



International Monetary Fund

Annual Report 1988

ANNUAL REPORT

1988

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INTERNATIONAL MONETARY FUND

ANNUAL REPORT
*of the
Executive Board for the
Financial Year Ended April 30, 1988*

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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., 1987–88 or January–June) to indicate the years or months covered, including the beginning and ending years or months;
- / between years (e.g., 1987/88) 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 4, 1988

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Letter of Transmittal to the Board of Governors

August 4, 1988

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, 1988, 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 and capital budgets of the Fund approved by the Executive Board for the financial year ending April 30, 1989 are presented in Appendix VII. The audited financial statements for the year ended April 30, 1988 of the General Department; the SDR Department; accounts administered by the Fund, consisting of the Supplementary Financing Facility Subsidy Account, the Trust Fund, the Enhanced Structural Adjustment Facility Trust (for the period March 24, 1988 to April 30, 1988) and the Voluntary Contribution Accounts (for the period December 24, 1987 to April 30, 1988); and the Staff Retirement Plan; 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

Much of 1987 and the first part of 1988 were characterized by continued expansion in world output and trade. At the same time, there was growing evidence that exchange rate changes and economic policy adjustments in the major industrial countries were beginning to affect external imbalances. Among the developing countries, rapid export growth permitted a strengthening of external positions and a decline in debt-to-export ratios. Nevertheless, despite these positive aspects of the world economic situation there is no room for complacency. Much remains to be done to restore the heavily indebted countries' creditworthiness, as well as growth throughout the developing world. Moreover, the imbalances among the major industrial countries remain large and the momentum of adjustment needs to be reinforced through the continued implementation of the commitments made under the economic policy coordination process (see Box 1). The Fund, for its part, should continue to support and promote this process.

Real output in the industrial countries expanded by over 3 percent in 1987, somewhat faster than in 1986. The strong momentum of growth in the second half of the year continued in the early part of 1988, and largely offset the dampening impact of the wealth losses resulting from the decline in equity prices in October 1987. At the same time, inflation has remained low, which is a remarkable achievement after five years of expansion. In spite of a slight acceleration in consumer price increases, the underlying rates of inflation in the industrial countries—as measured by GNP deflators—averaged some 3 percent last year. Moreover, although the large external imbalances among the major industrial countries have remained a source of

concern, they have begun to diminish in real terms. In the United States, for example, net exports of goods and services increased by 0.2 percent of GNP in volume terms in 1987, while the current account surpluses of Japan and the Federal Republic of Germany in real terms declined by 0.7 percent and 1.1 percent of GNP, respectively. Finally, relatively buoyant activity in the industrial countries was associated with a strong growth of world trade, which expanded by about 5½ percent in volume in 1987.

In the developing world, recent economic developments have been more mixed; balance of payments strains eased somewhat in 1987 and real output continued to expand, but there were substantial differences in performance among different groups of countries. Many countries have benefited from vigorous export growth, which was accompanied by a partial recovery of export prices. As a result, debt-to-export ratios declined significantly in 1987. Current account positions also strengthened markedly, being approximately in balance for the developing countries as a whole, compared with a deficit of \$41 billion in 1986. Nonetheless, despite the improvement in the external environment, the average growth rate in the developing countries fell from 4.2 percent in 1986 to 3.4 percent in 1987. This was partly because of stagnation in the fuel exporting countries, which reflected the impact of continued adjustment to the decline in export earnings in 1986. In addition, growth in some of the larger non-fuel exporting countries also decelerated. While activity was particularly strong among the Asian exporters of manufactures, in the group of sub-Saharan African countries the rise in output remained below the rate of population growth, a trend that continued the steady erosion of living

BOX 1
RECENT ACCORDS ON THE INTERNATIONAL ECONOMY AND
STATEMENTS OF THE GROUP OF SEVEN

The 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) in 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 (known as the Louvre Accord), they noted the progress that had been made in achieving sustainable, noninflationary expansion. They stated that "surplus countries committed themselves to following policies designed to strengthen domestic demand and to reducing external surpluses." At the same time, "deficit countries committed themselves . . . to encourage steady, low-inflation growth while reducing their domestic imbalances and external deficits." They further agreed to cooperate "to foster stability of exchange rates around current levels."

Venice Economic Declaration. At the thirteenth economic summit meeting, held in Venice, Italy, on June 8–10, 1987, 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) agreed to strengthen the existing arrangements for multilateral surveillance and economic coordination. In their communiqué, they agreed to strengthen, with the assistance of the Fund, the surveillance of their economies by using economic indicators. This strengthening would include (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 are mutually consistent," and (2) "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."

Group of Seven Statements. Against the background of the commitments made under these two agree-

ments, the ministers and central bank governors of the Group of Seven during the financial year 1987/88 issued a number of statements on the world economy and on the need for intensified policy coordination.

On September 26, 1987, prior to the Fund's Annual Meetings in Washington, the ministers and governors of the Group of Seven issued a statement in which they welcomed the exchange rate stability that had been achieved since the Louvre Accord, which had benefited their countries' policies and performance. Some important favorable results were beginning to be seen, they noted, particularly the reduction in the U.S. federal budget deficit, the rapid implementation of the program of additional expenditures and income tax cuts in Japan, the greater-than-planned reductions in income taxes from January 1988 in the Federal Republic of Germany, and the reductions that had been achieved in real external imbalances, although these still remained high. The ministers and governors also noted that the large trade surpluses of some newly industrializing economies continued to be "an important factor contributing to external imbalances." They committed themselves to take further appropriate action to achieve the agreed goals of the Louvre agreement, and to "intensify their efforts to liberalize markets, implement tax reforms and pursue other structural changes . . . to foster a high rate of sustained noninflationary growth, and to reduce external imbalances" while fighting protectionism. They concluded by reaffirming their intentions to carry forward their economic policy coordination efforts under the strengthened surveillance arrangements that had been outlined at the Venice Summit.

The statement issued by the Group of Seven on December 22, 1987 reaffirmed their conviction that "the basic objectives and economic policy directions agreed in the Louvre Accord remain valid and provide for a positive development of the world economy." The ministers and governors emphasized their view that "the major external imbalances in the world economy must be corrected" and that the policies

that were being implemented were showing the intended effects. They observed that the "greater stability of exchange rates achieved for much of the past year following the earlier substantial exchange rate changes contributed to this adjustment." However, there was a need "to strengthen underlying economic fundamentals and to continue policy co-operation." They noted that "developments in stock markets since mid-October may have some adverse effect on prospects for the industrialized countries," but they believed that "with sound economic policies and effective coordination, the rate of growth should be substantial." They accordingly agreed to intensify their economic policy coordination, to continue to direct monetary policies toward providing the conditions for achieving "strong economic growth in the context of price stability as well as to foster financial market stability," and to reject "protectionist measures as a means of dealing with present imbalances." They expressed their belief that the reduction of external trading imbalances required cooperative action by other countries, particularly those with surpluses, and agreed that "either excessive fluctuation of exchange rates, a further decline of the dollar, or a rise in the dollar to an extent that becomes destabilizing to the adjustment process could be counter-productive by damaging growth prospects in the world economy."

Following their meeting in Washington prior to the meeting of the Interim Committee, the Group of Seven issued a statement on *April 13, 1988* in which they reported that, "as part of their continuing efforts to strengthen coordination, they agreed to develop, for inclusion in the set of existing indicators, a commodity price indicator as an additional analytical instrument. In this context, they agreed to consider ways of further improving the functioning of the international monetary system and the coordination process." In their statement, the ministers and governors noted that "their renewed cooperation has provided a basis for improvements in their economies that will strengthen economic performance. They reaffirmed the validity of the policy directions and

commitments" set forth in the statement of December 22, 1987 and reiterated "their common interest in stable exchange rates among their currencies." They also "reaffirmed their full support for the current case-by-case debt strategy as the only viable and realistic approach for overcoming international debt problems" and "welcomed the progress being made by some debtor countries in achieving increased growth and reduced payments deficits through the implementation of sound macroeconomic and structural policies."

Toronto Economic Declaration. In the communiqué issued on June 21, 1988, the heads of state or government of the seven major industrial countries affirmed the need for governments to "consider fully the international dimensions of their deliberations" and singled out three areas for concerted attention: "the overriding need to resist protectionism and strengthen the open, multilateral trading system; to maintain and strengthen an effective strategy to address the challenge of development and alleviate the burden of debt; and to deal with the serious nature of the world agricultural problem." They welcomed the progress made in refining the analytical use of indicators and the addition of a commodity price indicator to existing indicators and agreed to pursue structural reforms by removing barriers, increasing competition, and removing disincentives to work, save, and invest. Acknowledging that concessional resource flows were necessary to help the poorest developing countries resume sustained growth, the heads of state or government welcomed proposals for easing debt-service burdens. The proposals included concessional interest rates, usually on shorter maturities, longer repayment periods at commercial rates, and partial write-off of debt-service obligations during the consolidation period. For the highly indebted, middle-income countries, the summit participants noted that a market-oriented, growth-led strategy based on a case-by-case approach remained the only viable approach for overcoming their external debt problems.

standards these countries have experienced in almost every year since 1980. A sharp intensification of inflationary pressures, reflecting in part the effects of currency depreciations in combination with relatively lax financial policies, was a particularly worrisome aspect of the situation in many developing countries.

The debt situation continues to require a cooperative approach. Although, as indicated above, debt-to-export ratios declined in 1987, for most countries the debt burden remains significantly higher than before the outbreak of the debt crisis in 1982 and output growth has remained unsatisfactory. Further progress in resolving the debt problem and a return to higher growth rates in the developing world will require better domestic policies in the indebted countries, a continued favorable external environment, and adequate external financing.

In implementing the debt strategy a distinction should be made between small, low-income countries and the heavily indebted, middle-income countries. The Fund's structural adjustment facility (SAF) and the newly created enhanced structural adjustment facility (ESAF) are specifically designed to support adjustment and to help the low-income countries improve their growth prospects. Other official creditors—notably the World Bank—also have an important role to play in assisting these countries, particularly in cases where action is being taken to enhance the efficiency of resource allocation.

Solutions to the debt difficulties of the heavily indebted, middle-income countries, which have borrowed predominantly from private sources, must take into account market realities. Since the level of existing debt is often a constraint on these countries' access to new financing, recent developments under the so-called menu approach are important steps toward improved creditworthiness. However, private financial flows will only recover to the extent that countries demonstrate an ability to service their debt on commercial terms and implement policies that address the underlying issues of economic flexibility and efficiency. In turn, commercial banks and other private lenders must continue to expand the menu of financing options to ensure that sound adjustment programs are supported with adequate financing. To promote growth-oriented adjustment policies, the Fund has continued to adapt its facilities and instruments. In particular, the compensatory and con-

tingency financing facility has been established to help maintain the momentum of adjustment in the face of adverse external shocks. Decisions have also been taken to make the extended Fund facility more effective in promoting comprehensive medium-term macroeconomic adjustment and structural reforms and in catalyzing financing from other sources.

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

DOMESTIC POLICIES AND ACTIVITY

POLICY SETTING

Industrial Countries

The major industrial countries have made important strides since the inception of the economic policy coordination process toward promoting sustained growth with low inflation, reducing external imbalances, and fostering greater stability of exchange rates. A significant achievement has been the regular discussions in the Group of Seven of policies and performance on the basis of economic indicators. This has led to a number of changes in the stance and mix of policies across countries that have enhanced the conditions for noninflationary growth over the medium term. A particularly important achievement has been the strengthening of the growth of domestic demand in the major surplus countries, and a moderation of this growth in the United States. This shift in the pattern of demand has reinforced the effects of the substantial realignment of exchange rates since 1985 on real trade flows.

Nevertheless, the need for strong policy coordination continues. Although external imbalances have begun to diminish in real terms, they remain large. In addition, financial market developments suggest that investors may have remained skeptical about the speed and extent of adjustment. Besides the considerable volatility of stock prices toward the end of 1987 and in early 1988, there was, immediately following the stock market decline in October 1987, some instability in foreign exchange markets. Otherwise, exchange rates for the major currencies were generally stable. Changes in mon-

etary conditions have promoted the needed adjustments in relative rates of growth of domestic spending while contributing to the maintenance of low inflation in the major industrial countries.

The reduction of the federal fiscal deficit in the United States by the equivalent of 2 percent of GNP in fiscal year 1987 is one of the most important policy achievements of the period under review. On a national accounts and calendar year

basis, the reduction amounted to 1.4 percent of GNP—see Table 1. Moreover, the deficit-reduction package of December 1987 has helped to contain the deficit in fiscal year 1988 and will also contribute to restraint in fiscal year 1989. Furthermore, there is a firm commitment to deficit reduction in future years, although there is some uncertainty about the pace of budgetary consolidation.

Japan also adopted a major package in 1987

Table 1
Major Industrial Countries: Fiscal Balances and Impulses, 1983–87¹
(In percent of GNP/GDP)

	Central Government ²					General Government ³				
	1983	1984	1985	1986	1987	1983	1984	1985	1986	1987
Fiscal balance (+ surplus, – deficit)										
Canada	–6.2	–6.7	–6.6	–4.8	–4.3	–6.9	–6.4	–7.0	–5.5	–4.6
United States	–5.6	–5.1	–5.3	–4.8	–3.4	–3.8	–2.8	–3.3	–3.5	–2.4
Japan	–5.6	–4.7	–3.9	–3.6	–3.3	–3.7	–2.1	–0.8	–1.1	–0.4
France	–3.2	–3.3	–3.3	–2.8	–2.3	–3.2	–2.7	–2.9	–2.9	–2.3
Germany, Fed. Rep. of ⁴	–1.9	–1.6	–1.3	–1.2	–1.4	–2.5	–1.9	–1.1	–1.2	–1.7
Italy	–13.9	–13.1	–13.8	–12.2	–11.6	–10.6	–11.5	–12.5	–11.4	–10.5
United Kingdom	–2.8	–3.1	–2.4	–2.2	–1.2	–3.4	–3.9	–2.9	–2.7	–1.4
Seven major countries above	–5.3	–5.0	–4.9	–4.4	–3.5	–4.1	–3.4	–3.4	–3.3	–2.5
Seven major countries except the United States	–5.1	–4.9	–4.5	–4.0	–3.6	–4.4	–3.9	–3.4	–3.2	–2.5
Fiscal impulse (+ expansionary, – contractionary)										
Canada	0.7	1.6	0.5	–1.5	–0.4	1.1	1.5	1.5	–1.0	–0.6
United States	1.7	0.7	0.3	–0.5	–1.4	0.6	0.6	0.7	0.2	–1.0
Japan	–0.5	–0.6	–0.5	–0.7	–0.2	–0.2	–1.2	–0.9	–0.2	–0.7
France	0.1	–0.1	–0.2	–0.5	–0.6	–0.2	–0.8	–0.1	—	–0.6
Germany, Fed. Rep. of	–0.2	0.3	–0.4	—	—	–0.4	0.5	–0.8	0.2	0.1
Italy	0.1	–0.7	0.8	–1.4	–0.4	–1.5	0.8	1.1	–0.8	–0.7
United Kingdom	0.3	0.4	–0.3	0.2	–0.2	1.3	0.5	–0.5	0.3	–0.3
Seven major countries above	0.7	0.3	0.1	–0.5	–0.8	0.2	0.2	0.2	—	–0.7
Seven major countries except the United States	–0.1	—	–0.2	–0.6	–0.3	–0.1	–0.1	–0.3	–0.2	–0.5
Memorandum										
Germany, Fed. Rep. of Fiscal balance, territorial authorities	...	...	...	...	...	...	–3.3	–2.6	–2.1	–2.2
										–2.7

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 GNP/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); see memorandum item.

aimed at stimulating domestic demand in line with the commitments under the Louvre Accord. In the Federal Republic of Germany, the fiscal deficit rose somewhat in 1987, mainly because of revenue losses associated with tax reductions, deceleration in the growth of nominal income, and changes in remitted accounting profits of the Bundesbank. Efforts to contain budget deficits continued in Canada, France, and Italy, whereas the process of budget consolidation and rapid growth of tax revenue due to the buoyancy of activity in the United Kingdom resulted in a surplus on the overall budget balance and, hence, a negative Public Sector Borrowing Requirement, including proceeds from the privatization of publicly owned enterprises. Some of the smaller industrial countries, including Australia, Belgium, New Zealand, Spain, and Sweden also improved their budget positions significantly during 1987. However, in several other countries budget positions worsened because of weak activity (Denmark), lower revenues from oil and gas exports (the Netherlands and Norway), or expansionary policy shifts (Austria and Finland).

The increased emphasis on fiscal policy measures has been complemented by supportive monetary policies within the framework of the policy coordination process. In the United States, interest rates were allowed to rise somewhat in mid-1987, reflecting fears of an acceleration in inflation and exchange rate considerations (Chart 1). Short-term interest rates tended to increase also in Japan and the Federal Republic of Germany, but interest rate differentials, nevertheless, widened significantly in favor of dollar-denominated assets. Although the behavior of money supply has remained difficult to interpret in many countries, developments in monetary aggregates also seem to confirm that monetary conditions in the United States tightened relative to those in other countries (Table 2). In the days following the stock market crisis in October 1987, the monetary authorities acted quickly and in concert to ensure adequate liquidity, but subsequently reabsorbed most of this liquidity as the crisis abated. In their December 22 statement, the Group of Seven agreed that monetary policies should continue to be directed toward providing adequate monetary conditions to achieve strong economic growth in the context of price stability, as well as to foster financial market stability. During the first quarter of 1988 both long-term and

Table 2
Major Industrial Countries: Monetary Aggregates and Nominal GNP, 1985-87¹
(Annual changes, in percent)

	1985	1986	1987	Fourth Quarter ²	
				1986	1987
Narrow money (M1)³					
Canada	4.1	4.8	12.9	5.4	10.3
United States	9.0	13.6	11.6	15.6	6.3
Japan	5.0	6.9	10.5	10.4	4.8
France	9.0	7.8	4.6	6.0	4.3
Germany, Fed. Rep. of	4.3	8.5	9.0	7.6	7.6
Italy	13.7	10.1	9.3	10.7	7.4
United Kingdom	18.6	24.4	23.4	21.8	22.8
Seven major countries above	8.6	11.7	11.3	13.0	7.2
Broad money⁴					
Canada	9.4	8.7	10.0	9.0	7.3
United States	8.9	8.4	6.5	9.4	4.0
Japan	8.4	8.7	10.4	9.2	10.8
France	7.7	6.4	3.1	4.1	4.3
Germany, Fed. Rep. of	4.9	5.9	7.1	6.8	6.0
Italy	13.9	9.0	9.5	9.4	8.3
United Kingdom	13.9	19.1	20.7	19.4	22.8
Seven major countries above	9.0	8.8	8.2	9.3	7.0
Nominal GNP					
Canada	7.7	5.8	8.5	4.3	10.7
United States	6.4	5.6	6.8	4.8	8.3
Japan	6.4	4.4	4.1	3.3	5.3
France	7.6	7.2	5.0	6.3	4.9
Germany, Fed. Rep. of	4.3	5.6	3.8	5.6	3.9
Italy	12.1	10.6	8.9	10.7	8.4
United Kingdom	9.7	7.0	9.2	7.0	9.9
Seven major countries above	6.9	5.9	6.2	5.1	7.3

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 Percent change over four quarters earlier.

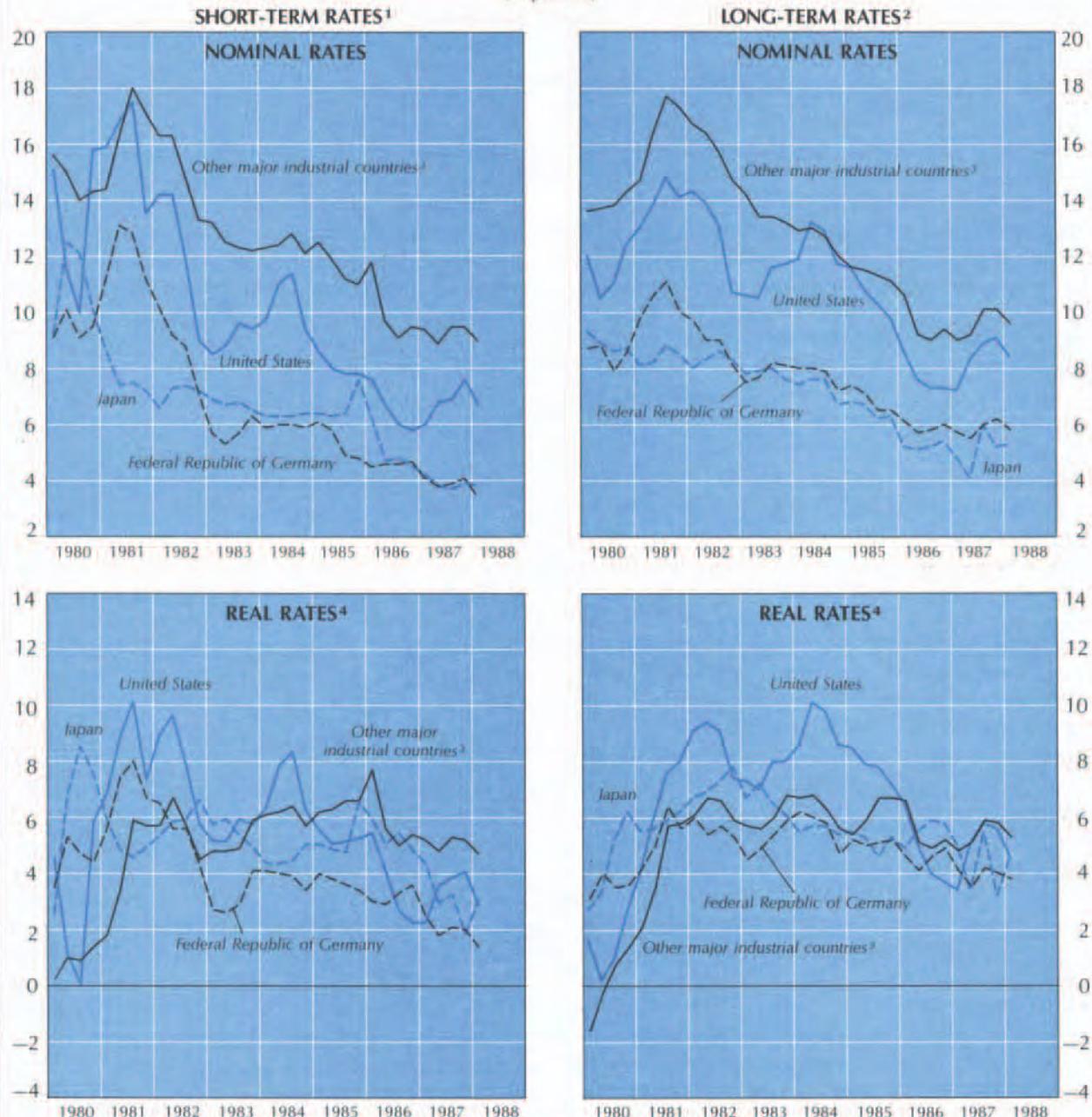
³ M1 is generally currency in circulation plus private demand deposits. In addition, Canada excludes private sector float; the United States includes traveler's checks of nonbanks and other checkable deposits and excludes private sector float and demand deposits of banks; the Federal Republic of Germany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

Chart 1

Major Industrial Countries: Interest Rates, 1980–First Quarter 1988

(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 Canada, France, Italy, and the United Kingdom.⁴ The real interest rate is the average of those calculated as the nominal rate deflated, first, by a three-quarter (current plus following two quarters) moving average of the private final domestic demand deflator and, second, by the similarly defined GNP deflator.

short-term interest rates in the United States remained somewhat below the level that prevailed prior to the stock market decline. However, as interest rates also fell in European countries, a significant short-term interest rate differential was maintained between dollar assets and assets denominated in the major European currencies; against yen-denominated assets, the interest rate differential narrowed significantly after October 1987 (Chart 11). In much of 1987 financial markets were characterized by a steepening of yield curves as investors became more reluctant to commit themselves to longer-term investments.

Structural reforms have also played a key role in economic policies. Major advances have been achieved in many countries in reforming tax systems by lowering marginal tax rates and broadening tax bases. Many countries have also deregulated financial and goods markets. Moreover, privatization of publicly owned corporations has been undertaken with a view to enhancing competition and efficiency, while contributing to budgetary consolidation efforts. Although steps have also been taken to reduce rigidities in labor markets, relatively high real wage increases in some European countries in 1987 suggest that further progress is needed if unemployment is to be reduced. Several countries have taken steps to reform agricultural support policies, not only to reduce fiscal burdens and improve resource allocation, but also to correct the distortions of international markets caused by such policies. All of these policies have contributed to domestic goals such as the more efficient utilization of resources, better price performance, reduced unemployment, and improved responsiveness to unexpected developments. More recently, attention has turned to ways in which structural policies may more directly aid the adjustment of external imbalances. For example, the Uruguay Round of multilateral trade negotiations seeks to liberalize trade in both traditional and new areas, such as farm products and services. Japan, in particular, has undertaken several reform measures and is considering others to promote economic restructuring and to stimulate domestic demand.¹

¹ The scope for structural reforms in Japan was outlined in the Mayekawa Report (named after the chairman of the Prime Minister's commission on structural adjustment), which was issued in April 1986. A follow-up report, which reviewed implementation and suggested further actions, was issued in May 1987.

Developing Countries

Faced with weak export prices, large debt-service obligations, and the virtual drying up of foreign financing from private sources, most developing countries in recent years have concentrated on consolidating external positions. In response to these efforts, and reflecting some improvement in the external environment, developing countries as a group in 1987 recorded their first current account surplus since 1980.

In many of the fuel exporting countries, the internal and external imbalances that had emerged in the wake of the sharp decline in oil prices during 1986 continued to pose a major adjustment challenge. Since revenues from oil production and exports account for a large share of these countries' total budgetary revenue, fiscal positions had deteriorated sharply in 1986, despite immediate cuts in public expenditure. To correct these imbalances, expenditure controls continued to be reinforced and efforts were made to increase non-oil revenue. As a consequence, and aided by a partial recovery in oil prices, fiscal deficits in most of the fuel exporting countries narrowed markedly in 1987.

Most primary product exporting countries in sub-Saharan Africa also intensified their adjustment efforts in 1987. The terms of trade of these countries have deteriorated almost continuously for nearly two decades. This trend continued in 1987 despite a recovery in the prices of some commodities. Together with relatively weak growth in the volume of exports, the purchasing power of these countries' exports eroded further and was 9 percent lower in 1987 than in 1980. In response to these developments, and in view of the limited availability of external financing and a relatively low level of foreign reserves, both fiscal and monetary policies were tightened. Moreover, in order to increase economic efficiency and enhance their potential for growth, many countries in sub-Saharan Africa began or continued to implement structural reforms designed to strengthen the role of market forces in resource allocation.

External developments were more favorable for the developing countries of the Western Hemisphere, improving the conditions for a resumption of higher growth in the period ahead. Because a relatively large share of external debt carries floating interest rates, the countries in this region have benefited more than others from the easing of interest rates in the industrial countries since 1982.

In addition, both export prices and export volumes recovered in 1987, permitting some reduction in debt-to-export ratios and an easing of external constraints on economic growth. However, as illustrated by the high inflation rates that characterize many countries in this region, difficulties in the implementation of policies have remained a major obstacle to the restoration of higher growth and improved creditworthiness. In recent years, in order to come to grips with inflation, a number of these countries (such as Argentina and Brazil) have adopted comprehensive stabilization programs that combine traditional fiscal and monetary policy measures with more "heterodox" approaches, including wage and price controls, deindexation, and exchange rate pegging. While the experience with these programs has so far been mixed, it is evident that their success depends crucially on the stance of fiscal and monetary policy. Where fiscal and monetary conditions have remained too expansionary to be compatible with lower inflation, inflation expectations have persisted, and wage and price controls have achieved, at best, only a temporary reduction in the rate of inflation. When price controls have been lifted, inflation has accelerated sharply, accommodated by an acceleration of monetary growth.

The Asian exporters of manufactures have benefited from a relatively favorable external environment in recent years. Some of the newly industrializing economies have even experienced large trade surpluses, significant reserve accumulation, and an opportunity to reduce external indebtedness. In these economies, economic policies have shifted in an expansionary direction in an effort to contain the surpluses. In contrast, in most Asian countries other than the exporters of manufactures, a cautious policy stance continued to be pursued in 1987, playing a key role in their satisfactory overall economic performance. Many of these countries reduced their fiscal deficits at the same time as they made progress in containing monetary expansion and implementing structural reforms. In India, despite the large-scale emergency outlays needed for drought relief, the fiscal balance improved, while monetary policy helped to contain the inflationary impact of supply shortages. Structural reform measures continued to be implemented in China, stimulating continued rapid growth of output. However, the buoyancy of the economy has been accompanied by an intensification of inflationary pressures.

DOMESTIC ACTIVITY

Industrial Countries

Following a slowdown in 1986, output growth in the industrial countries as a group strengthened significantly in 1987. This marked the fifth year of the recovery that began in 1983 (Table 3). The strength of activity was particularly striking on a fourth-quarter-to-fourth-quarter basis. On that basis, real GNP rose by 4 percent, compared with 2.3 percent during 1986; year-on-year, growth strengthened from 2.7 percent in 1986 to 3.3 percent in 1987. The growth performance was somewhat better than had been expected at the beginning of the year as the positive effects of the large terms of trade and exchange rate changes in 1985–86 gradually outweighed their mainly negative short-run impact. This lag pattern can be attributed to asymmetric responses of losers and gainers from the large changes in competitiveness and relative prices, with the former adjusting considerably faster than the latter.

An additional positive element that may have influenced demand was the strength of stock markets during the current business cycle and especially during most of 1987, which added substantially to household wealth. Since the beginning of the recovery, the rise in wealth stemming from declining interest rates and substantial capital gains on both financial and real assets appears to have stimulated the relatively rapid growth of consumption. As a result, ratios of household saving to income have fallen substantially, a trend that has continued in many countries in 1987. While the impetus from valuation gains may have been arrested or even reversed in some countries following the stock market decline in October, other components of demand, particularly business investment and exports, have continued to sustain growth. Furthermore, the acceleration of growth can also be attributed to policy action, particularly the fiscal package adopted in Japan in May 1987.

The strength of activity in the industrial countries as a whole masks a major shift in the pattern of demand growth among countries. Together with the substantial changes in real exchange rates that have taken place since 1985, this shift contributed importantly to the reversal of the previous trend toward widening external imbalances among the three largest economies. In the United States, the growth of domestic demand fell to 3 percent

Table 3
Industrial Countries: Changes in Output and Prices, 1970–87¹
(Annual changes, in percent)

	Average 1970–79 ²										Fourth Quarter ³	
		1980	1981	1982	1983	1984	1985	1986	1987	1986	1987	
Real GNP												
Canada	4.7	1.5	3.7	–3.2	3.2	6.3	4.6	3.2	4.0	1.2	6.1	
United States	2.8	–0.2	1.9	–2.5	3.6	6.8	3.4	2.8	3.4	2.0	5.0	
Japan	5.2	4.3	3.7	3.1	3.2	5.0	4.8	2.5	4.2	2.0	5.5	
France ⁴	4.0	1.6	1.2	2.5	0.7	1.4	1.6	2.1	2.2	1.9	2.8	
Germany, Fed. Rep. of	3.1	1.5	—	–1.0	1.9	3.3	2.0	2.5	1.7	2.4	2.3	
Italy ⁵	3.3	3.9	1.1	0.2	1.1	3.2	2.9	2.9	3.1	3.0	2.8	
United Kingdom ⁵	2.3	–2.5	–1.1	1.5	3.2	2.6	3.7	3.2	4.6	4.5	4.6	
Other industrial countries	3.2	2.6	0.4	0.5	2.3	3.6	3.0	2.2	2.8	2.2	2.9	
All industrial countries	3.3	1.4	1.5	–0.3	2.8	5.0	3.3	2.7	3.3	2.2	4.4	
Of which,												
Seven major countries above	3.3	1.2	1.7	–0.4	2.9	5.2	3.4	2.7	3.4	2.2	4.6	
European countries	3.2	1.6	0.2	0.7	1.9	2.7	2.6	2.5	2.7	2.7	2.9	
GNP deflator												
Canada	7.7	10.6	10.8	8.7	5.0	3.1	2.9	2.5	4.3	3.0	4.4	
United States	7.0	9.1	9.6	6.4	3.8	3.7	3.0	2.7	3.3	2.8	3.1	
Japan	8.0	3.8	3.2	2.0	0.7	1.2	1.6	1.8	–0.2	1.3	–0.2	
France ⁴	8.9	13.2	11.4	11.8	9.7	7.4	5.9	5.1	2.8	4.0	2.5	
Germany, Fed. Rep. of	5.6	4.8	4.0	4.4	3.2	2.0	2.2	3.0	2.1	3.0	1.6	
Italy ⁵	13.4	20.7	18.5	16.2	15.0	11.3	8.9	7.5	5.6	7.5	5.5	
United Kingdom ⁵	12.7	19.8	11.5	7.6	5.3	4.3	5.9	3.6	4.4	2.3	5.0	
Other industrial countries	9.5	8.4	9.1	9.7	7.0	6.3	5.5	5.6	4.3	5.4	3.9	
All industrial countries	8.1	9.3	8.8	7.2	5.0	4.2	3.7	3.4	2.9	3.2	2.7	
Of which,												
Seven major countries above	7.9	9.5	8.7	6.8	4.7	3.9	3.4	3.1	2.7	2.9	2.6	
European countries	9.3	11.4	9.7	9.2	7.4	5.9	5.3	4.7	3.5	4.3	3.2	

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.

in 1987, the lowest rate of increase since 1982. The marked tightening of fiscal policy led to a moderation of the growth of both private and public consumption. In addition, the stock market decline late in 1987 contributed to a retrenchment of consumer spending in the fourth quarter. However, as exports recovered sharply and import growth slowed, the growth of real GNP was sustained at a rate of about 3 percent, similar to that of 1985 and 1986, and sufficiently strong to permit a further reduction in unemployment. The improvement in real net exports of the United States was the first since 1980.

In most other industrial countries, domestic demand continued to expand at a faster rate than

output. This reflected the counterpart to the improvement in real net exports of the United States and, more important, the sharp turnaround of the external position of the developing countries. In several countries—notably Japan, the United Kingdom, Italy, and Canada—the buoyancy of domestic demand more than outweighed the withdrawal of stimulus from the foreign sector, so that output growth either accelerated significantly or was maintained at a relatively high rate. However, in France and the Federal Republic of Germany, even though domestic demand growth remained considerably stronger than in the 1983–85 period, the deterioration in the real foreign balance was so pronounced that output growth remained com-

paratively weak, or decelerated. Among the smaller industrial countries, output grew by 5.2 percent in Spain and the Australian economy recovered markedly from the slowdown in 1986. However, in several other countries activity weakened because of losses in competitiveness or tight financial policies related to balance of payments constraints or inflation concerns.

For the industrial countries as a whole, the relatively high growth rate of output was associated with increases in employment in 1987 well in excess of the increase in the size of the labor force. As in previous years, the impact of the rise in output on labor market conditions was unevenly distributed among countries (Chart 2). In North America, demand for labor remained strong, partly reflecting the continuation of moderate wage increases. Hence, both Canada and the United States experienced a further marked reduction in unemployment; in the United States, the unemployment rate fell to 5.4 percent in the second quarter of 1988, about 5 percentage points below the level recorded at the trough of the 1982 recession. In response to the strong acceleration in growth, Japan also experienced a reversal of the rise in labor market slack that occurred in 1986. In Eu-

rope, the most encouraging development was a marked reduction in unemployment in the United Kingdom; by mid-1988 the unemployment rate stood at 8½ percent, 3 percentage points below the level of two years earlier. In most other European countries unemployment rates have continued to creep upward or have remained at relatively high levels.

Developing Countries

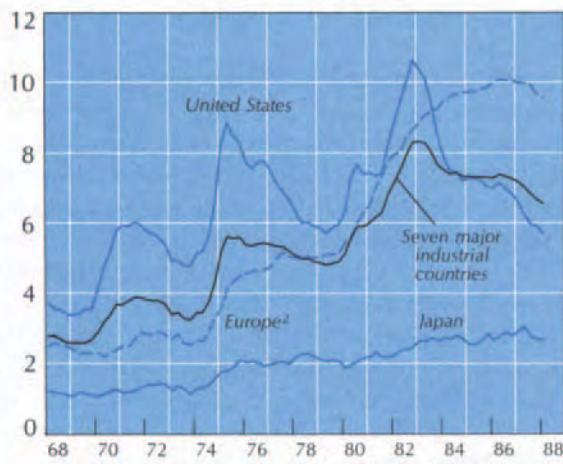
While growth in the developing countries as a group in 1987 was similar to the rate of growth in the industrial countries, output performance deteriorated somewhat relative to 1986 and was weaker than had been expected at the beginning of the year. It is also important to note that, because of high population growth and low income levels, a growth rate of 3½ percent, which may be considered fairly high in industrial countries, is relatively low in the developing world (Table 4). Overall, living standards improved only marginally, and in most regions remained well below the levels that prevailed at the beginning of the decade (Chart 3). The gains experienced by the Middle Eastern countries in the wake of the 1979–80 oil price increase have now been completely reversed. The situation in Africa, where average living standards have fallen by over 20 percent since 1981, is particularly critical.

A variety of transitory factors contributed to the slowdown of growth in the developing world in 1987, even though some more deeply entrenched impediments to faster growth were also apparent in several regions. Economic activity stagnated in the fuel exporting countries, as efforts to adjust to the sharp decline in oil prices in the previous year continued. Although oil prices recovered partially in dollar terms in 1987, import prices rose significantly, so that in 1987 the terms of trade of these countries were still almost 40 percent lower than three years earlier. In the Middle East, the contractionary impulses stemming from tight fiscal and monetary policies in the fuel exporting countries spilled over to other countries in the region; as a result, real GDP of the region taken together declined by ½ of 1 percent in 1987.

Aggregate output in Asia grew by 6.8 percent—similar to the rate achieved in 1986—despite a drought-related slowdown in India, where GDP growth fell from 4½ percent in 1986 to 2 percent in 1987. The strong growth of Asian economies

Chart 2

Major Industrial Countries:
Unemployment, 1968–First Quarter 1988
(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.

Table 4
Developing Countries: Growth of Real GDP, 1970–87¹
 (In percent)

	Weights ²	Average 1970–79 ³	From Preceding Year							
			1980	1981	1982	1983	1984	1985	1986	1987
Developing countries	100	5.7	3.4	1.8	1.7	1.9	4.0	3.5	4.2	3.4
Memorandum										
Per capita growth		3.1	0.7	−0.5	−0.9	−0.4	1.9	1.5	2.0	1.3
Median growth rates		5.1	3.7	3.0	1.7	1.5	2.9	3.1	3.4	2.7
By region										
Africa	12	4.4	3.6	2.0	1.2	−1.3	0.8	3.7	2.1	2.3
Sub-Saharan Africa ⁴		3.0	2.6	2.9	1.7	−0.6	1.2	3.0	3.6	2.3
Asia	32	5.4	5.5	5.8	5.2	7.6	7.8	6.3	6.4	6.8
Europe	11	5.6	0.1	—	1.1	1.9	4.3	2.4	4.1	2.5
Middle East	18	7.3	−2.5	−2.1	0.2	0.9	−0.2	−1.1	2.2	−0.5
Western Hemisphere	27	5.7	6.0	0.2	−1.1	−2.4	3.5	3.5	3.9	2.5
By predominant export										
Fuel exporters	31	7.1	0.9	0.9	0.1	−1.0	0.6	1.2	1.0	0.6
Non-fuel exporters	69	5.1	4.3	2.2	2.4	3.3	5.7	4.7	5.7	4.6
Primary product exporters	33	5.0	5.3	0.3	—	−0.3	3.7	2.9	5.1	3.2
Exporters of manufactures	30	5.5	3.4	3.9	4.5	7.0	7.9	6.4	6.7	6.3
Service and remittance countries	6	4.6	4.6	2.0	3.3	2.1	3.1	4.4	3.8	2.4
Memorandum										
Fifteen heavily indebted countries	32	5.9	5.4	0.1	−0.5	−2.7	2.3	3.9	3.8	2.4
Countries with recent debt-servicing problems	44	5.3	4.2	0.1	−0.3	−1.6	2.8	3.2	3.5	2.2

¹ Except where otherwise indicated, arithmetic averages of country growth rates weighted by the average dollar value of GDPs over the preceding three years.

² Weights are calculated on the basis of the average dollar values of GDPs for 1982–84.

³ Compound annual rates of change. Excluding China.

⁴ Excluding Nigeria and South Africa.

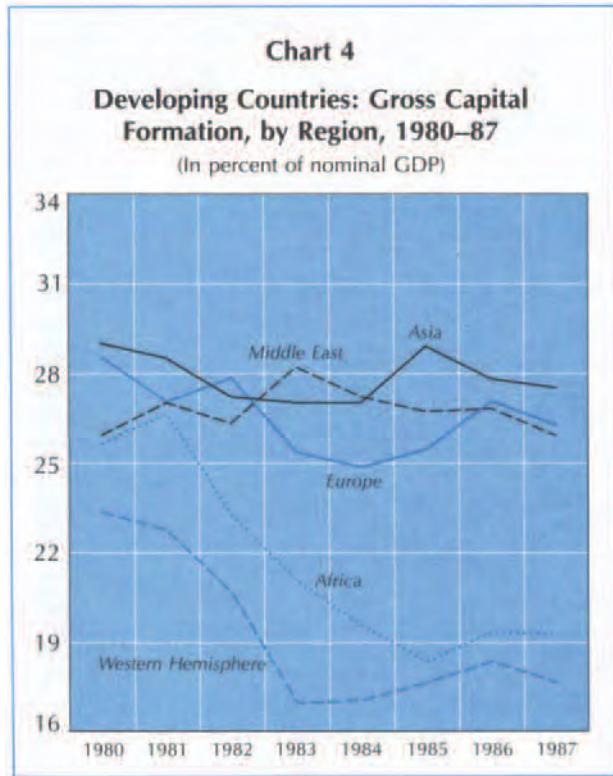
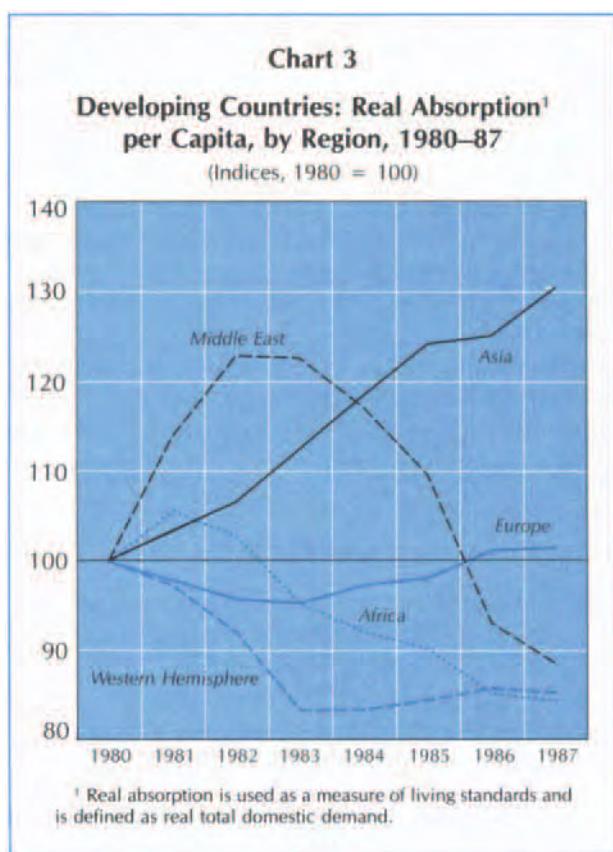
reflected to a large extent the performance of the exporters of manufactures—China, Hong Kong, Korea, Singapore, and Taiwan Province of China. Fueled by a rapid growth of domestic demand and continued buoyancy of exports stemming from a combination of strong competitiveness and a rise in productivity, growth rates of real GDP in these economies ranged from 8 percent in Singapore to 12 percent in Korea.

In the Western Hemisphere, aggregate real GDP growth slowed by 1½ percentage points in 1987, mainly because of a marked deceleration of growth in Brazil owing to a decline in investment spending and an erosion of real wages as a result of a sharp upturn in inflation. Economic activity also slowed down in Argentina but in most other countries in the region output growth was reasonably well maintained or accelerated. Among the fuel exporting countries in the region, economic activity

revived in Mexico after a sharp contraction in 1986, largely because of the strong growth of non-oil exports.

Growth also slowed markedly among those European countries that are classified as developing. Although exports grew strongly in a few countries such as Portugal, the Eastern European countries were less able to benefit from the improved external conditions. Moreover, in several of these countries adjustment efforts were intensified in order to contain external deficits and curb inflation.

Activity also remained weak in most of Africa. Real GDP in the region grew by slightly over 2 percent in 1987, the same rate as in 1986. Among the sub-Saharan countries, the rate of output growth slowed to 2.3 percent in 1987, from 3.6 percent in 1986, as a result of a further deterioration in terms of trade and weak export growth. Output contracted further in the majority of the fuel



exporting countries in the region, with the notable exception of Tunisia where increases in non-oil exports appear to have contributed to a strong recovery of growth.

A decline in the share of national income devoted to capital formation, often in combination with low rates of productivity growth, has been a common characteristic of many developing countries with an unsatisfactory output performance. Although in some cases the investment ratio may have been unsustainably high in earlier years, the depth of this decline is a cause for serious concern. As a result of external financing constraints and serious difficulties in mobilizing domestic funds, partly because of capital flight, the share of investment in aggregate expenditure declined sharply in the early 1980s in all regions, with the exception of the Middle East (Chart 4). This decline was especially pronounced in Africa and in the Western Hemisphere; in these regions there has been relatively little recovery in recent years and investment ratios have remained some 25–35 percent below their levels at the beginning of the decade.

INFLATION

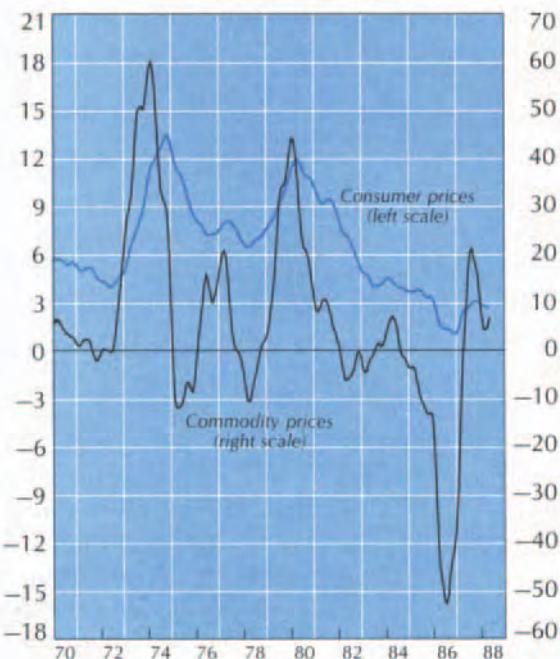
Industrial Countries

After having decelerated to only about 1 percent (on a 12-month basis) at the end of 1986, the rate of increase of consumer prices in the major industrial countries picked up again during 1987, and reached some 3 percent in early 1988 (Chart 5). Given that the marked reduction in inflation in recent years has been one of the major accomplishments of the economic strategy pursued since the beginning of the 1980s, there has been concern that the firming of prices in the course of 1987 might signal the return of higher inflation. However, both the exceptionally low inflation rate in 1986 and the reversal in 1987 can be largely attributed to the impact of the sharp drop in oil and other commodity prices in 1985–86 and to the subsequent partial recovery of these prices in 1987.

Indicators of domestically generated inflation, such as GNP deflators, suggest that the underlying rate of inflation in the industrial countries continued to moderate in 1987, falling below 3 percent for the first time since 1963 (Table 3). Moreover, hourly earnings in manufacturing rose by only 3 percent in 1987, 1 percentage point less than in 1986, while unit labor costs in manufacturing fell

Chart 5

**Major Industrial Countries:
Commodity Price Changes and Aggregate
Inflation Trends, 1970–April 1988**
(In percent per annum)¹



¹ Three-month centered moving averages of 12-month inflation rates. Consumer prices are measured in local currencies and are averaged using GNP weights. The commodity price index is a global export-weighted basket of 40 commodities that includes oil and gold using the same average exchange rate as the one used for the composite inflation index.

by $\frac{1}{4}$ of 1 percent (compared with an increase of 1.5 percent in 1986) under the influence of strong productivity growth.

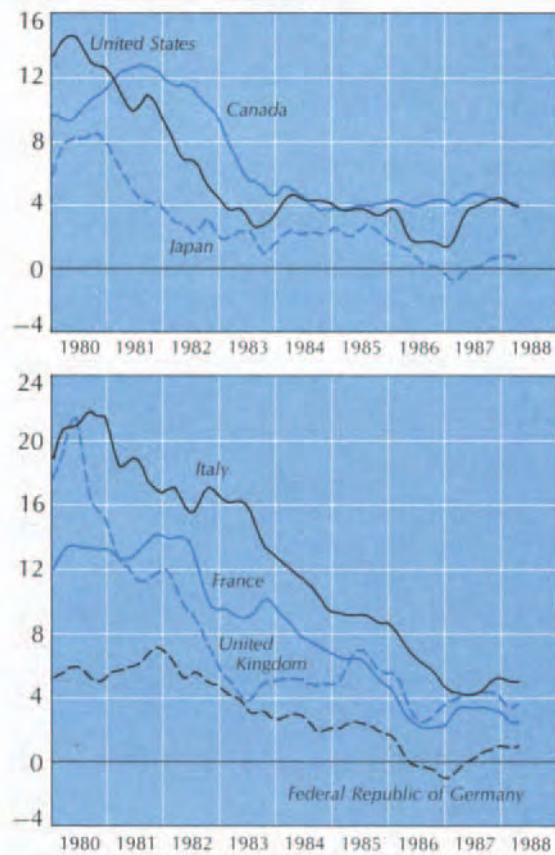
Despite the relatively favorable overall picture, the convergence of inflation rates among the major industrial countries that had been experienced since 1980 appeared to have come to a halt in 1987, and was even reversed in some cases. The risk of renewed inflation in the United States seems to have increased since 1986, given, *inter alia*, the higher rate of capacity utilization and rising import prices. However, while consumer price inflation picked up during 1987, reaching 4.5 percent at the end of the year (Chart 6), developments in other inflation indicators such as the GNP deflator, hourly earnings, and monetary growth have remained quite favorable.

Inflation has also remained a matter of concern in several other countries, partly reflecting relatively rapid output growth. In the case of Canada,

for example, the rate of inflation accelerated in 1987. In Italy and the United Kingdom, price and wage increases, although much lower than in the early 1980s, have remained somewhat higher than in their trade partner countries. In Japan and the Federal Republic of Germany prices remained essentially stable in 1987, partly under the influence of significant reductions in import prices in the wake of the marked appreciation of these countries' currencies since 1985, while in France inflation continued to fall to a level close to the average of industrial countries as a group. Several of the smaller industrial countries, including Austria, Belgium, the Netherlands, and Switzerland, also have reduced inflation to very low levels, again partly as a result of import price declines.

Chart 6

**Major Industrial Countries:
Consumer Price Inflation,
1980–April 1988**
(In percent)¹



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

Developing Countries

The developing countries have generally been much less successful than the industrial countries in containing inflationary pressures. In these countries, the weighted average inflation rate reached almost 40 percent in 1987, compared with about 30 percent in 1986 (Table 5). To a large extent, this increase reflected a reacceleration of inflation in several high-inflation countries that had recorded significant, albeit transitory, stabilization gains in 1986. However, inflation accelerated also in a large number of countries where prices had risen more moderately in the past.

The acceleration of inflation was particularly pronounced in the Western Hemisphere. In some of the larger high-inflation countries in that region, setbacks occurred in the implementation of stabilization programs, mainly because of slippages in fiscal and monetary policies. There was also a rise in inflation in the fuel exporting countries in the region, in part because of difficulties in containing the spillover effects to domestic prices and costs of import and export price increases in the wake of currency depreciations. The same mechanism caused inflation rates to rise in other regions, as monetary policy tended to accommodate

price impulses from exchange rate adjustments. Nevertheless, in a number of African countries, firm financial policies together with more abundant food supplies owing to improved weather helped to contain inflationary pressures somewhat. At less than 9 percent, the average level of inflation in Asia remained markedly lower than in other regions. But in several individual Asian countries inflation rose because of strong demand and high rates of capacity utilization.

INTERNATIONAL TRADE AND PAYMENTS**GLOBAL PERSPECTIVES****World Trade**

The volume of world trade expanded by about 5 1/4 percent in 1987, a somewhat faster rate than in 1986 (Table 6). Key commodity prices recovered or stabilized in real terms, so that the terms of trade of the major country groups changed only slightly following the large shifts of 1986. Overall, world trade developments were quite favorable for most countries, allowing continuing improvements in external positions, reductions in debt-to-export ratios, and, in some cases, marked increases in

Table 5
Developing Countries: Changes in Consumer Prices, 1970–87
(In percent)

	Average 1970–79 ¹	From Preceding Year								
		1980	1981	1982	1983	1984	1985	1986	1987	
Developing countries²	18.1	27.3	25.9	25.4	33.0	38.6	38.9	29.8	40.0	
By region										
Africa	12.7	16.2	21.2	13.1	18.9	20.4	13.2	15.3	15.8	
Sub-Saharan Africa ³	15.6	24.8	30.3	18.8	29.1	22.3	19.1	23.6	25.7	
Asia	9.5	13.1	10.5	6.4	6.6	7.3	7.1	7.8	8.8	
Europe	12.3	31.8	23.6	33.1	22.8	25.4	25.4	24.8	30.3	
Middle East	11.6	16.8	15.2	12.7	12.2	14.8	12.2	11.4	14.7	
Western Hemisphere	34.8	58.3	60.7	66.8	108.6	131.8	143.5	88.3	131.2	
Medians										
Developing countries	10.0	14.6	13.1	10.6	9.9	10.4	8.7	7.8	8.1	
By region										
Africa	10.0	12.5	13.1	12.9	10.9	11.5	10.5	9.1	8.1	
Sub-Saharan Africa ³	10.3	13.3	12.7	13.1	11.2	11.4	10.5	9.4	8.1	
Asia	7.8	13.9	12.5	7.6	8.7	7.0	4.8	5.5	5.5	
Europe	8.5	15.8	20.0	21.0	20.2	15.0	15.1	11.7	9.4	
Middle East	10.6	10.5	8.8	9.1	5.2	6.4	4.7	10.0	9.0	
Western Hemisphere	11.6	19.2	14.7	9.0	13.1	12.0	15.0	11.5	14.6	

¹ Compound annual rates of change. Excluding China.

² Geometric averages of country consumer price indices weighted by the average dollar value of GDPs over the preceding three years.

³ Excluding Nigeria and South Africa.

imports (Chart 7). A particularly welcome development was the progress that was made in reducing the underlying trade imbalances among the major industrial countries.

The relatively rapid growth of trade, however, masks some important shifts in the pattern of trade, reflecting both the impact of recent policy changes and large exchange rate adjustments. On

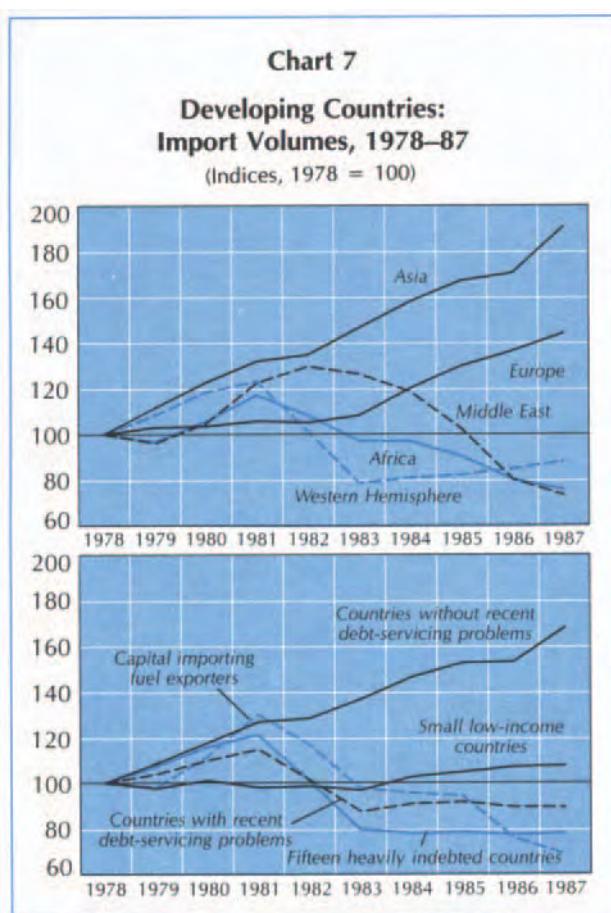
Table 6
Summary of World Trade Volumes and Prices, 1970–87
(In percent)

	Average 1970–79 ¹	1980	1981	1982	1983	1984	1985	1986	1987
World trade²									
Volume	6.5	1.4	1.2	–1.8	3.0	8.9	3.0	4.8	5.7
Unit value									
(in U.S. dollar terms)	12.4	19.8	–1.6	–4.6	–4.8	–2.6	–2.0	4.5	10.1
(in SDR terms)	9.5	19.0	8.6	1.9	–1.7	1.6	–1.1	–9.5	–0.1
Volume of trade									
Exports									
Industrial countries	6.6	4.2	3.8	–2.1	3.0	9.9	4.7	2.7	5.0
Developing countries	4.9	–3.9	–5.6	–7.1	3.2	7.5	1.1	10.9	8.6
Fuel exporters	2.6	–13.2	–14.9	–16.6	–3.7	0.8	–5.7	13.8	–0.5
Non-fuel exporters	7.1	8.8	6.2	2.9	8.6	12.2	5.4	9.9	12.1
Imports									
Industrial countries	6.5	–1.5	–1.7	–0.6	4.7	12.5	4.7	8.8	6.7
Developing countries	8.4	8.0	8.5	–2.5	–2.3	3.3	–0.3	–3.9	4.4
Fuel exporters	13.7	13.5	19.1	–1.4	–10.4	–6.1	–10.9	–21.9	–11.1
Non-fuel exporters	6.8	5.9	4.0	–3.0	1.9	7.6	4.0	3.0	8.9
Unit value of trade (in SDR terms) ³									
Exports									
Industrial countries	8.5	11.9	5.5	2.7	–0.8	1.2	–0.3	–1.8	0.7
Developing countries	14.3	36.2	15.0	1.5	–4.6	3.2	–4.3	–27.3	1.1
Fuel exporters	23.5	62.0	22.9	3.7	–8.6	2.6	–3.6	–49.9	11.0
Non-fuel exporters	7.9	12.0	6.4	–0.7	–1.2	3.7	–4.7	–14.5	–2.2
Imports									
Industrial countries	9.4	20.7	7.3	0.8	–2.2	0.9	–1.0	–10.1	0.1
Developing countries	9.0	16.4	10.8	1.5	–1.1	1.3	–2.2	–9.7	–1.9
Fuel exporters	8.4	12.1	10.4	3.1	—	1.9	–1.1	–2.4	–1.2
Non-fuel exporters	9.2	18.2	11.0	0.8	–1.7	1.1	–2.7	–12.3	–2.1
Terms of trade									
Industrial countries	–0.8	–7.3	–1.7	1.9	1.5	0.2	0.6	9.1	0.6
Developing countries	4.8	17.0	3.8	—	–3.5	1.9	–2.1	–19.4	3.1
Fuel exporters	13.9	44.4	11.4	0.6	–8.6	0.7	–2.5	–48.7	12.3
Non-fuel exporters	–1.2	–5.3	–4.2	–1.5	0.6	2.6	–2.1	–2.6	–0.2
Memorandum									
World trade prices (in U.S. dollar terms) for major commodity groups ³									
Manufactures	10.6	10.4	–3.9	–2.1	–2.8	–3.0	1.1	17.9	12.3
Oil	29.1	63.5	9.9	–4.3	–11.9	–2.1	–5.0	–50.2	28.4
Non-oil primary commodities	11.3	5.5	–13.5	–9.9	6.9	4.2	–12.9	–1.2	3.4

¹ Compound annual rates of change. Excluding China.

² Averages of growth rates of 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.

³ 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—see Appendix IX); and the index of market quotations for non-oil primary commodities exported by the developing countries.



the demand side, import growth in the industrial countries decelerated from 8.8 percent in 1986 to 6.7 percent in 1987, largely as a result of a marked slowdown in the growth of the volume of imports into the United States, which was only partly offset by strong import growth in Japan and the Federal Republic of Germany. While imports continued to contract in the fuel exporting developing countries, in other developing countries imports expanded by 8.9 percent, the strongest rate of expansion since 1978. Key factors in this recovery were strong import demand by the Asian exporters of manufactures and an acceleration of import growth in many primary product exporting countries of the Western Hemisphere. The latter countries benefited from gains in both export volumes and prices, and were consequently able to sustain higher import growth while continuing to consolidate external positions.

The pattern of supply also changed significantly. Strong export growth in the United States, where

the volume of exports rose by almost 12 percent in 1987, accounted for half of the increase in the industrial countries' exports. Export volumes essentially remained unchanged for the second consecutive year in Japan, but continued to grow in the Federal Republic of Germany, albeit at a much slower pace than in 1984-85. Among the developing countries, exports from the fuel exporting countries stagnated following a recovery in 1986 (Table 6). This stagnation reflected changes in the production policies of the major oil exporting countries. In contrast, the non-fuel developing countries registered a further strong expansion of export volumes, particularly among the countries that export manufactures. Within this group, the newly industrializing economies in Asia continued to register the largest gains in market shares. But export growth strengthened also in many other developing countries, including many of the heavily indebted countries. Export growth remained subdued in most African countries, in part due to supply constraints.

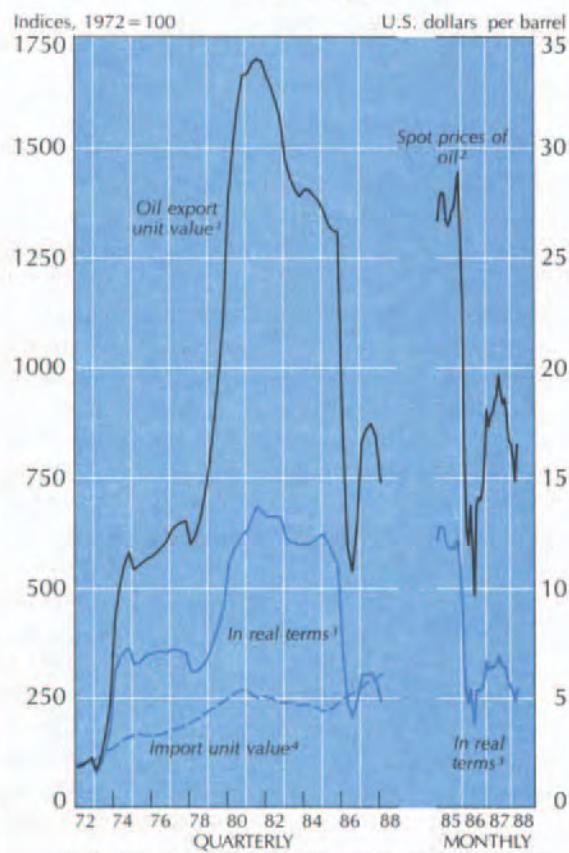
As in 1986, changes in oil prices played a key role in the shifts in relative prices in international trade. Following a halving in 1986, the average U.S. dollar export price of oil recovered by 28 percent in 1987 (Chart 8). In real terms, however, prices of internationally traded oil only recovered by about 14 percent in 1987 and were still almost 10 percent below their level in 1975. The wide fluctuations of international oil prices during the past two years mainly reflected marked shifts in production policies in the oil exporting countries, in particular in the member countries of the Organization of Petroleum Exporting Countries (OPEC).

In late 1986, new production quotas for OPEC members were introduced, together with a new official export price. As a result, oil prices recovered significantly between mid-1986 and mid-1987. In the second half of 1987, however, production in a number of OPEC countries began to rise considerably above existing quotas, and prices started weakening again. Even though existing production quotas and prices were confirmed at an OPEC meeting in late 1987, the oil market continued to show signs of weakness and prices declined to some \$15 a barrel during the first quarter of 1988, compared with an average price level of \$16.91 a barrel in 1987.

Prices of non-oil commodities exported by the developing countries recovered strongly during

Chart 8

Oil Prices, 1972–April 1988



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.

at the beginning of the decade. Price increases were considerably more modest for food commodities, for which inventories were high, and for beverages, whose prices continued to fall through most of 1987 before recovering toward the end of the year. The decline in beverage prices reversed much of the gain registered in late 1985 and early 1986 which had been caused by weather-related supply shortages.

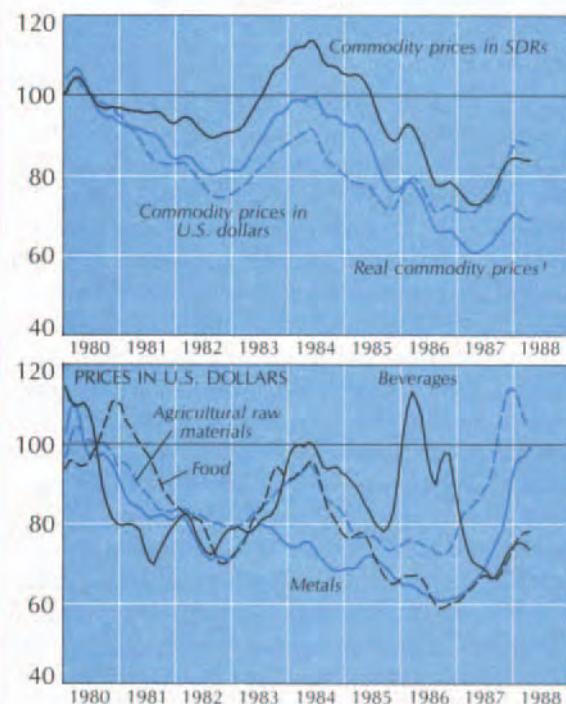
International Capital Markets

The volume of international bank lending expanded during the first three quarters of 1987 to \$723 billion, which was about two fifths larger than lending in the corresponding period in 1986. Banking flows among industrial countries accounted for slightly more than half the overall

Chart 9

Developing Countries: Non-Oil Primary Commodity Prices, January 1980–April 1988

(Moving three-month averages of indices, 1980 = 100)



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

the second half of 1987 and the first part of 1988. This recovery followed a cumulative decline of 14 percent during 1984–86 (Chart 9) which had mainly reflected temporary supply influences. Hence, as a result of the general weakness of commodity markets during most of the 1980s, real non-oil commodity prices at the end of 1987 were still some 30 percent lower than they had been in 1980. The prices of agricultural raw materials and metals rose particularly strongly during 1987 and early 1988 because of low inventories and higher demand for industrial inputs as economic activity strengthened in the industrial countries. These prices recovered to the levels that had prevailed

increase in activity; such lending during 1987 was \$527 billion, of which \$463 billion represented interbank lending. Transactions with Japanese institutions accounted for about two thirds of the increase in overall banking activity among industrial countries. Part of this increase was due to the rapid expansion of activity with the Japan Offshore Market (established in December 1986).

Bank claims on developing countries, excluding offshore centers, rose by \$17 billion during 1987, compared with a net reduction of \$1 billion a year earlier. This increase in claims included disbursements of \$5.6 billion in concerted lending, of which \$4.4 billion (gross) was disbursed to Mexico and \$1.3 billion to Argentina, and an accumulation of \$4.2 billion in interest arrears by some developing countries. Net deposit-taking from developing countries, by contrast, totaled \$34 billion, compared with a withdrawal of \$1 billion in 1986. This sharp increase, which was evident in all regions, but was particularly large in Taiwan Province of China, Mexico, and oil exporting countries in the Middle East, reflected an accumulation of official reserves of about \$24 billion by developing countries. The net flow from these countries to international banks of \$17 billion compares with a negligible net flow from banks to developing countries a year earlier.

In contrast to the expansion of international bank lending, new international bond issues declined in 1987 for the first time in this decade, falling by 22 percent to \$177 billion, compared with an increase of 35 percent in 1986 to \$227 billion. A reduction in new issues of floating rate notes (FRNs), following the collapse of the perpetual floating rate note market in December 1986, accounted for about 80 percent of the decline of \$50 billion in new issues. New issues of equity-related bonds, which had been the most buoyant component of international bond markets during the first three quarters, ceased after the unprecedented fall in stock market prices in October 1987 (see Box 2).

Borrowing by industrial countries accounted for 86 percent of all new international bond issues, while new bond issues by developing countries fell to \$4.5 billion in 1987, their lowest level since 1983. The currency composition of bond issues in 1987 shifted sharply away from the dollar, whose share in total issues fell from 55 percent in 1986 to 35 percent in 1987, toward the Japanese yen and the Swiss franc, whose shares increased to 15

percent each in 1987 from 10 percent in 1986. In addition, the share of external bond issues denominated in European Currency Units (ECUs) increased from 3 percent in 1986 to 4 percent in 1987.

International Liquidity

During 1987, non-gold reserves expanded by SDR 88 billion, reflecting an accumulation of foreign exchange reserves (SDR 119 billion) that more than outweighed losses in the SDR value of existing holdings (SDR 28 billion) resulting from the depreciation of the dollar relative to the SDR (Table 7). Foreign exchange reserves in the industrial countries rose by SDR 74 billion in 1987, following increases of SDR 23 billion in 1986 and SDR 3 billion in 1985, mainly reflecting the heavy interventions in foreign exchange markets by the central banks of some of the major industrial countries. Foreign exchange reserves of the developing countries increased by SDR 17 billion in 1987, compared with reductions of SDR 7 billion in 1986 and SDR 4 billion in 1985.²

The ratios of non-gold reserves to imports have increased continuously since 1982 for both the industrial and the developing countries, apart from a pause in 1985. During 1985–87, this ratio rose for all major country groups despite significant negative effects from the decline in the exchange rate of the dollar, which has a major weight in the SDR.³ The industrial countries increased their ratio of non-gold reserves to imports from 17 percent at the end of 1982 to 25 percent at the end of 1987, which represents its highest value since 1972. During 1985–87, the most rapid increases in this ratio have been associated with periods of reportedly heavy exchange market intervention by some of the major industrial countries. The ratio of non-gold reserves to imports for the developing countries increased from 26 percent in 1982 to 42 percent in 1987, when it reached its highest value since 1970. This rise, however, reflected contrasting patterns of reserve

² Appendix I examines recent developments in international reserves in greater detail.

³ Since reserve assets denominated in dollars account for a larger proportion of non-gold reserves than the weight of the dollar in the valuation of the SDR, the SDR value of a given stock of reserves tends to increase when the dollar appreciates, as in 1983–84, and to decline when the dollar depreciates, as in 1985–87.

BOX 2
DISTURBANCES IN GLOBAL EQUITY MARKETS

The sharp decline in prices on major stock markets in October 1987 raised questions about the stability and liquidity of the international financial system. On October 19 and 20, stock prices declined by 21 percent in the United Kingdom, 18 percent in the United States, 17 percent in Japan, 11 percent in the Federal Republic of Germany, and 10 percent in France (Chart 10). Prices in other equity markets also declined, and some markets (such as Hong Kong) were closed. This sharp drop in stock prices worldwide was accompanied by a decline in world interest rates, especially on long-term government securities. Changes in the exchange rates of key currencies were relatively limited in the period immediately before and after the disturbances. On a global scale, these developments were suggestive of a shift in preference from stocks to high-quality bonds.

The sharp movements in stock prices and the resulting "flight to quality" also affected activity in markets for other financial instruments, including those for Eurobonds and financial futures and options. Moreover, the rise in the volume of trading that accompanied the sharp decline in stock prices in some markets and the recovery of bond prices also created problems for some clearing mechanisms.

A number of macroeconomic and technical factors are thought to have contributed to the magnitude of the fall in stock prices, as well as to its globalization. Until the crisis in October, there had been a widening divergence in world equity markets between the yield

on equities and that on government securities. This growing difference created pressures for portfolio adjustments to bring rates of return into a more sustainable alignment. As discussed earlier, interest rates in the major industrial countries had begun to rise in early 1987, in part owing to concerns about inflation, fiscal imbalances, and exchange rate developments.

In addition to these macroeconomic factors, several technical aspects of stock markets and related markets may have exacerbated declines in share prices. In particular, concerns have been expressed that certain trading practices may have created a sense of panic that became self-reinforcing in the highly integrated system of international electronic trading. Major institutions now manage their trading operations on a global basis, and a response in one market to domestic economic or political developments can be transmitted across markets and time zones, while technological advances permit markets to respond faster to new information. In some markets, computerized program trading systems, used in a popular hedging strategy that called for the sale of stock index futures as equity price indexes began to fall, may have contributed to the downward spiral in October 1987. In addition, in the absence of a spot index that is updated adequately and in a timely fashion, automated arbitrage activity between the index futures markets and the spot market may have worsened the price decline.

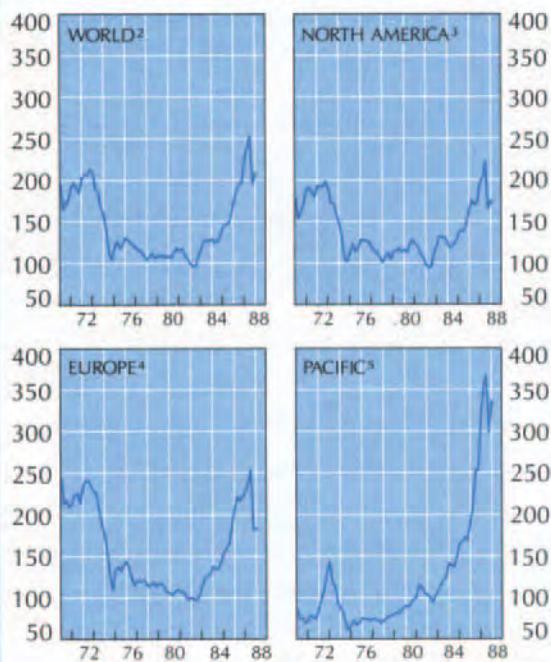
accumulations and changes in the SDR value of imports: the ratio increased during 1982–84 because of vigorous rebuilding of reserves, while in 1985–86 the reserve holdings of developing countries declined. Their ratio of non-gold reserves to imports nonetheless increased because the decline in the SDR value of their imports was even greater.

While the currency composition of foreign exchange reserves has been diversified considerably since the mid-1970s, the accumulation of reserves held in dollars by some industrial countries in 1986 and 1987 has raised the share of that cur-

rency in foreign exchange reserves. The estimated share of dollar assets in total identified foreign exchange reserves declined from 76 percent at the end of 1978 to 64 percent at the end of 1985 but then recovered to 67 percent at the end of 1987.⁴

⁴ The currency composition of identified foreign exchange reserves is based on a Fund survey and on estimates derived mainly from official national reports. Since these figures are only approximations, they should be interpreted with caution. These identified reserves differ from total foreign exchange reserves, which also include foreign exchange reserves for which composition information is not available.

Chart 10

World and Regional Stock Market Prices in Real Terms, 1970–First Quarter 1988¹

Source: Morgan Stanley Capital International, and Fund staff estimates.

¹ Morgan Stanley index of stock prices in local currency terms, deflated by composite GNP deflator, where composite deflators are averages for individual countries weighted by the average dollar value of their respective GNPs over the preceding three years.

² Comprising North America, Europe, and the Pacific region.

³ Comprising the United States, Canada, and Mexico.

⁴ Comprising Austria, Belgium, Denmark, France, the Federal Republic of Germany, Italy, the Netherlands, Norway, Spain, Sweden, Switzerland, and the United Kingdom.

⁵ Comprising Japan, Australia, Hong Kong, Malaysia, and Singapore.

During the periods prior to and after these market disturbances, there was a risk that some institutions would be unable to obtain funding for their trading and investment portfolios. But measures designed to protect investors helped prevent a general withdrawal of funds from securities houses and broker-dealers. In addition, the clear commitment by major central banks to provide adequate liquidity to the financial markets was a key factor that prevented the emergence of widespread funding difficulties.

In some markets, perception that the macroeconomic policies in place were inadequate to bring about the necessary medium-term adjustment of external imbalances among the major industrial countries may also have contributed to the drop in stock prices. Thus, although the near-term macroeconomic effects of the decline appear to have been limited, some observers have argued that the longer-term implications might depend on the responses of policymakers. As already noted, the monetary authorities in some countries reinforced confidence through the provision of immediate liquidity and by making clear that they stood ready to provide as much additional liquidity as was needed. Furthermore, the process of international policy coordination was strengthened, as evidenced by the statement of December 22, 1987 of the seven major industrial countries (see Box 1).

However, it only decreased slightly for the developing countries, falling from 63 percent to 59 percent over the same period.

EXCHANGE RATES

During the first part of 1988 the downward pressure on the dollar declined significantly and was reversed by the middle of the year. Compared with developments over the three preceding years, the recent pattern reflected changes in underlying economic fundamentals, as the major industrial countries intensified their efforts to coordinate policies. In line with the commitments under the Louvre Accord of February 1987, the major industrial countries increased the emphasis they gave to changes in underlying fiscal and structural poli-

In contrast, the share of assets denominated in deutsche mark rose from 11 percent at the end of 1978 to 15 percent at the end of 1987, and the share of assets denominated in Japanese yen increased from 3 percent at the end of 1978 to 7 percent at the end of 1987. Industrial countries have diversified their foreign exchange reserves more than the developing countries. The share of dollars in the reserve portfolio of industrial countries decreased from 86 percent to 71 percent between the end of 1978 and the end of 1987.⁵

⁵ As a counterpart, the estimated shares of the deutsche mark

and the Japanese yen in industrial countries' reserves increased by 9 percentage points and 5 percentage points, respectively.

Table 7
International Reserves, Excluding Gold, 1984-87
(Annual changes, in billions of SDRs)

	1984	1985	1986	1987
All countries				
International reserves, excluding gold	45	-2	13	88
Of which, foreign exchange ¹	41	-1	16	91
Accumulation	37	8	23	119
Valuation effects	4	-9	-8	-28
Industrial countries				
International reserves, excluding gold	20	3	21	71
Of which, foreign exchange ¹	16	3	23	74
Accumulation	16	5	24	88
Valuation effects	—	-1	-1	-15
Developing countries				
International reserves, excluding gold	26	-5	-8	17
Of which, foreign exchange ¹	25	-4	-7	17
Accumulation	21	4	—	30
Valuation effects	4	-8	-7	-13
Memorandum				
U.S. dollars per SDR, end of period	0.980	1.098	1.223	1.419

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.

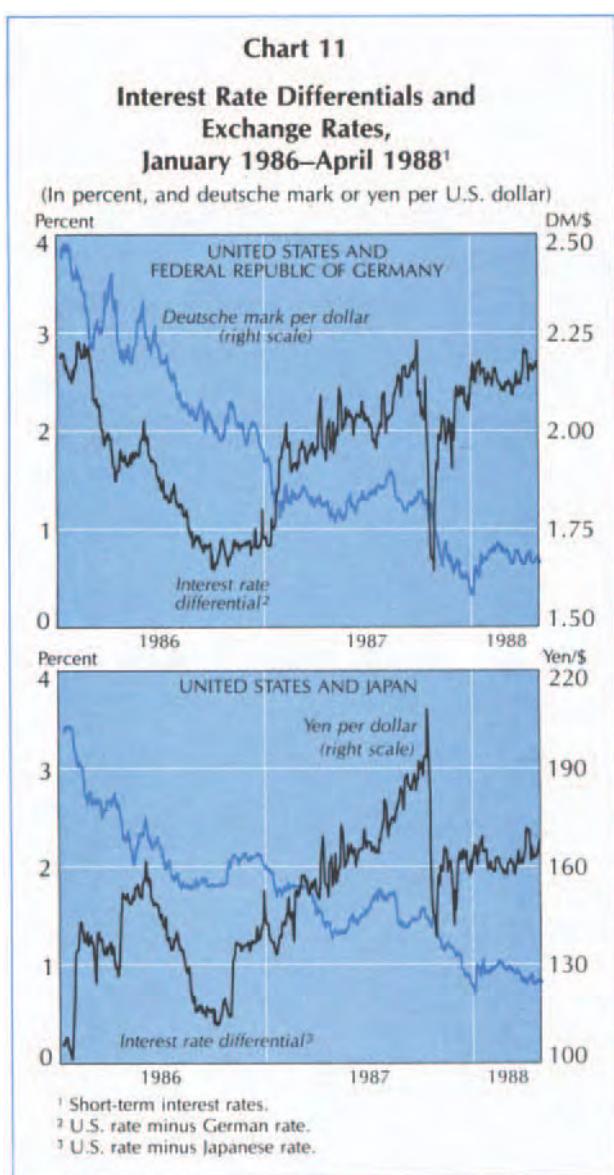
icies as a means of reducing external imbalances and agreed to foster greater stability of exchange rates in view of the significant realignment that had taken place since the Plaza Accord in September 1985. Subsequent efforts to stabilize exchange rates led to a relative tightening of monetary conditions in the United States—whether measured by interest rate differentials or relative rates of growth of money supply—and a significant increase in the volume of official intervention in foreign exchange markets.

The Louvre Accord was followed by a period of relative stability in exchange markets, and between May and August 1987 the pressure on the dollar even reversed. As the year progressed, however, the continued large monthly trade deficits in the United States, together with uncertainties about the implementation of further cuts in the federal fiscal deficit, contributed to a gradual weakening of the dollar (Chart 11). Pressure continued to mount following the decline in equity prices on October 19, and led to a depreciation of the dollar by close to 7 percent during November and December. On December 22 the Group of Seven major industrial countries issued a statement reaffirming their policy intentions and undertakings and re-emphasizing their common interest in more

stable exchange rates. The dollar fell to new lows during the following week but recovered in early January 1988, partly in response to large-scale official intervention. During the first quarter of 1988, the dollar was again relatively stable as U.S. trade data, released monthly, became more favorable.

Between the Louvre Accord in February 1987 and April 1988, the dollar depreciated by about 13 percent in real effective terms, as indicated by developments in unit labor costs (see Chart 12). This represented a cumulative depreciation of about 42 percent relative to the peak value of the dollar in early 1985, and brought the real exchange rate of the dollar to a level close to its previous postwar trough in 1978. The Japanese yen continued to reflect the largest counterpart to the dollar's depreciation; in April 1988, the yen traded at ¥ 125 per dollar, compared with ¥ 153 per dollar at the time of the Louvre Accord. In real effective terms, the yen appreciated by 13 percent during this period, bringing its cumulative appreciation since early 1985 to 39 percent.

The pound sterling also came under periodic upward pressure during the year under review, appreciating not only against the dollar but also against other European currencies. The appreci-



ation of the pound intensified during March and April 1988 when its exchange rate rose to almost DM 3.15 a pound, some 6 percent higher than a year earlier. In real effective terms, the pound sterling appreciated by 18 percent from February 1987 to April 1988, which reversed the depreciation that had taken place during 1985–86. The exchange rate of the Canadian dollar also appreciated moderately during 1987 and early 1988, both against the U.S. dollar and in real effective terms, in contrast to its experience during 1985–86, when it had depreciated significantly in real terms in line with the U.S. dollar.

The currencies participating in the exchange rate mechanism of the European Monetary System (EMS) also continued to appreciate vis-à-vis the dollar during 1987. However, given the importance of intra-European trade, the real effective exchange rates of EMS currencies were broadly stable. The spot exchange rate of the deutsche mark, for example, rose by 9 percent against the dollar between February 1987 and April 1988, but by only $\frac{1}{2}$ of 1 percent in real effective terms (bringing its real cumulative appreciation since early 1985 to 20 percent). Despite occasional strains within the EMS, particularly during periods of dollar weakness, the real exchange rate of the Italian lira varied only slightly during 1987 and early 1988, while that of the French franc depreciated slightly during the same period. The last EMS realignment took place in January 1987 (involving a 3 percent revaluation of the deutsche mark and the Netherlands guilder and a 2 percent revaluation of the Belgian/Luxembourg franc, in terms of bilateral central rates).

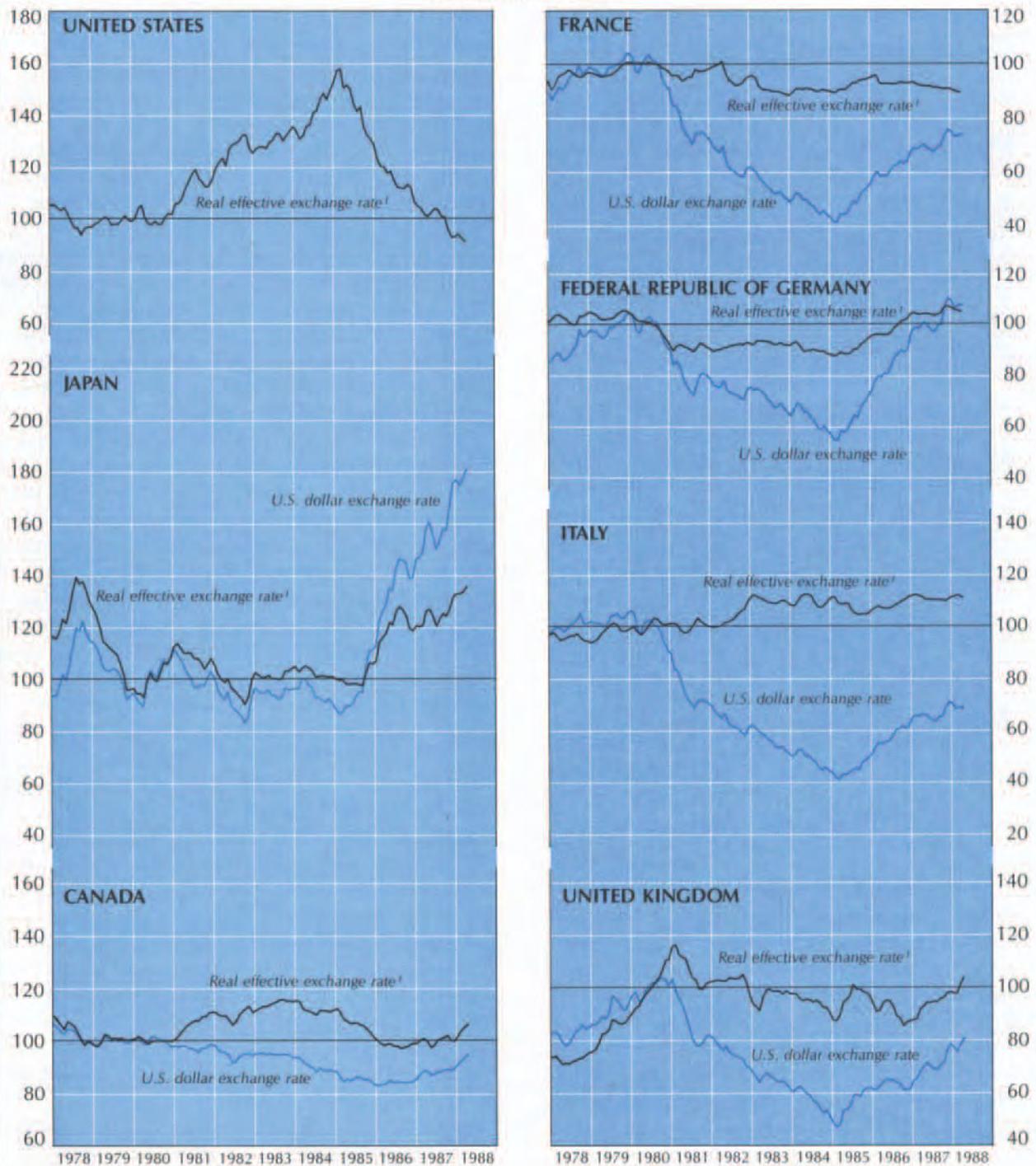
The relative stability of the EMS currencies can be partly attributed to exchange market intervention, the stability of the U.S. dollar, and to a series of coordinated interest rate adjustments under a new agreement to strengthen the operational mechanisms of the system. In the final months of 1987 several adjustments under this agreement took place, involving changes in both the level of interest rates and the differentials among them. These adjustments led to lower interest rates throughout Europe in an effort to support the dollar while minimizing tensions within the EMS. In early December, as part of this policy, the discount rate in the Federal Republic of Germany was lowered to $2\frac{1}{2}$ percent, the lowest rate in the country's recent history.

The currencies of most of the smaller industrial countries were also more stable in 1987 than in previous years. Within Europe, formal as well as informal links between these currencies and the currencies of the major countries, particularly the deutsche mark, led to further appreciations vis-à-vis the dollar. However, as exchange rates among European currencies changed only slightly, movements in real effective exchange rates were generally small (Table 8).

Among the developing countries, the pace of exchange rate depreciation slowed somewhat in 1987, following two years of rapid adjustments (Chart 13). The more moderate depreciation in

Chart 12

**Major Industrial Countries: Monthly Average U.S. Dollar and Real Effective Exchange Rates,
January 1978–April 1988**
(Indices, 1980 = 100)



¹ Real effective exchange rates are calculated on the basis of normalized unit labor costs.

Table 8

Smaller Industrial Countries: Real Effective Exchange Rates¹

(Percent change from 12 months earlier)

	December 1985	December 1986	December 1987
Australia	-23.7	-5.5	-2.9
Austria	3.8	5.5	0.2
Belgium/Luxembourg	-0.4	0.3	-1.7
Denmark	4.5	8.3	6.9
Finland	0.2	-2.4	3.3
Ireland	0.8	-0.4	-4.1
Netherlands	1.4	5.1	-0.5
New Zealand	12.7	2.6	16.8
Norway	2.7	-4.6	7.1
Spain	-3.5	4.4	4.1
Sweden	2.3	-0.8	-0.7
Switzerland	0.9	8.5	4.3

¹ Real effective exchange rates are based on relative unit labor costs in manufacturing except for Australia and New Zealand where the data are based on consumer price indices.

1987 to some extent reflected the slower rate of adjustment of the dollar to which many currencies are pegged. More generally, however, in many countries, following a period during which the exchange rate had played a key role in adjustment and stabilization programs, the need for further real exchange rate depreciation diminished. In some countries, notably in the Western Hemisphere, a sharp acceleration in inflation was not fully matched by changes in nominal exchange rates, leading to appreciations in real exchange rates and an erosion of previous gains in competitiveness. There was also a move toward less flexible exchange rate arrangements in 1987.⁶ Finally, some of the newly industrializing economies in Asia with strong external positions began to allow their currencies to appreciate in real terms, in an effort to contain and eventually reduce their external surpluses.

BALANCE OF PAYMENTS DEVELOPMENTS

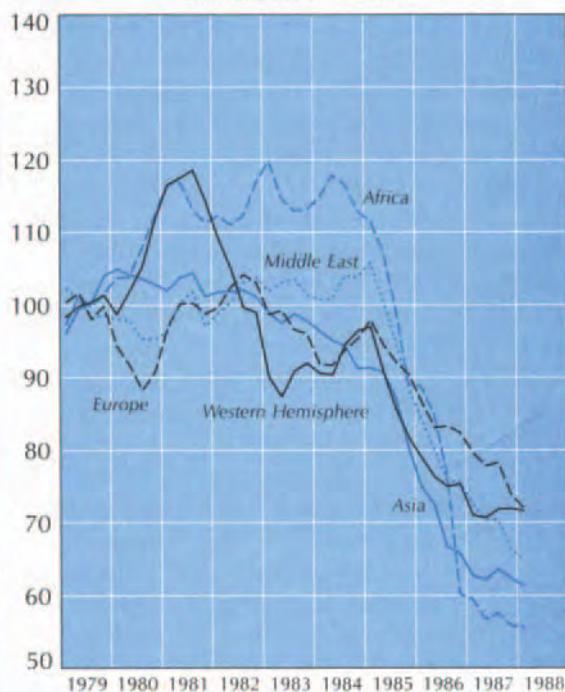
The aggregate current account deficit of the industrial countries rose from \$16 billion in 1986 to \$43 billion in 1987 (Table 9), equivalent to 0.3 percent of aggregate GNP. In contrast, the overall current account position of the developing countries changed from a deficit of \$41 billion in 1986 to approximate balance in 1987. The implied reduction in the world current account discrepancy amounted to some \$13 billion, and partly reflected the impact of the widely fluctuating oil prices in

⁶ See Appendix Table II.1 for a classification of exchange arrangements as of March 31, 1988.

Chart 13

Developing Countries: Real Effective Exchange Rates, by Region, 1979–First Quarter 1988

(Indices, 1979 = 100)



Note: Composites for regional groups are weighted averages, where countries' weights are dollar values of their respective GDPs in 1980. Because of the lack of appropriate domestic price data, the countries included for the Middle East and African regions cover only about 50 percent and 85 percent, respectively, of their regional GDPs. For the Western Hemisphere, Europe, and Asia, the coverage is complete.

1986–87.⁷ These overall adjustments conceal markedly different trends for individual countries and groups, which were determined by differential movements in both import and export volumes and in their terms of trade. Moreover, the balances expressed in nominal dollar terms present a misleading indication of the degree of adjustment that took place during the year; when expressed in other currencies, or relative to income, the changes are more significant.

Industrial Countries

The U.S. current account deficit widened from \$139 billion in 1986 to \$154 billion in 1987, despite

⁷ For an analysis of the main reasons for the global discrepancy on current account, see International Monetary Fund, *Final Report of the Working Party on the Statistical Discrepancy in World Current Account Balances*, 1987. See also page 18 of the 1987 Annual Report.

a substantial increase in the volume of exports (which rose by 12 percent over 1986 levels) and slower growth in the volume of imports (which rose by 5 percent in 1987, compared with 15 percent in 1986). This reflected increased deficits both in oil trade, brought about by higher import prices in 1987 following the sharp fall in 1986, and in non-oil trade, reflecting the impact of a further weakening in the U.S. non-oil terms of trade. In addition, the balance on services deteriorated by some \$6.5 billion, as a result of increased payments of interest and dividends on the foreign liabilities of the United States. Expressed as a percentage of GNP, the current account deficit rose to 3.4 percent in 1987, compared with 3.3 percent in 1986. However, there were signs of a reduction in this ratio in late 1987 and early 1988 as the effects on trade volumes began to work through (Chart 14).

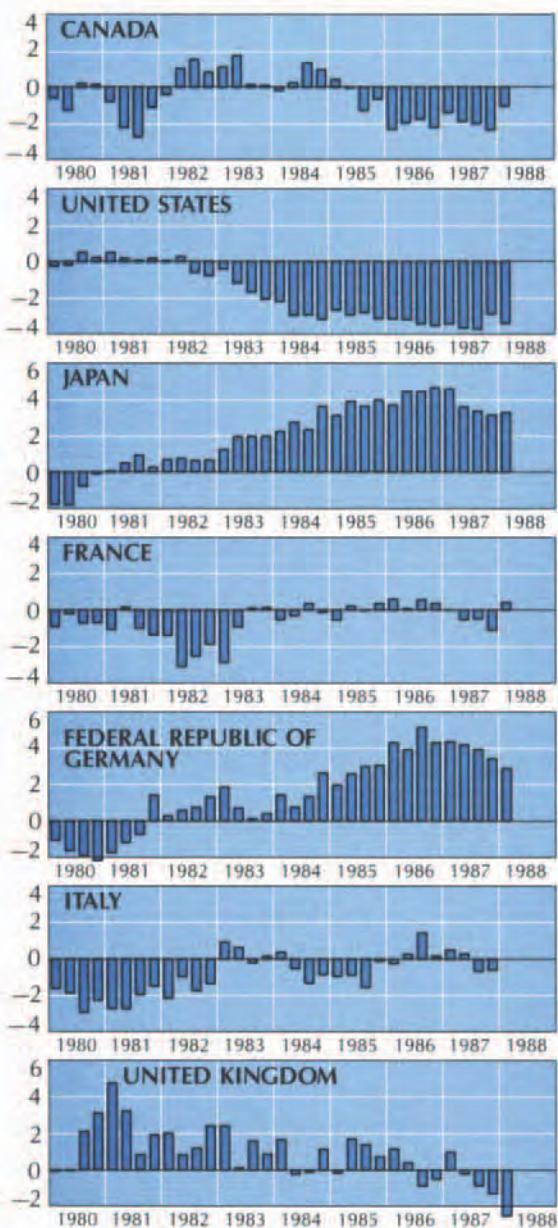
Japan's current account surplus measured in nominal dollar terms was little changed in 1987 at \$87 billion, compared with \$86 billion in 1986. The volume of its exports increased slightly, while the volume of non-oil imports increased by 11 percent (following an increase of 12 percent in 1986). Nonetheless, a further small improvement in Japan's terms of trade outweighed the volume adjustment in merchandise trade and the slight weakening of the balance on services and transfers. Similarly, in the Federal Republic of Germany, exports continued to grow in volume terms, but less rapidly than the volume of imports (the volume of non-oil imports rose by 7 percent). Germany's merchandise terms of trade improved moderately, however, generating a rise in the trade surplus of \$14 billion that was only partially offset by an increase of \$8 billion in the deficit on services and transfers. As a result, Germany's dollar current account surplus rose from \$39 billion in 1986 to \$45 billion in 1987.

It is misleading, however, to analyze the external positions of Japan and the Federal Republic of Germany only in terms of a numeraire such as the dollar, which depreciated substantially over the year. When the payments balances of the two major surplus countries are expressed as percentages of GNP, a rather different picture emerges. Japan's current account surplus declined from 4.4 percent of GNP in 1986 to 4.0 percent of GNP in 1987, while Germany's surplus fell from 4.2 percent of GNP to 3.9 percent of GNP. For both countries there was, during the year, a strong

Chart 14

Major Industrial Countries: Payments Balances on Current Account, Including Official Transfers, 1980–First Quarter 1988¹

(Seasonally adjusted, in percent of GNP/GDP)



¹ Data for Italy extend through the fourth quarter of 1987.

Table 9
Summary of Payments Balances on Current Account, 1980–87¹
 (In billions of U.S. dollars)

	1980	1981	1982	1983	1984	1985	1986	1987
Industrial countries	–58.1	–15.9	–19.9	–17.3	–58.4	–48.0	–16.4	–43.3
Canada	–1.0	–5.1	2.3	2.5	2.1	–1.4	–7.6	–8.0
United States	1.9	6.9	–8.7	–46.3	–107.0	–115.1	–138.8	–154.0
Japan	–10.7	4.8	6.9	20.8	35.0	49.2	85.8	87.0
France	–4.2	–4.8	–12.1	–4.7	–0.8	0.6	2.9	–4.4
Germany, Fed. Rep. of	–13.8	–3.6	5.1	5.3	9.7	16.5	39.3	45.0
Italy	–10.0	–9.1	–6.2	1.5	–2.5	–3.7	2.6	–1.0
United Kingdom	7.1	13.7	7.8	5.7	2.7	4.2	0.2	–2.6
Other industrial countries	–27.4	–18.7	–14.9	–2.2	2.5	1.7	–0.8	–5.4
Developing countries	30.6	–47.8	–86.4	–63.1	–33.3	–24.3	–40.7	0.3
By region								
Africa	–2.2	–22.2	–21.5	–12.1	–8.0	–0.2	–8.8	–5.0
Asia	–14.5	–19.1	–17.4	–14.8	–4.3	–13.5	5.1	20.9
Europe	–15.6	–13.7	–8.0	–5.1	–2.9	–3.0	–2.0	0.9
Middle East	92.5	50.0	3.0	–20.2	–15.7	–2.8	–18.2	–5.2
Western Hemisphere	–29.8	–42.9	–42.4	–10.9	–2.5	–4.7	–16.9	–11.3
By analytical criteria								
Fuel exporters	96.4	34.8	–18.2	–19.6	–5.4	2.3	–32.1	–3.9
Non-fuel exporters	–65.8	–82.3	–68.2	–43.5	–28.0	–26.6	–8.6	4.3
Market borrowers	–35.3	–71.5	–73.7	–29.3	–3.4	6.4	–0.8	20.6
Official borrowers	–9.1	–12.0	–10.5	–8.4	–9.7	–9.5	–8.7	–9.8
Other countries²	0.8	–3.4	2.7	3.1	4.8	2.3	3.1	5.7
Total³	–26.7	–67.1	–103.5	–77.3	–86.9	–70.0	–54.0	–37.3

¹ Including official transfers.

² Covers estimated balances on current transactions only in convertible currencies of the U.S.S.R. and 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.

underlying trend toward lower surpluses, particularly in Japan. Although the imbalances were still large, the change in the trend in 1987 suggests that changes in macroeconomic policies and competitiveness have clearly begun to have an effect, particularly when associated with the more recent evidence of a reversal of the growth in the U.S. current account deficit as a share of GNP.

The scale of current account adjustments in nominal terms in other industrial countries during 1987 was generally smaller than among the three largest economies, but there were some significant real changes. In general, payments positions tended to weaken. Most marked was the swing in the French current account from a surplus of \$3 billion in 1986 to a deficit of \$4 billion in 1987, representing a deterioration equivalent to 0.9 percent of GDP. This reflected continuing strong growth in the volume of non-oil imports (which

rose by 7 percent in 1987, despite a moderate slowdown in the growth of domestic demand), combined with only a modest recovery in exports. There was little change in the French terms of trade in 1987, a factor that had contributed to the stronger current account position in 1985 and 1986.

Italy's balance of payments weakened significantly in 1987, with the current account moving into a small deficit, compared with a surplus of \$3 billion in 1986 (equivalent to 0.4 percent of GDP). This development occurred despite a further improvement in Italy's terms of trade, and was the result of a rapid acceleration in the growth of import volumes (which rose by almost 11 percent in 1987, compared with 8 percent in 1986; non-oil imports rose by 12½ percent). Imports were stimulated by buoyant domestic demand, stemming from strong growth in consumer expendi-

ture and a recovery in fixed investment, while the volume of exports expanded at a relatively modest pace.

The current account balance of the United Kingdom also weakened, from approximate balance in 1986 to a deficit of \$2½ billion in 1987 (0.3 percent of GDP). Most of the change occurred in non-oil trade, where import volumes grew strongly, reflecting the continuing strength of domestic demand, and slightly outpaced the growth of export volumes, which partly reflected the impact of earlier depreciations of sterling. The surplus on oil trade rose only slightly, to \$7 billion, as a slowdown in the growth of export volumes was more than offset by the improvement in oil prices. Further growth in the United Kingdom's surplus on services was largely balanced by a higher deficit on official transfers.

In contrast to the major countries in Europe, the Canadian current account deficit declined marginally as a percentage of GNP. The growth rate of exports increased compared with 1986, but remained below the growth in the volume of imports; a moderate improvement in Canada's terms of trade offset, however, much of the volume effect.

The aggregate current account deficit of the smaller industrial economies rose from \$1 billion in 1986 to \$5 billion in 1987, an increase of 0.2 percent of GNP. The external position of Spain weakened as the current account surplus declined from 2.2 percent of GNP in 1986 to 0.3 percent of GNP in 1987 because of continuing strong domestic demand. The volume of imports rose by 22 percent in 1987, more than offsetting a significant improvement in export performance (the volume of exports rose by 7 percent, compared with a decline of 4 percent in 1986). The current account surplus of the Netherlands also declined markedly (by 1.1 percent of GNP), as a deterioration in the terms of trade offset an improvement in the real foreign balance. In contrast, Norway, Denmark, and Ireland substantially improved their current account positions between 1986 and 1987. In Norway the deficit fell from 6.5 percent of GNP to 5 percent of GNP, partly because of a recovery in oil export earnings together with a sharp curtailment of import demand as consumption and investment expenditures were cut back. In Denmark, the deficit declined from 5.2 percent of GNP in 1986 to 2.9 percent of GNP in 1987 as a result of contractions in both consumption and

investment. Domestic demand was cut back in Ireland, although to a more modest extent; a sharp improvement in the real foreign balance changed the current account position from a deficit of 3.2 percent of GNP in 1986 to a surplus of 1.5 percent of GNP in 1987. Australia's current account deficit also declined, from 6.1 percent of GNP in 1986 to 4.6 percent of GNP in 1987. This adjustment primarily reflected a sharp improvement in the terms of trade and the strong response of exports to gains in competitiveness in 1985 and 1986, and occurred despite a recovery in domestic demand.

Developing Countries

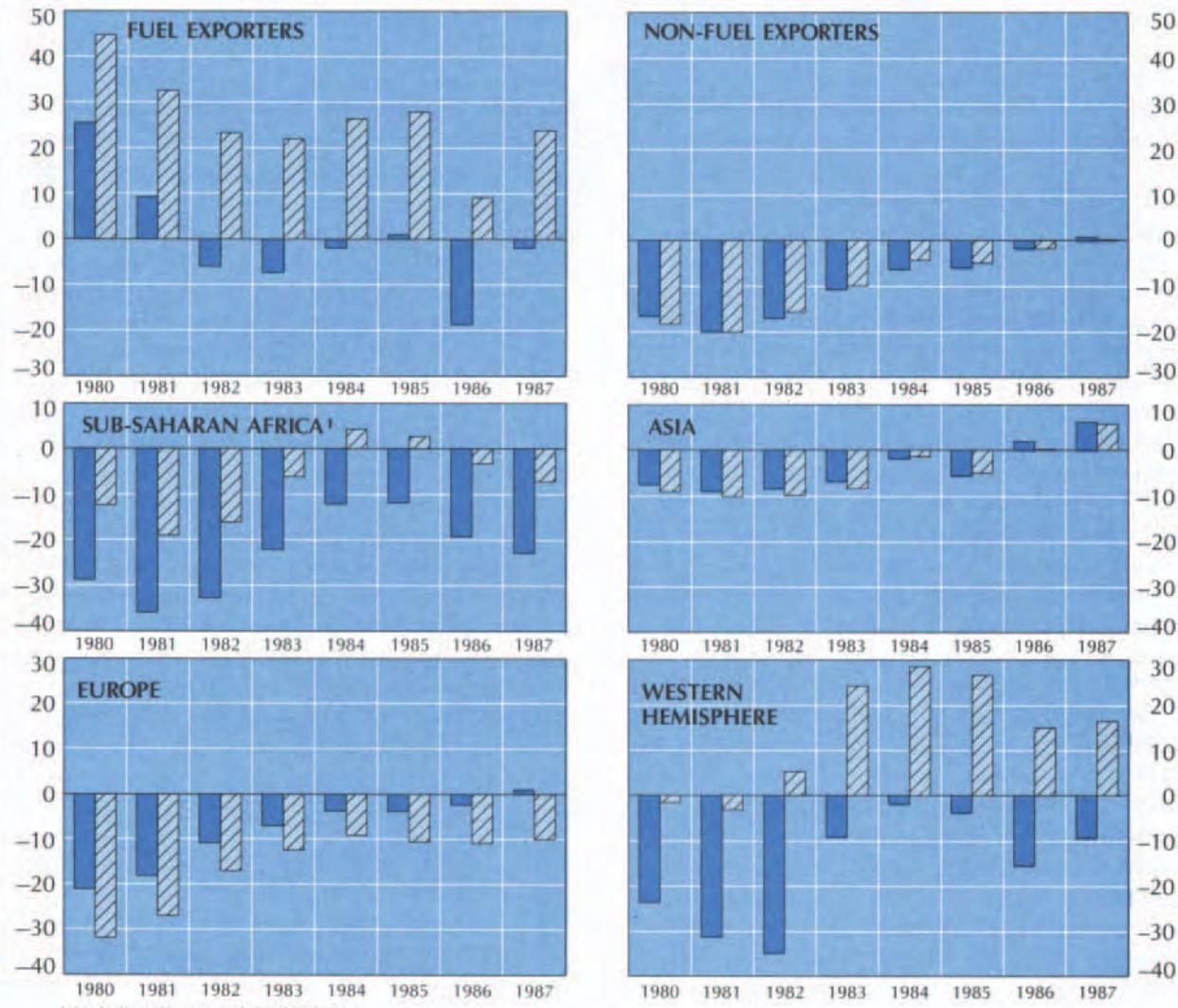
As the counterpart to the wider aggregate current account deficit in the industrial countries, the overall current account balance of the developing countries improved by \$41 billion in 1987. This strengthening in the external position, which represents an adjustment equivalent to 1.4 percent of the developing countries' aggregate GDP (or 6.3 percent of their exports of goods and services), affected most countries other than the exporters of minerals. Overall, the volume of developing country exports rose by 8½ percent in 1987, and their terms of trade recovered moderately, following the substantial deterioration of almost 20 percent in 1985–86. Import volumes also showed a recovery after significant compression in 1985–86. The aggregate deficit on services widened slightly in 1987, reflecting the impact of movements in world interest rates and the continued growth in the developing countries' net foreign debt.

Much of the reduction in the current account deficit of the developing countries can be attributed to the strong recovery in the external position of the fuel exporting countries (Chart 15). Their current account balance had deteriorated by \$32 billion (20 percent of exports) in 1986 as a result of the halving of oil prices in that year. In 1987, oil prices recovered partially, which led to an improvement of 12 percent in the fuel exporters' terms of trade (compared with a deterioration of 49 percent in 1986). The fuel exporting countries also maintained the restrictive financial policies that had been introduced in 1986. These policies resulted in a small decline in their estimated GNP and a further reduction of 11 percent in import volumes (following a 22 percent cut in 1986). This strong adjustment effort led to a narrowing of the fuel exporters' current account deficit to only \$4 billion in 1987.

Chart 15

Developing Countries: Trade and Current Account Balances, 1980–87

(In percent of exports of goods and services)

¹ Excluding Nigeria and South Africa.

Current account adjustment was not limited to the fuel exporting countries, however. Non-fuel developing countries also consolidated the progress that they had made in each year since 1981 in strengthening their current account position. Their aggregate deficit of \$9 billion in 1986 was turned into a surplus of \$4 billion in 1987, an adjustment equivalent to 2.6 percent of exports. However, in contrast to the continued import compression and stagnant export growth in the

fuel exporting countries, the improvement in the non-fuel exporters' payments position was mainly the result of a strong growth of export volumes (12 percent) and occurred despite a marked increase in the volume of imports (almost 9 percent). The non-fuel exporting countries' aggregate terms of trade were approximately stable in 1987 following two years of decline.

Significant disparities are evident in a regional breakdown of current account performances in

1987, although improvements were recorded almost everywhere. Countries in Asia recorded a surplus of almost \$21 billion, compared with a surplus of \$5 billion in 1986 and an average annual deficit of \$14 billion in 1980-85. This turnaround reflected continued strong growth in the volume of exports, which rose by 16½ percent in 1987 following an increase of nearly 18 percent in 1986, and occurred despite a significant increase in the volume of imports. Asian countries also benefited from significant improvements in their terms of trade. The current account surplus of the four newly industrializing economies in Asia (Hong Kong, Korea, Singapore, and Taiwan Province of China) reached \$30 billion in 1987, equivalent to about 11 percent of the combined GNP of this group. The current account deficit of the other Asian countries declined from \$18 billion in 1986 to \$9 billion in 1987, an adjustment amounting to 10 percent of exports.

The developing countries in Europe recorded a small current account surplus in 1987, following a deficit of \$2 billion in 1986. An increase of 8 percent in the volume of exports of these countries was only partially offset by weaker terms of trade; the volume of imports grew by 5½ percent. In the Middle Eastern countries, the partial recovery in oil prices and reduced imports by some oil exporters contributed to the decline in the current account deficit from \$18 billion (15 percent of exports) in 1986 to \$5 billion (4 percent of exports) in 1987. The current account deficit of African countries also declined, from \$9 billion in 1986 to \$5 billion in 1987 (an adjustment equivalent to 6.1 percent of exports), mainly as a result of continued import compression (the volume of imports fell by 5 percent in 1987, following a reduction of 11 percent in 1986). However, the current account deficit of countries in sub-Saharan Africa (excluding Nigeria and South Africa) increased from \$5 billion in 1986 to \$6½ billion in 1987, the latter figure representing 23 percent of exports of goods and services.⁸ Export and import volumes for this group of countries changed little, but the terms of trade recorded a further decline of 6 percent, following a deterioration of 16 percent in 1986. The aggregate current account deficit of Western Hemisphere countries also declined, from \$17

⁸ The current account deficit of Nigeria fell from \$3.6 billion in 1986 to \$1.5 billion in 1987; South Africa's surplus was unchanged at some \$3 billion.

billion in 1986 to \$11½ billion in 1987, representing an adjustment equivalent to 6½ percent of exports. This strong improvement resulted from a strengthening of real trade balances; the region's terms of trade deteriorated slightly.

Regional trends largely reflected differing trade structures. Exporters of manufactures, which are concentrated in Asia and Europe, continued to benefit from buoyant import demand in the industrial countries, as well as from a recovery in import volumes in the non-fuel developing countries. The volume of their exports rose in aggregate terms by nearly 16 percent, following an increase of 13½ percent in 1986. Moreover, the strength of world trade prices for manufactures (which rose by 12½ percent in dollar terms in 1987, after increasing by 18 percent in 1986) contributed to a moderate improvement in their terms of trade. The terms of trade of non-oil primary product exporters, however, deteriorated for the third consecutive year, despite a rise in commodity prices in the latter part of the year. The cumulative decline amounted to 9 percent, which offset the continuing strong performance of real exports (export volumes of agricultural exporters have increased in each year during the 1980s and rose by 10½ percent in 1987). Many of the non-oil primary product exporters are located in Africa and the Western Hemisphere; these regions continue to experience particularly severe external financing difficulties.

FINANCING AND DEBT

The underlying financing position of the developing countries showed little change in 1987 from 1986, although there were some notable developments. The total external financing requirement rose slightly, from \$75 billion in 1986 to \$77 billion in 1987 (Table 10), with an increase in non-debt-creating flows being matched by a stabilization in the amount of accumulated arrears (which stood at an estimated \$52 billion at the end of 1987) and an increase in net repayments to the Fund. Some 56 countries had external payments arrears outstanding at the end of 1987, compared with 58 at the end of 1986; the number of countries with arrears had previously been rising throughout the 1980s, having stood at 39 at the end of 1981. Net new credit provided by banks and other private lenders remained low (at only \$8 billion), while official creditors maintained net flows of about

Table 10
Developing Countries: External Financing, 1980–87¹
 (In billions of U.S. dollars)

	1980	1981	1982	1983	1984	1985	1986	1987
All developing countries								
Deficit on goods, services, and private transfers	–25	55	95	73	44	38	56	15
Use of reserves	50	–12	–40	4	15	18	4	53
Other foreign asset accumulation, net ²	89	104	76	22	19	17	15	5
External financing requirement	114	147	131	98	78	73	75	77
Non-debt-creating flows ³	12	21	27	22	21	33	27	36
Official flows ⁴	29	37	42	37	37	30	34	34
Private flows ⁵	75	83	48	24	15	20	3	8
Arrears ⁶	–2	5	13	15	4	–10	11	–1
Capital importing developing countries								
Deficit on goods, services, and private transfers	76	116	107	63	38	42	43	17
Use of reserves	25	1	–18	10	19	12	17	46
Other foreign asset accumulation, net ²	22	31	36	21	17	17	13	10
External financing requirement	122	148	125	94	74	71	73	76
Non-debt-creating flows ³	23	25	25	23	23	33	30	36
Official flows ⁴	29	37	42	37	34	29	32	33
Net credit from Fund ⁷	3	7	7	11	5	0	–3	–6
Private flows ⁵	72	81	44	20	14	19	—	9
Arrears ⁶	–2	5	13	15	4	–10	11	–1

¹ In contrast to the presentation in Table 9, 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.

⁷ Includes use of Fund credit under General Resources Account, Trust Fund, and structural adjustment facility.

\$34 billion. The marked improvement in the aggregate current account position of the developing countries, together with the small increase in external financing, permitted a significant recovery in reserve accumulation (although this was concentrated in a small number of economies—principally Taiwan Province of China). The acquisition of nonreserve foreign assets, which for some countries is indicative of capital flight, continued to decline.

As in 1986, these overall developments masked the very different situations of specific groups of developing countries. In 1987 the financing positions of the two groups that adjusted their current account positions most successfully—the exporters of fuels and of manufactures—were markedly different from the positions of other developing countries (most of which are primary product exporters). In 1986 the fuel exporting countries ran down their gross reserve holdings by some

\$18 billion as oil prices fell sharply early in the year. The substantial current account adjustment made by this group in 1987 enabled them to replenish much of this reduction in reserves, while net external borrowing was reduced to \$8½ billion. As for the exporters of manufactures, the significant rise in their current account surplus enabled them to increase their reserve assets still further (at the end of 1987 their reserves covered approximately 21 weeks of imports), and simultaneously to reduce their net borrowing requirement to \$14 billion.

For other developing countries, however, there was little change in the tight external financing position that they had faced in 1986. Their aggregate current account deficit widened to \$21 billion; reserve cover remained at only 13 weeks of imports; and net external borrowing, at \$19 billion, was barely higher than the depressed level of 1986. Long-term financing provided by official lenders

rose to \$24 billion—the highest level it had reached during the 1980s—but repayments to private creditors continued to exceed private lending (even allowing for the substantial impact of the rescheduling of existing debt). Accumulation of arrears fell to \$2 billion, compared with a record increase of \$6 billion in arrears in 1986.

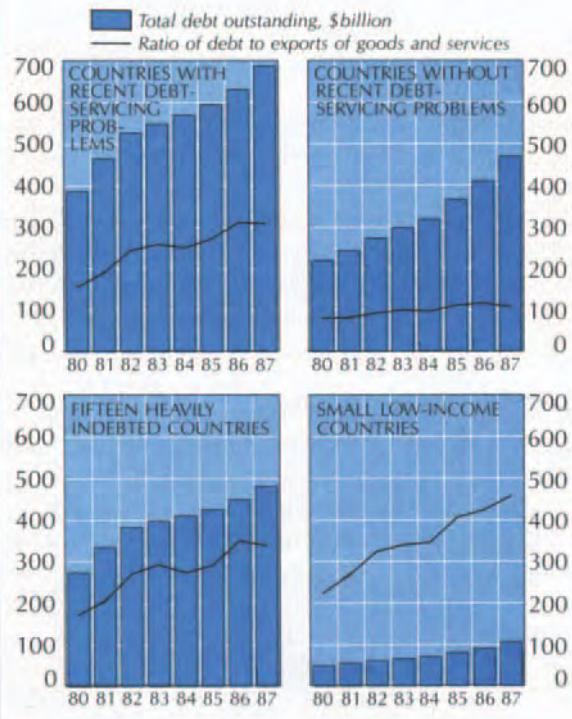
The stability of official financing flows (excluding credit from the Fund) to the developing countries is striking, especially in contrast to the sharp reduction in private flows. After allowing for the significant swings in short-term transactions between monetary authorities, which were designed to accommodate major financing adjustments in 1982–83, official flows to the capital importing countries in 1980–85 were in the range of \$27–33 billion annually. In 1986–87 average disbursements rose to \$36½ billion, reflecting the more coordinated approach to financing flows that was adopted following the Annual Meetings of the

Fund and the World Bank in Seoul in October 1985.

The Fund played a major role in easing the external adjustment of developing countries in the immediate aftermath of the debt crisis. Net credit from the Fund, which had averaged \$1 billion annually in 1978–80, rose to an annual average of \$7½ billion in 1981–84. Because of the revolving nature of Fund resources, and the successful efforts of many countries to reduce their financing requirements, net borrowing from the Fund eventually was reversed and in 1985–87 developing countries made net repayments averaging \$3 billion annually. As a result of the efforts of the Fund to encourage stronger adjustment in the developing countries, for example through programs under the SAF and the ESAF aimed at low-income countries and through the revitalization of the extended Fund facility, gross disbursements are again expected to increase significantly in 1988 and 1989.

The aggregate data show no evidence of a reversal of the precipitous drop in private financing flows to developing countries that occurred in 1982–84. As mentioned above, nonofficial lending to the capital importing countries rose to \$9 billion in 1987 (from a negligible level in 1986), but this increase was entirely the result of increased disbursements under concerted financing arrangements; spontaneous net lending remained negative. Private lending after 1981 declined most for those countries that experienced debt-servicing problems; this group made net repayments to nonofficial creditors averaging \$4 billion annually in 1983–86, compared with average inflows of \$36 billion a year in 1979–82. Concerted borrowing arrangements provided an average of \$8 billion annually in 1983–86, implying that repayments exceeded spontaneous inflows by an average of \$12 billion annually in this period. In 1987 net repayments to private creditors by countries with recent debt-servicing problems declined to \$3 billion, but there is little evidence that a substantial reversal of the negative resource flow is likely to occur in the near future. The decline in the negative resource flow in 1987 may have partly reflected the reduced commercial lending opportunities in countries that have not experienced recent debt-servicing problems; private lending to this group of countries declined from \$16 billion in 1986 to \$11 billion in 1987, in line with their stronger current account positions.

Chart 16
Developing Countries: Debt Stocks and Ratios of Debt to Exports, 1980–87



The total dollar value of developing countries' outstanding debt rose by 10.4 percent in 1987 to \$1,217 billion (Table 11)—equivalent to 39 percent of aggregate GDP. Two thirds of this nominal increase is estimated to have resulted from the impact of exchange rate movements on the dollar value of debt denominated in other currencies; the underlying increase in debt was some 4 percent, broadly in line with the increases in 1985 and 1986. The relatively strong growth of exports from the developing countries contributed to a reduction in the ratio of debt to exports from 169 in 1986 to 158 in 1987. However, debt-to-export ratios for all regions remained substantially above their levels in 1980, and were particularly high by historical standards in Africa and the Western Hemisphere. The growth in the ratio of debt to exports for countries with recent debt-servicing problems was striking, particularly given that the growth in nominal debt for this group was similar to that of countries without debt-servicing problems (Chart 16). For many countries the burden

of existing debt remains a very serious constraint on economic development. This is especially true for the small, low-income countries and the heavily indebted, middle-income countries.

Nonetheless, the overall debt-service ratio of the developing countries fell from 22 percent in 1986 to 20 percent in 1987. In addition to the rise in export earnings, part of this adjustment was associated with the impact of debt-restructuring operations, which reduced the debt-service burden in 1987 by about 9½ percent of exports. (Such arrangements reduced average annual repayments by \$40 billion annually in 1983–86 and by over \$70 billion in 1987.) Once again, separate developing country groups faced sharply different circumstances. Countries in the Western Hemisphere continued to face particularly heavy debt-service payments (their debt-service ratio in 1987 was 38 percent), which reflected the large share of their debt that was held by commercial lenders. On the other hand, the seriousness of the debt-service burden of the small, low-income countries, many

Table 11
Developing Countries: Debt and Debt-Service Ratios, 1980–87
(In percent of exports of goods and services, except where otherwise stated)

	1980	1981	1982	1983	1984	1985	1986	1987
Total debt (in billions of U.S. dollars)	633	744	842	894	940	1,016	1,102	1,217
Debt ratio ¹	82	95	119	133	133	150	169	158
By region								
Africa	92	119	155	171	171	192	239	241
Asia	71	74	87	92	87	101	101	91
Europe	127	133	141	146	144	159	167	168
Middle East	27	34	46	61	71	83	115	110
Western Hemisphere	183	210	272	290	273	296	352	341
By miscellaneous criteria								
Capital importing countries	114	129	155	164	157	173	185	173
Official borrowers	156	181	219	244	257	295	325	346
Countries with recent debt-servicing problems	153	188	241	257	248	270	310	306
Debt-service ratio ²	13	16	19	18	19	21	22	20
By region								
Africa	14	17	21	23	26	29	29	25
Asia	9	10	12	11	11	13	14	14
Europe	25	22	23	21	22	25	26	25
Middle East	4	5	6	8	10	10	14	12
Western Hemisphere	33	42	52	41	41	40	45	38
By miscellaneous criteria								
Capital importing countries	19	22	25	22	23	24	25	22
Official borrowers	14	16	17	20	23	27	25	23
Countries with recent debt-servicing problems	27	33	40	33	34	34	36	30

¹ Total debt at year-end as percentage of exports of goods and services in that year.

² Actual payments of interest on total debt, plus actual amortization payments on long-term debt, as a percentage of exports of goods and services.

of which are situated in Africa, was more a reflection of the large absolute size of their debt relative to their export performance. It is noteworthy that, throughout the 1980s, the share of exports devoted to debt-service payments by countries with

recent debt-servicing problems has been about twice that of the group of countries that have avoided such difficulties (debt-service ratios for the two groups in 1987 were 30 percent and 17 percent, respectively).

Chapter 2

Policies and Activities of the Fund

SURVEILLANCE

One of the principal functions of the Fund is to act as a permanent institution in which member countries examine each other's economic policies and the functioning of the world economy at large. In this connection, the Fund has a specific responsibility to exercise firm surveillance over the exchange rate policies of member countries.⁹ The first part of this chapter reviews the procedures by which the Fund conducts its surveillance responsibilities and describes the views the Fund has expressed concerning key economic developments in the past year.

Prospects for the world economy and the interaction of policies among countries are regularly reviewed by the Fund's Executive Board and subsequently by the Interim Committee.¹⁰ These reviews are based on the staff's *World Economic Outlook* report, which contains a comprehensive analysis

of short-term and medium-term prospects for the world economy as well as for the economies of individual Fund members and country groupings. Besides establishing a global context for the surveillance that is conducted in periodic Article IV consultations with individual member countries, the World Economic Outlook exercise provides a basis for identifying potential conflicts and tensions that may arise among countries on the basis of unchanged economic policies. It also constitutes a framework for monitoring and analyzing other issues, such as the debt situation.

On occasions, if world economic conditions change markedly between the regularly scheduled discussions of the World Economic Outlook, the Board may decide to hold additional discussions. One such supplementary discussion was held in January 1988 on the global implications of the sudden sharp decline in equity prices that had occurred in October 1987. In addition, the Board reviews on a regular basis developments underlying current trends in exchange markets.

While the World Economic Outlook exercise provides the opportunity for members to review economic prospects and policies in a global context, the Fund's consultations with individual member countries are the primary means for the exercise of surveillance over exchange rate policies. In addition, a monitoring system brings to the attention of the Board any large changes in members' real effective exchange rates.

Article IV consultations with most countries take place annually. They focus on economic developments and policies in the member country concerned and particularly on how these policies affect the exchange rate and external accounts. Such assessments require a comprehensive analysis of real economic developments and prospects as well as an examination of the country's fiscal, monetary,

⁹ 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." See Executive Board Decision No. 5392-(77/63), adopted April 29, 1977, as amended by Decision No. 8564-(87/59), adopted April 1, 1987, *Selected Decisions of the International Monetary Fund and Selected Documents*, Thirteenth Issue (Washington, April 30, 1987), pp. 9-14 (hereafter referred to as *Selected Decisions*). As discussed below, this decision was amended effective April 22, 1988; see Appendix III.

¹⁰ The Executive Board is a permanent decision-making organ currently comprising 22 Directors elected or appointed by member countries or groups of countries and chaired by the Managing Director. The Interim Committee is an advisory body composed of 22 Fund Governors (ministers of finance or central bank governors), representing the same constituencies as in the Fund Board. Normally, the Interim Committee meets twice a year, in April and at the time of the Annual Meetings in September/October. In this Report, "Board" refers to the Executive Board of the Fund; references to the Board of Governors are stated fully.

and balance of payments accounts. The particular focus of individual Article IV consultations depends on the characteristics of the member country concerned, as well as on circumstances in the world economy. In recent years, given the large imbalances in payments positions, both in industrial and developing countries, and the difficult debt situation facing many developing countries, increasing attention has been devoted to the medium-term sustainability of balance of payments positions, to the restoration of medium-term external creditworthiness, and to the role of structural policies in improving economic performance. Nonetheless, the ultimate focus has remained on the international implications of developments and policies in individual countries.

THE INTERNATIONAL ECONOMIC SITUATION

In their discussions of the World Economic Outlook during the financial year ended April 30, 1988, the Board and the Interim Committee considered that economic expansion in the industrial countries is likely to be sustained in 1988 and 1989, albeit probably at a more moderate pace than in 1987. However, a less encouraging sign is the recent slowing in growth of developing countries, and continuing evidence of debt difficulties among many heavily indebted countries.

Looking ahead to the medium term, that is the period through 1992, the Board and the Interim Committee noted a number of important uncertainties on the horizon. Despite signs that external imbalances among the largest industrial countries are beginning to diminish in real terms, they continue to be larger than can be considered sustainable in the medium term. Reflecting these concerns, policy discussions in the Fund continued to emphasize the need for further policy adjustments in line with the Louvre Accord and subsequent statements by the Group of Seven (see Box 1 in Chapter 1).¹¹ There was general agreement that it would be counterproductive at the present time to look to further exchange rate adjustments to deal with the disequilibria that still remain. Instead, it was felt that enhanced coordination of domestic economic policies should play

an important role in supporting the international adjustment process. This appears to be the best way of ensuring that the large changes in exchange rates since 1985 are adequately reflected in changes in payments positions.

It was generally accepted that countries with unsustainable payments deficits should take steps to restrain the growth of domestic demand, using an appropriate mix of fiscal, monetary, and structural policies to raise national savings levels and promote efficiency of resource allocation. Surplus countries, on the other hand, need to ensure that domestic demand continues to grow at a satisfactory pace and that domestic obstacles to higher levels of economic activity are eliminated.

Discussions of industrial countries' economic policies in the context of the World Economic Outlook exercise have noted the limitations of demand management policies and the importance of avoiding fine tuning. Thus, adaptations of monetary and fiscal policies should respect the medium-term objective of establishing and maintaining a strong fiscal position, curbing the growth of government expenditure, and creating a stable financial environment. Increased attention has been given to the role of microeconomic reforms in strengthening overall economic performance and improving the capacity of economies to adjust to changing circumstances and deal with payments disequilibria.

Concerning economic trends in developing countries, the Board and the Interim Committee noted that 1987 was somewhat disappointing, with a deceleration in output growth and a fairly widespread acceleration in inflation. The increase of commodity prices in the latter part of the year appears to have improved the prospects for higher growth, but a strengthening in the quality and the quantity of domestic investment will be needed to take proper advantage of any improvement in the external environment. Thus, developing countries will have to persevere with efforts to reduce budget deficits, increase returns to savers, and maintain realistic exchange rates; the latter would help discourage capital flight. In addition, an essential requirement for higher growth is for savings to be channeled into genuinely productive investment, to reverse the decline in productivity observed in many countries over the past decade. To achieve this, it will be necessary in many cases to rationalize the structure of relative prices and to ensure that adequate public infrastructure exists to support

¹¹ The Group of Seven comprises Canada, France, the Federal Republic of Germany, Italy, Japan, the United Kingdom, and the United States.

productive activity in the private sector. Structural reforms are thus just as important to domestic and external adjustment in the developing countries as they are in the industrial world.

Beyond the requirement of improved domestic policies, it was emphasized that a stable international environment is vitally important for the economic prospects of the developing countries. Developing countries remain vulnerable to any adverse market reactions or increases in protectionism that might result if the needed policy adjustments are not sustained by the industrial countries.

Growth prospects for developing countries are also critically dependent on relations with external creditors. Some indicators of the debt situation point toward an improvement in 1987; the strong growth of the developing countries' export earnings, for example, permitted both a recovery of import growth and the first significant decline in the ratio of debt to exports since the onset of the debt crisis in 1982. However, the situation of the most indebted countries has remained difficult.

Discussions in the Board and the Interim Committee on the international financial system have underlined the importance of multilateral surveillance and of cooperative solutions to the challenges facing the world economy. The intensification of policy coordination among the major industrial countries following the Louvre Accord, as reconfirmed in their statement of December 22, 1987 and the Group of Seven communiqué of April 13, 1988, is a key element in the efforts to promote stability in financial markets and to sustain growth throughout the world economy. At the same time, it is essential to persevere with efforts to prevent a relapse into intensified protectionism, which would be a destructive and self-defeating way of tackling problems in the international trade area.

ARTICLE IV CONSULTATIONS

As noted above, Article IV consultations provide the Fund with the opportunity to review and comment on economic policies and developments in individual countries. The following brief summary deals with some of the main conclusions of Article IV consultations during the past year, beginning with the large economies with the biggest impact on international conditions and continuing with aspects of Article IV consultations for other groups of members.

- By the end of 1987, the current expansion of the economy of the *United States*, which began in 1982, had become the longest peacetime expansion in that country since the end of the Second World War. This upswing has been sustained in spite of the stock market reversal of October 1987 and has been accompanied by relatively moderate wage and price inflation and by a large decline in unemployment. The expansion has had important growth-supporting effects on the rest of the world. Nevertheless, the external and fiscal imbalances that have emerged in the United States during the recovery continue to be a concern.

It was noted that there was an unprecedented widening in the external current account deficit of the United States between 1981 and 1987. Although this deficit has recently begun to narrow, especially in real terms, it remains unsustainably large. A significant reduction in the budget deficit was achieved in 1987, but external adjustment in a context of sustained noninflationary growth requires that the federal fiscal deficit continue to decline. Strong fiscal action in the United States would also contribute to the objective of maintaining stable exchange rates.

Monetary policy in the United States can most usefully contribute to sustained economic growth by keeping inflationary pressures in check. Since the behavior of the monetary aggregates is uncertain, the Federal Reserve's conduct of monetary policy has for some time been based on a variety of economic indicators, including those aggregates. The greater role of international considerations in this policymaking is welcome, as was the prompt response when stock markets declined in October 1987. In the area of trade policy, the authorities have generally succeeded in keeping protectionist pressures at bay.

- The performance of the economy of *Japan* during 1987/88 has surpassed most expectations. The economic structure appears to have adapted relatively quickly to the appreciation of the yen since early 1985—and economic activity in 1987 has responded both to favorable terms of trade developments and to stimulative financial policies. Output growth has rebounded vigorously, price stability has been maintained, and external adjustment has proceeded steadily. The fiscal stimulus introduced in May 1987 has contributed to the expansion of domestic demand, mainly through increased capital expenditure in the public sector.

The tax reform measures introduced in 1987 are also welcome. The fiscal stance of the budget for 1988/89 seems appropriate given the strength of domestic demand. Monetary policy in Japan was broadly accommodative during much of 1987 and the early part of 1988. Continuation of the recent monetary policy stance, emphasizing stable prices and exchange rate stability, appears broadly correct. However, a close watch will be needed over domestic prices, given the resultant fairly rapid expansion of liquidity.

The Japanese authorities' planned structural reforms are welcome. There have already been significant achievements with financial reform, but further liberalization is needed. In the field of trade policy, continued progress in improving access to Japan's markets is desirable. For manufactures, Japan's market is highly open in terms of tariffs and quantitative restrictions, but there is scope for further deregulation that would facilitate access by foreign producers. Certain features of the land use policy that impede the effective use of land should be tackled vigorously. The authorities' efforts to proceed rapidly with further tax reform proposals to enhance equity and to eliminate distortions in the economy are appropriate. An acceleration of structural reforms would complement macroeconomic policies in reducing Japan's external current account surplus to sustainable levels over the medium term. Japan's recent efforts to increase the flow of resources to the developing countries—particularly through the Fund and other international financial institutions—are noteworthy.

- The growth of economic activity in the *Federal Republic of Germany* weakened somewhat in 1987, as the rise of domestic demand faltered and real net exports declined. More recently, however, there has been a strong revival in economic activity. The rate of growth of domestic demand is the central feature determining Germany's contribution to world economic growth and influencing the speed with which global current account imbalances are adjusted. Sufficiently strong economic growth in Germany is also desirable to reduce its high rate of unemployment. Firm control of government expenditure remains a central element of the country's budgetary policy. Nonetheless, the switch of emphasis in recent years to the reform and reduction of taxes—exemplified by the cut in direct taxes at the beginning of 1988 and the reform

package scheduled for implementation in 1990—is welcome. In monetary policy, the authorities have shown flexibility over the past year, particularly in adjusting short-term interest rates to moderate exchange market tensions. Concerning structural policies, there has been little progress to date with reforms in a number of important areas, particularly competition, protection, subsidization, and regulation. It seems likely that structural rigidities are a significant part of the explanation for Germany's relatively moderate overall economic growth in recent years; vigorous policy actions to tackle these rigidities would be highly desirable.

- In *France*, a number of significant improvements in economic performance have been achieved in recent years, including the reduction of inflation, a moderation in wage costs, the restoration of company profitability, and the consolidation of the fiscal accounts. In addition, the authorities have undertaken a number of important structural reforms aimed at enhancing the efficiency of the economy. These have included an extensive liberalization of the financial system; the removal of almost all foreign exchange, price, and credit controls; the easing of various administrative impediments to labor market flexibility; and the successful privatization of a number of publicly owned enterprises. Nonetheless, there remain causes of concern. Unemployment is high, industry has lost market shares both at home and abroad, and the current account balance has moved back into deficit. Given the weakening of the external position, there is a continuing need for policies of financial restraint, wage moderation, and structural reform. In this vein, the authorities have taken actions to reduce the central government budget deficit and the burden of taxes. In the area of monetary policy, they have successfully switched from a system of credit controls to a system of monetary control based on interest rates. Interest rates were reduced by $\frac{1}{4}$ of 1 percentage point in late May 1988, although they remain high in real terms.

- In the *United Kingdom*, economic activity has been expanding at a rate above the average of the other major industrial countries. Productivity has continued to rise rapidly and unemployment, though still high, has come down significantly from the peak reached in 1986. Structural reforms have contributed to these achievements by strengthen-

ing the supply side of the economy. Important in this connection have been the authorities' recent initiatives to improve the working of labor markets, and the major progress that has been made in restructuring financial markets. A source of concern is inflation. Although productivity growth has been rapid, wages are continuing to rise faster than in other major industrial countries. In addition, the external current account has weakened somewhat since 1986. The implementation of monetary policy in the period since the Louvre Accord has generally given greater weight to the stability of the exchange rate, particularly against the deutsche mark. In the face of heavy upward pressure on sterling in March–April 1988, however, the authorities allowed the pound to rise significantly against the deutsche mark, while lowering interest rates somewhat.

- Economic performance in *Italy* presents a somewhat mixed picture. While the growth of GDP and investment in 1987 was satisfactory, there was a weakening of the process of fiscal adjustment. This contributed to a sharp expansion in domestic demand, a slowing in the momentum of disinflation, and a weakening in the external current account. The worsening of the fiscal position added to the burden on monetary policy, as reflected in a rise in interest rates from mid-1987 and the temporary introduction of credit ceilings and tightening of exchange controls, which were removed after a short period. Given Italy's commitments within the European Monetary System, and the authorities' intention to proceed toward financial integration in Europe, a determined resumption of the convergence of Italy's economic performance toward that of its main trading partners is desirable. Apart from the need to rein in the growth of public indebtedness, there is a need for a restrained stance of monetary policy, not only for continued progress on the price front but also as a necessary underpinning for wage moderation. There is also a need for structural improvements, including measures to increase flexibility in the labor market.

- In *Canada*, while the economic expansion that started in early 1983 has continued with considerable momentum, there has been increased concern that cost-price pressures have intensified. Substantial progress has been made over the past few years in correcting the fiscal imbalance. Never-

theless, the federal budget deficit remains large, and further steps are needed to ensure that the fiscal correction that is planned over the medium term is in fact achieved. The authorities recognize that the best way for monetary policy to contribute to sustained economic growth is to continue to aim at price stability. Their actions in 1987 to curb monetary expansion in response to a rapid rise in the degree of resource use and certain signs that inflation might begin to accelerate were appropriate and contributed to a further strengthening of market confidence in the Canadian dollar. The Government's continued efforts to improve efficiency by curbing public sector involvement in the economy and reducing obstacles to the play of market forces are welcome. The comprehensive tax reform that the Government began to implement in 1987 may bring substantial benefits in terms of higher output in the long run. The Free Trade Agreement with the United States, which is still in the process of being ratified, should also contribute to improved long-term performance in the Canadian economy.

- Article IV consultations with *smaller industrial countries* and *developing countries* have reflected the varying circumstances facing individual members. The Board's consideration of the appropriate stance of policies in these countries has continued to focus on the need for sound macroeconomic policies, but has given increased attention to structural reforms, the sustainability of policies in a medium-term context, and the need for trade liberalization.

- For many *smaller industrial countries*, measures to facilitate labor mobility and increase the flexibility of wage determination (including modification or suspension of wage indexation) continue to be of central importance, along with tax reform. Also of growing importance have been efforts to deregulate domestic financial markets and to liberalize international capital markets. In addition, competitive forces have been strengthened in a range of product markets through the revision of policies affecting specific industries, including in particular the transport, telecommunications, and energy sectors. Article IV consultations with smaller industrial countries have generally stressed the need for intensified efforts to remove structural rigidities, within the framework of stable macroeconomic policies.

● In *developing countries*, the range of measures required to strengthen economic performance is wide and depends to a considerable extent on individual circumstances. Among those measures most frequently stressed in Article IV consultations have been the reduction of fiscal imbalances and administrative rigidities; improvements in the efficiency of public enterprises; elimination of price distortions through more market-oriented pricing mechanisms; and the phasing out of administrative controls in goods, labor, and financial markets. Other policy areas that frequently receive attention include: reforms to improve the tax system; changes in expenditure policies to reduce the level of public subsidization; reforms of the financial system (including allowing greater scope for market forces to operate in the determination of interest rates); measures to increase the role of markets in determining exchange rates; and the removal of exchange and trade restrictions.

Considerable emphasis in Article IV consultations with developing countries continues to be placed on the need to pursue noninflationary financial policies. Recommended measures include—in addition to the containment of rates of monetary expansion—the reduction of fiscal deficits, particularly by limiting the growth of public expenditures and by wage restraint, with public sector pay policies being called upon to set the example.

The appropriateness of exchange rate policies continues to be a primary focus of consultations with developing countries. The analysis of exchange rate policies is pragmatic. It is based primarily on developments in real effective exchange rates and their implications for immediate and prospective balance of payments performance, as well as for diversification of the export base. This analysis is often supplemented by broader indicators of competitiveness, such as the profitability of particular goods and specific sectors, general wage and cost pressures, developments in parallel exchange markets, and the relationship between the level of the exchange rate and the restrictiveness of the exchange and trade system.

In general, exchange rate policies in developing countries appear to have been more appropriate in 1987/88 than previously. The real effective exchange rates for many developing countries, which in the early 1980s had been at levels that appeared to be incompatible with a viable balance of payments position, have subsequently reverted

to levels that have strengthened international competitiveness and improved the prospects for export-led expansion. Further, the adoption of more flexible exchange rate arrangements in a number of developing countries has been accompanied by a liberalization of exchange and trade controls, including a reduced reliance on multiple currency practices. In certain cases where the competitive position of a country has been a source of potential concern, but importance has been attached to the stabilizing influence of a fixed link to another currency, it has been considered preferable to avoid exchange rate depreciation and to focus policy efforts on a tightening of financial policies and on wage restraint.

TRADE POLICY ISSUES

Trade policy issues are an important aspect of the Fund's surveillance activities, and receive attention both in the World Economic Outlook and in Article IV consultations. The Fund stresses the importance of resisting protectionist pressures and of rolling back existing restrictions. Liberalization is seen as important in industrial countries, both to improve resource allocation in these countries themselves and to promote a more conducive environment for growth and adjustment in the rest of the world. In this connection, the need to liberalize trade in agriculture has received particular attention. For many developing countries, the reduction of subsidies and the liberalization of trade regimes are seen as a necessary condition to enable them to strengthen economic performance and implement effectively a growth-oriented adjustment policy.

In addition to the treatment of trade questions in the World Economic Outlook and in Article IV consultations, the Board reviewed developments and issues in trade policy on two other occasions during the year ended April 30, 1988. These discussions covered recent trends in protection, its causes and effects, the prospects for trade reform in the context of the Uruguay Round of trade negotiations, and the role of the Fund in the trade area. They led the Board to reiterate its strong support for trade liberalization, in particular since such policies promote the balanced growth of world trade, help sustain economic growth, and facilitate the management of the debt problem.

Protectionist pressures in the 1980s have been fueled by macroeconomic imbalances—including

persistent trade deficits and misaligned exchange rates, high levels of unemployment in many countries, and the difficulties that shifts in comparative advantage have created for particular sectors. A troubling feature of recent protectionist measures is the frequent resort to discriminatory nontariff barriers. In addition, trade conflicts have become more frequent, and greater use has been made of retaliation to encourage trading partners to change their practices.

Following the tariff reductions implemented under successive rounds of multilateral trade negotiations, nontariff barriers appear to have become at least as important as tariffs as instruments of protection. Voluntary export restraints, consisting of bilaterally agreed measures to restrict export volumes, are a common type of nontariff barrier and are usually applied against the more efficient suppliers. Discretionary licensing systems often focus restrictions on imports that compete with domestic production. Nontariff barriers reduce the transparency of the world trading system because they are not always publicized and because their impact on trade is difficult to measure.

Agricultural trade has long been severely distorted by the farm support systems of most industrial countries and other types of government intervention. Production subsidies have led to overproduction, which has depressed the terms of trade of agricultural exporters and distorted geographical production patterns. Recent agricultural policy reforms undertaken by a number of industrial countries are welcome, but they are not, by themselves, expected to reduce the imbalance between world demand and supply greatly, unless they are followed by further measures.

A trend toward trade liberalization has recently emerged in developing countries, often in the context of adjustment programs supported by the Fund and the World Bank. A number of countries that have adopted more flexible exchange rate regimes have also eliminated major trade restrictions, and several countries have replaced quotas with tariffs as the main instrument of protection. Nevertheless, protection in developing countries has remained high. In an attempt to deal with balance of payments and debt-servicing problems, some developing countries have made increased use of countertrade arrangements.

In its surveillance activities, the Fund stresses the complementarity of trade liberalization and macroeconomic adjustment. Protectionist pres-

sures are likely to persist unless policies that address the fundamental causes of such pressures are adopted. Progress toward an orderly correction of fiscal and external imbalances is a necessary condition for the abatement of trade tensions. Trade tensions would be further eased by structural policies in industrial countries aimed at reducing surplus capacity both in a number of industrial sectors and in the agricultural sector.

Macroeconomic imbalances and exchange rate misalignments do not, of course, justify protection. Indeed, trade restrictions and internal barriers to the movement of factors of production tend to exacerbate the difficulties created by inappropriate macroeconomic policies. The Fund, through its contacts with member countries, emphasizes the benefits of trade liberalization both to the country undertaking it and to its trading partners. For example, freer access of developing countries to industrial country markets would serve the dual purpose of strengthening developing countries' debt-service capacity and helping them gain domestic political support for their trade liberalization efforts. It would also help curb inflation in industrial countries and improve prospects for additional exports to the developing world.

Though not participating directly in the negotiations of the Uruguay Round, the Fund plays a constructive role through its efforts to promote a stable international environment and through its surveillance over the exchange rate and macroeconomic policies of its members. The Fund also urges countries to observe the standstill and rollback commitments contained in the Punta del Este Declaration and has underlined the importance of avoiding resort to discriminatory, bilateral measures. In pursuing its role, the Fund has continued its active cooperation with the General Agreement on Tariffs and Trade (GATT).

ANALYTICAL ISSUES IN SURVEILLANCE

A key requirement for the effectiveness of the Fund's surveillance work is to develop a suitable analytical basis to deal with the changing issues and concerns confronting member countries. For the past several years, a central preoccupation of policymakers has been to find ways of strengthening the mutual consistency of economic policies, in a world of high capital mobility and flexible exchange rates. To support this objective, efforts have been made to develop indicators of economic

performance and policies that would underpin the process of international economic policy coordination (see Box 3).

Developments in the use of indicators in the Fund have involved both the Interim Committee and the Executive Board. In September 1987, the Interim Committee endorsed the extended use that was being made of indicators in surveillance and the medium-term focus that was being imparted to the analysis, and it urged the development of criteria that would be helpful in judging

the sustainability and desirability of the evolution of a limited set of key economic variables. The Board discussed issues related to indicators on two occasions, in July 1987 and in January 1988.

The July 1987 discussion dealt with specific issues related to the implementation of the indicators approach, including that of how to develop procedures for monitoring economic indicators so as to enhance policy dialogue and policy coordination. The World Economic Outlook exercise, the results of which are discussed in the Board

BOX 3 ECONOMIC INDICATORS AND POLICY COOPERATION

The Fund has been working actively on the use of indicators since 1986, with a view to promoting policy cooperation while preserving the flexibility of the floating exchange rate system. In the Tokyo Economic Declaration of that year, the heads of state or government of the seven major industrial countries requested their finance ministers to "review their individual economic objectives and forecasts collectively at least once a year," using specified indicators, "with a particular view to examining their mutual compatibility." The indicators specified were GNP growth rates, inflation rates, interest rates, unemployment rates, fiscal deficit ratios, current account and trade balances, monetary growth rates, reserves, and exchange rates. It was noted that the Managing Director of the Fund would participate in the review of indicators by major industrial countries.

Subsequently, the Fund began to incorporate the use of indicators more explicitly in its World Economic Outlook analysis. The Interim Committee, meeting in September 1986, "welcomed the agreement at the Tokyo summit to use indicators in conducting surveillance as part of efforts to strengthen international economic cooperation." It also "supported the greater use, in the latest World Economic Outlook analysis, of indicators of economic policies and performance." The Committee emphasized that "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."

This guidance was extended in the course of 1987. At the April 1987 meeting of the Interim Committee, Committee members said that "actual policies should be looked at against an evolution of economic vari-

ables that could be considered desirable and sustainable." 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."

The use of indicators in surveillance was endorsed by the heads of state and government of the Group of Seven countries in a communiqué issued at the conclusion of the summit meeting in Venice in June 1987. That communiqué called on the Fund to assist in strengthening the surveillance of the economies of the Group of Seven countries, using economic indicators, including exchange rates. It underlined the role that the Fund could play in helping to promote a constructive use of 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 September 1987 meeting of the Interim Committee welcomed the more extended use of indicators and the development of medium-term scenarios. The Committee asked the Executive Board to "continue exploring the development of criteria that would be helpful in judging the sustainability and desirability of the evolution of a limited set of key economic variables."

The meeting of the Interim Committee in April 1988 welcomed the progress that has been made in developing the use of indicators, stressed the medium-term nature of the exercise, and encouraged the Executive Board to pursue its work. A noteworthy recent development has been the addition of a commodity price indicator to the indicators used in surveillance by the Group of Seven countries.

and the Interim Committee, was seen as a critical element in this process. It was agreed that the World Economic Outlook should provide a quantitative assessment of the implications of current policies for the evolution of key economic variables. This assessment should be set in a medium-term framework and, where appropriate, should include alternative scenarios based on different assumptions concerning economic policies and market reactions.

In January 1988, the Board discussed the use of commodity price indices as a possibly significant indicator of future price developments. Because commodity prices often lead movements in consumer prices in industrial countries, such an early-warning signal may complement other indicators in providing timely information about shifts in global inflationary tendencies. Nonetheless, the reliability of such relationships has not yet been thoroughly tested. Moreover, because inflation of consumer prices has been much less volatile than that of commodity prices, it cannot be assumed that stability of consumer prices requires stability of commodity prices.

The Interim Committee, at its April 1987 meeting, encouraged the Executive Board to pursue its work on indicators in the context of both the World Economic Outlook exercise and Article IV consultations. In this regard, it was considered that actual policies should be looked at against an evolution of economic variables that could be considered desirable and sustainable. To the extent that earlier multilateral assessments of policies had identified potential sources of tensions in current policies, Article IV consultations would be a critical component of subsequent discussions to promote the adoption of more satisfactory policies. Considerable attention is now being directed to indicators in consultations with major industrial countries in order to strengthen the assessment of national policies against the background of the multilateral assessments of policy interactions in the World Economic Outlook. Indicators can also play a useful role in consultations with countries other than the major industrial countries. However, in extending the use of a common framework for assessments, care should be taken to retain the structure of analysis best suited to each member country's circumstances and to ensure that staff reports are relevant to the authorities directly concerned.

PROCEDURAL ISSUES

The procedures for surveillance that were adopted by the Executive Board in 1977 require the Board to review annually the general implementation of surveillance. The most recent such review was concluded on April 22, 1988. One of the issues covered was that of the frequency of consultations. It was also decided that future reviews take place only every second year.¹²

The guidelines for Article IV consultations adopted in 1983 state that Article IV consultations should be conducted annually with certain categories of members, namely, those whose economic developments have a substantial impact on other countries (later specified as the 25 countries with the largest quotas); those that are implementing programs involving use of Fund resources; and those for which there are substantial doubts about the medium-term viability of their balance of payments. For other members the interval between consultations could extend up to two years. With the external environment and balance of payments outlook being difficult for many member countries, the number of Article IV consultations concluded each year has increased sharply, reaching a peak of 131 consultations (covering 85 percent of the membership) in 1985, before declining slightly to 125 (81 percent of the membership) in 1986. The associated sharp increase in the work load of the Board and staff led the Board to reconsider the guidelines for consultations in July 1987. This reconsideration was aimed at economizing the resources devoted to the consultation process, without compromising the Fund's responsibility for effective surveillance.

The Board, after considering several specific proposals, and while stressing the importance of regular consultations for the effective implementation of surveillance, adopted two modifications to the 1983 guidelines. The first was the introduction of a modified consultation procedure for some countries, involving a full Article IV consultation every second year and a simplified interim procedure in the intervening year. Under this "bi-cyclic" procedure, the frequency of staff contacts with the authorities in member countries will be maintained and the Board will continue to be informed of developments and policies in these countries on a

¹² Decision No. 8856-(88/64), April 22, 1988; see Appendix III.

regular basis. However, staff reports for the interim consultation will be circulated only for the information of the Board and will not normally be expected to involve discussions by the Board. A discussion, however, may be requested by the member country, an Executive Director, or the Managing Director. The coverage and analysis in reports on the occasion of the simplified interim procedure will remain comprehensive as far as substantive policy issues are concerned and will include in particular an assessment of the medium-term viability of the member's balance of payments and a forthright statement of policy recommendations. At the time of the decision, such procedures were adopted for 23 members.

The second modification was a decision that the application of the "substantial impact" criterion be narrowed to cover the 20 instead of 25 members with the largest Fund quotas. At the same time, however, it was again stressed that countries that have significant impact regionally, or that are important competitors in world or regional markets for certain commodities and services, should be maintained on the standard 12-month cycle. These changes in the procedures for implementation of surveillance and a further lengthening of the average period between consultations have already resulted in some saving of Board and staff resources. Thus, the number of Article IV consultations concluded in 1987 declined to 115 (75 percent of membership).

At the most recent review of the implementation of surveillance by the Board, a further expansion of the coverage of the bi-cyclic procedure was recommended. To help further reduce the work load of the Board and the staff, consideration was given to using greater flexibility in the application of regular consultation cycles, including the use on a case-by-case basis of 15-month intervals where a strict 12-month periodicity is not considered essential.

EXTERNAL DEBT SITUATION AND STRATEGY

For the past six years, debt difficulties have been a central feature of the international economic landscape. The Fund has played a central role in developing a cooperative strategy for dealing with these difficulties and continues to be fully involved in its implementation.

The Interim Committee reaffirmed the case-by-case debt strategy at its April 1988 meeting, em-

phasizing three requirements: the sustained implementation of growth-oriented adjustment and structural reform policies by debtor countries; the maintenance of a reasonably favorable international environment; and an adequate flow of financing to debtor countries from official, multilateral, and private creditors.

As noted in the Interim Committee communiqué, there have been a number of positive developments in the debt situation. One important achievement has been the significant external adjustment in many indebted countries, as described in Chapter 1. In addition, the threat of a serious dislocation of the international financial system has been contained. Also, the international banking system has been substantially strengthened, with the balance sheets of the major banks in most industrial countries showing marked improvements in capital-asset ratios since 1982.

Nevertheless, serious problems remain that call for the continuation of strong cooperative efforts. Policy reforms in a number of debtor countries have not been undertaken with the desired speed, scope, or intensity. In addition, the international economic environment has continued to be difficult, with intensified protectionist pressures, high real interest rates, substantial variability in key currency exchange rates, relatively modest growth in world trade and, in particular, a fall in the terms of trade for developing countries that is estimated at some 20 percent from 1982 to 1987. This terms of trade deterioration has offset much of the real adjustment that indebted countries have achieved; as a result, in many of these countries the expected easing in debt-service burdens has not materialized. On the contrary, the debt-to-exports ratio of countries with recent debt-servicing problems rose from an average of about 170 percent in 1980-81 to about 300 percent in 1987. Although growth has resumed in many countries with debt difficulties, it is still modest—well below the rates experienced during the 1960s and 1970s—allowing little room for an expansion in per capita consumption. This difficult economic situation has been a factor in the continued low net private lending to developing countries.

The intensity of debt difficulties in 1987 was reflected, *inter alia*, in announced suspensions of interest payments to commercial banks by Brazil, Ecuador, and Côte d'Ivoire, protracted payments arrears in several other of the 15 heavily indebted countries, and serious delays in assembling bank

financing packages. This intensification of difficulties helped prompt significant increases in loan-loss provisions by a number of large banks in some major financial centers and a sharp decline in the prices of the sovereign debt of some countries in the secondary market. In the latter part of 1987 and early 1988, however, some progress was made in reducing these strains.

Adequate external financing is crucial for the debt strategy, because it supplements the domestic resources needed to foster economic growth and enable countries to service their international obligations. It also helps the authorities in debtor countries to mobilize the social consensus needed for a steady implementation of adjustment and structural reform policies. Restructuring arrangements reached between 1983 and 1987 (including multiyear restructuring arrangements) covered over \$300 billion of commercial bank loans. However, commitments of new finance under concerted bank lending, which had amounted to over \$15 billion a year during 1983 and 1984, fell to an average of \$5 billion in 1985–86 and were only \$2.4 billion in 1987. Moreover, delays were encountered in finalizing some commercial bank financing packages. Non-debt-creating flows have not offset this decline, with direct investment, in particular, being disappointingly low in recent years.

To address the concerns about exposure and the diverging interests among commercial banks, as well as debtor countries' worries about increasing their stocks of nonconcessional debt, a variety of financing options have been developed. For example, the "menu approach," adopted in a package negotiated with Argentina in August 1987, combines more traditional financing mechanisms—such as interest rate options, cofinancing, parallel financing, and debt conversion—with more recent innovations, such as alternative participation instruments, securitized new money claims, and fees to encourage early participation (see Box 4).

The Interim Committee considered that the Fund should continue to support market-based approaches voluntarily agreed between debtors and creditors that would help restore normal access to external financing within a reasonable time frame. The Committee welcomed the emergence of financing techniques—such as debt-equity conversions and other forms of debt exchange—that could work to reduce the existing stock of debt and enhance prospects of repayments.

Assurances on bank financing are important to the Fund for three reasons—to ensure that sound adjustment programs are fully financed, to safeguard Fund resources, and to encourage other sources of external financing. Where concerted financing from commercial banks has been required to finance fully a Fund-supported adjustment program, a "critical mass" of bank commitments has normally been required prior to Board approval of arrangements. Timely and adequate financial support from all creditor groups remains essential to facilitate the pursuit of growth-oriented adjustment policies. The Fund does not have the mandate or the resources to take on the financing role that should fall to private and other official creditors.

Over the past several years, for some of the countries that have made progress in their adjustment efforts, commercial banks and official creditors have agreed to multiyear restructuring agreements (MYRAs). In two of these cases (Venezuela and Yugoslavia), restructurings have been based on the "enhanced surveillance" procedure developed by the Fund in 1984–85. The Board has held two reviews of enhanced surveillance, in March 1987 and March 1988. In these reviews, the Board concluded that the procedure, as adopted initially, remains appropriate, but that it is essential that members using enhanced surveillance demonstrate a strong record of adjustment and that creditors continue to exercise appropriate influence. The Fund's role in this connection was seen as one of influencing members' authorities to adopt and maintain appropriate policies through a close process of consultation and of helping the review and decision process of creditors through the provision of candid assessments.

There continues to be an interest in the enhanced surveillance procedure, and in several MYRAs agreed during 1985–87, the possibility of enhanced surveillance is envisaged after the expiration of an arrangement to use Fund resources. The Board considers application of the enhanced surveillance procedure upon the request of member countries. Thus, Uruguay's request was approved in July 1987. Nevertheless, at this stage, less use is being made of this procedure than had earlier been expected, as a number of countries have opted to continue making use of Fund resources.

Multilateral development banks and official creditors have played a growing role in providing

BOX 4
INNOVATIONS IN FINANCING INSTRUMENTS

Financing modalities in bank financial packages have evolved progressively since the emergence of debt-servicing difficulties in 1982–83. Financing in 1984–85 saw the use of certain financial modalities—currency redenomination, interest retiming, onlending/relending, trade facilities, cofinancing, debt conversion—and modifications in terms. These adaptations reflected a desire to tailor these packages more closely to the needs of both the creditors and debtor. Some more recent developments in financing techniques are described below.

- *Debt conversions* rose rapidly in 1987. Under official schemes operating in seven countries (Brazil, Chile, Costa Rica, Ecuador, Honduras, Mexico, and the Philippines) \$3.9 billion of debt was converted, compared with an annual average of \$1.5 billion during 1985–86. A number of recent regulatory changes and rulings in creditor countries, particularly in the United States and Japan, facilitated such conversions.

- Further moves toward *securitization*—the substitution of more tradable financial assets for bank book claims—were reflected in the financing agreements with Argentina and Ecuador and in the Mexican debt exchange.

- *Alternative participation instruments* (APIs) were designed to allow banks, especially those with small exposures, to exchange their book claims for bonds with a lower interest rate and longer maturity than associated with the traditional terms for restructuring for new money. In return, these banks were permitted to “exit” from the restructuring and new money process. Commercial banks’ requests for APIs have been very limited so far, as banks have considered the actual pricing of these “exit” options to be unattractive. The Argentine new money bonds provided banks with the option to receive up to \$1 million of their commitment to the new money package in the form of U.S. dollar-denominated bearer bonds.

- *A debt exchange scheme* was proposed by the Mexican authorities in late 1987. Under the scheme, certain existing medium-term debt could be exchanged voluntarily for newly issued 20-year Mexican bonds, which would be collateralized by a 20-year zero coupon U.S. Treasury bond. The price at which the actual exchange took place was determined through an auction, with banks being invited to submit bids and the Mexican Government determining the amount and price at which such offers were accepted. The auction was completed in February 1988, when \$3.7 billion in existing bank debt was exchanged for \$2.6 billion in new bonds.

- *Debt buy-backs* permit countries to repurchase their debt at a discount using international reserves or foreign exchange obtained from official or private sources. The Bolivian buy-back scheme allows that country to purchase back its bank debt at a steep discount using donated funds. Bolivia is purchasing about half of its bank debt at a price of 11 cents per dollar of face value. The Fund, through the establishment of a voluntary contribution account, is administering the receipt and disbursement of donations made for the purpose of the buy-back.

- *Interest retiming* essentially extends the interval between interest payments, permitting a country to defer one or more interest payments. The interest base option is usually adjusted to reflect the extended interest periods. For example, associated with a switch from quarterly to semiannual interest payments would be a change from a three-month to a six-month LIBOR interest base. Retiming thus enables banks to extend finance without committing new money.

- *Performance incentives* for either the banks or a debtor country have been included in several recent restructuring agreements. These packages included an early participation fee for banks. Bankers believed that such fees have played an important role in accelerating commitments.

financial support for heavily indebted countries. Net disbursements to these countries by the World Bank rose from \$1.4 billion in 1980 to \$2.3 billion in 1987, with the share of policy-based lending rising rapidly over the period. In addition to their direct lending operations, multilateral development banks have helped mobilize sizable flows

from official donors and commercial banks through various techniques, including cofinancing, parallel financing, and guarantees.

Official creditors have provided very substantial amounts of debt relief through the Paris Club. In 1987, 17 rescheduling agreements were concluded for an unprecedented total estimated at \$25 bil-

lion. Of this amount, \$19 billion was accounted for by rescheduling agreements concluded with three countries: Brazil, Egypt, and Poland. In response to the protracted problems of the poorest indebted countries, Paris Club creditors agreed in mid-1987 to consider, on a case-by-case basis, stretching the repayment period to between 15 and 20 years, with a corresponding lengthening of the grace period to up to 10 years. (For all other debtor countries, a maturity of 10 years with 5 years' grace remains the maximum.) Earlier in 1987, Paris Club creditors had decided to consider, on an exceptional and case-by-case basis, rescheduling agreements for low-income countries that have Fund arrangements under the structural adjustment facility (SAF). By mid-1988, such agreements had been reached for Guinea-Bissau, Mozambique, Niger, and Uganda. For other cases, however, an upper credit tranche arrangement with the Fund continues to be the norm required by Paris Club creditors for a rescheduling.

On the part of international financial institutions, the establishment of the enhanced structural adjustment facility (ESAF) has effectively tripled the amount of concessional resources that the Fund can make available to countries undertaking strong growth-oriented adjustment programs. The World Bank has received substantial support from donors for its special program of action to assist the low-income, debt-distressed countries of Africa, and the eighth replenishment of the International Development Association is ready for disbursement. In addition, the proposed general capital increase for the World Bank has entered into effect. Some of the regional development banks have also substantially augmented the resources at their disposal through capital increases and replenishment of concessional windows.

Despite these positive steps, the external debt situation of a number of low-income developing countries remains extremely difficult. It is essential that adequate and timely concessional assistance be provided to support low-income countries that undertake strong programs of structural reform and macroeconomic adjustment. For these countries, new financing flows, including debt rescheduling, must be provided on terms that are appropriate to their circumstances. The retroactive conversion of existing official development assistance to grants, which involves, in effect, writing off or writing down outstanding debt, is being applied to such countries by a number of donors.

Furthermore, there is a need in such cases to improve the coordination of support from all donors and creditors; the policy framework process (see below) that has been developed in connection with the SAF can play a major role in this respect.

FUND FINANCIAL SUPPORT OF ADJUSTMENT PROGRAMS

An important means by which the Fund fulfills its purposes is through the provision of financial resources in support of programs of economic adjustment in member countries. There are several vehicles by which Fund financial support is provided. These include stand-by arrangements (typically covering adjustment programs of one–two years); extended arrangements (generally covering somewhat longer programs of up to three years); compensatory financing of temporary export shortfalls; buffer stock financing; and lending to low-income countries under the SAF and the ESAF. The following analysis describes a number of key developments in policies governing these facilities and also discusses the agreement that has been reached to provide financing for external contingencies. Detailed information concerning the amounts and beneficiaries of Fund support under the various facilities is provided in Appendix II.

CONDITIONALITY

A key feature of the Fund's financial support is that it is made available under conditions designed to promote effective adjustment and ensure that the use of resources by members is temporary and consistent with the Fund's objectives. These conditions relate to the overall economic policies pursued by members: such policies should permit the return to balance of payments viability within a reasonable time frame, while at the same time encouraging economic growth and employment creation, promoting financial stability, and reducing trade and payments restrictions (or avoiding their intensification). The conditions under which Fund resources are made available are reviewed periodically to ensure that they remain appropriate to the situations faced by member countries, and consistent with the revolving character of the Fund's resources.

The latest comprehensive examination of conditionality was completed in April 1988; the two

previous examinations were in 1968 and 1979.¹³ In this process, the Board conducted a wide-ranging review of issues in the design of adjustment programs supported by the Fund. These issues included the means of ensuring that adjustment programs foster growth, how programs affect poverty, the monitoring of structural adjustment, and technical issues in program monitoring.

It is accepted that Fund-supported adjustment programs should foster sustainable economic growth in a medium-term perspective: programs that strengthen the balance of payments in the short run without laying the basis for medium-term growth would not be sustainable. (Conversely, of course, appropriate fiscal and monetary policies and balance of payments viability are essential for growth to be sustainable.) Over the medium term, capital formation and factor productivity play a key role in explaining growth. Given the limited scope many countries have for additional foreign borrowing, an essential precondition for faster growth is the pursuit of policies aimed at strengthening domestic savings and improving resource allocation. Among structural measures that have been considered important in improving total factor productivity and growth performance are: price reforms, including the establishment and maintenance of realistic exchange rates; actions to strengthen the efficiency of the capital structure, in part by raising the quality of public sector investment; and steps to lessen the distortions caused by monopolies, skewed incidence of taxation, and trade restrictions.

The Board also discussed the implications of Fund-supported adjustment programs for poverty. While it is agreed that questions of income distribution, as such, should not form part of Fund conditionality, considerable importance is attached to improving program design so as to protect the poorest segments of the population during the period in which adjustment policies are being implemented. There was a broad consensus to mitigate, without sacrificing the goals of macroeconomic adjustment, the impact of adjustment programs on poverty, as well as for the Fund to

strengthen its capacity to respond more effectively to members' requests for advice in this field.

The growing recognition of the importance of microeconomic policies for growth and adjustment has brought to the fore issues of the design and monitoring of structural policies. The Board addressed both the broad policy issue of the role of the Fund in promoting structural reform and the more technical question of the suitability of alternative techniques for monitoring structural adjustment. It agreed that the Fund needs to place more emphasis on structural reforms and growth-oriented adjustment, and noted that current guidelines do in fact permit such emphasis in Fund programs when structural reform is seen as essential for external viability.

Structural reforms are expected to figure prominently in programs supported by arrangements under the SAF, the ESAF, and the extended Fund facility, as well as in many programs supported by stand-by arrangements complementing measures of macroeconomic adjustment. In many cases it may not be possible to establish the precise nature of the link between structural reform and external viability. Given the limited knowledge about some of the effects of different structural policies, including their lagged effects, it may be particularly difficult to determine the weight to be attached to particular types of reform. The impact of structural reforms in promoting growth is an area where more work and experience will be needed. Furthermore, while certain structural measures are clearly within the Fund's traditional areas of responsibility, others, such as the rationalization of public sector investment programs, strengthening social and economic infrastructure, and promoting administrative and other microeconomic reforms, are less directly related. Deeper Fund involvement in these areas must involve very close collaboration with the World Bank. Such collaboration should nevertheless respect the particular competence, mandate, and experience of each institution.

With respect to the issue of the appropriate techniques for program monitoring, the Executive Board has reaffirmed the principle that precise and objective monitoring is necessary to provide assurance to members concerning the conditions under which they can have access to Fund resources as well as to ensure the appropriate use of those resources. At the same time, a desirable characteristic of monitoring is that it should be

¹³ Since the adoption of the 1979 Guidelines on Conditionality (Executive Board Decision No. 6056-(79/38), adopted March 2, 1979, *Selected Decisions*, Thirteenth Issue, pp. 27-29), periodic reviews of the general experience, as called for in the 1979 Decision, have taken place at intervals of one to one and a half years.

limited to what is necessary to ensure that the Fund's financial assistance contributes to effective external adjustment. Prior policy actions can be particularly important in this connection since they give a strong start for an adjustment program and enhance its credibility. Program reviews have a useful role to play, particularly for the monitoring of policies, including structural policies, that may not be amenable to quantitative performance criteria. Care must be taken, however, that the scope of reviews is well defined and that reviews do not become a substitute for a clear delineation of policy intentions in performance criteria.

There would appear to be room for some experimentation with certain aspects of monitoring. One suggestion that received broad support was to use semiannual rather than quarterly performance criteria in certain arrangements. The proposal was considered particularly relevant for extended arrangements, given their strong structural emphasis, longer-term orientation, and extended repurchase periods, but it was also seen as potentially relevant in some longer-term stand-by arrangements with a strong structural content. Semi-annual performance criteria were not, however, seen as reducing the need for careful and continuous tracking of macroeconomic developments.

The April 1988 comprehensive examination of conditionality also addressed issues relating to the guidelines on conditionality that were adopted in 1979. It was generally agreed that the 1979 guidelines have served the Fund well and that they provide enough latitude for a greater emphasis to be given to structural reforms when these are essential to external viability. It was therefore decided to continue for the time being with the present guidelines but to keep them under examination as further experience is gained.

MODIFICATIONS TO FUND FACILITIES

In addition to the policy conditions under which the Fund's resources are made available to members, other aspects of the design of Fund facilities are also of significance. These aspects include limits on access to Fund resources; the conditions for access (other than policy conditions); the maturity period over which resources are available; and the rate of charge. Developments concerning the volume of use of the Fund's resources, charges, and changes in maximum access limits are described later in this chapter; the analysis immedi-

ately below discusses developments concerning other aspects of the design of Fund facilities.

- In its reconsideration of the *extended Fund facility*, the Board focused on how to make it more effective both for supporting adjustment efforts in comprehensive medium-term programs of macroeconomic adjustment and structural reform, and for acting as a catalyst for other sources of finance. In particular, emphasis was placed on the sustained implementation of structural reforms leading to balance of payments viability in the context of a liberalized trade and payments regime. At the same time, it was understood that any changes should not jeopardize the monetary character of the Fund or strain its liquidity.

In considering how to increase the effectiveness of the extended Fund facility, the Interim Committee communiqué stated that with strong adjustment programs, more Fund resources should, where appropriate, be made available by increasing actual access within current limits and that, in exceptional circumstances, access might extend beyond these limits. The Committee observed that, in present circumstances, forceful initial policy actions would often be needed.

Concerning the duration of arrangements, merit was seen in allowing existing three-year extended arrangements to be lengthened to four years where this would facilitate sustained policy implementation and balance of payments viability over the medium term. There was also support for changes in the operational features of the extended Fund facility that would tend to reduce the average rate of charge and lengthen the average maturity during which drawings are outstanding. These latter changes could be accomplished by a change in the mix of borrowed and ordinary resources used to finance purchases from the extended Fund facility in favor of ordinary resources.

- Following the 1987 Annual Meeting, the Board began a detailed examination of *external contingency mechanisms* in parallel with the review of the compensatory financing facility. The purpose of external contingency mechanisms is to provide additional financing to support programs that might be thrown off track by adverse exogenous developments, and thereby to encourage members with Fund-supported programs to sustain their policy reform efforts. Agreement has been reached to

combine Fund assistance for export shortfalls and external contingencies into a single facility. It has also been agreed that the essential features of the compensatory financing facility should be preserved and that the basic features of the external contingency component of the new facility will include: partial compensation for the effects of external disturbances beyond the control of the authorities; an appropriate blend of adjustment and financing; symmetrical adjustments in financing for favorable and unfavorable developments; and a minimum threshold level for access to the facility.

The new facility will have an overall access limit of 105 percent of quota. Within that overall access, a limit of 40 percent of quota would apply both to the compensatory element and to the contingency element, and an optional tranche of 25 percent of quota would be available to supplement either element at the choice of the member. Members who have no payments problems other than those arising out of shortfalls in their exports or service earnings that were beyond their control will continue to have, as under the compensatory financing facility, access up to 83 percent of quota for the compensatory element.

- The *structural adjustment facility* (SAF) was established in March 1986 to provide concessional balance of payments assistance to low-income countries facing protracted balance of payments problems and undertaking comprehensive efforts to strengthen their balance of payments position. The facility operates within the Fund's Special Disbursement Account; its resources are obtained from repayments of Trust Fund loans (about SDR 2.7 billion) disbursed during 1977-81. SAF loans are provided on highly concessional terms; the interest rate is 0.5 percent per annum and repayments are made over a period beginning five and one half years and ending ten years after disbursement. Eligible countries may currently obtain financing under the facility of up to 63.5 percent of quota in three tranches, each one disbursed at the beginning of three successive years in support of one-year programs within a medium-term framework. At present, 62 countries are eligible for assistance under the facility, and, as of April 30, 1988, 25 SAF arrangements were in effect. However, the two largest eligible countries, China and India, have indicated that, as they do not anticipate acute or persistent balance of pay-

ments need, they do not intend to make use of the facility, thus enlarging the amount available to other eligible countries.

- In order to provide additional concessional financing and support strong growth-oriented adjustment efforts by low-income countries, the Managing Director proposed in June 1987 that the concessional resources available from the repayment of Trust Fund loans be tripled through contributions from other sources. This proposal met with widespread support, and by the end of the year commitments had been received from a broad range of contributors in the form of loans to a Trust administered by the Fund, and both loans and grants to an interest subsidy account within the Trust. Accordingly, in December 1987, the Executive Board established the *enhanced structural adjustment facility* (ESAF). The new facility became operational in April 1988, and the first loans were approved by the Executive Board in mid-1988.

The interest rate applying to loans under the new facility is subject to periodic review, but is currently much the same as under the SAF, as is the maturity of loans under the new facility. The amount of the financing extended to a country under the new facility will be determined on the basis of the strength of the country's adjustment effort and the size of its balance of payments need, but is subject to a normal maximum of 250 percent of quota over a three-year period. It is expected, however, that loans will average about 150 percent of quota. There is also provision for loans of up to 350 percent of quota in exceptional cases. The 62 member countries eligible for assistance under the SAF are also eligible for assistance under the new facility.

A major innovative feature of both the SAF and the ESAF is the requirement that a policy framework paper be prepared by the national authorities, with the joint assistance of the staffs of the Fund and the World Bank. The purpose of the policy framework paper is to ensure that the policy reforms of eligible countries are properly targeted on the obstacles to growth and balance of payments viability, and are mutually reinforcing, feasible, and supported by appropriate amounts and forms of external financing. Each policy framework paper covers a three-year period. It discusses the public investment program and financing requirements of the country, and outlines the social

implications of policy changes, together with the steps being taken to mitigate the possible adverse impact of adjustment measures on the poorest segments of the population. The paper is reviewed by the Executive Board of the Fund and the Committee of the Whole of the Board of the World Bank. It can also be used to mobilize financial support from other multilateral and bilateral sources.

FUND-BANK COLLABORATION

Collaboration between the Fund and the Bank has intensified in recent years, reflecting the growing recognition that achievement of a viable balance of payments position with sustainably high rates of economic growth in most developing countries requires substantial macroeconomic and structural reforms. The structural policy content of Fund-supported adjustment programs has been increasing and in operations financed by the Bank there has been a shift from project lending toward structural and sectoral adjustment lending. As a result, it has been necessary to develop mechanisms to facilitate interaction between the staffs of the Fund and the Bank, with the aim of ensuring consistent views on the strategies and policies of borrowing countries. In this way, the policy advice and financial resources provided by the two institutions have been made consistent and mutually reinforcing, but at the same time care has been taken to avoid cross-conditionality.

Collaboration between the Fund and the Bank has been particularly important for countries where lending under the SAF or the ESAF is involved. While considerable progress has been made in strengthening Fund-Bank collaboration since the advent of the policy framework paper, further progress is necessary. The Board had an opportunity to address collaboration between the two institutions in the context of a discussion about policy framework papers and aid coordination. A number of proposals to improve collaboration between the Fund and the Bank have been made and are under consideration.

As part of the effort to strengthen coordination among all the parties involved, the Fund and the Bank organized a joint seminar in February 1988 on the policy framework paper and aid coordination for senior officials of major aid agencies, development banks, the Commission of the European Communities, the Organization for Eco-

nomic Cooperation and Development, and the United Nations Development Program, as well as selected recipient countries. The purpose of the seminar was to inform aid agencies about the evolving policy framework paper process, to explore the extent to which the agencies were using policy framework papers in their operations, to benefit from the experience of recipient countries in the process, and to discuss issues related to enhancing the usefulness of policy framework papers in aid coordination and mobilization for low-income countries.

The Fund and Bank staff have collaborated closely in efforts to encourage the flow of resources from donor governments to member countries. 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.

During 1987, Fund staff members took part in 21 Bank missions and Bank staff members participated in 7 Fund missions. In addition, there were numerous instances in which Fund missions coincided with Bank missions and 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.

INTERNATIONAL LIQUIDITY AND THE SDR

ADEQUACY OF INTERNATIONAL RESERVES

An adequate stock of international reserves contributes to the efficiency and stability of the international monetary system by allowing countries to adjust their economic policies more smoothly when unanticipated disturbances adversely affect their international payments positions. The assessment of the adequacy of the stock of international reserves is an important responsibility of the Fund. Such an assessment depends on an evaluation of the current and prospective factors influencing reserve needs as well as of the terms and conditions under which reserves are expected to be supplied.

During the 1980s, there have been sharp but erratic increases in reserve holdings. For many developing countries, this has reflected efforts to rebuild reserve holdings from the low levels that had resulted from the emergence of widespread external payments difficulties in 1981-82. For the industrial countries, the most rapid increases of reserve holdings have been associated with extensive foreign exchange market intervention.

For Fund member countries, taken together, the ratio of non-gold reserves to imports, which had averaged 22 percent between 1973 and 1987, reached 27 percent at the end of 1987. While reserve holdings of all countries have tended to increase as the value of world trade has expanded, the increased variability of trade and capital flows and uncertain macroeconomic conditions have led some countries to expand their reserve holdings even more rapidly. For the industrial countries, the ratio of non-gold reserves to imports rose to 22 percent at the end of 1987. The corresponding ratio for developing countries reached 39 percent, the highest level since 1970. Since the ratio of non-gold reserves to imports for those developing countries with recent debt-servicing problems has not increased since the end of 1984, the increase in the ratio for developing countries as a whole has primarily reflected extensive accumulation of reserves by those developing countries that have avoided debt-servicing problems.

The expansion of international liquidity has been generated through a variety of channels: foreign exchange market intervention by industrial countries, current account adjustment, and borrowing in international financial markets. While the scale of foreign exchange market intervention can be substantial at times, such intervention can be episodic, and often partially reversed once exchange market conditions change. It may not, therefore, provide a stable source of expansion for non-gold reserves. Since 1982, many developing countries, especially those with debt-servicing problems, have attempted to protect or strengthen their reserve position through the adoption of policies designed to improve their current account. While the implicit cost (measured by forgone domestic absorption) of undertaking the adjustments needed to generate additional reserves through improvements in current account positions has naturally varied across countries, the willingness of countries to incur these costs has provided an indication of the perceived importance of in-

creased reserve holdings in the relatively unstable macroeconomic environment that has existed during the 1980s.

As international financial markets have expanded and have become increasingly integrated, countries with access to these markets have often found borrowing in them to be a flexible and efficient source of reserve accumulation and financing for temporary external payments imbalances. However, experience during the 1980s suggests that changes in perceived creditworthiness can at times lead to an abrupt and prolonged loss of access to financial markets. Moreover, fluctuations in financial markets may sometimes limit the capacity of countries to use these markets with confidence as a source of reserve supplementation.

In achieving some desired reserve position, countries face the costs of both acquiring and maintaining their reserves. Since reserves can be obtained from a number of sources, the cost of acquiring reserves could reflect considerations such as the cost of external borrowing (if the country holds borrowed reserves) or the costs of domestic absorption forgone to generate reserves through current account improvements. Under current conditions, concerns have been expressed that countries with the greatest perceived need for reserves have faced the most adverse terms and conditions for acquiring such reserves, often because they are not viewed as creditworthy in international capital markets. As a result, some have argued that the supply of reserves generated by international agreement can take on special importance.

In examining the adequacy of the existing stock of reserves, prospective as well as current developments in the international economy and world financial markets are important considerations. Inadequacy of reserves does not appear to have been a major problem in the financial market disturbances of 1987. However, since borrowed reserves play an important role in the current reserve system, it has been argued that unanticipated changes in economic and financial market conditions that would make it difficult for many countries to refinance their borrowed reserves could adversely affect the adequacy of existing reserves. Some have suggested that such a possibility creates the need for a "safety net," or for a core level of reserves whose availability is independent of conditions prevailing in private financial markets.

THE SDR

Over the past year, the Executive Board has continued its discussions of the role of the SDR in the international monetary system. Attention has been given to the question of a resumption of SDR allocations, the issue of whether the SDR system leads to resource transfers, and the use of SDRs in reserve management practices. In considering issues relating to a possible SDR allocation, discussions at the Executive Board have been guided by Article XVIII, Section 1(a) of the Fund's Articles of Agreement which notes 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." Although in recent discussions most Executive Directors have favored renewed SDR allocations, the degree of support has not reached the level required for the Managing Director to make a proposal for an allocation to the Board of Governors. As a result, there have been no SDR allocations since 1981.

Many of the Executive Directors favoring a resumption of SDR allocations have argued that such allocations could improve the performance of the international monetary system by reducing the cost of acquiring reserves, reducing reliance on borrowed reserves, and facilitating the financing of exchange market intervention. Since a large number of countries still lack adequate access to international financial markets, a number of Executive Directors have noted that SDR allocations could help reduce the cost of acquiring reserves for those countries that have been forced to generate additional reserves through current account adjustments, often involving import compression. In addition, SDR allocations have been viewed by some Executive Directors as a means of reducing the dependence of the reserve system on borrowed reserves during a period of variability of asset prices. Moreover, a number of Executive Directors have also suggested that the SDR system could provide a nonmarket source of funding for coordinated exchange market intervention.

Executive Directors who do not favor a resumption of SDR allocations have argued that the reserve system has generated adequate liquidity for

all except capital importing countries experiencing difficulty in servicing their external debt. As a result, there is no long-term global need for reserve supplementation. Some of these Executive Directors feel that existing resources for exchange market intervention are adequate and do not require augmentation via SDR allocation. They observed that the question of the cost of borrowing is not one of the criteria prescribed in the Articles of Agreement as being relevant to an assessment of reserve adequacy for the purpose of deciding an SDR allocation. Moreover, these Executive Directors have noted that for a number of countries the lack of access to borrowed reserves is a problem of creditworthiness that should be addressed through the use of conditional liquidity rather than the creation of unconditional global liquidity, in order to be consistent with the debt strategy. In addition, several Executive Directors have expressed concern that prolonged net use of SDRs by some groups of countries is inconsistent with the monetary character of the SDR.

In considering the functioning of the SDR system, Executive Directors generally agreed that permanent resource transfers would arise in the SDR system only to the extent that the SDR interest rate is uncompetitive with the yields on other reserve assets or that holding SDRs is risky. Most Executive Directors regard the current SDR interest rate as broadly competitive with the yields on other reserve assets, and they consider that holding SDRs does not involve significant risks. Moreover, the safety and usability of the SDR make it a useful instrument to hold for precautionary and investment purposes, although some Directors have pointed to the desirability of further steps to enhance the usability and liquidity of the instrument. Executive Directors agreed that every effort, within the boundaries set by the Articles of Agreement, should be made to improve the process by which SDRs can be transacted among participants and also within the Fund.

FINANCIAL POLICIES AND ACTIVITIES

The financial assistance provided by the Fund expanded significantly in 1987/88.¹⁴ At the same time, repurchases by members continued to increase, reflecting the record level of balance of

¹⁴ Data on selected financial activities in the General Resources Account are provided in Table 12.

Table 12
Selected Financial Activities: General Resources Account, 1982–88
 (In millions of SDRs)

	Financial Year Ended April 30						
	1982	1983	1984	1985	1986	1987	1988
Gross purchases ¹	6,960.2	10,258.2	10,164.1	6,059.8	3,940.9	3,168.1	4,117.6
Industrial countries	—	54.0	—	—	—	—	—
Developing countries	6,960.2	10,204.3	10,164.1	6,059.8	3,940.9	3,168.1	4,117.6
Africa	1,986.4	2,056.1	1,642.7	1,017.6	841.8	593.3	649.5
Asia	3,151.9	2,748.0	2,589.7	746.7	844.1	1,224.4	665.7
Europe	1,326.0	1,590.1	1,658.3	837.5	322.5	67.5	—
Middle East	—	25.1	—	57.4	—	—	116.0
Western Hemisphere	496.0	3,785.0	4,273.4	3,400.5	1,932.5	1,282.9	2,686.4
Changes in outstanding Fund credit	5,066.0	8,711.5	8,148.9	3,214.8	–340.6	–2,993.8	–3,817.0
Number of stand-by and extended arrangements as of April 30	35	39	35	30	26	24	20
Of which, extended arrangements	12	9	5	3	2	1	2
Amounts under arrangements	16,206.3	25,025.5	18,569.4	11,675.3	4,906.7	5,063.1	3,182.6
As percent of total quotas	26.7	41.0	20.9	13.1	5.5	5.6	3.5
Undrawn balances	11,154.6	16,405.1	9,269.5	5,543.1	2,379.1	2,981.8	1,337.8
As percent of commitments under arrangements	68.8	65.6	49.9	47.5	48.5	58.9	42.0
Outstanding Fund credit	14,801.4	23,589.9	31,741.6	34,972.6	34,640.2	31,646.4	27,829.4
As percent of total quotas	24.4	38.6	35.6	39.2	38.8	35.2	30.9
Number of countries	79	85	84	83	79	80	76

¹ Excluding purchases in the reserve tranche.

payments support provided by the Fund in the first half of the 1980s, which has begun to fall due in the last three years. Outstanding Fund credit declined to SDR 27.8 billion at the end of 1987/88. The flow of repurchases, together with a high proportion of the Fund's holdings of currencies being usable, contributed to the Fund's liquidity position remaining satisfactory during 1987/88. During the year, the Fund continued to use borrowed resources to finance enlarged access but repayments exceeded new borrowings by a substantial margin so that outstanding borrowings declined by SDR 3.6 billion to SDR 9.1 billion. Arrears to the Fund continued to increase and the Executive Board is considering measures to reduce and eventually eliminate these arrears.

The most noteworthy features of the Fund's financial assistance during the year were the sharp increases in the use of Fund resources by members under the compensatory financing facility and in the number of new arrangements under the structural adjustment facility (SAF). Despite some signs of improvement in the current account position of

developing countries as a group and higher international prices of a number of commodities, drawings under the compensatory financing facility increased substantially from SDR 593 million in 1986/87 to SDR 1.5 billion in 1987/88. This strong rise reflected large drawings by a limited number of countries whose exports were adversely affected, *inter alia*, by deterioration in terms of trade. As of April 30, 1988, 25 arrangements were in effect under the SAF, involving aggregate commitments of SDR 1.4 billion, compared with 10 such arrangements for SDR 442 million on April 30, 1987. As already explained, the active use of resources under this concessional facility reflects the urgent need on the part of low-income developing countries to undertake comprehensive multiyear growth-oriented adjustment programs to address deep-rooted structural problems and to restore viability in their external payments positions.

Total purchases (excluding reserve tranche purchases) by members increased from SDR 3.2 billion in 1986/87 to SDR 4.1 billion in 1987/88, mainly

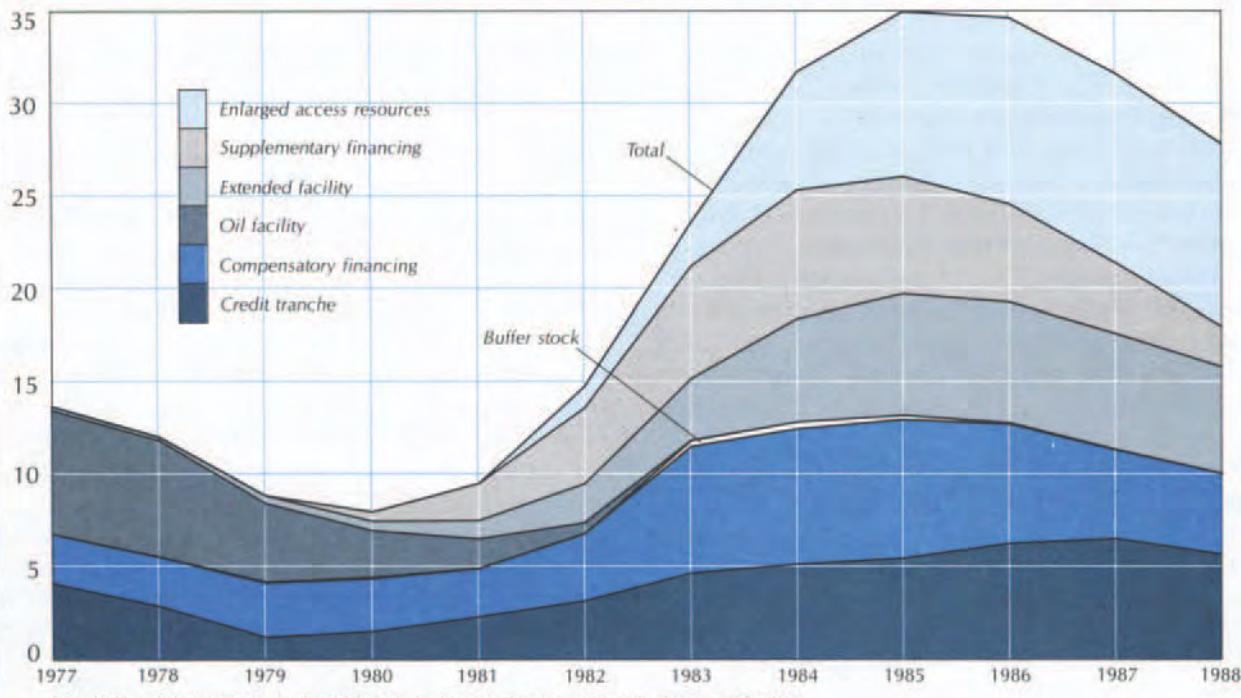
reflecting the sizable increase, as noted above, in the use of resources under the compensatory financing facility, while purchases under tranche policies rose marginally by SDR 10 million to SDR 2.6 billion in the same period. The use of reserve tranche positions remained small, and that of the extended Fund facility was little changed. All purchases were made by developing countries. Repurchases by members also continued to increase, and reached SDR 7.9 billion in 1987/88 from SDR 6.2 billion in 1986/87. Seven members with relatively large quotas, namely, Brazil, India, Korea, Mexico, South Africa, Thailand, and Turkey, accounted for nearly one half of these repurchases (SDR 3.6 billion). Advance and early repurchases by Argentina, Korea, and Portugal aggregated almost SDR 0.8 billion. As a result, outstanding Fund credit to members (excluding loans under the SAF) declined from SDR 31.6 billion in 1986/87 to SDR 27.8 billion in 1987/88 (see Chart 17). Disbursement of SAF loans amounted to SDR 584 million. At the end of April 1988, 86 members had outstanding indebtedness

to the Fund under its various facilities (including the SAF) in the General Department.

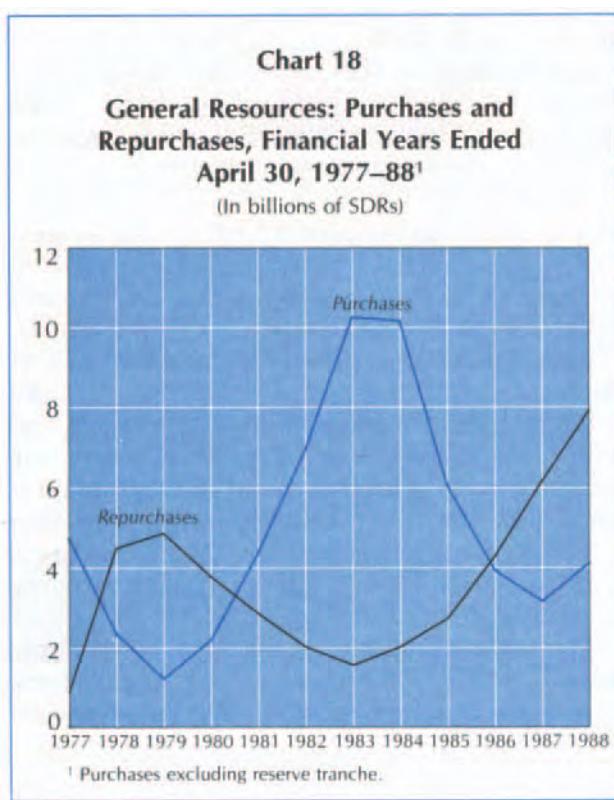
The increase in repurchases by members was the natural corollary of the record use of Fund credit during 1982/83–1984/85 that has begun to fall due in the last two to three years (Chart 18). Some of the members that had used Fund resources in the earlier period have made considerable progress toward adjustment so that continued recourse to further Fund assistance was not necessary. Given the temporary nature of the balance of payments assistance provided by the Fund and the revolving character of its resources, any large increase in the provision of Fund credit in a given period will at a later period be reflected in similarly large inflows when repurchases fall due. Aggregate purchases by members during 1982/83–1984/85 totaled SDR 37.2 billion, significantly larger than the total of SDR 34.4 billion in the preceding ten years.

The financial capacity of the Fund to meet any increased demand for use of its resources has been strengthened both by the enhancement of SAF

Chart 17
Use of Fund's General Resources as at April 30, 1977–88¹
(In billions of SDRs)



¹ Excluding disbursements totaling SDR 584 million under the structural adjustment facility.



resources and the flow of repurchases. Indeed, the Fund stands ready to assist its members financially in their adjustment efforts as well as in facilitating commitments of financial assistance from other sources. In particular, many low-income developing countries are expected to make substantially larger use of SAF and ESAF resources, while possibilities exist for other developing countries to have increased recourse to the use of Fund resources under a revitalized extended Fund facility and as a consequence of the newly established compensatory and contingency financing facility.

The Fund's liquidity position remained satisfactory during 1987/88, and its holdings of usable ordinary resources rose from SDR 39.3 billion at the end of April 1987 to SDR 41.0 billion on April 30, 1988; these resources consisted of the equivalent of SDR 40.2 billion in usable currencies and SDR 0.8 billion in SDR holdings. The increase in the stock of usable ordinary resources also reflected, to some extent, an increase in the number of members having sufficiently strong balance of payments and reserve positions to warrant the net use of their currencies in financing purchases from the Fund. The stock of available borrowed

resources amounted to SDR 5.3 billion on April 30, 1988, compared with SDR 7.1 billion at the end of the preceding year. The Fund renewed in November 1987 its Decision on the General Arrangements to Borrow in an amount of SDR 17.0 billion for the five-year period from December 26, 1988.¹⁵

In the light of continuing payments difficulties facing many members, it was considered appropriate to maintain unchanged the policy on enlarged access to Fund resources in 1988. This policy is governed by a decision that came into effect in March 1981 and has been subject to annual review since 1983. As in the past, the access limits are to be treated as limits and not as targets or entitlements. The enlarged access policy allows a member to have annual access under a stand-by or extended arrangement of up to 90 or 110 percent of quota, three-year access of up to 270 or 330 percent of quota, and cumulative access of 400 or 440 percent of quota. Actual access depends on the nature and size of the member's balance of payments need and the strength of its adjustment efforts. Following the deliberations of the Interim Committee in September 1987, the Executive Board decided that the policy will continue in 1988. The access to the compensatory financing facility has been subject to the limit of 83 percent of quota each in respect of shortfalls in export receipts or excesses in the cost of cereal imports (subject to a combined overall limit of 105 percent of quota), and the limit on access to the buffer stock financing facility has been 45 percent of quota. The access limits under the compensatory and contingency financing facility and the extended Fund facility have been modified in June and August 1988, as discussed above.

The continued delay by some members in discharging financial obligations to the Fund has been of increasing concern to the Fund. The number of members in arrears on obligations to the Fund by six months or more rose by one to nine by the end of the financial year, with amounts overdue for six months or more reaching SDR 1.5 billion on April 30, 1988 from SDR 0.8 billion on April 30, 1987. All of these members were in arrears in settling obligations to the General Resources Account, seven had arrears to the SDR Department, eight were in arrears to the Trust

¹⁵ See Executive Board Decision No. 8733-(87/159), November 23, 1987 (reproduced in Appendix III).

Fund, and two were in arrears on interest payments on loans under the SAF. During 1987/88, two members were declared ineligible to use the general resources of the Fund, pursuant to Article XXVI, Section 2(a), in the light of their overdue obligations in the General Department—Zambia on September 30, 1987 and Sierra Leone on April 25, 1988. Somalia was declared ineligible on May 6, 1988. Earlier declarations of ineligibility with respect to Viet Nam (January 15, 1985), Guyana (May 15, 1985), Liberia (January 24, 1986), Sudan (February 8, 1986), and Peru (August 15, 1986) remained in effect. These eight members accounted for 95 percent of the total overdue obligations to the Fund as of April 30, 1988. Selected data on arrears for the period 1984/85 to 1987/88 are presented in Table 13.

The elimination of arrears is crucial for maintaining the financial integrity of the Fund, preserving its monetary character, and continuing its operation as a cooperative intergovernmental financial institution. Since the emergence of significant arrears in 1983, the Fund has adopted a number of measures to help identify potential problems of arrears, forestall the emergence of arrears, encourage member countries seeking to clear their arrears, and protect the Fund's financial position. These measures include improving assessments of members' capacity to repay the Fund; strengthening adjustment programs in cases where

debt-servicing difficulties could arise; and collaborating with individual debtor countries, other creditors, donors, and multilateral development institutions in response to the efforts of individual members to become current on their Fund obligations. As a result of these efforts, several members have eliminated sizable arrears and thus regained access to Fund credit. A few countries have, however, allowed their arrears to the Fund to accumulate to such an extent that strong and determined efforts on their part, together with extraordinary support from the international community, will be necessary to clear the arrears and remain current in the future. Concerned by the continued increase of overdue obligations, the Interim Committee at its April 1988 meeting requested the Executive Board to prepare a report for the Committee's next meeting on measures to reduce and eventually eliminate arrears to the Fund.

The Executive Board has adopted various measures to strengthen the financial position of the Fund, some of which place a financial burden on the membership in general in the form of increased charges and reduced remuneration. For example, the target amount of additions to precautionary balances was raised from 5 percent to 7.5 percent of accumulated reserves for the financial years 1986/87 and 1987/88; the target amount was increased for the latter year by a further 2.5 percentage points in January 1988. Income in excess of the target amount for 1986/87 was placed in a newly established Special Contingent Account. For the financial year 1987/88, the additions to this contingent account and to the Fund's reserves were thus each to be equal to 5 percent of reserves at the beginning of the year.¹⁶ The income target exceeding 5 percent of reserves has been contributed, as in 1986/87, by both creditor and debtor countries. Reflecting in part the various measures taken to safeguard its financial position, the Fund recorded a net income of SDR 49 million in the

Table 13
Arrears to the Fund of Members with Obligations Overdue for Six Months or More
(In millions of SDRs)

	End of Financial Year:			
	1985	1986	1987	1988
Amount of overdue obligations	182.7	487.9	1,186.3	1,945.2
Number of members	4	8	8	9
Of which:				
General Department	161.4	417.7	1,088.4	1,787.7
Number of members	4	8	8	9
SDR Department	4.9	12.3	15.6	25.1
Number of members	2	4	4	6
Trust Fund	16.4	57.9	82.3	132.4
Number of members	2	6	6	7
Number of ineligible members	1	4	5	7

¹⁶ In the light of the level of deferred charges in the fourth quarter of 1987/88 which could not be fully generated by a symmetrical adjustment of the rate of remuneration and the rate of charge because of the limitation on the adjustment of the rate of remuneration, the Board decided to reduce the amount of addition to reserves from 5.0 percent to 4.1 percent. The reduction is to be made up through an additional placement to reserves in 1988/89. (Executive Board Decisions Nos. 8878-(88/84), 8879-(88/84), and 8880-(88/84), May 23, 1988, reproduced in Appendix III.)

financial year 1987/88 (SDR 86 million in 1986/87), which was added to reserves, thus raising the Fund's total reserves (the Special Reserve and the General Reserve) to SDR 1.26 billion on April 30, 1988 from SDR 1.21 billion on April 30, 1987, an increase of 4.1 percent. Total precautionary balances, that is, reserves and balances in the Special Contingent Account, amounted to SDR 1.34 billion on April 30, 1988, of which SDR 87.0 million was held in the Special Contingent Account. It is intended that in 1988/89, 5 percent of reserves at the beginning of the year will be added to the Special Contingent Account and another 5 percent will be placed in reserves.

In the SDR Department, the total stock of SDRs remained unchanged at SDR 21.4 billion in 1987/88 as there was no allocation or cancellation. About 96 percent of this amount was held by participants and prescribed holders and the balance of 4 percent was held by the General Resources Account. The holdings of the General Resources Account are managed in accordance with the guidelines in the Executive Board's decision to maintain the level of the Fund's SDR holdings in the range of SDR 0.75–1.25 billion; the Fund's holdings of SDRs amounted to SDR 0.8 billion at the end of April 1988. Transactions by agreement increased substantially from SDR 3.9 billion in 1986/87 to SDR 7.3 billion in 1987/88, while transactions with designation declined from SDR 1.2 billion to SDR 1.0 billion in the same period.

During the year, at the initiative of the Fund, the number of participants having two-way arrangements to sell and buy SDRs, as and when requested by the Fund, was expanded. This expansion contributed significantly to the decline in

transactions with designation noted above and the absence of any such transactions since August 1987. Eight members entered into such arrangements, which involved an aggregate scope for transfers exceeding SDR 1 billion; the currencies to be exchanged under these arrangements include the U.S. dollar, the deutsche mark, the Japanese yen, the French franc, and the pound sterling.

Under the Articles of Agreement, the Board of Governors is required to conduct reviews of quotas at intervals of not more than five years. Accordingly, the Ninth General Review of Quotas was to be conducted by March 31, 1988, five years from the completion of the previous review. As noted in last year's *Annual Report*, the Executive Board established a Committee of the Whole on March 27, 1987 for this purpose. The Committee met four times during the year to consider various aspects of the adjustment of quotas, including quota formulas, quota calculations, the size of an overall increase in quotas, and principles and techniques of quota adjustments. The Committee was not able to complete its work and make recommendations by March 31, 1988. On March 22, 1988, the Executive Board submitted a report to the Board of Governors entitled *Increases in Quotas of Members—Ninth General Review* and a Resolution for adoption by the Board of Governors. The Board of Governors resolved to continue its review under Article III, Section 2(a) and requested the Executive Board to complete its work on this matter and to submit appropriate proposals to the Board of Governors not later than April 30, 1989.¹⁷

¹⁷ Board of Governors Resolution No. 43-1, April 22, 1988; see Appendix III.

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Appendix I

International Reserves

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

RECENT EVOLUTION OF OFFICIAL RESERVE ASSETS

In 1987, total international reserves measured in terms of the SDR increased by 15 percent, to SDR 829 billion, as a result of an increase in both the holdings of non-gold reserves and the market value of official holdings of gold (Table I.1). The growth of non-gold reserves reflected larger holdings of foreign exchange reserves by both industrial and developing countries that more than offset a decline in the holdings of Fund-related assets by both of the major country groups.

NON-GOLD RESERVES

Non-gold reserves increased by 21 percent in 1987 to SDR 506 billion at the end of the year. This sharp increase in non-gold reserves followed a decline in such holdings during 1985 and a moderate expansion during 1986. The accelerated growth of non-gold reserves in 1987 mainly reflected developments in the industrial countries, which expanded their holdings of non-gold reserves by 29 percent. Developing countries as a whole also increased their non-gold reserves during 1987, but the experiences of different subgroups of developing countries were not uniform. In particular, while the non-gold reserves of capital importing developing countries without debt-servicing problems increased by 18 percent, continuing the pattern of expansion evident in the

1980s, the holdings by those developing countries that have experienced recent debt-servicing problems declined by 3 percent.

FOREIGN EXCHANGE RESERVES

Foreign exchange reserves increased by 25 percent in 1987 to reach SDR 455 billion by the end of the year. This rapid growth in 1987 was in contrast to the slow growth experienced during 1985 (almost no change) and 1986 (an increase of 4 percent).

While industrial countries increased their holdings of foreign exchange reserves by 35 percent in 1987, developing countries increased their holdings by 11 percent. However, the capital importing developing countries without debt-servicing problems accounted for almost all of the developing countries' accumulation, and the foreign exchange reserves of those capital importing countries that have experienced debt-servicing problems fell by 3 percent.

HOLDINGS OF FUND-RELATED RESERVE ASSETS

Holdings of Fund-related assets decreased by 6 percent in 1987 to reach SDR 52 billion at the end of the year, reflecting a SDR 4 billion decline in holdings of reserve positions in the Fund that more than offset an SDR 1 billion increase in members' holdings of SDRs. Reserve positions in the Fund, which comprise the reserve tranche position and the creditor position, had increased by SDR 16 billion between the end of 1982 and the end of 1984, but then declined by SDR 10 billion in the period 1984-87. Since the cumulative total stock of SDRs has remained constant since the last allocation in 1981, the slight increase in holdings of SDRs by member countries in 1987 (SDR 0.7 billion) corresponded to a decline in

Table I.1
Official Holdings of Reserve Assets, End of Year 1982–87 and End of March 1988¹
 (In billions of SDRs)

	1982	1983	1984	1985	1986	1987	March 1988
All countries							
Total reserves excluding gold							
Fund-related assets							
Reserve positions in the Fund	25.5	39.1	41.6	38.7	35.3	31.5	30.7
SDRs	17.7	14.4	16.5	18.2	19.5	20.2	20.5
Subtotal, Fund-related assets	43.2	53.5	58.0	56.9	54.8	51.7	51.1
Foreign exchange	285.1	308.4	349.0	348.3	363.9	454.8	465.6
Total reserves excluding gold	328.3	361.9	407.1	405.3	418.7	506.4	516.7
Gold ²							
Quantity (millions of ounces)	949.2	947.8	946.8	949.4	949.1	944.5	946.2
Value at London market price	393.1	345.4	297.8	282.6	303.3	322.3	311.6
Industrial countries							
Total reserves excluding gold							
Fund-related assets							
Reserve positions in the Fund	17.1	25.6	27.2	25.2	23.0	20.4	19.9
SDRs	14.1	11.5	13.4	14.9	16.1	16.4	16.8
Subtotal, Fund-related assets	31.1	37.1	40.6	40.1	39.1	36.8	36.7
Foreign exchange	153.2	167.9	183.9	187.3	209.8	283.3	288.6
Total reserves excluding gold	184.4	205.0	224.5	227.4	248.9	320.1	325.3
Gold ²							
Quantity (millions of ounces)	787.3	786.6	786.0	786.5	785.7	781.4	783.6
Value at London market price	326.1	286.6	247.2	234.1	251.1	266.6	258.1
Developing countries							
Total reserves excluding gold							
Fund-related assets							
Reserve positions in the Fund	8.4	13.6	14.3	13.5	12.4	11.1	10.8
SDRs	3.7	2.9	3.1	3.3	3.4	3.8	3.6
Subtotal, Fund-related assets	12.1	16.5	17.4	16.9	15.8	14.9	14.4
Foreign exchange	131.9	140.5	165.1	161.0	154.1	171.5	177.0
Total reserves excluding gold	143.9	156.9	182.5	177.9	169.8	186.4	191.4
Gold ²							
Quantity (millions of ounces)	161.8	161.2	160.8	162.9	163.4	163.1	162.6
Value at London market price	67.0	58.7	50.6	48.5	52.2	55.7	53.5
Capital importing developing countries							
Total reserves excluding gold							
Fund-related assets							
Reserve positions in the Fund	2.7	3.4	2.8	2.6	2.4	2.2	2.0
SDRs	2.4	1.8	1.9	2.1	2.3	2.6	2.4
Subtotal, Fund-related assets	5.1	5.2	4.7	4.7	4.8	4.8	4.4
Foreign exchange	86.2	100.7	128.6	123.8	124.8	141.8	148.6
Total reserves excluding gold	91.5	105.9	133.3	128.5	129.5	146.6	153.0
Gold ²							
Quantity (millions of ounces)	139.1	138.3	137.6	139.9	140.6	140.4	139.8
Value at London market price	57.6	50.4	43.3	41.6	44.9	47.9	46.1
Capital importing developing countries with debt-servicing problems							
Total reserves excluding gold							
Fund-related assets							
Reserve positions in the Fund	1.2	1.3	1.0	0.8	0.8	0.6	0.4
SDRs	0.7	0.5	0.5	0.7	0.7	1.2	1.1
Subtotal, Fund-related assets	1.9	1.8	1.5	1.5	1.4	1.8	1.6
Foreign exchange	23.1	28.0	43.8	39.5	29.9	28.9	30.0
Total reserves excluding gold	25.1	29.9	45.3	41.1	31.4	30.6	31.6
Gold ²							
Quantity (millions of ounces)	47.7	46.7	47.7	47.9	47.9	47.9	47.7
Value at London market price	19.8	17.0	15.0	14.3	15.3	16.3	15.7

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.

Fund holdings of SDRs. Except for 1983, holdings of SDRs as reserve assets have increased during the 1980s. The decline in SDR holdings in 1983 occurred 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. As a counterpart to this decline in members' holdings of SDRs, their reserve positions in the Fund increased. Payments in SDRs for quota purposes since 1983 have totaled SDR 0.3 billion.

GOLD

Gold valued at market prices increased by 6 percent in 1987, to SDR 322 billion. This increase primarily reflected a higher market price for gold, which increased from SDR 320 an ounce at the end of 1986 to SDR 341 an ounce at the end of 1987. The physical stock of gold has remained fairly constant since 1972, except for 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 changed very little during the 1980s. Industrial countries held 83 percent and developing countries 17 percent of the total physical stock of gold reserves of 945 million ounces at the end of 1987.

DEVELOPMENTS IN FIRST QUARTER OF 1988

Total international reserves fell by SDR 1 billion during the first quarter of 1988 as an increase in non-gold reserves was more than offset by a decrease in the market value of official holdings of gold. The larger holdings of non-gold reserves reflected a rise in the foreign exchange reserves of both industrial countries (by SDR 5 billion) and developing countries (by SDR 5 billion).

The market value of official holdings of gold decreased from SDR 322 billion at the end of 1987 to SDR 312 billion at the end of the first quarter of 1988. Since the total physical holdings of gold remained practically unchanged, the reduction in the market value of gold was totally due to a decrease in the market price of gold, which fell to SDR 329 an ounce at the end of the quarter.

CURRENCY COMPOSITION OF RESERVES

Since the mid-1970s, there has been a continuing diversification of the currency composition of foreign exchange reserves. While that composition had remained relatively stable during 1975–77, the sharp depreciation of the dollar between 1977 and 1980 was accompanied by a decline in the share of the dollar in total foreign exchange reserves, from 79 percent at the end of 1977 to 69 percent at the end of 1980. This diversification away from the dollar was partly reversed in the early 1980s, when the dollar appreciated strongly relative to the other major currencies. As a result, the share of the dollar in reserves rose to 71 percent by the end of 1983. But by 1985, the share had declined by 7 percentage points as monetary authorities again diversified the currency composition of their foreign exchange reserves, and the proportion of foreign exchange reserves denominated in the deutsche mark, the Japanese yen, and, to a lesser extent, the pound sterling increased. The extensive foreign exchange market intervention by some major industrial countries during 1986 and 1987 was accompanied by a rise in the proportion of reserves held as dollar-denominated assets (to 67 percent in 1987), and, as a counterpart, the shares of the deutsche mark, the Japanese yen, and the pound sterling declined slightly (Table I.2). This increase in the share of the dollar principally reflected developments in the industrial countries, since the share of dollar-denominated assets in the portfolio of developing countries fell by 3 percentage points between the end of 1986 and the end of 1987.

In the calculation of these shares, the SDR value of ECUs issued against gold is not counted as part of foreign exchange reserves, but the SDR value of ECUs issued against dollars is counted as part of the holdings of dollars. The overall picture of changes in trend in the currency composition of foreign exchange reserves is similar if ECUs, which were introduced in 1979 and accounted for 12 percent of total foreign exchange reserves at the end of 1987, are treated separately. Under this alternative treatment of ECUs, the share of the dollar declined from 76 percent at the end of 1978 to 57 percent at the end of 1980; it then increased to 60 percent at the end of 1981 and stayed at that level through 1984. After declining to 56 percent at the end of 1985, the dollar share increased slightly, to 57 percent at the end of 1987.

Table I.2
**Share of National Currencies in Total Identified Official Holdings of Foreign Exchange,
End of Year 1979-87¹**
(In percent)

	1979	1980	1981	1982	1983	1984	1985	1986	1987	1987
All countries										
U.S. dollar	73.2	68.6	71.5	70.5	71.2	69.4	64.2	66.0	67.1	56.9
Pound sterling	1.8	2.9	2.1	2.5	2.6	3.0	3.1	2.8	2.6	2.4
Deutsche mark	12.0	14.9	12.8	12.3	11.6	12.3	14.9	14.9	14.7	13.6
French franc	1.3	1.7	1.4	1.2	1.0	1.1	1.3	1.2	1.2	1.1
Swiss franc	2.4	3.2	2.7	2.8	2.4	2.1	2.3	1.9	1.6	1.6
Netherlands guilder	1.0	1.3	1.1	1.1	0.8	0.8	1.0	1.1	1.1	1.1
Japanese yen	3.6	4.3	4.0	4.7	4.9	5.7	7.8	7.6	7.0	6.4
Unspecified currencies ³	4.8	3.1	4.4	5.0	5.5	5.8	5.4	4.5	4.7	16.9
Industrial countries										
U.S. dollar	83.5	77.6	78.7	77.1	77.4	73.6	65.4	68.4	70.6	55.7
Pound sterling	0.7	0.7	0.7	0.8	0.8	1.6	2.1	1.6	1.5	1.4
Deutsche mark	9.4	14.3	12.8	12.2	12.8	14.8	19.4	17.5	16.5	14.8
French franc	0.6	0.5	0.4	0.3	0.3	0.4	0.5	0.6	0.8	0.7
Swiss franc	1.4	1.7	1.7	1.7	1.4	1.4	1.8	1.4	1.1	1.0
Netherlands guilder	0.6	0.7	0.8	0.7	0.5	0.6	1.0	1.1	1.1	1.0
Japanese yen	2.6	3.3	3.7	4.4	5.1	6.3	8.8	8.2	6.6	5.8
Unspecified currencies ³	1.2	1.2	1.2	2.8	1.7	1.2	1.1	1.2	1.8	19.4
Developing countries⁴										
U.S. dollar	62.9	59.8	64.1	63.8	64.7	64.9	62.8	62.0	59.4	59.1
Pound sterling	2.9	5.0	3.5	4.1	4.4	4.4	4.4	4.6	5.0	5.0
Deutsche mark	14.6	15.5	12.8	12.4	10.3	9.7	9.9	10.8	10.9	10.8
French franc	1.9	2.9	2.3	2.2	1.8	1.7	2.2	2.2	2.0	2.0
Swiss franc	3.4	4.7	3.8	3.8	3.4	2.8	2.9	2.8	2.8	2.8
Netherlands guilder	1.3	1.9	1.4	1.6	1.2	0.9	1.0	1.2	1.1	1.1
Japanese yen	4.5	5.3	4.4	4.9	4.7	5.0	6.7	6.8	7.9	7.8
Unspecified currencies ³	8.3	4.9	7.7	7.3	9.5	10.6	10.3	9.4	10.9	11.4

¹ Starting with 1979, the SDR value of ECUs issued against dollars is added to the SDR value of 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 11.7 percent for all countries and 18.7 percent for the industrial countries in 1987.

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.

Changes in the SDR value of foreign exchange reserves can also be decomposed into valuation (or 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 1987, total identified foreign exchange reserves increased by SDR 70 billion as a result of a sharp, positive quantity change of SDR 93 billion that more than offset the negative valuation loss of SDR 23 billion. The negative valuation effect was the result of the sharp depreciation of the dollar against other major currencies. As the dollar depreciated relative to the SDR between

1985 and 1987, the SDR value of dollar reserves declined by SDR 32 billion, and this decline was only partially compensated by the positive price changes for all other major currencies, including SDR 3 billion for the deutsche mark and SDR 2 billion for the Japanese yen.

Holdings of ECUs increased by SDR 13 billion in 1987. 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 dollar holdings of these institutions. These swaps are renewed every three months, and changes in the members' holdings of

Table I.3
Currency Composition of Official Holdings of Foreign Exchange, End of Year 1982-87¹
 (In millions of SDRs)

	1982	1983	1984	1985	1986	1987
U.S. dollar						
Change in holdings	−4,695	13,117	22,799	−19,189	1,711	41,460
Quantity change	−13,524	4,275	10,571	2,670	20,622	73,506
Price change	8,829	8,842	12,228	−21,858	−18,911	−32,046
Year-end value	165,687	178,803	201,602	182,414	184,125	225,585
Pound sterling						
Change in holdings	691	818	2,272	279	−1,101	1,171
Quantity change	1,320	1,168	3,638	−683	−348	364
Price change	−630	−350	−1,366	962	−753	807
Year-end value	6,029	6,847	9,119	9,398	8,297	9,468
Deutsche mark						
Change in holdings	−2,122	−102	6,942	7,297	−447	9,550
Quantity change	−2,116	2,359	9,825	1,798	−6,299	6,619
Price change	−6	−2,461	−2,883	5,499	5,853	2,931
Year-end value	30,715	30,613	37,555	44,852	44,405	53,955
French franc						
Change in holdings	−358	−376	486	578	−176	783
Quantity change	−5	80	708	125	−364	620
Price change	−353	−456	−222	453	187	163
Year-end value	3,117	2,741	3,227	3,806	3,629	4,412
Swiss franc						
Change in holdings	−113	−533	−38	636	−1,176	144
Quantity change	239	−295	630	−59	−2,088	−396
Price change	−352	−238	−668	695	912	540
Year-end value	6,879	6,346	6,308	6,944	5,768	5,912
Netherlands guilder						
Change in holdings	−36	−614	214	659	284	818
Quantity change	−9	−369	411	312	−124	576
Price change	−27	−245	−197	346	408	241
Year-end value	2,767	2,153	2,367	3,025	3,309	4,127
Japanese yen						
Change in holdings	1,362	1,288	4,273	6,184	−632	2,914
Quantity change	1,434	503	4,478	4,002	−3,641	430
Price change	−71	784	−205	2,183	3,010	2,484
Year-end value	11,672	12,959	17,233	23,417	22,785	25,699
ECU						
Change in holdings	−5,007	4,074	−3,959	−297	2,721	13,168
Quantity change	−2,598	8,441	−429	−4,551	−306	10,823
Price change	−2,408	−4,366	−3,530	4,254	3,027	2,345
Year-end value	37,925	41,999	38,040	37,742	40,464	53,632
Total identified holdings²						
Change in holdings	−10,277	17,672	32,989	−3,852	1,185	70,008
Quantity change	−15,259	16,161	29,831	3,615	7,453	92,543
Price change	4,981	1,510	3,158	−7,467	−6,268	−22,535
Year-end value	264,790	282,461	315,450	311,598	312,782	382,790
Total official holdings³						
Change in holdings	−7,451	23,272	40,648	−690	15,544	90,890
Year-end value	285,095	308,367	349,016	348,325	363,869	454,759

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.

dollars and gold, as well as changes in the market price of gold and the foreign exchange value of the dollar, affect the amount of ECUs outstanding.¹ Quantity changes in ECU holdings depend, therefore, on the evolution of its two components, gold and dollars.²

The SDR 13 billion increase in holdings of ECUs in 1987 resulted from both a positive quantity change and a positive valuation effect.³ While the positive quantity change (SDR 11 billion) was the first since 1983, the positive valuation effect (SDR 2 billion) was a continuation of the pattern evident since 1985 and reflected an increase in the SDR value of the ECU.

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.

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

PLACEMENT OF OFFICIAL HOLDINGS OF FOREIGN EXCHANGE

Total official holdings of foreign exchange increased during 1987 by SDR 91 billion (Table I.4). This sharp increase was accompanied by a continued diversification in the placement of official holdings. The biggest change was an SDR 18 billion increase in the claims on residents of countries other than the United States denominated in the debtor's own currency. In addition, dollar claims on residents of the United States also increased significantly, by SDR 12 billion.

Official holdings of Eurocurrencies increased in 1987 for the first time after two years, but their share in total official holdings of foreign exchange decreased slightly. In addition, the relative importance of ECUs in total official holdings of foreign exchange increased slightly by the end of 1987.

the ECU prices of the dollar and gold. During 1985 and 1986, the fall in the ECU prices of the dollar led to a decrease in the amount of ECUs created by the EMCF, in spite of the increase in the amount of dollars deposited with this institution. In 1987, the ECU prices of the dollar continued to decline, but as the amounts of dollars deposited with the EMCF increased significantly, the quantity of ECU holdings rose.

Table I.4
Placement of Official Holdings of Foreign Exchange Reserves, End of Year 1980–87¹
 (In billions of SDRs)

	1980	1981	1982	1983	1984	1985	1986	1987
Liabilities of residents of the United States to foreign official institutions	123	139	149	163	178	159	172	183
Items not included in reported official U.S. dollar holdings ²	<u>–22</u>	<u>–36</u>	<u>–50</u>	<u>–52</u>	<u>–46</u>	<u>–41</u>	<u>–34</u>	<u>–33</u>
Reported official U.S. dollar claims on residents of the United States	101	103	99	111	132	118	138	150
Reported official claims on residents of other countries denominated in the debtor's own currency	<u>41</u>	<u>39</u>	<u>38</u>	<u>40</u>	<u>46</u>	<u>56</u>	<u>61</u>	<u>79</u>
Subtotal	<u>142</u>	<u>142</u>	<u>137</u>	<u>151</u>	<u>178</u>	<u>174</u>	<u>199</u>	<u>229</u>
Identified official holdings of Eurocurrencies								
Eurodollars	54	58	56	57	66	60	54	60
Other currencies	<u>34</u>	<u>32</u>	<u>30</u>	<u>33</u>	<u>38</u>	<u>41</u>	<u>35</u>	<u>48</u>
Subtotal	<u>88</u>	<u>90</u>	<u>86</u>	<u>90</u>	<u>104</u>	<u>101</u>	<u>89</u>	<u>108</u>
ECUs	48	43	38	42	38	38	41	53
Residual ³	<u>15</u>	<u>19</u>	<u>25</u>	<u>25</u>	<u>29</u>	<u>35</u>	<u>35</u>	<u>65</u>
Total official holdings of foreign exchange	293	293	285	308	349	348	364	455

Sources: International Monetary Fund, *International Financial Statistics*; U.S. Treasury Department, *Bulletin*; Bank of England, *Quarterly Bulletin*; BIS, *International Banking and Financial Market Developments*.

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 dollars deposited with the European Monetary Cooperation Fund in connection with the issuance of ECUs, 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 1987/88

FUND MEMBERSHIP, PARTICIPATION IN THE SDR DEPARTMENT, AND QUOTAS

During the year ended April 30, 1988 the membership of the Fund remained unchanged at 151, with all members participating in the SDR Department. The People's Republic of Angola applied for membership during the year, and the Fund staff is currently collecting the relevant information and data needed for Executive Board consideration of this membership application. The Committee of the Whole on the Ninth General Review of Quotas, established in March 1987, met several times during the year but did not conclude the review. The Board of Governors requested the Executive Board to continue its work on this matter and to submit appropriate proposals on increases in quotas by April 30, 1989. The total of Fund quotas, therefore, remained unchanged at SDR 89.99 billion.

GENERAL DEPARTMENT

GENERAL RESOURCES ACCOUNT

During 1987/88, purchases by members rose substantially relative to the previous year, reversing the declining trend that started in 1983/84 (see Appendix Table II.2). The increase was entirely due to purchases under the compensatory financing facility, which nearly tripled and reflected purchases by some members with relatively large quotas (e.g., Argentina and Indonesia). Purchases under stand-by arrangements and the extended facility remained essentially unchanged from the year before, while reserve tranche purchases declined. Repurchases continued to increase, reflecting the substantial expansion of Fund credit in the first half of the 1980s. Outstanding Fund credit

declined by SDR 3.8 billion in 1987/88. The bulk of repurchases was made by members with relatively large quotas that currently do not have arrangements with the Fund. About half of the countries that made purchases during 1987/88 recorded increases in outstanding Fund credit during the year.

The Fund's usable ordinary resources, i.e., holdings of usable currencies and SDRs in the General Resources Account, increased by SDR 1.7 billion to SDR 41.0 billion during 1987/88 owing, inter alia, to the flow of repurchases and to the conservation of ordinary resources made possible by a decision of the Executive Board in 1986 to make greater use of borrowed resources in financing purchases under stand-by and extended arrangements.¹ The impact of these two factors was reduced somewhat by the temporary use of ordinary resources in financing repayments of resources borrowed under short-term agreements that preceded the corresponding repurchases. This use of ordinary resources will be reversed as repurchases of purchases financed with borrowed resources are eventually completed. The stock of available borrowed resources declined by SDR 1.8 billion to SDR 5.32 billion, reflecting disbursements under the policy on enlarged access during 1987/88.

Purchases

Purchases under tranche policies and special facilities increased to SDR 4.12 billion in 1987/88 from SDR 3.17 billion the year before. Purchases under the credit tranche policy continued to account for the largest share (SDR 2.32 billion), followed by purchases under the compensatory

¹ Executive Board Decision No. 8487-(86/205), December 19, 1986, *Selected Decisions*, Thirteenth Issue, pages 52-53.

financing facility (SDR 1.54 billion) and the extended Fund facility (SDR 260 million). Purchases under the credit tranche policy and the extended Fund facility remained basically unchanged from the previous year, while those under the compensatory financing facility nearly tripled. Two reserve tranche purchases totaling SDR 35 million were made during the financial year 1987/88, compared with eight such purchases totaling SDR 516 million, mostly by European members in connection with intra-EC settlements, in the previous financial year.²

Although purchases under stand-by arrangements during 1987/88 remained unchanged from the level of the year before, both the number of members making purchases and those having current arrangements with the Fund declined. Purchases under tranche policies were in large part financed with borrowed resources (SDR 1.7 billion); the proportion of borrowed resources used in financing arrangements amounted to nearly two thirds during 1987/88, compared with one third the year before. This shift was the result of a change in the mix of resources to be used under the enlarged access policy after December 31, 1986, as noted earlier, giving greater emphasis to the use of borrowed resources in financing purchases under stand-by and extended arrangements.

Stand-By Arrangements

Fourteen new stand-by arrangements came into effect in 1987/88 for a total commitment of SDR 1.70 billion, compared with 22 arrangements for SDR 4.12 billion concluded in the previous year. The bulk of new stand-by arrangements continued to be with members in Africa, followed by Latin America. The largest commitments were made under arrangements with Argentina (SDR 0.95 billion) and Egypt (SDR 0.25 billion).

Six arrangements involved enlarged access resources, compared with 13 the year before. Stand-by arrangements with 19 members expired or were

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.

canceled during the year; undrawn amounts under these arrangements amounted to SDR 1.23 billion. As of April 30, 1988, undrawn balances under stand-by arrangements in effect amounted to SDR 1.01 billion, considerably less than the amount of SDR 2.67 billion at April 30, 1987.

Extended Arrangements

Purchases under extended arrangements totaled SDR 260 million by two members (Chile and Ghana). The use of Fund credit under such arrangements has declined since the peak of 1983/84 and has been relatively low in the last two years. One new arrangement for SDR 245 million was approved for Ghana in November 1987 and the other arrangement, approved for Chile in August 1985 for SDR 750 million, remained in effect.

The Executive Board in its latest review of the extended Fund facility discussed the issue of strengthening the facility's effectiveness in supporting comprehensive programs of macroeconomic and structural reforms and catalyzing other sources of finance. The Board agreed in June 1988 to allow initial three-year extended arrangements to be lengthened to four years, if requested by the member and where this would facilitate sustained policy implementation over the medium term; to make available more Fund resources where appropriate; and to permit use of ordinary resources first up to 140 percent of quota (above the first credit tranche), which would reduce the average rate of charge and lengthen the maturity of purchases. It was also decided that other provisions of the extended Fund facility and the guidelines on conditionality would remain in force.³ The Fund will review the provisions of the facility at the appropriate time pursuant to paragraph 12 of the guidelines on conditionality.

Compensatory Financing Facility

During 1987/88, seven members purchased a total of SDR 1.54 billion under the decision relating to export shortfalls, compared with purchases by eight members of SDR 593 million in 1986/87. Purchases by two members—Argentina (SDR 752

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

million) and Indonesia (SDR 463 million)—accounted for the bulk of the amount. No purchases under the decision relating to cereal import costs were made for the second consecutive year. The outstanding amount of purchases under this facility for temporary export shortfalls and cereal import excesses amounted to SDR 4.34 billion at April 30, 1988 as against SDR 4.78 billion at April 30, 1987.

Buffer Stock Financing Facility

The buffer stock financing facility, established in 1969, provides assistance to members with a balance of payments need for financing their contributions to international buffer stocks under approved international commodity agreements. The last agreement to qualify for Fund support was the 1979 International Natural Rubber Agreement, which expired in October 1987. Exporting and importing members of the Agreement negotiated a successor agreement and concluded the text of a further International Natural Rubber Agreement in March 1987. However, that agreement has not yet come into effect. No purchases have been made under the buffer stock financing facility in the past four years. Two countries (Thailand and Côte d'Ivoire) had purchases outstanding at April 30, 1988 totaling SDR 3 million, compared with SDR 34 million at April 30, 1987.

Repurchases

Repurchases have continued to increase and reached a record of SDR 7.93 billion in 1987/88. This continued increase in repurchases in the last few years is a consequence of the high level of use of Fund credit in the first half of the 1980s. A similar pattern of repurchases occurred in 1978/79, following a sizable expansion of Fund credit in 1974/75–1975/76. A large proportion of the repurchases in 1987/88 were made by members with relatively large quotas: of the 66 members that made repurchases during the year, 7 members with relatively large quotas (Brazil, India, Korea, Mexico, South Africa, Thailand, and Turkey) accounted for about half of the total (SDR 3.62 billion). Among the members making repurchases, 26 members also made purchases during the year.

As a result of the relatively large volume of repurchases, the outstanding level of Fund credit declined by SDR 3.82 billion to SDR 27.83 billion at end-April 1988, excluding outstanding dis-

bursements under the structural adjustment facility (SAF) and Trust Fund loans, which amounted to SDR 0.58 billion and SDR 1.13 billion, respectively.

Fund Liquidity

The Fund's liquid resources consist of its holdings of usable currencies and SDRs in the General Resources Account, supplemented, as necessary, by borrowed resources.⁴ Usable currencies represent the largest component and consist of the currencies of the members whose balance of payments and gross reserve positions are considered sufficiently strong by the Executive Board to warrant their use in financing operations and transactions under the Fund's quarterly operational budgets. The stock of usable ordinary resources totaled SDR 41.0 billion as at April 30, 1988, an increase of SDR 1.7 billion over the year, of which SDR 40.2 billion was in usable currencies and SDR 0.8 billion was in the form of SDRs held in the General Resources Account. Ordinary resources amounting to SDR 1.2 billion were used during the year to repay short-term borrowings, raising to SDR 2.8 billion at end-April 1988 the cumulative use of ordinary resources to repay short-term borrowings ahead of corresponding repurchases. These ordinary resources will eventually be replenished as corresponding repurchases are made.

Borrowed resources available to finance the policy on enlarged access declined from SDR 7.1 billion at end-April 1987 to SDR 5.3 billion at end-April 1988. The Fund's liquid liabilities declined during 1987/88 to SDR 31.28 billion at end-April 1988, compared with SDR 36.72 billion at end-April 1987. Reserve tranche positions declined from SDR 24.02 billion to SDR 22.21 billion, and loan claims on the Fund declined from SDR 12.70 billion to SDR 9.07 billion at end-April 1988.

Borrowing

The policy on enlarged access has played a major role in determining access to the Fund's resources under tranche policies since 1981. Significant amounts of resources borrowed from of-

⁴ 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.

ficial lenders have supplemented the Fund's ordinary resources in financing the enlarged access policy. In 1981, a medium-term borrowing agreement for SDR 8 billion was concluded with the Saudi Arabian Monetary Agency (SAMA), and short-term agreements were established with the Bank for International Settlements (BIS) and the central banks of a number of industrial countries for a total amount of SDR 1.2 billion. These arrangements were followed by additional short-term borrowing arrangements totaling SDR 6 billion in 1984, when the Fund concluded short-term agreements with the BIS, the National Bank of Belgium, and the Government of Japan totaling SDR 3 billion and an agreement with SAMA for an additional SDR 3 billion. In December 1986, the Fund entered into a further medium-term borrowing agreement with the Government of Japan in an amount of SDR 3 billion, which is also available for financing the policy on enlarged access. At end-April 1987, the Fund had credit lines available totaling SDR 6.3 billion (SDR 3.3 billion under the 1981 and 1984 agreements with SAMA and SDR 3 billion under the 1986 agreement with the Government of Japan) in addition to SDR 18.5 billion under the General Arrangements to Borrow (GAB) and an associated arrangement with Saudi Arabia.

During 1987/88, the Fund borrowed SDR 1.3 billion and repaid SDR 4.9 billion, resulting in a net decrease in total outstanding borrowing of SDR 3.6 billion, from SDR 12.7 billion at end-April 1987 to SDR 9.1 billion at end-April 1988. As in the previous year, all new borrowing was undertaken to finance the policy on enlarged access, whereas repayments included repayment of borrowings under the policy on enlarged access (SDR 3.3 billion) and the supplementary financing facility (SDR 1.7 billion). As of April 30, 1988, outstanding borrowing by the Fund amounted to SDR 7.3 billion under the policy on enlarged access and to SDR 1.7 billion under the supplementary financing facility.

At end-April 1988, SDR 2 billion remained available under the 1984 agreement with SAMA and SDR 3 billion under the 1986 agreement with the Government of Japan. Drawdowns under the agreement with SAMA must be completed by May 6, 1989.⁵ Under the agreement with the Government

⁵ The drawdown period was extended for two years to this date from the original date of May 6, 1987. See *Annual Report, 1987*, page 65.

of Japan, the Fund may make drawings until March 31, 1991, although this period may be extended for up to two years if warranted in light of the Fund's liquidity and borrowing requirements. The assets held in the Borrowed Resources Suspense Accounts pending disbursement to finance purchases under the policy on enlarged access amounted to SDR 0.3 billion as at end-April 1988 and consisted wholly of deposits with the BIS. In addition, the Fund had arrangements available for SDR 17 billion under the General Arrangements to Borrow (GAB) and SDR 1.5 billion under the borrowing arrangement with SAMA in association with the GAB. The Fund's decision on the GAB was renewed in 1987/88, without change, for a period of five years from December 26, 1988 to December 25, 1993.⁶

SPECIAL DISBURSEMENT ACCOUNT

Structural Adjustment Facility (SAF)

The SAF was established in March 1986 within the Special Disbursement Account of the General Department with the resources that accrue over the period 1985–91 from repayments of Trust Fund loans, totaling about SDR 2.7 billion. The purpose of this facility is to provide concessional balance of payments assistance to low-income developing countries facing protracted balance of payments problems.⁷ Loans under the facility are made available at an interest rate of $\frac{1}{2}$ of 1 percent per annum and are repayable in ten equal semiannual installments over 5½–10 years. Sixty-two members have qualified as low-income countries for this purpose and are eligible for assistance under the facility. Two members with large quotas, China and India, have indicated that they would not avail themselves of the facility. Potential access to the facility is equivalent to 63.5 percent of quota, available in three tranches, each one disbursed at the beginning of three successive one-year programs within a medium-term framework. The amounts available in the first and second years of the program period are 20 percent and 30 percent of quota, respectively.

Arrangements under this facility require the adoption of a comprehensive policy framework

⁶ Executive Board Decision No. 8733-(87/159), November 23, 1987 (reproduced in Appendix III).

⁷ For details, see *Annual Report, 1986*, pages 48–49 and 92–98.

that sets out explicitly the macroeconomic and structural policy measures to be undertaken to strengthen the country's balance of payments position. The Fund and the World Bank collaborate closely in assisting members with the formulation of policy framework papers. These papers are reviewed by the Executive Board of the Fund and by a Committee of the Whole of the World Bank's Executive Board.

As of April 30, 1988, 25 members had three-year arrangements under the facility for a total amount of SDR 1.36 billion, of which SDR 0.58 billion had been disbursed, leaving undisbursed commitments under these arrangements of SDR 0.77 billion (see Table II.12). By comparison, 10 such arrangements were in effect on April 30, 1987, involving total commitments of SDR 0.44 billion, of which SDR 0.14 billion was drawn as of that date. Of the 15 new arrangements in 1987/88, 13 are with African countries. The Fund will review the operations of the facility not later than March 31, 1989.

On December 18, 1987, the Executive Board approved the establishment of the enhanced structural adjustment facility (ESAF), whose objectives, basic procedures, and financial conditions parallel those of the SAF.⁸ The ESAF will have a resource base of about SDR 6 billion in addition to the resources of the SAF. It is the Fund's intention to extend ESAF loans at the same highly concessional interest rate of $\frac{1}{2}$ of 1 percent as for the SAF, subject to the availability of subsidy contributions for this purpose.

SDR DEPARTMENT

Total SDRs allocated by the Fund remained unchanged at SDR 21.4 billion as of April 30, 1988 as there were no new allocations or cancellations. In accordance with the guidelines in the Executive Board's decision of April 24, 1987 to maintain the level of the Fund's SDR holdings in the General Resources Account within the range of SDR 0.75–1.25 billion,⁹ the Fund made net transfers of about SDR 1.19 billion to members during the financial year 1987/88. As a result, the share of SDRs held by the Fund fell from 9 percent to about 4 percent,

⁸ Executive Board Decision No. 8759-(87/176) ESAF, December 18, 1987 (reproduced in Appendix III).

⁹ Executive Board Decision No. 8574-(87/64)S, April 24, 1987, *Selected Decisions*, Thirteenth Issue, page 112.

while that of participants and other prescribed holders rose from 91 percent to 96 percent. Total transfers of SDRs increased by 27 percent, to SDR 19.86 billion (Table II.13). While transactions with designation continued to decline, voluntary transfers among participants and prescribed holders increased sharply by 87 percent, resulting in a 50 percent rise in total transfers among them to SDR 9.46 billion. The volume of SDR transfers involving prescribed holders nearly tripled, to SDR 1.93 billion from SDR 0.68 billion in 1986/87.

The amount of SDRs transferred between participants and the Fund increased by about 12 percent over the previous financial year in contrast to a 13 percent decline in 1986/87. Transfers from participants to the General Resources Account, mainly in the form of charges and repurchases, increased by 8 percent to SDR 4.61 billion, and transfers from the General Resources Account to participants in purchases, remuneration payments, sales to members needing SDRs for payment of charges, and interest payments on and repayments of Fund borrowings increased by 15 percent to SDR 5.80 billion.

PATTERN OF HOLDINGS

SDRs may be held by the Fund's General Resources Account, by Fund members (all members are participants in the SDR Department), and by official entities prescribed by the Fund to hold SDRs. The number of institutions prescribed by the Fund as eligible to accept, hold, and use SDRs remained at 16 during the year under review.¹⁰ Prescribed holders do not receive allocations of SDRs but can acquire and use SDRs in transactions and operations with participants in the SDR Department and other prescribed holders under most of the same terms and conditions as participants.

The main change in the pattern of holdings was a reduction in the Fund's holdings of SDRs, from

¹⁰ Prescribed holders currently comprise four central banks, three intergovernmental monetary institutions, and nine development institutions: the African Development Bank, the African Development Fund, the Andean Reserve Fund, the Arab Monetary Fund, the Asian Development Bank, the Bank of Central African States, the Bank for International Settlements, the Central Bank for West African States, the East African Development Bank, the Eastern Caribbean Central Bank, the International Bank for Reconstruction and Development, the International Development Association, the International Fund for Agricultural Development, the Islamic Development Bank, the Nordic Investment Bank, and the Swiss National Bank.

about SDR 2.0 billion at the end of financial year 1986/87 to about SDR 0.8 billion at the end of financial year 1987/88, and a corresponding increase in the holdings of participants and prescribed holders (Tables II.14 and II.15). The SDR holdings of the capital importing developing countries as a group rose by 9 percent, and those of the industrial countries increased by 5.4 percent in 1987/88.

TRANSACTIONS AND OPERATIONS AMONG PARTICIPANTS AND PRESCRIBED HOLDERS

Transactions with Designation

The volume of SDRs used in transactions with designation declined from SDR 1.25 billion in 1986/87 to SDR 0.99 billion in 1987/88; this decline was accompanied by an increase in transactions by agreement that were arranged in lieu of designation from about SDR 85 million in 1986/87 to SDR 0.60 billion in 1987/88. It may be noted that the amount of SDRs received by members in purchases from the Fund increased by about 4 percent to SDR 1.85 billion. Sixteen countries were designated to provide currencies in exchange for SDRs in 1987/88. Approximately 80 percent of the amount used in transactions with designation (SDR 0.79 billion) was provided by five participants (the United Kingdom, France, Italy, Canada, and the Federal Republic of Germany).

Transactions by Agreement

The volume of transactions by agreement, which do not require a representation of balance of payments need, rose by 87 percent over 1986/87 to SDR 7.34 billion, of which SDR 0.86 billion involved prescribed holders. Participants 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 made in SDRs). The overall increase in use of SDRs in 1987/88 in transactions by agreement primarily reflected an increased use of SDRs in repurchases, their use by several industrial countries to finance foreign exchange market intervention, and substitution of transactions by agreement for transactions with designation, made possible by a number of two-way arrangements for voluntary transactions in SDRs.

Two-way arrangements facilitate the arrange-

ment by the Fund of transactions by agreement, on behalf of participants and prescribed holders wishing to buy or sell SDRs. Participants entering into two-way arrangements specify the maximum and minimum levels of holdings within which the Fund is authorized to arrange transfers or receipts of SDRs on their behalf, the currencies for which they are prepared to exchange SDRs, and whether transactions are to be settled in two or three business days. In 1987/88, six additional participants joined two others with such arrangements. In total, these eight arrangements permit potential purchases or sales of over SDR 1.0 billion in exchange for U.S. dollars, deutsche mark, French francs, pounds sterling, and Japanese yen. Four other participants have entered into standing arrangements to sell SDRs and eight have entered into standing arrangements to buy SDRs.

Additional Uses of SDRs

The Fund's rules permit a variety of additional uses of SDRs among participants and prescribed holders, technically known as "operations." In 1987/88, operational uses of SDRs consisted of the settlement of financial obligations, loans, forward operations, and a number of Fund-related transfers. During 1987/88, there were 53 transfers of SDRs (amounting to SDR 225 million) for settlement of financial obligations, and 4 loans (totaling SDR 69 million), all between one prescribed holder and its members; for the first time, there were three forward operations in SDRs involving transfers of SDR 247 million.

SDRs were also used in Fund operations involving SAF and Trust Fund loans, their repayment, and interest payments,¹¹ payment of special charges on SAF and Trust Fund loans, and subsidy payments to members. In 1987/88, 16 SAF loans were disbursed in SDRs for a total of SDR 215 million. Repayments of Trust Fund loans in SDRs amounted to SDR 52 million. Interest payments in SDRs on SAF and Trust Fund loans, and payments of special charges on overdue obligations related to these loans totaled about SDR 1 million. Supplementary financing facility subsidy payments made in SDRs during 1987/88 amounted to SDR 28 million.

¹¹ Authorized in 1987/88 by Executive Board Decision No. 8642-(87/101)S/TR, July 9, 1987 (reproduced in Appendix III).

TRANSFERS INVOLVING THE FUND

Receipts by the Fund

Over half of all transfers of SDRs in 1987/88 took place between participants and the Fund. Receipts of SDRs by the General Resources Account in 1987/88 increased to SDR 4.6 billion from SDR 4.3 billion in 1986/87. Receipts consisted mainly of payments of charges on members' use of Fund resources, amounting to SDR 2.0 billion, compared with SDR 2.28 billion in 1986/87, and repurchases made in SDRs (at participants' option) of SDR 2.52 billion, compared with SDR 1.67 billion in 1986/87. The proportion of total repurchases that was discharged in SDRs in 1987/88 was 32 percent, compared with 27 percent in 1986/87.

Transfers by the Fund

Transfers from the General Resources Account to participants increased by 15 percent to SDR 5.80 billion in 1987/88. SDRs used for interest payments and in repayments of Fund borrowings rose by 83 percent over 1986/87 to SDR 2.58 billion in 1987/88. SDRs used in purchases increased moderately to SDR 1.85 billion, while remuneration payments in SDRs on members' creditor positions in the Fund declined from SDR 1.09 billion to SDR 0.93 billion. The amount of SDRs sold to members for currencies of other members declined from SDR 0.75 billion to SDR 0.40 billion.

The net effect of these operations by the Fund resulted in a decline in the Fund's holdings of SDRs from SDR 1.96 billion to SDR 0.77 billion.

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 as a unit of account (or as the basis for a unit of account) by a number of international and regional organizations.¹² A

¹² 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, Inter-

number of international conventions also use the SDR as a unit of account, notably those expressing liability limits for 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 to review and revise cargo tariffs, if necessary, which are specified in local currencies. In addition, the SDR has been used to denominate financial instruments created outside the Fund (private SDRs), but the market for private SDRs has remained very limited. After some activity in 1980/81, no new issues of securities or bank credits denominated in SDRs have been made.

At the end of April 1988, the currencies of seven 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 other currencies by reference to the SDR value of these currencies as calculated and published by the Fund.

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 for low-income developing members of using the supplementary financing facility. This Account was constituted by transfers from the Special Disbursement Account of interest on, and repayments of, Trust Fund loans (SDR 412.7 million);¹³ by donations (SDR 57.4 million); by loans (SDR 4.6 million) that have been repaid; and by the income on the investment of resources held pending disbursement (SDR 56.9 million).¹⁴

The subsidy payable for the year ended June 30, 1987 continued to decline as a result of reductions in the interest rate on supplementary financing facility loans. The subsidy paid fell in the range of 1.45–1.55 percent per annum for those mem-

national Development Association, International Fund for Agricultural Development, International Telecommunications Union, Islamic Development Bank, Nordic Investment Bank, and Universal Postal Union.

¹³ Cumulative from the inception of the Account until these transfers stopped in 1985/86.

¹⁴ Cumulative from the inception of the Account through April 30, 1988.

bers eligible to receive the full rate of subsidy and in the range of 0.72–0.77 percent per annum for those eligible to receive half of the full rate of subsidy. These rates compared with the ranges of 2.54–2.70 percent and 1.30–1.34 percent, respectively, paid in the preceding year.¹⁵ Proposed subsidy payments in 1987/88 amounted to SDR 29.1 million,¹⁶ bringing the total subsidy payments since the inception of the Account to SDR 397.6 million (Table II.16).¹⁷ Subsidy payments were made to each eligible member on August 4, 1987, or as soon thereafter as the member had paid all overdue charges, if any, on balances eligible for the subsidy.¹⁸

The resources of the Account are held in SDR-denominated investments with the BIS and the International Bank for Reconstruction and Development (IBRD/World Bank) pending disbursement.¹⁹ As of April 30, 1988, supplementary financing facility subsidies totaling SDR 394.4 million had been disbursed and SDR 65.9 million of resources were held in interest-earning investments for future disbursements (including SDR 3.2 million of subsidies approved but withheld as of April 30, 1988 on account of members' nonpayment of supplementary financing facility charges). The balance of resources available to the Account (SDR 67.1 million) had been transferred to the Special Disbursement Account for use by the structural adjustment facility.

NET INCOME POSITION, CHARGES, AND REMUNERATION

The Fund aims at achieving a positive net income each financial year to add to its reserves, after covering its expenses and paying an appropriate rate of remuneration, while retaining a concessional element in the rate of charge payable by members on the use of its ordinary resources. The Fund reviews its income position at the beginning and middle of each financial year to deter-

¹⁵ Prior to 1987, the respective rates were 3 percent and 1.50 percent per annum.

¹⁶ This amount comprised SDR 28.7 million of subsidy payable for the year ended June 30, 1987 and SDR 0.4 million payable as additional disbursement for the year ended June 30, 1986.

¹⁷ As of April 30, 1988, subsidy payments totaling SDR 3.2 million had not been paid to five members.

¹⁸ Executive Board Decision No. 8674-(87/117)SBS, August 3, 1987 (reproduced in Appendix III).

¹⁹ Executive Board Decision No. 7990-(85/81), May 28, 1985, *Selected Decisions*, Thirteenth Issue, page 141.

mine the rate of charge, taking into account the factors affecting the cost and use of Fund resources.

In July 1986, the Executive Board examined the financial consequences for the Fund of overdue obligations and decided that these consequences should be shared between debtor and creditor member countries and that this sharing should be applied in a simultaneous and symmetrical fashion.²⁰ For the financial years 1986/87 and 1987/88, the Fund's target amount of net income was raised from 5 percent to 7.5 percent of reserves at the beginning of each year. This increase was financed equally by a higher rate of charge than would otherwise have been obtained and by a lower rate of remuneration than would otherwise have been payable. In January 1988, the Fund decided to allocate the increased target income over 5 percent for 1987/88 to the Special Contingent Account established in 1987. It was further decided to generate an additional amount equal to 2.5 percent of reserves at the beginning of the year for placement to this Account.²¹ This additional amount would be generated by adjusting both the rate of charge and the rate of remuneration. In addition, an amount of income equal to the charges being deferred²² is generated through a simultaneous upward adjustment of the rate of charge and a downward adjustment of the rate of remuneration. The latter adjustment is subject to a limitation that precludes adjustment of this rate to a level less than 85 percent of the SDR interest rate, unless the Executive Board decides otherwise. In the light of the level of deferred charges in the fourth quarter of 1987/88 that could not be generated fully by a symmetrical adjustment of the rate of remuneration and the rate of charge, the Executive Board decided in May 1988 to reduce the amount of addition to reserves from 5.0 percent to 4.1 percent. The shortfall is to be made up through an additional placement to reserves in 1988/89.²³

²⁰ Executive Board Decision No. 8348-(86/122), July 25, 1986, as amended by Decisions Nos. 8481-(86/202), December 17, 1986, and 8482-(86/202), December 17, 1986, *Selected Decisions*, Thirteenth Issue, pages 132–36.

²¹ Executive Board Decision No. 8780-(88/12), January 29, 1988 (reproduced in Appendix III).

²² Charges are deferred when members are overdue by six months or more in payment to the Fund. Deferred charges are recognized as income when they are actually settled.

²³ Executive Board Decisions Nos. 8878-(88/84), 8879-(88/84), and 8880-(88/84), May 23, 1988 (reproduced in Appendix III).

INCOME, EXPENSE, AND RESERVES

The Fund's operational income is derived mainly from charges paid by members on the use of Fund resources, service charges associated with the use of Fund credit, and interest income from its holdings of SDRs.

In the year ended April 30, 1988, the Fund recorded net income of SDR 49 million, a decrease of SDR 37 million from the net income of SDR 86 million recorded in the preceding financial year. Income from periodic and special charges, net of charges deferred (SDR 170 million), amounted to SDR 1.86 billion, compared with SDR 2.09 billion in the previous year. Special charges on overdue obligations recorded as income in 1987/88 amounted to SDR 16 million as against SDR 12 million in the previous year. The fall in the amount of periodic charges from that of the previous year reflected a lower average rate of charge on the use of ordinary resources, partially offset by higher costs of borrowing by the Fund, and a decline in the average balances to which the rates of charge are applied. The breakdown of the average rate of charge and that of the average balances on which the charges are applied are shown below:

	1986/87	1987/88
Average rate of charge (In percent)		
Ordinary resources (adjusted)	6.38	6.00
Borrowed resources	7.22	7.68
Average balances subject to charges on the use of (In millions of SDRs)		
Ordinary resources	18,545	17,025
Borrowed resources ²⁴	14,721	12,987

Larger purchases resulted in an increase in service charges from SDR 16 million in 1986/87 to SDR 21 million in 1987/88.

Interest income derived from the Fund's holdings of SDRs decreased by SDR 78 million from SDR 144 million in 1986/87 to SDR 66 million in 1987/88. This fall in SDR interest income resulted from lower average SDR holdings compared with the previous year, combined with a lower average rate of interest on the SDR. The SDR interest rate, which is equal to 100 percent of the combined market rate, reflected a fall in market rates on the component instruments.

In total, the Fund's operational income in 1987/88 amounted to SDR 1.95 billion, SDR 296 million

²⁴ Including balances refinanced with ordinary resources when borrowed resources were repaid prior to corresponding repurchases by members.

below the SDR 2.25 billion recorded in 1986/87. Operational expenses in 1987/88 (remuneration on creditor positions, interest on Fund borrowings, and the allocation to the Special Contingent Account) amounted to SDR 1.73 billion. This amount was SDR 244 million less than operational expenses of SDR 1.97 billion in 1986/87.

Remuneration expense in 1987/88 amounted to SDR 0.90 billion, compared with SDR 1.02 billion in the previous year. This decrease resulted primarily from a lower average rate of remuneration, after adjustment to take into account the consequences of overdue obligations, of 5.12 percent compared with 5.34 percent in 1986/87. These adjustments resulted in an effective remuneration coefficient for the year of 89.2 percent of the SDR interest rate (88.5 percent in 1986/87).

In 1987/88, the Fund's outstanding borrowings averaged SDR 10.84 billion, compared with SDR 13.63 billion in 1986/87. The average rate of interest on the outstanding amount of borrowed resources was 7.38 percent, compared with 6.94 percent in 1986/87. This resulted in an interest cost, net of income from the temporary investment of borrowed resources, of SDR 0.77 billion in 1987/88, down from SDR 0.93 billion in the previous year. Total outstanding borrowing by the Fund stood at SDR 9.07 billion on April 30, 1988 (SDR 12.70 billion on April 30, 1987).

Administrative expenses of the Fund amounted to SDR 175 million, compared with SDR 191 million in 1986/87. Details of the Fund's income and expenses are set out in Appendix VIII (Financial Statements, pages 165–212).

CHARGES

At the beginning of each financial year and at six-month intervals, the Executive Board reviews the Fund's income position. In this connection, the Board determines a target amount of income for the year, and this target amount, together with estimates of the level of use of Fund resources, income and expenses (both operational and administrative), serves as a basis for the Executive Board to establish a basic rate of charge on the use of the Fund's ordinary resources. For the financial year 1987/88, this basic rate of charge was set at 5.80 percent, taking into account the adjustment necessary to generate half of the increase in the target net income from 5 percent to 7.5 percent; in the fourth quarter of the year, the rate was increased from 5.8 percent to 6.15 per-

cent. Subsequent adjustments of this rate to make up for one half of periodic charges deferred during the year and a return to debtors of SDR 58 million, representing net income earned by the Fund in excess of the target amount for the year, resulted in an average rate of charge for the year of 6.00 percent.

The Fund pays market-related rates of interest on its borrowings. Members that make purchases financed with these borrowed resources pay charges to the Fund that reflect the Fund's cost of borrowing plus a small margin. Under the supplementary financing facility, the rate of charge is equal to the rate of interest paid by the Fund plus a margin of 0.20 percent for the first three and a half years that a purchase is outstanding plus an additional 0.125 percent after three and a half years. Under the policy on enlarged access, the rate of charge is equal to the net cost of Fund borrowing plus a margin of 0.20 percent. In 1987/88, the average rates of charge on purchases under the supplementary financing facility and under the policy on enlarged access were 8.70 percent and 7.39 percent, respectively, compared with 7.11 percent and 6.94 percent, respectively, in 1986/87.

To cover the cost to the Fund resulting from overdue obligations, the Fund levies an additional "special charge" on such obligations. The rate of special charge on overdue repurchases is equal to the difference between the SDR interest rate and the basic rate of charge whenever the SDR interest rate is greater than the rate of charge before adjustments to recover deferred income. Thus, the rate of charge on overdue charges is equal to the SDR interest rate. In the year ended April 30, 1988, special charges levied by the Fund amounted to SDR 20.1 million (SDR 12.1 million in 1986/87). Of this amount, SDR 19.8 million was treated as deferred income (SDR 11.6 million in 1986/87). Special charges included in current income amounted to SDR 0.3 million (SDR 0.5 million in the previous year).

REMUNERATION

The Fund pays remuneration to its creditor members whenever it uses a member's currency to the extent that its holdings of the member's currency are reduced below the member's "norm." The norm, which reflects a member's subscription payment in reserve assets before the Second Amendment of the Articles of Agreement, varies from member to member. For those countries that

were members of the Fund on the effective date of the Second Amendment (April 1, 1978), the norm is equal to 75 percent of the member's quota on that date, plus all subsequent increases in the member's quota. For a member admitted to the Fund after April 1, 1978, 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 of admission. At April 30, 1988, the norms of members ranged from 88.49 percent to 98.95 percent of quotas, unchanged from the range at April 30, 1987.²⁵ The average of the norms of all members at April 30, 1988 (91.73 percent) was unchanged from the previous year.

The rate of remuneration was raised to 100 percent of the SDR interest rate on February 1, 1987. However, after adjustment made to generate one half of the increase in the target amount of income (SDR 60 million) and one half of deferred charges, the actual rate of remuneration paid to creditor members of the Fund in 1987/88 averaged 5.12 percent (5.34 percent in 1986/87). The SDR interest rate and the unadjusted rate of remuneration applicable in 1987/88 are set out in Table II.17.

TECHNICAL ASSISTANCE AND TRAINING

Technical assistance continued to be an important part of the Fund's services to its member countries during 1987/88 as members sought its advice on a wide range of subjects, from broad policy issues connected with stabilization policies and external debt management to specialized technical matters. Much of the former assistance is provided through the Fund's consultation procedures with its members under Article IV or in connection with adjustment programs. More recently, this aspect of the Fund's assistance has been expanded through the policy framework papers prepared in conjunction with the World Bank for lending under the SAF. Often, in helping a member to carry out a program, the Fund will use both the expert services of staff members from headquarters and the services of a staff member assigned to the country as resident representative.

Technical assistance and training is extended to members in specific economic and financial topics, either at headquarters or through staff missions

²⁵ Except for Democratic Kampuchea, whose norm is 75 percent of quota because there has been no change in this member's quota since April 1978.

to the member country concerned. To meet members' requests, staff from almost every department of the Fund may be provided. Assistance may relate to a whole range of subjects, including general economic policy, balance of payments adjustment programs, legal matters, debt management, the problems that arise from inflation, exchange and trade systems, public finance issues, financial sector issues, accounting, statistics, 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 briefings to official visitors at Fund headquarters. From the time of its establishment in 1964 until end-April 1988, a total of some six thousand officials from 151 member countries attended Institute courses and seminars in Washington.

The Institute conducted fourteen courses and one seminar in Washington during 1987/88. The courses comprised three 18-week courses in financial analysis and policy (in Arabic, English, and French), one 16-week course in financial analysis and policy (in Spanish), one 12-week course in financial programming and policy (in English), one 10-week course in public finance (in English), four 8-week courses in techniques of economic analysis (in Arabic, English, French, and Spanish), two 8-week courses in balance of payments methodology (in English and Spanish), one 8-week course in money and banking statistics (in English), and one 8-week course in government finance statistics (in English). The course on public finance was conducted in collaboration with the Fiscal Affairs Department, and those on balance of payments methodology, money and banking statistics, and government finance statistics, in collaboration with the Bureau of Statistics. The seminar, on the role of the Fund in the international monetary system, was conducted in English. A total of 460 participants attended the courses and the seminar.

During 1987/88, the Institute's training activities abroad included three seminars—on financial analysis and policy in Laos, on financial programming and policy in Sierra Leone, and on financial analysis in Algeria. A total of 77 participants attended. The Institute also provided lecturing assistance to six international, regional, and national organizations, and technical assistance to the South-East Asian Central Banks Research and Training

Centre and to the Arab Monetary Fund. The Institute arranged 34 briefings at Fund headquarters for 265 government officials.

An important part of the work of the *Fiscal Affairs Department* relates to technical assistance activities in the fiscal field. As in previous years, advice by the department in 1987/88 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 assistance is open to all member countries of the Fund. While the large majority of requests came from developing countries, advice on specific issues was also provided to industrial and other developed countries. In an increasing number of cases, technical assistance helped achieve much-needed economic adjustment by promoting the effective implementation of fiscal measures. The advice given comprised measures to enhance revenue and improve tax administration, rationalize expenditure policies, and strengthen budgeting and control procedures, requiring detailed technical analysis from the department.

Technical assistance continued to be provided through staff missions and the use of members of the panel of fiscal experts, largely through field assignments. In 1987/88 such assistance was given to 50 countries. During the financial year there were 19 long-term assignments by members of the panel of fiscal experts and 55 short-term missions using both staff members and members of the panel of fiscal experts in the field; 44 panel members and 23 staff members participated in this work. In comparison with previous years, increasing emphasis was placed on short-term missions and on advice given to the authorities in the field. Support and guidance to technical assistance experts on long-term assignments were provided from headquarters on a regular basis.

Technical assistance on central banking and financial sector issues is provided by the *Central Banking Department*, both through the assignment of outside experts and through staff advisory missions. Advice is also given by department staff by correspondence and through consultations at Fund headquarters with members. In financial year 1987/88, 101 central banking experts were assigned to executive and advisory positions with the monetary authorities of 48 member countries and 4 regional organizations, providing a total of 69 man-years of assistance. About 65 percent of this assistance

was in the areas of research and policy and bank regulation and supervision, while management, general operations, external debt, and accounting made up an additional 35 percent. Departmental staff carried out 18 advisory missions, giving advice on a wide range of policy issues including adequacy of monetary instruments, development of government securities markets, bank regulation and supervision issues, structure of financial systems, and banking legislation. In addition, departmental staff participated in six area department missions and five joint Bank-Fund advisory missions.

The Central Banking Department has continued to undertake policy-oriented research in support of its technical assistance activities on relevant financial sector topics. Among the topics addressed by staff studies during the year were the causes and impact of banking crises; issues in monetary control during financial reform; banking market structure and monetary policy; and interest rate determination. Computerization of bank legislation and monetary policy instruments—to ensure that accurate and up-to-date data are readily available—continued in financial year 1987/88, and five new laws were entered into the data bank on banking legislation and nine of the laws previously entered were updated; the data bank on monetary policy instruments was also expanded, with the addition of 55 new countries.

During 1987/88 the *Bureau of Statistics* continued its program of technical assistance in statistics to member countries. This program, which is an important part of the Bureau of Statistics' overall activities, has been increasingly oriented in recent years to providing assistance to members who are actual or prospective users of Fund resources. In this connection the establishment of the SAF and the ESAF has given rise to new statistical requirements that in turn have led a number of member countries to strengthen their statistical bases, frequently with assistance from the Bureau of Statistics. The provision of technical assistance to countries that have recently joined the Fund or whose statistical base is at an early stage of development remains a high priority.

Assistance was provided primarily through missions to member countries, as well as through training visiting national statisticians at Fund headquarters. Mission activity was designed to improve the currentness, coverage, and quality of data required for the Fund's analytical and operational

needs. The principal areas of statistics covered were money and banking, government finance, balance of payments, international banking and external debt, and general economic data. Training activities at headquarters focused mainly on familiarizing national statisticians with current statistical methodologies as well as their application in individual cases.

During the year the staff of the Bureau of Statistics participated in 63 technical assistance missions to 50 countries and 2 regional organizations (Banque des États de l'Afrique Centrale and the Central American Monetary Council) and provided training at headquarters to 11 officials from member countries. In addition, staff of the Bureau collaborated with the IMF Institute in conducting courses in balance of payments, government finance, and money and banking statistics. A seminar on money and banking statistics was held in China, and a regional seminar on local government finance statistics was conducted in Venezuela. Bureau of Statistics staff lectured in a balance of payments seminar organized by the Eastern Caribbean Central Bank in St. Kitts and Nevis and participated in conducting a seminar on the same topic organized by the Arab Monetary Fund in the United Arab Emirates.

In view of the expanding role of technology, the *Bureau of Computing Services* continued to receive a large number of visitors and delegations from member countries and international organizations during 1987/88. The duration of the visits usually ranged from one to three days, and agendas were specifically adopted to provide insight into various aspects of the Fund's computing operations and to address particular technical issues and problems encountered in establishing and administering data processing systems.

Of particular interest to the visitors were discussions, lectures, and computer demonstrations on the expanding role of desk-top microcomputers. A number of briefings were conducted on this topic to provide the delegations with timely advice on the hardware and software facilities available, as well as on the impact of linking and integrating applications and data between the desk-top microcomputers and the large central (mainframe) computer. The delegations were also seeking answers about the support facilities and training services required for users of information systems. Twelve delegations from member countries and international or regional economic organizations spent

one to two days being shown and receiving training on the Economist's Workstation system. Demonstration systems were made available for in-depth study and assessment of their usefulness in the home environment. Other topics of interest to the visitors related to the design and development of statistical data base systems, automation of economic analysis and forecasting systems, integration of word processing and other office functions, data communication networks, system performance optimization, and the aspects of physical security and access security (password management, external-user access, and contingency and backup procedures).

The Bureau of Computing Services also provided longer computer and technology training, in one instance lasting up to one month. Technical staff from member countries were trained by actually integrating them into the work units of the divisions and allowing them to assist in carrying out the operational assignments.

With regard to technical assistance in the area of electronic data processing, three missions were authorized to the central banks of Burma, China, and Poland. The Bureau provided these countries with unique technical expertise that would directly support the work of the Fund. These missions assisted the member countries in developing computer systems to collect, process, manage, and exchange economic data.

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.

RELATIONS WITH OTHER INTERNATIONAL ORGANIZATIONS

During 1987/88 the Fund maintained and strengthened its long-standing ties with other international and regional organizations that have related responsibilities and share common interests. This cooperation was reflected in such areas as attendance by staff at meetings and seminars, exchange of documents and information, and joint participation in various groups convened to ex-

amine specific aspects of the international economy.

Relations with the United Nations are maintained primarily by the Director of the Fund Office in the United Nations and Special Representative to the United Nations in New York, as well as by the periodic exchanges of views and documents with relevant UN bodies.

The Office in Europe located in Paris is responsible for maintaining continuous liaison with the BIS, the Commission of the European Communities (CEC), and the Organization for Economic Cooperation and Development (OECD). The Office in Geneva provides liaison with the General Agreement on Tariffs and Trade (GATT), the UN Conference on Trade and Development (UNCTAD), and other UN organizations located in Geneva, such as the International Labor Organization (ILO) and the World Health Organization (WHO). The work of these offices is supplemented, as necessary, by assignment of staff and technical experts from headquarters. In addition, staff in the field attend and participate in numerous meetings and seminars, including those of regional economic and financial organizations in Africa, Asia and the Pacific, Latin America and the Caribbean, and the Middle East, particularly the regional development banks.

Collaboration with the World Bank, with which the Fund has a unique relationship, intensified during the period under review. Cooperation consisted of joint participation in missions, attendance at each other's Executive Board meetings, the regular exchange of documents and information, and attendance at and participation in conferences and seminars. An expanded area of cooperation in relations of the two Bretton Woods institutions with low-income member countries is in the provision of mutual support for the operation of the SAF and the newly established ESAF. At the invitation of the World Bank, the Fund was represented at meetings of the India and Pakistan Consortia, the Consultative Groups for Ghana, Guinea, Madagascar, Morocco, Mozambique, Senegal, Somalia, Tanzania, Uganda, and Zaïre, and meetings of the Bangladesh and Sri Lanka Aid Group. The Fund also provided documentation for a meeting of the Consultative Group for Sudan. In addition, the Fund was represented at and provided documentation for an informal meeting of Mozambique's aid donors and a meeting of the Intergovernmental Group on Indonesia.

In connection with the ongoing revision of the UN System of National Accounts, the Fund continued to participate in the periodic expert group meetings organized by the Intersecretariat Working Group on National Accounts. The Working Group comprises staff of the statistical offices of the Fund, the EC, the OECD, the UN, and the World Bank.

The Uruguay Round of trade negotiations, conducted under GATT procedures and practices, provided an opportunity for increased cooperation between the Fund and that organization. Reflecting the increasing importance of the work of the GATT to the institution, the Fund created the enhanced position of Special Trade Representative and Director of the Office in Geneva. In addition to attending sessions of the Uruguay Round, Fund staff participated in meetings of the GATT Committee on Balance of Payments Restrictions, during which consultations on trade restrictions imposed for balance of payments reasons were completed for Brazil, Colombia, Ghana, India, Israel, Korea, Pakistan, Peru, Sri Lanka, and Turkey. Fund observers were also present during the meetings of the GATT Council of Representatives and at the forty-third session of the CONTRACTING PARTIES to the GATT.

As in previous years, the *Managing Director* addressed the Second Regular Session of the Economic and Social Council of the UN in Geneva, on June 26, 1987. On July 27, 1987, he delivered a speech to the Seventh Session of the UNCTAD in Geneva. In New York, he delivered speeches to the Committee on Economic and Financial Issues of the UN General Assembly on October 26, 1987, and to the Administrative Committee on Coordination, also in October. In addition, he attended meetings in New York of the Joint Consultative Group on Policy of the principal funding organizations of the UN system, and the ICC/UN-GATT Economic Consultative Committee, which were held on February 10 and February 11, 1988, respectively. In Paris, on May 12, 1987, the *Managing Director* delivered a statement to the ministerial meeting of the OECD. On January 20, 1988 he addressed the Twenty-Third SEACEN Governors' Conference in Singapore, and on January 21, 1988, while in Singapore, he attended a meeting of the Consultative Group on International Economic and Monetary Affairs (the Group of Thirty). The *Managing Director* also attended meetings of the central bank governors of the

Group of Ten in Basle, in July 1987 and March 1988. Prior to the meetings of the Interim and Development Committees, he attended the meetings of the ministers and governors of seven major industrial countries and the thirty-seventh and thirty-eighth meetings of the ministers of the Intergovernmental Group of Twenty-Four on International Monetary Affairs, which were held on September 26, 1987 and April 13, 1988. On September 27, 1987 and April 14, 1988, he participated in the meetings of the ministers and governors of the Group of Ten, which were held in Washington.

The *Deputy Managing Director* attended a meeting of the Association of African Central Banks, in Libreville, Gabon, on June 23–25, 1987. Fund Counsellors participated in meetings in Paris of the Deputies of the Group of Ten, on September 9, 1987 and March 10, 1988.

EXTERNAL RELATIONS

During the year, the Fund intensified its efforts to explain its role, activities, and policies to a wider audience, and placed priority on correcting the negative perceptions of the Fund held in some member countries. The establishment of the ESAF and the discussions about the development of external contingency mechanisms in the Fund, exchange rate movements among the major currencies and related developments, developments under the debt strategy, and continued discussions about multilateral surveillance and the use of objective economic indicators all stimulated interest in the Fund by the general public and the press. To help meet this growing interest, the *Managing Director* and senior staff delivered addresses covering a wide range of international economic issues at both 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 play an important role in the Fund's external relations effort. Two seminars were held during the financial year: in Milan on January 27–30, 1988 and in Casablanca on March 21–23, 1988. The proceedings of the seminars are to be published.

During the financial year, the Fund continued to expand its contacts with the news media in Africa, Asia, Europe, and Latin America and the Caribbean as part of an expanded effort to im-

prove 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 under the Visitors' Program to representatives of academic, business, financial, labor, and political groups. The IMF Visitors' Center conducted an active program of regular seminars on a wide range of international economic issues, as well as art exhibitions (in collaboration with embassies of member countries) and other cultural events, such as film screenings and concerts.

The Fund's publications continue to 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 as well as the variety of subject matters covered has continued to expand. The *World Economic Outlook* and the other publications in the "World Economic and Financial Surveys" series

continued to attract considerable public attention. The blanket order book service, which had been set up the previous year, became established, enabling subscribers to receive new publications automatically as they are issued. A complete listing of publications issued during the year, including books, seminar volumes, and Occasional Papers, is provided in Appendix Table II.18.

EXECUTIVE DIRECTORS AND STAFF

A list of Executive Directors and their voting power on April 30, 1988 is given in Appendix V. The changes in membership of the Executive Board during 1987/88 are shown in Appendix VI.

In the financial year ended April 30, 1988, there were 122 appointments to the Fund's regular staff and 137 separations. At the end of the financial year, the staff numbered 1,652 and was drawn from 100 countries.

Exchange Rate Arrangements as of March 31, 1988¹

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

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. The dual exchange market in the Yemen Arab Republic was unified on January 1, 1988.

⁵ Exchange rates are determined on the basis of a fixed relationship to the SDR, within margins

of up to \pm 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 \pm 7.5 percent.

⁷ The exchange rate is maintained within margins of \pm 2.25 percent.

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

⁹ The Central Bank establishes its selling rate daily and the buying rate is set at $1/2$ of 1 percent below the selling rate. Commercial banks must use the Central Bank's selling rate, but are free to set their own buying rate.

¹⁰ The exchange rate is maintained within margins of \pm 1.5 percent.

Table II.2
Purchases Under Tranche Policies and Special Facilities, 1982-88
 (In billions of SDRs)

	Financial Year Ended April 30						
	1982	1983	1984	1985	1986	1987	1988
Purchases under tranche policies	5.33	7.17	8.88	4.81	3.34	2.58	2.58
First credit tranche	0.02	0.03	—	— ¹	0.29 ²	0.02 ²	0.04
Upper credit tranches	2.73	3.68	4.16	2.77	2.55	2.31	2.28
Extended Fund facility	2.58	2.46	4.72	2.04	0.50	0.25	0.26
Purchases under special facilities	1.63	4.09	1.28	1.25	0.60	0.59	1.54
Compensatory financing facility	1.63	3.74	1.18	1.25	0.60	0.59	1.54
Buffer stock financing facility	—	0.35	0.10	—	—	—	—
Total	6.96	10.26	10.16	6.06	3.94	3.17	4.12

¹ Less than SDR 50 million.

² Emergency assistance.

Table II.3
Fund Stand-By Arrangements for Members, Financial Year Ended April 30, 1988
 (In millions of SDRs)

Member	Total Number of Stand-By Arrangements Approved for Member Since 1953	Current Arrangement		Amount Approved in 1986/87		Amount Approved in 1987/88		Amount Not Purchased at Expiration or Cancellation	Amount Not Purchased as of April 30, 1988
		Date of inception	Date of expiration	Total	Of which: borrowed resources	Total	Of which: borrowed resources		
Argentina	12	07/23/87	09/30/88	—	—	947.50	631.67	—	331.00
Bolivia	14	06/19/86	07/20/87	50.00	—	—	—	17.30	—
Burundi	8	08/08/86	03/31/88	21.00	—	—	—	21.00	—
Central African Republic	6	06/01/87	05/31/88	—	—	8.00	—	—	7.00
China	2	11/12/86	11/11/87	597.73	—	—	—	—	—
Congo	3	08/29/86	04/28/88	22.40	—	—	—	12.90	—
Costa Rica	10	10/28/87	03/31/89	—	—	40.00	—	—	40.00
Côte d'Ivoire	3	06/23/86	06/22/88 ¹	100.00	74.31	—	—	76.00	—
		02/29/88	04/30/89	—	—	94.00	62.67	—	87.00
Ecuador	12	08/15/86	08/14/87 ²	75.40	59.18	—	—	60.30	—
		01/04/88	02/28/89	—	—	75.35	65.38	—	60.28
Egypt	4	05/15/87	11/30/88	—	—	250.00	—	—	134.00
Gabon	2	12/22/86	12/31/88	98.69	56.65	—	—	—	51.16
Gambia, The	5	09/17/86	10/16/87	5.13	—	—	—	—	—
Ghana	8	10/15/86	10/14/87	81.80	81.80	—	—	—	—
Guinea	3	07/29/87	08/28/88	—	—	11.60	—	—	11.60
Jamaica	6	03/02/87	05/31/88	85.00	56.67	—	—	—	15.00
Kenya	7	02/01/88	07/31/89	—	—	85.00	—	—	69.35
Madagascar	7	09/17/86	02/16/88	30.00	23.93	—	—	—	—
Malawi	4	03/01/88	05/30/89	—	—	13.02	—	—	3.77
Mauritania	6	05/04/87	05/03/88	—	—	10.00	—	—	—
Mexico	4	11/19/86	04/01/88	1,400.00	1,017.19	—	—	—	—
Morocco	11	12/16/86	04/30/88	230.00	148.33	—	—	—	—
Niger	4	12/05/86	12/04/87	10.11	9.15	—	—	—	—
Nigeria	1	01/30/87	01/31/88	650.00	—	—	—	650.00	—
Philippines	18	10/24/86	08/23/88	198.00	131.17	—	—	—	70.00
Senegal	7	11/10/86	11/09/87 ³	34.00	20.75	—	—	—	—
		10/26/87	10/25/88	—	—	21.28	—	—	8.60
Sierra Leone	7	11/14/86	11/13/87	23.16	—	—	—	15.16	—
Somalia	12	06/29/87	02/28/89	—	—	33.15	22.10	—	27.62
Tanzania	3	08/28/86	02/27/88	64.20	—	—	—	18.73	—
Togo	7	06/09/86	04/08/88 ⁴	23.04	19.74	—	—	14.40	—
		03/16/88	04/15/89	—	—	13.00	8.67	—	10.41
Tunisia	7	11/04/86	05/31/88	103.65	—	—	—	—	12.65
Zaïre	8	05/28/86	03/27/88 ⁵	214.20	171.76	—	—	166.60	—
		05/15/87	05/14/88	—	—	100.00	80.66	—	75.50
Zambia	6	02/21/86 ⁶	02/28/88 ⁷	—	—	—	—	194.80	—
Total				4,117.51	1,870.63	1,701.90	871.15	1,247.19	1,014.94

¹ Canceled as at February 28, 1988.² Canceled as at June 10, 1987.³ Canceled as at September 28, 1987.⁴ Canceled as at March 15, 1988.⁵ Canceled as at April 21, 1987.⁶ Approved in 1985/86.⁷ Canceled as at May 15, 1987.

Table II.4

Purchases of Currencies and SDRs from the Fund, Financial Year Ended April 30, 1988
(In millions of SDRs)

Member Purchasing	Under Tranche Policies				Under Decision on				Purchases Financed with		
	Within reserve tranche	Credit tranche	Stand-by arrangements		Extended Fund facility	Enlarged access resources	Compensatory financing	Total Purchases	Ordinary resources		Enlarged access resources
			Ordinary resources	Enlarged access resources					Currencies	SDRs	
Argentina	—	—	205.50	411.00	—	—	751.91	1,368.41	345.20	612.22	411.00
Bangladesh	—	—	24.00	—	—	—	—	24.00	—	24.00	—
Central African Republic	—	—	1.00	—	—	—	—	1.00	—	1.00	—
Chile	—	—	—	—	70.83	141.67	—	212.50	19.00	51.83	141.67
Côte d'Ivoire	—	—	2.33	4.67	—	—	82.75	89.75	2.33	82.75	4.67
Ecuador	—	37.70	5.02	10.05	—	—	42.70	95.47	15.00	70.42	10.05
Egypt	—	—	116.00	—	—	—	—	116.00	—	116.00	—
Gabon	—	—	6.71	13.41	—	—	—	20.12	3.35	3.35	13.41
Gambia, The	—	—	4.10	—	—	—	—	4.10	—	4.10	—
Ghana	—	—	—	49.08	15.85	31.70	—	96.63	15.85	—	80.78
Indonesia	—	—	—	—	—	—	462.90	462.90	106.70	356.20	—
Jamaica	—	—	20.00	40.00	—	—	—	60.00	5.00	15.00	40.00
Kenya	—	—	15.65	—	—	—	—	15.65	—	15.65	—
Madagascar	—	—	1.91	18.09	—	—	—	20.00	—	1.91	18.09
Malawi	—	—	9.25	—	—	—	—	9.25	—	9.25	—
Mauritania	—	—	10.00	—	—	—	—	10.00	7.49	2.51	—
Mexico	—	—	157.81	792.19	—	—	—	950.00	52.00	105.81	792.19
Morocco	—	—	53.33	106.67	—	—	—	160.00	37.00	16.33	106.67
Niger	—	—	—	8.09	—	—	—	8.09	—	—	8.09
Philippines	—	—	23.33	46.67	—	—	—	70.00	11.49	11.84	46.67
Sao Tome and Principe	0.01	—	—	—	—	—	—	0.01	—	0.01	—
Senegal	—	—	17.68	10.00	—	—	—	27.68	10.88	6.80	10.00
Somalia	—	—	1.84	3.69	—	—	—	5.53	1.73	0.11	3.69
Sri Lanka	—	—	—	—	—	—	108.80	108.80	42.30	66.50	—
Tanzania	—	—	12.48	—	—	—	—	12.48	—	12.48	—
Togo	—	—	0.86	1.73	—	—	—	2.59	0.86	—	1.73
Trinidad and Tobago	35.00	—	—	—	—	—	—	35.00	—	35.00	—
Tunisia	—	—	47.00	—	—	—	—	47.00	20.00	27.00	—
Uganda	—	—	—	—	—	—	49.80	49.80	—	49.80	—
Zaïre	—	—	8.17	16.33	—	—	45.30	69.80	6.50	46.97	16.33
Total	35.01	37.70	743.97	1,531.66	86.68	173.37	1,544.16	4,152.56	702.69	1,744.84	1,705.03

Table II.5
**Summary of Members' Purchases and Repurchases,
Financial Years Ended April 30, 1948–88**
 (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
1988	4,152.56	7,934.57
Total	105,156.66 ¹	61,894.59 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, 1953–88¹
 (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
1988	14	1,701.90
Total	624	60,479.47

¹ Includes renewals and extensions for one year or less, except for 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, 1988
 (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, 1988
Approved in previous financial years						
Bangladesh	12/08/80	12/07/83	800.00 ¹	480.80	580.00	—
Brazil	03/01/83	02/28/86	4,239.38	2,842.88	1,496.25	—
Chile	08/15/85	08/14/88	750.00	437.50*	—	100.00
Costa Rica	06/17/81	06/16/84	276.75 ²	190.65	254.25	—
Côte d'Ivoire	02/27/81	02/22/84	484.50	324.90	38.47	—
Dominica	02/06/81	02/05/84	8.55	4.49	—	—
Dominican Republic	01/21/83	01/20/86	371.25 ³	255.75	247.50	—
Egypt	07/28/78	07/27/81	600.00	—	525.00	—
Gabon	06/27/80	12/31/82	34.00	—	34.00	—
Grenada	08/24/83	08/23/86	13.50 ⁴	8.98	12.37	—
Guyana	06/25/79	06/24/82	62.75 ⁵	35.00	52.75	—
	07/25/80	07/24/83	150.00 ⁶	116.37	98.27	—
Haiti	10/25/78	10/24/81	32.20	—	21.40	—
Honduras	06/28/79	06/27/82	47.60	—	23.70	—
India	11/09/81	11/08/84	5,000.00 ⁷	2,595.50	1,100.00	—
Jamaica	06/09/78	06/08/81	200.00 ⁸	—	130.00	—
	06/11/79	06/10/81	260.00 ⁹	227.10	175.00	—
	04/13/81	04/12/84	477.70 ¹⁰	390.55	74.90	—
Kenya	07/07/75	07/06/78	67.20	—	59.50	—
Malawi	09/19/83	09/18/86	81.00 ¹¹	62.47	24.00	—
Mexico	01/01/77	12/31/79	518.00 ¹²	—	518.00	—
	01/01/83	12/31/85	3,410.63	2,287.13	907.95	—
Morocco	10/08/80	10/07/83	810.00 ¹³	600.00	663.00	—
	03/09/81	10/07/83	817.05 ¹⁴	567.00	680.55	—
Pakistan	11/24/80	11/23/83	1,268.00 ¹⁵	869.00	919.00	—
	12/02/81	11/23/83	919.00	490.12	189.00	—
Peru	06/07/82	06/06/85	650.00 ¹⁶	311.56	385.00	—
Philippines	04/02/76	04/01/79	217.00 ¹⁷	—	—	—
Senegal	08/08/80	08/07/83	184.80 ¹⁸	126.00	143.70	—
Sierra Leone	03/30/81	02/22/84	186.00 ¹⁹	121.81	152.50	—
Sri Lanka	01/01/79	12/31/81	260.30	—	—	—
Sudan	05/04/79	05/03/82	427.00 ²⁰	303.80	176.00	—
Zaïre	06/22/81	06/21/84	912.00 ²¹	632.94	737.00	—
Zambia	05/08/81	05/07/84	800.00 ²²	674.00	500.00	—
Subtotal			25,336.16	14,956.30	10,919.06	100.00
Approved during financial year 1987/88						
Ghana	11/06/87	11/05/90	245.40	163.60	—	197.85
Total			25,581.56	15,119.90	10,919.06	297.85

*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, 1988
 (In millions of SDRs)

Member Repurchasing	Repurchases in Respect of Purchases of						Total	
	Borrowed Resources		Ordinary Resources					
	Supplementary financing facility	Enlarged access resources	Credit tranche	Extended Fund facility	Compensatory financing	Buffer stock		
Argentina ¹	—	65.9	158.1	—	298.2	—	522.2	
Bangladesh	27.5	—	34.2	18.3	13.0	—	93.0	
Barbados	—	3.1	6.7	—	2.9	—	12.7	
Belize	—	—	0.1	—	1.8	—	1.9	
Bolivia	1.8	—	—	—	6.7	3.1	11.6	
Brazil	—	249.4	124.7	10.4	512.9	—	897.4	
Burma	—	—	—	—	24.2	—	24.2	
Central African Republic	—	1.1	1.9	—	—	—	3.0	
Chile	—	42.4	97.7	—	110.6	—	250.7	
Costa Rica	2.8	11.5	21.6	1.9	9.3	—	47.0	
Côte d'Ivoire	71.6	—	10.3	26.6	—	0.5	109.0	
Dominica	1.1	—	0.2	0.6	—	—	1.9	
Dominican Republic	—	15.5	—	7.0	20.5	—	43.0	
Ecuador	—	16.5	38.4	—	42.7	—	97.6	
Egypt	—	—	—	12.5	—	—	12.5	
El Salvador	—	—	14.3	—	4.0	—	18.4	
Ethiopia	—	8.1	0.7	—	—	—	8.8	
Fiji	—	—	—	—	0.6	—	0.6	
Gambia, The	1.2	1.2	2.2	—	—	—	4.5	
Ghana	—	28.3	63.2	—	67.5	—	158.9	
Grenada	—	0.3	—	—	—	—	0.3	
Guatemala	—	8.7	11.3	—	—	—	20.0	
Guinea	—	—	4.3	—	—	—	4.3	
Guinea-Bissau	—	—	0.5	—	—	—	0.5	
Haiti	—	5.3	11.1	1.8	—	—	18.1	
Honduras	—	7.0	9.3	2.0	8.7	—	27.0	
Hungary	—	85.6	180.1	—	27.0	—	292.8	
Iceland	—	—	—	—	8.1	—	8.1	
India	300.0	175.0	—	237.5	—	—	712.5	
Jamaica	35.1	41.6	8.0	27.4	32.1	—	144.2	
Jordan	—	—	—	—	7.2	—	7.2	
Kenya	21.5	35.8	6.6	—	7.5	—	71.4	
Korea ²	203.0	563.8	—	—	104.9	—	871.6	
Madagascar	4.9	6.6	10.1	—	8.1	—	29.8	
Malawi	6.0	3.9	4.2	0.7	9.6	—	24.4	
Mali	—	3.6	11.5	—	—	—	15.2	
Mauritania	3.2	—	—	—	—	—	3.2	
Mauritius	11.2	9.7	2.0	—	—	—	22.8	
Mexico	—	200.6	75.2	33.4	—	—	309.3	
Morocco	34.4	70.6	58.8	24.3	—	—	188.1	
Niger	—	—	6.7	—	12.0	—	18.8	
Pakistan	134.3	—	—	86.4	45.0	—	265.7	
Panama	4.7	10.1	9.2	—	14.7	—	38.8	
Philippines	70.1	—	55.3	18.2	94.3	—	237.9	
Portugal ³	—	46.9	89.7	—	142.7	—	279.2	
Romania	—	121.6	126.9	—	—	—	248.4	
Senegal	12.5	8.3	18.0	3.4	—	—	42.1	
Sierra Leone	—	—	—	—	0.7	—	0.7	
Solomon Islands	—	—	0.5	—	0.4	—	0.9	
Somalia	—	11.3	4.7	—	—	—	16.0	
South Africa	—	—	59.6	—	238.5	—	298.1	
Sri Lanka	—	4.3	16.4	43.4	3.2	2.2	69.5	
Swaziland	—	—	—	—	4.5	—	4.5	
Tanzania	2.0	—	—	—	—	—	2.0	
Thailand	—	92.2	38.5	—	—	25.0	155.6	

Table II.8 (concluded)**Repurchases of Currencies from the Fund, Financial Year Ended April 30, 1988**
(In millions of SDRs)

Member Repurchasing	Repurchases in Respect of Purchases of						Total	
	Borrowed Resources		Ordinary Resources					
	Supplementary financing facility	Enlarged access resources	Credit tranche	Extended Fund facility	Compensatory financing	Buffer stock		
Togo	1.8	3.0	8.7	—	—	—	13.5	
Turkey	298.9	—	77.3	—	—	—	376.3	
Uganda	—	65.1	7.8	—	—	—	72.9	
Uruguay	—	22.4	34.7	—	11.0	—	68.2	
Western Samoa	—	0.1	1.9	—	0.6	—	2.5	
Yemen Arab Republic	—	—	4.9	—	—	—	4.9	
Yemen, People's Democratic Republic of	—	—	1.9	—	—	—	1.9	
Yugoslavia	358.5	11.9	35.6	—	—	—	406.0	
Zaire	—	39.6	21.9	11.2	57.2	—	130.0	
Zimbabwe	—	25.1	37.3	—	28.1	—	90.4	
Total	1,608.1	2,122.7	1,624.8	567.1	1,981.1	30.7	7,934.6	

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 103 million was repurchased by Argentina in advance of the regular schedule.

² Of which, SDR 605 million was repurchased by Korea in advance of the regular schedule.

³ Of which, SDR 64 million was repurchased by Portugal in advance of the regular schedule.

Table II.9
Outstanding Fund Credit by Facility and Policy, 1982–88
 (In millions of SDRs)

	Financial Year Ended April 30											
	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
Regular facilities	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	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	565	3.8	27	0.1	—	—	—	—	—	—	—	—
Extended Fund facility	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	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	14,802	100.0	23,590	100.0	31,742	100.0	34,973	100.0	34,640	100.0	31,646	100.0
											27,829	100.0

Table II.10
Flow of Transactions in the General Resources Account and Resulting Stocks, 1982-88
 (In millions of SDRs)

Type of Transaction	Financial Year Ended April 30						
	1982	1983	1984	1985	1986	1987	1988
Total purchases	8,041	11,392	11,518	6,289	4,101	3,685	4,153
Reserve tranche	1,080	1,134	1,354	229	160	517	35
Credit tranches	2,748	3,703	4,164	2,768	2,841	2,325	2,313
Buffer stock financing facility	—	352	102	—	—	—	—
Compensatory financing facility	1,635	3,740	1,180	1,248	601	593	1,544
Extended Fund facility	2,578	2,463	4,718	2,044	498	250	260
Total repurchases of purchases	1,894	1,547	2,015	2,730	4,274	6,162	7,935
Outstanding Fund credit	14,802	23,590	31,742	34,973	34,640	31,646	27,829
Outstanding borrowings	6,773	10,952	13,791	14,203	14,556	12,700	9,070
In connection with oil facility	526	18	—	—	—	—	—
Under GAB	777	777	—	—	—	—	—
Supplementary financing facility	4,112	6,037	6,915	6,239	5,038	3,381	1,727
Under policy on enlarged access	1,358	4,120	6,876	7,964	9,518	9,304	7,328
Under borrowing agreement with Japan	—	—	—	—	—	15	15
Holdings of the General Resources Account at end of year ¹							
Usable currencies ²	17,000	14,400	32,900	37,300	34,400	37,300	40,185
SDRs	5,456	4,335	6,437	4,616	2,722	1,960	770
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	15,621	20,592	27,415	28,290	26,087	24,025	22,213

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, 1988
 (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, 1988
Abu Dhabi	150.00	105.22	44.78	86.76	18.46
Austrian National Bank	50.00	50.00	—	32.73	17.27
Banque Nationale de Belgique	150.00	12.34	137.66	12.34	—
Canada	200.00	173.61	26.39	67.10	106.51
Deutsche Bundesbank	1,050.00	1,050.00 ³	—	773.30	104.69
Banco de Guatemala	30.00	8.36 ⁴	21.64	8.36	—
Japan	900.00	886.69	13.31	662.22	224.47
Central Bank of Kuwait	400.00	400.00	—	281.73	118.27
De Nederlandsche Bank, N.V.	100.00	100.00	—	70.38	29.62
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	1,537.30	541.45
Swiss National Bank	650.00	650.00	—	488.84	161.16
United States	1,450.00	1,450.00	—	1,106.90	343.10
Central Bank of Venezuela	500.00	369.42	130.58	307.03	62.39
Total	7,784.00	7,232.22	551.78	5,504.84	1,727.39

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, 1988
 (In millions of SDRs)

Member	Date of Arrangement	Expiration Date	Amount Committed Under Three-Year Arrangement	Amount Drawn	Balance Outstanding
Bangladesh	02/06/87	02/05/90	182.562	143.750	38.812
Bolivia	12/15/86	12/14/89	57.594	18.140	39.454
Burundi	08/08/86	08/07/89	27.114	8.540	18.574
Central African Republic	06/01/87	05/31/90	19.304	6.080	13.224
Chad	10/30/87	10/29/90	19.431	6.120	13.311
Dominica	11/26/86	11/25/89	2.540	2.000	0.540
Gambia, The	09/17/86	09/16/89	10.858	8.550	2.308
Ghana	11/06/87	11/05/90	129.857	40.900	88.957
Guinea	07/29/87	07/28/90	36.766	11.580	25.186
Guinea-Bissau	10/14/87	10/13/90	4.762	1.500	3.262
Haiti	12/17/86	12/16/89	28.003	8.820	19.183
Kenya	02/01/88	01/31/91	90.170	28.400	61.770
Madagascar	08/31/87	08/30/90	42.164	13.280	28.884
Mauritania	09/22/86	09/21/89	21.526	16.950	4.576
Mozambique	06/08/87	06/07/90	38.735	30.500	8.235
Nepal	10/14/87	10/13/90	23.685	7.460	16.225
Niger	11/17/86	11/16/89	21.399	16.850	4.549
Senegal	11/10/86	11/09/89	54.038	42.550	11.488
Sierra Leone	11/14/86	11/13/89	36.766	11.550	25.186
Somalia	06/29/87	06/28/90	28.067	8.840	19.227
Sri Lanka	03/09/88	03/08/91	141.668	44.620	97.048
Tanzania	10/30/87	10/29/90	67.945	21.400	46.545
Togo	03/16/88	03/15/91	24.384	7.680	16.704
Uganda	06/15/87	06/14/90	63.246	19.920	43.326
Zaire	05/15/87	05/14/90	184.785	58.200	126.585
Total			1,357.376	584.210	773.166

Table II.13
Transfers of SDRs, January 1, 1970–April 30, 1988
 (In millions of SDRs)

	Annual Average January 1, 1970– April 30, 1982	Financial Year Ended April 30						Total January 1, 1970– April 30, 1988
		1983	1984	1985	1986	1987	1988	
Transfers among participants and prescribed holders								
Transactions with designation								
From own holdings	274	968	89	98	449	27	—	5,016
From purchase of SDRs from Fund	407	1,745	2,313	2,055	1,360	1,249	986	14,727
Transactions by agreement	585	1,281	3,175	2,706	2,677	3,925	7,335	28,310
Prescribed operations	13	396	1,194	161	111	614	540	3,175
Fund-related operations	—	—	—	—	—	172	296	469
Net interest on SDRs	87	273	188	326	313	305	301	2,780
Total	1,366	4,664	6,959	5,345	4,910	6,292	9,459	54,477
Transfers from participants to General Resources Account								
Repurchases	471	566	392	717	1,183	1,671	2,518	12,861
Charges	404	1,497	2,168	2,927	2,915	2,283	2,002	18,780
Quota payments	452	83	6,195	14	1	155	—	12,025
Interest received on General Resources								
Account holdings	97	444	147	606	312	162	81	2,949
Assessments	1	2	3	4	4	4	4	36
Total	1,426	2,593	8,905	4,268	4,415	4,275	4,605	46,651
Transfers from General Resources Account to participants and prescribed holders								
Purchases	664	2,419	3,876	2,595	1,965	1,779	1,848	22,667
Repayments of Fund borrowings	33	28	787	129	533	1,007	1,999	4,891
Interest on Fund borrowings	21	224	202	446	721	404	585	2,840
In exchange for other members' currencies								
Acquisitions to pay charges	3	162	330	953	1,550	750	402	4,184
Acquisitions to make quota payments	28	—	—	—	—	—	—	341
Reconstitution	126	—	—	—	—	—	—	1,555
Remuneration	86	861	1,573	1,952	1,531	1,088	932	8,999
Other	23	20	35	14	10	10	31	406
Total	984	3,714	6,803	6,089	6,309	5,037	5,798	45,883
Total transfers	3,776	10,970	22,667	15,703	15,634	15,604	19,862	147,011
General Resources Account holdings at end of period	5,456	4,335	6,437	4,616	2,722	1,960	770	770

Table II.14

Summary of Transactions and Operations in SDRs, Financial Year Ended April 30, 1988

(In thousands of SDRs)

Holders	Total Holdings April 30, 1987	Positions as at April 30, 1988									
		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)	Holdings	Net cumulative allocations	Holdings as percent of cumulative allocations
		Designated	Other	Designated	Other						
PARTICIPANTS											
Afghanistan	11,199	—	—	—	—	—	—	—927	10,271	26,703	38.5
Algeria	138,250	—	—	—	—	4,914	—	+669	143,833	128,640	111.8
Antigua and Barbuda	3	—	—	—	—	—	—	—	3	—	—
Argentina	3,372	—	87,029	476,778	105,949	682,458	167,542	—18,238	4,353	318,370	1.4
Australia	268,173	—	—	—	—	1,196	—	—12,098	257,270	470,545	54.7
Austria	157,700	13,500	359,236	—	386,129	16,655	—	+294	161,256	179,045	90.1
Bahamas, The	483	—	—	—	—	305	—	—575	213	10,230	2.1
Bahrain	14,258	—	—	—	—	—	—	+479	14,736	6,200	237.7
Bangladesh	93,637	—	58,707	15,000	23,230	24,550	121,804	+452	17,312	47,120	36.7
Barbados	354	—	626	—	—	1,161	1,508	—462	171	8,039	2.1
Belgium	281,333	64,171	671,668	—	529,210	13,233	—	—12,325	488,869	485,246	100.7
Belize	159	—	—	—	—	528	564	+4	128	—	—
Benin	167	—	150	—	—	400	—	—546	171	9,409	1.8
Bhutan	117	—	—	—	—	19	—	+7	143	—	—
Bolivia	166	—	2,040	—	—	5,990	6,657	—1,538	—	26,703	—
Botswana	14,335	—	—	—	—	780	—	+610	15,725	4,359	360.7
Brazil	5,680	—	205,823	—	—	33,360	219,120	—20,557	5,186	358,670	1.4
Burkina Faso	5,640	—	—	—	—	227	—	—221	5,646	9,409	60.0
Burma	1,231	—	3,000	—	—	862	1,521	—2,528	1,044	43,474	2.4
Burundi	383	—	100	—	—	483	34	—789	143	13,697	1.0
Cameroon	2,489	—	700	—	1,311	—	—	—1,352	526	24,463	2.1
Canada	154,681	137,000	605,719	—	312,760	13,843	—	—27,237	571,246	779,290	73.3
Cape Verde	90	—	—	—	—	—	—	—32	58	620	9.4
Central African Republic	1,668	—	6,080	—	602	1,029	4,825	—303	3,048	9,325	32.7
Chad	1,451	—	6,120	—	539	10	443	—411	6,189	9,409	65.8
Chile	11,725	—	72,979	17,688	32,783	53,321	71,637	—6,877	9,040	121,924	7.4
China	462,311	—	—	—	—	9,152	37,832	+12,824	446,455	236,800	188.5
Colombia	114,292	—	—	—	—	—	—	—18	114,274	114,271	100.0
Comoros	167	—	—	—	—	—	—	—33	135	716	18.8
Congo	3,549	—	—	—	881	9	623	—408	1,646	9,719	16.9
Costa Rica	211	—	1,279	—	—	8,972	8,118	—1,369	976	23,726	4.1
Côte d'Ivoire	4,520	—	20,227	—	82,750	99,187	33,555	—2,049	5,581	37,828	14.8
Cyprus	321	—	800	—	—	300	—	—1,129	292	19,438	1.5
Denmark	197,258	12,700	86,557	—	85,500	1,425	—	+1,361	213,801	178,864	119.5
Djibouti	343	—	—	—	—	28	—	—49	322	1,178	27.3

Dominica	238	—	1,498	—	5	155	1,785	—11	89	592	15.0
Dominican Republic	13	—	7,777	—	—	8,457	14,263	—1,821	163	31,585	0.5
Ecuador	10,728	—	48,400	—	5,023	70,843	122,995	—1,250	703	32,929	2.1
Egypt	2,375	—	11,400	80,000	35,420	120,888	7,348	—7,911	3,984	135,924	2.9
El Salvador	804	—	600	—	—	1,379	940	—1,453	391	24,985	1.6
Equatorial Guinea	441	—	600	—	—	8	342	—325	381	5,812	6.6
Ethiopia	790	—	2,450	—	—	1,405	3,235	—627	784	11,160	7.0
Fiji	4,063	—	6,500	—	—	254	302	—110	10,405	6,958	149.5
Finland	168,738	—	50,000	—	32,099	4,758	—	+ 1,543	192,940	142,690	135.2
France	869,939	152,017	—	—	1,100	54,107	—	—4,381	1,070,582	1,079,870	99.1
Gabon	9,775	—	—	—	1,677	3,452	2,369	—296	8,886	14,091	63.1
Gambia, The	544	—	11,840	2,134	5,099	4,120	5,701	—217	3,352	5,121	65.5
Germany, Federal Republic of	1,509,067	125,040	165,848	—	774,696	317,936	—	+ 18,116	1,361,310	1,210,760	112.4
Ghana	1,695	—	75,900	—	30,029	758	39,117	—3,372	5,834	62,983	9.3
Greece	1,045	—	3,085	—	—	2,936	—	—6,037	1,029	103,544	1.0
Grenada	2	—	—	—	—	123	70	—54	—	930	—
Guatemala	745	—	23,773	—	—	1,080	23,436	—1,602	560	27,678	2.0
Guinea	2,449	—	21,069	26	16,040	29	5,790	—923	767	17,604	4.4
Guinea-Bissau	4	—	1,779	—	1,400	91	351	—70	53	1,212	4.4
Guyana	—	—	—	—	—	864	12	—852	—	14,530	—
Haiti	644	—	18,140	20	1,771	1,334	17,627	—701	—	13,697	—
Honduras	895	—	—	—	—	2,789	2,583	—1,101	—	19,057	—
Hungary	1,167	—	41,604	—	—	6,076	48,683	+ 96	260	—	—
Iceland	2,815	—	2,817	—	—	19	3,164	—821	1,667	16,409	10.2
India	160,559	—	936,524	—	—	16,026	932,578	—32,032	148,500	681,170	21.8
Indonesia	31,779	—	14,000	356,200	—	364,052	26,471	—12,787	14,373	238,956	6.0
Iran, Islamic Republic of	337,172	—	94	—	50,000	1,206	—	+ 5,528	294,000	244,056	120.5
Iraq	10	—	103,309	—	98,122	—	—	—3,788	1,408	68,464	2.1
Ireland	115,605	5,257	—	—	—	5,480	—	+ 1,993	128,334	87,263	147.1
Israel	1,554	—	3,050	—	—	3,150	—	—6,207	1,547	106,360	1.5
Italy	501,665	140,240	—	—	—	41,247	—	—5,932	677,220	702,400	96.4
Jamaica	592	—	13,847	2,000	7,425	36,816	38,561	—2,288	980	40,613	2.4
Japan	2,177,569	5,000	530,435	—	785,165	72,363	—	+ 55,260	2,055,462	891,690	230.5
Jordan	19,513	—	5,845	—	8,363	81	3,633	—151	13,292	16,887	78.7
Kampuchea, Democratic	—	—	—	—	—	—	—	—	—	15,417	—
Kenya	873	—	118,068	—	39,000	16,401	93,460	—1,912	971	36,990	2.6
Kiribati	4	—	—	—	—	—	—	—	4	—	—
Korea	15,547	17,688	480,000	—	—	636	495,666	—3,132	15,072	72,911	20.7
Kuwait	133,542	—	—	—	—	13,213	—	+ 6,657	153,412	26,744	573.6
Lao People's Democratic Republic	142	—	10	—	2	406	—	—550	7	9,409	0.1
Lebanon	2,798	—	—	—	—	878	—	—76	3,600	4,393	81.9
Lesotho	757	—	—	—	—	1	—	—178	580	3,739	15.5
Liberia	—	—	—	—	—	1,131	—	—1,131	—	21,007	—
Libyan Arab Jamahiriya	182,492	—	—	—	—	12,575	—	+ 7,632	202,699	58,771	344.9
Luxembourg	17,638	—	—	—	—	383	—	+ 46	18,067	16,955	106.6

Table II.14 (concluded)

Summary of Transactions and Operations in SDRs, Financial Year Ended April 30, 1988
(In thousands of SDRs)

ANNUAL REPORT, 1988

Holders	Total Holdings April 30, 1987	Positions as at April 30, 1988									
		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)	Holdings	Net cumulative allocations	Holdings as percent of cumulative allocations
		Designated	Other	Designated	Other						
Madagascar	1,925	—	3,321	—	—	7,383	9,943	-1,065	1,621	19,270	8.4
Malawi	858	—	5,864	—	9,000	9,874	6,256	-614	726	10,975	6.6
Malaysia	111,733	—	—	—	—	5,957	—	-1,517	116,174	139,048	83.5
Maldives	19	—	25	—	—	—	—	-16	28	282	9.8
Mali	815	—	900	—	—	3,920	4,131	-906	599	15,912	3.8
Malta	43,992	—	—	—	—	1,493	—	+1,978	47,463	11,288	420.5
Mauritania	530	—	15,967	—	6,345	2,563	3,231	-371	9,113	9,719	93.8
Mauritius	3,180	—	39,183	—	916	52	31,160	-763	9,576	15,744	60.8
Mexico	32,180	—	739,208	12,476	—	213,598	551,546	-913	420,051	290,020	144.8
Morocco	13,319	—	120,400	—	93,384	23,569	53,122	-4,781	6,000	85,689	7.0
Mozambique	—	—	12,200	—	12,296	—	—	+116	20	—	—
Nepal	391	—	8,460	—	7,460	655	1,117	-466	464	8,105	5.7
Netherlands	614,307	21,476	90,950	—	124,039	30,466	—	+5,182	638,342	530,340	120.4
New Zealand	6,950	—	8,000	—	—	—	—	-8,018	6,932	141,322	4.9
Nicaragua	—	—	—	—	—	1,150	—	-1,150	—	19,483	—
Niger	1,059	—	11,560	—	10,149	3,026	4,185	-523	788	9,409	8.4
Nigeria	2,485	—	2,500	—	—	6,700	—	-9,159	2,526	157,155	1.6
Norway	351,049	7,000	116,417	—	132,002	23,326	—	+10,908	376,697	167,770	224.5
Oman	9,829	—	—	—	4,000	1,606	—	+119	7,554	6,262	120.6
Pakistan	11,475	—	55,465	—	—	789	49,103	-9,628	8,998	169,989	5.3
Panama	2,105	—	48,475	—	—	159	49,661	-1,078	—	26,322	—
Papua New Guinea	3,543	—	—	—	—	52	—	-346	3,248	9,300	34.9
Paraguay	42,793	—	—	—	—	870	—	+1,750	45,413	13,697	331.6
Peru	1,313	—	4	—	—	4,037	33	-5,321	—	91,319	—
Philippines	11,417	—	53,170	—	—	12,869	61,352	-6,467	9,637	116,595	8.3
Poland	79	—	—	—	—	1	—	+5	84	—	—
Portugal	17,094	—	280,000	—	—	644	279,021	-2,104	16,612	53,320	31.2
Qatar	23,177	—	—	—	—	1,295	—	+637	25,109	12,822	195.8
Romania	—	—	—	—	—	37,881	32,408	-4,436	1,037	75,950	1.4
Rwanda	8,072	—	—	—	—	242	—	-332	7,982	13,697	58.3
St. Lucia	1	—	—	—	—	53	—	-43	10	742	1.4
St. Vincent	6	—	—	—	—	20	—	-21	5	354	1.5
Sao Tome and Principe	1	—	—	—	—	36	—	-36	1	620	0.1
Saudi Arabia	375,143	—	—	—	1,784,045	1,812,596	—	+15,161	418,855	195,527	214.2
Senegal	1,822	—	34,417	—	30,550	11,235	13,830	-1,358	1,736	24,462	7.1
Seychelles	9	—	10	—	—	10	—	-23	6	406	1.4
Sierra Leone	—	—	2	—	—	79	—	-80	—	17,455	—
Singapore	75,644	—	—	—	—	3,808	—	+3,604	83,056	16,475	504.1
Solomon Islands	671	—	380	—	—	10	1,010	-9	42	654	6.5
Somalia	—	—	—	—	—	4,715	4,305	-410	—	13,697	—

South Africa	8,813	—	7,000	—	—	9,769	9,784	—12,761	3,037	220,360	1.4
Spain	367,790	33,093	—	—	—	21,227	—	+5,751	427,861	298,805	143.2
Sri Lanka	470	—	14,919	—	50,000	67,971	16,145	—4,095	13,120	70,868	18.5
Sudan	—	—	16	—	—	6,258	3,227	—3,047	—	52,192	—
Suriname	163	—	—	—	—	289	—	—450	1	7,750	—
Swaziland	2,067	—	4,500	—	—	10	4,781	—225	1,571	6,432	24.4
Sweden	265,691	13,800	241,767	—	236,591	10,082	—	+1,208	295,957	246,525	120.1
Syrian Arab Republic	534	—	6	—	—	2,108	—	—2,136	513	36,564	1.4
Tanzania	982	—	21,511	12,333	21,400	15,903	2,828	—1,805	29	31,372	0.1
Thailand	48,818	—	216,000	—	11,721	585	204,786	—2,335	46,562	84,652	55.0
Togo	846	—	9,421	—	7,680	2,960	4,184	—622	741	10,975	6.8
Tonga	32	—	—	—	—	25	—	+2	59	—	—
Trinidad and Tobago	47,739	—	637	—	82,782	35,249	—	—206	636	46,231	1.4
Tunisia	30,171	—	—	10,000	1,111	27,244	11,147	—320	34,837	34,243	101.7
Turkey	1,348	—	38,629	—	—	24,720	54,437	—6,468	3,792	112,307	3.4
Uganda	—	—	19,920	—	59,547	63,806	22,460	—1,719	—	29,396	—
United Arab Emirates	77,785	263	—	—	—	—	—	+2,320	80,368	38,737	207.5
United Kingdom	1,209,171	238,200	154,500	—	581,125	37,468	—	—43,094	1,015,120	1,913,070	53.1
United States	6,797,637	—	—	—	444,498	452,503	—	+122,270	6,927,913	4,899,530	141.4
Uruguay	53,870	—	80,000	—	—	273	88,494	—1,090	44,560	49,977	89.2
Vanuatu	218	—	—	—	—	40	—	+14	272	—	—
Venezuela	506,532	—	—	—	—	22,314	—	+11,776	540,621	316,890	170.6
Viet Nam	—	—	—	—	—	744	—	—744	—	47,658	—
Western Samoa	505	—	4,913	—	—	8	2,909	+2	2,519	1,142	220.6
Yemen Arab Republic	11,570	—	33,752	—	37,307	10	3,873	+448	4,600	6,160	74.7
Yemen, People's Democratic Republic of	3,032	—	16,902	—	5,860	9	76	—1,170	12,837	22,583	56.8
Yugoslavia	2,252	—	64,315	—	—	60,351	115,383	—8,939	2,596	155,161	1.7
Zaire	8,439	—	114,599	1,790	15,461	55,856	155,912	—4,511	1,220	86,309	1.4
Zambia	—	—	—	—	—	—	—	—	—	68,298	—
Zimbabwe	11,244	—	94,800	—	—	152	100,702	—252	5,243	10,200	51.4
Total Participants	19,467,206	986,444	7,674,086	986,444	7,223,348	5,308,974	4,522,805	—77,289	20,626,824	21,433,330	96.2
PRESCRIBED HOLDERS											
Arab Monetary Fund	15,459	—	215,386	—	206,479	—	—	+707	25,074	—	—
Bank of Central African States	679	—	1,500	—	1,300	—	—	+60	940	—	—
Bank for International Settlements	222	—	251,644	—	705,981	467,481	—	+770	14,136	—	—
East African Development Bank	575	—	—	—	45	—	—	+33	563	—	—
Eastern Caribbean Central Bank	1,170	—	—	—	—	—	—	+70	1,240	—	—
International Bank for Reconstruction and Development	1,688	—	29,090	—	27,553	—	—	+212	3,438	—	—
Islamic Development Bank	1,336	—	—	—	—	—	—	+80	1,416	—	—
Nordic Investment Bank	249	—	—	—	—	—	—	+14	263	—	—
Swiss National Bank	60	—	—	—	7,000	21,249	—	+260	14,569	—	—
Total Prescribed Holders	21,439	—	497,620	—	948,358	488,730	—	+2,205	61,637	—	—
GENERAL RESOURCES ACCOUNT	1,960,286	—	4,522,805	—	5,797,704	—	—	+84,919	770,307	—	—
Total	21,448,932	986,444	12,694,511	986,444	13,969,410	5,797,704	4,522,805	+9,835	21,458,767	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, 1970-88¹

	All Participants ²	Industrial Countries	All developing countries	Capital exporting countries	Developing Countries		
					Capital Importing Countries		
					All capital importing countries	With recent debt-servicing problems	Without recent debt-servicing problems
<i>Holdings of SDRs as percent of cumulative allocations</i>							
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	73.7	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	
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	22.0	53.5
1988	96.2	117.1	53.5	181.7	40.3	33.2	49.0
<i>Holdings of SDRs as percent of non-gold reserves</i>							
1970	7.5	9.2	4.1	0.8	4.7	6.0	3.2
1971	9.2	10.0	5.9	0.4	7.1	8.8	5.2
1972	9.1	9.4	6.8	0.8	8.5	9.5	7.5
1973	8.0	8.9	4.7	0.9	5.7	6.2	5.1
1974	7.3	9.4	3.5	0.5	4.3	4.7	3.9
1975	6.1	9.0	2.3	0.2	3.8	3.9	3.6
1976	5.5	8.4	1.9	0.3	3.2	3.6	2.8
1977	4.5	7.4	1.4	0.2	2.3	2.7	1.9
1978	3.6	5.3	1.4	0.3	2.1	2.7	1.6
1979	4.8	5.8	2.8	1.0	3.7	4.4	3.0
1980	5.7	7.1	3.4	1.6	4.4	5.1	3.8
1981	5.0	6.2	2.9	1.9	3.4	4.3	2.7
1982	5.5	6.9	2.9	1.9	3.5	5.0	2.7
1983	5.5	7.3	2.3	2.4	2.2	2.8	2.0
1984	4.3	5.6	2.0	2.2	1.9	2.1	1.9
1985	4.6	6.3	1.6	2.1	1.5	1.5	1.4
1986	5.2	6.7	2.0	2.5	1.8	2.2	1.7
1987	4.9	5.7	2.0	2.8	1.7	2.4	1.5
1988	4.6	5.2	2.0	3.1	1.7	3.8	1.1

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

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 0.8 billion at the end of financial year 1988) and by other holders (SDR 0.06 billion at the end of financial year 1988).

Table II.16

**Purchases Under Supplementary Financing Facility
by Eligible Members, and Subsidy Payments
as of April 30, 1988**
(In millions of SDRs)

	Purchases	Subsidy Payments
Recipients of subsidy at the full rate		
Bangladesh	110.0	16.02
Bolivia	25.5	3.89
Dominica	4.5	0.52
Gambia, The	4.8	0.53
Guyana	30.9	4.60
India	1,200.0	123.67
Kenya	94.8	13.11
Liberia	42.9	5.91
Madagascar	22.2	3.22
Malawi	28.1	4.09
Mauritania	16.0	2.19
Pakistan	537.1	68.28
Philippines	333.0	47.73
Senegal	54.2	7.19
Sierra Leone	17.2	2.47
Sri Lanka	—	0.59 ¹
Sudan	171.4	24.43
Tanzania	16.3	2.43
Togo	7.3	1.05
Zambia	—	3.52 ²
Subtotal	2,716.2	335.43
Recipients of subsidy at half the full rate		
Côte d'Ivoire	286.4	16.22
Jamaica	227.1	15.96
Mauritius	69.2	4.91
Morocco	137.5	10.04
Peru	195.1	15.05
Subtotal	915.3	62.18
Total	3,631.5	397.61 ³

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.

³ Including SDR 3.2 million of subsidies approved but not paid to five members.

Table II.17**SDR Interest Rate and Rate of Remuneration**

Week Beginning	SDR Interest Rate and Rate of Remuneration ¹
1987	
April 27	5.80
May 4	5.70
May 11	5.64
May 18	5.70
May 25	5.58
June 1	5.63
June 8	5.64
June 15	5.57
June 22	5.64
June 29	5.72
July 6	5.61
July 13	5.59
July 20	5.60
July 27	5.69
August 3	5.82
August 10	5.86
August 17	5.92
August 24	5.97
August 31	6.05
September 7	6.05
September 14	6.07
September 21	6.07
September 28	6.15
October 5	6.33
October 12	6.46
October 19	6.66
October 26	5.82
November 2	5.67
November 9	5.79
November 16	5.91
November 23	5.82
November 30	5.72
December 7	5.51
December 14	5.72
December 21	5.75
December 28	5.70
1988	
January 4	5.63
January 11	5.67
January 18	5.65
January 25	5.57
February 1	5.46
February 8	5.49
February 15	5.53
February 22	5.52
February 29	5.49
March 7	5.52
March 14	5.58
March 21	5.51
March 28	5.55
April 4	5.52
April 11	5.58
April 18	5.52
April 25	5.52

¹ The rate of remuneration was raised to 100 percent of the SDR interest rate effective February 1, 1987.

Table II.18
Publications Issued, Financial Year Ended April 30, 1988

Reports and Other Documents

Annual Report of the Executive Board for the Financial Year Ended April 30, 1987

(English, French, German, and Spanish). Free.

Annual Report on Exchange Arrangements and Exchange Restrictions, 1987

One copy free; additional copies \$12.00 each.

By-Laws, Rules and Regulations

Forty-Fourth Issue (English, French, and Spanish). Free.

Recueil de décisions du Fonds monétaire international et Annexe, Douzième édition. Free.

Recopilación seleccionada de decisiones del Fondo Monetario Internacional y otros documentos, Duodécima edición. Free.

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

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

Subscription Publications

Balance of Payments Statistics

Vol. 38. A two-part yearbook and 12 monthly booklets. \$44.00 a year. \$23.00 to university libraries, faculty members, and students. \$15.00 for yearbook only.

Direction of Trade Statistics

Monthly, with yearbook. \$44.00 a year. \$22.00 to university libraries, faculty members, and students. \$12.00 for yearbook only.

Government Finance Statistics Yearbook

Vol. 11, 1987. (Introduction and titles of lines in English, French, and Spanish.) \$24.00. \$12.00 to university libraries, faculty members, and students.

International Financial Statistics

Monthly, with yearbook (English, French, and Spanish) and two supplements (English). \$120.00 a year. \$60.00 to university libraries, faculty members, and students. Yearbook, \$25.00. Supplements separately, \$12.00 each.

Staff Papers

Four times a year. \$18.00 a year. \$9.00 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 \$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 \$1,750.00 a year each for single users and \$7,500.00 a year each for time-sharing companies. This price includes the book version. The price to universities is \$750.00 a year for each publication.

Occasional Papers

No. 52. *Structural Reform, Stabilization, and Growth in Turkey*
By George Kopits.

No. 53. *Floating Exchange Rates in Developing Countries: Experience with Auction and Interbank Markets*

By Peter J. Quirk, Benedicta Vibe Christensen, Kyung-Mo Huh, and Toshihiko Sasaki.

No. 54. *Protection and Liberalization: A Review of Analytical Issues*
By Max Corden.

No. 55. *Theoretical Aspects of the Design of Fund-Supported Adjustment Programs: A Study by the Research Department of the International Monetary Fund*

No. 56. *Privatization and Public Enterprises*
By Richard Hemming and Ali M. Mansoor.

No. 57. *The Search for Efficiency in the Adjustment Process: Spain in the 1980s*
By Augusto Lopez-Claros.

Occasional Papers are available for \$7.50 each, with a special price of \$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
\$10.00 (\$6.00 to university libraries, faculty members, and students).

Staff Studies for the World Economic Outlook

By the Research Department
\$15.00 (\$11.00 to university libraries, faculty members, and students).

World Economic Outlook, October 1987: Revised Projections by the Staff of the International Monetary Fund

\$12.00 (\$8.00 to university libraries, faculty members, and students).

International Capital Markets: Developments and Prospects
By Maxwell Watson, Donald Mathieson, Russell Kincaid, David Folkerts-Landau, Klaus Regling, and Caroline Atkinson
\$15.00 (\$11.00 to university libraries, faculty members, and students).

Officially Supported Export Credits: Developments and Prospects
By K. Burke Dillon and Luis Duran-Downing, with Miranda Xafa
\$10.00 (\$6.00 to university libraries, faculty members, and students).

World Economic Outlook, April 1988: A Survey by the Staff of the International Monetary Fund

\$15.00 (\$11.00 to university libraries, faculty members, and students).

Books

Adjustment Policies and Development Strategies in the Arab World
Edited by Said El-Naggar. \$12.00. (Published in English and in Arabic.)

Balance of Payments Adjustment, 1945 to 1986: The IMF Experience

By Margaret Garritsen de Vries. \$14.50.

Beyond Adjustment: The Asian Experience
Edited by Paul Streeten. \$15.00.

Economic Adjustment: Policies and Problems
Edited by Sir Frank Holmes. \$16.00.

External Debt, Savings, and Growth in Latin America
Edited by Ana María Martírena-Mantel. \$12.00.
(Published in English and in Spanish.)

Final Report of the Working Party on the Statistical Discrepancy in World Current Account Balances. \$15.00.

Table II.18 (concluded)
Publications Issued, Financial Year Ended April 30, 1988

<i>Growth-Oriented Adjustment Programs</i> Edited by Vittorio Corbo, Morris Goldstein, Mohsin Khan. \$25.00.	Other
<i>Supply-Side Tax Policy: Its Relevance to Developing Countries</i> By Ved P. Gandhi and others. \$20.00.	<i>Finance & Development</i> Issued jointly with World Bank; quarterly (English, Arabic, Chinese, French, German, Portuguese, and Spanish). Free.
Pamphlet Series	<i>IMF Survey</i> Twice monthly but only once in December (English, French, and Spanish). Private firms and individuals are charged at an annual rate of \$36.00.
No. 44. <i>SDRs, Currencies, and Gold: Recent Legal Developments</i> By Joseph Gold. Free.	
Booklet	
<i>Publications Catalog, 1987.</i> Free.	

Table II.19
**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	Kiribati	August 22, 1986
Argentina	May 14, 1968	Kuwait	April 5, 1963
Australia	July 1, 1965	Luxembourg	February 15, 1961
Austria	August 1, 1962	Malaysia	November 11, 1968
Bahamas, The	December 5, 1973	Mexico	November 12, 1946
Bahrain	March 20, 1973	Netherlands	February 15, 1961
Belgium	February 15, 1961	New Zealand	August 5, 1982
Belize	June 14, 1983	Nicaragua	July 20, 1964
Bolivia	June 5, 1967	Norway	May 11, 1967
Canada	March 25, 1952	Oman	June 19, 1974
Chile	July 27, 1977	Panama	November 26, 1946
Costa Rica	February 1, 1965	Papua New Guinea	December 4, 1975
Denmark	May 1, 1967	Peru	February 15, 1961
Djibouti	September 19, 1980	Qatar	June 4, 1973
Dominica	December 13, 1979	St. Kitts and Nevis	December 3, 1984
Dominican Republic	August 1, 1953	St. Lucia	May 30, 1980
Ecuador	August 31, 1970	St. Vincent	August 24, 1981
El Salvador	November 6, 1946	Saudi Arabia	March 22, 1961
Fiji	August 4, 1972	Seychelles	January 3, 1978
Finland	September 25, 1979	Singapore	November 9, 1968
France	February 15, 1961	Solomon Islands	July 24, 1979
Germany, Federal Republic of	February 15, 1961	South Africa	September 15, 1973
Guatemala	January 27, 1947	Spain	July 15, 1986
Guyana	December 27, 1966	Suriname	June 29, 1978
Haiti	December 22, 1953	Sweden	February 15, 1961
Honduras	July 1, 1950	United Arab Emirates	February 13, 1974
Iceland	September 19, 1983	United Kingdom	February 15, 1961
Indonesia	May 7, 1988	United States	December 10, 1946
Ireland	February 15, 1961	Uruguay	May 2, 1980
Italy	February 15, 1961	Vanuatu	December 1, 1982
Jamaica	February 22, 1963	Venezuela	July 1, 1976
Japan	April 1, 1964		

Appendix III

Principal Policy Decisions of the Executive Board

A. Surveillance over Members' Exchange Rate Policies

(a) Amendment of 1977 Document

The first sentence of Paragraph VI 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, as amended, shall be amended to read as follows:

The Executive Board shall review the general implementation of the Fund's surveillance over members' exchange rate policies at intervals of two years and at such other times as consideration of it is placed on the agenda of the Executive Board.

*Decision No. 8856-(88/64)
April 22, 1988*

(b) Review of 1977 Document

The Executive Board has reviewed the document entitled "Surveillance over Exchange Rate Policies" attached to Decision No. 5392-(77/63),² adopted April 29, 1977, as amended, as required by paragraph 2 of that decision. The next review of the document shall be conducted not later than April 1, 1990.

*Decision No. 8857-(88/64)
April 22, 1988*

(c) 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),³

¹ See *Selected Decisions*, Thirteenth Issue, pages 9–14.

² *Ibid.*

³ *Ibid.*

adopted April 29, 1977, as amended, 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, 1990.

*Decision No. 8858-(88/64)
April 22, 1988*

*(d) The Chairman's Summing Up on Article IV Consultation Procedures—Initiation of the Bicyclic Procedure and Changes in Cycles, and Simplified Interim Procedures—
July 8, 1987*

... On the ... issue of the involvement of the Executive Board, ... a majority of Directors ... clearly preferred Option III whereby the staff papers on the occasion of the simplified interim procedure would be issued for information only. This is the practice that will be followed for the initial application of the bicyclic consultation procedure. . . .

In conclusion, ... Option III would furnish the Board with information on consultation discussions taking place under [Article IV, Section 3(b)]. . . .

Under Option III, the Executive Board would not adopt any decision.

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

(a) Extension of Period and Access Limits for 1988

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),⁴ No. 7599-(84/3), as amended,⁵ No. 7600-(84/3), as amended,⁶ and No. 7602-(84/3)),⁷ decides that:

1. In paragraph a. of Decision No. 7599-(84/3), as amended, "1987" shall be replaced by "1988."
2. (a) In the third sentence of paragraph a. of Decision No. 7600-(84/3), as amended, "1986 and 1987" shall be replaced by "1986, 1987, and 1988."
- (b) In paragraph b. of Decision No. 7600-(84/3), as amended, "1987" shall be replaced by "1988."

*Decision No. 8744-(87/166)
December 4, 1987*

(b) Lengthening of Program Period for Extended Arrangements

Paragraph 3, first sentence, of Decision No. 4377-(74/114),⁸ adopted September 13, 1974, as amended, shall be amended to read as follows:

Extended arrangements under this decision will be for periods not exceeding three years; where appropriate, and at the request of the member, the period of an existing extended arrangement may be lengthened up to four years.

⁴ See *Selected Decisions*, Thirteenth Issue, pages 47–50.

⁵ *Ibid.*, pages 50–51.

⁶ *Ibid.*, pages 51–52.

⁷ See *Annual Report, 1984*, page 138.

⁸ See *Selected Decisions*, Thirteenth Issue, pages 33–37.

Paragraph 6, last sentence, of Decision No. 6783-(81/40),⁹ adopted March 11, 1981, shall be amended to read as follows:

The period of an extended arrangement will be normally three years; where appropriate, and at the request of the member, the period of an existing extended arrangement may be lengthened up to four years.

Decision No. 8885-(88/89)

June 6, 1988

(c) Use of Ordinary and Borrowed Resources

1. Effective June 6, 1988, subparagraphs (a) and (b) of paragraph 8 of Decision No. 6783-(81/40),¹⁰ adopted March 11, 1981, on the policy on enlarged access shall read 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 by a member will be made with ordinary resources until the outstanding use of ordinary resources in the upper credit tranches and under the extended Fund facility equals 140 percent of the member's quota. Thereafter, purchases will be made with borrowed resources.

2. Effective June 6, 1988, Decision No. 8487-(86/205),¹¹ adopted December 19, 1986 shall be terminated.

Decision No. 8886-(88/89)

June 6, 1988

C. Multiple Currency Practices Applicable Solely to Capital Transactions

The phrase "multiple currency practices" in decisions of the Fund relating to the use of the Fund's resources does not, except as otherwise provided, include multiple currency practices applying solely to capital transactions.

Decision No. 8648-(87/104)

July 17, 1987

D. Special Charges on Overdue Financial Obligations to the Fund—Medium of Payment

Decision No. 8165-(85/189) G/TR,¹² adopted December 30, 1985, effective February 1, 1986, Section V, paragraph 2, shall be amended by the addition of the following sentence:

Such payments may be made also in SDRs to a prescribed holder on behalf of the Special Disbursement Account, provided that use of SDRs is in accordance with Decision No. 8642-(87/101) S/TR,¹³ adopted July 9, 1987.

Decision No. 8641-(87/101) G/S/TR

July 9, 1987

⁹ *Ibid.*, pages 47–50.

¹⁰ *Ibid.*

¹¹ *Ibid.*, pages 52–60.

¹² *Ibid.*, pages 129–30.

¹³ See Item J below.

E. Fund's Income Position*(a) Special Contingent Account—Establishment*

In view of the existing overdue obligations, a special contingent account shall be established. It shall be recorded separately in the Fund's financial statements. There shall be placed to that account, for financial year 1987, an amount of SDR 26,547,074. This amount shall be distributed, to creditors and debtors for that year, in accordance with the principles of burden sharing, when the need for this account disappears.

*Decision No. 8619-(87/90)
June 17, 1987*

(b) Special Contingent Account—Additions in FY 1988 and Disposition of Amounts Placed in FY 1987 and FY 1988

1. An amount equivalent to 2½ percent of the Fund's reserves at the beginning of financial year 1988 already provided for in accordance with Section II.1 of Decision No. 8348-(86/122),¹⁴ adopted July 25, 1986, as amended, shall be placed to the Special Contingent Account at the end of financial year 1988.

2. An additional amount equivalent to 2½ percent of the Fund's reserves at the beginning of financial year 1988 shall be raised in accordance with Section II.2 and Section V.1 and 2(a) of Decision No. 8348-(86/122), as amended, as follows:

(a) effective February 1, 1988 the rate of charge referred to in Rule I-6(4) shall be 6.15 percent;

(b) the rate of remuneration shall be adjusted for the period from February 1 through April 30, 1988 in order to generate an amount of net income equal to the amount generated under (a) subject to the limitation in Section V.2(c) of Decision No. 8348-(86/122), as amended.

That additional amount shall also be placed to the Special Contingent Account at the end of financial year 1988.

3. The amounts placed to the Special Contingent Account, including the amount placed to it in financial year 1987, shall be distributed when there are no outstanding overdue charges and repurchases, or at such earlier time as the Fund may decide, in accordance with subparagraphs (a), (b), and (c) below:

(a) distributions of the amounts placed to the Special Contingent Account at the end of financial year 1988 shall be made in proportion to the amounts that have been paid, or have not been received, by each member in financial year 1988 as a result of adjustments made under paragraph 1 and 2 above;

(b) the amount placed to the Special Contingent Account in financial year 1987 shall be distributed to members that have paid charges referred to in Rule I-6(4) in financial year 1987, in proportion to the amounts that have been paid;

(c) any distribution shall be made in proportion to the total amount to be distributed to each member under (a) and (b) cumulatively.

¹⁴ See Annual Report, 1986, pages 104–105.

4. If any loss is charged against the Account, it shall be recorded in accordance with the principle of proportionality set forth in paragraph 3(c).

Decision No. 8780-(88/12)
January 29, 1988

(c) Principles of "Burden Sharing," Rate of Charge, Amount for Special Contingent Account and Net Income Target, and Implementation of "Burden Sharing" for FY 1989

Section I. Principles of "Burden Sharing"

1. The financial consequences for the Fund which stem from the existence of overdue financial obligations shall be shared between debtor and creditor member countries.
2. This sharing shall be applied in a simultaneous and symmetrical fashion.

Section II. Determination of the Rate of Charge

1. (a) The rate of charge for financial year 1989 referred to in Rule I-6(4)(a) shall be determined at the beginning of the financial year, on the basis of the estimated income and expense of the Fund during the year, to generate the target amount of net income for that year.
(b) When estimating income, no deduction shall be made for projected deferred income.
2. The rate of charge shall be adjusted in accordance with the provisions of Section IV.
3. The rate of charge in force as of the end of financial year 1989, as adjusted under Section IV, shall continue to apply subsequently unless it is otherwise decided.
4. Net income for financial year 1989 exceeding the amount specified in Section III shall be used to reduce the rate of charge retroactively for financial year 1989.

Section III. Amount for Special Contingent Account and Net Income Target for FY 1989

1. An amount equivalent to 5 percent of the Fund's reserves at the beginning of financial year 1989 shall be generated during financial year 1989, in accordance with provisions of Section IV, and shall be placed to the Special Contingent Account.
2. In addition, during financial year 1989, in accordance with Rule I-6(4)(a), the target amount of net income referred to in Rule I-6(4)(a) shall be 5 percent of the Fund's reserves at the beginning of the year.

Section IV. Implementation of "Burden Sharing"

1. During financial year 1989, notwithstanding Rule I-6(4)(a) and (b) and Rule I-10, the rate of charge referred to in Rule I-6(4), and the rate of remuneration prescribed in Rule I-10 shall be adjusted in accordance with the provisions of this Section.

2. (a) In order to generate the amount to be placed in financial year 1989 to the Special Contingent Account, the rate of charge, and, subject to the limitation in (c), the rate of remuneration shall be adjusted, in accordance with the provisions of this paragraph, so as to produce equal amounts of income.

(b) If income from charges becomes deferred during an adjustment period as defined in (d), the rate of charge and, subject to the limitation in (c), the rate of remuneration shall be further adjusted, in accordance with the provisions of this paragraph, so as to generate, in equal amounts, an additional amount of income equal to the amount of deferred charges. For the purposes of this provision, special charges on overdue financial obligations under Decision No. 8165-(85/189) G/TR,¹⁵ adopted December 30, 1985, as amended, shall not be taken into account.

(c) No adjustment in the rate of remuneration under this paragraph shall be carried to the point where the average remuneration coefficient would be reduced below 85 percent for an adjustment period.

(d) The adjustments under this paragraph shall be made as of May 1, 1988, as of August 1, 1988, as of November 1, 1988, and as of February 1, 1989:

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.

(e) The operation of this decision shall be reviewed when the adjustment in the rate of remuneration reduces the remuneration coefficient to the limit in (c) above.

3. A midyear review of the Fund's income position shall be held shortly after October 31, 1988. If, after any adjustment under paragraph 2, the actual net income for the first six months of the financial year, on an annual basis, is below the target amount for the year, by an amount equal to, or greater than, 2 percent of the Fund's reserves at the beginning of the financial year, the Executive Board will consider how to deal with the situation. If on December 15 no agreement has been reached as a result of this consideration, the rate of charge shall be increased as of November 1 to the level necessary to reach the target amount of net income for the year.

4. (a) Subject to paragraph 3 of Decision No. 8780-(88/12),¹⁶ adopted January 29, 1988, the balances held in the Special Contingent Account shall be distributed in accordance with the provisions of this paragraph to members that have paid additional charges or have received reduced remuneration as a result of the adjustment, when there are no outstanding overdue charges and repurchases, or at such earlier time as the Fund may decide.

(b) An amount equal to the proceeds of any adjustment for deferred charges shall be distributed, in accordance with the provisions of this paragraph, to members that have paid additional charges or have received reduced remuneration as a result of the adjustment, when, and to the extent that, charges, the deferral of which had given rise to the same adjustment, are paid to the Fund. Distributions under this provision shall be made quarterly.

(c) Distributions under (a) or (b) shall be made in proportion to the amounts that have been paid or have not been received by each member as a result of the respective adjustments.

¹⁵ See *Selected Decisions*, Thirteenth Issue, pages 129–30.

¹⁶ See Item (b) above.

(d) If a member that is entitled to a payment under this paragraph has any overdue obligation to the Fund in the General Department at the time of payment, the member's claim under this paragraph shall be set off against the Fund's claim in accordance with Decision No. 8271-(86/74),¹⁷ adopted April 30, 1986, or any subsequent decision of the Fund.

(e) Subject to paragraph 4 of Decision No. 8780-(88/12),¹⁶ adopted January 29, 1988, if any loss is charged against the Special Contingent Account, it shall be recorded in accordance with the principles of proportionality set forth in (c).

Decision No. 8861-(88/67)
April 27, 1988

F. Structural Adjustment Facility Within the Special Disbursement Account

(a) Regulations for Administration—Amendment

Paragraph 5(5) of the Regulations for the Administration of the Structural Adjustment Facility, contained in the Annex to Decision No. 8238-(86/56) SAF,¹⁸ adopted March 26, 1986, shall be amended to read as follows:

Resources under three-year commitments shall be made available in the form of loans under three annual arrangements approved by the Fund. An annual arrangement may not be approved before the expiration of the preceding annual arrangement, other than under exceptional circumstances. The approval of an annual arrangement under a three-year commitment must precede the expiration of the commitment period.

Decision No. 8652-(87/105) SAF
July 22, 1987

(b) Amounts of Assistance—Amendment

Paragraph 2 of Decision No. 8240-(86/56) SAF,¹⁹ adopted March 26, 1986, as amended, shall be amended to read as follows:

The potential access of each eligible member to the resources of the Facility as of July 22, 1987 shall be 63.5 percent of quota; no more than 20 percent of quota shall be disbursed under the first annual arrangement, and no more than 30 percent of quota shall be disbursed under the second annual arrangement.

Decision No. 8651-(87/105) SAF
July 22, 1987

(c) The Chairman's Summing Up on the Structural Adjustment Facility—Review of Experience—June 19, 1987

The discussion today concludes the first review by Executive Directors of the operation of the structural adjustment facility (SAF). In summing up, I will begin with a few general comments and then turn to some conceptual and more specific operational issues.

¹⁷ See *Selected Decisions*, Thirteenth Issue, pages 131.

¹⁸ *Ibid.*, pages 142–47.

¹⁹ *Ibid.*, pages 147–49.

1. General observations

Directors expressed strong support for the facility and indicated that they considered it to be an important channel for Fund assistance to low-income developing countries. The explicit orientation of the facility toward the alleviation of structural imbalances and rigidities was considered to be particularly important for these countries, many of which have suffered for many years from low rates of economic growth and declining per capita incomes. Recognizing that the modest amount of assistance available under the facility has been one of the important impediments to its wider utilization, most Directors supported the proposal to raise the amount of second-year disbursements to 30 percent of quota.

Directors expressed concern that the catalytic role that had been envisaged for the facility in mobilizing resource flows from other sources had thus far not materialized. That role remained a crucial one, and they therefore welcomed the indications by the leaders of the major industrial countries at the recent Venice Summit that they strongly supported our initiative to triple the resources available for lending in association with SAF arrangements. Directors urged management to explore all possible options to secure truly additional resources for the SAF. It emphasized that the role that had been envisaged for the facility would not be fully realized unless the amounts of assistance that countries could obtain under SAF-supported programs were increased to levels that would be more commensurate with the problems that the facility was intended to address. Directors indicated that members who have made use of the facility or are currently negotiating arrangements should not be disadvantaged by prompt use of the SAF, in the event that its enhancement was realized. I am grateful for the indications received from a number of Directors that their authorities stood ready to contribute to the enhanced SAF. I am also pleased to hear that the suggestions which we have made regarding the modalities of financing are in the right direction.

2. Role and content of policy framework papers

Most, but not all, Directors thought that the content of policy framework papers (PFPs) should be further developed and strengthened. Many also stressed that the authorities should play a much greater role than they had so far in the formulation of PFPs. It was noted that policy framework papers should include a more pointed and forward-looking analysis and identification of macroeconomic and structural problems and of the sources of economic growth; a more focused discussion of the authorities' strategy and the priority to be attached to key structural reforms to be sought over the next three years; a fuller description and assessment of public investment programs; and a discussion of financing requirements and the role of major aid agencies. Most Directors felt that specific policy undertakings in the initial period and general indications of policies to be pursued in the second and the third years should be spelled out in PFPs. Some Directors expressed concern that prior announcement of policy intentions could lead to speculative activities or involve sociopolitical sensitivities. In these cases, it was suggested that the precise timing and exact magnitude of intended changes could be left out of the PFP and could be included in the staff paper on the SAF program.

Directors were of the view that PFPs should contribute to the decision-making process of multilateral aid agencies, with many calling for a more central role for the PFP in guiding the World Bank's lending strategy. Directors indicated that PFPs should be designed in such a way as to help ensure consistency of policy advice and other activities of aid agencies and to direct aid resources to countries undertaking strong policy reform in amounts that would make such reform efforts viable and sustainable. I took note of the differing views of Executive Directors on the role to be played by bilateral donors in the PFP process. These views will be taken into account in our emerging relations with these donors. The suggestion that the Fund should hold a conference for representatives of aid agencies to familiarize these institutions with the PFP process and discuss the coordination of objectives will also be examined.

Most Directors agreed that PFPs should be revised each year to cover policies and objectives to be pursued by the authorities during the following three-year period. Such a rolling framework would provide for a continuity of policy, which was useful for both the authorities and those supporting the member's adjustment effort. Other Directors, however, stressed that an updating of the PFP would suffice; in their view a wholesale redesign of the PFP each year would be burdensome for both the staff and the authorities but might be warranted if the facility's resources were enhanced.

Most Directors agreed that a wide circulation of PFPs was desirable, consistent with the objective of a fuller role for PFPs in the aid coordination process; however, in view of concerns expressed by some Directors, circulation of PFPs has to be subject to the consent of the authorities of the member concerned. Directors encouraged the staff to develop circulation procedures along the lines suggested in [the staff paper].

3. Issues related to the PFP/SAF process

a. Fund-Bank collaboration

Directors emphasized the importance that they attached to the members' requests for SAF arrangements. They urged the staffs of the two institutions to work closely together to expedite the process and to avoid undue delays. Closer collaboration between the two institutions should not be allowed to lead to cross conditionality. However, for a very limited number of cases in which the Bank was not in a position to contribute to the preparation of a possible SAF operation within a reasonable time period, I take it that Directors would not regard it as an absolute requirement that the Bank be involved in the preparation of the PFP.

A number of Directors were disappointed that the PFP had not been utilized more fully for World Bank policy-based lending. Speakers welcomed the conclusion of IDA-8 negotiations and were pleased in particular that \$3.0–3.5 billion was to be used for structural adjustment lending in conjunction, to the extent possible, with the SAF. Several Directors hoped that policies governing use of IDA-8 would be finalized soon and in such a way that would enable IDA to lend in parallel with the SAF, drawing upon the policy undertakings stipulated in the PFP.

b. Staged approach

Directors emphasized that SAF-supported programs should continue to be based on comprehensive and detailed analysis and focused around comprehensive structural reform. However, some Directors indicated that in a limited number of exceptional cases where this was not practicable in the initial stages but where there may be assurance that macroeconomic policies would adequately address the immediate problems and thus improve the environment for structural reform, it would be useful to allow some flexibility and to experiment with a staged approach.

c. Two-step procedure

Most Directors expressed doubts as to whether the additional staff and Board time required by the two-step negotiation process—Involving separate Board discussion of the PFP before presentation of the SAF loan request—was worthwhile. They encouraged the staff to present the PFP and the SAF request simultaneously to the Board and to limit use of the two-step procedure to cases in which there were outstanding arrears to the Fund or in which there were major difficulties in the negotiating process or significant doubts about the eventual endorsement by the Board of the policy strategy contained in the PFP. Where a two-step procedure was to be used, staff was encouraged to hold PFP discussions to the extent feasible in the context of Article IV or other discussions with the authorities.

4. *SAF-related issues*

a. *Conditionality*

The nature and form of conditionality underlying the request for SAF arrangements that have been brought to the Board thus far was considered by most Directors to be broadly appropriate. Directors reiterated that SAF resources should be provided in support of strong macroeconomic and structural adjustment programs that would remove obstacles to growth and make, as a minimum, substantial progress toward the achievement of a viable balance of payments position during the three-year program period; the programs must provide reasonable assurance of timely repayments of loans from the SAF. A number of Directors, however, urged that conditionality should be more flexible and adapted in light of the objectives, particularly for growth, of the facility.

Because balance of payments viability cannot be attained by many SAF-eligible countries in the absence of increased concessional assistance, SAF programs for these countries would have to be strong so as to provide creditor governments and aid agencies with the assurance of satisfactory macroeconomic policies and the monitoring that they require in order to move forward with their operations in support of policy reform, several Directors stressed. In this connection, the decision of the Paris Club to undertake a debt rescheduling in certain cases on the basis of a SAF arrangement was welcomed.

b. *Benchmarks and prior actions*

Directors noted that the use of benchmarks was necessary to delineate the expected path of structural reform and to facilitate the evaluation of progress under SAF arrangements. They emphasized that benchmarks should be limited to those few variables that are considered most important for purposes of monitoring the program. Structural benchmarks should be formulated in specific terms so as to provide a clear understanding of the expected path of program implementation. A number of Directors considered that it would be useful to provide a more explicit framework of structural reform in the three-year program by including structural benchmarks that extend beyond the annual program in a few critical areas. While some Directors considered that the use of prior actions in SAF arrangements continued to be appropriate in those cases where much remained to be done and where past performance had been somewhat unsatisfactory, other Directors noted that such use should be exceptional.

c. *Protracted balance of payments criterion*

While the existence of protracted balance of payments problems should remain a criterion for use of the facility, most Directors emphasized that, *a priori*, a low-income country satisfied this criterion. They reiterated that the assessment should involve considerable flexibility and should not be based on the mechanical application of statistical indicators.

d. *Coincidence between arrangement and program periods*

Directors stressed that a significant divergence between the program and the arrangement period should be generally avoided and that there should be an interval of about 12 months between the two disbursements. However, they recognized that there was a need for flexibility in the timing of presentation to the Board of annual SAF arrangements; a normal delay of about three months between the initiation of the annual policy program and its presentation to the Board was acceptable. They indicated that approval of a longer delay should be granted only in exceptional cases. In those cases in which considerable delay had been experienced in the presentation of a first-year program, Directors considered that some shortening of the period between annual disbursements would be appropriate so as to minimize the difference in timing between the approval of the subsequent annual programs and the associated disbursements.

Directors noted that the preparation of PFPs and SAF programs has absorbed a substantial amount of the staff resources of borrowing countries, the Bank, and the Fund, and they directed the staff to look for ways to simplify procedures.

I have noted the call for generalized access to Fund resources by developing countries on a concessional basis, a matter to which we will return in the context of our consideration of the recommendations of the Group of Twenty-Four on the role of the Fund.

The discussion of the first review of the operation of the structural adjustment facility has been most helpful and should contribute to a more effective and efficient operation of the facility. This will be extremely important as we advance our efforts to increase the amount of resources that can be made available to the low-income countries under the facility. The next review of the structural adjustment facility will be held not later than May 31, 1988.

Let me reiterate that I am really grateful for the many expressions of support for the initiative to increase the resources available through the SAF. I intend to report to you frequently on the progress that we are able to make. That progress will depend crucially upon your continuing support.

(d) Regulations for Administration—Amendment Relating to the Enhanced Structural Adjustment Facility

1. The following paragraph shall be added to the Regulations for the Administration of the Structural Adjustment Facility annexed to Decision No. 8238-(86/56) SAF:²⁰

Paragraph 14

Assistance from the Structural Adjustment Facility, in conjunction with loans from the Enhanced Structural Adjustment Facility Trust, under the Enhanced Structural Adjustment Facility established by Decision No. 8757-(87/176) SAF/ESAF, adopted December 18, 1987 shall be governed by these Regulations subject to the following provisions:

- (1) The amounts of such assistance shall be identified in any commitment, arrangement, or disbursement under the Enhanced Structural Adjustment Facility.
- (2) Disbursements under each annual arrangement shall be made in two installments, the first after approval of the corresponding annual arrangement, and the second after
 - (i) a finding by the Managing Director that the performance criteria that have been established for that disbursement have been met, and a determination by the Fund that the midterm review of the program supported by the arrangement has been completed to the satisfaction of the Fund, or
 - (ii) if so specified in the annual arrangement, a finding by the Managing Director that the performance criteria that have been established for that disbursement have been met.
- (3) Disbursements shall be made at the same time as the corresponding disbursements under Trust loans.
- (4) If, pursuant to subparagraph (2) above, a second disbursement under an annual arrangement is not made, the period of the three-year commitment may be extended, and the corresponding amount may be made available during the extended period, subject to these Regulations.

2. In paragraph 6(2) of the Regulations referred to above, the terms "to the Fund as Trustee under the Trust Instrument" shall be replaced by "to the Fund as Trustee."

*Decision No. 8758-(87/176) SAF
December 18, 1987*

²⁰ Selected Decisions, Thirteenth Issue, pages 142–47.

G. Enhanced Structural Adjustment Facility

(a) Review of Structural Adjustment Facility and Establishment of Enhanced Structural Adjustment Facility

1. The Executive Board has reviewed the operation of the Structural Adjustment Facility within the Special Disbursement Account, as provided in Decision No. 8241-(86/56) SAF,²¹ adopted March 26, 1986.
2. (a) The Executive Board decides to establish a Facility to be known as the Enhanced Structural Adjustment Facility. Loans under that Facility shall be provided by the Enhanced Structural Adjustment Facility Trust, normally in conjunction with loans under the Structural Adjustment Facility, on concessional terms, to low-income developing members that qualify for assistance.
(b) The use of resources provided by the Structural Adjustment Facility shall be subject to the Regulations for the Administration of the Structural Adjustment Facility, as amended by Decision No. 8758-(87/176) SAF,²² adopted December 18, 1987.
(c) The use of resources provided by the Enhanced Structural Adjustment Facility Trust shall be subject to the provisions of the Enhanced Structural Adjustment Facility Trust Instrument adopted by Decision No. 8759-(87/176) ESAF,²³ adopted December 18, 1987.
3. Resources provided by lenders that agree to support arrangements under the Enhanced Structural Adjustment Facility through loans to qualifying members shall be used in association with loans under the Enhanced Structural Adjustment Facility and in accordance with the arrangements between the Fund and the lenders.
4. The Fund shall review the operation of the Enhanced Structural Adjustment Facility, of the Structural Adjustment Facility, and of the Enhanced Structural Adjustment Facility Trust, not later than March 31, 1989.

*Decision No. 8757-(87/176) SAF/ESAF
December 18, 1987*

(b) Establishment of Enhanced Structural Adjustment Facility Trust

1. The Fund adopts the Instrument to Establish the Enhanced Structural Adjustment Facility Trust that is annexed to this Decision.
2. The Fund is committed, if it appeared that any delay in payment by the Trust to lenders would be protracted, to consider fully and in good faith all such initiatives as might be necessary to assure full and expeditious payment to lenders.

*Decision No. 8759-(87/176) ESAF
December 18, 1987*

²¹ See *Selected Decisions*, Thirteenth Issue, page 149.

²² See Item F(d) above.

²³ See Item (b) below.

ANNEX

Instrument to Establish the Enhanced Structural Adjustment Facility Trust

Introductory Section

To help fulfill its purposes, the International Monetary Fund (hereinafter called the "Fund") has adopted this Instrument establishing the Enhanced Structural Adjustment Facility Trust (hereinafter called the "Trust"), which shall be administered by the Fund as Trustee (hereinafter called the "Trustee"). The Trust shall be governed by and administered in accordance with the provisions of this Instrument.

*Section I. General Provisions***Paragraph 1. Purposes**

The Trust shall assist in fulfilling the purposes of the Fund by providing loans on concessional terms (hereinafter called "Trust loans") to low-income developing members that qualify for assistance under this Instrument, in order to support programs to strengthen substantially and in a sustainable manner their balance of payments position and to foster growth.

Paragraph 2. Accounts of the Trust

The operations and transactions of the Trust shall be conducted through a Loan Account, a Reserve Account, and a Subsidy Account. The resources of the Trust shall be held separately in each Account.

Paragraph 3. Unit of account

The SDR shall be the unit of account for commitments, loans, and all other operations and transactions of the Trust, provided that commitments of resources to the Subsidy Account may be made in currency.

Paragraph 4. Media of payment of contributions and exchange of resources

(a) Resources loaned or donated to the Trust shall be received in a freely usable currency, subject to the provisions of (c) below, and provided that resources may be received by the Subsidy Account in other currency.

(b) Payments by the Trust to lenders or donors shall be made in U.S. dollars or such other media as may be agreed between the Trustee and such lenders or donors.

(c) Loans or donations to the Trust may also be made in or exchanged for SDRs in accordance with such arrangements as may be made by the Trust for the holding and use of SDRs.

(d) The Trustee may exchange any of the resources of the Trust, provided that any balance of a currency held in the Trust may be exchanged only with the consent of the issuers of such currencies.

*Section II. Trust Loans***Paragraph 1. Eligibility and conditions for assistance**

(a) Any member eligible for assistance from the Structural Adjustment Facility shall be eligible for assistance from the Trust.

- (b) This assistance shall be committed and provided under the same conditions and on the same terms as prescribed in paragraph 14 of the Regulations for the Administration of the Structural Adjustment Facility, subject to the provisions of this Section.
- (c) Before approving a three-year arrangement, the Trustee shall be satisfied that the member is making an effort to strengthen substantially and in a sustainable manner its balance of payments position.
- (d) Commitments under three-year arrangements may be made during the period from January 1, 1988 to November 30, 1989.

Paragraph 2. Amount of assistance

(a) An initial maximum limit on access to the resources of the Trust shall be established by the Trustee, as a proportion of members' quotas in the Fund, and provision shall be made for a limit up to which that maximum limit may be exceeded in exceptional circumstances. The maximum access limit and the exceptional maximum limit shall be subject to review from time to time by the Trustee in the light of actual utilization of resources available to the Loan Account, and in any event not later than March 31, 1989.

(b) To the extent that a member has notified the Trustee that it does not intend to make use of the resources available from the Trust, the member shall not be included in the calculations of the access limits on Trust loans.

(c) The access for each member that qualifies for assistance from the Trust shall be determined on the basis of an assessment by the Trustee of the balance of payments need of the member and the strength of its adjustment program.

(d) The amount of resources committed to a qualifying member under a three-year arrangement and the amounts for the second- and third-year arrangements shall be reviewed at the time of consideration of each annual program. The amounts committed to a member shall not be reduced because of developments in its balance of payments, unless such developments are substantially more favorable than envisaged at the time of approval of the three-year arrangement and the improvement for the member derives in particular from improvements in the external environment.

(e) Any commitment shall be subject to the availability of resources to the Trust.

Paragraph 3. Disbursements

(a) Any disbursement shall be subject to the availability of resources to the Trust.

(b) Disbursements shall normally be made on the fifteenth and the last day of the month, provided that if these days are not business days of the Trustee, the disbursement shall be made on the preceding business day. Following a member's qualification for a disbursement, the disbursement shall be made on the first of these value dates for which the necessary notifications and payment instructions can be issued by the Trustee.

(c) No disbursement under a three-year commitment to a member shall be made after the expiration of the period specified in Section III, paragraph 3.

Paragraph 4. Terms of loans

(a) Interest on the outstanding balance of a Trust loan shall be charged at the rate of one half of one percent per annum subject to the provisions of

Section IV, paragraph 5, and provided that interest at a rate equal to the rate of interest on the SDR shall be charged on the amounts of any overdue interest on or overdue repayments of Trust loans.

(b) Trust loans shall be disbursed in a freely usable currency as decided by the Trustee. They shall be repaid, and interest paid, in U.S. dollars or other freely usable currency as decided by the Trustee. The Managing Director is authorized to make arrangements under which, at the request of a member, SDRs may be used for disbursements to the member or for payment of interest or repayments of loans by the member to the Trust.

(c) Paragraph 7(3) of the Regulations for the Administration of the Structural Adjustment Facility shall not apply to Trust loans.

Paragraph 5. Modifications

Any modification of these provisions will affect only loans made after the effective date of the modification, provided that a modification of the interest rate shall apply to interest accruing after the effective date of the modification.

Section III. Borrowing for the Loan Account

Paragraph 1. Resources

The resources held in the Loan Account shall consist of:

- (a) the proceeds of loans made to the Trust for that Account; and
- (b) payments of principal and interest on Trust loans, subject to the provisions of Section V, paragraph 3.

Paragraph 2. Borrowing authority

The Trustee may borrow resources for the Loan Account on such terms and conditions as may be agreed between the Trustee and the respective lenders subject to the provisions of this Instrument.

Paragraph 3. Commitments

Commitments of loans to the Trust for the Loan Account shall extend through June 30, 1992. The commitment period with respect to a loan to the Trust may be extended by mutual agreement between the Trustee and the lender.

Paragraph 4. Drawings on loan commitments

(a) Drawings on the commitments of individual lenders over time shall be made so as to maintain broad proportionality of these drawings relative to commitments.

(b) Calls on a lender's commitment shall be suspended temporarily if, at any time prior to December 31, 1991, the lender represents to the Trustee that it has a liquidity need for such suspension and the Trustee, having given this representation the overwhelming benefit of any doubt, agrees. The suspension shall not exceed three months, provided that it may be extended for further periods of three months by agreement between the lender and the Trustee. No

extension shall be agreed which, in the judgment of the Trustee, would prevent drawing of the full amount of the lender's commitment.

(c) Following any suspension of calls with respect to the commitment of a lender, calls will be made on that commitment thereafter so as to restore proportionality of calls on all lenders as soon as practicable.

Paragraph 5. Payments to lenders

(a) The Trust shall make payments of principal and interest on its borrowing for the Loan Account from the payments into that Account of principal and interest made by borrowers under Trust loans. Payments of the authorized subsidy shall be made from the Subsidy Account in accordance with Section IV of this Instrument, and, as required, payments shall be made from the Reserve Account in accordance with Section V of this Instrument.

(b) The Trust shall pay interest on outstanding borrowing for Trust loans promptly after June 30 and December 31 of each year, unless the particular modalities of a loan to the Trust make it necessary for the Trustee to agree with the lender on interest payments at other times.

Section IV. Subsidy Account

Paragraph 1. Resources

The resources held in the Subsidy Account shall consist of:

- (a) the proceeds of donations made to the Trust for that Account;
- (b) the proceeds of loans made to the Trust for that Account; and
- (c) net earnings from investment of donated or borrowed resources held in that Account.

Paragraph 2. Donations

The Trustee may accept donations of resources for the Subsidy Account on such terms and conditions as may be agreed between the Trustee and the respective donors, subject to the provisions of this Instrument. To the extent possible, annual contributions should be made before May 30 of each year.

Paragraph 3. Borrowing

The Trustee may, in exceptional circumstances, borrow resources for the Subsidy Account from official lenders on such terms and conditions as may be agreed between the Trustee and the lenders; in order

- (a) to prefinance an amount that is firmly committed to be donated to the Trust for the Subsidy Account; repayment of principal and any payments of interest on such borrowing shall be contingent upon the receipt by the Subsidy Account of the Trust of the donation that has been prefinanced;
- (b) that the Subsidy Account may benefit from net investment earnings on the proceeds of a loan extended at a concessional interest rate; repayment of principal and any payment of interest on such borrowing shall be made exclusively from the proceeds of liquidation of the investment and the earnings thereon.

Paragraph 4. Authorized subsidy

The Trustee shall draw upon the resources available in the Subsidy Account to pay the difference, with respect to each interest period, between the interest due by the borrowers and the interest due on resources borrowed for Trust loans.

Paragraph 5. Calculation of subsidy

(a) The amount of the subsidy shall be determined by the Trustee in the light of (i) the objective of ensuring that the Enhanced Structural Adjustment Facility is a highly concessional facility and, to the extent possible, of reducing the rate of interest charged on Trust loans to 0.5 percent, (ii) the rate of interest on resources available to the Loan Account, and (iii) the availability and prospective availability of resources to the Subsidy Account.

(b) The Trustee shall keep the operation of the Subsidy Account under review. If at any time it determines that resources available or committed are likely to be insufficient to reduce the rate of interest on Trust loans to 0.5 percent throughout the operation of the Trust, the Trustee shall seek such additional resources as may be necessary to achieve this objective.

(c) Should adequate additional resources not be forthcoming to reduce the rate on Trust loans to 0.5 percent, the Trustee shall recalculate the subsidy with a view to reducing that interest rate to the lowest feasible rate that could be applied throughout the remaining life of the Trust. The rate of interest charged on all outstanding loans by the Trust shall be adjusted accordingly in the succeeding interest periods. Borrowers shall be notified promptly of such adjustments. Further recalculations and adjustments shall be made in subsequent interest periods, as necessary in light of developments with respect to the rate of interest on resources available to the Loan Account and to the availability of resources to the Subsidy Account.

(d) If the interest due to lenders for an interest period has exceeded the interest due by borrowers together with the authorized subsidy under paragraph 4 of this Section for that period, and payment to lenders of that difference has been made from the Reserve Account in accordance with Section V, paragraph 2, an amount equivalent to that difference shall be added to the interest due by borrowers for the succeeding interest period. Payment of that amount shall be made to the Reserve Account in accordance with Section V, paragraph 3. The additional interest due shall not be taken into account in the calculation of the authorized subsidy for that same interest period.

Paragraph 6. Termination arrangements

Upon completion of the subsidy operations authorized by this Instrument, the Fund shall wind up the affairs of the Subsidy Account. Any resources remaining in the Subsidy Account shall be used first to reduce to the fullest extent possible, in accordance with this Instrument, to 0.5 percent the interest rate paid by borrowers, by means of payments to borrowers. Any resources remaining after that subsidization shall be distributed to donors and lenders that have contributed to the subsidy operation, in proportion to their contributions. For the purposes of this distribution, account will be taken of donations, the net earnings from investment of the proceeds of concessional loans extended to the Subsidy Account under paragraph 3(b) above, and the subsidy element

of concessional loans extended to the Trust under Section III; the subsidy element associated with such loans shall be calculated as the difference, if positive, between the SDR rate of interest and the interest on such loans, applied to the amount of the loans during the period they were outstanding.

Section V. Reserve Account

Paragraph 1. Resources

The resources held in the Reserve Account shall consist of:

- (a) transfers by the Fund from the Special Disbursement Account in accordance with Decision No. 8760-(87/176),²⁴ adopted December 18, 1987;
- (b) net earnings from investment of resources held in the Reserve Account;
- (c) net earnings from investment of any resources held in the Loan Account pending the use of these resources in operations; and
- (d) payments of overdue principal or interest or interest thereon under Trust loans, and payments of interest under Trust loans to the extent that payment has been made to a lender from the Reserve Account.

Paragraph 2. Use of resources

The resources held in the Reserve Account shall be used by the Trustee to make payments of principal and interest on its borrowing for Trust loans, to the extent that the amounts available from receipts of repayments and interest from borrowers under Trust loans, together with the authorized subsidy under Section IV, paragraph 4, are insufficient to cover the payments to lenders as they become due and payable.

Paragraph 3. Payments to the Reserve Account

Any payments of overdue principal or interest or interest thereon under Trust loans, and any payment of interest under Trust loans to the extent that payment has been made to a lender from the Reserve Account, shall be made to the Reserve Account.

Paragraph 4. Review of resources

If resources in the Reserve Account are, or are determined by the Trustee likely to become, insufficient to meet the obligations of the Trust that may be discharged from the Reserve Account as they become due and payable, the Trustee shall review the situation in a timely manner.

Paragraph 5. Reduction of resources and liquidation

- (a) Whenever the Trustee determines that amounts in the Reserve Account of the Trust exceed the amount that may be needed to cover the total liabilities of the Trust to lenders that are authorized to be discharged by the Reserve Account, the Trustee shall retransfer such excess amounts to the Fund's Special Disbursement Account.

²⁴ See Item (e) below.

(b) Upon liquidation of the Trust, all amounts in the Reserve Account remaining after discharge of liabilities authorized to be discharged by the Reserve Account shall be transferred to the Special Disbursement Account.

Section VI. Transfer of Claims

Paragraph 1. Transfers by lenders

(a) Any lender 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.

(b) The transferee shall, as a condition of the transfer, notify the Trustee prior to the transfer that it accepts all the obligations of the transferor relating to the transferred claim with respect to renewal and new drawings, and shall acquire all the rights of the transferor with respect to repayment of and interest on the transferred claim.

Paragraph 2. Transfers among electing lenders

(a) Any lender to the Loan Account ("electing lenders") may inform the Trustee that it stands ready, upon request by the Trustee, to purchase claims on the Trust from any other electing lender, provided that the holdings of claims so acquired shall at no time exceed the amount communicated to the Trustee and subject to the other provisions of this Section. A list of electing lenders and the amounts communicated by them shall be established separately by the Trustee. This list may be extended and the amounts therein increased in accordance with communications received subsequently.

(b) An electing lender shall have the right to transfer temporarily to other electing lenders part or all of any claim arising from its loans to the Trust under Section III, if the electing lender represents to the Trustee that it has a liquidity need to make such transfer and the Trustee, having given this representation the overwhelming benefit of any doubt, agrees.

(c) The Trustee shall allocate each transfer by an electing lender under this provision to all other electing lenders in proportion to the amounts by which the respective maximum holdings listed in the attachment exceed actual holdings of claims acquired under this provision; provided, however, that no allocation shall be made to an electing lender if it represents to the Trustee that it has a liquidity need for exclusion from an allocation and the Trustee agrees, in which case allocations to the remaining electing lenders shall be adjusted accordingly.

(d) The purchaser of any claim transferred under this provision shall assume, as a condition of the transfer, any obligation of the transferor, relating to the transferred claim, with respect to the renewal of drawings on loans to the Trust and to new drawings on loans in the event a renewal, having been requested, is not agreed by the transferor.

(e) Transfers of claims under this provision shall be made in exchange for freely usable currency and shall be reversed in the same media within three months, provided that such transfers may be renewed, by agreement between the transferor and the Trustee, for further periods of three months up to a total of one year. Notwithstanding the above, the transferor shall reverse a

transfer under this provision not later than the date on which the transferred claim is due to be repaid by the Trust.

(f) Interest on claims transferred under this Section shall be paid by the Trust to the transferor in accordance with the provisions of the transferor's lending agreement with the Trust. The transferor shall pay interest to the transferee(s) on the amount transferred, so long as the transfer remains outstanding, at a daily rate equal to that set out in Rule T-1 of the Fund's Rules and Regulations; such interest shall be payable three months after the date of a transfer or of its renewal, or on the date the transfer is reversed, whichever is earlier.

Section VII. Administration of the Trust

Paragraph 1. Trustee

(a) The Trust shall be administered by the Fund as Trustee. Decisions and other actions taken by the Fund as Trustee shall be identified as taken in that capacity.

(b) Subject to the provisions of this Instrument, the Fund in administering the Trust shall apply the same rules as apply to the operation of the General Resources Account of the Fund.

(c) The Trustee, acting through its Managing Director, is authorized:

(i) to make all arrangements, including establishment of accounts in the name of the International Monetary Fund, which shall be accounts of the Fund as Trustee, with such depositories of the Fund as the Trustee deems necessary; and

(ii) to take all other administrative measures that the Trustee deems necessary to implement the provisions of this Instrument.

Paragraph 2. Separation of assets and accounts, audit and reports

(a) The resources of the Trust shall be kept separate from the property and assets of all other accounts of the Fund, including other administered accounts, and shall be used only for the purposes of the Trust in accordance with this Instrument.

(b) The property and assets held in the other accounts of the Fund shall not be used to discharge liabilities or to meet losses arising out of the administration of the Trust. The resources of the Trust shall not be used to discharge liabilities or to meet losses arising out of the administration of the other accounts of the Fund.

(c) The Fund shall maintain separate financial records and prepare separate financial statements for the Trust.

(d) The audit committee selected under Section 20 of the Fund's By-Laws shall audit the financial transactions and records of the Trust. The audit shall relate to the financial year of the Fund.

(e) The Fund shall report on the resources and operations of the Trust in the Annual Report of the Executive Board to the Board of Governors and shall include in that Annual Report the report of the audit committee on the Trust.

Paragraph 3. Investment of resources

(a) Any balances held by the Trust and not immediately needed in operations shall be invested.

(b) Investments may be made in any of the following: (i) marketable obligations issued by an international financial organization and denominated in SDRs or in the currency of a member of the Fund; (ii) marketable obligations issued by a member or by a national official financial institution of a member and denominated in SDRs or in the currency of that member; and (iii) deposits with a commercial bank, a national official financial institution of a member, or an international financial institution that are denominated in SDRs or in the currency of a member. Investment which does not involve an exchange of currency shall be made only after consultation with the member whose currency is to be used, or, when an exchange of currencies is involved, with the consent of the issuers of such currencies.

Section VIII. Period of Operation and Liquidation

Paragraph 1. Period of operation

The Trust established by this Instrument shall remain in effect for as long as is necessary, in the judgment of the Fund, to conduct and to wind up the business of the Trust.

Paragraph 2. Liquidation of the Trust

(a) Termination and liquidation of the Subsidy Account shall be made in accordance with the provisions of Section IV, Paragraph 6.

(b) All other resources, if any, shall be used to discharge any liabilities of the Trust, other than those incurred under Section IV, and any remainder shall be transferred to the Special Disbursement Account of the Fund.

Section IX. Amendment of the Instrument

The Fund may amend the provisions of the Instrument, except this Section and Section I, paragraphs 1 and 2; Section III, paragraphs 4 and 5; Section IV, Paragraphs 4 and 6; Section V; Section VI; Section VII, Paragraph 2(a) and (b); Section VIII, Paragraph 2(b).

(c) The Chairman's Summing Up on the Enhancement of the Structural Adjustment Facility—Operational Arrangements—December 15, 1987

...

Let me summarize the agreed position on a number of important points.

1. Establishment of the enhanced structural adjustment facility and review of the existing facility

Directors reviewed the existing structural adjustment facility and agreed that it should continue to operate as in the past. The existing facility will continue to be available to eligible members that already have arrangements under the facility as well as to those that have not yet requested use of the facility's resources.

Directors agreed that a new lending facility—the enhanced structural adjustment facility—should be established and that it will operate concurrently with the existing structural adjustment facility. The enhanced facility will be financed from two Fund-related sources—the Special Disbursement Account and the Enhanced Structural Adjustment Facility Trust—and will also include the possibility that other lenders might support enhanced structural adjustment arrangements through loans to qualifying

members in association with loans under the enhanced facility. For a member qualifying for an arrangement under the enhanced facility, resources will be provided from the Special Disbursement Account to the extent that the member has not exhausted its potential access under the existing facility; resources made available in excess of these amounts will be provided from the Trust and from associated sources.

Until the cutoff date for commitment of resources, eligible members that have not yet made use of the resources of the structural adjustment facility will have the option to request a full three-year arrangement under either the existing facility or the enhanced facility. Members currently making use of the resources of the existing facility may request a new three-year arrangement under the enhanced facility or continue their current arrangement to its conclusion. If a member currently using the resources of the structural adjustment facility chooses to request a new three-year arrangement under the enhanced facility, that request should normally be made at the time of expiration of an annual arrangement under the existing facility. However, earlier replacement of an existing arrangement by a three-year arrangement under the enhanced facility could also be permitted in exceptional cases.

2. Terms and conditions of loans under the enhanced structural adjustment facility

Commitments of resources under the enhanced facility will be made upon approval of a three-year arrangement. All commitments and disbursements will be subject to the availability of resources. Commitments may be made at any time until the cutoff date. Most Directors agreed, taking into account the limited period of time during which the resources would be made available by contributors, that the cutoff date should be November 30, 1989. At the same time, most Directors considered that the final date for disbursements should not now be extended beyond June 30, 1992, although it was recognized that maintenance of this date would imply that there would be little flexibility to accommodate delays under annual programs in arrangements that were agreed later in the commitment period. This matter will be kept under review as experience is gained with the facility.

Disbursements from the Special Disbursement Account in conjunction with enhanced structural adjustment arrangements will be provided under the financial terms applying to loans under the existing facility, as amended. To the extent possible, the financial terms applying to loans from the Enhanced Structural Adjustment Facility Trust will be the same as those under the existing facility. In particular, it was agreed that the maturities of loans will be five and a half to ten years. Most Directors also believed that it would be appropriate to set the initial interest rate charged on loans from the Trust at 0.5 percent per annum, even if the amount of firmly committed resources in the Subsidy Account was initially not fully sufficient for this purpose, but additional resources were confidently expected. These Directors indicated that if it appeared, because of inadequate contributions or future adverse developments in interest or exchange rates, that resources available or committed to the Subsidy Account were likely to be insufficient to maintain the rate of interest at 0.5 percent throughout the period of operation of the Trust, the Fund should seek the additional resources necessary to achieve this objective. This issue is to be kept under review, and the interest rate will be adjusted as necessary at the beginning of each six-month interest period whenever resources available to the Subsidy Account are judged insufficient to maintain a rate of 0.5 percent on loans under the enhanced facility.

The intended terms for the Trust's lending, with which you have agreed, determine the essential features of the borrowing arrangements that will have to be concluded by the Fund as Trustee for the Enhanced Structural Adjustment Facility Trust and the lenders to it. These have been set out in a prototype circulated to potential lenders and annexed to [the staff paper]. While there will need to be comparability in *substance* among agreements, there will no doubt need to be alterations to the form and structure of this prototype to meet the particular legal and institutional requirements of individual lenders, and we will be flexible in meeting these requirements. There was further discussion of the security to be provided to the claims on the Trust. Directors accepted

that the proposals that had been put forward to safeguard the resources lent to the Trust were adequate to provide the necessary assurance to potential creditors. Although noting the views of some Directors, I have repeated that the phrase "all such initiatives as might be necessary" had to be understood to include the possible use of gold.

I should also comment on a few specific financial issues raised in the papers. First, most Directors did not favor the inclusion of a provision on rescheduling because, *inter alia*, it was considered that this would create undue complications in light of the limited period for which resources were being committed by contributors and also because it was felt that such a provision could threaten the integrity of the Reserve that most contributors find to be an essential component of the facility. Second, most Directors did not find it appropriate to provide for temporary encashment of claims through use of the Reserve, given the relatively small amounts that will be available in the early years and the importance of the Reserve as security for claims. Third, it appeared generally acceptable to most Directors that the provision for temporary suspension of calls should apply to all lenders. I should note in this connection that we appreciate the position of several contributors who are providing support to the enhanced facility, despite a very difficult balance of payments situation of their own.

3. Framework for lending under the enhanced structural adjustment facility

Resources to be made available under the enhanced facility will be committed upon Board approval of a three-year arrangement and disbursements will be made semiannually in accordance with the provisions specified in annual arrangements. The preparation of policy framework papers will be an essential element of the enhanced facility, and the policy framework process will be strengthened to reflect the summing up of the June 1987 review of the structural adjustment facility...²⁵ as well as continuing discussions with eligible recipient countries, the World Bank, and the interested donors.

The *list of eligible members* for the use of the enhanced facility is the same as that currently applying to the existing facility....

Directors were in broad agreement that the *objectives* of programs under the enhanced facility should be to promote, in a balanced manner, both balance of payments viability and growth through mobilization of domestic and external resources, improvements in resource allocation, and the removal of structural impediments. Such programs should involve a substantial effort to strengthen the external payments position in a sustainable manner, and in particular to assure substantial progress during the three-year program period toward an overall position and structure of the balance of payments that is consistent with orderly relations with creditors and a reduction in restrictions on trade and payments, while permitting the timely servicing of obligations to the Fund.

Directors agreed that monitoring of enhanced programs supported by arrangements under the enhanced facility will be conducted through *benchmarks*. Most Directors favored the establishment of quarterly quantitative benchmarks for the key financial variables, and the use of structural benchmarks to monitor implementation of the most important structural policy measures. Most Directors supported the establishment of some benchmarks, including, where appropriate, some structural benchmarks, as semiannual *performance criteria* in all cases. In addition, midyear reviews will also be required in most cases. I have carefully noted the reservations expressed by a number of Directors regarding the treatment of benchmarks as performance criteria, and I assure you that performance criteria will be limited in number and will generally involve only a subset of the benchmarks. Similarly, prior actions will be required sparingly, but when necessary to lay the basis for a long or difficult adjustment process, and particularly where arrangements involve a front-loading of disbursements. In the event of a substantial delay in completion of a midyear review or in agreeing on an annual program, the total amount of resources to be made available to a member could be reduced or rephased over the remaining period of the arrangement.

²⁵ See Item F(c) above.

Most Directors agreed that *access* to the resources of the enhanced facility will be differentiated according to the strength of the member's adjustment program and its financing need. The structure of the member's external debt and its prospective debt service burden, along with the expected evolution of other macroeconomic aggregates, will be important elements in this assessment. Directors generally agreed that access under three-year enhanced structural adjustment arrangements will be subject to a maximum limit of 250 percent of quota. However, Directors stressed again that the access limits do not constitute entitlements, and they agreed that access should normally be below the maximum and that the guidelines should be applied so that the rate of access for all qualifying members would average about 150 percent of quota. It was also indicated that, in highly exceptional circumstances, the maximum could be exceeded, but it was not envisaged that access would exceed 350 percent of quota even in these cases. These access limits, along with the operation of both the enhanced facility and the existing facility, will be subject to review in light of experience and the utilization of the available resources.

Directors agreed that the amount of resources committed to an individual qualifying member under a three-year enhanced structural adjustment arrangement and the amounts for the second- and third-year arrangements will be reviewed at the time of consideration of each annual program. However, most Directors indicated that, subject to the availability of resources, the amounts committed to a member would not normally be reduced because of developments in its balance of payments. However, in the event that balance of payments developments were markedly more favorable than envisaged at the time of approval of the three-year arrangement, and particularly because of improvements in the external environment, it would be suggested that the member reduce voluntarily its use of enhanced resources, either by requesting lower access at the time of approval of an annual arrangement or by forgoing in whole or in part a midyear disbursement.

Directors agreed that *disbursements* of loans under enhanced structural adjustment arrangements will be made semiannually, upon approval of an annual arrangement, and subsequently, on the basis of observance of performance criteria and, in most cases, completion of a midyear review. A range of views was expressed regarding the possibility of a limited front-loading of disbursements in some cases. Nonetheless, there seems to be a consensus that, subject to the availability of resources, the guideline should be that a uniform distribution of disbursements would be preferable and that any front-loading should not result in first-year disbursements exceeding 40 percent of the total amount to be made available under the three-year enhanced structural adjustment arrangement. However, I take it that there may be scope for a higher first-year disbursement in some very exceptional cases. Existing policies regarding members with overdue obligations to the Fund will be retained; how best to deal with cases of large and protracted arrears is a question to which we will return soon, but in a different context.

4. *Relationship with other Fund facilities*

Directors noted that members qualifying for loans under the enhanced structural adjustment facility would retain eligibility for access to the Fund's general resources. Access to those resources will have to be examined carefully on a case-by-case basis, taking into account a range of factors envisaged in the present guidelines, including past performance and use of Fund resources, terms, the possible availability of financing from the enhanced facility and other sources, and the speed and time profile of the anticipated balance of payments adjustment.

(d) The Chairman's Remarks on the Enhancement of the Structural Adjustment Facility—Legal Documentation—December 18, 1987

...
Two issues of substance raised during this meeting deserve special mention. First, it was reconfirmed that lending to the ESAF Trust could be considered as part of a

member's official reserves by the Fund. Second, it was explained that access to the Fund's general resources could be provided for members that had extended loans to the Trust and that needed liquidity in an amount not exceeding their claim. Purchases under these circumstances would be allowed if the member represented that it had a need, because of developments in its reserves in the sense of Article V, Section 3(b)(ii), and the Fund agreed that the purchase was justified taking into account the amount of the requested purchase and the existence of a claim on the Trust. If the liquidity problem can be addressed on its own, there would be no need for an adjustment program to solve the balance of payments problem. Moreover, those purchases could be given certain characteristics by a decision to be taken when required. For instance, it could be decided, with respect to such purchases, to provide for special repurchase periods and for their exclusion from the definition of reserve tranche purchases. Those decisions would need to be adopted by an 85 percent majority. On the occasions on which this question was discussed, I heard no objections by an Executive Director to this approach, which had been suggested in the staff papers that have been discussed by the Board.

(e) Transfer of Resources from Special Disbursement Account to Enhanced Structural Adjustment Facility Trust and Retransfer to Special Disbursement Account

1. The following resources held in, or to be received by, the Special Disbursement Account shall be transferred to the Enhanced Structural Adjustment Facility Trust ("the Trust") for its Reserve Account upon the establishment of the Trust or upon receipt of these resources by the Special Disbursement Account; whichever is later:

- (i) all income already received or to be received from the investment of resources available for the Structural Adjustment Facility within the Special Disbursement Account;
- (ii) all interest already received or to be received, including from special charges, on loans under the Structural Adjustment Facility;
- (iii) all repayments of loans under the Structural Adjustment Facility; and
- (iv) all the resources held in the Special Disbursement Account that are derived from the termination of the 1976 Trust Fund and that can no longer be used under the Structural Adjustment Facility;

provided that the above resources shall be retransferred to the Special Disbursement Account when and to the extent that they are needed for the reimbursement of the expenses incurred by the General Resources Account in the administration of the Structural Adjustment Facility and the Trust, which must be reimbursed in accordance with paragraph 10 of the Regulations for the Administration of the Structural Adjustment Facility and paragraph 3 of this Decision.

2. Whenever the Trustee determines that amounts in the Reserve Account of the Trust exceed the amount that may be needed to cover the total liabilities of the Trust to lenders that are authorized to be discharged by the Reserve Account, the Trustee shall retransfer such excess amounts to the Special Disbursement Account. Upon liquidation of the Trust, all amounts in the Reserve Account remaining after discharge of liabilities authorized to be discharged by the Reserve Account shall be transferred to the Special Disbursement Account.

3. The Special Disbursement Account shall reimburse the General Resources Account annually in respect of the expenses of conducting the business of the Enhanced Structural Adjustment Facility Trust.

4. This Decision replaces Decision No. 8237-(86/56) SAF,²⁶ adopted March 26, 1986.

*Decision No. 8760-(87/176)
December 18, 1987*

(f) Access to Resources

The Fund as Trustee under the Instrument to Establish the Enhanced Structural Adjustment Facility Trust decides:

1. In accordance with Section II, Paragraph 2(a) of the Instrument to Establish the Enhanced Structural Adjustment Facility Trust, the initial maximum limit on access of each eligible member to the resources of the Trust shall be set at 250 percent of the member's quota in the Fund, minus any remaining access of the member to the resources of the Structural Adjustment Facility, and minus resources committed to the member for loans in association with Trust loans.

2. The maximum limit in paragraph 1 may be increased in exceptional circumstances not to exceed 350 percent of the member's quota in the Fund, subject to the same deductions as in paragraph 1.

*Decision No. 8845-(88/61) ESAF
April 20, 1988*

(g) Interest Rate on Trust Loans

The Fund as Trustee under the Instrument to Establish the Enhanced Structural Adjustment Facility Trust decides:

In accordance with Section II, Paragraph 4(a) and Section IV, Paragraph 5 of the Instrument to Establish the Enhanced Structural Adjustment Facility Trust, the interest rate on loans from the Trust shall be set at 0.5 percent effective April 20, 1988.

*Decision No. 8846-(88/61) ESAF
April 20, 1988*

H. General Arrangements to Borrow—Sixth Renewal

Executive Board Decision No. 7337-(83/37),²⁷ adopted February 24, 1983, effective December 26, 1983, on the General Arrangements to Borrow, is hereby renewed for a period of five years from December 26, 1988.

*Decision No. 8733-(87/159)
November 23, 1987*

I. Borrowing Agreement with the Saudi Arabian Monetary Agency

(a) Amendment

The Executive Board authorizes the Managing Director to take such action as is necessary to amend Annexes A and B of the Borrowing Agreement between

²⁶ See *Selected Decisions*, Thirteenth Issue, page 142.

²⁷ See *Annual Report*, 1983, pages 145–53.

the Saudi Arabian Monetary Agency and the Fund effective May 7, 1981,²⁸ and Annexes II-A and II-B of the Supplementary Agreement between the Saudi Arabian Monetary Agency and the Fund effective April 30, 1984,²⁹ as set out in paragraph 5 of [the annex].

Decision No. 8643-(87/102)
July 10, 1987

ANNEX

a. The 1981 borrowing agreement would be amended by deleting the phrase "and weighted by the volume of transactions in" and replacing it with the word "for," and by deleting the words "during the previous week," in both Annex A, paragraph 3(b)(i) and Annex B, paragraph 2(c)(ii)(A). The amended paragraph in both Annexes A and B would read as follows:

For the French franc, the yield to maturity on a representative sample of securities of major French public sector enterprises with an average remaining life in the range of four and a half to five and a half years, based on market prices for the securities, as calculated by the Caisse des Dépôts et Consignations using the same method as it uses for the yield it publishes weekly.

b. The 1984 supplementary agreement would be amended by deleting the words "during the previous week," in both Annex II-A, paragraph 3(b)(i) and Annex II-B, paragraph 2(c)(ii)(A). The amended paragraph in both Annexes II-A and II-B would read as follows:

For the French franc, the average yield to maturity on a representative sample of securities of major French public sector enterprises with a remaining life in the range of two to three years, based on market prices for the securities, as calculated by the Caisse des Dépôts et Consignations.

(b) Renewal of Borrowing Agreement in Association with the General Arrangements to Borrow

Pursuant to Article VII, Section 1 of the Articles of Agreement, the Managing Director is authorized to send to the Minister of Finance of Saudi Arabia a letter as set forth in the attachment, proposing a renewal, for a period of five years from December 26, 1988, of the 1983 borrowing agreement with Saudi Arabia in association with the General Arrangements to Borrow.³⁰ When a reply is received from the Minister accepting the proposal, the Managing Director's letter and the reply shall constitute an agreement on the renewal of the 1983 borrowing agreement between Saudi Arabia and the Fund, which shall enter into force on December 26, 1988.

Decision No. 8897-(88/93)
June 15, 1988

Attachment

Your Excellency:

I refer to the borrowing agreement between the International Monetary Fund (the Fund) and Saudi Arabia in association with the General Arrange-

²⁸ See *Selected Decisions*, Thirteenth Issue, pages 207-36.

²⁹ *Ibid.*, pages 237-50.

³⁰ *Ibid.*, pages 191-96.

ments to Borrow (GAB), which entered into force on December 26, 1983 (henceforth referred to as the 1983 Borrowing Agreement). Pursuant to Executive Board Decision No. 8897-(88/93), adopted June 15, 1988, I have been authorized to propose on behalf of the Fund that Saudi Arabia agree to a renewal of the 1983 Borrowing Agreement on the same terms and conditions as set forth therein, for a period of five years from December 26, 1988.

If the foregoing proposal is acceptable to Saudi Arabia, this communication and your reply indicating Saudi Arabia's acceptance shall constitute an agreement between Saudi Arabia and the Fund on the renewal of the 1983 Borrowing Agreement, which shall enter into force on December 26, 1988.

With kind regards,
Yours sincerely,

Michel Camdessus

J. SDRs—Use in Payment of Trust Fund Obligations

In accordance with Article XVII, Section 3, the Fund prescribes that:

1. A participant, by agreement with a prescribed holder and at the instruction of the Fund, may transfer SDRs to the prescribed holder in repayment of Trust Fund loans, in payment of interest on Trust Fund loans and in payment of special charges in respect of overdue repayments and interest of Trust Fund loans.
2. The Fund shall record operations pursuant to this prescription in accordance with Rule P-9.

*Decision No. 8642-(87/101) S/TR
July 9, 1987*

K. Trust Fund—Means of Payment of Interest and Repayment of Principal

1. Decision No. 6358-(79/188) TR,³¹ adopted December 19, 1979, shall be amended by the addition of the following sentence:

“Such payments may be made also in SDRs in accordance with Decision No. 8642-(87/101) S/TR,³² adopted July 9, 1987.”

2. Decision No. 7142-(82/85) TR,³³ adopted June 18, 1982, shall be amended by the addition of the following sentence:

“Such repayment may be made also in SDRs in accordance with Decision No. 8642-(87/101) S/TR,³² adopted July 9, 1987.”

*Decision No. 8640-(87/101) S/TR
July 9, 1987*

³¹ See *Selected Decisions*, Thirteenth Issue, page 375.

³² See Item J above.

³³ See *Selected Decisions*, Thirteenth Issue, page 375.

L. Supplementary Financing Facility Subsidy Account—Additional Subsidy Payments for July 1, 1985 Through June 30, 1986 and Subsidy Payments for July 1, 1986 Through June 30, 1987

1. In accordance with Section 10 of the Instrument establishing the Supplementary Financing Facility Subsidy Account, as amended,³⁴ 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 2 of Table 1 of the attachment.
2. In accordance with Section 10 of the Instrument establishing the Supplementary Financing Facility Subsidy Account, as amended, 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, 1986 through June 30, 1987, in the amount indicated to each of the eligible members as listed in Column 5 of Table 1 of the attachment.
3. The subsidy payments shall be made to each eligible member on August 4, 1987, or as soon thereafter as the member has paid all overdue charges, if any, on balances eligible for the subsidy.

Decision No. 8674-(87/117) SBS
August 3, 1987

³⁴ See *Selected Decisions*, Thirteenth Issue, pages 379–86.

Attachment

**Table 1. SFF Subsidy Account:
Past Disbursements and Proposed Disbursements
for the Years Ended June 30, 1986 and June 30, 1987**
(In SDRs)

	(1)	Proposed Amount of Disbursement ¹					(6)	(7)
		(2)	(3)	(4)	(5)			
Cumulative Approved Subsidies for Period 1981–June 1986 ²	Additional Subsidy Disbursement July 1985– June 1986	July– December 1986	January– June 1987	Total July 1986– June 1987 ³	Annualized Percentage of Eligible Holdings for the Year Ended June 30, 1987 ⁴	Grand Total ⁵		
(a) Members eligible to receive subsidy at the full rate								
Bangladesh	15,439,736	10,306	292,599	278,610	571,209	1.52	581,515	
Bolivia	3,830,026	1,441	36,530	20,666	57,196	1.45	58,637	
Dominica	469,764	687	21,893	26,464	48,357	1.52	49,044	
Gambia, The	472,315	833	26,996	31,771	58,767	1.55	59,600	
Guyana	4,485,759	2,153	56,543	52,579	109,122	1.52	111,275	
India	108,145,632	213,375	6,767,109	8,543,718	15,310,827	1.51	15,524,202	
Kenya	12,436,593	10,770	321,835	335,820	657,655	1.54	668,425	
Liberia	5,608,460	4,818	147,282	154,103	301,385	1.54	306,203	
Madagascar	3,095,169	2,051	60,730	58,460	119,190	1.53	121,241	
Malawi	3,944,697	2,471	72,694	68,176	140,870	1.52	143,341	
Mauritania	2,079,034	1,759	55,150	57,711	112,861	1.54	114,620	
Pakistan	63,311,363	73,557	2,293,798	2,598,004	4,891,802	1.53	4,965,359	
Philippines	45,821,498	32,083	947,005	925,777	1,872,782	1.53	1,904,865	
Senegal	6,756,701	6,713	206,616	222,836	429,452	1.54	436,165	
Sierra Leone	2,361,264	1,647	51,218	50,876	102,094	1.53	103,741	
Sri Lanka ^b	591,705	—	—	—	—	—	—	
Sudan	23,464,629	16,014	477,390	475,681	953,071	1.53	969,085	
Tanzania	2,369,524	1,139	31,918	27,678	59,596	1.51	60,735	
Togo	1,008,539	676	20,286	19,609	39,895	1.53	40,571	
Zambia ^b	3,520,127	—	—	—	—	—	—	
Subtotal	309,212,535	382,493	11,887,592	13,948,539	25,836,131		26,218,624	
(b) Members eligible to receive subsidy at half the full rate								
Côte d'Ivoire	14,593,551	22,871	717,567	884,062	1,601,629	0.76	1,624,500	
Jamaica	15,315,339	10,485	306,756	329,806	636,562	0.77	647,047	
Mauritius	4,725,250	3,106	91,875	88,014	179,889	0.76	182,995	
Morocco	9,686,974	5,788	177,456	165,295	342,751	0.76	348,539	
Peru	14,937,655	3,680	73,899	36,243	110,142	0.72	113,822	
Subtotal	59,258,769	45,930	1,367,553	1,503,420	2,870,973		2,916,903	
Total	368,471,304	428,423	13,255,145	15,451,959	28,707,104		29,135,527	

¹ Subject to full payment by members of the relevant charges.

² These figures include SDR 1,688,026 not disbursed pending payment of overdue SFF charges.

³ This is the disbursement for the period July 1, 1986 to June 30, 1987 (i.e., the sum of Columns 3 and 4).

⁴ Amount of subsidy for the period July 1, 1986 to June 30, 1987, expressed as a percentage of the average outstanding eligible SFF holdings.

⁵ This is the sum of the additional disbursement for the year ended June 30, 1986 and the disbursement for the year ended June 30, 1987 (i.e., the sum of Columns 2 and 5).

^b Sri Lanka and Zambia have no outstanding holdings purchased under the SFF.

M. Charges

(a) Adjustment of Rate of Charge and Rate of Remuneration for the Quarter Ended April 30, 1988

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

2. The adjustment in the rate of charge for the quarter ended April 30, 1988 shall be limited so as to generate an amount equal to the amount generated through the reduction in remuneration for that quarter to cover deferred charges. The resulting shortfall shall be deemed deferred income in the quarter ending July 31, 1988; the rate of charge and the rate of remuneration shall be adjusted with respect to this amount, for the period from May 24, 1988 to the end of the quarter.

Decision No. 8878-(88/84)
May 23, 1988

(b) Retroactive Reduction of Rate of Charge for FY 1988

If the net income for FY 1988, after placement to the Special Contingent Account of an amount equal to 5 percent of the Fund's reserves at the beginning of FY 1988, exceeds 5 percent of such reserves, minus the amount of deferred income in the quarter ended April 30, 1988 for which no adjustments are made in that quarter in accordance with Decision No. 8878-(88/84), the excess amount shall be used to reduce the rate of charge retroactively for FY 1988.

Decision No. 8879-(88/84)
May 23, 1988

(c) Retroactive Reduction of Rate of Charge for FY 1989

Section II, paragraph 4 of Decision No. 8861-(88/67), adopted April 27, 1988 is amended as follows:

4. Net income for FY 1989 exceeding the total of (i) the amount specified in Section III, and (ii) the amount of deferred income in the quarter ended April 30, 1988 for which no adjustments are made in that quarter in accordance with Decision No. 8878-(88/74), shall be used to reduce the rate of charge retroactively for FY 1989.

Decision No. 8880-(88/84)
May 23, 1988

N. Increases in Quotas of Members—Ninth General Review

*Report of the Executive Board
to the Board of Governors*

1. Article III, Section 2(a) of the Articles of Agreement provides that "The Board of Governors shall at intervals of not more than five years conduct a general review, and if it deems it appropriate propose an adjustment, of the quotas of the members." The five-year period since the completion of the previous review will end on March 31, 1988. This report and the attached draft resolution are submitted to the Board of Governors, the organ competent under the Articles to deal with an adjustment of quotas, in accordance with Article III, Section 2.

2. In the course of the past year, the Executive Board has considered various aspects of the adjustment of quotas, including the formulas used to calculate

quotas, the variables used in those formulas, the method of calculating quotas, and updated quota calculations. The Executive Board has also considered the need for and the size of an increase in the total of quotas, the techniques and criteria that might be considered in distributing a total increase among members, and matters relating to the payment of the increased subscriptions. While the Executive Board has concluded consideration of certain technical aspects of its work, it has not completed work on a number of substantive issues. Consequently, the Executive Board is not in a position to make recommendations in time for the Board of Governors to adopt a resolution completing the Ninth General Review by March 31, 1988.

3. The Interim Committee considered the subject of the Ninth General Review of Quotas during the twenty-ninth meeting of the Committee in Washington on September 27–28, 1987. Paragraph 7 of the communiqué issued at the conclusion of the meeting reads as follows:

The Committee noted that the Committee of the Whole on the Ninth General Review of Quotas has begun its work by considering preliminary quota calculations and reviewing issues bearing on the size of the Fund. The Committee urged Executive Directors to pursue their work on the Ninth General Review of Quotas so as to be in a position to make appropriate recommendations in due course.

The Managing Director intends to make a progress report on the Ninth General Review to the Interim Committee at the next meeting of the Committee on April 14, 1988.

4. The Executive Board proposes to continue its work on this subject and to submit a report to the Board of Governors, together with appropriate recommendations regarding the size of the overall increase in quotas, increases in the quotas of individual members, and on the mode of payment of increases in subscriptions, not later than April 30, 1989.

5. In view of the foregoing considerations, it is recommended that the Board of Governors adopt the resolution set forth in the attachment to this report.

Attachment

Proposed Resolution Submitted to the Board of Governors

Increases in Quotas of Members—Ninth General Review

RESOLVED:

That the Board of Governors, having noted the report of the Executive Board entitled *Increases in Quotas of Members—Ninth General Review*, hereby resolves to continue its review under Article III, Section 2(a) and requests the Executive Board to complete its work on this matter and to submit appropriate proposals to the Board of Governors not later than April 30, 1989.

*Board of Governors Resolution No. 43-1
Adopted April 22, 1988*

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-Ninth Meeting, Washington, September 27–28, 1987

1. The Interim Committee of the Board of Governors of the International Monetary Fund held its twenty-ninth meeting in Washington, D.C., on September 27–28, 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.

2. In their discussion of the world economic outlook, Committee members noted certain positive features in the current situation. The present economic upswing is about to complete its fifth year, there are few signs of cyclical strain, inflation has remained moderate, progress has been made in reducing fiscal and payments imbalances in real terms among the large industrial countries, and economic growth in non-fuel exporting developing countries has picked up. Economic performance nevertheless is falling short of expectations in a number of other respects, with unemployment still high in many industrial countries. The persistence of large current account imbalances in some of these countries is a matter of concern. Also, commodity prices, though having recovered somewhat of late, remain historically low in real terms; the debt situation of the heavily indebted middle-income developing countries remains difficult; and the plight of the low-income countries, especially those with declining per capita incomes, continues to give cause for deep concern.

In dealing with these problems, the importance of a continued coordinated, cooperative approach was stressed. The improved economic and monetary cooperation between the major industrial countries was welcomed. The resolution of debt difficulties remains crucially dependent on the combination of sustained growth-oriented adjustment in debtor countries, access by these countries to external financing, and policies in industrial countries that will secure stable world financial conditions and open and growing markets. The Fund has a major responsibility through its surveillance function to foster this combination of mutually reinforcing policies.

Committee members welcomed the recent reduction in the U.S. fiscal deficit. This progress should be carried further in 1988 and beyond to facilitate external adjustment without harming capital formation. In this context, they were pleased with the decision by the President of the United States to sign legislation that carries this process further in 1988. It is important, at the same time, that the growth of domestic demand exceed that of GNP in countries with strong external surplus positions, price stability, and government deficits that are not too large. They also stressed that some newly industrialized economies should play a greater role in the global adjustment process. In addition, while Committee members acknowledged efforts made by a number of developing countries, they urged those developing countries that need to initiate or continue adjustment to intensify efforts to achieve and maintain domestic economic stability; to mobilize additional domestic savings for investment; to improve the efficiency of resource use; and to pursue outward-oriented growth strategies. Committee members stressed the importance of ensuring that appropriate flows of financing from private creditors, industrial countries, and multilateral financial institutions are available. The Committee took note of the adverse impact which increases in real interest rates have on the economies of heavily indebted countries.

3. In reviewing the external environment, Committee members expressed concern over recent trends toward the intensification of trade restrictions and export subsidies. They remarked that such measures create uncertainties, interfere with efficient resource allocation, reduce living standards, hamper efficient adjustment, hinder the resolution of the debt situation, and ultimately worsen employment prospects internationally. They also invite retaliation. The Committee noted that macroeconomic imbalances have both aggravated demands for protection and complicated the removal of the structural rigidities that often are at the root of protectionist pressures. The Committee emphasized that macroeconomic imbalances should not and cannot effectively be tackled through trade restrictions; instead, it stressed that the correction of the factors responsible for these imbalances would promote a climate conducive to the strengthening of an open multilateral trade system and to an improvement in the general level of welfare. The Fund should, in its own operations, continue to do its utmost to support the GATT. The Committee reiterated the importance of early results in the ongoing Uruguay Round in order to make decisive progress in trade liberalization, including services and agricultural products.

4. The Committee welcomed the more extended use of indicators in the context of surveillance and the recent world economic outlook exercise. Committee members generally found the medium-term focus of the analysis and the use of alternative medium-term scenarios, involving key indicators, to be helpful in highlighting the international interaction of economic policies and developments. They encouraged the Executive Board to pursue its work in this area, in the context of both the world economic outlook exercise and Article IV consultations, and to continue exploring the development of criteria that would be helpful in judging the sustainability and desirability of the evolution of a limited set of key economic variables. The Committee noted the importance of stable exchange market conditions and welcomed the progress made since the Louvre Accord.

5. Committee members, taking stock of the uneven adjustment experience of many indebted countries and the uncertainties in the current international economic environment, agreed that a satisfactory resolution of the debt problem is likely to take longer than was expected earlier despite the significant progress that has been made in a number of areas.

Members emphasized the importance of continuing the case-by-case approach to debt problems, and noted that this is the only way in which adjustment programs and financing flows can be tailored to individual country circumstances. While noting the support that would be provided by an improved international economic and trade environment, they stressed the overriding need for heavily indebted countries to pursue policies aimed at restoring macroeconomic balance and domestic confidence and enhancing growth prospects so as to strengthen creditworthiness, induce a reflow of private capital, and ease a return to normal debtor-creditor relations. They also remarked that unilateral initiatives carry heavy risks for all parties.

Members reaffirmed the central role that the Fund had to continue to play in helping indebted countries develop appropriate growth-oriented adjustment strategies and in mobilizing finance. The need for continued close cooperation between the Fund and the Bank, especially in their structural adjustment lending, was also stressed. The increase in lending from multilateral development banks was seen as an encouraging development, as was the more open stance of export credit agencies for countries implementing sound economic policies.

Members welcomed the greater diversification in recently negotiated financing arrangements between creditors and debtors. The form and terms of such financing in turn need to reflect the economic situation and prospects of individual countries, with a view to supporting both normalization of their payments position and a return to more satisfactory rates of economic growth. The Committee considered that a further broadening of the range of mutually agreed market-oriented options can be of benefit in securing timely agreement on financing packages and rebuilding debtor-creditor relations. Of particular note was the introduction of various forms of new financial instruments and securities and of formulas that do not add further to the stock of debt. The Committee, however, expressed renewed concern about the apparent slowness in the recognition of strengthened creditworthiness following upon implementation of sound adjustment policies in certain heavily indebted countries—particularly some of the smaller middle-income countries. It stressed that delays in the provision of adequate commercial bank financing could jeopardize the timely implementation of these policies.

In view of the critical situation facing many low-income countries, the Committee noted the growing international recognition that exceptional assistance was needed and, in this context, it noted with satisfaction the longer grace and repayment periods extended in recent Paris Club reschedulings to some of these countries that are undertaking adjustment efforts. It also noted that the possibility of applying lower interest rates to existing official debts for the poorest countries was under consideration. It welcomed the conversion of official debt into grants, and measures with similar effects, by certain creditor countries for the poorest countries, and encouraged other official creditors to follow that example. It also encouraged private creditors to continue their efforts to find realistic responses to the debt-servicing difficulties and efforts at adjustment of these countries. The Committee also noted with satisfaction the increased emphasis on support for policy reforms by bilateral and multilateral donors.

6. The Committee noted that the Fund's structural adjustment facility (SAF), and the policy framework papers developed jointly with the World Bank in conjunction with the SAF, have assisted the process of designing and monitoring implementation of growth-oriented programs in low-income countries. Members reiterated their view that sustainable growth in these countries can be attained only through comprehensive programs of macroeconomic and structural reform,

and that such programs can be implemented successfully only if accompanied by adequate financing and improving world economic conditions.

The Committee recalled that it had expressed the hope at its last meeting that arrangements under the SAF would attract additional financial support. In this context, the Committee strongly endorsed the initiative of the Managing Director for a substantial increase in the resources available for lending in association with programs supported by the SAF, noting the complementarity between this initiative and those already taken or under consideration elsewhere in the international community, particularly in the World Bank group. The Committee welcomed the progress achieved thus far in exploring arrangements suitable to mobilize resources on the scale envisaged, consistent with the monetary character of the Fund. The Committee asked the Managing Director and the Executive Board to proceed as quickly as possible with further consultations with potential contributors, in order to conclude these discussions within this year.

7. The Committee noted that the Committee of the Whole on the Ninth General Review of Quotas has begun its work by considering preliminary quota calculations and reviewing issues bearing on the size of the Fund. The Committee urged Executive Directors to pursue their work on the Ninth General Review of Quotas so as to be in a position to make appropriate recommendations in due course.

8. The Committee discussed the Fund's policy on enlarged access and the limits on access to the Fund's resources in 1988. It reaffirmed the temporary character of the enlarged access policy and noted that this policy and the limits on access under it are to be reviewed before the end of 1987.

Noting the difficult external conditions facing many member countries in 1987 and the prospect of continuing sizable payments imbalances in 1988, the Committee agreed to continue the enlarged access policy and to retain the present access limits under that policy in 1988. It also noted that the Executive Board has concluded, in a recent review, that the Fund's liquidity position remains satisfactory and is not an obstacle to the maintenance of these limits.

In connection with its review of access limits under the Fund's special facilities, the Committee noted that the Executive Board is continuing its review of the compensatory financing facility; it encouraged the Executive Board to complete this review before the next meeting of the Committee and agreed that, for the time being, the limits on access under special facilities should be maintained.

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.

9. The Committee heard a report from the Managing Director on the question of a resumption of SDR allocations. 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, i.e., 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.

10. The Committee welcomed the decision by the Executive Board to carry out a comprehensive examination of adjustment programs and of supporting

Fund arrangements in the context of growth-oriented strategies. Such an examination will also provide an opportunity to consider whether the Fund's policies regarding conditionality need to be re-examined in light of changes in the conditions facing member countries since the last comprehensive review in 1978-79, and in light of the increased emphasis being placed on growth-oriented adjustment. An essential aspect of this examination will be to assess the role of the Fund in meeting member countries' balance of payments needs, both from its own resources and through the mobilization of other sources of finance. It was stressed in this connection that the cooperative nature of the Fund and the need to preserve the revolving character of its resources require that members continue to give the highest priority to fulfilling their financial and other obligations to the institution.

The Committee welcomed the recent report of the Group of Twenty-Four on the role of the Fund in adjustment with growth, which complements earlier reports by both the Group of Ten and the Group of Twenty-Four. It noted that the Executive Board has begun its examination of the analyses and recommendations contained in the reports and requested it to report on the status of its work for the consideration of the Committee at its next meeting.

11. The Committee agreed to hold its next meeting in Washington, D.C., on April 14, 1988.

Annex: Interim Committee Attendance, September 27-28, 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

Abdul Malik Al Hamar, Governor, United Arab Emirates Central Bank

Giuliano Amato, Deputy Prime Minister and Minister of the Treasury, Italy

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

Luiz Carlos Bresser Pereira, Minister of Finance, Brazil

QIU Qing, Deputy Governor, People's Bank of China (Alternate for CHEN Muhua, State Councillor and Governor of the People's Bank of China)

Mark Eyskens, Minister of Finance, Belgium

Kjell-Olof Feldt, Minister of Finance, Sweden

B.W. Fraser, Secretary to the Treasury, Department of the Treasury, Australia (Alternate for Paul J. Keating, Treasurer, Australia)

Nigel Lawson, Chancellor of the Exchequer, United Kingdom

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

Narayan Datt Tiwari, Minister of Finance, India

Michael H. Wilson, Minister of Finance, Canada

Observers

B.T.G. Chidzero, Chairman, Development Committee
Barber B. Conable, President, World Bank
Kenneth K.S. Dadzie, Secretary-General, UNCTAD
Arthur Dunkel, Director-General, GATT
Alexandre Lamfalussy, General Manager, BIS
Pierre Languetin, Chairman of the Governing Board, Swiss National Bank
Abel Matutes, Commissioner for Credit, Investments, and Financial Instruments, CEC
Göran Ohlin, Assistant Secretary-General, Office for Development Research and Policy
Analysis, Department of International Economic and Social Affairs, UN
Jean-Claude Paye, Secretary-General, OECD

Thirtieth Meeting, Washington, April 14–15, 1988

1. The Interim Committee of the Board of Governors of the International Monetary Fund held its thirtieth meeting in Washington, D.C., on April 14–15, 1988, 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.

2. In discussing international economic developments and prospects, the Committee noted that economic activity appeared to have been relatively well sustained in industrial countries in spite of the decline in stock markets in October. The prospects were for a continuation of steady, moderate economic growth. Also, inflation remained low, and progress was being made in reducing payments imbalances. It was noted that in 1987, compared with 1986, the ratio of debt to exports had declined in a number of developing countries, and export earnings had recovered in response to the strengthening of commodity prices and improved competitiveness.

These developments notwithstanding, the Committee observed that important challenges still lay ahead. In the industrial countries, payments imbalances continued to be large, and unemployment, especially in Europe, remained high. In the developing world, progress in restoring the momentum of investment and output growth had been inadequate, and the burden of external indebtedness remained a major source of concern. Committee members emphasized the need for resolute and cooperative policies if these challenges were to be met satisfactorily and if the downside risks in the economic outlook were to be minimized.

In dealing with external payments imbalances among industrial countries, Committee members emphasized the importance of policies that would facilitate the needed changes in underlying rates of demand growth. The United States should continue to strengthen the fiscal position and improve conditions for private sector savings. In Europe and Japan, the need for structural policies—including a marked reduction of subsidies and the lessening of rigidities in internal markets—was emphasized as a complement to sound macroeconomic policies. More generally, well-designed structural policies could play an important role in facilitating the working of the adjustment process. It was also noted that certain newly industrializing economies in Asia had experienced remarkable economic growth and were now running large surpluses. They should make an important contribution to the reduction of global imbalances through an appropriate combination of changes in demand and exchange rate policies and trade liberalization.

In addressing the issue of how to strengthen growth and creditworthiness in indebted countries, Committee members stressed the importance of persevering with growth-oriented adjustment efforts. Indebted countries should ensure that appropriate policies were in place to strengthen the quality and quantity of domestic investment, discourage capital flight, and maintain external competitiveness. In this endeavor, macroeconomic and structural policies would need to go hand in hand. In many countries, greater efforts were still required to reduce public sector deficits and move toward more realistic interest rates. In addition, reforms in areas such as relative prices, public sector investment, and education and training would often be needed to enhance the efficiency of resource use. Strong and sustained domestic policies were necessary to attract external financial support, and both should work in a mutually supporting manner.

3. Committee members stressed the importance of policy coordination in strengthening economic performance. In this context, they welcomed the progress that had been made, within the framework of the Fund's responsibilities for surveillance over members' economic policies, in developing the use of economic indicators in a medium-term context. The Committee encouraged the Executive Board to continue developing its use of indicators, and to keep the working of the international monetary system under continuous review. They stressed the importance of improvements in the functioning of the system to facilitate the smooth working of the adjustment process and reinforce prospects for stability in the financial and exchange markets, which are being fostered through more active multilateral policy coordination.

4. Committee members welcomed the progress made to date in the Uruguay Round of multilateral trade negotiations and stressed the need to maintain momentum, leading to the midterm review next December, in working toward a more open multilateral trading system. They emphasized the importance of honoring standstill and rollback commitments. They stressed again that protectionist measures would be self-defeating and unlikely to reduce external imbalances significantly while involving a major risk of a generalized slowdown in growth. The Fund, in cooperation with the GATT, should continue to promote the abatement of trade tensions.

5. Committee members remarked that there had been some positive developments in the debt situation but they emphasized that strong cooperative efforts remained essential. Members emphasized the importance of continuing the case-by-case approach to debt problems, and noted that this was the only way in which adjustment programs and financing flows could be tailored to individual country circumstances. It was important to maintain open and growing markets for debtor countries' exports and adequate and timely financial support from creditors to facilitate the pursuit of growth-oriented adjustment policies in debtor countries.

In its discussion of the debt strategy for the heavily indebted middle-income countries, the Committee recognized that, in order to marshal continued support for their adjustment efforts, debtor countries must be able to demonstrate that their policies yield positive results. The Committee also noted the deleterious effect that delays in obtaining adequate financing have on those efforts and on the creditworthiness of debtor countries, particularly the smaller middle-income countries. The Committee considered that the Fund should continue to support market-based approaches voluntarily agreed between debtors and creditors that would help restore normal access to external financing within a reasonable time frame. Medium-term Fund-supported programs, where appropriate, could

facilitate greater steadiness in policy implementation, reducing the need for recurrent debt renegotiations and increasing the ability to service debt.

The Committee welcomed the recent developments of the “menu approach,” as a demonstration of the flexibility of the present strategy. In this context, the emergence of financing techniques that helped meet the concerns both of banks to limit their exposure to the heavily indebted countries and of debtors over excessive increases in their stock of debt was indeed appropriate. These techniques encompassed approaches such as debt-equity conversion and other forms of debt exchange—as had been recently implemented by Mexico and Bolivia—that could work to reduce the existing stock of debt and enhance prospects of repayments. It remained true that such techniques could, in general, only produce their effects over a period of time and, during this period, steady adjustment efforts needed to be supported by the appropriate provision of additional finance. Committee members nonetheless were in agreement that these were steps in the right direction, deserving appropriate support by authorities.

The Committee considered that, where countries undertook strong adjustments efforts in the context of a medium-term program, official creditors for their part might consider adapting their policies to it.

The Committee stressed the need for further efforts to overcome deep-seated obstacles to sustained growth in many low-income countries. It welcomed the decision taken by the Executive Board to establish the enhanced structural adjustment facility (ESAF), noting that the recent conclusion of agreements with a number of contributor countries would soon permit the ESAF to become operational. The Committee urged other countries that could do so to commit themselves to contribute to the ESAF as soon as possible. The Committee welcomed the success of a number of other recent initiatives to increase the resources available to low-income countries, including the World Bank's Special Program of Assistance for debt-distressed sub-Saharan African countries, the replenishment of the African Development Fund, and the longer time frame for rescheduling by official creditors. The Committee emphasized that it was essential that low-income countries formulate effective programs of structural reform and macroeconomic adjustment that could be supported with these enlarged resources. As the burden of the outstanding debt would continue to weigh heavily on some of these countries, the Committee noted the continuing need to ensure that strong programs were backed by adequate and timely concessional assistance. A number of countries also observed that the possibilities of applying lower interest rates to existing official debt for the poorest countries should be kept under close consideration.

The Committee reiterated that the Fund must continue to play a central role in the debt strategy through its assistance to members in the design of efficient adjustment programs; through the financial support it provides under its various facilities and by catalyzing financial flows from other sources; and through fostering an improved international economic environment. In this connection, the ongoing adaptation of the Fund's facilities and instruments, notably the changes being proposed to the extended Fund facility, the review of the compensatory financing facility, and the development of external contingency mechanisms, was seen by the Committee as timely. The Fund, however, together with the World Bank, could not be expected to take on the financing role that should fall to private and other official creditors. The participation of the other partners to the strategy remained essential to the resolution of the debt situation.

6. The Committee welcomed the continued efforts by the Executive Board

to strengthen program design and implementation under Fund facilities. The Committee attached importance in this respect to the discussion in the Board on how to increase the effectiveness of the extended Fund facility, for use on a case-by-case basis, in supporting comprehensive medium-term programs of macroeconomic adjustment and structural reforms and in catalyzing other sources of finance. The Committee agreed that, with strong adjustment programs, more Fund resources should, where appropriate, be made available by increasing actual access within current limits and that, in exceptional circumstances, access might extend beyond those limits. The Committee observed that, in present circumstances, forceful initial policy actions would often be needed. It also saw merit in allowing initial three-year extended arrangements to be lengthened to four years where this would facilitate sustained policy implementation in a medium-term framework, and it supported changes in the modalities of the extended Fund facility that would tend to reduce the average rate of charge and lengthen the maturity of purchases.

While noting that stand-by arrangements remained the normal instrument of Fund financial assistance, the Committee requested the Executive Board to complete promptly its reconsideration of the extended Fund facility and to take the necessary decisions on the agreed modifications.

7. The Committee welcomed the report from the Managing Director on the review of the compensatory financing facility and on the recent examination by the Executive Board of how best to incorporate into Fund programs external contingency mechanisms that could help maintain the momentum of adjustment in the face of adverse external shocks. The Committee agreed that the essential features of the compensatory financing facility should be preserved and that Fund assistance for export shortfalls and external contingencies should be combined into a single facility, with an overall access limit of 105 percent of quota. Within that overall access, a limit of 40 percent of quota would apply both to the compensatory element and to the contingency element, and an optional tranche of 25 percent of quota would be available to supplement either element at the choice of the member. Use of the contingency element would be attached to a Fund-supported adjustment program. The Committee asked for an expeditious completion by the Executive Board of the review of the compensatory financing facility and the development of the operational modalities of the new combined compensatory and contingency financing facility, and to keep the functioning of this new facility under review.

8. The Committee noted that, in response to its request at the September 1987 meeting, the Executive Board had recently been carrying out a comprehensive examination of conditionality. This examination had included in-depth discussion of issues in the design of growth-oriented programs and in the monitoring of structural adjustment, as well as of technical issues in program monitoring. The Committee reaffirmed its view that use of Fund resources must be linked closely to progress in the implementation of policies geared to the restoration of balance of payments viability and sustainable economic growth. The Committee also noted that the structural aspects of Fund-supported adjustment programs called for continued close collaboration between the Fund and the World Bank, each taking the lead in the areas of its respective competence.

In its discussion of conditionality, the Committee reaffirmed the cooperative nature of the Fund and stressed the importance of preserving the revolving character of its resources. Members should continue to give the highest priority to fulfilling their financial and other obligations to the institution. Failure to

honor these obligations had adverse effects on overdue members' financial standing and imposed an undue burden on other members. The Committee requested the Executive Board to review the question of the overdue financial obligations and to submit a report at the next meeting of the Committee on measures to reduce and eventually eliminate arrears.

9. The Committee heard a report from the Managing Director on the status of work on issues raised in the Group of Ten and Group of Twenty-Four reports. It noted the progress that had been made in addressing a number of issues raised in these reports, including the debt strategy, program design, conditionality, the enhancement of the structural adjustment facility, and other policies on the use of Fund resources. The Committee asked the Board to continue giving its active consideration to the issues raised in these reports.

10. The Committee noted that the Executive Board's Committee of the Whole on the Ninth General Review of Quotas had discussed the principal policy issues related to the adjustment of quotas. The Committee noted that it had not been possible for the Executive Board to complete its work in time for it to make recommendations to the Board of Governors by March 31, 1988, the end of the five-year period since the completion of the previous quota review. The Committee noted that the Governors were in the process of voting on a resolution to continue the Ninth Review and requesting the Executive Board to submit appropriate proposals not later than April 30, 1989. In this regard, the Committee asked the Executive Board to report to it at its next meeting.

11. The Committee noted that the Executive Board had continued its examination of the question of a resumption of SDR allocations. At this stage, the broad support needed under the Articles of Agreement to enable the Managing Director to propose a resumption of SDR allocations during the remainder of the fifth basic period from 1988–91 has not emerged. The Committee requested the Executive Board to continue to monitor developments in international liquidity and to consider the question of SDR allocations and of increasing the usefulness of the SDR to all members.

12. The Committee agreed to hold its next meeting in Berlin (West) on September 25, 1988.

Annex: Interim Committee Attendance, April 14–15, 1988

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 Omar Al-Hadithi, Minister of Finance, Iraq

Giuliano Amato, Deputy Prime Minister and Minister of the Treasury, Italy

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

Jean-Claude Trichet, Undersecretary and Director of the Treasury, Ministry of Economy, Finance, and Privatization, France (Alternate for Edouard Balladur, Minister of Economy, Finance, and Privatization, France)

QIU Qing, Deputy Governor, People's Bank of China (Alternate for CHEN Muhua, State Councillor and Governor of the People's Bank of China)

DAIM Zainuddin, Minister of Finance, Malaysia

Knud Enggaard, Minister of Economic Affairs, Denmark

Jean Godeaux, Governor, Banque Nationale de Belgique (April 14 p.m. and April 15) and Ferdinand Lacina, Federal Minister of Finance, Austria (April 14 a.m.) (Alternates for Mark Eyskens, Minister of Finance, Belgium)
David Farhat, Minister of Finance, Liberia
Peter Morris, Minister Assisting the Treasurer, Australia (Alternate for Paul J. Keating, Treasurer, Australia)
Nigel Lawson, Chancellor of the Exchequer, United Kingdom
Kiichi Miyazawa, Vice Prime Minister and Minister of Finance, Japan
Mailson Ferreira da Nobrega, Minister of Finance, Brazil
Bader-Eddine Nouioua, Governor, Banque Centrale d'Algérie
PAY PAY wa Syakassighe, Governor, Banque du Zaïre
W.F. Duisenberg, President, De Nederlandsche Bank, N.V. (Alternate for H.O. Ruding, Minister of Finance, Netherlands)
Carlos Solchaga, Minister of Economy and Finance, Spain
Juan Vital Sourrouille, Minister of Economy, Argentina
Gerhard Stoltenberg, Federal Minister of Finance, Germany
Narayan Datt Tiwari, Minister of Finance, India
Michael H. Wilson, Minister of Finance, Canada

Observers

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
Kenneth K.S. Dadzie, Secretary-General, UNCTAD
Akinbolaji Iwayemi, Petroleum Industry Financial Analyst, Economics and Finance Department, OPEC
Pierre Languetin, Chairman of the Governing Board, Swiss National Bank
M.G. Mathur, Deputy Director-General, GATT
Alain Morisset, First Secretary, Economic and Financial Affairs, Delegation in Washington, CEC
Göran Ohlin, Assistant Secretary-General, Office for Development Research and Policy Analysis, Department of International Economic and Social Affairs, UN
Jean-Claude Paye, Secretary-General, OECD

**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

Thirty-Second Meeting, Washington, September 28, 1987

1. The Development Committee met in Washington, D.C., on September 28, 1987, under the chairmanship of the Hon. B.T.G. Chidzero, Minister of Finance, Economic Planning and Development of Zimbabwe.¹

2. The main focus of the Committee's attention was on the following three issues:

- Proposals for action for low-income countries facing exceptional difficulties, especially the seriously indebted countries in sub-Saharan Africa;
- Growth-oriented programs in the heavily indebted middle-income countries;
- The World Bank's role and its resource requirements.

3. The Committee's discussions centered on ways and means to revitalize growth in the developing countries. While the Committee recognized that progress had been achieved, it emphasized the need for strengthened adjustment efforts in many developing countries. The Committee recognized that, in general, the growth prospects for the developing countries continue to be adversely affected by persistent weakness in commodity prices, modest growth of the industrial countries, increasing protectionist pressures, high debt-service burdens, as well as inadequate external financial flows. It also noted the adverse impact of increases in real interest rates on the economies of the developing countries, particularly the heavily indebted countries. The Committee stressed the importance of raising the level of global economic activity by an improvement in the policies of industrial countries. It urged countries to liberalize their trading systems, especially to improve market access for developing countries. In this regard, developed countries were encouraged to pay particular attention to the impact of their industrial and agricultural policies on the developing countries.

4. Members expressed great concern about the exceptional difficulties confronting many low-income countries, especially the seriously indebted in sub-Saharan Africa, and agreed that there was an urgent need for action. The Committee, therefore, supported the recent proposals by the Bank and the Fund that are geared to the resumption of growth in these countries through more adequate financing and continued adjustment. Members appreciated that these proposals provided donors and creditors with a variety of measures which they could adopt to assist the low-income countries. The Fund and the Bank were urged to strengthen their joint efforts in assisting the low-income countries. It was also noted that further improvements in aid coordination arrangements would help strengthen the development efforts of these countries.

¹ Mr. Barber B. Conable, President of the World Bank, Mr. Michel Camdessus, Managing Director of the International Monetary Fund, Mr. Fritz Fischer, Executive Secretary of the Development Committee, and Mr. Svetozar Rikanovic, Chairman of the Group of Twenty-Four, participated in the meeting. Observers from a number of international and regional organizations and Switzerland also attended.

5. The Committee strongly supported the proposal by the World Bank for an increase in IDA disbursements to these countries and hoped that the negotiated IDA-8 replenishment will be made effective soon, so that the resources urgently needed by IDA for this purpose could also be made available expeditiously. It encouraged donors to increase the flow of concessional resources in cofinancing operations with the Bank.

6. Members also strongly endorsed the initiative of the Managing Director of the Fund for a substantial increase in the resources of the structural adjustment facility (SAF) to support growth-oriented programs. Some countries have already pledged specific contributions to the enhancement. The Committee emphasized that enhancement of SAF resources should be based on genuine additionality in availability of concessional resources to low-income countries. It called on the international community—developed and developing countries—to proceed as quickly as possible with discussions to bring an enhanced SAF into operation. These discussions should be concluded within this year.

7. Members held that the financing needs of low-income countries should largely be met through assistance on appropriately concessional terms. It was noted that a number of donor countries had converted their official development assistance loans to these countries into grants. Developed donor countries who have not already done so were urged to do so, or if not possible, to take equivalent action tending to this direction. The Committee welcomed the recent decision of the Paris Club to provide longer grace periods and maturities for heavily indebted, very low-income countries. The Committee also considered proposals for debt relief by reducing interest rates for these countries, provided they were pursuing appropriate adjustment policies. It was noted that for some of these countries continued reliance on rescheduling at commercial interest rates did not provide a realistic solution to the difficulties facing them. They urged donors to find ways to increase the concessional element of their support in order to strengthen the efforts of this group of countries.

8. After a review of growth-oriented programs in the heavily indebted middle-income countries the Committee noted that progress had been achieved by some countries but concluded that there was a need to keep the debt strategy under review so as to enhance prospects for growth and development. Members emphasized the crucial importance of effective adjustment efforts of these countries and recognized that these efforts could be significantly assisted by the correction of imbalances by major industrial countries in order to attain an improved external environment. The Committee underlined the need for increased capital flows on terms adapted to the payments situation and the specific economic circumstances of individual countries.

9. The Committee emphasized that the Bank and the Fund had a strong leadership role to play in expanding flows of finance, as well as in mobilizing additional resources and providing policy advice. Noting the reduced lending by the commercial banks, the Committee encouraged the Bank and the Fund to assist in promoting a "menu" approach, including help in diversifying financial instruments attractive for creditors and bank financing. The Committee wished to see increased private direct investment to the indebted countries so as to improve the availability of non-debt-creating resources for development. The International Finance Corporation (IFC) should play an increasing role in this connection, including an intermediary role of debt-equity swaps. This could be further reinforced with the early establishment of the Multilateral Investment Guarantee Agency (MIGA).

10. The Committee noted discussions in the Bank's Board of Executive

Directors on the modalities for a general capital increase (GCI). Based on the Bank's expanding financial role in helping to meet the needs of the developing countries, the Committee gave full support for a substantial increase in the Bank's capital base, sufficient to support a growing lending program for an appropriately long period of time. The Committee agreed that a general capital increase is urgently needed, and it called on the Executive Directors of the Bank to complete their deliberations on such an increase expeditiously so that the provision of increased capital subscriptions to the Bank could start as soon as possible. In supporting a general capital increase, the Committee emphasized that this should not be regarded as a substitute for expanded flows of resources from private sources. The Committee requested a report by the Bank on this matter for its spring 1988 meeting.

11. The Committee again benefited from a presentation by the GATT Director-General on current international trade issues, in particular on the status of negotiations in the Uruguay Round. While welcoming the progress thus far in these negotiations, members stressed the importance of ensuring effective observance of the standstill and rollback commitments. The Committee also stressed the importance of trade liberalization in a global strategy on debt and development. The Committee emphasized the role of the Uruguay Round in furthering trade liberalization and removing distortions to trade in both agricultural and industrial products.

12. The Committee, recalling its earlier request for a report on the adequacy of resource transfers to all developing countries, agreed to consider this critical subject at its next meeting. It had a report from the World Bank's President on the Bank's environmental program and agreed to continue further discussion on the subject in April 1988. The Bank was asked to prepare a paper for this discussion taking into account elements in the Brundtland Commission's Report of relevance to the Committee. In the meantime, it called upon the Bank to take forward the initiatives agreed upon at the April 1987 meeting. The Committee reiterated its request for an in-depth study by the Bank and the Fund on the impact of industrial policies of the developed countries on the developing countries for consideration by this Committee as soon as possible. Other important matters discussed included options for dealing with the commodity problems and the poverty impact of adjustment and development programs. The Committee requested the Chairman to develop a work program to deal with these other subjects in future meetings of the Committee taking into account the views of members.

13. The Committee appointed Mr. Yves Fortin (Canada) to succeed the present Executive Secretary, Mr. Fritz Fischer (Federal Republic of Germany) with effect from November 16, 1987. Members placed on record their deep appreciation for the invaluable service which Mr. Fischer had rendered to the Committee and wished him well in the future.

14. The Committee agreed to meet again in Washington, D.C., on April 15, 1988.

Thirty-Third Meeting, Washington, April 15, 1988

1. The Development Committee met in Washington, D.C., on April 15, 1988, under the chairmanship of the Hon. B.T.G. Chidzero, Senior Minister of Finance, Economic Planning and Development of Zimbabwe.¹

2. Members discussed two broad issues:

- The adequacy of resource transfers to all developing countries, including the problems of the indebted countries;
- Environment and development, in particular the role of the World Bank.

3. Members welcomed positive developments since the Committee's last meeting, notably:

- The full effectiveness of IDA-8;
- The establishment of the IMF's enhanced structural adjustment facility (ESAF);
- The successful launching of the Special Program of Assistance by the World Bank for highly indebted low-income African countries;
- The agreement by the Bank's Executive Board for a \$74.8 billion increase in the capital of the World Bank and its early approval by many Governors;
- The coming into force of the convention establishing the Multilateral Investment Guarantee Agency (MIGA);
- The progress achieved by many developing countries in their adjustment efforts.

4. In spite of these encouraging developments, members agreed that an enlarged volume of financial flows to the developing countries was required to meet the needs for economic growth, poverty alleviation, environmental conservation, structural adjustment, and the resolution of debt difficulties. There was also need for a more supportive world economic environment. They also agreed that the flow of resources, which for some countries has been negative, could be enhanced by policies and actions by both developed and developing countries. Improved aid coordination, further strengthening of the international financial institutions, improved prospects for commodity export earnings, and reduction of protectionist measures would contribute toward increased resource flows. Members urged early progress toward trade liberalization in the Uruguay Round and stressed the importance of the midterm ministerial meeting. The Committee agreed that appropriate economic policies in the developing countries, including increased efforts to mobilize domestic resources, were essential. The IFC was encouraged to continue to expand its role in providing support and promoting private investment in the developing countries.

5. The Committee called on those Governors who had not already done so to approve the resolution for a general capital increase for the World Bank as quickly as possible, and for all governments to proceed expeditiously to subscribe the necessary capital. The importance of the ongoing review by the Board of the Bank of the valuation of the Bank's capital and the issue of the voting power of small member countries was underlined.

¹ Mr. Barber B. Conable, President of the World Bank, Mr. Michel Camdessus, Managing Director of the International Monetary Fund, Mr. Yves Fortin, Executive Secretary of the Development Committee, and Mr. Mailson Ferreira da Nobrega, Chairman of the Group of Twenty-Four, participated in the meeting. Observers from Switzerland and a number of international and regional organizations also attended.

6. The Committee also invited countries which had not so far made a contribution to the Fund's ESAF to do so. Members urged eligible countries to continue to pursue or to adopt strong economic adjustment programs that could be supported by ESAF.

7. The Committee recognized that additional efforts were required to ease the burdens and support the adjustment efforts of many debt-distressed low-income countries and urged creditors and debtors to consider measures to this end, including, where possible, interest rate reduction in official reschedulings or alternative measures having a similar impact. It took note of the recommendations in the recent report by the UN Secretary-General's advisory group on financial flows to Africa. In addressing the special problems of low-income Africa, donors were urged to take as soon as possible the actions needed to translate their pledges of adjustment cofinancing under the Bank's Special Program of Assistance into firm commitments and disbursements to ensure as far as possible additionality in the flow of resources to countries which are, or will become, eligible. The Committee welcomed the recent increase in the resources of the African Development Bank and Fund.

8. The Committee discussed the problem of debt in the heavily indebted middle-income countries in the context of the transfer of resources and the need for achieving sustained growth through adjustment programs. The Committee reaffirmed its support for a case-by-case market-oriented strategy. While strong economic programs were essential, resource constraints remained a major problem. The Committee noted some encouraging developments since the last meeting in the evolution of the menu approach, including the emergence of new financing options and voluntary market-based techniques which reduce the stock of debt. The Bank and the Fund, working closely together, were encouraged to continue their efforts in facilitating developments in the menu approach on a case-by-case basis and thereby catalyzing financial support for a growth-oriented debt strategy. The Committee agreed to keep the debt strategy under review so as to enhance the prospects for growth and development.

9. The Committee recognized that greater flows and an improved quality of concessional resources were needed by low-income countries, including those not seriously indebted, to tackle the problems of poverty alleviation, sustained growth, and development and to assist adjustment efforts where needed. It was also recognized that a number of lower middle-income countries not referred to above have serious economic difficulties, including heavy indebtedness, which deserve attention by the international community.

10. Members exchanged views on the important issues raised in the Brundtland Report and welcomed the progress made by the World Bank in its environmental program. Growth, development, and environmental conservation must be seen as interrelated concepts and operational objectives. It was generally agreed that many environmental problems transcended national boundaries and therefore required action by developed and developing countries alike. The Committee particularly noted the close link between environmental degradation and poverty and recognized that substantial resources were needed to assist countries in dealing with these interrelated problems. The Bank was encouraged to provide further suggestions at a future meeting on how best to address poverty and environmental issues, especially in low-income countries. A progress report on the implementation of the Bank's environmental program was requested for the next meeting.

11. The Committee agreed to meet again in Berlin (West) on September 26, 1988.

Appendix V

Executive Directors and Voting Power on April 30, 1988

Director Alternate	Casting Votes of	Votes by Country	Total Votes ¹	Percent of Fund Total ²
APPOINTED				
Charles H. Dallara <i>Vacant</i>	United States	179,433	179,433	19.14
Frank Cassell <i>Charles Enoch</i>	United Kingdom	62,190	62,190	6.63
Guenter Grosche <i>Bernd Coos</i>	Germany, Fed. Rep. of	54,287	54,287	5.79
Hélène Ploix <i>Dominique Marcel</i>	France	45,078	45,078	4.81
Koji Yamazaki <i>Shinichi Yoshikuni</i>	Japan	42,483	42,483	4.53
Yusuf A. Nimatallah <i>Ibrahim A. Al-Assaf</i>	Saudi Arabia	32,274	32,274	3.44
ELECTED				
Guillermo Ortiz (Mexico) <i>Leonor Filardo</i> (Venezuela)	Costa Rica El Salvador Guatemala Honduras Mexico Nicaragua Spain Venezuela	1,091 1,140 1,330 928 11,905 932 13,110 <u>13,965</u>	44,401	4.74
G.A. Posthumus (Netherlands) <i>G.P.J. Hogeweg</i> (Netherlands)	Cyprus Israel Netherlands Romania Yugoslavia	947 4,716 22,898 5,484 <u>6,380</u>	40,425	4.31

Director Alternate	Casting Votes of	Votes by Country	Total Votes ¹	Percent of Fund Total ²
ELECTED (continued)				
Jacques de Groote (Belgium)	Austria	8,006		
	Belgium	21,054		
Johann Prader (Austria)	Hungary	5,557		
	Luxembourg	1,020		
	Turkey	<u>4,541</u>	40,178	4.29
Mohamed Finaish (Libya)	Bahrain	739		
Abdul Moneim Othman (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	<u>1,022</u>	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	<u>290</u>	38,709	4.13
Salvatore Zecchini (Italy)	Greece	4,249		
Nikos Kyriazidis (Greece)	Italy	29,341		
	Malta	701		
	Portugal	<u>4,016</u>	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	<u>310</u>	33,254	3.55

Director Alternate	Casting Votes of	Votes by Country	Total Votes ¹	Percent of Fund Total ²
ELECTED (continued)				
Jorgen Ovi (Denmark)	Denmark	7,360		
	Finland	5,999		
Markus Fogelholm (Finland)	Iceland	846		
	Norway	7,240		
	Sweden	<u>10,893</u>	32,338	3.45
Arjun K. Sengupta (India)	Bangladesh	3,125		
<i>L. Eustace N. Fernando</i> (Sri Lanka)	Bhutan	275		
	India	22,327		
	Sri Lanka	<u>2,481</u>	28,208	3.01
Alexandre Kafka (Brazil)	Brazil	14,863		
<i>Jerry Hospedales</i> (Trinidad and Tobago)	Colombia	4,192		
	Dominican Republic	1,371		
	Ecuador	1,757		
	Guyana	742		
	Haiti	691		
	Panama	1,272		
	Suriname	743		
	Trinidad and Tobago	<u>1,951</u>	27,582	2.94
J.E. Ismael (Indonesia)	Burma	1,620		
<i>Janardana Reddy</i> (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	<u>2,018</u>	27,094	2.89
Ahmed Abdallah (Kenya)	Botswana	471		
<i>El Tayeb El Kogali</i> (Sudan)	Burundi	677		
	Ethiopia	956		
	The Gambia	421		
	Kenya	1,670		
	Lesotho	401		
	Liberia	963		
	Malawi	622		
	Mozambique	860		
	Nigeria	8,745		
	Sierra Leone	829		
	Sudan	1,947		
	Swaziland	497		
	Tanzania	1,320		
	Uganda	1,246		
	Zambia	2,953		
	Zimbabwe	<u>2,160</u>	26,738	2.85
DAI Qianding (China)	China	24,159	24,159	2.58
<i>JIANG Hai</i> (China)				

Director Alternate	Casting Votes of	Votes by Country	Total Votes ¹	Percent of Fund Total ²
ELECTED (concluded)				
Alvaro Donoso (Chile)	Argentina	11,380		
Ernesto V. Feldman (Argentina)	Bolivia	1,157		
	Chile	4,655		
	Paraguay	734		
	Peru	3,559		
	Uruguay	<u>1,888</u>	23,373	2.49
Ghassem Salehkhou (Islamic Republic of Iran)	Afghanistan	1,117		
Omar Kabbaj (Morocco)	Algeria	6,481		
	Ghana	2,295		
	Iran, Islamic Republic of	6,850		
	Morocco	3,316		
	Tunisia	<u>1,632</u>	21,691	2.31
MAWAKANI Samba (Zaïre)	Benin	563		
Corentino V. Santos (Cape Verde)	Burkina Faso	566		
	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		
	Sao Tome and Principe	290		
	Senegal	1,101		
	Togo	634		
	Zaïre	<u>3,160</u>	<u>18,940</u>	<u>2.02</u>
			920,668 ³	98.19 ^{2,4}

¹Voting power varies on certain matters pertaining to the General Department with use of the Fund's resources in that Department.

²Percentages of total votes in the General Department and the SDR Department (937,625).

³This 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.

⁴This 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, 1987 and April 30, 1988 were as follows:

Henrik Fugmann (Denmark) resigned as Alternate Executive Director to Hans Lundstrom (Sweden), effective May 6, 1987.

Jorgen Ovi (Denmark) was appointed Alternate Executive Director to Hans Lundstrom (Sweden), effective May 7, 1987.

Tariq Alhaimus (Iraq) resigned as Alternate Executive Director to Mohamed Finaish (Libya), effective June 21, 1987.

Abdul Moneim Othman (Iraq) was appointed Alternate Executive Director to Mohamed Finaish (Libya), effective June 22, 1987.

Hans Lundstrom (Sweden) resigned as Executive Director for Denmark, Finland, Iceland, Norway, and Sweden, effective June 30, 1987.

Heinrich G. Schneider (Austria) resigned as Alternate Executive Director to Jacques de Groote (Belgium), effective June 30, 1987.

Jorgen Ovi (Denmark), formerly Alternate Executive Director to Hans Lundstrom (Sweden), was elected Executive Director by Denmark, Finland, Iceland, Norway, and Sweden, effective July 1, 1987.

Markus Fogelholm (Finland) was appointed Alternate Executive Director to Jorgen Ovi (Denmark), effective July 1, 1987.

Johann Prader (Austria) was appointed Alternate Executive Director to Jacques de Groote (Belgium), effective July 1, 1987.

J. de Beaufort Wijnholds (Netherlands) resigned as Alternate Executive Director to G.A. Posthumus (Netherlands), effective July 15, 1987.

G.P.J. Hogeweg (Netherlands) was appointed Alternate Executive Director to G.A. Posthumus (Netherlands), effective July 24, 1987.

Sylvain de Forges (France) resigned as Alternate Executive Director to Hélène Ploix (France), effective August 31, 1987.

Dominique Marcel (France) was appointed Alternate Executive Director to Hélène Ploix (France), effective September 1, 1987.

Michael Foot (United Kingdom) resigned as Alternate Executive Director to T.P. Lankester (United Kingdom), effective October 30, 1987.

Charles Enoch (United Kingdom) was appointed Alternate Executive Director to T.P. Lankester (United Kingdom), effective October 31, 1987.

Masahiro Sugita (Japan) resigned as Alternate Executive Director to Koji Yamazaki (Japan), effective December 11, 1987.

Shinichi Yoshikuni (Japan) was appointed Alternate Executive Director to Koji Yamazaki (Japan), effective December 12, 1987.

Mary K. Bush (United States) resigned as Alternate Executive Director to Charles H. Dallara (United States), effective December 24, 1987.

T.P. Lankester (United Kingdom) resigned as Executive Director for the United Kingdom, effective January 24, 1988.

Frank Cassell (United Kingdom) was appointed Executive Director for the United Kingdom, effective January 25, 1988.

Charles Enoch (United Kingdom), formerly Alternate Executive Director to T.P. Lankester (United Kingdom), was reappointed Alternate Executive Director to Frank Cassell (United Kingdom), effective January 25, 1988.

The following served at certain meetings of the Executive Board during 1987/88 as Temporary Alternate Executive Directors to the Executive Directors indicated:

Temporary Alternate Executive Director	Executive Director for whom Temporary Alternate Served
N. Adachi (Japan)	Koji Yamazaki (Japan)
Ali Asghar Agah (Iran, Islamic Republic of)	Ghassem Salehkhous (Iran, Islamic Republic of)
A. Rashed Al-Abdullatif (Saudi Arabia)	Yusuf A. Nimatallah (Saudi Arabia)
Felix Enrico R. Alfiler (Philippines)	C.R. Rye (Australia)
José Roberto Novaes de Almeida (Brazil)	Alexandre Kafka (Brazil)
Patrick E. Archibong (Nigeria)	Ahmed Abdallah (Kenya)
Mohammad Arif (Pakistan)	Mohamed Finaish (Libya)
Edgar Ayales (Costa Rica)	Guillermo Ortiz (Mexico)
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)
Mohamed Bahaa Chatah (Lebanon)	Mohamed Finaish (Libya)
Richard Comotto (United Kingdom)	T.P. Lankester (United Kingdom)
Edgardo Carlos Demaestri (Argentina)	Frank Cassell (United Kingdom)
Filippo Di Mauro (Italy)	Alvaro Donoso (Chile)
Liam Patrick Ebrill (Ireland)	Salvatore Zecchini (Italy)
Fakhry El-Din El-Fiky (Egypt)	Yusuf A. Nimatallah (Saudi Arabia)
Walter N. Engert (Canada)	Mohamed Finaish (Libya)
Angelo G.A. Faria (Kenya)	Marcel Massé (Canada)
Salam K. Fayyad (Jordan)	Ahmed Abdallah (Kenya)
Vicente J. Fernandez (Spain)	Mohamed Finaish (Libya)
Parviz Gorjestani (Iran, Islamic Republic of)	Guillermo Ortiz (Mexico)
Steinar Guribye (Norway)	Ghassem Salehkhous (Iran, Islamic Republic of)
Mohamed Ali Hammoudi (Algeria)	Jorgen Ovi (Denmark)
Sabir Mohamed Hassan (Sudan)	Ghassem Salehkhous (Iran, Islamic Republic of)
Cleviston L. Haynes (Barbados)	Ahmed Abdallah (Kenya)
Margarita Hepp (Chile)	Marcel Massé (Canada)
Graham K. Hodges (Australia)	Alvaro Donoso (Chile)
Glen David Hodgson (Canada)	C.R. Rye (Australia)
Hon Chee-Won (Singapore)	Marcel Massé (Canada)
Luc Hubloue (Belgium)	J.E. Ismael (Indonesia)
A. Iljas (Indonesia)	Jacques de Groote (Belgium)
Olafur Isleifsson (Iceland)	J.E. Ismael (Indonesia)
Abdel Rehman Ismael (Mauritius)	Hans Lundstrom (Sweden)
Joseph Mills Jones (Liberia)	Mawakani Samba (Zaire)
Khong Kim Nyoon (Malaysia)	Ahmed Abdallah (Kenya)
Stuart Howard King (United Kingdom)	J.E. Ismael (Indonesia)
Karl-Heinz Kleine (Germany, Federal Republic of)	T.P. Lankester (United Kingdom)
Kwassivi Kpetigo (Togo)	Frank Cassell (United Kingdom)
Margareta A. Kyhlberg (Sweden)	Guenter Grosche (Germany, Federal Republic of)
Meg Lundsager (United States)	Mawakani Samba (Zaire)
V.K. Malhotra (India)	Hans Lundstrom (Sweden)
Raffaele Manfredi Selvaggi (Italy)	Jorgen Ovi (Denmark)
Raymundo Morales (Peru)	Charles H. Dallara (United States)
Tokio Morita (Japan)	Arijun K. Sengupta (India)
James A.K. Munthali (Malawi)	Salvatore Zecchini (Italy)
Kazuya Murakami (Japan)	Alvaro Donoso (Chile)
	Koji Yamazaki (Japan)
	Ahmed Abdallah (Kenya)
	Koji Yamazaki (Japan)

Temporary Alternate Executive Director	Executive Director for whom Temporary Alternate Served
Ahmad Mustafa (Jordan)	Mohamed Finaish (Libya)
Do Van Nhien (Viet Nam)	J.E. Ismael (Indonesia)
Carlos Noriega (Mexico)	Guillermo Ortiz (Mexico)
Jean-Christian Obame (Gabon)	Mawakani Samba (Zaïre)
John Kobina Orleans-Lindsay (Ghana)	Mawakani Samba (Zaïre)
Abdessatar Ouanes (Tunisia)	Yusuf A. Nimatallah (Saudi Arabia)
William Koaya Parmena (Tanzania)	Ahmed Abdallah (Kenya)
Patrick D. Peroz (France)	Yusuf A. Nimatallah (Saudi Arabia)
Pál Péterfalvy (Hungary)	Jacques de Groote (Belgium)
Magnús Pétursson (Iceland)	Jorgen Ovi (Denmark)
Luis M. Piantini (Dominican Republic)	Alexandre Kafka (Brazil)
Georges Pineau (France)	Hélène Ploix (France)
Ilkka Puro (Finland)	Hans Lundstrom (Sweden)
Salvatore Rebecchini (Italy)	Jorgen Ovi (Denmark)
Alexis Rieffel (United States)	Salvatore Zecchini (Italy)
Sadok Rouai (Tunisia)	Charles H. Dallara (United States)
Vincent Rousset (France)	Ghassem Salehkhoush (Iran, Islamic Republic of)
Daniel Saha (Cameroon)	Hélène Ploix (France)
Gideon Schurr (Israel)	Mawakani Samba (Zaïre)
Guy Seyler (Luxembourg)	G.A. Posthumus (Netherlands)
Ian Sliper (New Zealand)	Jacques de Groote (Belgium)
Song Guangwei (China)	C.R. Rye (Australia)
Bahran Tamami (Iran, Islamic Republic of)	Dai Qianding (China)
Donald Charles Templeman (United States)	Ghassem Salehkhoush (Iran, Islamic Republic of)
Norbert Toé (Burkina Faso)	Charles H. Dallara (United States)
Huibrecht van der Burg (Netherlands)	Mawakani Samba (Zaïre)
A. Vasudevan (India)	G.A. Posthumus (Netherlands)
Emily Landis Walker (United States)	Arjun K. Sengupta (India)
Wang Xiaoping (China)	Charles H. Dallara (United States)
Rolf Wenzel (Germany, Federal Republic of)	Dai Qianding (China)
David Andrew Woodward (United Kingdom)	Guenter Grosche (Germany, Federal Republic of)
Yang Weimin (China)	T.P. Lankester (United Kingdom)
Koffi Yao (Côte d'Ivoire)	Frank Cassell (United Kingdom)
Iqbal Zaidi (Pakistan)	Dai Qianding (China)
Jaime E. Zeas (Ecuador)	Mawakani Samba (Zaïre)
	Mohamed Finaish (Libya)
	Alexandre Kafka (Brazil)

Appendix VII

Administrative and Capital Budgets

**Administrative Budget as Approved by the Executive Board for the Financial Year Ending April 30, 1989
Compared with Actual Expenses for the Financial Years Ended April 30, 1987 and April 30, 1988 and
Capital Budget as Approved by the Executive Board for Capital Projects Beginning in Financial Year 1989**

(Values expressed in thousands of SDRs)^{1,2}

	Financial Year Ended April 30, 1987	Financial Year Ended April 30, 1988		Financial Year Ending April 30, 1989
	Actual Expenses	Revised Budget	Actual Expenses	Budget
ADMINISTRATIVE BUDGET				
I. PERSONNEL EXPENSES				
Salaries	83,780	80,561	78,798	82,754
Other personnel expenses	<u>53,026</u>	<u>45,398</u>	<u>43,873</u>	<u>43,983</u>
Subtotal	136,806	125,959	122,671	126,737
II. TRAVEL EXPENSES				
Business travel	11,036	11,125	11,118	12,598
Other travel	<u>9,922</u>	<u>9,502</u>	<u>9,210</u>	<u>9,621</u>
Subtotal	20,958	20,627	20,328	22,219
III. OTHER ADMINISTRATIVE EXPENSES				
Communications	5,140	4,568	4,336	4,895
Building occupancy	10,745	9,982	9,681	11,334
Books and printing	1,881	1,612	1,491	1,610
Supplies and equipment	3,305	3,850	3,727	3,800
Data processing	13,907	13,677	11,873	12,047
Miscellaneous	<u>6,213</u>	<u>6,639</u>	<u>6,601</u>	<u>2,675</u>
Subtotal	41,191	40,327	37,710	36,361
TOTAL ADMINISTRATIVE BUDGET	198,955	186,913	180,709	185,317
Less: Reimbursement for administering the SDR Department	4,100	4,700	3,700	3,800
Reimbursement for administering the SAF/ESAF	<u>5,600</u>	<u>6,300</u>	<u>6,900</u>	<u>9,200</u>
Net Administrative Budget Expenses³	<u>189,255</u>	<u>175,913</u>	<u>170,109</u>	<u>172,317</u>

Capital Projects Beginning in Financial Year 1989

	Total Budget	Financial Year 1989	Financial Year 1990	Financial Year 1991
CAPITAL BUDGET				
I. BUILDING SPACE FACILITIES				
Headquarters	2,143	2,143	—	—
Other locations	276	66	209	—
II. EQUIPMENT SYSTEMS				
Computing	<u>99</u>	<u>99</u>	<u>—</u>	<u>—</u>
TOTAL CAPITAL BUDGET	<u>2,517</u>	<u>2,308</u>	<u>209</u>	<u>—</u>

¹ The administrative and capital budgets are expressed in terms of U.S. dollars and converted to SDR equivalents.

² Details may not add up to total due to rounding.

³ Net administrative budget expenses exclude fixed property expenditures which are approved in separate capital budgets and a valuation gain or loss on administrative currency holdings. For the financial year ended April 30, 1988, fixed property expenditures were SDR 4,127,000 and the valuation loss on administrative currency holdings was SDR 901,000.

Appendix VIII

Financial Statements

REPORT OF THE EXTERNAL AUDIT COMMITTEE

Washington, D.C.
June 24, 1988

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 covering the

- General Department (including the General Resources Account, Borrowed Resources Suspense Accounts, and Special Disbursement Account) for the year ended April 30, 1988,
- SDR Department for the year ended April 30, 1988, and
- Accounts administered by the Fund, which consist of the Supplementary Financing Facility Subsidy Account and the Trust Fund for the year ended April 30, 1988; the Enhanced Structural Adjustment Facility Trust for the period March 24, 1988 to April 30, 1988; and the Voluntary Contribution Accounts for the period December 24, 1987 to April 30, 1988.

The audit was conducted in accordance with international auditing standards and, accordingly, included reviews of accounting and control systems, tests of accounting records, 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 (except for the Enhanced Structural Adjustment Facility Trust and the Voluntary Contribution Accounts, which were established in financial year 1988) and give a true and fair view of the respective financial positions and the allocations and holdings of SDRs as at April 30, 1988, and of the financial results of operations and transactions during the respective periods.

In connection with our examination of the Voluntary Contribution Accounts, in our opinion the operation of the Voluntary Contribution Account administered on behalf of Bolivia has been conducted in accordance with the Instrument establishing the Account.

EXTERNAL AUDIT COMMITTEE

/s/ Raymond M. Bennett, Chairman (*United Kingdom*)

/s/ Khin Than Tin (*Burma*)

/s/ Vicente Montan Ugarte (*Chile*)

INTERNATIONAL MONETARY FUND

GENERAL DEPARTMENT
BALANCE SHEET
as at April 30, 1988

(In thousands of SDRs)

(Note 1)

	1988	1987
ASSETS		
GENERAL RESOURCES ACCOUNT		
Currencies and securities (Notes 2 and 5)	95,609,684	97,617,296
SDR holdings (Note 3)	770,306	1,960,286
Gold holdings (Note 4)	3,620,396	3,620,396
Borrowed resources held in suspense	298,423	605,836
Charges receivable and accrued (Note 5)	486,105	577,474
Deferred charges (Note 5)	465,399	294,919
Accrued interest on SDR holdings	15,070	30,298
Other assets	15,060	21,886
Total General Resources Account	<u>101,280,443</u>	<u>104,728,391</u>
SPECIAL DISBURSEMENT ACCOUNT		
Currency deposits pending investment	49	850
Interest-earning deposits	1,007,104	938,762
Structural adjustment facility loans	584,210	139,340
Accrued income on investments and loans	27,524	13,277
Total Special Disbursement Account	<u>1,618,887</u>	<u>1,092,229</u>
TOTAL GENERAL DEPARTMENT	<u>102,899,330</u>	<u>105,820,620</u>

**QUOTAS, RESERVES, LIABILITIES, AND
SPECIAL DISBURSEMENT ACCOUNT RESOURCES**

GENERAL RESOURCES ACCOUNT		
QUOTAS		
Subscriptions of members	89,987,550	89,987,550
RESERVES (Note 6)	1,257,243	1,208,134
SPECIAL CONTINGENT ACCOUNT (Note 5)	86,954	26,547
LIABILITIES		
Borrowing (Note 7)	9,070,418	12,699,590
Accrued remuneration (Note 5)	185,949	235,840
Accrued interest on borrowing	165,900	203,270
Other liabilities and deferred credits	61,030	72,541
	<u>9,483,297</u>	<u>13,211,241</u>
DEFERRED INCOME FROM CHARGES (Note 5)	<u>465,399</u>	<u>294,919</u>
Total General Resources Account	<u>101,280,443</u>	<u>104,728,391</u>
SPECIAL DISBURSEMENT ACCOUNT		
Deferred income	116	—
Accumulated resources	1,618,771	1,092,229
Total Special Disbursement Account	<u>1,618,887</u>	<u>1,092,229</u>
TOTAL GENERAL DEPARTMENT	<u>102,899,330</u>	<u>105,820,620</u>

The accompanying notes and Schedules 1-4 are an integral part of the financial statements.

/s/ GERHARD LASKE
Treasurer

/s/ M. CAMDESSUS
Managing Director

INTERNATIONAL MONETARY FUND

GENERAL DEPARTMENT
STATEMENT OF INCOME AND EXPENSE
for the year ended April 30, 1988

(In thousands of SDRs)

(Note 1)

	1988	1987
GENERAL RESOURCES ACCOUNT		
OPERATIONAL INCOME (Note 5)		
Periodic charges	1,915,699	2,154,599
Addition to periodic charges	99,686	90,071
Special charges	20,067	12,072
Deduct: Income deferred, net	<u>170,480</u>	<u>167,865</u>
	1,864,972	2,088,877
Interest on SDR holdings (Note 3)	66,031	143,875
Service charges	20,588	15,840
Other	<u>2,807</u>	<u>2,123</u>
	<u>1,954,398</u>	<u>2,250,715</u>
OPERATIONAL EXPENSE		
Remuneration (Note 5)	994,772	1,109,969
Reduction of remuneration (Note 5)	<u>99,615</u>	<u>89,937</u>
	895,157	1,020,032
Interest on borrowing, net of income from temporary investments in Borrowed Resources Suspense Accounts (SDR 26,092 in 1988 and SDR 30,748 in 1987) (Note 7)	774,588	927,164
Allocation to Special Contingent Account (Note 5)	<u>60,407</u>	<u>26,547</u>
	<u>1,730,152</u>	<u>1,973,743</u>
NET OPERATIONAL INCOME	<u>224,246</u>	<u>276,972</u>
ADMINISTRATIVE EXPENSE (Note 9)		
Personnel	122,671	136,806
Travel	20,328	20,958
Other, net (Note 1)	<u>32,138</u>	<u>33,125</u>
TOTAL ADMINISTRATIVE EXPENSE	<u>175,137</u>	<u>190,889</u>
NET INCOME OF GENERAL RESOURCES ACCOUNT	<u>49,109</u>	<u>86,083</u>
SPECIAL DISBURSEMENT ACCOUNT		
Income earned on investments	60,064	41,584
Income earned on loans	<u>1,719</u>	<u>251</u>
	61,783	41,835
Gain (loss) in SDR value pending investment and loan disbursements	42	(323)
Administrative expense (Note 9)	<u>6,900</u>	<u>5,600</u>
NET INCOME OF SPECIAL DISBURSEMENT ACCOUNT	<u>54,925</u>	<u>35,912</u>

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, 1988

(In thousands of SDRs)

(Note 1)

	<u>1988</u>	<u>1987</u>
RESERVES—GENERAL RESOURCES ACCOUNT		
SPECIAL RESERVE (Note 6)		
Balance at beginning of the year	842,554	756,471
Net income	49,109	86,083
Balance at end of the year	<u>891,663</u>	<u>842,554</u>
GENERAL RESERVE (Note 6)		
Balance at beginning and end of the year	<u>365,580</u>	<u>365,580</u>
TOTAL RESERVES OF GENERAL RESOURCES ACCOUNT	<u>1,257,243</u>	<u>1,208,134</u>
 RESOURCES—SPECIAL DISBURSEMENT ACCOUNT		
Balance at beginning of the year	1,092,229	441,171
Transfers from Trust Fund	534,998	589,676
Transfers from SFF Subsidy Account	26,628	25,470
Transfers to ESAF Trust	(90,009)	—
	1,563,846	1,056,317
Net income	<u>54,925</u>	<u>35,912</u>
TOTAL RESOURCES OF SPECIAL DISBURSEMENT ACCOUNT	<u>1,618,771</u>	<u>1,092,229</u>

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, 1988. 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 or have made use of 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 standby 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, 1988, borrowed resources held in suspense amounted to SDR 298.42 million (SDR 605.84 million at April 30, 1987) and included accrued income of SDR 2.40 million (SDR 3.32 million at April 30, 1987).

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 were 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 (SAF) 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 $\frac{1}{2}$ 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.

The Fund administers the Enhanced Structural Adjustment Facility Trust (ESAF Trust), which was established in December 1987 to provide loans on concessional terms to certain members to support programs to strengthen substantially and in a sustainable manner their balance of payments position and to foster growth. Upon receipt, the Special Disbursement Account transfers the following resources to the Reserve Account of the ESAF Trust: (i) all income received or to be received from the investment of the resources available for the structural adjustment facility; (ii) all interest received or to be received, including from special charges, on loans under the structural adjustment facility; (iii) all repayments of loans under the structural adjustment facility; and (iv) all the resources held in the Special Disbursement Account that are derived from the termination of the 1976 Trust Fund and that can no longer be used under the structural adjustment facility. Resources of the ESAF Trust Reserve Account which may be in excess of its estimated needs are to be transferred back to the Special Disbursement Account. Upon liquidation of the ESAF Trust, the amounts remaining in the Reserve Account after the discharge of authorized liabilities shall be transferred to the Special Disbursement Account. Transfers to the ESAF Trust Reserve Account commenced in March 1988. As at April 30, 1988, SDR 90 million had been transferred from the Special Disbursement Account to the ESAF Trust Reserve 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. The currencies comprising the basket and their amounts in the basket are 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 12 months ended April 30, 1988, no significant expense was incurred for property, furniture, and equipment. 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 nonnegotiable 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 $\frac{1}{4}$ 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' curren-

cies and securities for the 12 months ended April 30, 1988 were as follows:

	In millions of SDRs		
	April 30, 1988	April 30, 1987	Net Change
Members' quotas	89,988	89,988	—
Members' use of Fund resources	27,829	31,646	(3,817)
Members' reserve tranche positions	(22,213)	(24,020)	1,807
Administrative currency balances	6	3	3
Currencies and securities	<u>95,610</u>	<u>97,617</u>	<u>(2,007)</u>

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, 1988 accounts receivable to maintain SDR values of currency holdings amounted to SDR 16,876.99 million and accounts payable amounted to SDR 812.00 million (SDR 16,704.54 million and SDR 1,048.33 million at April 30, 1987). At June 21, 1988 the amounts receivable were SDR 6,201.04 million and the amounts payable were SDR 256.38 million.

The Fund's holdings of members' currencies at April 30, 1988 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, 1988 and 1987, the Fund held 3,217,341 kilograms of gold at designated depositories.

5. Fund Operations

For the 12 months ended April 30, 1988, members' purchases amounted to SDR 4,153 million, of which SDR 35 million were reserve tranche purchases. Over the same period, repurchases by members totaled SDR 7,935 million. Members' purchases subject to repurchase are shown in Schedule 2.

The outstanding use of Fund credit under various facilities and changes during the 12 months ended April 30, 1988 were as follows:

	In millions of SDRs			
	April 30, 1987	Purchases	Repurchases	April 30, 1988
Regular facilities	6,575	782	1,625	5,732
Compensatory financing	4,779	1,544	1,981	4,342
Buffer stock financing	34	—	31	3
Extended Fund facility	6,242	87	567	5,762
Supplementary financing facility	3,769	—	1,608	2,161
Enlarged access	<u>10,247</u>	<u>1,705</u>	<u>2,123</u>	<u>9,829</u>
Total	<u>31,646</u>	<u>4,118</u>	<u>7,935</u>	<u>27,829</u>

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 an arrangement. If the full amount of an 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, 1988 amounted to SDR 2.8 million (SDR 2.1 million in 1987).

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, 1988, the total holdings on which the Fund levied charges amounted to SDR 27,829 million (SDR 31,646 million at April 30, 1987) and total creditor positions on which the Fund paid remuneration amounted to SDR 16,262 million (SDR 18,126 million in 1987).

Overdue Charges and Adjustments to Charges and Remuneration

It is the policy of the Fund to exclude from current income charges owed by members that are overdue by six months or more in meeting payments to the Fund and also are not current in paying charges when due. Charges subsequently accrued will also be excluded from income unless the member becomes current in the payment of charges. Charges excluded from income are recorded as deferred charges and deferred income.

In order to protect the Fund's income position, an amount equal to periodic charges (excluding special charges) deferred during each quarterly period subsequent to May 1, 1986, is generated each quarter by an adjustment of the rate of charge and the rate of remuneration, producing equal amounts. However, the average rate of remuneration for an adjustment period is not to be reduced below 85 percent of the SDR interest rate. When (and to the extent that) deferred charges that gave rise to adjustments are paid, the amounts received in settlement of overdue charges are distributed to members that paid additional charges or received reduced remuneration as a result of the adjustments.

During the 12 months ended April 30, 1988, new deferred charges amounted to SDR 185 million, of which SDR 20 million were deferred special charges. Reflecting the adjustments described in the preceding paragraph, an amount of SDR 214 million less a refund

of SDR 15 million has been recorded as additional periodic charges and as reduced remuneration. This amount reflects the adjustment in respect of deferred charges for SDR 154 million and the further adjustment to finance additions to the Special Contingent Account for SDR 60 million. An additional SDR 11 million in respect of charges deferred in the current financial year will be included in the adjustment to the rate of charge and rate of remuneration in the 1989 financial year. Refunds of adjustments resulting from the settlement of charges that had been deferred and from the retroactive lowering of the rate of charge amounted to SDR 15 million for the 12 months ended April 30, 1988. The cumulative amount of deferred charges outstanding which arose subsequent to May 1, 1986, and which resulted in a net cumulative adjustment to charges and remuneration of SDR 319 million, amounts to SDR 330 million.

Deferred income and overdue charges due from the nine members that are six months or more overdue to the Fund are as follows:

	<u>In millions of SDRs</u>	
	<u>1988</u>	<u>1987</u>
Overdue charges and accrued charges		
Charges overdue six months or more	326	165
Charges overdue	418	248
Charges overdue and accrued	465	295
Deferred charges and deferred income		
Balance at the beginning of the year	295	127
Additions to deferred income	185	191
Payment and settlement of charges	(15)	(23)
Balance at the end of the year	<u>465</u>	<u>295</u>

Overdue Obligations

Nine members were overdue for more than six months in payments to the Fund at April 30, 1988. Repurchases overdue for six months or more, total overdue repurchases from these members, and total credit outstanding to them were as follows:

	<u>In millions of SDRs</u>	
	<u>1988</u>	<u>1987</u>
Overdue repurchases and use of Fund resources		
Repurchases overdue six months or more	1,108	566
All overdue repurchases	1,367	834
Total outstanding credit	2,360	2,312

In view of protracted overdue obligations, the Fund decided at the end of financial year 1987 to strengthen further its financial position by, *inter alia*, placing SDR 26.5 million into a Special Contingent Account. An additional amount of SDR 60.4 million, generated

through adjustments of the rate of charge and the rate of remuneration, was allocated to the Special Contingent Account in financial year 1988. Balances in the Special Contingent Account are to be distributed to the members that contributed to the balances in the account when there are no outstanding overdue charges and repurchases, or at such earlier time as the Fund may decide.

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, 1987	Borrowing	Repayment	April 30, 1988
Supplementary financing facility	3,381	—	1,654	1,727
Enlarged access	9,304	1,300	3,276	7,328
Other	15	—	—	15
	<u>12,700</u>	<u>1,300</u>	<u>4,930</u>	<u>9,070</u>

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 agree-

ments 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, of which SDR 2 billion remains available, 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 and an associated agreement with a nonparticipant to the GAB, the Fund may borrow up to SDR 17 billion 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, 1993.

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 borrow-

ing 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, 1988 was equal to 29.3 percent of quotas (34.8 percent of quotas at April 30, 1987).

8. Commitments Under Stand-By Arrangements, Extended Arrangements, and Arrangements Under the Structural Adjustment Facility

At April 30, 1988, 45 arrangements were in effect and undrawn balances under these arrangements amounted to SDR 2,085.95 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.

Beginning May 1, 1987 the Fund began using 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 is no longer a requirement for the employer to make supplemental lump-sum payments toward funding experience losses and cost of living increases. Contributions by the Fund to the Staff Retirement Plan for the year ended April 30, 1988 amounted to SDR 14.6 million (SDR 25.3 million in 1987, which included SDR 4.8 million for the amortization of earlier experience losses and SDR 3.3 million to fund cost of living supplements to beneficiaries).

The Fund also has established a Supplemental Retirement Benefit 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 participants and beneficiaries entitled to these payments.

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.

INTERNATIONAL MONETARY FUND
GENERAL DEPARTMENT
QUOTAS, FUND'S HOLDINGS OF CURRENCIES, MEMBERS' USE
OF FUND RESOURCES, AND RESERVE TRANCHE POSITIONS
as at April 30, 1988

(In thousands of SDRs)

	Fund's Holdings of Currencies ¹		Use of Fund Resources	Reserve Tranche Positions
	Quotas	Total		
Afghanistan	86,700	81,856	94.4	4,847
Algeria	623,100	528,613	84.8	94,487
Antigua and Barbuda	5,000	4,999	100.0	2
Argentina	1,113,000	3,990,356	358.5	2,877,338
Australia	1,619,200	1,430,383	88.3	188,834
Austria	775,600	481,550	62.1	294,055
Bahamas, The	66,400	55,693	83.9	10,707
Bahrain	48,900	21,330	43.6	27,572
Bangladesh	287,500	658,016	228.9	392,916
Barbados	34,100	44,571	130.7	12,636
Belgium	2,080,400	1,699,186	81.7	381,252
Belize	9,500	15,021	158.1	7,425
Benin	31,300	29,281	93.5	—
Bhutan	2,500	1,930	77.2	—
Bolivia	90,700	187,521	206.7	96,800
Botswana	22,100	6,991	31.6	—
Brazil	1,461,300	4,084,282	279.5	2,622,884
Burkina Faso	31,600	24,067	76.2	—
Burma	137,000	144,291	105.3	7,288
Burundi	42,700	33,558	78.6	—
Cameroon	92,700	92,498	99.8	—
Canada	2,941,000	2,616,479	89.0	324,531
Cape Verde	4,500	4,501	100.0	—
Central African Republic	30,400	55,000	180.9	24,688
Chad	30,600	37,339	122.0	7,000
Chile	440,500	1,437,315	326.3	996,815
China	2,390,900	2,686,029	112.3	597,725
Colombia	394,200	394,203	100.0	—
Comoros	4,500	4,501	100.0	—
Congo	37,300	46,332	124.2	9,500
Costa Rica	84,100	166,258	197.7	82,138
Côte d'Ivoire	165,500	620,793	375.1	455,294
Cyprus	69,700	65,023	93.3	—
Denmark	711,000	563,425	79.2	147,590
Djibouti	8,000	6,765	84.6	1,237
Dominica	4,000	9,529	238.2	5,535
Dominican Republic	112,100	298,633	266.4	186,531
Ecuador	150,700	520,257	345.2	369,528
Egypt	463,400	585,652	126.4	122,250
El Salvador	89,000	90,940	102.2	1,938
Equatorial Guinea	18,400	23,809	129.4	5,400
Ethiopia	70,600	113,183	160.3	42,570
Fiji	36,500	32,800	89.9	4,156
Finland	574,900	422,462	73.5	—
France	4,482,800	3,205,136	71.5	152,444
				1,277,700

Schedule 1
(continued)

	Fund's Holdings of Currencies ¹		Use of Fund Resources	Reserve Tranche Positions
	Quotas	Total		
Gabon	73,100	120,601	165.0	47,530
Gambia, The	17,100	32,308	188.9	15,240
Germany, Federal Republic of	5,403,700	2,857,070	52.9	—
Ghana	204,500	724,039	354.1	519,535
Greece	399,900	328,912	82.2	—
Grenada	6,000	6,704	111.7	703
Guatemala	108,000	142,158	131.6	34,152
Guinea	57,900	78,910	136.3	21,000
Guinea-Bissau	7,500	8,906	118.8	1,406
Guyana	49,200	120,948	245.8	71,745
Haiti	44,100	75,986	172.3	31,930
Honduras	67,800	107,266	158.2	39,464
Hungary	530,700	1,015,993	191.4	485,289
Iceland	59,600	55,582	93.3	—
India	2,207,700	4,301,782	194.9	2,581,250
Indonesia	1,009,700	1,442,142	142.8	504,862
Iran, Islamic Republic of	660,000	589,239	89.3	—
Iraq	504,000	504,015	100.0	—
Ireland	343,400	214,278	62.4	—
Israel	446,600	446,606	100.0	—
Italy	2,909,100	1,933,883	66.5	—
Jamaica	145,500	576,187	396.0	430,621
Japan	4,223,300	2,331,797	55.2	—
Jordan	73,900	124,124	168.0	50,225
Kampuchea, Democratic	25,000	37,494	150.0	12,500
Kenya	142,000	399,809	281.6	270,009
Kiribati	2,500	2,501	100.0	—
Korea	462,800	796,969	172.2	334,813
Kuwait	635,300	432,879	68.1	—
Lao People's Democratic Republic	29,300	29,300	100.0	—
Lebanon	78,700	59,869	76.1	—
Lesotho	15,100	13,823	91.5	—
Liberia	71,300	276,710	388.1	205,429
Libyan Arab Jamahiriya	515,700	272,201	52.8	—
Luxembourg	77,000	64,770	84.1	—
Madagascar	66,400	205,242	309.1	138,840
Malawi	37,200	115,903	311.6	80,903
Malaysia	550,600	394,051	71.6	—
Maldives	2,000	1,996	99.8	—
Mali	50,800	91,914	180.9	49,800
Malta	45,100	15,602	34.6	—
Mauritania	33,900	70,101	206.8	36,192
Mauritius	53,600	154,172	287.6	100,606
Mexico	1,165,500	5,075,358	435.5	3,909,836
Morocco	306,600	1,054,208	343.8	747,628
Mozambique	61,000	61,000	100.0	—
Nepal	37,300	50,249	134.7	18,650
Netherlands	2,264,800	1,712,229	75.6	—
New Zealand	461,600	461,461	100.0	—
Nicaragua	68,200	68,210	100.0	—

Schedule 1
(continued)

	Fund's Holdings of Currencies ¹			Use of Fund Resources	Reserve Tranche Positions
	Quotas	Total	Percent of quota		
Niger	33,700	78,780	233.8	53,640	8,560
Nigeria	849,500	849,490	100.0	—	68
Norway	699,000	219,264	31.4	—	479,741
Oman	63,100	32,566	51.6	—	30,583
Pakistan	546,300	1,062,336	194.5	516,079	46
Panama	102,200	346,106	338.7	243,905	14
Papua New Guinea	65,900	58,960	89.5	—	6,941
Paraguay	48,400	30,356	62.7	—	18,049
Peru	330,900	926,367	280.0	595,438	—
Philippines	440,400	1,189,327	270.1	787,704	38,826
Poland	680,000	680,002	100.0	—	—
Portugal	376,600	554,916	147.3	208,013	29,697
Qatar	114,900	89,284	77.7	—	25,617
Romania	523,400	796,371	152.2	272,966	—
Rwanda	43,800	35,175	80.3	—	8,627
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	—	—
Sao Tome and Principe	4,000	4,003	100.1	—	—
Saudi Arabia	3,202,400	2,629,992	82.1	—	572,411
Senegal	85,100	267,409	314.2	183,290	988
Seychelles	3,000	2,968	98.9	—	35
Sierra Leone	57,900	115,752	199.9	57,863	24
Singapore	92,400	14,492	15.7	—	77,922
Solomon Islands	5,000	5,853	117.1	1,370	521
Somalia	44,200	152,511	345.0	108,305	—
South Africa	915,700	915,685	100.0	—	16
Spain	1,286,000	663,597	51.6	—	622,406
Sri Lanka	223,100	482,288	216.2	259,203	21
Sudan	169,700	775,005	456.7	605,301	7
Suriname	49,300	49,301	100.0	—	—
Swaziland	24,700	25,797	104.4	1,125	30
Sweden	1,064,300	797,318	74.9	—	266,984
Syrian Arab Republic	139,100	139,103	100.0	—	5
Tanzania	107,000	152,483	142.5	45,470	—
Thailand	386,600	967,424	250.2	609,624	28,804
Togo	38,400	90,387	235.4	52,188	206
Tonga	3,250	2,512	77.3	—	738
Trinidad and Tobago	170,100	153,915	90.5	—	16,188
Tunisia	138,200	343,926	248.9	205,710	—
Turkey	429,100	793,391	184.9	396,563	32,275
Uganda	99,600	259,908	261.0	160,301	—
United Arab Emirates	202,600	75,831	37.4	—	126,770
United Kingdom	6,194,000	4,913,161	79.3	—	1,280,942
United States	17,918,300	10,461,761	58.4	—	7,461,227
Uruguay	163,800	429,467	262.2	265,660	—
Vanuatu	9,000	7,405	82.3	—	1,596
Venezuela	1,371,500	1,072,232	78.2	—	299,273
Viet Nam	176,800	205,195	116.1	28,395	5
Western Samoa	6,000	10,231	170.5	4,230	—

Schedule 1
(concluded)

	Fund's Holdings of Currencies ¹			Use of Fund Resources	Reserve Tranche Positions
	Quotas	Total	Percent of quota		
Yemen Arab Republic	43,300	43,289	100.0	—	15
Yemen, People's Democratic Republic of	77,200	77,201	100.0	—	—
Yugoslavia	613,000	1,812,308	295.6	1,199,293	—
Zaïre	291,000	836,607	287.5	545,606	—
Zambia	270,300	944,780	349.5	674,498	22
Zimbabwe	191,000	270,095	141.4	79,132	39
Totals³	89,987,550	95,609,684		27,829,384	22,213,454

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.

INTERNATIONAL MONETARY FUND

GENERAL DEPARTMENT

MEMBERS' PURCHASES SUBJECT TO REPURCHASE BY YEAR OF SCHEDULED REPURCHASE¹
as at April 30, 1988

(In thousands of SDRs)

Financial Year Ending April 30	Ordinary Resources				Borrowed Resources		
	Credit tranches	Extended Fund facility	Compensatory financing	Buffer stock financing	Supplementary financing	Enlarged access	Total
1989	1,560,232	1,110,750	1,454,593	2,970	1,330,780	2,409,807	7,875,376 ^{2,3}
1990	1,525,178	1,064,807	685,873	—	653,453	2,195,585	6,124,895
1991	1,576,564	1,065,480	856,334	—	176,613	1,998,948	5,673,939
1992	890,425	971,569	973,176	—	—	1,396,556	4,231,726
1993	179,694	769,106	372,258	—	—	902,229	2,223,287
1994	—	526,413	—	—	—	607,410	1,133,823
1995	—	165,763	—	—	—	318,907	484,670
1996	—	48,237	—	—	—	—	48,237
1997	—	28,336	—	—	—	—	28,336
1998	—	11,322	—	—	—	—	11,322
Totals ⁴	<u>5,732,094</u>	<u>5,761,783</u>	<u>4,342,235</u>	<u>2,970</u>	<u>2,160,846</u>	<u>9,829,442</u>	<u>27,835,612</u>

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 improve.

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.

INTERNATIONAL MONETARY FUND
GENERAL DEPARTMENT
SCHEDULED REPAYMENTS OF FUND BORROWING
as at April 30, 1988

(In thousands of SDRs)

Periods of Repayment ¹ Financial Years Ending April 30	Supplementary Financing Facility	Enlarged Access Resources	Other	Total
1989	1,084,587	2,605,028 ²	—	3,689,615
1990	519,015	2,388,000 ²	—	2,907,015
1991	123,788	1,035,000	—	1,158,788
1992	—	575,000	15,000	590,000
1993	—	350,000	—	350,000
1994	—	300,000	—	300,000
1995	—	75,000	—	75,000
Totals³	1,727,390	7,328,028	15,000	9,070,418

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.

³ Details may not add to totals due to rounding.

INTERNATIONAL MONETARY FUND

GENERAL DEPARTMENT
**STATUS OF STAND-BY ARRANGEMENTS, EXTENDED ARRANGEMENTS,
 AND ARRANGEMENTS UNDER THE STRUCTURAL ADJUSTMENT FACILITY**
as at April 30, 1988

(In thousands of SDRs)

Member	Date of Arrangement	Expiration	Total Amount Agreed	Undrawn Balance
GENERAL RESOURCES ACCOUNT				
STAND-BY ARRANGEMENTS				
Argentina	July 23, 1987	September 30, 1988	947,500	331,000
Central African Rep.	June 1, 1987	May 31, 1988	8,000	7,000
Costa Rica	October 28, 1987	March 31, 1989	40,000	40,000
Côte d'Ivoire	February 29, 1988	April 30, 1989	94,000	87,000
Ecuador	January 4, 1988	February 28, 1989	75,350	60,280
Egypt	May 15, 1987	November 30, 1988	250,000	134,000
Gabon	December 22, 1986	December 31, 1988	98,685	51,155
Guinea	July 29, 1987	August 28, 1988	11,600	11,600
Jamaica	March 2, 1987	May 31, 1988	85,000	15,000
Kenya	February 1, 1988	July 31, 1989	85,000	69,350
Malawi	March 2, 1988	May 30, 1989	13,020	3,770
Mauritania	May 4, 1987	May 3, 1988	10,000	—
Philippines	October 24, 1986	August 23, 1988	198,000	70,000
Senegal	October 26, 1987	October 25, 1988	21,275	8,600
Somalia	June 29, 1987	February 28, 1989	33,150	27,620
Togo	March 16, 1988	April 15, 1989	13,000	10,410
Tunisia	November 4, 1986	May 31, 1988	103,650	12,650
Zaïre	May 15, 1987	May 14, 1988	100,000	75,500
			<u>2,187,230</u>	<u>1,014,935</u>
EXTENDED ARRANGEMENTS				
Chile	August 15, 1985	August 14, 1988	750,000	100,000
Ghana	November 6, 1987	November 5, 1990	245,400	197,850
			<u>995,400</u>	<u>297,850</u>
TOTAL GENERAL RESOURCES ACCOUNT				
			<u>3,182,630</u>	<u>1,312,785</u>
SPECIAL DISBURSEMENT ACCOUNT				
STRUCTURAL ADJUSTMENT FACILITY				
Bangladesh	February 6, 1987	February 5, 1990	182,563	38,813
Bolivia	December 15, 1986	December 14, 1989	57,595	39,455
Burundi	August 8, 1986	August 7, 1989	27,115	18,575
Central African Rep.	June 1, 1987	May 31, 1990	19,304	13,224
Chad	October 30, 1987	October 29, 1990	19,431	13,311
Dominica	November 26, 1986	November 25, 1989	2,540	540
Gambia, The	September 17, 1986	September 16, 1989	10,859	2,309
Ghana	November 11, 1987	November 10, 1990	129,858	88,958
Guinea	July 29, 1987	July 28, 1990	36,767	25,187
Guinea-Bissau	October 14, 1987	October 13, 1990	4,763	3,263
Haiti	December 17, 1986	December 16, 1989	28,004	19,184
Kenya	February 4, 1988	February 3, 1991	90,170	61,770
Madagascar	August 31, 1987	August 30, 1990	42,164	28,884
Mauritania	September 22, 1986	September 21, 1989	21,527	4,577
Mozambique	June 8, 1987	June 7, 1990	38,735	8,235
Nepal	October 14, 1987	October 13, 1990	23,686	16,226
Niger	November 17, 1986	November 16, 1989	21,400	4,550
Senegal	November 10, 1986	November 9, 1989	54,039	11,489
Sierra Leone	November 14, 1986	November 13, 1989	36,767	25,187
Somalia	June 29, 1987	June 28, 1990	28,067	19,227
Sri Lanka	March 4, 1988	March 3, 1991	141,669	97,049
Tanzania	October 30, 1987	October 29, 1990	67,945	46,545
Togo	March 16, 1988	March 15, 1991	24,384	16,704
Uganda	June 15, 1987	June 14, 1990	63,246	43,326
Zaïre	May 15, 1987	May 14, 1990	184,785	126,585
			<u>1,357,376</u>	<u>773,166</u>
TOTAL SPECIAL DISBURSEMENT ACCOUNT¹				
			<u>4,540,006</u>	<u>2,085,951</u>

¹ Details may not add due to rounding.

INTERNATIONAL MONETARY FUND

SDR DEPARTMENT
STATEMENT OF ALLOCATIONS AND HOLDINGS
as at April 30, 1988

(In thousands of SDRs)

	1988	1987
ALLOCATIONS		
Net cumulative allocations of SDRs to participants.....	21,433,330	21,433,330
Charges due but not paid (Note)	<u>25,437</u>	<u>15,602</u>
	<u>21,458,767</u>	<u>21,448,932</u>
HOLDINGS		
Participants with holdings above allocations		
Allocations	10,920,340	10,279,960
Net receipt of SDRs	<u>5,307,570</u>	<u>5,093,957</u>
	<u>16,227,910</u>	<u>15,373,917</u>
Participants with holdings below allocations		
Allocations	10,512,990	11,153,370
Net use of SDRs.....	<u>6,114,076</u>	<u>7,060,080</u>
	<u>4,398,914</u>	<u>4,093,290</u>
Total holdings by participants	20,626,824	19,467,207
General Resources Account	<u>770,306</u>	<u>1,960,286</u>
Prescribed holders	<u>61,637</u>	<u>21,439</u>
	<u>21,458,767</u>	<u>21,448,932</u>

The accompanying note is an integral part of the financial statements.

/s/ 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, 1988

(In thousands of SDRs)

	<u>Participants</u>	<u>General Resources Account</u>	<u>Prescribed Holders</u>	<u>Total</u>	
				<u>1988</u>	<u>1987</u>
Total holdings as of April 30, 1987	<u>19,467,207</u>	<u>1,960,286</u>	<u>21,439</u>	<u>21,448,932</u>	<u>21,445,537</u>
Receipt of SDRs					
Transfers among participants and prescribed holders					
Transactions with designation	986,444			986,444	1,275,682
Transactions by agreement	7,091,780		243,500	7,335,280	3,925,378
Operations					
Loans	68,781			68,781	135,568
Forward operations	246,800			246,800	
Settlement of financial obligations	23,792		200,886	224,678	478,150
Fund-related operations					
Subsidy payments	27,553			27,553	59,677
SAF loan	215,380			215,380	112,660
SAF repayments and interest		697		697	9
Trust Fund repayments and interest			52,532	52,532	—
Special charges on SAF and Trust Fund		5		5	—
Net interest on SDRs	302,891		2,206	305,097	305,982
Transfers from participants to General Resources Account					
Repurchases		2,517,902		2,517,902	1,671,210
Charges		2,002,086		2,002,086	2,283,419
Quota payments					154,928
Interest on SDRs		81,260		81,260	161,676
Assessment on SDR allocation		3,659		3,659	4,071
Adjustments		2,817		2,817	—
Transfers from General Resources Account to participants and prescribed holders					
Purchases	1,848,005			1,848,005	1,778,624
Repayments of Fund borrowings	1,529,526		469,938	1,999,464	1,006,908
Interest on Fund borrowings	565,894		18,792	584,686	403,518
In exchange for currencies of other members					
Acquisitions to pay charges	401,992			401,992	750,194
Remuneration	932,256			932,256	1,087,896
Other					
Refunds and adjustments	31,301			31,301	9,520
Total receipts	<u>14,272,395</u>	<u>4,607,724</u>	<u>988,556</u>	<u>19,868,675</u>	<u>15,605,070</u>

	Participants	General Resources Account	Prescribed Holders	Total	
				1988	1987
Use of SDRs					
Transfers among participants and prescribed holders					
Transactions with designation	986,444			986,444	1,275,682
Transactions by agreement	6,722,334		612,946	7,335,280	3,925,378
Operations					
Loans			68,781	68,781	135,568
Forward operations	246,800			246,800	
Settlement of financial obligations	200,980		23,698	224,678	478,150
Fund-related operations					
Subsidy payments			27,553	27,553	59,677
SAF loan			215,380	215,380	112,660
SAF repayments and interest	697			697	9
Trust Fund repayments and interest	52,532			52,532	—
Special charges on SAF and Trust Fund	5			5	—
Transfers from participants to General Resources Account					
Repurchases	2,517,902			2,517,902	1,671,210
Charges	2,002,086			2,002,086	2,283,419
Quota payments					154,928
Assessment on SDR allocation	3,659			3,659	4,071
Adjustments	2,817			2,817	—
Transfers from General Resources Account to participants and prescribed holders					
Purchases		1,848,005		1,848,005	1,778,624
Repayments of Fund borrowings		1,999,464		1,999,464	1,006,908
Interest on Fund borrowings		584,686		584,686	403,518
In exchange for currencies of other members					
Acquisitions to pay charges		401,992		401,992	750,194
Remuneration		932,256		932,256	1,087,896
Other					
Refunds and adjustments		31,301		31,301	9,520
Charges paid in the SDR Department					
Net charges due	386,357			386,357	467,659
Charges not paid when due	(34,428)			(34,428)	(35,224)
Settlement of unpaid charges	24,593			24,593	31,828
Total uses	13,112,778	5,797,704	948,358	19,858,840	15,601,675
Total holdings as of April 30, 1988	20,626,824	770,306	61,637	21,458,767	21,448,932

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. 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, 1988, the amount of unpaid charges amounted to SDR 25.4 million from seven members, of which SDR 19.0 million from six members was overdue for six months or more.

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. 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, 1988

(In thousands of SDRs)

(Note 1)

	<u>1988</u>	<u>1987</u>
ASSETS		
Interest-earning deposits (Note 2)	63,686	110,895
Accrued interest on deposits	<u>2,250</u>	<u>4,334</u>
Total	<u><u>65,936</u></u>	<u><u>115,229</u></u>
RESOURCES		
Resources—Account balance.....	<u><u>65,936</u></u>	<u><u>115,229</u></u>

The accompanying notes are an integral part of the financial statements.

/s/ 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, 1988

(In thousands of SDRs)

(Note 1)

	1988	1987
Balance at beginning of the year	115,229	189,362
Investment income	4,888	11,014
Transfers to the Special Disbursement Account	<u>(26,628)</u>	<u>(25,470)</u>
Balance before subsidy payments	93,489	174,906
Subsidy payments (Note 3)	<u>27,553</u>	<u>59,677</u>
Balance at end of the year	<u>65,936</u>	<u>115,229</u>

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, 1988, SDR 67.1 million (SDR 40.5 million at April 30, 1987) 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:

<u>Currencies</u>	<u>Amounts</u>
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, 1988 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, 1988, subsidy payments totaling SDR 3.2 million (SDR 1.7 million at April 30, 1987) had not been made to five members (two members at April 30, 1987).

INTERNATIONAL MONETARY FUND

**TRUST FUND
BALANCE SHEET
as at April 30, 1988**

(In thousands of SDRs)

(Note 1)

	<u>1988</u>	<u>1987</u>
ASSETS		
Loans (Note 2)	1,129,401	1,657,551
Interest and special charges receivable and accrued (Note 3)	9,633	6,902
Investments, at cost (which approximates market value)	2,935	3,115
Accrued interest on investments	74	67
Total	<u>1,142,043</u>	<u>1,667,635</u>
TRUST RESOURCES AND LIABILITIES		
Trust resources	1,130,273	1,658,832
Liabilities—		
Undistributed profits from sale of gold (Note 4)	2,885	3,055
Deferred income (Note 3)	7,897	4,293
Borrowing (Note 5)	987	1,453
Accrued interest on borrowing	1	2
Total	<u>1,142,043</u>	<u>1,667,635</u>

The accompanying notes are an integral part of the financial statements.

/s/ GERHARD LASKE
Treasurer

/s/ M. CAMDESSUS
Managing Director

INTERNATIONAL MONETARY FUND

TRUST FUND

STATEMENT OF INCOME AND EXPENSE
for the year ended April 30, 1988

(In thousands of SDRs)

(Note 1)

	1988	1987
Income		
Interest and special charges on loans (Note 2)	9,802	11,691
Deduct income deferred (Note 3)	<u>3,604</u>	<u>1,958</u>
	6,198	9,733
Investment income	190	211
Exchange valuation gain	<u>56</u>	<u>2</u>
	6,444	9,946
Less—Interest expense on borrowing (Note 5)	<u>5</u>	<u>8</u>
Net income	<u><u>6,439</u></u>	<u><u>9,938</u></u>

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, 1988

(In thousands of SDRs)

(Note 1)

	<u>1988</u>	<u>1987</u>
Balance at beginning of the year	1,658,832	2,238,570
Net income	<u>6,439</u>	<u>9,938</u>
Balance before transfers to the Special Disbursement Account	1,665,271	2,248,508
Transfers to the Special Disbursement Account (Note 6)	<u>534,998</u>	<u>589,676</u>
Balance at end of the year	<u>1,130,273</u>	<u>1,658,832</u>

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 3). 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 accord-

ance 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 semi-annual 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 $\frac{1}{2}$ of 1 percent per annum, and special charges are levied on late payments of interest and principal.

3. Deferred Income

At April 30, 1988, seven members (six members at April 30, 1987) 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 seven members the recognition of income from interest on the outstanding loans is being deferred. At April 30, 1988, 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 7.9 million (SDR 4.3 million at April 30, 1987). Total outstanding loans to these members were as follows (in millions of SDRs):

	April 30	
	1988	1987
Total	205.1	195.8
Amounts overdue	125.6	78.5
Amounts overdue six months or more	101.4	59.1

4. 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.

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 $\frac{1}{2}$ 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.

INTERNATIONAL MONETARY FUND

ENHANCED STRUCTURAL ADJUSTMENT FACILITY TRUST
COMBINED STATEMENT OF RESOURCES
AND CHANGES IN RESOURCES
for the period March 24, 1988 to April 30, 1988

(In thousands of SDRs)

(Note 1)

	<u>Reserve Account</u>	<u>Subsidy Account</u>
RESOURCES PROVIDED BY		
Transfers of resources		
Transfers from Special Disbursement Account	90,009	—
Contributions (Note 3)	—	5,403
Investment income	532	28
Balance, April 30, 1988	<u>90,541</u>	<u>5,431</u>
RESOURCES REPRESENTED BY		
Investments (Note 2)	89,326	5,421
Accrued interest receivable	1,215	10
Total	<u>90,541</u>	<u>5,431</u>

The accompanying notes are an integral part of the financial statement.

/s/ GERHARD LASKE
Treasurer

/s/ M. CAMDESSUS
Managing Director

**INTERNATIONAL MONETARY FUND
ENHANCED STRUCTURAL ADJUSTMENT FACILITY TRUST
NOTES TO THE FINANCIAL STATEMENT**

Purpose

The Enhanced Structural Adjustment Facility Trust, which is administered by the Fund as Trustee, was established in December 1987 to provide loans on concessional terms to low-income developing members that qualify for assistance in order to support programs to strengthen substantially and in a sustainable manner their balance of payments position and to foster growth. The resources of the Enhanced Structural Adjustment Facility Trust are separate from the assets of all other accounts of, or administered by, the Fund and may not be used to discharge liabilities or to meet losses incurred in the administration of other accounts.

The operations and transactions of the Enhanced Structural Adjustment Facility Trust are to be conducted through a Loan Account, a Reserve Account, and a Subsidy Account. No activity had been conducted in the Loan Account as of April 30, 1988.

Loan Account

The resources of the Loan Account shall consist of the proceeds of loans made to the Enhanced Structural Adjustment Facility Trust for the Loan Account, and payments of principal and interest on loans extended by the Enhanced Structural Adjustment Facility Trust. Resources of the Loan Account will be committed to qualifying member countries for a three-year period, upon approval by the Trustee, in support of a three-year macroeconomic and structural adjustment program submitted by the member. Loans disbursed under the Enhanced Structural Adjustment Facility Trust 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 disbursement. Interest is charged on the outstanding loan balances and is currently set at the rate of $\frac{1}{2}$ of 1 percent per annum. No loans had been disbursed at April 30, 1988.

Reserve Account

The resources of the Reserve Account will consist of transfers by the Fund from the Special Disbursement Account; net earnings from investment of resources held in the Reserve Account; net earnings from investment of any resources held in the Loan Account pending use of these resources in operations; payment of overdue principal or interest or interest thereon under Loan Account loans; and payments of interest under

Loan Account loans to the extent that payment has been made to a lender from the Reserve Account.

The resources held in the Reserve Account will be used by the Trustee to make payments of principal and interest on its borrowings for the Loan Account to the extent that the amount available from receipts of repayments and interest from borrowers under the Loan Account, together with the authorized interest subsidy, are insufficient to cover payments to lenders as they become due and payable.

Subsidy Account

The resources held in the Subsidy Account will consist of the proceeds of donations made for the Subsidy Account, the proceeds of loans made for the Subsidy Account, and the net earnings from investment of donated or borrowed resources held in the Subsidy Account.

The resources available in the Subsidy Account will be drawn by the Trustee to pay the difference, with respect to each interest period, between the interest due by the borrowers under the Enhanced Structural Adjustment Facility Trust and the interest due on resources borrowed for Loan Account loans.

1. Accounting Practices

Unit of Account

The accounts of the Enhanced Structural Adjustment Facility Trust 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

Members are not obligated to maintain the SDR value of their currency held by the accounts of the Enhanced Structural Adjustment Facility Trust.

Basis of Accounting

The accounts of the Enhanced Structural Adjustment Facility Trust are maintained on the 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 Trustee to make all calculations on the basis of the exact number of days in the accounting period. The expenses of conducting the business of the Enhanced Structural Adjustment Facility Trust that are paid by the General Resources Account of the Fund are reimbursed on an annual basis by the Special Disbursement Account.

2. Investments

Pending their use in operations and transactions, the resources of the Enhanced Structural Adjustment Facility Trust shall be invested. Investments may be denominated in SDRs or in currency. Balances held in currency-denominated investments may give rise to valuation gains and losses. There were no currency-denominated investments at April 30, 1988. Accrued interest receivable includes amounts transferred from the Special Disbursement Account.

3. Contributions

The Trustee may accept donations of resources for the Subsidy Account on such terms and conditions as may be agreed between the Trustee and the respective contributors.

4. Borrowing

The Trustee may borrow resources for the Loan Account on such terms and conditions as may be agreed between the Trustee and the respective lenders. As at April 30, 1988, borrowing agreements for the Loan Account amounting to SDR 3.09 billion had been concluded. At June 21, 1988, an additional agreement for SDR 220 million had been concluded and there have been no drawings under these agreements.

The Trustee may borrow resources for the Subsidy Account on such terms and conditions as may be agreed between the Trustee and the respective lenders. At June 21, 1988, two borrowing agreements for the Subsidy Account totaling SDR 60 million had been concluded and there have been no drawings under these agreements.

INTERNATIONAL MONETARY FUND

**VOLUNTARY CONTRIBUTION ACCOUNTS
BALANCE SHEET
as at April 30, 1988**

(In thousands of U.S. dollars)

(Note 1)**ASSETS (Note 2)**

Investment	1,600
Interest-earning deposit	<u>20,791</u>
Total assets	<u>22,391</u>

RESERVES

Account balance	<u>22,391</u>
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The accompanying notes are an integral part of the financial statements./s/ GERHARD LASKE
Treasurer/s/ M. CAMDESSUS
Managing Director

INTERNATIONAL MONETARY FUND
VOLUNTARY CONTRIBUTION ACCOUNTS
STATEMENT OF CHANGES IN RESOURCES
for the period December 24, 1987 to April 30, 1988

(In thousands of U.S. dollars)

(Note 1)

	Account of	
	<u>Italy</u>	<u>Bolivia</u>
Contributions received	8,216	22,197
Interest received on deposits and investments (Note 2)	<u>2</u>	<u>194</u>
Total resources available	8,218	22,391
Payments to beneficiaries	<u>8,218</u>	<u>—</u>
Balance, April 30, 1988	<u>—</u>	<u>22,391</u>

The accompanying notes are an integral part of the financial statements.

INTERNATIONAL MONETARY FUND
VOLUNTARY CONTRIBUTION ACCOUNTS
NOTES TO THE FINANCIAL STATEMENTS

Purpose

The Fund has the authority under the Articles of Agreement to provide, if requested, financial and technical services, including the administration of resources contributed by members, that are consistent with the purposes of the Fund. In the year ended April 30, 1988, the Fund performed such services for the benefit of two members, Italy and Bolivia. Operations involved in the performance of such financial services are not on the account of the Fund, and the performance of such services do not impose any obligation on a member without its consent. The resources of the Voluntary Contribution Accounts 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.

Contributions received were held in temporary in-

vestment accounts pending the receipt of notification to the Fund that resources should be disbursed. The resources held in the account at April 30, 1988 were for the benefit of Bolivia.

1. Accounting Practices

The resources of the Voluntary Contribution Accounts are received in U.S. dollars and the accounts are expressed in that currency.

2. Investment and Interest-Earning Deposits

The assets of the accounts, pending their disbursement, are held in the form of repurchase agreements with the Federal Reserve Bank of New York or in the form of interest-earning deposits with the Bank for International Settlements. Interest paid on these assets varies and is market related.

**REPORT OF THE EXTERNAL AUDIT COMMITTEE
STAFF RETIREMENT PLAN**

Washington, D.C.
June 24, 1988

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, 1988.

The audit was conducted in accordance with international auditing guidelines and, accordingly, included reviews of accounting and control systems, tests of accounting records, and other audit procedures.

AUDIT OPINION

In our opinion, the financial statements of the Staff Retirement Plan have been prepared in accordance with generally accepted accounting principles applied on a basis consistent with that of the preceding year, after giving retroactive effect to the change, with which we concur, in the method of accounting for the actuarial present value of accumulated Plan benefits as described in Note 1 to the financial statements, and give a true and fair view of the financial status of the Staff Retirement Plan as at April 30, 1988 and of the changes in financial status for the year then ended.

EXTERNAL AUDIT COMMITTEE

/s/ Raymond M. Bennett, Chairman (*United Kingdom*)

/s/ Khin Than Tin (*Burma*)

/s/ Vicente Montan Ugarte (*Chile*)

INTERNATIONAL MONETARY FUND

STAFF RETIREMENT PLAN
STATEMENT OF ACCUMULATED PLAN BENEFITS
AND NET ASSETS AVAILABLE FOR BENEFITS
as at April 30, 1988

(In thousands of U.S. dollars)

	<u>1988</u>	<u>1987</u>
	(Restated)	
Accumulated Plan benefits (Note 1)		
Actuarial present value of accumulated Plan benefits		
Vested benefits		
Retired participants	244,300	195,500
Active participants	162,500	149,200
Nonvested benefits	<u>267,100</u>	<u>235,700</u>
Total actuarial present value of accumulated Plan benefits	<u>673,900</u>	<u>580,400</u>
Net assets available for benefits		
Investments, at current value (Notes 1 and 3)		
Portfolio denominated in U.S. dollars	690,479	677,659
Portfolio denominated in other currencies	<u>280,029</u>	<u>285,543</u>
	<u>970,508</u>	<u>963,202</u>
Receivables		
Contributions	222	381
Accrued interest and dividends (Note 1)	6,476	3,735
Other	<u>6,716</u>	<u>5,452</u>
	<u>13,414</u>	<u>9,568</u>
Cash at banks	<u>89</u>	<u>6</u>
Total assets	<u>984,011</u>	<u>972,776</u>
Liabilities		
Accounts payable	1,192	5,057
Net assets available for benefits	<u>982,819</u>	<u>967,719</u>
Excess of net assets available for benefits over actuarial present value of accumulated Plan benefits	<u>308,919</u>	<u>387,319</u>

The accompanying notes are an integral part of the financial statements.

/s/ 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, 1988

(In thousands of U.S. dollars)

	<u>1988</u>	<u>1987</u> (Restated)
Actuarial present value of accumulated Plan benefits at beginning of the year	<u>580,400</u>	<u>334,700</u>
Increase (decrease) during the year attributable to		
Benefits accumulated	34,100	22,700
Increase for interest due to decrease in discount period	51,200	32,500
Benefits paid	(23,348)	(18,845)
Change in actuarial assumptions (Note 2)	31,548	42,545
Net increase	<u>93,500</u>	<u>78,900</u>
Actuarial present value of accumulated Plan benefits as previously reported as at April 30, 1987	—	413,600
Adjustment for projection of future salaries as at April 30, 1987 (Note 1)	—	166,800
Actuarial present value of accumulated Plan benefits at end of the year as restated (Note 1)	<u>673,900</u>	<u>580,400</u>

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, 1988

(In thousands of U.S. dollars)

	<u>1988</u>	<u>1987</u>
		(Restated)
Investment income (Note 1)		
Net gain (loss) in current value of investments (Note 3)	(49,211)	121,685
Interest and dividends	59,797	38,923
Other	<u>—</u>	<u>248</u>
	<u>10,586</u>	<u>160,856</u>
Contributions (Note 2)		
International Monetary Fund	18,468	30,230
Participants	10,649	10,339
Participants restored to service	41	97
Net transfers to retirement plans of other international organizations	(1,296)	(394)
	<u>27,862</u>	<u>40,272</u>
Total additions	<u>38,448</u>	<u>201,128</u>
Benefits		
Pension	16,803	14,232
Withdrawal	1,846	1,574
Commutation	4,629	2,909
Death	<u>70</u>	<u>130</u>
Total benefit payments	<u>23,348</u>	<u>18,845</u>
Net additions	<u>15,100</u>	<u>182,283</u>
Net assets available for benefits at		
Beginning of the year	<u>967,719</u>	<u>785,436</u>
End of the year—April 30, 1988	<u>982,819</u>	<u>967,719</u>

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 and 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 has the right, for good cause, 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 the actuary's fees, and contributes any additional amounts not provided by the contributions of participants to pay costs and expenses of the Plan not otherwise covered. Until April 30, 1988 the Employer has also paid the cost of investment management and custodial fees. These fees will in the future be met by the Plan. In financial year 1988, the costs met by the Employer were approximately \$6.2 million (\$4.4 million in 1987).

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

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 active 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 together with the estimated effect of projected salary increases on benefits expected to be paid.

Valuation of Investments

Investments in securities listed on 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 accounting period. 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.

Changes in Accounting Practices

The 1988 financial statements of the Staff Retirement Plan follow the recommendations of International Accounting Standard 26 "Accounting and Reporting by Retirement Benefit Plans." In accordance with this new standard, the actuarial valuation method for calculating the accumulated Plan benefits has been changed to use projected salary levels rather than current salary. The projected salary basis is a better measure of the current value of benefits accumulated. Compared with the current salary method, this change in accounting practice has increased the value of accumulated Plan benefits as at April 30, 1987 by \$166.8 million, as is shown in the Statement of Changes in Accumulated Plan Benefits.

2. Actuarial Valuation and Funding Policy

Both the actuarial valuation method and the actuarial assumptions used for calculating funding by the Employer were modified with effect from May 1, 1987. The actuarial assumptions adopted 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. With the decision to pay the investment management and custodial fees from the Plan from May 1, 1988, the assumed rate of return on investments has been reduced to 8.5 percent and the valuation for April 30, 1987 revised accordingly.

Funding by the Employer for the year which commenced on May 1, 1987 was based upon a valuation for April 30, 1986. 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 which began on May 1, 1987 this rate was 12.14 percent;

it will be 12.62 percent for the year beginning May 1, 1988. The results of the April 30, 1986 and 1987 valuations are:

	U.S. dollars (millions)	
	1987	1986
Present value of benefits payable	1,029	871
Less: Assets for valuation purposes	<u>714</u>	<u>568</u>
Required future funding	315	303
Less: Present value of prospective contributions from participants (7 percent of gross remuneration)	<u>118</u>	<u>111</u>
Present value of future funding required from the Employer	<u>197</u>	<u>192</u>

Under the actuarial valuation used for funding calculations, it is assumed that the Plan will continue to exist and that active participants will continue to earn pension benefits beyond the date of the valuation until the date of withdrawal, disability, death, or retirement.

In contrast to the actuarial valuation for funding purposes, the actuarial valuation used for the financial statements shows the portion of the benefit obligation which had been accumulated by April 30, 1988. It reflects only the service to that date and does not take into account the fact that the value of accumulated benefits, which are the Plan's liabilities, are expected to increase each year nor that the market value of investments may fluctuate from year to year. Accordingly, the financial statements do not measure the amount which the Employer will be required to fund in the future nor the excess of assets over the present value of accumulated benefits that is needed to meet the obligation to pay benefits in the future.

3. Investments

A summary of investments at market values is as follows (in thousands of U.S. dollars):

	1988	1987
Portfolio denominated in U.S. dollars		
U.S. Government securities	94,747	117,115
Corporate bonds and debentures	75,127	30,554
Common and preferred stocks	335,768	427,645
Real estate	2,700	—
Short-term investments	<u>182,137</u>	<u>102,345</u>
	690,479	677,659
Portfolio denominated in other currencies	<u>280,029</u>	<u>285,543</u>
	<u>970,508</u>	<u>963,202</u>

The net gain/(loss) in the current value of investments represents the gains and losses realized during the year from the sale of investments, the unrealized appreciation and depreciation 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/(loss), in thousands of U.S. dollars, is as follows:

	<u>1988</u>	<u>1987</u>
Portfolio denominated in U.S. dollars	(39,234)	57,306
Portfolio denominated in other currencies	(9,977)	64,379
Net gain/(loss)	<u>(49,211)</u>	<u>121,685</u>

At April 30, 1988, the investments representing 5 percent or more of the net assets available for benefits in thousands of U.S. dollars were as follows:

	<u>Market Value</u>	<u>Percentage</u>
Grantham, Mayo, Van Otterloo		
Foreign Equity Pooled Trust	171,408	17.4
Managed Market Trust	108,705	11.1

**REPORT OF THE EXTERNAL AUDIT COMMITTEE
SUPPLEMENTAL RETIREMENT BENEFIT PLAN**

Washington, D.C.
June 24, 1988

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 Supplemental Retirement Benefit Plan for the 29-month period ended April 30, 1988.

The audit was conducted in accordance with international auditing guidelines and, accordingly, included reviews of accounting and control systems, tests of accounting records, and other audit procedures.

AUDIT OPINION

In our opinion, the financial statements of the Supplemental Retirement Benefit Plan have been prepared in accordance with generally accepted accounting principles, and give a true and fair view of the financial status of the Supplemental Retirement Benefit Plan as at April 30, 1988 and of the changes in financial status for the 29-month period then ended.

EXTERNAL AUDIT COMMITTEE

/s/ Raymond M. Bennett, Chairman (*United Kingdom*)

/s/ Khin Than Tin (*Burma*)

/s/ Vicente Montan Ugarte (*Chile*)

INTERNATIONAL MONETARY FUND

**SUPPLEMENTAL RETIREMENT BENEFIT PLAN
STATEMENT OF ACCUMULATED PLAN BENEFITS
AND ASSETS AVAILABLE FOR BENEFITS
as at April 30, 1988**

(In thousands of U.S. dollars)

Accumulated Plan benefits (Note 1)

Actuarial present value of accumulated Plan benefits

Vested benefits	1,100
Nonvested benefits	<u>100</u>
Total actuarial present value of accumulated Plan benefits	<u>1,200</u>

Assets available for benefits

Cash at bank (Note 3)	193
Assets available for benefits	<u>193</u>
Excess of actuarial present value of accumulated Plan benefits over assets available for benefits	<u>1,007</u>

The accompanying notes are an integral part of the financial statements.

/s/ GERHARD LASKE
Treasurer

/s/ M. CAMDESSUS
Managing Director

INTERNATIONAL MONETARY FUND

SUPPLEMENTAL RETIREMENT BENEFIT PLAN
STATEMENT OF CHANGES IN ACCUMULATED PLAN BENEFITS
for the 29-month period ended April 30, 1988

(In thousands of U.S. dollars)

Actuarial present value of accumulated Plan benefits at the beginning of the period	—
Increase (decrease) during the period attributable to	
Benefits accumulated	1,295
Benefits paid	<u>(95)</u>
Actuarial present value of accumulated Plan benefits at the end of the period—April 30, 1988 (Note 1)	<u>1,200</u>

The accompanying notes are an integral part of the financial statements.

INTERNATIONAL MONETARY FUND

SUPPLEMENTAL RETIREMENT BENEFIT PLAN
STATEMENT OF CHANGES IN ASSETS AVAILABLE FOR BENEFITS
for the 29-month period ended April 30, 1988

(In thousands of U.S. dollars)

Interest income (Note 1)	14
Contributions from the International Monetary Fund	<u>274</u>
Total additions	288
Pension benefits	<u>95</u>
Net additions	193
Assets available for benefits at	
Beginning of the period—December 1, 1985	<u>—</u>
End of the period—April 30, 1988	<u>193</u>

The accompanying notes are an integral part of the financial statements.

**INTERNATIONAL MONETARY FUND
SUPPLEMENTAL RETIREMENT BENEFIT PLAN
NOTES TO THE FINANCIAL STATEMENTS**

Description of Supplemental Retirement Benefit Plan

General

The Supplemental Retirement Benefit Plan (SRBP) began operation in December 1985. It is a defined benefit pension plan covering all participants of the Staff Retirement Plan of the International Monetary Fund (Employer) and operates as an adjunct to that Plan. All assets and income of the SRBP 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 and their beneficiaries. The account is valued in U.S. dollars.

Benefits

The Staff Retirement Plan has adopted limits to pensions payable from that Plan. The SRBP provides for the payment of any benefit which would otherwise have been payable if these limits had not been adopted.

Contributions

The SRBP is entirely funded by the Employer. There is a partial prefunding, just prior to retirement, when non-U.S. citizens retire in the United States, so that the taxable income of the participant is approximately equal to, but not more than, such income that would have accrued if the entire benefit had been payable from the Staff Retirement Plan. The prefunded amounts are used to pay any of the benefits payable, whether for U.S. or non-U.S. staff. Should the prefunded assets of the SRBP be exhausted, benefits will be paid from current contributions by the Employer. The Employer also meets the administrative costs of the SRBP.

Termination

In the event of the termination of the SRBP by the Employer, the assets of the SRBP shall be used to satisfy

all liabilities to participants, retired participants and their beneficiaries, and all other liabilities of the SRBP.

1. Accounting Practices

Accumulated Plan Benefits

The actuarial value of benefits is shown for two categories. The vested benefits relate to retired participants and 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.

The nonvested benefits relate to active participants and the amount shown equals the present value of the supplemental deferred pension earned to the valuation date for a participant, taking into account the estimated effect of projected salary increases. For the purpose of determining the actuarial value of the benefits at the end of the period, it is assumed that the SRBP will continue to exist but that participants will not accumulate further contributory service beyond the date of the calculation.

Interest Income

Interest income is recorded as earned.

2. Actuarial Valuation

The 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 inflation rate of 5 percent per annum, and (d) salary increase percentages which vary with age.

3. Assets

The assets are a money market account with The Riggs National Bank.

Appendix IX

Classification of Countries

The classification scheme used in the preparation of this Report is as follows.¹

Industrial countries comprise:

Australia	France	Japan	Sweden
Austria	Germany, Fed. Rep.	Luxembourg	Switzerland
Belgium	of	Netherlands	United Kingdom
Canada	Iceland	New Zealand	United States
Denmark	Ireland	Norway	
Finland	Italy	Spain	

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 March 15, 1988), 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

¹ This classification is the same as that adopted in the *World Economic Outlook, April 1988*.

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.

(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

Given these definitions, the *fuel exporters* comprise:

Algeria	Iran, Islamic Rep. of	Nigeria	Tunisia
Bahrain	Iraq	Oman	United Arab Emirates
Congo	Kuwait	Qatar	Venezuela
Ecuador	Libyan Arab	Saudi Arabia	
Gabon	Jamahiriya	Syrian Arab Rep.	
Indonesia	Mexico	Trinidad and Tobago	

The *non-fuel exporters* are broken down into three categories: primary product exporters, exporters of manufactures, and service and remittance countries.

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	Djibouti	Madagascar	Solomon Islands
Argentina	Dominican Rep.	Malawi	Somalia
Bangladesh	El Salvador	Malaysia	South Africa
Belize	Equatorial Guinea	Mali	Sri Lanka
Benin	Ethiopia	Mauritania	St. Kitts and Nevis
Bhutan	Fiji	Mauritius	Sudan
Bolivia	Gambia, The	Morocco	Suriname
Botswana	Ghana	Mozambique	Swaziland
Brazil	Guatemala	Nicaragua	Tanzania
Burma	Guinea	Niger	Thailand
Burundi	Guinea-Bissau	Papua New Guinea	Togo
Cameroon	Guyana	Paraguay	Uganda
Central African Rep.	Haiti	Peru	Uruguay
Chad	Honduras	Philippines	Viet Nam
Chile	Jamaica	Rwanda	Zaire
Colombia	Kenya	Sao Tome and	Zambia
Comoros	Lao People's Dem.	Principe	Zimbabwe
Costa Rica	Rep.	Senegal	
Côte d'Ivoire	Liberia	Sierra Leone	

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	Zaire
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.

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.

The *exporters of manufactures* (that is, those countries or areas whose exports of manufactures accounted for over 50 percent of total exports) comprise:

China	India	Poland	Taiwan Province of
Hong Kong	Israel	Romania	China
Hungary	Korea	Singapore	Turkey

Yugoslavia

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	St. Lucia
Bahamas, The	Greece	Malta	St. Vincent
Barbados	Grenada	Nepal	Tonga
Burkina Faso	Jordan	Netherlands Antilles	Vanuatu
Cape Verde	Kampuchea, Democratic	Pakistan	Western Samoa
Cyprus	Lebanon	Panama	Yemen Arab Rep.
Dominica	Lesotho	Portugal	Yemen, People's Dem. Rep. of

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	United Arab Emirates
Iraq	Libyan Arab Jamahiriya	Qatar	Saudi Arabia

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 on the basis of their *predominant type of creditor*. *Market borrowers* are defined as those countries and areas that obtained at least two thirds of their external borrowings from 1978 to 1982 from commercial creditors. The group comprises:

Algeria	Congo	Korea	Portugal
Antigua and Barbuda	Côte d'Ivoire	Malaysia	Singapore
Argentina	Cyprus	Mexico	South Africa
Bahamas, The	Ecuador	Nigeria	Taiwan Province of
Bolivia	Gabon	Panama	China
Brazil	Greece	Papua New Guinea	Trinidad and
Chile	Hong Kong	Paraguay	Tobago
Colombia	Hungary	Peru	Uruguay
	Indonesia	Philippines	Venezuela
			Yugoslavia

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	Central African Rep.	Fiji	Honduras
Bahrain	Chad	Gambia, The	Jamaica
Bangladesh	Comoros	Ghana	Jordan
Bhutan	Djibouti	Grenada	Lao People's
Burkina Faso	Dominica	Guatemala	Dem. Rep.
Burma	Dominican Rep.	Guinea	Liberia
Burundi	El Salvador	Guinea-Bissau	Madagascar
Cape Verde	Equatorial Guinea	Guyana	Malawi

Maldives	Pakistan	St. Lucia	Uganda
Mali	Rwanda	St. Vincent	Viet Nam
Malta	Sao Tome and	Sudan	Western Samoa
Mauritania	Principe	Swaziland	Yemen Arab Rep.
Nepal	Senegal	Syrian Arab Rep.	Yemen, People's
Netherlands	Seychelles	Tanzania	Dem. Rep. of
Antilles	Sierra Leone	Togo	Zaire
Nicaragua	Somalia	Tonga	Zambia

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 *small low-income countries*, comprising those Fund members, excluding China and India, 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	Equatorial Guinea	Lao People's	Rwanda
Bangladesh	Ethiopia	Dem. Rep.	Sao Tome and
Benin	Gambia, The	Madagascar	Principe
Bhutan	Ghana	Malawi	Sierra Leone
Burkina Faso	Guinea	Maldives	Somalia
Burma	Guinea-Bissau	Mali	Sri Lanka
Burundi	Guyana	Mauritania	Sudan
Cape Verde	Haiti	Mozambique	Tanzania
Central African Rep.	Kampuchea,	Nepal	Togo
Chad	Democratic	Niger	Uganda
Comoros	Kenya	Pakistan	Viet Nam
			Zaire

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

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.

and "non-oil developing countries." The countries included under the heading *oil exporting countries* were:

Algeria	Iraq	Nigeria	United Arab
Indonesia	Kuwait	Oman	Emirates
Iran, Islamic Rep. of	Libyan Arab Jamahiriya	Qatar	Venezuela
		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.

Developing Countries: Shares of Various Subgroups in Aggregate GDP, Exports of Goods and Services, and Debt Outstanding, 1984–86

	(In percent)			Memorandum: Number of Countries in Each Subgroup
	GDP	Exports of Goods and Services	Debt	
Developing countries	100.0	100.0	100.0	134
By region				
Africa	12.0	11.0	14.7	48
Asia	33.3	37.1	24.1	28
Europe	11.0	11.8	12.4	9
Middle East	16.1	22.3	12.7	16
Western Hemisphere	27.6	17.7	36.1	33
By predominant export				
Fuel exporters	29.4	32.7	27.5	20
Non-fuel exporters	70.6	67.3	72.5	114
Primary product exporters	32.1	22.5	41.0	73
Agricultural exporters	26.9	16.3	31.6	55
Mineral exporters	5.2	6.2	9.4	18
Exporters of manufactures	33.3	38.1	22.4	12
Service and remittance countries	5.2	6.8	9.1	29
By financial criteria				
Capital exporting countries	13.3	17.6	5.7	8
Capital importing countries	86.7	82.4	94.3	126
Market borrowers	50.4	57.4	60.8	34
Official borrowers	7.3	5.2	10.3	60
Diversified borrowers	29.0	19.8	23.3	32
Countries with recent debt- servicing problems	42.9	32.2	58.4	65
Countries without recent debt- servicing problems	43.9	50.2	36.0	61
By miscellaneous criteria				
Capital importing fuel exporters	16.1	15.1	21.9	12
Fifteen heavily indebted countries	31.6	20.8	41.5	15
Small low-income countries	5.8	3.0	7.8	42
Sub-Saharan Africa ¹	4.2	3.8	6.8	43
By alternative analytical categories				
Oil exporting countries	22.5	26.1	16.2	12
Non-oil developing countries	77.5	73.9	83.8	122

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.

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