	—	—	65,350	−4,034	1,958	84,652	2.3
Togo	8,212	1,938	—	—	10,583	10,665	2,770	−174	7,288	10,975	66.4
Trinidad and Tobago	44,367	8,364	5,600	—	—	—	10,250	+464	48,545	46,231	105.0
Tunisia	20,364	6,426	—	—	—	—	8,558	−1,043	17,189	34,243	50.2
Turkey	24,637	20,400	—	47,647	14,600	49,731	87,093	−6,884	33,838	112,307	30.1
Uganda	1,983	5,100	—	2,880	4,100	6,247	8,980	−2,395	736	29,396	2.5
United Arab Emirates	29,041	13,777	5,750	—	1,266	838	20,650	−374	27,116	38,737	70.0
United Kingdom	895,649	298,350	506,277	—	—	—	842,031	−86,107	772,138	1,913,070	40.4
United States	2,855,425	857,310	551,660	—	—	12,589	1,050,625	−129,756	3,096,603	4,899,530	63.2
Upper Volta	7,746	1,632	—	—	—	90	2,000	−68	7,400	9,409	78.6
Uruguay	35,529	8,568	2,800	—	—	—	10,553	−941	35,403	49,977	70.8
Venezuela	346,314	67,320	3,900	—	—	20,696	82,500	+6,728	362,459	316,890	114.4
Viet Nam	19,586	9,180	—	—	28,400	31,094	27,915	−2,978	568	47,658	1.2
Western Samoa	177	306	—	200	70	480	811	−75	207	1,142	18.1
Yemen Arab Republic	11,625	1,326	—	—	—	329	1,625	+614	12,269	6,160	199.2
Yemen, People's Dem. Rep. of	6,631	4,182	—	—	—	2,515	9,337	−1,471	2,520	22,583	11.2
Yugoslavia	55,099	28,254	—	—	22,727	52,229	94,869	−8,678	9,308	155,161	6.0

Zaïre	4,575	15,504	—	7,300	47,400	70,871	41,585	−6,496	2,769	86,309	3.2
Zambia	13,028	14,382	—	13,172	8,000	18,658	42,148	−5,225	3,865	68,298	5.7
Zimbabwe	—	10,200	—	32,490	17,500	17,594	32,771	+32	10,045	10,200	98.5
Total Participants	15,973,839	4,052,494	1,882,850	416,966	2,301,316	2,826,924	6,607,676	−267,802	15,976,278	21,433,330	
GENERAL RESOURCES ACCOUNT	1,406,997	—	—	—	—	6,607,676	2,837,080	+267,414	5,445,008	—	
OTHER HOLDERS											
East Caribbean Currency Authority	—	—	—	500	—	—	—	+23	523	—	
Nordic Investment Bank	—	—	—	1,000	—	—	—	+4	1,004	—	
Swiss National Bank	—	—	—	—	—	10,156	—	+361	10,517	—	
Total Other Holders	—	—	—	1,500	—	10,156	—	+388	12,045	—	
Total	17,380,836	4,052,494	1,882,850	418,466	2,301,316	9,444,756	9,444,756	—	21,433,330	21,433,330	

Table I.17. Currencies Transferred for Special Drawing Rights, January 1, 1970–April 30, 1981
(In millions of SDRs)

	Annual Average Jan. 1, 1970– Apr. 30, 1975	Financial Years Ended April 30						Total Jan. 1, 1970– Apr. 30, 1981
		1976	1977	1978	1979	1980	1981	
Transactions with designation								
Belgian francs								
Provided directly to participants	0.2	—	—	—	—	—	—	1.0
Deutsche mark								
Exchanged for U.S. dollars	1.0	—	2.0	10.0	—	—	—	17.0
French francs								
Provided directly to participants	4.9	—	19.0	—	25.5	25.6	58.6	154.6
Exchanged for deutsche mark	—	—	—	—	12.6	—	14.2	26.8
Exchanged for pounds sterling	1.5	—	—	—	—	—	—	8.0
Exchanged for U.S. dollars	26.5	80.5	16.0	5.0	75.0	121.1	136.4	572.9
	32.9	80.5	35.0	5.0	113.2	146.8	209.2	762.4
Italian lire								
Provided directly to participants	0.8	—	—	—	—	—	—	4.0
Mexican pesos								
Exchanged for U.S. dollars	0.2	—	—	—	—	—	—	1.0
Pounds sterling								
Provided directly to participants	26.9	—	1.5	—	41.2	2.6	21.8	210.7
Exchanged for French francs	1.5	—	—	—	—	—	—	8.0
Exchanged for U.S. dollars	20.7	4.0	19.3	—	—	—	—	131.9
	48.8	4.0	20.8	—	41.2	2.6	21.8	350.6
U.S. dollars								
Provided directly to participants	171.5	207.2	61.0	383.1	881.8	1,042.1	1,634.8	5,124.9
Exchanged for deutsche mark	—	—	—	—	37.5	155.0	—	192.5
Exchanged for French francs	1.6	—	—	—	—	25.0	17.1	50.8
Exchanged for Japanese yen	—	—	—	—	6.3	—	—	6.3
Exchanged for pounds sterling	3.6	—	—	—	—	—	—	19.0
	176.7	207.2	61.0	383.1	925.6	1,222.1	1,651.9	5,393.4
Total	259.4	291.7	118.8	398.1	1,079.9	1,371.5	1,882.9	6,529.4
Transactions by agreement								
Australian dollars	—	—	—	1.0	—	—	—	1.0
Belgian francs	17.5	67.9	165.9	—	—	42.5	—	369.9
Danish kroner	13.0	—	—	—	—	—	—	68.2
Deutsche mark	42.0	30.4	29.4	110.5	740.5	55.1	99.3	1,289.1
French francs	110.3	78.3	2.7	—	—	—	—	669.6
Japanese yen	—	—	—	—	500.0	—	—	500.0
Netherlands guilders	52.8	—	—	—	—	—	—	281.8
Pounds sterling	63.2	—	—	—	—	—	—	336.8
U.S. dollars	120.1	—	119.0	815.9	292.5	264.2	319.1	2,451.3
Total	418.8	176.6	317.1	927.4	1,533.0	361.8	418.5	5,967.7

Table I.18. Publications Issued, Financial Year Ended April 30, 1981

Reports and Other Documents

Annual Report of the Executive Board for the Financial Year Ended April 30, 1980
(English, French, German, and Spanish). Free

Annual Report on Exchange Arrangements and Exchange Restrictions, 1980
One copy free; additional copies US$7.00 each.

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

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

Subscription Publications

Balance of Payments Statistics
Vol. 32. Annual, 12 monthly booklets, and supplement. US$26.00 a year. US$10.00 to university libraries, faculty members, and students.

Direction of Trade
Monthly, with *Yearbook*
US$21.00 a year. US$8.00 to university libraries, faculty members, and students.

International Financial Statistics
Monthly, with *Yearbook* (English, French, and Spanish). US$52.00 a year. US$21.00 to university libraries, faculty members, and students.

Staff Papers
Four times a year. US$9.00 a year. US$4.00 to university libraries, faculty members, and students.

University libraries, faculty members, and students may obtain the four publications listed above at the reduced rate of US$40.00 for all four publications.

Government Finance Statistics Yearbook
Vol. IV, 1980. (Introduction and titles of lines in English, French, and Spanish). US$13.00 a year. US$5.00 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 Statistics, Direction of Trade, Government Finance Statistics Yearbook*, and *International Financial Statistics* are available at US$1,000.00 a year each. This price includes the book version. The price to universities is US$400.00 a year for each publication.

Occasional Papers

World Economic Outlook: A Survey by the Staff of the International Monetary Fund (English, French, and Spanish). Free

No. 1 *International Capital Markets: Recent Developments and Short-Term Prospects*
By a staff team headed by R.C. Williams (English). Free.

No. 2 *Economic Stabilization and Growth in Portugal*
By Hans O. Schmitt (English). Free

Pamphlet Series

No. 26 *SDRs, Gold, and Currencies: Third Survey of New Legal Developments*
By Joseph Gold (Spanish). Free

No. 27 *Financial Assistance by the International Monetary Fund: Law and Practice* (Second Edition)
By Joseph Gold (French and Spanish). Free

No. 29 *Macroeconomic Accounts: An Overview*
By Poul Høst-Madsen (French and Spanish). Free

No. 31 *Conditionality*
By Joseph Gold (French and Spanish). Free

No. 32 *The Rule of Law in the International Monetary Fund*
By Joseph Gold (English). Free

No. 33 *SDRs, Currencies, and Gold: Fourth Survey of New Legal Developments*
By Joseph Gold (English). Free

No. 34 *Compensatory Financing Facility*
By Louis M. Goreux (English, French, and Spanish). Free

No. 35 *The Legal Character of the Fund's Stand-By Arrangements and Why It Matters*
By Joseph Gold (English). Free

Other

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

IMF Survey
Twice monthly but only once in December (English, French, and Spanish). Private firms and individuals are charged for delivery at the annual rate of US$15.00.

Appendix II
Principal Policy Decisions of the Executive Board

A. Special Drawing Rights: Valuation and Interest Rate Basket

(a) Method of Valuation of SDR

(1) Effective January 1, 1981, the value of one special drawing right shall be the sum of the values of specified amounts of the currencies listed in (2) below, the amounts of these currencies to be determined on December 31, 1980 in a manner that will ensure that, at the average exchange rates for the three-month period ending on that date, the shares of the currencies in the value of the special drawing right correspond to the weights specified for each currency in (2) below.

(2) On the basis of changes in members' exports of goods and services and in official balances of members' currencies held by other members since the previous review of the method of valuation of the SDR conducted in March 1978, that the currencies and weights referred to in (1) above shall be as follows:

Currency	Weight (in per cent)
U.S. dollar	42
Deutsche mark	19
French franc	13
Japanese yen	13
Pound sterling	13

(3) The list of the currencies that determine the value of the special drawing right, and the amounts of these currencies, shall be revised with effect on January 1, 1986 and on the first day of each subsequent period of five years in accordance with the following principles, unless the Fund decides otherwise in connection with a revision:

(a) The currencies determining the value of the special drawing right shall be the currencies of the five members whose exports of goods and services during the five-year period ending 12 months before the effective date of the revision had the largest value, provided that a currency shall not replace another currency included in the list at the time of the determination unless the value of the exports of goods and services of the issuer of the former currency during the relevant period exceeds that of the issuer of the latter currency by at least 1 per cent.

(b) The amounts of the five currencies referred to in (a) above shall be determined on the last working day preceding the effective date of the relevant revision in a manner that will ensure that, at the average exchange rates for the three-month period ending on that date, the shares of these currencies in the value of the special drawing right correspond to percentage weights for these currencies, which shall be established for each currency in accordance with (c) below.

(c) The percentage weights shall reflect the value of the balances of that currency held at the end of each year by the monetary authorities of other members and the value of the exports of goods and services of the issuer of the currency over the relevant five-year period referred to in (a) above, in a manner that would maintain broadly the relative significance of the factors that underlie the percentage weights in paragraph (2) above. The percentage weights shall be rounded to the nearest 1 per cent or as may be convenient.

(4) The determination of the amounts of the currencies in accordance with (1) and (3) above shall be made in a manner that will ensure that the value of the special drawing right in terms of currencies on the last working day preceding the five-year period for which the determination is made will be the same under the valuation in effect before and after revision.

Decision No. 6631-(80/145) G/S
September 17, 1980

(b) Change in Rule O-1 and in Rule T-1

Rule O-1 and Rule T-1, as set forth [below], are adopted to become effective January 1, 1981.

Decision No. 6632-(80/145) S
September 17, 1980, as amended by
Decision No. 6708-(80/189) S
December 19, 1980

Rule O-1. The value of the special drawing right shall be the sum of the values of the following amounts of the following currencies:

U.S. dollar	0.54
Deutsche mark	0.46
French franc	0.74
Japanese yen	34
Pound sterling	0.071

Rule T-1 (a) Interest and charges in respect of special drawing rights shall accrue daily at the rate referred to in (b) below and shall be paid promptly as of the end of each financial year of the Fund. The accounts of participants shall be credited with the excess of interest due over charges or debited with the excess of charges over the interest due. The accounts of holders that are not participants shall be credited with the interest due.

(b) 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 ⅛ of 1 per cent.[1]

(c) The combined market interest rate shall be the sum of the average yield or rate on each of the respective instruments listed below for the fifteen business days preceding the last two business days of the last month before the calendar quarter for which interest is to be calculated, with each yield or rate multiplied by the number of units of the corresponding currency listed in Rule O-1 and the value in terms of the special drawing right of a unit of that currency as determined by the Fund under Rule O-2(a) and (b). The yields and rates for this calculation are:

[1] Subsequently amended by Executive Board Decision No. 6833-(81/65) S, page 145.

Market yields for three-month
U.S. Treasury bills
Three-month interbank deposits
rate in Germany
Three-month interbank money rate
against private paper in France
Discount rate on two-month (private)
bills in Japan
Market yields for three-month
U.K. Treasury bills.[2]

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

(c) Change in Rule I-10(b)

Effective January 1, 1981, Rule I-10(b) is amended by replacing "quarterly" with "annual." [3]

Decision No. 6633-(80/145) G/S
September 17, 1980

(d) Collection of Exchange Rates for Calculation of Value of SDR

(1) For the purpose of determining the value of the United States dollar in terms of the special drawing right pursuant to Rule O-2(a), the equivalents in United States dollars of the amounts of currencies specified in Rule O-1 shall be based on spot exchange rates against the United States dollar. For each currency the exchange rate shall be the middle rate between the buying and selling rates at noon in the London exchange market as determined by the Bank of England.

(2) If the exchange rate for any currency cannot be obtained from the London exchange market, the rate shall be the middle rate at noon in the New York exchange market determined by the Fund on the basis of the buying and selling rates communicated by the Federal Reserve Bank of New York or, if not available there, the middle rate determined by the Fund on the basis of the buying and selling rates at the fixing in the Frankfurt exchange market communicated by the Deutsche Bundesbank. If the rate for any currency against the United States dollar cannot be obtained directly in any of these markets, the rate shall be calculated indirectly by use of a cross rate against another currency specified in Rule O-1.

(3) If on any day the exchange rate for a currency cannot be obtained in accordance with (1) or (2) above, the rate for that day shall be the latest rate determined in accordance with (1) or (2) above, provided that after the second business day the Fund shall determine the rate.

Decision No. 6709-(80/189) S
December 19, 1980

B. Special Drawing Rights: Rate of Interest on SDR and Rate of Remuneration

With effect from May 1, 1981,

1. Rule T-1(b) shall be amended to read:

The rate of interest on holdings of special drawing rights for each calendar quarter shall be equal to the combined market interest rate as determined in (c) below.

2. Rule T-1(c) shall be amended to read:

The combined market interest rate shall be the sum of the average yield or rate on each of the respective instruments listed below for the fifteen business days preceding the last two

[2] *Ibid.*
[3] *Ibid.*

business days of the last month before the calendar quarter for which interest is to be calculated, with each yield or rate multiplied by the number of units of the corresponding currency listed in Rule O-1 and the value in terms of the special drawing right of a unit of that currency as determined by the Fund under Rule O-2(a) and (b), provided that the combined market interest rate shall be rounded to the two nearest decimal places. The yields and rates for this calculation are:

Market yields for three-month U.S. Treasury bills
Three-month interbank deposits rate in Germany
Three-month interbank money rate against private paper in France
Discount rate on two-month (private) bills in Japan
Market yields for three-month U.K. Treasury bills.

3. Rule I-10 shall be amended to read:

(a) The rate of remuneration shall be equal to 85 per cent of the rate of interest on the special drawing right under Rule T-1(b), rounded to the two nearest decimal places.
(b) The Fund shall review the rate of remuneration on the occasion of the annual review of the rate of interest on holdings of special drawing rights under Rule T-1(d).

Decision No. 6833-(81/65) S
April 22, 1981

C. Special Drawing Rights: Abrogation of Rules for Reconstitution

The Executive Board, having reviewed the rules for reconstitution in accordance with Article XIX, Section 6*(b)*, decides to abrogate with effect from April 30, 1981:

1. The rules for reconstitution under Schedule G, paragraph 1*(a)*; and
2. Rules R-1 through 6 of the Fund's Rules and Regulations; Decision No. 5699-(78/38) G/S (March 22, 1978, effective April 1, 1978);[4] Decision No. 5936-(78/168) S (October 25, 1978, effective December 11, 1978);[5] and Decision No. 6063-(79/43) S (March 14, 1979).[6]

Decision No. 6832-(81/65) S
April 22, 1981

D. Special Drawing Rights: Sales of SDRs by the Fund for Quota Payments

1. Pursuant to Article V, Section 6*(b)* and *(c)*, the Fund shall provide a member at its request with SDRs from the General Resources Account in exchange for an equivalent amount of the currencies of other members to enable the member to pay SDRs in order to increase its quota under Board of Governors Resolution No. 34-2 on the Seventh General Review of Quotas[7] or in accordance with the provisions of that Resolution.

2. The amount of SDRs a member may receive under this decision shall not exceed the difference between the amount of the member's SDR holdings and the amount of its quota payment due in SDRs at the time of payment.

Decision No. 6663-(80/160) S
October 31, 1980

[4] *Selected Decisions of the International Monetary Fund and Selected Documents*, Supplement to Eighth Issue (Washington, 1978), page 80.
[5] *Ibid.*, page 81.
[6] See *Annual Report, 1979*, page 130.
[7] See *Annual Report, 1979*, pages 121–23.

E. Special Drawing Rights: Allocation to New Participants

1. Kuwait and Zimbabwe have become participants in the Special Drawing Rights Department in 1980, and have informed the Fund that they are willing to receive the final allocation of special drawing rights during the third basic period.

2. Pursuant to Article XVIII, Section 2*(d)*, Kuwait and Zimbabwe shall receive an allocation of special drawing rights as of January 1, 1981 in accordance with Board of Governors Resolution No. 34-3,[8] adopted December 11, 1978.

Decision No. 6673-(80/166) S
November 14, 1980

F. Trust Fund: Inclusion of China and Guyana Among Eligible Members and Extension of Second Period

1. China and Guyana shall be added to the list of eligible countries for the second period set forth in Annex B to the Instrument Establishing the Trust Fund,[9] as provided by Executive Board Decision No. 5563-(77/150) TR,[10] adopted October 28, 1977, and the amount available to each would be such as not to reduce below 55.9 per cent of its quota the amount to be made available to any eligible member at present on the list in Annex B that has qualified for a loan by the time of the final disbursement.

2. (a) The date "February 28, 1981" shall be substituted for "December 31, 1980" in paragraph 2 of Executive Board Decision No. 5069-(76/72),[11] as subsequently amended, and in Section II, paragraph 1 of the Instrument Establishing the Trust Fund, annexed to Executive Board Decision No. 5069-(76/72),[12] as subsequently amended.

(b) The date "January 1, 1981" shall be substituted for the date "November 1, 1980" in Section II, paragraph 3(c)(ii) of the Instrument referred to above, as subsequently amended.

3. The final loan disbursement in respect of the Trust Fund's second period shall be made toward the end of March 1981, provided that an interim disbursement may be made to Guyana.

Decision No. 6676-(80/168) TR
November 19, 1980

G. Trust Fund: Termination, Repayments of Loans, and Use of the Fund's Resources

1. Having conducted the review specified in Section II, Paragraph 4(d) of the Instrument to Establish the Trust Fund attached to Decision No. 5069-(76/72),[13] of May 5, 1976 (hereinafter called the Trust Instrument), the Fund, as Trustee, decides, with effect from the date disbursements under loans from the Trust Fund are completed,[14] that the repayment terms of such loans from the Trust Fund will not be changed, provided, however, that, if the Trustee finds that repayment of an installment on the due date would result in serious hardship for the borrower the Trustee may reschedule the repayment to a date not later than two years after the date such repayment was originally due.

2. (a) The Fund, as Trustee, decides that the Trust Fund shall be terminated as of April 30, 1981 or the date on which disbursements under Trust Fund loans are finally completed, whichever is the later. After that date, the activities of the

[8] See *Annual Report, 1979,* pages 127–28.

[9] See *Annual Report, 1976,* pages 111–17.

[10] *Selected Decisions of the International Monetary Fund and Selected Documents,* Supplement to Eighth Issue (Washington, 1978), page 84.

[11] See *Annual Report, 1976,* pages 111–12.

[12] *Ibid.*

[13] *Selected Decisions of the International Monetary Fund and Selected Documents,* Eighth Issue (Washington, 1976), pages 185–95.

[14] The date of the last loan disbursement was March 31, 1981.

Trust shall be confined to the completion of any unfinished business of the Trust Fund and the winding up of its affairs.

(b) The resources of the Trust Fund held on the termination date or subsequently received by the Trustee, except those resources still being held for distribution to members or required to satisfy the liabilities specified in Section V, Paragraph 2 of the Trust Instrument, shall be transferred, as expeditiously as possible, to the Special Disbursement Account in accordance with Section V, Paragraph 2 of the Trust Instrument.

(c) Nothing in this paragraph 2 shall limit the authority of the Trustee, either before or during the winding up of the Trust Fund, to reschedule loan repayments in cases of serious hardship as provided in paragraph 1 above.

3. (a) From the resources received in the Special Disbursement Account of the Fund pursuant to paragraph 2(b) above, the Fund shall make available an amount equivalent to SDR 750 million for use in the supplementary financing facility subsidy account (hereinafter called the subsidy account). Such amount shall be transferred to the subsidy account as provided in Section 4 of the Instrument establishing the subsidy account.

(b) Of the resources received in the Special Disbursement Account as a consequence of the termination of the Trust Fund which are not used for the subsidy account as provided in (a) above, SDR 1,500 million shall be used to provide balance of payments assistance on concessional terms, on a uniform basis, to low-income developing members in need of such assistance under arrangements similar to those set forth in the Trust Instrument. The remainder shall be used to provide assistance to low-income developing members in accordance with the second sentence of subsection 12*(f)*(ii) of Article V of the Articles of Agreement under a decision of the Fund to be taken not later than June 30, 1986. If no such decision is taken by that date, the remainder referred to in the preceding sentence shall be used on the same terms as the SDR 1,500 million referred to in the first sentence of this subparagraph.

Decision No. 6704-(80/185) TR
December 17, 1980

H. Supplementary Financing Facility: Subsidy Account

(a) Instrument

To help fulfill its purposes, the International Monetary Fund (hereinafter called the Fund) has adopted this Instrument establishing the supplementary financing facility subsidy account (hereinafter called the account), which shall be governed by and administered in accordance with the terms of this Instrument.

Section 1. *Purpose*

The purpose of the account shall be to reduce the cost to eligible developing members, in accordance with Section 8, of using the Fund's resources under the policies of the Fund referred to in Section 7 of this Instrument.

Section 2. *Resources*

The resources of the account shall consist of
(a) amounts donated to the account;
(b) amounts transferred to the account from the Special Disbursement Account of the Fund;
(c) the proceeds of borrowing by the Fund for the account; and
(d) the income or net gains from investment of resources of the account.

Section 3. *Donations*

The Fund may accept donations of resources for the account in such amounts and under such arrangements as may be agreed between the Fund and the respective donors, consistent with the provisions of this Instrument.

Section 4. *Amounts Transferred from Special Disbursement Account*

(a) Subject to (b) below, a total equivalent to SDR 750 million shall be transferred to the account from the assets received by the Special Disbursement Account of the Fund on termination of the operation, in its present form, of the Trust Fund established by Executive Board Decision No. 5069-(76/72).[15] These transfers to the account shall be made as the amounts are received in the Special Disbursement Account.

(b) If, on the basis of reasonable estimates, the Executive Board determines at any time that amounts already transferred to the account, together with the other assets available to the account, are sufficient to carry out the operations and to meet the liabilities of the account in full, it may authorize the suspension of further transfers from, and the retransfer of any surplus back to, the Special Disbursement Account, provided that transfers shall be resumed, up to the total amount specified in (a), if this proves necessary to complete the operations of the account and to discharge its liabilities in full.

Section 5. *Borrowing*

(a) The Fund may borrow resources for the account on such terms and conditions as may be agreed between the Fund and the respective lenders, consistent with the provisions of this Instrument. In undertaking such borrowing, the Fund shall make every effort to obtain loans on concessionary terms. The aggregate amount of such borrowing, including the interest payable on the borrowing, shall not exceed the SDR 750 million that could be transferred to the account from the Special Disbursement Account under Section 4.

(b) Payments of interest and repayments of the principal amount under each such loan shall be made exclusively from the resources of the account. All resources of the account shall be available for such payments, except that donations shall not be used for this purpose without the consent of the donor. Resources transferred to the account from the Special Disbursement Account pursuant to Section 4 shall be applied, as necessary, to make payments due under such loans, including the interest payable thereon, in priority to other uses of such resources.

Section 6. *Investment*

Any balances of currency held in the account and not immediately needed to carry out the operations or to meet the liabilities of the account shall be invested promptly in accordance with Section 14.

Section 7. *Authorized Subsidy*

The Fund shall draw upon the resources of the account, in such order as it may determine, to reduce the cost to eligible members of the periodic charges paid by them to the General Resources Account of the Fund on holdings of their currencies acquired by the Fund as a result of all purchases under the policies referred to below, in respect of the entire periods for which such charges were paid:

(a) under the supplementary financing facility of the Fund established by Executive Board Decision No. 5508-(77/127),[16] and

(b) under the policy on exceptional use of the Fund's resources incorporated in Executive Board Decision No. 5732-(78/65),[17] as amended by Executive Board Decision No. 5998-(79/1).[18]

[15] *Selected Decisions of the International Monetary Fund and Selected Documents,* Eighth Issue (Washington, 1976), pages 185–95.

[16] *Selected Decisions of the International Monetary Fund and Selected Documents,* Supplement to Eighth Issue (Washington, 1978), pages 19–25.

[17] See *Annual Report, 1978,* page 120.

[18] Executive Board Decision No. 5998-(79/1), December 27, 1978, reads as follows:

"1. Pursuant to paragraph 1 of Decision No. 5732-(78/65), adopted April 24, 1978, the Fund has reviewed the schedule of charges set forth in that decision.

"2. Paragraphs 1 and 2 of Decision No. 5732 shall be amended by replacing 'not later than June 30, 1979' by 'before the earlier of July 1, 1979 and the date on which the supplementary financing facility becomes effective.'

"3. The last sentence of paragraph 1 of Decision No. 5732 shall be deleted."

Section 8. *Eligible Members*

(a) Subject to (b) below, members eligible to receive a subsidy under Section 7 shall be those members that, according to the latest data provided by the World Bank before April 30, 1981, had per capita incomes in 1979 not in excess of that of the member with the highest per capita income in 1979 that was eligible to receive assistance from the Trust Fund.

(b) Also eligible to receive a subsidy under Section 7 shall be any other members that, according to the latest data provided by the World Bank before April 30, 1982, had per capita incomes in 1979 not in excess of that of the member with the highest per capita income in 1979 that was eligible to receive assistance from the Trust Fund, that member's per capita income determined according to the same data.

Section 9. *Calculation and Payment of the Subsidy*

(a) The amount of the subsidy shall be calculated as a percentage per annum of the currency holdings referred to in Section 7 and, subject to Section 10, shall be determined by the Fund in the light of the resources available to the account. The determination and payment shall be made annually after the close of each financial year following the date of the Instrument. The Fund shall as far as practicable seek to ensure that, within the limits specified in Section 10, the percentage at which the subsidy is determined shall be equal over the entire period during which a subsidy is provided from the account.

(b) Eligible members that, in accordance with Section 8, had per capita incomes in 1979 not in excess of the per capita income used for determining eligibility for assistance from the International Development Association shall receive the full amount of the subsidy calculated pursuant to (a) above. All other eligible members shall receive a subsidy equal to one half of that amount.

(c) The amount of subsidy determined pursuant to (a) and (b) above shall be paid to each eligible member as soon as practicable after the determination is made.

Section 10. *Amount of Subsidy*

The subsidy provided to any member pursuant to Section 9 shall not exceed the equivalent of 3 per cent per annum of the currency holdings specified in Section 7, nor reduce the effective charges on such holdings,

(a) if the holdings were acquired under a stand-by arrangement, below the charges which would have been applicable had such holdings been acquired under the Fund's policies on the regular use of its resources in the credit tranches; or

(b) if the holdings were acquired under an extended arrangement, below the charges which would have been applicable had such holdings been acquired under the extended Fund facility.

Section 11. *Administration of the Account*

The account shall be administered by the Fund as Trustee. Subject to the provisions of this Instrument, the Fund in administering the account shall apply the same rules and procedures as apply to operations and transactions in the General Resources Account of the Fund.

Section 12. *Separation of Assets*

(a) The resources of the account shall be held separately from the resources of all other accounts of the Fund, including other administered accounts, and shall be used only for the purposes of the account.

(b) Except to the extent contemplated in Section 4, property and assets of the Fund held or administered in its other accounts shall not be available or used to discharge liabilities or to meet losses arising from the operations of the account.

Section 13. *Exchange of Resources*

(a) Resources donated pursuant to Section 3 or loaned pursuant to Section 5 shall be paid in a freely usable currency, provided that a donor or lender which is a member or the fiscal agency of a member may, at its option, pay in the currency of the member. Amounts paid in a member's currency shall, at the time of payment, be exchanged by the member for freely usable currency, if so requested by the Fund. Donations and loans may also be made available in special drawing rights in accordance with arrangements made by the Fund for the holding and use of such special drawing rights.

(b) The Fund may sell or exchange any of the resources of the account, provided that balances of currencies held in the account may be exchanged only with the concurrence of the issuers of such currencies.

Section 14. *Authorized Investments*

Investments pursuant to Section 6 may be made in any of the following: (a) marketable obligations issued by an international financial organization and denominated in special drawing rights or in the currency of a member of the Fund; (b) marketable obligations issued by a member or by a national official financial institution of a member and denominated in special drawing rights or in the currency of that member; and (c) deposits with a commercial bank, a national official financial institution of a member, or an international financial institution that are denominated in special drawing rights or in the currency of a member. Investment which does not involve an exchange of currency shall be made only after consultation with the member whose currency is to be used.

Section 15. *Administrative Expenses*

In order to compensate the Fund for the expenses of carrying out the business of the account, the account shall pay annually to the General Resources Account an amount equivalent to one thousandth per annum of the value of the resources in the account at the end of each financial year, other than resources attributable to donations made under Section 3, provided that this amount may be varied if the Fund, on the basis of a reasonable estimate of its expenses, considers such variation to be appropriate.

Section 16. *Accounts, Audit, and Reports*

(a) The Fund shall maintain separate financial records and prepare separate financial statements for the account.

(b) The audit committee selected under Section 20 of the Fund's By-Laws shall audit the financial transactions and records of the account. The audit shall relate to the financial year of the Fund.

(c) The Fund shall report on the resources and operations of the account in the Annual Report of the Executive Board to the Board of Governors and shall include in that Annual Report the report of the audit committee on the account.

Section 17. *Amendment*

The Fund may amend the provisions of this Instrument, except this Section and Sections 1, 4, 5(b), 12, and 18, and the account and its resources shall thereafter be governed by the Instrument as amended.

Section 18. *Termination Arrangements*

Upon completion of the subsidy operations authorized by this Instrument the Fund shall wind up the affairs of the account. Any resources remaining in the account after all outstanding liabilities of the account have been discharged in full shall be applied first to reimburse the Special Disbursement Account up to the full amount transferred to the account under Section 4, net of any previous retransfers, and then to reimburse donors pro rata, up to the amounts of their donations. Any remaining balance in the account shall be transferred to the Special Disbursement Account.

Decision No. 6683-(80/185) G/TR
December 17, 1980

(b) Investment Policy

The Managing Director shall place in deposits, denominated in SDRs, with the Bank for International Settlements the currencies received by the SFF Subsidy Account, 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 promptly and make other proposals to it for investment in SDR-denominated obligations.

Decision No. 6854-(81/78) SBS
May 8, 1981

I. Supplementary Financing Facility: Review and Extension

The Fund, having reviewed its decision on the establishment of a supplementary financing facility (Decision No. 5508-(77/127),[19] August 29, 1977), extends until February 22, 1982 the period during which it may approve a stand-by or extended arrangement that provides for supplementary financing.

Decision No. 6725-(81/5)
January 9, 1981

J. Sales of Special Drawing Rights and Use of Currencies Through the Operational Budgets

Sales of SDRs

The Fund will sell the amount of SDRs expected to be received in each budget period; and the balance of purchases will be distributed between SDRs and currencies in such a manner as to aim at Fund holdings of special drawing rights of SDR 4.5 billion in early 1982, taking into account use and receipt of SDRs and currencies in transactions and operations outside the budgets. Modifications in this guideline will be proposed as necessary.

Use of Currencies

Currencies shall be selected for use on the transfer and receipt side of the operational budgets in amounts that will promote, over time, balanced "positions in the Fund" as follows:

(a) For the quarterly period March–May 1981 the method currently in use will be continued;

[19] *Selected Decisions of the International Monetary Fund and Selected Documents,* Supplement to Eighth Issue (Washington, 1978), pages 19–25.

(b) For the subsequent quarterly periods the amounts on the transfer side of the budgets will be calculated on the basis of members' holdings of gold and foreign exchange and the amounts on the receipt side will be calculated in proportion to their reserve tranche positions in the Fund. Modifications of this method will be proposed if circumstances so warrant. The Fund will seek to maintain adequate working balances of currencies.

(c) The U.S. dollar will be included in the operational budgets on the basis of ad hoc proposals.

(d) A member's "position in the Fund" shall be defined as its reserve tranche position plus any outstanding loans to the Fund by the member, or an institution of a member, under credit arrangements that are judged by the Fund to provide it, on a continuing basis, with the ability to finance uses of its resources by members on terms comparable to those applicable to the Fund's use of its currency holdings for this purpose.

Decision No. 6772-(81/35) G/S
March 5, 1981

K. Selection of Currencies by the Fund

This decision sets forth guidelines for the selection of currencies in purchases under Article V, Section 3*(d)*, in repurchases under Article V, Section 7*(i)*, and in transfers of SDRs by the Fund under Article V, Section 6*(b)* pursuant to decisions adopted prior to the date of this decision.

1. Normally, the Fund will select a member's currency for use in the operations and transactions of the General Resources Account in amounts that result in a net reduction of the Fund's holdings of the currency only if the member's balance of payments and gross reserve position is judged to be sufficiently strong. Accordingly this will not preclude the possibility that the Fund will make net reductions in its holdings of the currency of a member with a strong reserve position even though it has a moderate balance of payments deficit.

2. (a) Under procedures to be adopted, the currency of a member with outstanding purchases subject to the guidelines on early repurchase, whose balance of payments and gross reserve position is judged sufficiently strong for the purposes of operational budgets and designation plans, normally will be sold by the Fund under Article V, Section 3*(d)* only if the member and the Fund agree.

(b) If the outstanding purchases of a member judged sufficiently strong are not subject to the guidelines on early repurchase, and the member agrees with the Fund that its currency shall be sold, the amounts of its currency to be sold shall be calculated in accordance with the procedures set out in the Annex to this decision.

3. If the currency of a member whose balance of payments and gross reserve position is not judged sufficiently strong in accordance with paragraph 1 above can be accepted in repurchase under Article V, Section 7*(i)*, the Fund, at the request of the member, will give special emphasis to the use of that currency for repurchases.

4. The guidelines in this decision will be applied in a manner that will allow the Fund to retain the flexibility necessary to ensure that (i) the use of currencies can be adapted to the needs and circumstances of members and of the Fund, and (ii) the transactions and operations of the Fund can be executed expeditiously and in a manner that pays due regard to the convenience of members. Considerations that are relevant under (i) may include the need for members to purchase certain currencies in order to stabilize exchange markets, the effects of the use or receipt of currencies on the Fund's financial position, the Fund's liquidity, and the fact that in respect of the issuer of a reserve currency the ratio of its Fund

position to its gold and foreign exchange holdings may not provide an appropriate measure of the amounts of the currency that might be used by the Fund. Considerations under (ii) may include the need to avoid the use of an excessive number of currencies in single transactions and operations.

Decision No. 6774-(81/35)
March 5, 1981

Annex

Sales of Currencies of Members Indebted to the Fund

(a) There are some members indebted to the Fund that are judged sufficiently strong but to whose outstanding purchases the guidelines on early repurchase do not apply. It was agreed that the Fund would not insist on its right to sell the currency of such a member and such sales would take place only if there was agreement between the member and the Fund. In such cases the Managing Director is authorized, under procedures agreed by the Executive Board, to approach any of these members in a particularly strong position with a view to the member reducing its indebtedness to the Fund in amounts calculated in accordance with the guidelines. In order to facilitate sales of such members' currencies, the rule of attribution is changed to give a member with outstanding indebtedness under excluded facilities financed by borrowing (other than the GAB) the option to apply the consequent reduction in the Fund's holdings of its currency to an enlargement of its reserve tranche position rather than to the discharge of its outstanding obligations to the Fund.

(b) The Fund will calculate the amounts of the currencies of the members referred to in (a) above, included for sales in an operational budget, in accordance with the guidelines on early repurchase. In addition, if any other debtor member whose outstanding purchases were neither under excluded facilities financed by borrowings nor subject to the guidelines on early repurchase agreed with the Fund on the sale of its currency, the Fund would calculate the amounts to be sold in the same manner. However, at the request of the member, the calculated amounts would be reduced for the first two successive budget periods. The calculation of the amount of sales of a debtor member's currency for any quarterly period would no longer be made in accordance with the guidelines on early repurchase, or would be reduced from the calculated amount, when sales of the currency equal the outstanding indebtedness of the member to the Fund.

L. Policy on Enlarged Access to the Fund's Resources

1. From the date on which the Fund determines that all available supplementary financing has been committed and additional borrowing arrangements have been concluded, the Fund will be prepared to provide balance of payments assistance to members facing serious payments imbalances that are large in relation to their quotas in accordance with this decision (hereinafter referred to as enlarged access). Access to the Fund's resources under this decision will be provided under a stand-by or an extended arrangement, and purchases under the arrangement will be financed by resources that the Fund obtains for this purpose by replenishment under Article VII, Section 1(i) (hereinafter referred to as borrowed resources), in conjunction with the use of the other resources of the Fund (hereinafter referred to as ordinary resources).

2. Access to the Fund's resources under other policies of the Fund will remain available in accordance with the terms of those policies.

3. A member contemplating use of the Fund's resources under this decision shall consult the Managing Director before making a request for such use. A request will be met only if the Fund is satisfied: (i) that the member needs financing from the Fund that exceeds the amount available to it in the four credit tranches or under the extended Fund facility and its problem requires a relatively long period of adjustment and a maximum period for repurchase longer than the three to five years under the credit tranche policies; and (ii) on the basis of a detailed statement of the economic and financial policies the member will follow and the measures it will apply during the period of the stand-by or extended arrangement, that the member's program will be adequate for the solution of its problem and is compatible with the Fund's policies on the use of its resources beyond the first credit tranche or under the extended Fund facility.

4. The Fund may approve a stand-by or extended arrangement that provides for enlarged access at any time until the Eighth General Review of Quotas becomes effective, provided that the Fund may extend this period.

5. A stand-by or extended arrangement approved under this decision will be in accordance with the Fund's policies, including the policies on conditionality, phasing, and performance criteria.

6. The period of a stand-by arrangement approved under this decision will normally exceed one year, and may extend up to three years in exceptional cases. The period of an extended arrangement will be normally three years.

7. The amounts that will be made available under stand-by or extended arrangements approved under this decision will be determined according to guidelines adopted by the Fund from time to time.

8. The amounts available under a stand-by or extended arrangement approved under this decision will be apportioned between ordinary and borrowed resources as follows:

(a) Under a stand-by arrangement purchases will be made with ordinary and borrowed resources in the ratio of 2 to 1 in the first credit tranche, and 1 to 1.2 in the next three credit tranches. Thereafter, purchases will be made with borrowed resources only. In the event that a member has already an outstanding use of all or part of its credit tranches because of previous purchases in the credit tranches or under the extended Fund facility, purchases will be made first with borrowed resources until that use of borrowed resources, together with any outstanding use of supplementary financing and exceptional use of the Fund's resources under Decision No. 5732-(78/65),[20] adopted April 24, 1978, as amended on December 27, 1978, equals the amount of borrowed resources that would have been used if the previous purchases had been made under this decision.

(b) Under an extended arrangement purchases will be made with ordinary and borrowed resources in the ratio of 1 to 1 until the outstanding use of the upper credit tranches and the extended Fund facility equals 140 per cent of quota. Thereafter, purchases will be made with borrowed resources only. In the event that a member already has an outstanding use of all or part of its upper credit tranches or the extended Fund facility, purchases will be made with borrowed resources until that use of borrowed resources, together with any outstanding use of supplementary financing and exceptional use of the Fund's resources under Decision No. 5732-(78/65),[21] adopted April 24, 1978, as amended on December 27, 1978, equals the amount of borrowed resources that would have been used if the outstanding use of the upper credit tranches and the extended Fund facility had been made under this decision.

(c) The apportionment in accordance with (a) and (b) above will be made on the basis of the outstanding use by the member of the Fund's resources at the time the arrangement for the member is approved.

[20] See *Annual Report, 1978*, page 120.
[21] *Ibid.*

(d) From time to time the Fund will review the proportions of ordinary and borrowed resources specified in (a) and (b) above and may modify them, and the modified proportions shall apply uniformly to both arrangements approved after the modification and amounts that may be purchased under existing arrangements after the modification.

9. (a) A stand-by or extended arrangement approved under this decision may provide, in part, for supplementary financing in accordance with Decision No. 5508-(77/127),[22] adopted August 29, 1977, if

(i) the arrangement replaces an arrangement approved under that decision, or

(ii) an amount of supplementary financing becomes available because of the cancellation of an arrangement or because it is reasonably certain that an arrangement will not be fully utilized, in which case the arrangement approved under this decision may provide for the utilization of a part or all of the available amount.

(b) When an arrangement under this decision provides for supplementary financing, the supplementary financing will be used before borrowed resources.

10. (a) Repurchases in respect of outstanding purchases under this decision will be made in accordance with the provisions of the Articles of Agreement and decisions of the Fund, including those relating to repurchase as the member's balance of payments and reserve position improves, provided that repurchases in respect of outstanding purchases financed by borrowed resources shall be completed seven years after the purchase, and that the repurchases shall be made in equal semiannual installments during the period beginning three and one half years and ending seven years after the purchase.

(b) If a purchase is financed by ordinary and borrowed resources, a repurchase attributed to the purchase made with borrowed resources in advance of this schedule of installments must be accompanied by a repurchase in respect of the purchase made with ordinary resources at the same time if any part of the latter purchase is still outstanding. The amounts of the two repurchases will be in the same proportions in which ordinary and borrowed resources were used in the purchases, provided, however, that the repurchase in respect of the purchase financed with ordinary resources will not exceed the amount of the purchase still outstanding.

11. In order to carry out the purposes of this decision, the Fund will be prepared to grant a waiver of the limitation in Article V, Section 3*(b)*(iii) that is necessary to permit purchases under this decision or to permit purchases under other policies that would raise the Fund's holdings of a member's currency above the limits referred to in that provision because of purchases outstanding under this decision.

12. The Fund will apply its credit tranche policies as if the Fund's holdings of a member's currency did not include holdings resulting from purchases under this decision that have been made with borrowed resources. Purchases under this decision with borrowed resources and holdings resulting from these purchases will be excluded under Article XXX*(c)*.

13. The Fund will state which purchases by a member are made under this decision and the amounts of ordinary and borrowed resources used in each purchase.

14. The Fund will determine the charges that it will levy on holdings of a member's currency resulting from purchases outstanding under this decision to the extent that they are made with borrowed resources.

15. The Fund will review this decision not later than June 30, 1983, and annually thereafter as long as the decision remains in effect.

Decision No. 6783-(81/40)
March 11, 1981

[22] *Selected Decisions of the International Monetary Fund and Selected Documents,* Supplement to Eighth Issue (Washington, 1978), pages 19–25.

M. Forms of Stand-By and Extended Arrangements Under Enlarged Access Policy

The Executive Board approves the forms of stand-by and extended arrangements contained in Attachments A and B [below] that will be used by the Fund to provide for enlarged access to the Fund's resources under Decision No. 6783-(81/40),[23] adopted March 11, 1981.

Decision No. 6838-(81/70)
April 29, 1981

Attachment A

Form of Stand-By Arrangement Under Enlarged Access Policy

Attached hereto is a letter [, with annexed memorandum,] dated__________ from (Minister of Finance and/or Governor of Central Bank) requesting a stand-by arrangement and setting forth:

(a) the objectives and policies that the authorities of (member) intend to pursue for the period of this stand-by arrangement;

(b) the policies and measures that the authorities of (member) intend to pursue for the [first year] of this stand-by arrangement; and

(c) understandings of (member) with the Fund regarding [a] review[s] that will be made of progress in realizing the objectives of the program and of the policies and measures that the authorities of (member) will pursue for the remaining period of this stand-by arrangement.

To support these objectives and policies the International Monetary Fund grants this stand-by arrangement in accordance with the following provisions:

1. [For a period of ______ years from ____________] [For the period from ______________ to ______________] (member) will have the right to make purchases from the Fund in an amount equivalent to SDR ____________, subject to paragraphs 2, 3, 4, and 5 below, without further review by the Fund.[24]

2. (a) Until (end of first year) purchases under this stand-by arrangement shall not, without the consent of the Fund, exceed the equivalent of SDR __________, provided that purchases shall not exceed the equivalent of SDR __________ until __________, the equivalent of SDR __________ until __________, and the equivalent of SDR __________ until __________.[25]

(b) The right of (member) to make purchases during the remaining period of this stand-by arrangement shall be subject to such phasing as shall be determined.

(c) None of the limits in (a) or (b) above shall apply to a purchase under this stand-by arrangement that would not increase the Fund's holdings of (member's) currency in the credit tranches beyond 25 per cent of quota or increase the Fund's holdings of that currency resulting from purchases of supplementary financing or borrowed resources beyond 12.5 per cent of quota.

3. Purchases under this stand-by arrangement shall be made from . . . ,[26] provided that any modification by the Fund of the proportions of ordinary and borrowed resources shall apply to amounts that may be purchased after the date of modification.

4. (Member) will not make purchases under this stand-by arrangement that would increase the Fund's holdings of (member's) currency in the credit tranches beyond 25 per cent of quota or increase the Fund's holdings of that currency resulting from purchases of supplementary financing or borrowed resources beyond 12.5 per cent of quota:

(a) during any period in the first year in which [the data at the end of the preceding period indicate that] [27]

[23] See pages 153–55.
[24] The text would be adapted for a stand-by arrangement for only one year.
[25] The text would be adapted for a stand-by arrangement for only one year.
[26] The text to be added will depend on the situation of the member at the time; a sample text is set forth in the Appendix.
[27] The performance criteria enumerated here are indicative only.

(i) [the limit on domestic credit described in paragraph ____ of the attached letter], or

(ii) [the limit on credit to the public sector described in paragraph ____ of the attached letter], or

(iii) . . . [These provisions would incorporate other quantitative performance criteria of the program]

are not observed, or

(b) if (member) fails to observe the limits on authorizations of new public and publicly guaranteed foreign indebtedness described in paragraph ____ of the attached letter; or

(c) during the second or third year of this stand-by arrangement until suitable performance criteria have been established in consultation with the Fund as contemplated by paragraph ______ of the attached letter, or after such performance criteria have been established, while they are not being observed; [28]

(d) during the entire period of this stand-by arrangement, if (member)

(i) imposes [or intensifies] restrictions on payments and transfers for current international transactions, or

(ii) introduces [or modifies] multiple currency practices, or

(iii) concludes bilateral payments agreements which are inconsistent with Article VIII, or

(iv) imposes [or intensifies] import restrictions for balance of payments reasons.[29]

When (member) is prevented from purchasing under this stand-by arrangement because of this paragraph 4, purchases will be resumed only after consultation has taken place between the Fund and (member) and understandings have been reached regarding the circumstances in which such purchases can be resumed.

5. (Member's) right to engage in the transactions covered by this stand-by arrangement can be suspended only with respect to requests received by the Fund after (a) a formal ineligibility, or (b) a decision of the Executive Board to suspend transactions, either generally or in order to consider a proposal, made by an Executive Director or the Managing Director, formally to suppress or to limit the eligibility of (member). When notice of a decision of formal ineligibility or of a decision to consider a proposal is given pursuant to this paragraph 5, purchases under this arrangement will be resumed only after consultation has taken place between the Fund and (member) and understandings have been reached regarding the circumstances in which such purchases can be resumed.

6. Purchases under this stand-by arrangement shall be made in the currencies of other members selected in accordance with the policies and procedures of the Fund, and may be made in SDRs if, on the request of (member), the Fund agrees to provide them at the time of the purchase.

7. The value date of a purchase under this stand-by arrangement involving borrowed resources will be normally either the fifteenth day or the last day of the month, or the next business day if the selected day is not a business day. (Member) will consult the Fund on the timing of purchases involving borrowed resources.

8. (Member) shall pay a charge for this stand-by arrangement in accordance with the decisions of the Fund.

9. (a) (Member) shall repurchase the outstanding amount of its currency that results from a purchase under this stand-by arrangement in accordance with the provisions of the Articles of Agreement and decisions of the Fund, including those relating to repurchase as (member's) balance of payments and reserve position improves.

(b) Any reductions in (member's) currency held by the Fund shall reduce the

[28] These subparagraphs would be adapted in accordance with the period of the stand-by arrangement.

[29] These subparagraphs would be adapted in accordance with the period of the stand-by arrangement.

amounts subject to repurchase under (a) above in accordance with the principles applied by the Fund for this purpose at the time of the reduction.

(c) The value date of a repurchase in respect of a purchase financed with borrowed resources under this stand-by arrangement will be normally either the sixth day or the twenty-second day of the month, or the next business day if the selected day is not a business day, provided that repurchase will be completed not later than seven years from the date of purchase.

10. During the period of the stand-by arrangement (member) shall remain in close consultation with the Fund. These consultations may include correspondence and visits of officials of the Fund to (member) or of representatives of (member) to the Fund. (Member) shall provide the Fund, through reports at intervals or dates requested by the Fund, with such information as the Fund requests in connection with the progress of (member) in achieving the objectives and policies set forth in the attached letter [and annexed memorandum].

11. In accordance with paragraph ____ of the attached letter (member) will consult the Fund on the adoption of any measures that may be appropriate at the initiative of the government or whenever the Managing Director requests consultation

Version A

[because any of the criteria in paragraph 4 above have not been observed or because he considers that consultation on the program is desirable. In addition, after the period of the arrangement and while (member) has outstanding purchases in the upper credit tranches, the government will consult with the Fund from time to time, at the initiative of the government or at the request of the Managing Director, concerning (member's) balance of payments policies].

Version B

[because he considers that consultation on the program is desirable].

Attachment B

Form of Extended Arrangement Under Enlarged Access Policy

Attached hereto is a letter [, with annexed memorandum,] dated ____________ from (Minister of Finance and/or Governor of Central Bank) requesting an extended arrangement and setting forth:

(a) the objectives and policies that the authorities of (member) intend to pursue for the period of this extended arrangement;

(b) the policies and measures that the authorities of (member) intend to pursue for the first year of this extended arrangement; and

(c) understandings of (member) with the Fund regarding reviews that will be made of progress in realizing the objectives of the program and of the policies and measures that the authorities of (member) will pursue for the second and third years of this extended arrangement.

To support these objectives and policies the International Monetary Fund grants this extended arrangement in accordance with the following provisions:

1. For a period of [three years] from ______________ (member) will have the right to make purchases from the Fund in an amount equivalent to SDR ______, subject to paragraphs 2, 3, 4, and 5 below, without further review by the Fund.

2. (a) Until (end of first year) purchases under this extended arrangement shall not, without the consent of the Fund, exceed the equivalent of SDR ______, provided that purchases shall not exceed the equivalent of SDR _________ until ______________, the equivalent of SDR _________ until _________, and the equivalent of SDR ___________ until ___________.

(b) Until (end of second year) purchases under this extended arrangement shall not, without the consent of the Fund, exceed the equivalent of SDR ______.

(c) The right of (member) to make purchases during the second and third years shall be subject to such phasing as shall be determined.

3. Purchases under this extended arrangement shall be made from . . .[30] provided that any modification by the Fund of the proportions of ordinary and borrowed resources shall apply to amounts that may be purchased after the date of modification.

4. (Member) will not make purchases under this extended arrangement:

(a) throughout the first year, during any period in which the data at the end of the preceding period indicate that [31]

(i) [the limit on domestic credit described in paragraph ____ of the attached letter], or

(ii) [the limit on credit to the public sector described in paragraph ____ of the attached letter], or

(iii) . . . [These provisions would incorporate other quantitative performance criteria of the program]

are not observed; or

(b) if (member) fails to observe the limits on authorizations of new public and publicly guaranteed foreign indebtedness described in paragraph ____ of the attached letter; or

(c) throughout the second and third years, if before the beginning of the second year and the beginning of the third year of the extended arrangement suitable performance clauses have not been established in consultation with the Fund as contemplated in paragraph ____ of the attached letter or such clauses, having been established, are not being observed; or

(d) throughout the duration of the extended arrangement, if (member)

(i) imposes [or intensifies] restrictions on payments and transfers for current international transactions, or

(ii) introduces [or modifies] multiple currency practices, or

(iii) concludes bilateral payments agreements which are inconsistent with Article VIII, or

(iv) imposes [or intensifies] import restrictions for balance of payments reasons.

When (member) is prevented from purchasing under this extended arrangement because of this paragraph 4, purchases will be resumed only after consultation has taken place between the Fund and (member) and understandings have been reached regarding the circumstances in which such purchases can be resumed.

5. (Member's) right to engage in the transactions covered by this extended arrangement can be suspended only with respect to requests received by the Fund after (a) a formal ineligibility, or (b) a decision of the Executive Board to suspend transactions, either generally or in order to consider a proposal, made by an Executive Director or the Managing Director, formally to suppress or to limit the eligibility of (member). When notice of a decision of formal ineligibility or of a decision to consider a proposal is given pursuant to this paragraph 5, purchases under this arrangement will be resumed only after consultation has taken place between the Fund and (member) and understandings have been reached regarding the circumstances in which such purchases can be resumed.

6. Purchases under this extended arrangement shall be made in the currencies of other members selected in accordance with the policies and procedures of the Fund, and may be made in SDRs if, on the request of (member), the Fund agrees to provide them at the time of the purchase.

7. The value date of a purchase under this extended arrangement involving borrowed resources will be normally either the fifteenth day or the last day of the

[30] The text to be added will depend on the situation of the member at the time; a sample text is set forth in the Appendix.

[31] The performance criteria enumerated here are indicative only.

month, or the next business day if the selected day is not a business day. (Member) will consult the Fund on the timing of purchases involving borrowed resources.

8. (Member) shall pay a charge for this extended arrangement in accordance with the decisions of the Fund.

9. (a) (Member) shall repurchase the amount of its currency that results from a purchase under this extended arrangement in accordance with the provisions of the Articles of Agreement and decisions of the Fund, including those relating to repurchase as (member's) balance of payments and reserve position improves.

(b) Any reductions in (member's) currency held by the Fund shall reduce the amounts subject to repurchase under (a) above in accordance with the principles applied by the Fund for this purpose at the time of the reduction.

(c) The value date of a repurchase in respect of a purchase financed with borrowed resources under this extended arrangement will be normally either the sixth day or the twenty-second day of the month, or the next business day if the selected day is not a business day, provided that repurchase will be completed not later than seven years from the date of purchase.

10. During the period of the extended arrangement (member) shall remain in close consultation with the Fund. These consultations may include correspondence and visits of officials of the Fund to (member) or of representatives of (member) to the Fund. (Member) shall provide the Fund, through reports at intervals or dates requested by the Fund, with such information as the Fund requests in connection with the progress of (member) in achieving the objectives and policies set forth in the attached letter [and annexed memorandum].

11. In accordance with paragraph ____ of the attached letter (member) will consult the Fund on the adoption of any measures that may be appropriate at the initiative of the government or whenever the Managing Director requests consultation because any of the criteria under paragraph 4 above have not been observed or because he considers that consultation on the program is desirable. In addition, after the period of the extended arrangement and while (member) has outstanding purchases under this extended arrangement, the government will consult with the Fund from time to time, at the initiative of the government or at the request of the Managing Director, concerning (member's) balance of payments policies.

Appendix

Illustrations for the Determination of Proportions of Ordinary and Borrowed Resources

Example 1

The Fund's holdings of a member's currency in the credit tranches are at 150 per cent of quota, and the Fund also holds an amount equivalent to 25 per cent of quota under the SFF. The stand-by arrangement is for 300 per cent of quota. The following text would be used in paragraph 3 of *Attachment A:*

> from borrowed resources until purchases under this arrangement reach the equivalent of SDR ________ (17.5 per cent of member's quota), then from ordinary and borrowed resources in the ratio of 1 to 1.2 until purchases under this arrangement reach the equivalent of SDR ________ (127.5 per cent of member's quota), and then from borrowed resources.

These figures are derived as follows:

Credit Tranches	Ordinary Resources	Borrowed Resources		Cumulative Total
		Purchased	Available	
First	(25)	(12.5)		
Second	(25)	(12.5)	17.5	17.5
Third	25		30	72.5
Fourth	25		30	127.5

Example 2

The facts are the same as in example 1, but the member is being granted an extended arrangement for 450 per cent of quota. The following text would be used:

> from ordinary and borrowed resources in the ratio of 1 to 1 until purchases under this arrangement reach the equivalent of SDR (230 per cent of member's quota), and then from borrowed resources.

Extended Fund Facility	Ordinary Resources	Borrowed Resources		Cumulative Total
		Purchased	Available	
125–150	(25)	(25)		
150–265	115		115	230

N. Policy on Multiple Currency Practices

The Executive Board has reviewed the Fund's policy with respect to multiple currency practices. The Fund shall be guided by the approach outlined in the conclusions set forth below.

1. Official action should not cause exchange rate spreads and cross rate quotations to differ unreasonably from those that arise from the normal commercial costs and risks of exchange transactions.

(a) (i) Action by a member or its fiscal agencies that of itself gives rise to a spread of more than 2 per cent between buying and selling rates for spot exchange transactions between the member's currency and any other member's currency would be considered a multiple currency practice and would require the prior approval of the Fund.

(ii) An exchange spread that arises without official action would not give rise to a multiple currency practice.

(iii) Deviations between the buying and selling rates for spot transactions and for other transactions would not be considered multiple currency practices if they represent the additional costs and exchange risks for these other transactions.

(b) Action by a member or its fiscal agencies which results in midpoint spot exchange rates of other members' currencies against its own currency in a relationship which differs by more than 1 per cent from the midpoint spot exchange rates for these currencies in their principal markets would give rise to a multiple currency practice. If the differentials of more than 1 per cent in these cross rates persist for more than one week, the resulting multiple currency practice would become subject to the approval of the Fund under Article VIII, Section 3.

When difficulties are encountered in the interpretation and application of these criteria in specific cases, particularly concerning the nature of official actions, the staff will present the relevant information to the Executive Board for its determination.

2. The policy of the Fund on the exercise of its approval jurisdiction over exchange measures subject to Article VIII, as set forth in paragraph 2 of Executive Board Decision No. 1034-(60/27),[32] adopted June 1, 1960, remains broadly

[32] *Selected Decisions of the International Monetary Fund and Selected Documents,* Eighth Issue (Washington, 1976), pages 139–41.

appropriate. In accordance with this policy, the Fund will be prepared to grant approval of multiple currency practices introduced or maintained for balance of payments reasons provided the member represents and the Fund is satisfied that the measures are temporary and are being applied while the member is endeavoring to eliminate its balance of payments problems, and provided they do not give the member an unfair competitive advantage over other members or discriminate among members. The Fund will continue to be very reluctant to grant approval for the maintenance of broken cross exchange rates.

3. In accordance with the Fund's policy on complex multiple currency practices, as stated in Executive Board Decision No. 649-(57/33),[33] adopted June 26, 1957, the Fund will not approve multiple currency practices under complex multiple rate systems unless the countries maintaining them are making reasonable progress toward simplification and ultimate elimination of such systems, or are taking measures or adopting programs which seem likely to result in such progress.

4. While urging members to apply alternative policies not connected with the exchange system, the Fund will be prepared to grant temporary approval of multiple currency practices introduced or maintained principally for nonbalance of payments reasons, provided that such practices do not materially impede the member's balance of payments adjustment, do not harm the interests of other members, and do not discriminate among members.

5. To assist the Executive Board in reaching a decision concerning approval or nonapproval of a multiple currency practice subject to approval under Article VIII, Section 3, the reasons underlying the practice and its effects will be analyzed in reports on Article IV consultations or in other staff papers dealing with exchange systems. In all cases, consistent with the cycle of consultations under Article IV, approval will be granted for periods of approximately one year, in order to provide for a continual review by the Executive Board.

Decision No. 6790-(81/43)
March 20, 1981

O. Treatment of Reserve Tranche

(a) Exclusion of Credit Tranches and Extended Facility

1. Purchases in the credit tranches or under extended arrangements (Decision No. 4377-(74/114),[34] September 13, 1974, as amended), and holdings resulting from such purchases, shall be excluded pursuant to Article XXX*(c)*(iii) for the purpose of the definition of "reserve tranche purchase."

2. Paragraph 4(a) of the decision on the extended Fund facility (Decision No. 4377-(74/114),[35] as amended) shall be amended to provide that

> Purchases outstanding under this decision will not exceed 140 per cent of the member's quota, or be allowed to increase the Fund's holdings of the member's currency resulting from purchases in the credit tranches and under this decision above 165 per cent of the member's quota.

3. In paragraph 1 of the standard form of stand-by and extended arrangements the words ", after making full use of any reserve tranche that it may have at the time of making a request for a purchase under this arrangement," shall be deleted.

4. The amendment of stand-by and extended arrangements pursuant to paragraph 3 above shall apply also to purchases made and holdings acquired after the date of this decision under arrangements approved prior to the date of this decision.

5. The Fund will review this decision before April 30, 1984.

Decision No. 6830-(81/65)
April 22, 1981, effective May 1, 1981

[33] *Ibid.*, pages 152–54.
[34] *Ibid.*, pages 50–54.
[35] *Ibid.*

(b) Attribution of Reductions in Fund's Holdings of Currencies

1. A member shall be free to attribute a reduction in the Fund's holdings of its currency
   (a) to any of its obligations to repurchase, or
   (b) to enlarge its reserve tranche position if the reduction is the result of a sale of the currency by the Fund and the member's obligations to repurchase do not include an obligation relating to a purchase financed through borrowing under the GAB.
2. A reduction attributed to a reserve tranche position will not discharge an expectation of repurchase under the guidelines for early repurchase.
3. If the member when asked does not make an attribution in accordance with 1 above, it will be deemed to be discharging the first maturing repurchase obligation.
4. The Fund will review this decision before April 30, 1984.

Decision No. 6831-(81/65)
April 22, 1981, effective May 1, 1981

P. Charges on Transactions and Holdings in the General Resources Account—Amendment of Rule I

I-1. The service charge payable by a member buying, in exchange for its own currency, the currency of another member or special drawing rights from the General Resources Account shall be 0.5 per cent, except that no service charge shall be payable in respect of any purchase to the extent that it is a reserve tranche purchase. The service charge shall be paid at the time the transaction is consummated. The service charge shall be reviewed in connection with any review of charges under Rule I-6.

I-2. The Fund shall notify each member by cable, as soon as possible after July 31, October 31, January 31, and April 30, of the charges it owes to the Fund pursuant to Article V, Section 8*(b)* or *(c)* for the three calendar months ending on each such date, except that in respect of charges pursuant to Rule I-6(3), (5), and (10), the notifications shall be sent as soon as possible after June 30 and December 31, and shall relate to the six calendar months ending on each such date. The charges shall be payable promptly after the receipt of the notification.

I-3. Charges payable by each member under Article V, Section 8*(b)* or *(c)* shall be computed in accordance with Rule I-4 on the basis of the average daily balances of its currency held by the Fund that are subject to charges, calculated as follows:
   (a) at the end of each calendar month there shall be averaged for each member the daily amounts of the Fund's holdings of its currency on the Fund's books at the close of each day during that month that are subject to charges;
   (b) the Fund's holdings of each member's currency shall consist of all of its currency except amounts, not in excess of 0.1 per cent of the member's quota, in a special account to meet administrative expenses and amounts in sundry cash accounts.

I-4. The calculations under Rule I-3(a) shall be made separately in respect of the parts of the Fund's holdings of a member's currency that are subject to separate rates of charge.

I-5. Changes in any schedule of charges levied under Article V, Section 8*(b)* or *(c)* shall apply from the first day of the month following the month during which a change is made.

I-6 (1) The rate of charge on holdings acquired as the result of a purchase under the oil facility for 1974 (Executive Board Decision No. 4241-(74/67))[36] shall be 6.875 per cent per annum for the first three years,

[36] *Ibid.*, pages 70–75.

and an additional 0.125 per cent per annum for each subsequent 12 months, provided that, subject to (8) below, the rate shall not increase above 7.125 per cent per annum.

(2) The rate of charge on holdings acquired as the result of a purchase under the oil facility for 1975 (Executive Board Decision No. 4634-(75/47))[37] shall be 7.625 per cent per annum for the first three years and an additional 0.125 per cent per annum for each subsequent 12 months, provided that, subject to (8) below, the rate shall not increase above 7.875 per cent per annum.

(3) (a) The rate of charge on holdings acquired as the result of purchases made with supplementary financing pursuant to Executive Board Decision No. 5508-(77/127)[38] shall be equal to the rate of interest paid by the Fund from time to time pursuant to paragraph 4(a) of the Annex to Executive Board Decision No. 5509-(77/127),[39] plus

(i) 0.2 per cent per annum for the first three and one-half years after a purchase, and

(ii) an additional 0.125 per cent per annum thereafter.

(b) The charges under (a) above shall not exceed the rate of interest by more than 0.325 per cent per annum, provided that during any period in which there is a failure to repurchase in accordance with paragraph 7 of Executive Board Decision No. 5508-(77/127)[40] or with a representation by the Fund that the member should repurchase because of an improvement in its balance of payments and reserve position, the charges to be levied shall be higher than they would otherwise have been by an additional 0.125 per cent per annum for each period of 12 months until the charges payable on any holdings have reached 0.7 per cent per annum above the interest rate payable by the Fund in accordance with (a) above, at which time the Fund will review the charges to be imposed.

(4) The rate of charge on holdings acquired as a result of a purchase (i) in the credit tranches, or (ii) under the extended Fund facility (Executive Board Decision No. 4377-(74/114),[41] as amended), or (iii) under the facility for the compensatory financing of export fluctuations (Executive Board Decision No. 4912-(75/207),[42] as amended), or (iv) under the facility for the problem of stabilization of prices of primary products (Executive Board Decision No. 2772-(69/47),[43] as amended) shall be determined in accordance with (a), (b), and (c) below.

(a) The rate of charge shall be determined at the beginning of each financial year on the basis of the estimated income and expense of the Fund during the year and the target amount of net income for the year, which, for the financial year beginning May 1, 1981, shall be a balance between income and expense, and for each subsequent financial year shall be 3 per cent of the Fund's reserves at the beginning of the year, or such other percentage as the Executive Board may determine.

(b) A midyear review of the Fund's income position shall be held shortly after October 31 of each year. If actual net income for the first six months of the financial year, on an annual basis, is below the target amount for the year by an amount equal to, or greater than, 2 per cent of the Fund's reserves at the beginning of the financial year, the Executive Board will consider how to deal with

[37] *Ibid.*, pages 76–78.
[38] *Selected Decisions of the International Monetary Fund and Selected Documents*, Supplement to Eighth Issue (Washington, 1978), pages 19–25.
[39] *Ibid.*, pages 70–77.
[40] *Ibid.*, pages 19–25.
[41] *Selected Decisions of the International Monetary Fund and Selected Documents*, Eighth Issue (Washington, 1976), pages 50–54.
[42] *Ibid.*, pages 62–66.
[43] *Ibid.*, pages 66–67.

the situation. If on December 15 no agreement has been reached as a result of this consideration, the rate determined under (a) at the beginning of the year shall be increased as of November 1 to the level necessary to reach the target amount of net income for the year.

(c) A review of the Fund's income position shall be held shortly after the end of each financial year. If the net income for the year just ended is in excess of the target amount for the year, the Executive Board will consider whether the whole or a part of the excess should be used to reduce the rate of charge, or increase the rate of remuneration to not more than the rate of interest on the SDR, retroactively for the year just ended, or both, or to place all or part of the excess to reserve.

(5) The charge on holdings of a member's currency acquired as a result of the member's purchases of borrowed currency under the policy on enlarged access to the Fund's resources (Executive Board Decision No. 6783-(81/40))[44] during a six-month period ending June 30 or December 31 shall be equal to the net cost of borrowing by the Fund under that policy for the period, calculated in accordance with (a), (b), and (c) below and expressed as a percentage per annum, plus 0.2 per cent per annum.

(a) The net cost of borrowing for a six-month period ending June 30 or December 31 shall consist of the actual gross cost of borrowing to finance purchases under the policy assignable to the period less net income during the period from the temporary employment of the borrowed funds.

(b) Actual gross costs of borrowing shall comprise:

(i) interest paid or accrued to lenders on the average daily amount of balances borrowed; and

(ii) fees, commissions, and any other primary costs directly payable to lenders or incurred in order to secure the borrowed funds, prorated for six-month periods ending June 30 and December 31 in proportion to the duration of the borrowing arrangements to which such costs relate, or to the period covered by these costs.

(c) Net income from temporary employment of borrowed funds pending disbursement shall be determined by taking into account:

(i) income received and income accrued from investments or other operations to secure a rate of return;

(ii) operational expenses (paid and accrued) incurred directly by the Fund in order to obtain this income, prorated over the period to maturity of the investment; and

(iii) any net gain or loss, calculated to the end of each six-month period ending June 30 or December 31, resulting from exchange valuation adjustments of currency balances and investments representing the undisbursed proceeds of borrowing in terms of the SDR.

(6) The charge on holdings that have been acquired as the result of a sale of gold to a member pursuant to paragraph 2 of Executive Board Decision No. 5293-(76/167) and that are in excess of quota after the exclusion of any holdings subject to (1), (2), (3), (4), or (5) above shall be the higher of 4 per cent per annum or the rate of charge under (4) above.

(7) The charge on holdings acquired otherwise than as the result of a

[44] See pages 153–55.

purchase, that are not subject to (6) above, and that are in excess of quota after the exclusion of any holdings subject to (1), (2), (3), (4), or (5) above, shall be the rate of charge under (4) above.

(8) The Fund may review the rates of charge to be levied on its holdings of a member's currency that have not been repurchased in accordance with the requirements of the Articles or decisions of the Fund, and, after consultation with the member on the reduction of the Fund's holdings of such currency, may impose such charges as it deems appropriate.

(9) The initial rates of charge on balances held on the date of the Amendment that are subject to (1), (2), or (3) above shall be the rates for the first 12 months.

(10) (a) Effective April 21, 1978, holdings of a currency that would otherwise be subject to the schedule of charges in Rule I-7(5)(b) in effect on that date [see Appendix] shall be subject to the following charges if they have been acquired by the Fund as a result of purchases under stand-by arrangements taking effect before the earlier of July 1, 1979 and the date on which the supplementary financing facility becomes effective and are in excess of 200 per cent of quota: the average yield to constant five-year maturity of U.S. Government securities in New York over the six months preceding the determination of the rate of charge, rounded upwards to the nearest 0.25 per cent, plus 0.25 per cent. The rate applicable under this paragraph (a) shall be calculated on July 1, 1978 and at intervals of six months thereafter. Each rate so calculated shall apply during the six months preceding the date of the calculation.

(b) Effective April 21, 1978, holdings of a currency that would otherwise be subject to Rule I-7(6) in effect on that date [see Appendix] shall be subject to the rate in paragraph (a) above if they have been acquired by the Fund as a result of purchases under extended arrangements taking effect before the earlier of July 1, 1979 and the date on which the supplementary financing facility becomes effective, to the extent that the Fund's holdings of the member's currency resulting from purchases under that facility exceed 140 per cent of quota.

(11) Rule I-7(5)(a) and (9) of the Rules and Regulations in effect on the day preceding May 1, 1981 [see Appendix] shall continue to apply to holdings of a member's currency acquired by the Fund prior to July 1, 1974, on which charges are levied on the effective date of this Rule.

Decision No. 6834-(81/65)
April 22, 1981, effective May 1, 1981

Appendix

Rule 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 the exclusion of any segments subject to (1), (2), (3), or (4) above, shall be,

(a) if the segment includes holdings acquired prior to July 1, 1974:

(i) to the extent that the segment is within the first bracket of 50 per cent in excess of quota, nil for the first 3 months, 2 per cent per annum for the next 15 months, and an additional ½ of 1 per cent per annum for each subsequent 6 months;

(ii) to the extent that the segment is within the second bracket of more than 50 per cent and not more than 100 per cent in excess of quota, nil for the first 3 months, 2 per cent per annum for the next 9 months, and an additional ½ of 1 per cent per annum for each subsequent 6 months;

(iii) to the extent that the segment is within the third bracket of more than 100 per cent in excess of quota, nil for the first 3 months, 2 per cent per annum for the next 3 months, and an additional ½ of 1 per cent per annum for each subsequent 6 months;

provided that, subject to (9) below, the rate shall not increase above 5 per cent per annum;

(b) if the segment includes holdings acquired on or after July 1, 1974:

(i) 4⅜ per cent per annum for the first 12 months, provided that if in any period of 6 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 12 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 12 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 6-month period that a different rate of charge shall apply; and

(ii) an additional ½ of 1 per cent per annum for each additional 12 months, provided that, subject to (9) below, the rate shall not increase above 6⅜ per cent per annum.

This provision shall be reviewed if the Fund's total annual income substantially exceeded its total annual expenses.

(6) The charge on a segment that has been acquired as the result of a purchase under the extended Fund facility (Decision No. 4377-(74/114),[45] as amended), and that is in excess of quota after excluding any segments subject to (1), (2), (3), or (4) above, shall be,

(i) the rate of charge in (5)(b)(i) above for the first 12 months; and

(ii) an additional ½ of 1 per cent per annum for each additional 12 months, provided that, subject to (9) below, the rate shall not increase above the rate in (5)(b)(i) above plus 2½ per cent per annum.

* * *

Rule I-7(9) The Fund may review the rates of charge to be levied on its holdings of a member's currency that have not been repurchased in accordance with the requirements of the Articles or decisions of the Fund, and, after consultation with the member on the reduction of the Fund's holdings of its currency, may impose such charges as it deems appropriate.

Q. Purchases Under Stand-By and Extended Arrangements—Amendment of Rule G-4

Effective May 1, 1981, Rule G-4 shall read as follows:

(a) When a duly authenticated request is received for a purchase in accordance with Article V, Section 3, other than a reserve tranche purchase or a purchase under a stand-by or extended arrangement, the Fund shall promptly consider the request. Instructions for a transfer of currency shall be given by the Fund on the day of its decision approving the purchase, except when the Executive Board decides otherwise. When a request is received for a reserve tranche purchase of currency, or subject to (b) below for a purchase of currency in accordance with a stand-by or extended arrangement, the Fund's instructions to the appropriate depository to make the transfer shall be given not later than the close of the first business day following receipt of the request.

[45] *Selected Decisions of the International Monetary Fund and Selected Documents,* Eighth Issue (Washington, 1976), pages 50–54.

(b) The value date for purchases involving borrowed resources under stand-by and extended arrangements will normally be either the fifteenth day or the last day of the month, or the next business day thereafter if the day selected is not a business day. Instructions to the appropriate depository for requested purchases under these arrangements will be given two business days before a value date with respect to requests received on or before the third business day preceding the value date. Requests not received in time for instructions to be sent for a value date will be met at the next value date.

(c) Repurchases in respect of a purchase financed with borrowed resources should be made normally with a value date of either the sixth day or twenty-second day of the month, or the next business day if the day selected is not a business day, provided that repurchase will be completed not later than seven years from the date of purchase.

(d) Members should consult the Fund in a timely manner with respect to the time they expect to make a purchase or a repurchase and in order to ascertain the date by which a request to purchase must be made or instructions given by the member to depositories with respect to a repurchase in order for instructions to be given for a specific date.

Decision No. 6839-(81/70)
April 29, 1981

R. Borrowed Resources Suspense Accounts

(a) Establishment

1. The Managing Director is authorized (i) to establish Borrowed Resources Suspense Accounts within the General Department, (ii) to transfer to these Accounts balances of currencies borrowed before these can be used in transactions or received in repurchases made before repayment can be made, and (iii) to invest these balances until they can be transferred to the General Resources Account for immediate use in a transaction or an operation.

2. A Borrowed Resources Suspense Account for each currency shall be opened, as needed, with the depository designated pursuant to Article XIII, Section 2, by a member whose currency is to be borrowed, used for investment, or used in repayment or the payment of interest and shall be operated in accordance with the standard procedures for the operation of the Fund's No. 1 and Securities Accounts with the depository.

Decision No. 6844-(81/75)
May 5, 1981

(b) Investment of Currencies Held in Borrowed Resources Suspense Accounts

1. The Managing Director is authorized to invest currencies held in the Borrowed Resources Suspense Accounts in one or more of the following ways: (a) deposits with a national official financial institution of a member, or an international financial institution, that are denominated in special drawing rights; (b) marketable obligations issued by a member or by a national official institution of a member and denominated in special drawing rights; and (c) marketable obligations issued by an international financial institution and denominated in special drawing rights.

2. The policy on the investment of the undisbursed amounts held in the Borrowed Resources Suspense Accounts shall take into account the operational needs of the General Resources Account, including the dates on which members are expected to make purchases from the Fund under its policy on enlarged access.

3. (a) The Managing Director, when making arrangements for the placement of investments in accordance with paragraphs 1 and 2 above, shall consider the terms offered by a national official financial institution of the member issuing the currency borrowed, or to which the borrowed funds may be transferred, that will accept investments denominated in special drawing rights, and the terms offered by the Bank for International Settlements, for all or part of the intended investment in SDR-denominated deposits.

(b) In the event the Managing Director considers that none of the offers made by the central banks and by the BIS is sufficiently attractive, he shall inform the Executive Board promptly and make other proposals to it for investment in SDR-denominated obligations.

4. The Managing Director is authorized to transfer borrowed funds at the time of the original receipt from the Borrowed Resources Suspense Account in the depository designated by the member whose currency was borrowed to the Borrowed Resources Suspense Account in the depository designated by the member whose currency is to be used in an investment when this transfer is necessary to effect an investment denominated in special drawing rights, and when this transfer has been concurred in by the two members whose currencies will be involved.

Decision No. 6845-(81/75)
May 5, 1981

S. Compensatory Financing of Fluctuations in the Cost of Cereal Imports

1. For an initial period of four years from May 13, 1981, the Fund will be prepared to extend financial assistance in accordance with the terms of this decision to members that encounter a balance of payments difficulty produced by an excess in the cost of their cereal imports. The amount of this financial assistance will be determined in accordance with this decision, which integrates this assistance with that available in accordance with the facility established by the decision on the compensatory financing of export fluctuations (Executive Board Decision No. 6224-(79/135)).[46]

2. For a period of three years from the date of a member's first request for a purchase under this decision, any purchases by the member in respect of its export shortfalls shall be made under this decision instead of under Decision No. 6224.

3. A member with balance of payments difficulties may expect that its request for a purchase under this decision will be met if the Fund is satisfied that

(a) any shortfall in exports and any excess costs of cereal imports that result in a net shortfall in the member's exports are of a short-term character and are largely attributable to circumstances beyond the control of the member; and

(b) the member will cooperate with the Fund in an effort to find, where required, appropriate solutions for its balance of payments difficulties.

4. (a) Subject to the limits specified in paragraph 9, a member may request a purchase under this decision for an amount equal to the net shortfall in its exports calculated as the sum of its export shortfall and the excess in its cereal import costs.

(b) (i) For the calculation of the net shortfall in exports, an excess in exports shall be considered a negative shortfall in exports and a shortfall in cereal import costs shall be considered a negative excess in cereal import costs.

(ii) An export shortfall shall be determined in accordance with Decision No. 6224.

(iii) An excess in cereal import costs shall be determined in accordance with paragraphs 5 and 6.

5. The existence and amount of an excess in the cost of cereal imports shall be determined, for the purpose of purchases under this decision, with respect to the latest 12-month period preceding the request for which the Fund has sufficient statistical data, provided that the Fund may allow a member to make a purchase on the basis of estimated data in respect of a 12-month period ending not later

[46] See *Annual Report, 1980,* pages 136–38.

than 12 months after the latest month for which the Fund has sufficient statistical data on the member's cereal import costs. The estimates used for this purpose shall be made in consultation with the member. The calculation of a member's shortfall or excess in exports and its excess or shortfall in the cost of its cereal imports shall be made for the same 12-month period.

6. In order to identify more clearly what are to be regarded as excess costs of cereal imports of a short-term character, the Fund, in consultation with the member concerned, will seek to establish reasonable estimates regarding the medium-term trend of the member's cereal import costs. For the purposes of this decision, the excess in a member's cereal imports for the 12-month period referred to in paragraph 5 shall be the amount by which the member's cereal imports in that 12-month period are more than the arithmetic average of the member's cereal imports for the five-year period centered on that 12-month period.

7. The amount of a purchase under this decision, as defined in paragraph 4, may be either in relation to an export shortfall or to an excess in cereal import costs, or the amount may consist of two components, one relating to an export shortfall and the other relating to an excess in cereal import costs. The total amount of the purchase and the amount of each component are subject to the limits specified in paragraph 9.

8. (a) The part of the purchase relating to an export shortfall, subject to the limit in paragraph 9(b), shall not exceed the lesser of the export shortfall defined in paragraph 4(b)(ii) and the net shortfall in exports defined in paragraph 4(a).

(b) The amount of a purchase relating to an excess in cereal import costs, subject to the limit in paragraph 9(c), shall not exceed the lesser of the excess in cereal import costs defined in paragraph 4(b)(iii) and the net shortfall in exports defined in paragraph 4(a).

9. (a) The total amount of a member's purchases outstanding under this decision and Decision No. 6224 shall not exceed an amount equal to 125 per cent of quota, provided that a request for a purchase that would increase the total amount of the member's purchases outstanding under this decision and Decision No. 6224 beyond 50 per cent of quota will be met only if the Fund is satisfied that the member has been cooperating with the Fund in an effort to find, where required, appropriate solutions for its balance of payments difficulties.

(b) The total amount of a member's purchases outstanding under Decision No. 6224 and this decision that are related to export shortfalls shall not exceed 100 per cent of quota.

(c) The total amount of a member's purchases outstanding under this decision that are related to the excess in cereal import costs shall not exceed 100 per cent of quota.

10. Where the sum of the export shortfall and cereal import components, as limited by paragraph 9(b) and paragraph 9(c), exceeds the limit specified in paragraph 9(a), the member shall allocate the amount of its purchase as between the two components.

11. Purchases under this decision and holdings resulting from such purchases shall be excluded pursuant to Article XXX(*c*) for the purpose of the definition of "reserve tranche purchase." For the purpose of applying the Fund's policies on the use of its resources, holdings resulting from the use of the Fund's resources under the policy set forth in this decision shall be considered to be separate from the holdings resulting from the use of the Fund's resources under any other policy, except the policy set forth in Decision No. 6224.

12. When a member requests a purchase on the basis of estimated statistical data

the member will be expected to represent that, if the amount of the purchase exceeds the amount that could have been purchased on the basis of actual statistical data, the member will make a prompt repurchase in an amount equivalent to the over-compensation.

13. (a) Subject to paragraph 12, when a reduction in the Fund's holdings of a member's currency is attributed to a purchase under this decision the member shall attribute that reduction between the outstanding cereal import component and export shortfall component of the purchase.
(b) When the Fund's holdings of a member's currency resulting from a purchase under this decision or Decision No. 6224 are reduced by the member's repurchase or otherwise, the member's access to the Fund's resources under this decision will be restored *pro tanto,* subject to the limits in paragraph 9.

14. (a) After the expiration of the period referred to in paragraph 2, the total amount of the export shortfall components of a member's purchases outstanding under this decision shall be counted as having been purchased under Decision No. 6224, and the resulting total of the amounts outstanding under Decision No. 6224 and the cereal import components outstanding under this decision shall not exceed 125 per cent of quota.
(b) The provisions of Decision No. 6224 shall continue to apply to the export shortfall component of a purchase under this decision after the expiration of the period referred to in paragraph 2 or the expiration of this decision.

15. In order to implement the Fund's policies in connection with the financing of members' cereal import costs and the compensatory financing of export shortfalls, the Fund will be prepared to waive the limit on the Fund's holdings of 200 per cent of quota, (i) when necessary to permit purchases to be made under this decision or (ii) to the extent that purchases are outstanding under this decision.

16. The Fund will indicate in an appropriate manner which purchases by a member are made pursuant to this decision, and the export shortfall component and the cereal import component of each.

17. The Executive Board will review this decision not later than June 30, 1983, and when quota increases under the Eighth General Review of Quotas become effective.

Decision No. 6860-(81/81)
May 13, 1981

Amendment of Rule I-6(4)

The introductory paragraph of Rule I-6(4) of the Fund's Rules and Regulations shall be amended by the addition of ", or (v) under the facility for compensatory financing of fluctuations in the cost of cereal imports (Executive Board Decision No. 6860-(81/81))" to read as follows:

> I-6(4) The rate of charge on holdings acquired as a result of a purchase (i) in the credit tranches, or (ii) under the extended Fund facility (Executive Board Decision No. 4377-(74/114),[47] as amended), or (iii) under the facility for the compensatory financing of export fluctuations (Executive Board Decision No. 4912-(75/207),[48] as amended), or (iv) under the facility for the problem of stabilization of prices of primary products (Executive Board Decision No. 2772-(69/47),[49] as amended), or (v) under the facility for compensatory financing of fluctuations in the cost of cereal imports (Executive Board Decision No. 6860-(81/81),[50] shall be determined in accordance with (a), (b), and (c) below.

Decision No. 6861-(81/81)
May 13, 1981

[47] *Selected Decisions of the International Monetary Fund and Selected Documents,* Eighth Issue (Washington, 1976), pages 50–54.
[48] *Ibid.,* pages 62–66.
[49] *Ibid.,* pages 66–67.
[50] See pages 169–71.

Amendment of Decision No. 5703-(78/39)[51]

Paragraph 1(a) of Decision No. 5703-(78/39) shall be amended by the addition of "or the decision on compensatory financing of fluctuations in the cost of cereal imports" to read as follows:

1. (a) Repurchases of the outstanding amount of a member's currency that results from a purchase under the credit tranches and is subject to charges under Article V, Section 8(*b*), or under the decision on compensatory financing of export fluctuations (Decision No. 4912-(75/207),[52] as amended) or the decision on the problem of stabilization of prices of primary products (Decision No. 2772-(69/47),[53] as amended), or the decision on compensatory financing of fluctuations in the cost of cereal imports (Decision No. 6860-(81/81)),[54] shall be completed, pursuant to Article V, Section 7(*c*), five years after the date of the purchase, provided that the repurchase shall be made in equal quarterly installments during the period beginning three years and ending five years after the date of the purchase unless the Fund approves a different schedule.

Decision No. 6862-(81/81)
May 13, 1981

T. Borrowing Agreement with the Saudi Arabian Monetary Agency

1. The International Monetary Fund deems it appropriate, in accordance with Article VII of the Articles of Agreement, to replenish its holdings of currencies by borrowing in order to finance purchases made under the policy on enlarged access to the Fund's resources established by Executive Board Decision No. 6783-(81/40),[55] adopted March 11, 1981.

2. The Managing Director is authorized to send to the Governor of the Saudi Arabian Monetary Agency the letter, with Annexes A, B, C, and D, substantially in the terms set forth in the Attachment [below]. When a duly authenticated reply is received from the Governor, the letter, with the Annexes, and the Governor's reply shall constitute an agreement between SAMA and the Fund (hereinafter called the Agreement) which shall enter into force on the date on which the Fund receives such reply.[56]

3. (a) The Managing Director is authorized to give notices for calls and to make calls from time to time under the Agreement for such amounts as he deems to be necessary in order for the Fund to be in a position to meet purchases under the policy on enlarged access to the Fund's resources.

(b) The Executive Board shall be informed of the notices given and calls made under the Agreement and the disposition of the amounts borrowed, in the fortnightly reports to the Executive Board on operations and transactions of the Fund.

4. The Managing Director is authorized to arrange for the issue and delivery on behalf of the Fund of promissory notes in bearer form with coupons (hereinafter called Notes) when, in accordance with the terms and conditions set forth in the Agreement, the Saudi Arabian Monetary Agency requests the Fund to issue and deliver such Notes in exchange for all or part of any outstanding installment of any loan made under the Agreement. This authority shall extend to the issue and delivery of Notes in exchange for or replacement of Notes previously issued, as contemplated by the terms and conditions of such Notes. The Notes to be issued and delivered shall be substantially in the form set out in Annex B to the letter of the Managing Director referred to in paragraph 2 above, and shall contain the terms and conditions set forth in such Annex, as amended from time to time. Such Notes shall be signed in the name of the Fund either manually by or with the facsimile signature of the Managing Director and the Treasurer and, if facsimile signatures are used, shall be countersigned manually by an officer or other authorized repre-

[51] *Selected Decisions of the International Monetary Fund and Selected Documents,* Supplement to Eighth Issue (Washington, 1978), pages 43–45.
[52] *Selected Decisions of the International Monetary Fund and Selected Documents,* Eighth Issue (Washington, 1976), pages 62–66.
[53] *Ibid.,* pages 66–67.
[54] See pages 169–71.
[55] See pages 153–55.
[56] The Agreement entered into force on May 7, 1981.

sentative of the Fund designated by the Managing Director. The coupons attached to the Notes shall bear the manual or facsimile signature of an officer or other authorized representative of the Fund designated by the Managing Director.

5. The Managing Director is authorized to designate financial institutions as paying agents under the Notes and to designate agents for service of process, as contemplated in the form of the Bearer Notes set out in Annex B to the letter of the Managing Director referred to in paragraph 2 above, and to agree with each such agent upon the terms of its services and any remuneration therefor.

Decision No. 6843-(81/75)
May 6, 1981

Attachment

May 7, 1981

Your Excellency:

I refer to the recent decision of the Executive Board of the International Monetary Fund (hereinafter called the Fund) providing for enlarged access by members to the resources of the Fund. Pursuant to Article VII of the Articles of Agreement of the Fund (hereinafter called the Articles) and Executive Board Decision No. 6843-(81/75), adopted May 6, 1981, I have been authorized to propose on behalf of the Fund that the Saudi Arabian Monetary Agency (hereinafter called SAMA) agree to assist in the financing of such enlarged access, by lending resources to the Fund in accordance with the arrangements set forth below.

1. (a) SAMA will stand committed to make loans to the Fund under this Agreement in a maximum aggregate amount which shall be limited to the equivalent of SDR 4 billion in the first year after the entry into force of this Agreement, and shall increase at the beginning of the second year by SDR 4 billion to a cumulative total equivalent to SDR 8 billion. The commitment shall be effective for a period of six years (hereinafter called the commitment period) from the entry into force of this Agreement.

(b) Before the end of the eighteenth month following the entry into force of this Agreement, SAMA and the Fund shall review the overall commitment of SAMA under this Agreement, but this review shall not affect the commitment of SDR 8 billion referred to in (a) above. In connection with the review, the Fund hopes that SAMA will agree at that time to increase its commitment by a further SDR 4 billion with effect from the beginning of the third year of the commitment period.

2. (a) Subject to the ceiling amounts provided in or under paragraph 1 and to (b) and (c) below, the Fund may call upon SAMA at any time during the commitment period to make loans under this Agreement, provided that the aggregate amount of loans made in any one of the six years of such period shall not exceed the equivalent of SDR 4 billion.

(b) During the first year of the commitment period the Fund shall call for loans in an aggregate amount equivalent to at least SDR 1 billion.

(c) Unless otherwise agreed between SAMA and the Fund, the Fund shall give SAMA at least 90 days' notice of its intention to make a call hereunder and of the amount which it intends to call; provided that during the first 90 days following the date of this Agreement the Fund may make calls in an aggregate amount not exceeding SDR 500 million after giving SAMA as much advance notice of each call as is reasonably practicable in the circumstances.

(d) Prior to the beginning of each year of the commitment period the Fund shall provide SAMA with its best estimates of the minimum and maximum amounts which it expects to call during the year, and shall provide revised estimates periodically during the year.

3. (a) SAMA shall make each loan hereunder by transferring to the account of the Fund with SAMA the equivalent in Saudi riyals of the loan amount called for by the Fund, on the value date specified by the Fund in its call. In addition to Saudi Arabia's obligations under the Articles regarding the exchange of its currency, SAMA agrees that, on request, it shall exchange riyals provided hereunder for U.S. dollars to the extent required for investment pending use of the borrowed funds in transactions of the Fund.

(b) Transfers and exchanges under (a) above shall be at equal value exchange rates determined pursuant to Article XIX, Section 7(*a*) and the Rules and Regulations of the Fund thereunder for the value dates specified pursuant to (a) above.

(c) No charge or commission shall be imposed by SAMA with respect to any transfer or exchange of currency made pursuant to this Agreement.

4. (a) Interest on each loan shall be computed on the basis of successive interest periods, with the first interest period commencing on the day following the date the loan is made and ending on the first interest payment date under the loan, and each subsequent period commencing on the day following an interest payment date and ending on the next such date. During each interest period, interest shall accrue daily on the outstanding amount of the loan at the combined market interest rate per annum computed by the Fund for that period in the manner set forth in Annex A to this Agreement. Following each computation the Fund shall promptly communicate the rate to SAMA.

(b) Interest accrued on the outstanding amount of each loan shall be payable by the Fund semiannually, on interest payment dates falling at successive intervals of six calendar months from the date the loan is made; except that (i) whenever a six-monthly date does not fall on a banking day, the interest payment date shall be the banking day immediately preceding that six-monthly date, and (ii) the final interest payment date for the loan shall be the date the loan is repaid in full as provided in this Agreement. For purposes of this Agreement, the term "banking day" means a day on which banks are open for business in the place where payment is to be made.

5. Except as otherwise provided in this Agreement, each loan shall be repaid by the Fund in four equal annual installments on the fourth, fifth, sixth, and seventh anniversaries respectively of the date the loan is made, except that when an anniversary does not fall on a banking day, payment shall fall due and be made on the banking day immediately preceding such anniversary.

6. (a) Payments of principal of and interest on each loan may be made in Saudi riyals, in any freely usable currency or in special drawing rights, or in any combination of these means of payment, as may be agreed between SAMA and the Fund; provided that, failing agreement, payments shall be made, at the option of the Fund, in Saudi riyals or U.S. dollars. For purposes of this Agreement, a freely usable currency means a currency which the Fund has determined to be freely usable pursuant to Article XXX(*f*) of the Articles.

(b) Payments in Saudi riyals shall be made by debiting the account of the Fund with SAMA. Payments in any other currency shall be made by transfer to an account in that currency designated by SAMA with a bank in the country issuing the currency selected for payment, or in such other manner as may be agreed between SAMA and the Fund. Payments in special drawing rights shall be made by crediting the holdings account of Saudi Arabia in the Special Drawing Rights Department of the Fund.

7. The Fund shall issue to SAMA at its request a nonnegotiable certificate in

respect of each outstanding loan, evidencing the principal amount that the Fund is committed to repay under this Agreement. As soon as practicable after amounts of the loan are repaid, transferred or exchanged for Notes pursuant to this Agreement, SAMA shall surrender the certificate for cancellation and the Fund shall issue a new certificate evidencing the balance of the loan amount, if any, remaining outstanding.

8. (a) All amounts under this Agreement, including the principal amount of each loan, shall be expressed in terms of the special drawing right. For purposes of payments by the Fund of the principal of and interest on each loan in currency, the value of a special drawing right in terms of the currency of payment shall be that determined by the Fund pursuant to Article XIX, Section 7(*a*) of the Articles for a date three business days of the Fund before such payment is to be made, or, if no such value has been determined for that date prior to the time payment is to be made, the value as of the last preceding date for which a determination has been made by the Fund.

(b) If the Fund should decide to change the method of valuation of the special drawing right, SAMA may at its option require that the method of valuation in effect immediately prior to such change continue to apply to any or all loans made hereunder which are outstanding at the date the change becomes effective, other than loans outstanding at the date of a previous change in respect of which SAMA has already exercised its option under this subparagraph (b). The option of SAMA hereunder shall be exercised by notice to the Fund within 30 days after the adoption of the Fund's decision, but not later than 14 days after the date the change becomes effective.

(c) If SAMA shall have exercised its option under (b) above, (i) the Fund shall be entitled, at any time thereafter, to repay any or all loans with respect to which the option has been exercised, upon giving at least 14 days' notice to SAMA of its intention to make such repayment, and (ii) SAMA's right to request Notes pursuant to paragraph 15 of this Agreement shall terminate with respect to all such loans.

9. (a) The Fund may, at its option, repay in advance of maturity any loan or installment thereof on any interest payment date applicable to such loan, provided that it has given SAMA at least 60 days' notice of its intention to make such repayment.

(b) By agreement between SAMA and the Fund, any loan or installment thereof may be repaid by the Fund at any time in advance of maturity.

10. (a) SAMA may at any time represent to the Fund that in view of the balance of payments and reserve position of Saudi Arabia there is a need for repayment in advance of maturity of all or a specified part of the loan amounts outstanding under this Agreement, and may request the Fund to make such repayment. Whether or not such a request has been made, SAMA may at any time represent to the Fund that the balance of payments and reserve position of Saudi Arabia does not justify the making of further calls under paragraph 2 and may request the Fund to suspend such calls.

(b) If it determines that the balance of payments and reserve position of Saudi Arabia gives rise to a need for repayment as requested by SAMA or justifies the suspension of calls, as the case may be, the Fund shall repay or suspend further calls as requested. In making its determination, and in any subsequent determination of whether improvements in the position of Saudi Arabia justify the resumption of calls after a period of suspension, the Fund shall give the overwhelming benefit of any doubt to the representation of SAMA in the matter.

(c) Promptly after making a determination under (b) above that there is a need for repayment, the Fund shall repay to SAMA a portion of the total outstanding loans equivalent to SDR 4 billion or the full amount of such outstanding loans, whichever is less, with the repayment being applied to such loans in the reverse order of maturity. Within 12 months after such determination the Fund shall repay any balance of such loans still outstanding.

11. (a) If Saudi Arabia withdraws from the Fund, the right of the Fund to make further calls under paragraph 2 shall terminate. Loans outstanding at the date of such withdrawal shall be repaid by the Fund in quarterly installments each equivalent to SDR 2 billion or the full amount of outstanding loans, whichever is less, with the first payment being made within seven days after the withdrawal and with each installment being applied to outstanding loans in the reverse order of maturity. In all other respects the provisions of this Agreement shall continue in effect except paragraphs 10 and 14, which shall cease to apply.

(b) In the event of liquidation of the Fund, the right of the Fund to make further calls under paragraph 2 and the right of SAMA to transfer loan claims under paragraph 14 and to request Notes under paragraph 15 shall terminate. All loans outstanding at the date of liquidation shall become immediately due and payable as liabilities of the Fund under the provisions of the Articles pertaining to such liquidation, and shall be paid as provided in paragraph 6.

12. (a) The Fund covenants that, so long as any loan made hereunder shall be outstanding, the Fund will not cause or permit to be created on any of the property or assets held by the Fund on its own account any mortgage, pledge, lien or charge as security for any notes or bonds issued or other indebtedness heretofore or hereafter incurred by the Fund through borrowing for its own account (other than mortgages, pledges, liens or charges on property, not including monetary assets, purchased by the Fund securing all or part of the purchase price thereof) unless the loans made hereunder shall be equally and ratably secured by such mortgage, pledge, lien or charge. In addition, the Fund agrees that loan claims under this Agreement shall rank *pari passu* in respect of priority of payment with the highest-ranking debt incurred by the Fund through borrowing for its own account.

(b) A default under any security arrangement agreed between the Fund and any lender after the date of this Agreement shall be deemed to constitute a default under this Agreement to the same extent as if the security arrangement were incorporated herein for the benefit of SAMA. For purposes of this subparagraph (b), the term "security arrangement" shall include affirmative and negative covenants, events of default or conditions of mandatory prepayment and all similar undertakings for the benefit of creditors, but shall not include financial terms such as interest rates, spreads or margins, commissions or fees or maturity schedules.

(c) If the Fund enters into a borrowing arrangement with any lender that is a member of the Fund or the central bank of a member which (i) is on financial terms that can reasonably be considered by either SAMA or the Fund to be more favorable to the lender than those provided herein and is entered into during the period of two years following the entry into force of this Agreement, or (ii) contains provisions under which the Fund waives its immunity from judicial process with respect to the settlement of disputes, SAMA and the Fund shall at the request of SAMA consult with a view to reaching agreement on an amendment to this Agreement under which comparable financial terms or a comparable waiver of immunity are applied to loans by SAMA hereunder, and, to the extent appropriate to any Notes that may subsequently be delivered to SAMA in exchange for such loans. In addition, if at any time while any loan made hereunder remains outstanding the Fund accords to any holder of its notes, bonds, or similar obligations a waiver of immunity more extensive in scope than the waiver contained in the form of Note attached as Annex B, SAMA and the Fund shall at the request of SAMA consult with a view to reach an agreement on an amendment to this Agreement that will accord a waiver of comparable scope in respect of any Notes that may subsequently be delivered to SAMA hereunder. If no such agreement on an amendment has been reached within 30 days from the date of SAMA's request, the matter shall be settled by arbitration in accordance with paragraph 18.

13. If the Fund should default in payment of the principal of or interest on, or in the performance of any of its other obligations relating to, any loan made or any Note issued hereunder, or in the payment of the principal of or interest on any other indebtedness incurred by the Fund for its own account under arrangements entered into after March 31, 1981, and such default shall have continued for a period of 90 days, or if in any material respect the representation contained in Annex C is not carried out or the opinions and conclusions of the Director of the Legal Department of the Fund contained in Annex D prove to be incorrect, SAMA may by notice to the Fund terminate the Fund's rights to make further calls hereunder and declare the principal amount of all outstanding loans due and payable, together with accrued interest thereon, and on the thirtieth day after such notice is delivered to the Fund such amounts shall become due and payable, unless prior to that time the default shall have been remedied.

14. (a) SAMA may at any time transfer its claims on the Fund under this Agreement with respect to any outstanding loan or installment thereof to any member of the Fund, or to any central bank or other agency of a member that has been designated as the member's agency for dealing with the Fund for purposes of Article V, Section 1 of the Articles, or to any other entity prescribed by the Fund as a holder of special drawing rights pursuant to Article XVII, Section 3 of the Articles.

(b) A transfer shall become effective on the date agreed between SAMA and the transferee. SAMA shall promptly give notice to the Fund of the transfer, the name of the transferee, the loan or installment thereof which is the subject of the transfer and the date of the transfer. On receipt of such notice the Fund shall record the transfer in its books and all amounts of principal and interest subsequently payable by the Fund in respect of the loan or installment shall be paid to the transferee.

(c) On the effective date of the transfer the rights of SAMA provided in this Agreement with respect to the loan or installment which is the subject of the transfer, including without limitation the right of transfer provided in this paragraph, the right to request Notes pursuant to paragraph 15, and the right of arbitration provided in paragraph 18, shall for all purposes vest in the transferee; except that (i) if the transferee is a member of the Fund or the central bank or other agency of a member, references in this Agreement to Saudi riyals and to Saudi Arabia shall be deemed to refer to the currency of the transferee and to the relevant member respectively; (ii) if the transferee is not a member of the Fund or the central bank or other agency of a member, references to Saudi riyals shall be deemed to refer to any freely usable currency, and references to Saudi Arabia shall not apply; and (iii) the right to request repayment pursuant to paragraph 10 shall be exercisable by the transferee only if it is a member, or the central bank or other agency of a member, that at the time of the transfer 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 currency budgets for the foreseeable future.

(d) Notwithstanding the foregoing provisions of this paragraph, no transfer shall relate to any loan or installment in respect of which a request has already been made to the Fund pursuant to paragraph 15 for the issue of Notes.

15. (a) SAMA may at any time request the Fund to deliver promissory notes in bearer form (hereinafter called Notes) in exchange for all or part of any outstanding installment of any loan made hereunder, except a loan in respect of which SAMA has exercised the option specified in paragraph 8. Within 30 days after receiving such request the Fund shall deliver such Notes to SAMA, without charge. The Notes shall be in denominations of SDR 1 million, 5 million or any integral

multiple of 5 million as specified by SAMA in its request, provided that in no circumstances shall the aggregate principal amount of such Notes exceed the outstanding amount of the loan installment in exchange for which they are issued.

(b) Unless otherwise agreed between SAMA and the Fund, Notes shall be in the form attached hereto as Annex B, as amended pursuant to paragraph 12(c) up to the date of delivery of such Notes, and shall contain the terms and conditions set forth in such Annex. Within 30 days after the entry into force of this Agreement, the Fund shall designate one or more financial institutions acceptable to SAMA as paying agents under the Notes, and shall designate agents for service as contemplated in the Notes.

(c) Each Note delivered to SAMA shall be dated as of the date the loan to which it relates was made or the date interest on such loan was last paid by the Fund, whichever is the later, and shall have a maturity date corresponding to that of the loan installment in exchange for which it is issued, such maturity date being fixed to fall on a banking day in New York. Interest coupons shall be attached for each interest payment date applicable to such installment after the date of the Note, up to and including the maturity date. Each Note shall be duly authorized by, and duly executed by or on behalf of, the Fund and shall constitute a valid obligation of the Fund in accordance with its terms.

(d) Delivery of each Note shall be effected in such manner as shall be agreed between SAMA and the Fund. Such delivery shall be deemed to discharge the obligations of the Fund under this Agreement with respect to an amount of the relevant loan installment corresponding to the principal amount of the Note and with respect to all interest accrued on such amount and not previously paid.

(e) If within 30 days after receipt of SAMA's request the Fund has not complied with its obligation hereunder to deliver a Note duly requested by SAMA, in the principal amount requested, then with effect from the thirtieth day after such request the rights and obligations of SAMA and the Fund with respect to that amount shall be those set forth in the form of Note attached as Annex B (including paragraph 11 thereof) and not those set forth in this Agreement, except that the Fund shall not be relieved of its obligation under this Agreement to deliver the Note as requested.

(f) Notwithstanding the foregoing, the Fund shall not be obliged to deliver Notes hereunder during the period of ten days preceding any interest payment date under the loans in full or partial exchange for which such Notes are to be issued.

16. (a) With respect to any Notes delivered to SAMA hereunder that SAMA has not transferred to any other holder but has retained for its own account, and notwithstanding the terms and conditions contained in such Notes,

(i) if SAMA so requests at least 45 days before a payment of principal or interest falls due under any such Notes (the serial numbers and denominations of which shall be specified by SAMA in its request), the Fund shall arrange to make such payment to SAMA when it falls due in one of the currencies, other than U.S. dollars, used in valuing the special drawing right, that the Fund shall select. Payment shall be made, as provided in paragraph 6, against surrender of the Notes or coupons as the case may be at the principal office of the Fund; and

(ii) if the form of Note attached as Annex B is amended pursuant to paragraph 12(c) of this Agreement, the Fund shall at the request of SAMA made within 14 days after the amendment becomes effective exchange the Notes retained by SAMA for new Notes that shall incorporate the terms and conditions as so amended. The provisions of paragraph 15 of this Agreement shall apply *mutatis mutandis* to any such exchange.

(b) This paragraph shall continue in full force and effect, notwithstanding that all loans made under this Agreement have been repaid or exchanged for Notes, for as long as any Notes delivered pursuant to this Agreement shall remain outstanding.

17. The Fund confirms that, in entering into this Agreement and making loans hereunder, SAMA may rely on the representations contained in the document attached hereto as Annex C and on the opinions and conclusions contained in the document attached hereto as Annex D.

18. (a) Any question arising between SAMA and the Fund concerning their respective rights or obligations under this Agreement that does not relate to the interpretation of the provisions of the Articles and that cannot be settled by agreement shall be submitted to arbitration by a tribunal of three arbitrators. One arbitrator shall be appointed by SAMA, another by the Fund, and the third, who shall serve as umpire, by the President of the International Court of Justice, unless SAMA and the Fund otherwise agree. The umpire shall have full power to settle all questions of procedure in any case where the parties are in disagreement with respect thereto. The determination of the tribunal on the question shall be conclusive and binding on SAMA and the Fund and shall be promptly implemented in accordance with its terms. Any such determination that the Fund has defaulted in the performance of its obligations under this Agreement shall likewise be conclusive as to any termination or acceleration pursuant to paragraph 13 based on such default.

(b) SAMA and the Fund each undertakes to facilitate the expeditious commencement and conclusion of any arbitration proceedings requested by the other in accordance with this paragraph, and to use its best efforts to ensure that any such proceedings are concluded within six months, at the latest, from the date of such request.

If the foregoing proposal is acceptable to SAMA, this communication and your reply shall constitute an Agreement between SAMA and the Fund, which shall enter into force on the date on which the Fund receives your reply.

Very truly yours,

/s/

J. de Larosière
Managing Director

His Excellency
Sheikh Abdul Aziz Al-Quraishi
Governor, Saudi Arabian Monetary Agency
Riyadh, Saudi Arabia

Annex A

Computation of Interest Rate

1. For purposes of computing interest payable on each loan made under the Agreement (i) "interest computation date", in relation to the first interest period under a loan, means a date three business days of the Fund before the date the loan is made, and in relation to subsequent interest periods means a date three business days of the Fund before the interest payment date immediately preceding the commencement of such period, (ii) "reporting agency" means an agency which serves as the reporting agency for a currency used in making an interest computation, as provided in paragraph 3 below, and (iii) a "reported yield", in relation to a currency, means the yield applicable to that currency as provided in paragraph 3 below for the interest computation date or, if no such yield is available for that date, the yield for the next preceding day for which such yield is available, as reported to the Fund by the relevant reporting agency.

2. Except as provided in paragraph 4 below, the combined market interest rate shall be computed on the basis of the component currencies and the number of units of each such currency used by the Fund on the interest computation date in valuing the special drawing right pursuant to Article XIX, Section 7(*a*) of the Articles. The computation shall be made by multiplying the reported yield for each component currency on that date by the number of units of that currency used by the Fund in its valuation of the special drawing right, and by then multiplying the product by the value of such currency unit in terms of the special drawing right on that date. The resulting products for all component currencies, rounded to the nearest four decimal places, shall be added together, and the total, rounded up to the nearest 1/16 of 1 per cent, shall be the combined market interest rate to be applied during the ensuing interest period.

3. (a) The Fund, after consultation with SAMA, shall arrange for the central bank or other appropriate official agency in each country whose currency is a component currency in the valuation of the special drawing right to serve as the reporting agency hereunder and to report to the Fund the yield applicable to that currency as provided in (b) and (c) below, as needed for each interest computation. Initially the Fund has arranged for the following institutions to serve as reporting agencies for the currencies indicated.

French franc	Caisse des Dépôts et Consignations
deutsche mark	Deutsche Bundesbank
Japanese yen	Bank of Japan
pound sterling	Bank of England
U.S. dollar	Department of the Treasury

(b) The reported yield applicable to each currency shall be the gross yield to maturity, computed by the relevant reporting agency according to established practice in the domestic market of the country of such currency on the basis set out below:

(i) for the French franc, the yield to maturity on a representative sample of securities of major French public sector enterprises with an average remaining life in the range of four and a half to five and a half years, based on market prices and weighted by the volume of transactions in the securities during the previous week, as calculated by the Caisse des Dépôts et Consignations using the same method as it uses for the yield it publishes weekly;

(ii) for the deutsche mark, the yield to maturity on notes and bonds of the Federal Republic, Railways and Post Office with a remaining period to maturity of five years as calculated by the Deutsche Bundesbank on the basis published in the Statistical Supplement (Series 2, Table 8D) to the Bundesbank's Monthly Report;

(iii) for the Japanese yen, the yield to maturity of that ten-year Japanese Government bond with a remaining period to maturity closest to five years, based on the closing market price officially published by the Tokyo Stock Exchange;

(iv) for the pound sterling, the calculated redemption yield on British Government securities, determined for a constant maturity of five years, as calculated by the Bank of England on the basis published in its Quarterly Bulletin;

(v) for the U.S. dollar, the yield to maturity on actively traded U.S. Government securities, determined for a constant maturity of five years, as calculated by the U.S. Treasury and presently published each week by the Federal Reserve Board in Statistical Release H.15; and

(vi) for any other currency, the gross yield to maturity, computed by the relevant reporting agency according to established practice in the domestic market of the country of such currency, on representative issues of government securities with an average remaining period to maturity of five years, or, if such securities are not available, then on the closest substitute thereto selected by such reporting agency after consultation with the Fund and SAMA.

(c) If a reporting agency notifies the Fund that the yield described in (b) applicable to its currency can no longer be reported to the Fund, or that some material change has occurred making that yield no longer appropriate for the purpose of interest computations hereunder, SAMA and the Fund in consultation with the reporting agency shall seek to reach agreement on a substitute yield. Failing such agreement the yield shall be that which the reporting agency determines to be the most appropriate substitute for the purpose, having regard to the criteria specified in subparagraph (b) (vi) above.

4. Notwithstanding the foregoing, if the Fund should decide to change the method of valuation of the special drawing right, a new combined market interest rate shall be computed as of a date three business days of the Fund before the change becomes effective, but on the basis of the currencies and the units of each currency used by the Fund under the new method of valuation, and interest shall accrue at the previous rate until the effective date of the change and at the new rate from and including such effective date until the commencement of the next interest period after such effective date; provided that if SAMA has exercised its option under paragraph 8 of the Agreement, all interest computations thereafter on loans in respect of which such option has been exercised shall be made on the basis of the currencies and the units of each currency used by the Fund in its valuation immediately prior to the effective date of the change leading to the exercise of the option.

Annex B

Form of Bearer Note with Coupons

SDR________________ No.__________

INTERNATIONAL MONETARY FUND

700 19th Street, N.W., Washington, D.C. 20431

Floating Rate Coupon Bearer Note, Due _________, 19__

INTERNATIONAL MONETARY FUND (hereinafter called the Fund), for value received, hereby promises to pay to the bearer hereof, on presentation and surrender of this Note at any of the paying agencies of the Fund designated below, a principal sum in United States dollars equivalent to ______________________________ SDR on ________________, 19__ or such earlier repayment date as may be established pursuant to the provisions hereof, and to pay interest on the said principal sum in United States dollars, but only upon presentation and surrender at a designated paying agency of the interest coupons hereto attached as they severally become due. Interest on the principal sum shall accrue during the interest periods and at the rate for each such period hereinafter described, and shall be payable on the interest payment dates specified below.

The first interest payment date shall be ____________, 19__. Interest payment dates thereafter shall be each ________________ and ________________ in each year, except that (i) if any such date does not fall on a day on which banks are open for business in New York (hereinafter called a banking day) the interest payment date shall be the banking day immediately preceding such date, and (ii) the last interest payment date shall be the date payment of the principal sum is made or duly provided for.

The Fund has appointed as paying agents of the Fund [ ] at its principal office in Frankfurt, [ ] at its principal office in London, [ ] at its principal office in New York City, [ ] at its principal office in Paris, and [ ] at its principal office in Tokyo.[57] The Fund reserves the right to appoint other paying agents and to terminate the appointment of any paying agent, provided that the Fund shall always maintain paying agencies in Frankfurt, London, New York City, Paris and Tokyo.

At the bearer's option and subject to applicable laws and regulations, payment of the principal of and interest on this Note will be made at any of the paying agencies outside New York City by check drawn on a bank in New York City, or at the request of the bearer by transfer to a United States dollar account maintained by the payee with a bank in New York City.

This Note is one of a series of Bearer Notes of the Fund of several different issue dates and maturities duly authorized by Decision No. 6843-(81/75), adopted May 6, 1981, of the Executive Board of the Fund. All such Bearer Notes (hereinafter called Notes) shall rank *pari passu* in respect of priority of payment with the highest-ranking debt incurred by the Fund through borrowing on its own account. Notes are issuable in authorized denominations of SDR 1 million, 5 million, and integral multiples of 5 million. This Note is issued subject to the terms and conditions set forth below, without prejudice to the right of the Fund to issue other Notes containing different terms and conditions.

1. SDR means the special drawing right of the Fund. For purposes of any payment hereunder the value of a special drawing right in terms of United States dollars shall be that determined by the Fund pursuant to Article XIX, Section 7(*a*) of its Articles of Agreement for a date three business days of the Fund prior to the date such payment is to be made, or, if no such value has been determined for that date prior to the time payment is to be made, the value as of the last preceding date for which a determination has been made by the Fund.

2. (a) During each successive interest period until payment of the principal sum of this Note has been made or duly provided for, interest shall accrue daily on the principal sum at the combined market interest rate per annum computed by the Fund for that period. For purposes of computing interest, (i) the first interest period shall commence on the day following the date of this Note and shall end on the first interest payment date, and each subsequent interest period shall commence on the day following an interest payment date and shall end on the next succeeding interest payment date; (ii) "interest computation date", in relation to the first interest period, means a date three business days of the Fund before the date of this Note, and in relation to subsequent interest periods means a date three business

[57] This sentence will be worded in its final form as soon as the arrangements with paying agents have been completed.

days of the Fund before the interest payment date immediately preceding the commencement of such period; (iii) "reporting agency" means an agency which serves as the reporting agency for a currency used in making an interest computation, as provided in (c) below; and (iv) a "reported yield", in relation to a currency, means the yield applicable to that currency as provided in (c) below for the interest computation date or, if no such yield is available for that date, the yield for the next preceding day for which such yield is available, as reported to the Fund by the relevant reporting agency.

(b) Except as provided in (d) below, the combined market interest rate shall be computed on the basis of the component currencies and the number of units of each such currency used by the Fund on the interest computation date in valuing the special drawing right pursuant to Article XIX, Section 7(*a*) of the Articles of Agreement of the Fund. The computation shall be made by multiplying the reported yield for each component currency on that date by the number of units of that currency used by the Fund in its valuation of the special drawing right, and by then multiplying the product by the value of such currency unit in terms of the special drawing right on that date. The resulting products for all component currencies, rounded to the nearest four decimal places, shall be added together, and the total, rounded up to the nearest 1/16 of 1 per cent, shall be the combined market interest rate to be applied during the ensuing interest period.

(c) (i) The Fund shall arrange for the central bank or other appropriate official agency in each country whose currency is a component currency in the valuation of the special drawing right to serve as the reporting agency hereunder and to report to the Fund the yield applicable to that currency as provided in (ii) and (iii) below, as needed for each interest computation. Initially the Fund has arranged for the following institutions to serve as reporting agencies for the currencies indicated:

French franc	Caisse des Dépôts et Consignations
deutsche mark	Deutsche Bundesbank
Japanese yen	Bank of Japan
pound sterling	Bank of England
U.S. dollar	Department of the Treasury

(ii) The reported yield applicable to each currency shall be the gross yield to maturity, computed by the relevant reporting agency according to established practice in the domestic market of the country of such currency on the basis set out below: (A) for the French franc, the yield to maturity on a representative sample of securities of major French public sector enterprises with an average remaining life in the range of four and a half to five and a half years, based on market prices and weighted by the volume of transactions in the securities during the previous week, as calculated by the Caisse des Dépôts et Consignations using the same method as it uses for the yield it publishes weekly; (B) for the deutsche mark, the yield to maturity on notes and bonds of the Federal Republic, Railways and Post Office with a remaining period to maturity of five years as calculated by the Deutsche Bundesbank on the basis published in the Statistical Supplement (Series 2, Table 8D) to the Bundesbank's Monthly Report; (C) for the Japanese yen, the yield to maturity of that ten-year Japanese Government bond with a remaining period to maturity closest to five years, based on the closing market price officially published by the Tokyo Stock Exchange; (D) for the pound sterling, the calculated redemption yield on British Government securities determined for a constant maturity of five years, as calculated by the Bank of England on the basis published in its Quarterly Bulletin; (E) for the U.S. dollar, the yield to maturity on actively traded U.S. Government securities, determined for a constant maturity of five years, as calculated by the U.S. Treasury and presently published each week by the Federal Reserve Board in Statistical Release H.15; and (F) for any other currency, the gross yield to maturity, computed by the relevant reporting agency according to established practice in the domestic market of the country of such currency, on representative issues of government securities with an average remaining period to maturity of five years or, if such securities are not available, then on the closest substitute thereto selected by such reporting agency after consultation with the Fund.

(iii) If a reporting agency notifies the Fund that the yield described above in (ii) applicable to its currency can no longer be reported to the Fund, or that some material change has occurred making that reported yield no longer appropriate for the purpose of interest computations hereunder, the reporting agency, after consultation with the Fund, shall determine the most appropriate substitute yield for the purpose, having regard to the criteria specified in subparagraph (ii)(F) above.

(d) Notwithstanding the foregoing, if the Fund should decide to change the method of valuation of the special drawing right, a new combined market interest rate shall be computed as of a date three business days of the Fund before the change becomes effective, but on the basis of the currencies and the units of each currency used by the Fund under the new method of valuation, and interest shall accrue at the previous rate until the effective date of the change and at the new rate from and including such effective date until the commencement of the next interest period after such effective date.

(e) The Fund shall give notice of the name of any reporting agency designated pursuant to subparagraph (c)(i) above and not specifically named therein, and of each combined market interest rate computed hereunder. Each such notice shall be given by publication in the manner specified in paragraph 8, as soon as practicable following the designation or the interest computation as the case may be.

3. The Fund covenants that, so long as payment of the principal sum of any of the Notes has not been made or duly provided for, the Fund will not cause or permit to be created on any of the property or assets held by the Fund on its own account any mortgage, pledge, lien or charge as security for any notes or bonds issued, or other indebtedness heretofore or hereafter incurred, by the Fund through borrowing for its own account (other than mortgages, pledges, liens or charges on property, not including monetary assets, purchased by the Fund securing all or part of the purchase price thereof) unless the Notes shall be equally and ratably secured by such mortgage, pledge, lien or charge.

4. The Fund and any paying agent of the Fund may deem and treat the bearer of any Note and the bearer of any coupon for interest on any Note as the absolute owner thereof for all purposes whatsoever, notwithstanding any notice to the contrary; and all payments to such bearer shall discharge the obligations of the Fund under such Note or such coupon to the extent of such payment.

5. Without charge, Notes may be exchanged upon presentation and surrender thereof at the principal office of the Fund in Washington, D.C., U.S.A., for similar Notes of other authorized denominations bearing the same maturity date and in the same aggregate principal amount. If a Note or coupon is mutilated, destroyed, stolen or lost it may be replaced at the said principal office of the Fund upon payment by the claimant of such expenses and reasonable charges as may be incurred in connection therewith and on such terms as to evidence and indemnity as the Fund may require. Mutilated Notes or coupons must be surrendered before replacements will be issued.

6. Notes which shall be presented or surrendered by the holders thereof, or delivered by or on behalf of the Fund pursuant to the provisions hereof, shall be accompanied by all coupons thereto appertaining which shall not have matured on or before the date of such presentation and surrender, or delivery, as the case may be.

7. The Fund may at its option redeem any or all Notes, on any interest payment

date applicable to the Notes to be redeemed. If a redemption is to relate to part only of the total amount of outstanding Notes bearing the same maturity date and having the same terms and conditions, the particular Notes to be redeemed will be selected by lot by the paying agent of the Fund in New York City. Notice of the Fund's intention to redeem Notes shall be published, in the manner hereinafter specified, at least once a week for three successive weeks, with the first such notice being published not more than 60 days and the last not less than 30 days prior to the date fixed for redemption. Such notice having been given, the Notes to be redeemed shall become due and payable on the designated redemption date and if payment is made or duly provided for on that date shall cease to bear interest thereafter.

8. Notices required for purposes of the Notes shall be published in at least two daily newspapers of general circulation, one in New York City and one in London. As far as practicable, the Fund shall arrange such publication in the *Wall Street Journal* and the *Financial Times.*

9. The Notes and the interest thereon will not be exempt from taxation generally. Under the Articles of Agreement of the Fund no taxation of any kind may be levied by a member of the Fund on the Notes and the interest thereon (a) which discriminates against the Notes solely because of their origin or (b) if the sole jurisdictional basis for such taxation is the place or currency in which the Notes are issued, made payable or paid, or the location of any office or place of business maintained by the Fund. Also, under its Articles the Fund is immune in member countries from liability for the collection of any tax or duty.

10. If the Fund shall have defaulted at any time after March 31, 1981 in the payment of the principal of or interest on the Notes or any indebtedness evidenced by the Notes, or in the performance of any covenant contained in any of the Notes, or in the payment of principal or interest on any other indebtedness incurred by the Fund for its own account under arrangements entered into after March 31, 1981, and such default shall have continued for a period of 90 days, then at any time thereafter during the continuance of such default the holder of any of the Notes may deliver to the Fund at its principal office in Washington, D.C. written notice that such holder elects to declare the principal of and interest on all Notes held by him (the serial numbers and denominations of which shall be set forth in the notice) to be due and payable, and on the thirtieth day after delivery of such notice the principal amount of such Notes shall become due and payable, unless prior to that time such default shall have been remedied.

11. (a) The Notes and coupons shall be governed by and construed in accordance with the laws of the State of New York, U.S.A. An action against the Fund for failure to pay any amount due under any Note or coupon may be brought in the Federal Courts (or if such Courts lack competence, in State Courts) in the State of New York, the Courts of England, or the ordinary Courts of Justice of the Canton of Geneva, Switzerland, with right of recourse in each of these jurisdictions to competent higher courts. The Fund irrevocably agrees to waive its immunity from judicial process and to submit to the jurisdiction of such Courts with respect to such action and with respect to the execution in any member country of the Fund and in Switzerland of a final judgment against the Fund rendered by any of such Courts, and hereby appoints [ ] [58] in New York City, [ ] [59] in London, and [ ] [60] in Geneva as its agent to receive on behalf of the Fund service of writs, copies of the summons and complaint, and any other process which may be served in any such action brought in New York, England, or Switzerland, respectively. Such waiver and submission shall not extend to any action or proceeding other than as specified in this paragraph or in any Courts except those specified in this paragraph.

(b) Notwithstanding any other provision of this Note, any question relating

[58] This blank will be filled in as soon as the arrangements with agents for the receipt of process are completed.

[59] This blank will be filled in as soon as the arrangements with agents for the receipt of process are completed.

[60] This blank will be filled in as soon as the arrangements with agents for the receipt of process are completed.

to the interpretation of the provisions of the Articles of Agreement of the Fund shall be conclusively determined by the Fund.

(c) No recourse shall be had for the payment of the principal of or interest on this Note, or for any other claim in respect hereof, against any Governor or Executive Director or Alternate of either, or against any officer or employee, of the Fund.

IN WITNESS WHEREOF, the Fund has caused this Note to be signed in its name with the facsimile signatures of its Managing Director and Treasurer and countersigned with the manual signature of an authorized representative of the Fund.

Dated ____________, 19__. INTERNATIONAL MONETARY FUND

By ______________________________
Managing Director

____
Treasurer

Countersigned: ______________________________
Authorized Representative

No action has been taken by or on behalf of the Fund to register this Note or any prospectus relating thereto or otherwise to qualify it for offering or sale under the laws of any jurisdiction.

FORM OF COUPON
(To be attached to Bearer Notes)

[Coupon Number]

On ________________________ 19 __ or, if this is not a day on which banks are open for business in New York, then on the immediately preceding banking day, the

INTERNATIONAL MONETARY FUND

will pay to bearer an amount of interest then due under the Fund's Floating Rate Coupon Bearer Note, bearing the serial number and maturity date and in the principal sum specified below, for the interest period of six months more or less ending on such day, unless the Note shall previously have been duly called for redemption, and payment of the principal together with unpaid interest accrued to the date fixed for redemption shall have been made or duly provided for. Payment of the interest will be made in United States dollars upon surrender of this coupon (a) at the principal office of the Fund's paying agent in New York City; or (b) at the option of the bearer and subject to applicable laws and regulations, at the principal office of the Fund's paying agent in Frankfurt, London, Paris or Tokyo or at any other paying agent outside New York City appointed by the Fund from time to time, by check drawn on a bank in New York City, or at the request of the bearer by transfer to a United States dollar account maintained by the payee with a bank in New York City.

INTERNATIONAL MONETARY FUND

____

Authorized Representative

Serial No.: ____________________
Maturity Date: __________________
Principal Sum: SDR ________________

Annex C

May 6, 1981

His Excellency
Sheikh Abdul Aziz Al-Quraishi
Governor, Saudi Arabian Monetary Agency
Riyadh, Saudi Arabia

Dear Mr. Governor:

In connection with our current negotiations I shall propose to the Executive Board of the Fund in the next few months a policy laying down guidelines on the amounts of outstanding borrowings of the Fund in relation to its assets. This policy initiative would be designed to assure creditors that the Fund's borrowings will be prudently managed by incorporating in the guidelines the principle of a limit on the Fund's total indebtedness expressed as a ratio of its total quotas.

Yours sincerely,

/s/

J. de Larosière
Managing Director

Annex D

Memorandum of the Director of the Legal Department
of the International Monetary Fund

Borrowing Agreements Between IMF and Its Members

1. Like any other subject of international law, be it a state or an international organization, the Fund is legally bound to perform in good faith the obligations it has assumed under agreements that it has concluded in accordance with its constitutional requirements, and it may not invoke actions or omissions by any of its

organs in order to avoid the performance of such obligations. This statement is elaborated below.

2. The Fund is an international, intergovernmental organization, which, in accordance with applicable principles of general international law and express provisions of its Articles of Agreement, possesses full juridical personality and the capacity to contract. With regard to borrowing, the Articles of Agreement specifically provide that the Fund may borrow, on such terms and conditions as may be agreed with the lender, the currencies of members, if it finds it appropriate to replenish its holdings of such currencies.

3. Under the provisions of the Fund's Articles and decisions of its Board of Governors, the authority and responsibility to enter into borrowing agreements for the replenishment of the Fund's holdings of currencies lies with the Executive Board. Therefore, a borrowing agreement concluded under or pursuant to the authority of the Executive Board is a legally binding agreement of the Fund.

4. It is a fundamental principle of international, as well as of domestic, law that an agreement in force is binding upon the parties to it and must be performed by them in good faith. All parties to the agreement are entitled to expect that the contractual undertakings under the agreement will be fully carried out in accordance with the terms of the agreement. It has been recognized that this basic rule of law applies with equal force to international organizations.[61] Thus, the Fund, having duly concluded an agreement with another party, be it one of its members or another entity, is legally obliged to perform in good faith its undertakings under the agreement.

5. Another basic principle of domestic and international law that flows from the one already referred to is that, once the terms of an agreement have been fixed and the agreement has been brought into force, it is not open to either of the parties to amend, transform, or terminate the agreement unilaterally, i.e., without the consent of the other party. In the case of a party which is a state, this means that the party may not invoke its internal law or decisions of its national authorities or institutions in order to modify or abrogate its obligations under an agreement to which it is a party. In the case of a party which is an international organization, it means that a party to the agreement may not invoke its internal rules and procedures, or the actions or omissions of its organs, in order to change, nullify or evade its obligations under the agreement. This basic principle has been formulated as follows in the codification of the law on the subject of treaties among international organizations, or between them and states, that was prepared by the International Law Commission of the U.N.[62]

> An international organization party to a treaty may not invoke the rules of the organization as justification for its failure to perform the treaty, unless performance of the treaty, according to the intention of the parties, is subject to the exercise of the functions and powers of the organization.

The Commission made it clear that "rules of the organization" means, in particular, "the constituent instruments, relevant decisions and resolutions, and established practice of the organization." [63] Thus, the Fund would be prevented from varying its contractual commitments under an agreement to which it is a party by relying on decisions taken, or practices developed, after the conclusion of the agreement. Changes in the Fund's law and practice would be taken into account in the interpretation and application of terms of an agreement to which the Fund is a party only to the extent that their applicability was expressly stated in, or implied from, the provisions of the agreement. It is clear therefore that neither the Board of Governors nor the Executive Board of the Fund may change, nullify or evade the obligations of the Fund under bilateral agreements.

6. Questions of interpretation of the provisions of an agreement between the Fund and another party must be resolved in accordance with the rules and proce-

[61] *Yearbook of the International Law Commission of the U.N.*, Vol. II, Part 2 (1977), page 118.
[62] *Ibid.*
[63] *Ibid.*

dures prescribed for this purpose by that agreement. The organs of the Fund have no authority to resolve any questions of interpretation of such an agreement even if the other party to the agreement is a member of the Fund. The Executive Board and the Board of Governors have the responsibility to resolve questions of interpretation of the provisions of the Fund's Articles and the resolutions and decisions adopted under them, but that authority does not extend to questions of interpretation of the provisions of contractual arrangements of the Fund. As already explained, interpretations or other decisions adopted by the Board of Governors or the Executive Board would affect the interpretation or application of the provisions of an agreement between the Fund and another party only if this was expressly stated in, or implied by, the provisions of that agreement.

U. Borrowing Agreement with the Bank for International Settlements

The Managing Director is hereby authorized to send to the General Manager of the Bank for International Settlements (BIS) a telex communication informing him that, on behalf of the Fund, he accepts the proposal set forth in the Annex to this decision and that the proposal set forth in that Annex shall constitute an agreement between the Fund and the BIS which shall enter into force on the date of the Managing Director's communication.[64]

Decision No. 6863-(81/81)
May 13, 1981, as amended by
Decision No. 6870-(81/83)
June 1, 1981, and by
Decision No. 6925-(81/112)
August 3, 1981

Annex

Proposal Received from the Bank for International Settlements (BIS)

1. The Bank for International Settlements (BIS) is prepared to open a facility, free of commission, fee, or charge, in favour of the International Monetary Fund (Fund) for the equivalent of SDR 600 million for a period of two years commencing 1st June 1981 in accordance with the conditions set out in this telex.

With effect from 3rd August 1981, the amount of this facility is increased to SDR 675 million.

2. Drawings on the facility may be made by the Fund on giving seven business days' notice (Washington, D.C.) by tested telex. Each drawing shall be for a period of six months and shall, subject to similar notice, be renewable at maturity at the request of the Fund for further successive periods of six months provided that no drawing matures any later than two years and six months after the first drawing made by the Fund under this facility. Nevertheless, should the first drawing be made for value later than 31st July 1982 no drawing may mature later than 31st January 1985.

3. Each drawing will be denominated in SDRs but the corresponding payment will be effected by the BIS by transfer of U.S. dollars (Federal funds) to the account of the Fund at the Federal Reserve Bank of New York, New York.

4. The amount of U.S. dollars to be transferred shall be determined by applying the SDR/U.S. dollar rate established and published by the Fund three business days before the value date.

5. Should the Fund request the BIS to make any payment under this facility in a

[64] The Agreement entered into force on June 1, 1981.

currency other than the U.S. dollar, the BIS will use its best endeavors to meet the Fund's wishes. In such cases the applicable exchange rate shall be that established by the Fund for that currency against the SDR three business days before the value date.

6. When a drawing is not renewed at maturity, the U.S. dollar countervalue will be credited by the Fund in U.S. dollars to the account "F" of the BIS at the Federal Reserve Bank of New York, New York. The relevant SDR/U.S. dollar conversion rate will be the rate established by the Fund three business days before the maturity date.

7. The interest rate applicable to each drawing or renewal shall be determined on the basis of the interest rates listed in paragraph 8 below as notified by the five central banks concerned for the third business day preceding the value date and on the basis of the weighting then given to the currencies concerned in the composition of the SDR. The exchange rates needed for this calculation shall be supplied by the Fund.

The calculation shall be made by multiplying the interest rate for each component currency by the number of units of that currency used by the Fund in its valuation of the special drawing right, and by then multiplying the product by the value of such currency unit in terms of the special drawing right on that date. The resulting products for all component currencies, rounded to the nearest four decimal places, shall be added together, and the total, rounded up to the nearest 1/16 of 1 per cent, shall be the interest rate to be applied.

8. The rates to be used for interest calculation are those for the following:

— six-month U.S. Treasury bills,
— six-month interbank deposits in Germany,
— six-month interbank loans against private paper in France,
— average rate for newly issued bank CDs in Japan with a maturity of between 150 and 180 days,
— six-month interbank deposits in the United Kingdom.

9. Interest will be paid by the Fund in U.S. dollars at maturity of each six-monthly operation in the manner set out in paragraph 6 above.

10. If during the life of a six-monthly operation the composition of the SDR is changed by the Fund, any payments due three business days or more after the effective date of the change will be made on the basis of the new SDR/U.S. dollar rate. Nevertheless, if the BIS so requests within 30 days after the adoption of the relevant decision of the Fund but not later than 14 days after the date the change became effective, and in agreement also with the central banks whose currencies may be concerned, the former SDR/U.S. dollar exchange rate and the interest rate calculated on the basis of the valuation of the SDR before the change, shall be applied to the operation in question. In that case, however, the Fund will have the option of terminating the agreement and repaying all amounts due under the agreement upon giving 14 days' notice.

11. The Fund agrees that any member central bank of the BIS which is either the central bank of a country belonging to the Fund or a prescribed holder of SDRs may at any time be wholly or partly substituted for the BIS in respect of its debtor and creditor relationships with the Fund under this facility, in particular in respect of any outstanding drawing and of any commitment for future drawings and renewals. The substitution shall become effective vis-à-vis the Fund upon receipt by the Fund of confirmation to the Fund by the transferee, such confirmation to be transmitted through the BIS, that the transferee accepts the substitution.

12. Please confirm that you are in agreement with the above. This telex and your confirmation will constitute a binding agreement between our two institutions.

V. Borrowing from Central Banks and Other Official Institutions

The Fund shall stand ready to enter into an agreement with any member, the central bank or other agency of any member, or any official entity that has been prescribed as a holder of special drawing rights pursuant to Article XVII, Section 3 of the Fund's Articles of Agreement, under which such member, central bank or other entity will accord a credit line in favor of the Fund on terms and conditions that are substantially the same as those of the Agreement with the BIS (Executive Board Decision No. 6863-(81/81),[65] except as those terms and conditions may be adjusted and supplemented by the following provisions.

1. The commitment of the lender under the credit line shall be for a period of not less than two years, provided that it can be for a shorter period if the lender represents that, for legal or other compelling reasons, it cannot accept a commitment period of at least two years and, in the Managing Director's judgment, the shorter period is consistent with the prudent management of the Fund's liquidity.

2. At the request of the lender, its commitment may be terminated before the end of the commitment period if (i) the lender is a member, the central bank, or another agency of a member; (ii) it represents that its balance of payments and reserve position, or that of the member if the lender is the central bank or other agency of that member, does not justify further drawings under the commitment; and (iii) the Fund, having given the representation the overwhelming benefit of any doubt, determines that no further drawing should be made.

3. The maturity of the drawings under the commitment may be six months, one year, or two years, provided that, if the maturity of such drawings is for six months or one year, the lender will normally be expected to undertake to extend the maturity of the drawings so that resources borrowed shall be available to the Fund for at least two years. Nevertheless, if, in the Managing Director's judgment, shorter periods would be consistent with the prudent management of the Fund's liquidity, the agreement may provide for shorter maturities that would be renewed automatically unless the lender or the Fund gave notice, at least 30 days before maturity, that renewal should not take place.

4. (a) The interest rate applicable to drawings with a maturity of one year shall be determined in accordance with the same rules and procedures as the interest rate for drawings under the Agreement with the BIS, except that the instruments to be used for the calculation of that interest rate shall be, insofar as possible, government instruments of one-year maturity and that interest shall be payable at six months and at maturity.

(b) The interest rate applicable to drawings with a maturity of two years shall be determined in accordance with the same rules and procedures as the interest rate for drawings under the Agreement with the BIS, except that, (i) the instruments to be used for the calculation of that interest rate shall be those used by the Fund for calculating the interest rate on the special drawing right, with the interest calculated at three-month intervals and payable semiannually; or (ii) if the Managing Director judges it appropriate in prevailing circumstances, the instruments shall be, insofar as possible, government instruments of two years' maturity, with interest being calculated and payable semiannually.

5. The commitment of the lender shall be transferable only with the consent of the Fund.

6. Loans may be made in any currency, provided that (i) the concurrence of the issuer of that currency has been given, and (ii) arrangements are agreed under which balances of that currency borrowed by the Fund will be converted at equal value exchange rates into U.S. dollars to the extent required for investment pending use of the borrowed resources in transactions of the Fund. By agreement with the

[65] See page 189.

lender, the Fund may make repayment of principal or pay interest in any currency or in SDRs.

7. (a) The lender may obtain repayment of a claim on the Fund before maturity if: (i) the lender is a member, the central bank, or another agency of a member; (ii) the lender represents that its balance of payments and reserve position, or that of the member's if the lender is a central bank or another agency of a member, justifies early repayment; and (iii) the Fund, having given the lender's representation the overwhelming benefit of any doubt, determines that there is such a need for early repayment.

(b) At any other time the Fund may agree with the lender on repayment prior to maturity subject to an adjustment in the interest rate applicable for the period during which the drawing remained outstanding.

8. The lender shall have the right to transfer at any time all or part of its claim on the Fund, which results from drawings outstanding under its commitment that have not less than three months to maturity from the requested transfer, to any member, the central bank or another agency of any member, or any official entity that has been prescribed as a holder of special drawing rights pursuant to Article XVII, Section 3 of the Fund's Articles of Agreement. A claim transferred shall be subject to the renewal undertakings of the transferor. The transferee shall have all the rights of the lender, except that (i) the right to obtain repayment before maturity pursuant to 7(a) above shall be exercisable by the transferee only if it is a member, or the central bank, or another agency of a member, that at the time of the transfer 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, and (ii) the right of the Fund to use the currency of the transferor in payment of principal or interest shall, if the transferee is a member, or the central bank, or another agency of a member, be replaced by the right to use the transferee's currency; or, if the transferee is not a member, or the central bank, or another agency of a member, this right shall no longer apply.

9. At the request of the lender, the Fund shall issue to such lender an instrument evidencing its claim on the Fund resulting from drawings outstanding under the lender's commitment. Such an instrument shall not be issued if the lender has requested or has received bearer notes pursuant to 10 below.

10. At the request of the lender made within 10 days from the date of a drawing under the commitment, the Fund shall issue and deliver to such lender, without charge, promissory notes of the Fund in bearer form in exchange for all or part of the lender's claim on the Fund resulting from that drawing, whereupon the claim shall be canceled *pro tanto*. The renewal of a drawing shall be deemed to be a new drawing. By agreement between the lender and the Fund, bearer notes may also be issued on an interest payment date in exchange for a claim for the balance of the period of the claim. The issuance of the bearer notes shall be governed by the provisions set forth in Annex A and, unless otherwise agreed between the lender and the Fund, shall be substantially in the form, and subject to the terms and conditions set forth in Annex B or C.

11. An agreement negotiated pursuant to this decision shall not become effective before it has been approved by the Executive Board.

Decision No. 6864-(81/81)
May 13, 1981

Annex A

Provisions Governing Issuance of Bearer Notes

1. The Notes shall be in denominations of SDR 1 million, 5 million or any integral multiple of 5 million as specified by the lender in its request.

2. Notes issued in exchange for all or part of a claim resulting from a drawing with a maturity of six months or one year shall be substantially in the form and subject to the terms and conditions set forth in Annex B. Notes issued in exchange for all or part of a claim resulting from a drawing with a maturity of two years shall be substantially in the form and subject to the terms and conditions set forth in Annex C. Each Note shall have as its issue date the date of the drawing that gave rise to the claim in exchange for which the Note is issued, and shall carry the same interest rate as that claim. The renewal of a drawing shall be deemed to be a new drawing.

3. Each Note shall have as its maturity date the same maturity date as the claim in exchange for which it is issued, except that, if such date would not fall on a banking day in New York, the banking day in New York immediately preceding that date shall be the maturity date.

4. Each Note shall be executed in the name of the Fund by the manual or facsimile signatures of the Managing Director and the Treasurer and, if facsimile signatures are used, shall be countersigned manually by an officer or other authorized representative of the Fund designated by the Managing Director. Each such Note, when duly executed and delivered, shall constitute a valid and enforceable obligation of the Fund in accordance with its terms.

5. Notes shall be delivered to the lender at the principal office of the Fund, or at such other place as may be agreed between the Fund and the lender.

6. Delivery shall be made on a date specified by the Fund, which, unless otherwise agreed with the lender, shall be not more than 30 days after the date the request for Notes is received by the Fund.

7. For purposes of the Notes, the Fund shall appoint paying agents in Frankfurt, London, New York, Paris and Tokyo, and shall maintain a paying agent in each such city as long as any such Notes remain outstanding.

8. The Fund, by agreement with the holder of any Note, may redeem such Note prior to its maturity date at a mutually agreed price, against surrender of the Note.

Annex B

Forms of a Six-Month or One-Year Bearer Note [66]

INTERNATIONAL MONETARY FUND

700 19th Street, N.W., Washington, D.C. 20431

No. ______________ Issue Date: ________________
SDR ______________ Maturity Date: ________________

The International Monetary Fund ("the Fund"), for value received, hereby promises to pay to bearer in United States dollars a principal amount equivalent to ________________________ Special Drawing Rights on the maturity date of this Note, together with interest on such principal amount at the rate of__________ per annum from the issue date hereof until the maturity date. [Interest shall be paid in two installments; the first installment on (date), and the second on (the maturity date).] For purposes of payment hereunder the value of the United States

[66] For the one-year Note, the text would include in the first paragraph the sentence in brackets, the alternative text in the bracket in the second paragraph, the third paragraph in brackets, and the Record of Interest Payment at the end.

dollar in terms of the special drawing right shall be that determined by the Fund in accordance with the Rules and Regulations of the Fund adopted pursuant to its Articles of Agreement for a date three business days of the Fund before the date payment falls due.

Payment of principal and interest shall be made, subject to applicable laws and regulations, on presentation and surrender [on presentation and, at maturity, surrender] of this Note at any of the paying agents specified below by check drawn on a bank in New York City or, in the case of paying agents outside the United States, by transfer to a United States dollar account maintained by the payee with a bank in New York City:

[List paying agents]

[A record of an interest payment endorsed below and initialed by an authorized officer of one of the above paying agents shall be conclusive evidence of the discharge of the obligations of the Fund in respect of the interest payment in question.]

This Note is governed by the laws of the State of New York, U.S.A. An action against the Fund for failure to pay any amount due hereunder may be brought in the Federal Courts (or if such courts lack competence, in State Courts) in the State of New York, with right of recourse to competent higher Courts. The Fund hereby irrevocably waives its immunity from judicial process and submits to the jurisdiction of such Courts with respect to such action and to the execution, in any member country of the Fund, of a final judgment of such Courts, and appoints the Federal Reserve Bank of New York at its principal office in the Borough of Manhattan as agent of the Fund to receive on behalf of the Fund service of copies of the summons and complaint and any other process that may be served in any such action. Such waiver and submission shall not extend to any question relating to the interpretation of the provisions of the Articles of Agreement of the Fund, nor shall it extend to any action or proceedings other than as specified in this paragraph.

INTERNATIONAL MONETARY FUND

By ____________________
Managing Director

Countersigned: ____________________
Authorized Representative

____
Treasurer

This Note is not valid unless manually countersigned by an Authorized Representative of the Fund.

No action has been taken by or on behalf of the Fund to register this Note or any prospectus relating thereto or otherwise to qualify it for offering or sale under the laws of any jurisdiction.

RECORD OF INTEREST PAYMENT
OF SDR (________) due

(date) ____________________

SDR/US$ rate ____________________

US$ amount ____________________

Paid __________ (date) __________

Signature ____________________
(Authorized Officer)

Annex C

Form of Two-Year Bearer Note

INTERNATIONAL MONETARY FUND
700 19th Street, N.W., Washington, D.C. 20431

No. ______________ Issue Date: ________________
SDR ______________ Maturity Date: ________________

The International Monetary Fund ("the Fund"), for value received, hereby promises to pay to bearer in United States dollars a principal amount equivalent to ________________________ Special Drawing Rights on the maturity date of this Note, and to pay interest on such principal amount in United States dollars at the rate and on the dates specified on the reverse side hereof from the issue date of this Note until the maturity date. For purposes of each payment hereunder the value of the United States dollar in terms of the special drawing right shall be that determined by the Fund for a date three business days of the Fund before the date payment falls due in accordance with the Rules and Regulations of the Fund adopted pursuant to its Articles of Agreement.

Payments of the principal amount and of interest shall be made, subject to applicable laws and regulations, on presentation (and, at maturity, surrender) of this Note at any of the paying agents specified below by check drawn on a bank in New York City, or, in the case of paying agencies outside the United States, by transfer to a United States dollar account maintained by the payee with a bank in New York City:

[List paying agents]

A record of an interest payment endorsed on the reverse hereof and initialed by an authorized officer of one of the above paying agents shall be conclusive evidence of the discharge of the obligations of the Fund in respect of the interest payment in question.

This Note is governed by the laws of the State of New York, U.S.A. An action against the Fund for failure to pay any amount due hereunder may be brought in the Federal Courts (or if such courts lack competence, in State Courts) in the State of New York, with right of recourse to competent higher Courts. The Fund hereby irrevocably waives its immunity from judicial process and submits to the jurisdiction of such Courts with respect to such action and to the execution, in any member country of the Fund, of a final judgment of such Courts, and appoints the Federal Reserve Bank of New York at its principal office in the Borough of Manhattan, New York City, as agent of the Fund to receive on behalf of the Fund service of copies of the summons and complaint and any other process that may be served in any such action. Such waiver and submission shall not extend to any question relating to the interpretation of the provisions of the Articles of Agreement of the Fund, nor shall it extend to any action or proceedings other than as specified in this paragraph.

INTERNATIONAL MONETARY FUND

By ____________________
Managing Director

Countersigned: ____________________
Authorized Representative

____
Treasurer

This Note is not valid unless manually countersigned by an Authorized Representative of the Fund.

For three months [six months] from the Issue Date of this Note interest shall accrue at ______ per cent per annum. Thereafter, for each successive three-month [six-month] period until the maturity date, interest shall accrue at the rate of interest determined as follows:

1. The central banks of the members whose currencies are used for the valuation of the special drawing right shall notify to the Fund the market interest rate or yield in their respective market for a date three business days of the Fund prior to the last day of the three-month period, or if that day is not a business day, for the preceding business day, on the instrument chosen by the Fund, in consultation with the central bank, as representative for a three-month maturity in that market for the purpose of determining the interest rate on the special drawing right.

[Alternative formulation using governmental instruments with two years to maturity]

2. Using these rates and yields as notified by these central banks the Fund will calculate the rate of interest for the next three-month period as follows:

> The yield or rate for each instrument on that date will be multiplied by the number of units of that currency, used by the Fund in its valuation of the special drawing right, and by then multiplying the product by the value of such currency unit in terms of the special drawing right on that date. The resulting product for each such currency, rounded to the nearest four decimal places, shall be added together, and the total, rounded up to the nearest 1/16 of 1 per cent, shall be the interest rate to be applied during the ensuing interest period.

Such interest shall be paid on interest payment dates falling at successive intervals of six months from the issue date of Note, as shown in the Interest Payment Schedule set forth below, with the last interest payment date being the maturity date of this Note. If an interest payment date should fall on a day that is not a banking day in New York City, the interest due on such interest payment date shall be paid on the banking day in New York City immediately preceding such interest payment date.

INTEREST PAYMENT SCHEDULE
(To be added)

Appendix III
Press Communiqués and Announcement of the Interim Committee and the Development Committee

Interim Committee of the Board of Governors on the International Monetary System

PRESS COMMUNIQUÉS

Fifteenth Meeting, Washington, September 28, 1980

1. The Interim Committee of the Board of Governors of the International Monetary Fund held its fifteenth meeting in Washington, D.C., on September 28, 1980. Mr. Hannes Androsch, Vice-Chancellor and Minister of Finance of Austria, presided over the meeting in the absence of the Chairman of the Committee, Mr. Filippo Maria Pandolfi, Minister of the Treasury of Italy. Mr. Jacques de Larosière, Managing Director of the International Monetary Fund, participated in the meeting. The meeting was also attended by: Mr. G.D. Arsenis, Director of Money, Finance and Development Division, UNCTAD; Mr. Alexandre Lamfalussy, Economic Adviser and Head of the Monetary and Economic Department, BIS; Mr. Emile van Lennep, Secretary-General, OECD; Mr. F. Leutwiler, President, Swiss National Bank; Mr. M.G. Mathur, Deputy 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; Mr. Cyrus Sassanpour, Head, International Money and Finance Unit, OPEC; and Mr. Cesar E.A. Virata, Chairman, Development Committee. Mr. Wang Weicai, Vice-President, Bank of China, also attended.

2. The Committee discussed the world economic outlook and the policies appropriate in the current situation. Noting that the key features of the world economic situation had not changed much since its April meeting in Hamburg, the Committee was again concerned particularly with two problems: worldwide inflation and the external payments imbalances of non-oil developing countries.

The Committee remained convinced that the top priority being given in many countries to the fight against inflation must not be relaxed. Reduction of inflation and inflationary expectations was considered necessary for the restoration of conditions for better investment performance and sustained economic growth. Although recognizing that slow growth of output is a key feature of the current situation, the Committee cautioned against any premature shift to expansionary monetary and fiscal policies. It stressed that the broad objective must be to establish the basis for sustained growth and improved employment prospects, with relative price stability over the longer run.

The Committee noted the dramatic increases in the deficits of the non-oil developing countries and expressed concern about the problems of financing such deficits, especially in the case of the low-income countries. The Committee foresaw a great and urgent need for more official development assistance to the latter countries from the industrial and oil exporting countries. This need reflects the inadequacy of the current flow of imports to low-income countries, the erosion of their external financial positions in obtaining even this flow, their limited access to international financial markets, and their requirements for sustained rates of growth.

For developing countries, the Committee attached importance to adequate access to markets for their exports. Industrial countries were urged to avoid protectionist measures and to maintain or expand the great advantages—for themselves, as well as for many developing countries—provided by an open trading environment. Noting that many developing countries will continue to need large amounts of external credit on market terms, the Committee also urged industrial countries to avoid measures that might restrict the access of developing countries to their capital markets. It was observed that a number of developing countries themselves could contribute to maintenance or expansion of the necessary capital inflows by following policies designed to bolster confidence regarding their economic prospects.

3. The Committee discussed the developments in the Fund's policies on the use of its resources and the prospects for the Fund's liquidity.

(a) The Committee welcomed the work done by the Executive Board following the agreement reached by the Committee at its Hamburg meeting that the Fund should play a larger role in the adjustment and financing of payments imbalances in prospect for many members of the Fund. Under this policy, various aspects of which will still need to be elaborated by the Executive Board, members of the Fund making strong efforts to correct their balance of payments problems over a reasonable period through the pursuit of sound demand and supply policies would be able to obtain, on appropriate terms of conditionality, considerably larger amounts of assistance from the Fund than were available in the past. The Committee endorsed the Executive Board's conclusion that amounts up to an annual limit of 200 per cent of quota (excluding uses under the compensatory and buffer stock financing facilities), i.e., for a total of 600 per cent of quota over a three-year period, would be a reasonable guideline in the present circumstances. The members of the Committee noted with satisfaction that, on the basis of this policy, the Fund has already agreed to provide large amounts of resources to several members in support of programs that envisage adjustment over longer periods than have been the normal practice hitherto.

(b) The Committee agreed that, in order for the Fund to be able to meet requests for assistance under this new policy on the use of its resources, it will be necessary that the Fund supplement its resources by further borrowing and, in this connection, it welcomed the steps already taken by the Managing Director. In view of the magnitude of the expected need, the Committee agreed that the Executive Board and the Managing Director should make, as soon as possible, the necessary arrangements to enable the Fund to borrow from various potential sources of financing, not excluding a possible recourse to the private markets if this were indispensable.

(c) While agreeing that, during the next few years, it will be necessary for the Fund to resort to further borrowing, the Committee wished to stress its view that the Fund should continue to place primary reliance on subscriptions under members' quotas as a source of financing of the Fund's operations. In this connection, the Committee expressed regret at the long delay in the implementation of the quota increases provided for in the Resolution of the Board of Governors on the Seventh General Review. The Committee, noting that 84 members having 58 per cent of the total quotas have already consented to the increases in their quotas under that Resolution and that other members are expected to consent shortly, urged those members that have not yet consented to increases in their quotas to make every effort to do so as soon as possible. Moreover, it endorsed the intention of the Executive Board to begin preparatory work on the Eighth General Review of Quotas. The Committee noted that this review will be the occasion to reflect in the quotas the developments in members' positions in the world economy, including a review of the criteria by which quotas are calculated.

(d) The Committee welcomed the agreement reached in the Executive Board on the establishment of a subsidy account designed to reduce the cost to low-income member countries of the use of the Fund's resources under the supplementary financing facility and the intention of the Board to complete the arrangements for putting such an account into effect. In this connection, the Committee noted the view of the Executive Board that a part of the proceeds from repayments of loans by the Trust Fund should be used to provide resources to the subsidy account. At the same time, the Committee endorsed the efforts of the Managing Director to obtain voluntary contributions to the subsidy account, expressed its appreciation to those countries that had announced their intention to make such contributions, and urged all countries that were in a position to contribute but had not yet decided to do so to take such steps as would enable them to make an appropriate contribution to the funding of that account.

(e) The Committee noted that, in response to a suggestion by the Food and Agriculture Organization and the World Food Council, the Executive Board had begun consideration of the question whether the Fund could extend temporary financial assistance to low-income member countries when such countries are adversely affected by a crop failure or a sharp increase in the world price of food items, especially cereals. The Committee further noted that, in the view of the Managing Director, it would be possible to establish, consistently with the Fund's authority and objectives, an arrangement for such assistance that would have only a limited effect on the liquidity of the Fund. Recognizing the seriousness of the problem faced by these member countries, the Committee urged the Executive Board to give prompt consideration to the matter.

4. The Committee had a discussion on the recommendations of the Program of Immediate Action of the Group of 24 relating to monetary issues on the basis of a report by the Executive Board, and, in this connection, noted the developments in the policies on the use of the Fund's resources described in paragraph 3(a) above. It also noted that the Executive Board had initiated an in-depth examination of the issues involved in these recommendations, such as those relating to the SDR allocations, the link between SDR allocations and development finance, and the participation of developing countries in the decision making in the Fund.

The Committee endorsed the view that the important economic developments that have taken place should be taken into account in the consideration of further SDR allocations. In this connection, the Committee asked the Executive Board to give active consideration, in the months before the next meeting of the Committee, to the question of the appropriate level of SDR allocations. The Committee noted that due regard would need to be paid to the developments in international liquidity, payments imbalances, and the need for reserves as well as to the importance of strengthening the role of the SDR and its credibility as a reserve asset.

The Committee agreed that the Executive Board should carry out a more comprehensive study of a possible link between SDR allocations and development finance. This would need to be considered in the context of the proper role of the SDR in the system and the liquidity needs of the world.

On the subject of the participation of developing countries in the decision making in the Fund, the Committee felt that the matter needed further consideration and noted the intention of the Executive Board to return to this important topic at an early date in connection with the Eighth Quota Review.

The Committee urged the Executive Board to pursue its consideration of the remaining issues raised by the recommendations of the Group of 24 with a view to arriving at widely acceptable solutions. The Board should report on these matters at the next meeting of the Committee.

5. The Committee welcomed the recent decisions of the Executive Board to simplify the SDR. Under these decisions, beginning on January 1, 1981, the currency basket for the valuation of the SDR will become identical with the one already applied for interest rate purposes. The SDR will, therefore, consist of five currencies, i.e., the U.S. dollar, the deutsche mark, the French franc, the Japanese yen, and the pound sterling. In the view of the Committee, this important action, which gives practical effect to the Committee's recommendation at its meeting in Hamburg, will further enhance the attractiveness of the SDR and promote its use by private as well as public holders. The Committee also welcomed the increase in the past few months in the number of official institutions that can hold and deal in SDRs. The Committee asked the Executive Board to give early attention to the question of adjusting the SDR interest rate to the full market rate and that of eliminating the remaining reconstitution requirement.

The Committee reiterated its intention to continue the study of the subject of the substitution account.

6. The Committee agreed to hold its next meeting in Libreville, Gabon, on May 21, 1981.

Sixteenth Meeting, Libreville, May 21, 1981

1. The Interim Committee of the Board of Governors of the International Monetary Fund held its sixteenth meeting in Libreville, Gabon, on May 21, 1981 under the chairmanship of the Honorable Allan J. MacEachen, Deputy Prime Minister and Minister of Finance of Canada. Mr. Jacques de Larosière, Managing Director of the International Monetary Fund, participated in the meeting. The meeting was also attended by: Mr. G.D. Arsenis, Director of Money, Finance and Development Division, UNCTAD; Mr. David Ibarra Muñoz, Chairman, Development Committee; Mr. Pierre Languetin, Vice-Chairman of Governing Board, Swiss National Bank; Mr. Emile van Lennep, Secretary-General, OECD; Mr. M.G. Mathur, Deputy 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; Mr. Cyrus Sassanpour, Head, International Money and Finance Unit, OPEC; and Mr. Günther Schleiminger, General Manager, BIS.

2. The Committee discussed the world economic outlook and the policies appropriate in the difficult current situation facing most countries. The Committee's attention was focused on several broad problem areas: worldwide inflation, growing unemployment, slow growth of output and world trade, high level and volatility of interest rates and associated movements in exchange rates in the major industrial countries, and the financing of large external payments imbalances, particularly among non-oil developing countries.

The global picture does, however, contain certain encouraging aspects. Private markets have so far functioned well in the recycling process. Adjustment to the second increase in energy prices has been managed better than was the adjustment to the first increase, and a break in the previous close link between economic growth and oil consumption has begun to emerge. The major industrial countries have been bringing their monetary aggregates under better control. The increase in wages has been more restrained than after 1973–74. The Committee considered that, although these positive factors are significant from the standpoint of contributing to a balanced assessment, the current picture of the world economy does not afford cause for complacency in view of the problem areas mentioned above.

The Committee reaffirmed its conviction that the fight against inflation must continue to receive the highest priority. A reduction of inflation and inflationary expectations was considered a necessary condition for lower interest rates, more buoyant private investment, and sustained achievement of faster economic growth. At the same time, it expressed concern with current and prospective rates of increase in real output, and with the associated levels of unemployment and unutilized productive capacity. The Committee urged that monetary and fiscal policies aimed at restraint on expansion of nominal demand be supplemented by appropriate supply-side policies designed to improve the climate for investment and economic efficiency. It recognized that increased productivity, moderation in growth of incomes, and a better matching of supplies with the structure of demand could contribute in due course to an easing of inflation and to establishment of a basis for stronger growth with relative price stability.

The Committee was concerned about the magnitude and speed of changes in exchange rates for major currencies during the latter part of 1980 and so far in 1981, attributable to problems of high inflation, large payments imbalances, sharply fluctuating interest rates, and wide yield differentials among the principal financial markets. The Committee considered that quantitative targets for the growth of the money supply are an essential element of anti-inflation policies in major economies, and must not be abandoned. At the same time, the need for an appropriate mix of fiscal and monetary and other policies was emphasized. Restraint in government expenditures and containment of budgetary deficits would alleviate pressures in financial markets and lessen the burden placed on monetary policy.

The Committee was disturbed about the large external deficits on current account that remain in prospect for the next few years in many of the non-oil developing countries, and noted that appropriate adjustment policies must be pursued in order to bring these deficits to a level that can be financed on a sustainable basis. At the same time, the Committee emphasized the need for an enlarged flow of aid and concessional loans to developing countries, especially to low-income ones, financed by all countries in a position to do so, particularly in view of the increase in external debt and in the cost of servicing it.

Another concern of the Committee was the increasing domestic pressure for protectionism. Constant vigilance against protectionism was considered essential. Maintenance of an open trade and payments system among all countries, the Committee stressed, was important for the prosperity of developed and developing countries alike. Nondiscriminatory access to financial markets is also essential and should be maintained.

3. The Committee noted with satisfaction the important developments since its meeting last September that had placed the Fund in a better position to provide financial assistance to its members for the purpose of facilitating the adjustment process. Among these developments, the Committee noted, in particular, the coming into effect of the increases in the quotas of members under the Seventh General Review and the recent special increase in Saudi Arabia's quota, the coming into operation of the policy on enlarged access by members to the Fund's resources, the arrangements for the financing of that enlarged access, and the new policy on financial assistance to member countries adversely affected by higher costs of cereal imports.

4. The members of the Committee noted that, following these developments, it was now possible for member countries encountering balance of payments difficulties to obtain substantially larger amounts of assistance from the Fund than in previous years. More specifically, member countries making strong efforts to correct their balance of payments problems can draw from the Fund up to 450 per cent of their increased quotas over a three-year period, not counting any amounts that could be obtained under the Fund's low-conditionality facilities, such as the com-

pensatory and buffer stock financing facilities. In this connection, attention was drawn to the fact that the Fund has now an increased number of financial arrangements with member countries in effect, committing a substantial amount of its resources, and that a higher proportion of its commitments is being provided to support strong adjustment policies.

The Committee endorsed this major emphasis being placed on effective adjustment policies in connection with enlarged access to Fund resources.

5. The Committee noted the steps that the Fund had taken, or was in the process of taking, in order to be able to finance the enlarged access of member countries to its resources in current circumstances. The Committee took this opportunity to express its warm appreciation to the Saudi Arabian authorities for the major contribution that they had made toward that objective under the borrowing agreement of May 7, 1981 between the Saudi Arabian Monetary Agency and the Fund, which made the policy of enlarged access operational. The Committee also welcomed the recent arrangements with the monetary authorities of 13 industrial countries that will enable the Fund to obtain shorter-term financing either directly or through the Bank for International Settlements. The Committee endorsed the efforts currently under way to obtain for the Fund additional medium-term loans from several other member countries whose balance of payments is strong, as well as shorter-term financing from the monetary authorities of other members. The Committee commended the Managing Director and the Executive Board for what had already been achieved, and welcomed the steps that are being taken, in line with the Committee's communiqué of last September, to ensure a proper balance between the Fund's commitments and available resources.

6. While recognizing the need of the Fund to resort to borrowing in current circumstances, the Committee reiterated its view that the Fund should continue to place reliance on subscriptions under members' quotas as the basic source of financing of its operations. The Committee, therefore, was pleased to note that the Executive Board had begun preparatory work on the Eighth General Review of Quotas, including consideration of the criteria by which quotas are calculated, and recalled the understanding that this review would be the occasion to reflect in quotas the developments in individual members' positions in the world economy. The Committee urged the Executive Board to intensify its work—taking into account the world economic conditions and the Fund's liquidity position—so that it would be in a position to make appropriate recommendations in due course.

7. The Committee welcomed the recent adoption by the Executive Board of a decision enabling the Fund to extend balance of payments assistance to member countries that are experiencing temporary increases in the costs of their cereal imports, either because of a crop failure or an increase in the world prices of such food items. The new decision integrates assistance in respect of increases in the costs of cereal imports with the assistance that is available in respect of export shortfalls under the Fund's compensatory financing facility. Under this integrated policy, an eligible member would be able to draw up to 100 per cent of quota to compensate for increases in costs of cereal imports and up to the same quota limit to compensate for shortfalls in export receipts, subject to an overall limit of 125 per cent of quota for all such drawings. The members of the Committee noted that the assistance under the new decision would be of particular benefit to low-income countries, and expressed their appreciation for the efforts of the Managing Director and the Executive Directors for having devised this new policy.

8. The Committee welcomed the establishment of a subsidy account designed to reduce the cost to low-income member countries of the use of the Fund's resources under the supplementary financing facility and the arrangements made by the Executive Board for the transfer to that account, in due time, of a part of the proceeds from repayments from Trust Fund loans. It was pleased to note that

subsidy payments were expected to begin soon. It endorsed the efforts of the Managing Director to obtain for the account voluntary contributions from countries that are in a position to make such contributions. The Committee expressed its appreciation to those countries that had made or had pledged to make a contribution. The Committee also expressed its appreciation to the host country for the announcement during the Committee's meeting of its contribution to the account. At the same time, it reiterated its appeal to other countries to contribute.

9. The Committee noted that a number of important actions had been taken by the Fund since last September's meeting that enhanced the attractiveness of the SDR as an international reserve asset and promoted its use as a unit of account in private financial transactions. Included among these actions were the simplification of the SDR, the abrogation of the reconstitution requirement, and the increase in the interest rate to 100 per cent of the relevant interest rates.

10. The members of the Committee considered the question of allocations of SDRs in the next, i.e., the fourth, basic period, which is scheduled to begin on January 1, 1982. The members of the Committee discussed this matter on the basis of the provisions of the Fund's Articles of Agreement and in the light of the various relevant factors, including the importance of strengthening the rôle of the SDR as a reserve asset and the need to avoid an undue increase in international liquidity. Many members supported the continuation of allocations in the fourth basic period and expressed the view that every effort should be made to achieve a consensus on this matter. Some other members considered that no case had been established in accordance with the principles laid down in the Articles of Agreement for an allocation in the near future. The Committee urged the Executive Board to continue its deliberations on the subject to enable the Managing Director to submit to the Board of Governors at the earliest possible date a proposal that would command the necessary support among members.

11. The Committee noted that the Executive Board had pursued, as requested by the Committee, its study of a possible link between SDR allocations and development financing. The Committee, recognizing that there was still a wide divergence of views regarding the advisability as well as the form of such a link, agreed to request the Executive Board to continue its studies on the matter in the context of the proper role of the SDR in the system.

12. The Committee expressed its warm appreciation to the Government and to the people of Gabon for their hospitality and for the excellent arrangements provided for the meeting.

The Committee agreed to hold its next meeting in Washington, D.C., on September 26–27, 1981 and was pleased to accept the invitation of the Government of Finland to hold its spring 1982 meeting in Helsinki.

Joint Ministerial Committee of the Boards of Governors of the Bank and the Fund on the Transfer of Real Resources to Developing Countries (Development Committee)

PRESS COMMUNIQUÉ

Fourteenth Meeting, Washington, September 29, 1980

1. The Development Committee held its fourteenth meeting in Washington, D.C., on September 29, 1980 under the Chairmanship of Mr. Cesar E.A. Virata, Minister of Finance of the Philippines, and with the participation of Mr. Robert S. McNamara, President of the World Bank, and Mr. J. de Larosière, Managing Director of the International Monetary Fund. Mr. M.M. Ahmad, Interim Executive Secretary, took part in the meeting, which was also attended by representatives from a number of international and regional organizations and Switzerland as observers.

2. The Committee discussed development policy issues and financing requirements in the light of the current and projected international economic situation. It considered medium-term prospects for the world economy and particularly their impact on the oil importing developing countries. The Committee also reviewed relevant issues with respect to the Group of 24 Program of Immediate Action and the recommendations of the Brandt Commission.

3. The Committee noted with concern that the medium-term prospects for the world economy are now judged to be more unfavorable than they were a year ago. Because of sustained higher real costs of energy and other factors, the expected slow growth in industrial countries threatening the expansion of world trade, combined with persistent high rates of inflation, and possible constraints on capital flows, particularly on concessionary assistance, oil importing developing countries as a group are expected to face serious and prolonged payments imbalances. According to the Fund's latest projections, the current account deficits of these countries are expected to rise from $56 billion in 1979 to $72 billion in 1980 and around $80 billion in 1981.

4. The Committee recognized that successful adjustment by the oil importing developing countries to the new international environment should contribute to achieving significantly better growth rates in these countries; on this basis, a growth rate in excess of 3 per cent could well be attainable in the second half of the decade. The Committee stressed, however, that such an adjustment effort would require strong resource support from industrial countries and from oil exporters. The Committee encouraged efforts by industrial nations to ensure that, in formulating their own adjustment policies, they take effective measures to conserve energy and do not adopt measures restricting trade or capital flows which might worsen the position of developing countries. The Committee recognized that developing countries would have to take measures to stimulate exports, expand production of new energy sources and economize the use of energy in relation to their industrial growth, and improve the efficient use of capital, human resources, and imports, in order to achieve maximum rates of growth in the context of the changed international economic situation. The Committee stressed that it was of the utmost importance to ensure that increased external capital flows be made available to the oil importing developing and especially to the least developed and other low-income countries, in support of these efforts.

5. The Committee noted with particular concern that the growth prospects of the low-income countries, especially sub-Saharan Africa, are bleak. It also viewed with deep concern the particularly difficult situation of the least developed and

other low-income countries which face large financing needs to meet investments required in agriculture and infrastructure, including longer-term adjustments in investment programs to higher energy costs and changes in comparative advantage. These countries have limited capacity to generate domestic savings, and large borrowing on nonconcessional terms, even if possible, could further jeopardize their future development because of too rapid buildup of debt service payments. Increased concessional assistance is therefore required both from capital surplus and industrial countries to avoid declines in already unsatisfactory growth rates in these poor countries.

6. The Committee felt that it would be consistent with the objectives of the various donors to increase the amount and proportion of bilateral assistance going to the least developed and other low-income countries. The Committee suggested also that donor countries might examine the budgetary implications of setting aside the equivalent of a modest proportion of future GNP increases to facilitate more rapid progress toward the 0.7 per cent GNP target for ODA by countries that have not yet attained this level in their official development assistance. The Committee also recognized the importance of mobilizing public opinion in favor of official development assistance. In considering these and other suggestions in the Bank paper on the volume and quality of concessionary assistance, the Committee requested that a continuing study be undertaken.

7. The Committee welcomed the active consideration that is being given by both the Bank and the Fund to specific recommendations of both the Group of 24 Program of Immediate Action and the Brandt Commission with respect to measures to enhance the flow of resources to developing countries. It stressed that the Brandt Commission proposals on reduction of poverty receive special attention. The Committee also endorsed the action of the Interim Committee as reflected in their communiqué.

8. The Committee, noting the urgent need to expand investment in energy development in oil importing developing countries, welcomed the Bank's initiative to examine the possibility of establishing an energy affiliate or facility to promote expansion of its lending operations in the energy sector. It urged the continuing process of consultations be brought speedily to a successful conclusion.

9. The Committee welcomed the progress which has been made by the Fund in adapting the compensatory financing facility to meet more adequately the needs of countries with export shortfalls and decided to pursue the matter of the export earnings stabilization programs based on the comprehensive study being prepared by UNCTAD.

10. The Committee emphasized the importance of early action by governments to make the agreed Sixth Replenishment of IDA effective. In addition, contributors to IDA were urged to participate in the bridging arrangements to provide IDA interim commitment authority pending the effectiveness of IDA-VI.

11. The Committee noted the change in the representation of China, and the concomitant increase in demand for the Bank's financial assistance to support China's development efforts. In addition, the Bank faces new requirements for structural adjustment and energy lending. The Committee also observed that previous planning assumptions had been based on lower rates of world inflation than those now prevailing and anticipated for the near future. In view of these factors, the Committee urged the Board of the Bank to explore promptly appropriate ways of expanding the lending capacity of the institution and also to consider ways in which lending in the next fiscal years could be expanded above presently planned levels.

12. The Committee welcomed the extensive work that had been undertaken by the Task Forces on Nonconcessional Flows and on Private Foreign Investment; the reports of the Task Forces provided a useful basis for further consideration of

specific proposals to strengthen the functioning of international capital markets and the flow of resources to developing countries. It welcomed the Fund's active response to the current recycling problems and viewed the Fund's role as complementary to the role of international capital markets.

13. The Committee reaffirmed the importance of proper supervision in maintaining confidence in the international banking system, thereby enabling it to continue as an important channel of funds over the longer term. The Committee endorsed the conclusion of the Task Force on Nonconcessional Flows that such supervisory activity should avoid abrupt and severe changes which could unduly restrict bank lending to developing countries, and that debt servicing capacity of the borrower should be adequately taken into account in assessing bank portfolio concentration. The Committee also supported the request of the Task Force on Nonconcessional Flows to the World Bank for a full study of the various proposals under its consideration.

14. The Committee noted that further analysis of private foreign investment might lead to a better understanding of important factors in both investor and host countries that determine volume and nature of such investments. It suggested that the Board of the Bank consider the recommendation of the Task Force on Private Foreign Investment for a study of incentives and performance requirements.

15. The Committee took note of the efforts at the United Nations Special Session to organize global negotiations on the North-South issues and expressed its desire to play a very active role in regard to matters pertaining to the IMF and the World Bank within the framework of the UN global negotiations once these negotiations have started.

16. The members placed on record their special appreciation for the Chairman's long and distinguished service to the Committee.

17. The next meeting of the Committee will be held in Libreville (Gabon) on May 22.

Announcement

Fifteenth Meeting, Washington, October 2, 1980

At its fifteenth meeting in Washington, D.C., on October 2, 1980, the Development Committee selected the Honorable David Ibarra Muñoz, Secretary of Finance and Public Credit of Mexico, as Chairman and appointed Ambassador Hans Erik Kastoft, Permanent Representative of Denmark to the United Nations Office in Geneva, as Executive Secretary.

Press Communiqué

Sixteenth Meeting, Libreville, May 22, 1981

1. The Development Committee held its sixteenth meeting in Libreville, Gabon, on May 22, 1981 under the chairmanship of H.E. David Ibarra Muñoz, Secretary of Finance and Public Credit of Mexico, and with the participation of Mr. R.S. McNamara, President of the World Bank, Mr. J. de Larosière, Managing Director of the International Monetary Fund, and Mr. Hans E. Kastoft, Executive Secretary. Observers from a number of international and regional organizations and Switzerland also attended the meeting.

2. The Committee noted with concern that the developing countries continue to face serious problems and that their medium-term prospects remain poor. A number of factors are of importance in this respect. These include:

—persistent international inflation;

—slowdown in the expansion of world trade, growing protectionist tendencies, and a depressing outlook for exports of developing countries;
—sharp increases in the current account deficits of non-oil developing countries from \$58 billion in 1979 to an estimated \$80 billion in 1980 and a projected \$97 billion in 1981;
—continuing slow growth of most industrial countries; the growth of real GDP in these countries had averaged 4 per cent in the 1976–79 period; it slowed down to only 1.5 per cent in 1980 and is expected to fall to less than 1 per cent in 1981.

3. The financing of these large deficits has required a substantial rise in external borrowing at higher cost, and, consequently, the debt service burden for developing countries has increased perceptibly in recent years. There is little or no expectation that the large imbalances will be corrected quickly, and, therefore, problems relating to external financing and debt are likely to persist. The plight of the low-income countries is particularly acute because these countries have limited recourse to international capital markets and depend heavily on official development assistance; the volume of this type of concessional assistance may not at present be expected to increase at a rate similar to the expansion in requirements. Concerted efforts are necessary to deal with this difficult situation.

4. In view of these circumstances, the Committee concentrated its attention on a few selected topics, addressing the expanded capital needs of developing countries and the role of the international financial institutions in meeting them.

5. The Committee recognized that in view of the magnitude of the financing needs of the developing countries, including those of China, it was of particular importance and urgency to provide the multilateral development institutions such as the World Bank and the regional banks with additional resources to assist developing countries in their development efforts, to help them restore acceptable levels of growth, and to support their structural adjustment. The Committee therefore urged the Executive Board of the World Bank to continue its efforts to reach a consensus on the scale of World Bank activity appropriate to the circumstances of the early 1980s and to seek means of future financing of that activity, including study of a possible change in the gearing ratio.

6. Of special concern to the Committee was the delay by some countries in bringing into effect the Sixth Replenishment of the International Development Association (IDA), with the result that IDA ran out of new commitment authority in April this year. Any extended disruption in IDA operations will have serious repercussions on the poorest developing countries. In view of the gravity of the circumstances, the Committee stressed the need for member governments to restore IDA's commitment authority as a matter of great urgency. The Committee noted with appreciation those donors which agreed to make available advance payments to IDA-VI.

7. The Committee noted with satisfaction the reaffirmation of support for a general capital increase by all major donors. It also urged the Executive Directors to consider sympathetically the maximum lending program which can be sustained for fiscal year 1982, taking into account the needs of the situation.

8. The Committee acknowledged that the world energy situation poses a serious problem of adjustment for producers and consumers. In particular, the oil importing developing countries face an acute and growing external financing problem and need to reduce their dependence on imported oil. This will involve expanding exploration for and development of domestic oil and gas resources, increased development of coal, major expansion of renewable resources, maximum utilization of hydropower capacity, and conservation.

9. The Committee expressed its support for the Bank's initiative to expand its lending operations in the energy sector. They urged that in the light of the pressing

need to reduce the strains on the balance of payments of the oil importing developing countries, the ongoing consultation process be completed expeditiously. They urged that members examine ways to mobilize additional funds for energy development, both through existing mechanisms and through a possible new affiliate or facility. The Committee stressed the importance that these measures should reflect the global nature of the problem and the international community's interest in a general approach to energy which encompasses conservation and the development of conventional and nonconventional sources of energy.

10. The Committee considered the status reports on the future lending of both concessional and ordinary capital resources of the African Development Bank, the Asian Development Bank, and the Inter-American Development Bank currently under review within these institutions. Given the pressing need to strengthen the lending operations of the regional development banks, the Committee urged member governments to seek means of financing their activities arising from the changed circumstances of the 1980s.

11. In the context of the review of the flow of nonconcessional resources, the Committee considered the Report on Selected Issues by the Task Force on Nonconcessional Flows both timely and useful. In its report the Task Force limited its comments to the following issues: (1) cooperation between multilateral development institutions and commercial lenders; (2) external indebtedness of developing countries; and (3) increases in lending capacity of the multilateral development institutions.

12. Based on the Task Force report, the Committee considered that a degree of additionality in nonconcessional flows could be achieved by actions on the part of multilateral development institutions to help broaden the range of financial instruments and improve the attractiveness of lending to developing countries. In this regard, the Committee endorsed the Task Force recommendation to invite the multilateral development institutions to discuss, as speedily as possible, these proposals with banks and other financial institutions in major financial centers. These discussions would include: (1) the improvement of cofinancing arrangements between multilateral development institutions and commercial lenders; (2) the sale of portfolio and loan participations by multilateral development institutions; (3) the use of guarantees by multilateral development institutions; and (4) the issue and placement of pass-through loan certificates by multilateral development institutions.

13. The Committee also noted and endorsed the Task Force report on the external indebtedness of developing countries which emphasizes that developments regarding external debt must be viewed in the broader context of the world economic situation. It notes that debt problems are due to many factors and believes that both short- and long-term aspects of the debt question must be kept under constant review. The Committee stressed the importance of sound debt management in order to avoid debt servicing problems and thus help sustain large inflows of capital necessary for the economic development of developing countries. The Committee noted that debt indicators, taken on their own, are not a substitute for comprehensive reviews of the economic situation and prospects of the countries involved.

14. The Committee expressed concern over the impact of inflation and high interest rates on external debt and encouraged further study of this subject. The Committee recognized the importance of the existing international framework for the rescheduling of official debt which must be viewed as part of a comprehensive effort to assist the requesting debtor country to implement necessary adjustment policies and to restore flows. The IMF, the World Bank, and the regional development banks might be able to provide good offices in facilitating private debt rescheduling when requested.

15. Regarding ways of increasing the flow of funds to developing countries from

the multilateral development institutions, the Committee urged the Task Force to examine various proposals under consideration and supported the request of the Task Force asking the World Bank for the elaboration of a paper examining these proposals.

16. The Committee expressed its appreciation to those members of the private international financial community who have actively participated and supported the work of the Task Force on Nonconcessional Flows.

17. The Committee discussed the critically important issue of concessional assistance and decided, in principle, to establish a Task Force to carry forward and widen the continuing study of the problems affecting the volume and quality and effective use of concessional flows, both in the shorter and longer term. The Committee urged that consultations with respect to composition and terms of reference be initiated so as to enable the Task Force to undertake its work at the earliest opportunity.

18. The deteriorating prospects for growth in sub-Saharan Africa have been a matter of serious concern to the international community. The Committee was pleased to learn from the President of the World Bank that the formulation of an action program was well under way and looked forward to discussing the program of action at its September 1981 meeting.

19. The members reiterated their interest in a relationship between the Committee and United Nations global negotiations on the North-South issues. The Committee reaffirmed its desire to play a very active role in regard to matters pertaining to its competence.

20. The Committee decided that its future work program should evolve around matters now before it, and on work which is in progress in the Bank, the Fund, and Task Forces. In particular, the work includes a regular review of the flow of resources to the developing countries, and the financial needs of these countries, keeping under review the specific recommendations of the G-24 Program of Immediate Action and the Brandt Commission with respect to measures to enhance the flow of resources to developing countries. The Committee endorsed the recommendation included in the Interim Committee press communiqué regarding the SDR link.

21. The Committee paid a special tribute to Mr. Robert S. McNamara in recognition of his long and distinguished tenure as President of the World Bank. It expressed its deep appreciation for his devoted and outstanding services to the cause of economic development, especially for his deep and abiding concern for the poorest of the world community, and wished him the very best in his future endeavors.

22. The Committee expressed its special appreciation to the Government of Gabon for its warm hospitality and for the excellent arrangements provided for the meeting.

23. The Committee agreed to hold its next meeting in Washington, D.C., on September 27 in the afternoon and September 28, 1981, and was pleased to accept the invitation of the Government of Finland to hold its spring 1982 meeting in Helsinki.

Appendix IV
Executive Directors and Voting Power on April 30, 1981

Director *Alternate*	Casting Votes of	Votes by Country	Total Votes[1]	Per Cent of Fund Total[2]
APPOINTED				
Vacant *Donald E. Syvrud*	United States	126,325	126,325	20.01
John Anson *Lionel D.D. Price*	United Kingdom	44,125	44,125	6.99
Gerhard Laske *Guenter Winkelmann*	Germany, Fed. Rep. of	32,590	32,590	5.16
Paul Mentré de Loye *Thierry Aulagnon*	France	29,035	29,035	4.60
Teruo Hirao *Akira Nagashima*	Japan	25,135	25,135	3.98
Mahsoun B. Jalal *Yusuf A. Nimatallah*	Saudi Arabia	10,651	10,651	1.69
ELECTED				
Ariel Buira (Mexico) *Miguel A. Senior (Venezuela)*	Costa Rica	865		
	El Salvador	895		
	Guatemala	1,015		
	Honduras	760		
	Mexico	8,275		
	Nicaragua	760		
	Spain	8,605		
	Venezuela	10,150	31,325	4.96
Bernard J. Drabble (Canada) *Michael Casey (Ireland)*	Bahamas	745		
	Barbados	505		
	Canada	20,605		
	Dominica	279		
	Grenada	295		
	Ireland	2,575		
	Jamaica	1,360		
	St. Lucia	304		
	St. Vincent	276	26,944	4.27
J.J. Polak (Netherlands) *Tom de Vries (Netherlands)*	Cyprus	760		
	Israel	3,325		
	Netherlands	14,470		
	Romania	3,925		
	Yugoslavia	4,405	26,885	4.26
Giovanni Lovato (Italy) *Costa P. Caranicas (Greece)*	Greece	3,025		
	Italy	18,850		
	Malta	550		
	Portugal	2,830	25,255	4.00

Director *Alternate*	Casting Votes of	Votes by Country	Total Votes[1]	Per Cent of Fund Total[2]
ELECTED (continued)				
A.R.G. Prowse (Australia)	Australia	12,100		
Placido L. Mapa, Jr. (Philippines)	Korea	2,809		
	New Zealand	3,730		
	Papua New Guinea	700		
	Philippines	3,400		
	Seychelles	270		
	Solomon Islands	282		
	Western Samoa	295	23,586	3.74
Mohamed Finaish (Libya)	Bahrain	550		
Vacant	Iraq	2,591		
	Jordan	700		
	Kuwait	4,183		
	Lebanon	529		
	Libya	3,234		
	Maldives	264		
	Pakistan	4,525		
	Qatar	912		
	Somalia	595		
	Syrian Arab Republic	1,195		
	United Arab Emirates	2,276		
	Yemen Arab Republic	445		
	Yemen, People's Democratic Republic of	865	22,864	3.62
Jacques de Groote (Belgium)	Austria	5,200		
Heinrich G. Schneider (Austria)	Belgium	13,600		
	Luxembourg	715		
	Turkey	3,250	22,765	3.61
M. Narasimham (India)	Bangladesh	2,530		
D. Lakshman Kannangara (Sri Lanka)	India	17,425		
	Sri Lanka	2,035	21,990	3.48
Jón Sigurdsson (Iceland)	Denmark	4,900		
Leiv Vidvei (Norway)	Finland	4,180		
	Iceland	685		
	Norway	4,675		
	Sweden	7,000	21,440	3.40
Semyano Kiingi (Uganda)	Botswana	385		
N'Faly Sangare (Guinea)	Burundi	595		
	Ethiopia	790		
	Gambia, The	385		
	Guinea	700		
	Kenya	1,285		
	Lesotho	355		
	Liberia	805		
	Malawi	535		
	Nigeria	5,650		
	Sierra Leone	715		
	Sudan	1,570		
	Swaziland	430		
	Tanzania	1,075		
	Uganda	1,000		
	Zambia	2,365		
	Zimbabwe	1,750	20,390	3.23
Byanti Kharmawan (Indonesia)	Burma	1,345		
Vijit Supinit (Thailand)	Fiji	520		
	Indonesia	7,450		
	Lao People's Dem. Rep.	490		
	Malaysia	4,045		
	Nepal	535		
	Singapore	1,174		
	Thailand	2,965		
	Viet Nam	1,600	20,124	3.19

Director *Alternate*	Casting Votes of	Votes by Country	Total Votes[1]	Per Cent of Fund Total[2]
ELECTED (concluded)				
Alexandre Kafka (Brazil)	Brazil	10,225		
José Gabriel-Peña	Colombia	3,145		
(Dominican Republic)	Dominican Republic	1,075		
	Ecuador	1,300		
	Guyana	625		
	Haiti	595		
	Panama	925		
	Suriname	625		
	Trinidad and Tobago	1,480	19,995	3.17
Morteza Abdollahi (Iran)	Afghanistan	925		
Omar Kabbaj (Morocco)	Algeria	4,525		
	Ghana	1,840		
	Iran	6,850		
	Morocco	2,500		
	Oman	550		
	Tunisia	1,195	18,385	2.91
ZHANG Zicun (CHANG Tse Chun) (China)	China	18,250	18,250	2.89
TAI Qianding (China)				
Juan Carlos Iarezza (Argentina)	Argentina	8,275		
Raúl Salazar (Peru)	Bolivia	925		
	Chile	3,505		
	Paraguay	595		
	Peru	2,710		
	Uruguay	1,510	17,520	2.78
Samuel Nana-Sinkam (Cameroon)	Benin	490		
Abderrahmane Alfidja (Niger)	Cameroon	925		
	Cape Verde	280		
	Central African Republic	490		
	Chad	490		
	Comoros	285		
	Congo	505		
	Djibouti	307		
	Equatorial Guinea	400		
	Gabon	700		
	Guinea-Bissau	309		
	Ivory Coast	1,390		
	Madagascar	760		
	Mali	655		
	Mauritania	505		
	Mauritius	655		
	Niger	490		
	São Tomé and Principe	280		
	Senegal	880		
	Togo	535		
	Upper Volta	490		
	Zaïre	2,530	14,351	2.27
			619,930[3]	98.20[2]

[1] Voting power varies on certain matters pertaining to the General Department with use of the Fund's resources in that Department.

[2] Percentages of total votes in the General Department and the Special Drawing Rights Department (631,305). The sum of the individual percentages may differ from the percentages of the totals because of rounding.

[3] This total does not include the votes of Egypt, Democratic Kampuchea, Rwanda, and South Africa, which did not participate in the 1980 Regular Election of Executive Directors. The combined votes of those members total 11,375—1.80 per cent of those in the General Department and the Special Drawing Rights Department.

Appendix V
Changes in Membership of Executive Board

Changes in membership of the Executive Board between May 1, 1980 and April 30, 1981 were as follows:

D. Lakshman Kannangara (Sri Lanka) was appointed Alternate Executive Director to S.D. Deshmukh (India), effective July 1, 1980.

Jahangir Amuzegar (Iran) completed his term of service as Executive Director for Afghanistan, Algeria, Ghana, Iran, Morocco, Oman, and Tunisia, effective October 31, 1980.

S.D. Deshmukh (India) completed his term of service as Executive Director for Bangladesh, India, and Sri Lanka, effective October 31, 1980.

Lamberto Dini (Italy) completed his term of service as Executive Director for Greece, Italy, Malta, and Portugal, effective October 31, 1980.

Francisco Garcés (Chile) completed his term of service as Executive Director for Argentina, Bolivia, Chile, Ecuador, Paraguay, and Uruguay, effective October 31, 1980.

Julio C. Gutiérrez (Paraguay) completed his term of service as Alternate Executive Director to Francisco Garcés (Chile), effective October 31, 1980.

Richard J. Lang (New Zealand) completed his term of service as Alternate Executive Director to Robert J. Whitelaw (Australia), effective October 31, 1980.

Festus G. Mogae (Botswana) 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, 1980.

Joaquín Muns (Spain) completed his term of service as Executive Director for Costa Rica, El Salvador, Guatemala, Honduras, Mexico, Nicaragua, Spain, and Venezuela, effective October 31, 1980.

Savenaca Siwatibau (Fiji) completed his term of service as Alternate Executive Director to Byanti Kharmawan (Indonesia), effective October 31, 1980.

Matti Vanhala (Finland) completed his term of service as Executive Director for Denmark, Finland, Iceland, Norway, and Sweden, effective October 31, 1980.

Mohammed Yeganeh (Iran) completed his term of service as Alternate Executive Director to Jahangir Amuzegar (Iran), effective October 31, 1980.

Morteza Abdollahi (Iran) was elected Executive Director by Afghanistan, Algeria, Ghana, Iran, Morocco, Oman, and Tunisia, effective November 1, 1980.

Omar Kabbaj (Morocco) was appointed Alternate Executive Director to Morteza Abdollahi (Iran), effective November 1, 1980.

Ariel Buira (Mexico), formerly Alternate Executive Director to Joaquín Muns (Spain), was elected Executive Director by Costa Rica, El Salvador, Guatemala, Honduras, Mexico, Nicaragua, Spain, and Venezuela, effective November 1, 1980.

Miguel A. Senior (Venezuela) was appointed Alternate Executive Director to Ariel Buira (Mexico), effective November 1, 1980.

Jacques de Groote (Belgium) was re-elected Executive Director by Austria, Belgium, Luxembourg, and Turkey, effective November 1, 1980.

Heinrich G. Schneider (Austria) was reappointed Alternate Executive Director to Jacques de Groote (Belgium), effective November 1, 1980.

Bernard J. Drabble (Canada), formerly Executive Director for Bahamas, Barbados, Canada, Grenada, Ireland, and Jamaica, was elected Executive Director by Bahamas, Barbados, Canada, Dominica, Grenada, Ireland, Jamaica, St. Lucia, and St. Vincent, effective November 1, 1980.

Michael Casey (Ireland) was reappointed Alternate Executive Director to Bernard J. Drabble (Canada), effective November 1, 1980.

Mohamed Finaish (Libya) was re-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, 1980.

Kadhim A. Al-Eyd (Iraq) was reappointed Alternate Executive Director to Mohamed Finaish (Libya), effective November 1, 1980.

Juan Carlos Iarezza (Argentina) was elected Executive Director by Argentina, Bolivia, Chile, Paraguay, Peru, and Uruguay, effective November 1, 1980.

Raúl Salazar (Peru) was appointed Alternate Executive Director to Juan Carlos Iarezza (Argentina), effective November 1, 1980.

Alexandre Kafka (Brazil), formerly Executive Director for Brazil, Colombia, Dominican Republic, Guyana, Haiti, Panama, Peru, Suriname, and Trinidad and Tobago, was elected Executive Director by Brazil, Colombia, Dominican Republic, Ecuador, Guyana, Haiti, Panama, Suriname, and Trinidad and Tobago, effective November 1, 1980.

José Gabriel-Peña (Dominican Republic) was reappointed Alternate Executive Director to Alexandre Kafka (Brazil), effective November 1, 1980.

Byanti Kharmawan (Indonesia) was re-elected Executive Director by Burma, Fiji, Indonesia, Lao People's Democratic Republic, Malaysia, Nepal, Singapore, Thailand, and Viet Nam, effective November 1, 1980.

Semyano Kiingi (Uganda), formerly Alternate Executive Director to Festus G. Mogae (Botswana), was elected Executive Director by Botswana, Burundi, Ethiopia, The Gambia, Guinea, Kenya, Lesotho, Liberia, Malawi, Nigeria, Sierra Leone, Sudan, Swaziland, Tanzania, Uganda, Zambia, and Zimbabwe, effective November 1, 1980.

Andrew K. Mullei (Kenya) was appointed Alternate Executive Director to Semyano Kiingi (Uganda), effective November 1, 1980.

Giovanni Lovato (Italy) was elected Executive Director by Greece, Italy, Malta, and Portugal, effective November 1, 1980.

Costa P. Caranicas (Greece), formerly Alternate Executive Director to Lamberto Dini (Italy), was appointed Alternate Executive Director to Giovanni Lovato (Italy), effective November 1, 1980.

Samuel Nana-Sinkam (Cameroon), formerly Executive Director for Benin, Cameroon, Central African Republic, Chad, Comoros, Congo, Equatorial Guinea, Gabon, Guinea-Bissau, Ivory Coast, Madagascar, Mali, Mauritania, Mauritius, Niger, Rwanda, São Tomé and Principe, Senegal, Togo, Upper Volta, and Zaïre, was elected Executive Director by Benin, Cameroon, Cape Verde, Central African Republic, Chad, Comoros, Congo, Djibouti, Equatorial Guinea, Gabon, Guinea-Bissau, Ivory Coast, Madagascar, Mali, Mauritania, Mauritius, Niger, São Tomé and Principe, Senegal, Togo, Upper Volta, and Zaïre, effective November 1, 1980.

Abderrahmane Alfidja (Niger) was reappointed Alternate Executive Director to Samuel Nana-Sinkam (Cameroon), effective November 1, 1980.

M. Narasimham (India) was elected Executive Director by Bangladesh, India, and Sri Lanka, effective November 1, 1980.

D. Lakshman Kannangara (Sri Lanka), formerly Alternate Executive Director to S.D. Deshmukh (India), was appointed Alternate Executive Director to M. Narasimham (India), effective November 1, 1980.

H.O. Ruding (Netherlands) was re-elected Executive Director by Cyprus, Israel, Netherlands, Romania, and Yugoslavia, effective November 1, 1980.

Tom de Vries (Netherlands) was reappointed Alternate Executive Director to H.O. Ruding (Netherlands), effective November 1, 1980.

Jón Sigurdsson (Iceland) was elected Executive Director by Denmark, Finland, Iceland, Norway, and Sweden, effective November 1, 1980.

Gísli Blöndal (Iceland), formerly Alternate Executive Director to Matti Vanhala (Finland), was appointed Alternate Executive Director to Jón Sigurdsson (Iceland), effective November 1, 1980.

Robert J. Whitelaw (Australia) was re-elected Executive Director by Australia, Korea, New Zealand, Papua New Guinea, Philippines, Seychelles, Solomon Islands, and Western Samoa, effective November 1, 1980.

Placido L. Mapa, Jr. (Philippines) was appointed Aternate Executive Director to Robert J. Whitelaw (Australia), effective November 1, 1980.

ZHANG Zicun (China) was elected Executive Director by China, effective November 1, 1980.

TAI Qianding (China) was appointed Alternate Executive Director to ZHANG Zicun (China), effective November 1, 1980.

Vijit Supinit (Thailand) was appointed Alternate Executive Director to Byanti Kharmawan (Indonesia), effective December 1, 1980.

H.O. Ruding (Netherlands) resigned as Executive Director for Cyprus, Israel, Netherlands, Romania, and Yugoslavia, effective December 31, 1980.

J.J. Polak (Netherlands) was elected Executive Director by Cyprus, Israel, Netherlands, Romania, and Yugoslavia, effective January 1, 1981.

Tom de Vries (Netherlands), formerly Alternate Executive Director to H.O. Ruding (Netherlands), was appointed Alternate Executive Director to J.J. Polak (Netherlands), effective January 1, 1981.

Andrew K. Mullei (Kenya) resigned as Alternate Executive Director to Semyano Kiingi (Uganda), effective January 4, 1981.

N'Faly Sangare (Guinea) was appointed Alternate Executive Director to Semyano Kiingi (Uganda), effective January 5, 1981.

Sam Y. Cross (United States) resigned as Executive Director for the United States, effective January 10, 1981.

Robert J. Whitelaw (Australia) resigned as Executive Director for Australia, Korea, New Zealand, Papua New Guinea, Philippines, Seychelles, Solomon Islands, and Western Samoa, effective January 21, 1981.

A.R.G. Prowse (Australia) was elected Executive Director by Australia, Korea, New Zealand, Papua New Guinea, Philippines, Seychelles, Solomon Islands, and Western Samoa, effective January 22, 1981.

Placido L. Mapa, Jr. (Philippines), formerly Alternate Executive Director to Robert J. Whitelaw (Australia), was appointed Alternate Executive Director to A.R.G. Prowse (Australia), effective January 22, 1981.

Gísli Blöndal (Iceland) resigned as Alternate Executive Director to Jón Sigurdsson (Iceland), effective February 28, 1981.

Leiv Vidvei (Norway) was appointed Alternate Executive Director to Jón Sigurdsson (Iceland), effective March 1, 1981.

Kadhim A. Al-Eyd (Iraq) resigned as Alternate Executive Director to Mohamed Finaish (Libya), effective March 31, 1981.

Mahsoun B. Jalal (Saudi Arabia) resigned as Executive Director for Saudi Arabia, effective April 30, 1981.

The following served at certain times during 1980/81 as Temporary Alternate Executive Directors to the Executive Directors indicated:

Temporary Alternate Executive Director	**Executive Director for whom Temporary Alternate Served**
Samir Ramez Abiad (Lebanon)	Mohamed Finaish (Libya)
Tengku Khatijah Ahmad (Malaysia)	Byanti Kharmawan (Indonesia)
Eric Michael Ainley (United Kingdom)	John Anson (United Kingdom)
José Roberto Novaes de Almeida (Brazil)	Alexandre Kafka (Brazil)
Hossein G. Askari (United States)	Mahsoun B. Jalal (Saudi Arabia)
Age F. P. Bakker (Netherlands)	H.O. Ruding (Netherlands)
	J.J. Polak (Netherlands)
Chandi J. Batliwalla (India)	S.D. Deshmukh (India)
	M. Narasimham (India)
Christian Bouchard (Gabon)	Samuel Nana-Sinkam (Cameroon)
Michael J. Callaghan (Australia)	Robert J. Whitelaw (Australia)
María Vicenta Carković (Chile)	Francisco Garcés (Chile)
	Juan Carlos Iarezza (Argentina)
Chinyamata Chipeta (Malawi)	Festus G. Mogae (Botswana)
	Semyano Kiingi (Uganda)
Luc E. J. M. Coene (Belgium)	Jacques de Groote (Belgium)
Silvio E. Conrado (Nicaragua)	Joaquín Muns (Spain)
	Ariel Buira (Mexico)
Aliou B. Diao (Senegal)	Samuel Nana-Sinkam (Cameroon)
José Fajgenbaum (Argentina)	Francisco Garcés (Chile)
	Juan Carlos Iarezza (Argentina)
José Luis Feito (Spain)	Ariel Buira (Mexico)
Miguel A. Fernández-Ordóñez (Spain)	Joaquín Muns (Spain)
Hans Flinch (Denmark)	Matti Vanhala (Finland)
Bruno Guiot (Belgium)	Jacques de Groote (Belgium)
Avner Halevi (Israel)	H.O. Ruding (Netherlands)
	J.J. Polak (Netherlands)
Juergen U. Holst (Germany, Fed. Rep. of)	Gerhard Laske (Germany, Fed. Rep. of)
M. Ashraf Janjua (Pakistan)	Mohamed Finaish (Libya)
Kaarlo Vilho Jännäri (Finland)	Matti Vanhala (Finland)
	Jón Sigurdsson (Iceland)
Guillermo Jáuregui (Ecuador)	Alexandre Kafka (Brazil)
Joseph Mills Jones (Liberia)	Festus G. Mogae (Botswana)
	Semyano Kiingi (Uganda)
Wadea A. Kabli (Saudi Arabia)	Mahsoun B. Jalal (Saudi Arabia)
Motoo Kusakabe (Japan)	Teruo Hirao (Japan)
Seung-Woo Kwon (Korea)	Robert J. Whitelaw (Australia)
	A.R.G. Prowse (Australia)
John E. Leimone (United States)	Sam Y. Cross (United States)
Bengt Göran Lind (Sweden)	Matti Vanhala (Finland)
	Jón Sigurdsson (Iceland)
Herbert A. Lust (Austria)	Jacques de Groote (Belgium)
Jean S. Mair (Canada)	Bernard J. Drabble (Canada)
Mauro Michelangeli (Italy)	Lamberto Dini (Italy)
	Giovanni Lovato (Italy)
Stefano Micossi (Italy)	Lamberto Dini (Italy)
Andrew K. Mullei (Kenya)	Festus G. Mogae (Botswana)
	Semyano Kiingi (Uganda)
V.K.S. Nair (India)	S.D. Deshmukh (India)
	M. Narasimham (India)
Patrick D. Péroz (France)	Paul Mentré de Loye (France)
Christopher Noel Pinfield (New Zealand)	Robert J. Whitelaw (Australia)
	A.R.G. Prowse (Australia)
Mohammad Zia Masoom Qureshi (Pakistan)	Mohamed Finaish (Libya)
Peter Edward Ramell (United Kingdom)	John Anson (United Kingdom)
Antonio V. Romualdez (Philippines)	Robert J. Whitelaw (Australia)
Mohammad Shadman (Iran)	Jahangir Amuzegar (Iran)
	Morteza Abdollahi (Iran)
Germán Suárez (Peru)	Alexandre Kafka (Brazil)
Hideaki Suzuki (Japan)	Teruo Hirao (Japan)

Francisco A. Tourreilles (Uruguay)	Juan Carlos Iarezza (Argentina)
Okan Üçer (Turkey)	Jacques de Groote (Belgium)
Avraham van der Hal (Israel)	H.O. Ruding (Netherlands)
Kenny Kay Kee Wee (Singapore)	Byanti Kharmawan (Indonesia)
Peter Wichert (Germany, Fed. Rep. of)	Gerhard Laske (Germany, Fed. Rep. of)
WANG Enshao (China)	ZHANG Zicun (China)
John F. Williams (United Kingdom)	John Anson (United Kingdom)
Thomas Hywel Williams (Canada)	Bernard J. Drabble (Canada)

Appendix VI
Administrative Budget

Administrative Budget as Approved by the Executive Board for the Financial Year Ending April 30, 1982 Compared with Actual Expenses for the Financial Years Ended April 30, 1980 and 1981

(Values expressed in special drawing rights) [1]

Object of Expense	Financial Year Ended April 30, 1980	Financial Year Ended April 30, 1981		Financial Year Ending April 30, 1982
	Actual Expenses	Revised Budget	Actual Expenses	Budget
I. PERSONNEL EXPENSES				
Salaries	38,319,917	43,798,586	43,734,599	60,248,875
Other personnel expenses	23,573,576	31,135,576	31,113,769	44,057,230
Total	61,893,493	74,934,162	74,848,368	104,306,105
II. TRAVEL EXPENSES				
Business travel	6,199,543	7,372,082	7,267,947	10,069,485
Other travel	4,464,055	5,358,515	5,204,809	6,846,582
Total	10,663,598	12,730,597	12,472,756	16,916,067
III. OTHER ADMINISTRATIVE EXPENSES				
Communications	2,314,449	2,767,871	2,767,064	3,110,185
Building occupancy	2,442,092	3,663,473	3,627,804	4,608,918
Books and printing	1,096,335	1,234,244	1,215,394	1,669,898
Supplies and equipment	1,282,584	1,749,285	1,747,022	2,413,003
Data processing services	1,735,463	1,580,499	1,579,955	2,041,450
Miscellaneous	1,533,490	2,585,814	2,583,697	2,538,245
Total	10,404,413	13,581,186	13,520,936	16,381,699
TOTAL [2]	82,961,504	101,245,945	100,842,060	137,603,871

[1] The administrative budget is expressed in terms of U.S. dollars and converted to SDR equivalents.

[2] Net administrative expenses for the financial year ended April 30, 1980 totaled SDR 81,261,500 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 1,000,004) and for the estimated expenses of conducting the business of the Trust Fund (SDR 700,000). For the year ended April 30, 1981, net administrative expenses amounted to SDR 98,942,066 after similar deductions of SDR 1,599,994 and SDR 300,000, respectively.

Appendix VII

Comparative Statement of Income and Expense
(Values expressed in special drawing rights)

	Financial Year Ended April 30		
	1979	1980	1981
OPERATIONAL INCOME			
Periodic charges			
Received in special drawing rights	670,718,180	501,191,132	512,176,841
Received in members' currencies	7,383,406	—	—
Amounts receivable	—	18,159,439	80,526,816
Total	678,101,586	519,350,571	592,703,657
Interest on holdings of special drawing rights	57,121,423	81,813,361	265,814,019
Other operational charges			
Received in special drawing rights	16,064,683	13,000,853	23,758,100
Received in members' currencies	2,004,567	—	—
Total	18,069,250	13,000,853	23,758,100
Total Operational Income	753,292,259	614,164,785	882,275,776
Deduct: Operational expense			
Remuneration			
Paid in special drawing rights	139,726,705	219,497,371	348,220,764
Paid in members' currencies	32,016,137	21,488,295	24,586,863
Total	171,742,842	240,985,666	372,807,627
Transfer charges and interest on borrowing			
Paid in special drawing rights	6,877,979	24,739,526	44,900,068
Paid in members' currencies	455,080,416	244,086,919	205,799,610
Amounts payable	—	15,183,502	78,827,405
Total	461,958,395	284,009,947	329,527,083
Other	5,556	7,705	—
Total Operational Expense	633,706,793	525,003,318	702,334,710
NET OPERATIONAL INCOME	119,585,466	89,161,467	179,941,066
EXPENSE[1]			
Administrative budget expense	68,616,776[2]	81,261,500[2]	98,942,066[2]
Fixed property expense	21,468	349,532	1,265,290
Amortization of prior service cost	4,711,155	4,392,708	236,882
Net valuation adjustment loss (gain)	87,699	65,159	(586,069)
TOTAL EXPENSE[1]	73,437,098	86,068,899	99,858,169
NET INCOME	46,148,368	3,092,568	80,082,897

[1] Excludes operational expense which has been deducted from operational income.
[2] After deduction of SDR 1,700,480 for financial year 1979, SDR 1,000,004 for financial year 1980, and SDR 1,599,994 for financial year 1981, reimbursed to the General Resources Account by assessments levied on the net cumulative allocations of participants in the Special Drawing Rights Department; and SDR 900,000 for financial year 1979, SDR 700,000 for financial year 1980, and SDR 300,000 for financial year 1981, reimbursed to the General Resources Account for the estimated expense of conducting the business of the Trust Fund.

Appendix VIII

Financial Statements of the General Resources Account, Special Drawing Rights Department, Subsidy Account, Trust Fund, and Staff Retirement Plan

REPORT OF THE EXTERNAL AUDIT COMMITTEE

GENERAL DEPARTMENT

GENERAL RESOURCES ACCOUNT

Washington, D.C.
June 19, 1981

AUTHORITY FOR THE AUDIT

The audit for the year ended April 30, 1981 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, 1981, 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, 1981, 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/ Christian Aubin, Chairman (France)
/s/ David Ralph Hutton (New Zealand)
/s/ Abdulrahman Amin Najmeldine (Saudi Arabia)

International Monetary Fund

General Department
(Note 1)

General Resources Account
Balance Sheet
as at April 30, 1981

Amounts expressed in special drawing rights

(Note 2)

	1981	1980
Assets		
Currencies and Securities (Notes 3 and 4)	56,025,401,380	38,670,821,737
Special Drawing Rights	5,445,007,849	1,406,997,417
Gold with Depositories (Note 2)	3,620,396,120	3,635,906,915
Subscriptions to Capital—Receivable	—	2,370,053
Charges Receivable (Note 4)	104,291,449	116,251,529
Accrued Charges (Note 4)	80,526,816	18,159,439
Other Assets (Note 2)	10,622,922	6,748,324
Total Assets	65,286,246,536	43,857,255,414
Capital, Reserves, and Liabilities		
Capital		
Subscriptions of Members	59,605,500,000	39,016,500,000
Reserves (Note 6)	843,284,924	763,202,027
Liabilities		
Borrowing (Note 5)	4,323,218,104	3,753,464,712
Remuneration Payable to Members (Note 4)	372,807,627	240,985,666
Interest Payable	37,198,768	53,636,544
Accrued Interest	78,827,405	15,183,502
Other Liabilities	25,409,708	14,282,963
Total Capital, Reserves, and Liabilities	65,286,246,536	43,857,255,414

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, 1981

Amounts expressed in special drawing rights
(Note 2)

	1981	1980
OPERATIONAL INCOME		
Periodic charges (Note 4)	592,703,657	519,350,571
Interest on holdings of special drawing rights	265,814,019	81,813,361
Service charges	21,929,604	11,054,011
Other	1,828,496	1,946,842
	882,275,776	614,164,785
OPERATIONAL EXPENSE		
Remuneration (Note 4)	372,807,627	240,985,666
Interest on borrowing	329,527,083	284,009,947
Other	—	7,705
	702,334,710	525,003,318
NET OPERATIONAL INCOME	179,941,066	89,161,467
ADMINISTRATIVE EXPENSE		
Administrative budget		
Personnel (Note 7)	74,848,368	61,893,493
Travel	12,472,756	10,663,598
Other (Note 2)	13,520,936	10,404,413
Total administrative budget	100,842,060	82,961,504
Less recovery of expenses of conducting the business of the Special Drawing Rights Department and the Trust Fund	1,899,994	1,700,004
Net administrative budget	98,942,066	81,261,500
Fixed property (Note 2)	1,265,290	349,532
Amortization of prior service cost (Note 7)	236,882	4,392,708
Net valuation adjustment (gain)	(586,069)	65,159
TOTAL ADMINISTRATIVE EXPENSE	99,858,169	86,068,899
NET INCOME	80,082,897	3,092,568

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, 1981

(Note 6)

Amounts expressed in special drawing rights

(Note 2)

	1981	1980
SPECIAL RESERVE		
Balance at beginning of year	397,622,324	394,529,756
Add net income for year	80,082,897	3,092,568
Balance at end of year	477,705,221	397,622,324
GENERAL RESERVE		
Balance at beginning and end of year	365,579,703	365,579,703
TOTAL RESERVES	843,284,924	763,202,027

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, 1981

Amounts expressed in special drawing rights

(Note 2)

	1981	1980
Resources were applied to:		
Increase in currency holdings:		
Changes in holdings which increased amounts on which the Fund levies charges	1,837,995,864	(837,368,122)
Changes in holdings which reduced creditor positions on which the Fund pays remuneration	513,255,337	379,892,087
Changes in holdings which did not affect amounts on which the Fund levies charges or pays remuneration	15,003,328,442	(438,428,909)
	17,354,579,643	(895,904,944)
Increase in holdings of special drawing rights	4,038,010,432	117,088,441
Repayments of borrowing:		
Oil facility	945,692,979	1,782,859,156
	22,338,283,054	1,004,042,653
Resources were provided by:		
Subscriptions:		
Increases in members' quotas	20,489,000,000	—
Subscriptions of new members	100,000,000	5,300,000
	20,589,000,000	5,300,000
Borrowing:		
Supplementary financing facility	1,515,446,371	502,393,063
Net income	80,082,897	3,092,568
Sales of gold	15,510,795	418,615,009
Increase in the excess of other liabilities over other assets	138,242,991	74,642,013
	22,338,283,054	1,004,042,653

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 the Fund. 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. For the year ended April 30, 1981, the cost of property, furniture, and equipment charged as an expense amounted to SDR 1,583,646 (SDR 952,633 in 1980).

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 accounting period.

3. Currencies and Securities

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 ¼ 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 reflected in the Fund's currency holdings. At April 30, 1981, accounts receivable amounted to SDR 2,749,745,358 and accounts payable amounted to SDR 2,058,638,329.

4. Operational Transactions

During the year ended April 30, 1981, members' purchases amounted to SDR 4,860 million of which SDR 474 million was in the reserve tranche, SDR 2,682 million was under the Fund's regular policies, SDR 784 million was under compensatory financing, and SDR 920 million was under the extended Fund facility. Of the total purchases, SDR 1,516 million was financed under the supplementary financing facility. Over the same period, repurchases by members totaled SDR 2,853 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	
	1981	1980
Reserve tranche	36	144
Regular facilities	2,630	2,293
Compensatory financing	2,617	2,873
Buffer stock financing	—	74
Extended Fund facility	980	504
Oil facility	1,581	2,494
Supplementary financing facility:		
Under stand-by arrangements	1,510	383
Under extended arrangements	508	119
Total	9,862	8,884

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, 1981, the total holdings on which the Fund levies charges amounted to SDR 9,544 million and total creditor position on which the Fund pays remuneration amounted to SDR 6,813 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, 1981, unpaid charges receivable from Democratic Kampuchea amounted to SDR 4,132,308 and are included in the balance sheet as charges receivable and as a deferred credit. On December 19, 1978 the Executive Board decided that Democratic Kampuchea may not make use of the general resources of the Fund until such time as Democratic Kampuchea is fulfilling its obligations under the Articles of Agreement to which Article XXVI, Section 2(*a*) applies.

5. Borrowing

Outstanding borrowing by the Fund at April 30, 1981 and 1980 was as follows:

	1981	1980
Oil facility	SDR 1,528,124,670	SDR 2,473,817,649
Supplementary financing facility	2,017,839,434	502,393,063
General Arrangements to Borrow	777,254,000	777,254,000
	SDR 4,323,218,104	SDR 3,753,464,712

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.

Supplementary Financing Facility (SFF)

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 four years to finance purchases by members under this facility. Interest paid by the Fund on amounts borrowed under the borrowing agreements is based on the average yield on U.S. Government securities with a constant maturity of five years. The first calls were made under the SFF borrowing agreements during the year ended April 30, 1980.

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 when supplementary resources are needed to forestall or cope with an impairment of the international monetary system. These arrangements first became effective from October 24, 1962 and were renewed until October 23, 1985. The Swiss Confederation has been associated with the GAB since June 1964. The present arrangement with the Swiss Confederation expires on July 15, 1985. The Fund pays a transfer charge of ½ of 1 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, 1981, the interest rate being paid by the Fund on indebtedness under the General Arrangements to Borrow was 4 per cent per annum.

6. Reserves

The Fund determines annually what part of its net income shall be placed to the General Reserve or to the Special Reserve, and what part, if any, shall be distributed. The 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, 1981 was placed to the Special Reserve by decision of the Executive Board.

7. Other Compensations and Benefits

The Fund pays various allowances to or on behalf of Executive Directors and staff including the employer's contribution to the Staff Retirement Plan. All contributions to the Plan and all other assets, liabilities, and income of the Plan are held separately and can be used or incurred 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 prior service cost 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 was 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, and the remaining balance amounting to SDR 4,392,708 was charged against income in 1980. A prior service cost amounting to SDR 236,882 resulting from plan amendments approved in May 1980 was paid and charged against income in the year ended April 30, 1981.

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, 1981 amounted to SDR 48.3 million (calculated at the SDR value of the U.S. dollar on that date). Payments over the next 15 years to amortize the actuarial experience losses are estimated to be approximately SDR 66.3 million (at the April 30, 1981 SDR/US$ rate), of which SDR 5.3 million was paid on May 1, 1981.

Contributions by the employer to the Staff Retirement Fund for the year ended April 30, 1981 amounted to SDR 16,882,569, including SDR 4,232,677 for the amortization of actuarial experience losses (SDR 2,845,570 in 1980) and SDR 4,030,794 to fund cost of living supplements to beneficiaries (SDR 1,778,217 in 1980).

Report of the External Audit Committee
Special Drawing Rights Department

Washington, D.C.
June 19, 1981

Authority for the Audit

The audit for the year ended April 30, 1981 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, 1981, 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, 1981, 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/ Christian Aubin, Chairman (France)
/s/ David Ralph Hutton (New Zealand)
/s/ Abdulrahman Amin Najmeldine (Saudi Arabia)

INTERNATIONAL MONETARY FUND

SPECIAL DRAWING RIGHTS DEPARTMENT
(Note 1)
BALANCE SHEET
as at April 30, 1981

Amounts expressed in special drawing rights

	1981	1980
ALLOCATIONS		
Net cumulative allocations of special drawing rights to participants	21,433,330,200	17,380,836,200
HOLDINGS		
Participants		
Holdings above allocations, comprising		
Allocations	5,381,928,800	6,047,044,000
Net receipt of SDRs	1,822,601,834	2,777,200,395
	7,204,530,634	8,824,244,395
Holdings below allocations, comprising		
Allocations	16,051,401,400	11,333,792,200
Net use of SDRs	7,279,654,314	4,184,197,812
	8,771,747,086	7,149,594,388
Total holdings by participants	15,976,277,720	15,973,838,783
General Resources Account	5,445,007,849	1,406,997,417
Other holders	12,044,631	—
	21,433,330,200	17,380,836,200

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, 1981

Amounts expressed in special drawing rights

	Participants	General Resources Account	Other Holders	Total 1981	Total 1980
Total holdings at beginning of year	15,973,838,783	1,406,997,417		17,380,836,200	13,347,560,200
Source of special drawing rights					
Allocations	4,052,494,000			4,052,494,000	4,033,276,000
Transfers among participants and other holders					
Transactions with designation	1,882,850,125			1,882,850,125	1,371,514,932
Transactions by agreement	416,965,926		1,500,000	418,465,926	361,787,753
Transfers from participants to General Resources Account					
Repurchases		929,956,199		929,956,199	993,915,153
Charges in General Resources Account	12,721,918	587,080,210		599,802,128	560,932,958
Quota payments		5,090,640,000		5,090,640,000	712,575
Assessment		1,599,994		1,599,994	1,000,004
Transfers from General Resources Account to participants and other holders					
Purchases	2,033,001,239			2,033,001,239	1,282,629,970
Remuneration	219,497,371			219,497,371	139,726,705
Reconstitution	19,542,201			19,542,201	5,054,091
Repayments of Fund borrowing					
Oil facility	151,104,701		10,156,250	161,260,951	64,392,375
Interest on Fund borrowings					
Oil facility	16,262,204			16,262,204	13,435,429
General Arrangements to Borrow	5,820,590			5,820,590	6,050,803
Supplementary financing facility	28,235,306			28,235,306	1,695,724
In exchange for currencies of other members					
Acquisitions to make quota payments	340,738,210			340,738,210	
Acquisitions to pay charges					97,515
Net interest in Special Drawing Rights Department	222,863,710	265,814,019	388,381	489,066,110	271,501,892
	9,402,097,501	6,875,090,422	12,044,631	16,289,232,554	9,107,723,879
Use of Special Drawing Rights					
Transfers among participants and other holders					
Transactions with designation	1,882,850,125			1,882,850,125	1,371,514,932
Transactions by agreement	418,465,926			418,465,926	361,787,753
Transfers from participants to General Resources Account					
Repurchases	929,956,199			929,956,199	993,915,153
Charges in General Resources Account	587,080,210	12,721,918		599,802,128	560,932,958
Quota payments	5,090,640,000			5,090,640,000	712,575
Assessment	1,599,994			1,599,994	1,000,004
Transfers from General Resources Account to participants and other holders					
Purchases		2,033,001,239		2,033,001,239	1,282,629,970
Remuneration		219,497,371		219,497,371	139,726,705
Reconstitution		19,542,201		19,542,201	5,054,091
Repayments of Fund borrowings					
Oil facility		161,260,951		161,260,951	64,392,375
Interest on Fund borrowings					
Oil facility		16,262,204		16,262,204	13,435,429
General Arrangements to Borrow		5,820,590		5,820,590	6,050,803
Supplementary financing facility		28,235,306		28,235,306	1,695,724
In exchange for currencies of other members					
Acquisitions to make quota payments		340,738,210		340,738,210	
Acquisitions to pay charges					97,515
Net charges paid in Special Drawing Rights Department	489,066,110			489,066,110	271,501,892
	9,399,658,564	2,837,079,990		12,236,738,554	5,074,447,879
Total holdings at end of financial year	15,976,277,720	5,445,007,849	12,044,631	21,433,330,200	17,380,836,200

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, three further allocations were made as of January 1, 1979, 1980, and 1981, aggregating SDR 12.1 billion. 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 operations by agreement with another participant, and in operations involving the General Resources Account, such as the payment of charges or repurchases. Special drawing rights may also be used in transactions and operations involving other official entities prescribed by the Fund as other holders of special drawing rights. 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 Requirement

Under the reconstitution requirement, a participant was required to maintain, over five-year periods ending in successive calendar quarters, a minimum level of average daily holdings of special drawing rights of 15 per cent of its average daily net cumulative allocation. This requirement was abrogated with effect from April 30, 1981.

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 on each participant's net cumulative allocation plus any negative balance of the participant or unpaid charges. Interest and charges are settled by crediting and 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 19, 1981

AUTHORITY FOR THE AUDIT

The audit for the year ended April 30, 1981 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, 1981, 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, 1981, 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/ Christian Aubin, Chairman (France)
/s/ David Ralph Hutton (New Zealand)
/s/ Abdulrahman Amin Najmeldine (Saudi Arabia)

INTERNATIONAL MONETARY FUND

SUBSIDY ACCOUNT
(Note 1)
STATEMENT OF FINANCIAL POSITION
Changes during year and Position as at April 30, 1981

Amounts expressed in special drawing rights
(Note 2)

	1981	1980
Balance at beginning of year	73,934,615	59,735,399
Contributions received (Note 2)	6,899,951	28,597,963
Interest earned on investments	5,316,542	5,621,859
	12,216,493	34,219,822
Valuation gain (loss)	3,711,209	(921,021)
	15,927,702	33,298,801
	89,862,317	93,034,200
Less: Subsidy payments (Note 3)	27,772,283	19,099,585
Balance at end of year	62,090,034	73,934,615
Balance represented by:		
Currency on deposit	1,002,900	72,300
Investments in United States Government obligations, at cost *(market value: SDR 58,405,807—1981; SDR 70,936,491—1980)*	58,711,464	71,246,204
Accrued interest receivable	2,375,670	2,616,111
Total assets	62,090,034	73,934,615

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 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 the Fund.

Currency contributions to the Subsidy Account are converted to equivalent amounts of SDRs on the basis of exchange rates against the SDR at the time of receipt. Cumulative contributions to the Subsidy Account at April 30, 1981 amounted to SDR 156,436,225.

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 1981 was set by the Fund at 5 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 1975 oil facility. 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, 1981 amounted to SDR 50.1 million and were made on June 1, 1981.

Report of the External Audit Committee

Trust Fund

Washington, D.C.
June 19, 1981

Authority for the Audit

The audit for the year ended April 30, 1981 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, 1981, 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, 1981, 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/ Christian Aubin, Chairman (France)
/s/ David Ralph Hutton (New Zealand)
/s/ Abdulrahman Amin Najmeldine (Saudi Arabia)

INTERNATIONAL MONETARY FUND

TRUST FUND
(Note 1)
BALANCE SHEET
as at April 30, 1981

Amounts expressed in special drawing rights

(Note 2)

	1981	1980
ASSETS		
Sight deposit	40,696	23,702
Term deposits	—	824,286,202
Investments, at cost *(market value SDR 3,337,284—1981; SDR 348,419,267—1980)*	3,337,284	347,840,818
Loans (Note 3)	2,991,334,701	1,931,442,424
Accrued interest on investments and term deposits	1,418	36,600,937
Accrued interest on loans	4,469,834	2,600,669
Total	2,999,183,933	3,142,794,752
TRUST RESOURCES AND LIABILITIES		
Trust resources	2,993,518,328	3,124,497,410
Liabilities—		
Undistributed profits from sale of gold (Note 4)	3,329,588	18,297,342
Borrowing (Note 5)	2,332,183	—
Accrued interest on borrowing	3,834	—
Total	2,999,183,933	3,142,794,752

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, 1981

Amounts expressed in special drawing rights
(Note 2)

	1981	1980
Income:		
Net proceeds realized from the sale of gold	156,269,154	1,552,631,381
Investment income	68,835,544	95,809,509
Interest income on loans	12,282,913	6,467,855
	237,387,611	1,654,908,745
Expenses:		
Administrative expense (Note 2):		
Staff salaries and benefits, and other services	243,193	635,131
Gold weighing and handling charges	53,259	58,730
Data processing services	3,440	5,972
Other	108	167
Total administrative expense	300,000	700,000
Interest on borrowing (Note 5)	19,499	—
Exchange valuation loss	5,411,118	6,281,593
	5,730,617	6,981,593
Net income	231,656,994	1,647,927,152

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, 1981

Amounts expressed in special drawing rights

(Note 2)

	1981	1980
Balance at beginning of year	3,124,497,410	1,751,394,949
Net income for the year	231,656,994	1,647,927,152
Total resources before distribution of profits to developing countries	3,356,154,404	3,399,322,101
Distribution of profits to developing countries		
Amount disbursed	400,339,128	292,681,719
Amount pending disbursement	1,243,603	9,802,254
	401,582,731	302,483,973
Contributions received	38,946,655	27,659,282
Balance at end of year	2,993,518,328	3,124,497,410

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 the Fund.

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. The final loan disbursements were made on March 31, 1981. Each loan disbursement is repayable in ten semiannual installments which shall begin not later than the end of the first six months of the sixth year, and be completed at the end of the tenth year, after the date of disbursement, except that the final loan disbursements made to members on March 31, 1981 are to be repaid in a single installment not later than ten years after the date of that disbursement. Interest on the outstanding loan balances is charged at the rate of ½ of 1 per cent per annum.

4. Direct Distribution of Profits

The International Monetary Fund decided that the Trustee make, through the Trust Fund, the direct distribution of part of the profits from the sale of gold for the benefit of developing members. The share of each developing member in this direct distribution of profits is calculated on the basis of its share in total IMF quotas as of August 31, 1975 and on the basis of the actual profits realized in the gold auctions.

The direct distribution of profits has been completed, except that an amount of US$3,990,776 representing the share of Democratic Kampuchea will continue to be held in the Trust Fund until relations with that member have been restored.

5. Borrowing

One beneficiary of the direct distribution of profits from the Trust Fund has lent a part of its entitlements to the Trust Fund. The amounts borrowed by the Trust Fund are repayable in ten semiannual installments beginning not later than the end of the first six months of the sixth year after the date of borrowing. Interest on the amounts outstanding is paid at the same rate as interest is charged on Trust Fund loans, provided that the rate shall not be less than ½ of 1 per cent per annum.

6. Termination and Transfer of Resources

The Fund, as Trustee, decided that upon the completion of the final loan disbursements, the Trust Fund shall be terminated as of April 30, 1981. After that date, the activities of the Trust Fund shall be confined to the completion of any unfinished business of the Trust Fund and the winding up of its affairs.

The resources of the Trust Fund held on the termination date or subsequently received by the Trustee will be employed firstly to satisfy current administrative expenses, secondly to pay interest and principal as it falls due on loan obligations (Note 5), and thirdly to make transfers to the Special Disbursement Account, the first SDR 750 million of which will flow through to the supplementary financing facility subsidy account.

Report of the External Audit Committee

Staff Retirement Plan

Washington, D.C.
June 19, 1981

Authority for the Audit

The audit for the year ended April 30, 1981 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 accumulated plan benefits and net assets available for benefits of the Staff Retirement Plan administered by the International Monetary Fund as at April 30, 1981, and the related statements of changes in accumulated plan benefits and net assets 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

As stated in note 5, the method of accounting and reporting has been changed and the financial statements for the financial year 1980 restated on a comparable basis. We concur in this change. In our opinion, the financial statements referred to above give a true and fair view of the financial position of the Staff Retirement Plan as at April 30, 1981, and of the changes in accumulated plan benefits and net assets for the year then ended, in conformity with generally accepted accounting principles applied on a consistent basis after restatement.

External Audit Committee:

/s/ Christian Aubin, Chairman (France)
/s/ David Ralph Hutton (New Zealand)
/s/ Abdulrahman Amin Najmeldine (Saudi Arabia)

INTERNATIONAL MONETARY FUND

STAFF RETIREMENT PLAN

(Note 1)

STATEMENT OF ACCUMULATED PLAN BENEFITS
AND NET ASSETS AVAILABLE FOR BENEFITS
as at April 30, 1981

Amounts expressed in U.S. dollars

	1981	1980 (Note 5)
Accumulated Plan benefits (Note 2):		
Actuarial present value of accumulated Plan benefits		
Vested benefits:		
Retired participants	83,500,000	60,500,000
Other participants	67,900,000	63,000,000
Nonvested benefits	23,900,000	19,000,000
Total actuarial present value of accumulated Plan benefits	175,300,000	142,500,000
Net assets available for benefits:		
Investments, at current value (Note 2):		
Portfolio managed within the United States	197,093,295	154,084,925
Portfolio managed outside the United States	17,758,154	—
	214,851,449	154,084,925
Receivables:		
Contributions	352,352	282,885
Accrued interest and dividends (Note 2)	1,619,426	1,032,751
Other	1,388	—
	1,973,166	1,315,636
Cash at banks	26,306	177,994
Total assets	216,850,921	155,578,555
Liabilities:		
Accounts payable	819,339	3,723
Net assets available for benefits	216,031,582	155,574,832
Excess of net assets available for benefits over actuarial present value of accumulated Plan benefits	40,731,582	13,074,832

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 PLAN

(Note 1)

STATEMENT OF CHANGES IN ACCUMULATED PLAN BENEFITS

for the year ended April 30, 1981

Amounts expressed in U.S. dollars

	1981	1980
Actuarial present value of accumulated Plan benefits at beginning of year	142,500,000	121,000,000
Increase (decrease) during the year attributable to:		
Benefits accumulated	40,655,071	27,127,213
Benefits paid	(7,855,071)	(5,627,213)
Net increase	32,800,000	21,500,000
Actuarial present value of accumulated Plan benefits at end of year (Note 2)	175,300,000	142,500,000

The accompanying notes are an integral part of the financial statements.

INTERNATIONAL MONETARY FUND

STAFF RETIREMENT PLAN
(Note 1)
STATEMENT OF CHANGES IN NET ASSETS
AVAILABLE FOR BENEFITS
for the year ended April 30, 1981

Amounts expressed in U.S. dollars

	1981	1980 (Note 5)
Investment income (Note 2)		
Net appreciation in current value of investments (Note 4)	28,256,996	1,306,846
Interest	8,136,063	6,892,424
Dividends	4,785,479	3,828,547
Interest on uninvested funds and other	26,270	—
	41,204,808	12,027,817
Contributions (Notes 1 and 3):		
International Monetary Fund	21,748,427	15,264,162
Participants	5,328,519	4,681,022
Participants restored to service	61,263	15,850
Net transfers to retirement plans of other international organizations	(31,196)	15,683
	27,107,013	19,976,717
Total additions	68,311,821	32,004,534
Benefits (Note 1):		
Pensions	6,254,312	4,679,269
Withdrawal benefits	800,981	789,542
Commutation benefits	678,159	158,402
Death benefits	121,619	—
Total payments	7,855,071	5,627,213
Net additions	60,456,750	26,377,321
Net assets available for benefits at: Beginning of year	155,574,832	129,197,511
End of year	216,031,582	155,574,832

The accompanying notes are an integral part of the financial statements.

INTERNATIONAL MONETARY FUND

STAFF RETIREMENT PLAN
NOTES TO THE FINANCIAL STATEMENTS

1. Description of Plan

General

The Staff Retirement Plan (Plan) is a defined benefit pension plan covering nearly all staff members of the International Monetary Fund (employer). All assets and income of the Plan are the property of the employer and are held and administered by it separately from all its other property and assets and are to be used solely for the benefit of participants and retired participants or their beneficiaries. The account is valued in U.S. dollars.

Benefits

Participants are entitled to an annual pension beginning at normal retirement age (65). The amount of the pension is based on number of years of service and highest average gross remuneration. Participants who have reached the age of 55 may retire with a reduced pension (or with an unreduced pension if the sum of their age and years of service equals 90 or more). The Plan also provides for disability retirement and death benefits to a surviving spouse and minor children. Upon termination before age 55 a participant with at least three years of eligible service may elect to receive either a withdrawal benefit (accumulated contributions of the participant plus an amount equal to a percentage of such accumulated contributions, the percentage being based on number of months of eligible service) or a deferred pension to commence after the participant has reached the age of 55. A participant entitled to receive a normal, early retirement, or deferred pension may elect to commute up to one third of his or her pension, and receive a lump sum amount in lieu of the amount of pension commuted. A participant entitled to receive a disability pension may elect to commute one third of the early retirement pension that would otherwise have been applicable.

Contributions

As a condition of participation, regular staff members are required to participate in the Plan and to contribute 7 per cent of their gross remuneration to the Plan. Certain other categories of staff members may elect to participate in the Plan. The employer meets the administrative costs of the Plan, such as actuarial, management, and custodial fees, and is to contribute any additional amounts not provided by the contributions of participants to pay costs and expenses of the Plan not otherwise covered.

2. Accounting Practices

Valuation of Investments

Investments in securities listed in stock exchanges are valued at the last reported sales price on the last business day of the accounting period. Over-the-counter securities are valued at their bid price on the last business day of the year. Purchases and sales made by U.S. investment managers are recorded on the settlement date basis and transactions made by the non-U.S. investment manager are recorded on the trade date basis.

Accumulated Benefits—Vested and Nonvested

The actuarial value of vested benefits is shown for two categories. For retired participants, the amount shown equals the present value of the benefits expected to be paid over the future lifetime of the pensioner, and, if applicable, the surviving spouse of the pensioner. For other participants, the amount shown equals the present value of the deferred pension earned to the valuation date for a participant, or, if greater, the value of the withdrawal benefit for that participant, summed over all participants. For the purpose of determining the actuarial value of the vested benefits at the end of the Plan year, it is assumed that the Plan will continue to exist but that participants will not earn pension benefits beyond the date of the calculation.

The amount of nonvested benefits represents the total of the withdrawal benefits for all participants with less than three years of eligible service.

Other

Dividend and interest income from investments are recorded as earned.

3. Funding

The employer makes normal contributions to the Plan equal to 14 per cent of gross remuneration. Whenever the cost of living for a financial year increases, pensions shall be augmented by a pension supplement, which shall be the lesser of the increase in the cost of living for the financial year or 2 per cent. If the increase in the cost of living for a year exceeds 2 per cent, pensions shall be augmented by an additional supplement to be paid from contributions from the employer equal to the difference between 2 per cent and the increase in the cost of living. The employer has the right for good cause to reduce the additional supplement to not less than 1 per cent.

4. Investments

The net appreciation in the current value of investments for the periods ending April 30, 1981 and 1980 were as follows (in U.S. dollars):

	1981	1980
Portfolio managed within the United States	26,393,386	1,306,846
Portfolio managed outside the United States:		
—Net market appreciation	2,836,790	N/A
—Net exchange valuation loss	(973,180)	N/A
	1,863,610	—
Total net appreciation	28,256,996	1,306,846

The net exchange loss was calculated by converting the book value of securities in currencies other than U.S. dollars to U.S. dollars at the exchange rates in effect at both the beginning and the end of the accounting period (or at the time a security was purchased or sold if this occurs during the accounting period) and subtracting one from the other to determine the exchange gain or loss.

At April 30, 1981, 11.5 per cent of the net assets available for benefits was held in the Wells Fargo Bank Equity Index Fund, which has underlying investments in approximately 500 equity issues comprising the Standard & Poor's index. There were no other investments which represented 5 per cent or more of the net assets available for benefits.

5. Accounting Changes

Beginning with the financial year 1981, the method of accounting and reporting for the Plan follows the standards of Statement No. 35, "Accounting and Reporting by Defined Benefit Pension Plans" issued by the Financial Accounting Standards Board in the United States. The financial statements for the financial year 1980 have been restated to present them on a comparable basis.

6. Actuarial Valuation

The most recent valuation of the Plan by the actuary engaged by the Pension Committee was made as at April 30, 1980. Actuarial assumptions used in the valuation were (a) life expectancy of participants as based on the 1960 United Nations Service Tables, (b) certain percentages of staff, differing by sex, would retire at each age between 55 and 65, and (c) an assumed average rate of return on investments of 6 per cent per annum. The purpose of this annual valuation is to determine, on the basis of the actuarial assumptions used, the level of additional employer contributions necessary to fund experience losses and cost of living increases beyond the first 2 per cent. It is further assumed that the Plan will continue to exist and that participants will continue to earn pension benefits beyond the date of the valuation until the date of withdrawal, disability, death, or retirement. This valuation therefore differs from that in which the actuarial value of vested benefits is determined (Note 2).

Experience gains and losses of the Plan, as determined by the actuary, are amortized over a period of 15 years. The most recent valuation (at April 30, 1980) showed an experience loss of $8.7 million for the year then ended. Unamortized experience losses amounted to $57.8 million at April 30, 1981, of which $6.4 million was paid by the employer on May 1, 1981.

This page intentionally left blank

Index

An asterisk (*) denotes a table; a dagger (†) denotes a chart; fn. denotes a footnote.