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International Monetary Fund

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INTERNATIONAL MONETARY FUND

ANNUAL REPORT

OF THE

EXECUTIVE BOARD FOR THE FINANCIAL YEAR ENDED APRIL 30, 1982

WASHINGTON, D.C.

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The following symbols have been used throughout this Report:

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

(—) indicates a figure too small to record in the table or that the item does not exist;

(–) is used between years or months (e.g., 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 6 and 12.

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*Alphabetical listing.

July 21, 1982

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LETTER OF TRANSMITTAL
TO THE BOARD OF GOVERNORS

July 21, 1982

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, 1982, 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, 1983 is presented in Appendix VI and the audited financial statements of the General Department, the Special Drawing Rights Department, the Subsidy Account, the Supplementary Financing Facility Subsidy Account, the Trust Fund, and the Staff Retirement Plan for the year ended April 30, 1982, together with the reports of the External Audit Committee thereon, are presented in Appendix VIII.

Yours sincerely,

/s/

J. de Larosière

Chairman of the Executive Board

Chairman of the Board of Governors
International Monetary Fund

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Chapter 1
Developments in the World Economy

Introduction

World economic developments during 1981 and the first half of 1982 were marked by signs of progress in the difficult fight against inflation. Despite this favorable aspect, the general situation at mid-1982 remained troublesome, posing major challenges to economic policy for both national governments and international institutions.

The problems facing national authorities and the international community are manifold. Inflation still remains too high in most countries. Low or negative rates of growth are widespread, with the pronounced three-year economic slowdown in the industrial countries having had visibly adverse effects not only on their own economies but also on the developing countries. Unemployment rates are high and rising, having moved substantially above 1975 recession levels in most of the industrial countries. Growth in the volume of world trade has fallen to an extremely low rate. External payments positions in many countries are dominated by large imbalances on current account. The level and movement of interest rates and exchange rates among major industrial countries during the past two years have caused difficult problems for these countries and for the rest of the world. Taken together, these several problems are serious and have become a source of widespread dissatisfaction and concern.

The conditions of weak demand and high unemployment in industrial countries are bringing increased threats of protectionism—a vital area of policy demanding the utmost vigilance and prudence in government actions, inasmuch as yielding to protectionist pressures could have very serious consequences for the growth of world trade. Weak demand in the industrial countries also has had a negative impact on prices of primary commodities, and hence on the export earnings of many developing countries. Impairment of the international purchasing power of those countries, in turn, has contributed further to the slowdown in world trade.

The increasing social and political strains associated with high unemployment are creating pressures for a relaxation of the restrictive, anti-inflationary financial policies that have been pursued during the past few years by many Fund members, including several of the major industrial countries. This, too, is a very worrisome development; under present conditions, a shift to expansionary fiscal and monetary policies might be expected to have only limited and temporary positive effects on output and employment and would run a grave risk of aggravating inflationary expectations and pressures that, all too soon, could lead to an even worse condition of stagflation. Whatever the cost of preventing another damaging flare-up of inflation, it would be less painful than the arduous adjustment process that would almost certainly follow.

In several of the larger industrial countries, definite signs of progress in the effort to reduce inflation have emerged. This progress, attributable primarily to the restraint exercised by monetary policy over the growth of aggregate nominal demand, has brought these countries further along the path toward adjustment of their economies (after due allowance for the lags involved) than is perhaps evident from the current statistics. In several of the larger industrial countries, and particularly in the United States, the recent evolution of wage costs presages—in the absence of new upward pressures—distinctly lower rates of increase in final product prices than those reported over the past year. It would be most unfortunate if these hard-won gains were to be dissipated through untimely resort to expansionary policies.

An important problem in the industrial countries consists of various rigidities and structural imbalances that have become imbedded in the economic system. Examples are to be found in wage bargaining and price setting, in government subsidies or protection of ailing industries, in the governmental imposition of regulatory burdens, and in structural unemployment. In addition, a considerable degree of rigidity has characterized certain aspects of government spending and taxation, with the result that large budget deficits have become prevalent. These deficits not only have had adverse direct effects on prices and costs but also have hindered the effectiveness of monetary restraint in various ways. In particular, they have played an important role in escalating interest rates to their current high levels (in real as well as nominal terms).

The prevailing structural imbalances and rigidities—especially with respect to wage and price determination—tend to make inflation in the industrial countries rather sticky and economic growth sluggish. If the fight against inflation and unemployment in these countries is to be successful over time, a comprehensive policy approach is required—one that not only would need to control the growth of aggregate nominal demand so as to reduce inflation but also would include measures designed to reduce or eliminate existing rigidities and structural imbalances in the fiscal field, in the goods and labor markets, and in other problem areas. Without effective measures of this type, 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. To shorten that period and minimize the adverse impact, flexible or informal policies seeking to restrain the rate of increase in nominal incomes—while still permitting necessary adjustment in the structure of incomes and prices—could be helpful in some countries. Such policies, of course, would have to be geared to the political, social, and institutional considerations applicable in each country.

There is clearly a need in present circumstances for widespread pursuit of comprehensive policies of adjustment: policies tailored to the circumstances of individual countries and focused, to the extent required, on reduction of inflation, improvement of economic efficiency, and elimination of external imbalances. Over the past few years, comprehensive adjustment policies have been adopted by an increasing number of member countries, industrial and developing alike, and others will doubtless follow suit. Because of the deep-seated nature of the problems to be addressed, the policies of adjustment must be cast in a medium-term context. Pursuit of these policies will thus require time and patience; they also will require courage, in view of the fact that many of the problems to be faced in restoring national economies to a sound footing are both unusually difficult and politically sensitive.

If the tasks of economic policy confronting national authorities seem arduous and lengthy, it must also be recognized that there would not appear to be any satisfactory alternative to the general course of policy indicated above. It is clear, in the light of experience, that the necessarily difficult process of adjustment to noninflationary economic growth cannot be cut short through resort to protectionist trade measures or to prematurely expansionary fiscal and monetary policies. Protectionist measures would be particularly injurious to the trade prospects of the developing countries, whose external purchasing power has already been severely affected in many cases by the recent declines in prices of primary commodities. Experience suggests that patient implementation of prudent policies and avoidance of trade restrictions should lead to a convergence of inflation rates at lower levels and thus lay the foundation for sustained growth and higher employment in the longer term. The current easing of inflation rates in major industrial countries represents a hopeful step in that direction.

This chapter reviews the developments in the world economy that have provided a background for the foregoing general remarks. In this review, three major groups of countries—industrial, oil exporting developing, and non-oil developing—are dealt with separately in order to facilitate analysis and because of their diverse and changing positions at the present time; but the wide variations in positions of individual countries and subgroups of countries are also given recognition. The treatment of these groups of countries is comprehensive, with discussions of both domestic and external economic developments and policies. A final section of the chapter is devoted to policy issues, serving (inter alia) to amplify a few of the observations presented in this Introduction.

Domestic Activity and Policies

Industrial Countries

Stance of policies.—Throughout 1981 and the first half of 1982, abatement of inflation remained the prime objective of financial policies in the industrial countries. Although the authorities in most of those countries were confronted with exceptionally high rates of unemployment, they did not generally consider it appropriate to adopt policies aimed at near-term employment objectives. They acted on the conviction—expressed repeatedly at ministerial meetings of the past two years, including the Helsinki meeting (May 1982) of the Interim Committee of the Fund's Board of Governors—that firm and continuing control of inflation has become a prerequisite for lasting improvement of the employment situation.

Both monetary and fiscal policies have been used in the effort to control inflation in the industrial countries. However, these two major instruments of demand management have been applied rather unevenly. Generally speaking, monetary policy has carried the main burden, chiefly because the effectiveness of fiscal policies has been undermined by a gap between design and implementation. Primarily because of various social and political pressures, the fiscal systems of most industrial countries have developed rigidities that make adjustments to changing circumstances unusually difficult.

One important obstacle to the effectiveness of anti-inflationary fiscal policies is the widespread existence of major programs involving either relatively firm legal entitlements or a strong sense of *de facto* entitlement, on the part of particular classes of beneficiaries, to various types of transfer or subsidy paid by government agencies. Programs featuring such payments, rather than direct government purchases of goods and services, have accounted for most of the substantial increase since the middle 1960s in the ratio of total government expenditures to gross national product (GNP) in the industrial countries. This increase has reflected not only the social and political pressures brought to bear on governments by actual and prospective beneficiaries but also the high degree of automaticity built into many programs in which outlays are closely linked to inflation and to growth in the number of beneficiaries. Such automaticity also militates, of course, against a flattening or reversal of the upward trend. At the same time, reluctance of taxpayers to bear the full cost of the programs generates a persistent bias toward maintenance or enlargement of government deficits.

The withdrawals of fiscal stimulus that have taken place since 1979 have been generally limited. In most of the larger industrial countries, actual deficits of central governments have been raised by the effects of the current cyclical slowdown on government revenues and expenditures, although allowance for these cyclical effects indicates that recent fiscal balances have been generally more restrictive (or less expansionary) than those prevailing shortly before the recession that began in the second quarter of 1980. Among the major industrial countries, by far the largest restrictive shift over the past two years—equivalent to more than 3½ per cent of GNP—was that in the United Kingdom; no other shift exceeded 2 per cent of GNP, and some of the shifts ran in the opposite direction.

In historical perspective, the fiscal deficits of the major industrial countries have remained generally quite high. As a percentage of GNP, the weighted average for these deficits in 1981 was nearly 4 per cent—only about 1 percentage point lower than in 1975, a year of recession and countercyclical fiscal measures. The fiscal shifts implied by budgetary plans for 1982 would not involve much change in the overall average.

The size of current fiscal deficits raises concern about the degree to which their financing absorbs saving. It is estimated that the weighted average share of gross private saving absorbed by the borrowing requirements of central governments of the major industrial countries in 1981 was about 17 per cent. While this proportion was less than that in 1975 (when it was more than one fifth), it was much larger than the corresponding average proportion in the early 1970s (less than one tenth, for example, in 1972). Although these shares vary widely among individual major industrial countries, ranging from about 10 per cent to more than 40 per cent in 1981, they are now markedly higher in every country than they were a decade ago. In view of this major structural shift in the disposition of saving flows, concern that productive private investment may be "crowded out" by government borrowing cannot be lightly dismissed.

Monetary policies in the major industrial countries have been decidedly more restrictive during the past two or three years. Although monetary situations and developments have differed considerably from country to country, the general tendency toward tighter policies has been evident in both slower rates of expansion in the principal monetary aggregates and sharply higher rates of interest in real, as well as nominal, terms. With some considerable lags, these developments can be expected to result in a slowing of price increases.

A weighted average of indices of narrowly defined money supplies in the seven major industrial countries shows that the annual rates of expansion have been reduced from an average of 10 per cent during the period 1976–78 to 7½ per cent in 1979 and to about 6½ per cent in 1980 and 1981. A similar composite index of broad money supplies shows annual rates of increase in the range of 11–13 per cent during each year of the period 1976–78, followed by increases of approximately 10 per cent in each of the past three years. Measured in real terms, these decelerations of monetary growth have been more pronounced. A deflated composite of broad money (based on GNP deflators) indicates a progressive drop in the annual rate of expansion from 5½ per cent in 1976 to about 1 per cent in 1980. Although the rate edged up to 1½ per cent for 1981, the average of 1½ per cent per annum over the past three years was fully 3 percentage points below the 1976–78 average. Deflated stocks of narrow money leveled off in 1979 and actually declined by some 2–3 per cent per annum in 1980 and 1981, in contrast with growth averaging nearly 3 per cent per annum from 1976 through 1978.

These reductions in average rates of growth of key monetary aggregates reflect the downward paths on which the targets (or target ranges) for such aggregates have been set by the authorities in most of the larger industrial countries. Increased emphasis on the quantitative aspects of monetary management, as distinguished from the price elements embodied in interest rates, has been a feature of the tighter monetary policies pursued in recent years. Such an emphasis has prevailed even though changes in financial regulations and practices have complicated interpretation of the movements in monetary aggregates in some countries (most notably, the United States).

Partly because of the increased stress on regulating the growth of money and credit and partly because this change was instituted at a time of ongoing inflationary momentum, strongly inflationary expectations, and uncertainties in the world economy, interest rates not only have increased dramatically in recent years but also have displayed wide fluctuations. Nominal interest rates on both long-term and short-term financial claims in the major industrial countries averaged more than 13 per cent in 1981, compared with about 6–7 per cent for short-term rates and 8–9 per cent for long-term rates during the period 1976–78. The average rate prevailing in 1981 exceeded the rate of inflation (as measured in terms of GNP deflators) by some 4½ percentage points, in sharp contrast to the relationship prevailing for several years prior to 1979. During the period 1976–78, the weighted average of real long-term interest rates in the major industrial countries (calculated by reference to GNP deflators) was less than 1½ per cent, and the corresponding average of real short-term rates was slightly negative.

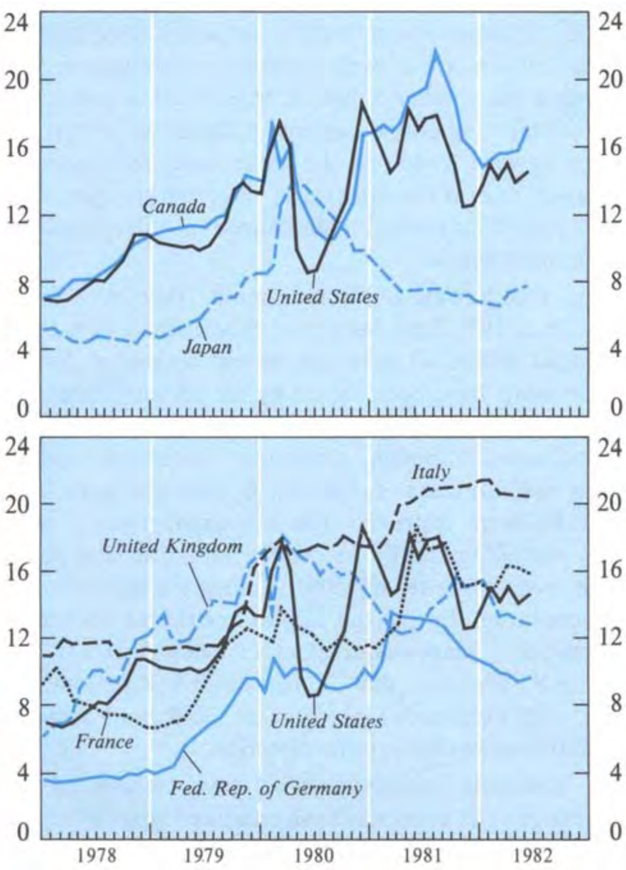
The wide amplitude of variations in short-term interest rates since late 1979 (Chart 1) has been disturbing to both private market participants and the monetary authorities. Since degrees of restraint have varied considerably from country to country, as have the circumstances in which national monetary policies have been implemented, changes in interest rates have been far from uniform. The resultant shifts in international interest rate differentials have sometimes generated capital movements and exchange market pressures giving rise to constraints on policy options within the industrial world (especially for countries that are reluctant to allow their exchange rates to adjust freely to market forces) and having repercussions on many developing countries as well.

Despite considerable variation in the firmness with which financial restraint was being maintained during the latter part of 1981 and early 1982, the current policy stances of industrial countries, if fully implemented, would result in an average degree of restrictiveness in 1982 at least as firm as that already prevailing for some time. Stated intentions of the authorities regarding monetary aggregates would imply a slight deceleration in the composite rate of growth of broad money, and budgetary plans for a number of countries call for reductions in central government fiscal deficits (after cyclical adjustment). However, several countries have moved toward more expansionary fiscal policies, and there remains considerable uncertainty how fully the budgetary plans of countries aiming at restraint will be implemented.

Inflation.—The past 12 months have been marked by signs of progress in the efforts of the industrial countries to reduce inflation. However, the recent deceleration of consumer price increases has stemmed in part from transitory influences, such as the decline in oil prices following their steep 1979–80 rise. Increases in basic costs (mainly wages) have not come down nearly so much

Chart 1. Major Industrial Countries: Short-Term Interest Rates, 1978–June 1982 [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.

during the past year as final product prices, and continued progress in reducing them will require both maintenance of restraint in financial policies and public conviction that such policies will not be reversed.

As measured by quarterly changes in consumer prices, the average rate of inflation in the major industrial countries subsided in the first quarter of 1982 to an annual rate of about 5 per cent—well below the average rate prevailing in 1978, before the sharp bulge of the intervening period. (See Chart 2.) The phase of accelerating increases in consumer prices, touched off and led mainly by the second round of increases in oil prices, had lasted from the end of 1978 into the early part of 1980. During that period, the average annual rate of consumer price inflation in the major industrial countries rose from about 7 per cent to 14 per cent. Soon thereafter, with the tapering off of the oil price increases, a marked deceleration set in, lowering the average inflation rate to about 9–10 per cent in the latter part of 1980. Through most of 1981, however, further deceleration was limited and irregular. Decontrol of domestic oil prices in the United States and the effects of exchange rate changes on import prices in Europe were among the special factors that contributed to this pause in the deceleration of consumer price increases.

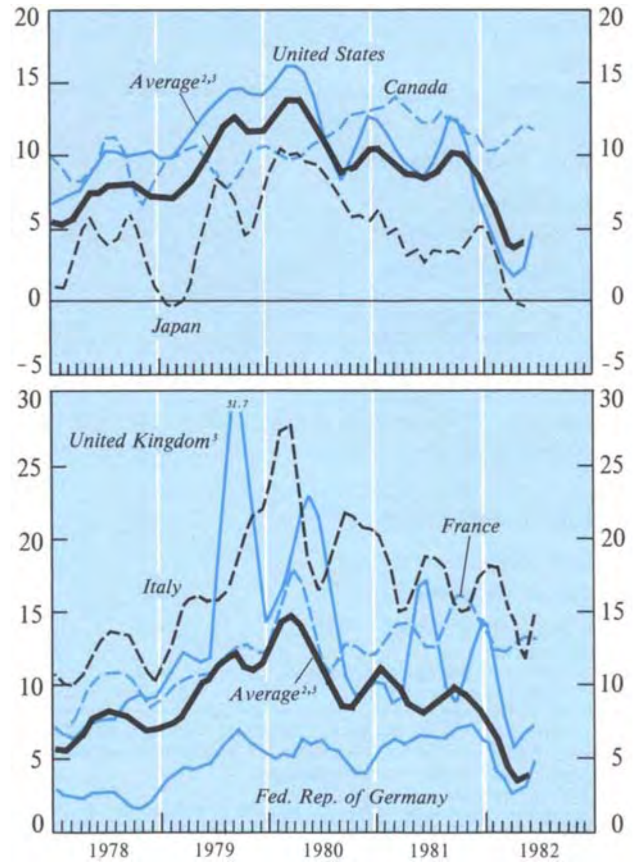
A number of factors combined to bring about the substantial drop in the average rate of consumer price increases that occurred in the major industrial countries in the first quarter of 1982. These interrelated factors included the relapse of the U.S. and other major economies into recession, the decline in oil prices, the marked softening of primary commodity prices, and an appreciable easing of wage demands in a number of industrial countries. Some of these factors, however, were clearly transitory, and the underlying rate of inflation in the major industrial countries during the early part of 1982 remained above the actual rate of increase in consumer prices.

A better gauge of the underlying rate of inflation is to be found in the movements of GNP deflators. As comprehensive measures of domestic unit costs of production (including profits), the deflators are much less susceptible than consumer prices to the influence of changes in the costs of imported goods, such as oil, or to the effects of fluctuations in exchange rates. For the industrial countries as a group, the average rate of increase in GNP deflators accelerated only from 7½ per cent in 1978 to 9 per cent in 1980, reflecting considerable success in containing the secondary repercussions of the 1979–80 round of oil price increases. (See Table 1.)

By the same token, however, subsidence of inflation as measured by changes in the GNP deflators has been

Chart 2. Major Industrial Countries: Consumer Prices, 1978–June 1982

(Percentage changes) [1]



[1] Three months ended in the month indicated over the preceding three months; seasonally adjusted, annual rates.
[2] Average for the seven major industrial countries.
[3] The figures plotted for the second half of 1979 are affected by the approximately 3¼ per cent increase in the United Kingdom's value-added tax rates, effective June 18, 1979.

relatively slow. The average increase in 1981 eased by only ¼ of 1 percentage point to 8¾ per cent, and this small improvement stemmed mainly from downward changes in Italy and the United Kingdom, where very high rates of inflation had prevailed in 1980. However, some further improvement was registered in the first half of 1982, especially in the United States. A recessionary squeeze on profit margins contributed to this improvement, but the fact that much of it can be traced to moderation of wage claims indicates that gradual progress toward lower underlying rates of inflation continued during the first half of 1982. Key elements governing those rates are summarized in the accompanying tabulation of annual percentage changes in relevant variables for the industrial countries as a group.

Table 1. Industrial Countries: Changes in Output and Prices, 1963–81 [1]

(In per cent)

	Average 1963–72 [2]	Change from Preceding Year								
		1973	1974	1975	1976	1977	1978	1979	1980	1981
Real GNP										
Canada	5.5	7.6	3.6	1.2	5.5	2.1	3.6	2.9	0.5	3.1
United States	4.0	5.8	−0.6	−1.1	5.4	5.5	4.8	3.2	−0.2	2.0
Japan	9.8	8.9	−1.2	2.8	5.0	5.3	5.1	5.2	4.2	2.9
France [3]	5.5	5.4	3.2	0.2	5.2	3.1	3.8	3.3	1.4	0.4
Germany, Federal Republic of	4.5	4.9	0.4	−1.8	5.3	2.8	3.6	4.4	1.8	−0.3
Italy [3]	4.6	7.0	4.1	−3.6	5.9	1.9	2.7	4.9	3.9	−0.2
United Kingdom [3]	3.0	7.2	−1.9	−1.1	2.8	2.2	3.7	1.9	−2.1	−2.2
Other industrial countries [4]	5.0	5.6	3.5	−0.3	3.7	2.4	2.1	2.8	2.1	−0.1
All industrial countries	4.7	6.2	0.6	−0.5	4.9	4.0	4.0	3.6	1.3	1.1
Of which,										
Seven larger countries above	4.7	6.3	0.1	−0.6	5.2	4.3	4.3	3.7	1.1	1.3
European countries	4.5	5.8	2.0	−1.2	4.5	2.7	3.0	3.5	1.5	−0.4
GNP deflator										
Canada	3.6	9.1	15.3	10.8	9.5	7.1	6.5	10.2	11.1	10.1
United States	3.5	5.7	8.7	9.3	5.2	5.8	7.3	8.5	9.0	9.2
Japan	5.5	11.7	21.2	7.5	6.6	5.7	4.6	2.6	3.0	2.9
France [3]	4.8	7.8	11.1	13.4	9.9	9.0	9.7	10.1	11.5	13.6
Germany, Federal Republic of	4.0	6.0	6.9	6.7	3.3	3.8	3.8	3.7	4.9	4.3
Italy [3]	5.0	11.6	18.5	17.5	18.0	19.5	13.9	15.9	20.8	17.6
United Kingdom [3]	5.3	7.0	15.0	26.9	14.6	14.0	10.9	15.0	18.8	12.5
Other industrial countries [4]	5.4	9.3	12.2	12.9	10.4	10.3	9.0	7.7	8.3	9.0
All industrial countries	4.2	7.4	11.7	11.1	7.6	7.7	7.5	7.9	8.9	8.7
Of which,										
Seven larger countries above	4.0	7.2	11.6	10.7	7.2	7.2	7.2	7.9	9.0	8.7
European countries	4.9	8.0	11.7	13.8	9.7	9.9	8.6	8.8	10.7	10.1

[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.

Industrial Countries: Changes in Prices and Related Variables

(In per cent)

	1978	1979	1980	1981
GNP deflator	7.5	7.9	8.9	8.7
Wages and salaries per unit of real GNP	7.0	7.3	9.2	8.6
Wages and salaries per worker	8.9	9.1	10.0	9.8
Real GNP per worker	1.8	1.7	0.8	1.1

The close parallel between changes in wages and salaries per unit of real GNP and in GNP deflators reflects, of course, the importance of payrolls among the various determinants of total costs or value generated by current production. At the same time, since the GNP deflator measures nominal value of total production per unit of real output, it also reflects changes in nonwage shares of national income, which were growing moderately in 1978 and 1979 but appear to have been squeezed somewhat in 1980 and 1981.

From the standpoint of gauging the underlying inflation rate, two significant developments are brought out in the tabulation. First, the rate of increase in wage and salary payments per employee, following its significant acceleration from 1978–79 to 1980, did not subside appreciably in 1981, although a modest deceleration is expected in 1982. Second, the rise in unit wage and salary costs accelerated considerably more in 1980 than did wages and salaries per worker because of the marked decline in productivity gains. Upward pressure on final product prices was thus intensified. Little overall progress toward restoring productivity gains was evident in 1981, nor is much expected for 1982. However, recent wage settlements offer encouraging signs. A substantial drop in the growth of unit wage costs—that is, either considerably lower increases in wages and salaries or better gains in output per worker (or both)—will be required to achieve any sizable and sustainable drop in the rate of inflation.

The geographic pattern of inflation rates in the industrial world did not change very much from 1980 to 1981. The U.K. rate, as measured by the GDP deflator, dropped from 19 per cent to 12½ per cent, and the Italian rate from 21 per cent to 17½ per cent (Table 1); these rates, along with the 13½ per cent rate recorded for France, were still the highest among the major industrial countries. Elsewhere in that group, none of the changes from 1980 to 1981 exceeded 1 percentage point and the rate for the United States (about 9 per cent) did not decline at all from 1980 to 1981.

A factor that tended to sustain increases in GNP deflators of the continental European countries—and to raise directly their rates of inflation as measured by consumer price indices or domestic demand deflators—was deterioration of the terms of trade. For some of the European countries, in fact, such deterioration (associated in considerable part with the 1980–81 appreciation of the U.S. dollar) was sufficient to cause accelerated increases in domestic demand deflators even where some deceleration of domestic inflation as measured by GNP deflators was taking place. Because of the exchange rate changes, neither the tapering off of oil price increases in 1981 nor the weakening of primary commodity prices expressed in terms of U.S. dollars was translated into similar changes in import costs in terms of domestic currencies. On the contrary, these price developments were transposed into sizable increases in domestic currency prices paid by continental European importers. For example, the average increase in oil prices from 1980 to 1981, although amounting to only 10 per cent in terms of U.S. dollars, implied an increase of 36–37 per cent in terms of deutsche mark. Similarly, the deutsche mark prices of non-oil primary commodities imported by the Federal Republic of Germany rose by some 9 per cent, even though the corresponding U.S. dollar prices were declining by 12½ per cent. Increases in the deutsche mark prices of German exports were far from commensurate with those on the import side of the German trade account. In the United States, on the other hand, opposite influences affected price relationships. The rise in the U.S. domestic demand deflator was reduced by 1 percentage point from 1980 to 1981 despite a slight firming of the upward movement of the GNP deflator.

Output and demand.—At mid-1982, the economies of the industrial countries were stalled in a prolonged period of slow growth. Aggregate growth of real GNP in these countries averaged only about 1¼ per cent a year in 1980 and 1981, compared with 4 per cent from 1977 through 1979; and 1982 is shaping up as another year of weak expansion on an annual basis. Indeed, the first half of 1982 was marked by even lower (or negative) rates of growth in major industrial countries. However, several factors point toward better growth of real disposable income—and hence of household consumption expenditures—during the second half of 1982. Real wages in the major industrial countries have already begun to rise (following their decline in 1980) in reflection of a somewhat greater deceleration of consumer price increases than of nominal wage gains during the past year. Moreover, the personal income tax cut effective on July 1, 1982 in the United States should make for larger gains in real disposable income and consumption in the largest industrial country. In addition, the recently negative contributions of stock building to changes in aggregate demand, both in the United States and in several other major industrial countries, are likely to taper off or to be reversed as inventory adjustments induced by the cyclical slowdown in sales are completed. These factors may be expected to initiate a modest economic expansion during the second half of 1982. Still, the percentage increase in real GNP of the industrial countries for the full year would probably be even smaller than that of 1981.

With growth of output lagging well behind the estimated potential associated with available resources of manpower and real capital, unemployment rates have soared. However, despite the overhang of unused or underutilized resources implicit in these high levels of unemployment (discussed below), downward pressures on wage and price movements have been slow to emerge.

The duration of the current slowdown in economic activity has been to a considerable extent a by-product of the restrictive anti-inflation policies pursued by national authorities in the industrial countries since 1979. It has also reflected the corrosive effects of the inflation itself on real incomes and expenditures, along with the deflationary effects on oil importing countries exerted by the 1979–80 increases in oil prices. These developments resulted in a marked flattening of the growth of real disposable income, with consequent effects on aggregate demand.

Although the current slowdown has seriously affected all of the industrial countries, its extent has varied considerably among them. As measured by changes in average growth rates from 1978–79 to 1980–81, the most pronounced setbacks—all exceeding 3 percentage points per annum—were those in the United States, the Federal Republic of Germany, and the United Kingdom. The corresponding drop in France's growth rate was 2½ percentage points, while decelerations in the range of 1½ to 2 percentage points were recorded for Canada, Japan, Italy, and the smaller industrial countries as a group.

The timing of recent changes in growth rates has also varied from country to country. In the United States and Canada (as well as in Australia and New Zealand), growth of output was particularly weak in 1980, but temporarily more buoyant (2–3 per cent) in 1981. A roughly opposite pattern prevailed among the continental European countries, including the smaller ones. Variations in real GNP growth for that group tended to parallel those in the Federal Republic of Germany, where output increased by 1¾ per cent in 1980, but declined by about ¼ of 1 per cent in 1981. The Japanese economy was consistently stronger than the others during this two-year period, while the U.K. economy was consistently weaker, registering declines of 2 per cent a year.

These differences in the timing and direction of recent changes in economic activity in the major industrial countries are shown in Chart 3. For the United States and Canada, the profile is clearly one of recession during the first half of 1980, recovery over the period through about mid-1981, and renewed recession through at least the first quarter of 1982. In Europe, on the other hand, output has remained relatively stable at about the level to which it had receded by mid-1980.

The same chart, which also plots the course of industrial production in the major industrial countries, brings out two additional and related points. It shows the generally greater amplitude of cyclical fluctuations in the industrial sectors than in the overall economies of these countries; and it indicates that the stagnation of the past two years has left industrial output far below previous peaks except in Japan. For the seven countries as a group, industrial production in early 1982 was about 5 per cent below the peak level of early 1980.

To a considerable extent, as already indicated, the origins of the present sluggishness of growth in output can be traced to a marked weakening of domestic demand under the combined effects of the 1979–80 oil price increases, accelerating inflation, and the accompanying implementation of restrictive financial policies. This weakening, as measured by changes in growth of real domestic demand from 1978–79 to 1980–81, was most pronounced in the Federal Republic of Germany, Japan, and the United Kingdom. In these three countries, which were the ones initially applying the most restrictive policies, the decelerations in domestic demand expansion over the indicated period exceeded 5 percentage points per annum. Corresponding decelerations were comparatively mild (about 1½ percentage points) in Canada, Italy, and the smaller industrial countries as a group. Intermediate declines in rates of demand expansion, on the order of 3 percentage points, were recorded for France and the United States. For the industrial countries as a group, the average annual rate of growth in real domestic demand dropped from 4 per cent in 1978–79 to ½ of 1 per cent in 1980–81.

The impact of this negative development on growth of output was softened to some extent by buoyancy of demand from outside the group of industrial countries, and especially in the oil exporting countries. Because of that buoyancy, real exports of the industrial countries increased in 1980 and 1981 at rates (8 per cent and 4½ per cent, respectively) far above the rates of increase in their total output. However, these relatively strong increases in exports were very unevenly distributed among the industrial countries, with Japan and, to a lesser extent, the Federal Republic of Germany accounting for particularly large shares of the aggregate increase.

The dominant element in the slowdown of domestic demand expansion was a sharp deceleration of consumer spending in real terms, induced by the slowing of growth in real income of households. The main elements in this chain of developments are outlined in the accompanying tabulation.

Industrial Countries: Changes in Household Consumption and Related Variables

(In per cent)

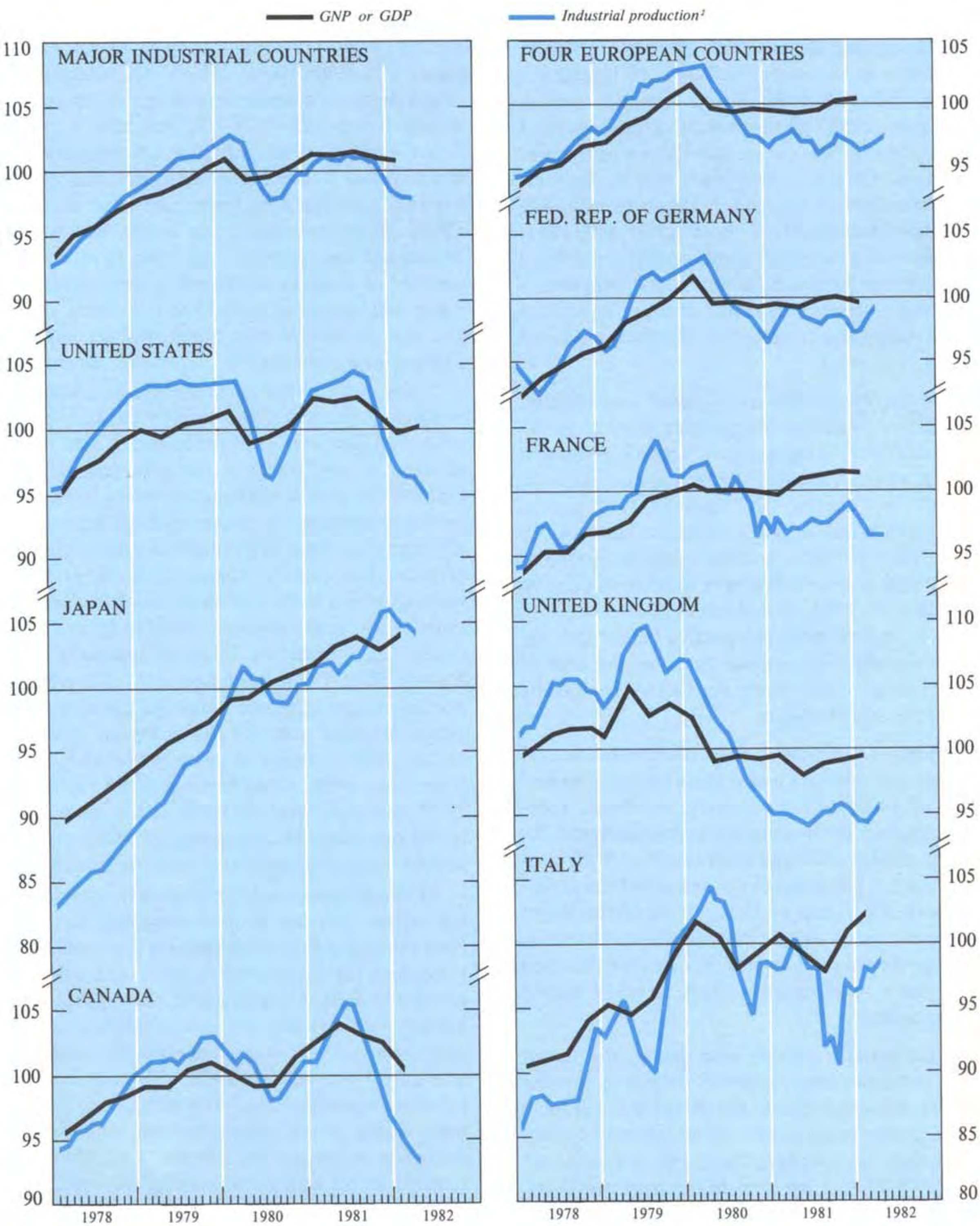
	1978	1979	1980	1981
Total wages and salaries	11.2	11.4	10.6	10.1
Per employee, in nominal terms	8.4	9.2	9.9	9.9
Per employee, in real terms	1.7	1.1	−0.3	1.0
Total employment	2.6	2.0	0.6	0.2
Disposable income	11.6	11.6	11.0	10.0
Household consumption deflator	6.6	8.0	10.2	8.8
Real disposable income	4.7	3.3	0.7	0.9
Household consumption, in real terms	4.5	3.7	1.0	1.4

The gradual slowing of growth in aggregate wages and salaries shown in the tabulation reflects, among other things, the tightening of financial policies since 1979, while the efforts of employed workers to maintain growth of their real incomes, although largely unsuccessful, are evidenced in the acceleration of increases in nominal wages and salaries per employee. The resulting decline in growth of employment is striking, as is the slowing of growth in real disposable income. The latter development was virtually paralleled by a slowdown in real consumption, although small declines in the average proportions of disposable income saved also occurred during 1979–81.

It is noteworthy that fiscal policy provided little or no support for the growth of real disposable income in 1980 and 1981. The absence of such support represents a sharp break with past experience, in which significant fiscal support for disposable income typically constituted an important element in the cushioning of cyclical downturns and the initiation of recoveries. In 1975, for example, net fiscal support equivalent to about 2 per cent of disposable income was provided. In 1980 and 1981, in contrast, such support made virtually no contribution for the major industrial countries as a group.

The weakness of consumer spending during 1980 and 1981 constituted a depressive influence on capital formation, along with lower profitability and the higher cost of capital. In real terms, gross fixed investment in

Chart 3. Major Industrial Countries: Real GNP and Industrial Production, 1977–June 1982
(Indices, 1980=100)[1]



[1] Seasonally adjusted.
[2] Three-month moving average.

the industrial countries, after increasing by 4–5 per cent per annum in 1978 and 1979, declined by 1½ per cent in 1980 and by another ¾ of 1 per cent in 1981. In relation to the slackening growth in consumption, however, these declines were considerably more moderate than those occurring during the 1974–75 recession. Moreover, much of the recent weakness of investment spending was centered in the interest-sensitive residential construction sector, where outlays of the industrial countries as a group were some 10–15 per cent lower in real terms in 1981 than two years earlier. Business fixed investment has been better sustained, showing slightly positive movements in both 1980 and 1981. Probable reasons for the better showing of business fixed investment include increases in tax incentives, investments intended to cope with recent changes in relative factor costs, and large investments in resource-based industries.

Finally, inventory changes have played a substantial part in the recent weakness of aggregate demand in the industrial countries. For the group as a whole, reduction in the rate of accumulation of stocks was equivalent to about ½ of 1 per cent of GNP both in 1980 and in 1981; and much larger negative contributions to GNP growth were recorded for individual countries in one or the other of those years. Drawdowns of oil stocks during the latter part of 1981, unbalanced relationships of inventories to current and prospective sales, and the impact of unusually high interest rates on the cost of holding inventories were among the factors behind the negative shifts in stockbuilding.

Employment.—The slow growth of demand in real terms over the past two and a half years has left a widening margin of underutilized economic resources, especially of manpower, throughout the industrial world. By mid-1982, unemployment had risen to about 8 per cent of the combined labor force of the industrial countries, compared with 5 per cent in 1979. In all of the major industrial countries, as well as most of the smaller ones, recent unemployment rates have approached or exceeded —in most cases, substantially—those reached during the 1975 recession.

For the industrial countries as a group, the recent increase in unemployment occurred despite a slowing of growth in the labor force. Partly for demographic reasons and partly because of cyclical influences, such growth dropped, on average, from 1¾ per cent per annum in 1977–79 to 1 per cent in the next two years. However, several of the European countries, including France and the Federal Republic of Germany, did not share in this slowdown. In these countries, growth of the labor force has remained relatively rapid (in relation to their own previous experience); and this circumstance, together with the worsening cyclical situation, has prompted various employment-creating programs.

For the major industrial countries as a group, labor force participation rates (which had been rising) have not changed greatly over the past two years. The rise in unemployment is thus largely a direct reflection of changes in employment, which was increasing in these countries at an average annual rate of about 2 per cent during the period 1976–79, but rose by only ½ of 1 per cent in 1980 and has subsequently stagnated. Employment in the service industries has continued to expand, although at a lower rate than during the late 1970s. In the manufacturing sector, however, outright declines of considerable magnitude have occurred. The number of workers employed in that sector was some 6 per cent smaller in early 1982 than three years earlier, and this downward adjustment was accompanied by a 2¼ per cent reduction in the average workweek.

While much of the current bulge in unemployment is cyclical in character, the severity of its implications is magnified by two considerations. First, there is an absence of any prospect of early reversal, given the outlook for only a moderate recovery from the current recession. Second, the recent cyclical increase in unemployment has been superimposed on a secular increase of more fundamental character. Even prior to 1980, unemployment in the industrial countries had been rising more or less continuously (except in Japan) for about a dozen years, with the increase especially marked in Europe after 1974. A comparison of average rates of unemployment in major industrial countries other than Japan for peak years of the economic cycle since the middle 1960s shows a progressive rise from about 3 per cent of the labor force in 1966 to 4 per cent in 1973 and 6 per cent in 1979. If this underlying trend is still operative, unemployment problems could remain serious even after recovery from the present recession.

Although many social groups have been affected by the secular increase in unemployment, the impact has been especially severe for younger segments of the labor force and for immigrant workers and other minority groups. In France, for example, the unemployment rate among workers under 25 years of age was about 20 per cent in early 1982, compared with 13 per cent in 1979 and only 4 per cent in 1973. Although corresponding increases elsewhere have, in general, been less dramatic, the average youth unemployment rate in the major industrial countries of Europe and North America reached 18 per cent in early 1982.

Demographic shifts have contributed to the change in unemployment rates in some of the major industrial countries, but they do not appear to account for the bulk of the secular rise for the group as a whole. Except for Japan, female labor force participation rates continued to increase during the 1970s, but the effects of this increase were largely offset in the four large European industrial countries by declining male labor force participation, especially among the youngest and oldest of the working age population.

The main factors contributing to the long-run rise in unemployment appear to have been threefold. First, there has been a large increase in the relative average cost of labor, particularly in European countries where real wages outpaced productivity gains by a wide margin during the first half of the 1970s. Sharp increases in labor-related taxes paid by employers, as well as in wage rates, have contributed to this shift.

A second factor has been lack of flexibility in labor markets. Where changes in a country's allocation of resources among industries have required workers to switch from accustomed activities to new ones, established labor practices have often prevented potential employers from hiring workers in need of retraining at wages commensurate with their initial low productivity in the new activities. Minimum wage laws appear to have had similar effects in some countries.

Another factor has been a reduction of incentives to avoid unemployment. Financial pressures in this regard have been eased by the growth of households with more than one income earner. Also, unemployment benefits have tended to increase, and eligibility for them has been expanded, to such an extent that in some countries shifts from unemployed to employed status appear to have been discouraged. This deterrent to seeking employment has apparently been reinforced by the prevalence of fiscal systems that impose high effective marginal rates of taxation on such shifts. These unintended effects of programs with otherwise worthwhile social objectives may call for some reassessment both of the techniques through which protection for the unemployed is provided and of the interaction of tax and benefit regimes at the lower income levels.

Developing Countries—Oil Exporting Group

The twelve developing countries included in the main oil exporting group are highly diversified, differing in geographic size, population, oil reserves, and nature of non-oil activities, as well as in political and social conditions. Nevertheless, they share certain important characteristics and experiences, including the dominant role of oil in their export trade and of oil revenues in their national budgets.

Total output of this group declined in each of the past two calendar years and seems likely to decline further in 1982. These declines, estimated at about 2½ per cent for 1980 and 4½ per cent for 1981 (Table 2), reflected a marked reduction in world demand for the group's oil attributable both to the international recession and to reactions of oil consumers to the 1979–80 increases in oil prices. However, because of the sharp improvement in terms of trade resulting from those price increases, the real national income of the oil exporting countries rose sharply from 1978 to 1980 and continued upward at a moderate rate in 1981. The expected decline in total real gross domestic product (GDP), together with a downward shift in the terms of trade, is likely to result in a partial reversal of these gains in 1982.

Real output of the non-oil sectors in the oil exporting developing countries, which accounted for somewhat more than half of their combined GDP in 1980, has followed a much steadier course than total GDP over the past several years. (See Table 2.) It is estimated to have grown by 5 per cent in 1981, compared with 4½ per cent in 1980, and is expected to continue to expand at a fairly similar average pace in 1982. The average non-oil growth rate since 1979, although considerably lower than that achieved during the mid-1970s, compares favorably with the growth experience of the other major groups of countries over the period.

The relatively brisk increase in economic activity other than extraction and processing of petroleum in most of the oil exporting countries reflected the general prevalence of moderately expansionary demand management policies. A shift toward more expansionary fiscal policies had occurred in late 1979 or 1980, after a period of restraint involving curtailment of government spending. The renewed surge in oil export earnings that began during 1979 occurred at a time when, in general, inflationary pressures in the oil exporting countries had been brought under control or greatly reduced and previous supply constraints had been eased. These circumstances favored and facilitated a step-up in government spending, which tends to be the major determinant of non-oil economic activity in many of these countries. In some of them, the more expansionary fiscal policies were supplemented by an easing of monetary and credit policies.

The authorities of the oil exporting countries, however, have undertaken to avoid a repetition of earlier experience with supply bottlenecks and inflationary pressures—to reduce the strains associated with development and improve the quality and composition of economic growth. The 1979–80 shift toward expansionary policies was generally much less pronounced than the corresponding shift after the 1973–74 oil price increase. Both the acceleration of government spending and the average growth of domestic liquidity were much milder during 1980 and 1981 than during the earlier period of rapid expansion, and there was a tendency in several countries to slow down the growth of govern-

Table 2. Developing Countries: Changes in Output, 1968–81 [1]

(In per cent)

	Average 1968–72 [2]	Change from Preceding Year								
		1973	1974	1975	1976	1977	1978	1979	1980	1981
Oil exporting countries [3]	9.0	10.7	8.0	−0.3	12.3	5.9	1.8	2.9	−2.7	−4.6
Oil sector	...	13.2	−1.0	−11.1	13.5	1.8	−4.2	3.1	−12.2	−15.7
Other sectors	...	9.7	12.3	12.4	11.3	8.9	5.8	2.8	4.4	5.2
Non-oil developing countries										
Weighted average [4]	...	...	...	...	...	5.5	6.4	5.0	4.8	2.5
Excluding China	6.0	6.1	5.5	3.9	5.9	5.1	5.5	4.7	4.4	2.5
Median	4.9	4.6	5.7	3.8	5.2	5.0	5.6	4.7	4.0	3.0
By analytical group										
Weighted averages [4]										
Net oil exporters [5]	7.0	8.3	6.1	6.2	6.6	3.5	6.2	7.2	7.3	6.6
Net oil importers	...	...	...	...	...	5.9	6.4	4.7	4.4	1.9
Excluding China	5.8	5.8	5.4	3.5	5.8	5.4	5.3	4.2	3.9	1.7
Major exporters of manufactures [6]	8.1	9.4	6.5	3.3	6.3	5.6	4.9	6.3	4.4	−0.2
Low-income countries [7]	...	...	...	...	...	6.5	8.8	3.4	5.2	3.6
Excluding China	3.4	2.1	3.0	4.9	4.3	5.2	5.9	0.1	3.4	4.3
Other net oil importers	5.5	4.1	6.0	2.6	6.2	5.2	5.5	3.6	3.1	3.3
Medians										
Net oil exporters [5]	5.4	6.5	6.7	5.9	7.4	3.5	6.2	5.5	7.0	5.1
Net oil importers	4.8	4.1	5.7	3.3	4.8	5.0	5.5	4.5	3.5	2.7
Major exporters of manufactures [6]	8.5	11.2	6.2	3.5	6.9	6.4	6.7	6.8	5.5	4.1
Low-income countries [7]	3.9	1.6	5.1	3.1	4.8	3.8	5.1	4.1	4.0	2.9
Other net oil importers	4.9	4.7	5.7	4.4	4.6	5.7	6.0	4.8	3.0	2.5
By area										
Weighted averages [4]										
Africa	4.9	3.0	6.6	2.5	4.2	1.9	2.4	2.6	4.6	2.6
Asia	...	...	...	...	...	7.1	9.6	4.6	4.8	4.7
Excluding China	4.5	5.0	3.8	5.2	7.2	6.5	8.1	3.1	3.4	5.7
Europe	6.2	5.6	4.3	4.4	7.1	5.2	5.4	4.1	1.7	2.7
Middle East	7.5	4.9	3.2	4.7	4.4	5.6	6.8	5.0	6.1	4.7
Western Hemisphere	7.6	8.5	7.2	3.2	5.3	5.0	4.4	6.7	6.0	−0.1
Medians										
Africa	4.2	2.5	5.5	3.0	4.7	3.8	3.5	4.2	3.0	2.0
Asia	4.9	5.3	5.7	3.2	4.9	6.4	6.2	6.1	5.8	5.0
Europe	6.7	5.4	5.7	5.4	7.7	5.3	6.8	7.0	3.0	2.2
Middle East	6.4	4.9	5.8	7.1	7.3	3.8	7.2	5.2	6.5	5.4
Western Hemisphere	5.0	5.0	6.0	4.4	4.6	5.6	6.0	4.8	3.5	2.0

[1] Data in this table cover all Fund members except those listed in Table 1, together with a few territories for which output statistics are readily available. The main groups of "oil exporting countries" and "non-oil developing countries," as well as each of the regional subgroups of non-oil developing countries, conform to the classification used in *International Financial Statistics*.
[2] Compound annual rates of change.
[3] This group 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] Arithmetic averages of country growth rates weighted by the average U.S. dollar value of GDPs over the previous three years.
[5] Comprise Bahrain, Bolivia, People's Republic of the 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.
[6] Include Argentina, Brazil, Greece, Hong Kong, Israel, Korea, Portugal, Singapore, South Africa, and Yugoslavia.
[7] Comprise 40 countries whose per capita GDP, as estimated by the World Bank, did not exceed the equivalent of US$350 in 1978.

ment spending during the course of 1981 in response to the downturn of receipts from oil exports. Moreover, with the substantial weakening of oil market conditions, this tendency became more widespread in the first half of 1982, when some countries were obliged to make significant cutbacks in planned levels of expenditures.

Given the more moderate and cautious policy responses of oil exporting countries to the 1979–80 oil price increases than to the 1973–74 increases, demand pressures appear to have contributed little to an acceleration of inflation; and the recent shift toward retrenchment of government spending will tend further to reduce the risk of a repetition of the inflationary experience of the mid-1970s in most countries. The average rate of increase in consumer prices in the oil exporting countries did rise from 10½ per cent in 1979 to about 12½ per cent in 1980 and 13 per cent in 1981 (Table 3), but is expected to decline somewhat in 1982. In countries where the exchange rate against the U.S. dollar was kept unchanged during 1981 and the early part of 1982, the weakness of import prices expressed in U.S. dollars contributed to the containment of inflation. Although problems faced by the oil exporting countries were generally mitigated by the foregoing factors, a need for policy measures to promote adjustment to current circumstances did arise in some of these countries, as noted above.

Developing Countries—Non-Oil Group

The past year was marked by a further sharp deceleration of economic growth in the non-oil developing countries. Their combined real output increased by only 2½ per cent in 1981, compared with 5 per cent in each of the preceding two years and 6½ per cent in 1978 (Table 2). The 1981 figure was almost 1½ percentage points lower than the one recorded for the recession year 1975 and was, indeed, the lowest such rate for several decades.

In part, the severity of the slowdown from 1980 to 1981 can be traced to adjustment measures undertaken in the latter year by three large developing countries—Argentina, Brazil, and the People's Republic of China. Together, these countries account for about one third of the total output of the non-oil developing countries, and the curtailment of their growth rates exerted a strong influence on the overall average.

However, the slowdown in growth for non-oil developing countries as a group was by no means a narrowly

Table 3. Developing Countries: Changes in Consumer Prices, 1968–81 [1]

(In per cent)

	Average 1968–72 [2]	Change from Preceding Year								
		1973	1974	1975	1976	1977	1978	1979	1980	1981
Oil exporting countries										
Weighted average [3]	8.0	11.3	17.0	18.8	16.8	15.5	10.2	10.5	12.6	13.1
Non-oil developing countries										
Weighted average	...	...	...	...	...	23.0	20.0	24.7	32.1	31.4
Excluding China	9.1	22.1	28.7	27.0	27.6	27.0	23.6	29.0	36.9	37.2
Median [4]	4.2	10.4	18.4	15.0	9.9	11.6	9.4	12.2	14.9	13.8
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	24.2	24.6
Net oil importers	...	...	...	...	...	23.0	20.3	25.8	33.3	32.4
Excluding China	10.0	24.1	30.2	29.4	30.2	27.9	24.8	31.2	39.3	39.7
Major exporters of manufactures	14.1	21.3	24.9	40.1	55.8	40.9	37.3	44.6	54.3	62.2
Low-income countries	...	...	...	...	...	7.1	3.7	6.8	11.6	9.6
Excluding China	6.5	21.9	30.2	11.9	–0.1	11.2	6.5	11.5	15.9	17.6
Other net oil importers	8.4	31.9	40.3	29.1	19.7	20.5	19.3	24.6	32.9	20.2
Medians										
Net oil exporters	3.8	11.2	18.7	15.5	10.5	12.1	10.5	9.0	15.1	14.7
Net oil importers [4]	4.2	10.3	18.4	14.7	9.8	11.4	9.3	12.2	14.9	13.4
Major exporters of manufactures	7.6	18.2	24.3	15.2	13.3	12.2	14.4	19.0	24.9	23.3
Low-income countries [4]	4.3	10.0	17.8	18.5	8.3	10.9	9.3	11.9	13.1	13.5
Other net oil importers	3.9	10.6	18.4	13.1	9.0	11.4	8.6	12.2	14.8	12.5
By area										
Weighted averages [3]										
Africa	4.6	9.7	15.4	15.0	14.9	19.3	15.2	19.2	19.3	22.7
Asia	...	...	...	...	...	5.8	3.7	6.5	12.6	9.9
Excluding China	6.5	21.5	30.3	10.2	0.3	7.8	5.7	9.4	16.0	15.4
Europe	6.1	12.7	17.5	14.7	12.5	16.2	21.1	27.5	40.5	25.9
Middle East	4.2	12.1	22.1	21.6	19.1	19.6	21.1	25.8	42.7	32.8
Western Hemisphere	15.3	32.1	37.5	52.0	66.2	51.2	42.4	49.6	58.3	65.7
Medians										
Africa	4.2	9.3	15.7	15.6	10.6	13.2	9.9	12.2	12.0	13.0
Asia [4]	3.8	14.0	24.3	10.5	6.2	7.6	6.1	8.2	15.0	12.5
Europe	3.8	12.9	16.2	13.4	11.6	12.2	12.5	19.0	16.6	19.5
Middle East	4.3	17.1	20.1	14.1	13.9	14.3	11.9	12.1	17.1	9.0
Western Hemisphere	4.3	12.9	22.0	15.7	9.8	11.4	10.4	15.6	18.1	15.0

[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.

based development. This point emerges clearly from an examination of the medians of individual growth rates over the past few years. (See Table 2.) The median rate, which has the merit of being more representative of the growth experience of typical developing countries than is the weighted average rate cited above, declined progressively from 5.6 per cent in 1978 to 4.7 per cent in 1979, 4 per cent in 1980, and 3 per cent in 1981.

The prolonged sluggishness of activity in the industrial world has been, of course, an important factor in the slowing of growth in non-oil developing countries. One direct manifestation of this linkage may be seen in those countries' exports, which had grown in volume by about 9 per cent per annum during the period 1976–79 but decelerated to 5½ per cent in 1980 and 4 per cent in 1981. (See Table 4.) An additional negative influence, also linked to the weakening of demand in the industrial countries, was deterioration in the terms of trade of the non-oil developing countries. (See Table 5.) This deterioration, stemming mainly from oil price increases during 1979 and 1980, was extended through 1981 by the cyclical weakness of primary product prices, which seriously impaired the export earnings of many countries in the non-oil developing group. For the net oil importers in that group, the cumulative deterioration of the terms of trade from 1977 to 1981 exceeded 15 per cent —equivalent to some $45–50 billion in terms of 1981 trade values. The resultant erosion of real income gains compounded the dampening of aggregate demand and production attributable to the weakness of export volume growth.

The rough parallel between changes in average growth rates for the oil importing developing countries and those for the industrial countries that is shown in Chart 4 for the years since 1976 represents a departure from prior experience. Neither the 1974–75 recession in the industrial countries nor the 1969–70 slowdown induced a commensurate reduction in the pace of expansion of real output in the oil importing developing countries. Although some slowing of that pace occurred both times, the decelerations were mild in comparison with those occurring in the industrial world. Such a result was consistent with the longer-term history of this relationship, which has indicated only a rather loose linkage of

Table 4. World Trade Summary, 1963–81 [1]

(Percentage changes)

	Average 1963–72 [2]	Change from Preceding Year 1973	1974	1975	1976	1977	1978	1979	1980	1981
World trade [3]										
Volume	8.5	12.5	4.5	−4.0	11.0	5.0	5.5	6.5	2.0	—
Unit value (in U.S. dollar terms)	3.0	22.5	38.5	9.5	1.5	8.5	10.0	18.5	19.5	−1.5
(in SDR terms) [4]	2.0	11.5	37.5	8.5	7.0	7.5	2.5	15.0	19.0	9.0
Volume of trade										
Exports										
Industrial countries	9.0	13.2	7.1	−4.6	10.6	5.1	6.1	6.7	4.6	2.6
Developing countries										
Oil exporting countries	9.1	14.8	−0.9	−11.5	14.3	0.6	−4.0	3.0	−12.9	−16.2
Non-oil developing countries	6.7	8.9	−0.1	−0.5	11.6	4.7	9.5	9.4	5.6	3.9
Imports										
Industrial countries	9.0	12.1	0.7	−8.1	13.9	4.2	5.2	8.4	−1.3	−2.3
Developing countries										
Oil exporting countries	8.3	20.3	38.5	41.4	20.6	15.2	4.8	−12.3	14.4	19.4
Non-oil developing countries	6.2	11.6	7.5	−4.4	3.8	6.7	8.0	11.0	3.9	2.2
Unit value of trade (in SDR terms) [4]										
Exports										
Industrial countries	2.1	9.8	23.7	10.7	5.6	6.7	5.3	12.1	11.8	6.3
Developing countries										
Oil exporting countries	2.6	25.7	202.5	4.0	11.8	8.4	−6.3	42.1	58.1	21.2
Non-oil developing countries	1.2	21.1	37.7	−1.9	12.6	12.9	−1.8	13.9	19.0	9.5
Imports										
Industrial countries	1.8	11.7	40.5	7.9	6.6	7.9	2.5	15.2	21.0	6.9
Developing countries										
Oil exporting countries	2.1	12.5	26.9	9.9	5.7	7.7	4.9	10.5	11.7	8.7
Non-oil developing countries	1.1	14.2	45.8	7.8	6.2	6.5	2.5	14.2	24.3	12.0

[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 1978.
[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 and, for years prior to 1978, the People's Republic of China). Figures are rounded to the nearest 0.5 per cent.
[4] For years prior to 1970, an imputed value of US$1.00 has been assigned to the SDR.

Table 5. Summary of Terms of Trade and World Prices, 1963–81 [1]

(Percentage changes)

	Average 1963–72 [2]	Change from Preceding Year 1973	1974	1975	1976	1977	1978	1979	1980	1981
Terms of trade										
Industrial countries	0.3	−1.6	−11.9	2.7	−1.0	−1.1	2.7	−2.6	−7.6	−0.6
Developing countries										
Oil exporting countries	0.5	11.8	138.4	−5.4	5.8	0.6	−10.7	28.6	41.6	11.5
Non-oil developing countries	—	6.1	−5.6	−9.0	6.0	6.0	−4.1	−0.3	−4.3	−2.2
World trade prices (in U.S. dollar terms) **for major commodity groups** [3]										
Manufactures	3.0	17.7	21.8	12.3	—	9.0	14.7	14.5	11.0	−5.0
Oil	3.0	40.0	225.8	5.1	6.3	9.3	0.1	48.7	61.9	10.1
Non-oil primary commodities (market prices)	2.5	53.2	28.0	−18.2	13.3	20.7	−4.7	16.5	9.7	−14.8

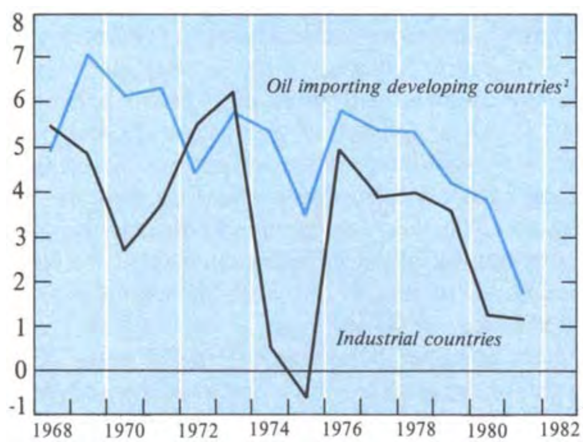
[1] Based on foreign trade unit values except where indicated. For classification of countries in groups shown here, see Tables 1 and 2. Excludes data for the People's Republic of China prior to 1978.
[2] Compound annual rates of change.
[3] As represented, respectively, by (a) the United Nations export unit value index for the manufactures of the developed countries; (b) the oil export unit values of the oil exporting countries; and (c) the *International Financial Statistics* index of market quotations for non-oil primary commodities.

the two sets of growth rates, at least so far as year-to-year movements are concerned.

The widespread nature of the slowdown among developing countries during 1981, together with the closer linkage between changes in their domestic growth rates and developments in the industrial countries that has emerged over the past few years, suggests the presence of pervasive influences that had not been so strongly felt during earlier cyclical slumps. One such influence was probably the progressive integration of the world economy and the growing reliance of a number of the industrially more advanced developing countries on exports of manufactured goods and intermediate products to markets in the industrial world. Since the late 1970s, however, a more immediate influence may have been that exerted by programs of economic adjustment introduced by a number of countries in response either to external imbalançes or to inflation—or, in many cases, to both. In this particular period, the restraints on demand embodied in such programs have tended to work in the same direction as the restrictive policies being applied in the industrial countries.

Chart 4. Selected Groups of Countries: Growth of Real Output, 1968–81 [1]

(Annual percentage changes)



[1] GNP or GDP.
[2] Excluding the People's Republic of China.

As indicated in a later section of this chapter, the typical size of external current account deficits among oil importing developing countries (as measured by the median of ratios of such deficits to exports of goods and services) rose far above earlier peak levels in both 1980 and 1981. In order to contain these deficits, many governments have been obliged to adopt measures designed to curb the demand for imports of goods and services, and most such measures have necessarily exerted a restraining influence on demand for domestic output, as well as for imports. Moreover, constraints on supplies of imported products have hampered the maintenance of domestic growth in a number of developing countries, particularly among those in the low-income category, where utilizable resources tend to be scarcest. Overall growth in the volume of imports into oil importing developing countries was reduced from some 8–9 per cent in 1978 and 1979 to an average of about 1 per cent in the past two years; indeed, outright declines in import volume in 1980 and 1981 were fairly typical of the group, as its aggregate import volume was sustained by the relatively strong external purchasing power of a few countries in the subgroup whose exports include large proportions of manufactured goods.

It is possible that the widespread acceleration of inflation among developing countries after about 1978 was among the factors contributing to the slowing of growth rates. A recent study by the Fund staff,[1] based on inflation and growth records of more than 100 developing countries over the past decade, has found that relatively high rates of economic growth have been associated with relatively low (or declining) inflation rates, and vice versa. Although this statistical association cannot properly be viewed as evidence of a cause-and-effect relationship, it is consistent with the hypothesis that such a relationship may exist.

Although the slowing of growth among non-oil developing countries became widespread by 1981, marked differences in the experiences of individual countries have been apparent. Among the analytical subgroups shown in Table 2, the one whose growth record has differed most from that of the majority comprises the net exporters of oil. These countries, with the comparative freedom from external constraints afforded by their oil revenues, were able throughout the period 1979–81 to maintain rates of growth averaging 7 per cent—well above their annual average during the years 1976–78. On a weighted average basis, the weakest record in 1981, both in absolute terms and relative to 1976–78 performances, was that of the major exporters of manufactures. Their average record, however, was greatly affected by the adjustment policies adopted by Brazil and Argentina in 1981. In terms of median rates of growth, the recent records of both the low-income and the middle-income countries whose exports consist mainly of primary products (i.e., "Other net oil importers" in Table 2) have been appreciably weaker than the records of the developing countries that export oil or manufactured goods. In 1981, the typical (median) rates of growth in the first two subgroups were barely sufficient to keep pace with the increases in population, and there were many countries in these large subgroups where per capita output declined.

Regionally, the slowdown in growth among developing countries has been most pronounced over the past few years in Europe and the Western Hemisphere. In these two regions, median growth rates in 1981 were only 2 per cent, compared with some 6–7 per cent three years earlier. For Africa, where the median rate in 1981 was also 2 per cent, the contrast with earlier rates (about 4 per cent from 1977 through 1979) was less striking statistically, but perhaps more significant economically in view of the inadequacy of per capita incomes in the African area. The highest median rates of growth in 1981 (about 5 per cent) were those of the Asian and Middle Eastern regions, which were able to maintain economic activity at a pace only moderately below that of the late 1970s.

Despite the introduction of stabilization policies by a number of countries in the non-oil developing group, progress during 1981 toward reduction of the very high average rates of inflation reached in 1980 was limited in most cases. The (weighted) average inflation rate for the group as a whole, after rising to 32 per cent in 1980, compared with 20 per cent in 1978, was reduced by only about 1 percentage point in 1981 (Table 3). However, both the levels of the 1980–81 inflation rates and the degree of increase over the already high rates prevailing in the late 1970s reflect exceptionally rapid price increases in a few of the larger non-oil developing countries, particularly in the Latin American area. The median rate for the whole group rose from 9½ per cent in 1978 to 15 per cent in 1980 before declining, like the average rate, by about 1 percentage point in 1981. Even the median figures, however, clearly indicate that both the 1978–80 upsurge of inflation and the limited degree of success to date in reversing it have been developments shared by a high proportion of all non-oil developing countries.

Over the longer period since the global recession of 1974–75, the record is somewhat less discouraging. The median inflation rates of the past two years (14–15 per cent) were well below the peak rate of 18½ per cent in 1974 and slightly under the 1975 rate. The difference between this comparison and one based on weighted average inflation rates for the same years (37 per cent, excluding the People's Republic of China, in 1980–81 versus about 28 per cent in 1974–75) is indicative of the role of some of the larger developing countries in raising the average rate of inflation of the non-oil developing group. Moreover, the relatively favorable comparison of recent inflation rates in "typical" non-oil developing countries with those of 1974–75 holds good for all of the analytical subgroups except the major exporters of manufactures, as well as for every regional subgroup except the European countries. For the low-income countries and for the middle-income exporters of mainly non-oil primary commodities (the two largest subgroups in terms of numbers of countries), the weighted average inflation rates, as well as the median rates, have remained below their 1974–75 peaks. These observations suggest that the majority of non-oil developing countries may be in a better position to achieve adequate control over inflation than would seem to be implied by the general averages, dominated as they are by the larger countries.

[1] *World Economic Outlook: A Survey by the Staff of the International Monetary Fund* (Washington, April 1982), pages 132–35.

Although the acceleration of inflation among non-oil developing countries during the past three years can be attributed in part to the more inflationary external environment, it must also be ascribed to the maintenance of unduly expansionary policies by many countries throughout the latter 1970s, and by some of them, especially among the larger ones, even in 1980 and 1981. For the whole group, the average rate of expansion of broad money aggregates (money and quasi-money combined) was about 35 per cent per annum during the period 1976–78 and rose progressively in each subsequent year to 39 per cent in 1981.

Nevertheless, some evidence attests to the fairly widespread adoption of less expansionary policies since about 1979, even though no very noticeable effects on price movements have yet emerged. First, the median rate of growth of broadly defined money declined moderately from 1979 to 1980 and again in 1981, implying a divergence between the typical course of policy in numerous small countries and that in the large developing countries whose developments tend to dominate the weighted averages. Second, the recent growth of money aggregates can be viewed as relatively restrictive when measured in real terms. The degree to which annual rates of monetary expansion exceeded current rates of inflation was lower in 1980 and 1981 than during the latter 1970s by about 7 percentage points in terms of weighted averages and by 9 percentage points in terms of medians. Although monetary policies prevailing in the earlier period involved in this comparison were typically expansionary, such a sharp cutback in the growth of real money holdings is bound to have contributed to the deceleration of growth in output and, if the less accommodative policies of the recent past are maintained and extended, may be expected to exert in due course a progressively stronger downward influence on inflation.

The expansionary thrust of monetary policies in the non-oil developing countries during the latter 1970s was closely linked to their fiscal positions, which in recent years have featured deficits averaging about 3½ per cent of GDP. Although this average level in relation to GDP has been fairly stable, it has been held down by fiscal restraint exercised in a few large non-oil developing countries. The median ratio of the fiscal deficit to GDP has been drifting steadily upward, from some 3 per cent in 1975 to 6 per cent in 1981, signifying the continuation of expansionary fiscal policies in a considerable number of small developing countries. There, as in the industrial world, relatively large fiscal imbalances have made it difficult to curb monetary expansion without placing a severe squeeze on the availability of credit to private borrowers, and hence on credit-sensitive elements of private demand.

International Trade and Payments

Overview

The principal changes in the global pattern of payments balances in 1981 were partial reversals of the large shifts occurring during the preceding two years. The current account surplus of the oil exporting countries declined steeply, while the aggregate current account deficit of the industrial countries was reduced by an almost equally large amount. (See Table 6.[2]) Further substantial shifts in the same direction were in progress during the first half of 1982, with the prospect that the surplus of the oil exporting countries for the full year would drop much further and that the combined balance of the industrial countries (exclusive of official transfers) would swing into moderate surplus.

Not all of the major shifts of the 1978–80 period, however, have been put into reverse. The current account deficit of the non-oil developing countries, which had increased steeply in that period, rose still further in 1981, to about $100 billion. It is not expected to decline appreciably in 1982.

The latest swings in current account balances of major groups of countries have occurred in a setting of weakness in world trade, induced by the recession in the industrial countries and the external financing constraints encountered by many of the non-oil developing countries. Growth in the volume of world trade, which had slowed down markedly in 1980, ceased altogether in 1981. Valued in terms of U.S. dollars, the total flow of trade declined for the first time in many years, although its value in terms of other major currencies or SDRs continued to rise. (See Table 4.)

The only element of significant buoyancy in the global trade picture during 1981 was a 20 per cent increase in the volume of imports purchased by the oil exporting countries. However, with their own exports sharply reduced in real terms and the price of oil declining during the first part of the year, the imports of those countries are expected to show a much more moderate expansion in 1982. Imports of the industrial countries, in contrast, declined by 2½ per cent in real terms in 1981 (with a 12 per cent drop in the volume of oil imports accounting for virtually the entire decline) and remained depressed in the early part of 1982. In the world trade aggregate, the 1981 decline in import volume of the industrial countries roughly offset not only

[2] The statistical asymmetry arising from the summation of current account balances on a worldwide basis—as reflected in the "Total" line in the table—shows a very rapid increase from 1979 to 1982. This increase is discussed in the Fund staff's 1982 report on *World Economic Outlook*, as referred to in footnote 5 of this table.

Table 6. Summary of Payments Balances on Current Account, 1973–82[1]
(In billions of U.S. dollars)

	1973	1974	1975	1976	1977	1978	1979	1980	1981	1982[2]
Industrial countries	17.7	−13.9	17.8	−2.2	−4.9	30.5	−10.2	−43.7	−3.7	11.0
Seven larger countries	12.7	−4.9	22.1	7.5	7.6	33.9	2.7	−17.5	13.0	23.5
Other industrial countries	5.0	−8.9	−4.3	−9.7	−12.6	−3.5	−12.9	−26.2	−16.7	−12.5
Developing countries										
Oil exporting countries	6.7	68.3	35.4	40.3	30.8	2.9	69.8	116.4	68.6	25.0
Non-oil developing countries[3]	−11.6	−37.0	−46.5	−32.0	−28.3	−39.2	−58.9	−86.2	−99.0	−97.0
By area										
Africa[4]	−2.1	−3.5	−6.9	−6.1	−6.6	−9.0	−9.7	−12.7	−13.3	−13.0
Asia[3]	−2.4	−9.6	−8.9	−2.6	−0.6	−6.8	−14.2	−24.9	−22.7	−27.0
Europe	0.3	−4.3	−4.7	−4.1	−7.6	−5.2	−8.5	−10.9	−7.9	−6.0
Middle East	−2.6	−4.5	−7.0	−5.4	−5.2	−6.5	−8.5	−7.8	−9.0	−12.0
Western Hemisphere	−4.7	−13.5	−16.4	−11.9	−8.7	−13.2	−21.3	−33.1	−41.5	−35.5
Total[5]	12.8	17.4	6.7	6.1	−2.4	−5.8	0.7	−13.7	−34.1	−61.0

[1] On goods, services, and private transfers. For the industrial countries, alternative current account balances including official transfers are given for the years 1978–81 in Table 8. Projected 1982 balances including official transfers are —$11 billion for the industrial countries as a group, $5.5 billion for the larger countries, and —$16.5 billion for the other industrial countries. For classification of countries in groups shown here, see Tables 1 and 2.
[2] Fund staff projections. Figures are rounded to the nearest $0.5 billion.
[3] Excludes data for the People's Republic of China prior to 1977.
[4] Excluding South Africa.
[5] Reflects errors, omissions, and asymmetries in reported balance of payments statistics on current account, 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). The large increase in this statistical asymmetry from 1979 to 1982—a matter of concern—is discussed in the Fund staff's 1982 report on the *World Economic Outlook,* pages 141–42, as well as page 5.

the strong increase in import demands of the oil exporting countries, but also a small increase (2 per cent) in real imports of the non-oil developing countries. The pattern of shifts in export volume in 1981 also featured relatively small increases for the industrial countries and the non-oil developing countries (by 2½ per cent and 4 per cent, respectively), in contrast with a large decline for the oil exporters (by some 16 per cent).

The inflation of foreign trade prices decelerated markedly in 1981. In terms of U.S. dollars, such prices declined slightly, on average, in striking contrast to annual increases of almost 20 per cent in 1979 and 1980. On an SDR basis, world export-import prices increased by 9 per cent in 1981, after rising by 15 per cent in 1979 and 19 per cent in 1980.

Whatever the unit of measurement, movements of prices for different categories of goods varied widely, generating corresponding differences in price movements of countries' exports and imports, depending on their composition. In this context, attention may be called to Table 5, showing terms of trade changes for three major groups of countries, as well as comparative price movements for three broad categories of internationally traded goods. One feature of the table is the contrast in 1981 between the decline in market prices of non-oil primary commodities, which amounted to 15 per cent in terms of U.S. dollars, and the decline of only 5 per cent in U.S. dollar prices of manufactures. Both of these declines contrast even more sharply, of course, with the 10 per cent rise from 1980 to 1981 in the U.S. dollar price of oil. The decline in non-oil commodity prices continued during the first half of 1982, leaving the index of those prices at mid-year some 13 per cent (in terms of U.S. dollars) below its average level in 1981. In "real" terms (i.e., deflated by the price index for manufactures used in Chart 5), non-oil primary commodity prices in mid-1982 were lower than at any other time for more than three decades, and 21 per cent lower than in the recession year 1975.

Because of the foregoing contrasts in foreign trade price movements, as well as further differences among individual categories of primary products, shifts in the terms of trade contributed importantly to the movements of current account balances in 1981, although not to the same extent as in the preceding two years. For the oil exporting countries, an 11½ per cent improvement in the terms of trade from 1980 to 1981 cushioned the adverse change in the net volume of exports and imports. For the other two major groups, the directions of change in both terms of trade and net export volume were the opposite, in varying degrees. The positive swing in net export volume of the industrial countries was moderately sizable and was offset only to a small extent by slippage of the terms of trade. For the non-oil developing countries, on the other hand, the corresponding positive swing was smaller and the terms of trade deterioration larger, so that the latter more than offset the former.

Some of the main changes in the service accounts of the balance of payments (Table 7) were also very unevenly distributed among the major groups of countries. In particular, the rise in international interest rates and outstanding indebtedness added substantially to the external payments of the non-oil developing countries and the external receipts of the oil exporting countries in 1981. The combined payments balance of the industrial countries was not so strongly affected, despite enlargement of both payments and receipts of interest, since these countries continued—as a group—to perform essentially a financial intermediary function in the international capital and credit markets.

Recent developments in the external payments positions of various groups of countries, and of a few of the major industrial countries individually, are reviewed more fully in the following sections. The first of these deals with the industrial countries, discussing both changes in their current account balances and the wide fluctuations in exchange rates for major currencies that have occurred during the past two years. Subsequent sections cover the external transactions of the oil exporting countries and of the non-oil developing countries.

Industrial Countries

Current account developments.—The combined current account balance of the industrial countries, as already indicated, rebounded in 1981 from the deep deficit into which it had fallen as a result of the 1979–80 oil price increases. From a peak of some $66 billion, inclusive of official transfers, the aggregate deficit of these countries shrank to $25 billion in 1981. Exclusive of official transfers (which were little changed), the deficit was almost eliminated in the latter year. (See Table 8.)

The largest single factor in the upswing of some $40 billion was a marked reduction in the volume of oil imports of the industrial countries. An almost equal contribution came from improvement of the net volume of exports and imports in non-oil trade, in considerable part through growth of exports to the oil exporting countries. However, these positive factors were partly offset by some deterioration of the terms of trade. Although the non-oil component of the industrial countries' terms of trade improved slightly in 1981, this movement was not sufficient to compensate for the further increase in oil import prices (on an annual basis).

Both the upswing from 1980 to 1981 and the resulting current account balances for 1981 were quite unevenly distributed among the industrial countries. (See Table 8.) Japan and the Federal Republic of Germany—the two countries in the group with the largest deficits in 1980—accounted for more than half of the total improvement for the group as a whole, and the United Kingdom, whose current account was already in surplus in 1980, accounted for nearly half of the remainder. Only Canada, among the larger countries, had a larger current account deficit in 1981 than in 1980. Most of the other countries in the group, however, also remained in deficit. Exceptions included, in addition to the United Kingdom with its very large surplus of $14 billion (including official transfers), Japan (with a surplus of $5 billion) and the United States (with one of $4½ billion, up from $1½ billion in 1980). The current account deficits of industrial countries other than these three still totaled about $50 billion in 1981, including about $20 billion for the smaller industrial countries as a group.

Although the U.K. and U.S. surpluses are expected to decline in 1982, Japan's is unlikely to show much change, and the current account of the Federal Republic of Germany may return to surplus. With deficits generally declining among the smaller industrial countries, the prospect is that the combined deficit of the whole industrial group will be reduced considerably again in 1982. Grounds for expecting the positive swing to continue include the outlook for relatively stable oil prices, continuing weakness in non-oil commodity prices (Chart 5), and the improbability of any sizable year-to-year increase in the volume of imports of the industrial countries, given the sag in their domestic economic activity in the first half of 1982 and the prospect of only a mild recovery in the second half.

In 1981, Japan's current account balance showed an upswing of $15 billion—from a deficit of $11 billion in 1980 to the $5 billion surplus mentioned earlier. This re-emergence of a Japanese surplus reflected both a decline in the volume of imports (especially of oil) and a rise—although less rapid than in 1980—in export volume. Weak domestic demand and structural adjustments in Japanese industry that lowered consumption of both energy and raw materials underlay the decline in imports. Japan's export volume gains—amounting to about 11 per cent in 1981, on top of a 17 per cent increase in 1980—reflected a strong international competitive position following the substantial depreciation of the yen from late 1978 to early 1980. However, a higher average effective exchange rate for the yen prevailed during 1981 than during 1980, and the improvement in the current account balance tapered off in the latter part of 1981. Further improvement in 1982 is unlikely to proceed at the 1981 pace, particularly in view of the voluntary controls on export deliveries being undertaken by certain Japanese industries.

The recent positive swing in the current account bal-

Table 7. Global Balance of Payments Summary, 1978–81

(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]	1978	10.3	20.2	30.5	−18.0 [5]	32.4	44.9
	1979	−35.2	25.0	−10.2	38.2 [5]	−16.7	11.3
	1980	−64.8	21.1	−43.7	51.0 [5]	24.1	31.4
	1981	−17.6	13.9	−3.7	−23.6 [5]	5.0	−22.3
Oil exporting countries [4]	1978	40.8	−37.9	2.9	−12.9	—	−10.0
	1979	113.2	−43.4	69.8	−55.8	—	14.0
	1980	168.7	−52.3	116.4	−96.7	—	19.7
	1981	120.5	−51.9	68.6	−67.6	—	1.0
Non-oil developing countries [4]	1978	−33.0	−6.2	−39.2	55.1	−0.1	15.8
	1979	−47.6	−11.4	−58.9	71.0	0.3	12.4
	1980	−70.6	−15.6	−86.2	89.4	1.7	4.9
	1981	−75.2	−23.7	−99.0	95.2	5.4	1.6
By analytical group [4]							
Net oil exporters	1978	−3.7	−4.2	−7.9	9.1	—	1.2
	1979	−1.8	−6.7	−8.5	12.4	−0.1	3.8
	1980	−1.5	−9.5	−11.0	15.1	−0.4	3.7
	1981	−7.8	−12.8	−20.6	20.5	0.1	—
Net oil importers	1978	−29.4	−2.0	−31.3	46.0	−0.1	14.6
	1979	−45.8	−4.6	−50.4	58.8	0.3	8.7
	1980	−69.1	−6.1	−75.2	74.4	2.1	1.3
	1981	−67.5	−11.0	−78.4	74.7	5.3	1.6
Major exporters of manufactures	1978	−9.9	—	−10.0	20.4	−0.6	9.8
	1979	−19.0	−2.5	−21.5	25.0	−0.4	3.1
	1980	−26.3	−6.0	−32.4	29.6	0.6	−2.2
	1981	−26.7	−9.3	−36.0	32.5	1.0	−2.5
Low-income countries	1978	−8.8	0.5	−8.3	9.3	−0.1	0.9
	1979	−12.3	0.7	−11.6	13.4	0.2	2.0
	1980	−19.0	2.0	−17.0	16.1	0.8	−0.1
	1981	−14.1	1.9	−12.2	10.2	1.5	−0.5
Other net oil importers	1978	−10.7	−2.5	−13.2	16.5	0.6	3.9
	1979	−14.5	−2.8	−17.4	20.5	0.5	3.6
	1980	−23.8	−2.1	−25.8	28.7	0.7	3.6
	1981	−26.7	−3.5	−30.2	27.1	2.7	−0.4
Total, all countries [6]	1978	18.1	−23.8	−5.8	24.2	32.3	50.7
	1979	30.4	−29.8	0.7	53.4	−16.4	37.7
	1980	33.3	−46.8	−13.5	43.7	25.8	56.0
	1981	27.7	−61.7	−34.1	4.0	10.4	−19.7

[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 adjustment, 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 of 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 19 of this Report) were assumed to have been placed in industrial countries, then the adjusted net capital inflows to those countries would amount to —$21.7 billion, $32.4 billion, $38.2 billion, and —$26.2 billion over the years 1978, 1979, 1980, and 1981, respectively. (See also Table 6, footnote 5.)

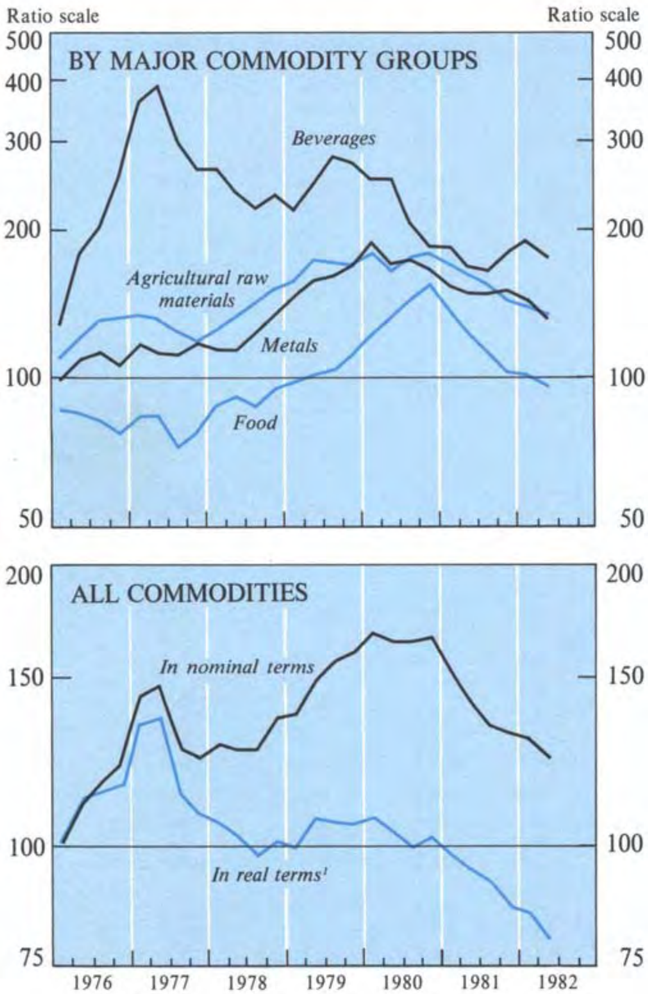
Table 8. Industrial Countries: Balance of Payments Summaries, 1978–81
(In billions of U.S. dollars)

		Balance on			Capital Account Balance					Memo:
		Trade	Services and private transfers	Current account excluding official transfers	Total [1]	Long-term capital and official transfers	Other [2]	Changes in Liabilities to Foreign Official Agencies [3]	Balance Financed by Changes in Reserve Assets [4]	Current Account Including Official Transfers
Canada	1978	3.5	–7.5	–4.0	4.0	3.0	1.0	—	—	–4.3
	1979	3.5	–7.8	–4.3	3.6	2.7	0.9	—	–0.7	–4.2
	1980	7.3	–8.5	–1.2	1.3	1.0	0.3	—	0.1	–0.9
	1981	6.1	–10.9	–4.8	5.0	1.7	3.3	—	0.3	–4.5
United States	1978	–33.8	22.2	–11.6	–19.4	–14.9	–4.5	31.2	0.2	–14.8
	1979	–27.3	30.4	3.1	10.9	–18.4	29.3	–13.6	0.4	–0.5
	1980	–25.3	31.5	6.2	–13.7	–13.7	—	14.9	7.4	1.5
	1981	–27.9	36.9	9.0	–11.6	6.6	–18.2	4.9	2.3	4.5
Japan	1978	25.3	–7.3	18.0	–7.8	–13.9	6.1	—	10.2	17.6
	1979	1.8	–9.8	–8.0	–4.9	–13.5	8.6	—	–12.9	–8.8
	1980	2.1	–11.6	–9.5	14.6	1.1	13.5	—	5.1	–10.7
	1981	20.0	–13.8	6.2	–2.7	–7.9	5.2	—	3.5	4.8
France	1978	1.5	3.7	5.2	–1.8	–4.5	2.7	0.3	3.7	3.7
	1979	–1.2	4.2	3.0	4.3	–6.7	11.0	0.1	7.4	1.3
	1980	–12.0	5.7	–6.3	15.4	–10.1	25.5	0.5	9.6	–7.9
	1981	–9.2	2.6	–6.6	—	–10.0	10.0	1.2	–5.4	–7.9
Germany, Federal Republic of	1978	25.5	–12.1	13.4	–2.5	–5.8	3.3	3.2	14.1	9.0
	1979	17.5	–17.4	0.1	3.3	0.7	2.6	–0.3	3.1	–6.0
	1980	10.5	–19.3	–8.8	–1.3	–3.0	1.7	5.4	–4.7	–16.3
	1981	17.9	–18.9	–1.0	–0.2	–2.0	1.8	–3.5	–4.7	–7.7
Italy	1978	2.9	5.0	7.9	–3.8	–0.9	–2.9	–0.8	3.3	6.4
	1979	–1.0	7.4	6.4	1.1	–1.3	2.4	–1.1	6.4	5.5
	1980	–16.4	6.9	–9.5	14.3	5.1	9.2	—	4.8	–9.7
	1981 [5]	–10.6	3.1	–7.5	4.2	5.0	–0.8	—	–3.3	–8.2
United Kingdom	1978	–3.0	8.1	5.1	–7.2	–8.4	1.2	–1.9	–4.0	1.8
	1979	–7.3	9.7	2.4	4.6	–8.8	13.4	–3.5	3.5	–2.0
	1980	2.8	8.8	11.6	–14.9	–13.5	–1.4	4.2	0.9	7.3
	1981	7.2	10.5	17.7	–24.6	–20.9	–3.7	1.4	–5.5	14.2
Other industrial countries [6]	1978	–11.8	8.3	–3.5	20.5	1.7	18.8	0.4	17.4	–5.4
	1979	–21.3	8.4	–12.9	15.3	–3.9	19.2	1.7	4.1	–15.2
	1980	–33.7	7.5	–26.2	35.3	5.8	29.5	–0.9	8.2	–29.0
	1981 [5]	–21.1	4.4	–16.7	6.2	3.0	3.2	1.0	–9.5	–20.3
Total industrial countries	1978	10.3	20.2	30.5	–18.0 [7]	–43.7	25.7	32.4	44.9	14.0
	1979	–35.2	25.0	–10.2	38.2 [7]	–49.2	87.4	–16.7	11.3	–29.9
	1980	–64.8	21.1	–43.7	51.0 [7]	–27.3	78.3	24.1	31.4	–65.7
	1981 [5]	–17.6	13.9	–3.7	–23.6 [7]	–24.5	0.9	5.0	–22.3	–25.2
Memorandum: Total industrial countries excluding United States	1978	44.1	–2.0	42.1	1.4	–28.8	30.2	1.2	44.7	28.8
	1979	–7.9	–5.4	–13.3	27.3	–30.8	58.1	–3.1	10.9	–29.5
	1980	–39.4	–10.5	–49.9	64.7	–13.6	78.3	9.2	24.0	–67.3
	1981 [5]	10.3	–22.9	–12.6	–12.1	–31.1	19.0	0.1	–24.6	–29.6

[1] See Table 7, 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 7, footnote 2.
[4] See Table 7, footnote 3.
[5] Partly estimated.
[6] Australia, Austria, Belgium-Luxembourg, Denmark, Finland, Iceland, Ireland, the Netherlands, New Zealand, Norway, Spain, Sweden, and Switzerland.
[7] See Table 7, footnote 6.

Chart 5. Indices of Prices of Non-Oil Primary Commodities Exported by Primary Producing Countries, 1976–Second Quarter 1982

(In U.S. dollar terms; 1975 = 100)



[1] Ratio of index for all primary commodities to the United Nations index of export unit values of developed countries' exports of manufactures.

ance of the Federal Republic of Germany started later than that in Japan (Chart 6) and was not so large in 1981 (on an annual basis). Germany's competitive position also showed considerable strength, with exports outpacing market growth by several percentage points (although not to the extent of the corresponding margin for Japanese exports); and German imports declined appreciably in real terms. The improvement in Germany's trade balance was especially marked in the second half of 1981. It reflected favorable effects on trade volumes resulting from the depreciation of the deutsche mark during the year, although it was dampened by the adverse J-curve effects of the change in the exchange rate.

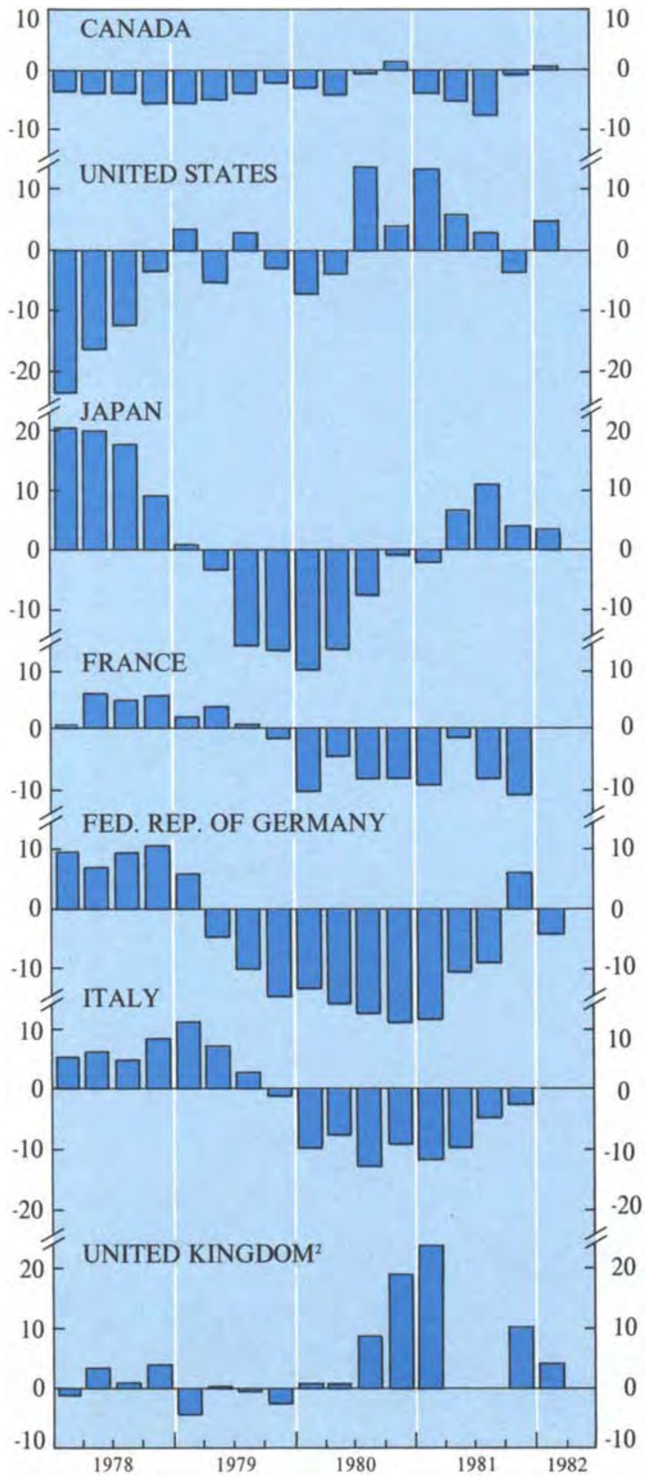
The remaining large increase in an industrial country's current account surplus in 1981—that of the United Kingdom—bore little resemblance to the two already discussed. The competitive position of U.K. manufacturers, as measured by any of the usual indices of internationally comparative costs or prices (Chart 8), had deteriorated to an extraordinary degree throughout 1979 and 1980 under the combined impetus of a strongly appreciating effective exchange rate and one of the highest inflation rates among the major industrial countries. At least partly for that reason, the volume of non-oil exports from the United Kingdom declined by about 3 per cent, despite a growth of 4 per cent in the foreign markets to which they were directed. However, the volume of non-oil imports of the United Kingdom showed little change, reflecting the depressed state of domestic demand, and U.K. net exports of oil increased significantly. In addition, the terms of trade continued to improve, and the 1980 surplus on services and transfers increased substantially. These two positive influences on the current account balance outweighed the decline in export volume by a wide margin in 1981. However, the revival of import growth expected to accompany a degree of recovery in domestic demand seems likely to reduce the current account surplus in 1982—especially if, as expected, one component of the pickup in domestic demand should be a substantial rebuilding of stocks of imported raw materials and semifinished products.

The current account of the United States, which had swung sharply from deficit to surplus in 1979, when the current accounts of most other industrial countries were deteriorating, showed moderate increases in the surplus in both 1980 and 1981. Strong gains in U.S. shares of export markets and in total export volume had followed the marked depreciation of the U.S. dollar during 1978. By 1981, renewed appreciation of the dollar and sluggish growth of markets abroad were deterring further U.S. export expansion. In addition, the volume of non-oil imports rose again after two years of stagnation. However, a substantial further drop in the volume of oil imports and a favorable shift in the terms of trade prevented any substantial worsening of the U.S. trade deficit, and a sizable increase in the large surplus on services and transfers tilted the movement of the current account balance upward.

The slippage of the U.S. competitive position with respect to manufactured goods during 1981 may result in a considerably larger loss of export market shares in 1982. However, a larger improvement in the terms of trade and a further decline in oil imports, as well as the continuing uptrend in net receipts from services, are expected to limit any deterioration in the current account balance.

Chart 6. Major Industrial Countries: Payments Balances on Current Account, Including Official Transfers, 1978–First Quarter 1982 [1]

(In billions of U.S. dollars)



[1] Seasonally adjusted, annual rates.
[2] Because of a U.K. Civil Service dispute, data for the second and third quarters of 1981 are not available.

The only major industrial country to undergo a significant deterioration in its current account balance from 1980 to 1981 was Canada. That country's deficit on service transactions continued to worsen, while its trade balance was adversely affected by the weakening of commodity prices and an increase in net petroleum imports resulting from a cutback in domestic production. Neither the French nor the Italian current account deficit showed much change in 1981, nor is either expected to change substantially in 1982.

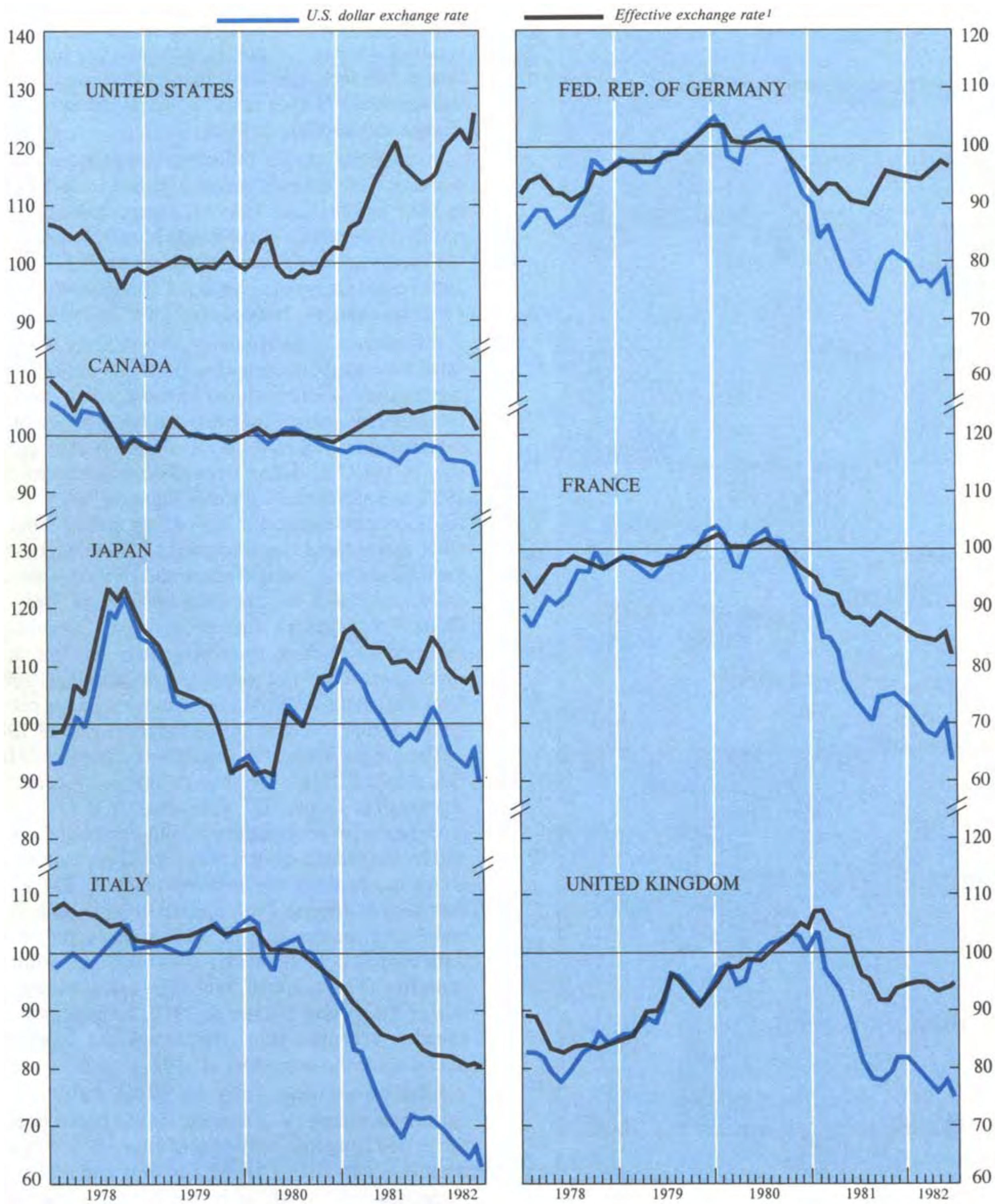
Among the smaller industrial countries, whose combined current account deficit declined from $29 billion in 1980 to $20 billion in 1981, a large majority recorded positive movements of their individual balances. A notable exception was Australia, where the deficit doubled; and other exceptions included Belgium-Luxembourg (with no change), Ireland, and New Zealand.

Exchange rate developments.—Volatility of exchange rates for major currencies has been one of the outstanding features of international financial conditions during the past few years. However, the latest series of really substantial movements—involving the marked appreciation of the U.S. dollar from October 1980 to August 1981 and substantial effective depreciation of continental European currencies, as well as strong movements (first upward and then downward) in the effective rates for the Japanese yen and the pound sterling—was essentially completed by the third quarter of 1981. (See Chart 7.) Although further significant changes have occurred since then, their magnitude has not in most cases approached that of the previous swings, and they have not altered the pattern of real exchange rate relationships that emerged during the latter part of 1981.

The appreciation of the effective exchange rate for the U.S. dollar from October 1980 to August 1981 amounted to 22 per cent. Subsequently, the rate receded moderately for several months, but firmed early in 1982 and by the second quarter was several percentage points above the peak of the previous August. These movements since August 1981 appear to have been induced mainly by changes in U.S. interest rates and in short-term interest differentials vis-à-vis other major industrial countries. The nominal exchange value of the dollar during the second quarter of 1982, as measured by the effective exchange rate, was above the level of any period since the latter part of 1971.

Effective exchange rates for all of the other major currencies except the Canadian dollar depreciated over the period from late 1980 to mid-June 1982. The largest declines—cumulating to 20 per cent and 18 per cent, respectively—were those in the French franc and the Italian lira. Both of these currencies depreciated more or less continuously in effective terms throughout the period. Effective rates for the deutsche mark and the

Chart 7. Major Industrial Countries: Exchange Rates, 1978–June 1982
(Indices, 1980 = 100)



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

pound sterling, although also generally declining throughout the first three quarters of 1981, recovered somewhat during the latter part of that year and early 1982, so that their cumulative declines were much smaller than those in the French and Italian currencies. In the case of the deutsche mark, indeed, the recovery carried its effective rate back to about its October 1980 level. For the pound sterling, the cumulative net decline amounted to 7½ per cent.

Movements in the effective rate for the Japanese yen, which had been the largest of any during the two years preceding October 1980, were subsequently relatively moderate. The exchange value of the yen rose by 8 per cent from October 1980 to February 1981, in extension of a strong upward movement already in process during the middle quarters of 1980, but this rise was later reversed by a gradual decline in the yen. By mid-June 1982, the effective rate for the yen was about 2 per cent below its October 1980 level.

Over the period from October 1980 to mid-June 1982, the Canadian dollar displayed the steadiest effective rate of any major currency. Its gradual depreciation against the U.S. dollar was more than offset by appreciation against the currencies of other principal trading partners, so that a cumulative appreciation of 6 per cent resulted.

Underlying the foregoing changes in effective rates were a number of sharp and highly varied shifts in bilateral exchange rate relationships. These altered competitive positions of particular countries in particular markets in ways that are not necessarily apparent in the movements of effective rates. Some of these alterations are summarized in Table 9, which shows key changes in bilateral exchange rates of the five largest industrial countries from the third quarter of 1980 to the first quarter of 1982, both in nominal terms and in real terms.

One of the points brought out in the upper section of the table is the degree to which the appreciation of the U.S. dollar against the European currencies exceeded its appreciation against the Japanese yen. The other two sections of the table make it clear that the appreciation against the yen and the deutsche mark was substantially greater in real than in nominal terms, while the dollar's nominal appreciation against the French and U.K. currencies was not accompanied by any substantial change in comparative labor costs (before adjustment for exchange rate movements).

Another important point emerging from the table is that the Japanese yen, while depreciating moderately against the U.S. dollar, rose quite substantially in terms of the other three currencies. Part of that appreciation vis-à-vis the European currencies, however, was offset, from the standpoint of competitive positions, by Japan's relatively favorable labor cost changes.

Significant features of exchange rate relationships among the three European countries are also evident. In

Table 9. Selected Industrial Countries: Changes in Bilateral Exchange Rates and in Relative Unit Labor Costs for Manufactures, Third Quarter 1980–First Quarter 1982

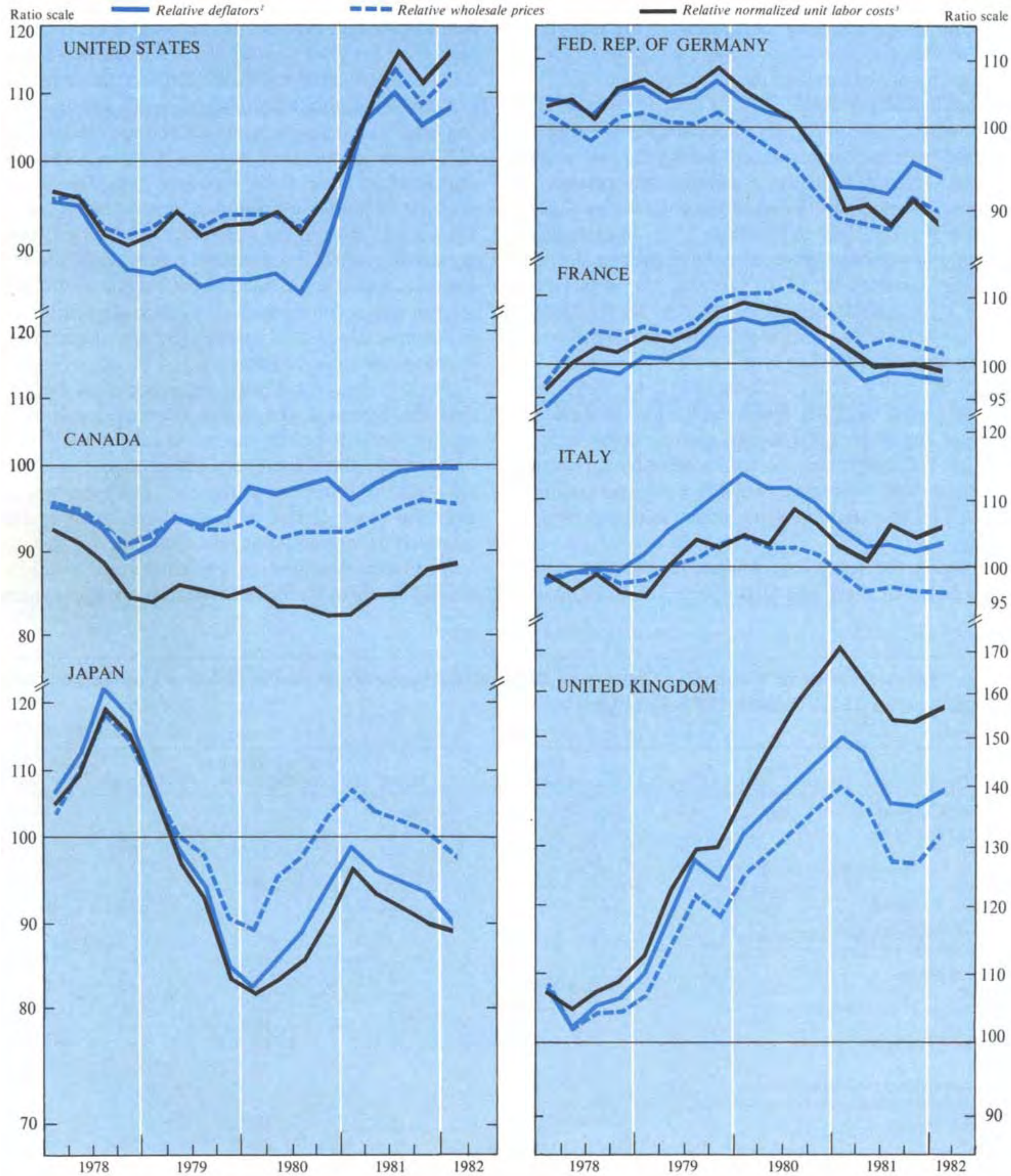
(In per cent)

	United States	Japan	Federal Republic of Germany	France	United Kingdom
Bilateral exchange rates [1]					
United States	—	6	32	45	29
Japan	−6	—	24	37	21
Germany, Federal Republic of	−24	−20	—	10	−2
France	−31	−27	−9	—	−11
United Kingdom	−23	−18	3	13	—
Relative normalized unit labor costs—unadjusted for exchange rate changes [2, 3]					
United States	—	12	8	−3	−3
Japan	−11	—	−4	−14	−14
Germany, Federal Republic of	−8	4	—	−11	−11
France	3	15	11	—	—
United Kingdom	3	15	11	—	—
Relative normalized unit labor costs—adjusted for exchange rate changes [2, 3]					
United States	—	19	43	41	25
Japan	−16	—	20	18	5
Germany, Federal Republic of	−30	−17	—	−1	−13
France	−29	−16	1	—	−11
United Kingdom	−20	−5	14	13	—

[1] Currency of the country specified in the heading in terms of the currency of the country specified in the stub.
[2] Costs of the country specified in the stub relative to those of the country specified in the heading.
[3] Normalized unit labor costs are calculated by dividing an index of actual hourly compensation per worker by an index of output per man-hour adjusted so as to eliminate estimated cyclical swings.

Chart 8. Major Industrial Countries: Relative Costs and Prices of Manufactures, Adjusted for Exchange Rate Changes, 1978–First Quarter 1982 [1]

(Indices, 1977 = 100)



[1] Indices of the type shown here are frequently referred to as indicators of real effective exchange rates.
[2] Annual deflators for gross domestic product originating in manufacturing with quarterly interpolations and extrapolations (beyond the latest available annual data) based on wholesale price data for raw materials and manufactures.
[3] Index of hourly compensation divided by index of potential "output per man-hour."

real terms, the pound sterling appreciated considerably against both the deutsche mark and the French franc (for different reasons), while the relationship between the two continental European currencies was held steady through the first quarter of 1982 by compensating changes in the nominal exchange rate and in relative rates of inflation.

The table indicates, however, that compensation for sizable inflation rate differentials has not been a consistent feature of exchange rate changes over the past year and a half. On the contrary, some of the principal exchange rate changes of the period—and most notably those of the U.S. dollar against the Japanese yen and the deutsche mark—have magnified the implications of inflation differentials for competitive positions, rather than offsetting them.

The recent changes in real exchange rates for currencies of the major industrial countries have brought the majority of those rates to levels not very different from their respective averages during the past decade. The principal exception is the United Kingdom, where relative costs and prices for manufactures (adjusted for exchange rate movements) are high in such historical perspective, chiefly because of the impact of a restrictive monetary policy and of North Sea oil on the exchange rate.

Apart from the inflation differentials taken into account (at least, in principle) in the construction of indices of real effective exchange rates, the principal measurable forces operating on exchange rates in the past few years have been developments with respect to current account balances and interest rates. International differences in the latter (and in the national financial policies—actual or expected—behind them) have sometimes dominated the exchange rate movements for several months at a time (as in the period from August to November of 1981, for example). However, they do not appear to have exerted great influence over longer-term changes in exchange rate relationships, partly because of the tendency for capital movements or policy changes, or both, to narrow the real interest-rate differentials (with due allowance for confidence factors of noneconomic types). The influence of current account developments—themselves responsive partly, of course, to exchange rate changes—has tended to be slower acting, but more lasting. The strength of the U.S. dollar during 1981, for example, owed much to the marked upward swing in the current account from 1978 to 1980. Similarly, the firming of exchange rates for the Japanese yen and the deutsche mark in late 1981 reflected—in addition to the decline in U.S. interest rates during that period—the rapid recoveries in the current account balances of the two countries, just as the decline of the yen in 1980 and of the deutsche mark in 1981 had reflected earlier deteriorations of the respective current accounts.

Exchange rate responses to influences emanating from current account positions and comparative monetary conditions are much more visible when the two factors work in the same direction—as in the case of the U.S. dollar in late 1980 and again in the middle months of 1981—than when they exert contradictory influences. Japan's position from late 1980 through most of 1981 presents an example of the latter type. During that period, higher interest rates abroad than in Japan and the capital outflows that they helped to generate tended to negate the potential impact of a strong upswing in the current account balance.

An institutional factor contributing toward uniformity of exchange rate movements within Europe during the period under review has been the operation of the European Monetary System. That arrangement has evidently smoothed or mitigated the effects on its members of a number of temporary disturbances in their external payments relationships. However, economic and financial conditions in the member countries have not converged sufficiently to preclude the periodic emergence of strong pressures. On four occasions during the past year and a half, such pressures have led to realignments of exchange rates among the EMS countries. In March 1981, the central rate of the Italian lira was devalued by 6 per cent. In October 1981, the central rates of the deutsche mark and the Netherlands guilder were revalued by 5½ per cent, while the French franc and the Italian lira were devalued by 3 per cent. In February 1982, the Belgian franc and Danish krone were devalued by 8½ per cent and 3 per cent, respectively. In June 1982, the central rates of the deutsche mark and the Netherlands guilder were revalued by 4¼ per cent, while those for the French franc and the lira were devalued by 5¾ and 2¾ per cent, respectively.

Developing Countries—Oil Exporting Group

Attention has been called earlier to the recent sharp drop in the current account surplus of the oil exporting countries, which fell from $116 billion in 1980 to $69 billion in 1981 and is projected at $25 billion for 1982. The principal elements of this movement have been sharp declines in export volume, a weakening and partial reversal of previous terms of trade gains as world oil demand softened, and accelerated growth of import volume in 1981.

The sluggishness of economic activity in major oil consuming countries, particularly in the latter part of 1981 and early 1982, was one reason for the magnitude of the declines in oil export volume. A more important factor, however, was the strong response of consumers to the oil price increases of 1979 and 1980. The shift toward conservation was coupled with continuing increases in oil production outside the main oil exporting countries, so that the decline in world consumption was more than fully reflected in the export volume of the oil exporting group. For 1982, that volume is expected to be more than one fourth below its 1980 level. With oil exports accounting for about 80 per cent of the group's current account receipts, the major role of this decline in reducing the current account surplus is clear.

The oil exporting countries' imports rose in volume terms by about 20 per cent in 1981, compared with 15 per cent in 1980, and a moderate further increase (of perhaps 5 per cent) is expected in 1982. However, the role of import expansion in curtailing current account surpluses has been smaller than in the years following the 1973–74 oil price increases, when it was the predominant factor. This difference reflects the less pronounced shift toward expansionary policies in 1979 and 1980 than in the previous period of major increases in oil prices.

There is also a contrast with respect to the evolution of net payments for services and private transfers. These had risen rapidly after 1974, reflecting the linkage of many current payments (such as those to foreign contractors and consultants, as well as remittances by expatriate workers) to the development efforts of the oil exporting countries. The net deficit of these countries on services and private transfers widened continuously through 1980. Since then, however, it has leveled off because of a slowdown in the growth of payments on invisibles and a sharp rise in receipts of investment income on external assets, reflecting both the large additions to such assets over the past three years and the increase in international interest rates.

Thus, although the drop in the current account surplus of the oil exporting countries that is now in process is reminiscent of that which occurred during the period 1975–78, the principal factors underlying the recent change are quite different. Since 1980, weakness of demand for oil exports has played a much larger role, and expanding absorption of foreign goods and services a smaller role, than in the earlier period.

The decline in the aggregate current account surplus of the oil exporting countries since 1980 has been concentrated in the external balances of six countries that had registered surpluses in every calendar year from 1970 through 1980.[3] The other six countries in the oil exporting group, all of which had moved into deficit on current account by 1978, had sizable combined surpluses in 1979 and 1980, but their share of the group's aggregate surplus remained much smaller in 1980 than in 1974. This change was due largely to the increased concentration of oil export earnings in the subgroup of countries with a 1970–80 record of persistent surpluses. In 1981, the latter subgroup accounted for the larger part of the drop in the aggregate surplus of the oil exporting countries. The combined current account balance of the other six countries swung into deficit in 1981, though by a much smaller amount than in 1978.

Because of significant borrowing by some of the countries in the deficit subgroup, cash flows available to the oil exporting countries for investment abroad were larger in 1981, as in most other recent years, than their net receipts on current account. These countries are estimated to have placed some $80 billion in various external assets (mostly in the industrial countries) or in grants to non-oil developing countries during 1981, compared with more than $120 billion in 1980 and roughly $70 billion in 1979. The amounts placed during these three years represented about three fifths of the total accumulation of cash surpluses since 1973, estimated at some $475 billion. Although comprehensive statistics on the gross foreign asset holdings of the oil exporting countries at the end of 1981 are not available, the latter figure may be taken as a rough gauge of their order of magnitude. Holdings of commercial banks and the nonbank private sector accounted for somewhat more than one fourth of the total, but the bulk of it was held in the form of official reserves and other foreign assets owned by public sector agencies. The total stock of external assets was concentrated, of course, among the six surplus countries, which accounted for more than 90 per cent of the cumulative current account surplus of the whole group from 1974 through 1981.

Most of the funds invested abroad by the oil exporting countries have been placed in bank deposits (particularly in the form of Eurocurrency deposits) and other placements in the industrial countries. The upsurge of placements during recent years has again displayed a pattern of initial concentration in relatively liquid assets, followed by progressive diversification of holdings, with increasing proportions going into longer-term and less liquid investments, such as corporate equities and bonds, long-term government securities, direct investments in business enterprises, and inter-official loans to some of the industrial countries. According to the limited data available, identified placements in bank deposits, after accounting for well over half of the cash surplus available for disposition in 1979, represented only about one third of the larger surplus accruing in 1980 and dropped to considerably

[3] Kuwait, Iraq, the Libyan Arab Jamahiriya, Qatar, Saudi Arabia, and the United Arab Emirates.

less than one tenth in 1981. The latter development reflected not only diversification, but also some drawdown of bank deposits by oil exporting countries having need to utilize their reserves.

Part of the explanation for the trend toward longer-term or less liquid investments lies in the increasing concentration of total external asset holdings of the oil exporting group in a few countries with already strong liquidity positions. Rising shares of the private sectors in total holdings and the development of more sophisticated investment policies in the major surplus countries have also contributed. Diversification among types of financial assets has been accompanied by a tendency toward diversification also with respect to geographic distribution and currency of denomination; but changes in the composition of holdings have been brought about mainly through reorientation of new placements, rather than through any major shifts among existing investments.

A notable feature of recent developments is the enlarged role of banks and other financial institutions set up by the oil exporting countries in arranging flows of syndicated loans through international credit markets to borrowers in both industrial and developing countries. Another recent feature is the undertaking of direct investments by a few oil exporting countries in petroleum-related activities in other parts of the world. In addition, claims on the Fund and the World Bank have risen in the past two years, in large measure through Saudi Arabia's support of the Fund's enlarged access policy. There has also been an expansion in flows of concessional assistance to non-oil developing countries, both through bilateral loans or grants and through contributions to multilateral development aid institutions (in addition to the World Bank). Cumulatively, such assistance has accounted for about 14 per cent of the total current account surplus accruing to the oil exporting developing countries since 1974.

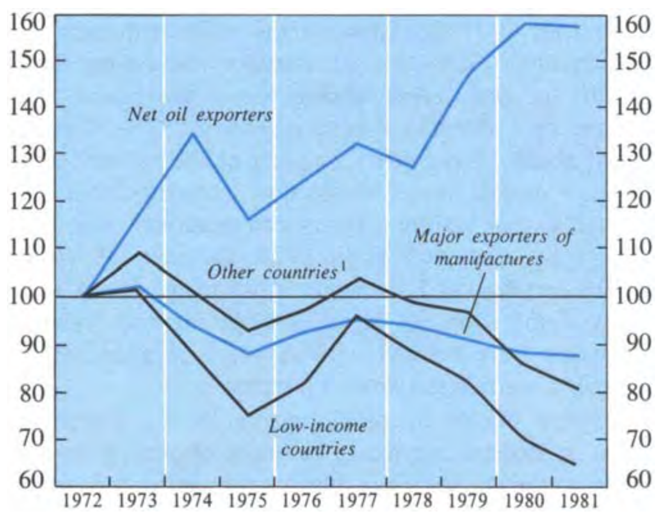
Developing Countries—Non-Oil Group

Changes in current account balances.—The current account deficit of the non-oil developing group of countries rose in 1981 to about $100 billion. This latest annual increase amounted to $13 billion, bringing the cumulative growth of the group's current account deficit since 1978 to $60 billion. Highly unfavorable external factors, including the oil price increases of 1979–80, the sharp rise of interest rates in international financial markets since mid-1979, protectionist trade policies, and the severe slowdown of economic activity in the industrial countries, were primarily responsible for this enlargement of external imbalances. However, an important role has been played by domestic factors in individual developing countries, many of which have followed unduly expansionary financial policies in their efforts to foster development and have failed to correct the resulting distortions in relative prices.

The most important unfavorable influences of external origin, both in the past year and over the period from 1978 to 1981, were those affecting import and export prices. The oil price increases and the weakening of primary commodity prices contributed heavily to a substantial deterioration of the terms of trade of the non-oil developing countries in recent years (Chart 9); and the declines in commodity prices during the latter part of 1981 and the early months of 1982 point toward a further significant worsening of the terms of trade in 1982. Over the past three years, this factor accounted for more than two thirds of the entire increase in the aggregate deficit on current account.

However, terms of trade changes have differed greatly among countries within the non-oil developing group. Those that are net exporters of oil (although not meeting the criteria for inclusion in the main oil exporting group discussed above) benefited from sharp improvement of their terms of trade from 1978 to 1980 and did not suffer a terms of trade loss in 1981, while those whose exports consist mainly of primary products underwent substantial deterioration in each of the past three years—a deterioration that was especially severe for the low-income countries. For the relatively few developing countries that have become major exporters

Chart 9. Non-Oil Developing Countries: Terms of Trade by Analytical Subgroups of Countries, 1972–81
(Index, 1972=100)



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

of manufactured goods, deterioration of the terms of trade over this period was moderate.

Although terms of trade developments have dominated the changes in current account deficits of the non-oil developing countries during the past several years, the cyclical slowdown in the industrial world has also exerted a major influence on the volumes of trade carried out by those countries. It has directly curtailed real demand for their exports and indirectly dampened the real growth of their imports by holding down increases in the purchasing power of their exports.

For the non-oil developing group as a whole, real growth of exports declined from 9–10 per cent a year in 1978–79 to 5–6 per cent in 1980 and 4 per cent in 1981; this deceleration was distributed fairly evenly among the various analytical subgroups. Changes in import volume, however, were quite uneven, mainly because terms of trade developments resulted in marked differences among individual countries and subgroups with respect to growth of export purchasing power. (See Chart 10.)

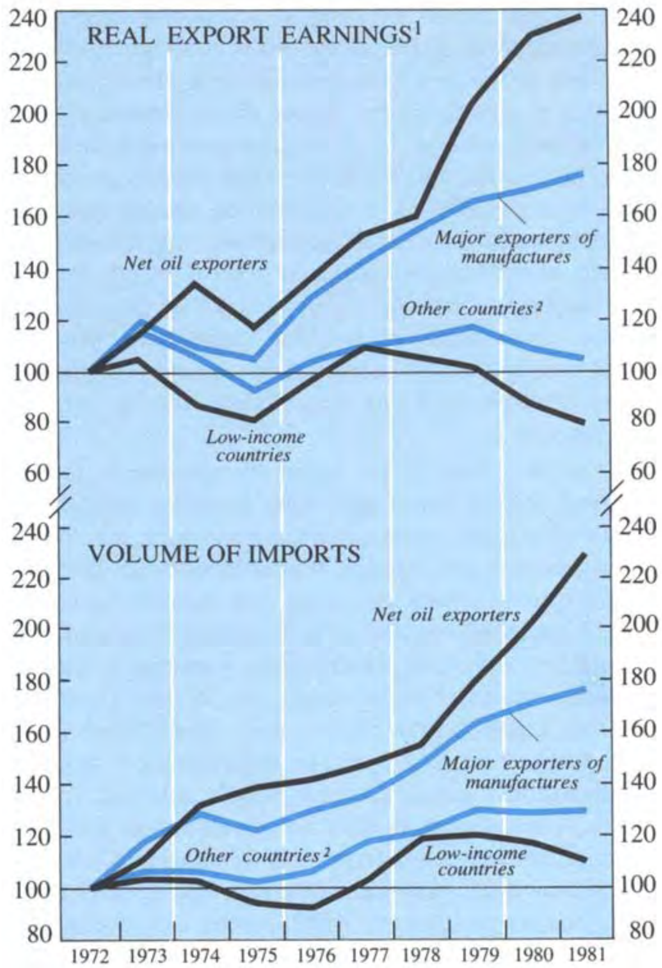
For the net oil exporting subgroup, the growth of such purchasing power was rapid in 1979 and 1980 and the increased spending on imports that it induced continued strongly in 1981. In the latter year, the ability and willingness of the net oil exporters to expand their external borrowing was also a major factor helping these countries to sustain real import growth in the 12–16 per cent range for a third consecutive year.

In the oil importing developing countries, on the other hand, import expansion came to a virtual standstill in real terms, dropping from 8–9 per cent annually in 1978–79 to about 1 per cent in 1980–81. This adjustment was most severe in the low-income group, where there were outright declines in the volume of imports amounting to roughly 2 per cent in 1980 and 7 per cent in 1981. Although the major exporters of manufactures were able to continue increasing their imports in real terms during those two years (by 3–4 per cent annually, compared with a 1978–79 average of about 10 per cent), imports of the "other" subgroup (comprising middle-income countries that, in general, export mainly primary commodities) were not quite fully sustained after 1979. Because of weak export earnings and inadequate financing, about two thirds of the countries in the low-income and "other" subgroups have utilized various types of quantitative control to restrain the flow of imports.

Adverse effects of developments in the industrial world on external payments balances of non-oil developing countries have not been confined to the trade accounts, but have extended also to the service accounts. The rise in unemployment in the industrial countries, for example, has affected the flow of private remittances from expatriate workers, and of receipts from tourism. However, by far the most important factor worsening the balance on external services was the rise in international interest rates, which roughly doubled from 1978 to 1981. Although much of the outstanding debt of the non-oil developing countries was not affected, the rise in interest rates accounted for well over half of a $23 billion increment over this period in the group's annual payments of interest on long-term external obligations. This change was distributed rather evenly among analytical subgroups except the low-income countries, which were affected less than the others because of the preponderance among their external liabilities of long-term, fixed-rate loans on concessional terms.

Chart 10. Non-Oil Developing Countries: Real Export Earnings and Imports by Analytical Subgroups of Countries, 1972–81

(Indices, 1972=100)



[1] Exports of goods deflated by import prices.
[2] Consisting of middle-income countries that, in general, export mainly primary products.

The bulk of the increase in the combined current account deficit of the non-oil developing countries from 1980 to 1981 can be traced to the net exporters of oil. These countries took advantage of their increased national wealth and generally good international credit ratings to raise their imports by some 13½ per cent in volume (following similar or larger increases in both 1979 and 1980).

For the roughly 100 non-oil developing countries that are net importers of oil, the further expansion of their combined current account deficit was relatively slight, from $73 billion in 1980 to $80 billion in 1981. Indeed, apart from South Africa, whose current account balance swung from a surplus of $3 billion to a deficit of $4½ billion under the impetus of sharp changes in the price of gold, the movement was moderately downward. In relation to exports of goods and services, the total 1981 deficit of the net oil importers was well below the peak levels reached in 1974 and 1975, although considerably above the intervening levels. (See Chart 11.)

In itself, this observation would suggest a better record of adjustment to oil price increases and global economic weakness during the past few years than during the mid-1970s. However, a disproportionate share of the adjustment seems to have occurred in the larger countries of the oil importing group, with the external situations of the majority of countries evolving less satisfactorily than the aggregate (or weighted average) record might suggest. As shown in Chart 11, the median ratio of the current account deficit to exports of goods and services for the oil importers has risen much more sharply than the average ratio in recent years, and was considerably higher in 1980 and 1981 than in 1975. Since one fifth of the net oil importing developing countries accounted in 1980 for four fifths of the combined current account deficit of the entire group, the scope for divergence of a weighted average from a median representation of the group's current account position is quite wide. The actual occurrence of such a wide divergence, however, is a phenomenon of fairly recent origin. Through the mid-1970s, differences between large and small developing countries with respect to the size of current account balances in relation to exports of goods and services were much less noticeable, and the wider fluctuations occurred among the large countries.

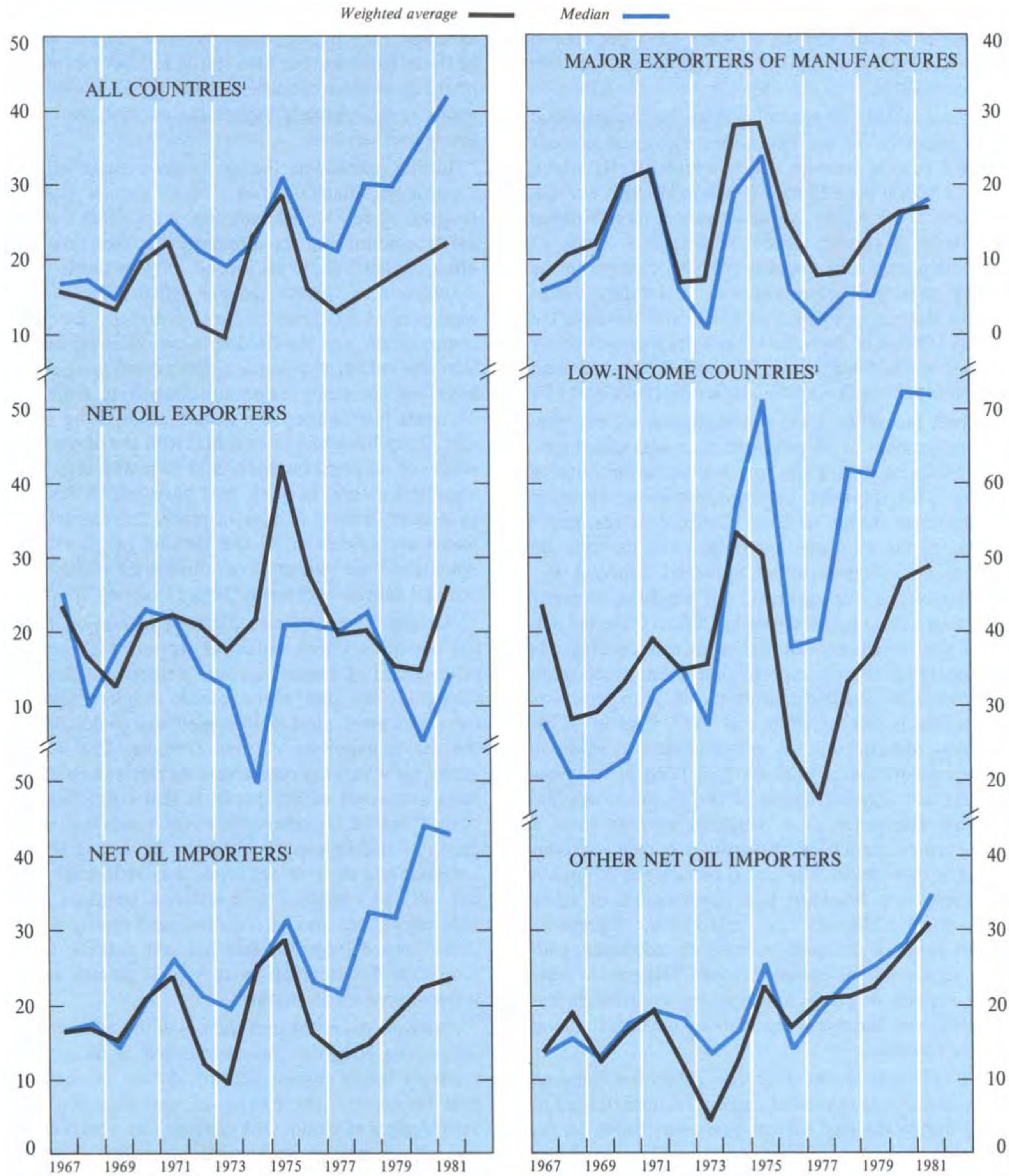
Chart 11 also shows that the difference between median and average ratios of current account deficits to exports during the past several years was widest in the large subgroup of low-income countries. For that group, both ratios are extremely high in comparison with corresponding ratios for the other analytical subgroups, reflecting generally weak export earnings in relation to import demand and the availability of concessional financial assistance on a scale that is large relative to their own exports, however inadequate in relation to their needs for economic resources. The sharp increase of recent years in the scale of current account deficits of the low-income countries in relation to their export earnings is attributable not only to the marked weakness of those earnings, but also to the difficulty experienced by many of these countries in making downward adjustments in their already suppressed demand for imported goods and services.

In this connection, the low-income countries provide a particular illustration of a more general point. The progress of developing countries in adjusting their external transactions to the circumstances that now prevail often cannot validly be judged only in terms of early curtailment of current account deficits. Because of the weakness of external markets, especially for primary commodities, and the decline in concessional assistance from the industrial countries, many developing countries have had to make major adjustments in their import demands just to keep the deficits from rising still further. They have had to deal first with the terms of trade effects of oil price increases and then with influences of a cyclical nature. In brief, they have had to run harder, as it were, merely to stay in place. Substantial adjustments are evidenced by the slowing of growth in the volume of their imports, even though the related current account deficits have not yet begun to shrink appreciably.

Among the analytical subgroups of non-oil developing countries whose historical records with respect to relative size of current account deficits are depicted in Chart 11, the one whose recent deficit/export ratios have remained most below previous peaks comprises the major exporters of manufactures. The only subgroup for which the corresponding ratios in recent years have surpassed earlier peaks is that consisting of the "other" net oil importers. However, ratios for this latter group of middle-income countries have long shown an uptrend; and their recent levels may reflect the records not only of countries with strained positions needing adjustment, but also of countries undergoing structural shifts toward larger current account deficits, fostering long-term development as they gain greater access to international credit markets.

External financing and debt.—Although the non-oil developing countries have succeeded in financing successively larger current account deficits in each of the past four years, the pattern of that financing reveals several signs of strain. One of these was a marked tapering off of reserve accumulations, which dropped to $5 billion in 1980 and $1½ billion in 1981 after having exceeded $12 billion a year from 1976 through 1979. Even for the group as a whole, the small nominal increases of the past two years imply a shrinkage of

Chart 11. Non-Oil Developing Countries: Deficits on Current Account, 1967–81
(In per cent of exports of goods and services)



[1] Excluding the People's Republic of China.

reserves in real terms; many countries were forced to reduce their reserves even in nominal terms.

Declines in reserves were particularly large (relative to the scale of current payments transactions) in the low-income countries, while the accumulations of the past two years were centered mainly among the net exporters of oil. Even for the latter subgroup, the ratio of reserves to imports of goods and services declined by several percentage points from 1979 to 1981. For the low-income countries, it dropped over those two years from 30 per cent to 18½ per cent; and the average ratio for all non-oil developing countries was lowered by 5 percentage points to 17 per cent. The implication of strain conveyed by these figures is reinforced by the consideration that many countries must have chosen to spend substantial amounts of interest income accrued on their currency reserves, rather than to add the accruals to reserve holdings. Otherwise, given the high rates of interest prevailing in 1980 and 1981, rather substantial additions to reserves would have occurred through interest accruals alone.

Because of the virtual cessation of reserve accumulation by the non-oil developing countries as a group, the size of the increase in their foreign borrowing that would otherwise have been needed, given the enlarged current account deficits of the past two years, has been greatly reduced. The pace of growth in net foreign borrowing was also tempered by increases in flows of financing through transactions that do not affect net debt positions, such as official grants and movements of direct investment capital. Together, the various non-debt-creating inflows were some $3 billion larger in 1981 than in 1979. The combination of these enlarged inflows with the reduction in reserve accumulation enabled the non-oil developing countries to finance a $40 billion increment in their combined current account deficit over the two-year period with an increase of just $26 billion in net borrowing from abroad.

Nevertheless, shifts in the composition of the borrowed funds clearly reveal additional signs of strain on external financial positions. Use of reserve-related credit facilities (in which Fund credit was the main element) swung sharply from small net repayments in 1979 to net inflows totaling some $5½ billion in 1981; and short-term borrowing—most of it from commercial banks and other private sources—also rose sharply, especially in 1980. This heavy reliance on temporary financing was a clear symptom of both difficulty in obtaining suitable long-term financing and reluctance of borrowers to make longer-term commitments at the prevailing rates of interest. Short-term capital (including reserve-related credit) accounted for about half of the total increase in net borrowing in 1980, but did not rise further in 1981, as the increase in use of Fund credit was roughly offset by subsidence of net borrowing from private sources in short-term forms. The bulge in private short-term (and medium-term) financing in 1980 was heavily centered in the accounts of a few large countries in the subgroups exporting oil or manufactures.

Of the cumulative increase in total borrowing from 1979 to 1981, somewhat more than two thirds took long-term forms. Here, too, the composition shifted from 1980 to 1981. In the former year, increases in loans from official sources (including multinational development financing institutions) accounted for the bulk of the expansion in long-term borrowing, while the net amount of long-term credit obtained from private financial institutions declined somewhat (Table 10). In 1981, the entire additional expansion of long-term borrowing came from private sources, with much of it in renewed growth of flows from financial institutions, while no further increase in net long-term borrowing from official sources was recorded.

The proportions in which the various types of external financing were used by non-oil developing countries differed sharply among individual countries and subgroups. The ones that are net exporters of oil or manufactures continued in 1980 and 1981 to rely predominantly on private credit markets, with a strong emphasis on short-term credit in 1980 being replaced by longer-term borrowing in 1981. Little or no increase in official long-term capital inflows was recorded for these two subgroups in either year, although their use of non-debt financing (most direct investment capital) did rise moderately.

The other two subgroups, containing the great majority of all non-oil developing countries, received only a small part of the total increase in private long-term capital inflows. However, they accounted for nearly all of the increase in long-term borrowing from official sources from 1979 to 1981. In addition, although their share of the bulge in private short-term inflows was relatively small, they were the recipients of virtually the entire increase in reserve-related credit.

For the non-oil developing countries as a group, the nominal increases of the past two years in long-term debt, while large in absolute terms, have not outpaced the group's earnings from exports of goods and services. (See Chart 12.) Indeed, the overall debt/export ratio was only very slightly higher in 1981 than in 1979 and remained well below the 1978 level. Here again, however, marked differences among countries bar any complacent interpretation.

The first point to note in this context relates to the positions of the net oil exporters. Because of the sharp rise in the value of their exports in recent years, their average debt/export ratio was considerably lower in

Table 10. Non-Oil Developing Countries: Current Account Financing, 1973–81[1]

(In billions of U.S. dollars)

	1973	1974	1975	1976	1977	1978	1979	1980	1981
Current account deficit[2]	11.6	37.0	46.5	32.0	28.3	39.2	58.9	86.2	99.0
Financing through transactions that do not affect net debt positions	10.1	13.0[3]	11.8	12.0	14.9	17.2	23.0	24.1	26.3
Net unrequited transfers received by governments of non-oil developing countries	5.4	6.9[3]	7.1	7.4	8.3	8.2	10.9	12.3	12.9
SDR allocations, valuation adjustments, and gold monetization	0.4	0.7	–0.6	–0.2	1.3	2.1	2.8	1.8	–0.2
Direct investment flows, net	4.3	5.3	5.3	4.7	5.3	6.9	9.2	10.0	13.6
Net borrowing and use of reserves[4]	1.5	23.9[3]	34.7	20.1	13.4	22.0	35.9	62.1	72.7
Reduction of reserve assets (accumulation –)	–9.7	–2.4	1.9	–13.8	–12.4	–15.8	–12.4	–4.9	–1.6
Net external borrowing[5]	11.2	23.3[3]	32.9	31.2	25.8	37.8	48.4	67.1	74.3
Long-term borrowing	11.7	19.5[3]	26.6	27.9	26.5	35.3	37.9	45.5	55.8
From official sources	5.4	9.3[3]	11.4	10.8	12.6	14.2	15.4	20.5	20.2
From private sources	8.3	13.7	15.3	19.3	23.0	27.9	33.1	31.4	37.0
From financial institutions	*7.1*	*12.6*	*13.8*	*17.0*	*19.4*	*23.9*	*32.4*	*30.1*	*35.5*
From other lenders	*1.2*	*1.1*	*1.5*	*2.4*	*3.6*	*4.0*	*0.8*	*1.3*	*1.5*
Residual flows, net[6]	–2.0	–3.5	–0.1	–2.3	–9.2	–6.9	–10.6	–6.4	–1.4
Use of reserve-related credit facilities[7]	0.2	1.7	2.5	4.4	–0.1	0.5	–0.6	1.7	5.4
Other short-term borrowing, net	0.2	5.2	6.4	12.2	0.8	4.7	10.5	19.9	13.1
Residual errors and omissions[8]	–0.8	—	–2.7	–11.2	–1.1	–2.5	0.5		

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

[2] Net total of balances on goods, services, and private transfers, as defined in the Fund's *Balance of Payments Statistics* (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.

1981 than in 1979 (or in any other year since 1974). Among the net oil importers, the major exporters of manufactures experienced broadly parallel—but less pronounced—results. The other two subgroups of net oil importers, however, recorded rather substantial increases in their debt/export ratios. Moreover, it is worth noting that the median of the ratios in each of these subgroups rose faster than the weighted average (Chart 12), signifying that the latter was held down by relatively moderate reliance on additional external borrowing by some of the larger countries in the group. The typical experience of the considerable number of small oil importing countries that are not major exporters of manufactures appears to have been less favorable, insofar as the buildup of external debt is concerned, than the group averages would suggest.

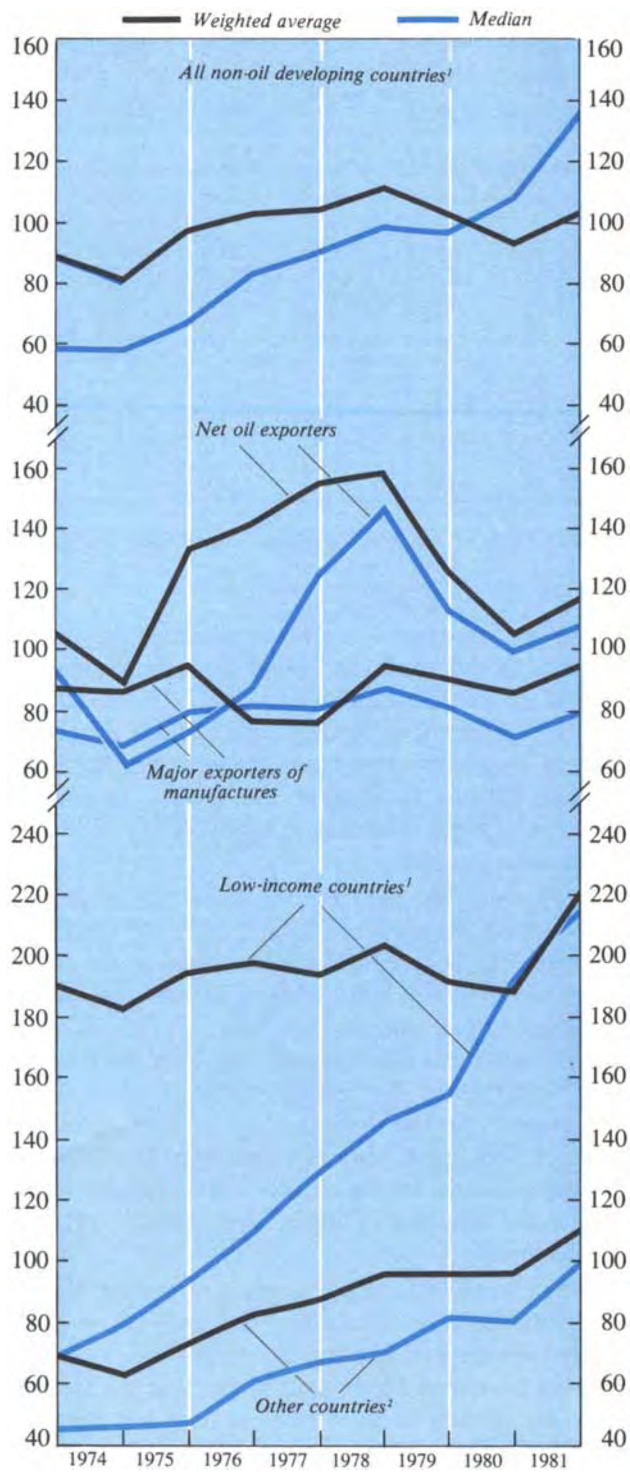
However, it should also be noted that the faster increase in median than in average debt/export ratios for the low-income countries and the "other" subgroup of net oil-importing developing countries has been in progress for a number of years, dating back at least to 1973. At that time, the median ratio was less than half of the average in the low-income subgroup and only about two thirds in the other subgroup. The medians were still lower than the averages in 1981, although only by a relatively narrow margin. The faster rise in the median ratios, from a starting point so much lower, may signify primarily the closing of a gap—that is, a gradual shift in the external payments structures of the smaller countries toward closer resemblance to those of larger countries that had embarked earlier on the path of externally assisted development.

These fairly marked differences in debt ratios among groups of countries do not, in general, translate into commensurate differences in debt service payments. While such payments are, of course, related to the size of the outstanding debt, they are even more dependent upon the particular maturity structure and creditor composition of that debt. For example, as mentioned above, the debt of the low-income countries is heavily weighted toward long-term official loans at concessional rates. As a result, although having the highest debt ratio of the four analytical subgroups of non-oil developing countries, the low-income countries also tend to have the lowest debt service ratio.

However, for this subgroup, as well as for other

Chart 12. Non-Oil Developing Countries: Ratios of Long-Term External Debt to Exports of Goods and Services, 1973–81

(In per cent)



[1] Excluding the People's Republic of China.

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

developing countries, debt service payments have been rising rapidly because of the sharp increase in international interest rates (which roughly doubled from 1978 to 1981) and the rapid escalation of outstanding long-term debt (Table 11). These factors have been reinforced by others, notably refinancing operations, which tend to boost amortization ratios, and a shortening of the maturity structure. As a result, debt service payments in relation to exports of goods and services have risen sharply, from 14 per cent in 1975–77 to 18 per cent in 1979 and 21 per cent in 1981 for non-oil developing countries as a group. (See Chart 13.)

Policy Issues

After reviewing the world economic situation during 1980 and the first half of 1981, last year's Annual Report singled out two basic problems that had to be tackled during the early 1980s. One was "stagflation" in the industrial countries—the prolonged disappointing performance of these countries with respect to both economic growth and price stability. The other problem area noted was that of balance of payments adjustment and financing.

These problems continue to preoccupy both national authorities and, more generally, the international community. The situation of the world economy has not changed greatly over the past 12 months, and much of what was said a year ago is still highly relevant. Yet, developments since then have, in certain respects, cast a different light on current problems and on some aspects of policy.

Stagflation in the industrial world.—It is well to recall that the widespread problems of high inflation, slow growth, and high unemployment in the industrial countries were built up during the 1960s and 1970s. They stemmed from a variety of long-term developments that have led to a marked increase in the degree of rigidity and inflexibility in the economies of many industrial countries; they also have led to a buildup of inflationary expectations, and otherwise have 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 it has to be multipronged. This fundamental point was discussed in the 1981 Annual Report, which —while observing that policies would have to differ among countries, in order to take account of their respective economic situations and objectives—set forth a needed general approach comprising several crucial elements. Of basic significance is the control of aggregate nominal demand, which is essential for the purpose

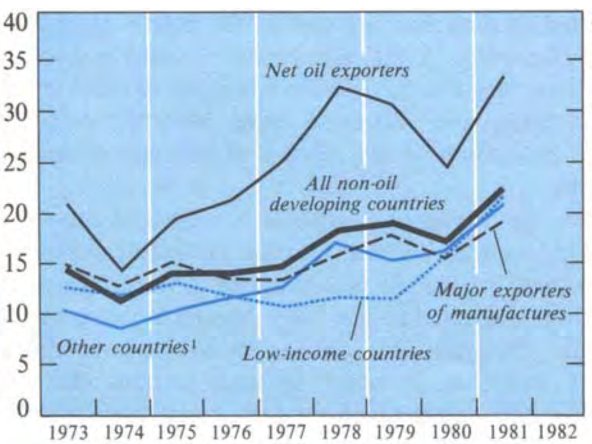
Table 11. Non-Oil Developing Countries: Long-Term External Debt, 1973–81[1]
(In billions of U.S. dollars)

	1973	1974	1975	1976	1977	1978	1979	1980	1981
Total outstanding debt of non-oil developing countries	96.8	120.1	146.8	181.4	221.8	276.4	324.4	375.4	436.9
By type of creditor									
Official creditors	48.3	58.2	67.9	82.2	98.2	117.4	133.3	155.5	175.6
Governments	35.7	42.6	48.5	57.5	67.4	79.6	88.9	102.1	114.3
International institutions	12.6	15.7	19.4	24.7	30.8	37.8	44.5	53.4	61.4
Private creditors	48.5	61.8	78.9	99.2	123.6	159.0	191.1	220.0	261.4
Unguaranteed debt	20.6	25.3	31.5	38.7	44.0	52.4	58.6	68.8	84.8
Guaranteed debt	27.9	36.5	47.4	60.5	79.6	106.6	132.5	151.2	176.5
Financial institutions	14.0	22.8	31.2	41.9	57.5	75.4	101.9	117.4	138.8
Other private creditors	13.9	13.8	16.2	18.6	22.1	31.2	30.6	33.8	37.7
By analytical group									
Net oil exporters	15.6	20.7	31.0	39.3	51.0	61.4	68.9	78.0	90.6
Net oil importers	81.2	99.4	115.8	142.0	170.8	214.9	255.6	297.4	346.3
Major exporters of manufactures	38.3	47.0	55.8	68.9	82.7	108.4	128.3	143.4	169.1
Low-income countries	21.6	25.8	29.1	34.3	40.7	47.3	53.4	62.3	70.6
Other net oil importers	21.3	26.6	30.9	38.9	47.4	59.2	73.8	91.7	106.6
By area									
Africa	13.1	15.9	19.9	24.2	31.7	38.7	44.7	49.2	56.0
Asia	27.0	31.5	36.7	43.9	53.0	62.9	71.6	85.6	102.8
Europe	11.6	14.0	16.2	20.8	25.4	33.5	44.0	54.2	60.2
Middle East	8.5	10.1	13.1	16.0	20.3	24.6	28.3	32.9	36.7
Western Hemisphere	36.6	48.5	60.9	76.5	91.4	116.7	135.8	153.4	181.2

Sources: World Bank Debtor Reporting System; and Fund staff estimates.
[1] Excludes data for the People's Republic of China prior to 1977. For classification of countries in groups shown here, see Table 2.

of reducing inflation and breaking inflationary expectations and thus providing an economic environment conducive to the revival of private investment and the restoration of sustainable economic growth. Also important are various types of supporting or supplementary measures, intended essentially to produce a better split —than otherwise would occur—of the change in nominal demand into its growth and price components.

Chart 13. Non-Oil Developing Countries: External Debt Service Payments, 1973–81
(In per cent of exports of goods and services)



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

Among such measures are those designed to improve efficiency in the goods and labor markets through the removal of existing rigidities, as well as measures to eliminate disincentives, and provide positive encouragement, to saving and investment. In addition, flexible or informal policies to restrain the growth of incomes can serve in some countries as useful adjuncts to fiscal and monetary policies.

In the event, the fight against stagflation in the past year—relying mainly on fiscal and monetary policies—has proved to be very difficult. In view of the deeply entrenched nature of this problem, general expectations regarding output and employment in the industrial countries over this short period may have been set too high. Nevertheless, the results in this area, as well as with respect to the behavior of interest rates and exchange rates, have been disappointing. The following discussion focuses briefly on two issues: the conduct of fiscal and monetary policies and rising levels of unemployment.

As noted earlier in this chapter, government expenditures—particularly on social programs—have grown rapidly over the period since the mid-1960s, while governments have found it difficult to increase tax revenues as rapidly, if only because rates of long-run economic growth were declining and external terms of trade were deteriorating. Large budget deficits have become a persistent factor, instead of merely a temporary phenomenon related to an economic recession.

This aspect of prevailing budget deficits has had two ramifications of particular relevance for monetary policy. First, private market participants have feared that the absorption of private saving by the government might keep real interest rates high for a number of years to come. Second, they have also feared that, under such circumstances, the deficits would sooner or later be monetized, so that inflationary expectations have remained high. Both types of market attitude have contributed to the rise in nominal and real interest rates and, therefore, to the negative impact of monetary restraint on output and employment. Not surprisingly, the harmful effects of large budget deficits have been especially pronounced in countries with low rates of private saving.

Large and persistent budget deficits may also contribute to inflation by gradually weakening the private sector. The competition for available funds between the government and the private sector may lead to a "crowding out" of private investment through high real interest rates. In the longer run, this effect reduces economic growth because it lowers capital formation and productivity growth in the private sector. Inflation then becomes even more difficult to control because the sustainable rate of growth of real wages is reduced and workers are not easily reconciled to such an outcome.

The emergence of a persistent budget deficit is the main issue concerning policies of the United States, which is generally recognized to have a serious fiscal problem. U.S. financial markets have become highly sensitive to this problem over the past year, and it is likely that the expected persistence of the deficit and the uncertainty concerning its prospective level have indirectly affected the credibility of monetary policy and, more generally, of the Government's commitment to bring down inflation, thus contributing to both the high level and variability of interest rates. The change in the policy mix of the United States that would result from adoption of measures aimed at avoiding a persistent deficit over the medium term, while the targets for monetary growth remained unchanged, would tend to reduce nominal and real interest rates and bring about a fundamental improvement in the conditions for sustained economic growth.

The fiscal problem is even more serious in countries such as Belgium, Denmark, Ireland, Italy, and Sweden, where budget deficits are a major hindrance to the effectiveness of monetary restraint because of the inflationary effects and the severe constraint the deficits place on investment and growth in the private sector. In France, also, there is room for concern that the prospective increase in the public sector deficit might sustain inflationary expectations and absorb a sizable share of domestic saving. In the Federal Republic of Germany, where there has been growing concern about the size and prospective growth of the budget deficit, the level of interest rates is partly attributable to the borrowing requirements of the public sector.

Another aspect of demand management policies in the industrial countries that has become a source of concern is the difficulty encountered by the monetary authorities in avoiding excessive variability in interest rates while still convincing private market participants that money growth rates are being reduced and will be maintained at low levels in the future. The credibility of the monetary authorities is a matter of key importance in view of the embedded strength of inflationary expectations, which are unlikely to moderate if it is thought that these authorities might become more accommodative.

There is no easy way to reconcile the need for credibility of policies to reduce money growth with the need for some stability in interest rates. Shocks of internal or external origin can shift the demand for money, causing changes in interest rates that are at least partly independent of policy actions, while recent and continuing structural changes in the financial systems and practices of various industrial countries are complicating the setting and implementation of targets for the growth of monetary aggregates. In such circumstances, notably in the United States, issues involved in the conduct of monetary policy are both difficult and controversial. Nevertheless, it is clear that in the present economic and financial environment doubts should be resolved on the side of steadfastness in restraining the rates of expansion of money and credit. With such steadfastness, there is reason to expect that future aberrations of interest rates from desired levels will be limited and temporary; without it, progress toward greater price stability and ultimate achievement of sustainable economic growth at a satisfactory pace would be jeopardized.

While an improvement in the conduct and efficacy of demand management policies would contribute to a reduction in unemployment, it is important to recognize that the serious problem of unemployment in industrial countries has deeper roots. As noted above, unemployment in these countries has been rising since the mid-1960s, with only brief interruptions during periods of economic upswing. The recent policy of restraining the growth of nominal demand in order to fight inflation has temporarily contributed to the rise in unemployment; but, in view of its secular trend, unemployment is likely to remain a problem in the future even with inflation brought under control, unless measures have been adopted to deal with its fundamental causes.

It would be a mistake for national authorities to try to bring down unemployment through resort to expansionary monetary and fiscal policies or to protectionism;

such resort would impair the anti-inflation stance of policy and ratchet the economy to an even higher rate of inflation that, in due course, would lead to a still more costly process of adjustment in terms of unemployment. Another approach to avoid is the adoption of compulsory work-sharing measures, such as a reduction in hours of work. Such measures are generally inflationary, and they also tend to increase rigidities in labor markets and to reduce the efficiency of use of fixed capital equipment.

Reversing the secular rise in unemployment will be difficult, if only because many social and political factors are directly involved. At the same time, there is no doubt that the problem urgently requires greater attention on the part of national authorities. Priority should be given to a reduction of rigidities that contribute to inflexibility in the average cost of labor and in the structure of wage rates. Rigidities with respect to the average cost of labor are particularly detrimental at this time because of the sharp decline in the share of gross profits in national income that took place in many countries, especially in Europe, during the 1970s. This decline has contributed to a reduction in the overall rate of capital formation, a focus on labor-saving rather than capacity-expanding investment, and a shift toward lower rates of capacity utilization. All these effects have contributed to a decline in the demand for labor.

The degree of inflexibility in the structure of wage rates also is particularly detrimental at the present time because of the magnitude of structural economic changes that have been taking place in recent years. Both the large increase in the real price of energy and the development of the newly industrializing countries' comparative advantage in many traditional manufacturing activities have affected all industrial countries. Other factors, such as the development of North Sea oil, have affected specific countries. These structural changes require workers to switch from the activities for which they were trained to activities that are new to them. In many cases, labor practices and minimum wage laws prevent potential employers from hiring these workers in need of retraining at a wage rate corresponding to the productivity that they would initially have in their new activities. Ultimately, it may be necessary to move toward labor market mechanisms that allow for greater flexibility of the structure of real wage rates among firms and sectors. In this context, a noteworthy feature of the Japanese system is having a large share of labor earnings in the form of bonuses linked to the profitability of each firm.

To reverse the secular rise in unemployment, it may also be necessary to make sure that incentives for seeking employment are adequate. Unemployment benefit levels have tended to increase and to apply to a larger share of the labor force in recent years. While this is a welcome development from a social standpoint, benefit levels that are too high and that have to be financed from general public funds can both unduly prolong the period without employment and contribute to the budget deficit or the tax burden. The problem is often exacerbated by certain characteristics of the tax system that discriminate against earned income. While real unemployment benefits not subject to income tax have tended to rise over the past 15 years, the tax threshold on real earned income has tended to decline. This has led to large increases in the implicit marginal tax rate resulting from taking a registered job.

Global payments imbalances.—As discussed earlier, there has been a major shift in the global pattern of external current account positions over the past year, with the imbalance in positions between oil exporting and oil importing countries declining much more rapidly than had been generally expected. But other important problems of external adjustment remain. Not surprisingly, most of the counterpart to the decline in the current account surplus of oil exporting countries has been reflected in a decline in the current account deficit of the major industrial countries as a group, inasmuch as these countries are the principal oil importers. The weakness of the external positions of some of the smaller industrial countries and of many non-oil developing countries has remained unchanged.

Within the group of major industrial countries, as indicated above, current account balances have shown a marked divergence in movement during recent years. This divergence is symptomatic of a more basic situation, namely, a divergence in policies—and consequently in rates of inflation, interest rates, and competitive strength—that, in the past, has periodically led to volatility of exchange rates and unsettled market conditions. The need for better economic policies in the major industrial countries is just as clearcut for external reasons as it is for the purpose of overcoming stagflation.

The need for firm adjustment policies in some of the smaller industrial countries is, if anything, more pronounced this year than last, as the external adjustment difficulties of these countries are having increasingly adverse effects on their volume of exports and on their levels of economic activity and unemployment. As discussed in the 1981 Annual Report, domestic developments are to a large extent responsible for these external difficulties. Most of the smaller industrial countries experienced a sharp decline in the share of national income going to profits during the 1970s, particularly in the manufacturing sectors that provide the bulk of export earnings. This has led to a gradual shrinkage of the manufacturing sectors and, in turn, to a reduction of market shares in both domestic and foreign markets, as well as to a gradual rise in unemployment rates. Attempts to reverse this process have so far been too weak to have much effect.

In the non-oil developing group, most countries have experienced another year of large current account deficits and further increases in debt service ratios. Financing difficulties have become apparent in a number of cases. The major problem facing these countries is how to achieve the required external adjustment and, at the same time, to make progress toward restoration of adequate growth rates.

The experiences of the non-oil developing countries in responding to external difficulties of the past few years have been quite mixed. Differences in this respect have been related in part to factors such as the degree of dependence on imported oil and the commodity structure of exports, but the nature of the domestic policies pursued has also had an important influence. Recent experience has shown that countries which have been relatively successful in adjusting have placed emphasis on maintaining and improving the competitiveness of the traded goods sector by means of an appropriate structure of price incentives throughout the economy; these policies are discussed in more detail in Chapter 2. Nevertheless, for many countries, especially low-income countries with a narrow range of exportable products, the process of adjustment is a long and difficult one, requiring substantial external financing.

It is clear that successful pursuit of "outward-oriented" policies requires the support of complementary demand management measures. However, the unduly expansionary policies pursued in many non-oil developing countries, and the high inflation rates that have resulted, have prevented improvement in the external sector. While, in principle, the structure of relative prices and the allocative efficiency of the economy are independent of inflation, in practice this is not the case. Countries that have had a more satisfactory experience with regard to inflation have, in general, been better able to manage their economies so as to maintain a competitive external sector. By contrast, the political and social repercussions often associated with the impact of exchange rate changes on the prices of consumer goods and other essential commodities have tended to prevent countries with relatively high inflation rates from adjusting their exchange rates sufficiently.

Large fiscal deficits in non-oil developing countries have been a principal obstacle to maintaining an appropriate level of aggregate demand. Such deficits may also have undesirable effects on the supply side of the economy. To the extent that they reflect measures to shelter certain industries or social groups from adverse developments that are not expected to be quickly reversed, they may hinder the needed reallocation of resources. Furthermore, as discussed in the context of the industrial countries, the financing of these deficits often results in reduced real credit availability to the private sector, affecting the financing of both production and investment.

There is much that the developing countries can do on their own behalf in countering the adverse developments of recent years. However, the continuation of the unfavorable external environment and the time lags involved before policy measures take effect mean that an exceptionally high level of external financing will be required for some years.

The outlook for financing on concessional terms, unfortunately, continues to be weak. For one thing, there is a risk that the sudden sharp reduction in the current account surplus of oil exporting countries may affect their disbursements of loans and grants to non-oil developing countries. Also, on the basis of experience to date, the prospects for any sizable increase in the flow of development assistance from the industrial countries are far from bright.

In addition, concern has again recently been expressed as to whether capital adequacy considerations may be a constraint on bank lending. This capital adequacy constraint, although perhaps an inhibiting factor in lending by some banks, would not seem to be in the aggregate a major impediment to international lending in 1982. At present, international banks appear to be willing to expand their international assets at a rate close to that of 1981. However, banks are becoming more selective in their lending policies, and there is increased focus on economic policies and conditions in individual countries. Indeed, there is indication that the number of countries viewed by banks as "problem" countries has been growing, a situation reflected in the large number of Fund members known to have payments arrears at the end of 1981. In addition, concern about exposure concentration may inhibit bank lending to a few of the largest borrowers. These considerations suggest that demonstration of willingness to adopt appropriate adjustment policies may be an important prerequisite for continued availability of substantial financing on an individual country basis.

The discussion of external financing and indebtedness thus far has focused upon the non-oil developing countries as a group. However, this aggregation conceals differences in the experiences and prospects of different subgroups among these countries. In particular, the position of the low-income countries and of the "other" net oil importers (comprising middle-income countries exporting mainly primary products) is a major source of concern. These countries experienced a sharp increase in their real debt service burden in 1980–81.

Furthermore, many of them have only limited access to the international financial market and face serious constraints because of the slow growth of foreign aid and concessional lending. While adjustment policies of the types outlined above and in Chapter 2 are urgently needed in these countries, in the short run much will depend on renewed expansion, and increased openness, of the relevant markets in the industrial world. In the medium term, these developing countries must aim for a more diversified structure of production and exports. The speed with which such diversification policies bear fruit will depend crucially on the openness of industrial country markets.

With respect to the oil exporting countries, review of the results of development efforts in the 1970s has prompted a reorientation of the domestic economic policies pursued by a number of these countries. Even before the recent weakening of oil markets, most of these countries had been following fairly cautious demand management policies, and the problem of domestic inflation has been considerably reduced from that of the mid-1970s. As noted earlier, the declines in export earnings stemming from the recent world oil market developments have led to more restrained domestic policies in several countries. In some oil exporting countries, investment priorities are shifting toward projects that are more directly productive. Capital-intensive industries based on petroleum resources may be appropriate for those countries that have large petroleum reserves relative to current production, as well as relatively small populations. For others, increased emphasis is being given to the development of agriculture and manufacturing, and this approach appears generally suitable to their circumstances.

* * * * *

The foregoing review of world economic developments demonstrates that member governments continue to face difficult economic problems. Dealing with these problems will require not only the courageous pursuit of sound policies of adjustment at the national level but also the exercise of strong international cooperation. One form of such cooperation is support for the adjustment policies of non-oil developing countries through provision of concessional assistance to them and avoidance of trade restrictions on their products. Another form of international cooperation is the support of member countries for the Fund in its continuing endeavors to adapt its policies and facilities in the light of changing circumstances so as to play an important role in promoting and assisting balance of payments adjustment.

Chapter 2
Developments in the International Monetary System

Two aspects of the international monetary system are examined in this chapter. The first part of the chapter deals with exchange rate arrangements and exchange market policies of members and concludes with a section on the Fund's recent experience with surveillance over members' exchange rate policies. The second part of the chapter, concerned with international liquidity and reserves, describes recent developments in the level, composition, and distribution of international reserves, as well as the role of international credit markets in balance of payments financing. The chapter ends with a review of the provision of conditional and unconditional liquidity by the Fund.

Exchange Rates and Surveillance

Movements in effective exchange rates of industrial countries during 1981 and the early part of 1982 chiefly reflected large changes vis-à-vis the U.S. dollar, but movements in other bilateral rates (for example, between the EMS currencies on the one hand and the Japanese yen and pound sterling on the other) were also quite substantial.[1] As these changes were often unrelated, or even opposite, to concurrent differences in inflation rates, they altered competitive positions among industrial countries and affected both domestic price levels and the management of domestic demand. There was also considerable exchange rate volatility, with frequent day-to-day changes in exchange rates in excess of 1 per cent and quarter-to-quarter changes in excess of 5 per cent. This tendency toward longer swings in exchange rates lasting as long as two or three years, accompanied by considerable shorter-term volatility, has been observed since the beginning of widespread floating in March 1973.

Even with the advantage of hindsight, it is not an easy task to identify the primary factors that have been responsible for these movements in exchange rates and to assess the extent to which the movements may have been justified by changes in underlying economic and financial conditions. Recent Annual Reports have discussed the roles that differential movements in inflation rates, interest rates, and current account positions play in producing changes in exchange rates, but, as pointed out in Chapter 1, the broad swings in exchange rates cannot be explained completely by reference to these factors. The difficulty of identifying and measuring the relative contributions of various factors to exchange rate movements has added to the complexity of policy formulation in industrial countries.

Developing countries have also been adversely affected by the variability of exchange rates. In particular, swings in exchange rates among industrial countries have increased the difficulty of devising and implementing satisfactory exchange rate policies in developing countries. A further problem that is relevant to some developing countries—as indeed also to some industrial countries—is the tendency to delay exchange rate changes that are needed to offset differences in inflation rates and other factors having persistent effects on the balance of payments.

The problems faced by industrial and developing countries are discussed separately in the following two sections, although many of the issues in this part of the chapter are relevant to both groups. The analysis takes into account the wide diversity that exists in the economic conditions of countries within each group.

Industrial Countries

After assessing the cost of exchange rate volatility and longer-run exchange rate swings, the following analysis

[1] See also Chapter 1, pages 23–27.

considers the role that various economic policies might play in the search for less exchange rate variability among industrial countries.

Costs of Exchange Rate Variability

The continued tendency for the exchange rates of major currencies to be volatile is illustrated in Chart 14, which depicts daily changes in the ten bilateral exchange rates between the French franc, the Japanese yen, the deutsche mark, the pound sterling, and the U.S. dollar. The bilateral exchange rates shown in the chart have a similar pattern of movement; the day-to-day changes were rather large during the first three or four years of the floating rate period and became quite large again recently. For most of these bilateral exchange rates, the average daily changes have been larger during 1981 than during any year of the past decade but have declined moderately during the first half of 1982. This day-to-day variability was particularly high for exchange rates vis-à-vis the U.S. dollar and the Japanese yen. The evidence with respect to changes in exchange rates from quarter to quarter is similar; volatility from quarter to quarter has been particularly high over the past year and a half, especially for U.S. dollar and yen exchange rates.

Evaluation of the cost of exchange rate volatility is a difficult and controversial exercise. Much of the discussion of volatility has focused on the potential implications for the profitability of international trade. In particular, exchange rate volatility is likely to increase the riskiness of uncovered foreign currency transactions and may raise the cost of obtaining forward cover.

When exchange rates are relatively variable in the short run, the differences between forward exchange rates and future spot rates tend to be amplified, as is shown in Chart 15. In other words, the forward exchange rate for a particular date becomes less accurate as a predictor of the actual spot rate on that date. All of the European currencies presented in the chart experienced greater day-to-day fluctuations in exchange rates vis-à-vis the U.S. dollar during 1981 than during either of the preceding two years, although the fluctuations in the Swiss franc were not unusually large in relation to the experience of 1978. In the forward exchange markets for the European currencies, the failure of 3-month forward exchange rates to predict spot rates at the maturity of the forward contract was also greater in 1981 than in any of the three preceding years. In contrast, exchange rate variability was roughly constant for the Canadian dollar and the Japanese yen—though relatively larger for the yen than for the Canadian dollar—while the prediction errors in those forward markets were steady or declining.

Differences between forward exchange rates and the subsequently observed spot rates for corresponding dates are important because they indicate the degree of risk present in the exchange market. Higher risk leads participants in international trade to increase the proportion of their trade contracts that is to be hedged. By itself, this effect increases the cost of entering into foreign trade. In addition, the cost of hedging a given contract in the forward exchange market may also increase as a result of the increase in risk. This view is supported by developments in the cost of hedging in the New York market as measured by the bid-offered spreads for the 3-month and 12-month forward exchange rates of seven major industrial countries against the U.S. dollar for the period from the beginning of 1974 to the end of 1981 (Chart 16). For most European countries and Japan, bid-offered spreads declined from the high level of 1974 to a low point late in the 1970s. Thereafter they rose sharply, and for 1981 they were again as high as in 1974, and some were even higher. This suggests that the cost of undertaking hedging transactions in the forward market, which declined in the mid-1970s, has again risen sharply since 1979.

A widespread increase in exchange market risks or in the cost of foreign exchange transactions generally is by itself a cause for concern. It has been difficult, however, to assess the effect of changes in these costs on the volume of international trade. Econometric studies, including some by the Fund staff, that have attempted to measure the direct and indirect effects of exchange rate volatility on international trade have yielded inconclusive results. The evidence from surveys, on the other hand, indicates an effect that is distinct, though probably not large. Whether the most recent episode of volatility has been sufficiently important to generate larger effects is a subject of ongoing study.

The longer-term variability of exchange rates raises a quite different set of issues, related to the extent to which movements in nominal exchange rates reflect shifts in underlying economic conditions. All of the major currencies have experienced very substantial longer-term movements throughout the period of floating rates (Chart 17). Some of these movements have later been reversed. Real exchange rates, that is, exchange rates adjusted for changes in relative costs and prices, also have been highly variable (Chart 18) and have, moreover, at times moved in the opposite direction from that which would have been required to stabilize or adjust current account balances. While the precise measurement of real exchange rates depends on the choice of cost or price deflator, it is clear that their movements have on occasion created substantial problems in the real sectors of the industrial economies, making international adjustment more complicated.

The lack of a close correspondence between changes

Chart 14. Short-Run Variability in Bilateral Exchange Rates for Five Major Currencies, April 2, 1973–June 30, 1982

(Daily percentage changes)

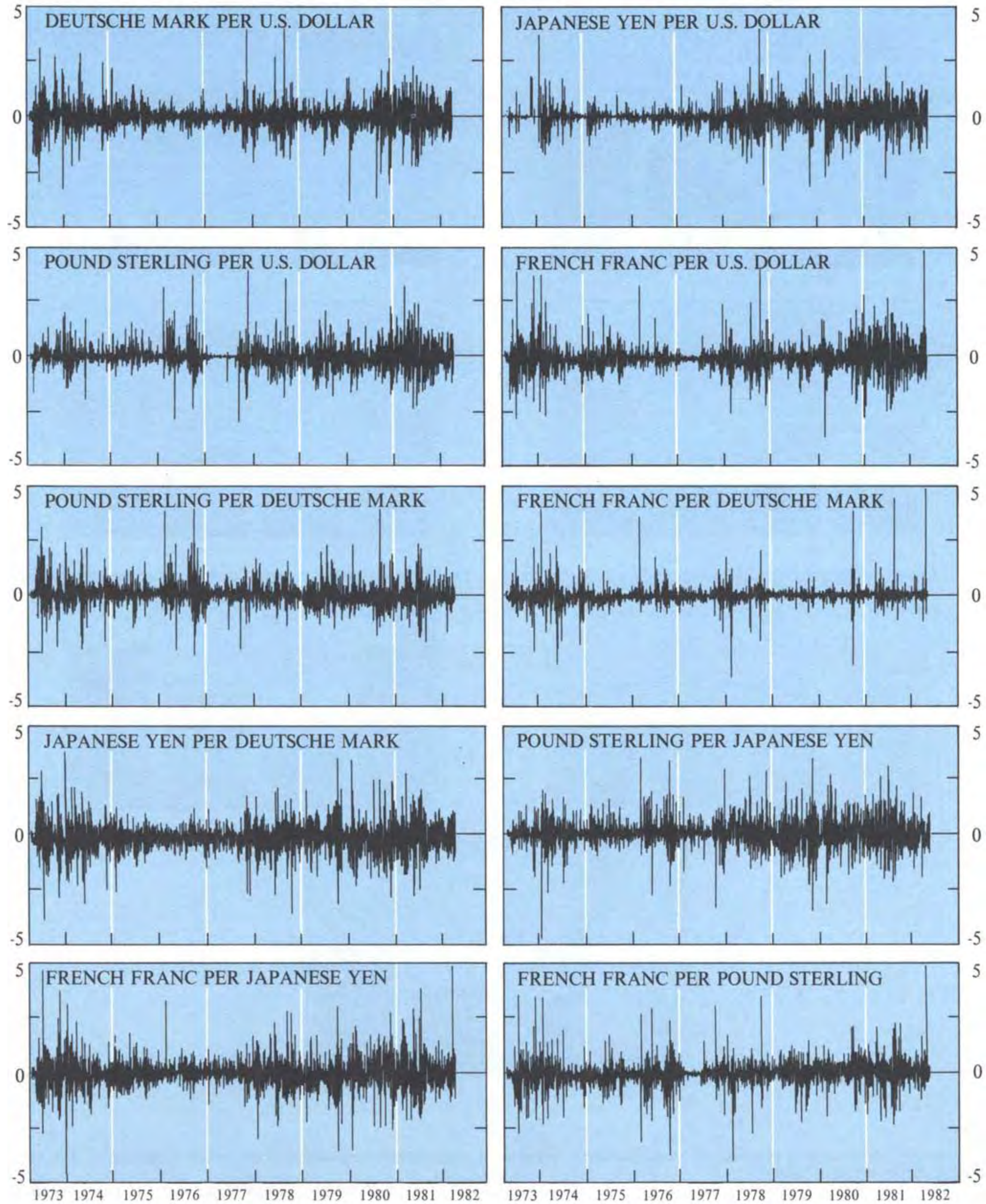
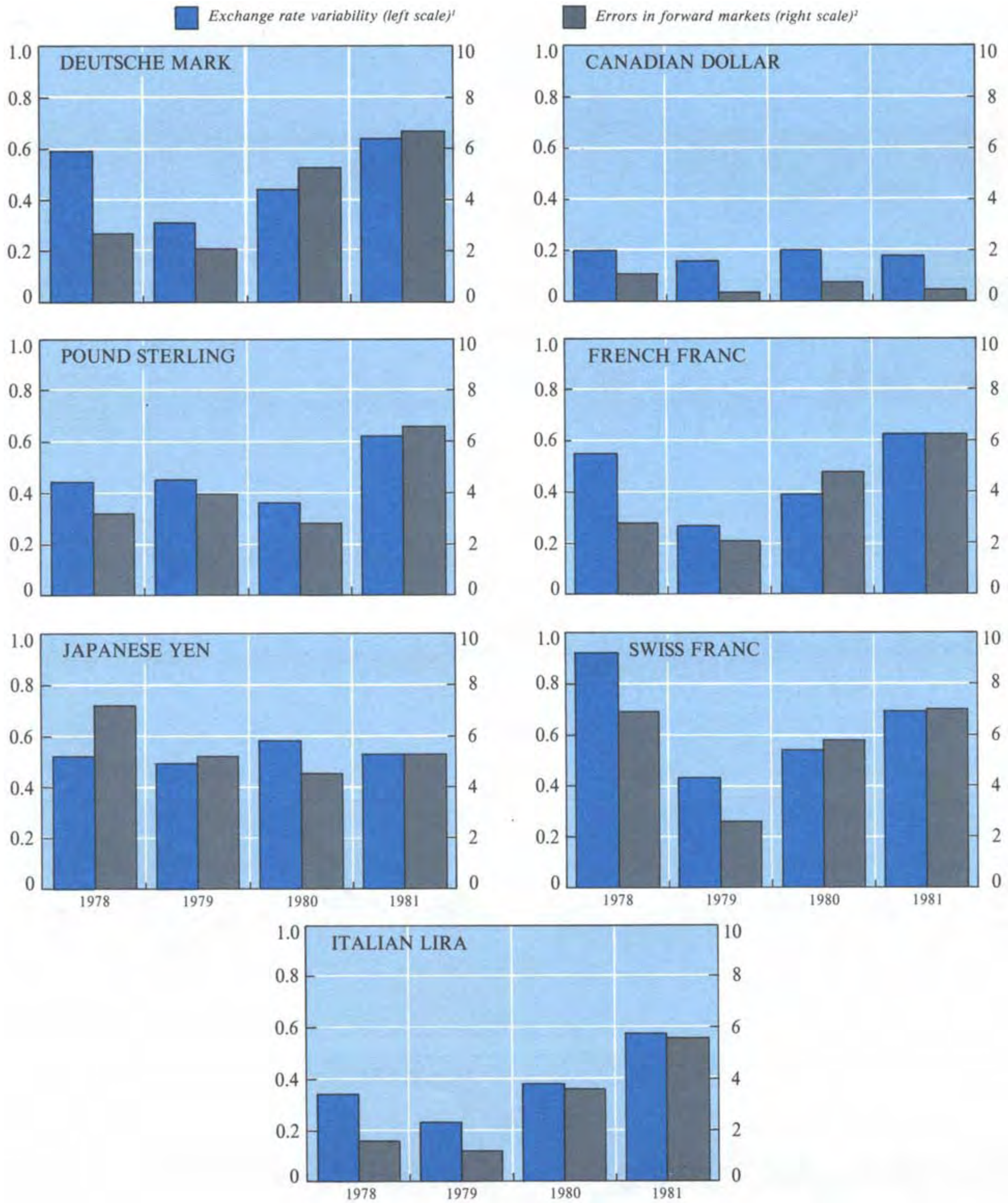


Chart 15. Indicators of Risk in Exchange Markets, 1978–81
(In per cent)



[1] Exchange rate variability is measured as the standard deviation of daily percentage changes in the spot exchange rate, expressed in U.S. dollars per currency unit.
[2] Errors in forward markets are measured as the standard deviation of daily percentage differences between the three-month forward exchange rate and the spot exchange rate three months later.

in local currency production costs and movements in nominal exchange rates can be illustrated by the evolution of real effective exchange rates of the large industrial countries in recent years—notably, the real appreciation of the pound sterling during 1979 and 1980 and of the U.S. dollar during 1980 and 1981, as well as the real depreciation of the Japanese yen during 1979 and of the deutsche mark during 1980 and 1981. When changes in real exchange rates reflect temporary disturbances in financial asset markets, rather than major changes in international comparative advantage, they tend to be reversed before long. Such swings in real exchange rates may lead to unnecessary movements of labor and capital in and out of sectors producing tradable goods. Although little direct evidence is currently available on the costs of such swings in resource allocation, it seems likely that they have contributed to uncertainty about the profitability of various industries and may thereby have inhibited fixed capital formation, particularly in countries with a large foreign trade sector. In addition, because goods and labor markets are far from being perfectly efficient, such swings can contribute to wasteful investment and to unemployment.

Smooth and prompt adjustment of exchange rates is an essential element in the prevention of large balance of payments imbalances. As the relative cyclical positions of the industrial countries and other factors influencing foreign trade flows underwent major changes during the past two years, pressures arose on those countries' current account balances, as discussed in Chapter 1. An appreciation of real exchange rates for incipient surplus countries and a real depreciation for incipient deficit countries could have contributed to maintaining viable current account positions. In fact, however, the changes in exchange rates were often dominated by developments in financial markets and did not correspond to the need for current account adjustment. As a result, unsustainable current account imbalances could build up and then exert strong pressure on exchange rates. Once exchange rates start to move in response to large current account imbalances, they often enlarge these imbalances initially because they improve the terms of trade of surplus countries and worsen the terms of trade of deficit countries, while the volumes of foreign trade flows respond slowly to changes in price competitiveness, in part owing to the difficulty of identifying the underlying direction of exchange rate movements when exchange rates are highly volatile. This J-curve effect may, in turn, lead to further and excessive exchange rate changes, as has at times been observed in the 1970s.

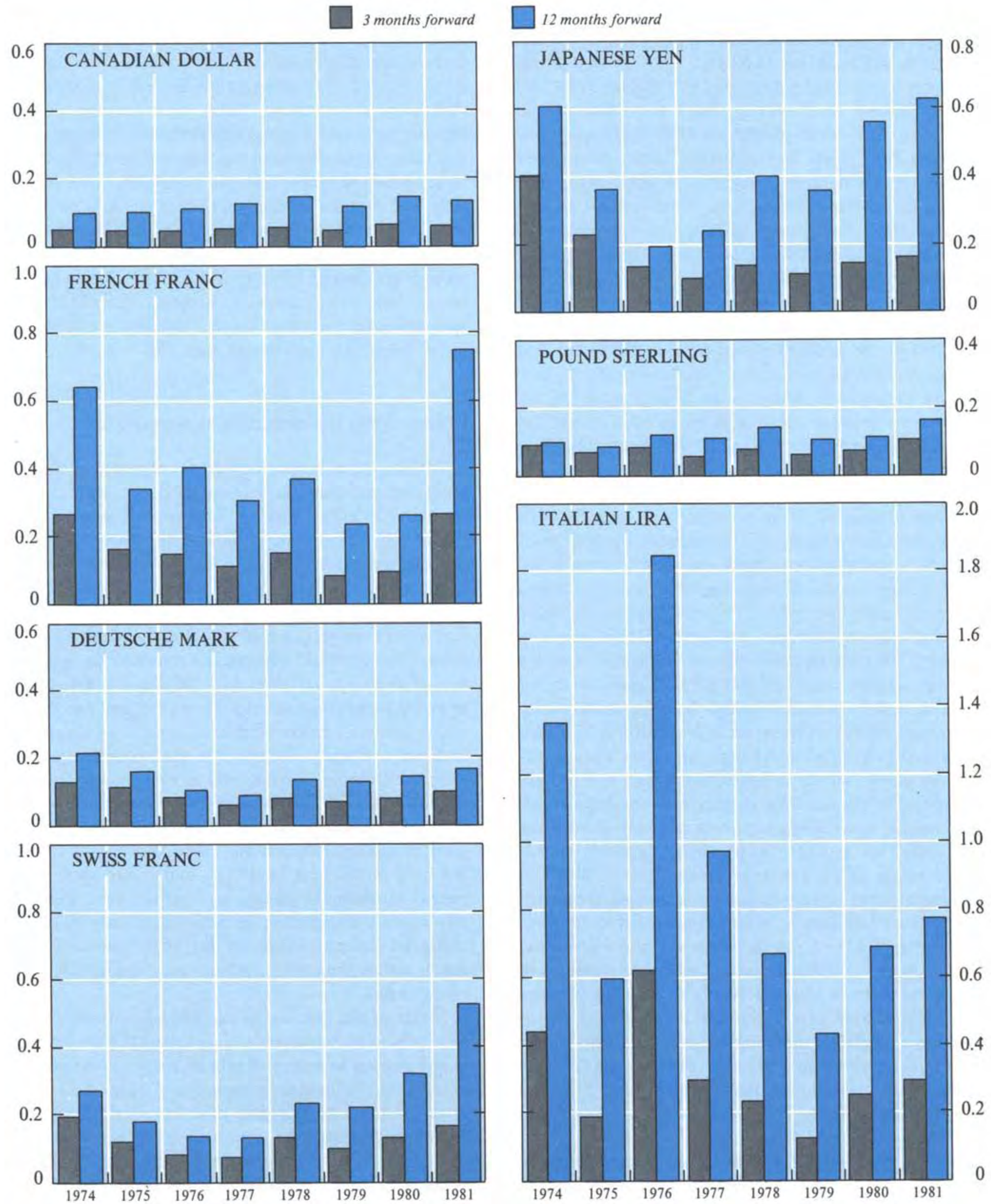
Another cost associated with swings in real exchange rates is that they tend to complicate the operation of demand management policies. Regardless of whether the authorities have a specific objective for the exchange rate, the effects of exchange rate movements on the domestic economy—including terms of trade effects and changes in real interest rates associated with capital flows—cannot be ignored. The authorities may have to choose between allowing their own interest rates to fluctuate along with those in other countries—maintaining stable interest rate differentials in order to reduce the variability of exchange rates—and keeping domestic interest rates stable while allowing the exchange rate to fluctuate. As discussed in last year's Annual Report, the relationship between changes in interest rate differentials and changes in exchange rates is far from simple. In a number of industrial countries, interest rate differentials and exchange rate changes were more variable on average during 1980 and 1981 than during the preceding two years; there is, however, no close correspondence between year-to-year changes in the variability of these two elements (Chart 19).

Policies that Influence Exchange Rates

Although the desirability of a reduction in the variability of exchange rates is not in doubt, there is much controversy as to how to achieve this goal. From a longer-run standpoint, it is widely accepted that, in order to have less variability in real exchange rates, it is necessary to achieve more stable underlying domestic economic and financial conditions, particularly a reduction in and convergence of actual and expected inflation rates. The increased importance attached to the reduction of domestic inflation and inflationary expectations in major industrial countries during the past two or three years, and the relative success that some of these countries have already achieved in that endeavor, is thus welcome from an international as well as from a domestic point of view. Nonetheless, the divergence of inflation rates remains quite large (Table 12); success in the struggle against inflation has come slowly and at different rates in different countries, and it has been accompanied by different effects on interest rates. Partly for this reason, the pursuit of anti-inflationary policies in industrial countries has so far been associated with more, rather than less, medium-term variability of exchange rates.

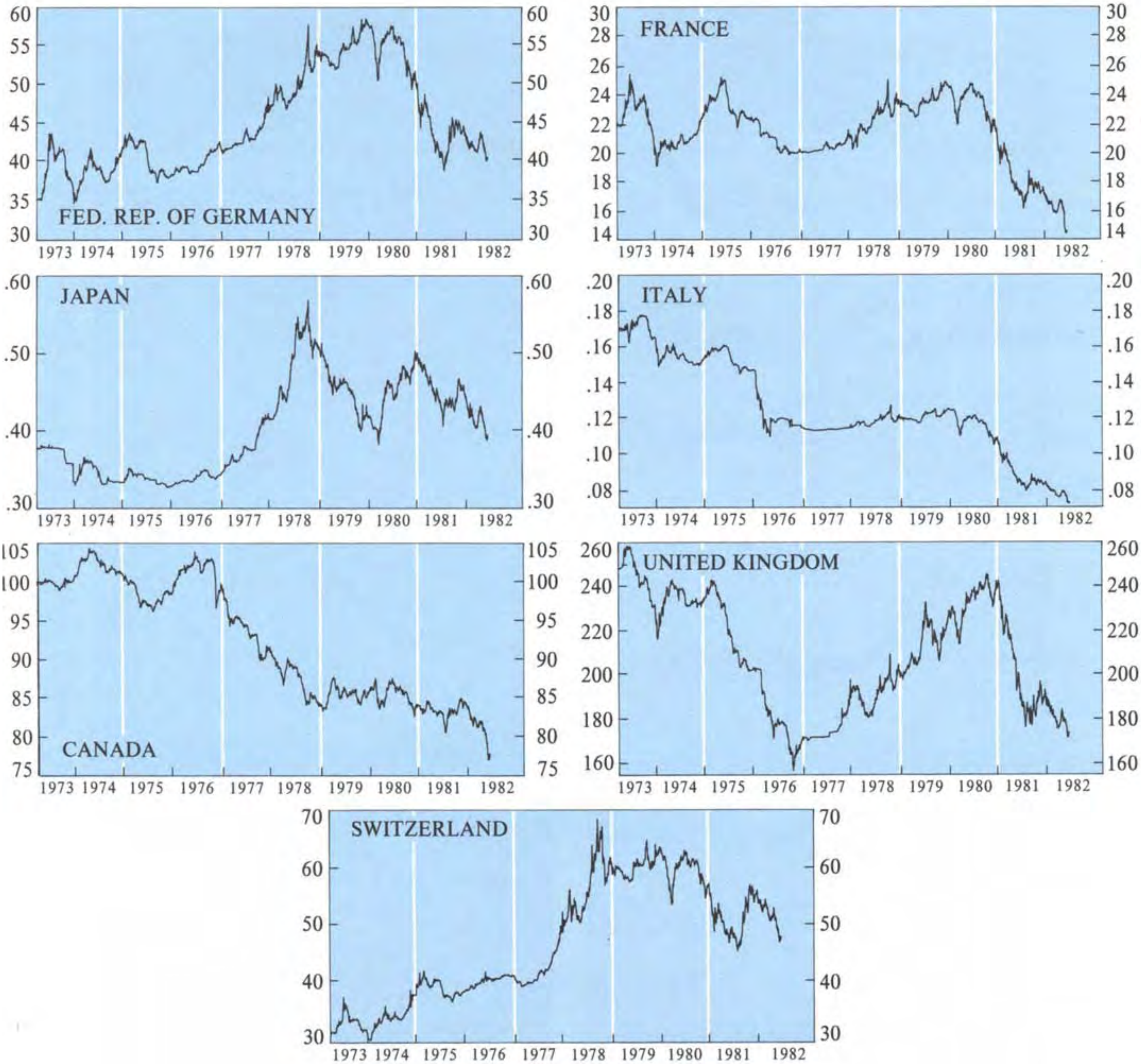
Much of the discussion of this transitional problem has focused on monetary policies, which have borne the major burden in recent efforts to reduce inflation. Most of the larger industrial countries have reduced the growth rates for both narrow and broad money stocks below those experienced, on average, in earlier years (Table 13). Given the presence of long lags in the effect of changes in monetary policy on prices and nominal income, real interest rates have moved up considerably. Obviously, the impact of monetary restraint on interest

Chart 16. Spreads Between Buying and Selling Rates in Forward Exchange Markets, 1974–81 [1]
(In per cent)



[1] Average daily rates (U.S. dollars per currency unit in the New York foreign exchange market).

Chart 17. Selected Industrial Countries: Exchange Rates, April 1, 1973–June 30, 1982[1]
(In U.S. cents per currency unit).



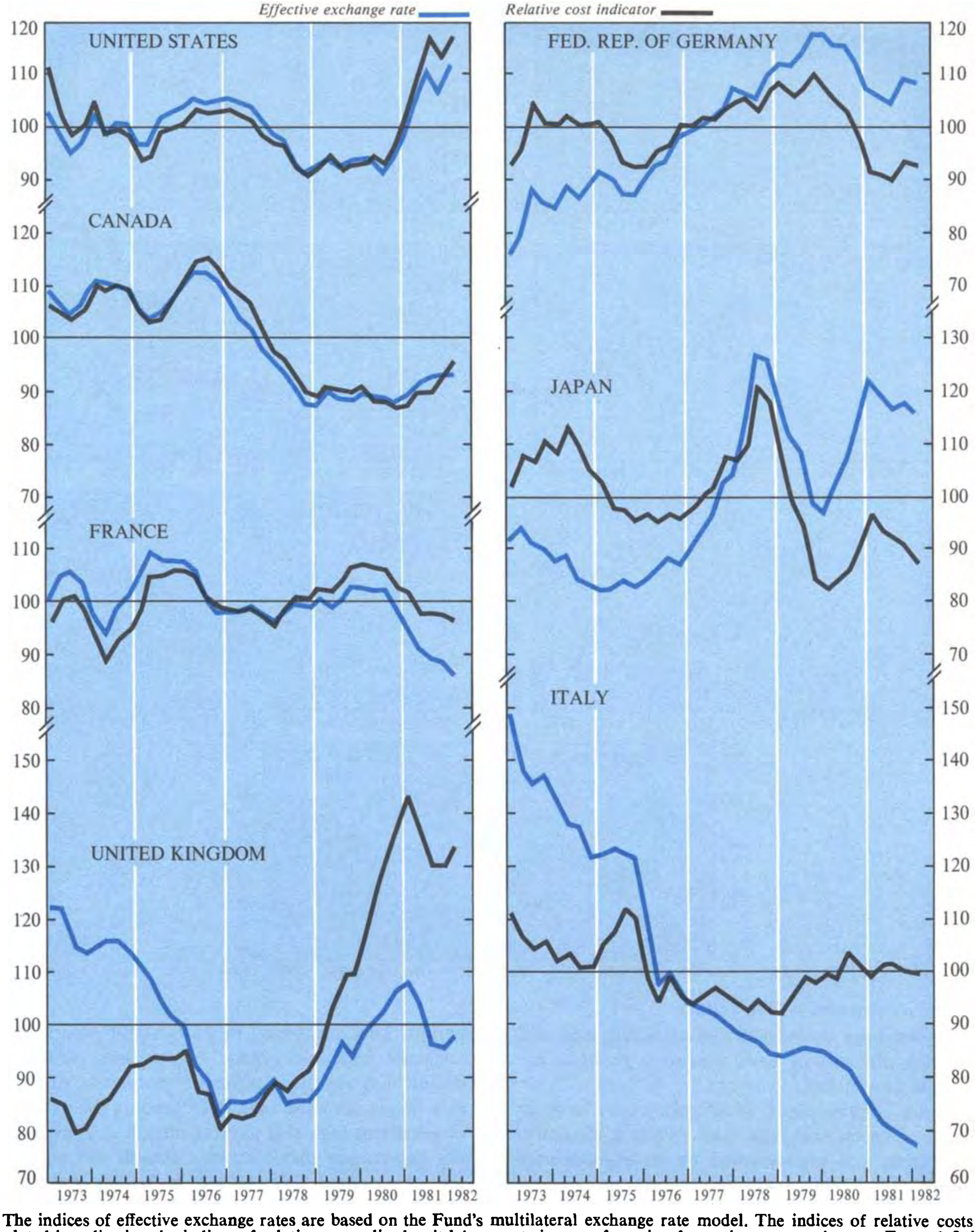
[1] Daily Noon quotations in New York.

rates has not been uniform across countries, and real interest rate differentials have tended to result in exchange rate movements.

In certain circumstances, fiscal policy may have an important effect on exchange rates. When a restrictive monetary stance is accompanied by an expansionary fiscal stance and by the expectation that this mix of policies will persist over the next few years, private market participants may reasonably come to expect that real interest rates are likely to remain high for an extended period. This effect may be particularly pronounced in countries with low private saving rates, where fiscal deficits may absorb a substantial proportion of the total flow of net domestic saving. In general, the expectation of persistent high real interest rates is accompanied by the expectation that economic growth will be low, so that the current balance will be strong and the rate of inflation will decline. Under present conditions of responsive international capital markets, these factors tend, in turn, to contribute to an appreciation of the

Chart 18. Major Industrial Countries: Effective Exchange Rates and International Cost Competitiveness, First Quarter 1973–First Quarter 1982 [1]

(Index, average for period shown = 100)



[1] The indices of effective exchange rates are based on the Fund's multilateral exchange rate model. The indices of relative costs are calculated by adjusting the indices of relative normalized unit labor costs in manufacturing for exchange rate changes. For a definition of normalized unit labor costs, see Chapter 1, page 25, footnote 3 to Table 9.

Table 12. Major Industrial Countries: Inflation Rates, 1977–81

(Change from fourth quarter of previous year, in per cent)

	1977	1978	1979	1980	1981
GNP deflators					
United States	6.1	8.5	8.0	9.8	8.9
Canada	6.1	6.7	11.9	9.8	11.1
France	9.1	10.0	10.1	10.9	10.5 [1]
Germany, Federal Republic of	4.0	3.5	4.0	5.1	4.6
Italy	15.9	13.7	17.3	19.8	15.0 [1]
Japan	5.4	4.0	1.7	4.3	2.3
United Kingdom	13.0	10.9	18.6	17.3	10.8
Mean	8.5	8.2	10.2	11.0	9.0
Standard deviation	4.4	3.7	6.3	5.8	4.3
Normalized unit labor costs in manufacturing					
United States	6.4	6.8	7.7	10.4	7.1
Canada	6.1	3.6	7.1	7.4	9.1
France	6.3	8.7	9.1	9.5	9.9
Germany, Federal Republic of	5.2	2.8	3.0	4.3	1.6
Italy	13.8	9.9	12.3	17.7	16.3
Japan	3.1	–3.0	–0.7	1.3	–0.1
United Kingdom	7.7	12.4	16.7	18.9	8.5
Mean	7.0	5.9	7.9	9.9	7.5
Standard deviation	3.4	5.2	5.7	6.5	5.5

Sources: International Monetary Fund, *International Financial Statistics;* United Kingdom, Central Statistical Office, *Economic Trends.*

[1] Third quarter 1981 over third quarter 1980 growth rate.

Table 13. Major Industrial Countries: Monetary Growth Rates, 1975–81

(Change from end of previous year, in per cent)

	Narrow Money [1]				Broad Money [1]			
	1975–78 [2]	1979	1980	1981	1975–78 [2]	1979	1980	1981 [3]
United Kingdom	16.3	9.1	3.9	9.1	12.0	12.5	18.5	17.9
Germany, Federal Republic of	9.7	3.2	3.9	–1.5	9.4	5.2	4.6	3.7
France	9.9	11.8	6.4	16.0	13.0	13.9	8.3	11.2
Italy	22.3	23.7	12.9	9.8	22.1	19.4	12.2	10.4
Canada	6.2	1.4	10.1	–2.8	16.7	17.7	9.5	19.9
Japan	11.3	3.0	–2.0	10.0	12.6	8.4	6.8	10.7
United States	7.4	8.0	5.3	5.0	8.6	8.0	7.6	6.5

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

[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.

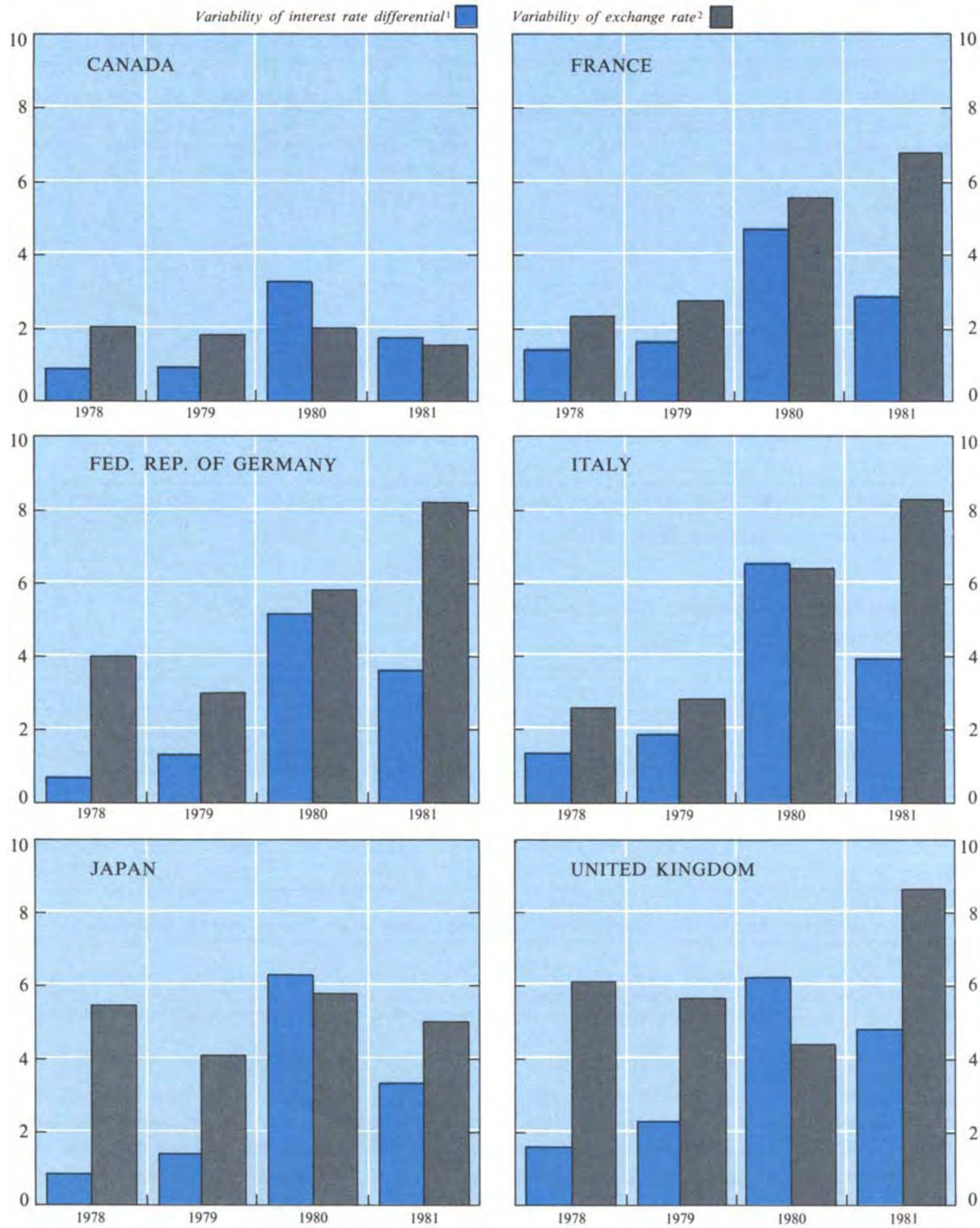
[2] Annual average rates.

[3] The figures for growth of broad money during 1981 are distorted for a number of countries. The high growth rate in Canada reflected the introduction of a new bank reporting system and the entry of new banks in line with recent changes in banking legislation. The low growth rates in Italy and the United States reflected disintermediation into treasury bills and money market mutual funds, respectively.

exchange rate in both nominal and real terms. In contrast, a large fiscal deficit that is accompanied by a lax monetary stance, or by the expectation that it will soon lead to a lax monetary stance, may tend to contribute to depreciation of the exchange rate in nominal and real terms as private market participants come to expect a rise in the inflation rate and a weakening of the current account balance. Nevertheless, the link between the fiscal deficit and the exchange rate is a complex one, and the tendency of an expansionary fiscal policy, combined with monetary restraint, to lead to an appreciation of the real exchange rate has not always been evident.

These considerations suggest that, on balance, the stability of exchange rates could be enhanced by a more balanced and coordinated mix of monetary and fiscal policies in industrial countries. This need for adjusting the mix of policies was recognized in the joint communiqué released at the end of the seven-nation economic summit held at Versailles in June 1982. The communiqué stressed that the nations concerned would,

Chart 19. Variability of Differentials Between Domestic and U.S. Interest Rates and of Exchange Rates Vis-à-Vis the U.S. Dollar, 1978–81
(In per cent)



Sources: International Monetary Fund, Treasurer's Department, and Board of Governors, U.S. Federal Reserve System.

[1] The variability of the interest rate differential is measured as the standard deviation of the daily series of three-month changes in the interest rate differential on assets of three months' maturity.

[2] Exchange rate variability is measured as the standard deviation of the daily series of three-month percentage changes in the exchange rate vis-à-vis the U.S. dollar.

as a matter of urgency, pursue prudent monetary policies and achieve greater control of budgetary deficits, while working toward a constructive and orderly evolution of the international monetary system by a closer cooperation in pursuing medium-term economic and monetary objectives.

In this context, it should also be recognized that various other policies may serve as important complements to changes in the monetary-fiscal mix. For example, as noted in Chapter 1, the adoption of some flexible form of incomes policy could serve in some countries as an adjunct to appropriate monetary and fiscal policies; to the extent that an incomes policy helped to smooth internal adjustment, it would also moderate the pressure on real exchange rates. In addition, structural rigidities in wage bargaining and price-setting mechanisms tend to limit the extent to which countries with pegged exchange rates can use exchange rate adjustment measures to restore international competitiveness, and may make national authorities more reluctant to adopt such measures. In these instances, successful efforts to reduce the degree of structural rigidity in goods and factor markets would serve to enhance the efficacy of exchange rate adjustments. In countries with more flexible exchange rates, the elimination of structural rigidities might help to reduce the degree of variability in the exchange market, since exchange rate variability is partly a consequence of relatively slow adjustment in the prices of both final goods and factors of production. Modification in the application of wage indexation schemes could be particularly helpful in this regard.

More generally, achievement of better medium-term stability and credibility of national economic policies would improve the international adjustment process in at least two ways. First, the existence of stabilizing capital flows that offset temporary movements in current account balances is essential for the proper functioning of the international monetary system, but capital flows cannot be expected to play a stabilizing role unless market participants have an informed view on the likely evolution of policies for at least a few quarters ahead. Second, only stable and credible policies can lead to the winding down of inflationary expectations that is a prerequisite for the reduction of inflation.

The emphasis in the conduct of monetary policy that is given to the achievement of preannounced monetary growth targets relative to other policy objectives may be associated with greater variability in exchange rates over periods of several months. A number of countries appear to have experienced significant shifts in the demand for money in recent years as a consequence of technological and regulatory developments. One such problem that may be particularly serious in its implications for exchange rate stability is the effect of currency substitution on the demand for money. In countries where residents are free to substitute assets denominated in foreign currencies for domestic money holdings, shifts in expectations about exchange rates or relative interest rates can affect the normal relationship between monetary aggregates and domestic nominal demand.

In some countries, the authorities could improve national economic performance by monitoring the effects of monetary policy on exchange rates, as well as on the money stock and domestic interest rates. However, there are dangers that must be avoided. First, a sustained monetary expansion for the purpose of resisting a sharp appreciation of the exchange rate could worsen inflationary expectations, threatening the stability of nominal wage demands. Perseverance in monetary restraint is a prerequisite for success in the fight against inflation in the longer run, although some consideration of the exchange rate may help the authorities to determine the appropriate degree of restraint in the short run. Another potential danger associated with domestic policy measures aimed at influencing exchange rates is that they may amplify the external effects of a major policy shift in one of the large industrial countries, as other countries seeking to avoid large exchange rate changes decide to shift their policies in the same direction. Such a "bandwagon" effect can be helpful when all countries are faced with similar external and domestic economic conditions, but it can be harmful when conditions differ. In sum, since all indicators contain elements of uncertainty and ambiguity, countries should seek to monitor the exchange rate as one among several indicators of monetary policy while ensuring that the broader goal of domestic monetary and economic stability is attained.

At present, national authorities differ substantially in their views as to the weight that should be placed on the exchange rate as a target or indicator for the conduct of domestic policies. These differences of view result in part from differences in circumstances. Many smaller countries with fairly open economies tend to view a stable exchange rate vis-à-vis the currency of a major country with a low inflation rate as a useful guide and anchor for the conduct of domestic policies. Some larger countries tend to place less weight on the exchange rate in implementing their economic policies, since the feedback from exchange rate changes to domestic prices is less pronounced than in smaller countries.

Developing Countries

Since 1979, the non-oil developing countries have faced an especially unfavorable external environment. Chapter 1 has already outlined the serious adjustment problems resulting from sluggish growth and trade protection in the industrial countries, high real interest rates, and adverse developments in the terms of trade. An additional feature of the international economy that has caused problems for developing countries has been the substantial variability of exchange rates among the major currencies. The following sections will discuss the extent to which exchange rate policies can be used, in conjunction with other measures, to deal with these problems.

Choice of Exchange Rate Regime

Fluctuations in exchange rates between the currencies of industrial countries can produce various difficulties for developing countries. Short-term variability in these rates can increase uncertainty and risk for importers and exporters, particularly when forward exchange facilities are inadequate. Longer-term fluctuations in these rates may generate uncertainty about the profitability of investment in traded goods sectors. Moreover, to the extent that a shift in exchange rates leads to a reallocation of resources, such a reallocation may be wasteful if the initial change in rates is subsequently reversed. Fluctuations in the domestic currency value of imports and exports can also cause difficulties for the management of government finances, for instance, because taxes on international trade are important sources of government revenue in many developing countries. Governments and other borrowing agencies have also been affected by the impact of exchange rate movements on the management and servicing of external debt. In addition, the monetary authorities can encounter problems in managing their foreign exchange reserves and intervention operations.

A country's choice of exchange rate regime determines the way in which exchange rate fluctuations among major currencies impinge upon its economy. Unless a country's export and import prices are all fixed in terms of a single foreign currency, pegging its own currency to a single currency implies that fluctuations in exchange rates will inevitably lead to variations in at least some import or export prices. For example, an oil importing country pegging its currency to the U.S. dollar may thereby avoid changes in the domestic currency price of oil imports, because oil prices are fixed in terms of the U.S. dollar, but exchange rate changes abroad may alter the domestic currency value of non-oil components of its foreign trade.

The difficulties experienced as a result of exchange rate fluctuations among major currencies have prompted considerable interest in exchange rate regimes that would shelter the economies of developing countries as much as possible from the effects of currency fluctuations. A number of countries have chosen to peg to a composite of currencies rather than to retain their traditional single currency pegs. Some countries appear to have chosen their currency baskets on broad considerations relating to the pattern and structure of their external trade and payments. Others have elected to peg to the SDR as a convenient way of approximating the importance of various major currencies in international transactions. Such pegs can help to reduce the impact of currency fluctuations on effective exchange rate indices, but the extent to which this is possible will depend on the similarity of the weights in the basket to which the currency is pegged and the weights used for the effective exchange rate index in question. In constructing effective exchange rate indices, attention may be focused on several economic variables as alternative targets, such as import prices, export competitiveness, or the trade balance; for each target variable a separate effective exchange rate index can be calculated. A currency basket that will work well in stabilizing a particular effective exchange rate index may work poorly with respect to others. Hence, a developing country cannot by its own choice of exchange rate regime completely avoid being affected by exchange rate variability among major currencies.

Developing countries are paying considerable attention to the choice of exchange regime, as indicated by the 55 changes in regime that have been notified to the Fund by these countries during the six years ended June 30, 1982. Table 14 shows the exchange regimes to which developing countries have adhered during this period.

Within the group of countries maintaining pegged arrangements, there has been a tendency away from single currency pegs toward adopting as a peg the SDR or some other currency composite. Many countries continue, however, to peg their currencies to a single currency. For countries with a large part of their international transactions conducted with a single major country or with countries that also peg their currencies to the currency of that major country, the additional degree of insulation against exchange rate fluctuations that could be provided by pegging to a suitable currency composite may be small and could be outweighed by the advantages of having the domestic currency fixed in terms of a major convertible currency. Decisions to retain a single currency peg may also be influenced by institutional or historical considerations. For example, the various benefits of membership in a currency union may be seen by its members as outweighing possible difficulties arising from a single currency peg and the inability to make discrete exchange rate adjustments on a unilateral basis. Such considerations lie behind the stability in the number of countries pegging their currencies to the French franc. On the other hand, there has been a movement away from pegging to the U.S. dollar, reflecting the high variability of exchange rates between the

Table 14. Developing Countries: Exchange Rate Arrangements, 1976–82 [1]
(Number of countries)

	1976	1977	1978	1979	1980	1981	1982
Pegged to single currency	67	67	62	61	58	56	56
U.S. dollar	46	44	41	41	40	38	38
French franc	13	14	14	14	14	14	13
Other currency	8	9	7	6	4	4	5
Of which,							
pound sterling	*3*	*4*	*4*	*3*	*1*	*1*	*1*
Pegged to composite	25	26	28	27	32	32	34
SDR	11	12	15	13	15	14	15
Other composite	14	14	13	14	17	18	19
Flexible arrangements	15	17	23	29	28	32	35
Adjusted according to a set of indicators	6	7	5	4	3	4	4
Other [2]	9	10	18	25	25	28	31
Total	107	110	113	117	118	120	125

[1] Based on mid-year classifications; excludes Democratic Kampuchea, for which no current information is available.
[2] This category comprises the following categories used in Table 15: "Flexibility limited vis-à-vis single currency," "Other managed floating," and "Floating independently."

U.S. dollar and the currencies of other industrial countries, as well as the lesser importance, on average, of ties among countries that peg their currencies to the U.S. dollar compared with the group linked by the French franc.

While the choice of exchange rate regime has for many developing countries been motivated by the desire to reduce the domestic impact of exchange rate fluctuations, for a number of countries this choice has also been influenced by the desire to maintain appropriate exchange rates over longer periods. One example of this is the group of countries adjusting exchange rates for their currencies according to a set of indicators of relative movements in domestic and foreign prices. While developing countries maintaining more flexible arrangements are still in a minority, Table 14 illustrates a growing movement toward such arrangements and away from single currency pegs.

Exchange Rates and Adjustment Policies

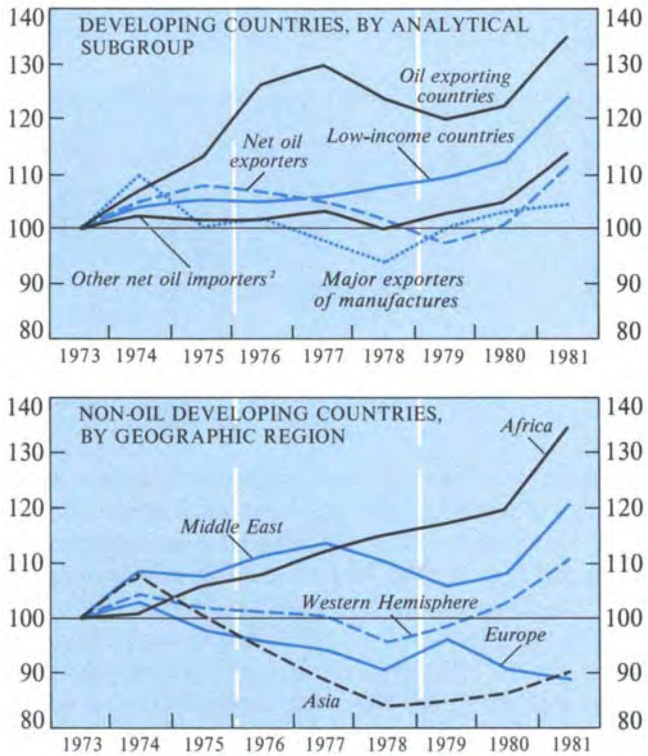
The achievement of balance of payments adjustment in response to the internal and external developments described in Chapter 1 raises broad policy issues. Countries can respond to a marked deterioration in their external position through some combination of financing their current account imbalances by external borrowing, adjusting demand management policies, and adopting measures to achieve structural adjustment. The necessity of reducing current account imbalances to sustainable levels and the desirability of maintaining adequate growth rates require close coordination of these policies, particularly as there are practical limits on the extent to which developing countries can obtain foreign financing.

The ability of a developing country to carry out adjustment is determined by a number of factors, some of which are related to the existing economic structure of the country and some to the external economic environment that it faces. But the nature of the policies adopted has proved to be the crucial factor. In the attempt to maintain expenditures on development, many countries that have followed expansionary policies have failed to foster a relative price structure that would encourage the sectors producing traded goods. An important indicator in this regard is the relative movement of domestic and foreign prices adjusted for exchange rates; that is, an index of the "real" effective exchange rate. Such an index is subject to a number of methodological and data problems, and may fail to account properly for price and cost developments of particular commodities; nevertheless, an upward movement in this index tends in general to signify a declining margin between the price that producers of traded goods receive for their output and the domestic costs they face, thereby encouraging them to switch their resources toward producing nontraded goods, whose relative profitability has increased.

The evolution of real effective exchange rates in recent years shows a range of experience among developing countries. The unweighted average of country indices may be taken as an indicator for various analytical and geographic country groups (Chart 20). There was no distinct trend in these indices for the analytical groups over the period from 1973 to 1977, except for an upward movement in the index for the major oil exporters. Over the past two to three years, however, the indices for all these groups have, on average, risen. Differences are more pronounced among regional groups of non-oil developing countries, and the increase in the indices for countries in Africa and the Middle East is particularly noticeable.

For a number of countries in these groups, there has

Chart 20. Developing Countries: Relative Prices, Adjusted for Exchange Rates, 1973–81 [1]
(Index, 1973=100)



[1] This index is an approximate measure of the evolution of a country's prices relative to those of its trading partners, adjusted for exchange rate changes. Prices are measured by the consumer price index, with indices of partner countries averaged by using import weights, and exchange rates are measured by an import-weighted index of effective exchange rates. Group indices are unweighted averages of country indices.
[2] Within the group of "non-oil developing countries."

been a reluctance to change nominal exchange rates in the face of differences in inflation performance at home and abroad. In part, this reluctance stems from the difficulties in evaluating the need for exchange rate action when world market conditions for traded goods are changing and are often uncertain. In addition, owing to low short-run price elasticities of supply and demand, beneficial effects may only come about over the medium term. Such potential benefits may be heavily discounted in relation to certain immediate costs, such as the impact of devaluation on consumer prices, particularly when these costs are likely to engender important political and social repercussions. In view of these obstacles, the authorities may attempt to change relative prices through administrative controls. Postponement of appropriate measures, however, can result in an even more difficult adjustment at a later stage.

The experience of the 1970s has shown that a number of countries adopting outwardly oriented policies have been able to achieve adjustment without prolonged impairment of their growth performance. The concept of outwardly oriented policies implies a set of measures that produce a price structure favoring production that would compete in external markets. Maintaining an appropriate real exchange rate is a crucial ingredient of such a policy approach. The concept encompasses, however, a wider range of measures. The structure of administered prices—especially those paid to agricultural producers—as well as taxes and subsidies on foreign trade, are often in need of adjustment. Overvalued currencies can also give undue encouragement to certain capital-intensive industries and production techniques, above and beyond the stimulus to the importation of capital goods provided by low tariffs and other measures specifically designed to assist infant industries. Resulting inefficiencies show up in the form of increased costs in other sectors of the economy.

Exchange rate action usually needs to be supported by major adjustments in financial policies. Attention must be focused not only on the familiar problem of maintaining an appropriate level of aggregate demand but also on the effects of interest rate policies on resource allocation and on the balance of payments. For many countries, regulation of interest rates is considered necessary because of the limited development of their financial systems. Often, nominal interest rates are held at low levels. This policy is pursued for various reasons, including the desire to assist certain sectors of the economy and to avoid increasing interest costs in the government budget. But these ceilings can, in turn, have adverse effects on resource allocation, especially when they result in negative real interest rates. For example, negative real interest rates tend to channel savings away from financial intermediaries and hence from funds available for investment, and into "inflation hedges." They also directly affect the external position by encouraging private capital outflows; even in countries with strict capital controls, significant scope for such outflows may exist through smuggling and false invoicing of trade transactions. Another effect of both the controls themselves and the consequences just mentioned is that they tend to impede the development of domestic financial institutions. Indeed, appropriate interest rate policies should be supplemented by steps to encourage the further development of financial markets.

The developing countries that, in general, have fared the best in coping with the adjustment problems of the past decade have been the major exporters of manufactures. The markets for their exports were more buoyant than those for the exports of other developing countries, and the price sensitivity of demand for their products was also greater. Because of the nature of their exports, they were in a much stronger position to take advantage of the rapidly growing demand for imports in the oil exporting countries. These major exporters of manufactures, as a group, have had relatively stable real effective exchange rates since 1973. In most of these countries, exchange rate policies have been supplemented by other measures to encourage these exports. Their experience has by no means been uniform, however, and the more outwardly oriented of these countries have on the whole been more successful in adjusting. Nevertheless, the adverse external developments of the past three years have slowed economic growth in these countries.

The adjustment problems of the primary producing countries since 1973 have been especially difficult. An upswing in world demand and increased access to export markets in industrial countries would be the developments most likely to lead to a rapid improvement in their balance of payments. In the absence of these developments, however, the balance of payments of these countries cannot improve without suitable price incentives. There is now a substantial body of evidence suggesting that relative prices have an important influence in the medium and long run on the supply of primary products; in a number of primary producing countries, the supply of exports has actually declined because producer prices have not been maintained at appropriate levels. Nevertheless, adjustment of the balance of payments of these countries is often not easy to achieve at the outset because price elasticities of demand for and supply of their export goods are generally quite low in the short run, and attempts by exporters of a particular primary product to increase export volumes rapidly could have the immediate effect of a decline in export revenues. Recourse to financing is thus often necessary to bridge the period over which adjustment is to be effected.

The balance of payments impact of inadequate incentives to produce relates not only to export commodities. Frequently, an overvalued currency, in conjunction with low tariffs on food imports (particularly wheat and rice) relative to other imports, has left many countries with a price structure that discriminates against production of food for the domestic market and ultimately leads to large food imports. Appropriate price incentives can, therefore, lead to improvements in the balance of trade even when it is difficult to increase export revenues.

Within the primary producing group, a wide variety of circumstances and experiences can be observed. By adopting outwardly oriented policies, a number of middle-income primary producers have been quite successful in diversifying their economies and adjusting to the adverse external environment. On the other hand, a number of low-income countries, especially in Africa, appear to have had increasing difficulties in the 1970s, in part because of their failure to maintain an appropriate structure of relative prices. The appreciation in the real exchange rates of many African countries is especially disquieting. The low-income countries, in particular, face serious challenges in the coming years, and the structural adjustment policies needed may take considerable time to bear fruit. Yet, they are essential for longer-term economic development. In the short run, additional concessional financing from abroad will be needed to support these adjustment policies. In addition, more buoyant economic conditions and less restrictive trade policies in the industrial world can make significant contributions to the prospects of these economies. Indeed, this last comment applies to all developing countries.

The adjustment problems faced by the oil exporting countries during most of the past decade have differed from those discussed above because of the special characteristics of these countries. The nature of these adjustment problems has been dealt with in detail in previous Annual Reports. In these countries, there has been the desire to develop and diversify their economies in view of the eventual depletion of their oil wealth. Overambitious development plans can, however, strain domestic resources and give rise to inflationary pressures. These pressures lay behind marked real exchange rate appreciations in these countries in the 1970s. While real appreciation would normally be seen as an appropriate response to a strong balance of payments position in these countries, it could impede the objective of developing a competitive sector producing non-oil traded goods. The importance of the non-oil sector has been vividly demonstrated by recent developments in the world oil markets. While the weakening of this market has required a reconsideration of development plans in many oil exporting countries, some have found themselves in a relatively favorable position to cope with these difficulties because of satisfactory performance in the non-oil production sector.

The adjustment problems of centrally planned economies bear special mention. Clearly, the institutional features of these economies significantly limit the role that exchange rates play in external adjustment. Management of domestic aggregate demand consistent with balance of payments adjustment is typically accomplished by altering the real targets of the plan, while specific balance of payments objectives are pursued through direct controls on the underlying economic transactions (imports, exports, and capital movements). However, the authorities in some centrally planned economies have permitted a larger role for financial incentives and flexible domestic prices in microeconomic decision making. In some of these countries, currency depreciation and a narrowing of the range of multiple exchange rates have been parts of overall policy packages aimed at adjusting the structure of prices to be consistent with fostering an expansion of exports. Pursuit of such strategies requires that the exchange and trade systems permit direct access and greater exposure of firms to international markets, and that the structure of domestic prices give sufficient incentive for the production of traded goods. To the extent that the authorities in these countries continue to relax direct controls over external transactions, exchange rates and exchange arrangements may assume a more important role.

Surveillance Over Exchange Rate Policies of Member Countries

In the broadest sense, the purpose of the Fund's surveillance over exchange rates is to evaluate the appropriateness of the policies of individual members and to encourage the adoption of policies that enhance the functioning of the exchange rate system, taking account of the recent developments and general issues discussed above. Fund surveillance thus involves the crucial, but difficult, task of integrating the individual country aspect of surveillance—namely, the consultation discussions held with individual member countries—with the multilateral or global aspect of surveillance, which involves the operation of the system as a whole. The 1977 document "Surveillance over Exchange Rate Policies,"[2] which describes the principles and procedures of surveillance, explicitly acknowledges the difficulties of this task by noting that these principles "are not necessarily comprehensive and are subject to reconsideration in the light of experience." Thus, the Executive Board is required to review this document at intervals of two years —in addition to the required annual review of the implementation of the Fund's surveillance over members' exchange rate policies. Such a general review was completed by the Executive Board in the early months of 1982.

In its review of the 1977 document, the Executive Board concluded that the principles, as they stand, place the judgments to be exercised in regard to surveillance in an appropriately broad context and give adequate guidance for surveillance. Accordingly, in light of the experience to date, the Board agreed that these principles are not in need of revision or reformulation at the present time.

As regards the annual review of the implementation of surveillance, the Board endorsed the Managing Director's efforts to strengthen surveillance by the Fund, but it was recognized that full cooperation of members is essential if this function is to be made more effective. In this context, cooperation between members should take place on three distinct levels. First, it is important to reach a common view or understanding on the analytical framework within which exchange rate issues and requirements can be discussed. The Fund has been working toward this goal, but more needs to be done to improve the understanding of the interrelationships between balance of payments deficits, budgetary policies, interest rates, and exchange rates. The second level of cooperation is the agreement by members to discuss with the Fund, and within the Fund, the aspects of individual policy choices that have, or can have, an adverse impact on other countries. Third, it is important for members to cooperate by taking into account, in their national decision-making processes, the views expressed and conclusions reached by the Board. Such cooperation is the essence of surveillance.

Issues in Implementing Surveillance

In implementing surveillance, the Fund has continued to be guided by the view that widespread restoration of stable domestic economic and financial conditions is a *sine qua non* for a more stable exchange rate system. This view has led the Fund to emphasize the need for the broad policy approach against inflation that is discussed in Chapter 1. In the short run, this approach cannot be expected to result in stable exchange rates because the reduction of monetary growth rates over time—one of the crucial components of the approach—often tends to be accompanied in the initial phase by interest rates that are high and variable in nominal and real terms. Nevertheless, once inflation is under control and the credibility of the anti-inflationary stance of the authorities is established, interest rates can be expected to decline and become less variable, thus contributing to a reduction in the variability of exchange rates.

Many practical issues have arisen in regard to the application of this broad policy approach to the situation in specific countries. One major issue concerns the mix of policies in domestic economic and financial management. As already noted earlier in this chapter, this policy mix affects the behavior of the exchange rate in the market. If the emphasis in controlling inflation is placed more on interest rates and monetary policy than on public expenditures and taxation, the exchange rate may tend to appreciate more, in the short run, than if the reverse emphasis were applied. Beyond this basic agreement on the effect of the mix of policies, there are differences of view on the feasibility of identifying an appropriate exchange rate other than a market-determined rate and on the desirability of altering the policy mix primarily to influence the exchange rate.

It is evident that each member will wish to choose the mix of policies that it believes to be most appropriate to its circumstances. But the principles of surveillance also

[2] See Executive Board Decision No. 5392-(77/63), adopted April 29, 1977, *Selected Decisions of the International Monetary Fund and Selected Documents,* Ninth Issue (Washington, 1981), page 10.

imply that the interests of other members should be taken into account. For example, a country that relies too heavily on monetary policy in controlling inflation, especially if it is a large financial center, can create problems for other countries that are reluctant to permit changes in their exchange rates by limiting the scope for domestic policies that would be more appropriate to their own circumstances. Conversely, an excessively depreciated exchange rate resulting from an unbalanced policy mix, or for any other reasons, can lead to defensive measures elsewhere.

Another important issue that has attracted increased attention recently is that of the appropriate scale and incidence of intervention to counteract disorderly conditions in the exchange markets. Clearly, it is important for members to show strong purpose in preventing, to the extent possible, disorderly exchange market conditions while avoiding excessive intervention that could be destabilizing. It is difficult, however, to reach a consensus, except in relatively clear-cut cases, on what specific market developments should trigger official intervention, or on the extent to which this intervention should be coordinated among monetary authorities in different countries.

In some instances, volatile exchange market behavior has been related largely to developments in monetary and fiscal policies. In such conditions, experience suggests that intervention cannot be expected to play a significant role in dampening exchange rate fluctuations, and the Fund has focused more on an examination of the adequacy of underlying policies. While official intervention cannot, by itself, be expected to correct for the effect of these fundamental conditions, it may at times be used in the short run to support a change in underlying domestic policies that would otherwise take longer to be reflected in the exchange markets. Intervention can then be employed to signal the policy change to the exchange markets.

Recent experience has also cast doubt on the once general view that the "thrust of policies" could be judged on the basis of a relatively small number of indicators, such as cyclically adjusted fiscal deficits, interest rates, and exchange rates. In conditions of relatively high and variable interest rates and considerable volatility of exchange rates, the problem of identifying the broad thrust of a country's economic policy becomes much more complicated. Private market participants may be slow to perceive and interpret clearly the counterinflationary implications of policies, and the authorities must endeavor to achieve improved communication of their objectives and methods to market participants.

While issues relating to the variability of floating exchange rates have been a focal point in the implementation of surveillance over the policies of major industrial countries, the principal issues for smaller economies have centered around the appropriateness of a pegged exchange rate adhered to despite fundamental changes in underlying economic conditions. In these circumstances, the Fund has emphasized the importance of adopting an appropriate exchange rate policy in due time before economic distortions arising from currency overvaluation, particularly those resulting from controls adopted for payments reasons, become embedded in the economic structure.

Procedures for Implementing Surveillance

Surveillance is implemented by the Fund through a variety of channels, including discussions of members' positions and policies by the Executive Board on the occasion of Article IV consultations, reviews of the World Economic Outlook by the Executive Board and the Interim Committee, and consultations with members by the Managing Director and the staff. In addition, papers on exchange rates and balance of payments adjustment issues, as well as reports on trade restrictions and multiple currency practices, are prepared by the staff for the information of the Executive Board. As a result, there are each year a number of occasions on which the Executive Board has the opportunity to deal with issues related to surveillance.

In accordance with the Second Amendment to the Articles of Agreement, which entered into force on April 1, 1978, regular Article IV consultations with members have become the principal vehicle for the exercise of Fund surveillance over the exchange rate policies of members. Because of their frequency and regularity, Article IV consultations are a particularly appropriate instrument for the prompt identification of balance of payments problems and can help in promoting early adjustment, which requires less strenuous corrective measures and increases the chances of success.

Recognition of the importance of Article IV consultations to the adjustment process has led the Executive Board to enhance the comprehensiveness of these consultations. A recent Executive Board decision on use of the Fund's general resources in stand-by arrangements states that "Article IV consultations are among the occasions on which the Fund would be able to discuss with members adjustment programs, including corrective measures, that would enable the Fund to approve a stand-by arrangement." [3] In this decision, the Executive Board explicitly provided for the possibility that Article IV consultations would encompass discussions on the desirability of adjustment supported by stand-by arrangements.

[3] Executive Board Decision No. 6056-(79/38), adopted March 2, 1979, *Selected Decisions of the International Monetary Fund and Selected Documents*, Ninth Issue (Washington, 1981), page 19.

It is important to recognize that the role of Article IV consultations has not been confined to the bilateral relationships between members and the Fund. Consultations, and especially the reports resulting from them, play an important role in the Fund's relations with other international organizations, such as the General Agreement on Tariffs and Trade, the International Bank for Reconstruction and Development, and the Organization for Economic Cooperation and Development. For members, too, consultation reports can be useful in the conduct of their external relations.

The effectiveness of the Fund's surveillance depends importantly on the regularity of consultations with members. Specific exchange rate policies cannot be judged except in the context of an overall appraisal of the progress of a country's economic and financial situation, which can only be developed within the consultation framework. Moreover, regular and frequent Article IV consultations may tend to reduce the need for special consultations related to surveillance over exchange rate policies. The Fund's goal has been to attempt to cover three fourths of the membership within any 12-month period, while maintaining an annual consultation cycle with major countries and with countries that have Fund-supported programs. However, difficulties have arisen in fully achieving this target. The total number of consultations per year has declined since 1978–79, while membership has increased, and there has been an increase in the number of members that have not held consultations with the Fund for 18 months or longer.

A consultation cycle of 15 months or less has, however, been maintained for more than 40 countries, including most of the major industrial countries. For members with Fund-supported programs, a high percentage of consultations has been combined with, or has preceded, discussions on the use of Fund resources. In its review of the implementation of surveillance, the Executive Board stressed the need for efforts to maintain adequate frequency of the Fund's consultations with member countries.

The World Economic Outlook discussions by the Executive Board and the Interim Committee provide an opportunity to achieve convergence of views on the appropriate general orientation of members' policies. These discussions are thus a second important instrument of the collective exercise of multilateral surveillance undertaken by the Fund. It provides an opportunity to improve the understanding of the international interactions of national policy measures, with the primary role of the Fund being the clear identification of major policy issues.

During 1981, the World Economic Outlook discussions continued to provide a comprehensive framework for the analysis of broad developments in exchange rates, and thus to furnish an essential background for surveillance over the exchange rate policies of members. Staff analyses of the World Economic Outlook were discussed in depth by the Executive Board in May and September of 1981 and in April of 1982; on each occasion, a further review was conducted shortly afterward by the Interim Committee. These discussions allowed the Executive Board and the Interim Committee to assess developments in specific exchange rates in the larger context of global economic and financial trends and the working of the international adjustment process as a whole. In addition, they provided an opportunity to study in practical terms the effects of the economic policies of industrial countries on one another and on the rest of the world.

Exchange Arrangements of Member Countries

Under the Second Amendment to the Articles of Agreement, each member country is obligated to notify the Fund of the exchange arrangements of its choice. Members' cooperation in providing this information promptly is crucial for the implementation of surveillance. In the period July 1975 to December 1981, the exchange arrangements of Fund members were classified under four broad headings, as follows: (1) currencies pegged to a single currency or to a composite of currencies (including the SDR); (2) exchange rates adjusted according to a set of indicators; (3) cooperative arrangements; and (4) other arrangements. During this period, exchange arrangements in general tended to become more heterogeneous, one result of which was that the residual category "Other" grew from 15 members in July 1975 (out of a total membership of 126) to 37 members in December 1981 (out of a total membership of 143). As such a large undefined residual category was unsatisfactory for classification purposes, a revised and amplified method of classification was adopted to reflect the extent and form of flexibility that these arrangements permit. (See Table 15.)

It is noteworthy that, between 1975 and 1981, the portion of the Fund membership that maintained pegged exchange arrangements declined from about 78 per cent to 65 per cent. The proportion of world trade accounted for by Fund members maintaining pegged arrangements declined from 26 per cent to 18 per cent; this was due entirely to a shift away from single currency pegs. The number of countries maintaining composite currency pegs increased markedly, from 20 per cent to 36 per cent, although in trade-weighted terms the proportion remained roughly unchanged. Although the number of countries pegging to the SDR doubled from 1975 to 1981, the percentage of Fund members' trade that this group accounted for declined to less than one third of its 1975 level.

Table 15. Exchange Rate Arrangements, June 30, 1982[1]

Pegged to					Limited Flexibility vis-à-vis		More Flexibility		
U.S. dollar	French franc	Other currency	SDR	Other composite	Single currency[2]	Cooperative arrangements	Adjusted according to a set of indicators	Other managed floating	Floating independently
Antigua and Barbuda Bahamas[3] Barbados Belize Burundi	Benin Cameroon Central African Republic	Bhutan (Indian rupee) Equatorial Guinea (Spanish peseta)	Burma Guinea Guinea-Bissau Iran Jordan	Algeria[3] Austria Bangladesh[5] Botswana Cape Verde	Bahrain[4] Ghana Guyana Indonesia Maldives	Belgium[3] Denmark France Germany, Federal Republic of	Brazil Colombia Peru[3] Portugal	Afghanistan Australia Bolivia[3] Chile Iceland	Argentina Canada Costa Rica[3,6] Greece Israel
Djibouti Dominica Dominican Republic[3] Ecuador[3] Egypt[3]	Chad Comoros Congo Gabon Ivory Coast	The Gambia (pound sterling) Lesotho (South African rand)	Kenya Malawi Mauritius São Tomé and Principe Seychelles	China, People's Republic of[3] Cyprus Fiji Finland[9] Hungary[3]	Philippines Qatar[4] Saudi Arabia Thailand United Arab Emirates[4]	Ireland Italy[8] Luxembourg[3] Netherlands		India[7] Korea Mexico Morocco New Zealand	Japan Lebanon South Africa United Kingdom United States
El Salvador[3] Ethiopia Grenada Guatemala Haiti	Mali Niger Senegal Togo Upper Volta	Swaziland (South African rand)	Sierra Leone Vanuatu Viet Nam Zaïre[3] Zambia[10]	Kuwait Madagascar Malaysia Malta Mauritania				Nigeria Pakistan[6] Spain Sri Lanka Turkey	
Honduras Iraq Jamaica[3] Lao People's Democratic Republic Liberia				Norway Papua New Guinea Singapore Solomon Islands Sweden				Uganda Uruguay[11] Western Samoa Yugoslavia	
Libyan Arab Jamahiriya Nepal[3,12] Nicaragua[3] Oman Panama				Tanzania Tunisia Zimbabwe					
Paraguay[3] Romania Rwanda St. Lucia St. Vincent and the Grenadines									
Somalia[3] Sudan[3] Suriname Syrian Arab Republic[3] Trinidad and Tobago									
Venezuela Yemen Arab Republic Yemen, People's Democratic Republic of									

[1] No current information is available relating to Democratic Kampuchea.
[2] All exchange rates have shown limited flexibility vis-à-vis the U.S. dollar.
[3] Member maintains dual exchange markets involving multiple exchange arrangements. Except in one case, the arrangement shown is that maintained in the major market.
[4] Exchange rates are determined on the basis of a fixed relationship to the SDR, within margins of up to ± 7.25 per cent.
[5] Changes in the exchange rate vis-à-vis the pound sterling generally occur when the effective exchange rate, as calculated on the basis of the weighted currency basket, deviates by more than ± 1 per cent from the pegged level.
[6] Member has recently changed its form of exchange arrangements; classification in terms of the extent of flexibility of its implementation of these is preliminary.
[7] The exchange rate is maintained within margins of 5 per cent on either side of a weighted composite of the currencies of the main trading partners.
[8] Margins of ± 6 per cent are maintained with respect to the currencies of other countries participating in the exchange rate mechanism of the European Monetary System.
[9] The fluctuation band of the Bank of Finland's currency index is currently about 6 per cent (equivalent to margins of ± 3 per cent).
[10] The exchange rate is maintained within margins of ± 2.5 per cent in terms of the fixed relationship between the kwacha and the SDR.
[11] Member maintains a system of advance announcement of exchange rates.
[12] A fixed rate for the Nepalese rupee is also maintained vis-à-vis the Indian rupee.

Preferences with respect to single currency pegs have also changed considerably. In trade-weighted terms, the proportion of countries pegging their currencies to the U.S. dollar declined by about one half from mid-1975 to the end of 1981. In part, this movement may have reflected the greater volatility of the U.S. dollar vis-à-vis currencies of other major industrial countries.

International Liquidity and Reserves

International reserves are conventionally defined as official holdings of gold, foreign exchange, and Fund-related assets. Apart from gold, these reserves are made up of currencies suitable for intervention in the foreign exchange market and for direct payment of foreign obligations and of financial assets that can be converted into such currencies on short notice at a generally moderate risk of loss.

A broader concept of international liquidity includes, in addition to the holdings of international reserves, the capacity of borrowing from foreign sources. The concept of international liquidity is much less precise than that of international reserves, because the capacity to borrow abroad is in part determined by the terms on which a country is willing or able to borrow, including cost, maturity, and other conditions related to the loans.

Developments in official reserve holdings and in international liquidity are affected by the structure of the international monetary system, including the exchange arrangements adopted, by macroeconomic policies, and by the responses of monetary authorities to the emergence of payments imbalances. Credit market conditions and interest rates also bear on the broader concept of international liquidity by affecting the borrowing possibilities of countries.

The following part of this chapter deals with the recent evolution of the holdings, sources, composition, and distribution of official reserve assets as reported in *International Financial Statistics*. First, developments in reserve holdings are described and changes are analyzed in terms of quantity and price effects on the SDR value of official holdings. Foreign exchange reserves are then discussed in more detail, particularly their composition and yield. There is, next, an analysis of the sources of growth of Fund-related assets, followed by a brief review of the role of private international capital markets in the provision of international liquidity. The adequacy of international reserves, the changing concepts of international liquidity, and the role of the Fund and of Fund-related assets in providing liquidity are discussed in the final section.

Recent Evolution of Official Reserve Assets

The most striking aspect of the recent evolution of international reserves is their slow rate of growth in 1981 and their decline in the first quarter of 1982. Countries' holdings of international reserves, excluding gold, were only slightly higher at the end of 1981 than a year earlier. Expressed in terms of SDRs, total non-gold reserves reached SDR 342 billion at the end of 1981, an increase of 6 per cent from the total of SDR 325 billion at the end of 1980 (Table 16). This rate of increase compares with an annual growth rate of 18 per cent in 1980; it was the smallest percentage increase since 1973, being substantially lower than the average annual compounded increase in the intervening seven years (16 per cent between the end of 1974 and the end of 1980).

A second distinctive feature of these developments is the pattern of more rapid growth in Fund-related assets —SDRs and reserve positions in the Fund—than in foreign exchange reserves. While the growth of foreign exchange reserves accounted for most of the rise in non-gold reserves in 1979 and earlier years, holdings of foreign exchange and Fund-related assets grew at similar rates in 1980, 19 per cent and 18 per cent, respectively. This contrasts with the pattern in 1981, when Fund-related assets grew by 32 per cent and foreign exchange holdings by only 3 per cent. More than one half of the increase of SDR 17 billion in non-gold reserves in 1981 took the form of Fund-related assets. Holdings of SDRs rose by SDR 4.6 billion, with most of the increase resulting from the allocation of SDR 4.1 billion in January 1981. Countries' reserve positions in the Fund rose steadily throughout the year, from SDR 16.8 billion at the end of 1980 to SDR 21.3 billion at the end of 1981, reflecting in the main an extension of conditional Fund credit to members. Most of the increase was accounted for by the United States and Saudi Arabia. The reserve position of the United States rose by SDR 2.1 billion, reflecting the larger use of U.S. dollars in Fund operations. The increase in the reserve position of Saudi Arabia by SDR 1.5 billion accompanied its lending to the Fund under the enlarged access policy and the supplementary financing facility; the increase in its quota was also a contributing factor. Despite the substantial growth of Fund-related assets, their share in total reserve holdings excluding gold was still lower at the end of 1981 (11 per cent) than it had been at the end of 1973 (13 per cent).

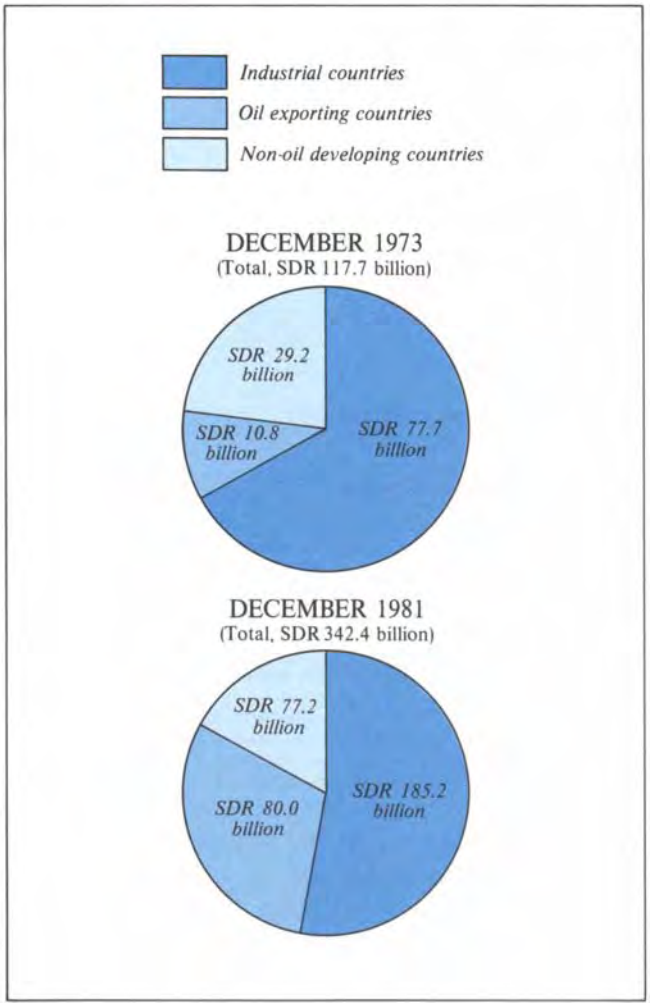
Official holdings of foreign exchange amounted to SDR 305 billion at the end of 1981, an increase over significant impact on the SDR value of these holdings. While the SDR value of foreign exchange reserves increased by almost SDR 9 billion in 1981, the U.S. dollar value of these same holdings declined by US$24 billion, from US$378 billion at the end of 1980 to US$354 billion at the end of 1981.

Another departure from the trend observed in previous years is the reduction by SDR 5 billion in ECU holdings of the members of the European Monetary System (Table 17). Under present arrangements, ECUs are allocated by the European Monetary Cooperation Fund to the central banks of its members in exchange for the transfer of 20 per cent of gold and 20 per cent of gross U.S. dollar holdings of these institutions. Since these swaps are reviewed every three months to take into account changes in members' holdings of gold and dollars as well as changes in gold market prices, the outstanding volume of ECUs fluctuates with the value and volume of these holdings. The fluctuations in 1981 were dominated by changes in the price of gold. The value of ECUs outstanding reached a peak of SDR 49 billion in April 1981 and subsequently fell to SDR 43 billion at the end of the year.

Total reserves excluding gold increased for all three major country groups, although at different rates. While the total for the industrial countries rose by only SDR 1 billion (less than 1 per cent), the major oil exporting countries increased their holdings by SDR 8 billion, an increase over 1980 of 11 per cent. This rate of growth, although substantially higher than the average for all countries, was much lower than in 1980 (31 per cent) and 1979 (22 per cent). For the non-oil developing countries as a group, total non-gold reserve holdings increased by SDR 8.2 billion, which represents an annual rate of growth of 12 per cent, substantially higher than the rate registered during 1980 (5 per cent). The distribution of this increase was very uneven, however. For instance, the non-gold reserves of the low-income countries increased only by some 8 per cent in 1981, and those of the middle-income primary producing countries did not rise at all. Official foreign exchange holdings of industrial countries fell from SDR 164 billion at the end of 1980 to SDR 160 billion at the end of 1981, a decline that is largely accounted for by the reduction of the ECU component of foreign exchange reserves.[4] Foreign exchange reserves of the oil exporting countries rose by more than SDR 5 billion, to SDR 72 billion. Non-oil developing countries, too, increased their official holdings of foreign exchange during 1981, by SDR 7 billion, or 11 per cent, although the distribution of the increase among the different countries in this group was uneven. The highest rate of growth in holdings of Fund-related assets was registered by oil exporting countries (43 per cent), followed by industrial countries (30 per cent) and non-oil developing countries (24 per cent).

At the end of 1981, 54 per cent of total non-gold reserves was held by industrial countries, 23 per cent by oil exporting countries, and 23 per cent by non-oil developing countries. This contrasts with the distribution at the end of 1973 (see Chart 21), when 66 per cent of this total was held by industrial countries, 9 per cent by oil exporting countries, and 25 per cent by non-oil developing countries. Most of the redistribution of

Chart 21. Non-Gold Reserves, December 1973 and December 1981
(In billions of SDRs)



[4] Under present arrangements, ECUs have been allocated to the central banks of EMS members against three-month swaps of 20 per cent of the gold holdings of each member. The outstanding volume of ECUs has thus fluctuated with the value of these holdings. When swaps are renewed, at three-month intervals, gold is valued at the lower of two prices: the average price recorded in the preceding six months and the price on the penultimate working day.

Table 16. Official Holdings of Reserve Assets, End of Selected Years 1973–81 and End of March 1982[1]

(In billions of SDRs)

	1973	1976	1977	1978	1979	1980	1981	March 1982
All countries								
Total reserves excluding gold								
Fund-related assets								
Reserve positions in the Fund	6.2	17.7	18.1	14.8	11.8	16.8	21.3	21.9
Special drawing rights	8.8	8.7	8.1	8.1	12.5	11.8	16.4	16.6
Subtotal, Fund-related assets	15.0	26.4	26.2	22.9	24.3	28.6	37.7	38.5
Foreign exchange	102.7	161.7	203.6	223.8[2]	249.3	296.5	304.7	293.4
Total reserves excluding gold	117.7	188.1	229.8	246.7[2]	273.6	325.1	342.4	331.9
Gold[3]								
Quantity *(millions of ounces)*	1,022	1,015	1,030	1,038	945[4]	953	952	953
Value at London market price	95.0	117.7	140.1	179.6	366.7	440.3	324.6	271.6
Industrial countries								
Total reserves excluding gold								
Fund-related assets								
Reserve positions in the Fund	4.9	11.8	12.2	9.6	7.7	10.7	13.5	14.0
Special drawing rights	7.1	7.2	6.7	6.4	9.3	8.9	11.9	12.3
Subtotal, Fund-related assets	12.0	19.0	18.9	16.0	17.1	19.6	25.4	26.3
Foreign exchange	65.7	73.7	100.0	127.2	136.1	164.3	159.7	149.5
Total reserves excluding gold	77.7	92.7	118.9	143.1	153.2	183.9	185.2	175.8
Gold[3]								
Quantity *(millions of ounces)*	874	872	881	884	789[4]	788	788	788
Value at London market price	81.3	101.2	119.6	153.4	306.7	364.2	269.0	226.4
Oil exporting countries								
Total reserves excluding gold								
Fund-related assets								
Reserve positions in the Fund	0.3	5.4	5.4	4.4	3.0	4.1	5.8	6.0
Special drawing rights	0.3	0.3	0.4	0.5	1.0	1.2	1.8	1.9
Subtotal, Fund-related assets	0.6	5.8	5.8	4.9	4.0	5.3	7.6	7.9
Foreign exchange	10.2	49.1	55.2	40.1[2]	51.0	66.9	72.4	71.4
Total reserves excluding gold	10.8	54.9	61.0	45.0[2]	55.0	72.2	80.0	79.3
Gold[3]								
Quantity *(millions of ounces)*	34	37	34	36	37	40	42	42
Value at London market price	3.1	4.3	4.7	6.3	14.2	18.5	14.2	12.0
Non-oil developing countries								
Total reserves excluding gold								
Fund-related assets								
Reserve positions in the Fund	0.9	0.5	0.5	0.9	1.0	2.1	2.0	1.8
Special drawing rights	1.4	1.1	1.1	1.2	2.1	1.7	2.7	2.4
Subtotal, Fund-related assets	2.4	1.6	1.6	2.1	3.2	3.8	4.7	4.2
Foreign exchange	26.8	38.9	48.4	56.5	62.2	65.3	72.6	72.5
Total reserves excluding gold	29.2	40.5	49.9	58.6	65.4	69.0	77.2	76.8
Gold[3]								
Quantity *(millions of ounces)*	114	106	115	118	119	125	122	123
Value at London market price	10.6	12.2	15.8	19.9	45.8	57.6	41.4	33.2

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 those Fund members for which data are available and certain other countries or areas, including Switzerland. 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.

the previous year of SDR 8.2 billion, or less than 3 per cent. Foreign exchange reserves increased in the first half of 1981, reflecting primarily the expansion in the oil exporting countries' holdings. The third quarter registered a sharp decline in official foreign exchange holdings, reflecting intervention by industrial countries to support their currencies in the exchange markets, as well as substantial losses of foreign exchange by some oil exporting countries, which in some instances continued in the fourth quarter of the year. The evolution of foreign exchange holdings in 1981 was also influenced by valuation changes. Since a large portion of foreign exchange reserves is denominated in U.S. dollars, fluctuations in the U.S. dollar/SDR rate had a

Table 17. 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 1981 [1]

(In millions of SDRs)

	1976	1977	1978	1979	1980	1981	End 1973:I to End 1981
U.S. dollar							
Starting value	104,028	120,576	150,403	162,070	147,025	156,163	74,378
Quantity change	15,871	36,332	22,280	−13,681 [2]	4,188	−8,727	82,794
Price change	677	−6,505	−10,613	−1,364	4,950	14,979	5,243
Total change	16,548	29,827	11,667	−15,045	9,138	6,252	88,037
Pound sterling							
Starting value	5,055	3,010	3,062	3,195	4,135	6,932	6,166
Quantity change	−1,265	−152	166	657	2,224	−333	1,323
Price change	−780	204	−33	283	573	−898	−1,788
Total change	−2,045	52	133	940	2,797	−1,231	−465
Deutsche mark							
Starting value	8,212	10,662	15,628	20,922	24,353	33,431	5,234
Quantity change	1,408	3,928	4,021	2,475	11,755	−366	25,753
Price change	1,042	1,038	1,273	956	−2,677	−1,632	446
Total change	2,450	4,966	5,294	3,431	9,078	−1,998	26,199
French franc							
Starting value	1,526	1,327	1,837	1,886	2,036	3,045	778
Quantity change	−71	491	−43	98	1,262	337	2,824
Price change	−128	19	92	52	−253	−485	−705
Total change	−199	510	49	150	1,009	−148	2,119
Swiss franc							
Starting value	2,036	2,108	3,701	2,927	4,753	7,549	1,053
Quantity change	−87	1,029	−1,258	1,734	3,261	−865	4,432
Price change	159	564	484	92	−465	451	1,650
Total change	72	1,593	−774	1,826	2,796	−414	6,082
Netherlands guilder							
Starting value	746	771	822	1,118	1,527	2,279	287
Quantity change	−48	27	219	375	910	358	2,278
Price change	73	24	77	34	−158	−115	−43
Total change	25	51	296	409	752	243	2,235
Japanese yen							
Starting value	673	1,082	2,238	5,361	6,206	9,290	—
Quantity change	374	941	2,786	2,146	1,530	1,146	9,554
Price change	35	215	337	−1,301	1,554	112	956
Total change	409	1,156	3,123	845	3,084	1,258	10,510
ECU							
Starting value	—	—	—	—	32,706	47,658	—
Quantity change [3]	—	—	—	27,212	−1,512	−2,098	23,602
Price change	—	—	—	5,494	16,464	−2,629	19,329
Total change	—	—	—	32,706	14,952	−4,727	42,931
Sum of the above							
Starting value	122,276	139,536	177,691	197,479	222,741	266,347	87,896
Quantity change	16,182	42,596	28,171	21,016	23,618	−10,548	152,560
Price change	1,078	−4,441	−8,383	4,246	19,998	9,783	25,088
Total change	17,260	38,155	19,788	25,262	43,616	−765	177,648
Total official holdings [4]							
Starting value	138,718	161,660	203,570	223,777	249,322	296,469	98,343
Total change	22,942	41,910	20,207	25,545	47,147	8,252	206,378
Ending value	161,660	203,570	223,777	249,322	296,469	304,721	304,721

Source: Fund staff estimates.

[1] The currency composition of foreign exchange is based on the Fund's 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 consecutive quarters to yield cumulative changes over the years (or other periods) shown.

[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.

reserves since 1973 appears, therefore, to have been from industrial to oil exporting countries.

During the first three months of 1982, total non-gold reserves fell by SDR 10.5 billion. While the holdings of Fund-related assets increased slightly, foreign exchange reserves fell by more than SDR 11 billion. This decline was mostly accounted for by the industrial countries. The overall level and the composition of non-gold reserves in both oil exporting and non-oil developing countries did not change materially during the first quarter of 1982.

The physical stock of gold comprising official reserves changed very little in 1981, remaining, as during the entire past decade, at about 1 billion ounces. The market value of gold in SDRs, however, declined by more than 26 per cent during 1981, greatly reducing the share of gold in total reserves; that share fell from 57 per cent at the end of 1980 to 45 per cent at the end of March 1982.[5]

Foreign Exchange Reserves

This section reviews the characteristics of official holdings of foreign exchange and their evolution following the adoption of widespread floating among the currencies of the major industrial countries. Changes in the SDR value of foreign exchange holdings reflect movements in both prices and quantities, which are described in this section in conjunction with the analysis of the currency composition of holdings. The section also includes a discussion of the sources of foreign exchange reserves and a comparison of the cumulative returns on various currencies held in foreign exchange reserves and the SDR, with account being taken of interest earnings as well as exchange rate movements.

Currency Composition

The tendency to diversify foreign exchange holdings among a number of currencies, a characteristic of the evolution of the multiple reserve currency system, appears to have slowed in 1981. The share of the U.S. dollar in the SDR value of foreign exchange reserves identified by currency declined from 78 per cent in 1973 to 62 per cent in 1979 and to 56 per cent in 1980 (Table 18). These developments reflect not only the preferences of holders of U.S. dollars but also their intervention in exchange markets. Although the sharp fall in these shares was affected by the substitution, starting in 1979, of ECUs for U.S. dollars in the reserves of members of the EMS, the decline is also marked (to 74 per cent in 1979 and to 68 per cent in 1980) when ECUs issued against U.S. dollars are added to dollar holdings and ECUs issued against gold are eliminated from total foreign exchange reserves. A reversal of this trend is observed in 1981, when the share of U.S. dollars increased to 58 per cent of identified currencies (to 70 per cent if adjustment for ECUs is made).

Price and quantity changes explain recent developments in currency composition (Table 17). In 1979, for instance, official dollar holdings declined sharply; at the same time, the share of the U.S. dollar in total foreign exchange reserves valued in SDRs fell even more, owing to the depreciation of the dollar during that year. In 1981, by contrast, the volume of official dollar holdings also fell, but the share of the dollar in total holdings of foreign exchange measured in SDRs increased because of the large appreciation of the dollar during that year.

The decline in the share of the dollar in total foreign exchange reserves during the later years of the 1970s and in 1980 was accompanied by a rise in the shares of several major currencies. The deutsche mark absorbed a large fraction of the growth of official currency holdings through 1980, while the Japanese yen, the Swiss franc, and the pound sterling also played significant roles. The rise in the share of the U.S. dollar in 1981 reflected in part the reduction in both price and quantity of the pound sterling and the deutsche mark, while the holdings of Swiss francs also fell despite the increase in the SDR price of this currency.

The declining share of the U.S. dollar up to 1980 and the recent reversal in that trend reflected a number of developments. One of them was the large increase in the holdings of foreign currencies by the United States during the period of active foreign exchange market intervention that started in November 1978 and was pursued through 1980. Accumulation by the United States of deutsche mark and Swiss francs in 1980 had the effect of covering liabilities in those currencies generated by the issuance in 1979 of the so-called Carter bonds. As those liabilities began to be repaid during 1981, U.S. holdings of foreign exchange started to decline.

Concern over the value of the U.S. dollar in international markets in the latter part of the 1970s also induced currency diversification and a reduction in the share of surplus countries' reserves held in U.S. dollars. This tendency appears to have been reversed in 1981, when public concern over stability came to be more evenly spread among major currencies and interest rate developments favored holdings of assets denominated in U.S. dollars.

[5] The position of gold in reserve portfolios of countries is not easy to assess, as different methods of valuing gold holdings are applied. In this Report, gold holdings, for expository purposes, are valued at the market price in London.

Table 18. Share of National Currencies in SDR Value of Total Identified Official Holdings of Foreign Exchange, End of Selected Quarters, 1973–81 [1]

(In per cent)

	1973:I	1975:IV	1976:IV	1977:IV	1978:IV	1979:IV	1980:IV	1981:IV	1979:IV Excluding ECU [2]	1980:IV Excluding ECU [2]	1981:IV Excluding ECU [2]
All countries											
U.S. dollar	78.4	79.4	79.6	79.4	76.9	62.4	55.9	58.4	73.8	68.3	70.6
Pound sterling	6.5	3.9	2.0	1.6	1.5	1.7	2.5	2.0	1.9	2.9	2.3
Deutsche mark	5.5	6.3	7.0	8.3	9.9	10.4	11.9	11.2	11.5	13.9	12.5
French franc	0.9	1.2	0.9	1.0	0.9	0.9	1.1	1.0	1.0	1.3	1.1
Swiss franc	1.1	1.6	1.4	2.0	1.4	2.0	2.6	2.5	2.3	3.1	2.8
Netherlands guilder	0.3	0.6	0.5	0.4	0.5	0.7	0.8	0.9	0.7	0.9	1.0
Japanese yen	—	0.5	0.7	1.2	2.5	2.6	3.3	3.6	2.9	3.8	4.1
ECU	—	—	—	—	—	13.9	17.0	15.4	—	—	—
Unspecified currencies	7.3	6.5	7.9	6.2	6.3	5.4	5.0	5.0	5.9	5.8	5.6
	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0
Industrial countries											
U.S. dollar	87.3	87.3	86.9	89.0	86.2	62.2	54.3	55.9	83.5	77.9	78.9
Pound sterling	3.9	1.1	0.7	0.5	0.5	0.5	0.5	0.5	0.6	0.6	0.6
Deutsche mark	2.6	4.0	3.8	4.0	6.6	6.3	9.4	9.2	7.5	12.4	11.3
French franc	—	0.1	0.1	—	—	—	—	—	—	—	—
Swiss franc	0.8	0.9	0.9	0.7	0.4	1.1	1.1	1.2	1.3	1.5	1.5
Netherlands guilder	0.2	0.3	0.3	0.2	0.3	0.4	0.4	0.5	0.4	0.5	0.7
Japanese yen	—	0.2	0.4	0.3	1.6	1.7	2.1	2.5	2.0	2.8	3.1
ECU	—	—	—	—	—	24.0	29.0	26.9	—	—	—
Unspecified currencies	5.3	6.2	7.0	5.1	4.4	3.8	3.2	3.2	4.5	4.2	3.9
	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0
Developing countries											
U.S. dollar	55.2	70.8	72.7	68.6	62.6	62.6	58.1	61.7	62.6	58.1	61.7
Pound sterling	13.4	6.8	3.2	2.8	3.0	3.4	5.3	4.1	3.4	5.3	4.1
Deutsche mark	13.2	8.8	10.1	12.9	15.0	16.1	15.4	13.8	16.1	15.4	13.8
French franc	3.1	2.4	1.7	2.0	2.2	2.0	2.6	2.3	2.0	2.6	2.3
Swiss franc	2.0	2.3	1.9	3.4	2.9	3.3	4.8	4.3	3.3	4.8	4.3
Netherlands guilder	0.6	0.9	0.7	0.7	0.9	1.0	1.3	1.3	1.0	1.3	1.3
Japanese yen	0.2	0.9	1.1	2.2	4.0	4.0	4.9	5.2	4.0	4.9	5.2
Unspecified currencies	12.3	7.1	8.6	7.4	9.3	7.5	7.6	7.3	7.5	7.6	7.3
	100.0	100.0	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 Currrency Units (ECUs) issued against U.S. dollars is added to the SDR value of U.S. dollars, but the SDR value of ECUs issued against gold is excluded from the total distributed here.

In addition to the preferences of holders and the effects of exchange market intervention, factors affecting the supply of various currencies have also played a major role in the development of the multiple currency system since 1979. The movement of the U.S. current account from a large deficit in 1977–78 to a small surplus in 1979–81 tended to reduce the supply of U.S. dollars to the rest of the world. At the same time, the current account balances of some other reserve centers—especially the Federal Republic of Germany and Japan, and to a lesser extent Switzerland—swung from surplus into deficit. In some instances, these countries borrowed abroad in terms of their own currencies, so that foreign holdings of their currencies increased.

The process of currency diversification has not been the same in industrial and developing countries (Table 18). Industrial countries reduced their holdings of U.S. dollars from 87 per cent at the end of 1975 to 56 per cent at the end of 1981, while increasing their holdings of ECUs, deutsche mark, and Japanese yen. If ECUs, which account for 27 per cent of foreign exchange holdings, are reallocated to gold and U.S. dollars, the shrinkage in the share of dollars in foregin exchange holdings is much smaller—to 79 per cent at the end of 1981. In developing countries, the share of U.S. dollars fell from 71 per cent in 1975 to 61 per cent in 1981, which was, however, still higher than the share of 55 per cent observed in 1973. For both groups, industrial and developing countries, the share of U.S. dollars was lower at the end of 1980 than at any year-end since 1975, but it increased somewhat in 1981.

Differences in the currency composition of foreign exchange reserves among country groups arise from a number of factors. Historical ties account for the higher shares of the French franc and the pound sterling in the holdings of some developing countries, and regional financial and trade agreements explain the much higher share of "unspecified" currencies in the portfolios of

Table 19. Sources of Official Holdings of Foreign Exchange Reserves, End of Year 1975–81 [1]
(In billions of SDRs)

	1975	1976	1977	1978	1979	1980	1981
Official claims on residents of the United States [2]	68.9	79.2	103.8	120.4	95.7	113.0	127.6
Official claims on residents of other countries denominated in the debtor's own currency	12.1	11.6	13.7	17.4	22.9	35.9	33.7
Subtotal	81.0	90.8	117.5	137.8	118.6	148.9	161.3
Identified official holdings of Eurocurrencies							
Eurodollars	38.5	46.1	53.3	48.0	49.3	55.4	63.7
Other currencies	7.8	9.4	16.0	19.4	21.9	28.1	30.0
Subtotal	46.3	55.6	69.3	67.5	71.1	83.5	93.7
European Currency Units	—	—	—	—	32.7	47.7	42.9
Residual [3, 4]	11.4	15.3	16.8	18.5	26.9	16.4	6.8
Total official holdings of foreign exchange	138.7	161.7	203.6	223.8	249.3	296.5	304.7

Sources: International Monetary Fund, *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) and certain other countries and areas including 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.

[2] U.S. liabilities to central banks and governments. Adjusted to exclude an estimated amount representing those dollar holdings of EMS member countries against which ECUs have been issued. Include some non-dollar liabilities prior to 1979.

[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 18 owing to different data sources. This tables uses U.S. statistics on official claims on the United States to identify such holdings, while Table 18 is based on the survey on the composition of monetary authorities' gross claims on foreigners conducted by the Fund.

these countries. For industrial countries, the elements that appear to bear on their reserve asset preferences are the nature of their exchange arrangements and policy objectives (particularly regarding the extent of foreign exchange market intervention), the distribution of their trade flows among the several key currency countries, the currency composition of government borrowings on foreign capital markets, and to some extent, profit and risk considerations. The authorities of many developing countries may be able to give more weight in choosing the currency composition of their reserves to the ordinary portfolio selection criteria of profit maximization and risk minimization than is possible for the larger industrial countries, whose foreign exchange holdings are so large that the attempt to diversify holdings would tend to upset exchange markets. The currency composition of external payments is, of course, also an important factor affecting the denomination of foreign exchange holdings of these countries. More generally, it can be said that countries—industrial or developing—intervening in U.S. dollars tend to hold, on average, a relatively high proportion of their reserves in that currency in order to reduce transactions costs, even if they peg their currency to a currency basket like the SDR.

Source of Foreign Exchange Reserves

The main sources of growth in official foreign exchange reserves in 1981 were official claims on institutions resident in the United States and deposits in Eurodollar markets (Table 19). Foreign exchange holdings stemming from other sources, namely, identified claims on residents of countries other than the United States and Eurocurrency deposits other than Eurodollars, remained unchanged at SDR 64 billion from the end of 1980 to the end of 1981.[6] Creation of ECUs as a source of official reserve holdings was negative in 1981, mainly as a consequence of the reduction in the price of gold.

Approximately one half of foreign exchange reserves are held as official claims on the residents of countries in whose currencies the claims are denominated. This proportion remained approximately unchanged during 1981. Claims on the United States increased by SDR 15 billion in 1981; at the end of the year, they constituted about four fifths of such direct claims. Official Eurocurrency deposits increased by more than SDR 10 billion. As a result, the share of foreign exchange reserves held in the Eurocurrency market rose from 28 per cent at the end of 1980 to 31 per cent at the end of 1981, reversing the trend observed since 1975 toward a reduction in the importance of Eurocurrency deposits as a source of foreign exchange reserves. The rising share of Eurocurrency deposits resulted mainly from an increase in the holdings of Eurodollars of SDR 8 billion,

[6] The term "Eurocurrency deposit" denotes deposits denominated in a currency different from the currency of the country in which the bank accepting the deposit is situated.

with other Eurocurrencies increasing by only SDR 2 billion. The share of dollar-denominated Euromarket deposits increased from 19 per cent of foreign exchange reserves at the end of 1980 to 21 per cent at the end of 1981, while the share of other Eurocurrencies remained unchanged. This development can be linked to the strong position of the U.S. dollar during 1981.

Rates of Return on Major Currencies

Since portfolio and profitability considerations play an important role in the process of currency diversification, it is useful to compare the rates of return, expressed in a common unit of account, that would have been earned on short-term investments in major currencies and in the SDR. Although portfolio considerations are affected by expected rather than realized rates of return, a review of *ex post* yields may shed light on some of the factors affecting the decisions of member countries about the currency composition of their reserves.

The SDR rates of return on investments in each of five major currencies are calculated by converting SDR 1 into one of these currencies at the exchange rate prevailing at the time of investment, investing this amount in a short-run instrument denominated in that currency, and converting both principal and interest back into SDRs at the end of the period at the rate then prevailing. The rate of return on a potential SDR-denominated investment is the weighted average of the yields on money market investments in the five currencies composing the new SDR basket: the U.S. dollar, deutsche mark, French franc, Japanese yen, and pound sterling.[7]

International interest parity implies that rates of return on instruments with equal liquidity and default risk should in principle be equalized through a matching expected exchange rate change. When viewed *ex post,* actual exchange rate movements have indeed compensated for part of the interest differentials, narrowing the disparities in the growth of the SDR value of investments in national currencies. The matching tended to be incomplete, however, at least for the period from the second quarter of 1973 to the end of 1981 (Chart 22).

[7] At the end of 1981, these bond equivalent rates were (a) the market yields for three-month U.S. and U.K. treasury bills with initial weights 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 weight of 13 per cent. For the calculation described in the text, this latter rate was estimated for periods 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 the two-month rate currently used (before converting that rate from a discount basis to a bond equivalent basis).

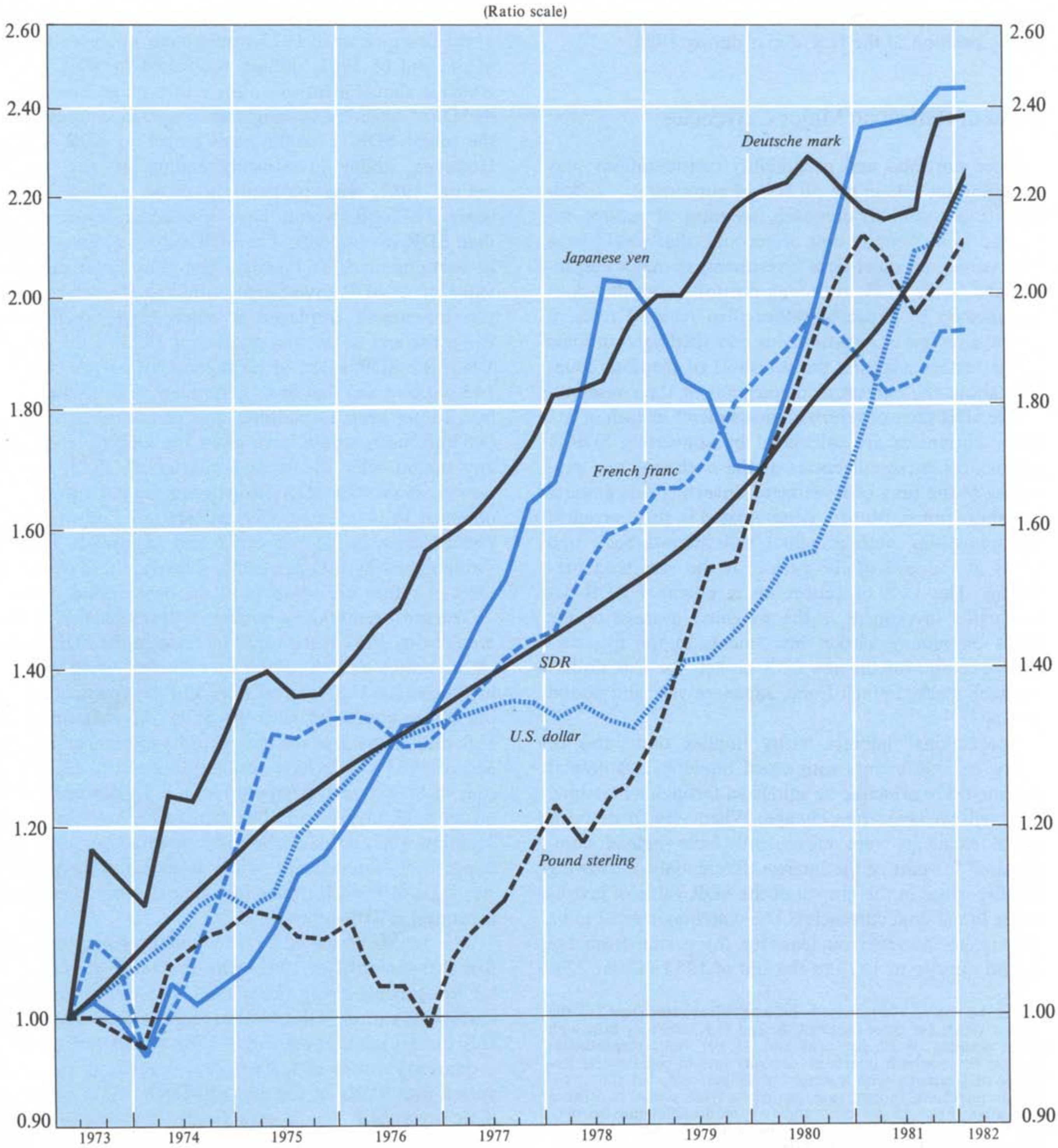
The divergence of rates of return on investments denominated in major currencies, measured in SDRs, is particularly pronounced in the short run, although long-run differences in realized rates of return on specific currencies are also observed. An investor placing SDR 1 worth of dollars in U.S. Treasury bills at the end of the first quarter of 1973 would have, upon realization at the end of 1981, dollars equivalent to SDR 2.109, which is almost identical to the return on an investment in SDRs: at the SDR-weighted composite interest rate, the initial SDR 1 could have grown to SDR 2.101. However, dollar investments ending at any period before 1981, and particularly those ending in the years 1977–80, would have yielded a lower return than SDR investments. The SDR values of investments in deutsche mark or Japanese yen grew faster than the value of an SDR investment, although the return on a yen investment displayed a much larger oscillation. From the end of the first quarter of 1973 to the end of 1981, the SDR value of an investment in yen rose by 143 per cent and that of an investment in deutsche mark by 136 per cent. In addition, one or the other of these two currencies would have given the highest return for any period after the second quarter of 1973. Lower returns than with SDR investments would have been obtained in investments denominated in French francs (which grew by 92 per cent) and in pounds sterling (which grew by 102 per cent). Clearly, these observed rates of return are sensitive to the base period chosen.

The most remarkable feature of developments in this area during 1981 is the rapid increase in the SDR value of the return on U.S. dollar investments owing to both high domestic U.S. interest rates and the appreciation of the dollar compared with the SDR. An investment in U.S. dollars made at the end of 1980 and realized at the end of 1981 would have resulted in a return of 28 per cent in SDR terms, compared with a 14 per cent yield on an SDR investment. The returns on investments in Japanese yen and deutsche mark were 13 per cent and 6 per cent, respectively, while investments in pounds sterling and French francs lost almost 1 per cent when measured in SDR terms.

The trends observed in 1981 continued during the first three months of 1982, with the value of U.S. dollar investments rising faster than investments in other currencies and in SDRs. An investment denominated in U.S. dollars made at the end of 1981 would have yielded a quarterly return of 5.3 per cent if realized and converted into SDRs at the end of March 1982, while an SDR investment would have yielded a quarterly return of 3.1 per cent. An investment in pounds sterling also yielded a higher rate than the SDR (4.1 per cent), while investments in deutsche mark, French francs, and Japanese yen had a return lower than 1 per cent.

During 1981, the full combined (weighted average)

Chart 22. Growth of Investments in Specified National Currencies and SDRs, Second Quarter 1973–First Quarter 1982 [1]
(In SDRs)



[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 at the beginning of the second quarter of 1973. The five national assets are described in footnote 7 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.

market rate of interest on short-term assets in the five countries whose currencies enter the SDR basket reached much higher levels than in any previous year since the transition to floating. This combined rate averaged 14 per cent in 1981, compared with 12 per cent in 1980 and 8 per cent between 1974 and 1979. The high level of yields available in 1981 may have been a potential source of gross reserve expansion by increasing the volume of interest earnings on certain official holdings of non-gold reserves.

Fund-Related Assets and Other SDR-Denominated Claims

The growth of assets denominated in SDRs that are issued or generated by the Fund and held in countries' official reserves is dealt with in the first part of this section. Developments with respect to SDR-denominated assets issued by private institutions are discussed in the second part.

Official Holdings

In 1981, holdings of Fund-related reserve assets[8] increased their share in total reserves excluding gold for the first time in five years (Table 16). That share at the end of 1981 stood at 11 per cent, compared with the high point of 19 per cent around the end of 1970 and an average of over 12 per cent for the decade 1971–80. In absolute amount, the increase in Fund-related assets during 1981 was over SDR 9 billion, from SDR 28.6 billion at the beginning of the year to SDR 37.7 billion at the end. It thus exceeded by a small amount the rise in the foreign exchange component of reserves.

The total expansion in Fund-related assets in 1981 was almost evenly divided between the two elements, SDRs and reserve positions in the Fund. The increase in countries' holdings of SDRs, at SDR 4.6 billion, was larger than the final allocation for the third basic period of SDR 4.1 billion, which was made at the beginning of 1981. This difference is attributable to the net decrease in the Fund's holdings, which had been built up shortly before the end of 1980 through the payment in SDRs of part of members' subscriptions for quota increases. During 1981, gross drawings in SDRs of nearly SDR 2 billion (compared with drawings in currencies of the equivalent of over SDR 5 billion) and other SDR transfers from the General Resources Account exceeded transfers by participants to the Account, mainly for repurchases and charges. Reserve positions in the Fund went up by SDR 4.5 billion in 1981, of which SDR 2.1 billion was the result of a net increase in medium-term lending to the Fund. The remainder, which reflects the amount of reserve tranche purchases that members could make, is explained by the net use of the Fund's currency holdings for operations and transactions, the largest single type being the use of currencies for drawings.

The change in the distribution of SDRs by country group in 1981 closely followed the pattern of the allocations at the beginning of the year. For the non-oil developing countries, the increase was slightly less than their allocation. For the oil exporting countries and the industrial group, the increase exceeded the allocation they received, with much of the decrease in the Fund's holdings being taken up by the latter group in particular. The additions to reserve positions in the Fund were divided entirely between the oil exporting countries and the industrial countries, with the former receiving SDR 1.7 billion and the latter SDR 2.8 billion. For each group, just over SDR 1 billion of the increase took the form of net medium-term lending to the Fund.

Increasing Role of SDR-Denominated Assets in Private Markets

The SDR basket has played an increasing role as a unit of account outside the Fund and as a privately issued currency composite.[9] Although the SDR basket is only one possible portfolio of currencies, it is gaining considerable acceptance as a denominator and a unit of contract.

During 1981, following the redefinition of the SDR in terms of five major currencies, the private sector has been showing increasing interest in assets denominated in SDRs. SDR-denominated deposits held with the Bank for International Settlements or in the Euromarket appear together with SDRs proper in the reserve holdings of a number of countries. The interest of private investors in the SDR, as in any currency basket, derives from the reduction in the variability of interest rates and exchange rates compared with assets denominated in individual currencies. As long as the currency composition of the SDR is similar to the portfolio mix preferred by the private sector, SDR-denominated instruments are advantageous in providing convenience and economizing on transactions costs.

[8] Fund-related reserve assets are comprised of SDRs held by countries and reserve positions in the Fund. The latter consist of reserve tranche positions, that is, the amount of reserve tranche purchases that members could make, and medium-term lending to the Fund. Short-term lending to the Fund under the policy on enlarged access to Fund resources, to the extent that the claims are officially held, is included with official foreign exchange reserves. Short-term lending, none of which occurred before 1981, amounted to SDR 0.1 billion at the end of that year; part of the claims is in the form of notes.

[9] See also Chapter 3, page 92.

Until 1980, only a few banks offered SDR-denominated deposits,[10] but in the first half of 1981 more than 50 banks started to offer time deposits denominated in SDRs. The typical minimum deposit is of US$1 million. Because of the high expected return on U.S. dollar deposits relative to similar assets denominated in other currencies during 1981, the growth of SDR-denominated deposits was slow, but it increased late in the year, and the outstanding balance at the end of 1981 was about SDR 5 billion.[11]

In June 1980, the first transferable SDR Certificate of Deposit (CD) at a fixed rate of interest was issued, and clear indications of a growing international market for these SDR-denominated instruments have appeared. Immediately following the adoption of the new valuation of the SDR at the beginning of 1981, an international market developed in London aimed at facilitating access to SDR-denominated operations by standardizing instruments and procedures. At almost the same time, an Asian market emerged in Singapore. The total value of CDs issued is SDR 700 million. The market is of a short-term character, with maturities of less than one year and a minimum placement of SDR 1 million. About 20 banks participate. The issues offered in 1981 were all floating rate issues. In the early months of 1982, trading in secondary markets increased.

During 1981, current account deposits in SDRs were established at two banks in Europe, and a system for transferring SDR funds directly without having to use other currencies has begun to develop. This development has opened the possibility of using SDR-denominated deposits as a means of payment for financial and commercial operations and is likely to enhance the role of the SDR in the international financial system.

Although no forward market activity in SDRs took place before 1981, it is now possible to buy and sell SDRs forward against U.S. dollars for periods of up to one year. At least ten banks currently deal in forward SDRs.

Generation of SDR-denominated loans has grown more slowly than SDR-denominated deposits. Borrowings denominated in SDRs consist of Eurobond issues, syndicated credits, and floating rate notes. The total amount outstanding at the end of 1981 was about SDR 2 billion.[12] This mismatching between SDR-denominated loans and deposits may hamper, or at least slow down, the development of the private SDR market, because Eurobanks would, no doubt, prefer direct cover of their SDR-denominated liabilities to hedging by currency diversification.

The Adjustment Process and International Capital Markets

One significant trend in the international financial system during the past decade was the increasingly important role of private international capital markets in the financing of payments imbalances. The rapid growth of private international lending has reflected not only an increase in flows between industrial countries but also growing use of these markets by developing countries.

For the largest industrial countries, private capital flows have reflected the growing international integration of capital markets and have been stimulated by attempts to arbitrage yield differentials across countries, the need to finance expanding trade flows between industrial countries, and the financing of government deficits. A few smaller industrial countries have used private capital markets as a continuing source of financing payments deficits. Most of the industrial countries have not, however, relied as consistently as the non-oil developing countries on international credit for the financing of payments imbalances.

In the financing of current account deficits and reserve accumulation of non-oil developing countries, the relative importance of various types of transaction has changed considerably in recent years (Chapter 1, Table 10). Transactions that do not add to net indebtedness (including official transfers) declined from 47 per cent of the total financing requirement in 1973 to 26 per cent in 1981. One of the largest components of these transactions was unrequited transfers to governments of non-oil developing countries. These transfers fell from 25 per cent of the combined current account balance and reserve accumulation in 1973 to only 13 per cent in 1981. While long-term official lending was almost four times as large in 1981 as in 1973, its share in the total financing requirement nonetheless declined from 25 per cent to 20 per cent during this period. In contrast, borrowing by non-oil developing countries from private sources and residual flows, which are primarily unrecorded private capital flows, rose from 26 per cent of total reserve accumulations and current account imbalances in 1973 to 48 per cent in 1981. The share of net direct investment flows to non-oil developing countries in the financing of their aggregate current account deficit remained quite steady at 11–13 per cent from 1974 to 1981, after declining sharply from 20 per cent in 1973 to 13 per cent in 1974.

The flow of international credit extended to non-oil developing countries took a number of forms, with inter-

[10] The first known deposit facility in SDRs was offered by a London bank in June 1975.

[11] Estimates of the amount vary, but none exceeds a total of SDR 7 billion.

[12] The first SDR-denominated obligation was a bond issued in 1975. There have subsequently been twelve further issues of bonds or notes amounting to a total of SDR 563 million. The first syndicated loan in SDRs was arranged only in 1981, and in the course of that year there have been seven syndicated credits in a total amount of SDR 1.2 billion.

national bank lending and international bond issues being important channels. Credit extension through these two channels is estimated to have increased from US$58 billion in 1975 to US$191 billion in 1981, with international bank lending accounting for much of this growth. Bond issues grew at a much slower rate and, as a result, declined from 33 per cent of the total of international bank lending and bond issues in 1975 to only 14 per cent in 1980.

Bank lending expanded much more rapidly than bond issuance because it was a highly flexible and generally competitively priced short-term to medium-term source of large-scale credits and, from the point of view of investors, purchases of securities bearing fixed interest rates were not very attractive during a period of generally rising nominal interest rates. The ability of banks to expand or contract their international loan commitments freely had a strong impact on loan terms and maturities. While the average maturity on syndicated loans declined from more than eight years in 1973 to about five years in 1975, owing largely to the Herstatt crisis, the average lengthened to nearly ten years by 1979 before again declining somewhat in 1980–81. The average loan spread over the London interbank offered rate (LIBOR), which rose quite sharply in 1974–75, declined during the second half of the 1970s. A significant number of developing countries had spreads of less than 1 per cent over LIBOR in the last years of the 1970s. In response to the prospect of delayed repayments of debts in some Eastern European and developing countries and the possibility of a significant increase in private sector bankruptcies in the industrial countries, spreads for many developing countries stopped declining in 1980–81, but they remained well below their 1975–76 values. The high interest cost of borrowing abroad that many developing countries have faced since the latter part of the 1970s accordingly reflects chiefly the general increase in interest rates in international capital markets rather than an increase in spreads.

The international bond market became less important as a source of international credit throughout the 1970s. The weakness of this market was evident in a reduction in real volumes of bond issues throughout the period 1975–80, a shortening of average bond maturities, and the development of new financial instruments that transferred part of the risk associated with the variability of interest rates and exchange rates from lenders to borrowers. These changes represented a response to greater uncertainty regarding the future paths of interest rates and inflation. The highly erratic increases in nominal interest rates that took place in the years 1978–81 further reduced the attractiveness of bonds as a portfolio asset by inflicting large capital losses on holders of existing bonds. To guard against a repetition of this experience, bond holders moved into instruments of shorter maturity and began to demand high real returns on longer-term bonds.

The rate at which private financial markets will expand in the future depends on the responses of banks and their regulators to the perceived risks associated with international bank lending—chiefly that loans will cease to be serviced—and to the deterioration of the ratios of bank capital to assets in a number of national banking systems, as well as on future economic and financial developments. Because of high interest rates and some shortening of the external debt maturities, the ratios of debt service to exports for certain non-oil developing countries—for some of them already at a historical high point—are projected to rise further. At a time when perceived risks associated with debt rescheduling and other repayment difficulties have increased, bank capital/asset ratios, which generally declined in the 1970s, have also come under further pressure from falling prices of assets bearing fixed interest and from increasing losses in domestic lending. Continued growth in bank lending to developing countries, particularly those that are already large borrowers, may require a more rapid expansion of bank capital than has been observed in recent years. Banks have found, however, that the real cost of equity capital has recently been relatively high.

These prudential considerations are less likely to be a constraint on the expansion of international bank lending if a favorable environment prevails in the world economy. Adequate rates of growth, low inflation and interest rates, and the maintenance of a liberal trade regime in the industrial countries would all strengthen the external positions of non-oil developing countries that follow prudent policies. Such factors would enhance the perceived creditworthiness of developing countries by reducing the ratios of their indebtedness and their debt service to exports. Moreover, financial institutions would be better able to respond positively to that improvement in creditworthiness because a reduction in loan losses and an improvement in access to capital would reduce their operating costs. Such lower costs would allow these institutions to increase profitability without raising the cost of funds to borrowers.

The Adequacy of International Reserves

The global demand for reserves may be expected to grow in some relationship—not necessarily a proportional one—to world trade and to countries' payments imbalances. How readily this demand is satisfied at any particular time depends on the responsiveness of the supply of reserve assets. With the rapid development of international financial markets in recent years, the supply of international reserve assets has become quite responsive to changes in the demand for reserves. Indeed, this responsiveness is sufficiently high to allow global reserve holdings to be determined largely by the effective demand for them, even though the access of some countries to private international credit is constrained. This state of global adequacy of reserves should not divert attention, however, from some important questions about the net cost and the distribution of reserves.

The adequacy of reserves, in relation to some measure of the need, can be appraised in a number of ways. In past discussions of the need for reserves, for both individual countries and the entire system, the ratio of reserves to imports and changes in this ratio have been used as indicators.[13] An alternative indicator is the ratio of non-gold reserves to current account imbalances, that is, the sum of current account surpluses and deficits added without regard to sign. This ratio declined from an average of 2.0 for 1973–74 to an average of 1.7 for 1979–80, while the average ratio of non-gold reserves to imports fell from 0.24 to 0.22 over the same time span. The apparent decline in the demand for reserves, relative to trade and payments imbalances, may have a number of reasons, including the increasing opportunity cost of holding reserves and the fact that many countries could finance their payments deficits by increasing their indebtedness. The widespread reliance on floating exchange rates and the increase in capital mobility are also likely to have contributed to the reduction in the demand for reserves.

The increasing importance of international financial markets and the improved access of most countries to these markets have reduced the usefulness of relying on indicators like those just discussed to assess the adequacy of international reserves. To the extent that the monetary authorities of countries have access to credit supplied by private financial markets, the liquidity of the system is increased and the need to hold reserves reduced. The ease of access to capital markets is not, of course, the same for all countries. For some of them, particularly those heavily dependent on concessional economic assistance and those facing unfavorable economic prospects, the high cost of borrowing and the low perceived creditworthiness have been obstacles to the use of private capital markets for balance of payments financing. For these countries, the need for owned reserves has not been diminished by the fuller development of international capital markets. More generally, a country's need for owned reserves is contingent on the availability of credit lines and its capability of enhancing its borrowing capacity at a reasonable cost. The adequacy of international liquidity would appear, therefore, to be a more meaningful concept than the adequacy of international reserves, since the former includes the borrowing potential of countries. Both concepts are elusive, however, and present obstacles to statistical measurement. For that reason, general indications of the functioning of international financial markets and the cost at which countries can have access to them, such as those set forth in the preceding section, are the most important elements in any assessment of the adequacy of international reserves and liquidity.

[13] See *Annual Report, 1981.*

Provision of Liquidity by the Fund

The Fund provides unconditional and conditional liquidity. Unconditional liquidity is supplied through the allocation of SDRs as well as by the generation of reserve positions in the Fund. These assets can be used by the holder to finance a balance of payments deficit without regard to the circumstances responsible for the deficit and without having to adhere to policy conditions. Conditional liquidity is made available through the extension of Fund credit to members. The conditions attached to this credit vary with the type of facility and, for credit tranche drawings, with the amount of credit given in relation to a member's quota.

Unconditional Liquidity

Developments in reserve assets supplied by the Fund have already been discussed earlier in this chapter. The year 1981 marked the end of a period of SDR allocation. The last annual allocation of this period, on January 1, 1981, brought the total supply of SDRs to SDR 21.4 billion. The question of a continuation of allocations in 1982 and subsequent years was discussed in 1981 and the first half of 1982 by the Fund's Executive Board and the Interim Committee. These discussions indicated that, while a large number of members were in favor of a further allocation, the required support for an allocation was still lacking. The Executive Board and the Managing Director will keep the matter under consideration, and the Managing Director will make a proposal for allocation if and when sufficient support is forthcoming.

Reserve positions in the Fund, which are denominated in SDRs, are generated through various Fund transactions and operations, chiefly the use in Fund drawings of the currencies subscribed by members or borrowed from them. Although the Fund can provide unconditional liquidity in the form of SDRs or reserve positions in the Fund, these two assets are not interchangeable, and there are important differences in the manner in which they are generated and in their economic effects.

First, reserve positions in the Fund reflect resources already made available to the Fund, while SDRs do not. Second, the distribution among members of reserve positions is as a matter of course quite uneven in comparison with the distribution of SDR allocations, which are proportional to quotas. Third, reserve positions in the Fund come into existence as a by-product of the extension of credit by the Fund to its members, and their volume is therefore dependent on the amount of such credit extension that is appropriate in the light of the criteria guiding it, whereas SDRs are allocated in response to a global need for supplementing existing reserves.

Conditional Liquidity

One of the main purposes of the Fund, as laid down in the Articles of Agreement, is to make its resources temporarily available to members, under adequate safeguards, in support of efforts to correct maladjustments in their balance of payments. These resources—gold, SDRs, and currencies—are subscribed by members in accordance with quotas assigned to them upon entry into the Fund and reviewed periodically thereafter.

The Fund's conditional credit extension is based on the principle that its concern should be with both the financing of temporary payments imbalances and the adjustment of unsustainable ones. The objective of the advice and financing extended to members should be to help them achieve a viable external position in the medium run. To achieve this objective, the Fund's assistance must be conditioned upon the adoption by recipient members of appropriate economic policy programs. Such programs often also enhance members' access to credit from other sources.

It is generally agreed that the resources available to the Fund should be sufficient for the Fund to play its important role in the adjustment and the financing of balance of payments deficits in accordance with the foregoing considerations. While the Fund has had to supplement the resources obtained through quota subscriptions by borrowing from members, particularly in the circumstances prevailing since the middle of the 1970s, it is generally agreed that its activities should be financed primarily from quota resources. Fund quotas have been reviewed, and generally increased, at intervals of five years. The last general increase in quotas, which was decided in the course of the seventh of these quinquennial reviews, became effective in the last weeks of 1980. Quotas were increased at that time from about SDR 40 billion to SDR 60 billion.[14] Work on the Eighth Review of Quotas is now under way; it is to be completed no later than December 1983. This review deals with the size of quotas appropriate for conducting the Fund's activities in the second half of the present decade. It will also examine the quota shares of members in relation to their positions in the world economy, with a view to adjusting quotas so as to better reflect this relation.

[14] Through entry of new members and special increases, the total of Fund quotas has meanwhile risen to SDR 61 billion (see Chapter 3).

Chapter 3
Activities of the Fund

Overview of the Year

This chapter reviews the principal activities of the Fund during the financial year ended April 30, 1982. These activities relate to financial policies, operations and transactions, surveillance over members' exchange rate policies, consultations with member countries, training and technical assistance, and relations with other international organizations.

During the financial year ended April 30, 1982, the conditional liquidity provided by the Fund through the General Resources Account increased substantially in terms of aggregate commitments as well as in gross and net purchases. (See Table 20.) Gross purchases by members increased from about SDR 4.4 billion in 1980/81 to SDR 7.0 billion in 1981/82, and net purchases from SDR 1.9 billion to SDR 5.0 billion—the highest level of net purchases since 1974. On the other hand, there was no addition to the stock of unconditional liquidity after the last SDR allocation in 1981, the last year of the third basic period. Likewise, with the termination of the Trust Fund loans program in 1980/81, fresh activity in the largest administered account of the Fund also ceased. Consequently, the net increase in the Fund's balance of payments assistance to members occurred almost wholly through the General Resources Account (mainly in the upper credit tranches) in the form of conditional liquidity, unlike in the previous three years when the bulk of such assistance was in the form of unconditional liquidity (SDR allocations) and low-conditionality finance (Trust Fund loans). All the balance of payments assistance made available by the Fund in 1981/82, as well as new commitments, was to non-oil developing countries. During 1981/82, the first payments (grants) were made under the supplementary financing facility subsidy account. This account was established in December 1980 to reduce the cost for low-income developing member countries of using the Fund's resources under the supplementary financing facility and under the policy on exceptional use of Fund resources.

New commitments of the Fund under stand-by and extended arrangements increased from SDR 10.3 billion in 1980/81 to SDR 11.3 billion in 1981/82. The increase in new commitments occurred in spite of a decrease in the number of stand-by and extended arrangements concluded in this financial year compared with the previous year. Of the total new commitments, about SDR 11 billion was under 19 stand-by arrangements and 5 extended arrangements, including SDR 5 billion in an arrangement with India, the largest commitment in the history of the Fund. Similarly, by the end of the financial year on April 30, 1982, the aggregate commitments under arrangements outstanding had risen to SDR 16.2 billion, also the largest in the Fund's history. Undrawn balances under the aggregate commitments amounted to about SDR 11.2 billion at the end of 1981/82, or about 68 per cent of commitments. The level of undrawn balances reflects (1) that members' purchases under arrangements are subject to phasing over the life of the arrangement, which may be up to three years, and (2) arrangements can become "inoperative," in the sense that the member concerned may be unable to draw for reasons other than phasing of purchases. Thus, drawing rights under a number of upper credit tranche arrangements were inoperative as at the end of April 1982, with undrawn balances under these arrangements amounting to about SDR 4 billion. It should be noted, however, that a member's inability to request a purchase under an arrangement does not necessarily signify that the adjustment program has failed. Moreover, arrangements can become operative again, in the light of review and renegotiation, while others remain inoperative until they expire, or are canceled and replaced with new arrangements. The proximate cause of "inoperative" arrangements has been largely the nonobservance of performance criteria, the key element in monitoring the performance of an economy under an arrangement. In most cases, stand-by arrange-

Table 20. Selected Financial Activities by Type and Country, 1976–82
(In millions of SDRs)

	Financial Year Ended April 30							
	1976	1977	1978	1979	1980	1981	1982	1976–82
				By Type				
I. General Resources Account								
Gross purchases [1]	5,267.4	4,749.7	2,367.3	1,239.2	2,210.8	4,385.9	6,960.2	27,180.5
Net purchases [2]	(4,866.6)	(3,899.6)	(−1,861.8)	(−3,267.2)	(−1,041.8)	(1,924.2)	(4,950.3)	(9,469.9)
II. Administered Accounts								
Trust Fund loans	—	31.7	268.2	670.0	961.7	1,059.9	—	2,991.3
Oil facility subsidy account payments (grants)	13.8	27.5	25.0	19.1	27.8	50.1	9.3	172.6
Supplementary financing facility subsidy account payments (grants)	—	—	—	—	—	—	22.9	22.9
III. SDR allocations	—	—	—	4,032.6	4,033.2	4,052.5	—	12,118.3
Total	5,281.2	4,808.9	2,660.5	5,960.9	7,233.5	9,548.4	6,992.4	42,485.6
				By Country (I + II + III)				
Industrial countries	2,391.3	2,198.1	1,438.8	2,593.7	2,617.6	2,543.9	—	13,783.4
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	780.2	—	90.0	129.0	128.9	126.5	—	1,254.6
Others	611.1	498.1	98.8	1,286.4	1,310.4	1,261.8	—	5,066.6
Developing countries	2,889.9	2,610.8	1,221.7	3,367.2	4,615.9	7,004.2	6,992.4	28,702.2
Oil exporting	—	—	—	369.3	369.3	380.3	—	1,118.9
Non-oil developing	2,889.9	2,610.8	1,221.7	2,997.9	4,246.6	6,624.0	6,992.4	27,583.3
Africa	*580.5*	*635.3*	*336.6*	*861.7*	*1,262.6*	*1,472.9*	*1,999.9*	*7,149.5*
Asia	*882.0*	*603.8*	*435.4*	*1,011.5*	*1,197.4*	*3,448.3*	*3,163.5*	*10,741.9*
Europe	*611.5*	*340.1*	*271.6*	*249.0*	*765.8*	*981.2*	*1,326.0*	*4,545.2*
Middle East	*133.6*	*199.5*	*143.1*	*289.7*	*152.4*	*75.7*	*0.8*	*994.8*
Western Hemisphere	*682.3*	*832.1*	*35.0*	*586.0*	*868.4*	*646.0*	*502.2*	*4,152.0*
All countries	5,281.2	4,808.9	2,660.5	5,960.9	7,233.5	9,548.4	6,992.4	42,485.6
Memorandum								
Stand-by and extended arrangements as of April 30								
Commitments	1,472.2	5,197.6	5,759.3	1,600.4	3,049.7	9,475.1	16,206.3	38,286.4
Undrawn balances	1,085.8	3,581.1	3,638.8	1,377.5	2,718.0	8,076.4	11,154.6	—
As per cent of commitments	73.8	68.9	63.2	86.1	89.1	85.2	68.8	
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 purchases 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.

ments have become inoperative because domestic credit expansion has exceeded the quantitative ceilings set in the program, in some cases as a result of unforeseen exogenous factors such as substantial changes in import prices, especially in the energy sector. The Fund keeps all these issues under review and is exploring the feasibility of reducing the incidence of program failure through, among other things, its technical assistance programs.

The Fund's review of upper credit tranche arrangements during the period 1971–80 shows, first, that developing countries with Fund-supported programs generally achieved a significant improvement in their balance of payments, both in absolute terms and in comparison with all non-oil developing countries. Second, the rate of inflation rose less in countries with Fund programs than in non-oil developing countries as a whole.

In keeping with the Fund's policy of assuring members flexibility of access to its financial facilities in response to their balance of payments needs, the Executive Board reviewed in February 1982 the Fund's policies with regard to emergency assistance related to natural disasters. It was decided that effective emergency assistance should continue to be provided to members afflicted by natural disasters through a flexible application of existing tranche policies on use of Fund resources.

The Fund has an important role to play in the adjustment and the financing of members' balance of payments deficits, and its resources must therefore be commensurate with the tasks before it. Since quota subscriptions, as noted in the communiqués of the Interim Committee, are the primary source of the Fund's financial resources, the level of Fund quotas has to be adequate to enable the Fund to perform its functions effectively in the 1980s. The Executive Board has therefore assigned high priority to its work on the Eighth General Review of Quotas, with a view to completing it not later than December 11, 1983 and, if possible, earlier.

Although the overall liquidity position of the Fund, that is, the relationship between the Fund's stock of usable ordinary resources and its liquid liabilities and overall financing commitments, is at present adequate, the demands on the Fund's resources are likely to remain high over the next few years. During 1981/82, for the first time, the Fund's commitments involved a higher proportion of borrowed resources (about SDR 6 billion under the policy of enlarged access) than ordinary resources (SDR 4.5 billion). The Fund may need to continue to supplement its ordinary resources by borrowings in the next few years, as further commitments are made and drawn down under stand-by and extended arrangements, together with purchases made by members under the special facilities. In January 1982, the Executive Board adopted guidelines for borrowing by the Fund that set a maximum range for total outstanding borrowing plus unused credit lines of 50 to 60 per cent of total Fund quotas, with a provision for review by the Executive Board if the ratio exceeded 50 per cent. However, the range of 50 to 60 per cent is not regarded as a target, nor as an indication that borrowing will in fact reach that level. Fund borrowing will be subject to continuous monitoring by the Executive Board, which will also regularly review the Fund's liquidity and financial position.

In addition to the size of ordinary and borrowed resources, which determines the provision of conditional liquidity by the Fund, the prospects with regard to the flow of unconditional liquidity (SDR allocations) are also pertinent to the Fund's role in the international monetary system. In recent years, the Fund has taken a number of major decisions to improve the quality of the SDR as a reserve asset in order to further the objective of making it the principal reserve asset of the international monetary system. In his report to the Board of Governors and the Executive Board in June 1981, the Managing Director stated that he was not in a position to make a proposal for SDR allocations in the fourth basic period, beginning January 1, 1982, that would command sufficiently broad support among the participants. Subsequently, at its meeting in September 1981, the Interim Committee urged the Executive Board to continue its deliberations on whether there should be a further allocation of SDRs. In its meeting in May 1982, the Committee noted the statement of the Managing Director that he still did not have sufficient support to be able to make a proposal on allocations. Discussion in the Committee showed that, while a large number of members favored a further allocation, the required support for an allocation was lacking. In its communiqué, therefore, the Committee asked the Executive Board to keep the matter under consideration and to continue its efforts to bring about a convergence of views that would permit the Managing Director to submit, as soon as possible, a proposal concerning SDR allocations in the fourth basic period, in accordance with the provisions of the Fund's Articles of Agreement.

During the past year, the activities of the Special Drawing Rights Department increased considerably, with an almost threefold increase in the volume of transactions by agreement, from SDR 418 million in the previous year to SDR 1,242 million. Similarly, the use of SDRs to pay Fund charges and remuneration, as well as other uses, all expanded. During the year under review, three new "other holders" of SDRs were prescribed by the Fund, bringing the total number of such holders to twelve. Also, the use of the SDR as a unit of account in international organizations and conventions and in the financial markets continued to increase further.

In May 1982, the Executive Board comprehensively reviewed the technical assistance programs of the Fund in central banking and fiscal affairs. It reaffirmed that in all matters related to technical assistance the Fund will continue to adopt a flexible and pragmatic approach, taking into account the specific needs of member countries, including the strengthening of their financial infrastructure, their technical capability to implement adjustment programs, and the training of local counterparts. Requests for technical assistance are the prerogative of a member country, and such assistance is not a condition of Fund financial assistance. The Fund's procedures also provide for close collaboration between its technical assistance departments and area departments. The Fund's training programs at headquarters continued to be made available to members in the monetary, banking, fiscal, and balance of payments fields.

During 1981/82, consultations were completed for 79 countries under Article IV. These consultations are the principal means of carrying out the Fund's surveillance over the exchange rate policies of individual member countries and may be combined with the negotiations on use of Fund resources. In addition, special consultations were held with member countries in connection with the World Economic Outlook reviews by the Executive Board.

Membership and Quotas

Membership and Participation in the Special Drawing Rights Department

Between May 1, 1981 and May 31, 1982, five new members joined the Fund and one other country applied for membership. The Republic of Vanuatu and the Kingdom of Bhutan both became members on September 28, 1981, with quotas of SDR 6.9 million and SDR 1.7 million, respectively. On February 25, 1982, Antigua and Barbuda became a member, with a quota of SDR 3.6 million. On March 16, 1982, Belize became a member, with a quota of SDR 7.2 million. The Hungarian People's Republic became a member on May 6, 1982, with a quota of SDR 375 million, raising the total membership in the Fund to 146 and the total of members' quotas to SDR 61,059.8 million. All the new members 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. The Polish People's Republic applied for membership during the year.

Special Quota Adjustments

The special quota adjustment requested for Saudi Arabia during the previous financial year became effective during the year under review.[1] This adjustment was in response to a request from Saudi Arabia for a substantial increase in its quota. The Board of Governors authorized an increase in Saudi Arabia's quota from SDR 1,040.1 million to SDR 2,100 million. The new quota became effective on September 8, 1981, when the full payment of the increase in the quota was received by the Fund.

Eighth General Review of Quotas

Under the Articles of Agreement, the Board of Governors is required to conduct general reviews of Fund quotas at intervals of not more than five years. In accordance with this requirement, the Eighth General Review will have to be completed not later than December 11, 1983. Extensive discussions have taken place in the meetings of the Executive Board on various aspects of the quota review, including a simplification of the existing method of quota calculations. In particular, the Board has considered (i) the quota formulas; (ii) the factors bearing on the size of the Fund in the 1980s; (iii) the factors bearing on general (or equiproportional) and on selective increases in quotas; and (iv) the timetable for the Eighth Review.

With respect to quota formulas and the method of quota calculations, the Executive Board agreed to retain the economic criteria used in the past, with some modifications to broaden the definition of certain economic variables that represent these economic criteria. These modifications include substituting gross domestic product for national income and total reserves averaged over 12 months instead of year-end gold and foreign exchange reserves. There has been some progress toward simplification of the method of quota calculations, with agreement on the reduction of the number of individual formula calculations from ten to five. At the end of June 1982, discussions were continuing on the method of calculation.

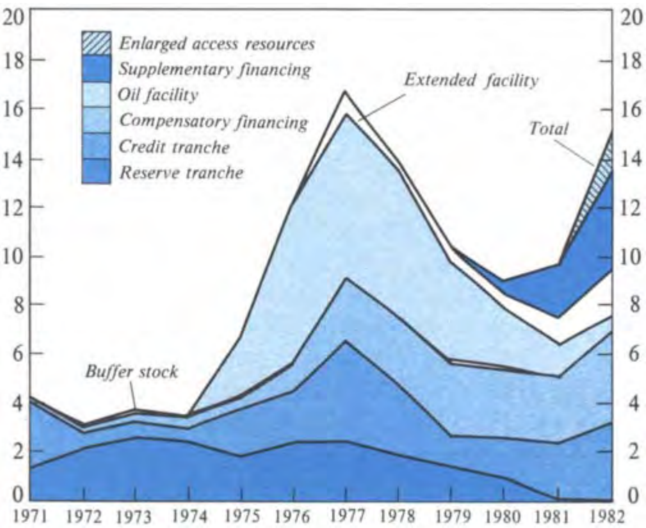
The Executive Board also had comprehensive discussions on the appropriate size of the next quota increase. As the Fund normally reviews its quotas quinquennially, and as the next increase is not likely to be effective until 1984/85, the Executive Board considered this matter in the light of economic conditions likely to prevail in the second half of the 1980s, the role of the Fund in such conditions, and the need for increased quota resources to enable the Fund to carry out its tasks. The Executive Board also had an initial discussion on various considerations that have a bearing on the distribution of the overall increase in quotas among members.

Transactions and Operations in the General Resources Account

The most notable feature of activity in the General Resources Account in 1981/82 was the rise in the level of total purchases (excluding those in the reserve tranche) from SDR 4.4 billion in 1980/81 to SDR 7.0 billion, the highest level since 1976. Most purchases were under credit tranches (SDR 2.7 billion) and under the extended Fund facility (SDR 2.6 billion). Outstanding purchases at the end of April 1982 amounted to SDR 14.9 billion, an increase of about SDR 5 billion over the preceding year. (See Chart 23.) Total repurchases during the year (SDR 2.0 billion) were lower than in any of the financial years since 1978; about one half of these repurchases were in respect of drawings made under the oil facility, and a further one third in

[1] See *Annual Report, 1981,* pages 89–90.

Chart 23. Use of Fund's Resources as at April 30, 1971–82
(In billions of SDRs)



respect of drawings under the compensatory financing decision.

Purchases

Reserve Tranche Purchases

Reserve tranche[2] purchases, which represent a use of members' liquid reserves in the Fund, also reflected the overall trend of increased activity in the General Resources Account. During 1981/82, 29 members used all or part of their reserve tranche positions for a total of about SDR 1 billion, compared with SDR 474 million and SDR 222 million in the two previous financial years. The bulk of the purchases in the reserve tranche were used to meet general balance of payments needs; the remaining purchases were used to settle repurchases (SDR 22.97 million) and for payment of charges to the Fund (SDR 2.95 million). The latter two types of use have been made possible by the decision[3] taken by the Fund in the previous year to improve the asset characteristics of the reserve tranche position. Under this decision, a member using the credit tranches or the extended Fund facility has the option of either retaining or using the reserve tranche position. While a number of members using Fund resources have drawn upon their reserve tranche positions, 26 members with outstanding use under arrangements retained their reserve tranche positions totaling over SDR 450 million.

During the year, the Executive Board amended the decision relating to the reserve tranche position.[4] Under the amendment, members indebted to the Fund, and whose currencies are sold by the Fund under operational budgets, or whose currencies are used in operational payments (e.g., in payment of remuneration on reserve tranche positions), have the option of attributing the reduction in the Fund's holdings of their currencies either to reduce any of their repurchase obligations or to enlarge correspondingly their reserve tranche positions. An attribution may not, however, be made to repurchase obligations financed with borrowed resources unless the Fund is obligated or entitled immediately to repay the lender on the occasion of such attribution. Second, where a member has an outstanding purchase financed under the General Arrangements to Borrow (GAB), it is not free to enlarge its reserve tranche position, because the Fund is obliged, upon attribution, to repay under the GAB, and the participants in the GAB were not on notice that a change in the attribution practices might be made. These amendments extend further the Fund's policy of making it easier to retain a reserve tranche position while using the Fund's resources. The widening of the options will further enhance the standing of the reserve tranche as a reserve asset, while protecting the liquidity position of the Fund. These decisions on the reserve tranche position will be reviewed by the Executive Board before April 30, 1984.

Credit Tranche Purchases and Stand-By Arrangements

The pattern of credit tranche purchases and stand-by arrangements was broadly similar in magnitude and composition to that of the previous year. (See Table 21.) Purchases, at SDR 2.7 billion, were only marginally in excess of the previous year and were almost entirely under stand-by arrangements, the largest purchasers being Yugoslavia (SDR 517 million), Turkey (SDR 500 million), Korea (SDR 432 million), and Thailand (SDR 345 million). (See Appendix I, Table I.2.) Twenty-four other members used the Fund's resources for a total of SDR 954 million. Most of the purchases in the credit tranches were in respect of high-conditionality drawings (SDR 2,707.7 million out of a total SDR 2,747.7 million), which were even larger than in

[2] The "reserve tranche" 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.

[3] Executive Board Decision No. 6831-(81/65), adopted April 22, 1981, effective May 1, 1981, *Selected Decisions of the International Monetary Fund and Selected Documents*, Ninth Issue (Washington, 1981), page 98.

[4] Executive Board Decisions No. 7059-(82/23) and No. 7060-(82/23), adopted February 22, 1982 and reproduced in Appendix II.

Table 21. Flow of Transactions in the General Resources Account and Resulting Stocks, Financial Years Ended April 30, 1976–82
(In millions of SDRs)

	Financial Year Ended April 30						
Type of Transaction	1976	1977	1978	1979	1980	1981	1982
Total purchases	6,591	4,910	2,503	3,720	2,433	4,860	8,041
Reserve tranche	1,324	161	136	2,480	222	474	1,080
Credit tranches	461	2,370	1,937	485	1,106	2,682	2,748
Buffer stock	5	—	—	48	26	—	—
Compensatory financing	828	1,753[1]	322	465	863	784	1,635
Extended facility	8	190	109	242	216	920	2,578
Oil facility	3,966	437	—	—	—	—	—
Total repurchases	960	868	4,485	4,859	3,776	2,853	2,010
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	6,465	6,702	6,329	4,257	2,474	1,528	526
Under General Arangements to Borrow	—	911	1,576	777	777	777	777
From Swiss National Bank	—	89	154	—	—	—	—
Supplementary financing facility	—	—	—	—	502	2,018	4,112
Under policy on enlarged access	—	—	—	—	—	—	1,358
Holdings of General Resources Account at end of year							
Usable currencies[2]	7,800	5,300	11,200	8,800	10,600	23,440	17,434
SDRs	461	771	1,371	1,290	1,407	5,445	5,456
Gold[3]	5,370	4,959	4,507	4,055	3,636	3,620	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 the Fund considers "sufficiently strong" for that purpose.
[3] Valued at SDR 35 per fine ounce.

the previous year (SDR 1,905.6 million out of a total of SDR 2,682.2 million). As in 1980/81, slightly more than one half of the financing under the stand-by arrangements was made through borrowed resources available under the supplementary financing facility; the use of borrowed resources that became available under the enlarged access policy after March 11, 1981 amounted to SDR 380 million. The use of ordinary resources under stand-by arrangements in 1981/82 was SDR 847 million.

During the year, stand-by arrangements were approved for 19 members for a total of SDR 3.1 billion, compared with SDR 5.2 billion in 1980/81. The largest amounts involved arrangements with Romania (SDR 1.1 billion) for a period of three years and with Thailand (SDR 0.8 billion) for two years. All other arrangements were mostly for periods ranging from 10 months to 13 months, in amounts from SDR 1.6 million (Solomon Islands) to SDR 281 million (Morocco). Except for the first credit tranche arrangements with Guatemala and Uruguay, all the others were in the upper credit tranches, most involving borrowed resources. Five arrangements (with Kenya, Liberia, Mauritania, Senegal, and Sudan) involved the commitment of SDR 295 million of borrowed resources under the supplementary financing facility, while ten arrangements (with Ethiopia, The Gambia, Liberia, Madagascar, Mauritius, Morocco, Romania, Somalia, Thailand, and Uganda) provided for borrowed resources (SDR 1.7 billion) under the enlarged access policy. The commitment of ordinary resources for all the arrangements amounted to SDR 1.2 billion.

On April 30, 1982, stand-by arrangements involving undrawn balances of SDR 1.7 billion were inoperative. While some of them are expected to become operative in the coming months, others are likely to be replaced by new arrangements or canceled. Three arrangements —with Kenya, Liberia, and Mauritania—were canceled during the year and replaced by new arrangements.

Extended Fund Facility

In January 1981, the Executive Board, in its latest review of the decision on the extended Fund facility,[5]

[5] Executive Board Decision No. 4377-(74/114), adopted September 13, 1974 as amended by Decisions No. 6339-(79/179), December 3, 1979, and No. 6830-(81/65), April 22, 1981, effective May 1, 1981, *Selected Decisions of the International Monetary Fund and Selected Documents,* Ninth Issue (Washington, 1981), page 26.

found that the assistance under the facility could play an increasingly important role in view of the growing external pressure being faced by many member countries, and agreed that this assistance should be continued. It was decided that the provisions of the facility would be reviewed not later than June 1982, together with a review of the Fund's policy on stand-by arrangements.

Five new arrangements were approved during 1981/82 under the extended Fund facility, involving a total commitment of SDR 7.9 billion, of which SDR 4.1 billion was to be financed through borrowed resources under the enlarged access policy, SDR 0.5 billion through borrowed resources under the supplementary financing facility, and SDR 3.3 billion from the Fund's ordinary resources. In addition, three arrangements — with Guyana, Jamaica, and Sierra Leone—approved in the previous year were augmented for a total of SDR 314 million to meet additional balance of payments needs of these countries. The largest arrangement was with India (SDR 5 billion), followed by Pakistan (SDR 0.9 billion), Zaïre (SDR 0.9 billion), and Zambia (SDR 0.8 billion). All the arrangements were for three years, except that with Pakistan, which was for two years. During the year, arrangements with Morocco, Senegal, Sierra Leone, and Sudan were canceled, but those with Morocco, Senegal, and Sudan were replaced by stand-by arrangements of shorter duration.

Purchases under extended arrangements during 1981/82 almost tripled to SDR 2.6 billion, from SDR 920 million in the previous year. Of the 15 members making purchases, 5 members—India (SDR 900 million), Pakistan (SDR 465 million), Zambia (SDR 300 million), Zaïre (SDR 175 million), and Jamaica (SDR 171 million)—accounted for more than three fourths of total extended Fund facility purchases. About half of the purchases were financed by the Fund's ordinary resources, while the other half were about evenly financed through borrowed resources under the supplementary financing facility and the enlarged access policy. As of April 30, 1982, total undrawn balances under the extended Fund facility amounted to SDR 7.5 billion.

Compensatory Financing Facility

Use of the compensatory financing facility has continued to grow significantly, both in absolute terms and also as a share of total Fund credit, since the major liberalizations of the facility in December 1975 and August 1979.[6] Purchases in 1981/82 (SDR 1,635 million) amounted to nearly double those in each of the previous two years, and as of April 30, 1982, outstanding purchases amounted to SDR 3.6 billion, which was about one fourth of total purchases outstanding of SDR 14.9 billion.

The Fund's policy on compensatory financing, notably the meaning of a shortfall attributable to circumstances beyond the control of the member and the experience with the requirement of cooperation, was reviewed by the Executive Board in April 1982. The review did not suggest any need for modifications in existing procedures and practices. It was emphasized that, in deciding whether a shortfall was attributable to circumstances beyond the control of the member, a judgment regarding the factors responsible for the shortfall must take into consideration all the information relevant to each individual case. The Executive Board decided that the existing procedures employed in arriving at these judgments should continue to be applied in a flexible way. There is a standard requirement for all compensatory financing purchases that the Fund be satisfied that the member will cooperate with the Fund in finding, where required, appropriate solutions for the member's balance of payments difficulties. In addition, purchases that bring a country's outstanding drawings under the facility to more than 50 per cent of its quota require, inter alia, that the Fund be satisfied that the member has been so cooperating. It was noted that, in the vast majority of cases, the formulation of a judgment on the degree of cooperation has been relatively straightforward and that a case-by-case approach has provided flexibility while ensuring uniformity of treatment of members. In the majority of cases, cooperation was shown by the existence of financial arrangements with the Fund, either in effect or approved simultaneously with the requests for compensatory financing.

Compensatory Financing of Fluctuations in the Cost of Cereal Imports

Executive Board Decision No. 6860-(81/81), adopted May 13, 1981[7] provides for compensation to be made available to members for excesses in the cost of cereal imports. Under the decision, which will be of particular benefit to low-income countries, such compensation is integrated with that available for export shortfalls. Members experiencing temporary increases in the cost of their cereal imports may request a purchase, subject to quota limits on outstanding purchases in respect of export shortfalls (100 per cent) and in respect of cereal import excesses (100 per cent) and a joint limit

[6] See Executive Board Decision No. 6224-(79/135), adopted August 2, 1979, *Selected Decisions of the International Monetary Fund and Selected Documents,* Ninth Issue (Washington, 1981), page 56.

[7] *Selected Decisions of the International Monetary Fund and Selected Documents,* Ninth Issue (Washington, 1981), page 59. See also *Annual Report, 1981,* pages 84–85.

of 125 per cent. During 1980/81, three members—Korea, Malawi, and Morocco—used this facility for SDR 106 million, SDR 12 million, and SDR 236 million, respectively. As of April 30, 1982, purchases outstanding amounted to SDR 344 million.

This facility is operative for an initial period of four years and will be reviewed by the Executive Board not later than June 30, 1983, and when quota increases under the Eighth General Review of Quotas become effective.

Buffer Stock Facility

Fund assistance is available to members in balance of payments need for the purpose of financing their contributions to buffer stocks of primary products established under international commodity agreements that are judged to be suitable for Fund financing. In accordance with criteria laid down in the decision establishing the facility, the Fund has so far authorized the use of its resources in connection with the tin, cocoa, and sugar buffer stocks, but purchases have been made only with respect to tin and sugar. Six members have purchased a total of SDR 30 million in connection with their contributions to the buffer stock established under the Fourth International Tin Agreement, and six members have utilized SDR 74 million for contributions under the International Sugar Agreement. All of these purchases have been repurchased. In June 1982, Bolivia and Malaysia made purchases totaling about SDR 83 million in connection with their compulsory contributions to the buffer stock of the Fifth International Tin Agreement.

Supplementary Financing Facility

The supplementary financing facility,[8] for which financing was provided by 14 lenders for a total of SDR 7.8 billion, enabled the Fund to provide supplementary financing under stand-by and extended arrangements, in conjunction with the use of the Fund's ordinary resources. (See Table 22.)

The borrowed resources available under the facility were fully committed by March 30, 1981, except that resources may become available again in the event of the cancellation of an arrangement involving supplementary financing. From March 30, 1981, commitments of borrowed resources were in principle to be made from borrowing by the Fund under the policy on enlarged access (see below). The policy on enlarged access did leave open the scope for supplementary financing to be committed in new arrangements with enlarged access in the event that previously committed supplementary financing became available. In accordance with the loan agreements, supplementary financing facility funds could not be committed after February 22, 1982. The Fund decided that, in the period up to that date, supplementary financing released under a canceled arrangement by a member would be recommitted if another arrangement that replaced the canceled arrangement was entered into by the same member.[9] Supplementary financing was recommitted in this way during the period to February 22, 1982 for a total of SDR 988 million for new arrangements with Costa Rica, Jamaica, Kenya, Liberia, Madagascar, Mauritania, Pakistan, Senegal, and Sudan.

A total of SDR 4.2 billion of the SDR 7.8 billion under the supplementary financing facility borrowing agreements was disbursed by April 30, 1982. Under the borrowing agreements, the Fund cannot borrow and disburse supplementary financing facility funds after February 22, 1984. The Executive Board has authorized the Managing Director to substitute, prior to February 22, 1984, supplementary financing for borrowed resources for enlarged access when he considers supplementary financing has become available. Such financing may become available as "inoperative" arrangements are canceled or arrangements expire without being fully drawn, thereby releasing supplementary financing facility funds that are in excess of supplementary financing facility lines of credit that cannot be drawn upon because of the lender's balance of payments need. (Two of the lenders requested advance repayment of their supplementary financing facility claims on the Fund, for a total of SDR 78 million, because of balance of payments need. These claims on the Fund were encashed and refinanced by calls on other supplementary financing facility lenders by agreement with those lenders.) In such circumstances, the supplementary financing facility funds available could not be recommitted after February 22, 1982 but could be disbursed over the next two years in substitution of other borrowed resources under stand-by and extended arrangements that had been approved before February 22, 1982. This procedure maximizes the use of the supplementary financing facility borrowing agreements while reducing the need to borrow under the policy on enlarged access. Concurrently, it enlarges the likelihood of use of supplementary financing resources by low-income developing members eligible for subsidy.[10] A total of 12 members agreed to the amendment of their

[8] Established under Executive Board Decision No. 5508-(77/127), adopted August 19, 1977, *Selected Decisions of the International Monetary Fund and Selected Documents,* Ninth Issue (Washington, 1981), page 31.

[9] Executive Board Decision No. 7048-(82/13), adopted February 5, 1982 and reproduced in Appendix II.

[10] See the section "Supplementary Financing Facility Subsidy Account," below, and see also *Annual Report, 1981,* pages 105 and 106.

Table 22. Supplementary Financing Facility: Commitments Outstanding and Purchases Under Stand-By and Extended Fund Facility Arrangements, April 30, 1982

(In millions of SDRs)

		Arrangement		Supplementary Financing		
Country	Quota	Type	Amount	Commitment	Purchases [1]	Undrawn balance
Bangladesh [2]	228.0	EFF	800.00	480.80	110.00	370.80
Costa Rica [3]	61.5	EFF	276.50	24.58	11.25	13.33
Dominica [4]	2.9	EFF	8.55	4.49	1.78	2.71
Guyana [5]	37.5	EFF	150.00	66.37	22.24	44.13
Ivory Coast [6]	114.0	EFF	484.50	324.90	88.36	236.54
Jamaica [7]	111.0	EFF	477.70	149.25	128.55	20.70
Kenya [8]	103.5	SBA	151.50	96.84	28.36	68.48
Liberia [9]	55.5	SBA	55.00	18.00	17.99	—
Madagascar [10]	51.0	SBA	109.00	29.71	17.09	12.62
Pakistan [11]	427.5	EFF	919.00	490.12	167.56	322.56
Senegal [12]	63.0	SBA	63.00	33.57	7.79	25.78
Sudan [13]	132.0	SBA	198.00	136.40	43.59	92.81
Tanzania [14]	82.5	SBA	179.60	137.47	16.28	121.19
Togo [15]	28.5	SBA	47.50	29.87	7.25	22.62
Turkey [16]	300.0	SBA	1,250.00	1,211.40	821.40	390.00
Yugoslavia [17]	415.5	SBA	1,662.00	1,357.84	388.34	969.50
Total			6,831.85	4,591.61	1,877.83	2,713.78

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

arrangements to provide for such substitution. Possible substitution of resources will be considered in connection with each quarterly operational budget. As of April 30, 1982, no such substitution had been made. Available supplementary financing will be called upon to finance purchases in a coming calendar quarter by those members that had agreed to permit the Fund to substitute supplementary financing facility for enlarged access resources. The cost of using supplementary financing facility resources by low-income developing members is eligible for subsidy.

Policy on Enlarged Access to Fund Resources

In March 1981, the Executive Board took a decision under which it adopted a policy on enlarged access to the Fund's resources until the Eighth General Review of Quotas becomes effective.[11] In accordance with this policy, following the full commitment of resources from the supplementary financing facility and the completion of new borrowing agreements, the Fund has been able to continue its assistance to members facing payments imbalances that are large in relation to their quotas and which need resources in larger amounts and for longer periods than are available under the regular tranches.

Financing for purchases under this policy is being obtained under new borrowing agreements, the first of which was a medium-term agreement for SDR 8 billion concluded with the Saudi Arabian Monetary Agency on May 7, 1981, which was followed by short-term agreements totaling SDR 1.3 billion with the Bank for International Settlements, 18 central banks or official agencies of Fund members, and Switzerland.

Under the enlarged access policy, as under the supplementary financing facility, the Fund authorizes purchases for stand-by and extended arrangements to be financed in 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 policies con-

[11] Executive Board Decision No. 6783-(81/40), adopted March 11, 1981, *Selected Decisions of the International Monetary Fund and Selected Documents,* Ninth Issue (Washington, 1981), page 39. See also *Annual Report, 1981,* pages 85–88.

tinues to be available in accordance with the terms of those policies. The Fund will review the decision on enlarged access to Fund resources not later than June 30, 1983, and annually thereafter as long as it remains in effect. The enlarged access policy has been used extensively by members in its first year. A total of 24 stand-by and extended arrangements were approved for a total of SDR 11.3 billion, of which SDR 6.0 billion was committed from borrowed resources under enlarged access; the major part of the balance is financed from the Fund's ordinary resources, supplemented by some recommitment of supplementary financing resources. As of April 30, 1982, purchases by 11 members for a total of SDR 1,160 million were financed by calls under the enlarged access borrowing agreements. (See Table 23.) In other cases, purchases did not reach the level at which enlarged access resources were required to be used.

The Executive Board has affirmed, in reviewing the Fund's liquidity position, the guidelines of access to Fund resources under enlarged access. These guidelines provide for members making strong adjustment efforts to have access to Fund resources of up to 150 per cent of quota a year or up to 450 per cent over a three-year period. Members' cumulative access to the Fund's conditional liquidity, net of scheduled repurchases, could 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 guidelines governing access allow for flexibility in application. Thus, members will in appropriate circumstances be able to purchase larger amounts than the normal limits as, for instance, when a member's quota is unusually low in relation to its economic size, or when a member undertakes an exceptionally strong adjustment program.

Repurchases

During the past financial year repurchases totaled SDR 2,010 million, compared with the total of SDR 2,853 million in 1980/81. Of these, about one half were in respect of purchases under the oil facility

Table 23. Enlarged Access Resources: Commitments and Purchases Under Stand-By and Extended Fund Facility Arrangements, April 30, 1982

(In millions of SDRs)

Country	Quota	Arrangement		Enlarged Access Resources		
		Type	Amount	Commitment	Purchases [1]	Undrawn balance
Costa Rica [2]	61.5	EFF	276.75	166.07	—	166.07
Ethiopia [3]	54.0	SBA	67.50	32.52	26.12	6.40
Gambia, The [4]	13.5	SBA	16.90	8.88	4.10	4.78
Guyana [5]	37.5	EFF	150.00	50.00	—	50.00
India [6]	1,717.5	EFF	5,000.00	2,595.50	450.00	2,145.50
Jamaica [7]	111.0	EFF	477.70	241.30	—	241.30
Liberia [8]	55.5	SBA	55.00	6.92	0.92	6.00
Madagascar [9]	51.0	SBA	109.00	32.30	—	32.30
Mauritius [10]	40.5	SBA	30.00	13.28	—	13.28
Morocco [11]	225.0	SBA	281.25	166.18	43.45	122.73
Romania [12]	367.5	SBA	1,102.50	746.18	53.22	692.96
Somalia [13]	34.5	SBA	43.13	22.64	19.11	3.53
Thailand [14]	271.5	SBA	814.50	566.59	179.46	387.13
Uganda [15]	75.0	SBA	112.50	58.97	53.52	5.45
Zaïre [16]	228.0	EFF	912.00	632.94	107.60	525.34
Zambia [17]	211.5	EFF	800.00	674.00	223.00	451.00
			10,248.73	6,014.27	1,160.50	4,853.77

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

for 1974 and 1975, followed by repurchases under the compensatory financing facility (30 per cent), and in the credit tranches (about 13 per cent). Other repurchases included mainly SDR 113 million by 46 members under Schedule B, paragraph 4(ii) of the Articles of Agreement;[12] and the equivalent of SDR 30.0 million was repurchased by two members, Papua New Guinea (SDR 4.8 million) and Yugoslavia (SDR 25.2 million), in discharge of obligations incurred under Article V, Section 7(*b*) in effect before the Second Amendment. Three members, Jamaica, Malawi, and Sudan, repurchased a total of SDR 40.8 million, being the amount by which purchases under the compensatory financing facility, based on partly estimated data, exceeded the actual shortfall.

No outstanding purchases were covered by the guidelines for early repurchases.[13] However, two members, the United Kingdom (SDR 43.8 million) and Mauritius (SDR 5.5 million), made repurchases in advance of scheduled repurchase commitments. The advance repurchase by the United Kingdom was of assistance to the Fund's liquidity in connection with the encashment of oil facility loan claims by a lender in balance of payments need.

Fund Liquidity

The Executive Board decided in January 1982, in adopting the guidelines for borrowing, that the Executive Board will regularly review the Fund's liquidity,[14] taking into account all relevant quantitative and qualitative factors, particularly the need to foster and maintain the confidence of creditors to the Fund in its policies and the discharge of its responsibilities in financing and adjustment. The first such comprehensive review of the Fund's liquidity position was completed in April 1982.

At the end of the financial year 1981/82, the Fund's usable ordinary resources amounted to about SDR 22.9 billion[15] (SDR 17.4 billion of usable currencies and SDR holdings of 5.5 billion in the General Resources Account), compared with outstanding borrowing (under the oil facility, the supplementary financing facility, the General Arrangements to Borrow, and the policy on enlarged access) of SDR 6.8 billion, reserve tranche positions of Fund members (SDR 15.6 billion), and undrawn balances of ordinary resources under stand-by and extended arrangements (SDR 3.6 billion). The reserve tranche positions and loan claims on the Fund may be drawn on or encashed by the creditor members in case of balance of payments need. Therefore, the Fund must continually be able to meet possible demands for encashment of these claims in order to safeguard the reserve character of these assets and thus to maintain the confidence of members and creditors in the Fund as an international monetary institution in which members can hold some of their liquid foreign reserves.

The Fund's usable currencies are currencies of those members whose balance of payments and gross reserve positions are considered by the Executive Board to be sufficiently strong for their currencies to be sold by the Fund to finance other members' drawings. Under existing policies and decisions of the Fund, currencies of members that have outstanding purchases are not proposed for sales, unless so agreed with a debtor member that is considered by the Fund to be in a strong external position. The bulk of the Fund's usable currency holdings usually tends to be represented by a small number of currencies, and this was particularly pronounced as of April 30, 1982 because a large number of currencies were not considered usable in view of the weakening in the external positions of those members. In fact, at the end of the financial year, the Fund's holdings of five currencies accounted for about 80 per cent of total holdings of usable currencies.

Borrowing

The Fund resorts to borrowing when its liquidity position is considered insufficient to finance its commitments. The Fund has supplemented its ordinary resources (i.e., quotas) by borrowing from some of its members, Switzerland, and central banks and other official institutions in these countries under several arrangements and agreements. The General Arrangements to Borrow were concluded in 1962; the oil facility agreements were entered into in 1974 and 1975, with drawings terminating in 1976; and the supplementary financing facility took effect in 1979, with borrowings to terminate in 1984. To finance its growing commit-

[12] Paragraph 4(ii) of Schedule B requires that a member repurchase within four years from the date of the Second Amendment of the Articles of Agreement, that is, before April 1, 1982, any balance of its currency held by the Fund in excess of 75 per cent of quota at the date of the Second Amendment which was not otherwise subject to repurchase.

[13] Executive Board Decisions No. 5704-(78/39), adopted March 22, 1978, and No. 6172-(79/101), adopted June 28, 1979, *Selected Decisions of the International Monetary Fund and Selected Documents,* Ninth Issue (Washington, 1981), pages 91 and 93. Also see *Annual Report, 1979,* page 75.

[14] The Fund's overall liquidity position is defined as the relationship between its immediately usable assets, comprising SDRs in the General Resources Account and usable currencies, and its liquid liabilities, consisting of members' liquid claims on the Fund (reserve positions, undrawn balances of ordinary resources, and lenders' claims on the Fund). The Fund's holdings of gold, amounting to 103.440 million ounces (valued at SDR 35 per fine ounce), are not included in the category of immediately usable resources.

[15] Remuneration for the financial year 1981/82, which is paid on May 1, mostly in SDRs, reduces usable uncommitted ordinary resources to about SDR 22.1 billion.

ments under the policy on enlarged access, the Fund entered into bilateral borrowing agreements with the Saudi Arabian Monetary Agency and with the central banks and official agencies of certain industrial and developing countries. (See Table 24.)

Table 24. Borrowing in Connection with Purchases Under Policy on Enlarged Access to Fund's Resources, May 1, 1981–April 30, 1982

(In millions of SDRs)

Type	Total Amounts of Borrowing Agreements	Amounts Borrowed	Balance Available as of April 30, 1982
Medium Term			
Saudi Arabian Monetary Agency	8,000.00[1]	1,248.00	6,752.00
Short Term	1,305.00	109.69	1,195.31
	9,305.00	1,357.69	7,947.31

[1] Under the borrowing agreement, the Saudi Arabian Monetary Agency has committed to lend up to SDR 4 billion in the first year, rising to SDR 8 billion in May 1982.

Guidelines for borrowing by the Fund were adopted at the beginning of 1982.[16] The Executive Board confirmed that quota subscriptions remained the basic source of the Fund's financing, but recognized that borrowing has provided an important temporary supplement to Fund resources. The guidelines themselves are subject to review when the Eighth General Review of Quotas is completed, or in the event of major developments in the world economy.

As of April 30, 1982, total outstanding borrowing and unused lines of credit, as defined under the guidelines, amounted to 34.3 per cent of total Fund quotas. The average rates of interest per annum on outstanding Fund borrowings for the year ended April 30, 1982 were 4 per cent (General Arrangements to Borrow); 7.21 per cent (oil facility); 14.58 per cent (supplementary financing facility); and 13.01 per cent (enlarged access to resources).

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. Switzerland's association with the GAB, under separate agreement with the Fund dated June 11, 1964, 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 as of April 30, 1982 was equivalent to about SDR 6.4 billion, of which the balance after adjusting for GAB resources already drawn upon, was about SDR 5.7 billion. The use of the GAB is limited to drawings by a participant in the GAB, 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 not later than in November 1983.

[16] Executive Board Decision No. 7040-(82/7), adopted January 13, 1982 and reproduced in Appendix II.

Oil Facility

The borrowing agreements under the oil 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. By April 30, 1982, the Fund had repaid most of the indebtedness incurred under the oil facility, with a balance outstanding amounting to SDR 0.5 billion. (See Appendix I, Table I.9.)

In April 1982, Nigeria encashed its claims on the Fund. A total of SDR 45.0 million borrowed under the oil facility was repaid to Nigeria, of which a major part was financed through an advance repurchase of drawings under the oil facility by the United Kingdom, leaving SDR 1.2 million to be financed through the Fund's ordinary resources. This encashment—the first under the facility—underscores the liquid character of loan claims on the Fund, as they can be immediately encashed by the lender in case of balance of payments need.

Supplementary Financing Facility

In 1979, the Fund entered into borrowing agreements with 13 members and the Swiss National Bank to be able to borrow 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 2.2 billion under the facility, compared with SDR 1.5 billion in the previous year. On April 30, 1982, SDR 3.6 billion was still undrawn but had been almost fully committed under existing stand-by and extended arrangements.

As with the oil facility, a creditor's claims on the Fund under the supplementary financing facility are encashable by the Fund virtually on demand if the creditor represents that it has a balance of payments need. 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 the transferee. The first such transaction took place in November 1980, when loan claims totaling SDR 172 million were transferred by the Deutsche Bundesbank to the Saudi Arabian Monetary Agency. In February 1982, the Banco de Guatemala encashed its claims of SDR 8.4 million, and in April 1982, the Central Bank of Nigeria encashed its claims of SDR 69.9 million. Both encashments were refinanced through calls by agreement with other lenders to the supplementary financing facility. The Banco de Guatemala's claims were refinanced through a call on the Swiss National Bank, while the Central Bank of Nigeria's claims were refinanced through calls on Japan and the United States, each for one half of the total amount.

Borrowing to Finance Enlarged Access

Medium-Term Borrowing

The Saudi Arabian Monetary Agency has agreed to lend the Fund up to a maximum of SDR 4 billion in the first year and increasing to SDR 8 billion by the end of the second year of a six-year commitment period.[17] The Saudi Arabian authorities have also indicated that it is their intention to consider a further commitment in the third year if their balance of payments and reserve position so permits. In accordance with the agreement, the Fund made drawings of SDR 1.2 billion in the first year; it will not draw more than SDR 4 billion in any one year without the further agreement of the Saudi Arabian Monetary Agency.

Short-Term Borrowing

By April 30, 1982 the Fund had agreed with the central banks or official agencies of 18 countries that they would make available to the Fund the equivalent of SDR 1.3 billion over a commitment period of two years.[18] Of this amount, SDR 675 million is available to the Fund under a borrowing agreement with the Bank for International Settlements (BIS),[19] and the balance under direct bilateral arrangements with lenders, namely, the National Bank of Belgium, Japan, the Swiss National Bank, the Bank of England, the Reserve Bank of Australia, the Bank of Finland, the Central Bank of Ireland, and the South African Reserve Bank. The Fund may 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.[20]

Borrowed Resources Suspense Accounts

The Executive Board adopted decisions in May 1981[21] authorizing the Managing Director to establish borrowed resources suspense accounts to receive amounts borrowed under the policy of enlarged access pending use in purchase transactions or received in repurchases pending repayment to lenders. So far, such accounts have been established with the Bank for International Settlements, the Federal Reserve Bank of New York, and the Saudi Arabian Monetary Agency. The authority was also given for undisbursed balances in the accounts to be temporarily invested in SDR-denominated assets until transfer to a General Resources Account for use in a transaction.[22] The use of the accounts during 1981 was confined to the management of undisbursed balances of drawings from the Saudi Arabian Monetary Agency. Amounts were temporarily redeposited with the BIS or the Federal Reserve Bank of New York in SDR-denominated accounts at prevailing short-term SDR interest rates. As of April 30, 1982, balances of SDR 230 million were on deposit with the BIS awaiting disbursement.

Charges, Remuneration, and Financial Results

With effect from May 1, 1981, important changes were made in the structure of the Fund's charges and in the relationship of the SDR rate of interest and the rate of remuneration to the combined market rate of interest.[23] The decisions taken by the Fund, based on the review with respect to charges, were to simplify the structure of the Fund's charges, to provide for periodic reviews of the Fund's income position, and to introduce

[17] Executive Board Decision No. 6843-(81/75), adopted May 6, 1981, *Selected Decisions of the International Monetary Fund and Selected Documents,* Ninth Issue (Washington, 1981), page 143.
[18] The 18 countries are Australia, Austria, Belgium, Canada, Denmark, Finland, France, the Federal Republic of Germany, Ireland, Italy, Japan, the Netherlands, Norway, South Africa, Spain, Sweden, Switzerland, and the United Kingdom.
[19] Executive Board Decision No. 6863-(81/81), adopted May 13, 1981 as amended by Decision No. 6870-(81/83), adopted June 1, 1981, *Selected Decisions of the International Monetary Fund and Selected Documents,* Ninth Issue (Washington, 1981), page 173.
[20] Executive Board Decision No. 6864-(81/81), adopted May 13, 1981, *Selected Decisions of the International Monetary Fund and Selected Documents,* Ninth Issue (Washington, 1981), page 176.
[21] Executive Board Decisions No. 6844-(81/75) and No. 6845-(81/75), adopted May 5, 1981, *Selected Decisions of the International Monetary Fund and Selected Documents,* Ninth Issue (Washington, 1981), pages 186 and 187.
[22] *Ibid.*
[23] See *Annual Report, 1981,* pages 93–94.

a safeguard procedure to give assurance that over time the Fund's income position would be positive and the Fund would add moderately to its reserves. The simplification of the structure of charges resulted in the introduction of a single rate of charge to apply to members' use of the Fund's ordinary resources. This single rate of charge replaced the earlier schedules of charges that had provided for a progression in the rates of charges each year that the holdings subject to charges remained outstanding. Under the new procedures, the Executive Board is to determine the rate of charge at the beginning of each financial year based on the estimated income and expense of the Fund for the year and taking into account a target amount of net income for the year. For the financial year 1982, the rate of charge to be applied to holdings arising from purchases financed from the Fund's ordinary resources was set by the Executive Board at 6.25 per cent per annum and at 6.60 per cent per annum for the financial year 1983.

The schedules of charges applicable to holdings arising from purchases by members financed with borrowing under the oil facility, the supplementary financing facility, and the policy on enlarged access were not changed, as they reflect the cost of borrowed funds. The rates of charge applicable to purchases under the oil facility for 1974 and 1975 have progressed to the maximum levels of 7.125 per cent per annum and 7.875 per cent per annum, respectively. The rates of charge applied to the use by members of borrowed resources under the supplementary financing facility and the policy on enlarged access continued to be the same as in the previous year. In the case of the supplementary financing facility, the rate of charge is the rate of interest paid by the Fund plus 0.2 per cent in the first 3½ years and plus 0.325 per cent after 3½ years. Under the enlarged access policy, the rate is the net cost of borrowing by the Fund plus 0.2 per cent per annum.

The Fund pays remuneration to those members who hold a remunerated reserve tranche position. Such a position exists whenever the Fund's holdings of a member's currency (after exclusion of currency on which the member is obligated to pay charges to the Fund) are lower than the norm for remuneration. The norm is defined for members of the Fund prior to the Second Amendment (April 1, 1978) as the sum of 75 per cent of quota at the date of the Second Amendment and the increase in quotas after that date. For members that joined the Fund after April 1, 1978, the norm is the weighted average of the norms applicable to all other members on the date the member joined the Fund plus the increase in its quota after that date. At the end of April 1982, the average of the norm for Fund members was 87.91 per cent of quota.

At the time that the structure of the Fund's charges was simplified and the single rate of charge was introduced, decisions were also taken with respect to the relationship of the SDR interest rate to the combined market rate and of the rate of remuneration to the SDR interest rate. These decisions 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 the concessional rates of charges. In the light of these objectives, the SDR rate of interest was increased, effective May 1, 1981, from 80 per cent to 100 per cent of the combined market rate, and the rate of remuneration, which in accordance with Article V, Section 9 (*a*) of the Fund's Articles of Agreement must be between 80 per cent and the full SDR interest rate, was changed from 90 per cent to 85 per cent of the SDR interest rate. Although this latter change reduced the level of the rate of remuneration in relation to the SDR interest rate, the increase in the SDR interest rate raised the rate of remuneration in relation to the combined market rate from 72 per cent (90 per cent of 80 per cent) to 85 per cent.

The SDR rates of interest and the rates of remuneration (Chart 24) applicable over the five quarters beginning April 1, 1981 were as follows:

Calendar quarter beginning	SDR interest rate	Rate of remuneration
April 1, 1981–April 30, 1981	10.125	9.1125
May 1, 1981–June 30, 1981	12.58	10.69
July 1, 1981	14.03	11.93
October 1, 1981	13.99	11.89
January 1, 1982	11.63	9.89
April 1, 1982	12.15	10.33

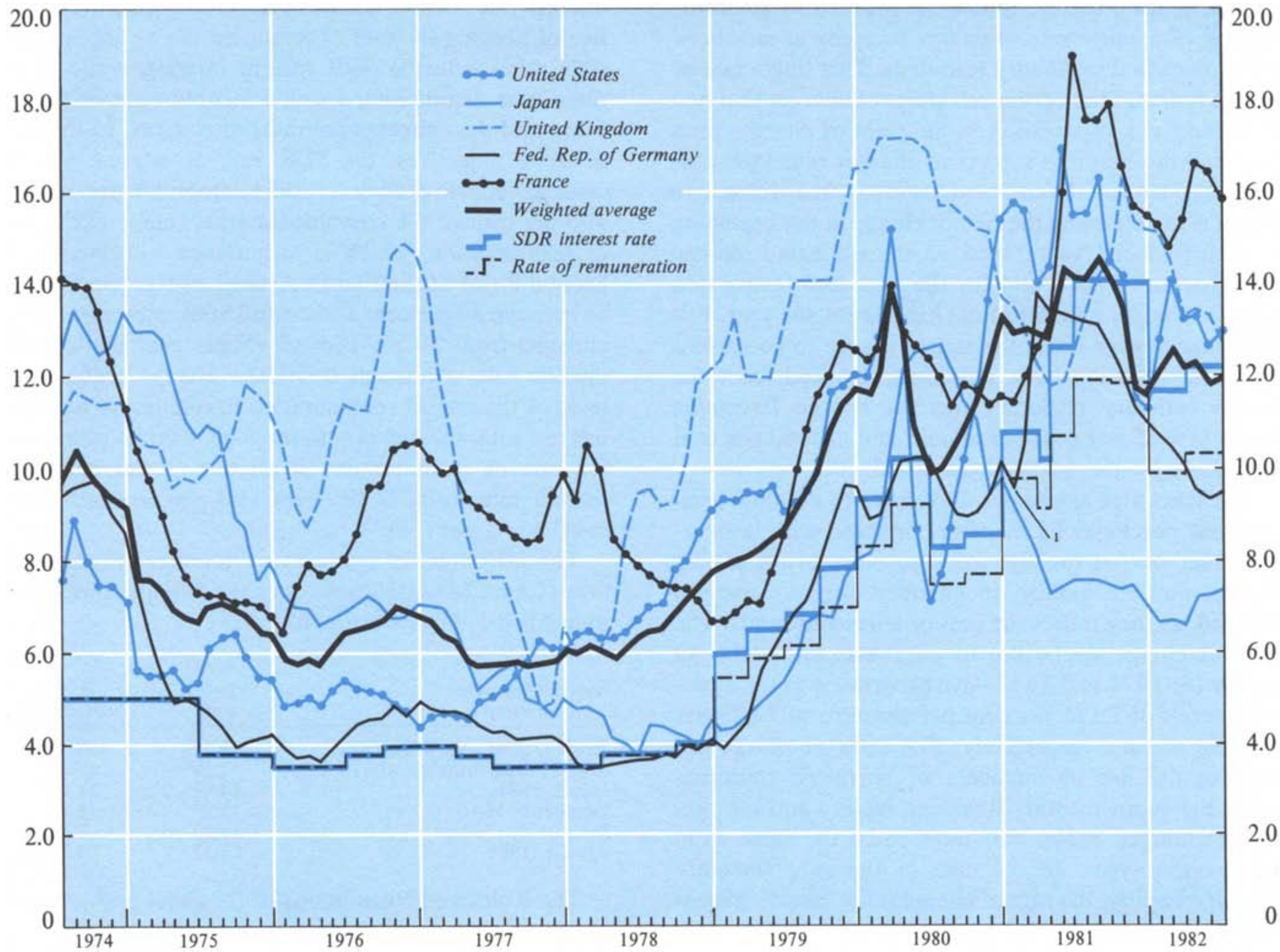
The Rules and Regulations of the Fund provide for a review of the rate of interest on holdings of special drawing rights and of the rate of remuneration at the conclusion of each financial year. The Rules and Regulations also provide that if the net income for the year is in excess of the target amount 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.

Income, Expense, and Reserves

For the financial year ended April 30, 1982, the Fund's net income amounted to SDR 92 million, compared with SDR 80 million in 1980/81. The results reflect a substantial increase in operational income from periodic charges, service charges, and interest on the Fund's SDR holdings. Total operational income for 1981/82 amounted to a record SDR 1,789 million and

Chart 24. SDR Interest Rate, Rate of Remuneration, and Short-Term Interest Rates, July 1974–June 1982[1]

(In per cent per annum)



[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.

represented an increase of SDR 907 million over the previous year.

At the same time, the Fund's operational expense also increased to a record level of SDR 1,544 million, an increase of SDR 842 million over the previous year. Operational expense of the Fund comprises remuneration payable by the Fund on the use of creditor currencies and interest expense on borrowing. Net operational income for the financial year ended April 30, 1982 amounted to SDR 245 million, compared with SDR 180 million in 1980/81. Administrative and fixed property expense rose from SDR 100 million in 1980/81 to SDR 153 million in 1981/82.

The increases in operational income and expense to record levels in 1981/82 reflected the continued assistance provided by the Fund to its members. The total of holdings subject to charges increased from SDR 9,544 million on April 30, 1981 to SDR 14,801 million on April 30, 1982. Over the same period, creditor positions on which the Fund pays remuneration increased from SDR 6,813 million to SDR 9,626 million, and outstanding borrowing by the Fund increased from SDR 4,323 million to SDR 6,773 million. Except for borrowing of SDR 1,303 million outstanding under the General Arrangements to Borrow and under the oil facility, the interest paid by the Fund must reflect current market interest rates.

A comparative statement of the Fund's operational income and expense is shown in Appendix VII and comparative details of administrative and fixed property expense are shown in Appendix VI.

The Articles of Agreement and the Rules and Regulations of the Fund provide that the Fund shall determine at the end of each year the disposition to be made of the net income for the year. The Executive Board determined that the net income for the financial year ended April 30, 1982 shall be placed to special reserve. Total reserves of the Fund, taking into account net income for 1981/82, amounted to SDR 935 million.

Special Drawing Rights Department

The total transfers in the Special Drawing Rights Department during 1981/82 (SDR 8.6 billion) were below the record of SDR 11.9 billion in the previous year, which had reflected mainly the massive use of SDRs to make payments for the quota increases under the Seventh General Review in 1980. There was, nevertheless, a considerable increase in the volume of transactions by agreement, from SDR 418 million to SDR 1,242 million, while the volume of transactions with designation (SDR 1,875 million) was almost at the same level as in the previous year (SDR 1,882 million). In July 1981 first use was made under the Executive Board's decisions prescribing the additional uses of SDRs in various financial operations by agreement among participants and other holders.

Other Holders of SDRs

The Fund prescribed three more institutions as "other holders" of SDRs during the year ended April 30, 1982, bringing the total number of other holders to twelve. The three new holders are the Bank of Central African States, Yaoundé; the Central Bank of West African States, Dakar; and the Islamic Development Bank, Jeddah. The twelve "other holders" comprise four central banks and currency authorities (the Swiss National Bank, Zurich; the Bank of Central African States, Yaoundé; the Central Bank of West African States, Dakar; and the East Caribbean Currency Authority, St. Kitts); three intergovernmental monetary institutions (the Bank for International Settlements, Basle; the Andean Reserve Fund, Bogotá; and the Arab Monetary Fund, Abu Dhabi); and five development institutions (the International Bank for Reconstruction and Development, Washington, D.C.; the International Development Association, Washington, D.C.; the Islamic Development Bank, Jeddah; the Nordic Investment Bank, Helsinki; and the International Fund for Agricultural Development, Rome). "Other holders" can acquire and use SDRs in transactions and operations by agreement with participants and other holders under the same terms and conditions as participants. They cannot, however, receive allocations of SDRs nor use SDRs in transactions with designation. During the year, transfers involving other holders amounted to SDR 67.7 million, although their holdings as at the end of April 1982 remained small (SDR 4.3 million held by four other holders).

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 1,242 million in the year ended April 30, 1982, a substantial increase over the previous year's figure of SDR 418 million. (See Table 25.) This increase in transactions by agreement reflected, in part, the efforts by the Fund to promote a more smoothly functioning market in SDRs, primarily through extension of the list of participants and other holders who are ready to sell SDRs, either under standing arrangements or, on an ad hoc basis, in transactions arranged by the Fund on their behalf. The sales of SDRs by Gabon to other member countries of the Bank of Central African States marked the first transfers of SDRs against CFA francs. The first sales of SDRs by other holders took place in 1981, and the sale by the Swiss National Bank involved the first transfer of SDRs against Swiss francs. Additionally, a new member acquired the SDRs necessary to pay the SDR component of its initial subscription to the Fund from an other holder. This transaction was the first acquisition of SDRs involving SDR-denominated deposits with a private bank. As in past years, however, the main suppliers of SDRs were Canada and the Federal Republic of Germany. Almost all acquisitions of SDRs were to enable the buyer to meet obligations to the Fund, such as charges in the General Resources Account, net charges on the use of SDRs, and repurchases.

Other Uses of SDRs

The Fund permits additional uses of SDRs by participants and by 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

Table 25. Use and Receipt of SDRs in Transactions by Agreement, Financial Year Ended April 30, 1982
(In SDRs)

Holder	Use	Receipt
Arab Monetary Fund	1,035,000	
Australia		10,780,000
Austria	61,850,000	
Bangladesh		13,800,000
Bolivia		9,501,190
Burma		5,000,000
Cameroon		3,300,000
Canada	318,281,972	
Central African Republic		2,475,000
Chad		1,785,274
Chile		2,400,000
China, People's Republic of		240,000,000
Congo		1,200,000
Costa Rica		5,380,000
Cyprus		3,425,000
Egypt		3,050,000
El Salvador		5,266,520
Equatorial Guinea		169,950
Finland		36,000,000
Gabon	5,389,360	
Gambia, The		313,975
Germany, Federal Republic of	493,910,200	
Ghana		1,100,000
Greece		14,860,632
Grenada		300,000
Guatemala		3,000,000
Guinea		2,000
Guinea-Bissau		249,975
Guyana		3,740,000
Haiti		3,240,000
Iceland		10,100,000
Israel		68,000,000
Ivory Coast		5,500,000
Jamaica		25,500,000
Korea		102,200,000
Lao People's Democratic Republic		1,091,498
Liberia		7,819,142
Madagascar		1,000,000
Malawi		7,320,000
Mali		2,510,000
Mauritania		2,510,000
Mauritius		2,960,000
Mexico		22,850,000
Morocco		37,500,000
Nepal		1,710,000
New Zealand		31,000,000
Nicaragua		4,068,739
Nigeria	25,500,000	
Nordic Investment Bank	21,000,000	
Panama		17,000,000
Peru		63,000,000
Philippines		86,750,000
Portugal		7,600,000
Romania		22,400,000
Senegal		7,142,500
Sierra Leone		4,030,942
South Africa	20,000,000	
Spain		100,000,000
Sri Lanka		13,680,000
Sudan		29,993,360
Swaziland		3,000,000
Swiss National Bank	12,000,000	
Tanzania		9,000,240
Thailand		1,783,691
Turkey		118,570,481
Uganda		3,315,789
United Kingdom	283,071,572	
Vanuatu		1,035,000
Viet Nam		1,100,000
Western Samoa		580,000
Yemen, People's Democratic Republic of		4,500,000
Yugoslavia		11,009,375
Zaïre		7,739,506
Zambia		24,828,325
Total	1,242,038,104	1,242,038,104

SDRs.[24] The year 1981/82 saw the first such additional uses of SDRs in loans, a use which had been authorized by the Executive Board in December 1978. These loans, both of which involved other holders, totaled SDR 24.3 million. In the first case, an other holder borrowed SDRs from a central bank and in the second, an other holder lent SDRs to one of its members. The borrower in the second loan operation also used SDRs to settle certain obligations toward the other holder, in amounts totaling SDR 7.6 million. One obligation was a payment of a capital subscription by the member to the other holder; two others were debt service payments. In addition, a transfer of SDRs took place between two central banks, participating in the European Monetary System, in settlement of a financing operation denominated in ECUs falling due under the operating procedures of that system. All decisions permitting additional uses of SDRs are reviewed by the Fund once each year.

[24] Executive Board Decisions No. 6000-(79/1)S, adopted December 28, 1978, as amended by Decision No. 6438-(80/37)S, adopted March 5, 1980; No. 6001-(79/1)S, adopted December 28, 1978; No. 6053-(79/34)S, adopted February 26, 1979, as amended by Decision No. 6438-(80/37)S, adopted March 5, 1980; No. 6054-(79/34)S, adopted February 26, 1979, as amended by Decision No. 6438-(80/37)S, adopted March 5, 1980; No. 6336-(79/178)S, adopted November 28, 1979; No. 6337-(79/178)S, adopted November 28, 1979; and No. 6437-(80/37)S, adopted March 5, 1980. See *Selected Decisions of the International Monetary Fund and Selected Documents,* Ninth Issue (Washington, 1981), pages 249–59.

Transactions with Designation

In 1981/82, 41 participants used SDR 1,875 million in 70 transactions with designation (in which the user must represent that it has a balance of payments need)

Table 26. Use and Receipt of SDRs in Transactions with Designation, Financial Year Ended April 30, 1982
(In SDRs)

Participant	Use	Receipt	Participant	Use	Receipt
Algeria		11,000,000	Mauritania	2,000,000	
Australia	194,213,639		Mauritius	6,300,000	
Austria		9,019,545	Mexico	242,110,567	53,700,000
Bahrain		3,400,000	Morocco	18,800,000	
Bangladesh	36,000,000		Netherlands		11,953,704
Barbados	5,013,287		Nigeria	213,467,876	2,500,000
Brazil		7,500,000	Norway		11,413,287
Burma	3,000,000		Oman		1,640,000
Central African Republic	3,980,000		Paraguay		2,800,000
Chile		56,151,818	Qatar		724,665
Colombia		9,500,000	Romania	82,000,000	
Dominica	714,000		Rwanda		900,000
Dominican Republic	3,000,000		Saudi Arabia		91,500,000
Ecuador		1,000,000	Senegal	29,163,636	
El Salvador	32,165,000		Singapore		17,343,801
Ethiopia	9,097,649		Solomon Islands	1,524,665	
Gambia, The	1,569,545		South Africa	77,226,431	13,165,000
Germany, Federal Republic of		87,213,639	Sri Lanka	41,500,000	
			Sudan	40,800,000	
Grenada	240,000		Suriname		700,000
Guatemala	78,442,907	1,555,000	Thailand	139,727,273	
Guinea-Bissau	1,750,000		Trinidad and Tobago		5,814,000
Honduras	19,000,000		Turkey	20,000,000	
Indonesia		21,435,000	Uganda	6,363,636	
India	200,000,000		United Arab Emirates		10,400,000
Ivory Coast	59,087,500		United Kingdom		623,700,567
Jamaica	24,500,000		United States		798,151,369
Kenya	20,000,000		Uruguay		3,500,000
Korea	61,733,182		Venezuela		6,000,000
Kuwait		7,500,000	Yemen Arab Republic	10,813,506	
Lao People's Democratic Republic	2,700,000		Zaïre	31,935,000	
			Zambia	38,393,750	
Liberia	11,243,801				
Libyan Arab Jamahiriya		3,500,000	Total	1,874,681,395	1,874,681,395
Madagascar	6,554,545				
Malawi	8,800,000				
Malaysia	89,750,000				

to obtain currency from other participants designated by the Fund. (See Table 26.) The volume of transactions was almost the same as in 1980/81 (SDR 1,882 million). The bulk of the users were non-oil developing countries, and only one industrial country and one oil exporting country used SDRs in transactions with designation. Of these transactions, 58 (amounting to SDR 1,386 million), by 38 countries, represented 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. For the first time, a participant needing to use SDRs authorized the Fund to attempt to arrange the sale of its SDRs in transactions by agreement with the same value date as the prospective transaction with designation. A total of 29 countries were designated to provide currency, the largest amounts being provided by the United States and the United Kingdom. Of the countries designated, 14 were non-oil developing countries, 9 were oil exporting countries, and 6 were industrial countries.

Transactions and Operations Between Participants and the General Resources Account

Inflows

Inflows to the General Resources Account (other than on account of quota payments) were SDR 2,443 million in 1981/82, against SDR 1,772 million in 1980/81. The majority of these inflows represented payment of charges on the use of Fund resources. During 1981/82 all charges were paid in SDRs. An increasing number of members with low holdings acquired SDRs for this purpose from other participants or from the General Resources Account. SDRs were also received from Saudi Arabia as part of the subscription for a special quota increase and by a new member, Vanuatu, in partial payment of its initial subscription.

Repurchases that were discharged at the member's option with SDRs rather than with a currency specified by the Fund amounted to SDR 838 million, somewhat below the level of SDR 930 million in 1980/81. But the proportion of repurchases made in SDRs has steadily increased from about 10 per cent in 1978/79 to about 33 per cent in 1980/81 and to 42 per cent in 1981/82. The main users of SDRs in repurchases during 1981/82 were the United Kingdom (SDR 283 million), Spain (SDR 99 million), Pakistan (SDR 54 million), and Israel (SDR 62 million).

Outflows

SDRs transferred from the General Resources Account to members amounted to SDR 2,697 million, compared with SDR 2,824 million in 1980/81. As in previous years, the major outflow was the transfer of SDRs to members in purchases, which amounted to SDR 2,035 million. These transfers accounted for 42.1 per cent of the total purchases during the year that were financed from the Fund's ordinary resources.

With more countries opting to receive remuneration in the form of SDRs, there has been a substantial increase during the past two years in both the amount of remuneration paid in SDRs and in the number of members receiving remuneration payments in SDRs. Remuneration paid by the Fund on members' net creditor positions totaled the equivalent of SDR 372.8 million in 1980/81, made to 79 members, of which 72 members received SDR 348 million in SDRs. In 1981/82, one remuneration on net creditors' positions totaled SDR 908.6 million, made to 81 members, of which 74 members received SDR 860.6 million in SDRs.

The Fund used a total of SDR 287 million to pay interest and make repayments of principal to lenders to the Fund. The most important items were repayments to eight countries of SDR 144 million of Fund borrowing under the oil facility and interest payments of SDR 124 million to three countries on Fund borrowing under the supplementary financing facility. The General Resources Account also sold SDR 27 million to countries needing SDRs in order to pay charges to the Fund.

The SDR holdings in the General Resources Account remained in the range of SDR 4.7 billion to SDR 5.5 billion throughout 1981/82—a much higher level than for any previous financial year. This high level, together with the historically high SDR interest rate, resulted in a sharp rise to SDR 657 million in the interest receipts of the General Resources Account on its SDR holdings.

SDR as a Unit of Account Outside the Fund

The SDR, which is the unit of account for Fund transactions and operations and for its Administered Accounts, is being increasingly used outside the Fund as a unit of account (or as the basis for a unit of account). Fourteen international and regional organizations [25] and various international conventions used the SDR to express monetary magnitudes, notably in conventions expressing liability limits for currencies in the international transport of goods and services. The United Nations Commission on International Trade Law and the Committee on International Monetary Law of the International Law Association are studying the possibility of developing a maintenance-of-value clause for inclusion in international conventions. There has been limited use of SDRs for invoicing of internationally traded goods and services, which reflects partly the fact that it has only recently become practicable to make payments in SDRs and partly the lack of familiarity with the SDR and its potential advantages. However, the SDR is now used to denominate a wide range of private financial instruments and obligations,[26] ranging from current account deposits to ten-year syndicated credits, a development which was stimulated by the reduction from 16 to 5 in the number of currencies in the SDR valuation basket, effective January 1, 1981.

SDR as a Currency Peg

In addition to the uses of the SDR 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 is set in terms of currencies by reference to the SDR value of those currencies as calculated and published by the Fund. During the year ended May 31, 1982, a new member, Vanuatu, joined the list of members pegging their currencies to the SDR, bringing the total number of such members to 15.

Administered Accounts

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

[25] These comprise the African Development Bank, African Development Fund, Arab Monetary Fund, Asian Clearing Union, Asian Development Bank, Development Bank of the Great Lakes Countries, Economic Community of West African States, European Conference of Postal and Telecommunications Administrations, Inter-Asian Development Bank, International Centre for Settlement of Investment Disputes, International Development Association, International Fund for Agricultural Development, Islamic Development Bank, and Nordic Investment Bank.

[26] For details, see Chapter 2, pages 69–70.

The Trust Fund was terminated as of April 30, 1981[27] and the responsibilities of the Fund are currently confined to the receipt and disposition of interest and loan repayments and the completion of any unfinished business. It was decided that SDR 1,500 million of the repayments would be used to provide concessional balance of payments assistance to low-income developing members in need of such assistance under arrangements similar to those set forth in the Trust Fund Instrument. Two installments of semiannual interest payments were collected, in June and December 1981, for a total amount of SDR 14.5 million, and the first repayments of Trust Fund loans were due in July 1982.

Oil Facility Subsidy Account

The oil facility subsidy account was established on August 1, 1975 to assist Fund members most seriously affected by oil price increases to meet part of 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. The Executive Board, following the annual review for 1981/82, approved subsidy payments at the rate of 5 per cent per annum to the eligible beneficiaries. Since the average cost of using the 1975 oil facility was 7.875 per cent per annum for the eligible beneficiaries, a subsidy at the rate of 5 per cent per annum effectively reduced the cost of using the facility to about 2.875 per cent per annum in 1981/82.

For 1981/82, subsidy payments totaling SDR 9.3 million were made in June 1982 to 16 of the 18 original beneficiaries and to the 7 additional beneficiaries. (See Table 27.) The balance remaining in the subsidy account after these payments, together with expected contributions and investment income, will be available for subsidy payments to eligible beneficiaries in 1983. It is estimated that there will be a balance of some SDR 11 million left over after subsidy payments are made in 1983. The disposition of these resources will be considered at the next annual review in 1983.

The subsidy account is financed by contributions from 24 members of the Fund and Switzerland. (See Table 28.) 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 by April 30, 1982 amounted to SDR 159.9 million.

Table 27. Oil Facility Subsidy Account: Total Use of 1975 Oil Facility by Beneficiaries, and Subsidy Payments for Financial Year Ended April 30, 1982[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, 1982			
Bangladesh	40.47	0.66	10.19
Cameroon	11.79	0.21	2.96
Central African Republic	2.66	0.04	0.67
Egypt	31.68	0.61	7.90
Haiti	4.14	0.07	1.04
India	201.34	—	26.95
Ivory Coast	10.35	—	1.42
Kenya	27.93	0.40	7.08
Mali	3.99	0.08	0.99
Mauritania	5.32	0.10	1.33
Pakistan	111.01	1.60	28.07
Senegal	9.91	0.13	2.52
Sierra Leone	4.97	0.09	1.24
Sri Lanka	34.13	0.57	8.58
Sudan	18.30	0.31	4.67
Tanzania	20.61	0.25	5.25
Western Samoa	0.42	0.01	0.11
Yemen, People's Democratic Republic of	12.02	0.19	3.01
Subtotal	551.03	5.30	113.98
Additional beneficiaries: Subsidy for financial year ended April 30, 1982			
Grenada	0.49	0.01	0.12
Malawi	3.73	0.06	0.94
Morocco	18.00	0.37	4.47
Papua New Guinea	14.80	0.02	2.75
Philippines	152.03	2.38	38.30
Zaïre	32.53	0.67	8.07
Zambia	29.72	0.52	3.89
Subtotal	251.30	4.02	58.54
Total	802.33	9.32	172.52

[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.

Supplementary Financing Facility Subsidy Account

The supplementary financing facility subsidy account was established in December 1980 to reduce the cost for low-income developing members of using the supplementary financing facility.[28] Subsidy payments are calculated as a percentage per annum of the average daily balance of the Fund's holdings of a member's currency

[27] Executive Board Decision No. 6704-(80/185)TR, adopted December 17, 1980, *Selected Decisions of the International Monetary Fund and Selected Documents*, Ninth Issue (Washington, 1981), page 285.

[28] Executive Board Decision No. 6683-(80/155)G/TR, adopted December 17, 1980, *Selected Decisions of the International Monetary Fund and Selected Documents*, Ninth Issue (Washington, 1981), page 287.

Table 28. Oil Facility Subsidy Account: Contributions
(In millions of SDRs)

Contributors	Anticipated Total Contributions [1]	Contributions Received as of April 30 1982 [2]
Australia	5.700	5.700
Austria	2.300	2.300
Belgium	5.600	5.600
Brazil	1.850	1.850
Canada	9.500	9.500
Denmark	2.200	1.886
Finland	1.600	1.600
France	12.900	12.678
Germany, Federal Republic of	13.700	13.720
Greece	0.600	0.597
Iran	6.000	6.000
Italy	8.600	8.600
Japan	10.300	10.300
Luxembourg	0.110	0.108
Netherlands	6.000	6.000
New Zealand	1.700	1.635
Norway	2.100	2.100
Saudi Arabia	40.000	40.000
South Africa	1.350	1.350
Spain	3.400	3.400
Sweden	2.800	2.800
Switzerland	3.285	3.285
United Kingdom	12.050	12.005
Venezuela	6.000	6.000
Yugoslavia	0.900	0.900
Total	160.545	159.913

[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.
[2] SDR amounts may be subject to small adjustments owing to exchange rate changes.

as a result of all purchases under the supplementary financing facility and under the Fund's policy on exceptional use, that is, they are calculated in the same way as charges.

The first subsidy payments, totaling SDR 22.9 million, were made on December 17, 1981 to 21 eligible members in respect of holdings through June 30, 1981. (See Table 29.) Eligible countries are divided into two groups: those with per capita incomes in 1979 equal to or below the per capita income used to determine eligibility for assistance from the International Development Association (IDA) receive the full rate of subsidy, which does not exceed 3 per cent per annum; those with a per capita income in 1979 above the IDA level but not more than that of the member that had the highest per capita income of those countries that were eligible to receive assistance from the Trust Fund receive subsidies at one half the full rate. The payments in December 1981 were made at the maximum rates, that is, 3 per cent and 1.5 per cent.

On the basis of the latest data provided by the World Bank before April 30, 1982, a total of 86 developing members had per capita incomes that made them eligible to receive a subsidy. As of April 30, 1982, 21 of these eligible members had purchases outstanding under the supplementary financing facility for a total amount of SDR 1,949 million, and the undrawn supplementary financing facility commitments of 13 of these members under stand-by and extended arrangements amounted to SDR 1,341 million. In addition, two members—Zambia and Sri Lanka—had balances equivalent to SDR 13 million outstanding under the Fund's policy on exceptional use.

The primary source of funds for the account will be SDR 750 million of repayment of, and interest on, Trust Fund loans, which are transferred to the account via the special disbursement account. By April 30, 1982, the account had received SDR 14.99 million, all from interest payments. These transfers will increase in 1982/83 and 1983/84 as repayments of Trust Fund loans begin. In addition, the account is financed through voluntary contributions in the form of donations and loans and

Table 29. Supplementary Financing Facility Subsidy Account: Total Drawings Under Supplementary Financing Facility by Eligible Members, and Subsidy Payments
(In millions of SDRs)

	Total Drawings to June 30, 1981	Subsidy Payment December 17,1981
Recipients of Subsidy at 3 per cent		
Bangladesh	110.0	1.27
Bolivia	25.5	0.86
Dominica	0.7	— [1]
Guyana	22.8	0.83
Kenya	50.1	0.76
Liberia	18.9	0.30
Madagascar	22.2	0.23
Malawi	23.1	0.38
Mauritania	8.8	0.13
Pakistan	174.5	1.40
Philippines	233.0	3.78
Senegal	20.6	0.39
Sierra Leone	17.2	0.10
Sudan	127.8	2.47
Tanzania	16.3	0.36
Togo	7.3	0.07
Zambia	— [2]	3.41
Subtotal	878.8	16.74
Recipients of Subsidy at 1.5 per cent		
Ivory Coast	22.1	0.10
Mauritius	51.0	0.69
Morocco	109.7	0.90
Peru	195.1	4.50
Subtotal	377.9	6.18
Total	1,256.7	22.92

[1] Dominica received a subsidy payment of SDR 4,419.
[2] Subsidy paid in respect of Fund holdings in excess of 200 per cent of quota under the Fund's policy on exceptional use, which amounted to SDR 6.6 million on June 30, 1981.

through income on the investment of resources held pending disbursement. Details of expected contributions and loan receipts, together with amounts received by April 30, 1982, are shown in Table 30. Pending the second payment of subsidy, the investments of the account are held in SDR-denominated time deposits with the Bank for International Settlements; on April 30, 1982, they amounted to SDR 30.9 million, with accrued interest of SDR 1.5 million.

Table 30. Supplementary Financing Facility Subsidy Account: Contributions
(In millions of SDRs)

Contributor	Commitment	Received to April 30, 1982
Donations		
Australia	2.0	2.0
Austria	1.2	1.2
Denmark	1.5	—
France	9.3	9.3
Netherlands	4.1	4.1
Norway	1.4	1.4
Saudi Arabia	46.0[1]	12.8
Sweden	2.2	1.1
Switzerland	2.4	2.4
Subtotal	70.1	34.3
Loans		
Belgium	4.4	3.1
Gabon	1.0	—
Luxembourg	0.2	0.2
Subtotal	5.6	3.3
Total	75.7	37.6

[1] US$52 million valued at the exchange rate of SDR 1 equals US$0.885211 as of April 30, 1982.

Consultations with Member Countries

After the Second Amendment of the Articles of Agreement, regular Article IV consultations with members have become the principal vehicle for the exercise of Fund surveillance over the exchange rate policies of individual member countries. The role of Article IV consultations is important because of their frequency and regularity and because exchange rate policies can only be judged in the context of an overall appraisal of a country's economic and financial situation. Article IV consultations are required, in principle, to take place annually and to be completed not later than three months after the termination of discussions between the member and the staff. In actual implementation, it has been impossible to adhere to the objective of annual consultations, as already noted in Chapter 2. Where appropriate, the Executive Board, at the end of Article IV consultation discussions, renders a decision concerning matters of Fund jurisdiction.

In 1981/82, the Fund completed 79 regular Article IV consultations, of which 47 were with countries availing themselves of the transitional arrangements of Article XIV, and 32 with countries that had formally accepted the obligations of Article VIII. Of these consultations completed in the financial year, 25 had been initiated in the previous year, whereas 31 of those initiated in 1981/82 remained outstanding at the end of the year.

During 1981/82, one country, St. Vincent and the Grenadines, formally accepted the obligations of Article VIII, Sections 2, 3, and 4. At the end of the financial year, 54 members had Article VIII status, 88 members were availing themselves of the transitional arrangements of Article XIV, and three members—Vanuatu, Antigua and Barbuda, and Belize—had yet to complete formal procedures to establish Article VIII or Article XIV status in the Fund.

In addition to the regular Article IV consultations, special consultations were held with major industrial countries in connection with the World Economic Outlook review by the Executive Board, and the staff has informally visited some countries to keep informed of important developments and to ascertain the member's reasons for particular policy actions.

Training and Technical Assistance

During 1981/82, technical assistance continued to be made available at the request of members. This assistance took the form of training at headquarters, staff missions, and the stationing of staff members and outside experts in member countries, as well as that customarily provided through the Fund's consultation procedures under Article IV. As noted earlier in this chapter, the Executive Board carried out in May 1982 a comprehensive review of the technical assistance provided by the Central Banking Department and the Fiscal Affairs Department, with the support of the Legal Department.

During the financial year, the IMF Institute introduced a new course on Techniques of Economic Analysis, bringing the number of training courses to eleven. As in the previous year, the Institute organized—with the Fiscal Affairs Department—a seminar on budgeting and expenditure control in which 22 officials from member countries took part. Total attendance at the training courses was 343, an increase of 27 per cent over the previous year. Since its inception in 1964, the Institute has trained 3,226 participants from 137 countries. In April 1982, the Institute began implementing its external training program by conducting a seminar in Fiji, which was attended by 22 Fiji officials.

The Institute's principal course, on Financial Analysis and Policy, presents an exposition of the Fund's procedures and policies, and examines the tools of economic analysis and forecasting. It devotes special 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 conducted in English for 18 weeks, and it provided special facilities for Arabic-speaking participants, including counseling sessions and workshops in Arabic, as well as translation and simultaneous interpretation into that language. The course on Financial Programming and Policy, which was introduced last year, was conducted in English, French, and Spanish, for 12 weeks in English and Spanish and 16 weeks in French. The course is policy oriented and is designed for officials involved in the elaboration of financial policy who already have a good knowledge of the modern tools of economic analysis. The new course on Techniques of Economic Analysis was conducted in English and French, both for eight weeks. It describes the principal macroeconomic accounts, the tools of economic analysis, and the Fund's policies and procedures, and is intended for officials who have a limited knowledge of macroeconomic analysis.

The eight-week course on Balance of Payments Methodology was presented twice in English 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 French) 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. The course on Government Finance Statistics was conducted in English, in cooperation with the Bureau of Statistics, for eight weeks. 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 through the assignment of resident experts and through advisory services. During the financial year, experts and consultants served in 123 assignments in executive or advisory positions with 52 central monetary institutions and provided about 76 man-years of assistance, most of which was in the fields of research and statistics, accounting, bank supervision, banking and exchange operations, and controls. Departmental staff carried out eight advisory missions and participated in seven missions led by area departments. Advice was given on topics that include central banking and financial system legislation (in cooperation with the Legal Department), mobilization of savings, organization and operation of central banks, structure and development of financial systems, and use of policy instruments.

The Fiscal Affairs Department has continued to provide technical assistance through staff missions, staff assignments in the field, and the services of the panel of experts. Assistance was furnished mainly in the areas of fiscal policy, tax and customs administration and legislation (with the assistance of the Legal Department), budget systems and procedures, accounting, auditing, and financial reporting. During 1981/82, technical assistance was given to 52 countries, compared with 38 countries during 1980/81; 7 countries received assistance for the first time. There were 34 long-term and 41 short-term assignments in the field, totaling 75 individual assignments and 381 man-months; 55 panel members and 22 staff members undertook technical assistance work. Staff members continuously visit countries to review progress and to advise on requests for further assistance and also to support and guide the field experts from headquarters.

Technical assistance continued to be provided by the Bureau of Statistics, mainly through missions to member countries, through the training of national technicians at Fund headquarters, and through the training courses given by the IMF Institute. The Bureau's assistance is chiefly in the areas of money and banking, balance of payments, government finance, and general statistics. In recent years, however, the Bureau has also assisted in the development of computerized data bases in a number of member countries, a form of assistance that seems likely to increase in the future. During 1981/82, Bureau staff participated in 80 technical assistance missions to 63 countries, most of which were organized by the Bureau. The Bureau also assisted in four statistical seminars organized by regional institutions; provided the main course lecturers at the balance of payments methodology and government finance statistics courses; and participated in the other courses of the IMF Institute. In addition, 18 officials from countries or regional organizations visited the Bureau for training in various fields of statistics.

Relations with Other International Organizations

The uncertain condition of the world economy enhances the need for coordination and cooperation among those international and regional organizations especially concerned with economic matters and world trade. To this end, the Fund continued its program of consultations with and assistance to a variety of such organizations during the past year. In addition to the World Bank, with which the Fund has had a special relationship over the years, close ties are maintained 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, especially its Inter-American Economic and Social Council and its Permanent Executive Committee; and regional development and financial institutions in Africa, Asia and the Pacific area, Latin America and the Caribbean, and the Middle East.

Continuous liaison is carried out by the Special Representative to the United Nations; the European Office in Paris, particularly with the BIS, the CEC, and the OECD; and the Geneva office, especially with the UN Conference on Trade and Development (UNCTAD) and the GATT. Their efforts are supplemented by the assignment of senior officials and technical specialists when required. Liaison activities include attendance at meetings, participation in seminars and expert groups, and exchange of information and pertinent documents.

The Managing Director delivered his annual address to the UN Economic and Social Council on July 3, 1981 in Geneva, and spoke at a meeting of the Administrative Coordination Committee of the United Nations in Rome. He also addressed a Ministerial Meeting of the OECD in Paris, and attended the meetings of the UNCTAD Intergovernmental Group of Twenty-Four on International Monetary Affairs and of the Group of Ten ministers and central bank governors held at the time of the Interim and Development Committee meetings.

Because of its experience in economic and financial matters, the Fund was called upon by several regional organizations to provide them with technical assistance. Staff members advised on the design and development of research projects for the South-East Asia Central Banks Research and Training Centre, and also advised that organization on new training activities and provided lecturing assistance for a course on financial analysis and policy. Assistance in the field of interest rate policies and related matters was given to the Central American Monetary Council (CAMC) in the form of staff participation in a series of commemorative lectures on the occasion of the twentieth anniversary of the foundation of the Central American Clearing House. Staff also participated in a follow-up program of technical discussions among the members of the CAMC's Monetary Policy Committee, composed of Directors of Research of the five Central American central banks. The African Centre for Monetary Studies requested that the Fund assist in the drafting of rules and regulations to govern the operations of the payments and clearing arrangement then being established for the eastern and southern African region. Fund staff also helped the Commission of the European Communities to appraise the suitability of the macroeconomic and international trade models used for short-term and medium-term analyses, and advised that body on the direction of future work. At the request of the East Caribbean Currency Authority (ECCA), Fund representatives attended a meeting of the Financial Secretaries of ECCA member countries on the subject of exchange control policies in the ECCA region. The Fund also assisted the South Pacific Commission in conducting a subregional training course on balance of payments statistics, held in Fiji, by providing two lecturers. Lecturers were also provided for two regional seminars organized by the Banque Centrale des Etats de l'Afrique de l'Ouest in Dakar on price statistics and government statistics, respectively.

Reflecting the Fund's concern in the areas of aid coordination and debt renegotiation, staff participated in meetings of the World Bank Consultative Groups on Aid Coordination for Colombia, Kenya, Uganda, and Zaïre, as well as the India and Pakistan Consortia and the Aid Groups for Bangladesh, Nepal, and Sri Lanka, all held under World Bank auspices; the Chad Donor's Conference convened by the French Government; and a meeting of OECD countries held to discuss balance of payments support for Uganda. The Fund was also represented at debt renegotiation meetings for the Central African Republic, Liberia, Senegal, Sudan, Uganda, and Zaïre, held under the aegis of the Paris Club. At the invitation of the Chairman of participating creditor countries, Fund staff attended a Paris meeting on Poland's official external debt service obligations.

Long-standing cooperative arrangements with the GATT regarding consultations with common member countries on trade restrictions imposed for balance of payments purposes involved staff participation in those consultations and provision of background documents. The thirty-seventh session of the CONTRACTING PARTIES to the GATT was attended by a Fund representative, and Fund staff were present at meetings of the Council of Representatives, at a special session on notification and surveillance procedures with respect to trade policy measures and the international trading system, and at various other GATT meetings.

Executive Directors and Staff

A list of Executive Directors and their voting power on April 30, 1982 is given in Appendix IV. The changes in membership of the Executive Board during 1981/82 are shown in Appendix V.

In the year ended April 30, 1982, there were 124 appointments to the Fund's regular staff and 62 separations. At the end of the financial year, the staff numbered 1,525 and was drawn from 97 countries.

Publications

The publications issued by the Fund during 1981/82 are listed in Appendix I, Table I.15.

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Appendices

List of Tables

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Appendix I
The Fund in 1981/82

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, 1982. 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, 1982[1]

		Pegged to					Limited Flexibility vis-à-vis		More Flexibility[3]		
Member	Currency	U.S. dollar[2]	French franc[2]	Other single currency[2]	Special drawing right[2]	Currency composite other than SDR[3]	Single currency[3,4]	Cooperative arrangements[3,5]	Adjusted according to a set of indicators	Other managed floating	Floating independently
Afghanistan	Afghani	—	—	—	—	—	—	—	—	50.60	—
Algeria	dinar	—	—	—	—	4.644	—	—	—	—	—
Antigua and Barbuda	East Caribbean dollar	2.70	—	—	—	—	—	—	—	—	—
Argentina	peso	—	—	—	—	—	—	—	—	—	15,725.00
Australia	dollar	—	—	—	—	—	—	—	—	0.978187	—
Austria	schilling	—	—	—	—	17.316	—	—	—	—	—
Bahamas	dollar	1.00	—	—	—	—	—	—	—	—	—
Bahrain	dinar	—	—	—	—	—	0.377	—	—	—	—
Bangladesh	taka	—	—	—	—	38.422	—	—	—	—	—
Barbados	dollar	2.0113	—	—	—	—	—	—	—	—	—
Belgium	franc	—	—	—	—	—	—	46.8725	—	—	—
Belize	dollar	2.00	—	—	—	—	—	—	—	—	—
Benin	franc	—	50.00	—	—	—	—	—	—	—	—
Bhutan	ngultrum	—	—	1.00[6]	—	—	—	—	—	—	—
Bolivia	peso	—	—	—	—	—	—	—	—	43.18	—
Botswana	pula	—	—	—	—	1.097454	—	—	—	—	—
Brazil	cruzeiro	—	—	—	—	—	—	—	172.33	—	—
Burma	kyat	—	—	—	8.50847	—	—	—	—	—	—
Burundi	franc	90.00	—	—	—	—	—	—	—	—	—
Cameroon	franc	—	50.00	—	—	—	—	—	—	—	—
Canada	dollar	—	—	—	—	—	—	—	—	—	1.2930
Cape Verde	escudo	—	—	—	—	60.7165	—	—	—	—	—
Central African Republic	franc	—	50.00	—	—	—	—	—	—	—	—
Chad	franc	—	50.00	—	—	—	—	—	—	—	—
Chile	peso	—	—	—	—	—	—	—	—	46.00	—
China, People's Republic of	yuan	—	—	—	—	1.9310	—	—	—	—	—
Colombia	peso	—	—	—	—	—	—	—	63.84	—	—
Comoros	franc	—	50.00	—	—	—	—	—	—	—	—
Congo	franc	—	50.00	—	—	—	—	—	—	—	—
Costa Rica	colón	—	—	—	—	—	—	—	—	—	38.125
Cyprus	pound	—	—	—	—	0.484614	—	—	—	—	—
Denmark	krone	—	—	—	—	—	—	8.5015	—	—	—
Djibouti	franc	177.721	—	—	—	—	—	—	—	—	—
Dominica	East Caribbean dollar	2.70	—	—	—	—	—	—	—	—	—
Dominican Republic	peso	1.00	—	—	—	—	—	—	—	—	—
Ecuador	sucre	33.15	—	—	—	—	—	—	—	—	—
Egypt	pound	0.70	—	—	—	—	—	—	—	—	—
El Salvador	colón	2.50	—	—	—	—	—	—	—	—	—
Equatorial Guinea	ekwele	—	—	2.00[7]	—	—	—	—	—	—	—
Ethiopia	birr	2.07	—	—	—	—	—	—	—	—	—
Fiji	dollar	—	—	—	—	0.938615	—	—	—	—	—
Finland	markka	—	—	—	—	4.726	—	—	—	—	—
France	franc	—	—	—	—	—	—	6.829	—	—	—
Gabon	franc	—	50.00	—	—	—	—	—	—	—	—
Gambia, The	dalasi	—	—	4.00[8]	—	—	—	—	—	—	—

Germany, Federal Republic of	deutsche mark	—	—	—	—	—	—	2.4598	—	—	—
Ghana	cedi	—	—	—	—	—	2.75	—	—	—	—
Greece	drachma	—	—	—	—	—	—	—	—	—	69.47
Grenada	East Caribbean dollar	2.70	—	—	—	—	—	—	—	—	—
Guatemala	quetzal	1.00	—	—	—	—	—	—	—	—	—
Guinea	syli	—	—	—	24.6853	—	—	—	—	—	—
Guinea-Bissau	peso	—	—	—	44.00	—	—	—	—	—	—
Guyana	dollar	—	—	—	—	—	3.00	—	—	—	—
Haiti	gourde	5.00	—	—	—	—	—	—	—	—	—
Honduras	lempira	2.00	—	—	—	—	—	—	—	—	—
Hungary	forint	—	—	—	—	35.7494	—	—	—	—	—
Iceland	króna	—	—	—	—	—	—	—	—	11.446	—
India	rupee	—	—	—	—	—	—	—	—	9.492032	—
Indonesia	rupiah	—	—	—	—	—	657.25	—	—	—	—
Iran	rial	—	—	—	92.30	—	—	—	—	—	—
Iraq	dinar	0.295314	—	—	—	—	—	—	—	—	—
Ireland	pound	—	—	—	—	—	—	0.714286	—	—	—
Israel	shekel	—	—	—	—	—	—	—	—	—	24.0801
Italy	lira	—	—	—	—	—	—	1,383.25	—	—	—
Ivory Coast	franc	—	50.00	—	—	—	—	—	—	—	—
Jamaica	dollar	1.78142	—	—	—	—	—	—	—	—	—
Japan	yen	—	—	—	—	—	—	—	—	—	254.00
Jordan	dinar	—	—	—	0.387	—	—	—	—	—	—
Kampuchea, Democratic [9]	riel	—	—	—	—	—	—	—	—	—	—
Kenya	shilling	—	—	—	11.95	—	—	—	—	—	—
Korea	won	—	—	—	—	—	—	—	—	748.81	—
Kuwait	dinar	—	—	—	—	0.28727	—	—	—	—	—
Lao People's Democratic Republic	kip	10.00	—	—	—	—	—	—	—	—	—
Lebanon	pound	—	—	—	—	—	—	—	—	—	4.942 [1]
Lesotho	maloti	—	—	1.00 [10]	—	—	—	—	—	—	—
Liberia	dollar	1.00	—	—	—	—	—	—	—	—	—
Libyan Arab Jamahiriya	dinar	0.296053	—	—	—	—	—	—	—	—	—
Luxembourg	franc	—	—	—	—	—	—	46.8725	—	—	—
Madagascar	franc	—	—	—	—	375.57	—	—	—	—	—
Malawi	kwacha	—	—	—	1.2122	—	—	—	—	—	—
Malaysia	ringgit	—	—	—	—	2.3578	—	—	—	—	—
Maldives	rufiyaa	—	—	—	—	—	7.05	—	—	—	—
Mali	franc	—	100.00	—	—	—	—	—	—	—	—
Malta	pound	—	—	—	—	0.415835	—	—	—	—	—
Mauritania	ouguiya	—	—	—	—	52.87	—	—	—	—	—
Mauritius	rupee	—	—	—	12.00	—	—	—	—	—	—
Mexico	peso	—	—	—	—	—	—	—	—	48.0405	—
Morocco	dirham	—	—	—	—	—	—	—	—	6.1765	—
Nepal	rupee	13.20	—	—	—	—	—	—	—	—	—
Netherlands	guilder	—	—	—	—	—	—	2.7200	—	—	—
New Zealand	dollar	—	—	—	—	—	—	—	—	1.3455	—
Nicaragua	córdoba	10.05	—	—	—	—	—	—	—	—	—
Niger	franc	—	50.00	—	—	—	—	—	—	—	—
Nigeria	naira	—	—	—	—	—	—	—	—	0.675539	—
Norway	krone	—	—	—	—	6.249	—	—	—	—	—

Table I.1 *(concluded)*. Exchange Rates and Exchange Arrangements, June 30, 1982[1]

		Pegged to					Limited Flexibility vis-à-vis		More Flexibility[3]		
Member	Currency	U.S. dollar[2]	French franc[2]	Other single currency[2]	Special drawing right[2]	Currency composite other than SDR[3]	Single currency[3, 4]	Cooperative arrangements[3, 5]	Adjusted according to a set of indicators	Other managed floating	Floating independently
Oman	rial Omani	0.3454	—	—	—	—	—	—	—	—	—
Pakistan	rupee	—	—	—	—	—	—	—	—	12.2078	—
Panama	balboa	1.00	—	—	—	—	—	—	—	—	—
Papua New Guinea	kina	—	—	—	—	0.738771	—	—	—	—	—
Paraguay	guaraní	126.00	—	—	—	—	—	—	—	—	—
Peru	sol	—	—	—	—	—	—	—	675.95	—	—
Philippines	peso	—	—	—	—	—	8.47	—	—	—	—
Portugal	escudo	—	—	—	—	—	—	—	83.682	—	—
Qatar	riyal	—	—	—	—	—	3.64	—	—	—	—
Romania	leu	15.00	—	—	—	—	—	—	—	—	—
Rwanda	franc	92.84	—	—	—	—	—	—	—	—	—
St. Lucia	East Caribbean dollar	2.70	—	—	—	—	—	—	—	—	—
St. Vincent and the Grenadines	East Caribbean dollar	2.70	—	—	—	—	—	—	—	—	—
São Tomé and Principe	dobra	—	—	—	45.25	—	—	—	—	—	—
Saudi Arabia	riyal	—	—	—	—	—	3.435	—	—	—	—
Senegal	franc	—	50.00	—	—	—	—	—	—	—	—
Seychelles	rupee	—	—	—	7.2345	—	—	—	—	—	—
Sierra Leone	leone	—	—	—	1.36693	—	—	—	—	—	—
Singapore	dollar	—	—	—	—	2.1498	—	—	—	—	—
Solomon Islands	dollar	—	—	—	—	0.949667	—	—	—	—	—
Somalia	shilling	12.59	—	—	—	—	—	—	—	—	—
South Africa	rand	—	—	—	—	—	—	—	—	—	1.14312
Spain	peseta	—	—	—	—	—	—	—	—	111.00	—
Sri Lanka	rupee	—	—	—	—	—	—	—	—	20.85	—
Sudan	pound	0.90	—	—	—	—	—	—	—	—	—
Suriname	guilder	1.785	—	—	—	—	—	—	—	—	—
Swaziland	lilangeni	—	—	1.00[10]	—	—	—	—	—	—	—
Sweden	krona	—	—	—	—	6.092	—	—	—	—	—
Syrian Arab Republic	pound	3.925	—	—	—	—	—	—	—	—	—
Tanzania	shilling	—	—	—	—	9.49798	—	—	—	—	—
Thailand	baht	—	—	—	—	—	23.00	—	—	—	—
Togo	franc	—	50.00	—	—	—	—	—	—	—	—
Trinidad and Tobago	dollar	2.4090	—	—	—	—	—	—	—	—	—
Tunisia	dinar	—	—	—	—	0.608294	—	—	—	—	—
Turkey	lira	—	—	—	—	—	—	—	—	165.64	—
Uganda	shilling	—	—	—	—	—	—	—	—	85.75[1]	—
United Arab Emirates	dirham	—	—	—	—	—	3.671	—	—	—	—
United Kingdom	pound	—	—	—	—	—	—	—	—	—	0.575275
United States	dollar	—	—	—	—	—	—	—	—	—	1.00
Upper Volta	franc	—	50.00	—	—	—	—	—	—	—	—
Uruguay	new peso	—	—	—	—	—	—	—	—	12.499	—
Vanuatu	vatu	—	—	—	106.20	—	—	—	—	—	—
Venezuela	bolívar	4.2925	—	—	—	—	—	—	—	—	—
Viet Nam	dong	—	—	—	10.37883	—	—	—	—	—	—
Western Samoa	tala	—	—	—	—	—	—	—	—	1.2193	—

Yemen Arab Republic	rial	4.5625	—	—	—	—	—	—	—	—	—
Yemen, People's Democratic Republic of	dinar	0.345399	—	—	—	—	—	—	—	—	—
Yugoslavia	dinar	—	—	—	—	—	—	—	—	48.2415	—
Zaïre	zaïre	—	—	—	6.34921	—	—	—	—	—	—
Zambia	kwacha	—	—	—	1.02426	—	—	—	—	—	—
Zimbabwe	dollar	—	—	—	—	0.764292	—	—	—	—	—

[1] For further explanation of the classification of exchange rate arrangements, in particular for members that maintain dual exchange markets involving multiple exchange rate arrangements, see Table 15. The effective date of the exchange rate is April 30, 1982 for Lebanon and Uganda.

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

[3] Market rates in domestic currency units per U.S. dollar.

[4] All exchange rates have shown limited flexibility against the U.S. dollar.

[5] 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 (for 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.

[6] Per Indian rupee.

[7] Per Spanish peseta.

[8] Per pound sterling.

[9] Information not available.

[10] Per South African rand.

Table I.2. Fund Stand-By Arrangements for Members, Financial Year Ended April 30, 1982

(In millions of SDRs)

Member	Total Number of Stand-Bys Approved for Member Since 1953	Date of Inception	Date of Expiration	Amount Approved 1980/81	Amount Not Purchased at Expiration or Cancellation	Amount Approved 1981/82	Amount Not Purchased April 30, 1982
Burma	6	June 12, 1981	June 11, 1982	—	—	27.00	—
Central African Republic	2	Apr. 10, 1981	Dec. 31, 1981	10.40	2.40	—	—
China, People's Republic of	1	Mar. 2, 1981	Dec. 31, 1981	450.00	—	—	—
Cyprus	1	July 16, 1980	July 15, 1981	8.50	—	—	—
El Salvador	12	June 23, 1980	June 22, 1981	10.75	—	—	—
Ethiopia	1	May 8, 1981	June 30, 1982	—	—	67.50[1]	11.75
Equatorial Guinea	1	July 1, 1980	June 30, 1981	5.50	—	—	—
Gambia, The	3	Feb. 22, 1982	Feb. 21, 1983	—	—	16.90[1]	8.78
Grenada	4	May 11, 1981	May 10, 1982	—	—	3.43	0.53
Guatemala	9	Nov. 13, 1981	Nov. 12, 1982	—	—	19.10	—
Kenya	4	Oct. 15, 1980	Oct. 14, 1982	241.50[2,3]	151.50	—	—
		Jan. 8, 1982	Jan. 7, 1983	—	—	151.50[1]	91.50
Korea	14	Feb. 13, 1981	Feb. 12, 1982	576.00[2]	—	—	—
Lao People's Democratic Republic	1	Aug. 4, 1980	Aug. 3, 1981	14.00	—	—	—
Liberia	15	Sept. 15, 1980	Sept. 14, 1982	65.00[2,4]	33.00	—	—
		Aug. 26, 1981	Sept. 15, 1982	—	—	55.00[1]	11.00
Madagascar	3	June 27, 1980	June 26, 1982	64.45[2,5]	54.45	—	—
		Apr. 13, 1981	June 26, 1982	76.70[2]	—	32.30[1,6]	70.00
Malawi	2	May 9, 1980	Mar. 31, 1982	49.88[2]	9.88	—	—
Mauritania	3	July 23, 1980	Mar. 31, 1982	29.70[2,7]	20.80	—	—
		June 1, 1981	Mar. 31, 1982	—	—	25.80[1]	—
Mauritius	4	Sept. 5, 1980	Sept. 4, 1981	35.00[2]	—	—	—
		Dec. 21, 1981	Dec. 20, 1982	—	—	30.00[1]	15.00
Morocco	8	Apr. 26, 1982	Apr. 25, 1983	—	—	281.25[1]	225.00
Panama	14	Apr. 18, 1980	Dec. 31, 1981	23.62[2]	14.75	—	—
		Apr. 28, 1982	Apr. 27, 1983	—	—	29.70	29.70
Romania	3	June 15, 1981	June 14, 1984	—	—	1,102.50[1]	962.50
Senegal	2	Sept. 11, 1981	Sept. 10, 1982	—	—	63.00[1]	47.26
Solomon Islands	1	May 29, 1981	May 28, 1982	—	—	1.60	0.80
Somalia	9	July 15, 1981	July 14, 1982	—	—	43.13[1]	6.47
Sudan	7	Feb. 22, 1982	Feb. 21, 1983	—	—	198.00[1]	128.00
Tanzania	2	Sept. 15, 1980	June 30, 1982	179.60[2]	—	—	154.60
Thailand	2	June 3, 1981	Mar. 31, 1983	—	—	814.50[1]	469.50
Togo	2	Feb. 13, 1981	Feb. 12, 1983	47.50[2]	—	—	40.25
Turkey	13	June 18, 1980	June 17, 1983	1,250.00[2]	—	—	390.00
Uganda	3	June 5, 1981	June 30, 1982	—	—	112.50[1]	10.00
Uruguay	12	May 14, 1980	May 13, 1981	21.00	21.00	—	—
		July 15, 1981	July 14, 1982	—	—	31.50	31.50
Yugoslavia	8	June 6, 1980	Dec. 31, 1981	339.33[2,8]	139.33	—	—
		Jan. 30, 1981	Dec. 31, 1983	1,662.00[2]	—	—	969.50
Zimbabwe	1	Apr. 8, 1981	Apr. 7, 1982	37.50	—	—	—
Total				5,197.93	447.11	3,106.21	3,673.64

[1] Amounts approved from enlarged access resources in 1981/82 are as follows: Ethiopia, SDR 32.52 million; The Gambia, SDR 8.88 million; Liberia, SDR 6.92 million; Madagascar, SDR 32.30 million; Mauritius, SDR 13.28 million; Morocco, SDR 166.18 million; Romania, SDR 746.18 million; Somalia, SDR 22.64 million; Thailand, SDR 566.59 million; and Uganda, SDR 58.97 million.

Amounts approved under the supplementary financing facility are as follows: Kenya, SDR 96.84 million; Liberia, SDR 18.00 million; Mauritania, SDR 9.88 million; Senegal, SDR 33.57 million; and Sudan, SDR 136.40 million.

[2] Supplementary financing facility amounts approved in 1980/81 are as follows: Kenya, SDR 184.42 million, of which SDR 50.10 million was purchased; Korea, SDR 454.31 million; Liberia, SDR 36.90 million, of which SDR 18.90 million was purchased; Madagascar, SDR 34.85 million, of which SDR 5.14 million was purchased and SDR 29.71 million approved for new arrangement; Malawi, SDR 35.63 million; Mauritania, SDR 17.40 million, of which SDR 6.08 million was purchased; Mauritius, SDR 31.93 million; Panama, SDR 12.88 million, of which SDR 4.84 million was purchased; Tanzania, SDR 137.47 million; Togo, SDR 29.87 million; Turkey, SDR 1,211.40 million; Yugoslavia, SDR 200.83 million, of which SDR 124.83 million was purchased, and SDR 1,357.84 million was approved for new arrangement.

[3] Arrangement canceled on January 7, 1982.

[4] Arrangement canceled on August 25, 1981.

[5] Arrangement canceled on April 12, 1981.

[6] Arrangement augmented in June 1981.

[7] Arrangement canceled on May 31, 1981.

[8] Arrangement canceled on January 29, 1981.

Table I.3. Summary of Members' Purchases and Repurchases, Financial Years Ended April 30, 1948–82

(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
1982	8,040.62	2,009.88
Total	64,019.83 [1]	37,198.53 [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, 1953–82 [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	5,197.93
1982	19	3,106.21
Total	494	39,581.02

[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, 1982

(In millions of SDRs)

		Within Credit Tranche				Under Decision on					Purchases Financed with			
		Under stand-by arrangements				Extended Fund facility					Ordinary resources			
Member Purchasing	Within Reserve Tranche	Ordinary resources	Supplementary financing facility	Enlarged access resources	Other	Ordinary resources	Supplementary financing facility	Enlarged access resources	Compensatory financing	Total Purchases	Currencies	Special drawing rights	Supplementary financing facility	Enlarged access resources
Australia	251.21	—	—	—	—	—	—	—	—	251.21	57.00	194.21	—	—
Bangladesh	—	—	—	—	—	26.50	26.50	—	60.00	113.00	31.50	55.00	26.50	—
Barbados	5.01	—	—	—	—	—	—	—	—	5.01	—	5.01	—	—
Burma	—	27.00	—	—	—	—	—	—	—	27.00	22.00	5.00	—	—
Central African Republic	—	4.00	—	—	—	—	—	—	—	4.00	—	4.00	—	—
Costa Rica	—	—	—	—	—	11.25	11.25	—	30.10	52.60	39.70	1.65	11.25	—
Dominica	—	—	—	—	—	1.43	1.43	—	—	2.85	0.26	1.16	1.43	—
Dominican Republic	7.50	—	—	—	—	—	—	—	—	7.50	—	7.50	—	—
Egypt	47.03	—	—	—	—	—	—	—	—	47.03	28.03	19.00	—	—
El Salvador	—	—	—	—	—	—	—	—	32.25	32.25	—	32.25	—	—
Equatorial Guinea	0.24	2.50	—	—	—	—	—	—	—	2.74	2.50	0.24	—	—
Ethiopia	4.10	29.64	—	26.11	—	—	—	—	18.00	77.85	36.96	14.78	—	26.11
Fiji	—	—	—	—	—	—	—	—	13.50	13.50	13.50	—	—	—
Gambia, The	—	4.02	—	4.10	—	—	—	—	9.00	17.12	10.35	2.67	—	4.10
Grenada	—	2.90	—	—	—	—	—	—	—	2.90	2.62	0.28	—	—
Guatemala	21.11	19.10	—	—	—	—	—	—	76.50	116.71	62.61	54.10	—	—
Guinea	4.99	—	—	—	—	—	—	—	—	4.99	—	4.99	—	—
Guinea-Bissau	0.50	—	—	—	—	—	—	—	1.85	2.35	0.50	1.85	—	—
Guyana	—	—	—	—	—	8.05	8.05	—	—	16.10	7.68	0.37	8.05	—
Haiti	—	—	—	—	—	—	—	—	17.00	17.00	16.98	0.02	—	—
Honduras	—	—	—	—	12.75	7.90	—	—	23.30	43.95	20.65	23.30	—	—
India	—	—	—	—	—	450.00	—	450.00	—	900.00	250.00	200.00	—	450.00
Ivory Coast	—	—	—	—	—	66.27	66.27	—	114.00	246.54	113.18	67.09	66.27	—
Jamaica	7.13	—	—	—	—	59.95	110.95	—	—	178.03	24.70	42.38	110.95	—
Kenya	—	31.64	28.36	—	—	—	—	—	—	60.00	—	31.64	28.36	—
Korea	—	35.53	396.47	—	—	—	—	—	106.20 [1]	538.20	25.00	116.73	396.47	—
Lao People's Democratic Republic	—	3.00	—	—	—	—	—	—	—	3.00	—	3.00	—	—
Liberia	3.65	25.08	18.00	0.92	—	—	—	—	—	47.65	16.84	11.89	18.00	0.92
Madagascar	2.97	7.95	9.55	—	—	—	—	—	—	20.47	—	10.92	9.55	—
Malawi	3.77	4.25	13.75	—	—	—	—	—	12.00 [1]	33.77	6.45	13.57	13.75	—
Malaysia	—	—	—	—	—	—	—	—	189.75	189.75	100.00	89.75	—	—
Mauritania	—	15.92	9.88	—	—	—	—	—	—	25.80	11.38	4.54	9.88	—
Mauritius	5.51	15.00	5.00	—	—	—	—	—	—	25.51	—	20.51	5.00	—
Mexico	159.89	—	—	—	—	—	—	—	—	159.89	94.89	65.00	—	—
Morocco	—	12.80	—	43.45	—	34.13	34.12	—	236.40 [1]	360.90	240.63	42.70	34.12	43.45
New Zealand	27.56	—	—	—	—	—	—	—	—	27.56	27.56	—	—	—
Nigeria	308.71	—	—	—	—	—	—	—	—	308.71	308.71	—	—	—
Pakistan	—	—	—	—	—	234.94	230.06	—	—	465.00	147.64	87.30	230.06	—
Panama	—	28.83	32.99	—	—	—	—	—	—	61.82	27.83	1.00	32.99	—
Papua New Guinea	3.78	—	—	—	—	—	—	—	45.00	48.78	15.78	33.00	—	—
Philippines	—	—	150.00	—	—	—	—	—	—	150.00	—	—	150.00	—
Portugal	14.00	—	—	—	—	—	—	—	—	14.00	—	14.00	—	—
Romania	42.50	86.78	—	53.22	—	—	—	—	169.50	352.00	212.87	85.91	—	53.22
Senegal	—	7.95	7.79	—	—	—	—	—	42.00	57.74	17.00	32.95	7.79	—
Sierra Leone	1.32	—	—	—	—	6.70	6.70	—	—	14.72	6.70	1.32	6.70	—
Solomon Islands	0.72	0.80	—	—	—	—	—	—	—	1.52	—	1.52	—	—
Somalia	—	17.55	—	19.11	—	—	—	—	—	36.66	17.55	—	—	19.11
South Africa	107.23	—	—	—	—	—	—	—	—	107.23	30.00	77.23	—	—
Sri Lanka	18.75	—	—	—	—	150.30	—	—	25.30	194.35	140.15	54.20	—	—
Sudan	—	26.41	43.58	—	—	47.70	52.30	—	—	170.00	12.08	62.04	95.88	—
Swaziland	4.28	—	—	—	—	—	—	—	—	4.28	4.28	—	—	—
Tanzania	—	—	—	—	—	—	—	—	15.90	15.90	13.60	2.30	—	—
Thailand	—	165.54	—	179.46	—	—	—	—	186.00	531.00	163.81	187.73	—	179.46
Turkey	—	—	500.00	—	—	—	—	—	—	500.00	—	—	500.00	—
Uganda	—	48.98	—	53.52	—	—	—	—	45.00	147.50	77.82	16.16	—	53.52

Viet Nam	5.00	—	—	—	—	—	—	—	—	5.00	—	5.00	—	—
Western Samoa	0.14	—	—	—	—	—	—	—	—	0.14	—	0.14	—	—
Yemen Arab Republic	10.81	—	—	—	—	—	—	—	—	10.81	—	10.81	—	—
Yugoslavia	—	224.16	292.34	—	—	—	—	—	—	516.50	107.55	116.61	292.34	—
Zaïre	11.03	—	—	—	—	67.40	—	107.60	106.90	292.93	138.16	47.17	—	107.60
Zambia	—	—	—	—	—	77.00	—	223.00	59.30	359.30	88.90	47.40	—	223.00
Total	1,080.45	847.34	1,507.71	379.89	12.75	1,249.50	547.63	780.60	1,634.75	8,040.62	2,793.88	2,030.91	2,055.34	1,160.49

[1] In accordance with the decision on compensatory financing of fluctuations in the cost of cereal imports, Executive Board Decision No. 6860-(81/81), adopted May 13, 1981. (See *Selected Decisions of the International Monetary Fund and Selected Documents* (Washington, 1981), pages 59–63.)

Table I.6. Repurchases of Currencies from the Fund, Financial Year Ended April 30, 1982

(In millions of SDRs)

	Repurchases in Respect of				
Member Repurchasing	Purchases under oil facility	Compensatory financing	Purchases in the tranches	Other	Total
Australia	—	61.7	—	—	61.7
Bahamas	—	—	—	—	—[1]
Bangladesh	17.2	5.2	—	7.5	30.0
Barbados	—	1.5	—	—	1.5
Bolivia	—	5.6	—	—	5.6
Burma	—	—	18.4	—	18.4
Cameroon	3.5	—	—	1.8	5.4
Central African Republic	1.3	—	—	1.2	2.5
Chad	0.3	2.2	—	1.2	3.7
Chile	50.9	—	—	—	50.9
Congo	—	2.5	—	1.2	3.7
Costa Rica	7.9	—	—	—	7.9
Cyprus	7.0	1.2	—	—[1]	8.2
Dominican Republic	—	6.1	7.5	—	13.6
Egypt	7.9	12.0	53.0	12.2	85.1
Equatorial Guinea	—	—	—	1.3	1.3
Fiji	—	—	—	—[1]	—[1]
Finland	26.0	—	—	—	26.0
Gambia, The	—	0.6	—	—[1]	0.6
Ghana	9.7	—	—	—	9.7
Greece	30.7	28.0	—	—[1]	58.7
Grenada	0.1	—	—	—	0.1
Guinea	0.7	—	5.8	0.9	7.4
Guyana	—	6.7	—	—	6.7
Haiti	1.9	—	—	0.1	2.0
Iceland	8.8	—	—	—	8.8
India	—	—	—	34.5	34.5
Israel	35.8	26.1	—	—	61.9
Ivory Coast	—	—	—	—[1]	—[1]
Jamaica	7.3	47.1	14.4	—	68.8
Kenya	7.0	—	0.8	—[1]	7.8
Korea	47.7	—	—	—	47.7
Lao People's Democratic Republic	—	0.8	—	—	0.8
Lesotho	—	—	—	—[1]	—[1]
Liberia	—	—	—	3.7	3.7
Madagascar	2.2	—	4.7	1.5	8.4
Malawi	0.9	10.5	5.4	—[1]	16.9
Mali	1.9	—	—	2.2	4.1
Mauritania	1.3	—	2.4	1.1	4.8
Mauritius	—	—	—	5.5	5.5
Morocco	4.5	14.0	—	0.8	19.3
Nepal	—	2.6	—	—	2.6
New Zealand	52.8	26.0	—	—	78.8
Nicaragua	2.0	—	—	—	2.0
Niger	—	—	—	—[1]	—[1]
Pakistan	46.8	51.5	—	22.8	121.1
Panama	5.2	7.2	—	—[1]	12.4
Papua New Guinea	—	—	—	4.8	4.8
Peru	13.2	15.4	—	—[1]	28.5
Philippines	38.0	—	6.6	1.2	45.7
Portugal	28.7	20.0	14.0	—	62.7
Romania	—	12.0	42.5	—	54.5
Senegal	5.4	5.3	—	1.2	11.8
Sierra Leone	1.9	1.5	1.3	0.1	4.7
Somalia	—	—	—	—[1]	—[1]
Spain	50.1	49.4	—	—	99.5
Sri Lanka	16.6	4.0	34.4	10.3	65.2
Sudan	9.4	19.4	—	1.9	30.7
Swaziland	—	—	—	—[1]	—[1]
Tanzania	10.9	—	1.7	—[1]	12.6
Thailand	—	42.5	—	—	42.5
Togo	—	—	—	0.2	0.2
Turkey	65.3	37.3	11.1	—	113.7
Uganda	1.2	—	—	3.5	4.7
United Kingdom	282.9	—	—	—	282.9

Table I.6 *(concluded)*. Repurchases of Currencies from the Fund, Financial Year Ended April 30, 1982
(In millions of SDRs)

Member Repurchasing	Repurchases in Respect of: Purchases under oil facility	Compensatory financing	Purchases in the tranches	Other	Total
Uruguay	—	—	—	—[1]	—[1]
Viet Nam	—	25.1	—	5.0	30.1
Western Samoa	0.1	0.8	—	0.1	1.0
Yemen, People's Democratic Republic of	4.9	—	—	1.7	6.7
Yugoslavia	40.8	—	—	28.5	69.3
Zaïre	19.4	21.2	24.7	—	65.3
Zambia	7.4	35.8	8.8	—	52.0
Total	985.7	608.7	257.4	158.1[2]	2,009.9

[1] Less than SDR 50,000.
[2] Of which, SDR 113.2 million represents repurchases under the Fund's Articles of Agreement, Schedule B, paragraph 4(ii).

Table I.7. Extended Fund Facility Arrangements for Members, July 7, 1975–April 30, 1982

(In millions of SDRs)

Member	Date of Inception	Date of Expiration	Total Amount of Arrangement	Amount Not Purchased at Expiration or Cancellation	Of Total Amount Approved, Amount Not Purchased as of April 30, 1982
Approved in previous financial years					
Bangladesh	12/8/80	12/7/83	800.00 [1]	—	580.00
Dominica	2/6/81	2/5/84	8.55 [2]	—	4.99
Egypt	7/28/78	7/27/81	600.00	525.00	—
Gabon	6/27/80	12/31/82	34.00	—	34.00
Guyana	6/25/79	6/24/82	62.75 [3]	52.75	—
	7/25/80	7/24/83	100.00 [4]	—	—
Haiti	10/25/78	10/24/81	32.20	21.40	—
Honduras	6/28/79	6/27/82	47.60	—	23.70
Ivory Coast	2/27/81	1/22/84	484.50 [5]	—	307.78
Jamaica	6/9/78	6/8/81	200.00 [6]	130.00	—
	6/11/79	6/10/81	260.00 [7]	175.00	—
	4/13/81	4/12/84	236.40 [8]	—	—
Kenya	7/7/75	7/6/78	67.20	59.50	—
Mexico	1/1/77	12/31/79	518.00 [9]	518.00	—
Morocco	10/8/80	10/7/83	810.00 [10]	663.00	—
	3/9/81	10/7/83	817.05 [11]	680.55	—
Pakistan	11/24/80	11/23/83	1,268.00 [12]	919.00	—
Philippines	4/2/76	4/1/79	217.00	—	—
Senegal	8/8/80	8/7/83	184.80 [13]	143.70	—
Sierra Leone	3/30/81	2/22/84	163.70 [14]	—	—
Sri Lanka	1/1/79	12/31/81	260.30	—	—
Sudan	5/4/79	5/3/82	427.00 [15]	—	—
Subtotal			7,599.05	3,887.90	950.47
Approved during financial year 1981/82					
Costa Rica	6/17/81	6/16/84	276.75 [16]	—	254.25
Guyana	7/25/80	7/24/83	50.00 [4]	—	98.27
India	11/9/81	11/8/84	5,000.00 [17]	—	4,100.00
Jamaica	4/13/81	4/12/84	241.30 [8]	—	262.00
Pakistan	12/2/81	11/23/83	919.00 [18]	—	579.00
Sierra Leone	3/30/81	2/22/84	22.30 [14]	152.50	—
Zaïre	6/22/81	6/21/84	912.00 [19]	—	737.00
Zambia	5/8/81	5/7/84	800.00 [20]	—	500.00
Subtotal			8,221.35	152.50	6,530.52
Total			15,820.40	4,040.40	7,480.99

[1] Of which, SDR 480.80 million is provided under the supplementary financing facility.
[2] Of which, SDR 4.49 million is provided under the supplementary financing facility.
[3] Canceled as of June 24, 1980.
[4] Arrangement augmented by SDR 50.00 million in July 1981 to a total of SDR 150.00 million, of which SDR 66.37 million is provided under the supplementary financing facility and SDR 50.00 million from enlarged access resources.
[5] Of which, SDR 324.90 million is provided under the supplementary financing facility.
[6] Canceled as of June 10, 1979.
[7] Canceled as of April 12, 1981.
[8] Arrangement augmented by SDR 241.30 million in June 1981 to a total of SDR 477.70 million, of which SDR 149.25 million is provided under the supplementary financing facility and SDR 241.30 million from enlarged access resources.
[9] Includes augmentation by repurchase equivalent to SDR 100.00 million.
[10] Canceled as of March 8, 1981.
[11] Arrangement canceled as at April 25, 1982 and replaced by a stand-by arrangement.
[12] Canceled as of December 1, 1981.
[13] Canceled as of September 10, 1981 and replaced by a stand-by arrangement.
[14] Arrangement augmented by SDR 22.30 million in June 1981 to a total of SDR 186.00 million, of which SDR 99.51 million was provided under the supplementary financing facility and SDR 22.30 million from enlarged access resources. Arrangement canceled on April 6, 1982.
[15] Arrangement augmented by SDR 227.00 million in November 1980, canceled on February 17, 1982, and replaced by a stand-by arrangement.
[16] Of which, SDR 24.58 million is financed under the supplementary financing facility and SDR 166.07 million is financed from enlarged access resources.
[17] Of which, SDR 2,595.50 million is financed from enlarged access resources.
[18] Of which, SDR 490.12 million is financed under the supplementary financing facility.
[19] Of which, SDR 632.94 million is financed from enlarged access resources.
[20] Of which, SDR 674.00 million is financed from enlarged access resources.

Table I.8. Status of General Arrangements to Borrow (GAB)[1] on April 30, 1982

(In millions of SDR equivalents)

Participants	Maximum Amounts of Credit Arrangements	Fund Indebtedness
Belgium	150.5	—
Canada	157.0	—
Deutsche Bundesbank	1,517.9	582.9
France	394.7	—
Italy	234.9	—
Japan	1,280.2	194.3
Netherlands	245.3	—
Sveriges Riksbank	78.8	—
United Kingdom	565.4	—
United States	1,770.4	—
Total	6,395.2	777.3

[1] See the Balance Sheet of the General Department as at April 30, 1982, 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, 1982

(In millions of SDRs)

Lender	Amount Borrowed	Amount Repaid up to April 30, 1981	Amount Repaid May 1, 1981–April 30, 1982	Balance Outstanding as of April 30, 1982
Abu Dhabi	100.00	84.65	14.40	0.95
Austrian National Bank	100.00	55.99	23.42	20.60
National Bank of Belgium	200.00	108.17	44.95	46.88
Canada	246.93	246.93	—	—
Deutsche Bundesbank	600.00	374.95	—	—[1]
Central Bank of Iran	990.00	854.64	93.34	42.02
Central Bank of Kuwait	685.00	519.01	106.91	59.08
Netherlands	350.00	281.11	46.69	22.21
Nigeria	300.00	194.71	105.29	—
Bank of Norway	100.00	53.16	21.57	25.27
Central Bank of Oman	20.50	16.85	3.06	0.59
Saudi Arabian Monetary Agency (SAMA)	2,250.00	1,850.83	410.21	214.01[1]
Sveriges Riksbank	50.00	23.19	12.50	14.31
Swiss National Bank	100.00	50.23	21.12	28.65
Switzerland	150.00	95.37	33.61	21.01
Central Bank of Trinidad and Tobago	10.00	5.42	2.50	2.09
Central Bank of Venezuela	650.00	559.09	62.57	28.34
Total	6,902.43	5,374.30	1,002.14	525.99

[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, 1980–April 30, 1982

(In million of SDRs)

Lender	Total Amount of Agreement	Amount Borrowed [1] Up to April 30, 1981	Amount Borrowed [1] May 1, 1981 to April 30, 1982	Balance Available as of April 30, 1982
Abu Dhabi	150.00	31.23	66.25	52.52
Austrian National Bank	50.00	15.53	9.57	24.90
Banque Nationale de Belgique	150.00	12.34	—	137.66
Canada	200.00	12.68	—	187.32
Deutsche Bundesbank	1,050.00	290.46 [2]	325.21 [2]	434.33
Banco de Guatemala	30.00	8.00	0.36 [3]	21.64
Japan	900.00	232.62	313.74 [4]	353.64
Central Bank of Kuwait	400.00	104.08	108.34	187.58
De Nederlandsche Bank, N.V.	100.00	25.08	35.59	39.33
Central Bank of Nigeria	220.00	69.85	— [4]	150.15
Saudi Arabian Monetary Agency	1,934.00	508.39 [2]	466.02 [2]	959.59
Swiss National Bank	650.00	176.42	229.28 [3]	244.30
United States	1,450.00	385.43	470.95 [4]	593.62
Central Bank of Venezuela	500.00	145.73	146.87	207.40
Total	7,784.00	2,017.84	2,172.18 [5]	3,593.98

[1] Out of total of SDR 4,591.61 million committed under stand-by (SDR 3,051.10 million) and extended (SDR 1,540.51 million) arrangements in effect on April 30, 1982.

[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.

[3] Claims totaling SDR 8.356 million were repaid to the Banco de Guatemala on February 8, 1982. This was refinanced by a call on the Swiss National Bank.

[4] Claims totaling SDR 69.850 million were repaid in advance to the Central Bank of Nigeria on April 8 and 9, 1982. This encashment was financed by calls in equal amounts under the supplementary financing facility borrowing agreements with Japan and the United States, in agreement with these lenders.

[5] The total of calls exceeds borrowing outstanding under supplementary financing facility agreements by SDR 78.206 million.

Table I.11. Schedule of Fund Charges

Charges in per cent per annum[1] payable on holdings for the periods stated:

PURCHASES IN THE CREDIT TRANCHES AND UNDER THE COMPENSATORY FINANCING AND BUFFER STOCK FINANCING FACILITIES

	July 1, 1974 through March 31, 1977	April 1, 1977 through April 30, 1981	May 1, 1981 through April 30, 1982	From May 1, 1982
Service charge	0.5	0.5	0.5	0.5
Up to 1 year	4.0	4.375	6,25	6.60
1 to 2 years	4.5	4.875	6.25	6.60
2 to 3 years	5.0	5.375	6.25	6.60
3 to 4 years	5.5	5.875	6.25	6.60
4 to 5 years	6.0	6.375	6.25	6.60

EXTENDED FUND FACILITY

	July 1, 1974 through March 31, 1977	April 1, 1977 through April 30, 1981	May 1, 1981 through April 30, 1982	From May 1, 1982
Service charge	0.5	0.5	0.5	0.5
Up to 5 years	[2]	[2]	6.25	6.60
5 to 10 years	6.5	6.875	6.25	6.60

OIL FACILITY

	For 1974	For 1975
Service charge	0.5	0.5
Up to 3 years	6.875	7.625
3 to 4 years	7.000	7.750
4 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, 1982

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
St. Vincent	August 24, 1981
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. Transfers of Special Drawing Rights, January 1, 1970–April 30, 1982

(In millions of SDRs)

	Annual Average Jan. 1, 1970– Apr. 30, 1976	Financial Years Ended April 30						Total Jan. 1, 1970– Apr. 30, 1982
		1977	1978	1979	1980	1981	1982	
Transfers among participants and other holders								
Transactions by agreement	381	317	927	1,533	362	418	1,242	7,210
Prescribed operations	—	—	—	—	—	—	158	158
Transactions with designation								
From holdings	265	116	54	74	346	468	489	3,225
From purchases of SDRs from Fund	—	3	344	1,006	1,025	1,414	1,386	5,178
	646	436	1,325	2,613	1,733	2,301	3,275	15,772
General Resources Account								
Transfers from participants								
Repurchases (net)	253	73	844	502	994	930	838	5,783
Charges (net)	100	709	801	715	553	574	946	4,927
Quota payments	—	—	201	19	1	5,091	266	5,577
Assessments	1	1	1	2	1	2	2	16
Interest received on General Resources Account holdings	11	23	40	57	82	266	657	1,197
	365	805	1,887	1,295	1,630	6,862	2,709	17,499
Transfers to participants and other holders								
Purchases	118	25	662	1,106	1,283	2,033	2,035	7,890
Reconstitution[1]	131	445	474	75	5	20	—	1,851
Replenishment of participants' currencies	23	—	—	—	—	—	—	145
Remuneration	11	24	122	136	140	220	348	1,062
Distribution of net income	3	—	—	—	—	—	—	17
Interest, transfer charges on Fund borrowings	1	—	29	12	21	50	143	264
Repayments of Fund borrowings	—	—	—	38	64	161	144	407
Other	5	—	—	8[2]	—	341[3]	27[2]	408
	292	495	1,287	1,375	1,513	2,824	2,697	12,043
Total transfers	1,303	1,736	4,499	5,283	4,877	11,988	8,681	45,313
General Resources Account holdings at end of period	503	771	1,371	1,290	1,407	5,445	5,456	

[1] Including amounts acquired as part of purchases.
[2] Transfers to enable participants to pay charges in the General Resources Account and Special Drawing Rights Department.
[3] Transfers to enable participants to pay quota increases.

Table I.14. Summary of Transactions and Operations in Special Drawing Rights, Financial Year Ended April 30, 1982

(In thousands of SDRs)

Holders	Total Holdings April 30, 1981	Receipts from Participants and Other Holders: Designated	Receipts from Participants and Other Holders: Other	Transfers to Participants and Other Holders	Receipt from the General Resources Account	Transfers to the General Resources Account	Interest, Charges, and Assessment (Net)	Positions as at April 30, 1982: Holdings	Positions as at April 30, 1982: Net cumulative allocations	Positions as at April 30, 1982: Holdings as per cent of net cumulative allocations
PARTICIPANTS										
Afghanistan	16,057	—	—	—	231	—	−1,360	14,929	26,703	55.9
Algeria	113,320	11,000	—	—	3,561	—	−1,122	126,759	128,640	98.5
Argentina	337,552	—	—	—	9,537	—	+3,711	350,799	318,370	110.2
Australia	43,457	—	10,780	194,214	197,176	1,593	−55,470	136	470,545	0.0
Austria	211,978	9,020	—	61,850	13,852	—	+2,311	175,311	179,045	97.9
Bahamas	5,945	—	—	—	133	—	−542	5,536	10,230	54.1
Bahrain	3,707	3,400	—	—	—	—	−156	6,952	6,200	112.1
Bangladesh	11,506	—	13,800	36,000	55,133	25,672	−5,343	13,424	47,120	28.5
Barbados	2,967	—	—	5,013	5,075	1,604	−783	642	8,039	8.0
Belgium	606,575	—	—	—	30,143	1	+18,256	654,973	485,246	135.0
Benin	2,882	—	—	—	—	—	−851	2,030	9,409	21.6
Bolivia	535	—	9,501	—	—	5,885	−3,466	685	26,703	2.6
Botswana	4,982	—	—	—	272	—	+116	5,371	4,359	123.2
Brazil	376,531	7,500	—	—	10,062	—	+3,919	398,012	358,670	111.0
Burma	3,720	—	5,000	3,000	5,068	4,157	−5,418	1,213	43,474	2.8
Burundi	5,856	—	—	—	86	562	−1,054	4,326	13,697	31.6
Cameroon	1,751	—	3,300	—	106	1,701	−3,082	374	24,463	1.5
Canada	438,511	—	—	318,282	5,346	—	−68,606	56,969	779,290	7.3
Cape Verde	176	—	—	—	6	—	−57	126	620	20.3
Central African Republic	217	—	2,475	3,980	4,007	1,066	−1,205	448	9,325	4.8
Chad	197	—	1,785	—	19	501	−1,218	282	9,409	3.0
Chile	28,482	56,152	2,400	—	799	38,087	−13,051	36,694	121,924	30.1
China, People's Republic of	12,472	—	240,000	—	692	23,910	−13,541	215,713	236,800	91.1
Colombia	112,784	9,500	—	—	5,064	—	+789	128,137	114,271	112.1
Comoros	12	—	—	—	80	—	−92	0	716	0.0
Congo	964	—	1,200	—	—	63	−1,145	956	9,719	9.8
Costa Rica	692	—	5,380	—	3,091	5,941	−3,048	175	23,726	0.7
Cyprus	5,077	—	3,425	—	—	5,449	−2,222	831	19,438	4.3
Denmark	170,542	—	—	—	2,014	—	−840	171,717	178,864	96.0
Djibouti	476	—	—	—	19	—	−89	407	1,178	34.5
Dominica	47	—	—	714	1,172	367	−35	103	592	17.4
Dominican Republic	2,766	—	—	3,000	7,500	1,452	−3,804	2,010	31,585	6.4
Ecuador	27,211	1,000	—	—	640	—	−549	28,302	32,929	85.9
Egypt	10,590	—	3,050	—	19,000	13,414	−17,306	1,920	135,924	1.4
El Salvador	248	—	5,267	32,165	32,250	1,500	−3,238	862	24,985	3.4
Equatorial Guinea	436	—	170	—	245	791	−60	0	5,812	0.0
Ethiopia	2,695	—	—	9,098	14,950	5,118	−828	2,601	11,160	23.3
Fiji	4,455	—	—	—	68	74	−320	4,128	6,958	59.3
Finland	105,393	—	36,000	—	1,003	30,925	−2,601	108,871	142,690	76.3
France	1,055,380	—	—	125,733	24,756	—	−4,372	950,031	1,079,870	88.0
Gabon	8,255	—	—	5,389	—	765	−896	1,204	14,091	8.5
Gambia, The	501	—	314	1,570	2,699	850	−640	454	5,121	8.9
Germany, Federal Republic of	1,644,290	87,214	125,733	493,910	59,319	—	+45,762	1,468,407	1,210,760	121.3

Ghana	3,850	—	1,100	—	—	4,264	−686	0	62,983	0.0
Greece	1,514	—	14,861	—	679	2,754	−13,432	868	103,544	0.8
Grenada	168	—	300	240	361	290	−114	186	930	20.0
Guatemala	24,707	1,555	3,000	78,443	54,929	1,753	−1,887	2,108	27,678	7.6
Guinea	1,664	—	2	—	4,992	5,193	−1,465	0	17,604	0.0
Guinea-Bissau	26	—	250	1,750	1,850	117	−153	107	1,212	8.8
Guyana	557	—	3,740	—	4,207	6,646	−1,856	2	14,530	0.0
Haiti	869	—	3,240	—	24	1,625	−1,764	744	13,697	5.4
Honduras	2,408	—	—	19,000	23,335	1,752	−2,127	2,864	19,057	15.0
Iceland	372	—	10,100	—	123	7,289	−1,857	1,450	16,409	8.8
India	480,747	—	—	200,000	205,542	61,915	−27,965	396,408	681,170	58.2
Indonesia	214,436	21,435	—	—	4,789	—	−1,747	238,913	238,956	100.0
Iran	289,213	—	—	—	1,936	—	+6,113	297,261	244,056	121.8
Iraq	107,734	—	—	—	5,931	—	+5,884	119,549	68,464	174.6
Ireland	87,939	—	—	—	2,990	—	+469	91,397	87,263	104.7
Israel	19,581	—	68,000	—	—	69,644	−13,101	4,836	106,360	4.5
Italy	650,303	—	—	—	22,515	—	−3,924	668,894	702,400	95.2
Ivory Coast	7,733	—	5,500	59,088	67,419	13,550	−4,280	3,735	37,828	9.9
Jamaica	7,978	—	25,500	24,500	41,809	41,758	−4,854	4,175	40,613	10.3
Japan	1,614,364	—	—	—	76,728	—	+100,745	1,791,837	891,690	200.9
Jordan	14,740	—	—	—	727	—	−187	15,281	16,887	90.5
Kampuchea, Democratic	4,538	—	—	—	—	—	−1,419	3,119	15,417	20.2
Kenya	22,417	—	—	20,000	32,199	23,560	−2,862	8,194	36,990	22.2
Korea	13,217	—	102,200	61,733	117,813	129,997	−5,733	35,767	72,911	49.1
Kuwait	28,759	7,500	—	—	4,950	—	+1,109	42,318	26,744	158.2
Lao People's Democratic Republic	43	—	1,091	2,700	3,008	681	−760	0	9,409	0.0
Lebanon	1,807	—	—	—	125	—	−321	1,611	4,393	36.7
Lesotho	1,406	—	—	—	—	—	−304	1,102	3,739	29.5
Liberia	428	—	7,819	11,244	12,514	5,709	−2,701	1,107	21,007	5.3
Libyan Arab Jamahiriya	90,769	3,500	—	—	9,778	—	+5,870	109,917	58,771	187.0
Luxembourg	14,468	—	—	—	416	—	−272	14,612	16,955	86.2
Madagascar	861	—	1,000	6,555	14,181	7,034	−2,451	2	19,270	0.0
Malawi	168	—	7,320	8,800	13,635	9,718	−1,239	1,367	10,975	12.5
Malaysia	123,850	—	—	89,750	93,990	5,270	−1,678	121,142	139,048	87.1
Maldives	153	—	—	—	4	—	−16	141	282	49.8
Mali	652	—	2,510	—	—	794	−2,049	319	15,912	2.0
Malta	13,707	—	—	—	871	—	+428	15,005	11,288	132.9
Mauritania	589	—	2,510	2,000	3,314	2,506	−1,207	700	9,719	7.2
Mauritius	2,765	—	2,960	6,300	20,563	16,490	−1,881	1,618	15,744	10.3
Mexico	123,144	53,700	22,850	242,111	65,267	—	−22,719	131	290,020	0.0
Morocco	5,383	—	37,500	18,800	44,156	35,728	−10,725	21,787	85,689	25.4
Nepal	885	—	1,710	—	132	1,311	−967	448	8,105	5.5
Netherlands	575,614	11,954	—	—	16,099	—	+8,294	611,960	530,340	115.4
New Zealand	21,400	—	31,000	—	—	33,574	−16,033	2,792	141,322	2.0
Nicaragua	480	—	4,069	—	—	1,399	−2,529	622	19,483	3.2
Niger	7,390	—	—	—	130	125	−248	7,147	9,409	76.0
Nigeria	196,570	2,500	—	238,968	39,898	—	+8,490	8,490	157,155	5.4
Norway	205,216	11,413	—	20,000	12,439	—	+4,405	213,474	167,770	127.2
Oman	4,926	1,640	—	—	—	—	−160	6,405	6,262	102.3
Pakistan	56,584	—	—	—	89,795	100,270	−17,332	28,778	169,989	16.9
Panama	1,376	—	17,000	—	1,211	15,357	−3,167	1,063	26,322	4.0
Papua New Guinea	2,422	—	—	—	33,000	2,996	+761	33,187	9,300	356.8
Paraguay	13,443	2,800	—	—	648	—	+191	17,082	13,697	124.7
Peru	18,385	—	63,000	—	—	66,744	−11,176	3,465	91,319	3.8

Table I.14 *(concluded)*. Summary of Transactions and Operations in Special Drawing Rights, Financial Year Ended April 30, 1982

(In thousands of SDRs)

Holders	Total Holdings April 30, 1981	Receipts from Participants and Other Holders		Transfers to Participants and Other Holders	Receipt from the General Resources Account	Transfers to the General Resources Account	Interest, Charges, and Assess-ment (Net)	Positions as at April 30, 1982		
		Designated	Other					Holdings	Net cumulative allocations	Holdings as per cent of net cumulative allocations
PARTICIPANTS										
Philippines	292	—	86,750	—	464	64,839	−14,449	8,218	116,595	7.0
Portugal	4,412	—	7,600	—	14,501	18,663	−6,379	1,471	53,320	2.8
Qatar	7,088	725	—	—	774	—	−565	8,021	12,822	62.6
Romania	3,210	—	22,400	82,000	103,376	30,185	−9,528	7,272	75,950	9.6
Rwanda	9,671	900	—	—	159	—	−502	10,227	13,697	74.7
São Tomé and Principe	361	—	—	—	9	—	−33	337	620	54.4
Saudi Arabia	365,839	91,500	—	—	111,688	264,975	+14,702	318,754	195,527	163.0
Senegal	1,627	—	7,143	29,164	33,461	8,136	−3,083	1,848	24,462	7.6
Seychelles	166	—	—	—	7	—	−30	142	406	35.0
Sierra Leone	95	—	4,031	—	1,989	3,848	−2,267	1	17,455	0.0
Singapore	22,399	17,344	—	—	3,374	—	+1,747	43,864	16,475	266.2
Solomon Islands	1,229	—	—	1,525	1,540	39	+74	1,279	654	195.4
Somalia	7,363	—	4,309	7,576	92	1,354	−1,173	1,661	13,697	12.1
South Africa	100,803	13,165	—	97,226	78,734	—	−14,444	81,031	220,360	36.8
Spain	274,163	—	100,000	—	5,404	111,846	−828	266,893	298,805	89.3
Sri Lanka	4,121	—	13,680	41,500	54,726	17,023	−8,545	5,459	70,868	7.7
St. Lucia	381	—	—	—	—	215	−62	103	742	13.9
St. Vincent	210	—	—	—	—	79	−24	107	354	30.3
Sudan	6,819	—	29,993	40,800	62,674	47,380	−6,524	4,781	52,192	9.2
Suriname	5,329	700	—	—	73	—	−304	5,799	7,750	74.8
Swaziland	2,805	—	3,000	—	119	4	−163	5,757	6,432	89.5
Sweden	222,858	—	—	—	3,188	—	−2,964	223,081	246,525	90.5
Syrian Arab Republic	14,708	—	—	—	—	—	−2,852	11,856	36,564	32.4
Tanzania	1,199	—	9,000	—	2,300	7,118	−4,010	1,372	31,372	4.4
Thailand	1,958	—	1,784	139,727	189,302	36,110	−9,148	8,059	84,652	9.5
Togo	7,288	—	—	—	—	1,798	−584	4,906	10,975	44.7
Trinidad and Tobago	48,545	5,814	—	—	—	—	+603	54,962	46,231	118.9
Tunisia	17,189	—	—	—	232	—	−2,196	15,225	34,243	44.5
Turkey	33,838	—	118,570	20,000	2,654	114,896	−14,102	6,066	112,307	5.4
Uganda	736	—	3,316	6,364	16,422	8,218	−3,666	2,226	29,396	7.6
United Arab Emirates	27,116	10,400	—	—	—	—	−1,211	36,305	38,737	93.7
United Kingdom	772,138	623,701	—	283,072	11,350	314,264	−140,827	669,025	1,913,070	35.0
United States	3,096,603	798,151	—	—	94,255	—	−187,943	3,801,066	4,899,530	77.6
Upper Volta	7,400	—	—	—	99	—	−250	7,248	9,409	77.0
Uruguay	35,403	3,500	—	—	347	95	−1,719	37,436	49,977	74.9
Vanuatu	—	—	1,035	—	—	1,035	—	0	316,890	—
Venezuela	362,459	6,000	—	—	19,679	—	+7,987	396,125	—	125.0
Viet Nam	568	—	1,100	—	5,618	7,286	0	0	47,658	0.0
Western Samoa	207	—	580	—	138	644	−143	138	1,142	12.1
Yemen Arab Republic	12,269	—	—	10,814	11,435	—	+876	13,767	6,160	223.5
Yemen, People's Democratic Republic of	2,520	—	4,500	—	30	1,385	−2,535	3,130	22,583	13.9
Yugoslavia	9,308	—	11,009	—	120,895	108,218	−16,101	16,893	155,161	10.9
Zaïre	2,769	—	7,740	31,935	50,605	18,082	−11,093	4	86,309	0.0

Zambia	3,865	—	24,828	38,394	52,139	33,739	−8,606	94	68,298	0.1
Zimbabwe	10,045	—	—	—	24	1,839	−135	8,094	10,200	79.3
Total Participants	15,976,278	1,874,681	1,372,080	3,235,993	2,719,069	2,072,574	−645,129	15,988,411	21,433,330	
GENERAL RESOURCES ACCOUNT	5,445,008	—	2,072,574	2,720,837	—	—	+659,339	5,456,084	—	
OTHER HOLDERS										
Arab Monetary Fund	—	—	7,576	5,344	—	—	+268	2,500	—	
East Caribbean Currency Authority	523	—	—	—	—	—	+68	591	—	
Nordic Investment Bank	1,004	—	20,000	21,000	—	—	+72	77	—	
Swiss National Bank	10,517	—	—	12,000	1,768	—	+801	1,086	—	
Total Other Holders	12,044	—	27,576	38,344	1,768	—	+1,209	4,254	—	
Total	21,433,330	1,874,681	3,472,230	5,995,174	2,720,837	2,072,574	+15,420 [1]	21,448,750	21,433,330	

[1] This figure reflects charges on SDR allocations that were not paid on April 30, 1982. As interest on SDR holdings was paid in full on that date, SDRs were effectively created in the amount of the unpaid charges, thereby raising total holdings above net cumulative allocations.

Table I.15. Publications Issued, Financial Year Ended April 30, 1982

Reports and Other Documents

Annual Report of the Executive Board for the Financial Year Ended April 30, 1981
(English, French, German, and Spanish). Free

Annual Report on Exchange Arrangements and Exchange Restrictions, 1981
One copy free; additional copies US$7.00 each.

By-Laws, Rules and Regulations
Thirty-Eighth Issue (English, French, and Spanish). Free

Summary Proceedings of the Thirty-Sixth Annual Meeting of the Board of Governors Free

Subscription Publications

Balance of Payments Statistics
Vol. 33. *Yearbook,* 12 monthly booklets, and supplement. US$26.00 a year. US$10.00 to university libraries, faculty members, and students.

Direction of Trade Statistics
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 a special rate of US$40.00 for all four publications.

Government Finance Statistics Yearbook
Vol. V, 1981. (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 Statistics, 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

No. 3 *External Indebtedness of Developing Countries*
By a staff team headed by Bahram Nowzad and Richard C. Williams

No. 4 *World Economic Outlook: A Survey by the Staff of the International Monetary Fund*

No. 5 *Trade Policy Developments in Industrial Countries*
By S.J. Anjaria, Z. Iqbal, L.L. Perez, and W.S. Tseng

No. 6 *The Multilateral System of Payments: Keynes, Convertibility, and the International Monetary Fund's Articles of Agreement*
By Joseph Gold

No. 7 *International Capital Markets: Recent Developments and Short-Term Prospects, 1981*
By a staff team headed by Richard C. Williams, with G.G. Johnson

No. 8 *Taxation in Sub-Saharan Africa: I. Tax Policy and Administration in Sub-Saharan Africa*
By Carlos A. Aguirre, Peter S. Griffith, and M. Zühtü Yücelik
II. A Statistical Evaluation of Taxation in Sub-Saharan Africa
By Vito Tanzi

No. 9 *World Economic Outlook: A Survey by the Staff of the International Monetary Fund*

No. 10 *International Comparisons of Government Expenditure*
By Alan A. Tait and Peter S. Heller

Occasional Papers No. 4 and No. 9, the *World Economic Outlook,* are available for US$8.00 each, with a special rate of US$5.00 each for university libraries, faculty members, and students. Occasional Papers No. 5, No. 6, No. 7, No. 8, and No. 10 are priced at US$5.00 each, with a special rate of US$3.00 each for university libraries, faculty members, and students.

Books

Financial Policy Workshops: The Case of Kenya
By the staff of the IMF Institute. US$12.50

Pamphlet Series

No. 32 *The Rule of Law in the International Monetary Fund*
By Joseph Gold (French). Free

No. 33 *SDRs, Currencies, and Gold: Fourth Survey of New Legal Developments*
By Joseph Gold (French and Spanish). Free

No. 35 *The Legal Character of the Fund's Stand-By Arrangements and Why It Matters*
By Joseph Gold (French and Spanish). Free

No. 36 *SDRs, Currencies, and Gold: Fifth Survey of New Legal Developments*
By Joseph Gold (English). Free

No. 37 *The International Monetary Fund: Its Evolution, Organization, and Activities*
By A.W. Hooke (English). Free

No. 38 *Fund Conditionality: Evolution of Principles and Practices*
By Manuel Guitián (English). Free

Other

Finance & Development
Issued jointly with IBRD; quarterly (English, Arabic, French, German, Portuguese, 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 Decisions of the Executive Board and Report by the Managing Director

A. Guidelines for Borrowing by the Fund

Quota subscriptions are and should remain the basic source of the Fund's financing. However, borrowing by the Fund provides an important temporary supplement to its resources. In present circumstances, it facilitates the provision of balance of payments assistance to its members under the Fund's policies of supplementary financing and enlarged access.

The confidence of present and potential creditors in the Fund will depend not only on the prudence and soundness of its financial policies but also on the effective performance of its various responsibilities, including, in particular, its success in promoting adjustment.

Against this background the Executive Board approves the following guidelines on borrowing by the Fund.

1. Fund borrowing shall remain subject to a process of continuous monitoring by the Executive Board in the light of the above considerations. For this purpose, the Executive Board will regularly review the Fund's liquidity and financial position, taking into account all relevant factors of a quantitative and qualitative nature.

2. Subject to paragraph 4 below, the Fund will not allow the total of outstanding borrowing plus unused credit lines to exceed the range of 50–60 per cent of the total of Fund quotas. If the total of outstanding borrowing plus unused credit lines reaches the level of 50 per cent of quotas, the Executive Board shall assess the various technical factors that determine, at that time, the availability of balances of unused lines of credit. While this assessment is being made, the total of outstanding borrowing plus unused credit lines may rise, if necessary, beyond 50 per cent, but shall not exceed 60 per cent of total quotas.

3. Recognizing that the credit lines of all participants in the General Arrangements to Borrow (GAB) cannot be used at the same time and that the GAB can be activated only to finance purchases by a GAB participant, the total of outstanding borrowing plus unused credit lines under paragraph 2 above shall include, in respect of the GAB, either outstanding borrowing by the Fund under the GAB or one half of the total of credit lines under the GAB, whichever is the greater.

4. In the case of major developments, the Executive Board shall promptly review, and may adjust, the guidelines. In any event, the guidelines shall be reviewed when the Board of Governors has completed the Eighth General Review of Quotas, and may be adjusted as a result of that review of the guidelines.

5. The percentage limits specified in paragraph 2 above, or any other limits that may be adopted as a result of a review pursuant to paragraph 4 above, are not to be understood, at any time, as targets for borrowing by the Fund.

Decision No. 7040-(82/7)
January 13, 1982

B. Amendment of Stand-By and Extended Arrangements to Utilize Supplementary Financing

(a) Utilization of Supplementary Financing

The Executive Board approves the utilization of supplementary financing along the lines proposed by the Managing Director in his statement [below].

Decision No. 7047-(82/13)
February 5, 1982

Managing Director's Statement

1. Members expected to conclude new stand-by or extended arrangements prior to February 22, 1982 will be asked to agree to the inclusion of a provision in the arrangement that would permit the Fund, at its discretion, to substitute any available SFF resources for EAR resources in amounts determined by the Managing Director at the time of the purchase. Commitments under arrangements likely to be concluded between now and February 22, 1982 are expected to be relatively small, and therefore members with existing arrangements under the EAR policy will also be asked to agree, before February 22, 1982, to the inclusion of the same clause in their respective arrangements in order to permit the Fund to substitute, at its discretion, SFF resources for EAR resources. At present, 15 members have concluded arrangements under the enlarged access policy for an amount totaling SDR 10.14 billion, of which SDR 5.86 billion is required to be financed with borrowed funds.

2. Each quarter, at the time of the operational budget, a review would be made (i) of the amount of SFF funds available because of canceled or expired arrangements (and toward the end of the disbursement period SFF resources might also be usable because country programs are irretrievably off track and the members would not be able to draw under their arrangements), and (ii) of the amount of SFF lines of credit that could be called upon.

3. If the Fund's total obligations to supply SFF funds were less by a reasonable safety margin (to cover actually and potentially weak lenders) than the total of undisbursed usable SFF lines of credit, these lines of credit could be called upon to finance purchases in the forthcoming calendar quarter by those members that had agreed to permit the Fund to substitute SFF resources for EAR resources.

I would like to make four comments regarding this proposed scheme. First, I have stressed that the relevant arrangements must be approved or amended not later than February 22, 1982, because I do not believe we should attempt to renegotiate the SFF borrowing agreements to extend them beyond the terminal date originally agreed by the lenders. The proposal is aimed at maximizing the Fund's use of the SFF and not at prolonging the SFF arrangements. I would like to assure the lenders, in particular, on that score.

Second, the proposal is not intended to commit the Fund to supply SFF resources beyond that which already exists. The Fund will not enter into any new commitments to supply SFF funds except in conformity with the existing decision, which allows the Fund to recommit SFF resources in those stand-by and extended arrangements that replace arrangements that at present provide for SFF funds. Beyond that, the Fund will use SFF borrowed funds in substitution for EAR funds only if and when SFF funds are available.

Thirdly, in disbursing SFF funds in substitution for EAR funds during a quarter, the aim will be to prorate SFF substituted funds among purchasing members during the quarter in a manner that would take into account the availability of SFF funds during the quarter.

Finally, Directors are aware that SFF resources carry a subsidy element when used by eligible beneficiaries. Consequently, a release of SFF resources by members that are not eligible for the SFF subsidy to members that are eligible beneficiaries could increase the overall cost of the SFF subsidy. At present, we estimate the cost of the SFF subsidies at slightly less than SDR 600 million. On present indications, the bulk of SFF resources that are likely to be released because present arrangements are canceled or expire will be released by members that are already eligible for the SFF subsidy. We do not, therefore, anticipate any material change in the net cost of the SFF subsidy. It would also seem possible to accommodate under the existing financing arrangements for the SFF subsidy account a transfer of SFF resources to members that are eligible for a subsidy as a result of canceled or expired arrangements from members that are not eligible for a subsidy. For example, if SDR 1 billion of SFF funds were released from members that were not eligible for the SFF subsidy to eligible beneficiaries it is estimated that the increase in the overall cost of the SFF subsidy would amount to approximately SDR 125 million, i.e., the total cost would be within the SDR 750 million to be transferred from the Trust Fund, leaving aside bilateral contributions of SDR 67 million so far received or committed.

(b) Forms of Stand-By and Extended Arrangements

1. Paragraph 3 of stand-by and extended arrangements involving borrowed resources approved between February 5 and 22, 1982, shall, if the member consents, read as follows:

> Purchases under this [stand-by] [extended] arrangement shall be made from [e.g., borrowed resources until purchases under this arrangement reach the equivalent of SDR ____________, then from ordinary and borrowed resources in the ratio of 1 to 1.2 until purchases under this arrangement reach the equivalent of SDR __________, and then from borrowed resources] 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; and provided further that amounts of supplementary financing may be substituted for borrowed resources as determined by the Managing Director at the time of a request by [member] for a purchase [prior to February 22, 1984].

2. Paragraph 3 or its equivalent of any stand-by or extended arrangement in effect involving borrowed resources, that was approved before February 5, 1982, shall be amended as set forth in paragraph 1 above if the Fund receives a request from the member to that effect on or before February 22, 1982.

Decision No. 7048-(82/13)
February 5, 1982

C. Treatment of Reserve Tranche: Attribution of Reductions in Fund's Holdings of Currencies

(a) Amendment of Paragraph 1 of Executive Board Decision No. 6831-(81/65)

Paragraph 1 of the decision on attribution of reductions in Fund's holdings of currencies (Executive Board Decision No. 6831-(81/65) [1]), shall be amended to read:

"1. (a) Subject to paragraphs (b) and (c) below a member shall be free to attribute a reduction in the Fund's holdings of its currency (i) to any of its obligations to repurchase, and (ii) to enlarge its reserve tranche.

"(b) If the reduction results from the sale of a member's currency or from operational payments by the Fund, an attribution may not be made to an obligation to repurchase financed from borrowed resources unless the Fund is obligated or entitled immediately to repay the lender on the occasion of such attribution. A member would be able to combine an attribution under this decision to an obligation to repurchase financed with ordinary resources with a repurchase of an outstanding obligation financed with borrowed resources provided this repurchase and the attribution would result in a joint reduction of repurchase obligations as required under Decision Nos. 5508-(77/127) [2] and 6783-(81/40).[3]

"(c) An attribution to create a reserve tranche may only be made if the reduction results from the sale of the member's currency or from operational payments by the Fund in that currency and if the member's obligations to repurchase

[1] *Selected Decisions of the International Monetary Fund and Selected Documents,* Ninth Issue (Washington, 1981), page 98.
[2] *Ibid.*, pages 31–37.
[3] *Ibid.*, pages 39–43.

do not include an obligation relating to a purchase financed through borrowing under the GAB."

Decision No. 7059-(82/23)
February 22, 1982

(b) Balances Held in Administrative Accounts

The balances held in the administrative accounts of the Fund, to the extent that they are not in excess of 0.1 per cent of a member's quota, shall not be considered as part of the Fund's holdings of a member's currency for the purpose of determining a member's reserve tranche position in the Fund and for the calculation of holdings for the purposes of charges (Article V, Section 8*(b)*(ii)); remuneration (Article V, Section 9 *(a)*); and the determination of a member's entitlement to appoint an Executive Director (Article XII, Section 3*(c)*).

Decision No. 7060-(82/23)
February 22, 1982

D. Value Dates and Exchange Rates in Fund Transactions—Amendment of Rule G-4

Effective February 24, 1982, Rule G-4(b) and (c) shall read as follows:

(b) The value date for purchases involving resources borrowed by the Fund under the policy on enlarged access will normally be either the fifteenth or the last day of the month, or the next business day thereafter if the day selected is not a business day. If requests for purchases are not received in the Fund in time for its instructions to be issued for these value dates in accordance with (a) above, the purchases will be executed at the next value date.

(c) Repurchases in respect of a purchase financed with resources borrowed under the policy on enlarged access 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 the purchase.

Decision No. 7061-(82/24)
February 24, 1982

E. Surveillance over Exchange Rate Policies

(1) The Executive Board has reviewed the document "Surveillance over Exchange Rate Policies" as provided in paragraph 2 of Executive Board Decision No. 5392-(77/63), adopted April 29, 1977,[4] and will review it again at an appropriate time not later than April 1, 1984.

(2) The Executive Board has also reviewed the procedures relating to the general implementation of the Fund's surveillance over members' exchange rate policies, as required by paragraph VI of *Procedures for Surveillance* in the document "Surveillance over Exchange Rate Policies" referred to in (1) above, including the procedures for the conduct of consultations under Article IV, which consultations shall comprehend the consultations under Article VIII and Article XIV, and approves the continuation of the procedures as described in SM/82/37,[5] in

[4] *Ibid.*, page 10.
[5] For a discussion of surveillance procedures, see Chapter 2, pages 57–58.

the light of the attached Managing Director's summing up, until the next annual review, which shall be conducted not later than April 1, 1983.

Decision No. 7088-(82/44)
April 9, 1982

Attachment to Decision No. 7088-(82/44)
Managing Director's Summing Up

GENERAL REMARKS

The Board agreed that the principles embodied in the 1977 document on surveillance over exchange rate policies are not at this time in need of revision or reformulation.

Directors considered that, on the whole, the basic surveillance issues outlined in SM/82/37 [6] —particularly the references to the interrelationships and interactions of financial policies and to intervention—were addressed in a balanced manner.

A number of Directors considered that the surveillance function had not yet matured and was not as effective as it could be. There was a strong endorsement of the management's efforts to strengthen surveillance by the Fund, but it was recognized that full cooperation of members is essential if this function is to be made more effective. It is my understanding that the Board believes that cooperation between members should take place on three distinct levels:

a. It is important first to reach a common view or understanding on the analytical framework within which exchange rate issues and requirements can be discussed. In this respect, several speakers pointed to the need to look for ways of improving our appraisal—both quantitative and qualitative—of competitiveness and of the role of exchange rates in the adjustment process, of better assessing the adequacy or appropriateness of different exchange rate regimes, and of adjusting those regimes when warranted.

I have also noted the interesting comments on the need to do more analytical work on these issues. The staff and management have been working toward this goal in recent months, but more needs to be done to improve our understanding of the interrelationships between balance of payments deficits, budgetary policies, interest rates, and exchange rates. It has also been suggested that we need to better understand the functioning of the European Monetary System, the currency intervention that it entails, and the relationships between EMS members and other countries.

b. The second level of cooperation is the agreement by members to discuss with the Fund, and in the Fund, the aspects of individual policy choices that have or can have an adverse impact on other countries.

c. Third, it is important for members to cooperate by taking seriously into account, in their national process of decision making, the views expressed and conclusions reached by the Board in the form of "a" and "b" above.

Such cooperation is in fact what surveillance is all about. Things are not as simple as they were under the fixed exchange rate system. We have to reach common views on matters that are very difficult to assess scientifically; and we know very well that it is a conceptual difference of approach among a number of member countries with respect to exchange rate relationships which presently makes the exercise of surveillance particularly difficult. If there was a convergence of views on the role of the exchange rate in the adjustment process, some of the problems would be alleviated, but I believe that the needed cooperation would be made possible by a more objective approach to issues that lend themselves to objective analysis.

A number of Directors felt that there remains some asymmetry in the exercise of surveillance between members that use Fund resources and those that do not, or between small countries and major industrial countries. Those Directors considered that there was a need to move toward a more symmetrical treatment. I should note that we are very vigilant in this regard and attach great importance to treating members on a uniform basis. Indeed, a reading of the language employed in the staff reports for more recent Article IV consultations with industrial countries will show that the formulation of policy recommendations has tended to be more candid and more precise than in the past. And, in the spirit of the comments made today, I shall be continuing my efforts to be frank and forthcoming in my summing up statements on all consultation discussions. Of course, an evenhanded approach does not mean that consultations will be perfectly symmetrical. The situations of countries themselves are not symmetrical; and we know that a country that is dependent on Fund resources is *de facto* more likely to be the object of active surveillance by the Fund than one not in need of the Fund's assistance. Given that natural distinction, we try especially hard to treat the appraisals and recommendations for different categories of countries in a uniform and evenhanded way.

While we have reaffirmed today that the basic framework within which surveillance should be exercised is the individual Article IV consultation, we have also agreed that, for the exercise

[6] For a discussion of surveillance issues, see Chapter 2, pages 56–57.

of surveillance to be really effective, it must be looked at in a multilateral context. One idea mentioned in this regard was the possibility, within the framework of the Fund, of holding informal discussions with or on the industrial countries as a group or those whose currencies make up the SDR basket. Directors also referred to the World Economic Outlook exercise as a very helpful method of integrating the individual judgments or assessments into a more collective framework. In this respect, the forthcoming April 19th discussion on the World Economic Outlook is particularly timely and should provide us with the opportunity to study in very practical terms the effects of the economic policies of industrial countries on one another and on the rest of the world. We should devote the first day's discussion of the Outlook to these interactions. The staff will be providing Executive Directors with a list of illustrative questions to facilitate such a discussion, which should be a helpful element in our approach to surveillance.

Role of the Managing Director in Surveillance

A number of Directors stressed the role of the Managing Director in the surveillance process in conducting personal consultations with member countries and making public statements in this regard. In my own view, there are three levels to this role. First, the Managing Director must make every effort to keep abreast of the work of the staff and its assessment of world developments in order to come to conclusions about where and when surveillance needs to be exercised.

Second, he must keep in close contact with the countries that play an important role in the international monetary system, either through the Executive Directors or through direct contact with the officials of the countries themselves. In the course of such discussions, the Managing Director should focus on the concerns of individual countries with respect to the surveillance process so that he can take the "pulse" of the membership as a whole.

With the above information in hand, the Managing Director must then formulate proposals to the Executive Board about how surveillance or adjustment should be conducted. At this level, he must not serve simply as a conduit for the views of the membership—which are often divergent—but must exercise some independence in synthesizing these views and making proposals that, in his view, will best serve the membership as a whole. It is understood, of course, that such proposals must be expressed in a way that does not impinge on the sovereign right of members to make policy.

CONSULTATION AND SURVEILLANCE PROCEDURES

Before turning to specific points on procedure, I feel it is appropriate to acknowledge, as the staff has already done, the broad support given by Directors to the staff's efforts to intensify and improve the content of the reports. It is encouraging to know that we are moving in the right direction in taking account of the views of the Board as we prepare material for discussion.

Frequency and Scheduling of Missions

A number of Directors endorsed the present frequency of consultations, but some of them stressed that any further fall in frequency should be avoided if possible. Several Directors could accept the staff's suggestion of a somewhat reduced frequency of consultations for members whose economies are small, whose underlying economic situations remain basically unchanged, and who are not using Fund resources. Several Directors stressed that visits by senior staff to such members should not be a substitute for consultations and it was agreed that adequate advance notice of such visits should continue to be given to the Executive Directors concerned in order to permit them to play their proper role in relation to their constituent countries. Two Directors stressed that the outer time limit for consultations should not exceed two years; increased frequency and better synchronization of consultations with major currency countries were also advocated. Several Directors suggested that updated reports on Recent Economic Developments (REDs) be issued in cases in which a fairly long time lag between consultations was developing.

Several Directors stressed the desirability of coordination in the timing of Board consideration of consultations with major member countries a matter which relates to the importance of taking a global view of the effects of economic policies of members on one another in conducting the Fund's surveillance procedures. Some speakers suggested grouping consultations with members participating in a currency union, while others underlined certain difficulties—both practical and otherwise—that may arise if such a course were to be adopted.

Role of the Executive Director in Consultations

A number of Directors, either directly or indirectly, requested clarification of the role of Executive Directors in the consultation process and about the role of Executive Directors and perhaps of the Board itself in the briefing stage. The role of the Executive Board in the consultation process is clearly defined in the Articles, which provide that the Managing Director and the staff shall conduct the ordinary business of the Fund, including consultation missions, under the direction of the Board. The Board has the power and the responsibility to adopt policies and establish procedures for the conduct of consultations and negotiations with member countries, but the actual consultation discussions and negotiations are the responsibility of the management and staff.

The individual Executive Director plays a different but very important role in the consultation process. He is obviously responsible for presenting and explaining the views of his countries during Board discussions; but there are also many ways in which he can play a particularly useful intermediary role at an earlier stage by helping the staff mission to understand the policies and views of his countries and vice versa, and I wish to take this opportunity to express the appreciation of management and staff for the efforts made over the years by individual Directors in this regard.

Combining Consultation and Use of Fund Resources Missions

Most Directors preferred, in principle, to have the Article IV consultations precede negotiations on, and Board consideration of, requests for use of Fund resources. When it is possible to arrange an Article IV mission before a negotiation—especially when a long time has elapsed since the prior Article IV consultation with the member—it would probably be best to follow such a procedure, particularly since the guidance given to the staff in the course of an Article IV consultation discussion in the Board can be very helpful in the conduct of further negotiations with the member country. Several speakers believed that this was the ideal scheme, but added that it would not always be practical in view of countries' sometimes urgent need for Fund resources. One Director felt that, in cases of urgent need for Fund resources, there should be no presumption that an Article IV consultation would precede discussions on use of Fund resources. Generally the Board felt that flexibility had to be employed in this regard. The Board's views on this matter will of course be carefully considered; but, in a number of cases, it may be a good idea to maintain the current practice of arranging the schedule of missions and discussions in such a way as to obtain maximum benefit from combining Article IV consultations with missions on the use of Fund resources.

Size and Duration of Missions

Many Directors stressed the heavy burden of country missions on the staff in area departments. The current duration and size of missions was broadly endorsed. The view was also put forward that technical assistance departments in the Fund—especially the Fiscal Affairs Department—should be more actively involved in Article IV consultation missions where their participation was relevant. Several Directors suggested that the present strain on the staff might be eased by additional recruitment; this matter will be considered further by the Board during the forthcoming discussion of the financial year 1983 administrative budget.

Reporting on Consultations

Several Directors acknowledged improvements in the analytical quality of staff papers on country matters, although a number of speakers wished to see further efforts with respect to external competitiveness, the exchange rate setting, the appropriateness of the exchange rate regime, external reserves, reserves policies, and the interrelationships between monetary, fiscal, exchange rate, and incomes policies. It was also stressed that staff reports on industrial countries should focus more precisely on clearly identifiable issues in order to facilitate the conduct of the discussion.

Several Directors endorsed the techniques developed by the staff for reporting on the sensitive subject of the exchange rate, but others cautioned against too explicit a discussion of exchange rate policies in the reports, in view of the great sensitivity of the subject. Some Directors, while agreeing that exchange rate questions must be treated carefully in the reports, considered that in cases of inappropriate exchange rate policy or maintenance of an unrealistic exchange rate level, the staff reports should treat the issues sufficiently forthrightly.

There was general agreement that staff reports should continue to cover trade issues in supporting the efforts of the GATT, keeping in mind, of course, the respective jurisdictions of the two organizations. One Director noted that progress by members toward acceptance of Article VIII had been inadequate.

The staff was encouraged to improve the form and usefulness of RED reports, inter alia, by regularly updating the reports when warranted and feasible. One Director questioned the need to have an RED report with each consultation, and several cautioned against including judgmental material in REDs.

Timing of Article IV Discussions

Directors endorsed the existing three-month rule, while generally agreeing on the four weeks' delay given to the Board for consideration of the report before the discussion. One Director suggested that the staff or management should report to the Board if a consultation was not completed within, say, six months from the discussion.

Special Papers and Seminars

There was a strong endorsement by Executive Directors of the current and prospective range of special papers and seminars on exchange rates or exchange rate policies in certain groups of countries, on economic policies of oil producing countries, and on the Fund's approach to centrally planned economies. A number of Executive Directors called for further consideration of the matter of exchange rate policies in LDCs.

Supplemental Consultations and Informal Visits

Directors generally endorsed existing procedures on supplemental consultations, although some of them wished to have more precise reporting on such consultations. The staff will keep this suggestion in mind in the preparation of World Economic Outlook papers.

Exchange Arrangements

On the subject of exchange arrangements maintained by members, Directors expressed agreement with the staff recommendations regarding the need for prompt notification of changes in exchange rate regimes and improvements in the Fund's classification of regimes. It is important that the international community, through the Fund, should be provided with timely and meaningful information in this area. The staff and management agree with the suggestion of Directors that the general rule for ensuring prompt notification would be notification within three days of the date of change in arrangements. The information also needs to be comprehensive and provided on an evenhanded basis, including intervention policies of members with flexible exchange rate regimes as well as developments in pegged or managed arrangements. The Fund must be kept up to date on policies conducted by members or actions taken by them affecting their exchange markets. This information plays an essential role in ensuring that the surveillance process keeps abreast of developments; and the need to be current is a concern that has been widely voiced today. Directors have thus reaffirmed their commitment to ensuring that the provisions of the Article IV, Section 2*(b)* regarding notification of exchange arrangements are implemented effectively. The staff will be continuing its work on this area, including, as was suggested by some Directors, the policy implications of exchange regimes. When the staff can elaborate on the categories of different groups of countries pursuing exchange arrangements of different types, it will do so.

F. General Resources Account: Acquisition of SDRs for Payment of Charges

1. A member whose holdings of SDRs are insufficient for the payment of the total of estimated charges due and payable by it within the next thirty days may:

(a) obtain SDRs from the General Resources Account up to the estimated amount of the balance of SDRs needed for the payment; or

(b) pay the balance of the charges in the currencies of other members.

2. A member that is unable to pay charges in SDRs because it is not a participant in the Special Drawing Rights Department and has not been prescribed as an other holder may pay all charges payable under Article V, Section 8 in the currencies of other members.

3. The currencies for which the SDRs would be sold under Paragraph 1(a) or that would be paid under Paragraph 1(b) and Paragraph 2 shall be selected by the Fund from those currencies that the Fund would receive in accordance with the operational budget in effect at the time.

Decision No. 5702-(78/39) G/S
March 22, 1978, effective April 1, 1978,
as amended by
Decision No. 7096-(82/57) G/S
April 23, 1982

G. Definition of "Promptly"—Amendment of Rule 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 on the third business day following the dispatch of the notification.

Decision No. 7097-(82/57)
April 23, 1982

H. Review of the Fund's Income Position for the Financial Years 1982 and 1983

(a) Amendment to Rule I-6(4)

In order to facilitate the achievement of the objective of the 3 per cent increase in the Fund's reserves referred to in subparagraph (a) of Rule I-6(4) of the Fund's Rules and Regulations, that Rule shall be amended as follows:

1. Subparagraph (a) should read as follows:
   (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. The latter 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 particularly in the light of the results in the previous financial year.
2. The following subparagraph (d) should be added:
   (d) If the Fund's net income for a financial year is in excess of the target amount for that year, the Executive Board may for the purposes of the determinations and estimates referred to in (a) and (b) above in respect of the immediately subsequent financial year, decide to deem any part of the excess over the target amount that has been placed to reserve as income for that subsequent financial year.

Decision No. 7128-(82/80)
June 9, 1982

(b) Net Income for the Financial Year Ending April 30, 1982

The net income for the financial year ending April 30, 1982 shall be placed in the Fund's special reserve.

Decision No. 7129-(82/80)
June 9, 1982

(c) Income for Financial Year Ending April 30, 1983 and Rate of Charge Effective May 1, 1982

(a) Pursuant to Rule I-6(4)(d), it is decided that for the purposes of the determinations and estimates referred to in (a) and (b) of the same Rule in respect of the financial year 1983, an amount equal to SDR 92 million that has been placed to reserve at the end of the financial year ending on April 30, 1982, shall be deemed as income for the financial year ending April 30, 1983.

(b) Pursuant to Rule I-6(4)(a), it is decided that, effective May 1, 1982, the rate of charge shall be 6.6 per cent per annum.

Decision No. 7130-(82/80)
June 9, 1982

I. Level of Fund SDR Holdings

The amounts of SDRs the Fund will transfer to members in purchases shall be guided by the aim of maintaining, so far as feasible, the Fund's SDR holdings at a level that will average approximately SDR 4.25 billion over the period from May 1, 1982 to end-May 1983, with the level of holdings being reduced to about SDR 4.0 billion by the end of the period. The Executive Board shall review the level of the Fund's SDR holdings not later than May 15, 1983.

Decision No. 7131-(82/80) S
June 9, 1982

J. Allocation of Special Drawing Rights

Report of the Managing Director to the Board of Governors and to the Executive Board Pursuant to Article XVIII, Section 4(c)

This report is submitted pursuant to Article XVIII, Section 4*(c)* of the Articles of Agreement which provides, in part, as follows:

> The Managing Director shall make proposals:
> (i) not later than six months before the end of each basic period;
> . . .
> provided that, if under (i) . . . above the Managing Director ascertains that there is no proposal which he considers to be consistent with the provisions of Section 1 of this Article that has broad support among participants in accordance with *(b)* above, he shall report to the Board of Governors and to the Executive Board.

The present basic period, which is the third one, began on January 1, 1978 and will end on December 31, 1981. In view of the provision in Article XVIII, Section 4 quoted above, the Managing Director must submit his proposal, or his report if he is unable to make a proposal, not later than June 30, 1981. As stated in that provision, he must submit a proposal to the Board of Governors if he is satisfied that a proposal could be made which, in his view, would be (i) consistent with the provisions of Section 1*(a)* of Article XVIII and (ii) would have broad support among participants in accordance with Section 4*(b)* of the same Article. He must report to the Board of Governors and to the Executive Board if he is not so satisfied. Section 1*(a)* and the relevant part of Section 4*(b)* provide as follows:

> Section 1*(a)*:
> In all its decisions with respect to the allocation and cancellation of special drawing rights the Fund shall seek to meet the long-term global need, as and when it arises, to supplement existing reserve assets in such manner as will promote the attainment of its purposes and will avoid economic stagnation and deflation as well as excess demand and inflation in the world.

> Section 4*(b)*:
> Before making any proposal, the Managing Director, after having satisfied himself that it will be consistent with the provisions of Section 1*(a)* of this Article,

shall conduct such consultations as will enable him to ascertain that there is broad support among participants for the proposal . . . .

Under Article XVIII, Section 4*(d)*, and Article XXI*(a)*(i) decisions of the Board of Governors approving proposals of the Managing Director require an eighty-five per cent majority of the total voting power of participants in the Special Drawing Rights Department. As all members of the Fund are now participants in the Special Drawing Rights Department, this means eighty-five per cent of the total voting power in the Fund.

The question of allocations of SDRs in the fourth basic period has been under discussion in the Executive Board, which considered the matter in meetings in January and April 1981. The consideration by the Executive Board was on the basis of staff memoranda providing background material and discussing the considerations relevant to the determination of the existence of a global need to supplement existing reserves and the size of the SDR allocation in the next basic period, including the objective under the Articles of Agreement of making the SDR the principal reserve asset in the international monetary system. During the discussions in the Executive Board, many Executive Directors expressed support for allocations in the fourth basic period, while some Directors were not prepared to support any allocations, and there was a wide range of views about possible amounts. These discussions, therefore, did not lead to a conclusion on the part of the Executive Board on the matter of allocations.

The question of allocations during the fourth basic period was considered by the Interim Committee at its meeting in Libreville, Gabon, on May 21, 1981. The communiqué issued by the Committee at the conclusion of that meeting contained the following paragraph:

> "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 role 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."

On the basis of discussions that have taken place, I have concluded that I am not in a position to make, by June 30 of this year, a proposal for allocations of SDRs in the fourth basic period that would command a broad support among the members of the Fund in accordance with the Articles. As provided in Article XVIII, Section 4*(c)*(ii), however, it remains incumbent upon me to make a proposal regarding the fourth basic period as soon as I am satisfied that the requirements of Article XVIII, Section 4*(b)* are fulfilled. I shall, therefore, submit a proposal for allocations of SDRs in the fourth basic period as soon as further discussions and consultations lead me to the conclusion that there is broad support for a proposal that would be consistent with the Articles. In this connection, it is of importance that the Executive Board will, as requested by the Interim Committee, continue its deliberations on the subject with a view to arriving at conclusions that would enable me to make a proposal as soon as possible.

June 9, 1981

Appendix III
Press Communiqués of the Interim Committee and the Development Committee

Interim Committee of the Board of Governors on the International Monetary System

PRESS COMMUNIQUÉS

Seventeenth Meeting, Washington, September 26–27, 1981

1. The Interim Committee of the Board of Governors of the International Monetary Fund held its seventeenth meeting in Washington, D.C., on September 26–27, 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, Money, Finance and Development Division, UNCTAD; Mr. A.W. Clausen, President, IBRD; Mr. Hans E. Kastoft, Executive Secretary, Development Committee; Mr. William B. Kelly, Jr., Deputy Director-General, GATT; Mr. Emile van Lennep, Secretary-General, OECD; Mr. Fritz Leutwiler, President, Swiss National Bank; 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 that is facing most countries. Attention was focused on the problems of high inflation, low or negative rates of economic growth with rising unemployment, large external imbalances, high interest rates, and sharp movements of exchange rates for the major currencies. The Committee agreed that the deep-rooted character of the main economic difficulties called for determined implementation, over an extended period, of policies aimed at the adjustment of both internal and external imbalances.

The Committee again assigned a clear priority to the firm pursuit of policies to reduce inflation for the purpose of lowering interest rates, encouraging productive investment, and achieving better rates of economic growth and employment. The Committee believed that signs of progress on the anti-inflation front were emerging, but that efforts must not be relaxed. Premature expansion of nominal aggregate demand could trigger further inflation without helping to solve the unemployment problem or to restore sustained real growth at a satisfactory pace.

The Committee urged that the needed containment of growth in nominal demand be carried out through an appropriate blending of monetary and fiscal policies. It stressed the importance of steady and careful restraint on the growth of monetary aggregates. It particularly emphasized the need for such restraint to be accompanied and supported to a greater extent by consistent fiscal policies involving, for many countries, reductions in the size of budget deficits.

The Committee stressed that prudent demand management policies should be supported or supplemented by measures directed toward problems of supply. Measures cited in this connection included steps to remove existing rigidities and inefficiencies, to provide incentives—or eliminate disincentives—to saving and investment, and to achieve more effective use of energy resources, as well as development of new sources of energy. The Committee attached particular importance to measures to promote labor mobility and retraining.

The Committee remained especially concerned about the existing tendency toward protectionism rather than liberalization. It warned that such policies are short-sighted, since they tend to preserve rigidities in the allocation of resources and cannot provide lasting solutions for unemployment problems. The Committee pointed out that resort to protectionist measures is not only inimical to productivity gains and the fight against inflation but also destructive of opportunities for expansion of world trade and increased participation of developing countries in its benefits. Nondiscriminatory access to financial markets is also essential and should be maintained.

Regarding external payments imbalances, the Committee expressed particular concern about the problems of adjustment and financing in the non-oil developing countries. The Committee recognized that the upsurge in the current account deficit of this large group of countries, from \$38 billion in 1978 to an estimated \$83 billion in 1980, has stemmed mainly from external developments unfavorable to them, including the impact on their exports of recessionary conditions in the industrial world, the adverse movement of their terms of trade, including higher oil prices, and the steep rise of interest rates in major financial markets. The Committee noted that these external developments, together with the limited increase in official development assistance, have had a severe impact on the international purchasing power of many developing countries, causing a sharp slowdown in import growth and thus hindering the pace of development.

The Committee stressed that strong and comprehensive adjustment policies had to be implemented in order to reduce the present unsustainable current account imbalances. The Committee observed that many developing countries had already made substantial adaptations to the harsh external environment in which they now find themselves, but recognized that further progress was needed. For some countries, especially in the low-income category, this adjustment has been forced by inability to finance additional imports. However, programs of external adjustment were being adopted by many countries, with a considerable number of such programs being supported by arrangements for the use of the resources of the Fund.

3. The Committee stressed the importance of the Fund's role in the promotion of balance of payments adjustment and strongly endorsed the major emphasis that the Fund has been placing on the implementation of effective adjustment programs by members making use of the Fund's resources in the upper credit tranches. In present circumstances, it was recognized that the structural aspects of certain imbalances can require recourse to the Fund's resources under extended arrangements.

4. The Committee emphasized the need for effective implementation by the Fund, in a uniform and symmetrical manner for all members, of its surveillance role in connection with balance of payments and exchange rate policies.

5. The Committee reiterated the principle that the Fund should rely on quota subscriptions as the basic source of resources for its operations and agreed that the Eighth General Review of Quotas should be expedited. Noting, among other factors, that the present quotas of a significant number of members do not reflect their relative positions in the world economy, the Committee reaffirmed that the

occasion of the Eighth General Review should be used to remedy the situation within the context of a general enlargement of the Fund.

6. The Committee welcomed the conclusion of further borrowing arrangements with the monetary authorities of a number of member countries. The Committee felt that the Fund should continue its efforts to arrange medium-term borrowing from members whose external positions are strong and also endorsed the intention of the Fund to conclude further short-term borrowing arrangements with monetary authorities on the lines of those recently concluded. As regards possible borrowing by the Fund in the private markets, the Committee reaffirmed its view that this possibility should remain open in the light of the evolution of the Fund's commitments and available resources.

7. The Committee expressed its appreciation to the several countries that had already made or had pledged to make a contribution to the subsidy account for the supplementary financing facility that was established last December for the purpose of reducing the cost to low-income members of the use of the Fund's resources under that facility. The Committee reiterated its appeal to those countries that were in a position to make a contribution to the account to do so at an early date.

8. The Committee urges the Executive Board to continue its deliberations on the question of whether there should be a further allocation of SDRs at the present time. It recommended that the scope of such deliberations should include the proposal to extend the third basic period and continue the rate of allocation established in 1978.

9. In response to an invitation from the Government of Finland, the Committee agreed to hold its next meeting in Helsinki, Finland, on May 12–13, 1982.

Eighteenth Meeting, Helsinki, May 12–13, 1982

1. The Interim Committee of the Board of Governors of the International Monetary Fund held its eighteenth meeting in Helsinki, Finland, on May 12–13, 1982 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 observers from a number of international and regional organizations and from Switzerland.

2. The Committee discussed the world economic outlook and the policies needed to deal with the difficult problems now confronting most countries. Attention was focused on the continuation of high inflation in many countries, the slow pace of economic activity, high and rising unemployment, increasing protectionism, high interest rates and widely fluctuating exchange rates in the major industrial countries, and the prevalence of large external payments imbalances in many countries.

The Committee noted that there are no quick and easy ways of solving these problems. Achievement of a substantial and lasting improvement in economic performance would require sustained pursuit of a balanced set of policies aimed at reducing inflation, improving productive efficiency, and putting external imbalances onto a sustainable basis.

The Committee noted that significant progress in the fight against inflation was already evident in some countries. Enduring further progress could be expected over the next few years so long as prudent policies of restraint were maintained. These policies need to be supported by a moderation in the growth of incomes.

It was the Committee's view that fiscal policies consistent with firm monetary policies would offer the best prospects for an enduring reduction in interest rates and in the wide fluctuations in exchange rates that have accompanied high and volatile interest rates over the past two years. A better convergence in economic policies and anti-inflationary performances among industrial countries would also foster more stable exchange rates. The Committee stressed the urgent need, in present circumstances, for decisive commitments—especially on the part of the governments of the major industrial countries—to budgetary discipline and smaller fiscal deficits. Only through such commitments can national authorities establish the credibility of anti-inflation policies and avoid the likely diversion of available flows of saving away from productive investment.

The Committee agreed that monetary restraint must remain an essential element of the overall strategy of economic policy in the industrial countries. An undue shift toward monetary expansion would risk an upward ratcheting of the rate of inflation, all the more so because of the current sensitivity of private market participants to the inflationary effects of growth in money holdings.

The Committee also visualized an important role for supply-side policies designed to encourage production and productivity and a reduction of rigidities in the markets for labor and goods.

The Committee voiced particular concern regarding the high levels of unemployment now prevailing in most countries. The comprehensive type of policy approach that it advocated did not rest on a view that the fight against inflation is more important than the fight against unemployment. Rather, the Committee's view was that combating inflation is a necessary step for resumption of sustainable growth at a satisfactory pace. The Committee considered that reduction in inflation and inflationary expectations, in nominal and real interest rates, and in existing rigidities is essential for steady expansion of output and reduction of unemployment.

Discussion of the rapidly changing pattern of international payments pointed to a further need for adjustment of external positions. The Committee noted in particular that current account deficits remained high in a number of the industrial countries and that large payments imbalances prevailed in many of the non-oil developing countries.

The Committee expressed deep concern about the current plight of non-oil developing countries. The problems of these countries, and particularly the size of their external deficit on current account, stemmed in part from factors beyond their control. The most important of these external factors were the impact of the international recession upon export markets, the sharp deterioration of the terms of trade for countries exporting mainly primary commodities, and the increase in the burden of interest charges on external debt.

The Committee noted, however, that the problems of many developing countries were exacerbated by the disruptive effects of severe inflation, to which unduly expansionary fiscal and monetary policies have contributed. Pursuit of more realistic financial policies in such countries, coupled with policies to reduce structural imbalances, would greatly facilitate the orderly adjustment of domestic and external positions. The Committee recognized an urgent need for adequate flows of official development assistance and other external resources to developing countries, especially those with low per capita incomes.

More broadly, the Committee stressed that prevailing conditions in the world economy heightened the need for international economic cooperation on many fronts. An area of special concern was that relating to international trade policies. The Committee emphasized its conviction that current pressures for protectionist approaches to problems generated by international competition must be firmly resisted by all countries and stressed the need to eliminate these practices where they already exist.

3. The Committee emphasized the importance of the role of the Fund in the promotion of balance of payments adjustment and stressed the need for effective implementation by the Fund of its surveillance function in connection with the balance of payments and exchange rate policies of members. In the Committee's view, it was of paramount importance that Fund surveillance be exercised in an evenhanded manner

for all members, whether they are large or small, industrial or developing, and whether they are using the Fund's resources or not. The importance of focusing particular attention on the international repercussions of the policies of the major industrial countries was underlined.

4. The Committee had a discussion on the subject of quota increases under the Eighth General Review. In the course of this discussion, it considered, in particular, the question of the appropriate size of an overall enlargement in quotas under that Review in the light of the role envisaged for the Fund in the 1980s, and also had a preliminary exchange of views on the distribution of any such enlargement between members. In this connection, the Committee noted the report of the Executive Board on the status of its work and the timetable envisaged for the completion of the Review.

The Committee agreed that the Fund has an important role to play in the adjustment and the financing of balance of payments deficits, and that it must be strong enough, and have adequate resources, to be able to cope effectively with the problems it may face in the 1980s. At the same time, the Committee reiterated its view that quota subscriptions should be the primary source of financial resources for the Fund's operations. The Committee concluded, therefore, that any such increase in quotas should be adequate to enable the Fund to perform in an effective manner its functions in the 1980s in accordance with these principles, and that the Review should be completed within the agreed timetable. Noting that the present quotas of a significant number of members do not reflect their relative positions in the world economy, the Committee reaffirmed its view that the occasion of an enlargement of the Fund under the Eighth General Review should be used to bring the quotas of these members more in line with their relative positions, taking account of the case for maintaining a proper balance between the different groups of countries.

The Committee urged the Executive Board to pursue its work on the Eighth Quota Review as a matter of high priority and to report to the Committee before the Committee's next meeting, by which time it hopes that it will be possible to reach agreement on some of the main aspects of the Review.

5. The Committee discussed the question of allocations of SDRs in the fourth basic period, which began on January 1, 1982. It noted the statement of the Managing Director that he had not been able to make a proposal for such allocations because there was not sufficient support at this time. The discussion in the Committee showed that, while a large number of members were in favor of a further allocation, the required support for an allocation was still lacking. The Committee asked the Executive Board to keep the matter under consideration and to continue its efforts to bring about a convergence of views that would permit the Managing Director to submit, as soon as possible, a proposal concerning SDR allocations in the current basic period, in accordance with the provisions of the Fund's Articles.

6. The Committee expressed its very warm appreciation to the Government and to the people of Finland for their hospitality and for the excellent arrangements provided for the meeting.

The Committee agreed to hold its next meeting in Toronto, Canada, on September 3–4, 1982.

Annex: Interim Committee Attendance, May 12–13, 1982

Chairman

Allan J. MacEachen, Deputy Prime Minister and Minister of Finance of Canada

Managing Director

J. de Larosière

Members or Alternates

Mohammad Abal-Khail, Minister of Finance and National Economy of Saudi Arabia
Roberto T. Alemann, Minister of Economy of Argentina
Hassan Al-Najafi, Governor of the Central Bank of Iraq
Beniamino Andreatta, Minister of the Treasury of Italy
Mohsen Nourbakhsh, Governor of the Bank Markazi Iran (Alternate for Mahfoud Aoufi, Governor of the Banque Centrale d'Algérie)
Willy De Clercq, Vice Prime Minister, Minister of Finance, and Minister of Foreign Trade of Belgium
Jacques Delors, Minister of Economy and Finance of France
Carlos Geraldo Langoni, President of the Banco Central do Brasil (Alternate for Ernane Galvêas, Minister of Finance of Brazil)
José Ramón Alvarez Rendueles, Governor of the Banco de España (Alternate for Juan Antonio García Diez, Minister of Economy and Commerce of Spain)
Cesar E.A. Virata, Prime Minister and Minister of Finance of the Philippines (Alternate for John Howard, Treasurer, Australia)
Sir Geoffrey Howe, Chancellor of the Exchequer of the United Kingdom
Ahti Karjalainen, Governor of the Bank of Finland
Karl Otto Poehl, Governor of the Deutsche Bundesbank (Alternate for Manfred Lahnstein, Federal Minister of Finance of Germany)
SHANG Ming, Vice President of the People's Bank of China (Alternate for LI Baohua, President of the People's Bank of China)
Ray MacSharry, Deputy Prime Minister and Minister for Finance of Ireland
Arthur K. Magugu, Minister for Finance of Kenya
I.G. Patel, Governor of the Reserve Bank of India (Alternate for Pranab Kumar Mukherjee, Minister of Finance of India)
Tengku RAZALEIGH Hamzah, Minister of Finance of Malaysia
Donald T. Regan, Secretary of the Treasury of the United States
SAMBWA Pida Nbagui, Governor of the Banque du Zaïre
A.P.J.M.M. van der Stee, Minister of Finance of the Netherlands
Haruo Mayekawa, Governor of the Bank of Japan (Alternate for Michio Watanabe, Minister of Finance of Japan)

Observers

A.W. Clausen, President, IBRD
P.N. Dhar, Officer-in-charge, Department of Economic and Social Affairs, UN
Hans E. Kastoft, Executive Secretary, Development Committee
Roger Lawrence, Director, Money, Finance and Development Division, UNCTAD
Emile van Lennep, Secretary-General, OECD
Fritz Leutwiler, President, Swiss National Bank
M.G. Mathur, Deputy Director-General, GATT
Tommaso Padoa-Schioppa, Director General, Economic and Financial Affairs, CEC
Günther Schleiminger, General Manager, BIS

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 COMMUNIQUÉS

Seventeenth Meeting, Washington, September 27–28, 1981

1. The Development Committee held its seventeenth meeting in Washington, D.C., on September 27–28, 1981, under the chairmanship a.i. of H.E. Manuel Ulloa Elías, Prime Minister and Minister of Economy, Finance and Commerce of Peru, and with the participation of Mr. J. de Larosière, Managing Director of the International Monetary Fund, Mr. A.W. Clausen, President of the World Bank, and Mr. Hans E. Kastoft, Executive Secretary. Representatives from a number of international and regional organizations and Switzerland also attended the meeting.

2. The Committee reviewed the world development situation and prospects on the basis of the *World Development Report, 1981.*

3. The Committee expressed its deep concern that most developing countries, especially the low-income countries, continue to face grave economic problems with poor medium-term prospects.

4. The Committee noted the disappointingly low levels of economic growth in many industrial countries which, together with high energy costs, inflation, and high interest rates, have had a profound effect on the performance of the developing countries. They have had to contend with a difficult external economic environment. The experience of several developing countries reviewed in the World Development Report shows that even when external conditions are favorable, development is still difficult. The Committee therefore found that efforts by industrial nations to curb inflation and reduce unemployment, and restore their growth rates while at the same time intensifying the pursuit of liberal trade regimes, should be encouraged. The Committee reiterated that in a world of interdependence there are important interconnections between the policies of individual countries and therefore a need to take into account the effects on other countries.

5. The Committee stressed the importance of efforts by all countries to pursue appropriate adjustment policies and encouraged developed countries, capital surplus oil-exporting countries, as well as advanced developing countries, to support adjustment and development through technical and financial efforts. The Committee reiterated the need for measures to increase the flow of official development assistance to the oil-importing developing countries, especially the low-income countries, and noted the Ottawa communiqué which acknowledged the decisive importance of the developing countries' own efforts and recorded the commitment of participating industrial countries to maintain substantial and, in many cases, growing levels of official development assistance and to seek to increase public understanding of its importance.

6. The Committee noted the importance of maintaining adequate flows of commercial and other financing to developing countries.

7. The Development Committee, recalling its support at the Gabon meeting for providing additional resources to the World Bank and for the restoration of the commitment authority of IDA, welcomed the recent agreement on interim procedures for the valuation of IBRD capital. This has cleared the way for payment of subscriptions to the $40 billion General Capital Increase. The Committee urged all countries to make subscriptions in accordance with the resolution on the General Capital Increase as early as possible. It furthermore reiterated the need for the

IBRD/IDA to consider the maximum lending program which can be sustained for financial year 1982 taking into account the needs of the situation.

8. The Committee also noted the coming into force of IDA-VI with the United States' formal notification of its intention to participate with its full share of $3.24 billion. As IDA is an essential source of concessional assistance to the poorer developing countries, the Committee urged all contributors to resolve outstanding issues so that planned commitment levels can be maintained. The Committee further requested the World Bank to initiate preparatory discussions for the next IDA replenishment as soon as possible.

9. The Development Committee also reviewed the needs of the regional development banks in the changed circumstances of the 1980s and their plans for replenishment of the ordinary and concessional funds in this regard. It urged member governments to speedily seek means of financing the future capital requirements at an appropriate level besides completing commitments previously entered into. The Committee also suggested that the regional development banks dedicate more efforts to support regional integration.

10. The Committee's discussion of energy reflected the global nature of the problem and the international community's interest in a general approach to the subject encompassing conservation and the development of both conventional and non-conventional sources of energy. It reiterated the importance of energy investments in the developing countries and urged the World Bank and the regional development banks to continue to explore the best means to mobilize necessary public and private resources in order to expand their lending operations in this important sector. In this connection, the Committee welcomed the conclusions of the Nairobi Conference on Energy that there is a substantial and increasing demand for financing support and preinvestment activities for the development of new and renewable energy resources in the developing countries and welcomed the recommendation urging all interested parties to accelerate consideration of possible avenues that would increase energy financing, including those mechanisms being examined in the World Bank, such as an energy affiliate, increased cofinancing, guarantees, and other means.

11. The Africa study prepared by the World Bank at the request of the African Governors was the subject of great interest in the Development Committee. It noted with deep concern that in the preceding two decades output per person rose more slowly in sub-Saharan Africa than in any other part of the world and growth prospects for the eighties were dismal, since, except under optimistic assumptions, per capita incomes are projected to decline for this part of the continent which already accounts for two thirds of the least developed countries. The potential for growth, however, exists and can be realized through increased flows of resources to the region, a substantial improvement in their world trading opportunities, and through appropriate adjustments in domestic economic policies and in the efficiency with which resources are used. This will require increased attention and resources from the international community in forms suited to African development needs.

12. The Committee expressed its appreciation for the report and noted that it forms a good basis for a dialogue between the African governments, the international donor community, and the multilateral financial institutions. It urged the World Bank to take the lead in carrying forward this dialogue with a view to promoting joint action by African governments, donors, and international agencies with a view to accelerate growth and development through effective financial and technical assistance support, appropriate policy changes, and expanded investment programs. Further, it requested that the World Bank expand its operations, technical advisory services, and other support for member countries in sub-Saharan Africa, bearing in mind the needs of other low-income countries.

13. The Committee, in its review of the follow-up action on outstanding development issues, reiterated its support for active consideration by both the Bank and the

Fund of specific recommendations of both the G-24 Program of Immediate Action and the Brandt Commission with respect to measures to enhance the flow of resources to developing countries. It noted that both the Fund and the Bank had considered, and in some cases implemented, the recommendations of the G-24 Program of Immediate Action and the Brandt Commission. The Committee encouraged the Fund and the Bank to continue to pay due regard to these recommendations including the suggestions made during the Gabon meeting, such as the SDR link and other issues, in the future development of their policies.

14. The Committee took note of the work of the Task Force on Nonconcessional Flows which, with the support of the World Bank and the IMF, has continued analyzing proposals including more cofinancing and other forms of cooperation with private financial institutions to increase the lending capacity of the multilateral development institutions, particularly the World Bank, the guidelines for a multilateral partial guarantee mechanism, and recent developments and near-term prospects in international capital markets. The Committee is looking forward to the Task Force's final report, which it expects to consider at its Helsinki meeting in the spring of 1982.

15. The Committee urged that in pursuance of its decision at its Gabon meeting, consultations with respect to the composition and terms of reference of a task force on the important subject of concessional assistance be completed so as to enable the task force to start its work as soon as possible, and before the Helsinki meeting in the spring of 1982.

16. The Committee noted with satisfaction that the Ottawa summit communiqué indicates the readiness of the countries concerned to participate in preparations for a mutually acceptable process of global negotiations in circumstances offering the prospect of meaningful progress. It reiterated its desire that the Committee should play a very active role in regard to matters pertaining to its competence within that process.

17. The Committee noted the forthcoming Cancún summit meeting and expressed its hope that it may lead to constructive and positive results.

18. The Committee, after taking into account the views and recommendations of the Executive Boards of the Fund and the Bank, approved the report on the review of the performance of the Development Committee and its annual report. It authorized the Chairman to forward both these documents to the Boards of Governors.

19. The Committee noted that, in pursuance of its earlier decision on the report of the Task Force on Private Foreign Investment, the World Bank has now completed its plan to study the quantitative and qualitative impact of both foreign investment incentives and performance requirements on direct investment and trade patterns. In view of the potential and the role which private foreign direct investment can play in promoting development in developing countries, the Committee encouraged the World Bank to complete the study for its consideration in due course.

20. The Committee agreed to hold its next meeting in Helsinki on May 13–14, 1982, in response to an invitation extended by the Government of Finland.

Eighteenth Meeting, Helsinki, May 13–14, 1982

1. The Development Committee held its eighteenth meeting in Helsinki on May 13–14, 1982, under the chairmanship of H.E. Manuel Ulloa Elías, Prime Minister and Minister of Economy, Finance and Commerce of Peru, who, at the start of the meeting, was unanimously selected as the new Chairman in place of H.E. David Ibarra Muñoz, who had earlier resigned from this position. Mr. J. de Larosière, Managing Director of the International Monetary Fund, Mr. A.W. Clausen, President of the World Bank, and Mr. Hans E. Kastoft, Executive Secretary, participated in the meeting. Representatives from a number of international and regional organizations and Switzerland also attended the meeting.

2. The Committee deliberated at length on a few selected topics in its search for solutions to the many problems which currently plague the economies of both the developed and developing countries. The Committee noted with concern that the medium-term prospects for the world economy and particularly their impact on the developing countries continue to be unfavorable. The situation and prospects for the poorest developing countries are particularly bleak as they face stagnation, in some cases retrogression, in the period ahead. This situation calls for greater adjustment efforts to the new international environment on the part of both groups of countries in order to facilitate the resumption of sustainable growth. The Committee stressed the need for increased external capital flows on appropriate terms to the developing countries, especially to the least developed. There is also need for a reappraisal and strengthening of the role of the multilateral development institutions in order to enable them to maximize their contribution to the solution of the problems of the present crisis.

3. It was in this context that the Committee first addressed itself to a thorough review of the current status of lending operations of the multilateral development institutions and the difficulties which they face in replenishment of their concessional and ordinary resources.

4. The Committee noted the crucial importance of concessional resources, and particularly of IDA, in the development strategy and programs of the low-income developing countries. The Committee urged that the proportion of aid flows to the poorest developing countries be increased. The Committee was concerned that the likely reduction, in the absence of further action, in IDA commitment authority during the Sixth Replenishment period would have a serious impact on the economies of IDA recipients. It would disrupt the momentum behind development efforts and programs so assiduously built up through sustained efforts over several years.

5. The Committee felt that it was important and necessary to resolve the crisis now faced by IDA and to take steps to address the problems in financial years 1982 and 1983 and beyond. In this connection, the Committee welcomed the action taken by some donors to release the full amount of the second tranche of their contribution to IDA-VI. It noted the importance attached by a number of donors to finding ways of reducing current and prospective shortfalls of IDA's commitment authority in the financial years 1982–84. Several ways including waiving or relaxing the pro rata provisions of the IDA resolution as well as the creation of a Special Fund, which would provide additional resources, have been proposed. Progress made in considering these alternatives in informal meetings held by donor representatives over the last week was welcomed in order to develop specific action programs which could be quickly translated into operational mechanisms so that original planned commitment levels could be maintained to the maximum extent possible. The Committee also agreed that discussions should proceed apace so that the Seventh Replenishment of IDA could begin if possible as scheduled in financial year 1984. The Committee urged that additional concessional cofinancing be made available for IDA projects.

6. The Committee, bearing in mind budgetary constraint considerations, urged governments to accelerate their subscriptions to the General Capital Increase and to release the local currency portion of these subscriptions as rapidly as possible. The Committee also took note of the on-going discussions concerning the Bank's borrowing practices and its lending rate policy and urged the Executive Directors of the Bank to reach prompt decisions on these matters in order to enhance the Bank's funding flexibility both as a means of keeping the cost of Bank borrowing as low as possible and of assuring that planned growth in lending can be financed on reasonable terms. It requested the Executive Directors to continue their study of the scope for an expansion, in real terms, of World Bank lending.

7. The Committee reaffirmed the importance of energy investment in the developing countries, particularly the poorest among them, and noted with satisfaction that

the Bank's lending program for energy has expanded rapidly and now accounts for 25 per cent of total Bank lending as against only 15 per cent in 1977. However, it has reached a point where any further increase would cut into other priority sectors which the Committee felt was not desirable. In the circumstances, the Committee asked the Executive Directors of the World Bank to explore ways that would permit the Bank to prepare and secure financing for an increased program of energy investments including an Energy Affiliate or a Special Fund or agreed cofinancing arrangements. A progress report should be submitted to the Committee at its September 1982 meeting.

8. The Committee, on the basis of the material provided by the regional banks, took note of their resource needs and urged member governments to speedily seek means of financing the future capital requirements of the regional banks' ordinary and concessional funds at an appropriate level besides completing commitments previously entered into. The Committee also expressed its full support of the regional banks in their efforts to serve as catalysts and seek expansion in their cofinancing programs.

9. The Committee expressed its appreciation to the Task Force on Nonconcessional Flows on its useful report, and it noted its general conclusions and recommendations. It asked the Executive Directors of the Bank and the regional banks to consider the recommendations of the Task Force, taking into account their legal and procedural implications, and report their deliberations to the Committee in due course. The Committee also considered it desirable that appropriate arrangements be made to periodically review further developments in the field of nonconcessional flows. The Committee decided to make the report of the Task Force on Nonconcessional Flows public.

10. In the area of cofinancing, the Committee noted with satisfaction the sizable expansion achieved by the World Bank. It endorsed the efforts of IBRD and IDA, where appropriate, to secure an increase in cofinancing from all sources on terms suitable for and acceptable to the borrowers, and asked the Executive Directors of the Bank to consider the various proposals on cofinancing which they will be discussing and to report on them if possible to the September 1982 meeting of the Committee.

11. As a follow-up of its earlier discussion at Gabon in May 1981 and in Washington in September 1981 on the sub-Saharan African Action Program, the Committee reviewed the Bank's further discussions with the EEC, OPEC aid agencies, bilateral donors, the African Development Bank, and the African Governors' Group. The main focus of these discussions was on the policy and financial issues facing the sub-Saharan countries. The Committee urged the World Bank to move expeditiously to assist the sub-Saharan countries to formulate specific programs of action and, taking account of the Dakar Memorandum of March 3, 1982 presented at its meeting, to continue its dialogue with donor countries in order to enhance the flow of aid in real terms necessary to support such programs of action.

12. The Committee recalled its consideration on previous occasions of the G-24 Program of Immediate Action and the Brandt Commission recommendations. Both the Fund and the Bank had considered, and in some cases implemented, some of the recommendations applicable to them. The Committee asked the two institutions to present to the September 1982 meeting of the Committee reviews of the status of implementation on the recommendations which are of particular relevance to the Committee's work.

13. In Gabon the Committee 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 the effective use of concessional flows in the shorter and longer terms. In pursuance of the Committee's earlier decision and directive, the Executive Secretary of the Committee, on the request of its Chairman, had undertaken extensive discussions for the establishment of a Task Force on Concessional Flows. The

Committee welcomed the successful outcome of the consultations on the terms of reference of the Task Force, its composition, and its chairmanship. The Committee's approval of it will now enable the 18-member Task Force representing industrial donor countries, OPEC, and developing countries to undertake in the period ahead its task under the chairmanship of John P. Lewis, Professor at Princeton University.

14. The members placed on record their special appreciation for Mr. David Ibarra Muñoz's distinguished service to the Committee.

15. The Committee expressed its great appreciation to the Government of Finland for its warm hospitality and for the excellent arrangements provided for the meeting.

16. The Committee agreed to hold its next meeting in Toronto, Canada, on September 5, at the time of the Annual Meetings of the Fund and the Bank.

Appendix IV
Executive Directors and Voting Power on April 30, 1982

Director *Alternate*	Casting Votes of	Votes by Country	Total Votes[1]	Per Cent of Fund Total[2]
APPOINTED				
Richard D. Erb *Vacant*	United States	126,325	126,325	19.64
John Anson *Christopher Taylor*	United Kingdom	44,125	44,125	6.86
Gerhard Laske *Guenter Winkelmann*	Germany, Fed. Rep. of	32,590	32,590	5.07
Bruno de Maulde *Anne Le Lorier*	France	29,035	29,035	4.51
Teruo Hirao *Tadaie Yamashita*	Japan	25,135	25,135	3.91
Yusuf A. Nimatallah *Samir El-Khouri*	Saudi Arabia	21,250	21,250	3.30
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	4.87
Robert K. Joyce (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	4.19
J.J. Polak (Netherlands) *Tom de Vries (Netherlands)*	Cyprus	760		
	Israel	3,325		
	Netherlands	14,470		
	Romania	3,925		
	Yugoslavia	4,405	26,885	4.18
Giovanni Lovato (Italy) *Costa P. Caranicas (Greece)*	Greece	3,025		
	Italy	18,850		
	Malta	550		
	Portugal	2,830	25,255	3.93

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		
Benito Legarda (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	3.67
Mohamed Finaish (Libya)	Bahrain	550		
Tariq Alhaimus (Iraq)	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	3.56
Jacques de Groote (Belgium)	Austria	5,200		
Heinrich G. Schneider (Austria)	Belgium	13,600		
	Luxembourg	715		
	Turkey	3,250	22,765	3.54
M. Narasimham (India)	Bangladesh	2,530		
A.S. Jayawardena (Sri Lanka)	India	17,425		
	Sri Lanka	2,035	21,990	3.42
Jón Sigurdsson (Iceland)	Denmark	4,900		
Leiv Vidvei (Norway)	Finland	4,180		
	Iceland	685		
	Norway	4,675		
	Sweden	7,000	21,440	3.33
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	3.17
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	3.13

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	3.11
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	2.86
ZHANG Zicun (CHANG Tse Chun) (China) *TAI Qianding (China)*	China	18,250	18,250	2.84
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	2.72
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	2.23
			630,529[3]	98.05[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 (643,098). 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 Antigua and Barbuda, Belize, Bhutan, Egypt, Democratic Kampuchea, Rwanda, South Africa, and Vanuatu, which did not participate in the 1980 Regular Election of Executive Directors. The combined votes of those members total 12,569—1.95 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, 1981 and April 30, 1982 were as follows:

Yusuf A. Nimatallah (Saudi Arabia), formerly Alternate Executive Director to Mahsoun B. Jalal (Saudi Arabia), was appointed Executive Director by Saudi Arabia, effective May 1, 1981.

Bernard J. Drabble (Canada) resigned as Executive Director for Bahamas, Barbados, Canada, Dominica, Grenada, Ireland, Jamaica, St. Lucia, and St. Vincent and the Grenadines, effective May 7, 1981.

Robert K. Joyce (Canada) was elected Executive Director by Bahamas, Barbados, Canada, Dominica, Grenada, Ireland, Jamaica, St. Lucia, and St. Vincent and the Grenadines, effective May 8, 1981.

Tariq Alhaimus (Iraq) was appointed Alternate Executive Director to Mohamed Finaish (Libya), effective May 17, 1981.

Placido L. Mapa, Jr. (Philippines) resigned as Alternate Executive Director to A.R.G. Prowse (Australia), effective May 31, 1981.

Benito Legarda (Philippines) was appointed Alternate Executive Director to A.R.G. Prowse (Australia), effective June 1, 1981.

Richard D. Erb (United States) was appointed Executive Director by the United States, effective July 18, 1981.

Lionel D.D. Price (United Kingdom) resigned as Alternate Executive Director to John Anson (United Kingdom), effective July 31, 1981.

Christopher Taylor (United Kingdom) was appointed Alternate Executive Director to John Anson (United Kingdom), effective August 1, 1981.

Thierry Aulagnon (France) resigned as Alternate Executive Director to Paul Mentré de Loye (France), effective August 31, 1981.

Anne Le Lorier (France) was appointed Alternate Executive Director to Paul Mentré de Loye (France), effective September 1, 1981.

Donald E. Syvrud (United States) resigned as Alternate Executive Director to Richard D. Erb (United States), effective October 4, 1981.

Samir El-Khouri (Lebanon) was appointed Alternate Executive Director to Yusuf A. Nimatallah (Saudi Arabia), effective October 10, 1981.

D. Lakshman Kannangara (Sri Lanka) resigned as Alternate Executive Director to M. Narasimham (India), effective November 30, 1981.

Paul Mentré de Loye (France) resigned as Executive Director for France, effective November 30, 1981.

Bruno de Maulde (France) was appointed Executive Director by France, effective December 1, 1981.

A.S. Jayawardena (Sri Lanka) was appointed Alternate Executive Director to M. Narasimham (India), effective December 1, 1981.

Akira Nagashima (Japan) resigned as Alternate Executive Director to Teruo Hirao (Japan), effective December 24, 1981.

Tadaie Yamashita (Japan) was appointed Alternate Executive Director to Teruo Hirao (Japan), effective December 25, 1981.

The following served at certain times during 1981/82 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)
Eric Michael Ainley (United Kingdom)	John Anson (United Kingdom)
E.A. Ajayi (Nigeria)	Semyano Kiingi (Uganda)
Hassan Alaoui-Abdallaoui (Morocco)	Morteza Abdollahi (Iran)
Saleh A. Al-Hegelan (Saudi Arabia)	Yusuf A. Nimatallah (Saudi Arabia)
José Roberto Novaes de Almeida (Brazil)	Alexandre Kafka (Brazil)
Hossein G. Askari (United States)	Yusuf A. Nimatallah (Saudi Arabia)
Age F.P. Bakker (Netherlands)	J.J. Polak (Netherlands)
Luca Barbone (Italy)	Giovanni Lovato (Italy)
Chandi J. Batliwalla (India)	M. Narasimham (India)
Christian Bouchard (Gabon)	Samuel Nana-Sinkam (Cameroon)
Michael J. Callaghan (Australia)	A.R.G. Prowse (Australia)
María Vicenta Carković (Chile)	Juan Carlos Iarezza (Argentina)
Chinyamata Chipeta (Malawi)	Semyano Kiingi (Uganda)
Luc E.J.M. Coene (Belgium)	Jacques de Groote (Belgium)
Thomas A. Connors (United States)	Richard D. Erb (United States)
Silvio E. Conrado (Nicaragua)	Ariel Buira (Mexico)
Ramiro J.J. Costa (Argentina)	Juan Carlos Iarezza (Argentina)
Mama Kanny Diallo (Senegal)	Samuel Nana-Sinkam (Cameroon)
Aliou B. Diao (Senegal)	Samuel Nana-Sinkam (Cameroon)
Samir Fouad El-Khouri (Lebanon)	Yusuf A. Nimatallah (Saudi Arabia)
José Luis Feito (Spain)	Ariel Buira (Mexico)
Avner Halevi (Israel)	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)	Jón Sigurdsson (Iceland)
Guillermo Jauregui (Ecuador)	Alexandre Kafka (Brazil)
JIANG Hai (China)	ZHANG Zicun (China)
Joseph Mills Jones (Liberia)	Semyano Kiingi (Uganda)
Peter Kohnert (Germany, Fed. Rep. of)	Gerhard Laske (Germany, Fed. Rep. of)
Seung-Woo Kwon (Korea)	A.R.G. Prowse (Australia)
John E. Leimone (United States)	Richard D. Erb (United States)
Jean S. Mair (Canada)	Robert K. Joyce (Canada)
Mauro Michelangeli (Italy)	Giovanni Lovato (Italy)
Andrew K. Mullei (Kenya)	Semyano Kiingi (Uganda)
James A.K. Munthali (Malawi)	Semyano Kiingi (Uganda)
V.K.S. Nair (India)	M. Narasimham (India)
Yoshio Okubo (Japan)	Teruo Hirao (Japan)
Jørgen Gier Pedersen (Denmark)	Jón Sigurdsson (Iceland)
Patrick D. Peroz (France)	Paul Mentré de Loye (France) Bruno de Maulde (France)
Christopher Noel Pinfield (New Zealand)	A.R.G. Prowse (Australia)
David V. Pritchett (United States)	Yusuf A. Nimatallah (Saudi Arabia)
Mohammed Zia Masoom Qureshi (Pakistan)	Mohamed Finaish (Libya)
Johannes Schuijer (Netherlands)	J.J. Polak (Netherlands)
Mohammad Shadman (Iran)	Morteza Abdollahi (Iran)
Douglas I.S. Shaw (Canada)	Robert K. Joyce (Canada)
Hideaki Suzuki (Japan)	Teruo Hirao (Japan)
Paul S. Tjokronegoro (Indonesia)	Byanti Kharmawan (Indonesia)
Francisco A. Tourreilles (Uruguay)	Juan Carlos Iarezza (Argentina)
Okan Üçer (Turkey)	Jacques de Groote (Belgium)
WANG Enshao (China)	ZHANG Zicun (China)
John F. Williams (United Kingdom)	John Anson (United Kingdom)
Thomas Hywel Williams (Canada)	Robert K. Joyce (Canada)
Ali Yasseri (Iran)	Morteza Abdollahi (Iran)
Francis Yeo Teng Yang (Singapore)	Byanti Kharmawan (Indonesia)

Appendix VI
Administrative Budget

Administrative Budget as Approved by the Executive Board for the Financial Year Ending April 30, 1983 Compared with Actual Expenses for the Financial Years Ended April 30, 1981 and 1982

(Values expressed in special drawing rights)[1]

Object of Expense	Financial Year Ended April 30, 1981	Financial Year Ended April 30, 1982		Financial Year Ending April 30, 1983
	Actual Expenses	Revised Budget	Actual Expenses	Budget
I. PERSONNEL EXPENSES				
Salaries	43,734,599	62,498,526	62,154,842	66,279,628
Other personnel expenses	31,113,769	47,601,665	47,064,466	48,748,281
Total	74,848,368	110,100,191	109,219,308	115,027,909
II. TRAVEL EXPENSES				
Business travel	7,267,947	10,774,293	10,188,389	12,377,148
Other travel	5,204,809	8,268,669	7,986,946	9,106,045
Total	12,472,756	19,042,962	18,175,335	21,483,193
III. OTHER ADMINISTRATIVE EXPENSES				
Communications	2,767,064	3,292,489	3,187,668	3,978,369
Building occupancy	3,627,804	4,489,355	4,488,666	6,586,411
Books and printing	1,215,394	1,535,854	1,509,725	1,679,756
Supplies and equipment	1,747,022	2,869,408	2,868,796	4,102,140
Data processing services	1,579,955	2,551,207	2,550,700	3,235,740
Miscellaneous	2,583,697	2,602,893	2,496,032	3,138,491
Total	13,520,936	17,341,206	17,101,587	22,720,907
TOTAL[2]	100,842,060	146,484,359	144,496,230	159,232,009

[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, 1981 totaled SDR 98,942,066 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 1,599,994) and for the estimated expenses of conducting the business of the Trust Fund (SDR 300,000). For the year ended April 30, 1982, net administrative expenses amounted to SDR 142,396,230 after a deduction of SDR 2,100,000 reimbursed to the General Resources Account by assessments levied on the net cumulative allocations of participants in the Special Drawing Rights Department.

Appendix VII

Comparative Statement of Income and Expense

(Values expressed in special drawing rights)

	Financial Year Ended April 30		
	1980	1981	1982
OPERATIONAL INCOME			
Periodic charges			
Received in special drawing rights ...	501,191,132	512,176,841	869,324,008
Amounts receivable	18,159,439	80,526,816	222,730,922
Total	519,350,571	592,703,657	1,092,054,930
Interest on holdings of special drawing rights	81,813,361	265,814,019	657,244,835
Other operational charges			
Received in special drawing rights ...	13,000,853	23,758,100	39,568,008
Total Operational Income	614,164,785	882,275,776	1,788,867,773
Deduct: Operational expense			
Remuneration			
Paid in special drawing rights	219,497,371	348,220,764	860,614,342
Paid in members' currencies	21,488,295	24,586,863	48,018,458
Total	240,985,666	372,807,627	908,632,800
Interest on borrowing			
Paid in special drawing rights	24,739,526	44,900,068	115,176,553
Paid in members' currencies	244,086,919	205,799,610	338,784,355
Amounts payable	15,183,502	78,827,405	220,549,600
Total	284,009,947	329,527,083	674,510,508
Less: net income from temporary investments held in the Borrowed Resources Suspense Accounts	—	—	39,651,089
Other	7,705	—	11,448
Total Operational Expense	525,003,318	702,334,710	1,543,503,667
NET OPERATIONAL INCOME	89,161,467	179,941,066	245,364,106
EXPENSE [1]			
Administrative budget expense	81,261,500 [2]	98,942,066 [2]	142,396,230 [2]
Fixed property expense	349,532	1,265,290	11,438,200
Amortization of prior service cost	4,392,708	236,882	—
Net valuation adjustment loss (gain) ...	65,159	(586,069)	(505,392)
TOTAL EXPENSE [1]	86,068,899	99,858,169	153,329,038
NET INCOME	3,092,568	80,082,897	92,035,068

[1] Excludes operational expense which has been deducted from operational income.

[2] After deduction of SDR 1,000,004 for financial year 1980, SDR 1,599,994 for financial year 1981, and SDR 2,100,000 for financial year 1982, reimbursed to the General Resources Account by assessments levied on the net cumulative allocations of participants in the Special Drawing Rights Department; and 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 Department, Special Drawing Rights Department, Subsidy Account, Supplementary Financing Facility Subsidy Account, Trust Fund, and Staff Retirement Plan

REPORT OF THE EXTERNAL AUDIT COMMITTEE

Washington, D.C.
June 25, 1982

AUTHORITY AND SCOPE OF THE AUDIT

In accordance with Section 20(b) of the By-Laws of the International Monetary Fund we have audited the financial statements of the Fund for the year ended April 30, 1982, covering the

—General Department (including the General Resources Account, Borrowed Resources Suspense Accounts and Special Disbursement Account),
—Special Drawing Rights Department, and
—Accounts Administered by the Fund which consist of the
  Subsidy Account,
  Supplementary Financing Facility Subsidy Account, and
  Trust Fund.

The audit was conducted in accordance with international auditing guidelines and accordingly included reviews of accounting and control systems, tests of accounting records, evaluation of the extent and results of work performed by the Internal Auditor, and other audit procedures.

AUDIT OPINION

In our opinion, the financial statements of the General Department, Special Drawing Rights Department, and the Accounts Administered by the Fund have been prepared using acceptable accounting principles, consistently applied and give a true and fair view of the respective financial positions and of the allocations and holdings of Special Drawing Rights as at April 30, 1982, and of the financial results of operations and transactions during that year.

EXTERNAL AUDIT COMMITTEE:

/s/ David Ralph Hutton, Chairman (New Zealand)
/s/ Yuichi Ezawa (Japan)
/s/ Gerardo Rueda-Rábago (Mexico)

INTERNATIONAL MONETARY FUND

GENERAL DEPARTMENT
(Note 1)
BALANCE SHEET
as at April 30, 1982

Amounts expressed in special drawing rights
(Note 2)

	1982	1981
ASSETS		
CURRENCIES AND SECURITIES (Notes 3 and 4)	59,861,432,681	56,025,401,380
SPECIAL DRAWING RIGHTS	5,456,084,370	5,445,007,849
GOLD WITH DEPOSITORIES (Note 2)	3,620,396,120	3,620,396,120
SUBSCRIPTIONS TO CAPITAL—RECEIVABLE	10,800,000	—
BORROWED RESOURCES HELD IN SUSPENSE (Note 1)	236,446,919	—
CHARGES RECEIVABLE (Note 4)	148,017,845	104,291,449
ACCRUED CHARGES (Note 4)	222,730,922	80,526,816
OTHER ASSETS (Note 2)	13,920,545	10,622,922
TOTAL ASSETS	69,569,829,402	65,286,246,536
CAPITAL, RESERVES, AND LIABILITIES		
CAPITAL		
Subscriptions of Members	60,684,800,000	59,605,500,000
RESERVES (Note 6)	935,319,992	843,284,924
LIABILITIES		
Borrowing (Note 5)	6,772,754,018	4,323,218,104
Remuneration Payable to Members (Note 4)	908,632,800	372,807,627
Interest Payable	19,406,994	37,198,768
Accrued Interest	220,549,600	78,827,405
Other Liabilities	28,365,998	25,409,708
TOTAL CAPITAL, RESERVES, AND LIABILITIES	69,569,829,402	65,286,246,536

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)

STATEMENT OF INCOME AND EXPENSE
for the year ended April 30, 1982

Amounts expressed in special drawing rights

(Note 2)

	1982	1981
OPERATIONAL INCOME		
Periodic charges (Note 4)	1,092,054,930	592,703,657
Interest on holdings of special drawing rights	657,244,835	265,814,019
Service charges	34,800,816	21,929,604
Other	4,767,192	1,828,496
	1,788,867,773	882,275,776
OPERATIONAL EXPENSE		
Remuneration (Note 4)	908,632,800	372,807,627
Interest on borrowing	674,510,508	329,527,083
Less net income from temporary investments held in the Borrowed Resources Suspense Accounts (Note 1)	(39,651,089)	—
Other operational expense	11,448	—
	1,543,503,667	702,334,710
NET OPERATIONAL INCOME	245,364,106	179,941,066
ADMINISTRATIVE EXPENSE		
Administrative budget		
Personnel (Note 7)	109,219,308	74,848,368
Travel	18,175,335	12,472,756
Other (Note 2)	17,101,587	13,520,936
Total administrative budget	144,496,230	100,842,060
Less recovery of expenses of conducting the Special Drawing Rights Department and the Trust Fund	2,100,000	1,899,994
Net administrative budget	142,396,230	98,942,066
Fixed property (Note 2)	11,438,200	1,265,290
Amortization of prior service cost (Note 7)	—	236,882
Net valuation adjustment (gain) on administrative accounts not subject to maintenance of value (Note 3)	(505,392)	(586,069)
TOTAL ADMINISTRATIVE EXPENSE	153,329,038	99,858,169
NET INCOME	92,035,068	80,082,897

The accompanying notes are an integral part of the financial statements.

INTERNATIONAL MONETARY FUND

GENERAL DEPARTMENT
(Note 1)
STATEMENT OF RESERVES
for the year ended April 30, 1982

(Note 6)

Amounts expressed in special drawing rights

(Note 2)

	1982	1981
SPECIAL RESERVE		
Balance at beginning of year	477,705,221	397,622,324
Add net income for year	92,035,068	80,082,897
Balance at end of year	569,740,289	477,705,221
GENERAL RESERVE		
Balance at beginning and end of year	365,579,703	365,579,703
TOTAL RESERVES	935,319,992	843,284,924

The accompanying notes are an integral part of the financial statements.

INTERNATIONAL MONETARY FUND

GENERAL DEPARTMENT
(Note 1)

STATEMENT OF CHANGES IN FINANCIAL POSITION
for the year ended April 30, 1982

Amounts expressed in special drawing rights

(Note 2)

	1982	1981
Resources were applied to:		
Increase in currency holdings:		
Changes in holdings which increased amounts on which the Fund levies charges	5,257,291,866	1,837,995,864
Changes in holdings which increased creditor positions on which the Fund pays remuneration	(2,813,672,201)	513,255,337
Changes in holdings which did not affect amounts on which the Fund levies charges or pays remuneration	1,392,411,636	15,003,328,442
	3,836,031,301	17,354,579,643
Repayments of borrowing:		
Oil facility	1,002,135,115	945,692,979
Increase in assets held in Borrowed Resources Suspense Accounts	236,446,919	—
Increase in holdings of special drawing rights	11,076,521	4,038,010,432
	5,085,689,856	22,338,283,054
Resources were provided by:		
Borrowing:		
Supplementary financing facility	2,093,977,470	1,515,446,371
Policy on enlarged access	1,357,693,559	—
	3,451,671,029	1,515,446,371
Subscriptions:		
Increases in members' quotas	1,059,900,000	20,489,000,000
Subscriptions of new members	19,400,000	100,000,000
	1,079,300,000	20,589,000,000
Net income	92,035,068	80,082,897
Sales of gold	—	15,510,795
Increase in the excess of other liabilities over other assets	462,683,759	138,242,991
	5,085,689,856	22,338,283,054

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 Investment Account was not operative at April 30, 1981 and 1982. The General Department also includes Borrowed Resources Suspense Accounts which have been established by the Executive Board in order to hold and invest currencies borrowed before these can be used in a transaction or operation or received in repurchases before repayments to lenders can be made.

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 members encountering payments difficulties produced by an excess in the cost of their cereal imports) 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 and the policy on enlarged access (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.

Borrowed Resources Suspense Accounts

Resources of the Borrowed Resources Suspense Accounts, which became operational in May 1981, derive from currencies of the Fund's member countries borrowed under arrangements between the Fund and certain of its members or institutions within their territories, the Bank for International Settlements, and the Swiss National Bank. Members are not obligated to maintain the SDR value of their currencies held by the Fund in the Borrowed Resources Suspense Accounts, and their SDR value is covered mainly by investments in SDR-denominated obligations.

At April 30, 1982 borrowed resources held in suspense were as follows:

Investments (at cost)	SDR 229,784,128
Accrued investment income	6,662,791
	SDR 236,446,919

Special Disbursement Account

The Special Disbursement Account was activated on June 30, 1981. The Fund, as Trustee, decided that the Trust Fund shall be terminated as of April 30, 1981. Under the relevant decision, resources received by the Trust Fund subsequent to the termination date are to be transferred to the Special Disbursement Account, the first SDR 750 million of which are to be transferred to the supplementary financing facility subsidy account. At April 30, 1982 SDR 14,990,527 has been received into the Special Disbursement Account from the Trust Fund and transferred to the Supplementary Financing Facility Subsidy Account. There were no resources held in the Special Disbursement Account at April 30, 1982.

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, 1982, the cost of property, furniture, and equipment charged as an expense amounted to SDR 12,481,546 (SDR 1,583,646 in 1981).

Income and Expense

The Fund maintains its books of accounts on an accrual basis and, accordingly, recognizes income as it is earned and records 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. Members are not obligated to maintain the SDR value of their currencies held by the Fund in Borrowed Resources Suspense Accounts. 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, 1982, accounts receivable amounted to SDR 4,733,254,541 and accounts payable amounted to SDR 970,751,191.

4. Operational Transactions

During the year ended April 30, 1982, members' purchases amounted to SDR 8,041 million of which SDR 1,080 million was in the reserve tranche, SDR 2,748 million was under the Fund's regular policies, SDR 1,635 million was under compensatory financing, and SDR 2,578 million was under the extended Fund facility. Of the total purchases, SDR 2,094 million was financed under the supplementary financing facility and SDR 1,161 million under enlarged access resources. Over the same period, repurchases by members totaled SDR 2,010 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	
	1982	1981
Reserve tranche	24	36
Regular facilities	3,263	2,630
Compensatory financing	3,643	2,617
Extended Fund facility	2,159	980
Oil facility	565	1,581
Supplementary financing facility:		
Under stand-by arrangements	3,018	1,510
Under extended arrangements	1,094	508
Enlarged access resources:		
Under stand-by arrangements	380	—
Under extended arrangements	781	—
Total	14,927	9,862

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, 1982, the total holdings on which the Fund levies charges amounted to SDR 14,801 million and total creditor positions on which the Fund pays remuneration amounted to SDR 9,626 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, 1982, unpaid charges receivable from Democratic Kampuchea amounted to SDR 4,913,552 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, 1982 and 1981 were as follows:

	1982	1981
Oil facility	SDR 525,989,555	SDR 1,528,124,670
Supplementary financing facility	4,111,816,904	2,017,839,434
Enlarged access resources	1,357,693,559	—
General Arrangements to Borrow	777,254,000	777,254,000
	SDR 6,772,754,018	SDR 4,323,218,104

Oil Facility

The Fund 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.

Enlarged Access Resources (EAR)

The Fund has entered into borrowing agreements with various members, or institutions within their territories, the Bank for International Settlements, and the Swiss National Bank under which the lenders have agreed to make resources available to the Fund, up to SDR 9.305 billion, to finance purchases by members under the Fund's policy on enlarged access. The maturities of borrowing by the Fund under these agreements vary from six months to seven years. Interest paid by the Fund on amounts borrowed under these agreements is at variable rates, which are established periodically, and are related to market interest rates.

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 have been 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, 1982, the interest rate being paid by the Fund on indebtedness under the General Arrangements to Borrow was 4 per cent per annum.

The Fund has established guidelines for borrowing, which provide that the Fund will not allow the total of outstanding borrowing plus unused credit lines to exceed the range of 50 to 60 per cent of the total of Fund quotas. The total shall include, in respect of the GAB, either outstanding borrowing by the Fund under the GAB or one half of the total credit lines under the GAB, whichever is the greater. On April 30, 1982, total outstanding borrowing and unused credit lines, calculated in accordance with these guidelines, were equal to 34.3 per cent of quotas.

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, 1982 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 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, 1982 amounted to SDR 67.0 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 91.9 million (at the April 30, 1982 SDR/US$ rate), of which SDR 7.5 million was paid on May 3, 1982.

Contributions by the employer to the Staff Retirement Fund for the year ended April 30, 1982 amounted to SDR 22,747,704, including SDR 5,324,076 for the amortization of actuarial experience losses (SDR 4,232,677 in 1981) and SDR 7,251,095 to fund cost of living supplements to beneficiaries (SDR 4,030,794 in 1981).

INTERNATIONAL MONETARY FUND

SPECIAL DRAWING RIGHTS DEPARTMENT
(Note 1)
BALANCE SHEET
as at April 30, 1982

Amounts expressed in special drawing rights

	1982	1981
ALLOCATIONS		
Net cumulative allocations of special drawing rights to participants	21,433,330,200	21,433,330,200
Charges due but not paid (Note 5)	15,419,868	—
	21,448,750,068	21,433,330,200
HOLDINGS		
Participants		
With holdings above allocations		
Allocations	5,195,458,800	5,381,928,800
Net receipt of SDRs	1,995,336,184	1,822,601,834
	7,190,794,984	7,204,530,634
With holdings below allocations		
Allocations	16,237,871,400	16,051,401,400
Net use of SDRs	7,440,255,011	7,279,654,314
	8,797,616,389	8,771,747,086
Total holdings by participants	15,988,411,373	15,976,277,720
General Resources Account	5,456,084,370	5,445,007,849
Other holders	4,254,325	12,044,631
	21,448,750,068	21,433,330,200

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, 1982

Amounts expressed in special drawing rights

	Participants	General Resources Account	Other Holders	Total 1982	Total 1981
Total holdings at beginning of year	15,976,277,720	5,445,007,849	12,044,631	21,433,330,200	17,380,836,200
Source of special drawing rights					
Allocations					
Net cumulative allocations				—	4,052,494,000
Charges due but not paid	15,419,868			15,419,868	—
Transfers among participants and other holders					
Transactions with designation	1,874,681,395			1,874,681,395	1,882,850,125
Transactions by agreement	1,242,038,104			1,242,038,104	418,465,926
Prescribed operations					
Loans	4,309,200		20,000,000	24,309,200	—
Settlement of financial obligations	125,732,619		7,576,377	133,308,996	—
Transfers from participants to General Resources Account					
Repurchases		838,080,839		838,080,839	929,956,199
Charges in General Resources Account	23,236,595	968,482,551		991,719,146	599,802,128
Quota payments		266,010,000		266,010,000	5,090,640,000
Assessment		2,095,331		2,095,331	1,599,994
Transfers from General Resources Account to participants and other holders					
Purchases	2,035,221,499			2,035,221,499	2,033,001,239
Remuneration	348,220,764			348,220,764	219,497,371
Reconstitution				—	19,542,201
Repayments of Fund borrowings					
Oil facility	143,988,644			143,988,644	161,260,951
Interest on Fund borrowings					
Oil facility	9,803,912		1,600,881	11,404,793	16,262,204
General Arrangements to Borrow	7,772,544			7,772,544	5,820,590
Supplementary financing facility	123,842,195			123,842,195	28,235,306
Enlarged access resources			166,786	166,786	—
In exchange for currencies of other members					
Acquisitions to make quota payments				—	340,738,210
Acquisitions for net charges (Special Drawing Rights Department)	2,921,368			2,921,368	—
Acquisitions to pay charges (General Resources Account)	24,061,847			24,061,847	—
Interest and charges in the Special Drawing Rights Department					
Net interest received	244,154,825	657,243,967	1,209,850	902,608,642	489,066,110
Adjustment for underpayment of interest	—	868		868	—
	6,225,405,379	2,731,913,556	30,553,894	8,987,872,829	16,289,232,554
Use of special drawing rights					
Transfers among participants and other holders					
Transactions with designation	1,874,681,395			1,874,681,395	1,882,850,125
Transactions by agreement	1,208,003,104		34,035,000	1,242,038,104	418,465,926
Prescribed operations					
Loans	20,000,000		4,309,200	24,309,200	—
Settlement of financial obligations	133,308,996			133,308,996	—
Transfers from participants to General Resources Account					
Repurchases	838,080,839			838,080,839	929,956,199
Charges in General Resources Account	968,482,551	23,236,595		991,719,146	599,802,128
Quota payments	266,010,000			266,010,000	5,090,640,000
Assessment	2,095,331			2,095,331	1,599,994
Transfers from General Resources Account to participants and other holders					
Purchases		2,035,221,499		2,035,221,499	2,033,001,239
Remuneration		348,220,764		348,220,764	219,497,371
Reconstitution				—	19,542,201
Repayments of Fund borrowings					
Oil facility		143,988,644		143,988,644	161,260,951
Interest on Fund borrowings					
Oil facility		11,404,793		11,404,793	16,262,204
General Arrangements to Borrow		7,772,544		7,772,544	5,820,590
Supplementary financing facility		123,842,195		123,842,195	28,235,306
Enlarged access resources		166,786		166,786	—
In exchange for currencies of other members					
Acquisitions to make quota payments				—	340,738,210
Acquisitions for net charges (Special Drawing Rights Department)		2,921,368		2,921,368	—
Acquisitions to pay charges (General Resources Account)		24,061,847		24,061,847	—
Interest and charges in the Special Drawing Rights Department					
Net charges paid	887,188,774			887,188,774	489,066,110
Charges due but not paid	15,419,868			15,419,868	—
Return of excess interest received	868			868	—
	6,213,271,726	2,720,837,035	38,344,200	8,972,452,961	12,236,738,554
Total holdings at end of financial year	15,988,411,373	5,456,084,370	4,254,325	21,448,750,068	21,433,330,200

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 do not constitute claims by holders against the Fund to provide currency, except in connection with the termination of participation or liquidation. 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. The Fund is empowered to prescribe certain official entities as "other holders" of special drawing rights; to date 12 institutions have been prescribed as other holders. These other holders do not receive allocations.

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. 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.

4. 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.

5. Charges Due but not Paid

Charges due but not paid represent the amount of unpaid charges by Equatorial Guinea, Ghana, Guinea, Lao People's Democratic Republic, and Viet Nam for the financial year ended April 30, 1982. Under Article XX, Section 1, the Fund is required to pay interest to each holder, whether or not sufficient charges are received. The total of SDRs held by all holders on April 30, 1982 exceeds the total of net cumulative allocations to the extent of these unpaid charges. At June 25, 1982 charges due from Viet Nam amounting to SDR 6.2 million remained outstanding.

INTERNATIONAL MONETARY FUND

SUBSIDY ACCOUNT

(Note 1)

STATEMENT OF FINANCIAL POSITION

Changes during year and Position as at April 30, 1982

Amounts expressed in special drawing rights

(Note 2)

	1982	1981
Balance at beginning of year	62,090,034	73,934,615
Contributions received (Note 2)	3,476,809	6,899,951
Interest earned on investments	2,730,476	5,316,542
	6,207,285	12,216,493
Exchange valuation gain	2,083,422	3,711,209
	8,290,707	15,927,702
	70,380,741	89,862,317
Less: Subsidy payments (Note 3)	50,051,547	27,772,283
Balance at end of year	20,329,194	62,090,034
Balance represented by:		
Currency on deposit	372,034	1,002,900
Investments in United States Government obligations, at cost *(market value: SDR 19,226,893—1982; SDR 58,405,807—1981)*	19,223,874	58,711,464
Accrued interest receivable	733,286	2,375,670
Total assets	20,329,194	62,090,034

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

Unit of Account

The accounts of the Subsidy Account are expressed in terms of the SDR, the currency value of which is determined by the Fund.

Contributions

Contributions to the Subsidy Account are made in currencies which are valued in terms 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, 1982 amounted to SDR 159,913,034.

Income

The accounts are maintained on an accrual basis and, accordingly, income is recognized as it is earned.

It is the practice of the Fund to make all calculations on the basis of the exact number of days in the calendar year.

3. Subsidy Payments

The rate of subsidy for the financial years ended April 30, 1976 through 1982 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. Cumulative payments from the Subsidy Account at April 30, 1982 amounted to SDR 163,198,296. Subsidy payments for the financial year ended April 30, 1982 amounted to SDR 9.3 million and were made on June 1, 1982.

INTERNATIONAL MONETARY FUND

SUPPLEMENTARY FINANCING FACILITY
SUBSIDY ACCOUNT
(Note 1)
BALANCE SHEET
as at April 30, 1982

Amounts expressed in special drawing rights
(Note 2)

ASSETS	
Currencies	18,175
Investments, at cost	30,889,553
Accrued interest on investments	1,536,479
Total	32,444,207
LIABILITY AND RESOURCES	
Borrowing (Note 3)	3,261,164
Resources—Account balance	29,183,043
Total	32,444,207

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

SUPPLEMENTARY FINANCING FACILITY
SUBSIDY ACCOUNT
(Note 1)
STATEMENT OF RESOURCES
for the year ended April 30, 1982

Amounts expressed in special drawing rights
(Note 2)

Balance at beginning of year	—
Transfers from Special Disbursement Account	14,990,527
Contributions	34,264,775
Investment income	2,785,518
Exchange valuation gain	63,228
Balance before subsidy payments	52,104,048
Subsidy payments	22,921,005
Balance at end of year	29,183,043

The accompanying notes are an integral part of the financial statements.

INTERNATIONAL MONETARY FUND

SUPPLEMENTARY FINANCING FACILITY SUBSIDY ACCOUNT NOTES TO THE FINANCIAL STATEMENTS

1. Purpose

The Supplementary Financing Facility Subsidy Account, which is administered by the Fund, was established in December 1980 to assist the low-income developing members to meet the cost of using resources made available through the Fund's supplementary financing facility and under the policy on exceptional use. The assets of the Supplementary Financing Facility 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. The Supplementary Financing Facility Subsidy Account became operational in May 1981 and the first subsidy payments were made in December of that year. The resources of the Account arise from contributions and loans from members, interest income earned on investments, and transfers of amounts received in interest and loan repayments from the Trust Fund through the Special Disbursement Account.

2. Accounting Practices

Unit of Account

The accounts of the Supplementary Financing Facility Subsidy Account are expressed in terms of the SDR, the currency value of which is determined by the Fund.

Contributions

Contributions and loans to the Supplementary Financing Facility Subsidy Account are made in currencies which are valued in terms of SDRs on the basis of exchange rates against the SDR at the time of receipt. Cumulative contributions to the Supplementary Financing Facility Subsidy Account at April 30, 1982 amounted to SDR 34,264,775.

Income and Expense

The accounts are maintained on an accrual basis and, accordingly, income is recognized as it is earned and expenses are recorded as they are incurred.

It is the practice of the Fund to make all calculations on the basis of the exact number of days in the financial year.

3. Borrowing

Certain members have made loans to the International Monetary Fund in its capacity as trustee of the Supplementary Financing Facility Subsidy Account. The total amount of these loans, which are without interest, are to be repaid on December 31, 1984.

4. Subsidy Payments

The amount of the subsidy is calculated as a percentage 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 supplementary financing facility and the policy on exceptional use. The rate of subsidy to be paid is determined by the Fund in the light of the resources available and the subsidy may not exceed the equivalent of 3 per cent per annum of the currency holdings to which the supplementary financing facility and exceptional use charges apply nor reduce the effective charge on such holdings which would have been applicable had they been acquired under the Fund's policies on the regular use of its resources.

INTERNATIONAL MONETARY FUND

TRUST FUND
(Note 1)
BALANCE SHEET
as at April 30, 1982

Amounts expressed in special drawing rights

(Note 2)

	1982	1981
ASSETS		
Loans (Note 3)	2,991,334,701	2,991,334,701
Accrued interest on loans	4,917,260	4,469,834
Investments, at cost *(market value SDR 3,599,918—1982; SDR 3,337,284—1981)*	3,599,918	3,337,284
Accrued interest on investments	46,669	1,418
Sight deposit	—	40,696
Total	2,999,898,548	2,999,183,933
TRUST RESOURCES AND LIABILITIES		
Trust resources	2,994,029,852	2,993,518,328
Liabilities—		
Undistributed profits from sale of gold (Note 4)	3,532,679	3,329,588
Borrowing (Note 5)	2,332,183	2,332,183
Accrued interest on borrowing	3,834	3,834
Total	2,999,898,548	2,999,183,933

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, 1982

Amounts expressed in special drawing rights
(Note 2)

	1982	1981
Income:		
Interest income on loans	14,956,528	12,282,913
Investment income	547,149	68,835,544
Exchange valuation gain (loss)	10,037	(5,411,118)
Net proceeds realized from the sale of gold	—	156,269,154
	15,513,714	231,976,493
Expenses:		
Interest on borrowing (Note 5)	11,663	19,499
Administrative expenses (Note 2)	—	300,000
	11,663	319,499
Net income	15,502,051	231,656,994

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, 1982

Amounts expressed in special drawing rights

(Note 2)

	1982	1981
Balance at beginning of year	2,993,518,328	3,124,497,410
Net income for the year	15,502,051	231,656,994
Contributions received	—	38,946,655
	3,009,020,379	3,395,101,059
Transfer to the Special Disbursement Account (Note 6)	14,990,527	—
Distribution of profits to developing countries (Note 4)		
Amount disbursed	—	400,339,128
Amount pending disbursement	—	1,243,603
Balance at end of year	2,994,029,852	2,993,518,328

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.

Valuation Adjustments

Valuation adjustments arising from changes in the SDR rate of currencies held by the Trust Fund are charged to net income.

Income and Expense

The accounts are maintained on an accrual basis and, accordingly, income is recognized as it is earned and expenses are recorded as they are incurred. 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. Following the termination of the Trust Fund on April 30, 1981, residual administrative costs have been absorbed by the General Resources Account. It is the practice of the Fund to make all calculations on the basis of the exact number of days in the accounting year.

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 that amounted to about 0.4 per cent of quotas 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 25, 1982

AUTHORITY AND SCOPE OF THE AUDIT

In accordance with Section 20(b) of the By-Laws of the International Monetary Fund we have audited the financial statements of the Staff Retirement Plan for the year ended April 30, 1982, which consist of statements of

—Accumulated plan benefits and net assets available for benefits,
—Changes in accumulated plan benefits, and
—Changes in net assets available for benefits.

The audit was conducted in accordance with international auditing guidelines and accordingly included reviews of accounting and control systems, tests of accounting records, evaluation of the extent and results of work performed by the Internal Auditor, and other audit procedures.

AUDIT OPINION

In our opinion, the financial statements have been prepared using acceptable accounting principles, consistently applied and give a true and fair view of the financial position of the Staff Retirement Plan as at April 30, 1982 and of the financial results of operations and transactions during that year.

EXTERNAL AUDIT COMMITTEE:

/s/ David Ralph Hutton, Chairman (New Zealand)
/s/ Yuichi Ezawa (Japan)
/s/ Gerardo Rueda-Rábago (Mexico)

INTERNATIONAL MONETARY FUND

STAFF RETIREMENT PLAN
(Note 1)
STATEMENT OF ACCUMULATED PLAN BENEFITS
AND NET ASSETS AVAILABLE FOR BENEFITS
As at April 30, 1982

Amounts expressed in U.S. dollars

	1982	1981
Accumulated Plan benefits (Note 2):		
Actuarial present value of accumulated Plan benefits:		
Vested benefits		
Retired participants	97,600,000	83,500,000
Other participants	86,600,000	67,900,000
Nonvested benefits	27,500,000	23,900,000
Total actuarial present value of accumulated Plan benefits	211,700,000	175,300,000
Net assets available for benefits:		
Investments, at current value (Note 2):		
Portfolio managed within the United States	212,631,410	197,093,295
Portfolio managed outside the United States	26,114,939	17,758,154
	238,746,349	214,851,449
Receivables:		
Contributions	522,396	352,352
Accrued interest and dividends (Note 2)	1,984,289	1,619,426
Other	1,266	1,388
	2,507,951	1,973,166
Cash at banks	57,046	26,306
Total assets	241,311,346	216,850,921
Liabilities:		
Accounts payable	377,497	819,339
Net assets available for benefits	240,933,849	216,031,582
Excess of net assets available for benefits over actuarial present value of accumulated Plan benefits	29,233,849	40,731,582

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, 1982

Amounts expressed in U.S. dollars

	1982	1981
Actuarial present value of accumulated Plan benefits at beginning of year	175,300,000	142,500,000
Increase (decrease) during the year attributable to:		
Benefits accumulated	45,436,413	40,655,071
Benefits paid	(9,036,413)	(7,855,071)
Net increase	36,400,000	32,800,000
Actuarial present value of accumulated Plan benefits at end of year (Note 2)	211,700,000	175,300,000

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, 1982

Amounts expressed in U.S. dollars

	1982	1981
Investment income (Note 2):		
Net appreciation (depreciation) in current value of investments (Note 4)	(18,745,186)	28,256,996
Interest	9,780,294	8,162,333
Dividends	6,575,275	4,785,479
	(2,389,617)	41,204,808
Contributions (Notes 1 and 3):		
International Monetary Fund	28,944,780	21,748,427
Participants	7,082,561	5,328,519
Participants restored to service	42,220	61,263
Net transfers from (to) retirement plans of other international organizations	258,736	(31,196)
	36,328,297	27,107,013
Total additions	33,938,680	68,311,821
Benefits (Note 1):		
Pensions	7,842,108	6,254,312
Withdrawal benefits	715,404	800,981
Commutation benefits	444,229	678,159
Death benefits	34,672	121,619
Total payments	9,036,413	7,855,071
Net additions	24,902,267	60,456,750
Net assets available for benefits at:		
Beginning of year	216,031,582	155,574,832
End of year	240,933,849	216,031,582

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 service, 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 (depreciation) in the current value of investments for the periods ending April 30, 1982 and 1981 were as follows (in U.S. dollars):

	1982	1981
Portfolio managed within the United States	(15,387,372)	26,393,386
Portfolio managed outside the United States:		
—Net market appreciation (depreciation)	(2,197,106)	2,836,790
—Net exchange valuation loss	(1,160,708)	(973,180)
	(3,357,814)	1,863,610
Total net appreciation (depreciation)	(18,745,186)	28,256,996

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, 1982, 9.67 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. Actuarial Valuation

The most recent valuation of the Plan by the actuary engaged by the Pension Committee was made as at April 30, 1981. 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 the 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, 1981) showed an experience loss of $19.9 million for the year then ended. Unamortized experience losses amounted to $75.7 million at April 30, 1982, of which $8.4 million was paid by the employer on May 3, 1982.

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Letters are used as follows: c for chart, n for footnote, and t for table.