International Monetary Fund

Annual Report 1987

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INTERNATIONAL MONETARY FUND

ANNUAL REPORT

of the

Executive Board for the

Financial Year Ended April 30, 1987

WASHINGTON, D.C.

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The following symbols have been used throughout this Report:

... to indicate that data are not available;

— to indicate that the figure is zero or less than half the final digit shown, or that the item does not exist;

– between years or months (e.g., 1986–87 or January–June) to indicate the years or months covered, including the beginning and ending years or months;

/ between years (e.g., 1986/87) to indicate a crop or fiscal (financial) year.

"Billion" means a thousand million.

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

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* Alphabetical listing

August 5, 1987

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Letter of Transmittal to the Board of Governors

August 5, 1987

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, 1987, 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, 1988 is presented in Appendix VII and the audited financial statements of the General Department, the SDR Department, the Supplementary Financing Facility Subsidy Account, the Trust Fund, and the Staff Retirement Plan for the year ended April 30, 1987, together with the reports of the External Audit Committee thereon, are presented in Appendix VIII.

Yours sincerely,

/s/

MICHEL CAMDESSUS
Chairman of the Executive Board

Chairman of the Board of Governors
International Monetary Fund

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Chapter 1

Developments in the World Economy

INTRODUCTION

The international economic and financial situation changed substantially during 1986 and the early part of 1987. Economic growth in the industrial countries[1] slowed, real primary commodity prices continued to decline, external imbalances widened despite ongoing adjustments in real trade balances, protectionist pressures and actions intensified, and the external financial situation of many developing countries deteriorated further. These developments cast a shadow on the more positive aspects of the situation, including continued progress in controlling inflation, relatively rapid output growth in many non-fuel exporting developing countries, further downward movements in interest rates, the steps taken to strengthen the coordination of policies among the major industrial countries, and the attainment of a pattern of exchange rates among key currencies that better reflects economic fundamentals.

Although the growth of 3¼ percent in world output in 1986 was similar to that in 1985—marking the fourth year of recovery from the 1982 recession—the momentum of growth was weaker than expected. The shortfall in growth mainly reflected developments in the industrial countries, where the growth of real output slowed from 3¼ percent in 1985 to 2¾ percent in 1986; on a fourth-quarter-to-fourth-quarter basis, growth in these countries fell to only 2¼ percent in 1986. This outcome was clearly disappointing in terms of the benefits that had been expected to result from lower oil and non-oil commodity prices, the adjustment of the pattern of exchange rates, and easier monetary conditions. Part of the explanation seems to be that the terms of trade gains of industrial countries were relatively slow to feed through to domestic demand, whereas the corresponding reduction in real net imports of developing countries—and hence the decline in real net exports of industrial countries—was comparatively rapid. A similar asymmetry in the responses to the substantial exchange rate changes that occurred between the first quarter of 1985 and the first quarter of 1987 also contributed to the slowdown, with growth weakening more quickly in countries with appreciating currencies than it strengthened in those with depreciating currencies. These asymmetries in the adjustments to both types of relative price changes appear to have exerted a dampening impact on demand and activity in the short run.

The developing countries' growth performance was little changed. The moderate acceleration in aggregate growth—from 3.3 percent in 1985 to 4.0 percent in 1986—masked divergent trends among countries. Output in the fuel exporting countries stagnated as a result of the real adjustment necessitated by declining export earnings, whereas growth in the larger non-fuel exporting developing countries in Asia and the Western Hemisphere firmed somewhat, partly in response to improved competitiveness. Growth decelerated and per capita incomes declined in most countries in sub-Saharan Africa.

The continued widening of current account imbalances, particularly among the three largest industrial countries—the United States, Japan, and the Federal Republic of Germany—has become a subject of increasing concern. Because of the threat of protectionism and the risk of financial market unrest, these imbalances are potentially destabilizing, with serious implications for growth throughout the world economy if they were to persist over an extended period of time. As a reflection of these concerns, the major industrial countries have taken a number of steps to enhance the coordination of policies with a view to promoting more balanced growth and reducing current account imbalances. Following the Plaza Accord of September 1985, which emphasized the need to achieve exchange rate relationships that better reflected underlying fundamentals, the Tokyo Economic Declaration of May 1986 called for a significant strengthening of multilateral surveillance through the use of economic indicators. More recently, the Louvre Accord of February 1987 further intensified efforts to coordinate economic policy. In particular, it outlined the commitments of surplus countries designed to strengthen domestic demand and to reduce external surpluses while maintaining price stability, and of deficit countries to encourage steady, low-inflation growth while reducing their domestic imbalances and external deficits. Given these undertakings, the Louvre Accord also stated the participating countries' intention to foster stability of exchange rates around current levels following the substantial realignment that had taken place since the Plaza Accord. These policy intentions were subsequently reaffirmed by heads of state or government of the seven major industrial countries in the Economic Declaration issued following the June 1987 summit in Venice (see Box 1).

[1] See Appendix IX for the country classification system used in this Report.

BOX 1.
RECENT INTERNATIONAL ACCORDS ON THE GLOBAL ECONOMY

The Plaza Accord. The members of the Group of Five (the ministers of finance and central bank governors of France, the Federal Republic of Germany, Japan, the United Kingdom, and the United States) met at the Plaza Hotel in New York on September 22, 1985. In a joint statement issued following the meeting (the "Plaza Accord"), the participants recognized that "significant progress" had been made in promoting the convergence of favorable economic performance among the participating countries, and went on to set out the policy intentions of these countries to achieve increased and more balanced growth, as well as exchange rate relationships that better reflected economic fundamentals. Following this agreement, a number of the countries concerned engaged in coordinated exchange market intervention and, in early 1986, also undertook concerted discount rate reductions.

Tokyo Economic Declaration. At their twelfth economic summit held in Tokyo on May 4–6, 1986, the heads of state or government of the seven major industrial countries (Canada, France, the Federal Republic of Germany, Italy, Japan, the United Kingdom, and the United States) renewed the commitment to "close and continuous coordination" of their national economic policies. They established a new Group of Seven finance ministers to work together more closely and frequently in the period between summit meetings. In their communiqué, known as the "Tokyo Economic Declaration," they called on the ministers to review collectively in their meetings economic objectives and forecasts and proposed that they use a set of indicators of economic policies and performance "with a particular view to examining their mutual compatibility." The participants also reaffirmed the intention of their governments to cooperate with the Fund in strengthening multilateral surveillance, stressed the continued importance of the case-by-case approach to international debt problems, and called for the early launching of a new round of trade negotiations under the General Agreement on Tariffs and Trade.

Louvre Accord. The finance ministers and central bank governors of six major industrial countries (Canada, France, the Federal Republic of Germany, Japan, the United Kingdom, and the United States) at a meeting on February 22, 1987 at the Palais du Louvre in Paris agreed to intensify efforts at economic policy coordination to promote more balanced economic growth and to reduce existing imbalances. In their communiqué (the "Louvre Accord"), the ministers noted that progress had been made since the Tokyo summit meeting in "efforts to achieve sustainable, non-inflationary expansion." They stated that surplus countries committed themselves to following policies designed to strengthen domestic demand and to reduce external surpluses while maintaining price stability. At the same time, deficit countries committed themselves to encourage steady, low-inflation growth while reducing their domestic imbalances and external deficits. The ministers also observed that exchange rate movements since the Plaza Accord had brought currencies within ranges broadly consistent with underlying economic fundamentals and agreed to cooperate to foster stability of exchange rates around current levels.

Venice Economic Declaration. The heads of state or government of the seven major industrial countries (Canada, France, the Federal Republic of Germany, Italy, Japan, the United Kingdom, and the United States) at their thirteenth economic summit meeting held in Venice, Italy, on June 8–10, 1987 agreed to strengthen the existing arrangements for multilateral surveillance and economic coordination. In their communiqué (the "Venice Economic Declaration"), the participants agreed to strengthen, with the assistance of the Fund, the surveillance of their economies using economic indicators. The greater use of economic indicators in the system of surveillance would involve (1) a commitment by each country to develop medium-term objectives and projections for its economy, as well as for the group of countries to develop objectives and projections that were mutually consistent, and (2) the use of performance indicators to review and assess economic trends, and to determine whether there were significant deviations from an intended course that would require remedial actions to be considered. The heads of state or government also called on the Group of Seven finance ministers to intensify their coordination efforts, to monitor economic developments closely in cooperation with the Managing Director of the Fund, and to consider further improvements as appropriate to make the coordination process more effective.

Another area of continuing concern is the external financial situation of many developing countries, which deteriorated further in 1986. For some countries, this deterioration was partly attributable to slippages in the implementation of adjustment policies. In addition, many countries were faced with a sharp worsening of their external environment. A cessation of net private international lending to developing countries, related in part to delays in reaching agreement on some major debt negotiations, meant that their external borrowing in 1986 was reduced yet further from the previous year's levels. This reduction occurred despite exceptionally large losses in some developing countries' terms of trade, which reached the equivalent of $100 billion for the developing countries as a whole. The resulting shortfall was met partly through drawing on foreign exchange reserves and partly through reductions in net imports, which lowered living standards in many developing countries and hindered growth in the industrial countries. Despite the very low levels of borrowing and declining interest rates, however, ratios of debt and debt service to exports continued to worsen, largely because of declining export prices. The economic and financial situation was particularly difficult for some of the fuel exporting countries and for a number of the low-income countries in sub-Saharan Africa.

In view of the mixed performance of the world economy over the past year, there is a special need for economic policies conducive to noninflationary growth, stable exchange markets, and a gradual reduction in payments imbalances among the largest industrial countries. In particular, there is a need for firm action to reduce the federal budget deficit in the United States, and for industrial countries with large external surpluses, particularly Japan and the Federal Republic of Germany, to promote an adequate rate of growth of domestic demand. Several other industrial countries and some newly industrialized countries may also have room for maneuver in their economic policies to encourage a more rapid rate of growth of imports. In indebted developing countries, policies to mobilize and retain domestic savings need to be strengthened to promote adjustment and growth. At the same time, all countries need to pursue structural reforms aimed at removing market rigidities and improving economic efficiency while encouraging resistance to protectionism.

The remainder of this chapter reviews recent developments in the world economy in more detail. This serves as a background for Chapter 2, which presents the policies and activities of the Fund.

DOMESTIC ACTIVITY AND POLICIES

INDUSTRIAL COUNTRIES

Policy Setting

Both the orientation and thrust of economic policies in industrial countries have been modified significantly over the past eighteen months. The changes have taken place in the context of enhanced efforts to coordinate economic policies among the major countries and can be seen as a natural evolution of the medium-term strategy that has guided policy since the beginning of the 1980s. A key objective of this strategy has been to reduce inflation to an acceptable level, a goal that has been substantially achieved in a number of countries. More recently, exchange rate and balance of payments considerations have received increased emphasis, together with the need to sustain activity while safeguarding the progress made in containing inflation. As a result, policy stances have also changed, with monetary conditions being allowed to ease significantly and budgetary policies becoming less restrictive in some countries where budget consolidation efforts have already met with a degree of success. At the same time, fiscal policy has tightened in countries with large budgetary or external deficits.

The strengthened coordination of policies among the major countries has had a number of beneficial effects. The changes in the mix and stance of policies have been instrumental in promoting a more sustainable pattern of growth among countries. The policy changes have also been supportive of the substantial realignment of key exchange rates that occurred in the wake of the Plaza Accord, and of the subsequent efforts to stabilize exchange rates in the months leading up to and following the Louvre Accord. Furthermore, even though current account imbalances continued to widen in 1986, particularly among the three largest economies, the policy adaptations envisaged in the Louvre Accord should be conducive to a substantial reduction of the external imbalances over the medium run.

Recent budgetary developments in the United States are an important element of the new policy configuration. Since the passage by the U.S. Congress of the Balanced Budget and Emergency Deficit Control Act (the so-called Gramm-Rudman-Hollings legislation) in December 1985, the budgetary situation has improved significantly even though the Act has not operated fully as originally intended. While there is continued uncertainty about the pace of deficit reduction, as well as about the means to achieve it, current estimates of the federal budget deficit for the fiscal year 1986/87 imply a significant improvement relative to previous trends. It is the U.S. Administration's intention to achieve a further substantial deficit reduction in the fiscal year 1987/88.

Fiscal policy has also been modified in the other major industrial countries. In Japan and the Federal Republic of Germany, countries that have been steadily reducing their budget deficits since the beginning of the decade, the budgetary position eased in 1986. Measures or intentions announced in the wake of the Louvre Accord in February 1987 suggest that fiscal policy will be expansionary in both countries in the near term. Moreover, fiscal policy has become less restrictive in the United Kingdom and—at the level of general government—in France. In contrast, a substantial budgetary tightening has occurred in Canada and Italy, following a sharp rise in their budget deficits during the first half of the decade (Table 1). Among the smaller industrial countries, fiscal policy was tightened significantly in Australia, Denmark, Spain, and Sweden, reflecting balance of payments constraints, inflationary pressures, or budget consolidation objectives. Fiscal policy was also tightened in Norway, where the budgetary situation

Table 1.

Major Industrial Countries: Fiscal Balances and Impulses, 1982–86[1]

(In percent of GNP/GDP)

	Central Government[2]					General Government[3]				
	1982	1983	1984	1985	1986	1982	1983	1984	1985	1986
Fiscal balance (+ surplus, − deficit)										
Canada	−5.4	−6.2	−6.9	−6.8	−4.9	−5.7	−6.6	−6.6	−6.6	−5.3
United States	−4.1	−5.6	−5.1	−5.1	−5.0	−3.5	−3.8	−2.8	−3.3	−3.5
Japan	−5.9	−5.6	−4.7	−4.0	−3.6	−3.6	−3.7	−2.1	−0.8	−0.6
France	−2.7	−3.2	−3.3	−3.3	−2.8	−2.8	−3.2	−2.7	−2.9	−2.9
Germany, Fed. Rep. of[4]	−2.4	−1.9	−1.6	−1.3	−1.2	−3.3	−2.5	−1.9	−1.1	−1.2
Italy	−13.2	−14.0	−13.2	−14.0	−12.3	−11.3	−10.7	−11.5	−12.2	−11.2
United Kingdom	−2.7	−3.0	−3.1	−2.3	−2.3	−2.3	−3.6	−3.8	−2.6	−2.8
Seven major countries above	−4.6	−5.3	−5.0	−5.0	−4.5	−3.9	−4.1	−3.4	−3.3	−3.3
Seven major countries except the United States	−5.0	−5.1	−4.9	−4.6	−4.0	−4.3	−4.4	−3.9	−3.3	−3.0
Fiscal impulse (+ expansionary, − contractionary)										
Canada	1.4	0.6	1.5	0.5	−1.5	1.1	0.9	1.5	0.9	−0.8
United States	0.3	1.7	0.7	0.3	−0.3	0.5	0.6	0.6	0.7	0.3
Japan	−0.3	−0.5	−0.6	−0.5	−0.7	−0.1	−0.2	−1.2	−1.0	−0.7
France	0.6	0.1	−0.1	−0.2	−0.5	1.6	−0.2	−0.8	−0.1	—
Germany, Fed. Rep. of	−0.7	−0.2	0.2	−0.3	—	−1.9	−0.5	0.4	−0.6	0.3
Italy	1.4	−0.2	−0.5	0.8	−1.5	−1.4	−1.7	0.8	0.9	−0.9
United Kingdom	−0.8	0.7	0.3	−0.4	0.2	−1.1	1.6	0.5	−0.7	0.4
Seven major countries above	0.2	0.7	0.3	0.1	−0.5	—	0.2	0.2	0.2	−0.1
Seven major countries except the United States	—	−0.1	−0.1	−0.1	−0.6	−0.4	−0.1	−0.2	−0.3	−0.3

[1] The fiscal impulse is a measure of the thrust of budgetary changes. In general, the impulse points to an expansionary thrust to the extent that, relative to the previous year, revenues increase less rapidly than actual GNP/GDP and/or expenditures increase more rapidly than potential GNP/GDP. For a detailed description of this indicator, see Peter S. Heller, Richard D. Haas, and Ahsan S. Mansur, *A Review of the Fiscal Impulse Measure*, Occasional Paper No. 44 (Washington: International Monetary Fund, May 1986). Composites for the country groups are weighted averages of the individual national ratios for each year, with weights proportionate to the U.S. dollar value of the respective GNPs/GDPs in the preceding three years.

[2] Data for Canada and the United Kingdom are on a national income accounts basis. Data for Japan cover the consolidated operations of the general account, certain special accounts, social security transactions, and disbursements of the fiscal investment and loan program (FILP) except those to financial institutions. Japanese data other than FILP transactions are based on national income accounts. Data for France and the Federal Republic of Germany are on an administrative basis and do not include social security transactions. Data for Italy refer to the state sector and cover the transactions of the state budget as well as those of several autonomous entities operating at the state level. They also include the deficit, but not the gross transactions, of social security institutions, and part of that of local authorities.

[3] Data are on a national income accounts basis.

[4] In discussions of fiscal policy the German authorities normally refer to the financial position of the territorial authorities, which include federal, state, and local authorities but exclude social security (the latter being included in the definition of general government). The deficit of the territorial authorities amounted to 2.1 percent of GNP in 1985 and 2.2 percent of GNP in 1986 as compared with 4.4 percent of GNP in 1982.

nevertheless deteriorated markedly as a result of lower royalties and tax revenue from the energy sector. Overall, budgetary developments in the industrial countries suggest that there was a small withdrawal of fiscal stimulus in 1986, in contrast to the generally expansionary thrust experienced from 1982 to 1985.

Monetary developments in the industrial countries in 1986 reflected the broadening of the policy considerations mentioned above. While the need to maintain downward pressure on inflation remained an important objective, the better fiscal outlook and the continued improvement in price performance provided monetary authorities with scope for some discretion, particularly when they judged that there had been shifts in velocity associated with reductions in inflation expectations or with financial deregulation and innovation. As a result, monetary growth was fairly rapid in most of the major countries in 1986, despite a significant deceleration in the growth of nominal GNP, particularly on a through-the-year (fourth-quarter-over-fourth-quarter) basis (Table 2).

Exchange rate considerations and concerns about the pace of output growth played a significant role in the conduct of monetary policy in 1986 and early 1987. These considerations were instrumental in bringing about the two rounds of coordinated discount rate reductions involving several major countries in early 1986. Subsequently, in an effort to support domestic activity and stabilize the yen-dollar exchange rate, Japan decided to reduce its discount rate by a further 50 basis points to 3 percent on

Table 2.

Major Industrial Countries: Monetary Aggregates and Nominal GNP, 1984–86[1]

(Annual changes, in percent)

	1984	1985	1986	Fourth Quarter[2] 1985	Fourth Quarter[2] 1986
Narrow money (M1)[3]					
Canada	3.4	4.2	4.9	8.4	5.4
United States	7.0	9.2	13.4	12.1	15.3
Japan	2.8	5.0	6.9	3.0	10.4
France	11.4	7.8	7.0	6.4	5.5
Germany, Fed. Rep. of	3.2	4.8	8.0	5.1	7.6
Italy	12.3	13.7	10.1	10.5	10.7
United Kingdom	14.7	17.8	25.6	21.7	22.1
Seven major countries above	7.0	8.6	11.5	9.8	12.8
Broad money[4]					
Canada	4.4	9.4	8.7	10.7	9.0
United States	7.9	9.1	8.0	8.8	8.9
Japan	7.8	8.4	8.7	8.7	9.2
France	9.8	8.3	5.4	5.7	4.5
Germany, Fed. Rep. of	3.8	4.9	5.9	5.1	6.8
Italy	12.3	13.9	9.0	11.2	9.4
United Kingdom	9.2	14.4	18.6	17.7	18.8
Seven major countries above	7.8	9.2	8.5	9.0	9.1
Nominal GNP					
Canada	9.8	7.6	6.4	7.9	5.1
United States	10.8	6.3	5.6	6.6	4.5
Japan	6.4	6.3	4.3	6.0	3.2
France	8.8	7.5	6.9	8.4	5.5
Germany, Fed. Rep. of	5.0	4.8	5.5	4.7	5.5
Italy	14.1	11.8	11.0	12.3	9.8
United Kingdom	7.2	9.7	6.6	9.9	6.0
Seven major countries above	9.2	6.9	5.9	7.0	4.8

[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 preceding three years.

[2] From fourth quarter of preceding year.

[3] M1 is generally currency in circulation plus private demand deposits. In addition, Canada excludes private sector float; the United States includes traveler's checks of nonbanks and other checkable deposits and excludes private sector float and demand deposits of banks; the Federal Republic of Germany includes demand deposits at fixed interest rates; and Japan includes government demand deposits and excludes float.

[4] M1 plus quasi-money—generally M2 except for the United Kingdom, Japan, and the Federal Republic of Germany, for which the data are based on sterling M3, M2 + certificates of deposit (CDs), and M3, respectively. Quasi-money is essentially private term deposits and other notice deposits. The United States also includes money market mutual fund balances, money market deposit accounts, overnight repurchase agreements, and overnight Eurodollars issued to U.S. residents by foreign branches of U.S. banks. France also includes government savings bonds. Sterling M3 is M1 plus private sterling time deposits. For Japan, M2 + CDs is currency in circulation plus total private and public sector deposits and installments of Sogo banks plus certificates of deposit. For the Federal Republic of Germany, M3 is M1 plus private time deposits with maturities of less than four years plus savings deposits at statutory notice.

October 31, 1986, in conjunction with the announcement of policy coordination understandings with the United States; a further reduction to 2.5 percent was decided upon on February 20, 1987 (with effect from February 23), prior to the Louvre Accord. These discount rate reductions supported a general trend toward lower interest rates that lasted through the opening months of 1987. Over the past year, exchange rate uncertainty temporarily led to increases in short-term interest rates in the United Kingdom, France, and several of the smaller industrial countries. However, such increases were subsequently reversed.

The tendency toward a narrowing of interest rate differentials in favor of non-U.S. securities that began in 1984 (Chart 1) was arrested in early 1987, following the decision of the major countries to stabilize exchange rates. The continued downward pressure on the U.S. dollar during March and April 1987 was accompanied by substantial intervention in foreign exchange markets. At the same time, interest rates began to rise in the United States, whereas they continued to decline in most other countries. These developments also reversed the declining trend of the London interbank offered rate (LIBOR) on six-month U.S. dollar deposits, which at the end of April 1987 stood at 7.3 percent, rising from 6.1 percent in the fourth quarter of 1986 but still substantially lower than the 11.3 percent registered in 1984.

Efforts to enhance the functioning of markets with a view to improving resource allocation continue to be pursued in all the industrial countries. In addition to the deregulation of financial markets, programs of privatization of public sector enterprises have been implemented or announced in a large number of countries. Governments have also turned their attention to the distortions created by tax systems, and major tax reforms have been implemented or are planned in several countries. However, despite the growing list of achievements in the area of structural reform, much remains to be done, both to reduce labor market rigidities—particularly in Europe—and to dismantle trade barriers—in all countries. In this context, large subsidies to agriculture and to certain industrial sectors remain major impediments to an efficient allocation of resources, both within individual industrial countries and on a global scale.

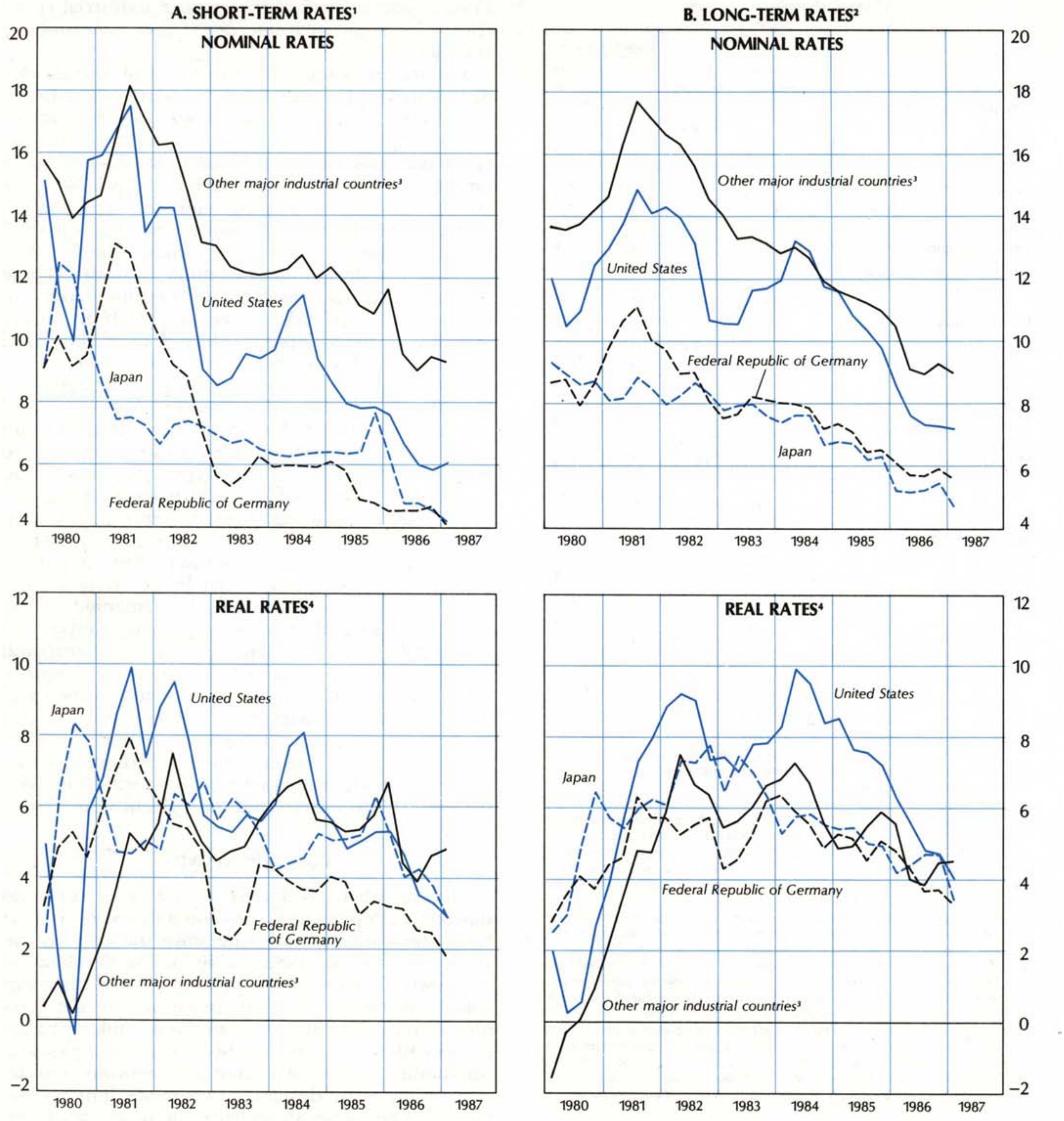
Domestic Activity

The growth of real GNP in industrial countries slowed to 2¼ percent in 1986 on a through-the-year basis, the lowest growth rate since the current upswing began in late 1982 (Table 3). The deceleration in growth can be traced primarily to asymmetries among countries in their responses to the pronounced changes in terms of trade and exchange rates in 1986. In particular, because declining oil and commodity prices had a rapid and vigorous contractionary impact on developing countries' imports, the industrial countries experienced a sharp deterioration in their real net exports. In contrast, the impact of the terms of trade gain on domestic demand in industrial countries was relatively moderate. Moreover, the decline in oil prices adversely affected industrial countries and regions with large energy sectors. Finally, activity appears to have slowed more quickly in countries with appreciating currencies than

Chart 1.

Major Industrial Countries: Interest Rates, 1980–First Quarter 1987

(In percent)



[1] Quarterly averages of daily rates on money market instruments of about 90 days' maturity.
[2] Quarterly averages of daily or weekly yields on government bonds, with maturities ranging from 7 years for Japan to 20 years for the United Kingdom.
[3] France, Italy, the United Kingdom, and Canada.
[4] Interest rates deflated by an average of the increase in the GNP and the private final domestic demand deflators in the current and the following two quarters; for the most recent periods, Fund staff projections of the deflators are used.

Table 3.

Industrial Countries: Changes in Output and Prices, 1969–86[1]

(Annual changes, in percent)

	Average 1969–78[2]	1979	1980	1981	1982	1983	1984	1985	1986	Fourth Quarter[3] 1985	Fourth Quarter[3] 1986
Real GNP											
Canada	4.8	3.9	1.5	3.7	−3.2	3.2	6.3	4.3	3.3	4.0	1.8
United States	2.8	2.5	−0.2	1.9	−2.5	3.6	6.8	3.0	2.9	3.3	2.2
Japan	5.8	5.3	4.3	3.7	3.1	3.2	5.1	4.7	2.5	4.2	2.0
France[4]	4.5	3.5	1.1	0.3	1.9	0.7	1.4	1.7	2.2	2.5	2.0
Germany, Fed. Rep. of	3.5	3.9	1.5	—	−1.0	1.8	3.0	2.5	2.4	2.2	2.4
Italy[4]	3.4	4.9	3.9	1.1	0.2	0.5	3.5	2.7	2.7	3.0	2.6
United Kingdom[5]	2.2	2.7	−2.5	−1.4	1.5	3.3	3.0	3.4	3.0	2.6	3.8
Other industrial countries	3.6	3.1	2.3	0.5	0.4	1.7	3.3	2.9	2.2	2.6	2.0
All industrial countries	3.4	3.4	1.3	1.4	−0.4	2.7	4.9	3.2	2.7	3.2	2.2
Of which,											
Seven major countries above	*3.4*	*3.4*	*1.1*	*1.6*	*−0.5*	*2.8*	*5.2*	*3.2*	*2.8*	*3.3*	*2.3*
European countries	*3.5*	*3.5*	*1.5*	—	*0.6*	*1.6*	*2.7*	*2.6*	*2.5*	*2.5*	*2.5*
GNP deflator											
Canada	7.2	10.0	10.6	10.8	8.7	5.0	3.3	3.2	3.0	3.8	3.2
United States	6.7	8.8	9.1	9.6	6.4	3.8	3.7	3.2	2.6	3.2	2.2
Japan	8.2	3.0	3.8	3.2	1.9	0.8	1.2	1.5	1.8	1.7	1.3
France[4]	8.5	10.4	12.2	11.9	12.5	9.6	7.2	5.8	4.6	5.7	3.5
Germany, Fed. Rep. of	5.6	4.0	4.8	4.0	4.4	3.2	2.0	2.2	3.1	2.4	3.0
Italy[4]	12.1	15.9	20.7	18.5	16.2	15.2	10.3	8.8	8.0	9.0	7.1
United Kingdom[5]	11.8	14.5	19.9	11.5	7.6	5.1	4.1	6.0	3.5	7.1	2.1
Other industrial countries	9.0	7.7	9.1	9.4	9.7	7.6	6.7	5.6	5.7	5.5	5.3
All industrial countries	7.8	8.2	9.4	8.9	7.2	5.1	4.2	3.8	3.3	3.9	2.8
Of which,											
Seven major countries above	*7.6*	*8.2*	*9.4*	*8.8*	*6.8*	*4.7*	*3.8*	*3.5*	*3.0*	*3.7*	*2.5*
European countries	*8.8*	*9.1*	*11.3*	*9.9*	*9.4*	*7.6*	*5.8*	*5.3*	*4.7*	*5.5*	*4.0*

[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 preceding three years.
[2] Compound annual rates of change.
[3] From fourth quarter of preceding year.
[4] GDP at market prices.
[5] Average of expenditure, income, and output estimates of GDP at market prices.

it strengthened in those with depreciating currencies. Preliminary indicators for the first half of 1987 suggest that growth continued at a relatively moderate pace in most countries.

In the United States, the slowdown in growth to 2¼ percent in 1986 on a through-the-year basis, despite buoyant consumer spending and residential construction, reflected declines in business fixed investment and inventory investment and continued weakness of net exports. The decline in business fixed investment was in large measure attributable to a drop in investment in the petroleum industry, in the wake of plunging oil prices, and some initial negative effects of tax reform on business investment. In the latter part of 1986, consumer spending decelerated and the real external balance began to improve. Final domestic demand remained weak in the first quarter of 1987, but output growth picked up, reflecting a surge in inventories and a marked improvement in the real foreign balance. In Canada, under the dampening influence of a sizable terms of trade loss, weakening foreign demand, and a significant fiscal correction, domestic demand and output growth also slowed markedly during 1986.

Japan experienced a significant deceleration in growth in 1986, largely reflecting a marked decline in real net exports—the first since 1979. Domestic demand growth accelerated slightly, as the terms of trade gain, which was equivalent to more than 2 percent of GNP, fed through only gradually. Whereas the growth of government consumption and residential construction accelerated significantly, private consumption was relatively subdued compared with developments in other industrial countries. Overall, real GNP growth slowed from 4¾ percent in 1985 to 2½ percent in 1986; from the fourth quarter of 1985 to the fourth quarter of 1986, growth slowed to only 2 percent.

Growth in the major European countries was also weaker than expected and overall remained unchanged from the previous year at some 2½ percent. Italy and the United Kingdom recorded the strongest growth rates. Growth in the Federal Republic of Germany and France was similar to or only slightly below the average for other industrial countries. The terms of trade gains, easier fiscal policies in some countries, and lower inflation and interest rates contributed to a perceptible acceleration in the growth of domestic demand in each of the major European countries, with annual rates of increase in the 3–4 percent range. However, this quickening in the pace of domestic demand growth was largely offset by sharp deteriorations in real net exports in all of these countries.

The performance of the smaller industrial countries was also disappointing, with real GNP growth slowing from close to 3 percent in 1985 to 2¼ percent in 1986. Again, this deceleration was attributable primarily to a decline in net exports and occurred notwithstanding a modest acceleration in domestic demand growth. For most of the smaller industrial countries, growth ranged from 1½ percent to 2½ percent. Denmark, Norway, and Spain realized growth of 3 percent or more, whereas growth slowed significantly in Australia—partly reflecting a marked deterioration in its terms of trade. In Ireland and New Zealand, the level of output fell slightly.

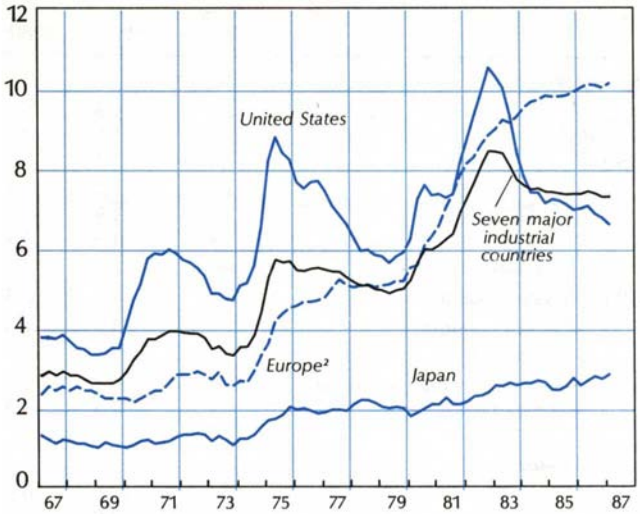
Despite the moderation in the pace of output growth, employment growth in the industrial countries accelerated marginally to 1.6 percent in 1986, compared with 1.4 percent in 1985. Canada and the United States once again recorded the largest increases in employment among the major industrial countries. However, employment growth also strengthened in Europe, reflecting, at least in part, the completion of a period of adjustment to earlier disturbances and a trend toward lower real wage increases. Extensive job training and employment schemes introduced in some countries, particularly France and the United Kingdom, also contributed. Among the smaller industrial countries, employment increased by 2.4 percent in Spain, after nearly a decade of significant declines, while Australia recorded employment growth of around 3½ percent. Ireland and Finland were the only industrial countries to experience a decline in employment in 1986.

While the strength of employment in 1986 was encouraging, it was offset by an increased number of new entrants to the labor force so that the overall unemployment rate in industrial countries remained unchanged at 8 percent. Since demographic pressures on labor markets generally have begun to diminish, this acceleration in labor force growth was due entirely to an increase in participation rates which appears to have been triggered by the improved employment prospects. For Europe as a whole, the unemployment rate remained unchanged at 10.7 percent in 1986. In contrast, the unemployment rate continued to decline in the United States, falling in early 1987 to 6.3 percent—almost 4 percentage points lower than in the major European countries (Chart 2). In seven of the European countries—France, Italy, the United Kingdom, Belgium, Ireland, the Netherlands, and Spain—unemployment rates have remained in double digits. In Japan, reflecting the difficulties experienced by the manufacturing sector,

Chart 2.

Major Industrial Countries: Unemployment, 1967–First Quarter 1987

(In percent of labor force)[1]



[1] National unemployment rates weighted by labor force in the respective countries.

[2] France, the Federal Republic of Germany, Italy, and the United Kingdom.

unemployment has increased steadily in recent months, reaching 2.9 percent in early 1987, an unusually high level by Japanese standards.

Inflation

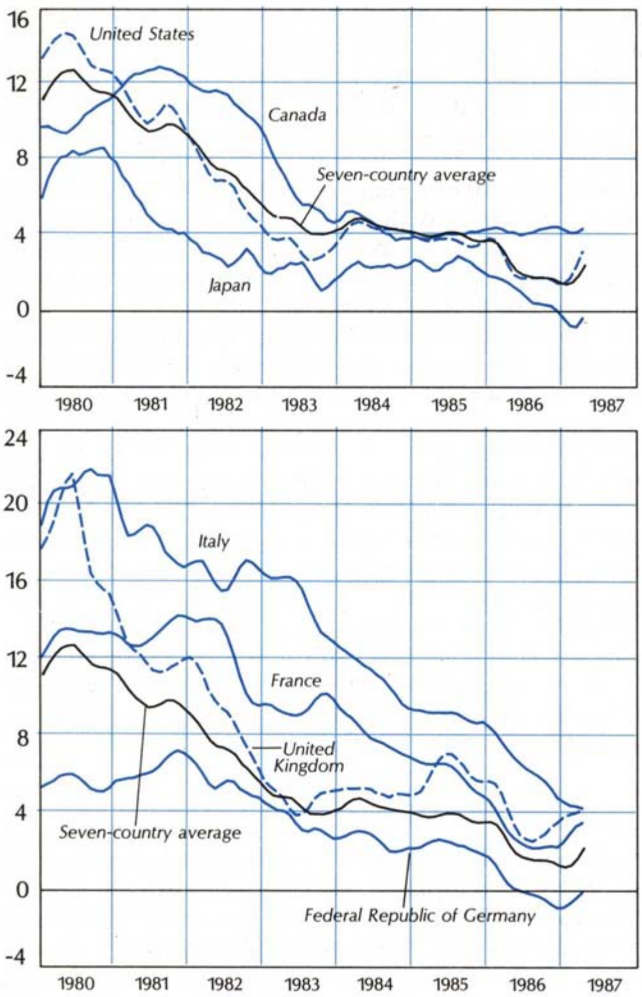
The marked reduction in inflation and inflation expectations since 1980 has been one of the major accomplishments of the medium-term economic strategy pursued by the industrial countries. Price increases have decelerated in each year of the current expansion, in sharp contrast to the upward ratcheting of inflation rates experienced during the recoveries of the 1960s and 1970s. In 1986, consumer prices in the industrial countries as a group increased by only 2.3 percent, the lowest rate since the early 1960s and less than one fifth of the rate in 1980. To an important extent, the additional decline in many price indicators in 1986 can be attributed to the sharp decline in oil prices and the persistent weakness in non-oil commodity prices. Some rebound in consumer prices was observed in the early months of 1987 in several countries as these favorable price effects began to wane (Chart 3). Nevertheless, domestic cost pressures have remained quite moderate.

While the consistent anti-inflationary stance of macroeconomic policies and the benefits of earlier structural reforms, particularly in labor markets, have established a favorable underlying trend in inflation in recent years, price developments in 1986 were dominated by the sharp declines in the prices of oil and other commodities, as noted above. For the industrial countries as a group, import prices decreased by some 12 percent in 1986, with Japan recording a particularly sharp decline of almost 36

Chart 3.

Major Industrial Countries: Consumer Price Inflation, 1980–April 1987

(In percent)[1]



[1] Average of consumer price index for the three months ended in month indicated over corresponding three months a year earlier.

percent. Virtually all of the industrial countries benefited from this reduction in imported inflation. However, consumer prices were affected more in some countries than in others as a result of changes in exchange rates and because of differences in policies and institutional arrangements affecting the extent and timing of the pass-through. For example, in several countries, the rate of increase of the implicit GNP deflator accelerated in 1986 because the business sector (producers as well as distributors) raised its profit margins. International oil prices and the prices of non-oil commodities in U.S. dollar terms began to recover in late 1986 and early 1987. However, the delayed effects of the previous terms of trade changes continued to exert a favorable influence on consumer prices in many countries in the opening months of 1987.

Domestically generated price pressures also moderated further in 1986, albeit by less than in previous years. For the industrial countries as a group, the rate of increase of hourly wages in manufacturing fell from 5.6 percent in 1985 to 4.0 percent in 1986. This deceleration in wage inflation was widespread, with the most pronounced reductions occurring in the United States, Japan, France, and Italy among the major industrial countries. Nevertheless, because of slower productivity growth, particularly in the three largest economies, economy-wide unit labor costs for the industrial countries as a whole rose by 3.5 percent, only slightly less than the increase of 3.9 percent recorded in 1985; the rise in unit labor costs in manufacturing decelerated, from 1.9 percent in 1985 to 1.4 percent in 1986.

On balance, these external and domestic developments led not only to a further decline in inflation in the industrial countries as a group but to a further convergence in inflation performance as well. Among the larger countries, France and Italy, which experienced relatively high inflation rates during the first half of the 1980s, recorded particularly marked reductions in their inflation rates. In Japan and the Federal Republic of Germany the decelerations were less marked. Despite its depreciating currency, the United States also registered a further deceleration in the rate of increase of consumer prices in 1986, largely as a result of the decline in world oil prices and the fact that the increase in U.S. import prices was relatively moderate, suggesting that foreign suppliers have reduced their profit margins in an effort to maintain their share of the U.S. market. However, in early 1987 the rate of increase of consumer prices in the United States accelerated again under the influence of rising import prices.

Inflation rates decelerated in the smaller industrial countries as well, but generally by less than in the major countries. In Austria, Belgium, the Netherlands, and Switzerland, consumer price increases in 1986 were below the average for the major countries. In the other smaller industrial countries, inflation generally declined, but remained higher than in the major countries. Australia and Norway were the only industrial countries that registered a deterioration in inflation performance last year.

DEVELOPING COUNTRIES

Policy Setting

Policy adjustments varied widely among developing countries in 1986, but in most cases appear to have been largely prompted by the changes in the external circumstances facing these countries. For many countries, external developments were adverse. The most important of these adverse developments was the sharp deterioration in many countries' terms of trade resulting from the decline in the prices of oil and non-oil commodities relative to manufactures. The resulting losses in export receipts led not only to a worsening of current account positions but also to a weakening of fiscal revenues, which often depend heavily on taxes based on receipts from foreign trade. These difficulties were accentuated by financing constraints, as net private international lending to developing countries, which had been shrinking rapidly since the onset of the debt crisis in 1982, came to a halt in 1986. Although partially offset by the decline in international interest rates and a strong rise in the volume of exports to industrial countries, the negative factors often were dominant. The resulting tightening of the foreign exchange constraint spurred a large number of countries to intensify their adjustment efforts and to curtail absorption.

In the fuel exporting countries, which were the hardest hit by the deterioration in the external environment, the revenue losses resulting from lower oil prices led to large cutbacks in government expenditures and imports, especially in those countries with limited capacity to borrow or to liquidate foreign assets. Despite the efforts to adjust to the loss of export earnings, the budgetary situation of these countries deteriorated sharply. Because of the weakness of commodity prices, many primary product exporting countries also experienced losses in export-related fiscal revenues, which carried over into budget positions. As a result, the central government deficit for developing countries as a whole rose from 4.5 percent of GDP in 1985 to 6.2 percent of GDP in 1986.

However, external influences were not uniformly adverse for developing countries in 1986. The decline in international interest rates eased the pressure on the expenditure side of the fiscal accounts in countries that carry a large volume of floating rate debt. Moreover, for oil importing countries and especially those that export a significant amount of manufactures, the decline in oil prices alleviated the external constraints and allowed greater flexibility in policy options. For several countries in this group, notably some of the Asian exporters of manufactures, the decline in interest rates and oil prices, aided by a strong export performance, permitted an easing of the restrictive fiscal stances that had been in place for some years and the achievement of improved creditworthiness through reserve accumulation and debt repayments. However, several other oil importing developing countries that also benefited from the relaxation of the external and fiscal constraints did not use the opportunity to consolidate their adjustment efforts. While these countries often initiated measures of fiscal and monetary discipline, results were typically modest because of policy slippages. Instead, the externally generated real income gains were used to bolster domestic demand, particularly consumption.

Many low-income countries in Africa faced a generally difficult external environment and, having less latitude in their policy choices, were compelled to initiate corrective economic measures. As exporters of primary commodities, most of these countries incurred sizable losses in export receipts and in associated fiscal revenues. At the same time, they did not benefit much from the decline in international interest rates, since their external debt is mainly on concessional, fixed-rate terms. Consequently, their budgetary situation worsened despite some efforts to limit the growth of expenditures. Nevertheless, the decline in oil prices, together with improved weather conditions that contributed to lower food prices, provided these countries with an opportunity to dismantle price controls. In general, the implementation of structural adjustment measures, including efforts to correct overvalued currencies, which had flagged in preceding years in some countries, appears to have been strengthened in 1986. Aimed at giving market forces and the private sector a greater role in promoting development, these reform packages were initiated in some cases as a prerequisite to the allocation of additional official aid.

Monetary and credit policies in the developing countries have continued to be directed at dampening inflationary pressures. The sharp deceleration in the growth of broad money for all developing countries in 1986 largely reflected the reductions achieved in a small group of high-inflation countries (including Argentina, Bolivia, Brazil, and Israel) as a result of wide-ranging anti-inflationary measures. The reduced overall availability of domestic credit continued to impinge heavily on the private sector as the cessation of net private international lending to developing countries and a desire in many cases to limit recourse to external borrowing compelled governments to rely increasingly on domestic sources of borrowing for meeting their financing needs.

Domestic Activity

Reflecting the difficult external circumstances faced by many developing countries and the policy responses they brought about, output growth remained quite subdued in much of the developing world in 1986. Moreover, because of the sharp reduction in the purchasing power of exports, increases in output were insufficient to prevent significant declines in living standards in many countries. For the developing countries as a group, the growth of GDP recovered from 3¼ percent in 1985 to 4 percent last year, mainly reflecting stronger growth in some of the larger countries in Asia and the Western Hemisphere (Table 4).

The generally weak performance largely reflected the recession in the fuel exporting countries, which suffered a deterioration of 47 percent in their terms of trade in 1986. Because the contractionary effects of the fall in export prices were mitigated only in small part by higher export volumes and a pickup in oil production, government spending and imports were sharply curtailed. Consequently, domestic demand fell sharply and output stagnated.

Output growth was better sustained outside the group of fuel exporting countries. In these countries, the real income losses brought about by commodity price declines were largely offset by lower oil import bills and reduced interest payments on external debt, while the declines in primary product exports expe-

Table 4.

Developing Countries: Growth of Real GDP, 1969–86[1]

(In percent)

	Weights[2]	Average 1969–78[3]	From Preceding Year 1979	1980	1981	1982	1983	1984	1985	1986
Developing countries	**100**	**6.0**	**4.3**	**3.4**	**1.6**	**1.6**	**1.6**	**4.1**	**3.3**	**4.0**
Memorandum										
Median growth rates		5.3	4.8	3.6	3.0	1.6	1.6	3.0	2.8	2.9
By region										
Africa	12	5.1	3.3	3.8	2.0	1.0	−1.6	1.4	2.1	0.8
Asia	32	5.8	4.5	5.4	5.5	5.2	7.6	7.9	6.4	6.3
Europe	11	5.9	3.8	—	—	1.1	1.9	4.0	2.4	3.6
Middle East	18	8.2	1.8	−2.5	−2.1	0.3	0.1	0.2	−1.1	1.2
Western Hemisphere	27	5.8	6.1	6.1	0.1	−1.0	−2.8	3.6	3.5	4.4
By predominant export										
Fuel exporters	31	7.8	3.7	1.0	0.8	0.1	−2.0	0.8	0.3	−0.1
Non-fuel exporters	69	5.4	4.5	4.3	2.0	2.4	3.4	5.7	4.7	5.8
Primary product exporters	33	5.2	4.8	4.9	0.5	0.4	−0.1	3.9	3.2	5.4
Exporters of manufactures	30	5.9	4.3	3.7	3.6	4.4	7.3	8.1	6.6	6.4
Service and remittance countries	6	4.8	4.4	4.2	2.1	3.3	2.9	3.3	4.2	4.3
Memorandum										
Fifteen heavily indebted countries	32	6.1	6.1	5.5	—	−0.5	−3.2	2.5	3.1	3.8
Countries with recent debt-servicing problems	44	5.5	5.3	4.2	0.1	−0.3	−1.9	3.0	2.7	3.5

[1] Except where otherwise indicated, arithmetic averages of country growth rates weighted by the average U.S. dollar value of GDPs over the preceding three years.
[2] Weights are calculated on the basis of the average U.S. dollar value of GDPs for 1982–84.
[3] Compound annual rates of change.

rienced by some countries were more than matched by the surge in exports of manufactures and services experienced by others. Overall, therefore, output growth in non-fuel exporting countries averaged 5¾ percent in 1986, 1 percentage point better than in 1985.

The differentiated character of the external environment facing many countries, as well as their diverse domestic policy responses to that environment, also helps to explain the output performance of the main regional groupings of developing countries. The situation of the Asian countries was particularly favorable from both points of view. A number of these countries, especially exporters of manufactures whose currencies are linked to the U.S. dollar, recorded significant increases in export volumes in 1986, reflecting improvements in their competitive positions. This external stimulus to output and demand reinforced the expansionary impact of real income gains from declines in oil prices and interest rates and an easing of the fiscal stance. The expansionary impact of these factors was reflected in an acceleration of the growth rate of the region (excluding China) from 3¾ percent in 1985 to 5¾ percent in 1986. Growth slowed somewhat in China but continued to outpace that of the region as a whole.

For those European countries that are classified as developing countries, the generally favorable impact of external and internal factors permitted an acceleration in output growth in 1986 following the slowdown that had occurred in 1985. With significant shares of manufactures and services in their exports, these countries experienced an improvement in the purchasing power of their export earnings at the same time as they benefited from declining interest payments on their relatively large external debts to commercial creditors. However, because of weaker external positions and higher debt ratios than in the case of many Asian countries, several of these countries were unable to relax adjustment efforts and permit stronger domestic demand growth. Instead, policy actions were directed at enhancing creditworthiness through demand restraint, with a view to permitting the accumulation of reserves and the repayment of debt.

In Western Hemisphere countries taken as a group, output growth accelerated to 4½ percent in 1986, but performances differed widely across the region. Because of the deterioration in their export earnings and constraints on their ability to run down reserves or borrow abroad, the four fuel exporting countries in the region (Ecuador, Mexico, Trinidad and Tobago, and Venezuela) were compelled to tighten policies, with the result that output growth for this group turned negative. The experience of the other countries in the region was more favorable. In Brazil, output increased by 8 percent as a result of a surge in real consumption, and in Argentina output rebounded strongly from the downturn experienced in 1985. Among the remaining countries in this region, output growth averaged 3½ percent, an improvement of 2 percentage points over the preceding year. For a number of these primary product exporting countries, the effects of weak export prices were cushioned by savings in oil import bills, buoyant nontraditional exports, and lower debt service payments as well as by higher agricultural production and incomes generated by good harvests and high coffee prices.

In the Middle Eastern region, the steep decline in oil revenues permitted only a modest rise in output. For the region as a whole, real export earnings declined by 39 percent. Although partly mitigated through running down foreign assets, the loss in export earnings of the fuel exporting countries in this region led to a strengthening of adjustment efforts, which curbed domestic demand and imports. The impact of these developments spread to other countries in the region, in part through reductions in workers' remittances and official transfers that these countries had been receiving from their fuel exporting neighbors.

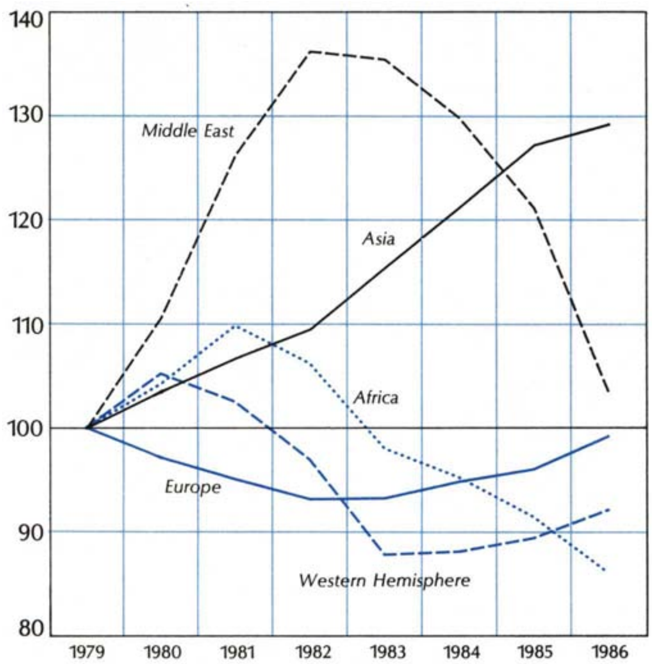
In Africa, output growth slackened to less than 1 percent in 1986 (compared with 2 percent in 1985), but the experiences of individual countries again varied considerably across the region. In the fuel exporting countries of this region, output declined severely because of oil-related difficulties. Output also declined or remained seriously depressed in several smaller low-income sub-Saharan African countries owing to large terms of trade losses stemming from the lower prices obtainable for their exports. In any case, the persistence of severe economic imbalances left little room for a relaxation of adjustment efforts so that domestic demand remained subdued in most countries of the group. There were, however, exceptions to the generally bleak picture. In particular, output recovered in those sub-Saharan African countries that experienced a sharp temporary rise in coffee prices early in the year, real income gains from lower oil import bills, and a rebound in agricultural output in response to changes in pricing policies and improved climatic conditions.

The economic performance of developing countries is much weaker than suggested by GDP growth statistics if it is assessed in terms of developments in real domestic absorption, which is a better indicator of national living standards broadly construed. Except for Asia, where living standards rose fairly steadily through the 1980s, real absorption per capita in much of the developing world has yet to recover appreciably from the decline experienced in the early 1980s (Chart 4). The fall in living standards has been pervasive and large in the Western Hemisphere and in Africa, as countries in these regions have struggled to correct domestic and external imbalances in the face of an often unfavorable external environment.

Chart 4.

Developing Countries: Real Absorption[1] per Capita, by Region, 1979–86

(Indices, 1979 = 100)



[1] Real GDP less the real foreign balance.

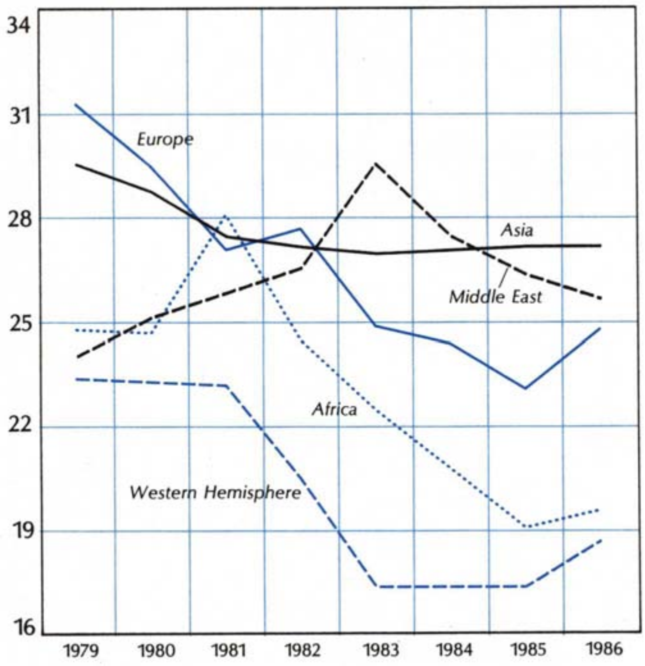
The improvement evident in the Western Hemisphere since 1985 appears to be primarily a reflection of the stronger growth in domestic demand in a few larger countries and masks the more widespread continuing weakness in most countries in the region. The persistent decline in living standards experienced by most African countries is a matter of serious concern, given that the region suffers from extremely low levels of real absorption in absolute terms as well as high population growth rates. In the Middle East, living standards have been steadily declining since 1982—albeit from high levels in some countries—as a result of the fiscal retrenchment and import cuts necessitated by falling oil revenues.

The share of investment in aggregate spending tended to stabilize in 1986 following a marked decline during the first half of the 1980s in much of the developing world. After rising in the late 1960s and early 1970s, the share of investment in GDP had been fairly stable in the mid-to-late 1970s. Subsequently, however, as external borrowing constraints surfaced in the 1980s, a disproportionate share of the adjustment fell on investment rather than consumption, especially among highly indebted countries. As can be seen from Chart 5, the decline in gross capital formation in recent years has been sharpest in Africa, the developing countries in Europe, and the Western Hemisphere, the regions with the highest debt ratios. Although the share of investment in GDP in these three regions edged upward in 1986, and the efficiency of such investments im-

Chart 5.

Developing Countries: Gross Capital Formation, by Region, 1979–86

(In percent of nominal GDP)



proved, substantially larger increases are needed to strengthen productive potential in countries in these and other regions.

Inflation

A positive feature of economic performance in developing countries in 1986 was the sharp reduction in inflation rates in a number of countries where rates of price increase had accelerated to extremely high levels in previous years. Wide-ranging price stabilization programs were instituted in a number of these high-inflation countries, most notably Argentina, Bolivia, Brazil, and Israel. As a result, the composite inflation rate for these four countries was reduced from close to 320 percent in 1985 to 125 percent in 1986 on a year-on-year basis. Owing in large part to the reduction of inflation in these countries, the average inflation rate for the entire group of developing countries slowed to 30 percent in 1986, ending a steadily rising trend that had reached a peak of 40 percent in 1985 (Table 5).

Price increases also tended to recede in other developing countries, but more moderately as underlying inflationary pressures in these countries had been less pronounced. This reduction, stemming from declines in food, petroleum, and other commodity prices, was reflected in a decline of ½ of 1 percentage point in the median inflation rate among

Table 5.

Developing Countries: Changes in Consumer Prices, 1969–86

(In percent)

	Average	From Preceding Year							
	1969–78[1]	1979	1980	1981	1982	1983	1984	1985	1986
Developing countries[2]	**16.3**	**21.1**	**26.6**	**26.0**	**26.0**	**33.2**	**38.1**	**39.7**	**29.5**
By region									
Africa	11.6	16.6	16.4	21.9	11.4	19.4	20.3	12.8	13.7
Sub-Saharan Africa[3]	13.4	26.3	25.2	32.2	13.4	30.4	22.4	17.8	19.3
Asia	8.7	8.0	13.1	10.7	6.3	6.6	7.2	7.6	7.8
Europe	10.8	22.2	31.7	23.6	34.8	22.9	25.1	25.2	24.9
Middle East	10.9	11.7	16.8	15.2	12.7	12.3	14.8	12.2	11.7
Western Hemisphere	31.0	46.6	54.4	59.2	68.0	105.9	128.5	151.1	89.5
Medians									
Developing countries	**9.1**	**11.5**	**14.6**	**13.4**	**10.3**	**9.4**	**10.4**	**8.7**	**8.2**
By region									
Africa	9.1	11.9	12.5	13.7	12.6	10.9	11.2	10.5	9.0
Sub-Saharan Africa[3]	9.3	12.5	13.3	13.5	12.7	11.2	11.2	10.5	9.2
Asia	7.2	7.5	13.9	12.5	7.6	8.1	7.0	4.9	5.7
Europe	8.1	9.6	15.8	20.0	21.0	20.2	15.0	15.1	11.7
Middle East	10.0	10.6	10.5	8.9	9.1	5.2	6.4	4.1	10.0
Western Hemisphere	10.4	14.9	18.1	14.7	9.0	8.8	12.0	15.0	11.4

[1] Compound annual rates of change.
[2] Arithmetic averages of country consumer price increases weighted by the average U.S. dollar value of GDPs over the preceding three years.
[3] Excluding Nigeria and South Africa.

developing countries, a more representative measure of the experience in the "typical" country.

Notwithstanding these reductions, the inflation performance of developing countries in 1986 was somewhat disappointing in relation to the success of industrial countries in steadily restraining rates of price increase in recent years. Moreover, monthly rates of price increase in some of the high-inflation countries tended to pick up again in late 1986 and early 1987 as price ceilings were lifted and policy slippages occurred. Inflationary pressures intensified in a number of other countries as well because of difficulties in supporting exchange rate and price adjustments with effective domestic financial restraint.

INTERNATIONAL TRADE AND PAYMENTS

GLOBAL PERSPECTIVES

World Trade

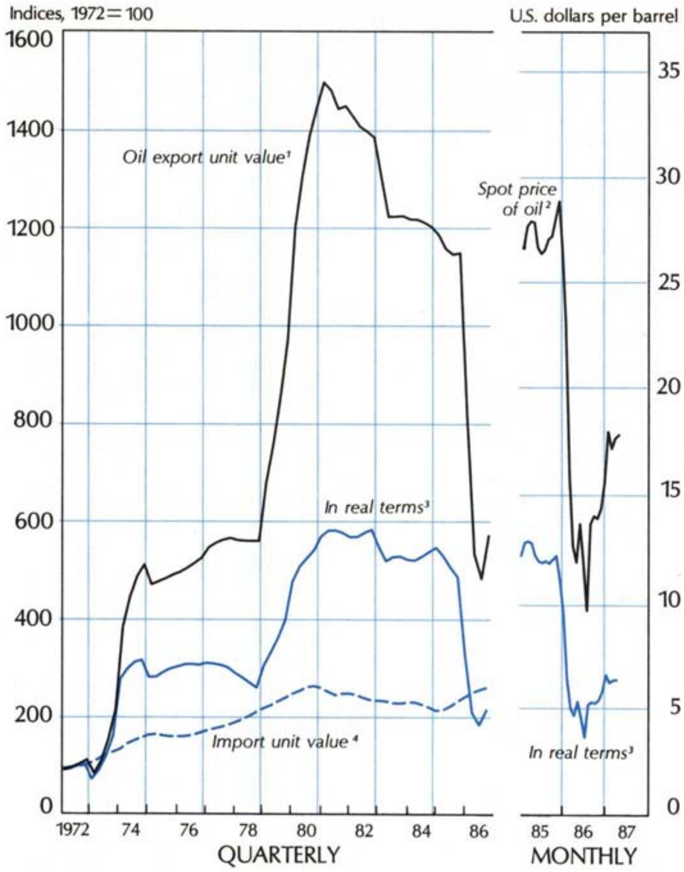
The unusually large shifts in exchange rates and in the relative prices of oil and other primary commodities in 1986 significantly affected developments in world trade volumes. In particular, the sharp fall in export earnings of the fuel and other primary commodity exporting countries necessitated curtailment of their imports. In contrast, the price declines stimulated increased demand for developing country exports, both directly through relative price effects and indirectly by strengthening industrial country income and demand. Separately, the depreciation of the U.S. dollar appears on the whole to have had a favorable impact on trade, as U.S. exports began to recover and foreign suppliers were able, for a time at least, to protect or even increase further their market shares in the United States by reducing profit margins. In addition, the depreciation of the U.S. dollar led to a sharp improvement in the competitive position of some of the newly industrialized countries whose currencies were linked to the dollar. As a result, these countries recorded substantial gains in export performance. Overall, the positive forces dominated, and the growth in the volume of world trade accelerated from only 3 percent in 1985 to close to 5 percent in 1986 (Table 6), notwithstanding the slowing of growth in world output.

A particularly significant development in world trade was the sharp decline in international oil prices in the first half of 1986. Despite a firming of prices in the second half of the year, oil export prices averaged only $13.40 per barrel in 1986, roughly half the level of the previous year (Chart 6). In real terms, oil prices in 1986 were some 15 percent below the level prevailing in 1978.

The sharp drop in oil prices in 1986 reflected a change in policy emphasis on the part of the members of the Organization of Petroleum Exporting Countries (OPEC) in late 1985, with the primary objective shifting from that of defending official prices to that

Chart 6.

Oil Prices, 1972–April 1987



[1] Unit value of the oil exporting countries (according to the former analytical categories); in terms of U.S. dollars.
[2] Unweighted average of Brent, West Texas Intermediate, and Dubai spot prices in terms of U.S. dollars.
[3] Oil price deflated by import unit value of the oil exporting countries.
[4] Import unit value of the oil exporting countries in terms of U.S. dollars.

of raising OPEC's share of the world oil market following the substantial reduction that had taken place during the first half of the 1980s. As a result, increased oil production by OPEC members led to oversupply in world oil markets in the short run, and prices declined sharply. However, the extent of the price decline and the highly unstable market conditions led to increasing calls from oil producing countries for the introduction of concerted output restraint, which by the end of the year led to a partial recovery of oil prices. An important aspect of these developments was the willingness of several important non-OPEC suppliers to help limit production and stabilize prices. In December 1986, the members of OPEC agreed to new production quotas that implied a reduction of their output by some 7–9 percent relative to actual production levels in late 1986. They also agreed to reintroduce fixed official export prices, based on a reference price of $18 per barrel. During the first few months of 1987, spot prices stabilized close to this level.

The persistent weakness of non-oil primary commodity prices also had a major bearing on world trade in 1986. Although commodity prices expressed in terms of U.S. dollars have been relatively stable since late 1985, the depreciation of the U.S. dollar has meant that dollar prices of exports of manufactures have risen by some 18 percent. In relation to export prices of manufactures, non-oil commodity prices thus fell by 16 percent in 1986, following a decline of 14 percent in 1985. By early 1987, real commodity prices had fallen to a level 40 percent below their peak in mid-1984 and 25 percent below the trough in late 1982 (Chart 7).

The prolonged and pervasive weakness of commodity markets can be attributed to a combination of short-term demand and supply factors and some more deep-seated structural factors. The short-term factors may have had the greatest impact on recent price developments. In the case of agricultural commodities, favorable growing conditions in major producing areas and lagged supply responses to earlier price increases have been instrumental in boosting supply. Relatively weak demand, as illustrated by the sluggishness of industrial production, has also played an important role. In the industrial countries, industrial output rose by only 1 percent in 1986, which dampened demand for metals and some agricultural raw materials. The disinflation of the past few years is also likely to have reduced the speculative demand for commodities.

Beyond such short-term factors, there are indications that the weakness of commodity prices has been the result of longer-term structural factors as well. On the supply side, technological progress and the dissemination of new technology have tended to increase supply, particularly of agricultural commodities. Indeed, some developing countries have not only become self-sufficient in foodgrain production but have also produced export surpluses in recent years. Furthermore, agricultural policies in the industrial countries have protected domestic producers from foreign competition and raised domestic prices relative to world prices, thereby stimulating overproduction. Structural changes have also been important on the demand side. In particular, the shift in the industrial countries away from heavy industry toward light manufacturing and service sectors has generally reduced the demand for commodities. This shift has been reinforced by the development of synthetic substitutes and new materials, together with increased recycling and conservation of metals. The recent decline in oil prices may also have reduced demand for some non-oil commodities for which oil-derived substitutes are readily available.

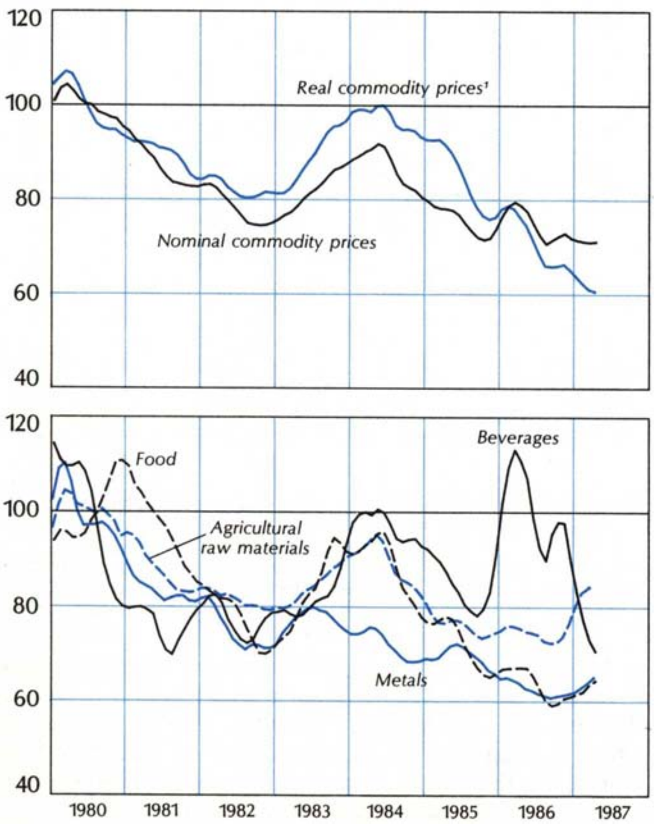
Reflecting the dominance of oil and other commodities in most developing countries' exports to the industrial countries, the price declines resulted in an exceptionally sharp deterioration in the terms of trade of developing countries, averaging almost 17 percent for the group as a whole. This decline was almost entirely borne by the fuel exporting countries. Among the industrial countries, most of the gain was concentrated in Japan, France, the Federal Republic of Germany, and Italy—countries that also experienced an appreciation of their currencies.

The adjustment process triggered by the large shifts in commodity prices and exchange rates in 1986 meant that a significant proportion of the terms of trade changes were offset by changes in real trade flows. (The balance of payments adjustment process is described in greater detail in the following sections.) As a result, the combined current account position of the developing countries deteriorated only by some $23 billion, despite a terms of trade loss four times larger. At the same time, the industrial countries' current account position improved by close to $32 billion and the global discrepancy on current account narrowed by about $7 billion (Table 7). Despite this reduction, which appears to be related in part to the decline in interest rates, the global discrepancy remains large and continues to be of concern as it impinges on the quality of balance of payments statistics and analyses (see Box 2).

Chart 7.

Developing Countries: Non-Oil Primary Commodity Prices, 1980–April 1987

(Moving three-month averages of indices expressed in terms of U.S. dollars, 1980 = 100)



[1] Nominal commodity prices deflated by the index of unit values of manufactures exported by the industrial countries.

International Capital Markets

While capital flows between financial markets in the major industrial countries continued to expand

Table 6.

Summary of World Trade Volumes and Prices, 1969–86[1]

(In percent)

	Average 1969–78[2]	1979	1980	1981	1982	1983	1984	1985	1986
World trade[3]									
Volume	6.7	6.4	1.2	0.8	−2.2	3.0	8.8	3.1	4.9
Unit value									
(in U.S. dollar terms)	10.8	18.6	20.1	−1.2	−4.2	−4.8	−2.4	−2.2	4.4
(in SDR terms)[4]	8.3	14.9	19.3	9.1	2.3	−1.7	1.8	−1.3	−9.7
Volume of trade									
Exports									
Industrial countries	7.1	7.2	3.9	3.6	−2.1	3.0	9.9	4.3	2.6
Developing countries	4.6	4.3	−4.2	−6.0	−7.6	3.2	7.1	0.9	8.6
Fuel exporters	3.1	1.9	−13.5	−15.1	−16.2	−3.2	0.7	−5.8	11.0
Non-fuel exporters	6.1	6.8	8.4	5.3	1.2	8.2	11.5	5.0	7.8
Imports									
Industrial countries	6.9	8.9	−1.6	−2.0	−0.6	4.7	12.6	4.6	8.4
Developing countries	7.2	3.4	7.3	7.8	−4.0	−2.3	2.0	−0.3	−2.5
Fuel exporters	15.0	−4.6	13.4	18.6	−1.5	−10.1	−6.2	−11.9	−21.0
Non-fuel exporters	4.8	7.2	5.0	3.2	−5.3	1.6	5.7	4.5	4.6
Unit value of trade (in SDR terms)[4]									
Exports									
Industrial countries	7.6	11.7	12.3	5.8	2.6	−1.0	1.2	−0.2	−1.7
Developing countries	12.1	25.0	36.5	15.4	1.9	−4.5	3.9	−3.9	−25.9
Fuel exporters	19.6	39.9	62.0	23.1	3.1	−8.7	2.7	−3.3	−49.3
Non-fuel exporters	7.3	13.1	12.4	7.2	0.6	−0.9	4.8	−4.3	−12.8
Imports									
Industrial countries	8.1	15.0	20.8	7.7	0.7	−2.4	0.9	−1.0	−9.8
Developing countries	8.1	13.6	17.3	11.5	3.0	−1.1	2.7	−2.4	−11.1
Fuel exporters	7.6	10.8	12.4	10.7	3.1	−0.2	2.1	−0.5	−3.6
Non-fuel exporters	8.1	14.9	19.4	11.9	2.9	−1.5	3.0	−3.2	−13.7
Terms of trade									
Industrial countries	−0.5	−2.9	−7.1	−1.8	1.9	1.4	0.3	0.8	9.0
Developing countries	3.7	10.1	16.3	3.5	−1.0	−3.5	1.2	−1.5	−16.7
Fuel exporters	11.2	26.3	44.0	11.2	—	−8.5	0.7	−2.7	−47.4
Non-fuel exporters	−0.8	−1.6	−5.8	−4.2	−2.2	0.5	1.7	−1.2	1.1
Memorandum									
World trade prices (in U.S. dollar terms) for major commodity groups[5]									
Manufactures	9.6	13.6	10.4	−3.9	−2.1	−2.8	−3.0	1.2	17.9
Oil	22.8	46.0	63.6	9.8	−4.1	−11.7	−2.4	−4.8	−49.8
Non-oil primary commodities	10.3	17.9	5.5	−13.5	−9.9	6.9	4.2	−12.9	−1.1

[1] Excluding China prior to 1978.
[2] Compound annual rates of change.
[3] Averages of growth rates for world exports and imports based on data for the two groups of countries shown separately below and on partly estimated data for the U.S.S.R. and nonmember countries of Eastern Europe.
[4] For years prior to 1970, an imputed value of US$1 has been assigned to the SDR.
[5] As represented, respectively, by the export unit value index for the manufactures of the industrial countries; the oil export unit value of the oil exporting countries (according to the former analytical categories); and the index of market quotations for non-oil primary commodities exported by the developing countries.

at a rapid rate in 1986, the flow of funds between industrial and developing countries stagnated. International bonds issued by developing countries declined from $9 billion in 1985 to $5 billion in 1986, and only the most creditworthy developing countries were able to make such placements. Net lending by banks to developing countries (other than offshore centers) had already been relatively small ($10 billion) in 1985, but became negative in 1986 as repayments exceeded new borrowing by $5 billion. As a result, the current account deficits of developing countries, which increased from $24 billion in 1985 to $46 billion in 1986, were financed primarily through the receipt of official lending and non-debt-creating flows.

In other respects, activity in international financial markets was quite brisk, fueled primarily by the large

Table 7.

Summary of Payments Balances on Current Account, 1978–86[1]

(In billions of U.S. dollars)

	1978	1979	1980	1981	1982	1983	1984	1985	1986
Industrial countries	**15.1**	**−23.2**	**−60.5**	**−19.0**	**−22.4**	**−19.8**	**−58.3**	**−50.7**	**−19.0**
Canada	−4.3	−4.2	−1.0	−5.1	2.3	2.5	2.7	−0.9	−6.7
United States	−15.4	−1.0	1.9	6.9	−8.7	−46.3	−107.0	−116.4	−141.4
Japan	16.5	−8.8	−10.7	4.8	6.9	20.8	35.0	49.3	85.8
France	7.0	5.2	−4.2	−4.6	−12.1	−4.7	−0.8	−0.2	3.4
Germany, Fed. Rep. of	9.0	−6.0	−15.7	−5.2	4.1	4.2	8.4	15.3	35.4
Italy	6.2	5.5	−10.0	−9.1	−6.2	1.6	−2.4	−3.6	4.1
United Kingdom	1.9	−1.5	6.8	12.5	6.9	4.8	2.1	4.5	−0.2
Other industrial countries	−5.8	−12.5	−27.6	−19.2	−15.5	−2.7	3.7	1.3	0.5
Developing countries	**−35.0**	**6.4**	**30.4**	**−48.5**	**−87.1**	**−64.0**	**−33.0**	**−23.9**	**−46.4**
By region									
Africa	−12.8	−3.4	−1.9	−22.4	−21.5	−12.2	−7.3	−0.2	−8.7
Asia	−5.2	−9.7	−14.4	−19.0	−17.4	−14.9	−4.2	−14.0	4.9
Europe	−9.7	−13.6	−15.6	−14.3	−8.7	−5.9	−3.2	−3.3	−1.7
Middle East	11.3	54.2	92.5	50.0	3.0	−20.1	−15.8	−2.2	−23.3
Western Hemisphere	−19.0	−21.1	−30.2	−42.7	−42.5	−10.8	−2.6	−4.2	−17.5
By analytical criteria									
Fuel exporters	−6.1	51.4	95.9	34.8	−18.2	−19.3	−4.7	3.0	−37.1
Other developing countries	−29.3	−45.0	−65.5	−83.2	−68.8	−44.7	−28.4	−26.9	−9.2
Market borrowers	−31.8	−29.2	−35.8	−71.9	−73.6	−29.8	−2.7	7.1	−1.5
Official borrowers	−7.3	−5.7	−9.0	−12.0	−10.5	−8.6	−9.9	−9.4	−8.4
Other countries[2]	**−9.5**	**−2.7**	**0.8**	**−3.0**	**2.4**	**2.7**	**4.8**	**2.3**	**−0.2**
Total[3]	**−29.0**	**−19.5**	**−29.2**	**−70.5**	**−107.1**	**−81.2**	**−86.5**	**−72.3**	**−65.5**

[1] Including official transfers.
[2] Covers estimated balances on current transactions only in convertible currencies of the U.S.S.R. and other nonmember countries of Eastern Europe.
[3] Reflects errors, omissions, and asymmetries in reported balance of payments statistics on current account, plus balance of listed groups with countries not included.

current account and budgetary imbalances of industrial countries, the decline in interest rates, and the structural changes taking place in both domestic and international financial markets. In addition, this expansion of international lending among the industrial countries involved greater reliance on securities markets rather than on bank lending. Total international lending (bond issuance plus bank lending) grew by 70 percent in 1986, compared with 40 percent in 1985. Bond markets accounted for approximately 46 percent of net bond and bank lending (net of interbank redepositing) during 1986, compared with 42 percent in 1985 and 26 percent in 1980–84.

As in the past several years, the rapid expansion of flows between the major financial markets has been accompanied by major structural changes that have arisen as a result of financial liberalization and the spread of innovative financing techniques. In part, these liberalizations have reflected efforts to introduce greater competition into domestic financial markets in order to enhance efficiency. Indeed, liberalization and innovation have tended to increase the efficiency of capital markets by sharply reducing intermediation costs, by facilitating arbitrage between markets in different countries and between different instruments, and by achieving a wider sharing of risk among market participants.

International Liquidity

While international reserves held by countries expanded during 1986, the pattern of reserve accumulation was highly uneven, with some groups of developing countries experiencing sharp declines in their reserve holdings. Overall, non-gold reserves increased by SDR 15 billion.[2] The foreign exchange component accounted for the entire increase, with the accumulation of foreign exchange reserves having amounted to about SDR 25 billion. The change in the value of the stock of foreign reserves amounted to only SDR 17 billion, however, since valuation losses due to the depreciation of the U.S. dollar relative to the SDR accounted for SDR 8 billion (Table 8). The industrial countries more than accounted for the

[2] If gold reserves are revalued on the basis of market prices, total reserves including gold increased by SDR 36 billion in 1986.

BOX 2.
THE STATISTICAL DISCREPANCY IN WORLD CURRENT ACCOUNT BALANCES

In principle, the world current account should be in balance, with the sum of all deficits being matched by the sum of all surpluses. In practice, however, the recorded balance on world current account has been in substantial deficit for a number of years. From approximate balance in the early 1970s, the global current account displayed an excess of deficits over surpluses of about $20 billion in the late 1970s, which widened sharply to over $100 billion in 1982 before gradually declining to an estimated $65 billion in 1986. This discrepancy is a source of serious concern, as it impinges on the quality of balance of payments data and analyses: it undermines analysis of global saving and investment flows; it hampers surveillance over exchange rates; and, because it indicates a shortfall in net exports, it distorts assessments of developments in world demand and output. Moreover, the discrepancy has given rise to concerns that it may give national financial policies a deflationary bias as national authorities seek to strengthen their external positions.

Prompted by these concerns, and in view of its responsibilities for international balance of payments statistics, the Fund in 1984 established an international Working Party, composed of both balance of payments experts and analysts, to attempt to identify the proximate causes of the discrepancy and to outline steps that could be taken to reduce it. The Working Party issued its final report in December 1986. The main conclusions of the report are as follows: (1) The discrepancy is to be found primarily in the service and transfer transactions. Statistics on merchandise transactions have some deficiencies, but these have not contributed significantly to the sharp rise in the discrepancy. (2) Within the service account, the largest and most rapidly rising component of the discrepancy has been portfolio income. This reflects both the emergence of a large stock of cross-border assets recognized by debtor countries but not by creditor countries as well as the high level of international interest rates that prevailed in the early 1980s. (3) Another major but relatively stable discrepancy within the service account is in the shipping data, reflecting in part underrecording of freight earnings in a number of countries with large maritime sectors. (4) There is also a large, but again fairly stable, asymmetry on official transfers, with payments reported by donors exceeding credits reported by recipient countries. The Working Party did not reach any firm conclusions regarding the distribution of the discrepancy among countries. Nevertheless, tentative adjustments for the main components of the investment income discrepancy do not greatly affect the existing pattern of current account imbalances.

To reduce the discrepancy, the Working Party has recommended several changes in balance of payments compilation procedures that, if adopted by national compilers, would make national balance of payments statistics more consistent with one another and thus permit a gradual absorption of the discrepancy into recorded country estimates. An important part of this effort will be the updating and improvement of the Fund's *Balance of Payments Manual* to take into account the innovations in the global financial marketplace.

The principal findings and recommendations were endorsed by the Fund's Executive Board, and the report, entitled *Final Report of the Working Party on the Statistical Discrepancy in World Current Account Balances*, was published by the Fund in September 1987.

increase in foreign exchange reserves, with increases (inclusive of valuation adjustments) of SDR 24 billion in 1986, compared with SDR 3 billion in 1985. In contrast, the foreign exchange reserves of developing countries fell by SDR 7 billion in 1986, following a decline of SDR 4 billion in 1985. The sharp expansion of the foreign exchange reserves of industrial countries principally reflected the intervention policies of governments designed to limit declines in the foreign exchange value of the U.S. dollar. The decline in the foreign exchange reserves of many developing countries, which is masked by the large reserve gains of a limited number of countries, reflected efforts to finance large current account deficits at a time when their access to borrowed reserves from international capital markets was very limited.

The growth in reserves during 1986 resulted in higher ratios of non-gold reserves to imports for the world as a whole and for some major subgroups of countries. This represents a continuation of the trend toward increases in these ratios that has been evident since 1981, except for a pause in 1985. For the industrial countries, holdings of non-gold reserves have grown slightly faster than imports, and the reserve-to-import ratio for this group has increased from 16 percent in 1981 to 19 percent in 1986. In 1985–86 when the U.S. dollar depreciated against the other major currencies, interventions in exchange markets by a number of major industrial countries contributed to the accumulation of reserves, which stabilized the reserve-to-import ratio of the industrial countries in 1985 and resulted in a substantial rise in

Table 8.

International Reserves, Excluding Gold, 1983–86

(Annual changes, in billions of SDRs)

	1983	1984	1985	1986
All countries				
International reserves, excluding gold	34	45	−2	15
Of which, foreign exchange[1]	*23*	*41*	*−1*	*17*
Accumulation	21	37	8	25
Valuation effects	2	4	−9	−8
Industrial countries				
International reserves, excluding gold	21	20	3	23
Of which, foreign exchange[1]	*15*	*16*	*3*	*24*
Accumulation	16	16	5	26
Valuation effects	−1	—	−1	−1
Developing countries				
International reserves, excluding gold	13	26	−5	−8
Of which, foreign exchange[1]	*9*	*25*	*−4*	*−7*
Accumulation	6	21	4	—
Valuation effects	3	4	−8	−7
Memorandum				
U.S. dollars per SDR, end of period	1.047	0.980	1.098	1.223

[1] Estimates shown here pertain to total foreign exchange reserves. The breakdown into accumulation and valuation (i.e., quantity and price) components is based on the data for identified holdings of seven major currencies shown in Appendix Table I.2, adjusted, however, to cover total foreign exchange holdings. The adjustment assumes that the valuation effects on unidentified holdings are proportional to those on identified holdings.

that ratio in 1986. For developing countries, the ratio of non-gold reserves to imports increased from 26 percent in 1981 to 33 percent in 1985 and to 36 percent in 1986. This rise reflected in part a vigorous rebuilding of reserves in 1982–84 and a decline in the SDR value of imports in 1985–86 and occurred notwithstanding significant negative valuation effects in 1985–86. Since reserve assets denominated in U.S. dollars account for a greater proportion of non-gold reserves, particularly for the developing countries, than the weight of the U.S. dollar in the valuation of the SDR, the SDR value of a given stock of reserves tends to increase when the U.S. dollar is appreciating, as in 1983–84, and decline when the U.S. dollar is depreciating, as in 1985–86. Despite the rise in the reserve-to-import ratio for the developing countries as a group, for the capital importing developing countries with recent debt-servicing problems that ratio fell from 29 percent in 1985 to 26 percent in 1986 as the SDR value of their non-gold reserves declined by about one fourth.

During 1986, the currency composition of foreign exchange reserves continued to diversify albeit at a slower pace than in previous years. The proportion of identified foreign exchange reserves denominated in U.S. dollars, which equaled approximately 80 percent in the mid-1970s, reached 67 percent at the end of 1986.[3] The significant decline in the U.S. dollar components of identified foreign exchange reserves during the past decade had, as its counterparts, increases in the proportions of reserves denominated in deutsche mark (from 11 percent in 1978 to 15 percent in 1986) and in Japanese yen (from 3 percent in 1978 to 7 percent in 1986). The decline in the relative share of U.S. dollar-denominated reserves was greater for the industrial countries (whose U.S. dollar holdings fell from 86 percent of identified foreign exchange reserves in 1978 to 71 percent in 1986) than for the developing countries (whose dollar holdings declined from 63 percent in 1978 to 60 percent in 1986).

[3] The currency composition of identified foreign exchange reserves is based on a Fund survey and on estimates derived mainly from official national reports. These identified reserves differ from total foreign exchange reserves, which also include the foreign exchange reserves for which information on the currency composition is not available.

INDUSTRIAL COUNTRIES

Exchange Rate Developments

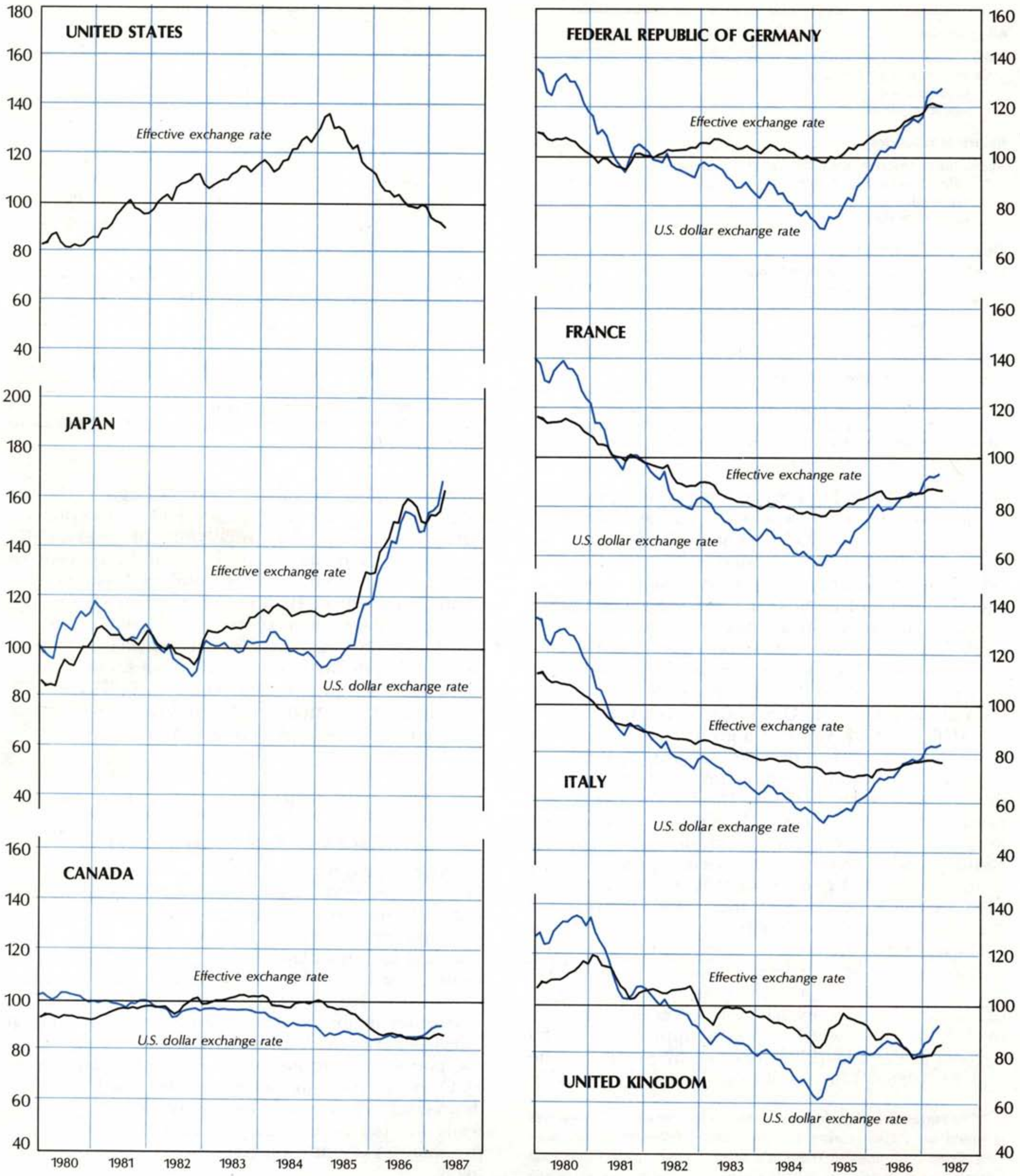
Further progress was made over the past year in bringing key exchange rate relationships better into line with underlying economic conditions in the major industrial countries. Continuing a depreciation that had begun in late February 1985, the effective value of the U.S. dollar declined by 13 percent during 1986, with a further sharp adjustment in early 1987. The other major currencies appreciated in nominal effective terms during 1986, with the exception of the pound sterling and the Canadian dollar (Chart 8). Over the first four months of 1987, the U.S. dollar depreciated in nominal effective terms by 8 percent, while the Japanese yen and the deutsche mark appreciated by about 8 percent and 2 percent, respectively.

These exchange rate movements have almost reversed the real effective appreciation of the U.S.

Chart 8.

Major Industrial Countries: Monthly Average U.S. Dollar and Effective Exchange Rates, 1980–April 1987[1]

(Indices, 1976–85 = 100)



[1] Effective rates based on the Fund's Multilateral Exchange Rate Model.

dollar (as measured by relative normalized unit labor costs) that occurred during the first half of the decade. Between early 1985—when the dollar peaked—and April 1987, the U.S. dollar has depreciated in real effective terms by about 35 percent and by roughly the same amount in nominal effective terms. Over the same period, the 20 percent appreciation of the deutsche mark has also brought its real effective value back to its 1980 level. The real effective value of the Japanese yen in April 1987 was 31 percent higher than its value two years earlier and about the same percentage above its average value in 1980. The nominal effective appreciation of the yen has been somewhat greater, reflecting a lower inflation rate in Japan relative to the average of its trading partners. In April 1987, the real effective exchange rates of the French franc, the pound sterling, and the Canadian dollar remained lower than their levels in 1980, while the real effective exchange rate of the Italian lira had returned to its level in 1980. The real effective depreciations of the pound sterling and the French franc since 1980 have been smaller than their nominal depreciations, owing to higher domestic cost increases than abroad.

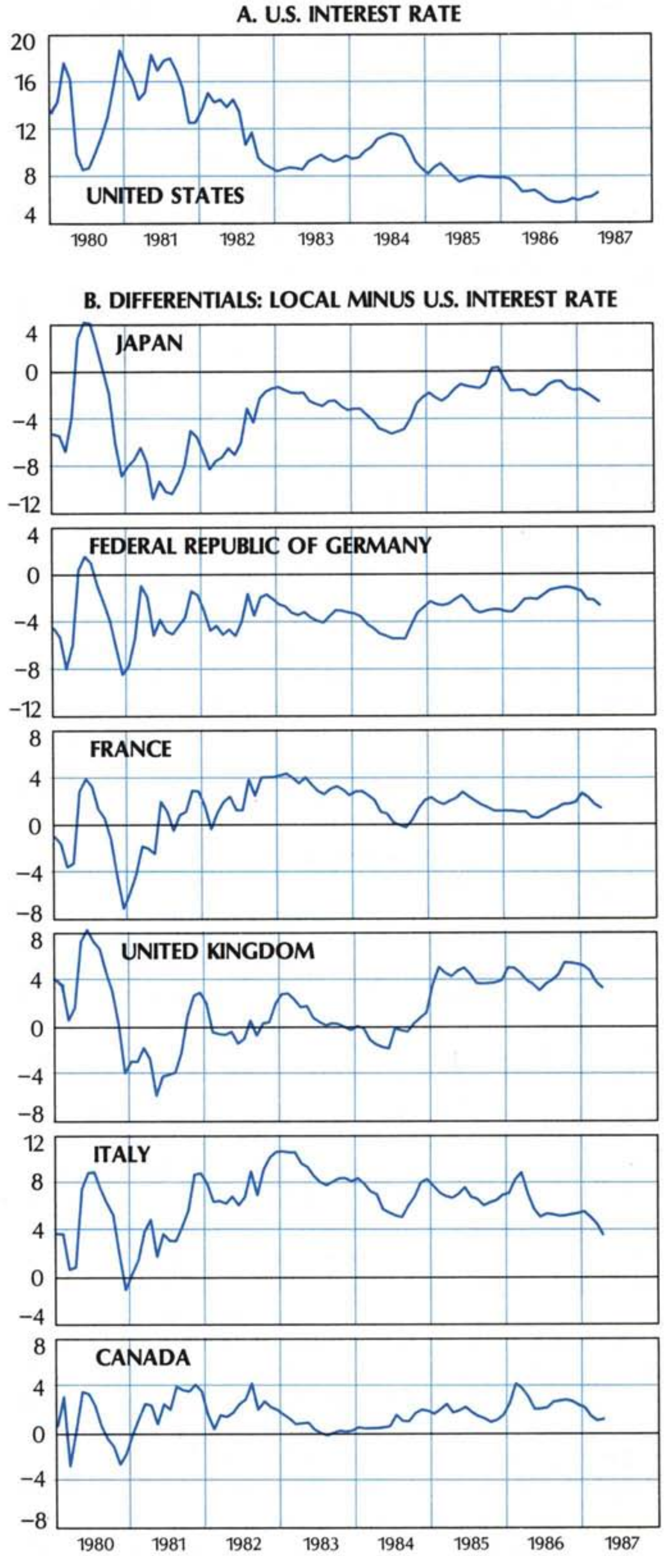
The depreciation of the U.S. dollar against most major currencies since the Plaza Accord seems to have reflected in part efforts to coordinate policies and the associated convergence in economic conditions among the main industrial countries. In the aftermath of the September 1985 Plaza Accord, there was a further depreciation of the U.S. dollar associated with a temporary tightening of monetary policy in Japan and a commitment by the U.S. authorities to reduce the U.S. fiscal deficit in line with the targets stipulated in the Gramm-Rudman-Hollings Act. The dramatic fall in oil prices in the first half of 1986 may also have contributed to the depreciation of the U.S. dollar; this development tended to put upward pressure on the currencies of countries such as Japan and a number of European countries that are relatively more dependent on net oil imports than the United States. In addition, short-term interest rate differentials generally moved in favor of the other industrial countries during 1986 when there was a pronounced decline in U.S. interest rates. During the first four months of 1987, interest rate differentials shifted back in favor of U.S. dollar-denominated assets (Chart 9) which, however, did not prevent a further reduction in the value of the dollar.

In the latter half of 1986, an intensification of signs of weakness in the Japanese economy, as well as rising oil prices, exerted downward pressures on the yen. These factors were reinforced by the Joint Statement by the finance ministers of the United States and Japan at the end of October, which, in combination with a reduction in the discount rate of the Bank of Japan, affirmed the two countries' willingness to cooperate on exchange market matters. This Statement also contained an undertaking by the United States to lower its federal fiscal deficit as provided by the Gramm-Rudman-Hollings Act. In contrast to the weakening of the yen in the second half of 1986,

Chart 9.

Major Industrial Countries: Monthly Average Short-Term Interest Rates, 1980–April 1987[1]

(In percent per annum)



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

there was considerable upward pressure on the deutsche mark over this period. The strengthening of the deutsche mark was associated in part with a sharp increase in the German current account surplus, a continued narrowing of the interest rate differential vis-à-vis the United States, and speculation of parity adjustments within the European Monetary System (EMS).

In early 1987, there was a further sharp depreciation of the U.S dollar against the major currencies, which may have reflected exchange markets' reaction to the lack of improvement in the U.S. trade balance. Subsequently, the dollar steadied after a further Joint Statement by the U.S. and Japanese finance ministers. This development was buttressed by signs that real trade balances of the major countries were beginning to adjust. Under the Louvre Accord of February 22, 1987, the major industrial countries reached an agreement that exchange rates had now been brought within ranges broadly consistent with underlying economic fundamentals, given the commitment of surplus countries to follow policies designed to strengthen domestic demand while maintaining price stability, and of deficit countries to reduce their domestic imbalances and external deficits. The major countries also agreed that further substantial exchange rate shifts among their currencies could damage growth and adjustment prospects. They therefore agreed to cooperate closely to foster stability of exchange rates around their current levels. After a period of little movement following the Louvre Accord, the U.S. dollar came under renewed downward pressure, and by the end of April depreciated by an additional 4 percent.

Unlike the currencies of the other major European countries and Japan, the effective value of the pound sterling fell during 1986; between mid-1985 and December 1986, the pound sterling depreciated by about 18 percent in nominal effective terms and by somewhat less in real terms. The depreciation of the pound sterling in 1986 was associated with the sharp fall in oil prices and, toward the latter part of the year, with a rapid growth of sterling M3 as well as a decline in the balance on current and long-term capital account. The subsequent sharp appreciation of the pound sterling in early 1987 was perhaps attributable to market expectations of a lower public sector borrowing requirement, firmer oil prices, and continued relatively strong economic performance. A decline in the base lending rates of the major U.K. banks in early 1987 narrowed the nominal short-term interest rate differential in favor of sterling-denominated assets, compared with those denominated in U.S. dollars, to about 3¼ percentage points by the end of April 1987.

During 1986, the Canadian dollar also depreciated, falling by about 5 percent in nominal effective terms, but appreciating slightly against the U.S. dollar. Despite a sharp rise in the short-term interest rate differential in favor of Canadian dollar-denominated assets in early 1986, by the end of April 1987 the short-term interest rate differential favoring Canadian dollar-denominated assets against U.S. assets had fallen to about 1 percentage point.

Since the July 1985 realignment (which affected the relative position of the Italian lira), the central rates of the currencies participating in the exchange rate mechanism of the EMS have been realigned three times. On April 6, 1986 the central rates of the deutsche mark, the Netherlands guilder, and the Belgian/Luxembourg franc were raised, while that of the French franc was lowered in order to strengthen the relative competitive position of France within the EMS. A second realignment took place on August 4, 1986 when the central rate of the Irish pound was lowered by 8 percent. The Irish authorities requested this change in order to offset the effects of a deterioration of Ireland's external competitiveness, especially vis-à-vis the United Kingdom and the United States. A further realignment occurred on January 12, 1987 when the central rates of the deutsche mark and the Netherlands guilder were adjusted upward by 3 percent and the Belgian/Luxembourg franc by 2 percent against the other EMS currencies. The realignment of January 1987 reflected in part pressures within the EMS generated by the continuing weakness of the U.S. dollar.

The Nordic currencies, with the exception of the Danish krone, are linked to currency baskets that include the U.S. dollar. This link has tended to stabilize the effective exchange rates of these currencies, in contrast to the appreciations experienced by most other European currencies since early 1985. In addition, Norway devalued by some 11 percent in May 1986 in an effort to offset a loss in competitiveness and to help the economy adjust to the loss of oil revenue. In Spain, the policy of stabilizing the exchange rate vis-à-vis the European Currency Unit (ECU), together with a higher domestic inflation rate relative to that of its trading partners, was reflected in a 4 percent real effective appreciation of the peseta during 1986. Since February 1985, the Swiss franc has moved closely with the deutsche mark and has appreciated in nominal effective terms by 15 percent, returning its real effective value close to its average level in 1980.

Among the currencies of the remaining smaller industrial countries, the Australian dollar and the New Zealand dollar experienced particularly large adjustments. During 1986, and especially in the third quarter, the Australian dollar depreciated sharply in nominal and real effective terms, reflecting in part a continuing large current account deficit and the further weakening of commodity prices. Despite some recovery over the preceding six months, the Australian dollar at the end of the first quarter of 1987 stood about 30 percent below its most recent peak of two years earlier. The depreciation of the New Zealand dollar by about 10 percent in the third quarter of 1986 was partially reversed in the fourth quarter, and the real effective exchange rate appreciated during 1986 as a result of significantly higher inflation in New Zealand than abroad.

Balance of Payments Developments

The combined balance on current account of industrial countries strengthened by close to $32 billion in 1986, reflecting the substantial improvement in their aggregate terms of trade, which was only partly offset by the compression of imports in developing countries. This improvement was not, however, uniform across countries. Most notably, the U.S. current account deficit increased by $25 billion, while the current account surpluses of Japan and the Federal Republic of Germany increased by $37 billion and $20 billion, respectively. The United Kingdom and Canada, both oil exporters, experienced deteriorations in their current accounts, while France and Italy recorded improvements. To a large extent, changes in the current account balances of the major industrial countries—exclusive of the United States—reflected the changes observed in their oil trade balances.

Despite the depreciation of the U.S. dollar in real effective terms and the drop in oil prices, the current account deficit of the United States widened in 1986 to reach a level equivalent to 3.3 percent of GNP, compared with 2.9 percent of GNP in 1985 (Chart 10). This change reflected an increase in the merchandise trade deficit. The drop in oil prices led to a reduction in the U.S. oil trade deficit of about $15 billion; however, this reduction was more than offset by an increased deficit on non-oil trade. The marked improvement in the competitive position of the United States since early 1985 contributed to a significant recovery of export volumes, which are estimated to have expanded by 8 percent in 1986.[4] However, import volumes continued to expand at a rapid pace, rising by almost 15 percent in 1986, despite the slowdown in the growth of domestic demand in the United States and the depreciation of the U.S. dollar. Some of the reasons for the continued rapid growth of U.S. imports and the apparent insensitivity of the U.S. current account deficit to exchange rate changes are discussed below.

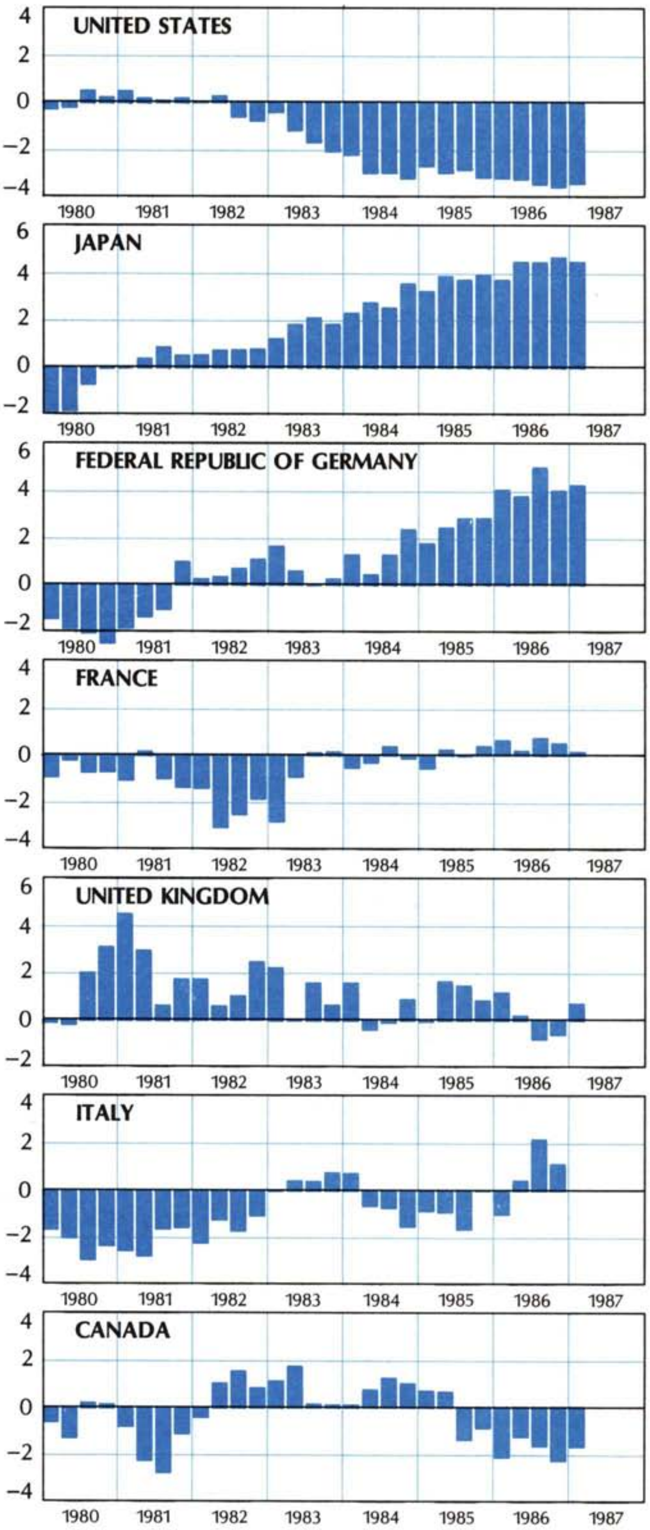
In Japan, the current account surplus continued to widen in 1986, reaching a level equivalent to 4.3 percent of GNP, compared with a surplus of 3.7 percent of GNP in 1985. A marked improvement in the terms of trade, generated by the fall in oil prices and the strong real appreciation of the yen, was the main reason for this development. Overall, the terms of trade displayed a 34 percent gain, with the non-oil terms of trade improving by 14 percent. This gain was offset to some extent by a significant deterioration in real net exports. Import volumes were particularly buoyant, rising by 7¼ percent, despite a relatively modest acceleration of the growth of domestic

[4] This estimate is based on the reported change in nominal merchandise exports according to U.S. balance of payments statistics, less the change in the implicit national accounts deflator for U.S. merchandise exports. According to U.S. census data, which are associated with a number of statistical weaknesses, U.S. export volumes contracted slightly in 1986.

Chart 10.

Major Industrial Countries: Payments Balances on Current Account, Including Official Transfers, 1980–First Quarter 1987[1]

(Seasonally adjusted, in percent of GNP/GDP)



[1] Data for Italy extend through the fourth quarter of 1986.

demand, whereas exports contracted by 2¼ percent in volume. However, partly because of the much higher level of exports than of imports, the magnitude of these volume changes was not large enough to counterbalance the gain in the terms of trade.

Current account developments in the Federal Republic of Germany were similar to those in Japan. Germany also experienced large terms of trade gains, both on oil and non-oil trade, and its current account surplus widened to almost 4 percent of GNP in 1986, rising from 2.4 percent of GNP in 1985. The overall terms of trade improvement amounted to 15 percent, while the non-oil terms of trade improved by 7 percent. Although the fall in oil prices contributed to a reduction of over $8 billion in the oil trade deficit, the expansion of the surplus on other merchandise transactions was particularly marked. With a significant acceleration of the growth of domestic demand, as well as a marked deterioration of Germany's competitive position, the growth in the volume of merchandise imports significantly outpaced that of exports—6 percent versus 1 percent—but not by a margin sufficient to offset the terms of trade gain.

The persistence of substantial current account imbalances among the three largest industrial countries, despite the significant changes in real exchange rates that have taken place since early 1985, has been of concern to many observers. There is evidence that trade volumes adjust only gradually to changes in real exchange rates. This slow adjustment process produces an initial perverse change in trade balances—the J-curve effect—as trade volumes adjust with substantially longer lags than trade prices. Nevertheless, even though it may take three years or more before the volume adjustments are fully realized, it is noteworthy that the process of adjustment was clearly under way in 1986, as illustrated by the significant shifts in real trade balances.

Another factor that may help explain the stickiness of the current account imbalances is the persistence of a significant demand gap among the three major industrial countries. Although domestic demand growth accelerated in the Federal Republic of Germany and Japan in 1986 and decelerated in the United States, the cumulative changes since 1982 continue to show a large gap in favor of the United States. This demand gap can be attributed in part to the divergence of fiscal policy in the three major countries over this period, which has played an important role in the emergence of large current account imbalances. It is also important to note that before the recent depreciation of the U.S. dollar and concurrent appreciations of the Japanese yen and the deutsche mark which began in early 1985, exchange rates had been moving sharply in the opposite direction.

The capital account counterparts to the large current account imbalances among the three largest economies were, for the most part, provided by the private sector, but there was a significant increase in central bank acquisition of dollar assets as well, particularly during the early part of 1987. In 1986, official capital inflows into the United States surpassed $32 billion; a year earlier there had been an outflow of some $2 billion. Japan's foreign exchange reserves rose by nearly $16 billion in 1986, or equivalent to some 18 percent of the country's current account surplus. The increase in net foreign reserves in the Federal Republic of Germany was more moderate in 1986—slightly more than $1½ billion—but the pace accelerated in the opening months of 1987; during the first quarter of 1987, German reserves increased by more than $8 billion. In addition to Japan and the Federal Republic of Germany, several other countries also experienced substantial increases in their foreign reserve holdings over the past year.

In 1986, the current account of the United Kingdom shifted into approximate balance from a surplus of 1 percent of GDP in 1985. The major contributing factor was the fall in net export revenues from oil, a fall which equaled the reduction in the overall current account balance. The non-oil trade balance also deteriorated despite the depreciation of the pound sterling in real effective terms, but this was broadly offset by a further improvement in net invisibles, particularly in investment income and earnings from financial services.

Canada's current account balance also registered a deterioration in 1986, shifting from near balance to a deficit equal to 1¾ percent of GNP. This largely reflected a decline in the merchandise trade surplus as the terms of trade deteriorated and foreign demand for Canadian goods slackened. The drop in oil prices led to a fall of almost $2 billion in Canada's oil trade surplus. The terms of trade for non-oil products also deteriorated, as agricultural prices fell and the Canadian dollar depreciated.

France recorded a surplus of $3.4 billion on its current account (equivalent to about 0.5 percent of GNP), an increase from a position of near balance in 1985. The drop in international oil prices accounted for this outcome as the net oil import bill narrowed by $6 billion, while the surplus on non-oil trade declined. The acceleration of domestic demand was the principal factor behind the significant rise of import volumes (7 percent), while continued losses of market shares explained much of the stagnation in export volumes.

The current account position of Italy turned around in 1986 to a surplus of $4.1 billion, or 0.7 percent of GNP, from a deficit of $3.6 billion, or close to 1 percent of GNP, in 1985. Although most of the improvement in the Italian current account can be attributed to the decline in oil prices, the non-oil trade balance and invisibles also contributed.

Among the smaller industrial countries, the largest shift in the external balance was experienced by Norway, where the current account shifted from a surplus of over 5 percent of GNP in 1985 to a deficit of close to 6½ percent of GNP in 1986. This deterioration occurred because of a sharp decline in Norway's terms of trade (due in large measure to the fall in oil and natural gas prices) and a significant increase in the volume of imports. Australia continued to experience a large deficit on its current account, amounting to $9.9 billion (over 6 percent of GNP) in 1986. The current account surplus of Switzerland increased by $2.1 billion to a level equal to 5¼ percent of GNP, largely because of an increase in the surplus on invisibles. The external balances of most of the other smaller industrial countries improved, the most significant case being Belgium, where the current account surplus increased by $3.1 billion in 1986 to reach the equivalent of 3 percent of GNP. The Netherlands and Spain also registered significant current account surpluses in 1986 of $5 billion (2.9 percent of GNP) and $4.2 billion (1.8 percent of GNP), respectively.

DEVELOPING COUNTRIES

Exchange Rates

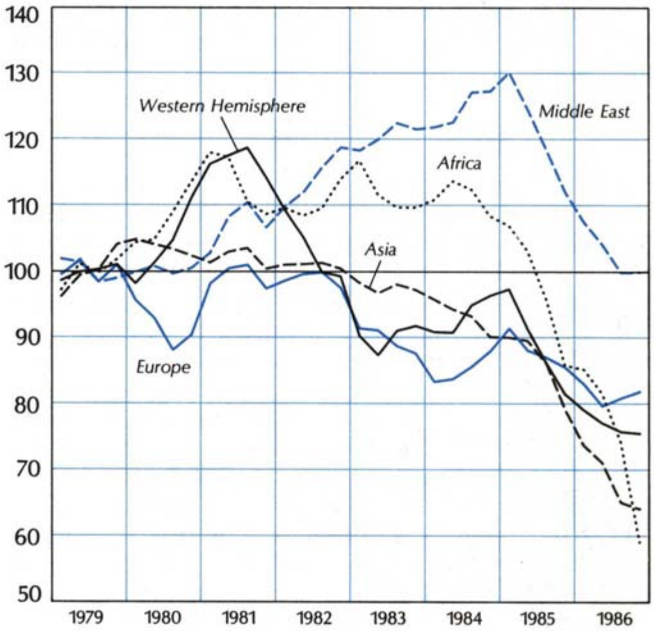
Exchange rate policies remained an important part of the adjustment and stabilization programs of developing countries in 1986. Quite a number of countries that faced difficult external circumstances in 1986 depreciated their currencies significantly in order to strengthen their balance of payments positions and improve their external competitiveness. Many other countries experienced effective depreciations in 1986, however, because of the traditional pegging of their currencies to the U.S. dollar. As a result of these two factors, the composite index of developing countries' real effective exchange rates declined by some 14 percent during 1986, following a real depreciation in 1985 of the same magnitude. The cumulative change of the index over this period is the largest change recorded over a 24-month period since compilation of the index began in the mid-1970s. The increased flexibility with regard to exchange rate policy is also evident in the growing number of developing countries that have adopted floating exchange rate arrangements since the period covered in last year's Annual Report. Ghana and Guinea (previously pegged to the U.S. dollar) and Nigeria (previously under a system of managed floating) adopted independent floating exchange rate arrangements, while China and Madagascar (previously pegged to a currency composite) adopted a "more flexible" exchange rate arrangement under the Fund's classification of such arrangements.[5]

The important role of exchange rate changes in the adjustment efforts of the developing world is reflected in the real exchange rate indices for the five regional groups (Chart 11). Within each region, the real depreciations were concentrated in those countries where exchange rate adjustments were most urgently called for or whose currencies were linked to the U.S. dollar. Prominent in the former group were the fuel exporting countries, which initiated or intensified adjustment policies in the wake of the

Chart 11.

Developing Countries: Real Effective Exchange Rates, by Region, 1979–86

(Indices, 1979 = 100)



precipitous fall in oil prices and the massive losses it generated in real export earnings. Exchange rate adjustment was, in many cases, a major element of such policies and was designed to correct relative price distortions and to stimulate the production of tradable goods by promoting an expansion of the export base. As a result, nominal and real effective exchange rates of the fuel exporting countries in the Middle East declined significantly during 1986. Among the fuel exporting countries in the Western Hemisphere, Ecuador, Mexico, and Venezuela also took increasing resort to corrective exchange rate action.

A large number of countries in Asia, the Middle East, and the Western Hemisphere experienced a real effective depreciation of their currencies because of links to the depreciating U.S. dollar. Some of these countries, notably the exporters of manufactures in Southeast Asia, achieved sizable increases in export market shares, by allowing their currencies to depreciate with the dollar against the currencies of other trading partners, while maintaining (or even improving) their competitive position vis-à-vis the United States.

Many African countries also took important steps to correct exchange rate misalignments and to unify multiple foreign exchange markets. The large exchange rate correction in Nigeria, following the introduction of an auction market, was the cornerstone of the Fund-supported adjustment program adopted by that country in 1986. In a number of African countries, action on exchange rates was facilitated in 1986 by the decline in world food prices and by lower oil prices, which together muted the inflation-

[5] Exchange arrangements maintained by member countries as of June 30, 1987 are detailed in Appendix Table II.1.

ary impact of the depreciations on consumer prices; at the same time, the depreciations helped raise the domestic producer prices of agricultural exports and thus provided an incentive for increased production of these crops. Producer prices were also increased in those African countries whose currencies are pegged to the French franc, even though they maintained their parities vis-à-vis the franc.

Current Account Developments

The current account position of the developing countries as a whole worsened significantly in 1986 following three years of steadily declining deficits (Table 7 and Chart 12). A sharp (17 percent) fall in their terms of trade, mainly owing to lower oil prices but also reflecting weak commodity markets and rising prices for manufactures, produced a deterioration in the developing countries' merchandise trade balance from a surplus of $45 billion in 1985 to one of only $7 billion in 1986. This was only partially offset by lower interest payments, which declined by $3 billion, and an increased surplus on other invisibles, which rose by $13 billion. The overall current account deficit almost doubled from $24 billion in 1985 to $46 billion in 1986.

The fuel exporting developing countries were most severely affected. This group, whose terms of trade deteriorated by 47 percent (equivalent to a loss of some $100 billion), mitigated some of the adverse effects through major adjustments in trade flows and domestic expenditures. Nonetheless, the current account position of the fuel exporters deteriorated by $40 billion, moving from a small surplus in 1985 to a deficit of $37 billion in 1986.

Non-fuel exporters, on the other hand, recorded the fifth successive annual reduction in their current account deficit, which declined to $9 billion in 1986. Within this broad group, most of the gain accrued to exporters of manufactures, who benefited from lower oil import prices, improved competitiveness, and the strength of demand in the industrial countries. Their current account position moved to a surplus of $13 billion, compared with a deficit of $4 billion in 1985. For the remaining developing countries, most of which are predominantly exporters of primary (mainly agricultural) products, the gains from lower oil prices were offset by the weakness of international commodity prices and higher prices for manufactured imports. While the terms of trade of these countries worsened slightly, they maintained their current account deficit at $22 billion, similar to the position in 1985, through volume adjustments.

Part of the developing countries' adjustment in 1986 was accomplished through a substantial increase in the volume of exports, which rose by 8½ percent in 1986 following minimal growth in 1985. However, the aggregate movements conceal divergent developments among different groups of countries. The fuel exporting countries increased exports by 11 percent, largely by displacing domestic oil production in industrial countries that had become unprofitable at the new lower level of oil prices; much of this gain was registered by countries which had previously experienced large losses of market shares, with the major oil exporters of the Middle East increasing the volume of their exports by some 16 percent. Exporters of manufactures also expanded their market shares significantly, mainly as a result of improvements in competitiveness; their export growth amounted to 13½ percent, compared with 4½ percent growth in export markets. Exporters of primary products fared less well: in the face of slack world markets, their exports stagnated in value terms and declined in volume terms.

The expansion of export volumes did not, in the aggregate, compensate for the adverse shift in the terms of trade, and the purchasing power of developing countries' export revenues declined by 9½ percent in 1986, compared with an average annual rate of increase of about 7 percent from 1970 to 1984 and a slight decline in 1985. Given the continuing constraints on external financing, this necessitated a significant adjustment in import volumes, which, after remaining unchanged in 1985, fell by 2½ percent in 1986. The decline was concentrated among the fuel exporting countries, which reduced import volumes by 21 percent. Non-fuel exporters, on the other hand, benefited from a 9 percent increase in the purchasing power of their exports in 1986 and were therefore able to strengthen their current account positions while raising import volume by 4½ percent. Much of this growth occurred among the exporters of manufactures, but the primary product exporters also registered a modest increase in imports. However, only in Asia and Europe did the volume of imports stand higher in 1986 than in 1984. The real imports of African countries declined for the fifth consecutive year, those of Middle Eastern countries experienced their fourth successive annual decline, and those of Western Hemisphere countries remained very depressed. For all three regions, the levels of real imports in 1986 were only about two thirds of what they had been in 1981 (Chart 13).

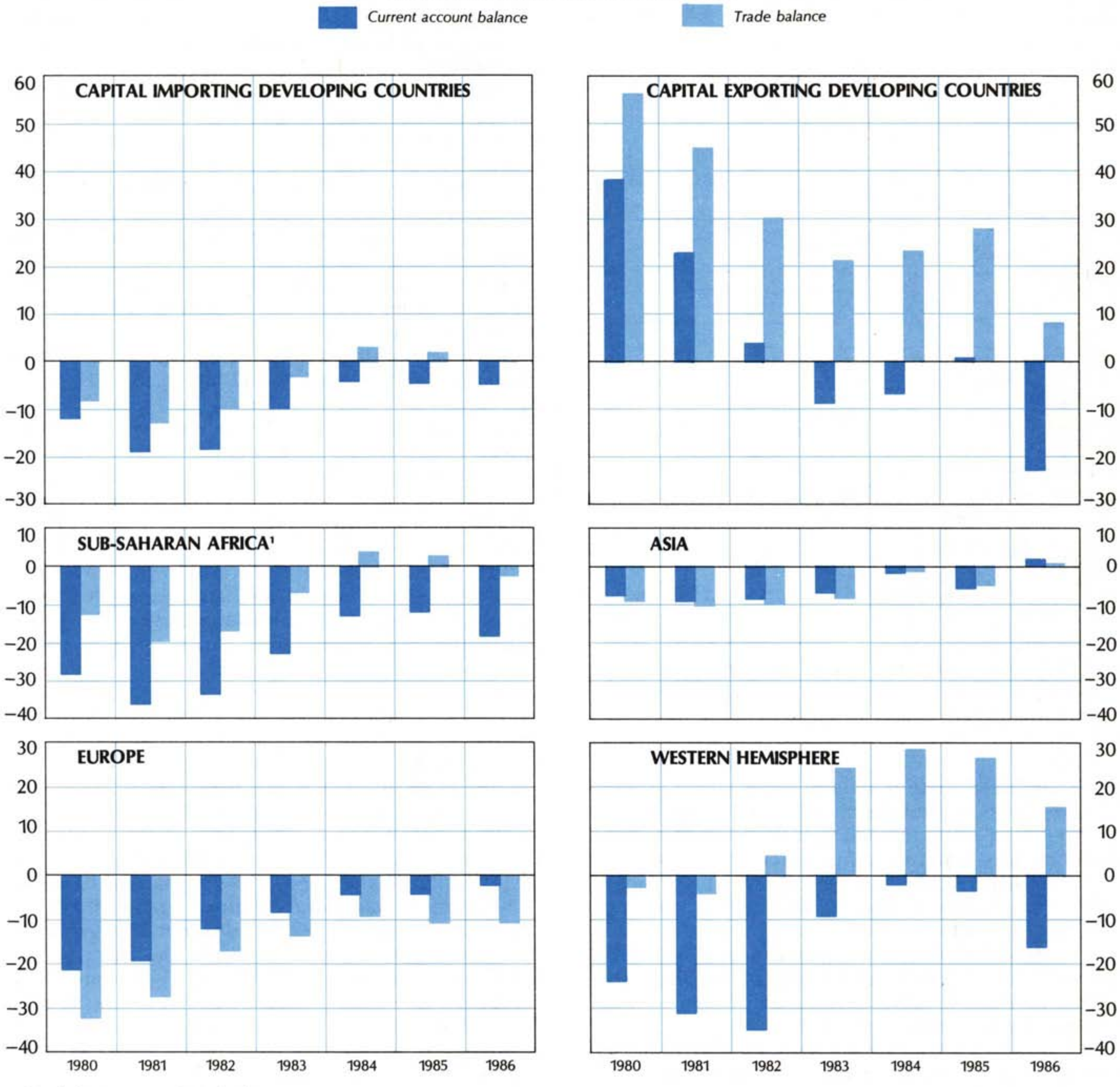
The sharp fall in oil prices generated a marked deterioration in the external position of the eight major oil exporters in the Middle East (the capital exporting developing countries). These countries recorded a current account deficit of $20 billion in 1986, which was larger than the deficits recorded in 1983 and 1984, and reversed the recovery staged in 1985. The capital importing developing countries, on the other hand, were able to hold their current account deficit to a level ($26 billion) similar to that achieved in the previous two years. While this stability reflected in part the smaller deterioration in the terms of trade experienced by this group (8 percent compared with 53 percent for the capital exporters), it also reflected the reduced availability of external financing.

Financing constraints have impinged primarily on those countries that have relied most heavily on commercial sources of finance (the market borrow-

Chart 12.

Developing Countries: Trade and Current Account Balances, 1980–86

(In percent of exports of goods and services)



[1] Excluding Nigeria and South Africa.

ers). These countries recorded a small aggregate current account surplus in 1985–86, compared with a current account deficit of some $73 billion in 1981–82. By contrast, the position of the official borrowers was relatively little changed from that in the early 1980s. In 1986, this group's current account deficit still represented about 23 percent of their exports of goods and services compared with some 30 percent in 1981–82, illustrating the greater stability of officially backed financing as well as its lower sensitivity to market interest rates. (Total interest payments for this group actually rose slightly, reflecting the continued growth of debt outstanding.)

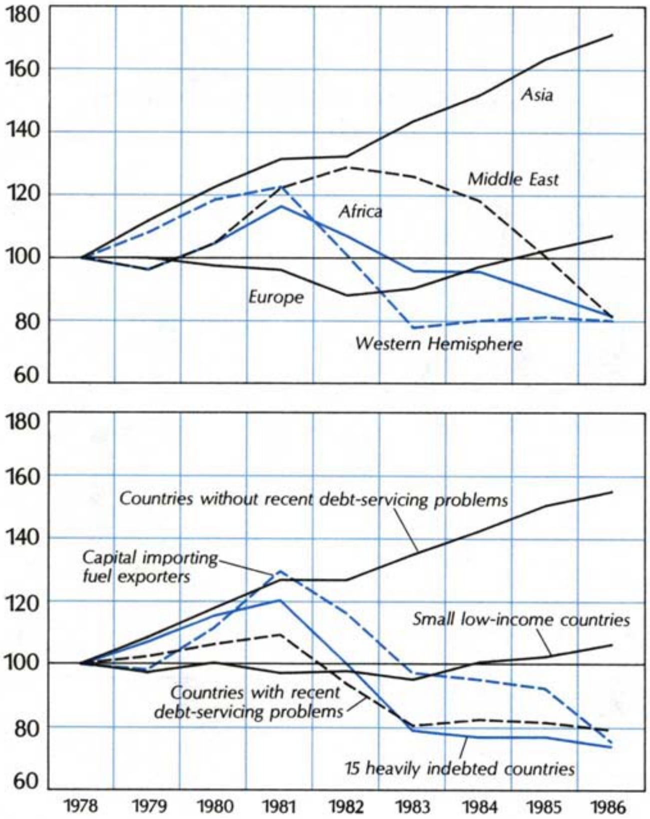
Financing and Debt

Financing developments in 1986 were complex, in large part because of contrasting developments in two groups of countries: the eight Middle Eastern capital exporters that financed the deterioration in

Chart 13.

Developing Countries: Import Volumes, 1978–86

(Indices, 1978 = 100)



their combined current account largely through sales of foreign assets; and the exporters of manufactures of Southeast Asia that accumulated reserves as a result of the substantial improvement in their current account balances. These atypical developments largely cancel out, however, and the overall financing estimates for developing countries are reasonably reflective of developments in a large number of individual countries as well as in the group of countries that have experienced debt-servicing difficulties.

Against this background, the financing picture that emerges is one of a further tightening of financing constraints in 1986, a tightening which led to a small reduction in developing countries' recourse to external financing, from $80 billion in 1985 to $77 billion in 1986 (Table 9). In the past, such reductions in external financing had been achieved primarily by cutting the deficit on goods, services, and private transfers. In 1986, despite substantial real adjustment, the size of the terms of trade losses was such as to largely foreclose that avenue and, indeed, as noted earlier, the combined deficit of developing countries widened by $23 billion. The tightening of the financing constraint was met therefore not through additional current account adjustment, but through a resurgence in arrears (which increased by some $9 billion) and, especially, a sharp reduction in the pace of foreign asset accumulation. Overall, net overseas claims increased by $15 billion in 1986, compared with an average rise of $39 billion in 1984–85, with reserves (exclusive of valuation effects) increasing by $7 billion against an average of $20 billion in 1984–85.

The critical role of net acquisitions of foreign assets in the overall financing and adjustment picture of 1986 is partly due to the strong asset positions of some of the countries that experienced terms of trade losses. Net asset purchases by the traditionally capital exporting countries averaged some $3 billion in 1984–85 (following a peak of over $90 billion in 1980); in 1986 this group actually liquidated some $14 billion of overseas assets (mostly by reducing official reserves) in order to ease the burden of reductions in import volumes. However, the capital importing countries also reduced their net acquisition of foreign assets, from an average of $37 billion in 1984–85 to $29 billion in 1986. In these countries, most of the change was absorbed by the private sector. Official reserves were rebuilt by $10 billion to $20 billion in each year from 1983 to 1986, while private capital outflows (including errors and omissions, on the presumption that these reflect capital flight) declined from some $18 billion annually in 1984–85 to $10 billion in 1986. The reduction in private capital outflows over this period was fairly widespread and was common both to countries that have and to those that have not experienced recent debt-servicing problems.

The most striking feature in the development of sources of finance during the 1980s has been the decline in private lending to developing countries. From a peak of $87 billion in 1981, net commercial lending to all developing countries fell to $19 billion in 1985 and to only $10 billion in 1986. The recourse of the capital exporting countries to this source of financing remained broadly constant ($3 billion in 1986, similar to the 1981–85 average), and the bulk of adjustment was borne by those capital importing countries that have experienced recent debt-servicing problems. Spontaneous lending to the latter group fell from $60 billion in 1981 to $24 billion in 1982; since then they have made net repayments averaging $12 billion annually. Some additional funds were provided in 1983–84 by concerted lending programs, but by 1986 such arrangements contributed only $3 billion, leaving this group of countries to make overall net repayments to private creditors totaling $6 billion. Capital importers without recent debt-servicing problems were able to attract nonofficial funds averaging $17 billion in 1983–86, although the amount varied considerably over the period. Total private direct investment in developing countries in 1986 ($11 billion) was only slightly less than the average in 1983–85.

Total official financing flows (official transfers, reserve-related liabilities, and long-term borrowing from official creditors) recovered to $52 billion in the capital importing countries in 1986, following the

Table 9.

Developing Countries: External Financing, 1980–86[1]

(In billions of U.S. dollars)

	1980	1981	1982	1983	1984	1985	1986
All developing countries							
Deficit on goods, services, and private transfers	−25	56	95	74	44	37	61
Use of reserves	49	−13	−39	9	16	23	7
Other foreign asset accumulation, net[2]	96	111	78	21	20	20	9
External financing requirement	120	155	135	102	80	80	77
Non-debt-creating flows[3]	13	22	26	22	22	33	29
Official flows[4]	27	40	45	42	40	27	29
Private flows[5]	81	87	47	24	13	19	10
Arrears[6]	−1	6	17	14	5	1	9
Capital importing developing countries							
Deficit on goods, services, and private transfers	76	117	107	64	38	41	44
Use of reserves	24	—	−18	12	21	16	19
Other foreign asset accumulation, net[2]	28	38	38	20	17	20	10
External financing requirement	128	155	129	95	76	76	73
Non-debt-creating flows[3]	24	25	24	23	24	32	31
Official flows[4]	27	38	45	43	37	26	26
Use of Fund credit	1	6	7	11	5	1	−2
Private flows[5]	78	86	43	15	10	17	7
Arrears[6]	−1	6	17	14	5	1	9

[1] In contrast to the presentation in Table 7, official transfers are treated as a financing item in this table.
[2] Net asset transactions by residents plus recorded errors and omissions (on the assumption that the latter reflect capital flight).
[3] Official transfers, net direct investment, SDR allocations, valuation adjustments, and gold monetization.
[4] Long-term borrowing from official creditors, use of liabilities constituting foreign authorities' reserves, and use of Fund credit.
[5] Residual. Mainly net external borrowing from private creditors and short-term flows.
[6] Reflects involuntary "lending" by official and private creditors.

1985 low of $44 billion; much of this increase was associated with exceptional financing arrangements. In part, the recovery in official flows reflected the success of one aspect of the strengthened debt strategy launched in 1985. World Bank lending to heavily indebted countries increased to levels broadly in line with the goals of the strategy. (Private lending to these countries in 1986, however, fell well short of the envisioned level.) The increase in official lending has been partially offset by net repayments to the Fund of some $2 billion for the entire group of developing countries in 1986, principally because of repurchases by a few relatively large countries that entered into arrangements with the Fund in the early 1980s.

The total dollar value of developing countries' external debt rose by a further 9 percent in 1986 to reach $1,100 billion, representing 169 percent of exports of goods and services, compared with 120 percent in 1982 (Table 10). Much of the increase in nominal debt in 1986 can be attributed to the weakness of the U.S. dollar, however; the 4 percent underlying increase in developing countries' liabilities (that is, exclusive of valuation effects) contrasts with average increases of 6 percent in 1983–85 and 19 percent in the years immediately preceding the debt crisis. The debt burden of those capital importing countries with recent debt-servicing problems worsened markedly in 1986 following three years of relative stability. The ratio of debt to exports rose to 301 percent, reflecting the growth in nominal debt and the weakness of export prices. The small low-income countries, three fourths of which are in Africa, had an average ratio of 412 percent.

Debt service ratios also reveal significant disparities. The debt service ratio of official borrowers with recent debt-servicing problems rose from 30 percent in 1985 to 42 percent in 1986, while the average for all capital importing countries rose by 2 percentage points to 27 percent of exports of goods and services. The latter rise was, however, wholly accounted for by amortization payments. The interest payment ratio declined by nearly 1 percentage point to 13¼ percent, the lowest level in five years, because of the drop in international interest rates. Estimates of the underlying (pre-rescheduling) cost of debt service for countries with recent debt-servicing problems show a nominal debt service burden exceeding that of other capital importing countries by a factor of 3½. However, debt-rescheduling arrangements have played an important role in alleviating the liquidity burden on such countries, on average covering as much as

Table 10.

Developing Countries: Debt and Debt Service Ratios, 1980–86

(In percent of exports of goods and services, except where otherwise stated)

	1980	1981	1982	1983	1984	1985	1986
Total debt (in billions of U.S. dollars)	**634**	**748**	**849**	**900**	**949**	**1,012**	**1,100**
Debt ratio	82	95	120	134	134	148	169
By region							
Africa	92	119	154	170	170	185	231
Asia	72	75	88	94	89	101	100
Europe	127	137	147	150	145	162	172
Middle East	27	33	46	60	70	82	123
Western Hemisphere	183	210	273	292	277	293	349
By miscellaneous criteria							
Capital importing countries	114	129	156	165	158	172	184
Official borrowers	155	179	216	240	255	291	319
Countries with recent debt-servicing problems	152	186	241	255	246	264	301
Debt service ratio	13	16	20	19	20	22	25
By region							
Africa	15	18	22	25	27	28	35
Asia	9	10	12	12	12	13	14
Europe	21	25	26	24	25	28	30
Middle East	4	5	7	8	10	11	16
Western Hemisphere	34	42	51	46	41	43	50
By miscellaneous criteria							
Capital importing countries	18	22	26	24	24	25	27
Official borrowers	14	16	17	20	23	25	32
Countries with recent debt-servicing problems	25	33	40	37	35	37	42

one third of payments due during 1986. The growing debt burden of the small low-income countries has, despite its concessional terms, raised their debt service ratio to a level which is now approaching that of the heavily indebted commercial borrowers. This points to the importance of increasing the concessionality of financial flows to these countries if economic growth is to be restored.

Chapter 2

Policies and Activities of the Fund

Under the Articles of Agreement, the Fund is charged with a wide array of responsibilities, ranging from the general—for example, to oversee the international monetary system in order to ensure its effective operation—to the more concrete—for example, the provision of temporary financial assistance to members experiencing balance of payments difficulties. This chapter reviews the main activities and policies of the Fund during the financial year ended April 30, 1987 against the background of these underlying responsibilities, focusing on those developments that represented responses and adaptations to changing circumstances. The subjects covered in the chapter include Fund surveillance of members' exchange rate arrangements and economic policies, the debt situation, the design of Fund-supported adjustment programs, the adequacy of international reserves, and the Fund's financial activities and policies.

SURVEILLANCE

One of the central activities of the Fund is to exercise firm surveillance over the exchange rate policies of member countries. This activity is governed by Article IV, Section 3(*b*) of the Articles of Agreement and is conducted according to the principles and procedures set forth in the document "Surveillance Over Exchange Rate Policies."[6] The main procedures for conducting surveillance include the periodic Article IV consultations with individual members and the broad review of economic developments and policies in the context of the regular Executive Board discussions of the World Economic Outlook. In addition, the Board[7] occasionally conducts in-depth reviews of specific issues relating to surveillance.

This section begins by summarizing the Board's discussions of two general surveillance issues that were considered during the past year: the use of indicators as a means of promoting policy cooperation, which was a major focus of the Fund's work on multilateral surveillance, and the Fund's concern with trade policies, including protectionism. The section then discusses a number of procedural issues that were taken up in the course of the Board's annual review of the implementation of surveillance and concludes with a review of the issues that arose in the context of the World Economic Outlook discussions and Article IV consultations during 1986/87.

THE USE OF INDICATORS

The Executive Board discussed the use of indicators of economic performance and policies on two occasions during the year ended April 30, 1987. These discussions were motivated by a request from the Interim Committee of the Board of Governors on the International Monetary System (Interim Committee) in April 1986 to explore "the formulation of a set of objective indicators related to policy actions and economic performance, having regard to a medium-term framework." The Committee had noted that such indicators could "improve the scope for discussing external imbalances, exchange rate developments, and policy interactions among members [and] help to identify a need for discussion of countries' policies."[8]

The idea underlying this request was for the international community to assist in the promotion of policy cooperation while preserving the flexibility of the floating exchange rate system. The Fund's role in this process is not only to provide technical expertise but also to encourage countries to take full account of developments in partner countries and of the interactions between their own policies and the economies of the rest of the world. The role of indicators is to provide a means for monitoring and reviewing policies and performance retrospectively, to serve as an aid in defining medium-term policy objectives, and to help signal the need for discussion of members' policies.

In its work on indicators, the Fund has also responded to requests from the large industrial countries for assistance in the process of furthering the coordination of their economic policies. The Economic Declaration issued at the Tokyo meeting of heads of state or government of the seven summit

[6] Executive Board Decision No. 5392-(77/63), adopted April 29, 1977, *Selected Decisions of the International Monetary Fund and Selected Documents*, Thirteenth Issue (Washington, April 30, 1987), pages 9–14 (hereafter referred to as *Selected Decisions*). This decision requires the Executive Board to conduct an annual review of the general implementation of surveillance. In addition, the principles and procedures set out in the decision are reviewed biennially; the next such review is to take place no later than April 1, 1988.

[7] In this Report, "Board" refers to the Executive Board of the Fund; references to the Board of Governors are stated fully.

[8] International Monetary Fund, *Annual Report of the Executive Board for the Financial Year Ended April 30, 1986* (Washington, 1986), page 111.

countries in May 1986 had expressed strong support for the development of such an approach. More recently, the declaration issued at the June 1987 summit meeting in Venice noted:

> The Heads of State or Government endorsed the understanding reached by the Group of Seven Finance Ministers to strengthen, with the assistance of the International Monetary Fund, the surveillance of their economies using economic indicators including exchange rates, in particular by:
>
> — the commitment by each country to develop medium-term objectives and projections for its economy, and for the Group to develop objectives and projections that are mutually consistent both individually and collectively; and
>
> — the use of performance indicators to review and assess current economic trends and to determine whether there are significant deviations from an intended course that require consideration of remedial actions.

The Executive Board's examinations of this issue during the year ended April 30, 1987 led to a number of conclusions regarding the application of indicators to the Fund's surveillance activities. First, the central focus of surveillance—and therefore of the use of indicators—should be on the international consistency and compatibility of external payments positions in a medium-term framework. This analysis should focus on the sustainability of existing policies and economic trends. For this reason, the monitoring of domestic economic variables should be undertaken in the light of their implications for the world economy and for balance of payments flows, as well as for their domestic implications.

Second, one should not expect too much from the development of indicators. Ultimately, there was no substitute for careful analysis, international monetary discipline, the exercise of judgment, and political commitment. The increased use of indicators should not be allowed to lead to fine-tuning of policies; nor should movements in indicators be expected to trigger automatic action or mechanistic responses.

Third, it was important to develop a clear analytical framework in order that the role of various indicators in the analysis of the world economy and especially in the transmission of policy effects between countries might be identified. In general, a useful approach was to give emphasis to the interactions between changes in current account balances and the implied counterpart changes in fiscal balances and private domestic saving and investment while avoiding drawing direct causal relationships from this identity. It was intended that increased attention should be given to saving/investment balances in the World Economic Outlook exercise and in other surveillance activities. Given the difficulty of making firm judgments about these interactions, there was a need to examine carefully the many factors—notably domestic demand and exchange rates—influencing saving, investment, and external balances.

Fourth, detailed consideration of policy interactions should start with the larger industrial countries. Nevertheless, this examination should take place in the context of a global view of the world economy. It was important to consider the implications of trends in the major countries for groups of countries in the rest of the world and to ensure that projected developments in the large countries did not imply undesirable effects on smaller countries. Similarly, it was important that the general analysis of the world economic outlook should pay due attention to the policies and performance of the smaller industrial and larger developing countries, and in particular should highlight their implications for trading partners.

Fifth, the choice of variables for a list of key economic indicators should pay due attention to identifying data that were quantifiable, available on a timely basis, relatively easy to interpret, and comparable among countries. Furthermore, although the evaluation of the world economy required the analysis of the full range of available data, indicators per se should be limited in number. These considerations favored the development of a limited list of indicators for initial consideration, with the list being subject to change as experience was gained and as circumstances changed. In any case, the comprehensive discussion of the underlying sustainability of members' policies would always require a much more extended list of indicators. While the list of basic indicators might be limited to the key variables describing economic performance and macroeconomic policies, a more extended list should also incorporate structural variables, including those covering trade liberalization issues.

Sixth, indicators might usefully be divided into indicators of economic performance, indicators of policies, and intermediate variables that linked policies and performance. Examples of performance indicators would include measures of output growth, inflation, unemployment, and the balance of payments (especially the current account balance). Policy indicators would include measures of monetary growth and fiscal deficits and perhaps also indicators of structural policies; however, the choice of variables in this area was more difficult than with performance indicators because of differences in the ways policies were implemented in different countries. Important intermediate variables included interest rates, exchange rates, and measures of saving and investment.

The Executive Board also agreed that the monitoring of indicators would require discussions of the multilateral consistency of members' policies and projections, with particular attention devoted to the identification of aspects that could be considered grounds for international concern. The discussions, aimed at improving the consistency of policies with medium-term objectives, would take place in the Executive Board and the Interim Committee in the context of the World Economic Outlook exercise. Subsequently, through the World Economic Outlook and Article IV consultation reports, economic performance would be monitored by comparing actual developments with those projected.

The use of indicators in surveillance was also discussed by the Interim Committee at its meeting in April 1987. The Committee viewed the Fund's application of indicators as extremely useful, and it noted that in the World Economic Outlook actual policies should be looked at against an evolution of economic variables that could be considered desirable and sustainable. Committee members asked the Executive Board to examine ways in which the existing principles and procedures for Fund surveillance could be updated to incorporate the use of indicators and to explore ways to strengthen the use of indicators. This work was to focus on a limited set of key indicators and on appraisals of the international interactions of domestic policies and performance in the light of alternative medium-term scenarios. Work in response to this request, which was given further impetus by the Venice summit, is currently under way.

TRADE POLICY

Another issue related to the conduct of surveillance that was considered by the Executive Board during the past year was trade policy. The resurgence of protectionist pressures in a wide range of countries and their implications for the world economy are of major concern to the Fund. In view of the fundamental purposes of the Fund, which include facilitating the expansion and balanced growth of international trade, the Executive Board undertook to analyze carefully the various arguments that are used to justify protectionism. This review led to even greater support for measures favoring trade liberalization.

Although industrial countries' markets for manufactured goods were still fairly open, there had been a worrisome increase in protection in industrial countries in recent years, and it was clear that further restrictions would have serious adverse effects. The Fund was particularly concerned about the adverse effects of existing levels of such protection on developing countries because protection by industrial countries only made it more difficult for heavily indebted countries to expand their exports.

In addition to imposing costs on other countries, the domestic cost of protectionism was often high, especially for consumers. Thus, not only was protection clearly not in the interest of the world trading system, it was also generally not in the national interest, even though it might benefit certain sectors of the economy. Moreover, protection did not necessarily reduce a country's current account deficit. For example, the imposition of import restrictions could elicit retaliatory actions among trading partners that would reduce trade but leave trade imbalances largely unaffected. The effect of restrictions was unclear even without supposing retaliatory action, since they could cause the country's real exchange rate to appreciate, which by itself would worsen the trade balance. With flexible exchange rates, and allowing for the decline in real income associated with the loss of benefits from international trade, national saving could decline and thus even weaken the current account balance. Protection could reduce an imbalance only insofar as it stimulated public or private saving or weakened investment, and (for given fiscal and monetary policies) there was no strong basis for expecting such a result. Hence, an increase in protection could not be justified by the existence of a current account problem.

In general, protection did not increase overall employment, and liberalization need not increase unemployment, provided that some time for adjustment was allowed and that the exchange rate was at an appropriate level. Nonetheless, adjustment costs in some instances might be high, and there might be a significant fiscal burden associated with the removal of tariff barriers. Thus, the difficulty in accomplishing trade liberalization—especially in developing countries—should not be underrated.

The high protection of agriculture, clothing, and textiles in many industrial countries was a matter of particular concern. Although strong arguments in favor of such protection could not be sustained, these sectors presented special adjustment problems in some countries. There was a need for industrial countries to overcome structural rigidities in order to reduce the pressures for protection in these areas.

The threat of a revival of protectionism strengthened the arguments in favor of policies that fostered increased real exchange rate stability, especially for the major industrial countries. Large shifts in exchange rates appeared to have been a major factor contributing to the emergence of large trade imbalances and to pressures for protection both in industrial and in developing countries. These pressures heightened the urgency of strengthened policy coordination among the major countries.

With regard to protection by developing countries, it was recognized that tariffs and export taxes at modest levels might be useful for fiscal reasons. Nonetheless, there was a danger that such measures would have trade-restricting effects; generally, it would be preferable to develop tax structures that did not discriminate against imports or exports. It was important to note that outward-looking policies seemed to have had favorable effects on overall growth rates. Similar considerations applied to the question of protection of infant industries in developing countries. In general, protection of infant industries, insofar as it was justified, should not be biased in favor of sales to the home market and should be structured so as to be temporary since there otherwise was a danger that protection would prove not to be temporary.

For a developing country needing to strengthen its current account position, exchange rate adjustment was frequently more appropriate than the imposition of tariffs or nontariff barriers. While there might be a second-best argument in particular circumstances for temporary restrictions—for example, because a devaluation might run the risk of provoking a wage-price spiral and the authorities might feel that they could not implement the required wage-price restraint—it had been, and remained, the Fund's general policy to oppose the imposition of new restrictions at a time of balance of payments difficulties and to aim at reducing restrictions under Fund-supported programs.

In order to strengthen the implementation of the Fund's position in favor of an open trading system, both protectionism and liberalization measures are being given increased consideration in the conduct of surveillance. In particular, it has been determined that Article IV consultation reports for both industrial and developing countries should include thorough coverage of trade issues. More generally, Executive Directors have warmly welcomed progress on the Uruguay Round of trade negotiations, which should serve to strengthen and liberalize the trading system.

REVIEW OF THE IMPLEMENTATION OF SURVEILLANCE

The procedures for surveillance require that the Executive Board review annually the general implementation of surveillance. The most recent such review, concluded on March 4, 1987, focused on several proposed procedural changes in the implementation of Fund surveillance. In particular, these changes concerned (1) the streamlining of the consultation process, (2) the use of indicators in Article IV consultations with individual countries, and (3) questions related to the confidentiality of Fund documents.

Frequency of Consultations

Because of the sharp rise in the number of countries experiencing debt-servicing difficulties in the early 1980s, guidelines for Article IV consultations adopted in 1983 led to an increase in the frequency of consultations. These guidelines specified that Article IV consultations should be held annually with members having arrangements for the use of Fund resources; with members for which there were substantial doubts about the medium-term viability of the balance of payments; and with members whose economies had a substantial impact on other countries. For other members, longer intervals of up to 24 months between consultations were considered appropriate. Since 1983, consultations have been held each year with at least 80 percent of member countries (compared with a low of 57 percent in 1982). At the end of 1986, the standard 12-month interval between consultations applied to 85 percent of the Fund's membership.

Frequent consultations with members are essential for the effective implementation of the Fund's surveillance function. However, the trend toward more frequent consultations has sharply increased the work load of the Executive Board and the staff, prompting several proposals in recent years aimed at reducing this work load. In concluding the review of the implementation of surveillance, the Executive Board agreed that existing guidelines for regular annual consultations should be retained, but that the application of the guidelines should be reviewed to consider the appropriateness of longer intervals between consultations or the adoption of a simplified consultation procedure.

The Executive Board considered specific proposals to reduce the work load associated with Article IV consultations in June 1987. A first set of proposals suggested narrowing the interpretation of the guidelines. For example, it was proposed that the existing interpretation of the "substantial impact" criterion as referring to those 25 members with the largest quotas be changed to refer to the members with the 20 largest quotas. In addition, for certain countries, a modified consultation procedure was proposed that would involve full Article IV consultations every second year and a simplified interim procedure in the intervening year. It was estimated that these changes in the implementation of the guidelines for Article IV consultations would reduce the incidence of full Article IV consultations from between 130 and 135 a year in recent years to between 115 and 120 a year.

The proposed interim procedure would have three distinguishing characteristics. First, it would not typically be expected to involve discussion by the Executive Board. The member country, an Executive Director, or the Managing Director could, however, request a discussion if it was felt that substantive issues should be brought to the attention of the Executive Board. Second, the interim procedure would at least maintain the frequency of staff contacts with the member's authorities and of reporting to the Executive Board. Third, there would be scope for simplified reporting by the staff. The substantive coverage and depth of discussion in staff reports on the occasion of the simplified interim procedure would have to balance economy in discussions and reporting with the need to provide a sufficiently thorough analysis of developments and policies for appropriately forthright and specific assessments and recommendations. If no substantive issues or significant changes were apparent, the scope of the analysis and discussion could be limited, particularly for areas in which the basic stance of policies was typically set for longer periods. In those areas, a more comprehensive analysis and review on the occasion of the full biennial consultation could be sufficient. Practices in this respect may be expected to evolve as experience is gained with the new procedure and as they become tailored to the circumstances of each member.

Use of Indicators in Article IV Consultations

Earlier reviews of the implementation of surveillance, in particular the 1986 annual review that examined the several proposals put forth by the Deputies of the Group of Ten and of the Group of Twenty-Four to strengthen surveillance, stressed the importance of analysis being carried out in a quantified medium-term framework. These views were underscored in the latest review. Unless key policy instruments were analyzed in a reasonably fully specified and quantified framework, the issues of consistency (both internally and with the policies of other members) and sustainability could not be fully assessed. Greater precision and greater attention to the medium-term sustainability of policies could help focus attention at an earlier stage on the possible emergence of such inconsistencies.

In addition to making the analytical content of staff reports more transparent, a greater degree of specificity and quantification in staff reports was also expected to strengthen the linkage between Article IV consultations and discussions of policy interactions in the multilateral framework of the World Economic Outlook exercise. The preparation of a quantified framework would both provide input for the outlook exercise and strengthen the assessment of policies and policy changes in individual countries against the background of earlier multilateral assessments of policy interactions. The presentation of more detailed and quantified short- and medium-term policy plans in the context of Article IV consultations should thus help to strengthen the analysis of the consistency and sustainability of policies from both a national and a multilateral perspective. These views were supported by the Interim Committee at its April 1987 meeting, and it encouraged the Executive Board to develop further the use of indicators in the Fund's continuing analysis and policy advice in the context of regular Article IV consultations.

Confidentiality of Fund Documents

During its review of surveillance, the Executive Board confirmed that the rules on the release of staff reports, including consultation reports and papers presenting a member's request for use of Fund resources, were clear. All such reports are confidential and may not be released, even by the member concerned, unless the Board specifically authorizes such release. The release of staff reports to creditor banks has been authorized by the Board only on an exceptional basis for countries for which enhanced surveillance consultations are held.

SURVEILLANCE IN 1986/87

The World Economic Outlook

The Fund's multilateral surveillance activities are developed in the context of the World Economic Outlook exercise, which is a comprehensive review of the short- and medium-term prospects of the world economy and of the economies of individual Fund members. Besides providing a global context for the conduct of bilateral surveillance as embodied in Article IV consultations, the exercise provides a framework for systematic assessments of the medium-term implications of policies in the industrial countries and of the outlook for the debt situation. The exercise culminates in twice-yearly discussions of global prospects and policy issues, first in the Fund's Executive Board and subsequently in the Interim Committee. The emphasis on indicators has led to a significant strengthening of the surveillance facet of the exercise, notably as regards policy interactions among the major industrial countries. Methodological developments have included more explicit use of a saving/investment framework to judge the international compatibility of policies, greater emphasis on the role of stock-flow relationships as potential sources of disequilibria, and more explicit treatment of the sustainability of envisioned trends and of the sources of tension in the outlook.

As mentioned in the introduction to Chapter 1, discussions during the past year in the Executive Board and in the Interim Committee on the economic situation and outlook emphasized the somewhat mixed character of economic developments and prospects. On the positive side, while output in the industrial countries had been weaker than expected, it had nevertheless continued to rise at a moderate pace, thus making the recovery one of the longest in the postwar period. Moreover, inflation and interest rates had declined significantly in most industrial and developing countries in 1986, and the necessary correction to the pattern of exchange rates among major currencies initiated in 1985 had continued. A further positive development was the relatively smooth adjustment of oil exporting developing countries to the adverse shifts in their terms of trade. On the negative side, the slowing of the pace of the expansion in industrial countries to below potential rates was a source of concern, especially as regards its implications for the continuing high levels of unemployment and the debt situation. Moreover, the management of that situation had been complicated by further increases in debt-export ratios, shrinkage in the availability of private financing, and postponement in the resumption of satisfactory growth in the developing countries. Finally, and perhaps most worrisome, the imbalances on current account of the three largest industrial countries had reached unsustainable levels and had become a source of undesirable volatility in exchange and financial markets.

Against this background, policy discussions in the Executive Board and in the Interim Committee focused on the need to strengthen the basis for durable growth. There was widespread agreement that this necessitated a set of policies that led both to a more sustainable pattern of payments positions among the major industrial countries and to the achievement of sustained, better-balanced, and noninflationary global growth. Four sets of policy adjustment were seen as essential to the achievement of such an outcome. First, firm action was needed to reduce the U.S. fiscal deficit. In this respect, the undertakings of the U.S. authorities in the Louvre Accord were viewed as appropriate, but the authorities were encouraged to reach the compromises with Congress necessary for meeting the stated objectives. Second, other major industrial countries, and especially surplus countries with low inflation rates, needed to follow policies designed to strengthen domestic demand. This was necessary to facilitate the correction of external imbalances; to compensate for the moderation of domestic demand in the United States; to help moderate high unemployment rates; to ease protectionist pressures; and to help make the debt situation more manageable. In this context, budgetary plans for 1987 elaborated in the latter part of 1986 were viewed as not fully consistent with the desired pace of demand, and the undertakings by the Federal Republic of Germany and Japan to ease fiscal policies that were part of the Louvre Accord were welcomed. Third, while flexible monetary policies had helped support demand in the past and might still be able to do so in the future, the room for further easing was limited by the need to avoid a re-emergence of inflationary pressures. Fourth, structural constraints on output—especially in the areas of foreign trade and labor and agricultural markets—needed to be dealt with more decisively than in the past so as to foster growth and stimulate private confidence and spending.

In combination with past exchange rate changes, these policies were seen as likely to reduce over time the large and unsustainable imbalances on current account and to permit a more balanced pattern of global growth. More immediately, however, given such a reconfiguration of policies, prevailing exchange rates could be viewed as falling, in the words of the Louvre Accord, within ranges broadly consistent with underlying economic fundamentals. Since further substantial exchange rate shifts among the major currencies could damage growth and adjustment prospects, a period of stability in exchange rates was viewed as important to provide the opportunity for markets to absorb the large changes that had occurred. It was therefore important that governments "cooperate closely to foster stability of exchange rates around current levels" (Louvre Accord, par. 10).

The deterioration of the global environment as it affected developing countries—especially the large losses on the terms of trade of many of these countries, the continuing weakness in non-oil primary commodity prices, the cessation of net private financing, and the slowdown of growth in the industrial countries—led to renewed concern for these countries' situations and the prospects for the debt strategy. This strategy was viewed as having been effective in meeting its immediate objectives. Nevertheless, it was noted that many deep problems remained, as evidenced by the continued escalation of debt ratios, the debt-servicing difficulties experienced by many countries, and the subdued pace of real GDP growth.

Promoting faster growth in developing countries had to be regarded as a key priority that would require mutually supportive efforts by all parties concerned. Three elements were particularly important. First, developing countries needed to strengthen their domestic policies—notably as regards domestic saving and investment, but including policies that enhanced supply and contained inflation—and pave the way for more effective resource utilization and faster growth. Second, a supportive international economic environment, in which satisfactory demand growth in the larger industrial countries was matched by improved access to markets in those countries, was essential. Third, timely financial support on viable terms continued to be needed to underpin growth-oriented adjustment efforts.

All creditors had a role to play in providing such resources. The delays that had been experienced in the assembling and implementation by commercial banks of concerted financial packages were a cause of concern, and banks needed to explore new techniques that might expedite the mobilization of financial support on viable terms for indebted countries. Use of such new techniques began to appear in rescheduling agreements under discussion in the first half of 1987.

As regards the smaller low-income countries, structural reforms needed to be supported by additional financing on concessional terms. In this context, the Fund's structural adjustment facility could be very helpful, in part because of the prospect that its operation might elicit additional financial support from official creditors and donors.

Finally, Board discussions throughout the year on topics related to multilateral surveillance underscored the importance in the prevailing environment of strengthened international cooperation. The intensified commitment of the major industrial countries to coordinate policies and the Fund's role in that process, both through technical support and the participation of the Managing Director in international meetings, was viewed as a positive step in helping to find solutions to the challenges facing the world economy. International cooperation was also seen as essential in dealing with the debt situation, which gave rise to a number of challenges and required all parties to recognize their joint responsibility if satisfactory solutions were to be arrived at. Finally, if an open trading system was to be preserved and the debt situation was to be managed on a satisfactory basis, international cooperation was needed to resist protectionist pressures. As a minimum, it was essential that, considering the current economic climate, all countries refrained from actions that increased trade tensions. More generally, there was a need for early and specific measures to reduce restrictions and subsidies, especially in agriculture, and thereby support the adjustment process.

Article IV Consultations

While the Fund's multilateral surveillance activities provide an opportunity for members to review global prospects and policy issues and a context for assessing developments in particular countries, it is the Fund's bilateral surveillance activities that are the primary vehicle for exercising firm surveillance over the exchange rate policies of individual members. These take several forms, including the information notice system that brings to the attention of the Executive Board any large changes in members' real effective exchange rates. There were 42 such notices in the year ended April 30, 1987. The main vehicle, however, is the Article IV consultations between the Fund and individual members. As noted earlier, these consultations are typically annual, but with provision for more frequent consultations under some circumstances and biennial consultations for small countries with viable external positions. During the financial year ended April 30, 1987, 124 such consultation discussions, involving 81 percent of the membership, were concluded.

The primary focus of Article IV consultations is on the policies of members and on how these policies have affected the exchange rate and external position and thereby influenced developments among the rest of the Fund's membership. Such assessments necessarily require detailed analysis of recent and prospective domestic and external developments, with particular emphasis on developments in the fiscal, monetary, and balance of payments accounts. However, the circumstances of members differ widely as regards their indebtedness, inflation, external position, stage of development, and social system, and the analysis is necessarily tailored to fit those circumstances. Moreover, the emphasis has tended to evolve over time. In recent years, greater emphasis has been placed on creditworthiness in the medium term, the public enterprise sector, financial intermediation, investment plans, trade policies, and other structural policies. Nonetheless, the focus has remained on how these developments affect the international community. These effects are of course broadly proportional to the economic size of the member, and particular interest attaches to those countries where developments have a powerful influence on other members.

The economy of the *United States* has entered the fifth year of one of the longest expansions of the postwar period. This achievement has contributed to global recovery and has been accompanied by continued moderation of wages and prices. However, the imbalances that had emerged in the early stages of the recovery—in particular the large fiscal and external current account deficits—have become increasingly worrisome, and there is a need to address them if economic growth and good price performance are to be sustained.

The United States could most usefully contribute to the reduction of these imbalances through firm implementation of fiscal adjustments, as reaffirmed in the Louvre Accord. While such fiscal correction might weaken domestic demand in the short run, it would lead to a lasting reduction in real interest rates, to an improvement in prospects for capital formation and long-run economic growth worldwide, and to a more sustainable pattern of current account balances among major countries, thereby fostering conditions conducive to greater stability in exchange rates. In formulating monetary policy, various considerations have to be taken into account, including the need for safeguarding the gains on inflation in the face of downward pressure on the U.S. dollar, the maintenance of the forward momentum of economic activity, and the management of the debt situation. The potential tension that might arise between these objectives could be best alleviated through firm fiscal action, with monetary policy guided primarily by medium-term objectives. On trade policy, the record has been mixed, and it is essential that protectionist pressures be firmly resisted.

In *Japan,* the economy is undergoing a painful adjustment to the appreciation of the yen, somewhat mitigated by the decline in oil prices. A large decline in real net exports has led to a significant slowdown in output growth, particularly in the export-oriented manufacturing sector. In contrast, domestic demand has firmed owing to sizable gains in the terms of trade, reductions in interest rates, and stimulative measures. In spite of the decline in real net exports, the external current account surplus has remained large because of strong J-curve effects and the decline in oil prices. Expectations in early 1987 were that the weakness in the external sector would persist in the near term, and concern was expressed that it could spread to other sectors of the economy. This sustained withdrawal of external demand and the need to correct the large current account surplus suggests that domestic demand would have to expand rapidly for growth to accelerate toward the economy's potential.

In light of these considerations, fiscal policy in Japan needs to be implemented in a way that does not contribute to economic weakness, but rather takes account of that weakness. In this respect, Japan's announcement in May 1987 of a ¥ 6 trillion (or 1.8 percent of GNP) fiscal program is an important development that is expected to make a substantial contribution to the growth of domestic demand. Domestic demand growth is also likely to be strengthened by the commitments in the Louvre Accord to cooperate closely to foster exchange rate stability. To that end, the authorities have progressively relaxed monetary policy even though monetary growth has tended to increase. Exchange rate stability should help restore confidence and encourage the restructuring of industry, which has been held back by exchange rate uncertainty. In this connection, there is also a need to strengthen the responsiveness of domestic prices to external developments since translating past terms of trade gains into strongly growing domestic demand will also be important if growth is to recover. Finally, there is a need to press ahead with a range of structural reforms, notably as regards land use regulations, financial deregulation, agricultural subsidies, taxation, and foreign access to domestic markets.

Developments in the *Federal Republic of Germany* have also been greatly influenced by external considerations. Large terms of trade gains initially led to a marked firming of activity, but this has given way in the face of considerably lower real net exports to a rate of growth of output below potential. This dependence of the economy on foreign demand has been a source of concern and, in view of the longer-term need to reduce the surplus on current account, policies need to be structured so as to facilitate the reorientation of the economy away from a reliance on foreign demand. In this context, the authorities have shifted the emphasis of fiscal policy away from deficit reduction and toward tax reduction and reform, accepting higher deficits for this purpose. A major tax reform package has been scheduled for 1990. In view of the importance of maintaining an adequate rate of growth of domestic demand, a decision was taken to bring forward DM 5 billion of that package to supplement the 1988 tax reduction. Nonetheless, circumstances might arise under which it could be desirable to introduce the 1990 tax reform at an earlier date. The effectiveness of such a policy would be enhanced if it were coupled with a program to reduce subsidies and improve the structure of markets. Monetary policy has been conducted in a flexible manner, with the Deutsche Bundesbank taking action to reduce short-term interest rates despite monetary growth at rates well above the announced target range. In this sphere, as in other areas of policy, recent actions have been guided by the commitments in the Louvre Accord to seek greater stability of exchange rates while sustaining the growth of demand.

France is in the midst of an economic transformation toward a set of structures where inflation is more in step with that of its trading partners than in the past and where economic decisions are guided more explicitly by a competitively determined set of prices. Progress to date has been remarkable, notably as regards inflation, profitability of industry, and the range of liberalization measures that have been undertaken. Nonetheless, these gains may be fragile, and the external position remains vulnerable. Financial policies therefore need to continue to be cautious. Fiscal policy in particular should be guided by the commitment to cut the fiscal deficit indicated in the Louvre Accord, and to cut the overall tax burden so as to permit an expansion of productive investment without endangering the external accounts. Continued caution is also necessary in the monetary sphere, both from the perspective of consolidating the gains on inflation as well as that of maintaining the commitments under the EMS.

In the *United Kingdom*, the recovery initiated in 1982 has continued unabated into 1987 and has been accompanied by a marked reduction in inflation. This is a remarkable performance which, in the context of the medium-term financial strategy and structural reform policies, has also been associated with improved efficiency and productivity in the economy as a whole. However, wage increases have remained comparatively high, contributing to rapid growth in consumer spending and some weakening in the external position. Thus policies need to give a high priority to checking these trends and consolidating the gains on inflation. As regards fiscal policy, there is need for some further reduction in the public sector financial deficit, a development which would lower interest rates and strengthen private investment. As regards monetary policy, assessment is complicated by the rather unpredictable behavior of velocity, but the buildup in liquidity constrains the room for a relaxation of the policy stance. Continued high rates of unemployment remain a difficult problem, but solutions need to be sought primarily in improved functioning of labor markets.

In *Italy*, favorable external circumstances, together with fiscal consolidation efforts, have led in 1986 to a marked improvement in inflation, a strengthening of output growth, and a swing of the current account of the balance of payments into a significant surplus. Nevertheless, inflation has remained above the average of major trading partners, competitiveness and the real foreign balance have deteriorated, and the fiscal deficit remains relatively high. It is important therefore that the opportunity afforded by the improved circumstances be used to make the adjustment in policies that would be necessary to further the convergence of Italy's performance, especially with regard to inflation, with that of its main trading partners. Adjustment should center on the public finances where efforts need to be strengthened to secure the targeted reductions in the public sector deficit in 1987 and beyond. More determined action is also necessary on structural rigidities, particularly in the labor market.

In *Canada*, the expansion of the economy since early 1983 has been accompanied by a marked moderation in cost-price pressures. The unemployment rate has come down substantially but remains high by historical standards. More recently, the slackening of growth in other industrial countries, together with losses on the terms of trade, has contributed to a slowing of output growth and a deterioration of the external position. The challenge for policy, therefore, is to address these developments without jeopardizing medium-term fiscal objectives. Notwithstanding the authorities' efforts since late 1984, progress on fiscal consolidation to date has been modest, and it is important that substantial progress be made in the period just ahead to provide reasonable assurance that the rise in the ratio of public debt to GNP will be arrested in the foreseeable future. In the face of uncertainty regarding the behavior of the monetary aggregates, monetary policy has been conducted on the basis of a variety of indicators, with particular attention being given to the exchange rate between the Canadian dollar and the U.S. dollar. While these arrangements have worked well, attention should be given to inflationary risks, while avoiding delays in real exchange rate movements warranted by underlying factors.

Article IV consultations with smaller industrial countries and with developing countries reflected the broad spectrum of constraints, concerns, and opportunities confronting individual countries. The Executive Board's consideration of the appropriate stance of policies in these countries continued to focus on the viability of members' external payments position and on the need to reduce inflation. These goals were seen as prerequisites for achieving satisfactory rates of output growth and higher living standards not only in the short run but also over the medium term. In this context, close attention was paid to recent and prospective developments in the external environment as an essential determining factor of economic conditions in the smaller countries, most of which are extremely open and generally more dependent on international economic developments than the larger countries. In addition, consultations with these countries focused on the contribution of domestic policies to achieving the stated goals and examined the appropriate roles of exchange rate policies, domestic financial policies, trade policies, and of structural reforms.

The evaluation of exchange rate policies typically reflected countries' overall balance of payments position and structure and recent developments in the real effective exchange rate index as a measure of countries' external competitiveness. During the period under review, a large number of developing countries experienced significant real exchange rate depreciations, either through discretionary action to assist adjustment efforts in the face of terms of trade losses, as part of a longer-term strategy to diversify the export base, or because of the maintenance of an unchanged peg against the U.S. dollar, which registered a significant depreciation. In many cases, attention was given to the risk that slippages in domestic financial policies would erode the improvements in external competitiveness that had been achieved. However, in a few countries with substantial current account surpluses, questions were raised about the scope for letting currencies appreciate as a means to alleviate global current account imbalances. The analysis of exchange rate policies in countries with multiple currency practices emphasized the desirability of a market-determined exchange rate with a view to promoting exports and eliminating subsidization of imports.

Considerable emphasis continued to be placed on the need to pursue noninflationary financial policies by limiting the growth of public expenditure, reducing fiscal deficits, and containing rates of monetary expansion. Although inflation rates had abated significantly in the smaller industrial countries and in most of the developing countries, progress in this area had generally fallen short of the achievement of the major industrial countries, largely reflecting weaker financial developments.

The reduction of fiscal deficits was often recommended as part of an overall strategy intended to raise the share of domestic savings and investment, thereby stimulating the growth of potential output. For many countries, considerable scope existed for achieving this goal through a lowering of the share of public expenditure in GNP. However, in the developing world in particular, specific recommendations were also made to strengthen the tax base and to reduce the vulnerability of fiscal revenues to adverse external developments. With respect to monetary policies, the link between domestic credit expansion and developments in the balance of payments received particular attention, as did the need to allow the level of interest rates to reflect the scarcity of financial resources in order to help channel capital toward the most productive activities and dampen capital flight.

The need to supplement exchange rate and financial policies with effective structural measures continued to receive prominent attention. Although an increasing number of countries had successfully implemented structural reforms, particularly in areas such as financial market liberalization and industrial policies, it was apparent that much remained to be done to address inefficiencies that impeded the allocation of resources. Policy recommendations for labor markets included greater real wage flexibility; reduction of payroll taxes; more flexible hiring and working arrangements; retraining; enhanced labor mobility; and measures to combat youth unemployment. Deregulation, privatization, tax reform, and the narrowing or elimination of subsidies were widely recommended as potentially beneficial for productivity and aggregate supply.

As mentioned earlier, considerable emphasis in Board discussions was also given to trade policies and to the importance of resisting protectionist pressures and rolling back existing restrictions. These issues received particular attention in the context of the need for developing countries to have adequate access to foreign markets if they were to be successful in implementing a growth-oriented adjustment strategy based on comparative advantage. Recommendations in the area of trade policy included general tariff reductions, liberalization of import licensing systems, and the phasing out of other quantitative controls and nontariff barriers. Particular attention was given to the need to liberalize trade in agricultural products and reduce agricultural subsidies in the industrial countries with a view to improving the export earnings of the primary producers in the developing world.

EXTERNAL DEBT SITUATION

While Article IV consultations have been a vehicle for monitoring and addressing the actual or potential debt-servicing difficulties of members, the Fund has played a central role in the management of the debt situation at the global level as well. The overall strategy has been based on a case-by-case approach involving coordinated efforts by debtor and creditor countries, commercial banks, and multilateral financial institutions. A key objective has been to facilitate the restoration of normal creditor/debtor relations through economic adjustments in debtor countries that would provide the basis for a restoration of confidence and a resumption of lending and investment at levels consistent with countries' medium-term prospects. In order to strengthen the debt strategy, an initiative was launched by the Secretary of the U.S. Treasury in October 1985 at the Annual Meetings of the World Bank and the Fund.

The debt strategy implemented in the last five years has been largely effective in meeting its objectives, but many deep problems remain. As described in Chapter 1, growth in most developing countries has resumed, albeit at lower rates than during the 1960s and 1970s, and the current account deficit of the capital importing developing countries has fallen sharply. In 1985–86, however, adverse external developments have made the adjustment effort more difficult. Weak commodity prices, as well as slower world economic growth and continued protectionism, have curtailed the export earnings of many developing countries. The terms of trade of the fuel exporting countries, including those of several major debtor countries, have deteriorated very sharply, and those of non-fuel exporting developing countries have also worsened somewhat. The average growth of industrial countries has slowed in 1985 and 1986, and the growth of world trade has also decelerated after its upsurge in 1984.

The consequences of this deterioration in the international economic environment were aggravated by delays and slippages in the implementation of appropriate adjustment policies in a number of developing countries. In several instances, efforts to curb fiscal deficits flagged. These slippages contributed to a significant rise in the average central government fiscal deficit in developing countries and to some worsening of inflation in the latter part of 1986 and the early part of 1987. Furthermore, in a number of countries, exchange rates were allowed to appreciate in real terms. These developments, together with the slowdown in international bank lending to developing countries, contributed to a further intensification of the debt problem.

During the initial period of systemic stress, almost all creditor banks had been prepared to cooperate in concerted financing packages, not least because of the immediate threat to their financial position. Mainly because of weak primary product prices—and despite reduced borrowing from private creditors and a decline in market interest rates—the debt and debt service ratios of the capital importing developing countries, conventional indicators of creditworthiness, rose by 25 percentage points and 1 percentage point, respectively, between 1984 and 1986. By 1986, banks had become more reluctant to provide new financing and in certain cases significant delays were experienced in arranging financing packages. In light of these developments it became evident that it would take considerably longer to resolve the debt problem than had been hoped in light of the progress made earlier. While the objectives of the debt strategy remained unchanged, its main elements needed to be reinforced and the endeavors of the parties involved strengthened.

A key condition for the success of the debt strategy continues to be the pursuit of strong, growth-oriented adjustment policies in the debtor countries. Although policy requirements vary across countries, the basic requirements are, as noted earlier, financial policies that foster stability and inspire confidence and structural reforms that improve resource allocation. Steadfast pursuit of such policies would foster a climate conducive to efficiency, investment, and growth, and would in time lead to a restoration of international creditworthiness. In this context, the Fund can play a central role in helping to support effective policies and respond in a flexible manner to the special problems of its member countries (see the following section).

Another key condition for the success of the debt strategy is the maintenance of a reasonably favorable international economic environment. Restoration of creditworthiness with growth among heavily indebted countries requires strong and sustained export market growth, a reduction in protectionist barriers, and relatively stable international financial conditions. The process of policy coordination among the industrial countries, manifested by the Plaza and Louvre Accords and the Venice declaration, is essential in this regard. Industrial countries also need to strengthen their efforts in favor of the poorest developing countries. For low-income countries, including particularly those in sub-Saharan Africa, a reorientation of both multilateral and bilateral financing toward concessional sources is necessary. The Fund's structural adjustment facility is a step in that direction (see below). It is particularly with regard to low-income countries that the Fund's assistance must be closely coordinated with the expertise and financing provided by the World Bank and other multilateral development institutions.

A third condition that is of critical importance for the success of the debt strategy is the continued support of the international banking community. Particularly for middle-income countries, the resumption of spontaneous private flows to those countries that take appropriate measures to strengthen their economies is a necessary precondition for sustainable growth. Overall, however, the declining trend in total cross-border bank lending to developing countries observed since 1981 turned into net repayment in 1986. Moreover, notwithstanding the announcements of banks' support for the strengthened debt strategy at the end of 1985, agreement on new financing packages has been subject to delays, even in cases where the international community has endorsed adjustment policies. It took several months, for instance, to finalize the financial package for Mexico, which had been agreed in principle with banks' advisory committees in late 1986. Particularly in cases where a large amount of new money is involved, such as the $7.7 billion in coordinated financing for Mexico, it has become increasingly difficult to obtain agreement from all of a country's bank creditors for a uniform increase in exposure.

In view of the increasing difficulty experienced in assembling concerted lending packages, commercial banks have begun to investigate possibilities for expediting the mobilization of financial support for indebted countries and better accommodating both debtor and creditor interests. This has occurred against the background of an emerging secondary market for developing country debt and increased provisioning by banks against claims on developing countries. The Interim Committee welcomed the exploration of a wider range of procedures and financing techniques by commercial bank creditors, including debt-equity swaps, exit bonds, and greater securitization, with a view to expediting the mobilization of financial support for indebted countries. To the same end, the declaration of the Venice summit supported efforts by commercial banks and debtor countries to develop "menus" of alternative negotiating procedures and financing techniques. Use of such new techniques appeared in agreements under negotiation in the first half of 1987, such as those for Chile and the Philippines and, especially, that for Argentina, which was the first agreement to make full use of the menu approach.

The Fund has continued its active involvement in mobilizing bank financing for countries engaged in adjustment programs. Adoption by countries of a Fund-supported program has facilitated agreement on debt restructuring, while the provision of new money by commercial banks has generally been phased in line with countries' implementation of economic programs supported by the Fund. Moreover, at the request of members, Fund staff have participated in meetings of countries with their Bank Advisory Committees, helping to explain the member countries' adjustment programs. In reaction to the increased difficulties in assembling concerted lending packages, the Fund's practice with respect to assurances on bank financing needed to finance an adjustment program has been diverse. In general, Fund financial arrangements in support of an adjustment program that involves concerted lending have been approved after a "critical mass" of bank commitments had been obtained (typically at least 90 percent). In a few exceptional cases, however, the Fund has also approved financial arrangements in principle, with activation of the Fund arrangement contingent on banks achieving a critical mass. The final completion of a bank financing package and bank disbursements are monitored in the course of the Fund's financial arrangement.

Creditor governments, for their part, have responded to the debt-servicing difficulties of developing countries by standing ready to reschedule principal and, where necessary, interest and by elaborating a clear debt subordination strategy that is intended to facilitate the maintenance or resumption of normal export credit flows. As regards reschedulings, official creditors have provided in the context of the Paris Club very substantial amounts of debt relief; after a record 21 rescheduling agreements in 1985, a further 16 agreements were concluded in 1986, for an estimated total of SDR 18 billion in 1985 and SDR 12 billion in 1986. Twelve more agreements were concluded in the first half of 1987, resulting in an estimated SDR 17 billion in debt relief. On debt subordination, Paris Club creditors have established the principle that priority is to be given to the servicing of short-term trade credits and of all new official credits granted after the debtor incurred payments difficulties. At the time of a debtor's first rescheduling, creditors firmly fix a cutoff date and all loans contracted after that date are excluded from any future reschedulings. Official creditors accept that this strategy may require the rescheduling of a higher percentage of the services on all debts other than short-term debt and new credits. Consistent with this approach, a greater differentiation in the terms of reschedulings has developed, with very comprehensive debt relief for some of the most seriously affected countries and more limited coverage for countries considered to have, or to be returning to, normal access to capital flows, including new export credits and cover.

As regards some of the poorest developing countries, official creditors have to date required a country rescheduling in the framework of the Paris Club to have an upper credit tranche arrangement with the Fund. In early 1987, however, they agreed to consider, on an exceptional and case-by-case basis, Paris Club reschedulings on the basis of structural adjustment facility arrangements, whose interest and repayment terms are more appropriate for low-income countries. In June 1987, Paris Club reschedulings for Mozambique and Uganda were based on structural adjustment facility arrangements. Also, recognizing the problems that arise for heavily indebted low-income countries from a continued rescheduling of principal and interest on commercial terms, official creditors meeting in the Paris Club forum have been considering ways to help alleviate the debt burden by agreeing to rescheduling terms more in line with the payments capacity of these countries. This greater flexibility was also reflected in the communiqué of the Venice summit which stated: "for those of the poorest countries that are undertaking adjustment . . ., consideration should be given to the possibility of applying lower interest rates to their existing debt, and agreement should be reached, especially in the Paris Club, on longer repayment and grace periods to ease the debt service burden." During the rescheduling meetings in May and June 1987, Paris Club creditors agreed for Mauritania, Uganda, and Zaïre to go beyond the traditional limits and to reschedule these countries' debt service payments over 15 years. As regards Mozambique, creditors agreed to a final maturity of 20 years with a grace period of 10 years.

For countries considered to be on the path to restoring commercial creditworthiness, both bank and official creditors have reached multiyear restructuring agreements (MYRAs). In some of these cases, the restructurings were based, totally or in part, on programs set forth under "enhanced surveillance." Enhanced surveillance by the Fund, which is prompted by a request from the member, is a procedure for monitoring economic developments in certain countries that have advanced significantly in their process of adjustment and for which, therefore, support under a Fund arrangement is not envisaged. The Fund staff's assessment of the policy program presented by the member in the process of consultations with the Fund staff is provided to creditors for consideration, along with other pertinent information. MYRAs possibly involving enhanced surveillance have been negotiated between commercial bank creditors and Côte d'Ivoire, the Dominican Republic, Ecuador, Mexico, the Philippines, Uruguay, Venezuela, and Yugoslavia. The Fund now conducts semiannual consultation discussions under its enhanced surveillance procedures with Venezuela and Yugoslavia. Official creditors have agreed to MYRAs with Côte d'Ivoire and Ecuador and an extended consolidation for Yugoslavia. In a further adaptation of these procedures, the recent Paris Club agreement for Brazil was based in part on a report by the Managing Director on the summing up of the Article IV consultation on Brazil and the 1987 portion of the rescheduling was conditioned on the summing up of the next Article IV consultation.

FUND-SUPPORTED ADJUSTMENT PROGRAMS

RECENT EXPERIENCE WITH STAND-BY AND EXTENDED ARRANGEMENTS

The Fund has addressed the issues raised by the debt situation and the sluggish pace of output growth in developing countries at the country as well as at the global level in the context of its work on the elaboration, implementation, and assessment of Fund-supported adjustment programs. Beyond providing financial assistance to countries undertaking adjustment programs, the Fund has also played a focal role in coordinating financing from private and official lenders. The main vehicles for this purpose are upper credit tranche stand-by and extended arrangements. So far in the 1980s, the Fund has approved such arrangements for almost one half of the membership. These arrangements, all for developing countries, have included 12 of the 15 highly indebted countries[9] and 28 of the 43 low-income countries.

The number of such arrangements in place at any one time has tended to decline in recent years. At the end of the 1986/87 financial year, 25 countries had stand-by or extended arrangements in place, a somewhat smaller number than in most other recent years (Table 11). This decline in part reflects the achievement of external viability by some countries under earlier adjustment programs. A second factor is the preclusion of a number of countries with overdue obligations to the Fund from being granted new arrangements until they become current on their Fund obligations. The amount of resources outstanding under Fund arrangements has also declined, primarily as a result of repurchases under arrangements approved during the 1983–84 period of unprecedented use of Fund resources.

Table 11.

Upper Credit Tranche Stand-By and Extended Arrangements in Place at the End of Financial Years 1979/80 to 1986/87

	Stand-By Arrangements	Extended Arrangements	Total
1979/80	16	7	23
1980/81	17	15	32
1981/82	21	12	33
1982/83	30	9	39
1983/84	30	5	35
1984/85	27	3	30
1985/86	24	2	26
1986/87	24	1	25

STRUCTURAL ADJUSTMENT FACILITY

In response to the particularly difficult situations confronting the low-income countries, the Interim Committee, at their meetings of April and October 1985, requested that the Executive Board suggest uses for the resources made available by the repayment of Trust Fund loans that would help forward the adjustment process in these countries. As a result, and partly on the basis of proposals made by the Secretary of the U.S. Treasury, the Executive Board established in March 1986 the structural adjustment facility, a new lending facility within the Fund's Special Disbursement Account.[10] The purpose of the facility was to provide concessional balance of payments assistance—in conjunction with the World Bank and other lenders—to low-income countries eligible for loans from the International Development Association that were facing protracted balance of payments problems and were undertaking comprehensive efforts to strengthen their balance of payments position. Following the addition in early 1987 of Kiribati and Tonga to the list of eligible members, 62 countries are currently eligible for assistance under the facility. However, the two largest eligible countries, China and India, have indicated that they do not intend to avail themselves of the facility, thus enlarging the amount available to other eligible countries.

The facility contains a number of major innovative features. Arrangements under the facility require the adoption of a comprehensive three-year policy framework that incorporates explicitly the structural policy elements of a member's reform program. The

[9] Two of the other three countries initiated special monitoring arrangements with the Fund in connection with their adjustment programs.

[10] For further details, see the section on "Financial Policies and Activities" and Appendix II, below.

process of collaboration with the World Bank was formalized through the requirement of joint participation in assisting the member in the formulation of the policy framework paper, as well as through the involvement of the Executive Board of the World Bank in its review.

The initial resources to be made available under the facility were to be derived from repayments of Trust Fund loans (about SDR 2.7 billion). It was also expected that arrangements under the facility and the policy framework paper itself would be a catalyst for urgently needed additional financial resources, possibly including resources from the World Bank and other multilateral and bilateral sources, over and above what would have been available in the absence of the program supported by the arrangement. In June 1987, the Managing Director proposed that the funds made available to low-income countries facing protracted balance of payments difficulties in conjunction with the facility be tripled through contributions from other sources. This initiative met with widespread support, and the declaration of the Venice summit urged that discussions on a significant increase in the resources available under the facility be concluded by the end of the year.

At the end of June 1987, loans under the facility had been approved by the Executive Board for 15 members, representing about 29 percent of the quotas of countries eligible for such assistance. In addition, requests were being prepared in five other cases and discussions on the policy framework were in progress with a number of other members. In all but four of the cases for which loans had been approved under the facility, a stand-by arrangement for the country had already been approved by the Executive Board, or a request for a stand-by arrangement was presented simultaneously to the Executive Board for consideration. The relatively low number of arrangements approved under the facility to date is attributable mainly to the requirement that a comprehensive program of structural reform be formulated, which in many eligible countries has required substantial allocation of time and manpower. As the studies required to formulate these programs are completed and structural policies are put in place, the number of arrangements approved under the facility should increase.

CURRENT ISSUES IN CONDITIONALITY

As noted earlier, world economic developments in 1986 had a mixed impact on individual developing countries and financial policies varied widely across countries. Against this background, it is not surprising that, while a number of countries have achieved a satisfactory external position, in others progress has been limited, in part because of inadequate policy responses to external developments in some countries. For most low-income countries, the level of external indebtedness is now such that, even with strengthened and sustained adjustment efforts, achievement of external viability will require substantial support on concessional terms.

Given the difficulty that members have had with their adjustment programs and the uncertain world environment, there has been a continuing search for improvement both in the application of the Fund's conditionality—the standards the Fund applies in providing support for members' adjustment—and in certain theoretical aspects of program design. In adapting conditionality to meet new situations, the Fund draws upon the experience with individual programs and Article IV consultations. The Executive Board also conducts reviews of overall experience with Fund-supported programs and of selected topics. The most recent such review was carried out in May 1987 and dealt with a variety of issues in conditionality, focusing on the mix of financing and adjustment, possible improvements in the design and implementation of programs, and linkages between external adjustment and economic growth. One result of that discussion was the decision to undertake a comprehensive review of conditionality. In October 1986, the Executive Board held a seminar on the theoretical aspects of the design of Fund-supported adjustment programs, and in December 1986 reviewed issues relating to program monitoring and performance criteria. In addition, a Fund-Bank symposium was held in February 1987 on the topic of growth-oriented adjustment programs.

Recent experience with Fund-supported adjustment programs underscores the need for adjustment to be supported with adequate external resources on appropriate terms so as to ease the path of adjustment and provide for an orderly adjustment process that benefits both the adjusting country and the global economic community. On the part of the adjusting country, a strong political commitment to a coherent and comprehensive strategy is crucial to the success in adjustment. Beyond this, attention to the economics of program design is essential, to ensure that the program—in terms of the choice, the strength, the mix, and the pace of implementation of policies—is consistent with the targeted improvement in the external position. Moreover, consistent and determined policy implementation is essential to ensure flexible adaptation to changing conditions. The current cases of overdue obligations to the Fund point to the need to avoid reliance on credit tranche resources where their use is not compatible with the member's prospects and where there are uncertainties about the member's capacity to carry out the type of adjustment consistent with use of nonconcessional resources.

An aspect of program design that is receiving intensified attention is how best to direct policies toward economic growth while restoring external balance. A sharper focus on this aspect of program design reflects the difficult economic circumstances of recent years and the major cutbacks in the availability of external finance. In particular, the complexities and magnitude of the adjustment problems facing member countries in the 1980s make it increasingly necessary to rely on a comprehensive approach to adjustment.

A number of issues related to the growth orientation of programs have received particular attention. The emphasis on growth-oriented adjustment has put into sharper focus a set of interrelated problems regarding the time horizon of programs and the relative weight to be given to balance of payments and growth objectives; the timing and sequencing of both demand-side and supply-side measures, given the lags with which policies take effect; and the need to study more closely the key elasticities in the economy, especially in low-income countries exporting primary products, where the speed of economic responses may be different from those in more developed economies. The emphasis on programs with a growth orientation has also led to increased attention being paid to the impact of monetary, fiscal, and exchange rate policies on output and investment, as well as on the price level and the external position; to the importance of financial institutions in mobilizing saving and channeling it to efficient uses; to the likely effectiveness and growth implications of partial efforts to liberalize prices and markets; and to the relative role of the public and private sectors in expanding productive capacity. Finally, the medium-term cast of growth-oriented programs has led to increased recognition of the fact that no program, however well designed, is likely to be politically durable if it does not reflect the objectives of the authorities and the strength of the institutions responsible for implementing policies.

Beyond these general issues regarding growth-oriented programs, a basic operational question concerns how the Fund should incorporate structural changes into its exercise of conditionality. Certain key changes are within the Fund's traditional areas of responsibility. These include, in particular, policies to enhance competitiveness, since policies that keep the exchange rate at a realistic level are an effective means of improving efficiency of resource use. Other important structural aspects, including trade liberalization, pricing policy, tax reform, and financial sector reform, are less directly related to the Fund's traditional concerns. Clearly, deeper Fund involvement in these areas will have to take into account the responsibilities of other multilateral lending institutions and will have to pay due regard to members' domestic social and political objectives.

Another focus of the effort to strengthen the linkages between growth and external adjustment is the enhancement of financing prospects. Given efficiency in resource use, additional financing is critical for growth, and an important function of the Fund's conditionality is to ensure that adjustment programs are complemented by adequate financing on appropriate terms. Given an appropriate stance of macroeconomic policies, some of the required financing usually comes from a member's domestic savings and reflows of flight capital; but external financing on terms consistent with the country's capacity to absorb and service it is also essential, particularly for the poorest countries. In the current circumstances of tight external financing, the adjustment process can be strained unless official and commercial creditors respond with financing, including concessional aid, on terms that provide appropriate and realistic support for countries' adjustment efforts.

Another operational issue that has received greater emphasis is how to monitor the implementation of adjustment programs to ensure the success of members' adjustment actions and the revolving character of Fund resources. Program monitoring is designed to provide mutual assurances both to the member and to the Fund of the circumstances under which drawings can be made. Of course, successful adjustment and provision of adequate safeguards for Fund resources require, in the first place, that the program be technically sound and the member fully committed to it. However, the appropriate selection and mix of monitoring techniques also requires careful attention. Prior policy actions can be particularly important since they provide a strong beginning for the adjustment program and enhance its credibility. Performance criteria are also viewed as critical as they provide a clear indication of the nature and direction envisaged for adjustment policies; there is, however, a need to limit such criteria to the essential aspects of the program. Finally, given the uncertainties in the world economic environment today, judicious use of midyear reviews, waivers, and modifications of performance criteria is useful in providing flexibility.

In this context, the Executive Board, in its December 1986 discussion of performance criteria, also considered a possible role for contingency mechanisms in stand-by arrangements with respect to variations in commodity prices and in the rate of economic growth. It was generally agreed that while these contingency features could be regarded as potentially flexible responses to very difficult circumstances, the matter needed to be approached with caution and on a case-by-case basis. Reservations were expressed about growth contingencies in particular, since growth was not readily controllable and since growth policies needed to be built into a program from the beginning, given that such policies needed time to have their effects.

FUND-BANK COLLABORATION

Close cooperation between the Fund and the World Bank is essential so that each organization can assist its members to the greatest extent possible, draw on the expertise of the other institution, and avoid duplication of effort and working at cross-purposes. Collaboration has also helped to further the efforts of the two institutions to encourage the flow to member countries of additional financial resources from other creditors.

Collaboration between the Fund and the Bank has intensified recently, in particular with respect to countries where lending under the structural adjustment facility is involved. The facility calls for a member country to develop a medium-term policy framework with the assistance of the staffs of the Fund and the Bank. The policy framework is then reviewed by the Executive Board of the Bank and is included among the materials examined by the Executive Board of the Fund. The formal involvement of the Bank is intended to assist the member by enabling the utilization of the Bank's specialized expertise in the formulation of a comprehensive structural adjustment program. The principle that agreement must be secured between the two institutions on all major issues has been the underlying basis for collaboration on matters related to the facility. In all cases to date, the policy framework papers forming the basis for requests for loans under the facility have been finalized during discussions with the authorities in which staff from both the Fund and the Bank have participated.

Collaboration between the Fund and the Bank has also continued to be an important feature with respect to countries where both institutions are actively involved in financing operations other than under the structural adjustment facility. Mechanisms for closer cooperation between the two institutions have become more important in recent years in light of the increasing emphasis on issues of medium-term and structural adjustment under Fund-supported programs, and the need for an appropriate macroeconomic framework for the sectoral and structural adjustment policies supported by the Bank's policy-based lending. The mechanisms aim at ensuring mutual understanding of the views and activities of the other institution and at the development of a consistent diagnosis of members' economic policies and prospects. In this way, the policy advice and financial resources provided by the two institutions can be made consistent, complementary, and mutually reinforcing, while avoiding cross-conditionality.

Fund staff members participated in 17 Bank missions during 1986, and Bank staff members participated in 15 Fund missions. In addition, there were numerous instances of parallel or overlapping Fund and Bank missions in which the staffs of the two institutions collaborated closely in the field. It has also become common practice for Fund and Bank staff members to attend Executive Board meetings of the other institution for discussions concerning member countries in which both organizations have substantial financial involvement.

The Fund and Bank staffs have collaborated closely in efforts to encourage the flow of resources from donor governments to member countries. In this connection the Fund staff is normally invited to present a statement providing an overview of the country's macroeconomic situation at Consultative Group meetings organized by the Bank to promote aid flows to individual developing countries. The Fund and the Bank have also been involved in assisting several countries to obtain concerted lending packages from commercial banks.

Frequent interaction and discussion between the staffs of the Fund and the Bank have contributed to an improved understanding of the economic and social conditions of member countries and to a broader perspective in their analysis of the short- and medium-term problems facing member countries. Both in connection with discussions on the use of Fund resources and also in the context of Article IV consultations, the Fund staff has frequently consulted the Bank staff in areas in which the Bank has special expertise, in particular in the assessment of the efficacy of public sector investment programs and investment priorities; the efficiency of public enterprise operations; and pricing policies. Other areas in which Bank staff views have been sought include tariff reform, import liberalization, and sectoral productivity analysis. In turn, the Bank staff has consulted the Fund staff with regard to assessments of a range of macroeconomic issues, in particular on matters relating to exchange rate, fiscal, and monetary policies.

INTERNATIONAL LIQUIDITY AND THE SDR

During the 1970s and the 1980s, the international monetary system experienced a number of structural changes, including the suspension of the convertibility of official U.S. dollar balances into gold in August 1971, the breakdown of the system of fixed exchange rates and the advent of greater exchange rate flexibility, the expansion and integration of international financial markets, and the growth in the importance of holdings of currencies other than the U.S. dollar in official reserves. These structural changes have significantly altered the mechanisms through which reserves are provided and have had far-reaching consequences for the international monetary system in general and for the SDR in particular. As a result of these changes, many countries have found borrowing from international capital markets to be the most efficient and flexible source of reserves. Nonetheless, while one of the original functions of the SDR, that of helping to maintain confidence in the convertibility of the U.S. dollar into gold, is no longer relevant, the SDR continues to have a potential role in alleviating reserve needs and in contributing to increased stability of the international monetary system.

THE ADEQUACY OF RESERVES

Article XVIII, Section 1(*a*) of the Fund's Articles of Agreement states that "in all its decisions with respect to the allocation and cancellation of special drawing rights the Fund shall seek to meet the long-term global need, as and when it arises, to supplement existing reserve assets in such manner as will promote the attainment of its purposes and will avoid economic stagnation and deflation as well as excess demand and inflation in the world." As the international monetary system has continued to evolve, the issues emphasized in the discussions in the Executive Board of the long-term global need for reserves have changed. When the SDR mechanism was conceived during the 1960s, it was widely perceived that deficiencies in the world economy could be associated to an important extent with inadequacies in the supply of liquidity, which could in turn be addressed by introducing a mechanism for supplementing the quantity of reserves over the long run. By the time of the second round of SDR allocations, which began in 1979, the structural changes in the international monetary system noted above had altered the perception that deficiencies in the performance of the world economy were related in as major a way to inadequacies in the reserve creation mechanism as such. Nonetheless, it was recognized that the performance of the world economy depended crucially on the adequate functioning of the international liquidity system and its influence on the adjustment process.

More recently, two issues have received emphasis. The first has been whether a system that relies heavily on borrowing to satisfy the long-term growth in the global need for reserves is likely to be less efficient and less stable than a system that creates owned reserves such as the SDR to satisfy the growth in that demand. A second issue has been whether the difficulties that many countries confront in seeking access to international credit markets could be seen as a long-term and global phenomenon, and, if so, whether reserve supplementation could improve the performance of the world economy and facilitate the attainment of the objectives of the Fund.

The answers to these questions depend upon an assessment of the adequacy of the existing stock of reserves, which in turn requires an evaluation of the need for reserves, the terms and conditions under which reserves are supplied, and the sources of supply. The demand for reserves is influenced by such factors as the levels and variability of trade and capital flows, the speed with which external payments imbalances respond to stabilization programs, the terms and conditions under which reserves can be obtained, and the types of domestic and external shocks that affect a country.

Over the long term, total reserves have, in fact, grown approximately in proportion to the value of imports. During the period 1974–86, the ratio of non-gold reserves to imports remained relatively stable at about 17 percent for industrial countries. For the major groups of developing countries, this ratio showed more variation as countries first sought to mitigate the effects of the worsening international economic environment and later sought to rebuild their reserve holdings. For developing countries as a whole, the ratio of non-gold reserves to imports ranged from a high of 40 percent in 1977 to a low of 27 percent in 1981 and 1982 before recovering to 36 percent by the end of 1986. The group of capital importing developing countries with debt-servicing problems experienced the sharpest changes in their reserve-to-import ratio, which declined from a peak of 31 percent in 1976 to a trough of 15 percent in 1982 before rising to more than 27 percent in 1984 and 1985. This improvement reflected both an increase in total non-gold reserves and a decline in the SDR value of imports. In 1986, the reserve-to-import ratio for this group of countries fell to 24 percent, as a result of a substantial decline in the SDR value of their non-gold reserves in relation to that of imports.

In the rebuilding of reserves that has occurred during the period since 1982, countries have faced widely divergent terms and conditions under which they can acquire reserves. Since borrowing from private international capital markets has become an increasingly important source of international reserves, the views of market participants regarding a country's creditworthiness play an important role in determining the availability and cost of borrowed reserves. At times, a deterioration in perceived creditworthiness has resulted in a sharp reduction in the availability of borrowed funds. The net cost of holding borrowed reserves, which equals the difference between the cost of borrowed funds and the return earned on reserve assets, tends to be lowest for those countries that are regarded as most creditworthy. For other countries with limited or no access to private credit markets, the net cost of reserves can be more significant.

Since these countries must satisfy any temporary payments imbalance through the use of existing reserve holdings rather than external borrowing, they are likely to desire to hold a higher ratio of reserves to imports than countries with access to international credit markets. Moreover, these countries are able to rebuild reserves only through official or multilateral capital flows or through current account adjustments. Such countries face a close linkage between their adjustment policies and their ability to accumulate reserves. To the extent that these countries accumulate reserves through current account adjustments in excess of those needed to service external debts, their costs of acquiring reserves tend to be much higher than the costs for countries with access to international capital markets. In this situation, the supply of reserves generated by international agreements, such as SDR allocations, can potentially take on special importance.

THE SDR

In response to a request by the Interim Committee for study of the role of the SDR, the Executive Board examined the issues of renewed allocations of SDRs, postallocation adjustment in the distribution of SDRs, and alternative approaches to influencing the share of SDRs in members' international reserves. While most Executive Directors have favored a new allocation of SDRs in recent years, the sufficient support required for an SDR allocation did not emerge during the fourth basic period, which extended from 1982 to 1986. Those Executive Directors who favored a resumption of SDR allocations stressed that the SDR could play a role in reducing the costs of holding reserves, in relieving the risks of relying heavily on borrowed reserves, and in dampening the deflationary tendencies arising when countries sought to replenish their reserve stocks through current account adjustments. These advantages were viewed as especially important in a period when many countries had already undertaken extensive adjustments in order to service their existing external debt. In contrast, those Executive Directors who did not favor a new allocation of SDRs were not convinced that a long-term global need had been demonstrated. Some of these Executive Directors maintained that the international capital markets were functioning efficiently as a source of international reserves and that problems of some countries reflected weak policy implementation. Moreover, they noted that the SDR tended not to be held as a reserve asset by countries that did not have access to credit markets, which suggested that these countries evidently preferred to hold other types of reserve assets. Such prolonged net use of SDRs was regarded as inconsistent with the role of the SDR as a monetary asset.

The Executive Board also considered a number of proposals for postallocation adjustment in the distribution of SDRs and for influencing the share of SDRs in members' international reserves. Some Executive Directors raised the issue of whether an allocation of SDRs based on Fund quotas would appropriately reflect the distribution of countries' reserve needs in the context of existing international monetary arrangements. The Executive Board considered this issue by examining recent proposals for making available to countries with relatively strong reserve needs a part or all of the SDRs received by countries that have no need or a lesser need for additional reserves at the time of an allocation. While some Executive Directors viewed such a redistribution as an effective means of addressing the reserve needs of many countries, a majority of the Executive Board regarded these proposals as being incompatible with the original SDR arrangement. In considering the distribution of SDR holdings in recent years, the Executive Board discussed the issues associated with prolonged net use of SDRs and approaches for achieving more balanced holdings of SDRs relative to other forms of reserve assets. Most Executive Directors favored the use of economic incentives over regulation as a means of achieving such balanced holdings. There was also broad agreement on the desirability of improving further the liquidity and usability characteristics of the SDR.

FINANCIAL POLICIES AND ACTIVITIES

In terms of purchases, there was no marked change in the financial activity of the Fund during the year 1986/87. Purchases amounted to SDR 3.2 billion, compared with SDR 3.9 billion in 1985/86. The purchases under the compensatory financing facility (SDR 593 million) were larger than in 1985/86 (SDR 490 million). The decline in total purchases from the Fund stemmed primarily from the smaller number of arrangements, partly because some were canceled and partly because overdue obligations to the Fund prevented further extension of credit by the Fund in a number of cases. Repurchases to the Fund during the year were SDR 6.2 billion (of which SDR 2.2 billion was in respect of purchases financed with borrowed resources and was repaid to lenders), compared with SDR 4.3 billion in 1985/86. Because of the magnitude of the repurchases, outstanding Fund credit to members declined by SDR 3 billion over the year to SDR 31.6 billion as of April 30, 1987.

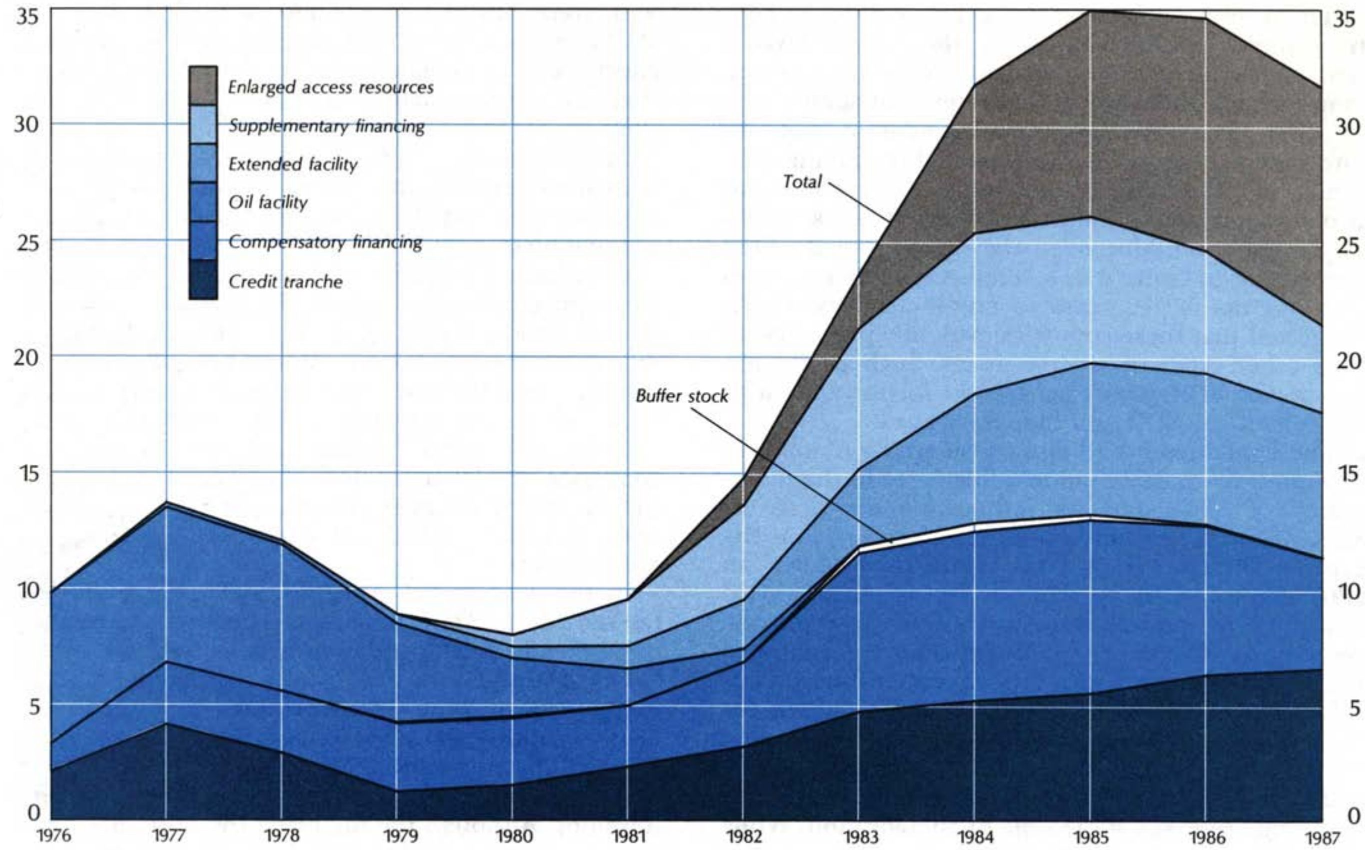
The large volume of repurchases during the year is a consequence of the concentration of Fund lending during, or in the immediate aftermath of, the international recession and the onset of the debt crisis (Charts 14 and 15, and Table 12). The scale of the repurchases also reflects the maturity structure of the Fund's credit as an international monetary institution for medium-term balance of payments assistance and the revolving character of its resources, inasmuch as repayments to the Fund restore its capacity to extend further assistance to member countries. Finally, the scale of the repurchases reflects the success of member countries in achieving effective adjustment, with Fund assistance, in their external positions.

In the year ended April 30, 1987, the Fund extended SDR 327.45 million of concessional balance of payments assistance under the terms of the structural adjustment facility. These arrangements covered ten low-income member countries. Several other eligible countries are negotiating for use of the facility, and there is provision for further enlargement of access over time as experience with the facility develops. Although the financing the Fund itself can provide is necessarily limited in relation to other major sources of balance of payments financing, the Fund must also be viewed in the context of its catalytic role in generating additional financing by supporting sound growth-oriented adjustment programs.

There are, however, considerable uncertainties in the international economy stemming from commodity price declines, the substantial shortfalls in export earnings of oil producing countries, the difficult circumstances of the low-income and heavily indebted countries, and the slow growth of the industrial countries. The Fund therefore needs the requisite financial capability to address flexibly the balance of payments problems of members and to avoid the emergence of difficult situations that could have serious systemic implications. As noted by the Executive Board in its latest review in March 1987, the liquidity position of the Fund in terms of the stock of its uncommitted ordinary resources was considered adequate to meet any projected demands on its resources in the near future. The Fund's resources have been further supplemented by the extension of the drawdown periods under the borrowing arrangements with the Saudi Arabian Monetary Agency (SAMA) and by the conclusion of the new four-year borrowing agreement (which may be extended for up to two years) with Japan for the equivalent of SDR 3 billion. However, quotas are viewed as the primary resource base of the Fund, and borrowed

Chart 14.

Use of Fund's General Resources as at April 30, 1976–87[1]
(In billions of SDRs)



[1] Excluding disbursements totaling SDR 139 million under the structural adjustment facility.

resources are considered only as temporary supplements.

The Fund is also concerned about ensuring adequate access of its members to its general resources. Access, in recent years, has been governed by the policy on enlarged access, which has been operative since March 1981 and has been subject to annual review since 1983. The enlarged access policy is a temporary one, which is partly dependent on borrowed resources. Nonetheless, its application is consistent with the monetary character of the Fund and the revolving nature of its resources. It enables the Fund to provide adequate conditional balance of payments financing in support of the adjustment efforts of members and thereby endows it with the requisite flexibility to fulfill its role. The existing guidelines provide for flexibility in the implementation of the enlarged access policy as evidenced not only in the criteria on access in individual cases, but also in the two-tier limits applied to the annual, triennial, and cumulative rates of access since 1984.

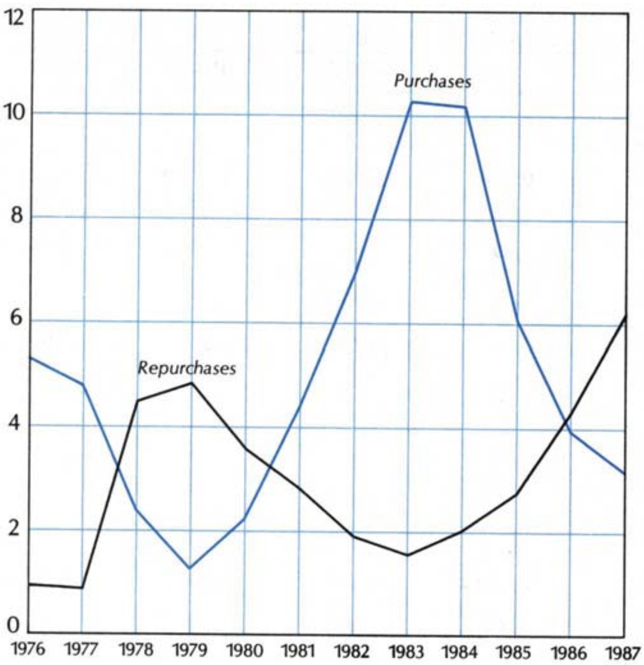
Reflecting the conclusions of the Interim Committee at its meeting in September 1986, the Executive Board decided that the policy on enlarged access during 1987 will continue, subject to annual access limits (applicable to gross purchases) of 90 or 110 percent of quota, three-year limits of 270 or 330 percent of quota, and cumulative limits (applicable to members' net indebtedness to the Fund under the tranche policies) of 400 or 440 percent of quota, depending on the seriousness of the member's balance of payments need and the strength of its adjustment efforts.[11] The decision to maintain the annual access limits at existing levels did not reflect any change in the temporary character of the enlarged access policy, but reflected instead the potential scale of members' needs, the desire to avoid giving misleading signals to other creditors, and the adequacy of the Fund's liquidity position. As in the past, the access limits are to be treated as limits and not as targets or entitlements. In exceptional circumstances, however, the Fund can approve arrangements above the indicated limits, although all programs approved

[11] Executive Board Decision No. 8459-(86/189), adopted December 1, 1986 (reproduced in Appendix III). The ratios of ordinary to borrowed resources to be used in arrangements under the policy on enlarged access were amended subsequently. See Executive Board Decision No. 8487-(86/205), adopted December 19, 1986 (reproduced in Appendix III).

Chart 15.

General Resources: Purchases and Repurchases, Financial Years Ended April 30, 1976–87

(In billions of SDRs)



during 1986/87 were within prescribed limits. The Executive Board also retained the existing limits of access to the compensatory financing facility (83 percent of quota each in respect of shortfalls in export receipts or excesses in the cost of cereal imports, subject to an overall limit of 105 percent of quota) and the buffer stock financing facility (45 percent of quota). The access limits under the enlarged access policy and the compensatory and buffer stock financing facilities will be reviewed before the end of 1987.

The Fund continued in 1986/87 to experience delays in the discharge of financial obligations by members. Although the number of members (eight) in arrears by six months or more at the end of the financial year was the same as a year earlier, the amounts overdue from these members by six months or more increased substantially from SDR 482 million on April 30, 1986 to SDR 1,186.3 million on April 30, 1987. Of these eight members, seven were late in settling obligations to the General Resources Account, three were late in settling obligations to the SDR Department, and four were late in their payments to the Trust Fund. During 1986/87, one member—Peru—was declared ineligible on August 15, 1986 to use the general resources of the Fund, pursuant to Article XXVI, Section 2(*a*), in light of its overdue obligations in the General Resources Account. Earlier declarations of ineligibility with respect to Viet Nam (January 15, 1985), Guyana (May 15, 1985), Liberia (January 24, 1986), and Sudan (February 3, 1986) remained in effect. The five members in ineligible status account for almost 80 percent of the total overdue obligations.

While most members continue to meet their financial obligations to the Fund on time and the overdue obligations are small relative to outstanding Fund credit, they are roughly equal to the Fund's reserves and could affect the Fund's liquidity and financial position if allowed to continue. The elimination of overdue obligations is therefore important to maintain the financial position and character of the Fund as a cooperative intergovernmental monetary institution. Consequently, the Fund has adopted a number of measures to identify potential problems, to prevent their emergence, and to help countries correct problems that do arise. The measures include intensified scrutiny of countries' prospective flows of foreign exchange, with particular emphasis on avoiding any bunching of repayment obligations; strengthened adjustment programs in cases where debt-servicing difficulties seem likely to arise; and collaboration with debtor countries, creditors, donors, and multilateral development institutions to resolve problems of individual members. These efforts have been fruitful in a number of cases in assisting members to remain or become current with the Fund.

The Executive Board has also adopted a series of measures to strengthen the financial position of the Fund in the context of the problem of overdue financial obligations. These measures have included, inter alia, raising the target for net income of the Fund, successively, from 3 percent to 5 percent of reserves, and then to 7.5 percent for the financial years 1986/87 and 1987/88, with the latter increase financed jointly by a higher rate of charge and a lower rate of remuneration than otherwise would have prevailed. Charges due from members in arrears for six months or more are recorded as deferred income. Since the beginning of the financial year 1986/87, an amount equivalent to deferred charges is generated through a simultaneous adjustment to the rate of charge and, subject to a limitation, the rate of remuneration. In part reflecting the various measures taken to safeguard its financial position in the face of increasing overdue obligations, the Fund recorded a net income of SDR 86 million for the financial year 1986/87 (SDR 78 million in 1985/86), which was added to the Special Reserve, thus raising the Fund's total reserves (the Special Reserve and the General Reserve) from SDR 1,122 million on April 30, 1986 to SDR 1,208 million on April 30, 1987, an increase of 7.67 percent. In addition, SDR 26.5 million was placed in financial year 1986/87 in a Special Contingent Account, in the light of the Executive Board's consideration of overdue obligations.

Total transfers in the SDR Department (SDR 15,604 million) remained at about the same level as in 1985/86, but there was a significant increase in transactions by agreement, which exceeded, by an increasing margin, those by designation for the fourth

Table 12.

Selected Financial Activities: General Resources Account, 1981–87

(In millions of SDRs, except as otherwise noted)

	Financial Year Ended April 30						
	1981	1982	1983	1984	1985	1986	1987
Gross purchases[1]	4,385.9	6,960.2	10,258.2	10,164.1	6,059.8	3,940.9	3,168.1
Industrial countries	—	—	54.0	—	—	—	—
Developing countries	4,385.9	6,960.2	10,204.3	10,164.1	6,059.8	3,940.9	3,168.1
Africa	1,157.7	1,986.4	2,056.1	1,642.7	1,017.6	841.8	593.3
Asia	2,070.5	3,151.9	2,748.0	2,589.7	746.7	844.1	1,224.4
Europe	865.8	1,326.0	1,590.1	1,658.3	837.5	322.5	67.5
Middle East	—	—	25.1	—	57.4	—	—
Western Hemisphere	292.0	496.0	3,785.0	4,273.4	3,400.5	1,932.5	1,282.9
Net purchases[2]	1,575.3	5,066.0	8,711.5	8,148.9	3,214.8	−340.6	−2,993.8
Memorandum							
Number of stand-by and extended arrangements as of April 30	37	35	39	35	30	26	24
Of which, extended arrangements	*15*	*12*	*9*	*5*	*3*	*2*	*1*
Amounts under arrangements	9,475.1	16,206.3	25,025.5	18,569.4	11,675.3	4,906.7	5,063.1
As percent of total quotas	15.9	26.7	41.0	20.9	13.1	5.5	5.6
Undrawn balances	8,076.4	11,154.6	16,405.1	9,269.5	5,543.1	2,379.1	2,981.8
As percent of commitments under arrangements	85.2	68.8	65.6	49.9	47.5	48.5	58.9
Outstanding Fund credit	9,545.0	14,801.4	23,589.9	31,741.6	34,972.6	34,640.2	31,646.4
As percent of total quotas	16.0	24.4	38.6	35.6	39.2	38.8	35.2
Number of countries with outstanding Fund credit	78	79	85	84	83	79	80

[1] Excluding purchases in the reserve tranche.
[2] Purchases minus repurchases; net repurchases (−).

consecutive year. Pursuant to successive reviews by the Executive Board, the Fund's SDR holdings have been reduced gradually from about SDR 7 billion at the end of 1983 to about SDR 1 billion by May 1987, with a corresponding increase in members' holdings. In the coming period, the aim will be to maintain the Fund's holdings within a range of about SDR 0.75–1.25 billion, which is deemed adequate to meet the Fund's operational requirements in present circumstances.

Appendices

Tables in Appendix II

Chart in Appendix II

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Appendix I

International Reserves

This appendix reviews recent developments in international reserves and liquidity. Three issues are considered: (1) the recent evolution of holdings of official reserve assets; (2) the currency composition and distribution of international reserves; and (3) the placement of official holdings of foreign exchange reserves.

RECENT EVOLUTION OF OFFICIAL RESERVE ASSETS

Total international reserves measured in terms of SDRs increased by over 5 percent in 1986, to reach SDR 724 billion at the end of the year (Table I.1). The change in total reserves resulted from both larger holdings of non-gold reserves and an increase in the market value of official holdings of gold. The expansion in non-gold reserves encompassed a rise in the foreign exchange reserves held by industrial countries that more than offset the fall in foreign exchange reserves held by developing countries and the decline in the holdings of Fund-related reserve assets by both industrial and developing countries.

NON-GOLD RESERVES

At the end of 1986, non-gold reserves totaled SDR 420 billion, which was 4 percent more than at the end of 1985. While the non-gold reserves of industrial countries and capital importing developing countries without debt-servicing problems increased by 10 percent and 12 percent, respectively, other developing countries experienced sharp reductions in their non-gold reserves. In particular, the non-gold reserves of the capital importing developing countries that experienced debt-servicing problems fell by 24 percent. Although this decline was the largest since 1982 (when the reserves of these countries fell by 34 percent), the rebuilding of reserves by these countries in 1983 and 1984 was so vigorous that their reserves were still 27 percent higher at the end of 1986 than at the end of 1982.

FOREIGN EXCHANGE RESERVES

Between the end of 1985 and the end of 1986, foreign exchange reserves increased by 5 percent, to SDR 366 billion, reflecting an accumulation of new reserves that outweighed capital losses in the SDR value of existing holdings, which were denominated principally in U.S. dollars. The relatively slow growth in the SDR value of foreign exchange reserves in both 1985 (when these reserves remained virtually unchanged) and 1986 stands in sharp contrast to the rebuilding of reserves that was evident in the 8 percent and 13 percent increases in foreign exchange reserves in 1983 and 1984, respectively.

The limited expansion of total foreign exchange reserves encompassed sharply divergent patterns of accumulation for industrial and developing countries. While the foreign exchange reserves of industrial countries grew in 1986 by over SDR 24 billion (13 percent), the holdings of developing countries fell by SDR 7 billion (4 percent). Among the developing countries, the decline in foreign exchange reserves was sharpest in those capital importing countries that have experienced debt-servicing problems (25 percent) and in capital exporting countries (21 percent).

HOLDINGS OF FUND-RELATED RESERVE ASSETS

Holdings of Fund-related reserve assets decreased by 4 percent in 1986 to SDR 55 billion. This reflected an SDR 3 billion decline in reserve positions in the Fund that more than offset an increase of SDR 1 billion in members' holdings of SDRs. Reserve positions in the Fund, which comprise the reserve tranche position and the creditor position, fell in 1986 for the second year in a row, after increasing each year during the first half of the 1980s. As the cumulative total stock of SDRs has remained constant since the last allocation in 1981, the increase in holdings of SDRs by member countries corresponded to a decline in Fund holdings of SDRs. Members' holdings of SDRs had declined in 1983 when 22 percent of the increase in quotas under the Eighth General Review of Quotas was paid in SDRs. These SDR payments were made in December 1983 and amounted to SDR 6 billion. The counterpart to the decline in member countries' holdings of SDRs was an increase in their reserve positions in the Fund. Payments in SDRs for quota purposes since 1983 have totaled SDR 0.3 billion.

GOLD

The market value (in terms of SDRs) of official holdings of gold increased by 7 percent in 1986, to SDR 303 billion. This higher value primarily reflected an increase in the market price of gold from

Table I.1.

Official Holdings of Reserve Assets, End of Year 1981–86 and End of March 1987[1]

(In billions of SDRs)

	1981	1982	1983	1984	1985	1986	March 1987
All countries							
Total reserves excluding gold							
Fund-related assets							
Reserve positions in the Fund	21.3	25.5	39.1	41.6	38.7	35.3	34.3
SDRs	16.4	17.7	14.4	16.5	18.2	19.5	19.3
Subtotal, Fund-related assets	37.7	43.2	53.5	58.0	56.9	54.8	53.6
Foreign exchange	292.7	285.1	308.4	349.0	348.2	365.5	389.3
Total reserves excluding gold	330.4	328.3	361.9	407.1	405.2	420.3	443.0
Gold[2]							
Quantity (*millions of ounces*)	953.7	949.2	947.8	946.8	949.4	949.2	948.0
Value at London market price	325.7	393.1	345.4	297.8	282.6	303.3	310.4
Industrial countries							
Total reserves excluding gold							
Fund-related assets							
Reserve positions in the Fund	13.5	17.1	25.6	27.2	25.2	23.0	22.1
SDRs	11.9	14.1	11.5	13.4	14.9	16.1	16.0
Subtotal, Fund-related assets	25.5	31.1	37.1	40.6	40.1	39.1	38.2
Foreign exchange	159.6	153.2	167.9	183.9	187.3	211.7	234.4
Total reserves excluding gold	185.1	184.4	205.0	224.5	227.4	250.8	272.6
Gold[2]							
Quantity (*millions of ounces*)	787.6	787.3	786.6	786.0	786.5	785.7	785.7
Value at London market price	269.0	326.1	286.6	247.2	234.1	251.1	257.3
Developing countries							
Total reserves excluding gold							
Fund-related assets							
Reserve positions in the Fund	7.8	8.4	13.6	14.3	13.5	12.4	12.2
SDRs	4.5	3.7	2.9	3.1	3.3	3.4	3.3
Subtotal, Fund-related assets	12.3	12.1	16.5	17.4	16.9	15.8	15.5
Foreign exchange	133.0	131.9	140.5	165.1	160.9	153.8	154.9
Total reserves excluding gold	145.3	143.9	156.9	182.5	177.8	169.5	170.4
Gold[2]							
Quantity (*millions of ounces*)	166.1	161.8	161.2	160.8	162.9	163.5	162.3
Value at London market price	56.7	67.0	58.7	50.6	48.5	52.3	53.2
Capital importing developing countries							
Total reserves excluding gold							
Fund-related assets							
Reserve positions in the Fund	3.3	2.7	3.4	2.8	2.6	2.4	2.4
SDRs	3.7	2.4	1.8	1.9	2.1	2.3	2.1
Subtotal, Fund-related assets	7.0	5.1	5.2	4.7	4.7	4.8	4.5
Foreign exchange	88.5	86.2	100.7	128.6	123.7	124.4	125.1
Total reserves excluding gold	95.6	91.4	105.9	133.3	128.4	129.2	129.6
Gold[2]							
Quantity (*millions of ounces*)	143.5	139.1	138.3	137.6	139.9	140.6	139.4
Value at London market price	49.0	57.6	50.4	43.3	41.6	44.9	45.6
Capital importing developing countries with debt-servicing problems							
Total reserves excluding gold							
Fund-related assets							
Reserve positions in the Fund	2.0	1.2	1.3	1.0	0.8	0.8	0.7
SDRs	1.9	0.7	0.5	0.5	0.7	0.7	0.7
Subtotal, Fund-related assets	3.9	1.9	1.8	1.5	1.5	1.4	1.4
Foreign exchange	32.1	22.0	26.9	42.7	38.6	29.0	27.4
Total reserves excluding gold	36.0	23.9	28.7	44.2	40.2	30.5	28.8
Gold[2]							
Quantity (*millions of ounces*)	51.8	47.7	46.7	47.7	47.9	47.0	47.5
Value at London market price	17.7	19.8	17.0	15.0	14.3	15.0	15.6

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.

[2] 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.

SDR 298 an ounce at the end of 1985 to SDR 320 an ounce at the end of 1986. The physical stock of gold has remained fairly constant since 1972, with the exception of a 9 percent decline in 1979, which occurred mainly because members of the European Monetary System deposited 20 percent of their gold holdings with the European Monetary Cooperation Fund (EMCF) in exchange for European Currency Units (ECUs). Both the physical holdings of gold and its distribution between industrial and developing countries have changed very little during the 1980s. Of the total physical stock of gold reserves of 949 million ounces at the end of 1986, industrial countries held 83 percent and developing countries 17 percent.

DEVELOPMENTS IN FIRST QUARTER OF 1987

During the first quarter of 1987, total international reserves increased by SDR 30 billion, reflecting a rise in both non-gold reserves and the market value of official holdings of gold. The increase in non-gold reserves was mainly due to a rise in the foreign exchange holdings of industrial countries of SDR 22 billion. Holdings of non-gold reserves by developing countries increased by SDR 1 billion during the first quarter of 1987.

The official holdings of gold valued at current market prices increased by more than 2 percent to SDR 310 billion at the end of the quarter. This reflected an increase in the market price of gold measured in terms of the SDR that more than offset a small decline in the total physical holdings of gold.

CURRENCY COMPOSITION OF RESERVES

During 1986, the diversification of the currency composition of foreign exchange reserves that has been evident since the mid-1970s continued. This diversification since 1975 can be divided into several subperiods. Between 1975 and 1977, the currency composition of reserves remained relatively stable; whereas, when the U.S. dollar depreciated sharply between 1977 and 1980, the share of the U.S. dollar declined from 79 percent to 67 percent. Subsequently, as the U.S. dollar appreciated relative to the other major currencies in the early 1980s, this diversification away from the U.S. dollar was partly reversed, and the share of the U.S. dollar in reserves rose to 72 percent by 1983. Since 1983, the share of U.S. dollar-denominated reserve instruments in identified foreign exchange reserves has declined by 5 percentage points, as reserve instruments denominated in deutsche mark and Japanese yen became increasingly important in reserve portfolios, especially those of industrial countries.

In 1986, the share in total identified foreign exchange holdings of reserve assets denominated in the U.S. dollar increased by 2 percentage points, to 67 percent, whereas the shares of the two other main reserve currencies, the deutsche mark and the Japanese yen, fell slightly (Table I.2). The increase in the share of the U.S. dollar reflected a 5 percentage point increase (to 71 percent) in the reserve portfolios of industrial countries that more than offset a 3 percentage point fall (to 60 percent) in the portfolios of developing countries.

In the calculation of these shares, the SDR value of ECUs issued against gold is not counted as part of foreign exchange reserves, while the SDR value of ECUs issued against U.S. dollars is counted as part of the holdings of U.S. dollars. The overall picture regarding trend changes in the currency composition of foreign exchange reserves is similar, however, if ECUs, which were introduced in 1979 and accounted for 12 percent of total foreign exchange reserves at the end of 1986, are treated as a separate reserve currency unit. Under this alternative treatment, the share of the U.S. dollar in holdings of all reserve currencies declined from 76 percent in 1978 to 55 percent in 1980; it then increased to 60 percent in 1981 and stayed at that level through 1984, before declining to 56 percent in 1985, at which level it remained in 1986.

Changes in the SDR value of foreign exchange reserves can also be decomposed into price and quantity changes for each of the major currencies (including the ECU) and for the total of the identified foreign exchange reserves (Table I.3). In 1986, total identified foreign exchange reserves fell by SDR 2 billion, which was the result of a positive quantity change of less than SDR 5 billion and a negative price change of more than SDR 6 billion. This negative price change reflects a continuation of the pattern observed in 1985 in that the fall in the SDR value of the U.S. dollar resulted in a large negative price change (SDR 19 billion) in 1986 for U.S. dollar reserves that was only partially compensated by the positive price changes for all other major currencies, including SDR 6 billion for the deutsche mark and SDR 3 billion for the Japanese yen.

Holdings of ECUs increased by SDR 7 billion in 1986. ECUs are issued by the EMCF to the central banks of the members in exchange for the deposit of 20 percent of the gold holdings and 20 percent of the gross U.S. dollar holdings of these institutions. These swaps are renewed every three months, and changes in the members' holdings of U.S. dollars and gold, as well as changes in the market price of gold and the foreign exchange value of the U.S. dollar, affect the amount of ECUs outstanding.[1] Quantity changes in ECU holdings, therefore, depend on the

[1] In calculating the value of the gold holdings of the EMCF in terms of ECUs, the ECU swap price is set equal to the lower of two values: the average of the prices recorded daily at the two London fixings during the previous six calendar months, and the average price at the two fixings on the penultimate working day of the period.

Table I.2.

Share of National Currencies in Total Identified Official Holdings of Foreign Exchange, End of Year 1978–86[1]

(In percent)

	1978	1979	1980	1981	1982	1983	1984	1985	1986	Memorandum: ECUs Treated Separately[2] 1986
All countries										
U.S. dollar	76.0	73.2	67.3	71.6	70.7	71.5	69.5	64.5	66.6	55.8
Pound sterling	1.7	2.0	3.0	2.2	2.5	2.7	3.0	3.1	2.4	2.2
Deutsche mark	10.9	12.5	15.2	13.2	12.7	11.9	12.6	15.3	14.8	13.6
French franc	1.2	1.3	1.7	1.4	1.3	1.1	1.1	1.3	1.3	1.2
Swiss franc	2.1	2.5	3.2	2.8	2.8	2.4	2.1	2.3	1.6	1.4
Netherlands guilder	0.9	1.1	1.3	1.1	1.1	0.9	0.8	1.0	1.0	0.9
Japanese yen	3.3	3.6	4.4	4.2	4.7	4.9	5.7	7.5	6.9	6.3
Unspecified currencies[3]	3.9	3.7	3.9	3.5	4.2	4.5	5.3	4.9	5.5	18.7
Industrial countries										
U.S. dollar	86.2	83.5	77.6	78.7	77.0	77.5	73.6	65.4	70.6	53.5
Pound sterling	0.7	0.8	0.8	0.7	0.8	0.9	1.6	2.0	1.2	1.0
Deutsche mark	7.9	9.7	14.4	13.0	12.5	13.1	15.2	19.8	17.6	15.3
French franc	0.4	0.6	0.5	0.5	0.4	0.3	0.4	0.5	0.5	0.5
Swiss franc	1.2	1.5	1.8	1.8	1.8	1.5	1.4	1.8	0.9	0.8
Netherlands guilder	0.5	0.6	0.7	0.8	0.7	0.5	0.7	1.0	0.9	0.8
Japanese yen	2.3	2.6	3.5	3.7	4.5	5.2	6.3	8.8	7.6	6.6
Unspecified currencies[3]	0.7	0.6	0.6	0.7	2.3	1.0	0.8	0.5	0.7	21.5
Developing countries[4]										
U.S. dollar	62.5	62.9	57.1	64.3	64.3	65.2	65.1	63.4	60.3	60.0
Pound sterling	3.0	3.3	5.1	3.7	4.2	4.6	4.5	4.4	4.2	4.2
Deutsche mark	14.9	15.3	15.9	13.3	12.9	10.6	10.0	10.2	10.4	10.4
French franc	2.2	2.1	2.9	2.4	2.3	2.0	1.8	2.2	2.5	2.5
Swiss franc	3.4	3.6	4.7	3.8	3.8	3.4	2.8	2.9	2.6	2.6
Netherlands guilder	1.4	1.4	1.9	1.5	1.6	1.3	1.0	1.0	1.1	1.1
Japanese yen	4.6	4.6	5.3	4.8	4.9	4.7	5.0	6.1	5.9	5.9
Unspecified currencies[3]	8.0	6.9	7.2	6.4	6.0	8.3	10.0	9.8	13.1	13.4

Sources: International Monetary Fund, various publications, and staff estimates.

[1] Starting with 1979, the SDR value of European Currency 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. Only selected countries that provide information about the currency composition of their official holdings of foreign exchange are included in this table.

[2] This column is for comparison and indicates the currency composition of reserves when holdings of ECUs are treated as a separate reserve asset, unlike the earlier columns starting with 1979 as is explained in the preceding footnote. The share of ECUs in total foreign exchange holdings was 12.2 percent for all countries and 20.9 percent for the industrial countries in 1986.

[3] This residual is equal to the difference between total identified reserves and the sum of the reserves held in the seven currencies listed in the table.

[4] The calculations here rely to a greater extent on Fund staff estimates than do those provided for the group of industrial countries.

evolution of its two components, gold and U.S. dollars.[2]

The increase of SDR 7 billion in holdings of ECUs in 1986 followed a small decline of SDR 0.3 billion in 1985. In 1985 the stability of ECU holdings reflected a negative quantity change that was offset by a positive price change associated with an increase in the SDR value of the ECU (owing to the depreciation of the U.S. dollar relative to the SDR). In 1986, in contrast, both price and quantity changes resulted in larger identified holdings of ECUs.[3]

There are significant differences in the pattern of currency diversification between industrial and developing countries (Table I.2). Over the period since 1978 the industrial countries have experienced greater diversification of reserve holdings than have the developing countries. In the reserve portfolios of the industrial countries, the share of reserves denominated in U.S. dollars fell by 16 percent during this period, and the shares of the deutsche mark and the Japanese yen increased by 10 percentage points and 5 percentage points, respectively. In contrast, for the

[2] The quarterly swaps are arranged at the end of the first weeks of January, April, July, and October. Changes in the number of ECUs outstanding thus depend on the exchange rates and gold prices on these dates, whereas changes in the SDR value of ECU holdings are calculated at the SDR/ECU exchange rate at the end of each quarter.

[3] Quantity changes in ECU holdings are caused by changes in the amounts of dollars deposited with the EMCF and changes in the ECU prices of the U.S. dollar and gold. In 1985, the sharp fall in the ECU prices of the U.S. dollar and gold led to a substantial drop in the amount of ECUs created by the EMCF, although the amounts of dollars deposited with this institution increased slightly. In 1986, the ECU prices of the U.S. dollar continued to decline sharply, but as the amounts of dollars deposited with the EMCF increased significantly, there was actually a substantial rise in the quantity of ECU holdings.

Table I.3.

Currency Composition of Official Holdings of Foreign Exchange, End of 1981–End of 1986[1]

(In millions of SDRs)

	1981	1982	1983	1984	1985	1986
U.S. dollar						
Change in holdings	9,119	−4,554	12,970	22,274	−18,342	−379
Quantity change	−6,352	−13,381	4,128	10,083	3,450	18,621
Price change	15,471	8,827	8,842	12,192	−21,792	−19,000
Year-end value	170,418	165,864	178,834	201,108	182,766	182,386
Pound sterling						
Change in holdings	−1,865	619	906	2,005	292	−2,375
Quantity change	−979	1,273	1,268	3,375	−675	−1,613
Price change	−885	−654	−362	−1,370	966	−762
Year-end value	5,607	6,226	7,132	9,137	9,429	7,054
Deutsche mark						
Change in holdings	−4,309	−2,073	−294	6,992	7,512	−1,526
Quantity change	−2,494	−2,064	2,238	9,945	1,860	−7,475
Price change	−1,815	−9	−2,532	−2,952	5,653	5,948
Year-end value	33,734	31,661	31,367	38,359	45,871	44,345
French franc						
Change in holdings	−674	−358	−309	323	625	−102
Quantity change	−58	7	170	546	161	−299
Price change	−616	−365	−479	−223	463	197
Year-end value	3,618	3,260	2,951	3,274	3,898	3,797
Swiss franc						
Change in holdings	−1,047	−179	−503	−57	616	−2,233
Quantity change	−1,520	171	−265	604	−91	−3,139
Price change	473	−349	−238	−661	708	906
Year-end value	7,070	6,891	6,388	6,332	6,948	4,715
Netherlands guilder						
Change in holdings	−402	−50	−533	123	631	−242
Quantity change	−226	−23	−274	312	277	−640
Price change	−176	−26	−260	−189	355	398
Year-end value	2,914	2,864	2,331	2,453	3,085	2,843
Japanese yen						
Change in holdings	−109	757	1,364	4,173	5,397	−1,867
Quantity change	−233	849	579	4,377	3,259	−4,754
Price change	123	−92	786	−204	2,139	2,887
Year-end value	10,891	11,648	13,013	17,186	22,583	20,716
European Currency Unit						
Change in holdings	−4,727	−5,007	4,074	−3,959	−297	6,910
Quantity change	19	−2,598	8,441	−429	−4,551	3,820
Price change	−4,746	−2,408	−4,366	−3,530	4,254	3,090
Year-end value	42,931	37,925	41,999	38,040	37,742	44,653
Total identified holdings[2]						
Change in holdings	−4,014	−10,844	17,675	31,875	−3,567	−1,814
Quantity change	−11,844	−15,767	16,283	28,812	3,689	4,522
Price change	7,830	4,923	1,392	3,063	−7,256	−6,337
Year-end value	277,183	266,339	284,014	315,889	312,322	310,508
Total official holdings[3]						
Change in holdings	−306	−7,454	23,272	40,667	−788	17,256
Year-end value	292,539	285,085	308,357	349,024	348,236	365,492

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. This procedure converts the change in the quantity of national currency 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 and cumulating these differences yields the effect of price changes over the years shown.

[2] Each item represents the sum of the eight currencies above.

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

developing countries the share of reserves denominated in U.S. dollars fell by only 2 percentage points. Moreover, the share of instruments denominated in deutsche mark also fell, by 5 percentage points, while the shares of the pound sterling and the Japanese yen increased by 1 percentage point each.

PLACEMENT OF OFFICIAL HOLDINGS OF FOREIGN EXCHANGE

The growth in total official holdings of foreign exchange in 1986 was accompanied by a continued diversification in the placement of official holdings. The biggest change was an SDR 19 billion increase in the U.S. dollar claims on residents of the United States, but an SDR 12 billion rise in the liabilities of residents of the United States to foreign official institutions was also significant (Table I.4). In addition, the share of Eurocurrencies in total official holdings of foreign exchange reserves declined in 1986 for the second consecutive year, while the relative importance of ECUs increased.

Table I.4.

Placement of Official Holdings of Foreign Exchange Reserves, End of Year 1979–86[1]

(In billions of SDRs)

	1979	1980	1981	1982	1983	1984	1985	1986
Liabilities of residents of the United States to foreign official institutions	109	123	139	149	163	178	159	171
Items not included in reported official U.S. dollar holdings[2]	−13	−22	−36	−50	−52	−46	−41	−34
Reported official U.S. dollar claims on residents of the United States	96	101	103	99	111	132	118	137
Reported official claims on residents of other countries denominated in the debtor's own currency	30	41	39	38	40	46	56	61
Subtotal	126	142	142	137	151	178	174	198
Identified official holdings of Eurocurrencies								
Eurodollars	49	54	58	56	57	66	60	54
Other currencies	25	34	32	30	33	38	41	35
Subtotal	74	88	90	86	90	104	101	89
European Currency Units	33	48	43	38	42	38	38	45
Residual[3]	17	15	19	25	25	29	35	34
Total official holdings of foreign exchange	250	293	293	285	308	349	348	366

Sources: International Monetary Fund, *International Financial Statistics*; U.S. Treasury Department, *Bulletin*; and Fund staff estimates.

[1] Official foreign exchange reserves of Fund members and certain other countries and areas, including Switzerland. Beginning in April 1978, Saudi Arabian holdings exclude the foreign exchange cover against a note issue, which amounted to SDR 4.3 billion at the end of March 1978.

[2] Mainly U.S. dollars deposited with the European Monetary Cooperation Fund in connection with the issuance of European Currency Units, U.S. obligations to official institutions in countries not reporting to the Fund, and U.S. obligations that are not classified as foreign exchange reserves in the reports provided to the Fund by the holders.

[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.

Appendix II

The Fund in 1986/87

FUND MEMBERSHIP, PARTICIPATION IN THE SDR DEPARTMENT, AND QUOTAS

During the year ended April 30, 1987, the membership of the Fund increased from 149 to 151, with all members also participating in the SDR Department. Kiribati became a member of the Fund on June 3, 1986, with a quota of SDR 2.5 million, and Poland became a member on June 12, 1986, with a quota of SDR 680 million, raising the total of members' quotas in the Fund to SDR 89,987.6 million.[1]

The Fund's Articles of Agreement require a general review of members' quotas to be conducted by the Board of Governors at intervals of not more than five years. The Eighth General Review of Quotas was concluded on March 31, 1983 and, consequently, the Board of Governors is required to conduct the Ninth General Review by March 31, 1988 and, if it deems it appropriate, to propose an adjustment of the quotas of members. Under Rule D-3 of the Fund's Rules and Regulations, work on the quota review is undertaken in the first instance by the Executive Board's Committee of the Whole. Such a Committee was established on March 27, 1987 to study the matter and prepare a written report. The Committee held its initial discussions relating to the Ninth General Review of Quotas on July 6 and 7, 1987.

GENERAL DEPARTMENT

GENERAL RESOURCES ACCOUNT

Purchases

During 1986/87 the reserve tranche purchases made by eight members totaled SDR 516 million, compared with SDR 160 million (by three developing members) in the previous financial year.[2] These reserve tranche purchases were mostly in connection with intra-EC settlements totaling SDR 327 million by Denmark (SDR 223.0 million) and the Netherlands (SDR 103.7 million); the other purchases totaling SDR 155 million were made by two new members, Poland (SDR 154.4 million) and Kiribati (SDR 0.5 million) to repay loans made to permit them to make reserve asset payments as part of their quota subscriptions; and small purchases totaling SDR 34 million were made by four developing members. Credit tranche purchases totaling SDR 2.3 billion by 36 developing countries were slightly lower than in the previous year (SDR 2.8 billion by 33 developing countries). The largest purchases were by China (SDR 597.7 million), Mexico (SDR 450 million), Argentina (SDR 236.5 million), Thailand (SDR 110 million), Bangladesh (SDR 96 million), Uruguay (SDR 88 million), and Yugoslavia (SDR 67.5 million). About one third (SDR 0.8 billion) of these purchases was financed with borrowed resources under the enlarged access policy (Tables II.2, II.4, and II.10).

Stand-By Arrangements

Stand-by arrangements were approved for 22 members in a total amount of SDR 4.1 billion, compared with SDR 2.1 billion for 18 members in 1985/86. The amounts ranged from SDR 1.4 billion (Mexico) to SDR 5.13 million (The Gambia). Thirteen arrangements (Côte d'Ivoire, Ecuador, Gabon, Ghana, Jamaica, Madagascar, Mexico, Morocco, Niger, the Philippines, Senegal, Togo, and Zaïre) were financed under the enlarged access policy (Tables II.3 and II.6). Five stand-by arrangements expired with undrawn balances and five were canceled prior to the expiration dates. New commitments in 1986/87 consisted of SDR 2.2 billion of ordinary resources and SDR 1.9 billion of borrowed resources.[3]

Extended Fund Facility

The Executive Board in its latest review in May 1987 decided that the provisions of the extended Fund facility and the guidelines on conditionality will

[1] Poland earlier became a member of the Fund on January 10, 1946 and withdrew from membership effective March 14, 1950.

[2] Reserve tranche purchases represent a use of members' own reserves held in the form of reserve positions in the Fund and therefore do not constitute use of Fund credit. A member has a reserve tranche position to the extent that the Fund's holdings of the member's currency in the General Resources Account, after deducting holdings of the member's currency resulting from all other purchases (i.e., in the credit tranches, under the extended Fund facility, and under the special facilities), are less than its quota.

[3] The figures in this paragraph should be adjusted upward, possibly to the extent of SDR 0.8 billion, if the oil price contingency mechanism in the stand-by arrangement for Mexico becomes operative.

remain in force in the present circumstances.[4] The Fund will review the provisions of the facility at an appropriate time pursuant to paragraph 12 of the guidelines on conditionality. During 1986/87 one extended arrangement (Malawi) was canceled before the expiration date, and only one such arrangement (Chile) was in effect at the end of April 1987 (Table II.7). Total purchases under extended arrangements during 1986/87 amounted to SDR 250 million, compared with SDR 498 million during 1985/86 (Tables II.2 and II.10).

Compensatory Financing Facility

Under this facility, which was established in 1963, the Fund provides assistance to members experiencing balance of payments difficulties arising from temporary export shortfalls or (since May 13, 1981) from increases in the cost of cereal imports caused by factors largely beyond their control. The application of the facility for members facing excesses in cereal import costs, which is available until May 1989, was reviewed in May 1987.[5]

During 1986/87 eight members purchased a total of SDR 593 million (SDR 490 million in 1985/86) under the decision relating to export shortfalls and no purchases were made under the decision relating to cereal import excesses. The outstanding purchases under both elements of the facility as of end-April 1987 amounted to SDR 4.8 billion, as against a total of SDR 6.4 billion outstanding at end-April 1986 (Table II.9).

Buffer Stock Financing Facility

Assistance under this facility (established in 1969) is available to members with a balance of payments need for financing their contributions to approved international commodity agreements. At present only one such agreement, the 1979 International Natural Rubber Agreement (extended until October 1987), qualifies for Fund support. No purchases under this facility have been made during the last three years and as of April 30, 1987, outstanding purchases totaled SDR 33.6 million (Bolivia, Côte d'Ivoire, Sri Lanka, and Thailand), compared with SDR 73.4 million at April 30, 1986.

Repurchases

Repurchases during 1986/87 amounted to SDR 6,169 million, compared with SDR 4,289 million in 1985/86 (Tables II.5 and II.8). The bulk of the repurchases, SDR 3,967.7 million (64 percent), related to purchases financed with ordinary resources and the remaining 36 percent (SDR 2,194.1 million) was in respect of purchases financed with borrowed resources under the supplementary financing facility and the enlarged access policy. Repurchases equivalent to SDR 7.5 million relating to purchases made prior to the Second Amendment were attributed to the reserve tranche. Repurchases relating to purchases under the compensatory financing facility (SDR 2,244.5 million) accounted for about one third of total repurchases, as in the previous year. The largest repurchases were made by Brazil (SDR 623 million), Argentina (SDR 457 million), India (SDR 456 million), South Africa (SDR 367 million), Yugoslavia (SDR 362 million), and Turkey (SDR 344 million). Six members, Belize, Madagascar, Mauritania, Romania, Swaziland, and Tanzania, made repurchases in advance of the due dates for a total of SDR 38.1 million (SDR 1.2 million, SDR 10.9 million, SDR 0.1 million, SDR 22.8 million, SDR 2.3 million, and SDR 0.8 million, respectively).

Fund Liquidity

The Fund's liquid resources comprise the usable currencies and SDRs in the General Resources Account, supplemented as and when necessary by borrowed resources[6] (Table II.10). Usable currencies represent the largest component, comprising currencies of 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 through the quarterly operational budgets. In assessing the adequacy of the Fund's liquidity, due allowance is made for financing balance of payments assistance to members, for maintaining the liquidity of members' reserve positions and loan claims on the Fund (which are encashable upon representation of balance of payments need), and for servicing the Fund's outstanding borrowing. The stock of ordinary usable resources increased from SDR 37.1 billion on April 30, 1986 to SDR 39.3 billion as of April 30, 1987, mainly owing to a change in the list of usable currencies. Borrowed resources available to finance the policy on enlarged access totaled SDR 7.1 billion as of April 30, 1987, in comparison with SDR 4.2 billion at end-April 1986. Liquid claims on the Fund, which amounted to

[4] The extended Fund facility was established in 1974. See Executive Board Decision No. 4377-(74/114), adopted September 13, 1974, as amended by Decisions Nos. 6339-(79/179), adopted December 3, 1979, and 6830-(81/65), adopted April 22, 1981, effective May 1, 1981, *Selected Decisions*, Thirteenth Issue, pages 33–37. See Executive Board Decision No. 8583-(87/72), adopted May 8, 1987 (reproduced in Appendix III).

[5] Executive Board Decision No. 6860-(81/81), adopted May 13, 1981, as amended by Decisions Nos. 7602-(84/3), January 6, 1984, and 7967-(85/69), May 3, 1985, *Selected Decisions*, Thirteenth Issue, pages 89–94. See Executive Board Decision No. 8586-(87/73), adopted May 13, 1987 (reproduced in Appendix III).

[6] The Fund's holdings of gold (103 million ounces) are not included in the category of readily usable resources. The sale of any of this gold for any purpose requires an 85 percent majority of the total voting power of the Fund, and the use of the value in excess of SDR 35 an ounce is also subject to special majorities.

SDR 36.7 billion, consisted of SDR 12.7 billion in loan claims and SDR 24.0 billion in reserve tranche positions; these claims were held largely by members in strong balance of payments positions.

Borrowing

The Fund has from time to time temporarily supplemented its ordinary resources by borrowing from official sources.

During 1986/87 the Fund borrowed SDR 0.9 billion and repaid SDR 2.8 billion, resulting in a net decrease in total outstanding borrowing of SDR 1.9 billion, from SDR 14.6 billion at end-April 1986 to SDR 12.7 billion at end-April 1987. All new borrowing was undertaken to finance the policy on enlarged access, whereas repayments included borrowings both under enlarged access and the supplementary financing facility.[7] The borrowing outstanding under the supplementary financing facility amounted to SDR 3.4 billion as of April 30, 1987. On the same date, the Fund had available credit lines totaling SDR 24.8 billion, representing unused lines of credit of SDR 3.3 billion with the Saudi Arabian Monetary Agency (SAMA) to finance the policy on enlarged access, SDR 3.0 billion from the Government of Japan, and SDR 18.5 billion under the General Arrangements to Borrow (GAB).[8] Under the current guidelines, the ratio of the Fund's outstanding borrowing, plus unused credit lines, to the total of Fund quotas should not exceed the range of 50–60 percent.[9] As of April 30, 1987 this ratio was 35 percent.

The assets (denominated in SDRs) invested in the Borrowed Resources Suspense Accounts pending disbursements to finance purchases under the policy on enlarged access amounted to SDR 0.7 billion as of April 30, 1987[10] and consisted wholly of deposits with the Bank for International Settlements.

Nearly three fourths of the total resources borrowed under the policy on enlarged access (SDR 15.3 billion) have been made available under the medium-term borrowing agreement with SAMA for SDR 8 billion agreed in May 1981,[11] and the supplementary borrowing agreement for SDR 3 billion with SAMA agreed in April 1984. The drawdown periods under these agreements were due to expire on May 6, 1987. However, in view of the delays experienced in some purchases to be financed with borrowed resources, it was agreed with SAMA in December 1986 to extend the drawdown periods. The drawdown period under the 1981 agreement, for an amount up to a maximum of SDR 500 million, was extended by six months to November 6, 1987, while the drawdown period for the 1984 supplementary agreement was extended to May 6, 1989.[12] As of April 30, 1987, the Fund had borrowed SDR 7.7 billion under the 1981 agreement with SAMA, leaving an undrawn balance of SDR 0.3 billion. The undrawn balance under the 1984 supplementary agreement with SAMA amounted to SDR 3 billion. The first repayments began in May 1985 and a total of SDR 1.2 billion had been repaid through April 30, 1987. The Fund had concluded short-term borrowing agreements with several official lenders under the enlarged access policy in 1981 and 1984.[13] As of April 30, 1987, borrowings under the 1981 agreements for SDR 1.3 billion had been fully repaid, and SDR 0.2 billion of the other short-term borrowings of SDR 3 billion had also been repaid.

In December 1986 the Fund entered into a new borrowing agreement with the Government of Japan.[14] Under this agreement the Fund may make drawings for an amount equivalent to SDR 3 billion during a period of four years from the date of the first drawing (SDR 15 million on March 31, 1987). This period may be extended for up to two years if warranted in light of the Fund's liquidity and borrowing requirements. The final maturity of each drawing will be five years after the date of the drawing. Interest will be based on the weighted average of six-month domestic interest rates for the five currencies comprising the SDR basket. All amounts, drawings, and payments under the borrowing agreement are denominated in SDRs.

SPECIAL DISBURSEMENT ACCOUNT

Structural Adjustment Facility

The structural adjustment facility was established in March 1986 within the Special Disbursement Account of the General Department with the resources accruing over the period 1985–91 from repayments of Trust Fund loans totaling about SDR 2.7 billion. It aims to provide additional concessional balance of payments assistance (at an interest rate of ½ of 1 percent per annum repayable in ten equal semian-

[7] For further details, see *Annual Report, 1985,* page 72.

[8] For further details regarding the GAB, the supplementary financing facility, and borrowing to finance enlarged access, see *Annual Report, 1985,* pages 72 and 73.

[9] Executive Board Decision No. 7040-(82/7), adopted January 13, 1982, as amended by Decision No. 7589-(83/181), adopted December 23, 1983, *Selected Decisions,* Thirteenth Issue, pages 287–89. In computing this ratio, the amount included for the GAB and borrowing arrangements associated with the GAB is outstanding borrowing under these arrangements (nil as of April 30, 1987), or two thirds of the total of credit lines under these arrangements, whichever is the greater.

[10] For further details on Borrowed Resources Suspense Accounts and Investments, see *Annual Report, 1986,* page 65.

[11] For the text of this agreement, see *Selected Decisions,* Thirteenth Issue, pages 207–36.

[12] See Executive Board Decision No. 8460-(86/189), adopted December 1, 1986 (reproduced in Appendix III).

[13] For further details regarding these arrangements, see *Annual Report, 1985,* page 73.

[14] See Executive Board Decision No. 8486-(86/205), adopted December 19, 1986 (reproduced in Appendix III).

nual installments over 5½–10 years) to low-income countries that qualify for loans under the facility.[15] On April 30, 1987, 62 countries were eligible for assistance under the structural adjustment facility; of this group, the 2 largest countries, China and India, had indicated that they would not avail themselves of the facility, thus enlarging the amounts available to other eligible countries.[16] As from July 1987, the potential access of each eligible member under the facility will be the equivalent of 63.5 percent of its quota to be disbursed over three years, of which up to 20 percent and 30 percent of quota would be available in the first and second years, respectively. There is a provision for possible further enlargement of access under the structural adjustment facility over time in light of experience with the facility.

As of April 30, 1987, ten member countries had three-year arrangements under the facility for a total amount of SDR 327.45 million, of which SDR 139.34 million had been disbursed, leaving undrawn balances under these arrangements of SDR 188.11 million (see Table II.12). Eight of these arrangements were for member countries that also had stand-by arrangements. The Fund will review the operations of the facility not later than May 31, 1988, and determine, inter alia, the disposition of any uncommitted balances available in the period through mid-1991.

SDR DEPARTMENT

Total SDRs issued remained at SDR 21.4 billion as there have been no fresh allocations or cancellations since January 1, 1981. In accordance with the guidelines in the Executive Board's decision to reduce the level of the Fund's SDR holdings in the General Resources Account to about SDR 1 billion by the end of May 1987,[17] the Fund made net transfers of about SDR 0.8 billion to members during the financial year 1986/87. As a result, the share of SDRs held by the Fund fell from 13 percent to 9 percent over the year ended April 30, 1987, while that of participants rose from 87 percent to 91 percent. The volume of activity in 1986/87 as measured by total transfers of SDRs remained at roughly the same level as in 1985/86 (Table II.13). For the fourth consecutive year, transactions by agreement exceeded those with designation, with an increasing margin between the two types of SDR transactions. Transfers among participants and prescribed holders increased by 28 percent to SDR 6.3 billion, largely owing to a 47 percent rise in transactions by agreement. The volume of SDR transfers involving prescribed holders increased by more than 50 percent, from SDR 439 million in 1985/86 to SDR 679 million in 1986/87.

The amounts of SDRs transferred between participants and the Fund declined by about 13 percent over the previous financial year in contrast to the modest increase in such transfers during 1985/86. Transfers from participants to the General Resources Account for charges and repurchases declined by 3.5 percent to SDR 3,954 million, and transfers from the General Resources Account to participants (for purchases, remuneration, sales to members needing SDRs for payment of charges, and interest on and repayments of Fund borrowings) declined by 20 percent to SDR 5,037 million.

PATTERN OF HOLDINGS

SDRs may be held by the Fund's General Resources Account, by Fund members that are participants in the SDR Department (currently all members), and by official entities prescribed by the Fund. The number of institutions prescribed by the Fund as eligible to accept, hold, and use SDRs increased to 16 during the year under review with the prescription of 2 development institutions (the African Development Bank and the African Development Fund) as holders on June 25, 1986.[18] Prescribed holders cannot receive allocations of SDRs, nor use them in transactions with designation, but they can acquire and use SDRs in transactions and operations with participants in the SDR Department and other prescribed holders under the same terms and conditions as participants.

In the absence of further allocations, the pattern of SDR holdings reflects redistributions of the existing stock. The reduction in the Fund's holdings of SDRs from SDR 2.7 billion at the end of financial year 1986 to about SDR 2.0 billion at the end of financial year 1987 was reflected in a corresponding increase in the holdings of participants and pre-

[15] For details see *Annual Report, 1986,* pages 48–49 and Appendix III. At the review in January 1987, the Executive Board decided to provide for special charges on overdue obligations under the structural adjustment facility on terms identical to those in effect for overdue Trust Fund obligations. See Executive Board Decision No. 8497-(87/3) SAF, adopted January 7, 1987 (reproduced in Appendix III).

[16] Kiribati and Tonga were added to the list (see Executive Board Decision No. 8542-(87/36) SAF, adopted March 2, 1987 (reproduced in Appendix III).

[17] Executive Board Decision No. 8265-(86/70)S, adopted April 25, 1986, *Selected Decisions,* Thirteenth Issue, page 112.

[18] The category of prescribed holders currently comprises four central banks; three intergovernmental monetary institutions; and nine development institutions: the African Development Bank, Abidjan; the African Development Fund, Abidjan; the Andean Reserve Fund, Bogotá; the Arab Monetary Fund, Abu Dhabi; the Asian Development Bank, Manila; the Bank of Central African States, Yaoundé; the Bank for International Settlements, Basle; the Central Bank for West African States, Dakar; the East African Development Bank, Kampala; the Eastern Caribbean Central Bank, Basseterre, St. Kitts and Nevis; the International Bank for Reconstruction and Development, Washington, D.C.; the International Development Association, Washington, D.C.; the International Fund for Agricultural Development, Rome; the Islamic Development Bank, Jeddah; the Nordic Investment Bank, Helsinki; and the Swiss National Bank, Zürich.

scribed holders (Tables II.14 and II.15). The increase in participants' holdings accrued to all major country groupings with the exception of developing countries in the Middle East and Western Hemisphere. The SDR holdings of the developing countries as a group remained virtually unchanged, whereas those of the industrial countries increased by 4.4 percent in 1986/87. The highest level of end-of-month holdings of prescribed holders was SDR 89 million in October 1986 and the lowest was SDR 17 million in December 1986.

TRANSACTIONS AND OPERATIONS AMONG PARTICIPANTS AND PRESCRIBED HOLDERS

Transactions with Designation

Participants with a balance of payments need can use SDRs through the designation mechanism to obtain currencies from other participants designated by the Fund. The decline of transactions with designation from SDR 1,809 million in 1985/86 to SDR 1,276 million in 1986/87 was in line with the lower level of SDRs received by members in purchases from the Fund; as in recent years, about 70 percent of the SDRs received in purchases from the Fund were used immediately in transactions with designation, and the remainder were added to participants' holdings or used to pay charges to the Fund. All transactions with designation in 1986/87, except for SDR 27 million, represented immediate use of SDRs acquired from the Fund in purchases. Of the 21 countries designated to provide currency in exchange for SDRs (compared with 20 countries in 1985/86), 15 industrial countries were designated for SDR 1,257 million and 6 developing countries for SDR 18 million. In part this division reflects the fact that 5 developing countries held SDRs in excess of their acceptance limits. Seventy-five percent of the total amount of currencies exchanged with designation was provided, in order of magnitude, by only five participants (the United Kingdom, Canada, France, Italy, and the Federal Republic of Germany).

Transactions by Agreement

Participants have acquired SDRs in transactions by agreement mainly to discharge obligations to the Fund such as charges (which must be paid in SDRs) and repurchases (which may be paid in SDRs). The total value of such transactions in 1986/87 (SDR 3,925 million, of which SDR 142 million involved prescribed holders) was 47 percent higher than in 1985/86. Although the use of SDRs to discharge obligations to the Fund was little changed (a decline in the amount of charges was approximately offset by the increased use of SDRs in repurchases), a reduction in 1986/87 in the acquisition of SDRs from the Fund to pay charges led to large acquisitions of SDRs from other members through transactions by agreement.

During 1986/87 there was a further rise in the number of standing arrangements to buy and/or sell SDRs whereby the Fund arranges transactions by agreement, on behalf of the parties to the arrangements, with participants and prescribed holders wishing to buy or sell SDRs in voluntary transfers. Under these arrangements, participants specify the maximum amount of SDRs they wish to buy or sell, or a maximum or minimum level of holdings they wish to obtain through one or more transactions by agreement, and the period of time during which the Fund is authorized to arrange transactions on their behalf.

Participants entering into standing arrangements to sell are generally countries with a strong balance of payments position and rising SDR holdings because of, among other things, receipts of SDRs in designation and in remuneration on creditor positions. Such arrangements, which do not require balance of payments need, facilitate reserve management. Eight participants entered into standing arrangements to sell SDRs in 1986/87. Standing arrangements to buy SDRs are generally entered into by those countries that wish to add to their SDR holdings in advance of payment of charges or of repurchases. Nine participants entered into such arrangements in 1986/87.

In 1986/87 two participants entered into "two-way" arrangements that allow the Fund to arrange sales and purchases of SDRs on behalf of these participants provided that the participants' SDR holdings remain within a range of approximately 25 percent above or below their net cumulative allocations. If such two-way arrangements should become sufficiently numerous and large, they could further improve the liquidity of SDRs and further reduce reliance on the designation mechanism.

In addition to the above arrangements, several participants that have experienced frequent technical delays in paying Fund-related obligations on time have established arrangements under which they acquire periodically sufficient SDRs with which to discharge forthcoming financial obligations to the Fund, including Trust Fund obligations which are payable in currency. For the settlement of the latter type of obligation, the Fund arranged on behalf of these members any necessary conversions of SDRs into currency.

Additional Uses of SDRs

The Fund permits a variety of additional uses of SDRs among participants and prescribed holders, namely, for settlement of financial obligations, forward operations, swaps, donations (grants), and as security for performance of financial obligations. SDRs may also be borrowed, lent, or pledged. Two additional prescribed operations in SDRs that were authorized in 1985/86[19] were used for the first time

[19] Executive Board Decisions Nos. 8186-(86/9) SBS/S, adopted January 15, 1986, and 8239-(86/56) SAF, adopted March 26, 1986, *Selected Decisions*, Thirteenth Issue, pages 344 and 345.

in 1986/87. These operations permitted prescribed holders to transfer to participants SDRs held as the counterpart of SDR-denominated investments made with them by the Supplementary Financing Facility Subsidy Account and the Special Disbursement Account. The second decision also enables members to pay obligations arising under the structural adjustment facility by transferring SDRs to a prescribed holder, for the purpose of constituting an investment on behalf of the Special Disbursement Account.

The overall activity involving additional uses of SDRs in 1986/87 amounted to 79 transfers totaling SDR 786 million as against 46 transfers for a total of SDR 111 million in 1985/86. The rise was due in part to the indirect use of the SDR for the disbursement of structural adjustment facility loans in the amount of SDR 112.6 million.[20] In addition, this year's supplementary financing facility subsidies were disbursed for the first time directly in SDRs in the amount of SDR 59.7 million. Remaining uses were to settle financial obligations in the amount of SDR 478.1 million and in loans amounting to SDR 135.6 million. As in past years, a prescribed holder which uses a unit of account pegged to the SDR and makes loans in SDRs to its members was again active in the use of SDRs in its loan disbursements and in receipt of interest and repayment of loans.

TRANSFERS INVOLVING THE FUND

Inflows

Most uses of SDRs are between participants and the Fund. Receipts of SDRs by the General Resources Account in 1986/87 fell to SDR 4.3 billion, a decline roughly equal to the fall in interest received on its declining SDR holdings (SDR 162 million). This amount mainly reflects payment of charges on members' use of Fund resources (SDR 2,283 million) and repurchases made in SDRs (at participants' option) which amounted to SDR 1,671 million (compared with SDR 1,183 million in 1985/86). Repurchases discharged in SDRs in 1986/87 (27 percent of total repurchases) were only marginally below the level of 1985/86 (28 percent).

Outflows

Transfers from the General Resources Account to participants declined by 20 percent to SDR 5,037 million in 1986/87. SDRs used in purchases, although somewhat less than in 1985/86, still represented the largest outflow of SDRs, followed by the remuneration of creditor positions. Repayment of Fund borrowing constituted the third largest outflow, followed by SDRs sold to members to pay charges to the Fund. The remaining outflows related to interest payments on Fund borrowing.

As noted above, the pattern of inflows and outflows of SDRs resulted in a decline from SDR 2,722 million to SDR 1,960 million in the Fund's holdings of SDRs.[21]

SDR AS A UNIT OF ACCOUNT AND DENOMINATION AND AS A CURRENCY PEG

The SDR, which is the unit of account for Fund transactions and operations and for its administered accounts, is also used by a number of international and regional organizations as a unit of account (or as the basis for the unit of account, that is, in cases where the unit actually used is equivalent in value to one or more SDRs).[22] A number of international conventions also use the SDR to express monetary magnitudes, notably those expressing liability limits in the international transportation of goods and services. The International Air Transport Association uses movements in the exchange rate of a currency against the SDR as a trigger for a review and possible revision of cargo tariffs, which are specified in local currency. In addition, the SDR has been used to denominate financial instruments created outside the Fund (private SDRs), but the market for private SDR deposits is still very limited. After some activity in 1980/81, there have been no new issues of securities or bank credits denominated in SDRs.

At the end of April 1987, the currencies of ten member countries were pegged to the SDR. 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 these currencies as calculated and published by the Fund.

[20] Total structural adjustment facility loan disbursements in 1986/87 were equivalent to SDR 139.3 million, of which structural adjustment facility loans in SDRs amounted to SDR 112.6 million. SDR 45.5 million of the latter was converted into a freely usable currency in transactions with designation. Disbursement of loans under this facility in SDRs is through the intermediary of a prescribed holder, as described above.

[21] In April 1987 the Executive Board decided that the Fund would aim to maintain the level of the Fund's SDR holdings within the approximate range of SDR 0.75–1.25 billion (Executive Board Decision No. 8574-(87/64)S, adopted April 24, 1987, reproduced in Appendix III).

[22] The international and regional organizations using the SDR as a unit of account, or as the basis for a unit of account, include the African Development Bank, African Development Fund, Arab Monetary Fund, Asian Clearing Union, Asian Development Bank, Great Lakes States Development Bank, East African Development Bank, Economic Community of West African States, European Conference of Postal and Telecommunications Administrations, International Center for Settlement of Investment Disputes, International Development Association, International Fund for Agricultural Development, International Telecommunications Union, Islamic Development Bank, Nordic Investment Bank, and Universal Postal Union.

ACCOUNTS ADMINISTERED BY THE FUND

SUPPLEMENTARY FINANCING FACILITY SUBSIDY ACCOUNT

The Supplementary Financing Facility Subsidy Account was established in December 1980 to reduce the cost of using the supplementary financing facility for low-income developing members. This Account was constituted by transfers from the Special Disbursement Account of interest on, and repayments of, Trust Fund loans (SDR 405.4 million), by donations (SDR 57.4 million) (Table II.16), and by loans and the income on investment of resources held pending disbursement (SDR 46.6 million).[23] For the first time, the subsidy paid for the year ended June 30, 1986 was below the 3 percent and 1½ percent rates paid in earlier years, as a consequence of reductions in the interest rate on supplementary financing facility loans to the Fund and the charges to members reflecting those reductions. It was paid within a range of 2.54–2.70 percent per annum for those members eligible to receive the full rate of subsidy and between 1.30 percent and 1.34 percent per annum for those eligible to receive one half of the full rate of subsidy.[24] The subsidy payments amounted to SDR 59.7 million in 1986/87[25] and have totaled SDR 366.8 million since the inception of the Account (Table II.17). Pending further subsidy payments, the resources of the Account are held in SDR-denominated investments with the Bank for International Settlements and the International Bank for Reconstruction and Development (IBRD).[26] Investments were first placed with the IBRD account in July 1986. The SDRs held by the IBRD as the counterpart of these investments (see the section above, "Additional Uses of SDRs") were used when effecting the subsidy payments so that for the first time the medium of payment of subsidies was SDRs. As of April 30, 1987 the interest-earning deposits of the Subsidy Account amounted to SDR 93.2 million, plus accrued income of SDR 4.3 million.

[23] For details see *Annual Report, 1986,* pages 68–69.

[24] The basis for the calculation of the subsidy was changed in February 1987 (Decision No. 8523-(87/25) SBS, adopted February 6, 1987) so as to exclude the effect of increases in the rate of charge on ordinary resources pursuant to Executive Board Decision No. 8348-(86/122), adopted July 25, 1986 (*Annual Report, 1986,* pages 104–105). See Executive Board Decision No. 8381-(86/143) SBS, adopted August 29, 1986 (reproduced in Appendix III).

[25] This comprises SDR 54.6 million of subsidy disbursed for the year ended June 30, 1986 and SDR 5.1 million disbursed for the year ended June 30, 1985 upon payment of the relevant supplementary financing facility charges.

[26] Executive Board Decision No. 7990-(85/81), adopted May 28, 1985, *Selected Decisions,* Thirteenth Issue, page 141.

NET INCOME POSITION, CHARGES, AND REMUNERATION

The Fund aims at achieving positive income each financial year both to cover its expenses and to add a target amount of income to its reserves, while at the same time retaining a concessional element in the rate of charge on the use of its ordinary resources and paying an appropriate remuneration to creditor members for the use of their currencies in financing the Fund's operations. In accordance with these objectives, the Fund reviews its income position at the beginning of each financial year and at midyear and determines the rate of charge (at the beginning of each financial year) in the light of projections in the cost and use of Fund resources. Income in excess of the target amount of income for the year may be either placed in reserves, or used retroactively to increase the rate of remuneration (to not more than the rate of interest of the SDR) or to reduce the rate of charge, or deemed as income for the subsequent year.

The Fund's net income target for the financial years 1987 and 1988 was set at 7.5 percent of the Fund's reserves at the beginning of the year.[27] The basic rate of charge on use of ordinary resources was set at 6 percent at the beginning of financial year 1987. This took into account the need to generate an amount equal to one half of the increase of the net income target from 5 percent to 7.5 percent, but excluded any allowances for deferred charges.[28] After the end of financial year 1987 this basic rate was reduced retroactively to 5.89 percent per annum because the Fund's net income exceeded the amount targeted at the beginning of the financial year.

The rate of remuneration, which is determined as a proportion of the SDR interest rate (under Rule I-10(a), (b), and (c)), was set at 97.49 percent of the SDR interest rate for the first three quarters of financial year 1987 and at 100 percent with effect from February 1, 1987. The rate of remuneration is subsequently adjusted after the end of each quarter to offset the impact on income of charges deferred during the quarter and to generate one half of the increase in the net income target from 5 percent to 7.5 percent of reserves. The adjustments to the rate of charge and to the rate of remuneration were initially set to be made at the end of the six months ending October 31 and April 30 (the adjustment periods). However, in November 1986, the Executive Board decided that the adjustment periods should be quarterly and that, in future, the adjustment to

[27] Executive Board Decision No. 8348-(86/122), adopted July 25, 1986; see *Annual Report, 1986,* pages 104–105.

[28] Deferred charges are charges on ordinary and borrowed resources payable by members that are overdue by six months or more. Deferred charges are not recognized as income until they are settled.

charges and to remuneration will be made after each of the Fund's financial quarters.[29]

The adjustments, which are to be applied retroactively to charges and remuneration due for the adjustment period, are determined as follows. If income from charges, excluding special charges, becomes deferred during an adjustment period, the rate of charge and the rate of remuneration are adjusted so as to generate, in equal amounts, an additional amount of income equal to the amount of deferred charges. In addition, the adjustment to the rate of remuneration generates one half of the increase in the net income target from 5 percent to 7.5 percent of reserves. The average rate of remuneration for an adjustment period is not to be reduced below 85 percent of the SDR interest rate, and the Executive Board reviews the operation of the decision in the event that this limit is reached. For the quarter ended January 31, 1987, this limit was reached, and the Executive Board decided the unfinanced amount of deferred income that could be carried forward by deeming it to be deferred income of the last quarter of the financial year was to be financed by the adjustments for that quarter.[30]

It was also decided that upon settlement of deferred charges, the proceeds of the settlement are to be paid to the members that have paid the related additional charges, or that have received reduced remuneration, as a result of the adjustments.[31] This refund is in proportion to any adjustment made to recover deferred income in financial year 1987 or 1988 and is to be distributed quarterly to members, when and to the extent that charges whose deferral had given rise to the same adjustment are paid to the Fund.

INCOME, EXPENSE, AND RESERVES

The Fund recorded a net income of SDR 86 million for the year ended April 30, 1987, compared with a net income of SDR 78 million in 1985/86. Income, net of deferred income, from periodic charges on use of ordinary resources of the Fund amounted to SDR 2,089 million as against SDR 2,740 million in 1985/86. The decrease in the amount of periodic charges reflects a lower average rate of charge on the use of ordinary resources and a fall in market-related interest rates on which the Fund bases the charge for the use of resources financed by borrowing, combined with a decline in the average balances to which the rates were applied.

	1985/86	1986/87
Average rate of charge	*(In percent)*	
Ordinary resources (adjusted)	7.0	6.38
Borrowed resources	8.31	7.22
Average balances	*(In millions of SDRs)*	
Ordinary resources	19,657	18,545
Borrowed resources	15,020	14,721

Income from service charges decreased from SDR 20 million in 1985/86 to SDR 16 million in 1986/87, which reflects a smaller use of new Fund credit than in the previous year.

The decline in the average SDR holdings of the Fund from SDR 3,538 million in 1985/86 to SDR 2,394 million in 1986/87, coupled with a decline in the average SDR interest rate from 7.44 percent in 1985/86 to 6.01 percent in 1986/87, resulted in a decrease of SDR 119 million in interest income on the Fund's SDR holdings, from SDR 263 million in 1985/86 to SDR 144 million in 1986/87.

In view of the protracted overdue obligations, the Fund decided, inter alia, to place SDR 26.5 million of income in a Special Contingent Account recorded separately in the Fund's financial statements. The amount placed in this Account shall be distributed to debtors and creditors in accordance with the principles of burden sharing when the need for this Account disappears.

Overall, the operational income of the Fund in 1986/87 (SDR 2,251 million) was SDR 778 million less than in 1985/86 (SDR 3,029 million). The Fund's operational expenses (remuneration on creditor positions, interest on Fund borrowing, and the allocation to the Special Contingent Account) decreased by SDR 754 million, from SDR 2,728 million in 1985/86 to SDR 1,974 million in 1986/87.

Remuneration costs were lower by SDR 432 million in 1986/87 (SDR 1,020 million in 1986/87 and SDR 1,452 million in 1985/86), primarily because of a lower average rate of remuneration (5.34 percent, adjusted for burden sharing in 1986/87, and 6.85 percent in 1985/86). This, in turn, reflected the fact that although the remuneration coefficient increased over the financial year from 97.49 percent to 100 percent, it was more than offset by the steady fall in market interest rates (to which the SDR interest rate and the rate of remuneration are linked) and by the retroactive adjustment in the rate of remuneration which reduced the effective coefficient for the year (88.5 percent of the SDR interest rate).

Average Fund borrowing declined somewhat over the year, from SDR 14,064 million in 1985/86 to SDR 13,628 million in 1986/87, and the average rate of interest on borrowing fell from 9.09 percent in 1985/86 to 6.94 percent in 1986/87. Consequently, the Fund's interest cost, net of income from the temporary investment of borrowed resources, declined by SDR 349 million, from SDR 1,276 million in 1985/86 to SDR 927 million in 1986/87. The Fund's total outstanding borrowing amounted to SDR 12,700

[29] Executive Board Decision No. 8481-(86/202), adopted December 17, 1986 (reproduced in Appendix III).

[30] Executive Board Decision No. 8515-(87/23), adopted February 6, 1987 (reproduced in Appendix III).

[31] Executive Board Decision No. 8482-(86/202), adopted December 17, 1986 (reproduced in Appendix III).

million on April 30, 1987 (SDR 14,556 million on April 30, 1986).

The Fund's net administrative expenses amounted to SDR 191 million in 1986/87, compared with SDR 233 million in 1985/86. Details on the Fund's income and expenses are provided in Appendix VIII (Financial Statements, pages 136–70).

CHARGES

In considering the Fund's income position, the Executive Board establishes, at the beginning of each financial year, a single basic rate of charge on the use of the Fund's ordinary resources, which is determined on the basis of estimates of the levels of the use of Fund resources, the Fund's income and expense (operational and administrative), and the target amount of net income to be added to the Fund's reserves for the year. The basic rate of charge for the financial year 1986/87 was initially set at 6.0 percent per annum. However, with the subsequent adjustments to the rate of charge to recover one half of net new deferred income during the year, and the decision taken by the Executive Board in June 1987 to return to debtors an amount of SDR 20.7 million of income deferred in 1985/86 that was received by the Fund in 1986/87, the average rate of charge on the use of the Fund's ordinary resources was 6.38 percent.

Members that use the Fund's borrowed resources pay charges that reflect the Fund's borrowing costs plus a margin. The rate of charge under the supplementary financing facility is equal to the rate of interest paid by the Fund plus a margin of 0.20 percent for the first three and one-half years that a purchase is outstanding, plus an additional 0.125 percent after three and one-half years. The rate of charge under the policy on enlarged access is the net cost of Fund borrowing plus 0.20 percent. In 1986/87 the average rate of charge on purchases under the supplementary financing facility was 7.11 percent (9.44 percent in 1985/86); and the average rate of charge under the enlarged access policy was 6.94 percent (9.18 percent in 1985/86).

The basis of special charges on overdue financial obligations to the Fund is as follows: the rate of charge on overdue repurchases is equal to the difference between the SDR interest rate and the basic rate of charge whenever the rate of charge before any adjustments for coverage of deferred income is below the SDR interest rate.[32] The rate of charge levied on overdue charges owing to the General Department is equal to the SDR interest rate. For the year ended April 30, 1987, special charges accruing to the Fund amounted to SDR 12.1 million, of which SDR 11.6 million was deferred income. The special charges included in current income for the year 1986/87 amounted to SDR 0.5 million.

REMUNERATION

The Fund pays remuneration to its creditor members whenever it uses a member's currency to the extent that the holdings are reduced below the "norm" for the member. The norm, which reflects members' subscriptions in reserve assets before the Second Amendment, varies from member to member, and at April 30, 1987 ranged between 88.49 percent and 98.95 percent of quotas.[33] For those countries that were members of the Fund at the time the Second Amendment of the Articles of Agreement entered into effect (April 1, 1978), the norm is equal to 75 percent of quota on that date, plus all increases in the member's quota after that date. For a member admitted to the Fund after that date, the norm is calculated as the weighted average of the norms of all other members on the date of membership, plus all increases in the member's quota paid after the date on which the member joined the Fund. The average norm for all members at April 30, 1987 (91.73 percent) remained unchanged from the previous year.

The rate of remuneration is linked to the SDR interest rate since the Articles of Agreement provide that the rate of remuneration shall not be less than 80 percent nor more than 100 percent of the SDR interest rate.[34] In January 1984, the Executive Board decided that the remuneration coefficient—the ratio of the rate of remuneration to the SDR interest rate—was to be raised on May 1 in each of the years 1984, 1985, and 1986 to specified levels, with provision for additional quarterly adjustments (increases and decreases during each year within specified limits) depending on developments in the SDR interest rate, compared with that rate (8.91 percent) on April 30, 1984. It was also decided that any adjustment to the rate of remuneration to meet the creditors' share of the increased income target and deferred charges should not reduce the coefficient below 85 percent

[32] See Executive Board Decisions Nos. 8433-(86/175), adopted October 31, 1986, 8442-(86/178), adopted November 6, 1986, and 8496-(87/3) G/TR, adopted January 7, 1987 (reproduced in Appendix III).

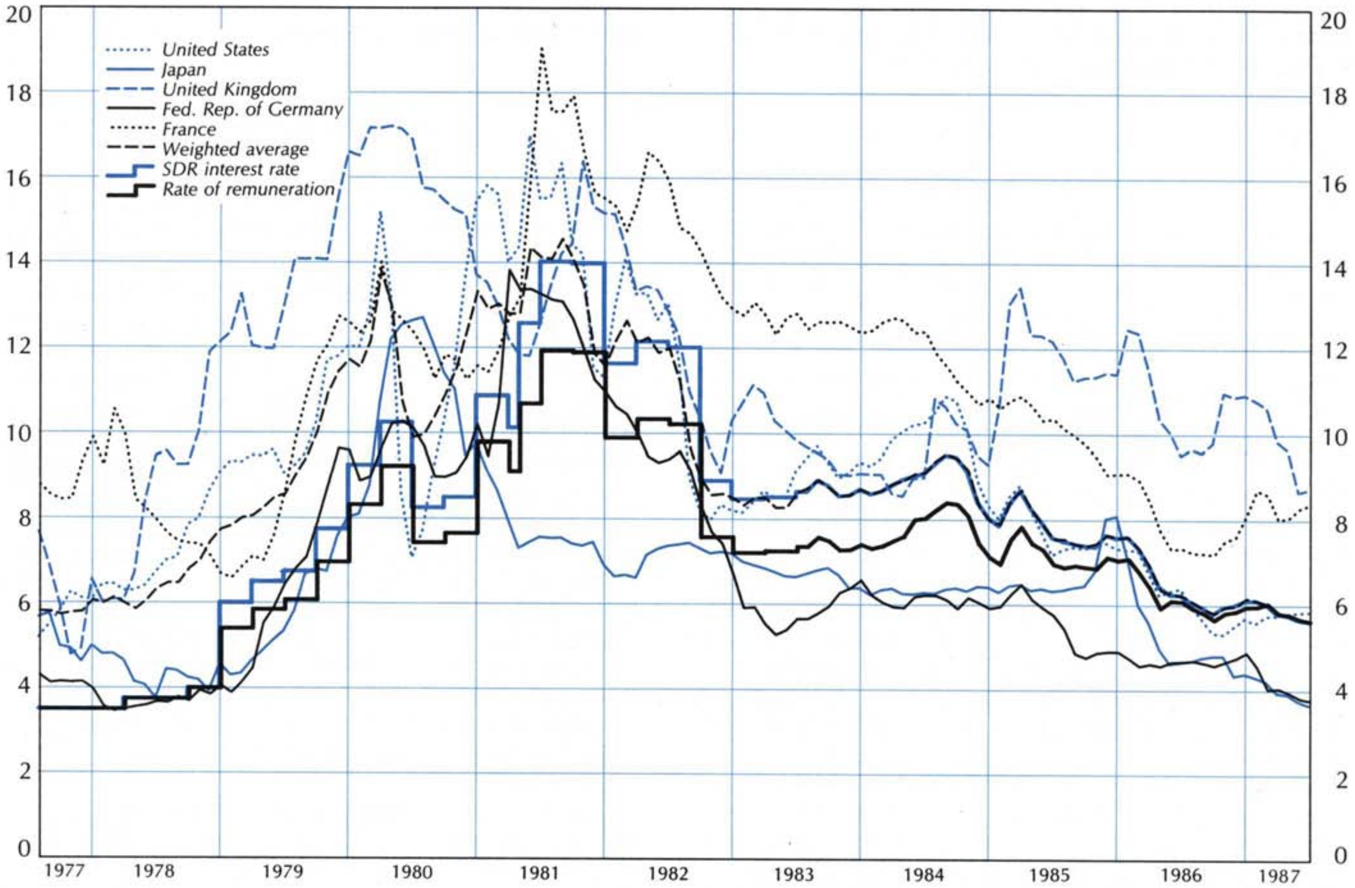
[33] Except for Democratic Kampuchea, whose norm is 75 percent of quota because there has been no change in its quota since April 1978.

[34] Since May 1, 1981 the SDR interest rate has been maintained at 100 percent of the combined market interest rate, and the SDR interest rate is determined weekly. The combined market interest rate is the weighted average of the market yields on three-month U.S. and U.K. Treasury bills; three-month interbank deposits in the Federal Republic of Germany; three-month interbank money against private paper in France; and the discount on two-month (private) bills in Japan.

Chart II.1.

SDR Interest Rate, Rate of Remuneration, and Short-Term Interest Rates, July 1977–June 1987[1]

(In percent per annum)



[1] Data are monthly averages. 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 (converted to a bond equivalent yield) 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. Since August 1, 1983, the SDR interest rate and the rate of remuneration have been fixed weekly.

of the SDR interest rate.[35] Under the agreed formula, the remuneration coefficient was adjusted on numerous occasions in 1984–86 and was raised from 97.49 percent with effect from February 1, 1987 to 100 percent of the SDR interest rate (see Chart II.1). In 1986/87 the adjusted rate of remuneration averaged 5.34 percent (6.85 percent in 1985/86). The SDR interest rate and the rate of remuneration applicable in 1986/87 are set out in Table II.18.

[35] The Executive Directors decided in January 1987 to mitigate a small portion of the costs incurred by the United States in its sharing of deferred charges. Such mitigation was viewed as appropriate because the large creditor position of the United States in the Fund would cause it to bear an unduly large share of the costs of deferred charges. This is being implemented by reducing the remunerated reserve tranche position of the United States faster than would otherwise have been the case, through adjustments in the amounts of U.S. dollars received by the Fund under its quarterly operational budgets.

TECHNICAL ASSISTANCE AND TRAINING

Technical assistance provided by the Fund to its member countries grew in importance during 1986/87 as members sought the Fund's advice on a wide range of subjects, from broad policy issues connected with the management of the debt situation to specialized technical matters. Much of the policy assistance is furnished through the Fund's consultation procedures under Article IV or in connection with adjustment programs. Frequently, in helping a member to carry out an adjustment program, the Fund will use, in addition to the expert services of staff members from headquarters, the services of a staff member assigned as resident representative in a country.

Technical assistance and training is extended to members in specific economic and financial topics either at headquarters or through staff missions to the member country concerned. Members' requests are met by providing staff from almost every department of the Fund. Such assistance can relate to such subjects as general economic policy, balance of payments adjustment programs, legislative drafting, debt management, the problems that arise from inflation, exchange and trade systems, tax policy and tax administration, financial sector issues, accounting and valuation problems, statistical issues, and data processing.

The IMF Institute offers specialized training in economic analysis and policy for officials of member countries through courses and seminars in Washington and abroad. The Institute is also responsible for arranging lectures to government officials abroad and briefings to official visitors at Fund headquarters.

During 1986/87, the Institute conducted eleven courses and two seminars in Washington. The courses were given in Arabic, English, French, and Spanish. They comprised three 18-week courses in financial analysis and policy, two 12-week courses in financial programming and policy, two 10-week courses in public finance, and four 8-week courses in techniques of economic analysis, money and banking statistics, and balance of payments methodology; the course on money and banking statistics was offered for the first time in 1986/87. The courses on public finance were conducted in collaboration with the Fiscal Affairs Department, and those on money and banking statistics and on balance of payments methodology in collaboration with the Bureau of Statistics. The two seminars were on the role of the Fund in the international monetary system (in English) and on budgeting and expenditure control (in Spanish). During the financial year, 399 participants attended the Institute's courses and seminars. Since its establishment in 1964, the Institute has provided training in Washington for 5,544 officials from 150 member countries.

The Institute's training activities abroad in 1986/87 included a seminar in Mozambique on techniques of economic analysis, a seminar in Ecuador on public finance, a course in China on financial programming, and a seminar in Indonesia on financial analysis and policy issues. A total of 177 participants attended these seminars and courses. The Institute also provided lecturers to four regional organizations and to the Economic Development Institute of the World Bank, and arranged 27 briefings at Fund headquarters for 303 government officials.

A major part of the work of the Fiscal Affairs Department relates to the provision of technical assistance in the fiscal field. As in previous years, advice by the Department in 1986/87 covered a wide range of fiscal issues, including tax policy and administration, budget structures and procedures, expenditure control, accounting, financial reporting, and public enterprise finances. This technical assistance contributed to the successful achievement of much-needed economic adjustment in a number of member countries, by promoting the effective implementation of fiscal measures. The advice given in this regard included measures to enhance revenue and improve tax administration, rationalize expenditure policies, and strengthen budgeting and control procedures, for which detailed technical analysis was required from the Fiscal Affairs Department and, in some cases, the Legal Department. Technical assistance continued to be provided through both staff missions and the use of members of the panel of fiscal experts, largely through field assignments. In 1986/87, technical assistance was given to 52 countries, compared with 50 in 1985/86 and 44 in 1984/85. During 1986/87, there were 25 long-term technical assistance missions in the field provided by members of the panel of experts and 45 short-term technical assistance missions provided by staff members and members of the panel of experts (28 and 45, respectively, in 1985/86); 41 panel members and 26 staff members participated in this work (47 panel members and 32 staff members in the previous financial year). Support and guidance to experts in the field were provided on a regular basis from headquarters.

The Central Banking Department provides technical assistance on matters pertaining to the financial sectors of member countries, both through the assignment of outside experts and through staff advisory missions. In 1986/87, 130 outside experts were assigned to executive and advisory positions with the monetary authorities of 58 member countries and 5 regional organizations. Most of this assistance was provided in the areas of research and statistics, banking operations, and bank supervision, followed by external debt management and statistics, foreign exchange management, and accounting. Departmental staff carried out 18 advisory missions in 1986/87, giving advice on a wide range of policy issues. These included financial sector legislation (in collaboration with the Legal Department), financial programming, design of monetary policy instruments, liberalization of a government securities market, introduction of a deposit insurance system, and other aspects of financial system regulation and monetary control. In addition, departmental staff participated in four area department missions and three joint Bank-Fund advisory missions.

In support of its technical assistance activities, the Central Banking Department has continued to undertake research on relevant financial sector topics and has also expanded its computerized data banks. Staff studies in 1986/87 dealt with such topics as the causes and impact of banking crises, monetary policy under alternative bank market structures, and interest rate policy and firms' debt-equity mix. The ongoing computerization of banking legislation and monetary policy instruments is aimed at ensuring that accurate and up-to-date data are readily available. In 1986/87, 24 new laws were entered in the data bank on banking legislation and 32 laws were updated; the data bank on monetary policy instruments was also expanded, with the addition of both new countries and new types of instruments.

The Legal Department continued to provide legal technical assistance to member countries in the field of banking, in close association with the Central Banking Department, and, in fiscal affairs, in cooperation with the Fiscal Affairs Department. Legal technical assistance provided by the Department included drafting of legislation for member countries and providing expert advice to other international organizations.

The provision of technical assistance and training in statistics to member countries continued to be a major activity of the Bureau of Statistics. This assistance was focused on improving the coverage, currentness, and quality of country data bases needed for monitoring economic and financial developments, especially in the context of Fund-supported adjustment programs and in the framework of Article IV consultations with member countries. The bulk of the assistance was provided through missions undertaken in response to requests from member countries. The missions usually covered one or two statistical areas of particular analytical or operational significance to the Fund, such as money and banking, government finance, balance of payments, international banking and external debt, and general economic data. During 1986/87, staff of the Bureau of Statistics undertook 72 visits to 59 countries and 4 regional organizations, which included lecturing assistance at regional and country seminars on statistics; for instance, Bureau staff collaborated with the Arab Monetary Fund and China in conducting seminars on money and banking statistics and government finance statistics, respectively. In addition, Bureau staff provided training in statistics at headquarters to nine officials from member countries or regional organizations and collaborated with the IMF Institute in organizing courses on money and banking statistics and balance of payments methodology. Further, with the assistance of the Bank of Thailand, Bureau staff conducted a seminar on local government finance statistics for countries in the Asian region under a program jointly sponsored by the Fund and the World Bank.

During the financial year 1986/87, the Bureau of Computing Services received officials from approximately 12 central banks and regional and international organizations. The officials usually spent between one and five days at Fund headquarters and attended discussions, lectures, and demonstrations of the Fund's computing facilities and systems. The Fund's knowledge and experience in the design, development, and implementation of computerized systems for economic planning and forecasting and for the automatic processing of financial transactions were of particular interest to the officials. The Bureau conducted briefings on a variety of topics including the organizational structure for electronic data processing, systems policies and standards, strategic planning, management of large-scale data bases, statistical analysis and modeling, financial processing, office automation, and the use of microcomputers for desktop computing. The Bureau also provided technical advice on the support facilities, training curriculum, and services provided to end users, as well as technical documentation, reference manuals, and information on the Fund's applications systems. In 1986/87, the Bureau also participated in a technical assistance mission to the central bank of Mozambique to provide electronic data processing assistance in support of the Fund's economic programs in that country.

RELATIONS WITH OTHER INTERNATIONAL ORGANIZATIONS

During 1986/87 cooperation with other international and regional organizations continued to play an important role in enabling the Fund to carry out its responsibilities. As described in Chapter 2, collaboration with the World Bank, with which the Fund enjoys a special relationship, intensified considerably during the period under review, particularly with respect to lending under the structural adjustment facility. It included Fund and Bank staff participation in missions of the other institution as well as attendance at each other's Executive Board meetings, the regular exchange of documents and information in support of activities, collaboration in the statistical field, and attendance at conferences and seminars. Close relations were also maintained with the United Nations (UN) and its ancillary agencies, the General Agreement on Tariffs and Trade (GATT), the Commission of the European Communities (CEC), the Organization for Economic Cooperation and Development (OECD), the Bank for International Settlements (BIS), and regional financial institutions in Africa, Asia and the Pacific, Latin America and the Caribbean, and the Middle East.

Liaison with other international organizations is the special responsibility of offices and staff located away from headquarters. The Fund's Special Representative to the United Nations in New York attended those UN meetings that were of particular interest to the Fund, including the thirteenth Special Session of the General Assembly on the Critical Economic Situation in Africa and the forty-first session of the General Assembly, and maintained ongoing relations with those UN agencies whose activities are pertinent to the work of the Fund. The Fund's European Office in Paris continued to be responsible for the Fund's relations with the BIS, the CEC, and the OECD, while the Office in Geneva maintained liaison with the United Nations Conference on Trade and Development and the GATT. The work of these offices was supplemented by senior staff and technical experts from headquarters, resident representatives assigned to member countries, staff attendance at and participation in meetings, and the regular exchange of documents and information.

The focus of many of the Fund's contacts with other international organizations was again the persistent problems experienced by a number of members in managing and servicing their external debt. At the invitation of the World Bank, the Fund attended meetings of the Bangladesh and Nepal Aid Groups, the India, Pakistan, and Sri Lanka Consortia, and the Consultative Groups for Bolivia, Guinea, Morocco, the Philippines, Senegal, Somalia, Tanzania, and Zambia. Documentation was provided for the meeting of the Consultative Group for Morocco and also for a meeting of the Consultative Group for Tunisia. The Fund participated in several aid coordination meetings held under the auspices of the Caribbean Group for Cooperation in Economic Development and provided documentation for sessions of the Intergovernmental Group for Indonesia. In addition, the Fund continued to participate in the activities of the International Compilers Working Group on External Debt Statistics, which is concerned with improving the collection and dissemination of such statistics. The Group comprises staff of the Fund, the World Bank, the BIS, the OECD, and the International Union of Credit and Investment Insurers (Berne Union).

The Managing Director delivered his annual address to the Economic and Social Council of the United Nations in Geneva, on July 4, 1986. Also in July, he attended the monthly meeting of the BIS in Basle and made a presentation on international debt problems to a meeting of the central bank governors of the Group of Ten industrial countries. In March 1987 he again attended a meeting of the Group of Ten governors in Basle. The Managing Director addressed the UN Administrative Committee on Coordination on two occasions: in New York, on October 22, 1986; and in Rome, on April 22, 1987. On September 27, 1986 and April 8–9, 1987, prior to the meetings of the Interim Committee, the Managing Director participated in the meetings of the ministers and governors of seven major industrial countries and of the Group of Ten and attended the thirty-fifth and thirty-sixth meetings of the ministers of the Intergovernmental Group of Twenty-Four on International Monetary Affairs. On February 22, 1987, he took part in a meeting in Paris of the ministers and governors of six major industrial countries, which culminated in the Louvre Accord.

The Deputy Managing Director participated in the twenty-fifth high-level meeting of the OECD Development Assistance Committee in Paris, on December 1–2, 1986. Fund Counsellors and staff attended meetings of the Deputies of the Group of Ten held in Paris, on September 17, 1986 and March 20, 1987, and the Fund was also represented at the Special Session of the CONTRACTING PARTIES to the GATT at ministerial level in Punta del Este, Uruguay, on September 15–20, 1986.

EXTERNAL RELATIONS

During the financial year, the Fund continued to explain its role, activities, and policies to a wider audience. Discussions about multilateral surveillance and the use of objective economic indicators, developments under the debt strategy, exchange rate movements among the major currencies, and the impact of large trade imbalances on global trade stimulated increased interest in the Fund by the general public and the press in member countries. To help meet this growing demand, the Managing Director and senior staff delivered addresses covering a wide spectrum of international economic issues at a number of international and national forums. Members of the Fund staff also delivered papers and participated in conferences, seminars, and symposia. The seminar program for nonofficials continued to be a most effective external relations tool. Three seminars were held during the year: in Buenos Aires on October 13–16, 1986; in Bombay on December 8–10, 1986; and in Abu Dhabi on February 16–18, 1987. In addition, a colloquium was held in Beijing on November 11–17, 1986. Also, the first joint symposium of the Fund and the World Bank, on growth-oriented adjustment programs, was conducted in Washington on February 25–27. The proceedings of the seminars are to be published in the languages in which they were conducted as well as, in most cases, in English if the original language was not English.

During the financial year, the Fund expanded its contacts with the news media in Africa, Asia, Europe, and Latin America and the Caribbean, as part of the continuing effort to improve public understanding of the institution and its role in the international monetary system. Presentations on the role and work of the Fund were also given at Fund headquarters to visiting representatives of academic, labor, business, political, and financial groups under the Visitors' Program. The IMF Visitors' Center was opened to the public on June 20, 1986, and an active program has been developed for its use. Seminars on a wide variety of international economic issues are held regularly at the Center, as well as art exhibitions (in collaboration with embassies of member countries) and other cultural events, such as films and concerts.

The Fund's publications play a major role in disseminating information about the work of the Fund. The Fund has a vigorous publications program, and both the number of titles published as well as the variety of subject matters covered has continued to expand. In order to provide a more effective service to the public, the Fund's internal publication review and approval procedures were restructured at the beginning of 1987. Also, a new blanket order book service was set up through which subscribers are able automatically to receive new publications as they are issued. The series on "World Economic and Financial Surveys," introduced late in the last financial year, is now well established, and the Fund introduced a new series entitled "IMF Working Papers" during the year. The Working Papers cover both research and operational work of a nonconfidential nature and are made available to researchers and others interested in the ongoing work of the Fund. The publications issued during the financial year, including books, seminar volumes, and Occasional Papers, are listed in Appendix II, Table II.19.

EXECUTIVE DIRECTORS AND STAFF

A list of Executive Directors and their voting power on April 30, 1987 is given in Appendix V. The changes in membership of the Executive Board during 1986/87 are shown in Appendix VI.

In the financial year ended April 30, 1987, there were 80 appointments to the Fund's regular staff and 98 separations. At the end of the financial year, the staff numbered 1,667 and was drawn from 101 countries.

Table II.1.

Exchange Rate Arrangements as of June 30, 1987[1]

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

[1] No current information is available relating to Democratic Kampuchea.

[2] In all cases listed in this column, the U.S. dollar was the currency against which exchange rates showed limited flexibility.

[3] This category consists of countries participating in the exchange rate mechanism of the European Monetary System. In each case, the exchange rate is maintained within a margin of 2.25 percent around the bilateral central rates against other participating currencies, with the exception of Italy, in which case the exchange rate is maintained within a margin of 6 percent.

[4] Member maintains dual exchange markets involving multiple exchange arrangements. The arrangement shown is that maintained in the major market.

[5] Exchange rates are determined on the basis of a fixed relationship to the SDR, within margins of up to ±7.25 percent. However, because of the maintenance of a relatively stable relationship with the U.S. dollar, these margins are not always observed.

[6] The exchange rate is maintained within margins of ±2.25 percent.

[7] The exchange rate is maintained within margins of ±7.5 percent.

[8] The exchange rate is maintained within margins of ±5 percent on either side of a weighted composite of the currencies of the main trading partners.

[9] As of June 30, 1987 the spread between the two exchange rates was less than 1 percent.

[10] Member maintains a system of advance announcement of exchange rates.

[11] The Central Bank establishes its selling rate daily and the buying rate is set at ½ percent below the selling rate. Commercial banks must use the Central Bank's selling rate, but are free to set their own buying rate.

[12] The exchange rate is maintained within margins of ±1.5 percent.

Table II.2.

Purchases Under Tranche Policies and Special Facilities, 1981–87
(In billions of SDRs)

	Financial Year Ended April 30						
	1981	1982	1983	1984	1985	1986	1987
Purchases under tranche policies	3.60	5.33	6.17	8.88	4.81	3.34	2.58
First credit tranche	0.78	0.02	0.03	—	[1]	0.29[2]	0.02[2]
Upper credit tranches	1.90	2.73	3.68	4.16	2.77	2.55	2.31
Extended Fund facility	0.92	2.58	2.46	4.72	2.04	0.50	0.25
Purchases under special facilities	0.78	1.63	4.09	1.28	1.25	0.60	0.59
Compensatory financing facility	0.78	1.63	3.74	1.18	1.25	0.60	0.59
Buffer stock financing facility	—	—	0.35	0.10	—	—	—
Total	4.38	6.96	10.26	10.16	6.06	3.94	3.17

[1] Less than SDR 50 million.
[2] Emergency assistance.

Table II.3.

Fund Stand-By Arrangements for Members, Financial Year Ended April 30, 1987

(In millions of SDRs)

Member	Total Number of Stand-Bys Approved for Member Since 1953	Current Arrangement		Amount Approved in 1985/86		Amount Approved in 1986/87		Amount Not Purchased at Expiration or Cancellation	Amount Not Purchased as of April 30, 1987
		Date of inception	Date of expiration	Total	Of which: borrowed resources	Total	Of which: borrowed resources		
Bangladesh	5	Dec. 2, 1985	June 30, 1987	180.00	—	—	—	—	24.00
Bolivia	8	June 19, 1986	June 18, 1987	—	—	50.00	—	—	17.30
Burundi	14	Aug. 8, 1986	Mar. 31, 1988	—	—	21.00	—	—	21.00
Central African Republic	5	Sept. 23, 1985	Mar. 22, 1987	15.00	8.75 *	—	—	7.50	—
China	2	Nov. 12, 1986	Nov. 11, 1987	—	—	597.73	—	—	—
Congo	3	Aug. 29, 1986	Apr. 28, 1988	—	—	22.40	—	—	12.90
Côte d'Ivoire	3	June 3, 1985	June 2, 1986	66.20	33.10	—	—	—	
		June 23, 1986	June 22, 1988	—	—	100.00	74.31	—	76.00
Ecuador	12	Aug. 15, 1986	Aug. 14, 1987	—	—	75.40	59.18	—	60.30
Equatorial Guinea	2	June 28, 1985	June 27, 1986	9.20	—	—	—	3.80	—
Gabon	2	Dec. 22, 1986	Dec. 31, 1988	—	—	98.69	56.65	—	71.27
Gambia, The	5	Sept. 17, 1986	Oct. 16, 1987	—	—	5.13	—	—	4.10
Ghana	8	Oct. 15, 1986	Oct. 14, 1987	—	—	81.80	81.80	—	49.08
Guinea	2	Feb. 3, 1986	Mar. 2, 1987	33.00	—	—	—	6.00	—
Jamaica	6	July 17, 1985	May 31, 1987[1]	115.00	81.62	—	—	73.40	—
		Mar. 2, 1987	May 31, 1988	—	—	85.00	56.67	—	75.00
Korea	16	July 12, 1985	Mar. 10, 1987	280.00	—	—	—	120.00	—
Madagascar	7	Sept. 17, 1986	Feb. 16, 1988	—	—	30.00	23.93	—	20.00
Mali	8	Nov. 8, 1985	Mar. 31, 1987	22.86	16.17	—	—	6.56	—
Mauritania	5	Apr. 26, 1986	Apr. 25, 1987	12.00	—	—	—	—	—
Mexico	4	Nov. 19, 1986	Apr. 1, 1988	—	—	1,400.00	1,017.19	—	950.00
Morocco	11	Sept. 12, 1985	Feb. 28, 1987[2]	200.00	100.00	—	—	190.00	—
		Dec. 16, 1986	Mar. 31, 1988	—	—	230.00	148.33	—	160.00
Nepal	2	Dec. 23, 1985	Apr. 22, 1987	18.65	—	—	—	—	—
Niger	4	Dec. 5, 1985	Dec. 4, 1986	13.48	6.74	—	—	—	—
		Dec. 5, 1986	Dec. 4, 1987	—	—	10.11	9.15	—	8.09
Nigeria	1	Jan. 30, 1987	Jan. 31, 1988	—	—	650.00	—	—	650.00
Panama	16	July 15, 1985	Mar. 31, 1987	90.00	46.83 *	—	—	—	—
Philippines	18	Dec. 14, 1984	June 13, 1986[3]	(615.00)	(307.50)	—	—	212.00	—
		Oct. 24, 1986	Apr. 23, 1988	—	—	198.00	131.17	—	140.00
Senegal	6	Nov. 10, 1986	Nov. 9, 1987	—	—	34.00	20.75	—	15.00
Sierra Leone	7	Nov. 14, 1986	Nov. 13, 1987	—	—	23.16		—	15.16
Tanzania	3	Aug. 28, 1986	Feb. 27, 1988	—	—	64.20	—	—	31.21
Thailand	4	June 14, 1985	Mar. 31, 1987[4]	400.00	232.94 *	—	—	140.00	—
Togo	6	May 17, 1985	May 16, 1986	15.36	8.71	—	—	—	—
		June 9, 1986	Apr. 8, 1988	—	—	23.04	19.74	—	14.40
Tunisia	7	Nov. 4, 1986	May 3, 1988	—	—	103.65	—	—	59.65
Uruguay	14	Sept. 27, 1985	Mar. 26, 1987	122.85	67.28 *	—	—	—	—
Yugoslavia	10	May 16, 1985	May 15, 1986	300.00	150.00	—	—	—	—
Zaïre	7	May 28, 1986	Mar. 27, 1988[5]	—	—	214.20	171.76	166.60	—
Zambia	6	Feb. 21, 1986	Feb. 28, 1988	229.80	147.37 *	—	—	—	194.80
Total				2,123.40	899.51	4,117.51	1,870.63	925.86	2,669.26

* NOTE: Mix of resources modified as of December 31, 1986, Executive Board Decision No. 8487-(86/205), December 19, 1986, *Selected Decisions*, Thirteenth Issue, pages 52–60.

[1] Arrangement canceled on July 16, 1986.

[2] Arrangement canceled on December 15, 1986.

[3] Arrangement approved in financial year 1984/85 and canceled on June 9, 1986.

[4] Arrangement canceled on December 31, 1986.

[5] Arrangement canceled on April 21, 1987.

Table II.4.

Purchases of Currencies and SDRs from the Fund, Financial Year Ended April 30, 1987

(In millions of SDRs)

	Under Tranche Policies				Under Decision on				Purchases Financed with		
			Under stand-by arrangements		Extended Fund facility				Ordinary resources		
Member Purchasing	Within reserve tranche	Credit tranche	Ordinary resources	Enlarged access resources	Ordinary resources	Enlarged access resources	Compensatory financing	Total Purchases	Currencies	SDRs	Enlarged access resources
Argentina	—	—	118.25	118.25	—	—	—	236.50	40.00	78.25	118.25
Bangladesh	—	—	96.00	—	—	—	88.90	184.90	80.00	104.90	—
Belize	—	—	1.19	—	—	—	—	1.19	—	1.19	—
Bolivia	—	—	32.70	—	—	—	64.10	96.80	70.63	26.17	—
Cape Verde	0.95	—	—	—	—	—	—	0.95	0.95	—	—
Central African Republic	—	—	3.25	3.25	—	—	—	6.50	1.75	1.50	3.25
Chile	—	—	—	—	114.58	135.42	—	250.00	17.50	97.08	135.42
China	—	—	597.73	—	—	—	—	597.73	194.00	403.73	—
Congo	—	—	9.50	—	—	—	—	9.50	—	9.50	—
Côte d'Ivoire	—	—	18.62	18.62	—	—	—	37.24	—	18.62	18.62
Denmark	223.04	—	—	—	—	—	—	223.04	223.04	—	—
Ecuador	—	—	7.55	7.55	—	—	39.70	54.80	—	47.25	7.55
Gabon	—	—	18.28	9.14	—	—	—	27.41	8.28	10.00	9.14
Gambia, The	—	—	1.03	—	—	—	4.71	5.74	—	5.74	—
Ghana	—	—	—	32.72	—	—	—	32.72	—	—	32.72
Guinea	—	—	12.00	—	—	—	—	12.00	—	12.00	—
Jamaica	—	—	3.33	6.67	—	—	40.90	50.90	1.30	42.93	6.67
Kiribati	0.57	—	—	—	—	—	—	0.57	0.57	—	—
Korea	—	—	40.00	—	—	—	—	40.00	—	40.00	—
Madagascar	—	16.60	4.17	5.83	—	—	16.10	42.70	1.10	35.77	5.83
Mali	—	—	3.44	6.36	—	—	—	9.80	3.30	0.14	6.36
Mauritania	—	—	12.00	—	—	—	—	12.00	—	12.00	—
Mauritius	—	—	7.00	7.00	—	—	—	14.00	—	7.00	7.00
Mexico	—	—	225.00	225.00	—	—	—	450.00	49.00	176.00	225.00
Morocco	—	—	28.33	41.67	—	—	—	70.00	—	28.33	41.67
Nepal	—	—	8.40	—	—	—	—	8.40	2.00	6.40	—
Netherlands	103.77	—	—	—	—	—	—	103.77	103.77	—	—
Niger	—	—	5.00	5.10	—	—	—	10.11	2.70	2.31	5.10
Panama	—	—	25.67	29.33	—	—	—	55.00	—	25.67	29.33
Philippines	—	—	20.17	37.83	—	—	224.10	282.10	94.10	150.17	37.83
Poland	154.36	—	—	—	—	—	—	154.36	—	154.36	—
Senegal	—	—	8.25	21.25	—	—	—	29.50	6.50	1.75	21.25
Sierra Leone	—	—	8.00	—	—	—	—	8.00	4.00	4.00	—
Solomon Islands	—	1.25	—	—	—	—	—	1.25	—	1.25	—
Somalia	—	—	9.05	9.05	—	—	—	18.10	1.81	7.24	9.05
Sri Lanka	6.01	—	—	—	—	—	—	6.01	6.01	—	—
Tanzania	—	—	32.99	—	—	—	—	32.99	—	32.99	—
Thailand	—	—	55.00	55.00	—	—	—	110.00	15.00	40.00	55.00
Togo	—	—	3.30	5.34	—	—	—	8.64	1.44	1.86	5.34
Tunisia	24.26	—	44.00	—	—	—	114.71	182.97	76.00	106.97	—
Uganda	3.52	—	—	—	—	—	—	3.52	—	3.52	—
Uruguay	—	—	38.03	49.72	—	—	—	87.75	13.55	24.48	49.72
Yugoslavia	—	—	33.75	33.75	—	—	—	67.50	—	33.75	33.75
Zaïre	—	—	23.80	23.80	—	—	—	47.60	—	23.80	23.80
Total	516.49	17.85	1,554.78	752.22	114.58	135.42	593.22	3,684.56	1,018.30	1,778.62	887.64

Table II.5.

Summary of Members' Purchases and Repurchases, Financial Years Ended April 30, 1948–87

(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
1983	11,391.89	1,555.12
1984	11,517.73	2,017.65
1985	6,288.87	2,730.39
1986	4,101.22	4,289.01
1987	3,684.56	6,169.32
Total	101,004.10[1]	53,960.02[2]

[1] Includes reserve tranche purchases.
[2] Excludes sales of currency and adjustments that have the effect of repurchase.

Table II.6.

Summary of Stand-By Arrangements That Became Effective During the Financial Years Ended April 30, 1953–87[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
1983	27	5,449.98
1984	25	4,287.33
1985	24	3,218.33
1986	18	2,123.40
1987	22	4,117.51
Total	610	58,777.57

[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 II.7.

Extended Fund Facility Arrangements for Members, July 7, 1975–April 30, 1987

(In millions of SDRs)

Member	Date of Inception	Date of Expiration	Total Amount of Arrangement	Of Which: Borrowed Resources	Amount Not Purchased at Expiration or Cancellation	Of Total Amount Approved, Amount Not Purchased as of April 30, 1987
Approved in previous financial years						
Bangladesh	12/8/80	12/7/83	800.00[1]	480.80	580.00	—
Brazil	3/1/83	2/28/86	4,239.38	2,842.88	1,496.25	—
Chile	8/15/85	8/14/88	750.00	437.50*	—	312.50
Costa Rica	6/17/81	6/16/84	276.75[2]	190.65	254.25	—
Côte d'Ivoire	2/27/81	2/22/84	484.50	324.90	38.47	—
Dominica	2/6/81	2/5/84	8.55	4.49	—	—
Dominican Republic	1/21/83	1/20/86	371.25[3]	255.75	247.50	—
Egypt	7/28/78	7/27/81	600.00	—	525.00	—
Gabon	6/27/80	12/31/82	34.00	—	34.00	—
Grenada	8/24/83	8/23/86	13.50[4]	8.98	12.37	—
Guyana	6/25/79	6/24/82	62.75[5]	35.00	52.75	—
	7/25/80	7/24/83	150.00[6]	116.37	98.27	—
Haiti	10/25/78	10/24/81	32.20	—	21.40	—
Honduras	6/28/79	6/27/82	47.60	—	23.70	—
India	11/9/81	11/8/84	5,000.00[7]	2,595.50	1,100.00	—
Jamaica	6/9/78	6/8/81	200.00[8]	—	130.00	—
	6/11/79	6/10/81	260.00[9]	227.10	175.00	—
	4/13/81	4/12/84	477.70[10]	390.55	74.90	—
Kenya	7/7/75	7/6/78	67.20	—	59.50	—
Malawi	9/19/83	9/18/86	81.00[11]	62.47	24.00	—
Mexico	1/1/77	12/31/79	518.00[12]	—	518.00	—
	1/1/83	12/31/85	3,410.63	2,287.13	907.95	—
Morocco	10/8/80	10/7/83	810.00[13]	600.00	663.00	—
	3/9/81	10/7/83	817.05[14]	567.00	680.55	—
Pakistan	11/24/80	11/23/83	1,268.00[15]	869.00	919.00	—
	12/2/81	11/23/83	919.00	490.12	189.00	—
Peru	6/7/82	6/6/85	650.00[16]	311.56	385.00	—
Philippines	4/2/76	4/1/79	217.00[17]	—	—	—
Senegal	8/8/80	8/7/83	184.80[18]	126.00	143.70	—
Sierra Leone	3/30/81	2/22/84	186.00[19]	121.81	152.50	—
Sri Lanka	1/1/79	12/31/81	260.30	—	—	—
Sudan	5/4/79	5/3/82	427.00[20]	303.80	176.00	—
Zaïre	6/22/81	6/21/84	912.00[21]	632.94	737.00	—
Zambia	5/8/81	5/7/84	800.00[22]	674.00	500.00	—
Subtotal			25,336.16	14,956.30	10,919.06	312.50
Approved during financial year 1986/87			—	—	—	—
Total	—	—	25,336.16	14,956.30	10,919.06	312.50

* NOTE: Mix of resources modified as of December 31, 1986, Executive Board Decision No. 8487-(86/205), December 19, 1986, *Selected Decisions*, Thirteenth Issue, pages 52–60.

1 Arrangement canceled as of June 21, 1982.
2 Canceled as of December 20, 1982 and replaced by a stand-by arrangement.
3 Arrangement canceled as of January 17, 1985.
4 Arrangement canceled as of January 23, 1984.
5 Canceled as of June 24, 1980.
6 Arrangement augmented by SDR 50 million in July 1981 to a total of SDR 150 million. Arrangement canceled as of July 22, 1982.
7 Arrangement canceled as of May 1, 1984.
8 Canceled as of June 10, 1979.
9 Canceled as of April 12, 1981.
10 Arrangement augmented by SDR 241.30 million in June 1981 to a total of SDR 477.70 million.
11 Amount of arrangement decreased from SDR 100 million. Arrangement canceled as of August 5, 1986.
12 Includes augmentation by repurchase equivalent to SDR 100 million.
13 Canceled as of March 8, 1981.
14 Arrangement canceled as of April 25, 1982 and replaced by a stand-by arrangement.
15 Canceled as of December 1, 1981.
16 Arrangement canceled as of April 24, 1984 and replaced by a stand-by arrangement.
17 Includes augmentation by repurchase equivalent to SDR 38.75 million.
18 Canceled as of September 10, 1981 and replaced by a stand-by arrangement.
19 Arrangement augmented by SDR 22.30 million in June 1981 to a total of SDR 186 million. Arrangement canceled as of April 6, 1982.
20 Arrangement augmented by SDR 227 million in November 1980, canceled on February 17, 1982, and replaced by a stand-by arrangement.
21 Arrangement canceled as of June 21, 1982.
22 Arrangement canceled as of July 3, 1982.

Table II.8.

Repurchases of Currencies from the Fund, Financial Year Ended April 30, 1987

(In millions of SDRs)

	Repurchases in Respect of Purchases of						
	Borrowed Resources		Ordinary Resources				
Member Repurchasing	Supplementary financing facility	Enlarged access resources	Credit tranche	Extended Fund facility	Compen- satory financing	Buffer stock	Total
Argentina	—	45.5	151.4	—	260.1	—	456.9
Bangladesh	27.5	—	25.7	18.3	44.4	—	115.9
Barbados	—	1.7	5.6	—	5.9	—	13.2
Belize	—	—	—	—	1.4[1]	—	1.4
Bolivia	6.4	—	—	—	9.0	12.2	27.6
Brazil	—	15.6	124.7	—	482.5	—	622.8
Burma	—	—	5.8	—	20.1	—	25.8
Central African Republic	—	0.6	2.2	—	—	—	2.8
Chile	—	17.5	56.0	—	147.5	—	221.0
Costa Rica	4.1	5.2	16.9	1.9	8.4	—	36.5
Côte d'Ivoire	57.2	—	—	19.5	28.5	0.2	105.5
Dominica	0.9	—	—	0.4	—	—	1.2
Dominican Republic	—	8.7	—	—	39.4	—	48.1
Ecuador	—	4.3	16.6	—	10.7	—	31.6
Egypt	—	—	—	12.5	—	—	12.5
El Salvador	—	—	19.6	—	20.2	—	39.7
Equatorial Guinea	—	—	0.3	—	—	—	0.3
Ethiopia	—	8.1	10.4	—	—	—	18.5
Fiji	—	—	—	—	6.8	—	6.8
Gambia, The	1.2	1.5	5.3	—	4.3	—	12.4
Ghana	—	2.3	15.6	—	30.1	—	48.1
Grenada	—	0.1	0.6	—	—	—	0.7
Guatemala	—	1.4	9.0	—	28.7	—	39.1
Guinea	—	—	5.8	—	—	—	5.8
Guinea-Bissau	—	—	—	—	0.7	—	0.7
Haiti	—	3.2	7.3	1.8	8.5	—	20.8
Honduras	—	7.0	11.4	4.0	20.3	—	42.7
Hungary	—	23.0	64.7	—	18.0	—	105.7
Iceland	—	—	—	—	10.8	—	10.8
India	218.8	137.5	—	100.0	—	—	456.3
Jamaica	55.9	36.9	2.7	32.4	12.3	—	140.3
Kenya	23.7	12.4	23.6	—	30.2	—	89.8
Korea	154.0	12.0	4.4	—	39.8	—	210.3
Lao People's Democratic Republic	—	—	0.8	—	—	—	0.8
Madagascar	5.6	5.1	11.2	—	10.9[2]	—	32.7
Malawi	7.0	1.4	7.3	—	6.5	—	22.1
Mali	—	—	15.2	—	—	—	15.2
Mauritania	4.0	—	4.7[3]	—	—	—	8.7
Mauritius	17.3	0.7	8.4	—	—	—	26.4
Mexico	—	50.2	100.3	—	—	—	150.5
Morocco	34.4	43.6	68.9	24.3	118.2	—	289.4
Niger	—	—	1.7	—	7.5	—	9.2
Pakistan	128.3	—	—	62.2	90.1	—	280.6
Panama	9.4	1.8	13.0	—	22.1	—	46.3
Papua New Guinea	—	—	—	—	10.1	—	10.1
Peru	5.3	—	—	—	11.1	—	16.4
Philippines	83.2	—	43.8	24.8	94.3	—	246.1
Portugal	—	4.0	16.1	—	64.5	—	84.7
Romania	—	68.1	112.6[4]	—	21.2	—	202.0
Senegal	13.5	1.4	18.1	3.4	10.5	—	47.0
Sierra Leone	7.3	—	0.3	4.1	7.8	—	19.4
Solomon Islands	—	—	0.5	—	0.8	—	1.3
Somalia	—	5.7	7.8	—	—	—	13.5
South Africa	—	—	49.4	—	318.0	—	367.4
Sri Lanka	—	0.5	4.9	43.4	9.7	2.9	61.3

Table II.8 (*concluded*).

Repurchases of Currencies from the Fund, Financial Year Ended April 30, 1987

(In millions of SDRs)

Member Repurchasing	Repurchases in Respect of Purchases of: Borrowed Resources: Supplementary financing facility	Borrowed Resources: Enlarged access resources	Ordinary Resources: Credit tranche	Ordinary Resources: Extended Fund facility	Ordinary Resources: Compensatory financing	Ordinary Resources: Buffer stock	Total
Swaziland	—	—	—	—	2.3[2]	—	2.3
Tanzania	10.2[5]	—	2.1	—	3.8	—	16.1
Thailand	—	67.3	77.3	—	23.3	24.4	192.2
Togo	1.8	1.2	1.9	—	—	—	4.9
Turkey	322.5	—	21.1	—	—	—	343.6
Uganda	—	26.8	21.2	—	5.6	—	53.6
Uruguay	—	7.3	29.7	—	22.1	—	59.1
Western Samoa	—	—	0.7	—	0.4	—	1.2
Yemen Arab Republic	—	—	4.9	—	—	—	4.9
Yemen, People's Democratic Republic of	—	—	7.7	—	—	—	7.7
Yugoslavia	307.2	—	54.6	—	—	—	361.8
Zaïre	—	26.9	0.7	11.2	67.8	—	106.6
Zambia	—	17.9	—	6.4	—	—	24.3
Zimbabwe	—	12.9	20.6	—	28.1	—	61.5
Total	1,506.6	687.5	1,312.7	370.7	2,244.5	39.8	6,169.3

NOTE: Total includes repurchases equivalent to SDR 7.5 million relating to purchases made prior to the Second Amendment and attributed to the reserve tranche.

[1] Of which, SDR 1.185 million was repurchased in advance of the regular schedule.

[2] Repurchased in advance of the regular schedule.

[3] Of which, SDR 0.100 million was repurchased in advance of the regular schedule.

[4] Of which, SDR 22.835 million was repurchased in advance of the regular schedule.

[5] Of which, SDR 0.775 million was repurchased in advance of the regular schedule.

Table II.9.

Outstanding Fund Credit by Facility and Policy, 1981–87

(In millions of SDRs)

	Financial Year Ended April 30													
	1981		1982		1983		1984		1985		1986		1987	
	Amount	As percent of total	Amount	As percent of total	Amount	As percent of total	Amount	As percent of total	Amount	As percent of total	Amount	As percent of total	Amount	As percent of total
Regular facilities	2,349	24.6	3,206	21.7	4,721	20.0	5,197	16.4	5,511	15.8	6,315	18.2	6,575	20.8
Compensatory financing facility	2,617	27.4	3,643	24.6	6,837	29.0	7,304	23.0	7,490	21.4	6,430	18.6	4,779	15.1
Buffer stock financing facility	—	—	—	—	307	1.3	375	1.2	237	0.7	73	0.2	34	0.1
Oil facility	1,581	16.6	565	3.8	27	0.1	—	—	—	—	—	—	—	—
Extended Fund facility	980	10.3	2,115	14.3	3,317	14.1	5,568	17.5	6,529	18.7	6,498	18.8	6,242	19.7
Supplementary financing facility	2,018	21.1	4,112	27.8	6,039	25.6	6,920	21.8	6,310	18.0	5,276	15.2	3,769	11.9
Enlarged access policy	—	—	1,160	7.8	2,342	9.9	6,378	20.1	8,896	25.4	10,047	29.0	10,247	32.4
Total	9,545	100.0	14,802	100.0	23,590	100.0	31,742	100.0	34,973	100.0	34,640	100.0	31,646	100.0

Table II.10.

Flow of Transactions in the General Resources Account and Resulting Stocks, 1981–87

(In millions of SDRs)

	Financial Year Ended April 30						
Type of Transaction	1981	1982	1983	1984	1985	1986	1987
Total purchases	4,860	8,041	11,392	11,518	6,289	4,101	3,685
Reserve tranche	474	1,080	1,134	1,354	229	160	517
Credit tranches	2,682	2,748	3,703	4,164	2,768	2,841	2,325
Buffer stock financing facility	—	—	352	102	—	—	—
Compensatory financing facility	784	1,635	3,740	1,180	1,248	601	593
Extended Fund facility	920	2,578	2,463	4,718	2,044	498	250
Total repurchases of purchases	2,811	1,894	1,547	2,015	2,730	4,274	6,162
Outstanding Fund credit	9,545	14,802	23,590	31,742	34,973	34,640	31,646
Outstanding borrowings	4,323	6,773	10,952	13,791	14,203	14,556	12,700
In connection with oil facility	1,528	526	18	—	—	—	—
Under General Arrangements to Borrow	777	777	777	—	—	—	—
Supplementary financing facility	2,018	4,112	6,037	6,915	6,239	5,038	3,381
Under policy on enlarged access	—	1,358	4,120	6,876	7,964	9,518	9,304
Under borrowing agreement with Japan	—	—	—	—	—	—	15
Holdings of the General Resources Account at end of year[1]							
Usable currencies[2]	23,000	17,000	14,400	32,900	37,300	34,400	37,300
SDRs	5,445	5,456	4,335	6,437	4,616	2,722	1,960
Gold[3]	3,620	3,620	3,620	3,620	3,620	3,620	3,620
Reserve tranche positions of members at end of year	13,125	15,621	20,592	27,415	28,290	26,087	24,025

[1] Total excludes Fund's gold holdings.

[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 a fine ounce (0.888671 gram of fine gold per SDR).

Table II.11.

Borrowing in Connection with Purchases Under the Supplementary Financing Facility and Repayments to Lenders, May 29, 1980–April 30, 1987

(In millions of SDRs)

Lender	Total Amount of Agreement	Amount Borrowed	Amount Undrawn at Expiration of Agreements[1]	Amount Repaid[2]	Borrowing Outstanding as of April 30, 1987
Abu Dhabi	150.00	105.22	44.78	65.04	40.18
Austrian National Bank	50.00	50.00	—	21.22	28.78
Banque Nationale de Belgique	150.00	12.34	137.66	12.34	—
Canada	200.00	173.61	26.39	26.87	146.74
Deutsche Bundesbank	1,050.00	1,050.00[3]	—	711.85	338.15
Banco de Guatemala	30.00	8.36[4]	21.64	8.36	—
Japan	900.00	886.69	13.31	451.32	435.37
Central Bank of Kuwait	400.00	400.00	—	191.72	208.28
De Nederlandsche Bank, N.V.	100.00	100.00	—	47.95	52.04
Central Bank of Nigeria	220.00	69.85[5]	150.15	69.85	—
Saudi Arabian Monetary Agency	1,934.00	1,906.74[3]	27.26	920.17	986.57
Swiss National Bank	650.00	650.00	—	328.20	321.80
United States	1,450.00	1,450.00	—	767.27	682.73
Central Bank of Venezuela	500.00	369.42	130.58	229.31	140.11
Total	7,784.00	7,232.22	551.78	3,851.48	3,380.74

[1] Agreements lapsed on February 22, 1984.
[2] Repayments began on November 24, 1982.
[3] Claims totaling SDR 172.01 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.
[4] Claims totaling SDR 8.36 million were repaid in advance to the Banco de Guatemala on February 8, 1982. This encashment was refinanced by a call on the Swiss National Bank.
[5] Claims totaling SDR 69.85 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.

Table II.12.

Arrangements Under the Structural Adjustment Facility as of April 30, 1987

(In millions of SDRs)

Member	Date of Arrangement	Expiration Date	Amount Committed Under Three-Year Arrangement	Amount Drawn	Balance Outstanding
Bangladesh	2/06/87	2/05/90	135.125	57.500	77.625
Bolivia	12/15/86	12/14/89	42.629	18.140	24.489
Burundi	8/08/86	8/07/89	20.069	8.540	11.529
Dominica	11/26/86	11/25/89	1.880	0.800	1.080
Gambia, The	9/17/86	9/16/89	8.037	3.420	4.617
Haiti	12/17/86	12/16/89	20.727	8.820	11.907
Mauritania	9/22/86	9/21/89	15.933	6.780	9.153
Niger	11/17/86	11/16/89	15.839	6.740	9.099
Senegal	11/10/86	11/09/89	39.997	17.020	22.977
Sierra Leone	11/14/86	11/13/89	27.213	11.580	15.633
Total			327.449	139.340	188.109

Table II.13.

Transfers of SDRs, January 1, 1970–April 30, 1987

(In millions of SDRs)

	Annual Average January 1, 1970–April 30, 1981	Financial Years Ended April 30						Total January 1, 1970–April 30, 1987
		1982	1983	1984	1985	1986	1987	
Transfers among participants and prescribed holders								
Transactions with designation								
From own holdings	240	661	968	89	98	449	27	5,015
From purchase of SDRs from Fund	336	1,213	1,745	2,313	2,055	1,360	1,249	13,741
Transactions by agreement	527	1,242	1,281	3,175	2,706	2,677	3,925	20,975
Prescribed operations	—	158	396	1,194	161	111	786	2,807
Net interest on SDRs	73	245	273	188	326	313	305	2,480
Total	1,176	3,520	4,664	6,959	5,345	4,910	6,292	45,018
Transfers from participants to General Resources Account								
Repurchases	439	838	566	392	717	1,183	1,671	10,343
Charges	355	968	1,497	2,168	2,927	2,915	2,283	16,778
Quota payments	469	266	83	6,195	14	1	155	12,025
Interest received on General Resources Account SDR holdings	48	657	444	147	606	312	162	2,868
Assessments	1	2	2	3	4	4	4	32
Total	1,311	2,732	2,593	8,905	4,268	4,415	4,275	42,046
Transfers from General Resources Account to participants and prescribed holders								
Purchases	543	2,035	2,419	3,876	2,595	1,965	1,779	20,819
Repayments of Fund borrowings	23	144	28	787	129	533	1,007	2,892
Interest on Fund borrowings	10	143	224	202	446	721	404	2,256
In exchange for other members' currencies								
Acquisitions to pay charges	1	27	162	330	953	1,550	750	3,782
Acquisitions to make quota payments	30	—	—	—	—	—	—	341
Reconstitution	137	—	—	—	—	—	—	1,555
Remuneration	63	348	861	1,573	1,952	1,531	1,088	8,067
Other	23	23	20	35	14	10	10	375
Total	831	2,721	3,714	6,803	6,089	6,309	5,037	40,086
Total transfers	3,318	8,972	10,970	22,667	15,703	15,634	15,604	127,149
General Resources Account holdings at end of period	5,445	5,456	4,335	6,437	4,616	2,722	1,960	1,960

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Table II.14.

Summary of Transactions and Operations in SDRs, Financial Year Ended April 30, 1987

(In thousands of SDRs)

Holders	Total Holdings April 30, 1986	Receipts from Participants and Prescribed Holders		Transfers to Participants and Prescribed Holders		Receipts from the General Resources Account	Transfers to the General Resources Account	Interest, Charges, and Assess-ment (Net)	Positions as at April 30, 1987		
		Designated	Other	Designated	Other				Holdings	Net cumulative allocations	Holdings as percent of cumulative allocations
PARTICIPANTS											
Afghanistan	12,137	—	—	—	—	—	—	−939	11,199	26,703	41.9
Algeria	131,399	—	—	—	—	6,572	—	+279	138,250	128,640	107.5
Antigua and Barbuda	2	—	—	—	—	—	—	—	3	—	—
Argentina	34,539	—	110,139	49,750	—	117,210	189,326	−19,441	3,372	318,370	1.1
Australia	279,236	—	—	—	—	1,259	—	−12,322	268,173	470,545	57.0
Austria	218,807	22,821	185,373	—	288,361	19,003	—	+57	157,700	179,045	88.1
Bahamas, The	264	—	—	—	—	851	—	−632	483	10,230	4.7
Bahrain	13,772	—	—	—	—	1	—	+484	14,258	6,200	230.0
Bangladesh	7,258	—	59,005	43,000	—	105,199	32,286	−2,540	93,637	47,120	198.7
Barbados	638	—	1,534	—	—	1,776	3,101	−494	354	8,039	4.4
Belgium	298,709	87,702	12,260	—	120,468	16,641	—	−13,511	281,333	485,246	58.0
Belize	2	—	—	—	—	1,957	1,802	+2	159	—	—
Benin	25	—	—	—	—	732	—	−590	167	9,409	1.8
Bhutan	90	—	—	—	—	20	—	+6	117	—	—
Bolivia	33	—	242	24,033	—	29,762	4,184	−1,654	166	26,703	0.6
Botswana	10,666	2,506	—	—	—	685	—	+477	14,335	4,359	328.9
Brazil	60,639	—	191,818	—	—	54,250	279,038	−21,988	5,680	358,670	1.6
Burkina Faso	5,638	—	—	—	—	240	—	−238	5,640	9,409	59.9
Burma	69	—	1,100	—	—	6,040	3,261	−2,717	1,231	43,474	2.8
Burundi	527	—	500	—	—	247	53	−839	383	13,697	2.8
Cameroon	3,817	—	—	—	—	—	—	−1,328	2,489	24,463	10.2
Canada	137,805	220,101	—	—	173,603	10,324	—	−39,945	154,681	779,290	19.8
Cape Verde	97	—	—	—	—	26	—	−33	90	620	14.5
Central African Republic	595	—	4,300	—	—	1,799	4,478	−548	1,668	9,325	17.9
Chad	2,360	—	—	—	—	—	446	−463	1,451	9,409	15.4
Chile	15,311	—	52,376	96,458	—	125,744	77,734	−7,514	11,725	121,924	9.6
China	446,282	—	—	354,242	45,000	414,464	12,822	+13,628	462,311	236,800	195.2
Colombia	114,201	—	500	—	—	—	—	−409	114,292	114,271	100.0
Comoros	201	—	—	—	—	—	—	−33	167	716	23.4
Congo	1,346	—	—	6,500	—	9,530	359	−468	3,549	9,719	36.5
Costa Rica	2,292	—	6,994	—	—	6,630	14,239	−1,465	211	23,726	0.9
Côte d'Ivoire	6,069	—	2,819	4,000	—	39,590	37,802	−2,155	4,520	37,828	11.9
Cyprus	342	—	897	—	—	300	—	−1,219	321	19,438	1.7
Denmark	186,686	14,852	—	—	12,260	7,100	—	+881	197,258	178,864	110.3
Djibouti	366	—	—	—	—	29	—	−52	343	1,178	29.2

Dominica	107	—	887	—	—	305	1,033	−28	238	592	40.2
Dominican Republic	4,136	—	10,521	—	—	9,558	22,309	−1,892	13	31,585	—
Ecuador	28,129	—	—	7,550	4,325	47,301	52,957	+130	10,728	32,929	32.6
Egypt	3,021	—	9,600	—	—	82	1,807	−8,520	2,375	135,924	1.7
El Salvador	1,820	—	27,648	—	—	2,096	29,207	−1,554	804	24,985	3.2
Equatorial Guinea	1,410	—	—	—	—	—	675	−294	441	5,812	7.6
Ethiopia	979	—	9,965	—	—	563	10,038	−679	790	11,160	7.1
Fiji	5,236	—	6,000	—	—	258	7,322	−109	4,063	6,958	58.4
Finland	161,309	1,263	—	—	—	4,869	—	+1,297	168,738	142,690	118.3
France	840,793	196,938	51,639	—	259,810	52,102	—	−11,722	869,939	1,079,870	80.6
Gabon	636	—	310	—	—	10,142	498	−815	9,775	14,091	69.4
Gambia, The	—	—	7,767	9,620	—	9,291	6,589	−306	544	5,121	10.6
Germany, Federal Republic of	1,497,118	134,114	243,410	—	788,820	401,216	—	+22,028	1,509,067	1,210,760	124.6
Ghana	8,281	—	53,360	—	—	104	56,337	−3,714	1,695	62,983	2.7
Greece	1,789	—	—	—	—	5,746	—	−6,490	1,045	103,544	1.0
Grenada	2	—	—	—	—	163	105	−58	2	930	0.2
Guatemala	1,721	—	27,845	—	—	4,066	31,163	−1,723	745	27,678	2.7
Guinea	32	—	8,284	10,954	1,626	12,936	5,181	−1,043	2,449	17,604	13.9
Guinea-Bissau	—	—	—	—	—	227	147	−76	4	1,212	0.4
Guyana	—	—	—	—	—	922	—	−922	—	14,530	—
Haiti	—	—	11,726	1,517	—	4,353	13,089	−829	644	13,697	4.7
Honduras	22	—	5,749	—	—	7,923	11,613	−1,184	895	19,057	4.7
Hungary	625	—	43,655	—	—	24,445	67,641	+83	1,167	—	—
Iceland	749	—	1,000	—	—	3,101	1,027	−1,008	2,815	16,409	17.2
India	161,260	—	730,357	—	—	14,227	712,409	−32,875	160,559	681,170	23.6
Indonesia	46,426	—	—	—	—	418	2,635	−12,431	31,779	238,956	13.3
Iran, Islamic Republic of	330,281	—	102	—	—	1,275	—	+5,514	337,172	244,056	138.2
Iraq	1	—	4,263	—	—	45	—	−4,299	10	68,464	—
Ireland	103,425	5,644	—	—	—	5,268	—	+1,267	115,605	87,263	132.5
Israel	1,857	—	1,680	—	—	4,694	—	−6,677	1,554	106,360	1.5
Italy	336,189	143,154	25,000	—	25,000	42,990	—	−20,669	501,665	702,400	71.4
Jamaica	102	—	1,547	39,396	—	89,173	48,269	−2,566	592	40,613	1.5
Japan	1,902,148	1,000	348,317	—	218,662	82,733	—	+62,032	2,177,569	891,690	244.2
Jordan	20,692	—	17,146	—	14,626	3	3,672	−29	19,513	16,887	115.6
Kampuchea, Democratic	—	—	—	—	—	—	—	—	—	15,417	—
Kenya	5,786	—	115,523	—	—	19	118,585	−1,869	873	36,990	2.4
Kiribati	—	—	568	—	—	3	568	+1	4	—	—
Korea	12,102	—	275,000	—	—	40,201	308,194	−3,562	15,547	72,911	21.3
Kuwait	111,430	—	—	—	—	16,276	—	+5,835	133,542	26,744	499.3
Lao People's Democratic Republic	221	—	160	—	—	370	21	−587	142	9,409	1.5
Lebanon	2,001	—	—	—	—	929	—	−131	2,798	4,393	63.7
Lesotho	937	—	—	—	—	—	—	−180	757	3,739	20.2
Liberia	—	—	—	—	—	208	—	−208	—	21,007	—
Libyan Arab Jamahiriya	162,246	—	—	—	—	13,299	—	+6,948	182,492	58,771	310.5
Luxembourg	17,211	—	—	—	—	404	—	+23	17,638	16,955	104.0
Madagascar	1,839	—	3,091	1,678	31,216	43,719	12,656	−1,174	1,925	19,270	10.0
Malawi	1,304	—	8,404	—	—	801	8,993	−658	858	10,975	7.8
Malaysia	107,602	—	—	—	—	6,320	272	−1,917	111,733	139,048	80.4
Maldives	11	—	—	—	—	25	—	−17	19	282	6.6
Mali	24	—	—	144	—	6,878	4,963	−981	815	15,912	5.1

Table II.14 (*concluded*).

Summary of Transactions and Operations in SDRs, Financial Year Ended April 30, 1987

(In thousands of SDRs)

Holders	Total Holdings April 30, 1986	Receipts from Participants and Prescribed Holders: Designated	Receipts from Participants and Prescribed Holders: Other	Transfers to Participants and Prescribed Holders: Designated	Transfers to Participants and Prescribed Holders: Other	Receipts from the General Resources Account	Transfers to the General Resources Account	Interest, Charges, and Assessment (Net)	Positions as at April 30, 1987: Holdings	Positions as at April 30, 1987: Net cumulative allocations	Positions as at April 30, 1987: Holdings as percent of cumulative allocations
Malta	40,573	—	—	—	—	1,508	—	+1,911	43,992	11,288	389.7
Mauritania	2,960	—	19,568	23,459	8,447	12,328	1,932	−488	530	9,719	5.5
Mauritius	1,069	—	15,799	11	—	7,161	19,897	−942	3,180	15,744	20.2
Mexico	36,117	—	288,478	170,250	—	242,289	346,608	−17,847	32,180	290,020	11.1
Morocco	2,748	—	100,319	—	39,496	44,277	89,359	−5,169	13,319	85,689	15.5
Nepal	339	—	400	6,400	—	7,323	768	−502	391	8,105	4.8
Netherlands	593,491	31,900	—	—	51,639	36,548	—	+4,007	614,307	530,340	115.8
New Zealand	3,392	—	10,000	—	—	2,200	—	−8,642	6,950	141,322	4.9
Nicaragua	—	—	—	—	—	1,233	—	−1,233	—	19,483	—
Niger	1,225	—	6,740	8,088	—	6,109	4,364	−564	1,059	9,409	11.3
Nigeria	2,743	—	2,500	—	—	8,725	1,625	−9,859	2,485	157,155	1.6
Norway	274,137	24,758	21,324	—	105	23,279	—	+7,656	351,049	167,770	209.2
Oman	6,798	3,200	—	—	2,000	1,704	—	+128	9,829	6,262	157.0
Pakistan	15,795	—	71,251	—	—	2,534	67,816	−10,289	11,475	169,989	6.8
Panama	6,140	—	38,368	—	—	25,819	66,714	−1,508	2,105	26,322	8.0
Papua New Guinea	5,632	3,053	—	—	—	23	4,728	−437	3,543	9,300	38.1
Paraguay	39,757	—	—	—	—	1,334	—	+1,702	42,793	13,697	312.4
Peru	—	—	701	—	—	19,020	12,615	−5,793	1,313	91,319	1.4
Philippines	11,872	—	43,170	130,367	5,000	164,129	65,286	−7,101	11,417	116,595	9.8
Poland	—	—	154,360	77,182	77,180	154,439	154,360	+1	79	—	—
Portugal	10,219	—	132,000	—	—	414	122,552	−2,987	17,094	53,320	32.1
Qatar	19,514	1,638	—	—	—	1,557	—	+468	23,177	12,822	180.8
Romania	1,507	—	—	—	—	53,270	50,012	−4,766	—	75,950	—
Rwanda	8,166	—	—	—	—	256	—	−351	8,072	13,697	58.9
St. Lucia	5	—	—	—	—	43	1	−47	1	742	0.1
St. Vincent	23	—	—	—	—	6	1	−22	6	354	1.7
São Tomé and Principe	24	—	—	—	—	14	—	−38	1	620	0.1
Saudi Arabia	422,807	—	—	—	1,178,477	1,113,147	—	+17,666	375,143	195,527	191.9
Senegal	2,564	—	19,096	17,020	—	13,924	15,265	−1,476	1,822	24,462	7.5
Seychelles	34	—	—	—	—	—	—	−24	9	406	2.2
Sierra Leone	—	—	12,291	15,565	—	13,869	9,492	−1,102	—	17,455	—
Singapore	68,188	—	—	—	—	4,044	—	+3,412	75,644	16,475	459.1
Solomon Islands	221	—	—	—	—	1,257	806	—	671	654	102.6
Somalia	2	—	—	3,802	—	13,544	9,095	−650	—	13,697	—
South Africa	17,012	—	—	—	—	39,762	34,257	−13,704	8,813	220,360	4.0

Spain	283,204	67,644	—	—	—	16,389	—	+552	367,790	298,805	123.1
Sri Lanka	6,399	—	10,404	—	—	4,984	16,917	−4,400	470	70,868	0.7
Sudan	—	—	6,678	—	—	14,412	16,736	−4,354	—	52,192	—
Suriname	621	—	—	—	—	—	—	−458	163	7,750	2.1
Swaziland	594	—	4,500	—	—	—	2,727	−301	2,067	6,432	32.1
Sweden	234,124	22,398	—	—	—	9,487	—	−319	265,691	246,525	107.8
Syrian Arab Republic	2,122	—	8,485	—	8,999	1,170	—	−2,244	534	36,564	1.5
Tanzania	—	—	555	26,631	3,343	37,410	5,054	−1,955	982	31,372	3.1
Thailand	22,432	—	241,000	—	—	40,845	251,011	−4,448	48,818	84,652	57.7
Togo	915	—	102	1,440	—	6,435	4,495	−672	846	10,975	7.7
Tonga	5	—	—	—	—	26	—	+1	32	—	—
Trinidad and Tobago	108,942	—	—	—	65,000	4	—	+3,793	47,739	46,231	103.3
Tunisia	369	—	19,774	93,263	—	108,610	3,416	−1,904	30,171	34,243	88.1
Turkey	6,292	—	34,019	—	—	46,582	78,622	−6,923	1,348	112,307	1.2
Uganda	1,358	—	23,540	—	—	7,695	30,797	−1,796	—	29,396	—
United Arab Emirates	68,818	6,864	—	—	—	7	—	+2,096	77,785	38,737	200.8
United Kingdom	1,093,920	283,449	27,180	—	201,954	54,863	—	−48,287	1,209,171	1,913,070	63.2
United States	6,886,177	—	—	—	703,065	490,734	—	+123,792	6,797,637	4,899,530	138.7
Uruguay	10,378	—	102,367	—	3,222	24,723	78,224	−2,152	53,870	49,977	107.8
Vanuatu	164	—	—	—	—	42	—	+12	218	—	—
Venezuela	469,662	685	—	—	—	25,765	—	+10,420	506,532	316,890	159.8
Viet Nam	—	—	—	—	—	1,660	—	−1,660	—	47,658	—
Western Samoa	731	—	1,483	—	—	15	1,691	−33	505	1,142	44.2
Yemen Arab Republic	33,765	—	—	—	20,601	—	2,967	+1,374	11,570	6,160	187.8
Yemen, People's Democratic Republic of	1,717	—	22,090	—	18,991	—	513	−1,272	3,032	22,583	13.4
Yugoslavia	1,790	—	74,656	33,750	—	105,806	136,736	−9,515	2,252	155,161	1.5
Zaïre	541	—	94,291	19,614	—	61,888	123,591	−5,077	8,439	86,309	9.8
Zambia	315	—	—	—	—	9,932	5,973	−4,275	—	68,298	—
Zimbabwe	6,240	—	82,000	—	5,156	7	71,630	−217	11,244	10,200	110.2
Total Participants	18,711,901	1,275,682	4,369,870	1,275,682	4,376,452	5,036,615	4,109,556	−165,172	19,467,206	21,433,330	90.8
PRESCRIBED HOLDERS											
Arab Monetary Fund	5,064	—	143,071	—	133,407	—	—	+732	15,459	—	—
Bank of Central African States	189	—	5,000	—	4,610	—	—	+100	679	—	—
Bank for International Settlements	—	—	112,669	—	112,660	—	—	+213	222	—	—
East African Development Bank	648	—	—	—	112	—	—	+39	575	—	—
Eastern Caribbean Central Bank	1,100	—	—	—	—	—	—	+71	1,170	—	—
IBRD Sub Account A	—	—	59,979	—	59,677	—	—	+1,386	1,688	—	—
Islamic Development Bank	1,256	—	—	—	—	—	—	+80	1,336	—	—
Nordic Investment Bank	636	—	20,852	—	21,324	—	—	+85	249	—	—
Swiss National Bank	3,102	—	—	—	3,200	45	—	+114	60	—	—
Total Prescribed Holders	11,994	—	341,572	—	334,991	45	—	+2,819	21,439	—	—
GENERAL RESOURCES ACCOUNT	2,721,642	—	4,109,556	—	5,036,660	4	4	+165,748	1,960,286	—	—
Total	21,445,537	1,275,682	8,820,998	1,275,682	9,748,102	5,036,664	4,109,560	+3,395	21,448,932	21,433,330	—

Table II.15.

Holdings of SDRs by All Participants and by Groups of Countries as Percent of Their Cumulative Allocations of SDRs and of Their Non-Gold Reserves, Financial Years Ended April 30, 1970–87[1]

			Developing Countries				
					Capital Importing Countries		
	All Participants[2]	Industrial Countries	All developing countries	Capital exporting countries	All capital importing countries	With recent debt-servicing problems	Without recent debt-servicing problems
Holdings of SDRs as percent of cumulative allocations							
1970	93.8	102.1	72.2	100.0	71.5	84.9	52.6
1971	92.3	103.9	62.3	24.1	63.5	72.9	50.5
1972	90.2	100.4	64.2	52.2	64.6	61.7	68.6
1973	93.4	106.1	60.7	67.4	60.4	57.2	64.8
1974	94.6	106.5	64.2	66.7	64.1	61.8	67.3
1975	94.5	106.8	62.9	79.7	62.3	64.7	59.1
1976	95.1	108.9	59.5	104.9	58.0	60.4	54.7
1977	91.7	106.1	54.8	110.4	52.9	56.0	48.5
1978	85.3	96.0	57.6	126.0	55.3	59.4	49.8
1979	90.3	97.6	73.3	124.5	70.1	69.6	70.6
1980	91.9	97.6	79.5	155.2	72.7	68.6	78.0
1981	74.5	81.9	59.5	141.5	51.1	51.1	51.1
1982	74.6	82.7	57.8	144.1	49.0	42.9	56.5
1983	79.8	96.1	46.3	186.7	31.9	19.8	46.8
1984	69.8	81.2	46.5	165.1	34.3	19.8	52.0
1985	78.4	96.1	42.0	163.2	29.5	17.9	43.8
1986	87.3	106.3	48.1	172.2	35.3	23.7	49.6
1987	90.8	111.1	49.1	174.9	36.2	19.9	50.4
Holdings of SDRs as percent of non-gold reserves							
1970	8.3	9.6	5.0	0.8	6.0	7.0	4.6
1971	12.9	15.4	6.6	0.4	8.2	10.2	5.9
1972	10.8	11.0	8.1	0.8	10.9	10.8	10.9
1973	8.6	9.1	5.8	0.9	7.3	6.8	8.1
1974	7.6	8.8	4.4	0.5	5.9	5.0	7.7
1975	6.7	9.4	2.7	0.2	5.1	4.1	8.0
1976	5.9	9.0	2.1	0.3	3.7	3.7	3.7
1977	5.0	7.9	1.6	0.2	3.0	2.9	3.2
1978	3.9	6.1	1.4	0.3	2.2	2.8	1.6
1979	5.5	7.1	2.9	1.0	3.8	4.6	3.2
1980	6.3	7.5	4.0	1.6	5.5	5.3	5.9
1981	5.3	6.8	3.0	1.9	3.7	4.5	3.1
1982	5.1	6.5	2.7	1.9	3.1	5.2	2.3
1983	5.8	7.9	2.3	2.4	2.3	2.9	2.0
1984	4.6	5.9	2.1	2.2	2.1	2.1	2.1
1985	4.7	6.3	1.7	2.1	1.6	1.5	1.6
1986	5.1	6.7	1.9	2.5	1.7	2.3	1.5
1987	5.6	6.7	2.1	2.8	1.8	2.4	1.5

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

[1] Country groupings follow the definitions in Appendix IX. Countries with recent debt-servicing problems are those countries that incurred external payments arrears or rescheduled their debts during the period from end-1983 to end-1986.

[2] This category consists of all participants in the Fund's SDR Department. The part of cumulative allocations not held by the group of participants is held by the Fund (SDR 2.0 billion at the end of financial year 1987) and by other holders (SDR 0.02 billion at the end of financial year 1987).

Table II.16.
Supplementary Financing Facility Subsidy Account: Donations Received to April 30, 1987

(In millions of SDRs)

Donor	Amount of Donation
Australia	2.0
Austria	1.2
Denmark	1.5
Finland	1.3
France	9.3
Netherlands	4.1
Norway	1.4
Saudi Arabia	32.0
Sweden	2.2
Switzerland	2.4
Total	57.4

Table II.17.
Purchases Under Supplementary Financing Facility by Eligible Members, and Subsidy Payments as of April 30, 1987

(In millions of SDRs)

	Purchases	Subsidy Payments
Recipients of subsidy at 3 percent		
Bangladesh	110.0	15.44
Bolivia	25.5	3.83
Dominica	4.5	0.47
Gambia, The	4.8	0.47
Guyana	30.9	3.49
India	1,200.0	108.15
Kenya	94.8	12.44
Liberia	42.9	4.91
Madagascar	22.2	3.10
Malawi	28.1	3.94
Mauritania	16.0	2.08
Pakistan	537.1	63.31
Philippines	333.0	45.82
Senegal	54.2	6.76
Sierra Leone	17.2	2.36
Sri Lanka	—	0.59[1]
Sudan	171.4	23.46
Tanzania	16.3	2.37
Togo	7.3	1.00
Zambia	—	3.52[2]
Subtotal	2,716.2	307.51
Recipients of subsidy at 1.5 percent		
Côte d'Ivoire	286.4	14.59
Jamaica	227.1	15.32
Mauritius	69.2	4.73
Morocco	137.5	9.69
Peru	195.1	14.94
Subtotal	915.3	59.27
Total	3,631.5	366.78

[1] Subsidy paid in respect of Fund holdings in excess of 140 percent of quota under the Fund's policy on exceptional use.

[2] Subsidy paid in respect of Fund holdings in excess of 200 percent of quota under the Fund's policy on exceptional use.

Table II.18.
SDR Interest Rate and Rate of Remuneration

Week Beginning	SDR Interest Rate	Rate of Remuneration
1986		
May 1[1]	6.27	6.11
May 5	6.28	6.12
May 12	6.24	6.08
May 19	6.26	6.10
May 26	6.23	6.07
June 2	6.28	6.12
June 9	6.26	6.10
June 16	6.23	6.07
June 23	6.19	6.03
June 30	6.13	5.98
July 7	6.09	5.94
July 14	6.03	5.88
July 21	6.03	5.88
July 28	6.06	5.91
August 4	6.04	5.89
August 11	6.00	5.85
August 18	5.93	5.78
August 25	5.82	5.67
September 1	5.74	5.60
September 8	5.79	5.64
September 15	5.76	5.62
September 22	5.85	5.70
September 29	5.90	5.75
October 6	5.93	5.78
October 13	5.89	5.74
October 20	6.05	5.90
October 27	6.01	5.86
November 3	6.01	5.86
November 10	5.97	5.82
November 17	6.02	5.87
November 24	5.99	5.84
December 1	6.01	5.86
December 8	6.04	5.89
December 15	6.15	6.00
December 22	6.18	6.02
December 29	6.22	6.06
1987		
January 5	6.20	6.04
January 12	6.17	6.02
January 19	6.03	5.88
January 26	5.99	5.84
February 1[2]	5.99	5.99
February 2	6.08	6.08
February 9	6.04	6.04
February 16	6.04	6.04
February 23	5.95	5.95
March 2	5.87	5.87
March 9	5.84	5.84
March 16	5.79	5.79
March 23	5.72	5.72
March 30	5.76	5.76
April 6	5.74	5.74
April 13	5.84	5.84
April 20	5.74	5.74
April 27	5.80	5.80

[1] The week began April 28, 1986. However, the first day of the financial year was May 1, 1986, at which time the remuneration coefficient increased from 92 percent to 97.49 percent of the SDR interest rate.

[2] The remuneration coefficient increased to 100 percent of the SDR interest rate as from the first day of the financial quarter that began February 1, 1987.

Table II.19.
Publications Issued, Financial Year Ended April 30, 1987

Reports and Other Documents

Annual Report of the Executive Board for the Financial Year Ended April 30, 1986
(English, French, German, and Spanish). Free

Annual Report on Exchange Arrangements and Exchange Restrictions, 1986
One copy free; additional copies US$12.00 each

By-Laws, Rules and Regulations
Forty-Third Issue (English, French, and Spanish). Free

Selected Decisions of the International Monetary Fund and Selected Documents, Twelfth Issue. Free

Summary Proceedings of the Forty-First Annual Meeting of the Board of Governors. Free

Subscription Publications

Balance of Payments Statistics
Vol. 37. A two-part yearbook and 12 monthly booklets. US$38.00 a year. US$19.00 to university libraries, faculty members, and students. US$12.00 for yearbook only.

Direction of Trade Statistics
Monthly, with yearbook.
US$36.00 a year. US$18.00 to university libraries, faculty members, and students. US$10.00 for yearbook only.

Government Finance Statistics Yearbook
Vol. X, 1986. (Introduction and title of lines in English, French, and Spanish.) US$20.00. US$10.00 to university libraries, faculty members, and students.

International Financial Statistics
Monthly, with yearbook (English, French, and Spanish) and two supplements (English). US$100.00 a year. US$50.00 to university libraries, faculty members, and students. Yearbook, US$25.00. Supplements separately, US$10.00 each.

Staff Papers
Four times a year. US$15.00 a year. US$7.50 to university libraries, faculty members, and students.

University libraries, faculty members, and students may obtain the five publications listed above at a special rate of US$80.00 for all five publications.

For users of Fund publications that have access to a computer, tape subscriptions to *Balance of Payments Statistics, Direction of Trade Statistics, Government Finance Statistics Yearbook,* and *International Financial Statistics* are available at US$1,500.00 a year each for single users and US$7,000.00 a year for time-sharing companies. This price includes the book version. The price to universities is US$500.00 a year for each publication.

Occasional Papers

No. 44 *A Review of the Fiscal Impulse Measure*
By Peter S. Heller, Richard D. Haas, and Ahsan H. Mansur

No. 45 *Switzerland's Role as an International Financial Center*
By Benedicte Vibe Christensen

No. 46 *Fund-Supported Programs, Fiscal Policy, and Income Distribution: A Study by the Fiscal Affairs Department of the International Monetary Fund*

No. 47 *Aging and Social Expenditure in the Major Industrial Countries, 1980–2025*
By Peter S. Heller, Richard Hemming, Peter W. Kohnert, and a Staff Team from the Fiscal Affairs Department

No. 48 *The European Monetary System: Recent Developments*
By Horst Ungerer, Owen Evans, Thomas Mayer, and Philip Young

No. 49 *Islamic Banking*
By Zubair Iqbal and Abbas Mirakhor

No. 50 *Strengthening the International Monetary System: Exchange Rates, Surveillance, and Objective Indicators*
By Andrew Crockett and Morris Goldstein

No. 51 *The Role of the SDR in the International Monetary System*
By the Research and Treasurer's Departments of the International Monetary Fund

Occasional Papers Nos. 44–51 are available for US$7.50 each, with a special price of US$4.50 each for university libraries, faculty members, and students.

World Economic and Financial Surveys

Primary Commodities: Market Developments and Outlook
By the Commodities Division of the Research Department
US$10.00 (US$6.00 to university libraries, faculty members, and students).

Staff Studies for the World Economic Outlook
By the Research Department
US$15.00 (US$11.00 to university libraries, faculty members, and students).

Export Credits: Developments and Prospects
By Eduard Brau, K. Burke Dillon, Chanpen Puckahtikom, and Miranda Xafa
US$10.00 (US$6.00 to university libraries, faculty members, and students).

World Economic Outlook, October 1986: Revised Projections by the Staff of the International Monetary Fund
US$12.00 (US$8.00 to university libraries, faculty members, and students).

International Capital Markets: Developments and Prospects
By Maxwell Watson, Russell Kincaid, Caroline Atkinson, Eliot Kalter, and David Folkerts-Landau
US$15.00 (US$11.00 to university libraries, faculty members, and students).

Recent Experience with Multilateral Official Debt Rescheduling
By K. Burke Dillon and Gumersindo Oliveros
US$10.00 (US$6.00 to university libraries, faculty members, and students).

World Economic Outlook, April 1987: A Survey by the Staff of the International Monetary Fund
US$15.00 (US$11.00 to university libraries, faculty members, and students).

Books

Fiscal Policy in the Smaller Industrial Countries, 1972–82
By Gísli Blöndal. Cloth US$24.00 Paper US$12.50.

Africa and the International Monetary Fund
Edited by Gerald K. Helleiner. US$10.00

Wage Determination and Incomes Policy in Open Economies
By Anne Romanis Braun. US$18.50.

The Fund Agreement in the Courts, Volume III
By Joseph Gold. US$45.00.

Pamphlet Series

No. 41 *The General Arrangements to Borrow*
By Michael Ainley (French and Spanish editions). Free

Pamphlet

Using the International Banking Statistics
By Joslin Landell-Mills. US$5.00.

Booklets

The Role and Function of the International Monetary Fund
(French and Spanish editions). Free

Publications Catalog, 1986 Free

Other

Finance & Development
Issued jointly with World Bank; quarterly (English, Arabic, Chinese, French, German, Portuguese, and Spanish). Free

IMF Survey
Twice monthly but only once in December (English, French, and Spanish). Private firms and individuals at an annual rate of US$30.00.

Table II.20.

Members That Have Accepted the Obligations of Article VIII, Sections 2, 3, and 4 of the Articles of Agreement

Member	Effective Date of Acceptance	Member	Effective Date of Acceptance
Antigua and Barbuda	November 22, 1983	Japan	April 1, 1964
Argentina	May 14, 1968	Kiribati	August 22, 1986
Australia	July 1, 1965	Kuwait	April 5, 1963
Austria	August 1, 1962	Luxembourg	February 15, 1961
Bahamas, The	December 5, 1973	Malaysia	November 11, 1968
Bahrain	March 20, 1973	Mexico	November 12, 1946
Belgium	February 15, 1961	Netherlands	February 15, 1961
Belize	June 14, 1983	New Zealand	August 5, 1982
Bolivia	June 5, 1967	Nicaragua	July 20, 1964
Canada	March 25, 1952	Norway	May 11, 1967
Chile	July 27, 1977	Oman	June 19, 1974
Costa Rica	February 1, 1965	Panama	November 26, 1946
Denmark	May 1, 1967	Papua New Guinea	December 4, 1975
Djibouti	September 19, 1980	Peru	February 15, 1961
Dominica	December 13, 1979	Qatar	June 4, 1973
Dominican Republic	August 1, 1953	St Kitts and Nevis	December 3, 1984
Ecuador	August 31, 1970	St Lucia	May 30, 1980
El Salvador	November 6, 1946	St Vincent	August 24, 1981
Fiji	August 4, 1972	Saudi Arabia	March 22, 1961
Finland	September 25, 1979	Seychelles	January 3, 1978
France	February 15, 1961	Singapore	November 9, 1968
Germany, Fed. Rep. of	February 15, 1961	Solomon Islands	July 24, 1979
Guatemala	January 27, 1947	South Africa	September 15, 1973
Guyana	December 27, 1966	Spain	July 15, 1986
Haiti	December 22, 1953	Suriname	June 29, 1978
Honduras	July 1, 1950	Sweden	February 15, 1961
Iceland	September 19, 1983	United Arab Emirates	February 13, 1974
Ireland	February 15, 1961	United Kingdom	February 15, 1961
Italy	February 15, 1961	United States	December 10, 1946
Jamaica	February 22, 1963	Uruguay	May 2, 1980
		Vanuatu	December 1, 1982
		Venezuela	July 1, 1976

Appendix III

Principal Policy Decisions of the Executive Board

A. Surveillance over Members' Exchange Rate Policies

(a) Amendment of Procedures

The second and third sentences of Paragraph II of Procedures for Surveillance contained in the document entitled "Surveillance over Exchange Rate Policies" attached to Decision No. 5392-(77/63),[1] adopted April 29, 1977, shall be amended to read as follows:

"In principle, the consultations under Article IV shall comprehend the regular consultations under Articles VIII and XIV, and shall take place annually. They shall include consideration of the observance by members of the principles set forth above as well as of a member's obligations under Article IV, Section 1."

Decision No. 8564-(87/59)
April 1, 1987

(b) Review of Implementation of Procedures

The Executive Board has reviewed the general implementation of the Fund's surveillance over members' exchange rate policies, as required by Paragraph VI of Procedures for Surveillance contained in the document entitled "Surveillance over Exchange Rate Policies" attached to Decision No. 5392-(77/63),[2] adopted April 29, 1977, including the procedures for the conduct of consultations under Article IV, which in principle shall comprehend the regular consultations under Article VIII and Article XIV, and approves the continuation of the procedures as described in [the staff paper], in the light of the Managing Director's summing up, until the next review, which shall be conducted not later than April 1, 1988.

Decision No. 8563-(87/59)
April 1, 1987

B. External Adjustment, Financing, and Growth; and Issues on Conditionality

1. Pursuant to Decision No. 8192-(86/13),[3] adopted January 27, 1986, the Fund has reviewed the experience with recent programs supported by stand-by and extended arrangements, and decides that the provisions of the extended Fund facility and the guidelines on conditionality will remain in force in the present circumstances.

2. The Fund will again review the experience relating to programs supported by stand-by and extended arrangements at an appropriate time pursuant to

[1] See *Selected Decisions*, Thirteenth Issue, pages 9–14.
[2] Ibid.
[3] See *Selected Decisions*, Thirteenth Issue, pages 38–39.

paragraph 12 of the guidelines on conditionality.[4] At that time, the Fund will also review the provisions of the extended Fund facility.

3. In the light of forthcoming discussions by the Executive Board on issues relating to conditionality, the Executive Board will decide when it may be appropriate to have the next comprehensive review of conditionality.

Decision No. 8583-(87/72)
May 8, 1987

C. Policy on Enlarged Access to the Fund's Resources

(a) Extension of Period and Access Limits for 1987

The Fund, having reviewed the decisions on the policy on enlarged access and the limits on access to the Fund's resources under that policy and under the special facilities of the Fund (No. 6783-(81/40),[5] No. 7599-(84/3) as amended by Decision No. 8147-(85/177),[6] No. 7600-(84/3) as amended by Decision No. 8147-(85/177),[7] and No. 7602-(84/3)),[8] decides that:

1. In paragraph a. of Decision No. 7599-(84/3) as amended, "1986" shall be replaced by "1987."

2. (a) In the third sentence of paragraph a. of Decision No. 7600-(84/3) as amended, "and 1987" shall be inserted after "1986."

(b) In paragraph b. of Decision No. 7600-(84/3) as amended, "1986" shall be replaced by "1987."

Decision No. 8459-(86/189)
December 1, 1986

(b) Use of Ordinary and Borrowed Resources

The Fund decides that, after December 31, 1986, the proportions of ordinary and borrowed resources to be used under stand-by or extended arrangements approved in accordance with Decision No. 6783-(81/40)[9] on the policy on enlarged access will be as follows:

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

b. Under an extended arrangement, purchases will be made with ordinary resources and borrowed resources in the ratio of 1 to 2 until the outstanding use of the upper credit tranches and the extended Fund facility equals 140 percent of quota. Thereafter, purchases will be made with borrowed resources only.

Decision No. 8487-(86/205)
December 19, 1986

[4] See *Selected Decisions*, Thirteenth Issue, pages 27–29.
[5] Ibid., pages 47–50.
[6] Ibid., pages 50–51.
[7] Ibid., pages 51–52.
[8] See *Annual Report, 1984*, page 138.
[9] See *Selected Decisions*, Thirteenth Issue, pages 47–50.

D. Compensatory Financing of Fluctuations in the Cost of Cereal Imports: Review of Decision

The Executive Board has reviewed Decision No. 6860-(81/81),[10] adopted May 13, 1981, as amended, on Compensatory Financing of Fluctuations in the Cost of Cereal Imports, as required by paragraph 17 of that decision. The next review of the decision shall be conducted not later than May 13, 1989.

Decision No. 8586-(87/73)
May 13, 1987

E. Level of Fund's SDR Holdings

In determining the amounts of SDRs to be transferred in purchases under the operational budgets, the Fund will be guided by the aim of maintaining the Fund's SDR holdings within the approximate range of SDR 0.75–1.25 billion. The Executive Board will be informed on the evolution of the Fund's holdings of SDRs on a regular basis. Should circumstances warrant any change in this approximate range, proposals will be brought to the Executive Board.

Decision No. 8574-(87/64) S
April 24, 1987

F. Charges

(a) Accounting for Charges from Members with Overdue Financial Obligations

The Executive Board decides that, effective November 1, 1986, accrued charges on the use of the Fund's general resources from a member that is overdue in meeting any financial obligation to the Fund for six months or more will not be included in accrued income unless the member is current in the payment of charges. Charges that are not included in accrued income will instead be reported as deferred income, and will be recorded as income only when paid. Once charges from a member have been reported as deferred income, charges subsequently accrued will not be included in accrued income until the member becomes current in the payment of charges.

Decision No. 8433-(86/175)
October 31, 1986

(b) Special Charges on Overdue Financial Obligations to the Fund

The following sentence shall be added at the end of paragraph I.3 of Decision No. 8165-(85/189) G/TR,[11] adopted December 30, 1985:

For the purposes of this calculation, any adjustment in the rate of charge referred to in Rule I-6(4) that may be made under Section V, paragraph 2(b) of Decision No. 8348-(86/122),[12] adopted July 25, 1986, shall not be taken into consideration.

Decision No. 8496-(87/3) G/TR
January 7, 1987

[10] See *Selected Decisions*, Thirteenth Issue, pages 89–94.
[11] Ibid., pages 129–30 and 376–77.
[12] Ibid., pages 132–36.

(c) Special Charges on Overdue Repurchases—Setoff

The amount to be repaid by the Fund to a member with respect to special charges on overdue obligations in the General Resources Account under Decision No. 8165-(85/189) G/TR[13] paid by the member for the first quarter of financial year 1987 shall be set off pro tanto against charges due for the second quarter of financial year 1987.

Decision No. 8442-(86/178)
November 6, 1986

G. Fund's Income Position

(a) Principles of "Burden Sharing," Income Target for FY 1987 and FY 1988, Rate of Charge, and Rate of Remuneration—Modification of Adjustment Periods

Decision No. 8348-(86/122),[14] adopted July 25, 1986, is amended by replacing paragraph 2(d) of Section V with the following paragraph 2(d):

"(d) Subject to the provisions of Section III.1(a), the adjustments under this paragraph shall be made as of May 1, as of August 1, as of November 1, and as of February 1 of each year:

shortly after July 31 for the period from May 1 to July 31;
shortly after October 31 for the period from August 1 to October 31;
shortly after January 31 for the period from November 1 to January 31;
shortly after April 30 for the period from February 1 to April 30."

Decision No. 8481-(86/202)
December 17, 1986

(b) Principles of "Burden Sharing," Income Target for FY 1987 and FY 1988, Rate of Charge, and Rate of Remuneration—Timing of Distribution of Proceeds of Settlement of Deferred Charges

In Decision No. 8348-(86/122),[15] adopted July 25, 1986, the word "semiannually" in the last sentence of paragraph 4(b) of Section V is replaced by the word "quarterly."

Decision No. 8482-(86/202)
December 17, 1986

(c) Burden Sharing, Rate of Charge, and Rate of Remuneration—Adjustment for Quarter Ended January 31, 1987

1. The Executive Board has reviewed the operation of Decision No. 8348-(86/122), adopted July 25, 1986 (as amended),[16] in accordance with Section V, paragraph 2(f) of that decision.

2. The adjustment in the rate of charge for the quarter ended January 31, 1987 will be limited so as to generate an amount equal to the amount generated through the reduction in remuneration for that quarter to cover deferred

[13] See *Selected Decisions*, Thirteenth Issue, pages 129–30 and 376–77.
[14] Ibid., pages 132–36.
[15] Ibid.
[16] Ibid., and Item G (a) and (b), above.

charges. The resulting shortfall will be deemed deferred income in the quarter ending April 30, 1987; the rate of charge and the rate of remuneration will be adjusted with respect to this amount, for the period from February 7, 1987 to the end of the quarter.

3. Whenever charges that became deferred are settled, distributions under Section V, paragraphs 4(b) and (c) of Decision No. 8348-(86/122) (as amended) shall be made in the proportion that the adjustment payments with respect to deferred income for that period had to the amount of deferred charges for the same period.

Decision No. 8515-(87/23)
February 6, 1987

H. Structural Adjustment Facility Within the Special Disbursement Account

(a) Special Charges

The following sentence shall be added at the end of paragraph 7, subparagraph 1 of the Regulations for the Administration of the Structural Adjustment Facility (Annex to Decision No. 8238-(86/56) SAF,[17] adopted March 26, 1986):

Additional interest shall be charged on (i) the amount of overdue interest on structural adjustment facility loans, at a rate equal to one half of the sum of the rate of interest on loans under the structural adjustment facility and the rate of interest on the SDR, and (ii) the overdue amounts of repayments of loans under the structural adjustment facility, at a rate equal to one half of the sum of the rate of interest on loans under the structural adjustment facility and the rate of interest on the SDR, less one half percent, and subject to the rules on waiver, notification, and payment of special charges under Executive Board Decision No. 8165-(85/189) G/TR,[18] adopted December 30, 1985, or any subsequent decision of the Fund thereon.

Decision No. 8497-(87/3) SAF
January 7, 1987

(b) List of Eligible Members

Kiribati and Tonga are eligible to receive balance of payments assistance under the structural adjustment facility within the Special Disbursement Account. The list annexed to Decision No. 8240-(86/56) SAF,[19] adopted March 26, 1986, shall be amended accordingly.

Decision No. 8542-(87/36) SAF
March 2, 1987

I. Borrowing Agreements with the Saudi Arabian Monetary Agency: Amendments

The Executive Board authorizes the Managing Director to propose to the Saudi Arabian Monetary Agency (SAMA) amendments to the 1981 Borrowing

[17] See *Selected Decisions*, Thirteenth Issue, pages 142–47.
[18] Ibid., pages 129–30 and 376–77.
[19] See *Selected Decisions*, Thirteenth Issue, pages 147–49.

Agreement[20] and the 1984 Supplementary Agreement[21] between SAMA and the Fund, substantially in the terms set forth in the Attachment . . ., and expresses its appreciation for the continued cooperation of the Saudi Arabian authorities with the Fund.

Decision No. 8460-(86/189)
December 1, 1986

ATTACHMENT

Communication from Fund Amending the Borrowing Agreements with SAMA

1. Reference borrowing agreement of May 7, 1981 and supplementary agreement of April 30, 1984, between the Saudi Arabian Monetary Agency (SAMA) and the International Monetary Fund (the Fund) (henceforth referred to as the 1981 Borrowing Agreement and the 1984 Supplementary Agreement). Pursuant to Executive Board Decision No. 8460-(86/189), adopted December 1, 1986, I have been authorized to propose on behalf of the Fund that the 1981 Borrowing Agreement and the 1984 Supplementary Agreement be amended as follows:

A. *The 1981 Borrowing Agreement*

1. The period referred to in paragraph 1(A) of the 1981 Borrowing Agreement, during which SAMA will stand committed to make loans to the Fund under the 1981 Borrowing Agreement, is extended from May 7, 1987 to November 6, 1987, in respect of amounts that remain undrawn on May 7, 1987, up to a maximum of SDR 500 million.

2. Each loan made under the 1981 Borrowing Agreement during the period from May 7, 1987 to November 6, 1987 shall be repaid by the Fund in four equal annual installments on May 6, in each of the years from 1991 to 1994 inclusive, except that if May 6 shall not be a banking day in any of these years, payment shall fall due and be made on the banking day immediately preceding.

B. *The 1984 Supplementary Agreement*

1. The period referred to in paragraph 1(A) of the 1981 Borrowing Agreement during which SAMA will stand committed to make loans to the Fund under the 1984 Supplementary Agreement (referred to as Third Tranche Loans pursuant to paragraph 2 of the 1984 Supplementary Agreement) is extended from May 7, 1987 to May 6, 1989.

2. Each Third Tranche Loan made under the 1984 Supplementary Agreement during the period May 7, 1987 to May 6, 1989 shall mature and be repaid by the Fund in a single installment on November 6, 1989.

C. *General Provision*

In all other respects, the provisions of the 1981 Borrowing Agreement and 1984 Supplementary Agreement, other than those provisions which by their terms have already expired, shall continue in effect and shall apply to all amounts drawn during the relevant extended periods.

2. Please confirm by tested telex your acceptance of this proposal. This communication and your reply accepting the foregoing proposal shall constitute an amendment to the 1981 Borrowing Agreement and the 1984 Supplementary

[20] See *Selected Decisions*, Thirteenth Issue, pages 207–36.
[21] Ibid., pages 237–50.

Agreement and shall enter into force on the date on which the Fund receives such reply.[22]

Very truly yours,

J. de Larosière
Managing Director

J. Borrowing Agreement with Japan

Pursuant to Article VII, Section 1 of the Articles of Agreement, the Executive Board approves the agreement for borrowing from the Government of Japan, in terms of the draft set out in the Attachment . . ., and authorizes the Managing Director to take such action as is necessary to conclude and implement the agreement.

Decision No. 8486-(86/205)
December 19, 1986

ATTACHMENT

Draft of Proposed Borrowing Agreement Between the Government of Japan and the Fund

1. Given the severe balance of payments difficulties confronting, or in prospect for many member countries, and in order to strengthen the financial position of the International Monetary Fund ("the Fund") and to facilitate a flexible response in accordance with its policies to assist its members in their efforts to overcome balance of payments difficulties, the Government of Japan ("Japan") agrees to lend to the Fund an amount equivalent to SDR 3 billion, on the terms and conditions set out below.

2. The Fund may make drawings under this agreement at any time during the period of four years commencing on the date of the first drawing and, in any event, not later than May 1, 1987, upon giving Japan at least three business days' notice (Tokyo) by tested telex. After consultation with Japan, the Managing Director may, if warranted in his judgment in light of an assessment of the Fund's liquidity and prospective borrowing requirements, propose extension of the period for drawings for up to two years, and Japan would agree to such a proposal.

3. The Fund will endeavor not to draw more than the equivalent of SDR 400 million on any one value date nor more than the equivalent of SDR 800 million during any week.

4. The amount of each drawing shall be denominated in SDRs. Unless otherwise agreed between the Fund and Japan, the amount shall be paid by Japan, on the value date specified in the Fund's notice, by transfer of the equivalent amount of Japanese yen to the account of the Fund at the Bank of Japan, Tokyo. Japan agrees that, on request, it shall exchange yen provided hereunder for U.S. dollars, to the extent required by the Fund for investment pending use of the borrowed funds in transactions of the Fund.

5. At the request of Japan, the Fund shall issue to Japan a nonnegotiable certificate evidencing its claim on the Fund resulting from a drawing outstanding under this agreement.

6. (a) Drawings shall be for maturity periods of six months. The drawings, or any part thereof, may be renewed by the Fund for consecutive periods of six months on giving notice as provided in paragraph 2 prior to each maturity date, provided that the total period that any drawing remains outstanding shall not exceed five years.

[22] The amendment entered into force on December 8, 1986.

(b) If a maturity period does not end on a business day in the place where payment is to be made, the maturity date shall be on the next succeeding business day in that place.

(c) A renewal may be recorded in the books of Japan by entries showing that the outstanding drawing has been repaid and that the amount subject to renewal has been drawn by the Fund on the same value date.

7. The Fund shall repay the principal amount of each drawing on the final maturity date applicable to the drawing or on such earlier repayment date as may be established pursuant to paragraphs 12 or 14 of this agreement. Repayment shall not have the effect of restoring the amount that can be drawn under this agreement.

8. (a) Each drawing shall bear interest at an annual rate determined by the Fund at the commencement of each maturity period, from the product of:

(i) the interest rates on domestic instruments in each currency included in the SDR basket, as reported to the Fund by each of the five central banks, on the business day referred to in paragraph 13, as follows:

—the bond equivalent yield for six-month U.S. Treasury Bills,
—the six-month interbank rate in Germany,
—the six-month rate for interbank loans against private paper in France,
—the average rate for newly issued bank CDs in Japan with a maturity of between 150 and 180 days,
—the six-month interbank rate in the United Kingdom, and

(ii) the percentage weight of that currency in the valuation of the SDR on that business day, calculated by using the same amounts and exchange rates for currencies as are employed by the Fund for calculating the value of the SDR in terms of the U.S. dollar on that day.

The applicable interest rate shall be the sum of the products so calculated, rounded up to the nearest 1/16 of 1 percent.

(b) The amount of interest payable in respect of the maturity period shall be calculated on an actual day basis and shall be paid by the Fund on the last day of the period or on the date the principal amount is repaid, whichever is earlier.

9. (a) Payments by the Fund of principal and interest shall normally be made in Japanese yen, provided that the Fund, by agreement with Japan, may use SDRs, U.S. dollars or any other currency. If agreement is not reached, the Fund shall have the option to pay in any freely usable currency as defined by the Fund, in SDRs, or in any combination thereof.

(b) Payments in Japanese yen shall be made by crediting the amount due to the account of Government of Japan at the Bank of Japan, Tokyo. Payments in SDRs shall be made by crediting Japan's holdings account in the Special Drawing Rights Department. Payments in U.S. dollars shall be made by crediting the account of the Government of Japan, Minister of Finance, at the Federal Reserve Bank of New York, New York. Payments in any other currency shall be made to an account specified by Japan.

10. At the request of Japan, its commitment to meet drawings or to renew drawings shall be terminated if Japan represents that its balance of payments and reserve position does not justify further drawings or renewals, and the Fund, having given this representation the overwhelming benefit of any doubt, determines that no further drawing or renewal should be made.

11. (a) Except as provided in (b) and (c) below, the commitment of Japan to meet and renew drawings under this agreement and its claims on the Fund resulting from outstanding drawings shall be transferable only with the consent of the Fund.

(b) Japan shall have the right to transfer at any time all or part of any claim to any member of the Fund, to the central bank or other fiscal agency designated by any member for purposes of Article V, Section 1 ("other fiscal agency"), or to any official entity that has been prescribed as a holder of SDRs pursuant to Article XVII, Section 3 of the Fund's Articles of Agreement.

(c) The transferee shall, as a condition of the transfer, assume the liability of Japan to accept a renewal of the transferred claim, and shall acquire all the rights of Japan under this agreement with respect to such claim, except that (i) for purposes of notice of renewals, references to business days (Tokyo) shall be deemed to refer to business days in the place where the transferee is situated, (ii) the transferee shall acquire the right to request termination of renewals under paragraph 10 and early repayment under paragraph 12 only if it is a member, or the central bank or other fiscal agency of a member, and at the time of transfer the member's balance of payments and reserve position is considered sufficiently strong in the opinion of the Fund for its currency to be usable in net sales in the Fund's operational budget, and (iii) if the transferee is a member or the central bank or other fiscal agency of a member, the reference to Japanese yen in paragraph 9(a) shall be deemed to refer to the transferee's currency, and in other cases it shall be deemed to refer to U.S. dollars.

12. (a) Japan shall obtain repayment of a claim on the Fund under this agreement before maturity, at face value, if Japan represents that its balance of payments and reserve position justifies early repayment, and the Fund, having given this representation the overwhelming benefit of any doubt, determines that there is a need for such early repayment.

(b) Japan and the Fund may agree that a claim on the Fund will be repaid at the end of any maturity period.

13. Unless otherwise agreed between Japan and the Fund, all transfers and exchanges under paragraph 4, and all payments of principal and interest, shall be made at the exchange rates for the relevant currencies in terms of the SDR established by the Fund for the third business day of the Fund before the value date of the transfer, exchange or payment.

14. If the Fund changes the method of valuing the SDR, all transfers, exchanges and payments of principal and interest made three or more business days of the Fund after the effective date of the change shall be made on the basis of the new method of valuation. Nevertheless, if Japan so requests within 30 days after the adoption of the relevant decision of the Fund but not later than 14 days after the date the change becomes effective, the former method of determining the value of the SDR shall continue to apply to all outstanding amounts and their repayment, and in the calculation and payment of interest on such outstanding amounts. If Japan exercises this option, the Fund shall have the right, on giving 14 days' notice, to repay in advance of maturity all the amounts to which the option has been applied.

15. Any question arising hereunder shall be settled by mutual agreement between Japan and the Fund.

If the foregoing proposal is acceptable to Japan, this communication and your duly authenticated reply accepting the proposal shall constitute an agreement between Japan and the Fund, which shall enter into effect on the date the Fund acknowledges receipt of your reply.[23]

K. Supplementary Financing Facility Subsidy Account

(a) Determination of Amount of Subsidy Payments

The Executive Board approves the approach recommended in [the Annex] for determining the amount and timing of subsidy payments to eligible members from the Supplementary Financing Facility Subsidy Account.

Decision No. 8381-(86/143) SBS
August 29, 1986

[23] The agreement entered into effect on December 24, 1986.

ANNEX

. . .

(ii) the SFF subsidy instrument provides in Section 9(c) that "the amount of subsidy . . . shall be paid to each eligible member as soon as practicable after the determination is made." It would, therefore, be possible to make a determination of the actual amount of subsidy on the present basis when the rate of charge on the use of the ordinary resources for the first half of the financial year is known, which under the new system of determining the rate of charge would be in November.

. . .

It is, therefore, proposed to make the determination of the amount of subsidy in November 1986. It is also proposed to follow the same procedure in subsequent years so long as adjustments are required under Decision No. 8348-(86/122).[24]

(b) Subsidy Payments for July 1, 1985 Through June 30, 1986

1. In accordance with the Instrument establishing the Supplementary Financing Facility Subsidy Account, subsidy payments shall be made with respect to charges paid on holdings of currency referred to in Section 7 of the Instrument for the period July 1, 1985 through June 30, 1986, in the amount indicated to each of the eligible members as listed in [the Attachment].

2. The subsidy payment shall be made to each eligible member on December 23, 1986, or as soon thereafter as the member has paid all overdue charges, if any, on balances eligible for the subsidy.

Decision No. 8492-(87/1) SBS
December 22, 1986

[24] See *Selected Decisions*, Thirteenth Issue, pages 132–36.

ATTACHMENT

SFF Subsidy Account:
Past Disbursements and Disbursement Proposed
for the Year Ended June 30, 1986

(In SDRs)

	Cumulative Approved Subsidies in Period 1981–1985[2]	Proposed Amount of Disbursement[1]			Total as an Annualized Percentage of Eligible Holdings[3]
		July–December 1985	January–June 1986	Total July 1985–June 1986	
(a) Members eligible to receive subsidy at the full rate					
Bangladesh	13,934,805	1,067,077	401,828	1,468,905	2.26
Bolivia	3,588,323	176,991	59,678	236,669	2.29
Dominica	382,662	59,504	25,197	84,701	2.13
Gambia, The	371,188	68,204	30,013	98,217	2.07
Guyana	4,151,274	241,484	85,472	326,956	2.28
India	82,789,065	17,089,315	7,521,377	24,610,692	2.09
Kenya	10,914,005	1,065,870	419,070	1,484,940	2.23
Liberia	4,914,140	486,713	190,763	677,476	2.23
Madagascar	2,786,046	219,438	82,516	301,954	2.26
Malawi	3,567,873	268,311	99,872	368,183	2.26
Mauritania	1,820,352	181,472	71,062	252,534	2.23
Pakistan	53,560,602	6,729,243	2,764,389	9,493,632	2.17
Philippines	41,063,618	3,369,989	1,275,741	4,645,730	2.26
Senegal	5,830,863	642,381	259,992	902,373	2.19
Sierra Leone	2,108,467	179,173	67,864	247,037	2.25
Sri Lanka[4]	591,705	—	—	—	—
Sudan	21,062,584	1,702,289	643,776	2,346,065	2.25
Tanzania	2,180,744	136,215	48,585	184,800	2.27
Togo	906,298	72,586	27,293	99,879	2.26
Zambia[4]	3,520,127	—	—	—	—
Subtotal	260,044,741	33,756,255	14,074,488	47,830,743	
(b) Members eligible to receive subsidy at half the full rate					
Côte d'Ivoire	11,774,374	1,918,897	820,331	2,739,228	1.06
Jamaica	13,768,740	1,093,776	416,172	1,509,948	1.12
Mauritius	4,270,544	321,751	122,099	443,850	1.11
Morocco	8,770,225	654,318	242,199	896,517	1.13
Peru	14,236,661	528,871	159,258	688,129	1.17
Subtotal	52,820,544	4,517,613	1,760,059	6,277,672	
Total	312,865,285	38,273,868	15,834,547	54,108,415	

[1] Subject to full payment by members of the relevant charges.
[2] These figures include SDR 659,225 not disbursed pending payment of overdue SFF charges.
[3] Amount of subsidy expressed as a percentage of the average outstanding eligible SFF holdings over the 12-month subsidy period.
[4] Sri Lanka and Zambia no longer have outstanding holdings purchased under the SFF.

(c) Amendment of Subsidy Account Instrument and Additional Subsidy Payments for July 1, 1985 Through June 30, 1986

1. The following sentence shall be added at the end of Section 10 of the Subsidy Account Instrument as a separate paragraph: "For the purpose of the calculation of charges under (a) and (b), any adjustment in the rate of charge referred to in Rule I-6(4) that may be made under Section V, paragraph 2(b) of Decision No. 8348-(86/122),[25] adopted July 25, 1986, shall not be taken into consideration."

2. In accordance with Section 10 of the Instrument establishing the Supplementary Financing Facility Subsidy Account, as amended, additional subsidy payments shall be made with respect to charges paid on holdings of currency referred to in Section 7 of the Instrument for the period July 1, 1985 through June 30, 1986, in the amount indicated to each of the eligible members as listed in column 3 of the table attached. . . .

3. The subsidy payment shall be made to each eligible member on February 9, 1987, or as soon thereafter as the member has paid all overdue charges, if any, on balances eligible for the subsidy.

Decision No. 8523-(87/25)
February 6, 1987

[25] *Selected Decisions*, Thirteenth Issue, pages 132–36.

ATTACHMENT

SFF Subsidy Account Payments:
Past Disbursements and Additional Disbursement Proposed
for the Year Ended June 30, 1986

(In SDRs)

			Proposed Amount of Disbursement[1]	
	(1) Cumulative Approved Subsidies in Period 1981–1985[2]	(2) Amount Already Disbursed for the Period July 1985–June 1986	(3) Additional Subsidy Disbursement	(4) Total for Period July 1985–June 1986
(a) Members eligible to receive subsidy at the full rate				
Bangladesh	13,934,805	1,468,905	36,026	1,504,931
Bolivia	3,588,323	236,669	5,034	241,703
Dominica	382,662	84,701	2,401	87,102
Gambia, The	371,188	98,217	2,910	101,127
Guyana	4,151,274	326,956	7,529	334,485
India	82,789,065	24,610,692	745,875	25,356,567
Kenya	10,914,005	1,484,940	37,648	1,522,588
Liberia	4,914,140	677,476	16,844	694,320
Madagascar	2,786,046	301,954	7,169	309,123
Malawi	3,567,873	368,183	8,641	376,824
Mauritania	1,820,352	252,534	6,148	258,682
Pakistan	53,560,602	9,493,632	257,129	9,750,761
Philippines	41,063,618	4,645,730	112,150	4,757,880
Senegal	5,830,863	902,373	23,465	925,838
Sierra Leone	2,108,467	247,037	5,760	252,797
Sri Lanka[3]	591,705	—	—	—
Sudan	21,062,584	2,346,065	55,980	2,402,045
Tanzania	2,180,744	184,800	3,980	188,780
Togo	906,298	99,879	2,362	102,241
Zambia[3]	3,520,127	—	—	—
Subtotal	260,044,741	47,830,743	1,337,051	49,167,794
(b) Members eligible to receive subsidy at half the full rate				
Côte d'Ivoire	11,774,374	2,739,228	79,949	2,819,177
Jamaica	13,768,740	1,509,948	36,651	1,546,599
Mauritius	4,270,544	443,850	10,856	454,706
Morocco	8,770,225	896,517	20,232	916,749
Peru	14,236,661	688,129	12,865	700,994
Subtotal	52,820,544	6,277,672	160,553	6,438,225
Total	312,865,285	54,108,415	1,497,604	55,606,019

[1] Subject to full payment by members of the relevant charges.
[2] These figures include SDR 659,225 approved for disbursement, but not disbursed pending payment of overdue SFF charges.
[3] Sri Lanka and Zambia have no outstanding holdings purchased under the SFF.

Appendix IV

Press Communiqués of the Interim Committee and the Development Committee

Interim Committee of the Board of Governors on the International Monetary System

PRESS COMMUNIQUÉS

Twenty-Seventh Meeting, Washington, September 28–29, 1986

1. The Interim Committee of the Board of Governors of the International Monetary Fund held its twenty-seventh meeting in Washington, D.C., on September 28–29, 1986, under the chairmanship of Mr. H. Onno Ruding, Minister of Finance of the Netherlands. 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 noted that economic developments since its last meeting have been somewhat mixed. The pace of activity in the industrial countries was slower than expected in the early part of the year, contributing to sluggish growth in world trade and a further decline in already low commodity prices. Also unemployment remains still high in many countries. More recently, however, there have been indications that economic activity has begun to pick up and that economic performance in industrial countries would be stronger in the second half of 1986 and in 1987, as the lagged effect of lower interest rates and terms of trade gains lead to higher private expenditure in real terms.

The Committee welcomed the further improvement in price performance in industrial countries, as well as the lower level of interest rates and the adjustments in exchange rates that have taken place among the major currencies and have led to a more satisfactory pattern of exchange rates. It felt that these developments will help place the international economy on a firmer footing. Nevertheless, the Committee realized that uncertainties still exist and considered that the basis for durable growth must be strengthened: the reduction in the federal fiscal deficit sought by the U.S. authorities has to be translated into fact; domestic demand growth outside the United States has to be sustained at an adequate pace, especially in those countries whose relatively strong domestic and external positions provide them with room for maneuver; current account imbalances have to be reduced, not least because of their role in encouraging protectionist pressures; and structural impediments to the growth of output have to be tackled.

3. The Committee noted that the export earnings of developing countries have been severely affected by recent declines in oil and the continued deterioration of other commodity prices, and that it has been necessary for these countries to curb further the growth of imports and domestic demand. Thus, following the recovery of 1984, the rate of growth in developing countries fell in 1985, and is expected to fall further in 1986. Fuel exporting countries and other primary product exporting countries have been severely affected by recent developments and have suffered from stagnant or declining export earnings.

The Committee observed that the debt-export ratio of the indebted countries, which fell in 1984, rose in 1985 and seems likely to rise again in 1986 to a higher level than that prevailing at the outset of the debt crisis. On the other hand, declines in international interest rates have brought about some reduction in the cost of servicing outstanding debt, although they remain high in real terms.

4. Committee members stressed the importance of determined implementation of the strengthened debt strategy introduced at the Seoul meetings. They agreed that a satisfactory resolution of the debt difficulties facing the indebted countries was dependent on three basic requirements: effective policies in the indebted countries themselves, aimed at the mobilization of domestic savings, improved allocation of resources, and the maintenance of external competitiveness; satisfactory growth in, and access to, export markets; and adequate external financial support for growth-oriented programs of adjustment. The Committee members emphasized the central role of the Fund in promoting growth-oriented adjustment programs, including the provision of assistance to its members in the design and financing of such programs, taking into account the individual circumstances of indebted countries. They noted that close collaboration between the Fund and the World Bank has been an essential part of efforts to support efficient resource use and growth-oriented policy reforms in member countries. In this connection, they welcomed the stepped-up loan commitments of the World Bank. The contribution that both institutions are making as financial catalysts was also stressed. Committee members welcomed the proposed package for Mexico as an example of the strengthened debt strategy and hoped that the package can be finalized promptly.

The Committee recognized the significant debt relief provided by official rescheduling in the Paris Club. In this connection, it noted with satisfaction the greater flexibility of official export credit agencies of industrial countries in resuming, or increasing, cover for countries whose debts have been rescheduled and which are undertaking the necessary policy adjustments to restore creditworthiness. It was noted that a significant number of the most heavily indebted countries have made good progress in strengthening domestic economic performance and improving their prospects for attracting increased flows of funds. Nevertheless, while the recent volume of lending commitments by multilateral development banks has been encouraging and officially supported export credits have grown notably, other sources of finance, particularly commercial bank lending, have declined and need to play a greater role.

The Committee also urged that concessional assistance to low-income countries should increase.

5. The Committee expressed concern that protectionist pressures have intensified and noted that many difficult trade policy issues are in need of urgent attention. Particular mention was made of the harmful consequences of subsidies. The importance of a liberal trading environment was also stressed as a key element for a satisfactory solution to current debt difficulties and for the needed structural changes in both industrial and developing countries. In addition it was emphasized that a strengthened and more open multilateral trading system is needed to reinforce international cooperation and improve world growth prospects. The major trading nations have a special role to play in keeping markets open and tackling trade policy problems flexibly, but developing countries should also resist pressures toward inward-oriented policies.

The Committee warmly welcomed the recent Ministerial Declaration on the Uruguay Round of multilateral trade negotiations, which is aimed at halting and reversing protectionism and developing a more open multilateral trading system, thereby reaffirming the role of trade policy in facilitating sustainable economic growth. Given the difficulty of the task, the Committee urged governments to make every effort to ensure an early and successful conclusion to the new round.

6. The Committee noted the progress made thus far in operations under the structural adjustment facility and the strengthened Fund-Bank collaboration evident in these operations. The Committee members stressed the potential

that the structural adjustment facility holds for promoting adjustment and growth in low-income countries and agreed that it would be desirable to enhance the catalytic role of the structural adjustment facility in mobilizing additional multilateral and bilateral concessional resources for those countries that can absorb them most efficiently, without adversely affecting the availability of concessional development finance for low-income countries not availing themselves of the structural adjustment facility. They noted that the Executive Board is due to review the operation of the facility in the light of the experience gained.

7. The Committee continued its exchange of views on issues related to the international monetary system that were examined in the reports put before it by the Group of Ten and the Group of Twenty-Four in October 1985. The Committee urged the Executive Board to examine expeditiously the role of the Fund as referred to in the reports of the Group of Ten and the Group of Twenty-Four. The Committee's discussion focused on the use of indicators in surveillance and the potential role of the SDR. Committee members welcomed the agreement at the Tokyo summit to use indicators in conducting surveillance as part of efforts to strengthen international economic cooperation. They also supported the greater use, in the latest world economic outlook analysis, of indicators of economic policies and performance. They considered that this analysis was helpful in focusing attention on potential incompatibilities in national economic policies and projections, particularly among the larger countries whose policies have substantial international impact. A key focus of indicators should be on points of interaction among national economies, in particular developments affecting the sustainability of balance of payments positions, and on the policies underlying them. It was generally agreed that a better use of indicators would be a helpful tool in strengthening the Fund's surveillance activities. The Committee asked the Executive Board to develop further the application of indicators in the context both of the periodic consultations with individual member countries and of the world economic outlook so as to facilitate the multilateral appraisal and coordination of economic policies.

8. With regard to the role of the SDR in the international reserve system, the Committee noted that the Executive Board had reviewed various aspects of the SDR system, including proposals relating to post-allocation adjustments of the distribution of SDRs among members and to techniques for improving the pattern of members' SDR holdings in relation to other reserve assets. The Committee welcomed the substantial increase in voluntary transfers of SDRs among members, which served to improve the liquidity and usability of the asset. It considered that the SDR, which is an owned reserve asset, can play a useful role as a component of international reserves and as a unit of account. It also recognized the potential use of the SDR as a "safety net" against unexpected contingencies. The Committee requested the Executive Board to continue its discussions of proposals to enhance the contribution of the SDR to the creation and allocation of international liquidity.

9. The Committee noted the report by the Managing Director on a recent Executive Board discussion of the question of SDR allocation in the next allocation period, 1987–91. Although most of the Executive Directors had supported an SDR allocation in that discussion, the broad support needed under the Articles of Agreement had been lacking. The Committee urged the Board to keep the matter under review. In this regard, the Committee welcomed the intention of the Executive Board to study further the long-term global need for reserve supplementation in the context of the conditions under which the international monetary and exchange systems are now operating. It invited the Board to report on the results of this examination and on the progress made about an allocation at the Committee's next meeting.

10. The Committee discussed the question of the Fund's policy on enlarged access and the limits on access to the Fund's resources in 1987. It was recalled that enlarged access is of a temporary character and that this policy and the limits applicable under it, as well as the access limits under the Fund's special facilities, were to be reviewed before the end of 1986.

The Committee noted that, in view of the uncertainties that continued to surround the world economy and of the worsening payments difficulties of a number of member countries, there was a need to continue the enlarged access policy. In the circumstances, it was judged that the present access limits, both under the enlarged access policy and under the special facilities, should be retained in 1987. The Committee also noted that the Executive Board had concluded, in its recent review of the Fund's liquidity and financing needs, that the Fund's liquidity position continues to be broadly satisfactory.

The Committee requested the Executive Board to complete, before the end of this year, the necessary action in order to implement the agreement reached in the Committee.

11. The Committee welcomed the offer made by Japan to provide the Fund with SDR 3 billion to enhance its ability to support members' adjustment efforts.

12. The members of the Committee paid special tribute to Mr. de Larosière's wise, imaginative, and courageous leadership of the International Monetary Fund. They were unanimous in expressing warm and deep appreciation for his many outstanding accomplishments as Managing Director and for his invaluable contributions to the work of the Interim Committee. His dedication to achieving the purposes of the International Monetary Fund and his inspiring service have been of key importance in the guidance of the international monetary system at a critical period for the world economy.

13. The Committee agreed to hold its next meeting in Washington, D.C., on April 9, 1987.

Annex: Interim Committee Attendance, September 28–29, 1986

Chairman

H.O. Ruding, Minister of Finance, Netherlands

Managing Director

J. de Larosière

Members or Alternates

Hamad Al-Sayari, Governor, Saudi Arabian Monetary Agency (Alternate for Mohammad Abalkhail, Minister of Finance and National Economy, Saudi Arabia)

Hikmat M. Al-Azzawi, Governor, Central Bank of Iraq

James A. Baker, III, Secretary of the Treasury, United States

Edouard Balladur, Minister of Economy, Finance and Privatization, France

Mark Eyskens, Minister of Finance, Belgium

Kjell-Olof Feldt, Minister of Finance, Sweden

Dilson Domingos Funaro, Minister of Finance, Brazil

Giovanni Goria, Minister of the Treasury, Italy

Paul J. Keating, Treasurer, Australia

Nigel Lawson, Chancellor of the Exchequer, United Kingdom

LIU Hongru, Vice-Chairman of the Council and First Deputy Governor, People's Bank of China

Kiichi Miyazawa, Minister of Finance, Japan

Bader-Eddine Nouioua, Governor, Banque Centrale d'Algérie

PAY PAY wa Syakassighe, Governor, Banque du Zaïre

Gustavo Petricioli, Secretary of Finance and Public Credit, Mexico

W.F. Duisenberg, President, De Nederlandsche Bank, N.V. (Alternate for H.O. Ruding, Minister of Finance, Netherlands)

Kamchorn Sathirakul, Governor, Bank of Thailand

R.N. Malhotra, Governor, Reserve Bank of India (Alternate for Vishwanath Pratap Singh, Minister of Finance, India)

Juan Vital Sourrouille, Minister of Economy, Argentina

Gerhard Stoltenberg, Federal Minister of Finance, Federal Republic of Germany

Robert C. Tubman, Minister of Finance, Liberia

Michael H. Wilson, Minister of Finance, Canada

Observers

Yves Berthelot, Deputy Secretary-General, UNCTAD
Barber B. Conable, President, World Bank
Arthur Dunkel, Director-General, GATT
Ghulam Ishaq Khan, Chairman, Development Committee
Alexandre Lamfalussy, General Manager, BIS
Pierre Languetin, Chairman of the Governing Board, Swiss National Bank
Pedro Malan, Director, General Analysis and Policies Division, Department of International Economic and Social Affairs, UN
Abel Matutes, Commissioner for Credit, Investments, and Financial Instruments, CEC
Jean-Claude Paye, Secretary-General, OECD
Massood V. Samii, Head, Finance Section, Economic and Finance Department, OPEC

Twenty-Eighth Meeting, Washington, April 9–10, 1987

1. The Interim Committee of the Board of Governors of the International Monetary Fund held its twenty-eighth meeting in Washington, D.C., on April 9–10, 1987, under the chairmanship of Mr. H. Onno Ruding, Minister of Finance of the Netherlands. Mr. Michel Camdessus, Managing Director of the International Monetary Fund, participated in the meeting, which was also attended by observers from a number of international and regional organizations and from Switzerland. The members of the Committee took the occasion to welcome Mr. Camdessus warmly to his initial meeting as Managing Director and wished him well in fulfilling his important duties in the coming years.

2. Committee members noted that the recent performance of the world economy has been mixed. Economic activity in the industrial countries expanded moderately for the fourth consecutive year and inflation continued to recede, but many developing countries, particularly exporters of oil and other primary products, experienced again a sharp weakening of their terms of trade. Moreover, exchange markets have been subject to considerable uncertainty, payments imbalances have remained large, and only limited progress has been made in reducing unemployment in the industrial countries. It was generally agreed that output is likely to continue to expand in 1987 at approximately the same pace as in 1986. Domestic demand would probably grow faster in Europe and Japan than in the United States, thus contributing to an improvement in the pattern of payments balances. However, the current account deficit of the United States, and the surpluses of Japan and, to a lesser extent, the Federal Republic of Germany and some other countries are at the present time unsustainably large.

In view of recent developments, members stressed the need for policies conducive to noninflationary growth in the world economy, stable exchange markets, and a gradual reduction in payments imbalances among the largest industrial countries. In this context, they welcomed the recent Louvre accord among major industrial countries and the confirmation this week by the Group of Seven of their commitment to cooperate in fostering the stability of exchange rates. They underlined the need for firm action to deal with the U.S. fiscal deficit, and for other industrial countries with large surpluses, to ensure an adequate rate of growth of domestic demand. In this context, they noted that certain other industrial countries and some newly industrialized countries might have room for maneuver in their economic policies with a view to encouraging a more rapid growth of imports. The Committee also stressed the need for all members to pursue structural measures aimed at removing market rigidities and, in this way, improving economic efficiency and encouraging resistance to protectionism.

The Committee examined the situation resulting from the sharp decline in the terms of trade of the developing countries entailing a transfer of resources of about $100 billion to developed countries and noted that many of them had responded by adjusting their policies, especially to strengthen the volume of exports. As a result, output growth in the developing countries as a group had accelerated moderately, to some 3½ percent; while fuel exporting countries generally experienced stagnant or falling GNP, output growth in other developing countries strengthened to about 5½ percent. Committee members noted that the situation of many heavily indebted developing countries remained extremely difficult. Flows of finance from private sources declined further in the past year, and the ratios of debt service to exports generally deteriorated, despite a lowering of interest rates, because of lower export earnings. In 1987, the growth of output in developing countries as a group is expected to decline somewhat.

3. The Committee strongly welcomed recent improvements in the international coordination of economic policies, especially among major countries. They discussed ways in which the process of policy coordination and multilateral surveillance could be strengthened through further development of the use of economic indicators. The application of indicators in the Fund's review of the world economic outlook was viewed as extremely useful in clarifying the interactions between national economies and in identifying potential sources of tension. Committee members considered that actual policies should be looked at against an evolution of economic variables that could be considered desirable and sustainable. They encouraged the Executive Board to examine the ways in which the existing principles and procedures for Fund surveillance could be updated to incorporate the use of indicators; to explore a strengthened use of indicators; and to submit a progress report to the Committee at its next meeting. In pursuing this work, the Executive Board was encouraged to focus on a limited set of key indicators and to appraise the international interactions of domestic policies and performance in the light of alternative medium-term scenarios. Indicators would also be designed for use in the assessment of world economic developments, including the impact of industrial countries' policies on developing economies, and in the Fund's continuing analysis and policy advice in the context of regular Article IV consultations.

4. The Committee expressed its concern about the increase in protectionist actions and stressed the need to resist these and to maintain an open trading system as an essential condition for safeguarding world economic growth and for the management of the debt situation. The Committee believed that there was need for early and specific action to reduce restrictions and thereby support the adjustment process. It stressed the need for industrial countries to provide better access for exports from developing countries. In addition, the Committee considered that in the current economic climate, all countries must at a minimum refrain from actions that would increase trade tensions and make it difficult to achieve progress toward trade liberalization. In this context, the Committee welcomed the recent establishment in the GATT of the negotiating structure for the Uruguay Round of trade negotiations, which should help to open the way for substantive intergovernmental discussions to strengthen and liberalize the trading system.

5. The Committee noted that the debt strategy has been largely effective in meeting its objectives, thanks to international cooperation between debtors, creditors, and the multilateral institutions. However, Committee members noted that many deep problems remain. Weak commodity prices and slower world economic growth have exacerbated the financial difficulties of many debtor countries. The time needed for countries that have experienced debt-servicing difficulties to regain normal market access has proved to be longer than earlier expected, and private lenders have often been reluctant to provide funds, even where appropriate policies are in place. In this context, Committee members reiterated that the Fund has a central role in assisting countries to design adequate growth-oriented adjustment programs, in the provision of financial support on a case-by-case basis, and in helping to mobilize external financing. They also noted the continuing need for the Fund's involvement to be supported fully by other partners in the debt strategy.

The Committee stressed three elements needed to lay the basis for the resolution of debt-servicing difficulties and for a gradual return to normal debtor-creditor relations. These were: a favorable world economic environment, with stable financial conditions and access for debtor countries to expanding export markets; the tenacious pursuit of needed economic reforms in debtor countries to mobilize and retain domestic savings; and the timely provision of adequate financing on appropriate terms to support these reforms. In this connection, the Committee expressed concern over delays in the assembling and implementation by commercial banks of concerted financial packages. The Committee welcomed the exploration of a wider range of procedures and financing techniques by commercial bank creditors as appropriate, such as debt-equity swaps, exit bonds, and greater securitization with a view to expediting the mobilization of financial support for indebted countries.

Committee members expressed special concern about the plight of low-income countries. The Committee emphasized that it is crucial for these countries to implement major reforms which, to be fully effective, will need to be accompanied by additional financing on concessional terms. In this connection, the progress with operations under the Fund's structural adjustment facility was welcomed. Committee members noted the forthcoming review by the Executive Board of the structural adjustment facility and they expressed their hope that arrangements under the facility would serve to elicit from bilateral and multilateral donors the necessary additional financial support. In this general context, the Committee also urged creditor governments, as a matter of priority, to consider means for granting exceptional financial relief with respect to official credits in cases where such relief is necessary to support and encourage far-reaching economic reforms in highly indebted low-income countries, including, particularly, sub-Saharan Africa.

Close cooperation between the Fund and the World Bank was welcomed. Committee members noted that increased lending from multilateral development banks had contributed importantly to debtor country financing. They noted with appreciation the continuing efforts and new initiatives of the Paris Club to tailor rescheduling agreements to the circumstances of individual countries and stressed the importance of necessary flexibility on the part of export credit agencies in resuming or increasing cover for countries that are implementing comprehensive adjustment programs.

6. The Committee considered the question of an allocation of SDRs in the current, that is, the fifth, basic period. Most Committee members reiterated the view that there is a long-term global need to supplement existing reserve assets and that many countries have a need for reserve supplementation. They stressed the costs to members and the risks to the efficient functioning of the international monetary system of building reserve holdings through borrowing on international credit markets or through current account surpluses. Some other members of the Committee, however, continued to believe that the condition for an SDR allocation, that is, the existence of a long-term global need, had not been demonstrated. The Committee asked the Executive Board to continue its examination of the question of allocation of SDRs and welcomed the Board's intention to continue its examination of the functioning of the SDR with a view to enhancing its attractiveness as a reserve asset.

7. The Committee noted that its last communiqué urged the Executive Board to examine expeditiously the role of the Fund as referred to in the reports of the Group of Ten and the Group of Twenty-Four. It welcomed the recent extensive discussions by the Executive Board of a number of these issues, including the continuing review of the compensatory financing facility. The Committee requested that deliberations in the coming months cover any additional suggestions on the role of the Fund included in the forthcoming report of the Group of Twenty-Four, as well as any outstanding issues from those raised in earlier reports of both the Group of Ten and the Group of Twenty-Four.

The Committee welcomed the increased emphasis being placed in adjustment programs on establishing conditions for sustainable growth and stressed that it is critical for adjustment to be implemented in such a manner as to promote savings, investment, and efficiency in resource use. The Committee added that a strong political commitment to comprehensive growth-oriented adjustment programs is essential to their success and noted that increased financing on appropriate terms by private as well as official creditors, donors, and multilateral institutions would facilitate such adjustment. The Committee stressed that all these factors were essential to ensure that members' access to Fund resources is consistent with their revolving character and with the ability of the institution to continue assisting members through advice and financing. The Committee encouraged the Executive Board, in its forthcoming discussions, to conduct a thorough review of adjustment programs and their supporting Fund arrangements in order to ensure that they are appropriate to conditions now facing member countries.

8. The Committee noted the establishment by the Executive Board of a Committee of the Whole to conduct the work on the Ninth General Review of Quotas.

9. The Committee agreed to hold its next meeting in Washington, D.C., on September 27, 1987.

Annex: Interim Committee Attendance, April 9–10, 1987

Chairman

H.O. Ruding, Minister of Finance, Netherlands

Managing Director

Michel Camdessus

Members or Alternates

Mohammad Abalkhail, Minister of Finance and National Economy, Saudi Arabia

Hikmat M. Al-Azzawi, Governor, Central Bank of Iraq

Hernán Anzola, President, Banco Central de Venezuela

James A. Baker, III, Secretary of the Treasury, United States

Edouard Balladur, Minister of Economy, Finance and Privatization, France

John G. Bestman, Minister of Finance, Liberia

Ms. QIU Qing, Member of the Council and Deputy Governor, People's Bank of China (Alternate for Ms. CHEN Muhua, Chairman of the Council and Governor, People's Bank of China)

Mark Eyskens, Minister of Finance, Belgium

Kjell-Olof Feldt, Minister of Finance, Sweden

Dilson Domingos Funaro, Minister of Finance, Brazil

Carl Azeglio Ciampi, Governor, Banca d'Italia (Alternate Member for Giovanni Goria, Minister of the Treasury, Italy)

In Yong Chung, Minister of Finance, Korea (Alternate for Paul J. Keating, Treasurer, Australia)

Nigel Lawson, Chancellor of the Exchequer, United Kingdom

R.N. Malhotra, Governor, Reserve Bank of India

Kiichi Miyazawa, Minister of Finance, Japan

Bader-Eddine Nouioua, Governor, Banque Centrale d'Algérie

PAY PAY wa Syakassighe, Governor, Banque du Zaïre

Arifin M. Siregar, Governor, Bank Indonesia (Alternate for Radius Prawiro, Minister of Finance, Indonesia)

W.F. Duisenberg, President, De Nederlandsche Bank, N.V. (Alternate for H.O. Ruding, Minister of Finance, Netherlands)

Juan Vital Sourrouille, Minister of Economy, Argentina

Gerhard Stoltenberg, Federal Minister of Finance, Federal Republic of Germany

Michael H. Wilson, Minister of Finance, Canada

Observers

Rafeeuddin Ahmed, Under-Secretary-General for International Economic and Social Affairs, UN

Horst Bockelmann, Economic Advisor and Head of the Monetary and Economic Department, BIS

B.T.G. Chidzero, Chairman, Development Committee

Barber B. Conable, President, World Bank
Arthur Dunkel, Director-General, GATT
Pierre Languetin, Chairman of the Governing Board, Swiss National Bank
R. Lawrence, Director, Division for Money, Finance, and Development, UNCTAD
Alain Morisset, Economic Affairs Advisor, Delegation in Washington, CEC
Jean-Claude Paye, Secretary-General, OECD
Massood V. Samii, Head, Finance Section, Economics and Finance Department, OPEC

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

Twenty-Ninth Meeting, Washington, September 29, 1986

1. The Development Committee held its twenty-ninth meeting in Washington, D.C., on September 29, 1986, under the chairmanship of H.E. Ghulam Ishaq Khan. Mr. Barber B. Conable, President of the World Bank, Mr. Jacques de Larosière, Managing Director of the International Monetary Fund, and Mr. Fritz Fischer, Executive Secretary of the Development Committee, participated in the meeting. Observers from a number of international and regional organizations and Switzerland also attended.

2. The Committee heard a report from the IMF Managing Director on the discussions in the Interim Committee on the world economic outlook and on the evolving debt situation. The Committee also heard the Managing Director on the progress made by many developing countries in promoting adjustment and growth with support from the Fund.

3. In considering the importance of reviving growth in the heavily indebted middle-income countries, the Committee reiterated its support for the general approach to achieving sustainable growth as endorsed at its previous two meetings. It recognized, however, that substantial additional efforts continue to be required by all the major participants—indebted countries, industrial countries, commercial banks, and international financial and development institutions—given the current economic environment. The Committee requested that the Bank and Fund continue to review the implementation of growth-oriented programs, including the availability of adequate financing, and report on progress achieved to future meetings of the Committee.

4. The Committee was encouraged that many developing countries are undertaking domestic policy reforms which are the basis upon which concerted international action has been built. The heavily indebted countries need to continue to implement growth-oriented adjustment programs, with support from the Fund and the Bank. Such programs should allow these countries to put less reliance on debt-creating external financing, encourage reflows of flight capital, and promote increased equity investment, domestic and foreign.

5. The success of such programs undertaken by the developing countries is dependent, however, on actions taken by the industrial countries which include, inter alia, greater coordination of macroeconomic policies, domestic policy changes, trade liberalization, and further long-term structural adjustment designed to assure a higher level of sustained growth.

6. Overall net lending to heavily indebted countries by commercial banks has thus far fallen short of expectations. Bearing in mind the critical place of commercial banks in implementation of the debt strategy, the Committee stressed the importance of the banks providing substantial net additional flows, in adequate amounts and on appropriate terms, in support of comprehensive growth-oriented programs.

7. The Committee welcomed the initiatives taken by the World Bank and the IMF in many highly indebted countries. The catalytic and advisory roles of these two institutions have been, and will continue to be, of help in developing and implementing effective programs. The Committee welcomed the significant expansion in the past year of World Bank lending for structural and sectoral reforms in these countries, which provides further evidence of the Bank's ability to move rapidly and substantially in support of borrowers' structural adjustment and development programs. A report from the Bank on the poverty impact of such programs was requested by members to be submitted for consideration at a future meeting of the Committee. The Committee agreed it would be extremely important to assure that the momentum of reform now under way in these

countries be maintained and that the scale and range of Bank activities would need to continue to grow in support of these developments.

8. Ministers also reaffirmed the importance they attached to the central role of the World Bank as a global development institution; its fundamental objectives continue to be the acceleration of economic growth and the alleviation of poverty, and the support of investment activities should remain the predominant part of the Bank's total lending program.

9. Given these expanding requirements for Bank involvement in both the heavily indebted countries and other Bank borrowers, the Committee noted with satisfaction that IBRD lending in the current fiscal year was expected to increase to about $15 billion, from $11.4 billion in FY 1985 and $13.2 billion in FY 1986, with further increases in future years expected to follow the growth path approved in April 1986 by the Committee. The Committee reiterated its assurance that lack of capital should not be a constraint on increases in the Bank's quality lending and noted that the existing capital stock of the Bank can currently support a maximum continued lending level of about $14.5–15 billion per year.

10. To maintain the momentum of the reform effort and to permit the growth in IBRD lending envisaged for the period through FY 1990, the Committee agreed that a substantial general capital increase (GCI) will be required if quality lending materializes as expected. The Committee urged the Bank's Executive Directors to continue their discussions of GCI modalities to permit agreement on a proposal for a general capital increase as needed to ensure that the Bank's lending program is not constrained by the availability of capital. In this context, members of the Committee recognized that, should quality lending materialize as projected, it is possible the program for FY 1988 might exceed the sustainable lending limit on a temporary basis.

11. The Committee also concentrated its attention on issues of particular concern to low-income countries. In these discussions it benefited from the participation of the Chairman of the OECD Development Assistance Committee (DAC). The Committee discussed the resource needs of all low-income countries and recognized the importance of official development assistance (ODA) flows to their improved economic performance and sustained growth. The Committee expressed its concern that total ODA flows are likely to grow slowly and remain inadequate for the pressing needs of low-income countries. The Committee encouraged donor country members to make maximum efforts, as a matter of urgency, to increase their ODA budgets, especially to help meet the needs of the poor countries. The value of a strong multilateral concessional assistance system was also emphasized, particularly given its focus on the poorest countries.

12. The Committee noted the progress made thus far in the operation of the Fund's structural adjustment facility, including closer Fund-Bank collaboration. Ministers reiterated that cross-conditionality must be avoided and that the two institutions should seek to complement the structural adjustment facility with additional bilateral and multilateral resources.

13. The Committee welcomed the statement of the Chairman of the IDA Deputies, reporting great progress achieved in the negotiations held on September 23–25. It encouraged all parties contributing to IDA to finalize the replenishment agreement for an IDA 8 of $12 billion or more. In this context, Ministers urged additional voluntary contributions from all donors in a position to make them. The Committee hoped the entire replenishment negotiation would be completed as soon as possible, but not later than November 1986, to enable IDA 8 to take effect on July 1, 1987. Some members of the Committee expressed concern about effects on borrowing countries of shortening of maturities and differentiation in terms during IDA 8 and expressed hope that the universal character of the Association could be maintained.

14. The Committee reviewed recent developments concerning sub-Saharan Africa, including the constructive outcome of the UN Special Session which, inter alia, adopted the UN Program of Action for African Economic Recovery and Development, 1986–1990. Ministers urged multilateral and bilateral agencies to assist in implementing the program. Members noted that 1986 offered some

welcome, albeit modest, relief from difficult economic conditions for many of the poorest African countries, but it recognized that these improvements did not indicate a break in the long-term declining trend in economic and social indicators. African governments continue to make progress in policy reform, but resource availability remains a major constraint. The Committee recalled its conclusion in April 1986 that industrial countries should exert their best efforts to close the estimated $2.5 billion annual gap in concessional flows needed over the next five years by low-income countries in sub-Saharan Africa undertaking significant reform efforts; members agreed that further efforts were required if this goal were to be met and asked the Bank to report in a year's time on progress achieved.

15. In accord with the Committee's mandate, members agreed on the need to maintain a regular overview of developments in the transfer of resources, including concessional flows, to developing countries. In this context, the World Bank was asked to prepare for a future meeting a study of the external resource requirements of poor countries outside Africa as well as to continue its regular review of Africa's economic situation and resource requirements.

16. The Committee also stressed the importance of strengthening the coordination of aid flows in low-income countries to increase their effectiveness and to reduce administrative burdens on recipient governments. It appreciated the actions already taken by the international community (as summarized in a World Bank report on aid coordination in sub-Saharan Africa prepared at the Committee's request) and urged the Bank to continue to exert leadership when taking or participating in further initiatives along the lines set forth in the report, including strengthening aid recipients' capacity to play the central role in aid coordination and encouraging joint monitoring in interested recipient countries through adequate mechanisms. Ministers also encouraged the Bank to follow up its suggestion that the costs of aid coordination be shared with other donors. The Committee requested a report in a year's time on further progress achieved in aid coordination.

17. The Committee agreed to discuss at its next meeting the issue of environment, growth, and development, including policy dimensions and project experience, on the basis of a report to be prepared by the World Bank.

18. The Committee noted that the Convention establishing the Multilateral Investment Guarantee Agency (MIGA) has been signed by 45 countries, including 34 developing countries, and that preliminary agreement has just been reached among signatory countries on MIGA's detailed plans and operational policies. Interested governments were urged to sign the MIGA Convention, and, if they have already done so, to ratify it as soon as possible so that the new agency can quickly begin to serve its objectives, including the stimulation of increased flows of private investment to developing countries.

19. Members expressed concern about growing problems in world trade which were having an adverse impact on developing country growth prospects, including particularly increased protectionism and the spread of subsidies or other incentives to production and export of agricultural commodities and other goods. The Committee noted that in response to its request at the April 1986 meeting, the Bank and Fund are preparing a report on market prospects of raw materials for discussion at its next meeting. The Committee asked that this report also include analysis of the impact of industrial countries' agricultural policies on developing countries' economic prospects.

20. The Committee was informed by the GATT Director General of the Punta del Este decision to launch a new round of multilateral trade negotiations—the Uruguay Round—and welcomed it as a significant step in strengthening and expanding the international trading system. The Committee emphasized that effective implementation of the standstill and rollback commitment made at Punta del Este was essential for reducing protectionism and for the success of the new round. Members invited the GATT Director General to continue to keep the Committee informed about progress in the negotiations.

21. The Committee took note of a report by the Chairman on the modalities of cooperative arrangements for improvements in the financial and monetary

system's impact on growth and development. This report had been requested by the Committee at its April 1986 meeting.

22. Members placed on record their special appreciation for the Chairman's long and distinguished service to the Committee. His imaginative, active, thoughtful, and balanced direction of the Committee's work contributed significantly to its effectiveness as a forum for consideration of important international economic issues facing developed and developing countries. Members expressed their deep appreciation and gratitude for his lasting contributions to the promotion of development and wished him well in the future.

23. The Committee recorded its deep appreciation to Mr. de Larosière for the singular achievements and the exceptional leadership that had distinguished his years as the Managing Director of the International Monetary Fund. He had helped the international community to meet the demands of difficult times with boldness, resourcefulness, and perseverance, and the Committee wished him well in his future tasks.

24. The Committee agreed to meet again in Washington, D.C., in the second week of April 1987.

Thirtieth Meeting, Washington, October 2, 1986

At its thirtieth meeting in Washington, D.C., on October 2, 1986, the Development Committee selected His Excellency B.T.G. Chidzero, Minister of Finance, Economic Planning and Development of Zimbabwe as Chairman.

Thirty-First Meeting, Washington, April 10, 1987

1. The Development Committee held its thirty-first meeting in Washington, D.C., on April 10, 1987, under the chairmanship of The Hon. B.T.G. Chidzero, Minister of Finance, Economic Planning and Development of Zimbabwe. Mr. Barber B. Conable, President of the World Bank, Mr. Michel Camdessus, Managing Director of the International Monetary Fund, and Mr. Fritz Fischer, Executive Secretary of the Development Committee, participated in the meeting. Mr. Svetozar Rikanovic, Chairman of the Group of Twenty-Four, also took part in the meeting. Observers from a number of international and regional organizations and Switzerland also attended. The members of the Committee were pleased to welcome Mr. Camdessus who was present for the first time as Managing Director and wished him all success in the important and demanding tasks he had assumed.

2. The Committee focused attention on how growth in developing countries could be sustained and enhanced at a time of depressed commodity prices, sluggish growth in the industrial countries, and the uncertain prospects for increased external financial flows. Members re-emphasized that only through concerted efforts by developed and developing countries could prospects for stimulating and sustaining growth for developing countries be significantly improved. A more promising outlook for growth is important to secure and maintain public support for adjustment efforts.

3. Members noted that many heavily indebted middle-income countries have pursued strong adjustment programs in efforts to achieve growth, improve living standards, and strengthen their external payments position. For a number of countries, this proved to be a very difficult task, in view of the adverse shift in the terms of trade and the reluctance of commercial banks to provide the required flows. While the process of adjustment with growth has been fostered since the launching of Secretary Baker's initiative in 1985, the Committee noted that difficult problems still remain. To resolve these problems, the Committee stressed that all parties—the commercial banks, creditor governments, and debtor countries—should play their part. The Committee reasserted the central role of the Bank and the Fund in the promotion of growth-oriented adjustment programs and the mobilization of resources from official and private sources. It requested the Bank and the Fund to continue to examine additional measures

to refine and strengthen the implementation of growth-oriented programs and submit a report with possible recommendations for consideration at a future meeting of the Committee.

4. Ministers reiterated their commitment to support the low-income countries in their development and adjustment efforts. They recognized that many of these countries, especially in sub-Saharan Africa, face severe problems of indebtedness. Ministers stressed the need for larger concessional flows and agreed that for many of these countries additional measures were needed to improve their capacity to service their debts and at the same time undertake growth-oriented programs. In this connection, the Committee welcomed the intentions of the official creditors in the Paris Club to work toward realistic rescheduling terms for the poorest nations undertaking strong growth-oriented adjustment programs. The Bank and Fund were asked to make proposals of action, at its next meeting, to address the problems of countries facing exceptional difficulties, which should also take into account the assessment of the implementation of the United Nations Program of Action for African Economic Recovery and Development.

5. The industrial countries need to broaden the range of resource flows to developing countries, notably through export earnings of the latter countries, which can make a significant contribution toward meeting debt service and stimulating growth. An appropriate policy environment for trade in agricultural products is of particular importance to developing countries. Ministers identified protectionist agricultural policies as a major cause of distortions, including depressed commodity prices on the world markets, of surplus production, and of budgetary drain. Recognizing that these conditions have made development efforts of many developing countries more difficult, the Committee emphasized that open and unencumbered international agricultural trade and the reduction of domestic support would foster development efforts and promote the adjustment process.

6. Members emphasized the responsibility of industrial as well as developing nations to implement growth-oriented policies so that both could resist protectionism and benefit from an open trading system. In this context, Ministers welcomed the inclusion of agricultural trade in the Uruguay Round of multilateral trade negotiations and looked to these negotiations to achieve greater liberalization of trade in agriculture and increased discipline on the use of all direct and indirect subsidies to production and exports. The Committee also felt that the liberalization of industrial protection warranted urgent attention and requested the Bank and the Fund to prepare a report on the impact of the industrial policies of the developed countries. The Committee was informed by the GATT Director General of current developments in international trade negotiations and noted governments' commitments to halt and reverse the escalation of protectionism. Ministers hoped that rapid progress would be made in actions requiring priority attention in the GATT and in other international forums, including the OECD Ministerial Council Meeting, the Venice Economic Summit, and UNCTAD VII.

7. The Committee reviewed the depressed state of international commodity markets as well as the unfavorable prospects for any substantial improvement for most commodities. It recognized that an acceleration of global growth would improve the prospects for commodities and that actions are required on many fronts, including the assistance of the multilateral institutions to broaden the export base of countries dependent on commodities, and to offset temporary fluctuations in their export earnings. The World Bank in cooperation with the Fund should prepare options for the next meeting of the Committee.

8. The Committee noted declining trends in capital flows to developing countries and stressed the importance and urgency of reversing this trend. The decline has been particularly significant in the case of flows from commercial banks. Private investment flows remain disappointing. Improved conditions to stimulate expanded flows of private investment and other capital movements need to be created in both developing and developed countries. The IFC should play a helpful complementary role in this area.

9. Multilateral financial institutions should continue to strengthen their efforts to support the growth and adjustment process. The Committee welcomed the recent agreement on a $12.4 billion IDA 8 replenishment and commended the group of IDA donor countries which had made the agreement possible, as such concessional flows were critical to support adjustment, growth, and poverty alleviation in low-income countries. The Committee urged early approval by the IDA Board of Governors of the IDA 8 Resolution. The Committee noted the efforts of the Bank and the Fund to assist low-income countries in implementing programs to foster growth and strengthen the balance of payments by providing concessional loans supported by IDA resources and the newly established structural adjustment facility. Ministers stressed that larger resources would be needed to complement both structural adjustment facility and IDA programs to support policies and programs for higher growth in low-income countries. Ministers were asked to review at a future meeting ongoing efforts of the Bank, the Fund, and bilateral agencies designed to assist the poorest countries to implement growth programs.

10. In response to the needs of Bank borrowers, the Bank was encouraged to increase its lending programs to support growth and reform efforts. The Committee reiterated the call on the Bank last September to maintain the momentum of the reform effort and to permit the growth in the IBRD lending envisaged for the period through FY 1990. The Committee agreed that a substantial general capital increase (GCI) will be required if quality lending materializes as expected. The Committee urged the Bank's Executive Directors to continue their discussions of GCI modalities to permit agreement on a proposal for a general capital increase as needed to ensure that the Bank's lending program is not constrained by the availability of capital. In this context, members of the Committee recognized that, should quality lending materialize as projected, it is possible that the program for FY 1988 might exceed the sustainable lending limit on a temporary basis.

11. The Committee agreed to discuss, in September, the adequacy of resource transfers to all developing countries to enhance the momentum of their development. The Committee requested a report on this issue to facilitate its deliberations.

12. The Committee expressed concern at increasing poverty trends and deteriorating social conditions in many developing countries. Ministers urged that in the design and implementation of policy reforms, governments and international institutions should give special attention to protecting the most vulnerable groups. Members agreed that increased flows and more targeted use of resources, both external and domestic, would help to alleviate the plight of the poor in the process of adjustment. Members highlighted the importance of increased investments in the poverty alleviation programs and welcomed recent Bank initiatives to impart a greater poverty focus in its operations and to strengthen support for nongovernmental organizations' humanitarian aid programs. The Committee agreed to have a broader discussion of this subject at a future meeting on the basis of further work by the Bank and the Fund.

13. The Committee stressed the importance of environmental protection in pursuing growth and development objectives. Members emphasized that the pursuit of these objectives is often mutually reinforcing, for poverty is a major cause of environmental damage, and it is typically the poorest members of society that suffer most from environmental degradation. The Committee welcomed the Bank's current initiatives at increasing emphasis on environmental protection, in its lending and helping borrowers to integrate natural resource management into the planning and implementation of their development activities. The Committee felt that further work needed to be undertaken in the light of its discussions. In this context, the Committee looked forward to a further report by the President of the Bank at its next meeting and hoped to benefit from the findings of the World Commission on Environment and Development whose report would be published soon.

14. The Committee agreed to meet again in Washington, D.C., on September 28, 1987.

Appendix V

Executive Directors and Voting Power on April 30, 1987

Director *Alternate*	Casting Votes of	Votes by Country	Total Votes[1]	Percent of Fund Total[2]
APPOINTED				
Charles H. Dallara *Mary K. Bush*	United States	179,433	179,433	19.14
T.P. Lankester *Michael Foot*	United Kingdom	62,190	62,190	6.63
Guenter Grosche *Bernd Goos*	Germany, Fed. Rep. of	54,287	54,287	5.79
Hélène Ploix *Sylvain de Forges*	France	45,078	45,078	4.81
Koji Yamazaki *Masahiro Sugita*	Japan	42,483	42,483	4.53
Yusuf A. Nimatallah *Ibrahim Al-Assaf*	Saudi Arabia	32,274	32,274	3.44
ELECTED				
Guillermo Ortiz (Mexico)	Costa Rica	1,091		
Leonor Filardo	El Salvador	1,140		
(Venezuela)	Guatemala	1,330		
	Honduras	928		
	Mexico	11,905		
	Nicaragua	932		
	Spain	13,110		
	Venezuela	13,965	44,401	4.74
G.A. Posthumus	Cyprus	947		
(Netherlands)	Israel	4,716		
J. de Beaufort Wijnholds	Netherlands	22,898		
(Netherlands)	Romania	5,484		
	Yugoslavia	6,380	40,425	4.31
Jacques de Groote	Austria	8,006		
(Belgium)	Belgium	21,054		
Heinrich G. Schneider	Hungary	5,557		
(Austria)	Luxembourg	1,020		
	Turkey	4,541	40,178	4.29

Director *Alternate*	Casting Votes of	Votes by Country	Total Votes[1]	Percent of Fund Total[2]
ELECTED (continued)				
Mohamed Finaish (Libya)	Bahrain	739		
Tariq Alhaimus (Iraq)	Egypt	4,884		
	Iraq	5,290		
	Jordan	989		
	Kuwait	6,603		
	Lebanon	1,037		
	Libya	5,407		
	Maldives	270		
	Oman	881		
	Pakistan	5,713		
	Qatar	1,399		
	Somalia	692		
	Syrian Arab Republic	1,641		
	United Arab Emirates	2,276		
	Yemen Arab Republic	683		
	Yemen, People's Democratic Republic of	1,022	39,526	4.22
Marcel Massé (Canada)	Antigua and Barbuda	300		
Dara McCormack (Ireland)	The Bahamas	914		
	Barbados	591		
	Belize	345		
	Canada	29,660		
	Dominica	290		
	Grenada	310		
	Ireland	3,684		
	Jamaica	1,705		
	St. Kitts and Nevis	295		
	St. Lucia	325		
	St. Vincent	290	38,709	4.13
Salvatore Zecchini (Italy)	Greece	4,249		
Nikos Kyriazidis (Greece)	Italy	29,341		
	Malta	701		
	Portugal	4,016	38,307	4.09
C.R. Rye (Australia)	Australia	16,442		
Chang-Yuel Lim (Korea)	Kiribati	275		
	Korea	4,878		
	New Zealand	4,866		
	Papua New Guinea	909		
	Philippines	4,654		
	Seychelles	280		
	Solomon Islands	300		
	Vanuatu	340		
	Western Samoa	310	33,254	3.55
Hans Lundström (Sweden)	Denmark	7,360		
Henrik Fugmann (Denmark)	Finland	5,999		
	Iceland	846		
	Norway	7,240		
	Sweden	10,893	32,338	3.45

Director *Alternate*	Casting Votes of	Votes by Country	Total Votes[1]	Percent of Fund Total[2]
ELECTED (continued)				
Arjun K. Sengupta (India)	Bangladesh	3,125		
L. Eustace N. Fernando	Bhutan	275		
(Sri Lanka)	India	22,327		
	Sri Lanka	2,481	28,208	3.01
Alexandre Kafka (Brazil)	Brazil	14,863		
Jerry Hospedales	Colombia	4,192		
(Trinidad and Tobago)	Dominican Republic	1,371		
	Ecuador	1,757		
	Guyana	742		
	Haiti	691		
	Panama	1,272		
	Suriname	743		
	Trinidad and Tobago	1,951	27,582	2.94
J.E. Ismael (Indonesia)	Burma	1,620		
Janardana Reddy (Fiji)	Fiji	615		
	Indonesia	10,347		
	Lao People's Democratic Republic	543		
	Malaysia	5,756		
	Nepal	623		
	Singapore	1,174		
	Thailand	4,116		
	Tonga	282		
	Viet Nam	2,018	27,094	2.89
Ahmed Abdallah (Kenya)	Botswana	471		
El Tayeb El Kogali (Sudan)	Burundi	677		
	Ethiopia	956		
	The Gambia	421		
	Kenya	1,670		
	Lesotho	401		
	Liberia	963		
	Malawi	622		
	Mozambique, People's Republic of	860		
	Nigeria	8,745		
	Sierra Leone	829		
	Sudan	1,947		
	Swaziland	497		
	Tanzania	1,320		
	Uganda	1,246		
	Zambia	2,953		
	Zimbabwe	2,160	26,738	2.85
DAI Qianding (China)	China	24,159	24,159	2.58
JIANG Hai (China)				
Alvaro Donoso (Chile)	Argentina	11,380		
Ernesto V. Feldman	Bolivia	1,157		
(Argentina)	Chile	4,655		
	Paraguay	734		
	Peru	3,559		
	Uruguay	1,888	23,373	2.49

Director *Alternate*	Casting Votes of	Votes by Country	Total Votes[1]	Percent of Fund Total[2]
ELECTED (concluded)				
Ghassem Salehkhou (Islamic Republic of Iran)	Afghanistan	1,117		
	Algeria	6,481		
	Ghana	2,295		
Omar Kabbaj (Morocco)	Iran, Islamic Republic of	6,850		
	Morocco	3,316		
	Tunisia	1,632	21,691	2.31
MAWAKANI Samba (Zaïre)	Benin	563		
	Burkina Faso	566		
Corentino V. Santos (Cape Verde)	Cameroon	1,177		
	Cape Verde	295		
	Central African Republic	554		
	Chad	556		
	Comoros	295		
	Congo	623		
	Côte d'Ivoire	1,905		
	Djibouti	330		
	Equatorial Guinea	434		
	Gabon	981		
	Guinea	829		
	Guinea-Bissau	325		
	Madagascar	914		
	Mali	758		
	Mauritania	589		
	Mauritius	786		
	Niger	587		
	Rwanda	688		
	São Tomé and Principe	290		
	Senegal	1,101		
	Togo	634		
	Zaïre	3,160	18,940	2.02
			920,668[3]	98.19[2,4]

[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 SDR Department (937,625).

[3]This total does not include the votes of Democratic Kampuchea, Poland, and South Africa, which did not participate in the 1986 Regular Election of Executive Directors. The combined votes of those members total 16,957—1.81 percent of those in the General Department and SDR Department.

[4]This figure may differ from the sum of the percentages shown for individual Directors because of rounding.

Appendix VI

Changes in Membership of Executive Board

Changes in membership of the Executive Board between May 1, 1986 and April 30, 1987 were as follows:

Nikos Kyriazidis (Greece) was appointed Alternate Executive Director to Salvatore Zecchini (Italy), effective May 1, 1986.

Luke Leonard (Ireland) resigned as Alternate Executive Director to Marcel Massé (Canada), effective October 17, 1986.

Dara McCormack (Ireland) was appointed Alternate Executive Director to Marcel Massé (Canada), effective October 18, 1986.

Jaysuño Abramovich (Peru) completed his term of service as Alternate Executive Director to Fernando L. Nebbia (Argentina), effective October 31, 1986.

Abderrahmane Alfidja (Niger) completed his term of service as Executive Director for Benin, Burkina Faso, Cameroon, Cape Verde, the Central African Republic, Chad, the Comoros, the Congo, Côte d'Ivoire, Djibouti, Equatorial Guinea, Gabon, Guinea-Bissau, Madagascar, Mali, Mauritania, Mauritius, Niger, Rwanda, São Tomé and Principe, Senegal, Togo, and Zaïre, effective October 31, 1986.

Huang Fanzhang (China) completed his term of service as Executive Director for China, effective October 31, 1986.

Jaafar Ahmad (Malaysia) completed his term of service as Alternate Executive Director to J.E. Ismael (Indonesia), effective October 31, 1986.

E.I.M. Mtei (Tanzania) completed his term of service as Executive Director for Botswana, Burundi, Ethiopia, The Gambia, Guinea, Kenya, Lesotho, Liberia, Malawi, the People's Republic of Mozambique, Nigeria, Sierra Leone, Sudan, Swaziland, Tanzania, Uganda, Zambia, and Zimbabwe, effective October 31, 1986.

Fernando L. Nebbia (Argentina) completed his term of service as Executive Director for Argentina, Bolivia, Chile, Paraguay, Peru, and Uruguay, effective October 31, 1986.

Pedro Pérez (Spain) completed his term of service as Executive Director for Costa Rica, El Salvador, Guatemala, Honduras, Mexico, Nicaragua, Spain, and Venezuela, effective October 31, 1986.

J.J. Polak (Netherlands) completed his term of service as Executive Director for Cyprus, Israel, the Netherlands, Romania, and Yugoslavia, effective October 31, 1986.

Antonio V. Romuáldez (Philippines) completed his term of service as Alternate Executive Director to C.R. Rye (Australia), effective October 31, 1986.

Jobarah E. Suraisry (Saudi Arabia) completed his term of service as Alternate Executive Director to Yusuf A. Nimatallah (Saudi Arabia), effective October 31, 1986.

Ahmed Abdallah (Kenya), formerly Alternate Executive Director to E.I.M. Mtei (Tanzania), was elected Executive Director by Botswana, Burundi, Ethiopia, The Gambia, Kenya, Lesotho, Liberia, Malawi, the People's Republic of Mozambique, Nigeria, Sierra Leone, Sudan, Swaziland, Tanzania, Uganda, Zambia, and Zimbabwe, effective November 1, 1986.

Ibrahim Al-Assaf (Saudi Arabia) was appointed Alternate Executive Director to Yusuf A. Nimatallah (Saudi Arabia), effective November 1, 1986.

Tariq Alhaimus (Iraq) was reappointed Alternate Executive Director to Mohamed Finaish (Libya), effective November 1, 1986.

Hernando Arias (Panama) was reappointed Alternate Executive Director to Alexandre Kafka (Brazil), effective November 1, 1986.

Dai Qianding (China) was elected Executive Director by China, effective November 1, 1986.

Jacques de Groote (Belgium) was re-elected Executive Director by Austria, Belgium, Hungary, Luxembourg, and Turkey, effective November 1, 1986.

Alvaro Donoso (Chile) was elected Executive Director by Argentina, Bolivia, Chile, Paraguay, Peru, and Uruguay, effective November 1, 1986.

Julio Dreizzen (Argentina) was appointed Alternate Executive Director to Alvaro Donoso (Chile), effective November 1, 1986.

El Tayeb El Kogali (Sudan) was appointed Alternate Executive Director to Ahmed Abdallah (Kenya), effective November 1, 1986.

Leonor Filardo (Venezuela) was appointed Alternate Executive Director to Guillermo Ortiz (Mexico), effective November 1, 1986.

Mohamed Finaish (Libya), formerly Executive Director for Bahrain, Iraq, Jordan, Kuwait, Lebanon, Libya, Maldives, Oman, Pakistan, Qatar, Somalia, the Syrian Arab Republic, the United Arab Emirates, the Yemen Arab Republic, and the People's Democratic Republic of Yemen, was elected Executive Director by Bahrain, Egypt, Iraq, Jordan, Kuwait, Lebanon, Libya, Maldives, Oman, Pakistan, Qatar, Somalia, the Syrian Arab Republic, the United Arab Emirates, the Yemen Arab Republic, and the People's Democratic Republic of Yemen, effective November 1, 1986.

Henrik Fugmann (Denmark) was reappointed Alternate Executive Director to Hans Lundström (Sweden), effective November 1, 1986.

J.E. Ismael (Indonesia), formerly Executive Director for Burma, Fiji, Indonesia, the Lao People's Democratic Republic, Malaysia, Nepal, Singapore, Thailand, and Viet Nam, was elected Executive Director by Burma, Fiji, Indonesia, the Lao People's Democratic Republic, Malaysia, Nepal, Singapore, Thailand, Tonga, and Viet Nam, effective November 1, 1986.

A.S. Jayawardena (Sri Lanka) was reappointed Alternate Executive Director to Arjun K. Sengupta (India), effective November 1, 1986.

Jiang Hai (China), formerly Alternate Executive Director to Huang Fanzhang (China), was appointed Alternate Executive Director to Dai Qianding (China), effective November 1, 1986.

Omar Kabbaj (Morocco) was reappointed Alternate Executive Director to Ghassem Salehkhou (Islamic Republic of Iran), effective November 1, 1986.

Alexandre Kafka (Brazil) was re-elected Executive Director by Brazil, Colombia, the Dominican Republic, Ecuador, Guyana, Haiti, Panama, Suriname, and Trinidad and Tobago, effective November 1, 1986.

Nikos Kyriazidis (Greece) was reappointed Alternate Executive Director to Salvatore Zecchini (Italy), effective November 1, 1986.

Chang-Yuel Lim (Korea) was appointed Alternate Executive Director to C.R. Rye (Australia), effective November 1, 1986.

Hans Lundström (Sweden) was re-elected Executive Director by Denmark, Finland, Iceland, Norway, and Sweden, effective November 1, 1986.

Marcel Massé (Canada) was re-elected Executive Director by Antigua and Barbuda, The Bahamas, Barbados, Belize, Canada, Dominica, Grenada, Ireland, Jamaica, St. Kitts and Nevis, St. Lucia, and St. Vincent, effective November 1, 1986.

Mawakani Samba (Zaïre), formerly Alternate Executive Director to Abderrahmane Alfidja (Niger), was elected Executive Director by Benin, Burkina Faso, Cameroon, Cape Verde, the Central African Republic, Chad, the Comoros, the Congo, Côte d'Ivoire, Djibouti, Equatorial Guinea, Gabon, Guinea, Guinea-Bissau, Madagascar, Mali, Mauritania, Mauritius, Niger, Rwanda, São Tomé and Principe, Senegal, Togo, and Zaïre, effective November 1, 1986.

Dara McCormack (Ireland) was reappointed Alternate Executive Director to Marcel Massé (Canada), effective November 1, 1986.

Guillermo Ortiz (Mexico), formerly Alternate Executive Director to Pedro Pérez (Spain), was elected Executive Director by Costa Rica, El Salvador, Guatemala, Honduras, Mexico, Nicaragua, Spain, and Venezuela, effective November 1, 1986.

G.A. Posthumus (Netherlands) was elected Executive Director by Cyprus, Israel, the Netherlands, Romania, and Yugoslavia, effective November 1, 1986.

Janardana Reddy (Fiji) was appointed Alternate Executive Director to J.E. Ismael (Indonesia), effective November 1, 1986.

C.R. Rye (Australia), formerly Executive Director for Australia, Korea, New Zealand, Papua New Guinea, the Philippines, Seychelles, Solomon Islands, Vanuatu, and Western Samoa, was elected Executive Director by Australia, Kiribati, Korea, New Zealand, Papua New Guinea, the Philippines, Seychelles, Solomon Islands, Vanuatu, and Western Samoa, effective November 1, 1986.

Ghassem Salehkhou (Islamic Republic of Iran) was re-elected Executive Director by Afghanistan, Algeria, Ghana, the Islamic Republic of Iran, Morocco, and Tunisia, effective November 1, 1986.

Heinrich G. Schneider (Austria) was reappointed Alternate Executive Director to Jacques de Groote (Belgium), effective November 1, 1986.

Arjun K. Sengupta (India) was re-elected Executive Director by Bangladesh, Bhutan, India, and Sri Lanka, effective November 1, 1986.

J. de Beaufort Wijnholds (Netherlands), formerly Alternate Executive Director to J.J. Polak (Netherlands), was appointed Alternate Executive Director to G.A. Posthumus (Netherlands), effective November 1, 1986.

Salvatore Zecchini (Italy) was re-elected Executive Director by Greece, Italy, Malta, and Portugal, effective November 1, 1986.

Corentino Virgilio Santos (Cape Verde) was appointed Alternate Executive Director to Mawakani Samba (Zaïre), effective November 15, 1986.

Hirotake Fujino (Japan) resigned as Executive Director for Japan, effective December 21, 1986.

Koji Yamazaki (Japan) was appointed Executive Director to Japan, effective December 22, 1986.

Masahiro Sugita (Japan), formerly Alternate Executive Director to Hirotake Fujino (Japan), was appointed Alternate Executive Director to Koji Yamazaki (Japan), effective December 22, 1986.

A.S. Jayawardena (Sri Lanka) resigned as Alternate Executive Director to Arjun K. Sengupta (India), effective December 31, 1986.

L. Eustace N. Fernando (Sri Lanka) was appointed Alternate Executive Director to Arjun K. Sengupta (India), effective January 1, 1987.

Julio Dreizzen (Argentina) resigned as Alternate Executive Director to Alvaro Donoso (Chile), effective January 14, 1987.

Ernesto V. Feldman (Argentina) was appointed Alternate Executive Director to Alvaro Donoso (Chile), effective January 15, 1987.

Hernando Arias (Panama) resigned as Alternate Executive Director to Alexandre Kafka (Brazil), effective March 31, 1987.

Jerry Hospedales (Trinidad and Tobago) was appointed Alternate Executive Director to Alexandre Kafka (Brazil), effective April 1, 1987.

The following served at certain meetings of the Executive Board during 1986/87 as Temporary Alternate Executive Directors to the Executive Directors indicated:

Temporary Alternate Executive Director	Executive Director for whom Temporary Alternate Served
Ali Asghar Agah (*Iran, Islamic Republic of*)	Ghassem Salehkhou (*Iran, Islamic Republic of*)
A. Rashed Al-Abdullatif (*Saudi Arabia*)	Yusuf A. Nimatallah (*Saudi Arabia*)
Hassan Alaoui-Abdallaoui (*Morocco*)	Ghassem Salehkhou (*Iran, Islamic Republic of*)
Felix Enrico R. Alfiler (*Philippines*)	C.R. Rye (*Australia*)
José Roberto Novaes de Almeida (*Brazil*)	Alexandre Kafka (*Brazil*)
Patrick E. Archibong (*Nigeria*)	E.I.M. Mtei (*Tanzania*)
	Ahmed Abdallah (*Kenya*)
Mohammad Arif (*Pakistan*)	Mohamed Finaish (*Libya*)
Edgar Ayales (*Costa Rica*)	Guillermo Ortiz (*Mexico*)
Wolf-Ruediger Bengs (*Germany, Federal Republic of*)	Guenter Grosche (*Germany, Federal Republic of*)
Axel Bertuch-Samuels (*Germany, Federal Republic of*)	Guenter Grosche (*Germany, Federal Republic of*)
Owen S.-M. Bethel (*The Bahamas*)	Marcel Massé (*Canada*)
Hasan Sukru Binay (*Turkey*)	Jacques de Groote (*Belgium*)
K. Celebican (*Turkey*)	Jacques de Groote (*Belgium*)
Mohamed Bahaa Chatah (*Lebanon*)	Mohamed Finaish (*Libya*)
Richard Comotto (*United Kingdom*)	T.P. Lankester (*United Kingdom*)
Joaquín de la Herrán (*Spain*)	Pedro Pérez (*Spain*)
	Guillermo Ortiz (*Mexico*)
Filippo Di Mauro (*Italy*)	Salvatore Zecchini (*Italy*)
Lubin Kobla Doe (*Togo*)	Abderrahmane Alfidja (*Niger*)
Julio Dreizzen (*Argentina*)	Fernando L. Nebbia (*Argentina*)
Liam Patrick Ebrill (*Ireland*)	Yusuf A. Nimatallah (*Saudi Arabia*)
Walter N. Engert (*Canada*)	Marcel Massé (*Canada*)
Gazi Ercel (*Turkey*)	Jacques de Groote (*Belgium*)
Salam K. Fayyad (*Jordan*)	Mohamed Finaish (*Libya*)
Vicente J. Fernández (*Spain*)	Guillermo Ortiz (*Mexico*)
Richard Fox (*United Kingdom*)	T.P. Lankester (*United Kingdom*)
Siri Ganjarerndee (*Thailand*)	J.E. Ismael (*Indonesia*)
Sami Geadah (*Lebanon*)	Yusuf A. Nimatallah (*Saudi Arabia*)
Vinjamuri Govindarajan (*India*)	Arjun K. Sengupta (*India*)
Mohamed Ali Hammoudi (*Algeria*)	Ghassem Salehkhou (*Iran, Islamic Republic of*)
Sabir Mohamed Hassan (*Sudan*)	E.I.M. Mtei (*Tanzania*)
	Ahmed Abdallah (*Kenya*)
Margarita Hepp (*Chile*)	Alvaro Donoso (*Chile*)
Graham K. Hodges (*Australia*)	C.R. Rye (*Australia*)
Glen David Hodgson (*Canada*)	Marcel Massé (*Canada*)
Hon Chee-Won (*Singapore*)	J.E. Ismael (*Indonesia*)
Jerry Hospedales (*Trinidad and Tobago*)	Alexandre Kafka (*Brazil*)
Luc Hubloue (*Belgium*)	Jacques de Groote (*Belgium*)
A. Iljas (*Indonesia*)	J.E. Ismael (*Indonesia*)
Olafur Isleifsson (*Iceland*)	Hans Lundström (*Sweden*)
Abdel Rehman Ismael (*Mauritius*)	Abderrahmane Alfidja (*Niger*)
	Mawakani Samba (*Zaïre*)
Joseph Mills Jones (*Liberia*)	E.I.M. Mtei (*Tanzania*)
	Ahmed Abdallah (*Kenya*)
Khong Kim Nyoon (*Malaysia*)	J.E. Ismael (*Indonesia*)
Stuart Howard King (*United Kingdom*)	T.P. Lankester (*United Kingdom*)
Karl-Heinz Kleine (*Germany, Federal Republic of*)	Guenter Grosche (*Germany, Federal Republic of*)
Margareta A. Kyhlberg (*Sweden*)	Hans Lundström (*Sweden*)
Hak-Sung Lee (*Korea*)	C.R. Rye (*Australia*)
Meg Lundsager (*United States*)	Charles H. Dallara (*United States*)
V.K. Malhotra (*India*)	Arjun K. Sengupta (*India*)
Raffaele Manfredi Selvaggi (*Italy*)	Salvatore Zecchini (*Italy*)

Temporary Alternate Executive Director	Executive Director for whom Temporary Alternate Served
Raymundo Morales (*Peru*)	Alvaro Donoso (*Chile*)
Tokio Morita (*Japan*)	Hirotake Fujino (*Japan*)
	Koji Yamazaki (*Japan*)
Rachid Msadek (*Tunisia*)	Ghassem Salehkhou (*Iran, Islamic Republic of*)
James A.K. Munthali (*Malawi*)	E.I.M. Mtei (*Tanzania*)
	Ahmed Abdallah (*Kenya*)
Kazuya Murakami (*Japan*)	Hirotake Fujino (*Japan*)
	Koji Yamazaki (*Japan*)
Ahmad Mustafa (*Jordan*)	Mohamed Finaish (*Libya*)
Georges E.L. Nguyen (*France*)	Hélène Ploix (*France*)
Do Van Nhien (*Viet Nam*)	J.E. Ismael (*Indonesia*)
Carlos Noriega (*Mexico*)	Guillermo Ortiz (*Mexico*)
Jean-Christian Obame (*Gabon*)	Abderrahmane Alfidja (*Niger*)
	Mawakani Samba (*Zaïre*)
John Kobina Orleans-Lindsay (*Ghana*)	Abderrahmane Alfidja (*Niger*)
	Mawakani Samba (*Zaïre*)
Abdessatar Ouanes (*Tunisia*)	Yusuf A. Nimatallah (*Saudi Arabia*)
William Koaya Parmena (*Tanzania*)	E.I.M. Mtei (*Tanzania*)
	Ahmed Abdallah (*Kenya*)
Pál Péterfalvy (*Hungary*)	Jacques de Groote (*Belgium*)
Luis M. Piantini (*Dominican Republic*)	Alexandre Kafka (*Brazil*)
Georges Pineau (*France*)	Hélène Ploix (*France*)
Ilkka Puro (*Finland*)	Hans Lundström (*Sweden*)
Mohammed Zia Masoom Qureshi (*Pakistan*)	Mohamed Finaish (*Libya*)
Mukhlis Rasyid (*Indonesia*)	J.E. Ismael (*Indonesia*)
Salvatore Rebecchini (*Italy*)	Salvatore Zecchini (*Italy*)
Janardana Reddy (*Fiji*)	J.E. Ismael (*Indonesia*)
Jesús E. Rodríguez Núñez (*Venezuela*)	Pedro Pérez (*Spain*)
Antonio V. Romuáldez (*Philippines*)	C.R. Rye (*Australia*)
Vincent Rousset (*France*)	Hélène Ploix (*France*)
Daniel Saha (*Cameroon*)	Abderrahmane Alfidja (*Niger*)
	Mawakani Samba (*Zaïre*)
Bahar Sahin (*Turkey*)	Jacques de Groote (*Belgium*)
Cristián Alfonso Salinas Cerda (*Chile*)	Fernando L. Nebbia (*Argentina*)
	Alvaro Donoso (*Chile*)
Gideon Schurr (*Israel*)	J.J. Polak (*Netherlands*)
	G.A. Posthumus (*Netherlands*)
Guy Seyler (*Luxembourg*)	Jacques de Groote (*Belgium*)
Sigurd Simonsen (*Norway*)	Hans Lundström (*Sweden*)
Ian Sliper (*New Zealand*)	C.R. Rye (*Australia*)
Song Guangwei (*China*)	Huang Fanzhang (*China*)
	Dai Qianding (*China*)
Avigdor Steinberg (*Israel*)	J.J. Polak (*Netherlands*)
Bahran Tamami (*Iran, Islamic Republic of*)	Ghassem Salehkhou (*Iran, Islamic Republic of*)
Donald Charles Templeman (*United States*)	Charles H. Dallara (*United States*)
Norbert Toé (*Burkina Faso*)	Abderrahmane Alfidja (*Niger*)
Livio Tornetta (*Italy*)	Salvatore Zecchini (*Italy*)
Roberto Valladares (*Guatemala*)	Pedro Pérez (*Spain*)
Huibrecht van der Burg (*Netherlands*)	J.J. Polak (*Netherlands*)
	G.A. Posthumus (*Netherlands*)
A. Vasudevan (*India*)	Arjun K. Sengupta (*India*)
Emily Landis Walker (*United States*)	Charles H. Dallara (*United States*)
Wang Xiaoping (*China*)	Huang Fanzhang (*China*)
	Dai Qianding (*China*)
Mario Alejandro Weitz (*Argentina*)	Fernando L. Nebbia (*Argentina*)
Bruce Donald White (*New Zealand*)	C.R. Rye (*Australia*)
David Andrew Woodward (*United Kingdom*)	T.P. Lankester (*United Kingdom*)

Temporary Alternate Executive Director	Executive Director for whom Temporary Alternate Served
Yang Weimin (*China*)	Huang Fanzhang (*China*)
	Dai Qianding (*China*)
Koffi Yao (*Côte d'Ivoire*)	Abderrahmane Alfidja (*Niger*)
	Mawakani Samba (*Zaïre*)
Iqbal Zaidi (*Pakistan*)	Mohamed Finaish (*Libya*)
Zakaria bin Ismail (*Malaysia*)	J.E. Ismael (*Indonesia*)

Appendix VII

Administrative and Capital Budgets

Administrative Budget as Approved by the Executive Board for the Financial Year Ending April 30, 1988 Compared with Actual Expenses for the Financial Years Ended April 30, 1986 and April 30, 1987 and Capital Budget as Approved by the Executive Board for Capital Projects Beginning in Financial Year 1988

(Values expressed in SDRs)[1]

ADMINISTRATIVE BUDGET	*Financial Year Ended April 30, 1986*	*Financial Year Ended April 30, 1987*		*Financial Year Ending April 30, 1988*
	Actual Expenses	*Revised Budget*	*Actual Expenses*	*Budget*
I. PERSONNEL EXPENSES				
Salaries	91,556,162	83,993,540	83,780,183	85,465,952
Other personnel expenses	56,403,447	53,033,632	53,026,002	49,660,832
Subtotal	147,959,609	137,027,172	136,806,185	135,126,784
II. TRAVEL EXPENSES				
Business travel	14,719,511	11,044,938	11,036,288	11,421,280
Other travel	10,920,189	9,925,520	9,921,607	9,927,424
Subtotal	25,639,700	20,970,458	20,957,895	21,348,704
III. OTHER ADMINISTRATIVE EXPENSES				
Communications	5,461,320	5,144,995	5,139,848	4,821,440
Building occupancy	13,364,267	10,749,852	10,745,204	10,464,896
Books and printing	2,253,660	1,918,227	1,881,190	1,667,744
Supplies and equipment	5,971,573	3,312,600	3,305,114	3,778,112
Data processing	18,174,559	13,936,701	13,906,584	14,462,739
Miscellaneous	5,344,562	6,215,159	6,212,853	6,275,776
Subtotal	50,569,941	41,277,534	41,190,793	41,470,707
TOTAL ADMINISTRATIVE BUDGET	224,169,250	199,275,164	198,954,873	197,946,195
Less:				
Reimbursement for administering the SDR Department	3,699,988		4,100,001	
Reimbursement for administering the structural adjustment facility	—		5,600,000	
Net Administrative Budget Expenses	220,469,262		189,254,872	

CAPITAL BUDGET	*Total*	*Financial Year 1988*	*Financial Year 1989*	*Financial Year 1990*
I. BUILDING SPACE FACILITIES				
Headquarters	3,622,403	3,288,064	255,299	79,040
Other locations	2,481,856	2,481,856	—	—
II. EQUIPMENT FOR EDP SYSTEMS				
Computing	831,501	831,501	—	—
TOTAL CAPITAL BUDGET	6,935,760	6,601,421	255,299	79,040

[1] The administrative budget and the capital budget are expressed in terms of U.S. dollars and converted to SDR equivalents.

Appendix VIII

Financial Statements of the General Department, SDR Department, Supplementary Financing Facility Subsidy Account, Trust Fund, and Staff Retirement Plan

REPORT OF THE EXTERNAL AUDIT COMMITTEE

Washington, D.C.
June 25, 1987

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, 1987, covering the

—General Department (including the General Resources Account, Borrowed Resources Suspense Accounts, and Special Disbursement Account),
—SDR Department, and
—Accounts administered by the Fund, which consist of the Supplementary Financing Facility Subsidy Account and the Trust Fund.

The audit was conducted in accordance with international auditing standards and, accordingly, included reviews of accounting and control systems, test 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 (including the related supplemental schedules one through four), the SDR Department, and the Accounts administered by the Fund have been prepared in accordance with generally accepted accounting principles applied on a basis consistent with that of the preceding year, and give a true and fair view of the respective financial positions and the allocations and holdings of SDRs as at April 30, 1987, and of the financial results of operations and transactions during that year.

EXTERNAL AUDIT COMMITTEE

/s/ Gilton Bazilio Chiwaula, Chairman (*Malawi*)

/s/ Fernando Vega (*Honduras*)

/s/ Raymond M. Bennett (*United Kingdom*)

INTERNATIONAL MONETARY FUND

GENERAL DEPARTMENT

BALANCE SHEET

as at April 30, 1987

(In thousands of SDRs)

(Note 1)

	1987	1986
ASSETS		
GENERAL RESOURCES ACCOUNT		
Currencies and securities (Notes 2 and 5)	97,617,296	97,863,026
SDR holdings (Note 3)	1,960,286	2,721,642
Gold holdings (Note 4)	3,620,396	3,620,396
Borrowed resources held in suspense	605,836	635,254
Charges receivable and accrued (Note 5)	577,474	721,889
Deferred charges receivable (Note 5)	294,919	127,054
Accrued interest on SDR holdings	30,298	48,100
Other assets	21,886	19,126
Total General Resources Account	104,728,391	105,756,487
SPECIAL DISBURSEMENT ACCOUNT		
Currency deposits pending investment	850	68
Interest-earning deposits	938,762	436,426
Structural adjustment facility loans	139,340	—
Accrued income on investments and loans	13,277	4,677
Total Special Disbursement Account	1,092,229	441,171
Total General Department	105,820,620	106,197,658
QUOTAS, RESERVES, LIABILITIES, AND SPECIAL DISBURSEMENT ACCOUNT RESOURCES		
GENERAL RESOURCES ACCOUNT		
QUOTAS		
Subscriptions of members	89,987,550	89,305,050
RESERVES (Note 6)	1,208,133	1,122,051
SPECIAL CONTINGENT ACCOUNT (Note 5)	26,547	—
LIABILITIES		
Borrowing (Note 7)	12,699,590	14,556,474
Remuneration payable (Note 5)	235,840	316,728
Accrued interest on borrowing	203,271	279,035
Other liabilities	72,541	50,095
	13,211,242	15,202,332
DEFERRED INCOME FROM CHARGES (Note 5)	294,919	127,054
Total General Resources Account	104,728,391	105,756,487
SPECIAL DISBURSEMENT ACCOUNT		
Accumulated resources	1,092,229	441,171
Total General Department	105,820,620	106,197,658

The accompanying notes and Schedules 1–4 are an integral part of the financial statements.

/s/ F. GERHARD LASKE
Treasurer

/s/ M. CAMDESSUS
Managing Director

INTERNATIONAL MONETARY FUND

General Department

Statement of Income and Expense

for the year ended April 30, 1987

(In thousands of SDRs)

(Note 1)

	1987	1986
GENERAL RESOURCES ACCOUNT		
OPERATIONAL INCOME		
Periodic charges (Note 5)	2,154,599	2,801,577
Addition to periodic charges (Note 5)	90,071	—
Special charges (Note 5)	12,072	2,316
Deduct: Income deferred, net (Note 5)	167,865	64,253
	2,088,877	2,739,640
Interest on SDR holdings	143,875	263,205
Service charges	15,840	19,704
Other	2,122	6,932
	2,250,714	3,029,481
OPERATIONAL EXPENSE		
Remuneration (Note 5)	1,109,969	1,452,103
Reduction of remuneration (Note 5)	89,937	—
	1,020,032	1,452,103
Interest on borrowing, net of income from temporary investments held in Borrowed Resources Suspense Accounts (SDR 30,748 in 1987 and SDR 15,854 in 1986)	927,164	1,275,802
Allocation to Special Contingent Account (Note 5)	26,547	—
	1,973,743	2,727,905
NET OPERATIONAL INCOME	276,971	301,576
ADMINISTRATIVE EXPENSE (Note 9)		
Personnel	136,806	147,960
Travel	20,958	25,640
Other, net (Note 1)	33,125	49,844
Total Administrative Expense	190,889	223,444
NET INCOME OF GENERAL RESOURCES ACCOUNT	86,082	78,132
SPECIAL DISBURSEMENT ACCOUNT		
Income earned on investments	41,584	14,113
Income earned on loans	251	—
	41,835	14,113
Loss in SDR value pending investment and loan disbursements	323	1,069
Administrative expense (Note 9)	5,600	—
NET INCOME OF SPECIAL DISBURSEMENT ACCOUNT	35,912	13,044

The accompanying notes and Schedules 1–4 are an integral part of the financial statements.

INTERNATIONAL MONETARY FUND

GENERAL DEPARTMENT

STATEMENT OF CHANGES IN RESERVES AND RESOURCES

for the year ended April 30, 1987

(In thousands of SDRs)

(Note 1)

	1987	1986
RESERVES—GENERAL RESOURCES ACCOUNT		
SPECIAL RESERVE (Note 6)		
Balance at beginning of the year	756,471	678,339
General income	58,031	78,132
Additional income	28,051	—
	86,082	78,132
Balance at end of the year	842,553	756,471
GENERAL RESERVE (Note 6)		
Balance at beginning and end of the year	365,580	365,580
TOTAL RESERVES OF GENERAL RESOURCES ACCOUNT	1,208,133	1,122,051
RESOURCES—SPECIAL DISBURSEMENT ACCOUNT		
Balance at beginning of the year	441,171	—
Transfers from the Trust Fund	589,676	424,583
Transfers from the SFF Subsidy Account	25,470	3,544
	1,056,317	428,127
Net income	35,912	13,044
TOTAL RESOURCES OF SPECIAL DISBURSEMENT ACCOUNT	1,092,229	441,171

The accompanying notes and Schedules 1–4 are an integral part of the financial statements.

INTERNATIONAL MONETARY FUND

GENERAL DEPARTMENT
NOTES TO THE FINANCIAL STATEMENTS

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 had not been activated at April 30, 1987. The General Department also includes Borrowed Resources Suspense Accounts, the establishment of which was authorized by the Executive Board in May 1981.

General Resources Account

Assets held in the General Resources Account comprise (i) currencies of the Fund's member countries (including securities), (ii) SDR holdings, and (iii) gold.

Each member has been required to pay to the Fund the amount of its initial quota and subsequent increases partly in the member's own currency and the remainder in the form of reserve assets, except that for the increases proposed in 1978, members were permitted to pay the entire increase in their own currencies. A member's quota cannot be increased until it consents to the increase and pays the subscription in full.

The Fund makes its resources available to its members by selling SDRs or currencies to members in exchange for their own currency in accordance with Fund policies on the use of its resources. Use of the Fund's resources by a member is dependent on the member having a balance of payments need.

When members make purchases, they undertake to repurchase, within the periods specified by the Fund, the Fund's holdings of their currencies by the payment to the Fund of SDRs or the currencies of other members specified by the Fund. The Fund's policies on the use of its resources, which indicate the time periods for which purchases may be outstanding, are intended to assure that use of its resources is temporary and will be reversed within time periods specified by the Fund.

The composition of the Fund's holdings of members' currencies changes as a result of the Fund's operations and transactions, including purchase and repurchase transactions in currencies as noted above. The currency holdings reflect both the counterpart of purchases by those members that have a need to use the Fund's resources, and also the currencies of those members whose balance of payments and reserve positions are determined by the Fund on a quarterly basis to be sufficiently strong for their currencies to be used in all the Fund's operations and transactions in accordance with the policies of the Fund.

A member has a reserve tranche in the Fund to the extent that the Fund's holdings of its currency, excluding holdings which reflect the member's use of Fund credit, are less than the member's quota. A member's reserve tranche is regarded as a part of the member's external reserves and a member may purchase up to the amount of its full reserve tranche at any time. Reserve tranche purchases are not regarded as a use of Fund credit.

Members may make use of Fund resources under various policies and the amount of such use is related to a member's quota in the Fund. Under the credit tranche policy, credit is at present made available to members in a range consisting of four tranches or segments, each equal to 25 percent of a member's quota. A first credit tranche purchase is defined as one that raises the Fund's holdings of a member's currency in the credit tranche from 0 to 25 percent of quota. Subsequent purchases are made in three successive tranches, each equal to 25 percent of quota, to a level of no more than 100 percent of quota. Purchases in these three tranches are referred to as upper credit tranche purchases. Higher conditionality accompanies the use of Fund credit in the upper tranches.

Members experiencing balance of payments difficulties may enter into stand-by arrangements with the Fund under which the Fund commits itself to provide resources to be made available over periods of up to three years from the date of the arrangements. Purchases under these arrangements in the upper credit tranches depend upon the member's meeting the performance criteria included in the arrangements.

In addition to purchases under the Fund's credit tranche policies, members may use the Fund's resources under decisions on:

- Compensatory financing—to assist members, particularly primary exporters, encountering payments difficulties produced by temporary export shortfalls attributable to circumstances beyond their control and in addition, at their option, to assist members encountering payments difficulties produced by an excess in the cost of their cereal imports.
- Buffer stock financing—to assist members in connection with the financing of international buffer stocks of primary products.
- Extended Fund facility—to provide, through extended arrangements of up to three years, medium-term assistance to members to make structural adjustments in their economies. Purchases under these arrangements depend upon the member's meeting the performance criteria included in the arrangements.
- Supplementary financing facility and the policy on enlarged access—to make resources available under stand-by and extended arrangements, in addition

to those available in the credit tranches or under the extended Fund facility, to members facing serious payments imbalances that are large in relation to their quotas. These policies are temporary and may be utilized only in conjunction with the use of resources in the upper credit tranches.

Members that purchase resources from the Fund undertake to repurchase the Fund's holdings of their currencies by the payment to the Fund of SDRs or the currencies of other members specified by the Fund. Reserve tranche purchases made after April 1, 1978, are not subject to repurchase. Under the Fund's repurchase policies, purchases in the credit tranches, purchases under the compensatory financing facility and under the buffer stock facility are to be repurchased in quarterly installments beginning three years and ending not later than five years after the date of purchase; repurchases of purchases financed with borrowed resources under the supplementary financing facility or the enlarged access policy are to be made in semiannual installments beginning three and one-half years and ending not later than seven years after the date of purchase; and repurchases under the extended Fund facility (other than purchases financed with borrowed resources under the supplementary financing facility or policy on enlarged access) are to be made in semiannual installments beginning four years and ending not later than ten years after the date of purchase. However, a member is entitled to repurchase at any time holdings of its currency on which the Fund levies charges, and is expected to make repurchases prior to the periods mentioned above as and when its balance of payments and reserve position improves.

Borrowed Resources Suspense Accounts

Borrowed Resources Suspense Accounts have been established in order to hold, transfer, convert, and invest (i) currencies borrowed by the Fund before they are transferred to the General Resources Account for use in transactions or operations; and (ii) currencies received by the Fund in repurchases financed with borrowed resources before repayments to lenders can be made. Members are not obligated to maintain the SDR value of their currencies held by the Fund in the Borrowed Resources Suspense Accounts, and as far as practicable, the currencies are invested in SDR-denominated obligations.

At April 30, 1987, borrowed resources held in suspense amounted to SDR 605.84 million (SDR 635.25 million at April 30, 1986) and included accrued income of SDR 3.32 million (SDR 6.53 million at April 30, 1986).

Special Disbursement Account

The Fund administers a Trust Fund, established in 1976 to provide balance of payments assistance (loans) on concessional terms to certain members. The Special Disbursement Account was activated on June 30, 1981 to receive transfers from the Trust Fund (repayments of loans and interest) which is in the process of being wound up. Amounts received into the Special Disbursement Account from the Trust Fund were transferred on a same-day pass-through to the Supplementary Financing Facility Subsidy Account, which was established for the purpose of reducing the cost of eligible members that used the Fund's resources under the supplementary financing facility. In July 1985, the Fund determined that the resources of the Supplementary Financing Facility Subsidy Account are sufficient to meet its estimated needs, and transfers to that account from the Special Disbursement Account were terminated. Amounts received from the Trust Fund are now being held in the Special Disbursement Account. Resources of the Supplementary Financing Facility Subsidy Account which may be in excess of its estimated needs are to be transferred back to the Special Disbursement Account.

Within the Special Disbursement Account a structural adjustment facility was established in March 1986 to provide balance of payments assistance to qualifying low-income developing members. Resources are committed to qualifying members for a three-year period, upon approval by the Fund, in support of a three-year macroeconomic and structural adjustment program presented by the member.

Loans disbursed under the structural adjustment facility are repayable in ten semiannual installments commencing not later than the end of the first six months of the sixth year, and to be completed at the end of the tenth year after the date of the disbursement. Interest is charged on the outstanding loan balances at the rate of ½ of 1 percent per annum.

Members are not obligated to maintain the SDR value of their currency held by the Fund in the Special Disbursement Account. Pending their use, the resources held in the Special Disbursement Account are placed in SDR-denominated investments. Prior to an SDR-denominated investment, balances may be placed temporarily in U.S. dollar-denominated investments. Thus, there may be valuation gains and losses in terms of the SDR on these resources from the time they are received until they can be invested in SDR-denominated investments.

The Special Disbursement Account is a part of the General Department of the Fund. However, the assets of the Account are to be held separately from other accounts of the General Department and the income of the Account is placed to the Special Disbursement Account.

1. Accounting Practices

Unit of Account

The accounts of the General Department are expressed in terms of the SDR. At present, the currency value of the SDR is determined by the Fund each day by summing the values in U.S. dollars, based on market exchange rates, of a basket of five specified currencies. The Fund's procedures require that the SDR valuation basket be revised each five years, and provide that the basket is to include the currencies of the members having the largest exports of goods and services during the five-year period ending one year prior to the date of the revisions. In accordance with these requirements, the SDR valuation basket was revised effective January 1, 1986. The currencies comprising the basket and their amounts in the basket during the year ended April 30, 1987 were as follows:

Currencies	Amounts
U.S. dollar	0.452
Deutsche mark	0.527
French franc	1.02
Japanese yen	33.4
Pound sterling	0.0893

Members' currencies are valued in terms of the SDR on the basis of the representative rate of exchange determined in accordance with the Rules of the Fund. Gold with depositories is valued on the basis that one SDR is equivalent to 0.888671 gram of fine gold (see Note 4).

Basis of Accounting

The Fund maintains its accounts on an accrual basis and, accordingly, recognizes income as it is earned and records expenses as they are incurred except that income from charges from members that are overdue in their obligations to the Fund by six months or more is deferred and is recognized as income only when paid unless the member has remained current in settling charges when due (see Note 5). It is the practice of the Fund to make all calculations on the basis of the exact number of days in the accounting period.

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, 1987, the cost of property, furniture, and equipment charged as an expense amounted to SDR 9.3 million (SDR 6.6 million in 1986) all of which is included in other administrative expense. The total historical cost of land and buildings acquired in the past and still in use amounts to SDR 91 million.

2. Currencies and Securities

Each member has the option to substitute non-negotiable and non-interest-bearing securities for the amount of its currency held by the Fund in the General Resources Account that is in excess of ¼ of 1 percent of the member's quota. These securities, which are part of the Fund's currency holdings, are encashable by the Fund on demand.

Changes in the Fund's holdings of members' currencies and securities for the year ended April 30, 1987 were as follows:

	In millions of SDRs		
	April 30, 1987	April 30, 1986	Net Change
Members' quotas	89,988	89,305	683
Members' use of Fund credit	31,646	34,640	(2,994)
Members' reserve tranche positions	(24,020)	(26,087)	2,067
Administrative currency balances	3	5	(2)
Currencies and securities	97,617	97,863	(246)

Each member is obligated to maintain the value of the balances of its currency held by the Fund in terms of the SDR except for holdings which may be held in Borrowed Resources Suspense Accounts, the Special Disbursement Account, and the Investment Account. 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 Fund's holdings of the currency in terms of the SDR. The balances of the accounts receivable or payable are reflected in the Fund's total currency holdings. At April 30, 1987 accounts receivable to maintain SDR values of currency holdings amounted to SDR 16,704.54 million and accounts payable amounted to SDR 1,048.33 million (SDR 19,418.66 million and SDR 2,965.82 million at April 30, 1986). At June 23, 1987 the amounts receivable were SDR 4,168.84 million and the amounts payable were SDR 157.72 million.

The Fund's holdings of members' currencies at April 30, 1987 are shown in Schedule 1.

3. SDR Holdings

SDRs are reserve assets created by the Fund and allocated to members participating in the SDR Department. Although SDRs are not allocated to the Fund, the Fund may acquire, hold, and dispose of SDRs through the General Resources Account. SDRs held by the Fund are received from its members in the settlement of their financial obligations to the Fund (quota payments, repurchases, and charges) and may be used by the Fund in transactions and operations between the Fund and its members (sold to members in purchases or transferred to members in the settlement of remuneration and interest on Fund borrowing). The Fund earns interest on its SDR holdings at the same rate as all other holders of SDRs.

4. Gold Holdings

At April 30, 1987 and 1986 the Fund held 3,217,341 kilograms of gold at designated depositories.

5. Fund Operations

For the year ended April 30, 1987, members' purchases amounted to SDR 3,685 million, of which SDR 517 million were reserve tranche purchases. Over the same period, repurchases by members totaled SDR 6,169 million, including repurchases of

SDR 7 million relating to purchases made prior to the Second Amendment and attributed to the reserve tranche. The members' purchases subject to repurchase are shown in Schedule 2.

The outstanding use of Fund credit under various facilities and changes during the year ended April 30, 1987 were as follows:

	In millions of SDRs			
	April 30, 1986	Purchases	Repurchases	April 30, 1987
Regular facilities	6,315	1,573	1,313	6,575
Compensatory financing	6,430	593	2,244	4,779
Buffer stock financing	74	—	40	34
Extended Fund facility	6,498	115	371	6,242
Supplementary financing facility	5,276	—	1,507	3,769
Enlarged access	10,047	887	687	10,247
Total	34,640	3,168	6,162	31,646

Periodic Charges and Remuneration

The Fund levies charges, which are payable periodically, on its holdings of a member's currency that derive from the member's use of Fund credit. With effect from February 1, 1986, special charges are levied on holdings that are not repurchased when due and on charges that are not settled when due. These special charges are designed to recover the direct financial costs to the Fund arising from members' overdue financial obligations. A service charge is levied by the Fund on each purchase involving use of Fund resources other than reserve tranche purchases.

The Fund also charges a stand-by fee payable at the beginning of each 12-month period on the undrawn balance of a stand-by or extended arrangement. This fee is refunded proportionally to purchases made under the arrangement. If the full amount of the arrangement is not drawn, the balance of the stand-by fee is taken into income by the Fund upon the expiration of the arrangement. Stand-by fees included in other income for the year ended April 30, 1987 amounted to SDR 2.1 million (SDR 6.9 million in 1986).

The Fund pays remuneration on a member's remunerated reserve tranche position. A remunerated reserve tranche position is the amount by which the Fund's holdings of a member's currency (excluding holdings that derive from the use of Fund credit) is below the "norm." The norm is an amount equal to 75 percent of the member's quota on April 1, 1978 plus the total of subsequent increases in the member's quota. For members that joined the Fund after April 1, 1978, the norm is determined by adding the proportion of the member's quota equal to the average of the norm of all other members on the date the member joined the Fund and the total of subsequent increases in the member's quota.

At April 30, 1987, the total holdings on which the Fund levied charges amounted to SDR 31,646 million (SDR 34,640 million at April 30, 1986), and total creditor positions on which the Fund paid remuneration amounted to SDR 18,126 million (SDR 20,121 million in 1986).

It is the policy of the Fund to exclude from current income charges owed by members that are overdue in meeting payments to the Fund by six months or more and also are not current in paying charges when due. Such charges are reported as deferred income and will be recorded as income only when paid. Once charges due from a member have been reported as deferred income, charges subsequently accrued will not be included in income unless the member becomes current in the payment of charges. At April 30, 1987, eight members were more than six months late in discharging financial obligations to the Fund and also were not current in paying charges. At that date, the total amount of charges from these eight members, reflected in the balance sheet as deferred charges receivable and as deferred income from charges, amounted to SDR 295 million.

	Changes in Deferred Income In millions of SDRs	
	Year Ended April 30	
	1987	1986
Balance—beginning of the year	127	63
Additions to deferred income (net)	191	173
Payments received	(23)	(109)
Balance—end of the year	295	127

Adjustment to Charges and Remuneration

The Fund has taken measures to protect its income position from the consequences of overdue financial obligations. In order to generate the amount of net new deferred income from periodic charges (excluding special charges), the rate of charge and, subject to limitations, the rate of remuneration are adjusted at the end of each quarterly period so as to produce equal amounts of additional income. Amounts equal to the proceeds of these adjustments will be distributed to members that have paid additional charges or have received reduced remuneration as a result of the adjustments, when and to the extent that the deferred charges that gave rise to the adjustments are discharged.

During the year ended April 30, 1987, net new deferred charges amounted to SDR 191 million, of which SDR 11 million were deferred special charges. Reflecting the adjustments described in the preceding paragraph, an amount of SDR 180 million, equal to net new deferred periodic charges, excluding special charges, has been recorded as additional periodic charges and as reduced remuneration.

Overdue Obligations

Obligations to the General Department by eight members overdue in payments for more than six months at April 30, 1987 and 1986 were as follows:

	In millions of SDRs	
	1987	1986
Use of Fund resources		
Total	2,312	1,034
Repurchases overdue	834	309
Repurchases overdue six months or more	566	212
Charges		
Total	295	127
Charges overdue	248	104
Charges overdue six months or more	165	59

In view of protracted overdue obligations the Fund decided to further strengthen its financial position by, inter alia, placing SDR 26.6 million to a Special Contingent Account.

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 Articles of Agreement permit the Fund to use the Special Reserve for any purpose for which it may use the General Reserve, except distribution. Any administrative deficit for any financial year must be written off first against the Special Reserve.

7. Borrowing

Outstanding borrowing by the Fund was as follows:

	In millions of SDRs			
	April 30, 1986	Borrowing	Repayment	April 30, 1987
Supplementary financing facility	5,038	—	1,657	3,381
Enlarged access	9,518	900	1,114	9,304
Other	—	15	—	15
	14,556	915	2,771	12,700

Scheduled repayments of outstanding borrowing by the Fund are shown in Schedule 3.

Supplementary Financing Facility

The supplementary financing facility became operational in May 1979. The Fund entered into borrowing agreements with 14 members, or institutions within their territories, and with the Swiss National Bank, under which the lenders agreed to make resources available to the Fund, at call, up to SDR 7,784 million through February 1984 to finance purchases by members under this facility. Borrowing by the Fund under these agreements is to be repaid in installments between three and one-half to seven years after the date of borrowing. 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

The policy on enlarged access became operational in May 1981. The Fund entered into borrowing agreements with seven 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 15,305 million, to finance purchases by members under the policy. The maturities of borrowing by the Fund under these agreements vary from three months to seven years. Interest paid by the Fund on amounts borrowed under these agreements is at variable rates of interest which are established periodically, and are related to market interest rates, based on Eurocurrency deposit rates and weighted average yields of domestic instruments denominated in the five currencies in the SDR valuation basket.

Bilateral Arrangement with Japan

In December 1986, the Fund and the Government of Japan agreed to an arrangement under which Japan will make available to the Fund SDR 3 billion to help finance the Fund's support of adjustment programs of member countries. Calls under the agreement may be made by the Fund over a period of four years beginning March 31, 1987. This period may be extended for up to two years if an extension is considered to be warranted in the light of the Fund's liquidity and borrowing needs. Each call is for a period of six months and will be renewable, at the option of the Fund, on the same basis. The final maturity of each call, including renewals, will be five years from the initial date of the call. Interest on amounts borrowed under the arrangement is based on the weighted average of six-month domestic interest rates in the countries that make up the currency basket of the SDR.

General Arrangements to Borrow (GAB)

Under the General Arrangements to Borrow the Fund may borrow up to specified amounts from adherents when supplementary resources are needed to forestall or to cope with an impairment of the international monetary system. The GAB became effective from October 24, 1962 and has been renewed until December 25, 1988.

In February 1983, the Fund approved an enlargement of the GAB to SDR 17 billion, including provision for the adherence of the Swiss National Bank as a participant, and for associated arrangements with nonparticipants. It also approved amendments that would allow the Fund to borrow under the GAB in certain circumstances in order to finance purchases by nonparticipants. These changes, including one associated agreement with the Saudi Arabian Monetary Agency (SDR 1.5 billion), became effective on December 26, 1983 when all ten participants had notified the Fund of their concurrence in the amendments and in the increased credit limits. The Swiss National Bank adhered to these arrangements in April 1984.

Borrowing Guidelines

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 percent of the total of Fund quotas. Since all GAB lines of credit are unlikely to be called upon at the same time, the total of outstanding borrowing shall include either outstanding borrowing by the Fund under the GAB, or two thirds of the total credit lines under the GAB and associated agreements, whichever is the greater. The borrowing guidelines are subject to review by the Executive Board. Total outstanding borrowing and unused credit lines, calculated in accordance with these guidelines, at April 30, 1987 and April 30, 1986 were equal to 34.8 percent of quotas.

8. Commitments Under Stand-By Arrangements, Extended Arrangements, and Arrangements Under the Structural Adjustment Facility

At April 30, 1987, 34 arrangements were in effect and undrawn balances under these arrangements amounted to SDR 3,169.87 million. These arrangements are listed in Schedule 4.

9. Administrative Expenses

The Fund incurs administrative expenses, primarily for salaries, travel, and other administrative needs, in accordance with an administrative budget approved by the Executive Board. The General Resources Account is reimbursed for expenses incurred in administering the SDR Department and the Special Disbursement Account.

The Fund has certain commercial deposits and receivables relating to its administrative activities. These deposits and receivables are not subject to the maintenance of value obligations.

In addition to the payment of various allowances to or on behalf of Executive Directors and staff, the Fund has a contributory retirement plan. All contributions to the plan and all other assets, liabilities, and income of the plan are administered separately outside of the General Department and can be used only for the benefit of the participants in the plan and their beneficiaries. Participants contribute a fixed percentage of pensionable remuneration. The Fund contributes the remainder of the cost of funding the plan, which for financial years through April 30, 1987 included lump sum payments to the plan to amortize experience losses over a 15-year period and to fund future expenses of any cost of living increases in excess of 2 percent per annum. The most recent valuation of the plan based on this procedure was made at April 30, 1986. At that date, cumulative experience gains amounted to SDR 7.52 million.

Contributions by the Fund to the Staff Retirement Fund for the year ended April 30, 1987 amounted to SDR 25.3 million (SDR 30.7 million in 1986), including SDR 4.8 million for the amortization of earlier experience losses (SDR 7.9 million in 1986) and SDR 3.3 million to fund cost of living supplements to beneficiaries (SDR 4.7 million in 1986).

Beginning May 1, 1987, the Fund will use the aggregate actuarial method for determining its pension cost and for funding the plan. Under this method the employer's contributions, including those for cost of living adjustments and for experience gains and losses, are spread over the expected future working lifetimes of the active participants in the plan and are determined as a percent of pensionable remuneration of the active participants. As a result of the change in the funding method, there will no longer be a requirement for the employer to make supplemental lump sum payments toward funding experience losses and cost of living increases.

The Fund has also established a Supplemental Retirement Benefits Plan (SRBP) for the purpose of paying certain benefits not payable from the Staff Retirement Plan. Payments to the SRBP are made from the administrative budget. The assets of the SRBP are segregated from other assets of the Fund and are held on behalf of the beneficiaries entitled to these payments. The assets and resources of the SRBP are being reflected temporarily in the General Resources Account as other assets and as other liabilities, respectively. The assets and resources of the SRBP amounted to SDR 129,347 at April 30, 1987 (SDR 52,511 at April 30, 1986).

The Fund staff is entitled to accumulated annual leave, up to a maximum of 60 days, which may be commuted into a cash payment upon termination of employment. In addition, upon the completion of five years' service, each member of the staff is entitled to a termination grant, subject to maximum amounts based on years of service after July 1979. The Fund has elected to account for these amounts as an expense as they are earned.

Schedule 1

INTERNATIONAL MONETARY FUND

General Department

Quotas, Fund's Holdings of Currencies, Members' Use of Fund Resources, and Reserve Tranche Positions

as at April 30, 1987

(In thousands of SDRs)

	Quotas	Fund's Holdings of Currencies[1] Total	Fund's Holdings of Currencies[1] Percent of quota	Use of Fund Resources	Reserve Tranche Positions
Afghanistan	86,700	81,864	94.4	—	4,839
Algeria	623,100	485,273	77.9	—	137,827
Antigua and Barbuda	5,000	4,999	100.0	—	2
Argentina	1,113,000	3,144,147	282.5	2,031,131	—
Australia	1,619,200	1,430,458	88.3	—	188,834
Austria	775,600	453,797	58.5	—	321,805
Bahamas, The	66,400	55,472	83.5	—	10,929
Bahrain	48,900	22,613	46.2	—	26,290
Bangladesh	287,500	727,024	252.9	461,925	22,403
Barbados	34,100	57,268	167.9	25,330	2,162
Belgium	2,080,400	1,647,428	79.2	—	432,978
Belize	9,500	16,975	178.7	9,375	1,904
Benin	31,300	29,281	93.5	—	2,024
Bhutan	2,500	1,931	77.2	—	570
Bolivia	90,700	199,134	219.6	108,412	4
Botswana	22,100	7,011	31.7	—	15,093
Brazil	1,461,300	4,981,655	340.9	3,520,259	—
Burkina Faso	31,600	24,067	76.2	—	7,535
Burma	137,000	168,466	123.0	31,463	—
Burundi	42,700	33,559	78.6	—	9,156
Cameroon	92,700	92,504	99.8	—	197
Canada	2,941,000	2,554,372	86.9	—	386,681
Cape Verde	4,500	4,501	100.0	—	—
Central African Republic	30,400	57,050	187.7	26,738	111
Chad	30,600	37,338	122.0	7,000	264
Chile	440,500	1,475,519	335.0	1,035,019	—
China	2,390,900	2,686,029	112.3	597,725	302,608
Colombia	394,200	394,203	100.0	—	—
Comoros	4,500	4,501	100.0	—	—
Congo	37,300	46,332	124.2	9,500	482
Costa Rica	84,100	213,297	253.6	129,177	—
Côte d'Ivoire	165,500	640,082	386.8	474,583	2
Cyprus	69,700	65,026	93.3	—	4,675
Denmark	711,000	702,967	98.9	—	8,034
Djibouti	8,000	6,765	84.6	—	1,237
Dominica	4,000	11,451	286.3	7,456	9
Dominican Republic	112,100	341,664	304.8	229,563	—
Ecuador	150,700	522,373	346.6	371,644	—
Egypt	463,400	482,151	104.0	18,750	6
El Salvador	89,000	109,300	122.8	20,297	—
Equatorial Guinea	18,400	23,809	129.4	5,400	—
Ethiopia	70,600	121,982	172.8	51,368	—
Fiji	36,500	33,400	91.5	4,750	7,854
Finland	574,900	439,889	76.5	—	135,018
France	4,482,800	3,094,248	69.0	—	1,388,632

Schedule 1
(continued)

	Quotas	Fund's Holdings of Currencies[1] Total	Fund's Holdings of Currencies[1] Percent of quota	Use of Fund Resources	Reserve Tranche Positions
Gabon	73,100	100,486	137.5	27,413	28
Gambia, The	17,100	32,748	191.5	15,680	46
Germany, Federal Republic of	5,403,700	2,614,980	48.4	—	2,788,736
Ghana	204,500	786,355	384.5	581,851	2
Greece	399,900	329,776	82.5	—	70,125
Grenada	6,000	6,986	116.4	984	—
Guatemala	108,000	162,156	150.1	54,150	—
Guinea	57,900	83,222	143.7	25,313	—
Guinea-Bissau	7,500	9,375	125.0	1,875	[2]
Guyana	49,200	120,947	245.8	71,745	—
Haiti	44,100	94,135	213.5	50,079	70
Honduras	67,800	134,240	198.0	66,439	—
Hungary	530,700	1,308,749	246.6	778,045	—
Iceland	59,600	63,646	106.8	8,063	4,025
India	2,207,700	5,014,298	227.1	3,293,750	487,155
Indonesia	1,009,700	979,242	97.0	41,962	72,425
Iran, Islamic Republic of	660,000	589,238	89.3	—	70,770
Iraq	504,000	504,014	100.0	—	—
Ireland	343,400	213,057	62.0	—	130,377
Israel	446,600	446,605	100.0	—	—
Italy	2,909,100	1,882,996	64.7	—	1,026,108
Jamaica	145,500	660,358	453.9	514,792	—
Japan	4,223,300	2,588,430	61.3	—	1,634,879
Jordan	73,900	131,300	177.7	57,400	2
Kampuchea, Democratic	25,000	37,494	150.0	12,500	7
Kenya	142,000	455,600	320.8	325,800	12,218
Kiribati	2,500	2,501	100.0	—	—
Korea	462,800	1,668,584	360.5	1,206,427	676
Kuwait	635,300	358,765	56.5	—	276,556
Lao People's Democratic Republic	29,300	29,300	100.0	—	—
Lebanon	78,700	59,869	76.1	—	18,833
Lesotho	15,100	13,841	91.7	—	1,263
Liberia	71,300	276,710	388.1	205,429	28
Libyan Arab Jamahiriya	515,700	272,201	52.8	—	243,505
Luxembourg	77,000	64,778	84.1	—	12,230
Madagascar	66,400	215,044	323.9	148,642	—
Malawi	37,200	131,037	352.3	96,036	2,203
Malaysia	550,600	391,229	71.1	—	159,380
Maldives	2,000	1,996	99.8	—	4
Mali	50,800	107,066	210.8	64,952	8,688
Malta	45,100	11,827	26.2	—	33,304
Mauritania	33,900	63,331	186.8	29,421	—
Mauritius	53,600	176,964	330.2	123,396	33
Mexico	1,165,500	4,434,658	380.5	3,269,133	—
Morocco	306,600	1,082,345	353.0	775,756	18
Mozambique	61,000	60,998	100.0	—	5
Nepal	37,300	50,249	134.7	18,650	5,707
Netherlands	2,264,800	1,643,412	72.6	—	621,396
New Zealand	461,600	461,478	100.0	—	134
Nicaragua	68,200	68,210	100.0	—	—

Schedule 1
(continued)

	Quotas	Fund's Holdings of Currencies[1] Total	Fund's Holdings of Currencies[1] Percent of quota	Use of Fund Resources	Reserve Tranche Positions
Niger	33,700	89,440	265.4	64,300	8,560
Nigeria	849,500	849,490	100.0	—	68
Norway	699,000	205,425	29.4	—	493,583
Oman	63,100	31,066	49.2	—	32,083
Pakistan	546,300	1,328,031	243.1	781,759	33
Panama	102,200	384,896	376.6	282,694	14
Papua New Guinea	65,900	60,484	91.8	—	5,419
Paraguay	48,400	26,779	55.3	—	21,626
Peru	330,900	926,399	280.0	595,471	—
Philippines	440,400	1,357,201	308.2	955,575	38,826
Poland	680,000	680,002	100.0	—	—
Portugal	376,600	834,157	221.5	487,244	29,689
Qatar	114,900	85,417	74.3	—	29,484
Romania	523,400	1,044,819	199.6	521,414	—
Rwanda	43,800	34,475	78.7	—	9,327
St. Kitts and Nevis	4,500	4,488	99.7	—	15
St. Lucia	7,500	7,500	100.0	—	[2]
St. Vincent	4,000	4,000	100.0	—	—
São Tomé and Principe	4,000	3,995	99.9	—	9
Saudi Arabia	3,202,400	2,239,803	69.9	—	962,600
Senegal	85,100	281,868	331.2	197,741	975
Seychelles	3,000	2,981	99.4	—	22
Sierra Leone	57,900	116,483	201.2	58,594	24
Singapore	92,400	11,010	11.9	—	81,391
Solomon Islands	5,000	6,740	134.8	2,250	511
Somalia	44,200	162,938	368.6	118,733	—
South Africa	915,700	1,213,822	132.6	298,125	6
Spain	1,286,000	847,662	65.9	—	438,345
Sri Lanka	223,100	442,999	198.6	219,909	15
Sudan	169,700	775,005	456.7	605,301	7
Suriname	49,300	49,301	100.0	—	—
Swaziland	24,700	30,305	122.7	5,625	30
Sweden	1,064,300	808,794	76.0	—	255,517
Syrian Arab Republic	139,100	139,103	100.0	—	5
Tanzania	107,000	142,040	132.7	35,025	—
Thailand	386,600	1,123,011	290.5	765,211	28,804
Togo	38,400	101,314	263.8	63,115	206
Tonga	3,250	2,512	77.3	—	738
Trinidad and Tobago	170,100	99,182	58.3	—	70,922
Tunisia	138,200	296,918	214.8	158,710	—
Turkey	429,100	1,169,660	272.6	772,831	32,275
Uganda	99,600	282,961	284.1	183,355	—
United Arab Emirates	202,600	69,253	34.2	—	133,348
United Kingdom	6,194,000	4,693,391	75.8	—	1,500,653
United States	17,918,300	9,610,969	53.6	—	8,308,728
Uruguay	163,800	497,621	303.8	333,814	—
Vanuatu	9,000	7,413	82.4	—	1,587
Venezuela	1,371,500	938,563	68.4	—	432,945
Viet Nam	176,800	205,195	116.1	28,395	5
Western Samoa	6,000	12,731	212.2	6,730	—

Schedule 1
(concluded)

	Quotas	Fund's Holdings of Currencies[1] Total	Percent of quota	Use of Fund Resources	Reserve Tranche Positions
Yemen Arab Republic	43,300	48,164	111.2	4,875	15
Yemen, People's Democratic Republic of	77,200	79,123	102.5	1,922	—
Yugoslavia	613,000	2,218,276	361.9	1,605,266	—
Zaïre	291,000	896,806	308.2	605,805	—
Zambia	270,300	944,782	349.5	674,498	22
Zimbabwe	191,000	360,533	188.8	169,569	39
Totals[3]	89,987,550	97,617,296		31,646,402	24,019,575

[1] Includes nonnegotiable, non-interest-bearing notes which members are entitled to issue in substitution for currency.
[2] Less than SDR 500.
[3] Details may not add to totals due to rounding.

Schedule 2

INTERNATIONAL MONETARY FUND

GENERAL DEPARTMENT

MEMBERS' PURCHASES SUBJECT TO REPURCHASE BY YEAR OF SCHEDULED REPURCHASE[1]

as at April 30, 1987

(In thousands of SDRs)

	Ordinary Resources				Borrowed Resources		
Financial Year Ending April 30	Credit tranches	Extended Fund facility	Compen-satory financing	Buffer stock financing	Supple-mentary financing	Enlarged access	Total
1988	1,839,525	701,052	2,421,666	30,676	1,789,658	1,856,284	8,645,105[2]
1989	1,328,127	976,828	1,014,019	2,970	1,149,226	2,306,244	6,777,414
1990	1,542,597	1,064,807	685,873	—	653,453	2,339,527	6,286,256
1991	1,365,422	1,065,480	456,510	—	176,613	2,036,669	5,100,692
1992	499,588	968,444	201,094	—	—	1,051,292	2,720,417
1993	—	754,659	—	—	—	475,973	1,230,632
1994	—	511,966	—	—	—	181,154	693,119
1995	—	151,316	—	—	—	—	151,316
1996	—	33,790	—	—	—	—	33,790
1997	—	13,889	—	—	—	—	13,889
Totals	6,575,258	6,242,230	4,779,160	33,646	3,768,950	10,247,142	31,652,630[3,4]

[1] A member is entitled to repurchase at any time holdings of its currency subject to charges and is expected to make repurchases as and when its balance of payments and reserve position improves.

[2] This total includes SDR 6.244 million of reserve tranche purchases made prior to April 1, 1978 which are subject to repurchase.

[3] The total of members' purchases subject to repurchase exceeds the outstanding use of Fund credit by SDR 6.22 million because certain purchases made prior to the Second Amendment of the Articles of Agreement effective on April 1, 1978 which do not represent the extension of Fund credit must be repurchased in accordance with the repurchase terms then in effect.

[4] Details may not add to totals due to rounding.

Schedule 3

INTERNATIONAL MONETARY FUND

GENERAL DEPARTMENT

SCHEDULED REPAYMENTS OF FUND BORROWING

as at April 30, 1987

(In thousands of SDRs)

Periods of Repayment[1] Financial Years Ending April 30	Supplementary Financing Facility	Enlarged Access Resources	Other	Total
1988	1,585,795	3,305,819[2]	—	4,891,614
1989	1,152,145	2,575,028[2]	—	3,727,173
1990	519,015	1,388,000	—	1,907,015
1991	123,788	1,035,000	—	1,158,788
1992	—	500,000	15,000	515,000
1993	—	275,000	—	275,000
1994	—	225,000	—	225,000
Totals	3,380,743	9,303,847	15,000	12,699,590

[1] Dates of repayment are the dates provided in the borrowing agreements between the Fund and lenders, including maximum periods of renewals which are at the Fund's option. The borrowing agreements also permit earlier repayments in certain circumstances.
[2] Includes short-term borrowing with original maturities not exceeding three years.

Schedule 4

INTERNATIONAL MONETARY FUND

GENERAL DEPARTMENT

STATUS OF STAND-BY ARRANGEMENTS, EXTENDED ARRANGEMENTS, AND ARRANGEMENTS UNDER THE STRUCTURAL ADJUSTMENT FACILITY

as at April 30, 1987

(In thousands of SDRs)

Member	Date of Arrangement	Expiration	Total Amount Agreed	Undrawn Balance
GENERAL RESOURCES ACCOUNT				
STAND-BY ARRANGEMENTS				
Bangladesh	December 2, 1985	June 30, 1987	180,000	24,000
Bolivia	June 19, 1986	June 18, 1987	50,000	17,300
Burundi	August 8, 1986	March 31, 1988	21,000	21,000
China	November 12, 1986	November 11, 1987	597,725	—
Congo	August 29, 1986	April 28, 1988	22,400	12,900
Côte d'Ivoire	June 23, 1986	June 22, 1988	100,000	76,000
Ecuador	August 15, 1986	August 14, 1987	75,400	60,300
Gabon	December 22, 1986	December 31, 1988	98,685	71,273
Gambia, The	September 17, 1986	October 16, 1987	5,130	4,100
Ghana	October 15, 1986	October 14, 1987	81,800	49,080
Jamaica	March 2, 1987	May 31, 1988	85,000	75,000
Madagascar	September 17, 1986	February 16, 1988	30,000	20,000
Mexico	November 19, 1986	April 1, 1988	1,400,000	950,000
Morocco	December 16, 1986	March 31, 1988	230,000	160,000
Niger	December 5, 1986	December 4, 1987	10,110	8,090
Nigeria	January 30, 1987	January 31, 1988	650,000	650,000
Philippines	October 24, 1986	April 23, 1988	198,000	140,000
Senegal	November 10, 1986	November 9, 1987	34,000	15,000
Sierra Leone	November 14, 1986	November 13, 1987	23,160	15,160
Tanzania	August 28, 1986	February 27, 1988	64,200	31,210
Togo	June 9, 1986	April 8, 1988	23,040	14,400
Tunisia	November 4, 1986	May 3, 1988	103,650	59,650
Zambia	February 21, 1986	February 28, 1988	229,800	194,800
			4,313,100	2,669,263
EXTENDED ARRANGEMENTS				
Chile	August 15, 1985	August 14, 1988	750,000	312,500
TOTAL GENERAL RESOURCES ACCOUNT			5,063,100	2,981,763
SPECIAL DISBURSEMENT ACCOUNT				
STRUCTURAL ADJUSTMENT FACILITY				
Bangladesh	February 6, 1987	February 5, 1990	135,125	77,625
Bolivia	December 15, 1986	December 14, 1989	42,629	24,489
Burundi	August 8, 1986	August 7, 1989	20,069	11,529
Dominica	November 26, 1986	November 25, 1989	1,880	1,080
Gambia, The	September 17, 1986	September 16, 1989	8,037	4,617
Haiti	December 17, 1986	December 16, 1989	20,727	11,907
Mauritania	September 22, 1986	September 21, 1989	15,933	9,153
Niger	November 17, 1986	November 16, 1989	15,839	9,099
Senegal	November 10, 1986	November 9, 1989	39,997	22,977
Sierra Leone	November 14, 1986	November 13, 1989	27,213	15,633
TOTAL SPECIAL DISBURSEMENT ACCOUNT			327,449	188,109
TOTAL GENERAL DEPARTMENT			5,390,549	3,169,872

INTERNATIONAL MONETARY FUND

SDR DEPARTMENT

STATEMENT OF ALLOCATIONS AND HOLDINGS

as at April 30, 1987

(In thousands of SDRs)

	1987	1986
ALLOCATIONS		
Net cumulative allocations of SDRs to participants	21,433,330	21,433,330
Charges due but not paid (Note)	15,602	12,207
	21,448,932	21,445,537
HOLDINGS		
Participants with holdings above allocations		
Allocations	10,279,960	9,691,453
Net receipt of SDRs	5,093,957	4,655,536
	15,373,917	14,346,989
Participants with holdings below allocations		
Allocations	11,153,370	11,741,877
Net use of SDRs	7,060,080	7,376,965
	4,093,290	4,364,912
Total holdings by participants	19,467,207	18,711,901
General Resources Account	1,960,286	2,721,642
Prescribed holders	21,439	11,994
	21,448,932	21,445,537

The accompanying note is an integral part of the financial statements.

/s/ F. GERHARD LASKE
Treasurer

/s/ M. CAMDESSUS
Managing Director

INTERNATIONAL MONETARY FUND

SDR DEPARTMENT

STATEMENT OF RECEIPT AND USE OF SDRS

for the year ended April 30, 1987

(In thousands of SDRs)

	Participants	General Resources Account	Prescribed Holders	Total 1987	Total 1986
Total holdings at beginning of the year	18,711,901	2,721,642	11,994	21,445,537	21,438,678
Receipt of SDRs					
Transfers among participants and prescribed holders					
Transactions with designation	1,275,682			1,275,682	1,808,783
Transactions by agreement	3,688,791		236,587	3,925,378	2,677,249
Operations:					
Loans	135,568			135,568	52,430
Settlement of financial obligations	373,174		104,976	478,150	58,753
Subsidy payments	59,677			59,677	—
Structural adjustment facility loan	112,660			112,660	—
Interest on structural adjustment facility loan			9	9	—
Net interest on SDRs	303,163		2,819	305,982	313,093
Transfers from participants to General Resources Account					
Repurchases		1,671,210		1,671,210	1,183,067
Charges		2,283,419		2,283,419	2,915,234
Quota payments		154,928		154,928	738
Interest on SDRs		161,676		161,676	312,221
Assessment on SDR allocation		4,071		4,071	3,675
Adjustments		—		—	27
Transfers from General Resources Account to participants and prescribed holders					
Purchases	1,778,624			1,778,624	1,965,340
Repayments of Fund borrowing	1,006,863		45	1,006,908	532,845
Interest on Fund borrowing	403,518			403,518	720,915
In exchange for currencies of other members					
Acquisitions to pay charges	750,194			750,194	1,549,593
Remuneration	1,087,896			1,087,896	1,530,805
Other					
Refunds and adjustments	9,520			9,520	9,569
Total receipts	10,985,330	4,275,304	344,436	15,605,070	15,634,337
Use of SDRs					
Transfers among participants and prescribed holders					
Transactions with designation	1,275,682			1,275,682	1,808,783
Transactions by agreement	3,846,956		78,422	3,925,378	2,677,250
Operations:					
Loans	77,180		58,388	135,568	52,430
Settlement of financial obligations	452,306		25,844	478,150	58,753
Subsidy payments			59,677	59,677	—
Structural adjustment facility loan			112,660	112,660	—
Interest on structural adjustment facility loan	9			9	—
Transfers from participants to General Resources Account					
Repurchases	1,671,210			1,671,210	1,183,067
Charges	2,283,419			2,283,419	2,915,234
Quota payments	154,928			154,928	738
Assessment on SDR allocation	4,071			4,071	3,675
Adjustments				—	27
Transfers from General Resources Account to participants and prescribed holders					
Purchases		1,778,624		1,778,624	1,965,340
Repayments of Fund borrowings		1,006,908		1,006,908	532,845
Interest on Fund borrowings		403,518		403,518	720,915
In exchange for currencies of other members					
Acquisitions to pay charges		750,194		750,194	1,549,593
Remuneration		1,087,896		1,087,896	1,530,805
Other					
Refunds and adjustments		9,520		9,520	9,569
Charges paid in the SDR Department					
Net charges due	467,659			467,659	625,313
Charges not paid when due	−35,224			−35,224	−37,446
Settlement of unpaid charges	31,828			31,828	30,587
Total uses	10,230,024	5,036,660	334,991	15,601,675	15,627,478
Total holdings at end of the year	19,467,207	1,960,286	21,439	21,448,932	21,445,537

The accompanying note is an integral part of the financial statements.

INTERNATIONAL MONETARY FUND

SDR DEPARTMENT
NOTE TO THE FINANCIAL STATEMENTS

SDR Department

All transactions and operations involving SDRs are conducted through the SDR Department. SDRs do not constitute claims by holders against the Fund to provide currency, except in connection with the termination of participation or liquidation. SDRs are allocated by the Fund to members that are participants in the SDR Department in proportion to their quotas in the Fund. Allocations were made in 1970, 1971, and 1972, totaling SDR 9.3 billion. Further allocations were made, in 1979, 1980, and 1981, totaling SDR 12.1 billion. The Fund is empowered to prescribe certain official entities as holders of SDRs: to date 16 institutions have been prescribed as holders. These prescribed holders do not receive allocations and cannot use or receive SDRs in designation.

Uses of SDRs

Participants and prescribed holders can use and receive SDRs in transactions and operations by agreement among themselves. Participants can also use SDRs in operations involving the General Resources Account, such as the payment of charges and repurchases. In addition, the Fund ensures, by designating participants to provide freely usable currency in exchange for SDRs, that a participant can use its SDRs to obtain such currency if it has need because of its balance of payments or its reserve position or development in its reserves. A participant is not obliged to provide currency for SDRs beyond the point at which its holdings of SDRs in excess of its net cumulative allocation are equal to twice its net cumulative allocation. A participant may, however, provide currency in excess of the obligatory limit or any agreed higher limit.

Interest, Charges, and Assessment

Interest is paid to each holder on its holdings of SDRs. Charges are levied at the same rate on each participant's net cumulative allocation plus any negative balance of the participants or unpaid charges. The SDR interest rate is determined by reference to a combined market interest rate, which is a weighted average of yields or rates on short-term instruments in the capital markets of France, the Federal Republic of Germany, Japan, the United Kingdom, and the United States. Since August 1, 1983, the SDR interest rate is determined on a weekly basis, and interest on SDR holdings is paid and charges on net cumulative allocations are collected on a quarterly basis. Interest and charges are settled by crediting and debiting individual holdings accounts on the first day of the subsequent quarter. The Fund is required to pay interest to each holder, whether or not sufficient SDRs are received in payment of charges. At April 30, 1987 the amount of unpaid charges amounted to SDR 15.6 million from four members, of which SDR 12.4 million from three members was overdue for six months or more.

The combined market interest rate used to determine the SDR interest rate is calculated each Friday, using the yields or rates of that day. The SDR interest rate, which is set equal to the combined market interest rate, enters into effect on the following Monday and applies until the end of the following Sunday.

The expenses of conducting the business of the SDR Department are paid by the Fund from the General Resources Account, which is reimbursed in SDRs 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 allocation.

INTERNATIONAL MONETARY FUND

SUPPLEMENTARY FINANCING FACILITY SUBSIDY ACCOUNT

BALANCE SHEET

as at April 30, 1987

(In thousands of SDRs)

(Note 1)

ASSETS	1987	1986
Interest-earning deposits (Note 2)	110,895	183,241
Accrued income	4,334	6,121
Total	115,229	189,362
RESOURCES		
Resources—Account balance	115,229	189,362

The accompanying notes are an integral part of the financial statements.

/s/ F. GERHARD LASKE
Treasurer

/s/ M. CAMDESSUS
Managing Director

INTERNATIONAL MONETARY FUND

SUPPLEMENTARY FINANCING FACILITY SUBSIDY ACCOUNT

STATEMENT OF CHANGES IN RESOURCES

for the year ended April 30, 1987

(In thousands of SDRs)

(Note 1)

	1987	1986
Balance at beginning of the year	189,362	252,057
Contributions (Note 1)	—	4,822
Investment income	11,014	17,491
Exchange valuation gain	—	72
Transfers to the Special Disbursement Account	(25,470)	(3,544)
Balance before subsidy payments	174,906	270,898
Subsidy payments (Note 3)	59,677	81,536
Balance at end of the year	115,229	189,362

The accompanying notes are an integral part of the financial statements.

INTERNATIONAL MONETARY FUND

SUPPLEMENTARY FINANCING FACILITY SUBSIDY ACCOUNT

NOTES TO THE FINANCIAL STATEMENTS

Purpose

The Supplementary Financing Facility Subsidy Account, which is administered by the Fund, was established in December 1980 to assist 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 or administered by 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. In July 1985, the Fund determined that the resources of the Supplementary Financing Facility Subsidy Account were sufficient to meet its estimated needs, and transfers from the Trust Fund were terminated. Resources considered to be in excess of the estimated needs are transferred back to the Special Disbursement Account. As of April 30, 1987, SDR 40.5 million (SDR 15.0 million at April 30, 1986) has been transferred back to the Special Disbursement Account from the Subsidy Account.

1. Accounting Practices

Unit of Account

The accounts of the Supplementary Financing Facility Subsidy Account are expressed in terms of the SDR. At present, the currency value of the SDR is determined by the Fund each day by summing the values in U.S. dollars, based on market exchange rates, of a basket of five specified currencies as follows:

Currencies	Amounts
U.S. dollar	0.452
Deutsche mark	0.527
French franc	1.02
Japanese yen	33.4
Pound sterling	0.0893

Basis of Accounting

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 accounting period.

Contributions

Contributions 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, 1987 amounted to SDR 57.39 million.

2. Interest-Earning Deposits

To avoid exchange risks, the assets of the Account, pending their disbursement, are held in the form of interest-earning SDR-denominated time deposits.

3. 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 percent per annum of the currency holdings to which the supplementary financing facility and charges on exceptional use apply, nor reduce the effective charge on such holdings below the rate of charge which would have been applicable had they been acquired under the Fund's policies on the regular use of its resources. Subsidy payments are not disbursed to members that have not paid the charges to which the subsidy applies. At April 30, 1987, subsidy payments totaling SDR 1.7 million (SDR 5.8 million at April 30, 1986) had not been made to two members (four members at April 30, 1986).

INTERNATIONAL MONETARY FUND

TRUST FUND

BALANCE SHEET

as at April 30, 1987

(In thousands of SDRs)

(Note 1)

	1987	1986
ASSETS		
Loans (Note 2)	1,657,551	2,236,872
Interest and special charges receivable and accrued (Note 4)	6,902	5,814
Investments, at cost (which approximates market value)	3,115	3,445
Accrued interest on investments	67	92
Total	1,667,635	2,246,223
TRUST RESOURCES AND LIABILITIES		
Trust resources	1,658,832	2,238,570
Liabilities—		
Undistributed profits from sale of gold (Note 3)	3,055	3,394
Deferred income (Note 4)	4,293	2,336
Borrowing (Note 5)	1,453	1,920
Accrued interest on borrowing	2	3
Total	1,667,635	2,246,223

The accompanying notes are an integral part of the financial statements.

/s/ F. GERHARD LASKE
Treasurer

/s/ M. CAMDESSUS
Managing Director

INTERNATIONAL MONETARY FUND

TRUST FUND

STATEMENT OF INCOME AND EXPENSE

for the year ended April 30, 1987

(In thousands of SDRs)

(Note 1)

	1987	1986
Income		
Interest and special charges on loans (Note 2)	11,691	12,836
Deduct income deferred (Note 4)	1,958	1,697
	9,733	11,139
Investment income	211	275
Exchange valuation gain (loss)	2	(43)
	9,946	11,371
Less—Interest expense on borrowing (Note 5)	8	10
Net income	9,938	11,361

The accompanying notes are an integral part of the financial statements.

INTERNATIONAL MONETARY FUND

TRUST FUND

STATEMENT OF CHANGES IN TRUST RESOURCES

for the year ended April 30, 1987

(In thousands of SDRs)

(Note 1)

	1987	1986
Balance at beginning of the year	2,238,570	2,651,792
Net income	9,938	11,361
Balance before transfers to the Special Disbursement Account	2,248,508	2,663,153
Transfers to the Special Disbursement Account (Note 6)	589,676	424,583
Balance at end of the year	1,658,832	2,238,570

The accompanying notes are an integral part of the financial statements.

INTERNATIONAL MONETARY FUND

TRUST FUND
NOTES TO THE FINANCIAL STATEMENTS

Purpose

The Trust Fund, 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 Fund are separate from the assets of all other accounts of or administered by the Fund and are not used to discharge liabilities or to meet losses incurred in the administration of other accounts.

1. Accounting Practices

Unit of Account

The accounts of the Trust Fund are expressed in terms of the SDR. At present, the currency value of the SDR is determined by the Fund each day by summing the values in U.S. dollars, based on market exchange rates, of a basket of five specified currencies as follows:

Currencies	Amounts
U.S. dollar	0.452
Deutsche mark	0.527
French franc	1.02
Japanese yen	33.4
Pound sterling	0.0893

Basis of Accounting

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, except that income from interest from members that are overdue in their obligations to the Fund by six months or more is deferred and is recognized as income only when paid unless the member has remained current in settling charges when due (see Note 4). The expenses of conducting the business of the Trust Fund that are paid from the General Department of the Fund are reimbursable by the Trust Fund on the basis of an estimate of these expenses. Following the termination of the Trust Fund on April 30, 1981, residual administrative costs have been absorbed by the General Department. It is the practice of the Fund to make all calculations on the basis of the exact number of days in the accounting period.

2. Loans

Loans were made from the Trust Fund to those eligible members that qualified for assistance in accordance with the provisions of the Trust Fund 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 most of the final loan disbursements made to members on March 31, 1981 that amounted to about 0.4 percent 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 percent per annum, and special charges are levied on late payments of interest and principal.

3. Direct Distribution of Profits

The 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 was calculated on the basis of its share in total Fund quotas as at 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.

4. Deferred Income

At April 30, 1987, six members (seven members at April 30, 1986) with obligations to the Trust Fund were late by six months or more in discharging their obligations to the Fund and were also not current in settling charges as they fell due. For these six members the recognition of income from interest on the outstanding loans is being deferred. At April 30, 1987, the total amount of deferred income, reflected in the balance sheet as interest and special charges receivable and accrued and as deferred income, amounts to SDR 4.3 million (SDR 2.4 million at April 30, 1986). Total outstanding loans to these members were as follows (in millions of SDRs):

	April 30	
	1987	1986
Total	195.8	223.8
Amounts overdue	78.5	56.4
Amounts overdue six months or more	59.1	36.8

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 five equal annual installments beginning not later than the end 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 percent 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 have been 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 have been employed to pay interest and principal when due on loan obligations and to make transfers to the Special Disbursement Account.

Report of the External Audit Committee

Staff Retirement Plan

Washington, D.C.
June 25, 1987

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, 1987, 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 in accordance with generally accepted accounting principles, applied on a basis consistent with that of the preceding year, and give a true and fair view of the financial status of the Staff Retirement Plan as at April 30, 1987 and of the changes in financial status for the year then ended.

External Audit Committee

/s/ Gilton Bazilio Chiwaula, Chairman (*Malawi*)

/s/ Fernando Vega (*Honduras*)

/s/ Raymond M. Bennett (*United Kingdom*)

INTERNATIONAL MONETARY FUND

STAFF RETIREMENT PLAN

STATEMENT OF ACCUMULATED PLAN BENEFITS AND NET ASSETS AVAILABLE FOR BENEFITS

as at April 30, 1987

(In thousands of U.S. dollars)

(Note 1)

	1987	1986
Accumulated Plan benefits (Note 1)		
Actuarial present value of accumulated Plan benefits		
Vested benefits		
Retired participants	195,500	153,500
Other participants	149,200	129,700
Nonvested benefits	68,900	51,500
Total actuarial present value of accumulated Plan benefits	413,600	334,700
Net assets available for benefits		
Investments, at current value (Notes 1 and 3)		
Portfolio denominated in U.S. dollars	677,659	597,666
Portfolio denominated in other currencies	285,543	180,037
	963,202	777,703
Receivables		
Contributions	381	1,125
Accrued interest and dividends (Note 1)	3,735	4,767
Other	5,452	2,295
	9,568	8,187
Cash at banks	6	45
Total assets	972,776	785,935
Liabilities		
Accounts payable	5,057	499
Net assets available for benefits	967,719	785,436
Excess of net assets available for benefits over actuarial present value of accumulated Plan benefits	554,119	450,736

The accompanying notes are an integral part of the financial statements.

/s/ F. GERHARD LASKE
Treasurer

/s/ M. CAMDESSUS
Managing Director

INTERNATIONAL MONETARY FUND

STAFF RETIREMENT PLAN

STATEMENT OF CHANGES IN ACCUMULATED PLAN BENEFITS

for the year ended April 30, 1987

(In thousands of U.S. dollars)

(Note 1)

	1987	1986
Actuarial present value of accumulated Plan benefits at beginning of the year	334,700	303,800
Increase (decrease) during the year attributable to		
Benefits accumulated	22,700	17,690
Increase for interest due to decrease in discount period	32,500	29,600
Benefits paid	(18,845)	(16,390)
Change in actuarial assumptions (Note 2)	42,545	—
Net increase	78,900	30,900
Actuarial present value of accumulated Plan benefits at end of the year (Note 1)	413,600	334,700

The accompanying notes are an integral part of the financial statements.

INTERNATIONAL MONETARY FUND

STAFF RETIREMENT PLAN

STATEMENT OF CHANGES IN NET ASSETS AVAILABLE FOR BENEFITS

for the year ended April 30, 1987

(In thousands of U.S. dollars)

(Note 1)

	1987	1986
Investment income (Note 1)		
Net gain in current value of investments (Note 3)	121,685	212,146
Interest	21,007	20,730
Dividends	17,916	15,604
Other	248	—
	160,856	248,480
Contributions (Note 2)		
International Monetary Fund	30,230	32,298
Participants	10,339	9,862
Participants restored to service	97	46
Net transfers to retirement plans of other international organizations	(394)	(929)
	40,272	41,277
Total additions	201,128	289,757
Benefits		
Pensions	14,232	13,014
Withdrawal	1,574	1,572
Commutation	2,909	1,736
Death	130	68
Total payments	18,845	16,390
Net additions	182,283	273,367
Net assets available for benefits at		
Beginning of year	785,436	512,069
End of year—April 30, 1987	967,719	785,436

The accompanying notes are an integral part of the financial statements.

INTERNATIONAL MONETARY FUND

STAFF RETIREMENT PLAN
NOTES TO THE FINANCIAL STATEMENTS

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. 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. Whenever the cost of living for a financial year increases, pensions shall be augmented by a pension supplement, which, expressed in percentage terms, shall be equal to the increase in the cost of living for the financial year. If the cost of living for a financial year should exceed 3 percent, the Employer, for good cause, has the right, not later than the commencement of a financial year in which the additional supplement is payable, to reduce prospectively the additional supplement to not less than 3 percent.

Contributions

As a condition of employment, regular staff members are required to participate in the Plan and to contribute 7 percent 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, investment 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. In financial year 1987, these administrative costs were approximately $4.4 million ($3.8 million in 1986).

Plan Termination

In the event of the termination of the Plan by the Employer, the assets of the Plan shall be used to satisfy all liabilities to participants, retired participants and their beneficiaries, and all other liabilities of the Plan. Any remaining balance of the assets shall be returned to the Employer.

1. Accounting Practices

Accumulated Plan 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 of all participants with less than three years of eligible service.

Valuation of Investments

Investments on 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 international investment managers are recorded on the trade date basis.

Investment Income

Dividend and interest income from investments are recorded as earned.

2. Actuarial Valuation and Funding Policy

Both the actuarial valuation method and the actuarial assumptions have been reviewed and modified during the year. The new actuarial assumptions include (a) life expectancy based upon the 1982 United Nations valuation, (b) withdrawal or retirement of a certain percentage of staff at each age, differentiated by sex, (c) an average rate of return on investments of 9 percent per annum, (d) an average inflation rate of 5 percent per annum, (e) salary increase percentages which vary with age, and (f) valuation of assets using the five-year moving average method.

Funding by the Employer for the year commencing May 1, 1987 is based upon a valuation for April 30, 1986 using the new basis. The new method, known as the "aggregate method," expresses liabilities and contribution requirements as single consolidated figures which include provision for experience gains and losses and cost of living increases. Required Employer contributions are expressed as a percentage to be applied to the gross remuneration of participants. For the financial year beginning May 1, 1987 this rate is 12.14 percent. The results of the revised April 30, 1986 valuation are:

	U.S. dollars (millions)
Present value of benefits payable	871
Less: Assets for valuation purposes	568
Required future funding	303
Less: Present value of prospective contributions from participants (7 percent of gross remuneration)	111
Present value of future funding required from the Employer (12.14 percent of gross remuneration)	192

Before May 1, 1987, the Employer made a normal contribution of 14 percent of gross remuneration. Experience gains and losses of the Plan, as determined by the Consulting Actuary, were amortized by payments over a period of 15 years. In addition, the Employer made an annual lump-sum payment to fund cost of living adjustments to pensions in excess of 2 percent. For the purpose of determining contributions by the Employer, the Consulting Actuary made a valuation as at April 30, 1986 using the previous actuarial valuation assumptions and method. Assumptions included (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, (c) an assumed average rate of return on investments of 6 percent per annum, and (d) a scale of salary progression consistent with the assumed rate of return. The valuation showed an experience gain of $37.3 million for the year ended April 30, 1986. The cumulative amount of unamortized experience losses as at April 30, 1985 amounted to $34.6 million of which $5.6 million was paid by the Employer on May 1, 1986 in accordance with the funding method then in effect.

Under both the actuarial valuations used for funding calculations, it is 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. These valuations therefore differ from the actuarial valuation used to determine vested and nonvested benefits (Note 1), which reflects only the obligations to date and does not measure the amount which the Employer will be required to fund in the future. This means that the excess of assets over the present value of accumulated benefits is needed to meet the obligation to pay benefits in the future.

3. Investments

A summary of investments showing book and market values is as follows (in thousands of U.S. dollars):

	1987		1986	
	Book Value	Market Value	Book Value	Market Value
Portfolio denominated in U.S. dollars:				
U.S. Government securities	116,638	117,115	94,182	102,996
Corporate bonds and debentures	30,087	30,554	38,619	43,602
Common and preferred stocks	349,337	427,645	286,221	363,402
Short-term investments	102,179	102,345	87,159	87,666
	598,241	677,659	506,181	597,666
Portfolio denominated in other currencies	227,562	285,543	110,422	180,037
	825,803	963,202	616,603	777,703

The net gain in the current value of investments represents the gain realized during the year from the sale of investments, the unrealized appreciation of the market value of investments, and, for investments denominated in currencies other than U.S. dollars, valuation differences arising from exchange rate changes of other currencies against the U.S. dollar. The net gain, in thousands of U.S. dollars, is as follows:

	1987	1986
Portfolio denominated in U.S. dollars		
Net market gain	57,306	120,232
Portfolio denominated in other currencies		
Net market gain	52,324	51,736
Net exchange valuation gain	12,055	40,178
Net gain	121,685	212,146

The net exchange gain 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, 1987, the investments representing 5 percent or more of the net assets available for benefits in thousands of U.S. dollars were as follows:

	Market Value	Percentage
Grantham, Mayo, Van Otterloo		
Foreign Equity Pooled Trust	153,214	15.8
Managed Market Trust	112,654	11.6
Foreign Equity Core Pooled Trust	52,989	5.5
Wells Fargo S&P 500 Index Fund	51,768	5.3

Appendix IX

Classification of Countries

The classification scheme used in the preparation of this Report is as follows.[1] *Industrial countries* comprise:

Australia	Finland	Italy	Norway
Austria	France	Japan	Spain
Belgium	Germany, Fed. Rep. of	Luxembourg	Sweden
Canada	Iceland	Netherlands	Switzerland
Denmark	Ireland	New Zealand	United Kingdom
			United States

The seven largest countries in this group in terms of GNP—Canada, the United States, Japan, France, the Federal Republic of Germany, Italy, and the United Kingdom—are collectively referred to as the *major industrial countries*.

The *developing countries* include all other Fund members (as of January 1, 1987), together with certain essentially autonomous dependent territories for which adequate statistics are available.[2] The regional breakdowns of data for developing countries conform to the regional classification used in the Fund's *International Financial Statistics (IFS)*. It should be noted that, in this classification, Egypt and Libyan Arab Jamahiriya are classified as part of the Middle East, not Africa.

The analytical groupings in this classification are (1) countries grouped by predominant export; (2) countries grouped by financial criteria; (3) countries grouped by other criteria; and (4) countries grouped by former classification criteria. At present, the financial criteria first distinguish among capital exporting and capital importing countries. Countries in the latter, much larger, group are then distinguished on the basis of two additional financial criteria: by predominant type of creditor and by the degree of debt-servicing difficulties they have faced. The country groups shown under the heading of "miscellaneous criteria" include capital importing fuel exporters; 15 heavily indebted countries; small low-income countries; and sub-Saharan Africa (excluding Nigeria and South Africa). The accompanying table presents a breakdown of these analytical groupings according to the proportion of developing country GDP, exports of goods and services, and level of indebtedness. Further details on the classification scheme are given below.

The first analytical criterion used to group developing countries is by predominant export category. Four categories are distinguished: fuel (SITC (Standard International Trade Classification) 3); other primary commodities (SITC 0,1,2, 4, and diamonds and gemstones); manufactures (SITC 5 to 8, less diamonds and gemstones); and "services and remittances." On the basis of data for 1980, countries are assigned to the commodity grouping that accounts for 50 percent or more of their exports. Specifically, countries are assigned to the "services and remittances" category if their receipts on these transactions account for at least half of their exports of goods and services. If countries do not meet this criterion, they are assigned to the trade category (of the three listed above) that accounts for at least half of their total merchandise exports.[3]

[1] This classification is the same as that adopted in the *World Economic Outlook, April 1987*.

[2] It should be noted that the term "country" used in this Report does not in all cases refer to a territorial entity that is a state as understood by international law and practice. The term also covers some territorial entities that are not states but for which data are maintained and provided internationally on a separate and independent basis.

[3] Two countries that did not meet any of the above criteria were assigned to the trade category that accounted for the largest share of their exports.

Given these definitions, the *fuel exporters* comprise:

Algeria	Indonesia	Mexico	Syrian Arab Rep.
Bahrain	Iran, Islamic Rep. of	Nigeria	Trinidad and Tobago
Congo	Iraq	Oman	Tunisia
Ecuador	Kuwait	Qatar	United Arab Emirates
Gabon	Libyan Arab Jamahiriya	Saudi Arabia	Venezuela

The *primary product exporters,* that is, countries whose exports of agricultural and mineral primary products other than fuel accounted for over 50 percent of their total exports in 1980, comprise:

Afghanistan	Côte d'Ivoire	Liberia	Sierra Leone
Argentina	Djibouti	Madagascar	Solomon Islands
Bangladesh	Dominican Rep.	Malawi	Somalia
Belize	El Salvador	Malaysia	South Africa
Benin	Equatorial Guinea	Mali	Sri Lanka
Bhutan	Ethiopia	Mauritania	St. Kitts and Nevis
Bolivia	Fiji	Mauritius	Sudan
Botswana	Gambia, The	Morocco	Suriname
Brazil	Ghana	Mozambique	Swaziland
Burma	Guatemala	Nicaragua	Tanzania
Burundi	Guinea	Niger	Thailand
Cameroon	Guinea-Bissau	Papua New Guinea	Togo
Central African Rep.	Guyana	Paraguay	Turkey
Chad	Haiti	Peru	Uganda
Chile	Honduras	Philippines	Uruguay
Colombia	Jamaica	Rwanda	Viet Nam
Comoros	Kenya	São Tomé and Principe	Zaïre
Costa Rica	Lao People's Dem. Rep.	Senegal	Zambia
			Zimbabwe

A further distinction is made among the "primary product exporters" on the basis of whether countries' exports of primary commodities (other than fuel) consisted primarily of agricultural (SITC 0, 1, 2 except 27, 28, and 4) or mineral (SITC 27 and 28 and diamonds and gemstones) commodities. The *mineral exporters* comprise:

Bolivia	Jamaica	Peru	Zaïre
Botswana	Liberia	Sierra Leone	Zambia
Chile	Mauritania	South Africa	Zimbabwe
Guinea	Morocco	Suriname	
Guyana	Niger	Togo	

The *agricultural exporters* are those non-fuel primary product exporters that are not also mineral exporters.

The *exporters of manufactures* (that is, those countries or areas whose exports of manufactures accounted in 1980 for over 50 percent of total exports) include:

China	India	Poland	Yugoslavia
Hong Kong	Israel	Romania	
Hungary	Korea	Singapore	

The *service and remittance* countries, that is, those countries whose receipts from services (such as tourism) and private transfers (such as workers' remittances) amount to at least 50 percent of their exports of goods and services, comprise:

Antigua and Barbuda	Egypt	Maldives	Seychelles
Bahamas, The	Greece	Malta	St. Lucia
Barbados	Grenada	Nepal	St. Vincent
Burkina Faso	Jordan	Netherlands Antilles	Tonga
Cape Verde	Kampuchea, Democratic	Pakistan	Vanuatu
Cyprus	Lebanon	Panama	Western Samoa
Dominica	Lesotho	Portugal	Yemen Arab Rep.
			Yemen, People's Dem. Rep. of

The primary product exporters, exporters of manufactures, and service and remittance countries taken together are referred to as the "non-fuel exporters."

A second set of analytical groupings of developing countries is based on financial criteria. A first distinction is made between those developing countries that have traditionally been capital exporters and those that have traditionally been capital importers. At present, capital exporters are defined as those developing countries that, on average, recorded a current account surplus during the period 1979–81 and were aid donors over the same period. The *capital exporting countries* comprise:

Iran, Islamic Rep. of	Kuwait	Oman	Saudi Arabia
Iraq	Libyan Arab Jamahiriya	Qatar	United Arab Emirates

The *capital importing countries* comprise all other developing countries.

Within the group of capital importing developing countries and areas, two types of financial distinction are made. The first distinguishes among countries and areas on the basis of their *predominant type of creditor*. *Market borrowers* are defined as those countries that obtained at least two thirds of their external borrowings from 1978 to 1982 from commercial creditors. The group includes:

Algeria	Congo	Korea	Portugal
Antigua and Barbuda	Côte d'Ivoire	Malaysia	Singapore
Argentina	Cyprus	Mexico	South Africa
Bahamas, The	Ecuador	Nigeria	Trinidad and Tobago
Bolivia	Gabon	Panama	Uruguay
Brazil	Greece	Papua New Guinea	Venezuela
Chile	Hong Kong	Paraguay	Yugoslavia
Colombia	Hungary	Peru	
	Indonesia	Philippines	

Official borrowers comprise those countries, except China and India, that obtained two thirds or more of their external borrowings from 1978 to 1982 from official creditors. The countries are:

Afghanistan	Fiji	Maldives	St. Vincent
Bahrain	Gambia, The	Mali	Sudan
Bangladesh	Ghana	Malta	Swaziland
Bhutan	Grenada	Mauritania	Syrian Arab Rep.
Burkina Faso	Guatemala	Nepal	Tanzania
Burma	Guinea	Netherlands Antilles	Togo
Burundi	Guinea-Bissau	Nicaragua	Tonga
Cape Verde	Guyana	Pakistan	Uganda
Central African Rep.	Honduras	Rwanda	Viet Nam
Chad	Jamaica	São Tomé and Principe	Western Samoa
Comoros	Jordan	Senegal	Yemen Arab Rep.
Djibouti	Lao People's Dem. Rep.	Seychelles	Yemen, People's Dem. Rep. of
Dominica	Liberia	Sierra Leone	Zaïre
Dominican Rep.	Madagascar	Somalia	Zambia
El Salvador	Malawi	St. Lucia	
Equatorial Guinea			

Diversified borrowers comprise those capital importing developing countries that are not market or official borrowers. These countries' external borrowings in 1978–82 were more or less evenly divided between official and commercial creditors. China and India are included in this group. *Commercial borrowers* comprise those countries classified as either market or diversified borrowers.

A second financial distinction among capital importing developing countries is based on whether countries have or have not experienced debt-servicing difficulties in the recent past. Countries that have experienced debt-servicing problems are defined as those countries which incurred external payments arrears during 1985 or rescheduled their debt during the period from end-1983 to end-1986 as reported in the relevant issues of the Fund's *Annual Report on Exchange Arrangements and Exchange Restrictions*. Countries classified as not having experienced debt-servicing problems are defined as all other capital importing developing countries.

Several other analytical groups are also used in the Report. One of these is the group of *capital importing fuel exporters*. This group, which is also referred to as the "indebted fuel exporters," comprises those 12 fuel exporters that are not capital exporters. A second is the group of *15 heavily indebted countries.* This group comprises:

Argentina	Colombia	Morocco	Uruguay
Bolivia	Côte d'Ivoire	Nigeria	Venezuela
Brazil	Ecuador	Peru	Yugoslavia
Chile	Mexico	Philippines	

A third is the group of *low-income countries,* which comprises 43 countries whose per capita GDP, as estimated by the World Bank, did not exceed the equivalent of $410 in 1980. The countries in this group are:

Afghanistan	Comoros	Kenya	São Tomé and Principe
Bangladesh	Equatorial Guinea	Lao People's Dem. Rep.	Sierra Leone
Benin	Ethiopia	Madagascar	Somalia
Bhutan	Gambia, The	Malawi	Sri Lanka
Burkina Faso	Ghana	Maldives	Sudan
Burma	Guinea	Mali	Tanzania
Burundi	Guinea-Bissau	Mauritania	Togo
Cape Verde	Haiti	Mozambique	Uganda
Central African Rep.	India	Nepal	Viet Nam
Chad	Kampuchea, Democratic	Niger	Zaïre
China		Pakistan	
		Rwanda	

References to the *small or smaller low-income countries* refer to the above group, less China and India. Reference is also made to *sub-Saharan Africa,* which comprises all African countries (as defined in *IFS*) except Algeria, Morocco, Nigeria, South Africa, and Tunisia.

Finally, in the classification used in Fund publications until recently, the developing countries were divided into two groups—"oil exporting countries"[4] and "non-oil developing countries." The countries included under the heading *oil exporting countries* were:

Algeria	Iraq	Nigeria	United Arab Emirates
Indonesia	Kuwait	Oman	Venezuela
Iran, Islamic Rep. of	Libyan Arab Jamahiriya	Qatar	
		Saudi Arabia	

The remaining countries, grouped under the heading *non-oil developing countries,* were further disaggregated into subgroupings based primarily on the character of the countries' economic activity and on the predominant composition of their exports.

Except where otherwise specifically indicated, the Union of Soviet Socialist Republics, nonmember countries of Eastern Europe, Cuba, and North Korea are excluded from the tables in this Report. Also, it has not been possible to include in the tables a number of small countries or territories for which trade and payments data are not available.

[4] The countries included here were those whose oil exports (net of any imports of crude oil) both accounted for at least two thirds of total exports and were at least 100 million barrels a year (roughly equivalent to 1 percent of annual world exports). These criteria were applied to 1978–80 averages.

Developing Countries: Shares of Various Subgroups in Aggregate GDP, Exports of Goods and Services, and Debt Outstanding, 1984–86

(In percent)

	GDP	Exports of Goods and Services	Debt	Memorandum: Number of Countries in Each Subgroup
Developing countries	100.0	100.0	100.0	133
By region				
Africa	11.8	11.1	14.1	48
Asia	33.7	37.1	24.0	27
Europe	8.5	11.8	12.4	9
Middle East	17.6	22.3	13.1	16
Western Hemisphere	28.4	17.8	36.5	33
By predominant export				
Fuel exporters	30.8	32.8	27.5	20
Non-fuel exporters	69.2	67.2	72.5	113
Primary product exporters	34.0	24.1	43.4	73
Agricultural exporters	28.6	17.9	33.9	55
Mineral exporters	5.3	6.2	9.5	18
Exporters of manufactures	29.1	36.4	19.6	11
Service and remittance countries	6.1	6.8	9.5	29
By financial criteria				
Capital exporting countries	13.9	17.6	5.7	8
Capital importing countries	86.1	82.4	94.3	125
Market borrowers	51.9	57.4	60.6	34
Official borrowers	6.7	5.2	10.3	60
Diversified borrowers	27.6	19.8	23.3	31
Countries with recent debt-servicing problems	41.2	32.3	58.4	65
Countries without recent debt-servicing problems	44.9	50.1	35.8	60
By miscellaneous criteria				
Capital importing fuel exporters	17.0	15.2	21.8	12
Fifteen heavily indebted countries	32.6	20.9	41.4	15
Small low-income countries	5.1	3.0	7.9	41
Sub-Saharan Africa[1]	3.7	3.8	6.5	43
By alternative analytical categories				
Oil exporting countries	23.5	26.1	16.1	12
Non-oil developing countries	76.5	73.9	83.9	121

[1] Excluding Nigeria and South Africa.

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Letters are used as follows: c for chart, n for footnote, and t for table.