1990 International Monetary Fund

Annual Report

Purposes of the Fund

(i) To promote international monetary cooperation through a permanent institution which provides the machinery for consultation and collaboration on international monetary problems.

(ii) To facilitate the expansion and balanced growth of international trade, and to contribute thereby to the promotion and maintenance of high levels of employment and real income and to the development of the productive resources of all members as primary objectives of economic policy.

(iii) To promote exchange stability, to maintain orderly exchange arrangements among members, and to avoid competitive exchange depreciation.

(iv) To assist in the establishment of a multilateral system of payments in respect of current transactions between members and in the elimination of foreign exchange restrictions which hamper the growth of world trade.

(v) To give confidence to members by making the general resources of the Fund temporarily available to them under adequate safeguards, thus providing them with opportunity to correct maladjustments in their balance of payments without resorting to measures destructive of national or international prosperity.

(vi) In accordance with the above, to shorten the duration and lessen the degree of disequilibrium in the international balances of payments of members.

The Fund shall be guided in all its policies and decisions by the purposes set forth in this Article.

Article I of the Fund's Articles of Agreement

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International Monetary Fund

Annual Report

of the Executive Board
for the Financial Year
Ended April 30, 1990
Washington, D.C.

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International Standard Serial Number : ISSN 0250-7498

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. . . 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., 1988–89 or January–June) to indicate the years or months covered, including the beginning and ending years or months;
/ between years (e.g., 1988/89) 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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August 1, 1990

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Letter of Transmittal to the Board of Governors

August 1, 1990

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, 1990, 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, 1991 are presented in Appendix VIII. The audited financial statements for the year ended April 30, 1990 of the General Department, the SDR Department, Accounts administered by the Fund, the Staff Retirement Plan, and the Supplemental Retirement Benefit Plan, together with the reports of the External Audit Committee thereon, are presented in Appendix IX.

Yours sincerely,

MICHEL CAMDESSUS
Chairman of the Executive Board

Chairman of the Board of Governors
International Monetary Fund

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The World Economy

The current economic expansion entered its seventh year in 1989, although the rate of growth has moderated to a more sustainable pace. On the *domestic front*, output growth in most industrial countries partly reflected more restrictive monetary policies adopted in response to signs of rising inflationary pressures in some countries. Unemployment rates remained relatively low or declined in many industrial countries. Growth slowed in the developing countries, partly as a result of external developments. Many developing countries sought to bring inflation under control, and a number also implemented far-reaching structural reforms.

On the *international front*, the expansion of world trade slowed, although the increase still remained well above the average of the past two decades. The U.S. share of world trade grew, while that of Japan declined. Progress in reducing payments imbalances among the three largest industrial countries was uneven. Japan's surplus fell, as did the U.S. deficit, while the German surplus increased. The upward trend of the trade-weighted U.S. dollar was reversed in September 1989, following action by the major industrial countries and a movement of interest rate differentials against the dollar.

The aggregate current account deficit of the developing countries remained broadly unchanged, although there were considerable differences across country groups. Recourse to external financing by developing countries was well below its pre-1987 level. There was little change in the level of developing country debt.

1. Domestic Economic Activity and Policies

Industrial Countries

Growth, Employment, and Inflation

Output growth in the industrial countries moderated to 3½ percent in 1989 from 4½ percent in 1988 (Chart 1). Restrictive monetary policies were implemented in most of these countries to deal with rising inflation. Despite the slowdown in growth in many countries, inflation rose by 1 percentage point to 4½ percent in 1989 (Chart 2), owing in part to increased capacity utilization rates, tight labor markets in many industrial countries, and a number of temporary factors, such as increases in indirect taxes (in Canada, the Federal Republic of Germany, Italy, and Japan), and a rise in some world commodity prices, including oil. As was the case in 1988, the expansion in demand was led by gains in fixed investment, although performance in this sector varied widely across industrial countries.

The slowdown in industrial country growth rates was not observed in all countries. In the European Community (EC), growth remained strong at 3½ percent, as slower growth in household and public consumption was offset by an increased contribution from the foreign sector. In Germany, in particular, the rise in net exports boosted GNP growth by almost a full percentage point. Growth in the European Community in 1989 was also influenced by the process of integration, and particularly by the scheduled completion of the single market in 1992, which boosted investment in anticipation of expanding markets and greater competition. In Japan, real output growth remained very strong at nearly 5 percent, somewhat below the pace of 1988, and reflected the continued buoyancy of domestic demand, especially of business fixed investment. By contrast, in the United Kingdom, demand and output growth declined sharply, reflecting a substantial tightening of monetary policy. In the United States and Canada, the expansion in output also slowed, as rates of increase in consumer expenditure and investment declined in both countries. Output growth in the United States continued to exceed domestic demand growth, although to a lesser extent than in 1988.

In most of the major industrial countries, rates of capacity utilization in the manufacturing sector rose to their highest levels since the previous cyclical peak in 1979–80, but they declined from recent peaks in North America and the United Kingdom. Labor market conditions also have tightened in the past several years, although there were marked differences in employment growth among countries. While the average unemployment rate for the industrial countries continued on a downward trend in 1989, in the United States, the unemployment rate remained at 5¼ percent of the labor force in 1989 and stayed in this neighborhood through April 1990; in Japan, the unemployment rate, which averaged 2¼ percent in 1989, declined to about 2 percent in early 1990; and in Germany, it fell to 6½ percent in April 1990, from an average of 7 percent in 1989. In Canada, the unemployment rate averaged 7½ percent in 1989 and declined to 7¼ percent in April 1990. In several other countries, including France, Italy, and Spain, unemployment rates, although declining, remained at historically high levels. In the United Kingdom, the unemployment rate continued to decline during 1989, from 7 percent in January to close to 5½ percent in April 1990.

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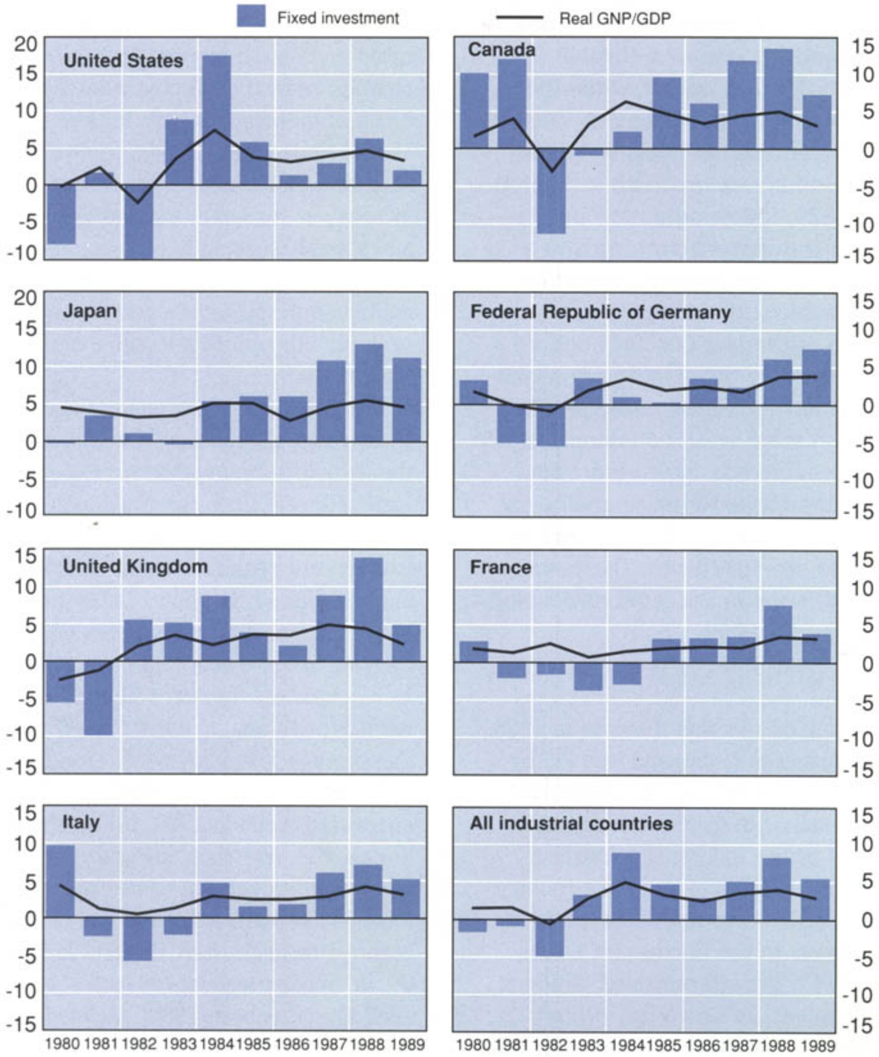
Chart 1

Industrial Countries: Real Output and Fixed Investment, 1980–89
(Percentage change)



The increase in consumer price inflation in the industrial countries reflected high rates of capacity utilization, relatively low unemployment rates in many countries, and a number of temporary factors such as increases in indirect taxes in Canada, Germany, Italy, and Japan, and a rise in some world commodity prices, including oil. The effect of currency depreciation on import prices was also a factor in some countries, particularly in Japan, the United Kingdom, and some of the smaller industrial countries. Conversely, inflation was held down by currency appreciation in the United States and Canada during the first half of 1989, and in Germany and other countries participating in the exchange rate mechanism of the European Monetary System (EMS) in late 1989.

Oil prices were volatile during 1989/90 owing to several temporary factors, including supply interruptions in some producing countries that are not members of the Organization of Petroleum Exporting Countries (OPEC) and unusual weather patterns that resulted in large fluctuations in seasonal demand. The annual average spot market price of oil rose by some 21½ percent in 1989 (to about $17.20 a barrel), largely reversing the drop in 1988. Oil prices rose sharply in the latter part of 1989 and reached a peak in January 1990. With the onset of warmer weather in North America and a continued high level of OPEC production, however, oil prices declined substantially in the following months, and in April were about 20 percent below January levels.

The slowing of economic activity in the industrial countries and excess supplies in some commodity markets contributed to a pronounced weakening of many non-oil commodity prices. Although the average value of the Fund's index of non-oil commodity prices in calendar year 1989 was virtually unchanged from the average value in 1988, it declined considerably during the year 1989. The largest price declines during the year were for some tropical beverages (50 percent for coffee and 35 percent for cocoa) and for certain metals (48 percent for nickel and more than 30 percent for aluminum and copper).

Economic Policies

Monetary policy continued to play a central role in short-run macroeconomic management in 1989. Interest rates in most major financial markets firmed markedly during 1989 (Chart 3). The rise in interest rates, particularly at the short end of the

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maturity range, reflected a tightening of monetary policies in most industrial countries as authorities reacted to inflationary pressures, and in some cases, downward movements in exchange rates. Although monetary policy had become restrictive as early as 1987 in some countries, factor markets were tight and domestic demand was still growing rapidly in early 1989 in most countries. As these conditions persisted in the second half of the year and in early 1990, monetary policies were tightened further in Japan and in Germany and several other countries participating in the EMS. In contrast, interest rates eased somewhat in the United States throughout much of 1989, as indications of a more moderate pace of economic activity emerged. Over the 12 months ended in April 1990, short-term interest rates in the United States fell by almost 1½ percentage points.

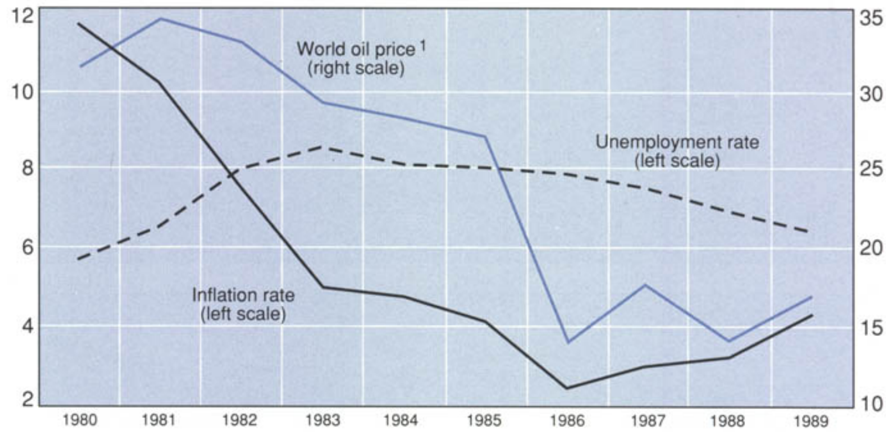
Although long-term interest rates rose in 1989 in all the major countries except the United States, the difference in average yields between short-term and long-term instruments narrowed during the year. This development was widely interpreted as indicating market participants' confidence in the ability of the monetary authorities to prevent the temporary price shocks in the first half of the year from affecting the longer-term outlook for inflation.

However, in early 1990, long-term interest rates firmed significantly in relation to short-term rates in most countries, reflecting in part a rise in inflation expectations as well as higher real interest rates. The increase in Germany reflected prospects of higher credit demand from both the public and private sectors associated with the movement toward unification of the Federal Republic of Germany and the German Democratic Republic, as well as from expectations of increased investment in the other countries of Eastern Europe, where fundamental economic reforms are being implemented or are in prospect. By April, yields on ten-year government bonds had risen 1½ percentage points above their average level in the fourth quarter of 1989 in Germany. In Canada and the United Kingdom, where monetary policies remained tight in response to continuing inflationary pressures, long-term interest rates rose by 1¾–2 percentage points. In Japan, yields on comparable assets rose by 1½ percentage points and in France and in the United States, by about ¾ of 1 percentage point. Yields were unchanged in Italy, where they were already substantially higher than in the other major industrial countries.

The impact of monetary restraint on aggregate demand has been reinforced by the continued consolidation of budgetary positions. In 1989, the shift in fiscal balances implied a further withdrawal of stimulus in most coun-

Chart 2

Industrial Countries: Inflation, Unemployment, and World Oil Price, 1980–89
(Inflation rate in percentage change; unemployment rate in percent; and oil price in U.S. dollars a barrel)



[1] Average of UK Brent, Dubai, and Alaska North Slope crude petroleum spot prices.

Box 1

World Economic Outlook

The April 1990 edition of the *World Economic Outlook* provides a comprehensive analysis of developments in the world economy, including a discussion of alternative medium-term economic scenarios. It is the product of a comprehensive interdepartmental review by the Fund's staff, which is conducted twice a year and draws on the staff's consultations with member countries as well as on its econometric modeling techniques. This publication is available from the Fund's Publication Services (price $30.00). The next *World Economic Outlook,* comprising revised projections by the staff, will be published in October 1990 (price $30.00).

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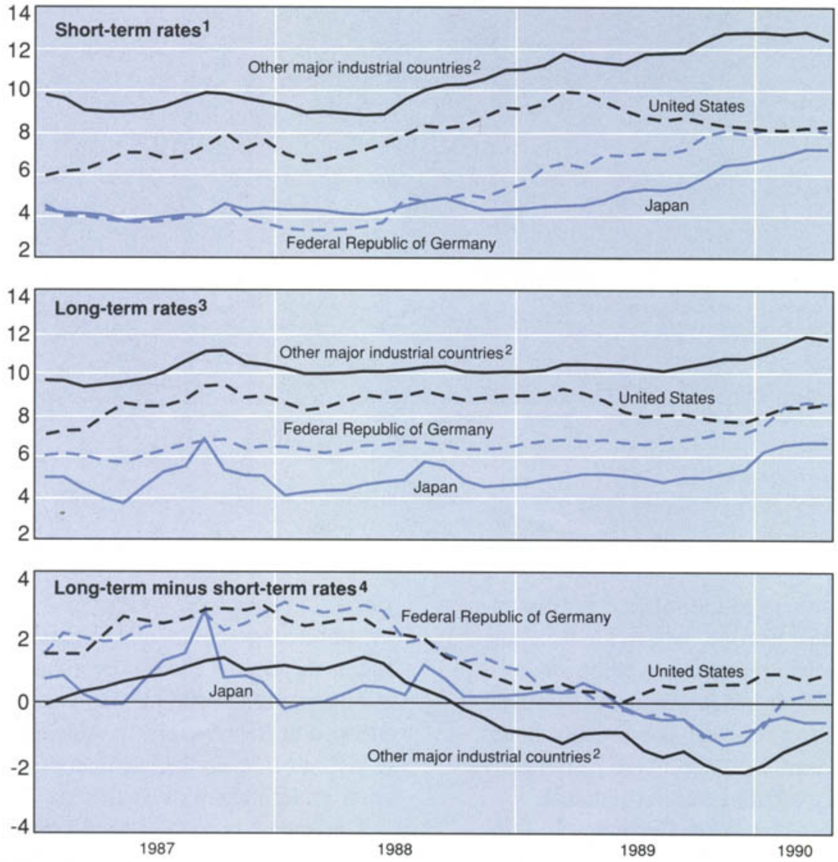
Chart 3

Major Industrial Countries: Short- and Long-Term Interest Rates, 1987–April 1990
(In percent a year)



[1] Monthly averages of daily rates on money market instruments of about 90 days' maturity.
[2] Canada, France, Italy, and the United Kingdom; composite is the average of the interest rates for individual countries weighted by the average U.S. dollar value of their respective GNPs in 1988.
[3] Monthly averages of daily or weekly yields on government bonds, with maturities ranging from three and a half years for Italy to about ten years for other countries.
[4] Difference between the long- and short-term rates shown in the upper panels, except that, for the United States and United Kingdom, three-month treasury bill rates are used as short rates.

tries. In the United States, the federal deficit declined further in proportion to GNP, after having fallen by almost 2 percentage points during 1986–88. In the United Kingdom the budget surplus declined, but remained significant. Budget deficits as a percentage of GNP fell in the other major industrial countries—except for Canada, where the deficit increased slightly. In the Federal Republic of Germany, the fiscal deficit began to rise in early 1990, owing to a cut in personal income taxes, in combination with increased outlays associated with immigration from the German Democratic Republic and other Eastern European countries.

The importance of structural policies as part of a strategy for long-term growth is now broadly recognized. A number of industrial countries have taken important steps toward improving efficiency in recent years, including major tax and financial reforms, privatization, and, in a few cases, measures to enhance the flexibility of labor markets. In the area of trade policy, continued efforts to counter protectionism are essential to sustain the expansion of world trade and to help the adjustment efforts of the indebted developing countries. In this connection, the successful conclusion of the Uruguay Round of multilateral trade negotiations by the end of 1990 would be a major advance.

Developing Countries

Growth and Inflation

The growth of real GDP in the developing countries slowed from 4¼ percent in 1988 to 3¼ percent in 1989, partly reflecting a less favorable external environment—including slower growth of world trade, the firming of international interest rates, and a weakening in the prices of primary commodities other than oil exported by developing countries. Another contributing factor was the implementation of tighter budget and monetary policies in a number of developing countries. In some countries, significant reductions in inflation were achieved, but in several high-inflation countries inflation accelerated further and output either contracted or grew only modestly (Chart 4).

In the developing countries in Asia, real GDP growth averaged 5 percent in 1989, the lowest growth rate in more than a decade but still high compared with other developing country groups. In China, growth decelerated sharply from nearly 11 percent in 1988 to 4 percent in 1989 as credit conditions were tightened in the face of

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rising inflation. In Korea, where the external competitive position deteriorated as a result of exchange rate appreciation and rising labor costs, exports declined and growth slowed to 6 percent, substantially below the rate of 1988. By contrast, the growth of exports and output remained strong, or even accelerated, in Indonesia, Malaysia, the Philippines, and Thailand.

In the developing countries of the Western Hemisphere, output expanded by 1½ percent in 1989. In Brazil, output rose modestly but policy slippages contributed to a sharp acceleration of inflation. In Argentina and Peru, output contracted as inflation accelerated sharply. In each of these three countries, the inflation rate was several thousand percent. By contrast, inflation declined considerably in Mexico, where a revival of business confidence contributed to a rise in investment and there was a significant expansion of non-oil exports. In Chile, investment and output growth continued to exceed the average for the region.

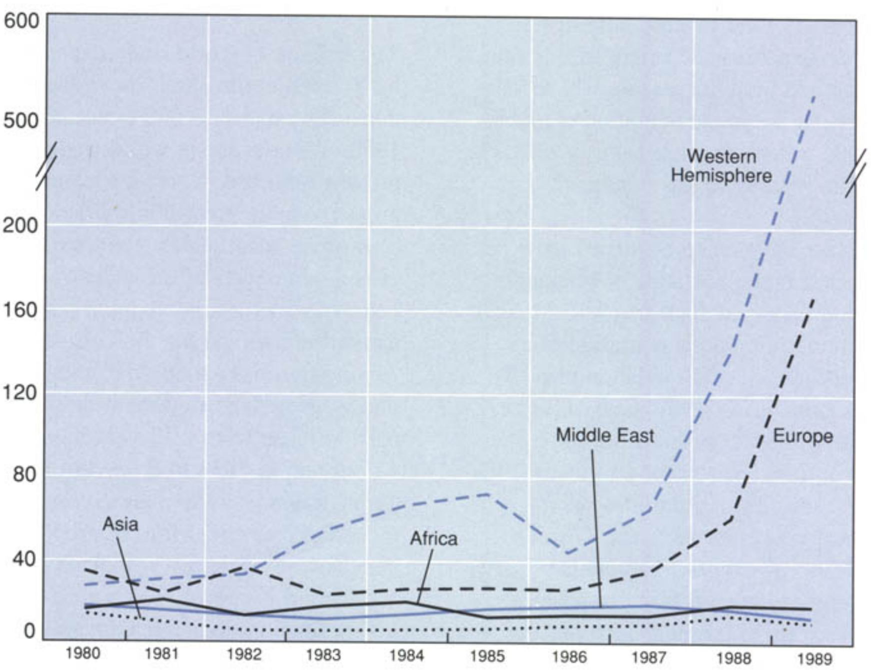
In Africa, output growth increased modestly, but the base of this recovery was narrow. Boosted by strong oil exports, growth picked up significantly in Nigeria and in Algeria. In large parts of sub-Saharan Africa, however, output performance remained weak. In part this reflected a sharp fall in export earnings as a result of a marked decline in the prices of coffee and cocoa, which account for some 40 percent of agricultural exports from the region. Output contracted in a number of countries. There were, however, some exceptions to the general pattern, for example in Ghana and more recently in Madagascar and Uganda, where a recovery in economic activity is under way following fundamental macroeconomic and structural policy reforms.

In the fuel exporting countries of the Middle East, economic activity recovered from the recession that followed the decline in oil prices in 1986. In some of the non-fuel exporting countries in the region, however, activity has been stagnant over the past two years.

In the developing countries of Europe, output barely increased in 1989, partly reflecting political developments in Eastern Europe and the large-scale adjustment problems faced by many of these countries. In Yugoslavia, output expanded modestly but this was accompanied by a rapid acceleration in prices. Inflation also rose sharply in Poland, as the removal of price controls and subsidies revealed severe microeconomic and macroeconomic imbalances that were further exacerbated by inadequate monetary control.

Chart 4

Developing Countries: Inflation by Region, 1980–89[1]
(Annual percentage change)



[1] Regional composites are geometric averages of consumer price indices measured in local currencies for individual countries weighted by the average U.S. dollar value of their respective GDPs over the preceding three years. The very large increases in inflation in Europe and the Western Hemisphere reflect the extremely high inflation rates in a few developing countries in these areas.

Economic Policies

In recent years, the stance of economic policies has generally differed considerably between countries with debt-servicing difficulties and net debtor countries that have avoided such difficulties. Central government fiscal deficits and the growth of broad money have typically been much higher in the former group. This difference remained evident in 1989 as too expansive fiscal and monetary policies continued to be pursued in several high-inflation countries. Fiscal

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conditions worsened markedly and monetary expansion accelerated in Brazil, and, after a temporary improvement, in Argentina as well. In Yugoslavia and Poland, unrestrained credit expansion accommodated rapid wage and price increases. These slippages in the implementation of stabilization programs were a major obstacle to the resumption of sustained growth.

Most developing countries have recognized the importance of bringing inflation under control. In 1989, Mexico continued the implementation of its comprehensive anti-inflation plan that was launched in 1987. Côte d'Ivoire, Nigeria, and Venezuela began to strengthen adjustment policies in 1988 and 1989. Among the low-income debtor countries in Africa, Uganda and, more recently, Zambia have recently tightened financial policies. Moreover, in the beginning of 1990, Poland implemented a strong stabilization program and, subsequently, Argentina, Brazil, and Yugoslavia substantially tightened policies.

Widespread structural rigidities in developing country economies also have adverse implications for growth and macroeconomic stability. Recognizing the inefficiencies generated by these rigidities, many countries, notably Mexico, Ghana, Indonesia, Madagascar, Nigeria, and Viet Nam, implemented far-reaching structural reforms. The measures taken included trade liberalization, price decontrol, restructuring of government finances, reorganization of public sector enterprises, and deregulation of the financial sector. While progress has been made, much remains to be done, not least in the emerging market economies of Eastern Europe, in order to improve economic incentives, enhance economic flexibility, and raise potential output (see discussion of Eastern European economies on pages 20–21).

2. Trade, Payments, and Exchange Rates

World Trade

The volume of world trade expanded by 7½ percent in 1989, down from the unusually rapid rate of 9 percent in 1988. This decline in world trade growth reflected in part a slowing of import volume growth in the industrial countries; nonetheless, the expansion in non-oil imports of the industrial countries was 2¾ percentage points above the average for the decade. Among the major industrial countries, import growth slowed most dramatically in Japan from a 15-year high of 17 percent in 1988 to 8 percent in 1989, which was the average for all industrial countries. Import growth also slowed markedly in Canada and the United Kingdom, partly reflecting a slowdown in domestic demand in these countries.

Developments in export performance were reflected in some significant changes in market shares among both industrial and developing countries. The volume of goods exported from the United States increased by 10½ percent in 1989, the best performance among the major industrial countries. This strong expansion raised the U.S. share of non-oil world trade to 13½ percent from a low of 11½ percent in 1987 following the peak in the exchange value of the U.S. dollar in 1985, but the trade share is still below the 15 percent average of the 1970s. By contrast, the share of Japanese exports in world trade declined from a peak of 11½ percent in 1986 to 10 percent in 1989. Owing to a continuation of strong export growth, Germany's trade share held steady; it has fallen by only ½ of 1 percentage point to 13 percent since reaching a peak in 1986. Over the past two years, Canada's trade share has been largely unchanged as export growth has been restrained by the real appreciation of the Canadian dollar and by slower import growth in the United States relative to world trade.

Reflecting the slowdown in world trade, the growth in exports from the developing countries in the aggregate slowed in 1989, but the 7 percent increase was nonetheless well above the 4 percent average for the decade. However, this performance for all developing countries reflected considerable differences across geographic regions. In most developing countries in the Western Hemisphere and Europe export growth decelerated sharply, and in Africa export volumes increased by only 2¾ percent. Export growth slowed somewhat in Asia, reflecting currency appreciation and slower growth in the industrial countries. The export market share of the four Asian newly industrializing economies, however, reached 9 percent in 1989, compared with 3 percent 15 years earlier.

Balance of Payments Developments

Progress in reducing the current account imbalances among the three largest countries has been uneven. Japan's external surplus has continued to decline, reaching 2 percent of GNP in 1989, compared with 2¾ percent in 1988. In the United States, the external deficit also continued to fall to about 2 percent of GNP, compared with some 2½ percent in 1988. In Germany, the external surplus increased from 4 percent of GNP in 1988 to about 4½ percent in 1989. The current account deficit in Canada widened to about 2½ percent of GDP in 1989, reflecting strong domestic demand and the appreciation of the Canadian dollar. The sharp reduction in the European Community's external

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surplus in 1988 and 1989 was largely associated with the rising deficits of the United Kingdom and Spain.

Balance of payments developments in the major industrial countries over the past few years have featured a rise in net foreign direct investment outflows from Japan and a rise in such inflows into the United States. Net direct investment outflows from Japan reached almost $35 billion in 1988 (45 percent of the current account surplus) and rose to $45 billion in 1989 (almost 80 percent of the surplus). In the United States, net inflows of direct investment were equivalent to more than 30 percent of the current account deficit in 1988, and the share rose to 35 percent in 1989. This increase in net direct investment flows has begun to contribute to the adjustment process in Japan and the United States by shifting productive capacity—for example, in the automobile and consumer electronics industries—from the surplus to the deficit country.

The aggregate current account deficit of the developing countries remained broadly unchanged at $15 billion (1¾ percent of exports of goods and services) in 1989, reflecting the net effect of stronger oil prices, a weakening of non-oil terms of trade, a surge in domestic absorption in several large countries, and higher international interest rates. However, developments differed considerably across country groups. The current account deficit of the fuel exporters declined by $13 billion to $7 billion (3½ percent of exports), reflecting both the higher price of oil and the continued expansion in the volume of oil exports. By contrast, a swing of similar magnitude, but in the opposite direction, resulted in a combined external deficit of the non-fuel exporters of $9 billion (1¼ percent of exports). Moreover, several countries in Europe and the Western Hemisphere also experienced a deterioration in their current account positions as a result of measures to liberalize imports, rapidly rising domestic demand, and slippages in financial policies. The current account deficit of Africa declined slightly, mainly reflecting the improved positions of oil exporting countries in this region. The combined external surplus of the four Asian newly industrializing economies declined from $28 billion in 1988 to $21 billion in 1989. The fall was more than accounted for by a sharp reduction in Korea's surplus (from 8¼ percent of GNP in 1988 to 2½ percent of GNP in 1989), which resulted from a real appreciation of the won, measures to open the domestic market, very strong growth of domestic demand (14 percent in 1989), and supply disruptions caused by labor disputes.

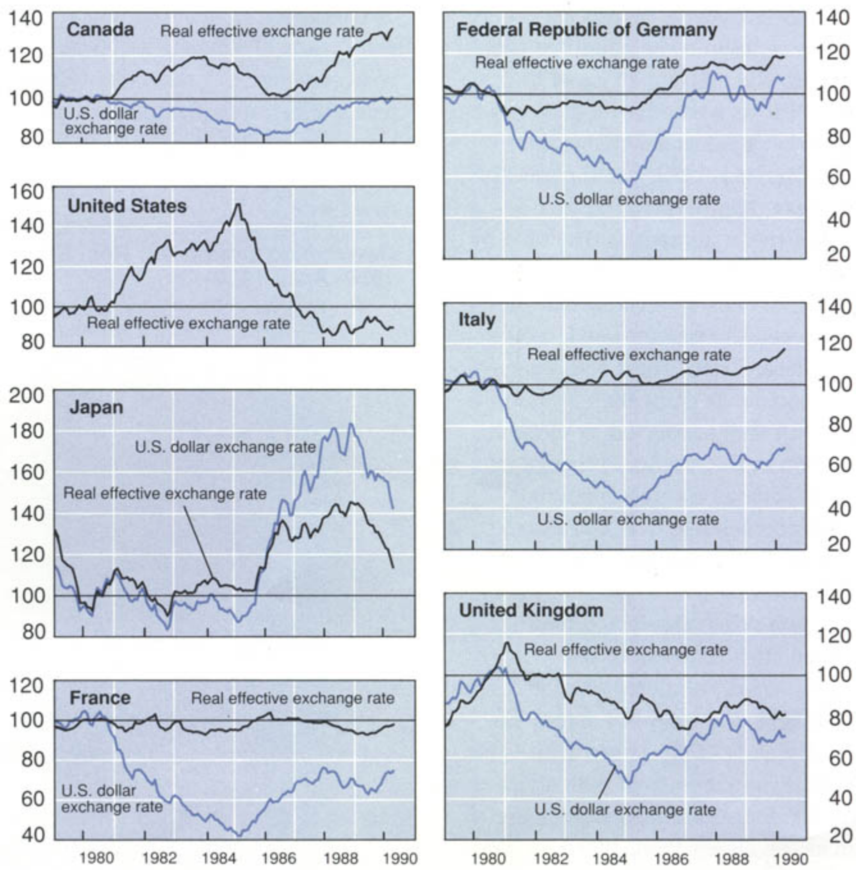
Exchange Rates

During 1989 and early 1990, the tightening of monetary conditions in Japan and Germany relative to those in the

Chart 5

Major Industrial Countries: U.S. Dollar and Real Effective Exchange Rates, 1979–April 1990[1]

(1980 = 100)



[1] Real effective rates are calculated on the basis of normalized unit labor costs in manufacturing.

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United States resulted in a substantial narrowing of interest differentials in favor of assets denominated in U.S. dollars. However, in the first half of 1989, such differentials were still heavily in favor of dollar assets and the U.S. dollar appreciated sharply (Chart 5). From the end of 1988 to mid-June 1989, the dollar appreciated against the yen and the deutsche mark by 15 percent and 11¾ percent, respectively, and by almost 10 percent in real effective terms, in spite of reported dollar sales by major central banks that reached an unprecedented scale in May and June. Underpinning the upward movement of the dollar at this time—apart from better than expected economic fundamentals and favorable interest differentials vis-à-vis the other two major currencies—were developments in some countries that increased the attractiveness of the U.S. dollar as a safe-haven currency.

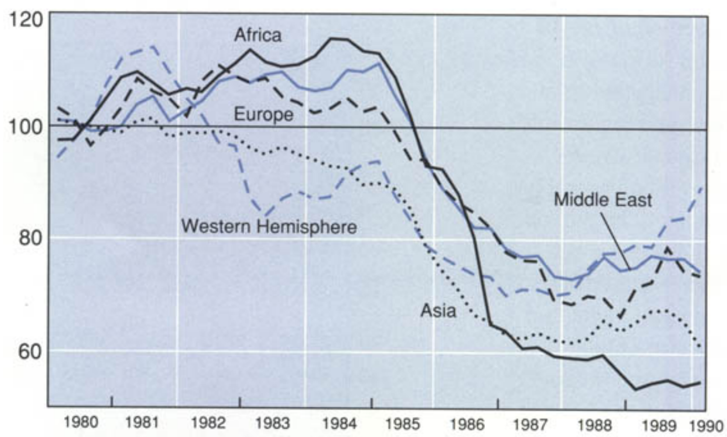
The dollar remained strong until mid-September 1989, but the upward trend was then reversed in part because of the statement at that time by the Group of Seven finance ministers and central bank governors that they "considered the rise in recent months of the dollar inconsistent with longer-run economic fundamentals." This statement was supported by close cooperation in the foreign exchange markets, including reported concerted official intervention. The dollar's reversal also reflected the continuing shift in interest rate differentials in favor of non-dollar assets and the increasing attractiveness of the deutsche mark to international investors in light of events in Eastern Europe. By early 1990, interest rates on deutsche mark assets of both short-term and long-term maturities were as high as, or higher than, those on comparable dollar assets for the first time since the mid-1970s. By April 1990, the dollar had depreciated against the deutsche mark by 10 percent from its level a year earlier. During the same period, however, the dollar had appreciated by 20 percent against the yen and 4 percent against the pound sterling; the real effective value of the dollar was unchanged over this period.

The upward pressure on the deutsche mark does not appear to have created major strains among the currencies participating in the exchange rate mechanism of the EMS, as the increase in German interest rates was largely matched throughout the European Community. On January 1, 1990, France abolished all its remaining exchange controls, thus completing the gradual liberalization that began in 1986; in the first four months of 1990, the French franc strengthened against the deutsche mark, notwithstanding a 100-basis point narrowing of the short-term differential in interest rates vis-à-vis Germany. In late April, the Italian authorities announced the elimination of all remaining currency restrictions, effective May 14, 1990.

One of the most notable developments in exchange markets was the relative weakness of the yen, particularly in early 1990. Over the year ended April 1990, the yen depreciated by 20 percent in real effective terms. This occurred despite Japan's large, albeit declining, external surplus and interest rate differentials that narrowed vis-à-vis U.S. dollar assets, while remaining broadly unchanged against assets denominated in other major currencies. To some extent the yen's weakness in 1989 reflected a reversal of the considerable strength of the currency in the preceding year and as a delayed response to adverse movements in interest differentials at that time. But several other elements may have played a role in the depreciation of the yen last year. First, domestic political uncertainties in 1989

Chart 6

Developing Countries: Real Effective Exchange Rates, 1980–April 1990[1]
(1980 = 100)



[1] Composites for regional groups are weighted averages, where countries' weights are dollar vlaues of their respective GDPs during 1982–87. 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. Coverage for the Western Hemisphere, Europe, and Asia is complete.

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appear to have led to a shift in portfolio preferences away from yen-denominated assets. Second, the pronounced narrowing of Japan's external surplus since the first quarter of 1989 may have caused a revision of expectations regarding the need for further yen appreciation. Finally, continued portfolio diversification by large Japanese institutional investors, in addition to a sharp rise in Japanese foreign direct investment over the past two years, may have contributed to the currency's weakness.

Since the September 1985 Plaza Agreement, there have been large changes in the reserve positions of the major industrial countries, reflecting, in large measure, the pattern of exchange market intervention. Japan's reserves rose sharply through early 1989, but the weakness of the yen during the following 12 months was accompanied by a substantial decline in reserves. Similarly, Germany's reserves rose steadily as the deutsche mark appreciated through the end of 1987, but then fell sharply as the mark weakened between early 1988 and mid-1989; the strength of the deutsche mark since September 1989 was again associated with a rise in Germany's reserves. U.S. official reserve assets declined as the dollar depreciated between 1985 and mid-1988, but they have increased strongly since then.

In the developing country regions, with the general exception of Africa, competitive positions—as measured by real effective exchange rates—tended to deteriorate in 1988 and during most of 1989, although levels of competitiveness at the beginning of 1990 still compared favorably with those prevailing at the beginning of the 1980s (Chart 6). The real appreciation of exchange rates was particularly large in the Western Hemisphere and in Europe, where adjustments in nominal exchange rates have been insufficient to compensate for rapidly rising prices, particularly in Brazil, Peru, Poland, and Yugoslavia. (However, the situation improved substantially in Yugoslavia, as the inflation rate declined dramatically by the second quarter of 1990.) The real effective value of the Middle Eastern currencies has increased broadly in line with the U.S. dollar over this period. The currencies of the Asian newly industrializing economies, particularly Taiwan Province of China and Korea, also appreciated in 1989, as in 1988. The improvement of external competitiveness in Africa in recent years reflects a movement toward liberalization of exchange arrangements and more flexible exchange rate regimes in the context of adjustment programs in a number of countries, for example, Ghana, Nigeria, and Zaïre.

3. External Financing and Debt in Developing Countries

External Financing

Recourse to external financing (to cover the balance on goods, services, and private transfers) by the developing countries as a group was about \$30 billion in 1989, but remained well below what it had been prior to 1987. The external financing of fuel exporters fell sharply in 1989 as oil prices firmed, but this was more than offset by a rise in the external deficit of fuel importing countries. Developing countries in Asia ran a current account deficit (excluding official transfers) for the first time since 1985. The external aggregate financing of countries with debt-servicing difficulties was unchanged. The total inflow of external resources to these countries increased, enabling them to build up foreign exchange reserves by \$8 billion. However, the overall composition of external financing was less favorable than in the previous year as non-debt-creating flows (including official transfers and foreign direct investment) fell by \$3 billion. Net external borrowing increased by \$8 billion, and there was a significant reflow of private capital (for example, in Mexico). The financial position of many countries with debt-servicing difficulties remains vulnerable.

The trend toward increased lending from official, bilateral, and, particularly, multilateral sources in the financing of external imbalances of developing countries continued in 1989. According to preliminary estimates, net lending from official sources increased to \$27 billion and was supplemented by a further modest rise in the flow of official transfers.

With few concerted new money lending arrangements, the level of funds raised on international capital markets during the year was low, although spontaneous lending increased slightly. Developing countries raised about \$16 billion in the form of new publicized commitments, compared with an annual total of \$23½ billion raised in 1988 and \$24½ billion in 1987. Total net borrowing from commercial sources was further depressed by the re-emergence of interest arrears which, in many instances, provoked restrictions on trade-related financing.

Some countries are now beginning to benefit from debt-restructuring agreements reached with the commercial banks following the strengthening of the debt strategy agreed at the Interim and Development Committee meetings in April 1989. In contrast, there has been a decline in the volume of discounted debt transactions conducted outside of the officially sponsored debt-reduction initiative, as several developing country govern-

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ments either limited or abandoned debt-equity swap auctions and imposed restrictions on private debt conversions. The latter restrictions reflected the reluctance of some governments to liberalize investment regimes and privatize state-owned enterprises, as well as increasing concern about the domestic financial implications of such transactions, when they were not accompanied by prudent budget and monetary policies and appropriate prices for the assets involved. In addition, the slowing in activity reflected the dwindling supply of private debt eligible for informal debt conversions and buy-backs.

External Debt and Debt Service

The total external debt of developing countries was almost unchanged at $1,235 billion (32 percent of aggregate GDP) at the end of 1989. In the Western Hemisphere, market-based debt-reduction operations, such as buy-backs, debt-equity swaps, and private sector discounted prepayments, helped to reduce the region's debt slightly to $408 billion (38 percent of GDP). The developing countries of Europe also experienced a decline in their external debt, mostly reflecting valuation effects that outweighed additional borrowing by Hungary and mounting arrears in Poland. Africa's debt was largely unchanged at $209 billion (53 percent of GDP), reflecting the net effect of continued official concessional lending, debt cancellations, and currency valuation effects. The external debt of developing countries in Asia and the Middle East increased slightly, to $331 billion and $167 billion, respectively.

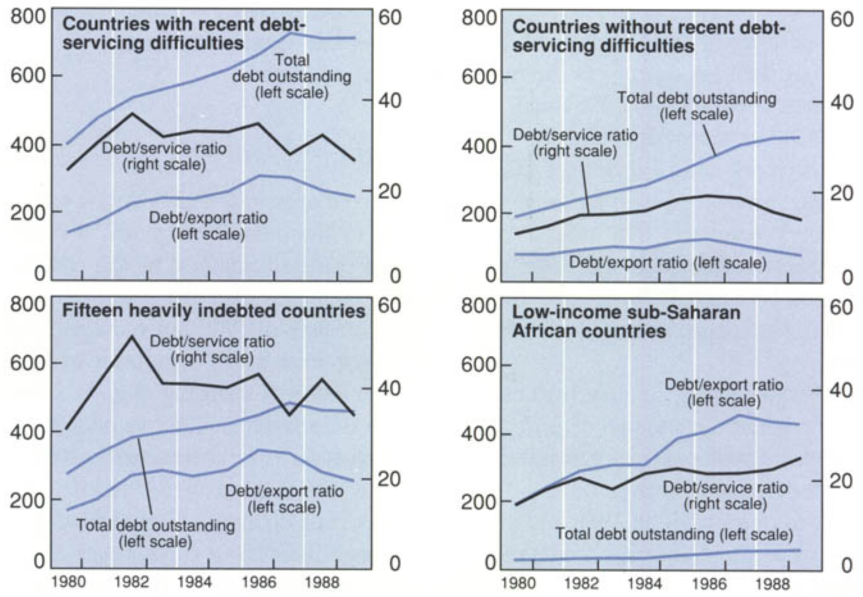
Reflecting the trend toward increased reliance on official sources of finance, liabilities to official creditors rose again in 1989, but only by about 3 percent, compared with an average annual growth of 12 percent in the preceding six years. Liabilities to the nonofficial sector fell by about 2 percent last year, compared with an increase of almost 4 percent a year in 1983–88.

The relative stability in debt stocks, combined with continued export growth, reduced the aggregate debt/export ratio of all net debtor developing countries to the lowest level since 1981. Debt/export ratios have also fallen for most of the major component groups of net debtor countries in the last two years (Chart 7), although the debt/export ratio for countries with recent debt-servicing difficulties remained well above the 1981 level. Debt/service ratios also fell significantly for most debtors outside sub-Saharan Africa, with the slight decline in debt stocks and continued growth in export values more than offsetting higher international interest rates. Nevertheless, the debt burden remains onerous for many countries, particularly low-income countries in sub-Saharan Africa and some middle-income debtors.

Chart 7

Developing Countries: Debt Outstanding and Ratios of Debt and Debt Service to Exports, 1980–89[1]

(Debt data in billions of U.S. dollars; ratios in percent of exports of goods and services)



[1] The debt/service ratio refers to debt service actually paid rather than accrued or contractually due.

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The Fund in 1989/90

1. Surveillance

Fund surveillance over the policies of its members, mainly through Article IV consultations and regular discussions on the world economic outlook, remains the central activity of the Fund. The Fund also continues to monitor the international monetary system and to promote conditions conducive to a healthy world economy.

The Executive Board attributes the moderation in world economic activity in part to monetary policies aimed at easing pressures on productive capacity and controlling inflation. There is concern over inflation in the industrial countries, and a relaxation of the cautious monetary stance is not warranted at this time. Fiscal policy should play a more important role to complement monetary policy. A continued reduction of external imbalances is needed. The fall in saving rates in some industrial and developing countries could have serious implications for economic welfare.

Continued constraints on external financing underscore the importance to developing countries of sustaining sound domestic policies. Heavily indebted developing countries, in particular, must boost saving and investment, and adopt structural reforms. For the Eastern European economies, the transition to market-oriented economies is likely to involve short-term adjustment costs. This process should be accompanied by monetary and fiscal policies to foster a stable economic environment.

The Fund is mandated to "exercise firm surveillance over the exchange rate policies of members" to help assure orderly exchange arrangements and to promote a stable exchange rate system. It carries out this responsibility with the active participation of its member countries. Fund surveillance consists of an ongoing monitoring and analysis of a broad range of domestic and external policies affecting, in particular, members' price and growth performance, external payments balances, exchange rates, and restrictive systems. At its May 1990 meeting, the Interim Committee reaffirmed the importance of Fund surveillance "as a means for promoting economic policies in members that are conducive to sustainable economic growth and improved global welfare." The pursuit of sound economic policies by member countries, in the Interim Committee's view, "is a prerequisite for effective international economic cooperation."

The Fund fulfills its surveillance responsibilities in two principal ways. First, and primarily, the Board examines in depth each member's economic policies and performance. These examinations are based on staff reports, which are developed in regular consultations with the authorities of member countries. Second, the Board holds regular discussions on the world economic outlook; these allow for reviews of members' policies from a multilateral perspective and for systematic monitoring and analysis of the global economic situation. In addition, the Board holds periodic discussions on exchange rate developments in major industrial countries. The Fund also fulfills its surveillance responsibilities through the Managing Director's participation in Group of Seven meetings—to which he brings a global perspective that helps in analyzing international policy interactions and which encourages national authorities to consider the global consequences of their domestic policies. Technical assistance is given to member countries on exchange rate policies and exchange systems.

Fund surveillance plays a role in fostering more consistent and disciplined economic policies on the part of its members. The Fund contributes to policy coordination among the major industrial countries through its work on key economic indicators and on medium-term scenarios. The Fund staff prepares medium-term projections for a range of indicators that are being used as a basis for monitoring and reviewing the policies and performance of the large industrial countries. These indicators—which the Fund has been working on since 1986—include real growth of GNP or GDP, growth of real domestic demand, gross private investment, GDP deflators, general government financial balances, current account balances, and primary commodity prices. They also include structural policies that are consistent with the central macroeconomic focus of surveillance. The staff prepares, for Board consideration, medium-term scenarios to illustrate the effects of alternative policy paths and to help identify potential conflicts that may need to be addressed by policymakers.

Both the Board and the Interim Committee have directed the staff to continue analyzing developments and key issues in the functioning of the monetary system, with a view toward identifying improvements. At a June 1990 seminar on international monetary issues, Directors reaffirmed this objective. Enhancing the Fund's role in the monetary system, they agreed, depends mainly on the quality of its surveillance.

The Board shared the view that exchange rates alone cannot serve as a nominal anchor against inflation for the international monetary system; rather, the achievement of price stability is mainly the responsibility of the monetary authorities of each country. The growing importance of Europe and

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Box 2

The IMF Executive Board, the Interim Committee, and the Development Committee

The Executive Board (the Board) is the Fund's permanent decision-making organ, currently composed of 22 Directors appointed by member countries or elected by groups of member countries. Chaired by the Managing Director, the Board normally meets several days a week to conduct the business of the Fund. Prior to reaching decisions, it discusses papers prepared by the Fund management and staff. In 1989, about half of the Board's time was spent on country matters (Article IV consultations, the review and approval of arrangements) and much of the remaining time on policy issues (such as surveillance, the debt strategy, and quotas).

The Interim Committee of the Board of Governors on the International Monetary System is an advisory body made up of 22 Fund Governors, ministers, or others of comparable rank, representing the same constituencies as in the Fund's Executive Board. The Interim Committee normally meets twice a year, in April or May and at the time of the Annual Meetings in September or October. It advises and reports to the Board of Governors on the latter's functions of supervising the management and evolution of the international monetary system, considering proposals by the Fund's Executive Board to amend the Articles of Agreement, and dealing with sudden disturbances that might threaten the international monetary system; the Interim Committee also advises the Fund's Executive Board on these matters.

The Development Committee (the Joint Ministerial Committee of the Boards of Governors of the Bank and the Fund on the Transfer of Real Resources to Developing Countries) is composed of 22 members—finance ministers or others of comparable rank—and generally meets in conjunction with the Interim Committee. It advises and reports to the Boards of Governors of the Bank and Fund on all aspects of the transfer of real resources to developing countries.

Japan precluded a return to a Bretton Woods-type system in which global price stability depended entirely on the United States; a few Directors saw the three largest industrial countries as forming the nucleus of a "low-inflation club," although others felt this responsibility should be shared more widely. There was broad agreement that a well-disciplined fiscal policy had to be an important ally of monetary policy in promoting sustained, noninflationary growth. There was also wide support for the view that rigid rules to guide monetary policy could prevent adequate responses to unforeseen circumstances.

In discussing the possibility of distinguishing between "good" and "bad" current account imbalances, a number of Directors noted that this depended on the source of the imbalances. Several Directors, however, questioned the feasibility or desirability of identifying good and bad external imbalances, since the multilateral nature of the external adjustment process would inevitably involve adjustment of both types of imbalances. The view was expressed that current account imbalances could not be evaluated without looking at global saving and investment needs. There was concern that policies aimed at reducing imbalances should take into account the need for increased global saving; another view was that it was no less compelling to ensure that the process of external adjustment does not have a deflationary impact on the global economy, and that this suggested the need to adjust both types of imbalances.

In assessing the experience to date with managed floating, some Directors were of the view that exchange rate determination should not be left exclusively—or even predominantly—to the markets, owing to their sensitivity to transitory developments. Advocates of this view pointed to the European Monetary System's experience with progressively greater exchange rate stability as having positive lessons for managing the monetary system. Other Directors emphasized that exchange market stability was not synonymous with exchange rate fixity, and that such stability had to follow from—instead of lead—internal stability.

On regional integration, the Board welcomed the progress toward monetary and economic union in Europe and toward free trade in North America, with some Directors seeing the international monetary system evolving in a tri-polar direction. The Board cautioned that greater regional integration should be seen as a step toward—and not a substitute for—greater global integration.

Directors reaffirmed the important role that policy coordination had played in sustaining the long-running, noninflationary expansion in the industrial world and in promoting greater exchange rate stability. They share the view that further improvements in the analytical framework underlying

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policy coordination may be possible through a better understanding of the determinants and macroeconomic implications of international capital flows, and the staff is engaged in work on this issue.

With respect to medium-term scenarios, a number of Board members believed that although these are useful in analyzing and understanding the international implications of major economic developments and policy initiatives, their limitations must be recognized. The Board emphasized the need to continue focusing on structural issues in Article IV consultations and in the analyses for the World Economic Outlook. It also welcomed the staff report's attention to demographic issues, as these provide a useful long-term perspective on the stance of fiscal policies and the evolution of external imbalances.

Box 3

Structural Adjustment Defined

In recent years, policymakers in industrial countries seeking to strengthen the performance of their economies over the medium term have recognized not only that traditional macroeconomic policies need a medium-term orientation, but also that the way their economies function needs to be improved. A number of industrial countries have taken important steps toward improving efficiency, including major tax and financial reforms, privatization, and measures to enhance the flexibility of labor markets. These structural reforms should enhance productive potential and facilitate an improvement in economic performance and in living standards.

Two broad categories of structural measures can be identified:
(1) Measures that eliminate the inefficient use of resources and allow more rapid adjustment to technological innovation and changes in relative prices. Such measures remove rigidities impeding the mobility of resources—such as institutional or regulatory barriers to the mobility of labor—and eliminate price distortions and taxes that distort private saving and investment decisions.
(2) Measures that increase output potential by adding to productive resources (such as capital and labor) or by raising overall productivity. Examples include promoting research and development, and applying technical knowledge more effectively to production.

Article IV Consultations

Fund staff meet regularly with the authorities of each member country to gather current economic and financial information and to review economic policies and developments. These consultations are required under Article IV of the Fund's Articles of Agreement, or charter. They enable the Fund to analyze economic developments and policies in member countries; to examine members' fiscal and monetary policies and performance, and balance of payments situation; and to assess the impact of policies—including exchange and trade restrictions—on members' exchange rates and external accounts. In addition, consultations help draw attention to the international implications of policies and developments in the economies of individual countries. They also permit the Fund to deal promptly with members' requests for the use of Fund financial resources and with proposed changes in policies or practices that are subject to Fund approval. Article IV consultations enable the staff and the Board to draw on, and learn from, the broad experience of the membership over an extended period of time.

The substance of Article IV consultations depends on the characteristics of the member country and on the prevailing external economic environment. In recent years, increasing attention has been devoted to determining whether a country's balance of payments position can be sustained over the medium term and to ways that structural policies can enhance economic performance—and, in particular, promote higher savings (see Box 3).

Article IV consultations may be held annually, or at intervals of up to 24 months, depending on the member country. Under the "bicyclic" procedure—introduced in 1987 to help reduce the frequency of Board discussions while ensuring the quality of surveillance—a full consultation, including a Board discussion, is held every second year and an interim staff consultation in the intervening year, with a report submitted to the Board for consideration.

In 1989, 99 full consultations were completed, covering 65 percent of the Fund's total membership. This compared with 110 consultations in 1988, covering 74 percent of members. The number of consultations declined in 1989 for the fourth successive year, following their peak of 131 in 1985. The decline in the number of full consultations last year reflected in part an increase in the number of countries on the bicyclic schedule (14 simplified interim discussions were held in 1989,

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as against 11 in 1988); it also reflected a rise in the number of countries without consultations for over two years (10 members, versus 6 in 1988), as efforts to combine consultations with ongoing program discussions involved some delays.

Industrial Countries

United States

The U.S. economy continued to expand in 1989, marking its seventh consecutive year of growth. Inflationary pressures rose during 1988 and into early 1989, against the backdrop of a high level of resource use. In the second half of 1989, however, such pressures appeared to have abated somewhat. Although the economy showed signs of slowing, a recession did not appear imminent. At its September 1989 meeting to discuss the U.S. consultation report, the Board saw the key challenge facing the United States to be that of laying the basis for sustained growth while pursuing external adjustment and an improved price performance. Policy needed to focus on boosting national savings to facilitate strong growth of net exports and capital formation. At the same time, Directors believed that monetary policy had to be aimed at lower inflation, with additional structural measures required to remove market distortions, particularly those affecting private saving and international trade. The Board stressed the role of decisive fiscal action in raising national savings. While it commended the progress in reducing the fiscal deficit over the past few years, the Board did not envisage a further sizable reduction under the current budget plan, and many Directors saw a need for substantial additional measures. The Board agreed with the authorities that, in formulating measures to reduce the deficit, emphasis should be placed on restraining expenditures. But, owing to the size of the deficit, there was some support for considering measures to raise revenues, for example, by eliminating certain tax preferences. Priority also has to be given to promoting private saving, for example, by eliminating disincentives, and the Board welcomed the authorities' policy review under way.

The external deficit was a major source of vulnerability. An increase in national savings, achieved mainly through fiscal restraint, was, in the Board's view, the key to further reductions in the external deficit. Convincing action in the fiscal area would also bolster international policy coordination. With all countries playing their part, policy coordination represents the most effective means for correcting external imbalances in the context of sustained world economic growth and price stability.

The Board commended the U.S. authorities for their flexible and cautious conduct of monetary policy. A majority view held that the Federal Reserve would be well advised to continue focusing mainly on inflation control since the abatement of cost and price pressures was not yet fully confirmed. Directors agreed with the authorities that monetary policy could best contribute to maximum, sustainable growth over time by fostering price stability. At the same time, the Board stressed the need for complementary fiscal action and measures to dismantle obstacles to the freer play of market forces. Such action would help monetary policy achieve price stability without major rises in interest rates, which would hurt investment and exports and pose problems for the highly indebted countries.

The Board was concerned that the Trade Act of 1988 might be implemented in a protectionist manner and urged the authorities to resist protectionist pressures and continue to play a leadership role in global efforts toward multilateral trade liberalization. On the developing country debt problem, the Board welcomed the major role played by the United States—especially the recent initiatives featuring debt and debt-service reduction—but stressed the need for the larger industrial countries to buttress these efforts by ensuring strong growth of the world economy and of international trade.

Japan

Japan's economy continued to experience rapid growth in 1989–90, based on domestic demand, and its external current account surplus declined sharply. At the same time, inflation remained low. The Board, at its July 1990 discussion of Japan, commended the authorities' pursuit of steady and prudent financial policies, which had supported the economy's outstanding performance. The financial markets appeared to have stabilized after turbulence in the early months of 1990 and the economic outlook was generally favorable.

Although inflation remained low, Directors urged the authorities to contain upward pressure on prices and maintain steady growth on the strength of domestic demand. At the same time, there was broad support for the view that strong emphasis should be placed on the bold pursuit of structural policies, particularly those that would help improve living standards, improve access to Japanese markets, and reduce rigidities and distortions in the economy and in the financial system. Directors welcomed the rise in interest rates since early 1989. They observed that the rates of money and credit growth had increased markedly in recent months,

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aggregate demand had continued to rise rapidly, and the labor market remained tight. Thus, continued vigilance was needed in conducting monetary policy.

The Board commended the authorities for achieving their fiscal consolidation targets in the 1990/91 fiscal budget and noted that fiscal policy in the past few years had helped alleviate the pressure on resources in the face of robust growth of private domestic demand. There was wide support for the broadly neutral fiscal stance planned for the current fiscal year. In general, the Board supported a continuation of fiscal consolidation efforts over the medium term in view of the prospective pressure on the fiscal position that would emerge with the aging of the population. Several Directors, however, pointing to the need for investment in social infrastructure, cautioned against a too restrictive fiscal stance.

Directors welcomed the progress made in financial liberalization and tax reform but stressed the need for further deregulation of interest rates and a faster pace of structural reform in other areas. In particular, measures to eliminate distortions in agriculture, land management, and the retail sector would not only increase welfare at home and abroad but would also help reduce trade tensions. In the trade area, Directors looked to Japan to show leadership in helping to reach a successful conclusion of the Uruguay Round of trade negotiations. Directors generally agreed that the social infrastructure of Japan should be improved.

Concerning the role of Japanese savings in promoting global growth and adjustment, the Board saw a need for a further reduction in international payments imbalances and felt that the question of the adequacy and distribution of world saving should be analyzed in a global framework.

Germany

The economy of the Federal Republic of Germany continued to expand strongly in 1989, while the role of the deutsche mark as an anchor against inflation was sustained both in the European Monetary System and in a global context. Unemployment fell significantly and an investment boom was providing much-needed new productive capacity. The rapid growth, however, had been mainly export led and had coincided with a stalling of external adjustment; indeed, the external surplus widened in 1989. The strength of exports was largely attributed to buoyant growth in the economies of trading partners and to a real depreciation of the deutsche mark. With prevailing policies, the large external imbalances among the industrial countries were not likely to narrow appreciably. In this connection, the Board, at its July 1989 discussion of Germany, stressed that although responsibility for reducing external imbalances among the industrial countries varied from country to country, all major countries had to contribute to the adjustment.

The German economy was approaching capacity limits, particularly in the export-oriented sectors, and the depreciation of the deutsche mark may have added to inflation. Given the country's high capacity use, most Directors saw little scope at that time for macroeconomic policies to reduce Germany's external surplus by stimulating domestic demand. This underlined the importance of effective policy coordination among deficit and surplus countries in the industrial world. Some Directors noted, however, that fiscal policy could still play a role in reducing external imbalances and that monetary caution should not be pushed too far. The Board emphasized the need for vigorous action in the structural policy area. Such action, supported by appropriate macroeconomic policies, could help reduce the external surplus, mitigate inflationary risks, and stimulate jobs.

The tightening of monetary management in the second half of 1988 and the first half of 1989 was seen as appropriate in order to stabilize expectations. There was some Board sentiment, however, that inflation risks not be overstated. On fiscal policy, the Board reiterated its concern about the timeliness of raising taxes in 1989 between two years of significant tax reduction; a number of Directors believed that lowering subsidies would have been a better way to reduce the deficit in 1989. At the same time, the Board welcomed the sizable tax reduction and reform to come into effect in January 1990.

With regard to structural policy, progress was achieved in some areas, but Germany needed to take a leading role in promoting trade liberalization and reducing structural rigidities. The Board called for additional initiatives to reduce trade barriers, remove subsidies, deregulate labor markets and reform financial markets, and proceed further with tax reform. These measures would strengthen the nontraded goods sector and lessen the economy's dependence on exports to sustain growth. They would thereby enhance the economy's flexibility in responding to external shocks and boost potential output.

The Board discussion did not take into account the possible consequences of monetary and economic unification between the Federal Republic of Germany and the German Democratic Republic. It is expected, however, that this process will contribute to improved noninflationary global growth and to a reduction of external imbalances. This process would also contribute to positive eco-

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nomic developments in Eastern Europe, which are supported by the international community.

France

Economic growth in France improved markedly in 1988–89, registering the highest annual growth rates in ten years. This growth was led by a resurgence of private investment and exports and was accompanied by a fall in unemployment; a continued decline in inflation relative to trading partners; a narrowing of long-term interest rate differentials, indicating a gathering of confidence in the franc; and a current account deficit that remained small despite strong domestic demand. The Board, at its August 1989 discussion of France, credited these favorable developments largely to the economic strategy pursued since 1983. This strategy combined wage and financial restraint to curb inflation and restore the profitability of enterprises with supply-oriented structural reforms, particularly in the labor and financial markets. The steadfast implementation of the strategy and its greater market orientation had considerably heightened confidence in the economy.

The Board believed that the authorities' commitment to maintaining the parity of the franc against the deutsche mark constituted a strong anchor for the economy and an effective device for conditioning domestic policies and private sector behavior. The hard-currency policy was especially suitable in view of the high level of resource use and the incipient inflationary pressures. The Board also supported the authorities' moderately restrictive fiscal stance.

Continued high unemployment, however, was a problem. It pointed to the need for further structural reforms and policies that stimulated productive investment. It was vital, in the Board's view, for France to take steps to boost domestic saving. On fiscal policies, the authorities needed to keep the growth of spending below that of GDP—partly to afford room for tax reform—and to make the tax system simpler and more competitive. Similarly, the functioning and economic effects of the social security system merited re-evaluation. Added flexibility of labor markets was also necessary. In the Board's opinion, labor productivity could be enhanced over the medium term through reforms of official employment schemes and greater emphasis on education and vocational training.

Finally, the authorities needed to strengthen competition within the economy. In domestic markets, the ease of entry for new firms had to be enhanced by removing restrictive regulations and noncompetitive market practices. As for industrial and trade policies, the Board welcomed the authorities' greater market orientation, but felt that more needed to be done. The authorities were urged to eliminate subsidies to industry and assign a high priority to removing nontrade barriers. In this connection, it was noted by a number of Directors that the agricultural, automobile, and financial services sectors seemed to be exceptions to the multilateral approach. The Board encouraged the authorities to reduce protection of domestic sectors through both national and European Community trade and industrial policies. It also urged France to take a leading role in promoting an open trading system for the single market of the European Community and for the world as a whole. The authorities were commended for their recent debt initiatives and for their intention to raise official development assistance to the internationally agreed target.

United Kingdom

U.K. economic activity slowed in 1989, in response to a marked tightening of financial policies aimed at reversing the rise in inflation. Consumption and residential construction slowed; business fixed investment also decelerated but still sustained considerable momentum. While commending the authorities' efforts to curb excess demand pressures, the Board, meeting in March 1990, expressed concern about continued high inflation and the current account deficit (which widened to 4 percent of GDP in 1989), and, in this context, the sharp drop in household savings. On the basis of existing policies, the Board expected that real growth would fall further in 1990, with real domestic demand remaining broadly unchanged from 1989. This would improve prospects for a significant narrowing in the current account deficit—signs of which had already appeared.

Nonetheless, the Board in its discussion in March expressed concern that inflation had not yet peaked and might not decline as rapidly as envisaged by the authorities. The acceleration of wage increases in 1989 and the cyclical decline in productivity were also noted. In addition, the projected slowdown in labor force growth suggested that the labor market would remain tight for some time, while the sizable depreciation of the pound in 1989 had not yet fully fed through to prices. The Board agreed with the authorities that a quick and substantial reduction in inflation remained the policy priority, especially given the United Kingdom's commitment to participate fully in shaping European plans for monetary and economic unification.

While monetary policy had been tightened progressively and significantly since mid-1988, the underlying strength of demand had proved stronger than originally forecast. As a result, inflationary pressures had also been stronger than originally forecast. There were, however, mixed views in

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the Board on the need for further tightening. On the exchange rate, the Board viewed the maintenance of a strong pound over time as an essential element in the effort to reduce inflation.

Although monetary policy was the main instrument for tackling inflation, it needed to be strongly supported by continued fiscal restraint and further structural reform. The Board commended the cautious fiscal stance of recent years. It urged continued caution in 1990/91. Some Directors argued that the authorities should aim for another large budget surplus in 1990/91. This could best be achieved by again postponing significant tax reduction and by introducing measures to promote the ongoing tax reform, particularly broadening the base. The scope for the desired reductions in the tax burden would depend on continued expenditure restraint.

On the structural front, the Board urged the authorities to continue pursuing improvements in the functioning of the labor market and in other areas. The Board welcomed the measures taken to reduce trade barriers in recent years and encouraged further progress in this regard. It also encouraged the authorities to continue working toward a liberal outcome in the Uruguay Round of multilateral trade negotiations and in the formation of a single European market.

Italy

Italy's economy continued to perform well in 1989, sustaining the favorable trend of recent years. Output growth slowed but stayed buoyant; employment increased; investment held strong; and exports grew sharply and expanded their market shares. The current account deficit widened, but it remained manageable. Efforts to strengthen public finances, however, were insufficient. Despite favorable cyclical developments in the economy, the large fiscal deficit fell only modestly relative to GDP.

The Board discussed the Italian Article IV report in March 1990, at which time it commended the stance of monetary and exchange rate policy, which helped ease inflationary pressure and thus contain the fiscal deficit's negative impact on the economy. Nonetheless, the high real interest rates that were necessary to finance the public deficit, and to restrain aggregate demand, posed risks for private investment and output growth.

Directors welcomed the measures taken in 1989 and 1990 to liberalize capital movements and to move the lira to the narrow band of the exchange rate mechanism (ERM) of the European Monetary System. European integration, however, requires a convergence of performance and harmonization of policies; thus, significant and rapid progress is needed to further reduce inflation differentials between Italy and its major European partners. The constraints imposed on monetary policy by the ERM showed up in high interest rates, heavy net capital inflows in 1988 and 1989, and in a substantial increase in Italian official reserves; the Board cited the authorities' success in neutralizing the effects on the monetary aggregates of these inflows. It was noted that constraints imposed on monetary policy would increase as the process of European integration proceeded, further underscoring the importance of fiscal adjustment.

The size of the government debt, which was approaching that of GDP, and its short-term maturity, continued to pose financial risks. Although the Board welcomed the authorities' medium-term fiscal adjustment program, it emphasized that the program's deficit targets needed to be seen as minimum requirements, with slippages to be avoided. Indeed, Board sentiment favored a faster pace of adjustment, with a greater front-loading of measures. This would help stabilize and bring about a steady decline in the debt-to-GDP ratio. Efforts to reduce the fiscal deficit should focus on reducing government spending, rather than on boosting indirect taxes. The health, pensions, and transport systems were cited as particular sources of imbalance. Privatization could also assist the fiscal adjustment while at the same time helping improve resource allocation. On the tax front, the Board encouraged the authorities to sustain their efforts to improve tax administration and to enhance compliance.

Directors were concerned about Italy's high and persistent unemployment. The problem was closely related to the increasingly divergent labor market conditions in the north and south of the country. These differences—with near-full employment in the north and high unemployment in the south—could be addressed by regional differentiation in wage rates and the removal of constraints preventing labor market flexibility and labor mobility.

The Board noted that while the saving propensity of households had remained relatively high, it had fallen in the last few years. This would have potentially adverse implications for the foreign accounts in the absence of fiscal adjustment. The Board commended Italian efforts to liberalize imports in 1989 and encouraged continued progress in this area. It also commended the increase in Italy's official development assistance.

Canada

The Canadian economy continued to expand in 1989, paced by strong growth of output and employment. The high level of resource use evident since mid-1988, however, had led to

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an acceleration of inflation, upward pressure on interest rates, and a widening current account deficit. The authorities responded appropriately by taking steps to curb the momentum of demand growth and to strengthen the economy's supply potential. These included deficit-cutting measures in the April 1989 budget, continued monetary restraint, and structural reforms in a number of areas.

The Board, meeting in early February 1990, expressed the belief that structural reforms promised a more rapid growth of potential output over the medium term, but that any such growth in line with expectations required an appropriate macroeconomic policy framework. In this connection, measures to bring demand into better alignment with supply had to be intensified, with less of a burden placed on monetary policy and more on fiscal policy. The Board was concerned about Canada's fiscal prospects. The deficit estimated for 1989/90 was large and, in view of the high level of resource use, could widen further. Therefore, although the fiscal measures in the April 1989 budget were sizable, the Board favored their reinforcement through further substantial action. Canada needed to aim for steady reductions in its fiscal deficit and also at a firm decline in its debt-to-GDP ratio. The budget for 1990/91 presented in February 1990, following the Board discussion, included significant expenditure-reducing measures. Through the Expenditure Control Plan, the substantial expenditure actions taken in the budget reinforce the momentum of earlier measures and help to ensure that the goals of the April 1989 budget will be reached.

The tight stance of monetary policy during 1989 was appropriate given the strong pressure on resources and the upturn of inflation. Interest rates would need to remain high until inflationary pressures showed clear signs of abating. At the same time, heavy reliance on high interest rates could have adverse consequences for the exchange rate and international competitiveness, as well as for domestic investment. This underscores the important need for substantial fiscal action to complement monetary restraint. The recent rise in the current account deficit also points to the importance of corrective fiscal action to curb domestic demand and lessen the upward pressure on the real effective exchange rate of the Canadian dollar.

The Board commended the authorities' substantial structural policy measures and their plans to press further ahead. The proposed sales tax, for example, promises long-run efficiency gains. Reform of the unemployment insurance system should improve the functioning of labor markets and have a positive budgetary impact, but obstacles to the interregional mobility of labor remained. The trend toward increasing farm subsidies in the 1980s was unfortunate, and Directors favored a greater market orientation in this area.

The Board welcomed the progress in implementing the Canada-U.S. Free Trade Agreement as well as Canada's commitment to multilateral trade liberalization through the Uruguay Round of multilateral trade negotiations. It urged the authorities to take further steps to reduce trade barriers and hoped that the review of restraints on textile imports would result in reduced protection in this area.

Smaller Industrial Countries

Themes similar to those for the larger industrial countries were raised in Article IV consultations with the smaller industrial countries. Discussions underscored the need for a sustained pursuit of sound macroeconomic policies with effective structural reforms to enhance overall efficiency and competitiveness.

The Board commended most of the smaller industrial countries for achieving relatively strong rates of economic growth with—in most cases—moderate inflation in 1989. Directors welcomed the sustained pursuit of greater financial and price stability by many countries and their efforts to liberalize trade policies and financial markets; for several countries, such efforts were in preparation for the monetary and financial integration under the Europe 1992 program.

A common theme of Board discussions, however, was the need for added fiscal restraint to reduce large deficits. Such restraint—which in most cases needed to be achieved mainly by spending cuts—was necessary to complement the relatively restrictive monetary policy followed by many countries. Another theme was the persistence of high unemployment in many countries, which needed to be addressed by reducing labor market rigidities. On the structural front, a number of countries needed to enhance the productivity of investment and give wider scope to market forces and to continue efforts at financial liberalization and tax reform. For several countries, reductions in trade barriers were necessary, particularly with respect to products imported from developing countries.

Developing Countries

The less favorable global environment in 1989 and the continued constraints on external financing underscore the importance for the developing countries of adopting and sustaining sound domestic policies. Accordingly, the Board welcomed the cautious budget and monetary policies followed by many developing countries

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in 1989, in view of the inflationary risks they confronted. These policies were accompanied, in many cases, by substantive programs of structural and financial reform. A large number of developing countries took steps to achieve more efficient resource management and to give wider scope to market forces. These adjustment efforts in developing countries require the maintenance of a favorable external international environment and an adequate flow of financial resources.

In view of the extent of the structural and financial problems in some developing countries, their limited resources, and, in many cases, rapidly growing populations, economic adjustment has to be sustained and extended. Discussions with a number of countries cautioned against a stop-go or partial approach to making adjustments. At the same time, Article IV consultations in 1989/90 gave increasing attention to the social consequences of corrective policies, and, specifically, to measures that target assistance to the poorest and most vulnerable groups. In this connection, the achievement of high rates of economic growth and better economic conditions is vital to alleviate poverty and to meet basic needs.

In the Board's view, the situation of most of the highly indebted developing countries remains extremely difficult, which underscores the need for domestic policies aimed at increasing savings and enhancing productive investment. While a number of indebted countries have strengthened domestic policies, in several countries in the Western Hemisphere and Europe the costs of earlier policy slippages are now evident. The indebted developing countries, in general, need to pursue macroeconomic policies designed to increase domestic savings, reduce inflation, and foster capital formation and long-term growth. They also need to adopt structural policies to allocate resources more efficiently and to promote stable growth over the medium term. Efforts to liberalize investment regimes and encourage the repatriation of flight capital are important. A reduction of external debt, in conjunction with strong policies, would contribute to a resumption of growth.

The specific policies needed to strengthen economic performance in the developing countries depend, of course, on the circumstances of each country. In general, however, the Board in its Article IV consultations frequently stresses the importance of limiting public spending by restraining public sector wages and employment, reducing subsidies, and cutting back on transfers to public enterprises. In some cases, greater efforts are needed to broaden tax bases, improve tax administration, and lower marginal tax rates. Reduced fiscal deficits are a critical objective in that they help curb inflation and prevent a crowding out of private investment. Also important is the need to sustain structural adjustment to enhance the supply of productive resources. The determined implementation of structural measures helps to encourage a recovery of saving and investment, relieve infrastructural bottlenecks, and make tax systems and public enterprises more efficient. Moreover, structural measures—in addition to giving greater attention to increasing export diversification—help strengthen the external positions of developing countries.

Exchange rate policies remain a central aspect of Article IV discussions with developing countries. In practice, the exchange rate practices and systems of members are quite diverse. Some countries peg their exchange rates to other currencies with high degrees of stability, which serves as an anchor against inflation. If exchange rates get out of line with underlying economic fundamentals, leading to a loss of competitiveness, adjustments are called for. Moreover, exchange rate changes and policies must be supported by adequate macroeconomic policies, otherwise they will not address the problem of competitiveness and may feed a spiral of devaluation, wage increases, and accelerating inflation.

In general, the Board welcomed the greater realism of exchange rate policy in many developing countries, evidenced by measures to unify exchange rates and allow greater scope for market forces in their determination. A more flexible exchange rate policy is important for encouraging export diversification and promoting an efficient allocation of foreign exchange. The positive exchange rate measures undertaken in many countries are often coupled with efforts to eliminate exchange and trade restrictions and improve external debt management. In certain developing countries, however, exchange rate management remains inflexible, with some countries continuing to maintain overvalued currencies and multiple exchange rates. A number of countries need to adopt a more prudent approach to external debt management, while countries with outstanding external payments arrears have been asked to make stronger efforts to eliminate these.

Other common themes of recent consultations with developing countries include the need to adopt flexible and realistic pricing and interest rate policies; increase the profitability of public enterprises or privatize or eliminate unprofitable enterprises; reduce administrative controls and give wider scope to private sector activity; control expenditures; reduce nontargeted subsidies; proceed with financial restructuring to improve financial intermediation; encourage foreign direct investment; and remove exchange and trade restrictions.

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Eastern European Economies

In the early postwar period, economic growth in Eastern Europe and the U.S.S.R. was roughly comparable to that in the industrial-market economies. This was due to large increases in labor and capital inputs and to readily available natural resources, rather than to increases in productivity. This pattern of growth was not sustainable, however, as became increasingly apparent in the 1980s. In the latter part of the decade, the relative growth performance of the centrally planned economies deteriorated sharply, with living standards falling even further behind those of the industrial-market economies.

The authorities in Eastern European member countries are keenly aware of the sources of their countries' economic problems. The impetus for the market-oriented reforms under way, or contemplated, is a concern with longer-term growth prospects. This has also focused attention on the importance of appropriate structural policies.

While no uniform blueprint for market-oriented reform is relevant for all centrally planned economies, the broad features of reform often include:

- Replacing systems of central planning and regulation of economic activity at the microeconomic level with systems of macroeconomic management and control. This implies the creation of markets and an end to price controls and strategies to allocate resources, and the reform—or elimination—of institutions that control prices and allocate resources. To establish a stable, noninflationary macroeconomic environment, the authorities need to aim for balance of the government budget, to curb the growth of money and credit and reform the banking and tax systems, and to eliminate open-ended price subsidies.
- Developing the intermediation role of financial markets. This would entail the introduction of market-determined rates of interest to ensure adequate savings and an efficient allocation of capital, and the development of equity markets. Also, prudent oversight and regulation of the financial system are needed to maintain confidence.
- Reducing the size of the public sector and privatizing or streamlining most public enterprises.
- Adopting institutional changes, such as modifying the legal system and commercial codes to allow wider scope for the private sector, establishing a social safety net of unemployment benefits and a system of income transfers to the poor, and reforming pension systems.
- Ending the institutional monopoly over foreign trade through free and open trade and competition, greater currency convertibility (including exchange rate unification), and elimination of domestic price controls and subsidies.

The transition from centrally planned to market-oriented economies is expected to involve considerable short-term costs, as resources are reallocated in response to relative price signals that better reflect forces of supply and demand. The process of reallocation will be promoted if it is accompanied by monetary and fiscal policies that reduce inflationary pressures and help foster the stable economic environment needed to sustain growth. It is also preferable to implement market-oriented reforms rapidly, so as to minimize the buildup of resistance and hasten the emergence of tangible benefits, and to have the authorities clearly explain the motivation for—and objectives of—the reform, as well as its transitional costs. In addition, the reforms need to be comprehensive to ensure that each reinforces the others and that the costs and benefits of the economic transformation are widely shared. The nature and scope of the reforms must also reflect the particular circumstances of each country. As to the sequencing of reforms, this too depends on individual circumstances. In general, however, it is important to establish at an early stage macroeconomic stability and institutional changes, such as modifications to the legal system, the creation of social safety nets, and the establishment of financial discipline of enterprises.

Although the near-term economic outlook for the Eastern European countries has worsened, the economic and structural reforms that have been implemented, or are contemplated, should establish a basis for stronger growth over the longer run. Such reforms must be encouraged and supported, the Interim Committee stated in its May 1990 communiqué, but such support should not be at the expense of the developing countries. The Board cites the need for better data on the Eastern European economies, as well as on the U.S.S.R., in view of the important trade relations between the U.S.S.R. and Eastern Europe.

The authorities in *Hungary* recognize the need for a consistent implementation of comprehensive structural reforms coupled with sound demand management. They have adopted major structural reforms—including a tax system overhaul, a new company law, a liberalization of the price and the wage systems, and import liberalization. The Board, at its September 1989 deliberations on Hungary, commended these measures and underscored the need for fiscal adjustment accompanied by forceful implementation of supply-enhancing measures. Budgetary spending—including spending for social security and especially for open-ended subsidies—needed to decline to allow resources to be chan-

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neled to productive uses. In this connection, increasing the financial discipline of public enterprises was central. The Board emphasized the need to re-establish and maintain tight budgetary and monetary policies. On the exchange rate front, the authorities needed to monitor closely the exchange rate and make timely adjustments to ensure competitiveness. Subsequent to the Board discussion, the authorities devalued the forint by 15 percent against the basket of convertible currencies to which it is pegged prior to the approval of a stand-by arrangement in March 1990 (see Section 3).

During its discussion of *Poland* in February 1990, the Board commended the authorities for their program of radical transformation, and for the priority given to reducing inflation and eliminating shortages. Directors welcomed the bold measures adopted to liberalize prices, curb wage increases, manage the exchange rate, and reduce the fiscal deficit. They commended the authorities' pursuit of a credit policy aimed at limiting money growth and ensuring positive real interest rates, and the establishment of a fully independent central bank. The recent decline in output prompted concern and underlined the need for measures to enhance supply. Improving the economy's supply response, in turn, requires quick action to transform state enterprises (privatizing them, increasing their efficiency, or abolishing them); to break up monopolies in key sectors; to modernize the banking system; and to overhaul the tax system. The Board considered it essential to protect the neediest groups in the population and to retrain and provide unemployment benefits to workers rendered redundant in order to ensure continued political and social support for the reform program. Directors stressed the crucial importance of external assistance in various forms, particularly the provision of timely and generous exceptional financing in 1990. (For a discussion of the stand-by arrangement with Poland, agreed in February 1990, see Section 3.)

With respect to other Eastern European member countries, a fact-finding mission visited *Romania* in early 1990. The *Czech and Slovak Federal Republic* and the *People's Republic of Bulgaria* have both applied for Fund membership.

A European member in the Mediterranean area that is undertaking major economic restructuring is *Yugoslavia.* It is, however, distinct, both historically and in its economic and political structure, from the centrally planned economies of Eastern Europe. The Yugoslav authorities intensified structural reforms early in 1989, with the goal of promoting the move toward a market economy over the medium term. The Board, meeting in September 1989, welcomed the devaluation of the dinar and the shift to positive real interest rates, which had helped strengthen the balance of payments. The momentum of inflation and the weak output needed attention. The authorities had to give high priority to reducing inflation and to give added autonomy to the central bank to facilitate the needed tightening of monetary policy. Tighter budget constraint was essential. In this connection, Directors favored measures to control wage increases. Structural and institutional reforms were also vital. The Board welcomed the authorities' commitment to maintaining a strong external performance and an exchange rate system free of restrictions. Directors commended the import liberalization achieved to date, but encouraged further progress. Subsequent to the Board discussion, the authorities designed and implemented a comprehensive program of disinflation and structural reform supported by a stand-by arrangement approved in March 1990 (see Section 3).

World Economic Outlook

The Board and the Interim Committee conduct regular reviews of the interaction of the economic policies of member countries and their implications for the global monetary system. These reviews are based on the staff's World Economic Outlook report, which analyzes the short-term and medium-term prospects for the world economy, for the major industrial countries, and for various other country groups.

In addition to providing a global framework for the surveillance conducted through Article IV consultations with individual countries, the World Economic Outlook exercise helps identify potential conflicts and tensions that may arise between countries if prevailing economic policies continue unchanged. It also constitutes a framework for monitoring and analyzing other important global issues, such as global savings or the debt problem.

If world economic conditions change dramatically between regularly scheduled discussions of the World Economic Outlook, the Board may hold additional discussions.

Global Situation

At its April 1990 discussion of the World Economic Outlook, the Board attributed the slowdown in world economic activity largely—but not exclusively—to the restrictive monetary stance in most industrial countries. This was aimed at addressing pressures on productive capacity and the upsurge of inflation in 1989. The

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Board considered the reduced pace of demand growth as necessary to prolong the global expansion and believed that growth in Europe—and especially in Germany—may well be stronger than projected. A central theme of the Board discussion was that, for the 1990s to be a decade of growth, the industrial countries must raise savings to satisfy rising global investment needs.

The Board agreed with the staff projection that growth in the developing countries would remain roughly unchanged in 1990, after having declined in 1989. It cited the impact of the less favorable external environment in 1989–90, particularly the slower growth of world trade, rising international interest rates, and weakening commodity prices. Concern was expressed over the risks of inflation in the developing countries, particularly the sharp rise in certain high-inflation countries. These developments underline the importance of fundamental domestic policy reforms in developing countries to make the best use of existing global opportunities by improving their resource allocation and efficiency.

External imbalances are a cause of serious concern if they are large and persistent, as they can result in a spiral of rising external debt and interest payments, disruptive market reactions and exchange rate swings, and protectionist responses. At its April 1990 session, the Board welcomed the substantial declines in the current account imbalances of the United States and Japan. Although the German surplus remains quite large, it could diminish substantially if investment rises sharply relative to savings in connection with the move toward German unification and market developments in other Eastern European countries. Some Directors emphasized that the expected persistence of large external imbalances raised questions about their sustainability and about possible adverse reactions in financial markets. Many Directors stressed that external deficits in a number of countries reflected an excessive absorption of savings by the public sector, indicating the need for changes in fiscal policy. In surplus countries, structural policy initiatives were needed to improve resource allocation and promote efficient investment.

In discussing developments in international capital markets, the Board noted the rebound in activity in 1988–89 from its low level following the October 1987 stock market drop. The recovery occurred in the context of a continued integration of financial markets, globalization of investment behavior, and the development of new financial instruments. The Board sees challenges for policymakers in these trends. The increased integration of markets poses risks of market volatility and underscores the need for sound policies and reductions in external imbalances to bolster market stability, as well as strengthened supervision of banking and securities industries. Directors commended several initiatives in this area, which are aimed at improving national regulatory systems and increasing the international coordination of such systems. They also cited the need to strengthen clearance and settlement systems and international understandings on the division of responsibility for lender of last resort protection.

Industrial Country Policies

The Board welcomed the more moderate pace of demand growth in most industrial countries. Concern about inflation outweighed fears of recession, although the view was also expressed that the rise in inflation in 1989 was largely transitory and that inflation was contained at the time. Concern was expressed that relaxation of monetary policy might reignite inflationary pressures and require a more severe policy tightening at a later stage, thereby threatening the sustainability of the expansion. The increase in interest rates since early 1989 was primarily attributed to inflation expectations, although it was also related to uncertainties about future economic and political developments in Eastern Europe and to the prospect of heavy investment and higher fiscal deficits associated with the process of German reunification.

The Board stressed that appropriate fiscal and structural policies could reduce the risk of a further rise in interest rates and even pave the way for a gradual decline over time. There was some concern that monetary policy was overburdened and that fiscal restraint should play a more important role. In this view, an excessive reliance on monetary policy—and the associated high levels of interest rates—would have negative consequences for investment and the debt burden of developing countries. The concern was expressed that the progress achieved in fiscal consolidation in a number of industrial countries was insufficient to ensure adequate rates of saving, investment, and potential output growth over the medium term. Indeed, at its May 1990 meeting, the Interim Committee stated that further progress toward fiscal consolidation in these countries is "imperative," together with the adoption of policies that reduce impediments to private saving.

The Board discussed at length the effects of inflation and the implications of a monetary strategy aimed at achieving price stability. The costs of inflation are substantial, and progress toward price stability will boost confidence in economic policies and bring about lasting efficiency gains that are

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likely to exceed by far the transitional costs of disinflation. Some Directors favored a program to eliminate inflation, while others felt that the medium-term objective should be low and stable inflation. There was support for the view that, in those countries with high inflation and large fiscal deficits, a tighter fiscal policy would help diminish the costs of reducing inflation while lowering interest rates, thereby helping lighten the debt burden of the developing countries.

In discussing the problem of external imbalances, the Board noted that the rise in domestic spending associated with the move toward German unification, together with the continued need for external financing in developing countries and the additional needs associated with economic reform in Eastern Europe, underscore the urgency of reducing external imbalances by raising saving in the deficit countries rather than by reducing it in the surplus countries. Fiscal consolidation and the removal of distortions affecting private saving in deficit countries would ease pressure on prices, reduce interest rates, and thereby foster conditions conducive to appropriate exchange rate and current account developments.

With respect to the prevailing pattern of exchange rates, the view was expressed that the substantial real depreciation of the Japanese yen since early 1989 did not reflect the fundamental strength of the Japanese economy and would not promote further external adjustment. If the weakness of the yen persists, the Board believed, it could reverse the sizable reduction in Japan's external surplus that had occurred since 1987. The Board discussed the complex relationship between equity markets, exchange markets, and monetary policy; it concluded that monetary policy remained the central instrument for attaining stability in expectations and markets. At its May 1990 meeting, the Interim Committee noted that policies should "help to foster exchange rates consistent with a better working of the global adjustment process."

The Board and the Interim Committee share the view that economic performance in all the industrial countries could also be enhanced through more forceful structural policy measures. The removal of impediments to the operation of market forces is seen as essential for raising productivity and achieving higher long-term growth.

Developing Country Policies

Average growth in the developing countries slowed substantially in 1989 and prospects are for little change in 1990, as discussed earlier. The Board, at its April 1990 meeting, took note of the adverse impact on developing countries of the slower growth in world trade, the rise in international interest rates, and the weakening of commodity prices.

Of particular concern in 1989 was the sharp deterioration in the price performance of several countries already experiencing high inflation, which contrasted with the situation in a number of countries whose economic stabilization efforts had begun to bear fruit. The staff's projection of a sharp drop in the average rate of inflation in the developing countries in 1990–91 hinges on the firm implementation of programs of economic stabilization in several key countries, and the Board was uncertain whether this condition would be met in a number of countries.

The less favorable external environment and the expectation of continued constraints on external financing for the developing countries underscore the urgency of a considerable strengthening of macroeconomic and structural policies to improve the efficiency of resource use and to promote higher levels of domestic savings and investment.

The Board took special note of the persistent economic difficulties of most of the heavily indebted developing countries. The Interim Committee, at its September 1989 meeting, termed "urgent" the need to restore growth in the indebted developing countries. It called for stepped-up efforts to boost saving and investment, adopt structural reforms to enhance efficiency, curb inflation, encourage the return of flight capital, and promote foreign direct investment. At the same time, the Committee recognized the need for the developing countries to pay due attention to shielding the poorest in their populations from the adverse—albeit transitory—effects of economic reforms.

The Board, at its April 1990 discussion, expressed the fear that the staff's expectation of strengthened economic performance over the medium term was subject to considerable downside risk. This was because the projected improvement depended critically on the effective implementation of corrective policies. The Board commended the improved domestic policies in a number of developing countries in recent years but noted that several highly indebted countries are now saddled with the costs of earlier policy weaknesses. In this context, the Board emphasized the need for more restrictive budget and monetary policies to reverse the trend toward chronic inflation and to restore the confidence and stability needed to foster investment and growth.

The achievement of higher growth rates in the indebted developing countries also requires, in the Board's view, that markets in the industrial countries remain open, that the supply of world savings be sufficient to en-

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sure a lasting decline in world interest rates, and that official financial assistance to Eastern Europe not occur at the expense of other developing countries. Some Directors have emphasized that policy reforms in the developing countries would be more effective—and more likely to be implemented on a sufficient scale—if they are carried out in conjunction with increased flows of long-term external financing, as well as debt and debt-service reduction. Nonetheless, in an environment of scarce global savings and debt-servicing problems, policy measures in developing countries must focus on raising savings and freeing international trade.

To underscore the importance of free trade, the Board called for urgent action to sustain the expansion of world trade and improve the access of developing countries to export markets. In this connection, a successful conclusion of the Uruguay Round of multilateral trade negotiations by the end of 1990 is essential since it would bring about substantial gains in global economic efficiency and reduce trade frictions, which recently have had negative effects on international trade and financial markets (see Section 4). The Interim Committee, at its May 1990 meeting, stressed that a successful conclusion of the Uruguay Round by the end of 1990 is particularly important for countries seeking to adjust their economies through adopting market-oriented systems. To achieve a successful conclusion, renewed efforts at trade liberalization are needed, especially in such areas as agriculture and textiles. The crucial importance of the principle of multilateralism to guide trade negotiations was emphasized.

Saving in the World Economy

The fall in saving rates in many industrial and developing countries has serious implications for economic welfare and prompted a Board discussion of a staff report in late 1989, as well as consideration at the April 1990 Board session on the World Economic Outlook and by the Interim Committee at its May 1990 meeting. Lower saving results in lower capital investment and poses risks for strong and sustained global economic growth, for external adjustment in the deficit countries, and for ameliorating the debt problem. Moreover, sharp differences in saving patterns among countries have contributed to the emergence of large external imbalances, especially among the major industrial countries. The magnitude of these imbalances, and their persistence, underscores the need for their correction.

Some Board members expressed concern about the impact on developing countries of lower industrial country saving. With saving falling below investment in the industrial countries in the 1980s, the combined current account balance of these countries shifted into deficit. As a result, the net flow of savings—traditionally from industrial to developing countries—moved in the other direction (Chart 8).

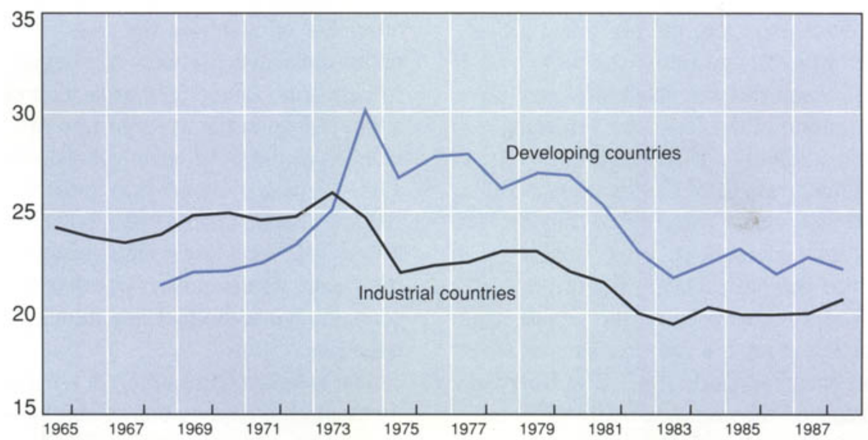
Industrial Countries

The Board agreed that reversing the trend toward declining saving rates would require actions to strengthen both public and private saving. Among the most important variables is government policy, which affects public saving directly and private saving indirectly; in addition, government saving has declined substantially while private saving has fallen to a lesser extent. The most effective way to reverse recent trends in saving would be for countries with fiscal deficits to improve the financial position of the public sector and for all countries to adopt structural policies that minimize distortions that work against saving or investment.

The fall in private saving rates in the industrial countries is associated with a number of other variables, including

Chart 8

Gross National Saving Rates: Industrial and Developing Countries, 1965–88
(As percent of gross national product)



Source: Organization for Economic Cooperation and Development, National Accounts

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the revaluation of the stock of wealth, increases in the relative income shares of the elderly, shifts in relative prices, tax distortions, and demographic changes. Lower saving rates, however, have been associated partly with developments that have improved economic welfare, as when financial liberalization has allowed households to smooth their consumption over time through easier access to credit. But, in some cases, the structure of taxes and government transfers has discouraged private saving.

Several views were expressed in the Board about how to stimulate private saving in industrial countries. One view noted the importance of maintaining appropriate tax policies—notably to avoid disincentives to saving and high marginal income tax rates. Another supported a shift from income-based to consumption-based taxes; it was argued, however, that consumption taxes tend to be more regressive than income taxes and could aggravate inflation—at least temporarily—through a one-time increase in the price level.

Developing Countries

During the 1980s the effects of the reversal in the net flow of foreign savings, which had been toward the developing countries, were exacerbated by sharp declines in national saving rates in most of these countries. The reasons for the fall in national saving rates in developing countries include government dissaving, public enterprise losses, financial repression (i.e., the absence of realistic interest rate policies in the context of liberalized financial markets), macroeconomic instability, and adverse external shocks or changes in terms of trade. The drop in saving rates is especially evident in countries with debt-servicing problems, high inflation, and low per capita incomes. Concern was expressed in the Board over the suggestion that inflation and interest rates had a relatively small effect on saving. Directors noted that sustained positive real interest rates in developing countries had been associated with low inflation and that both are linked to high saving rates. Stable prices and positive real interest rates are prerequisites for development of the financial sector and for an efficient allocation of resources.

The reduced flow of foreign resources since the onset of the debt crisis in 1982 means that the developing countries have to rely mainly on domestic saving to increase investment. Macroeconomic stability, in both the industrial and developing countries, is crucial to stimulating saving and improving the efficient use of savings in developing countries. Addressing excessive levels of debt in certain countries was seen as a way to re-establish conditions more conducive to higher domestic saving. In this connection, the Board noted the importance of fiscal restraint in order to increase national saving by raising public saving. This, in turn, would reduce dependence on foreign borrowing. Monetary restraint is equally important in securing financial stability, thereby improving the environment for both saving and investment. Furthermore, appropriate exchange rate policies promote an efficient allocation of savings by channeling resources into the domestic financial system that would otherwise flow abroad or into unproductive assets.

International Liquidity and the SDR

Issues of international liquidity, the systemic role of the SDR, and the question of an SDR allocation continued to be an important concern of the Board in 1989/90.

In addressing the first of these topics, the Board noted three specific issues. The first is that data limitations and conceptual ambiguities make it difficult to construct a meaningful quantitative measure of international liquidity. Second, the difficulties of measuring international liquidity directly imply that the adequacy of international liquidity should in the first place be addressed indirectly. Third, indirect assessments of the adequacy of international liquidity can—among other things—focus on how well the functions of international liquidity are being performed.

Since the functions of international liquidity are to promote monetary conditions conducive to a healthy world economy, the Board examined whether and how the functioning of the international liquidity system could be improved—and whether and how the systemic role of the SDR could be strengthened. The international liquidity system could be strengthened first by enhancing surveillance and the policy coordination process for the largest industrial countries, where problems can have major spillover effects on the performance of the world economy, and second, by assisting developing countries to cope with balance of payments problems—including, in particular, those that stem from their debt burdens—which are also of major consequence for the world economy.

The Board's consideration of ways to strengthen the surveillance and policy coordination process focused on the extent to which the use of national currencies as reserve assets may have weakened policy discipline in the major industrial countries, and on whether a larger role for the SDR would be desirable from that perspective. It was argued that certain "rigid mechanisms"

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for limiting the role of national currencies could only be effective if large industrial countries are willing to accept greater discipline. Such mechanisms include proposals for "substitution accounts," under which currencies used as reserve assets would be replaced by liquid claims on the international community, such as SDRs, or for "asset settlement mechanisms," through which a reserve currency country would periodically convert any increase in other countries' holdings of its currency into an acceptable international reserve asset.

In discussing the use of SDRs in exchange market intervention, some Directors emphasized that, while the official SDR cannot at this time serve as a vehicle for intervention because it is not held outside official circles, it could play a larger role in financing intervention. In this context, there was some interest in a proposal to establish a pool of SDR resources to finance exchange market intervention on a revolving basis.

There was some support for measures to promote gradually the use of SDR-denominated instruments by the private sector including, for example, studying the establishment of a clearing house for the settlement of private SDR transactions. At the same time, however, the current lack of demand for private SDRs was noted, which raised the question of whether and how such demand should effectively be promoted.

In considering the potential role of the SDR, it was agreed that there had been large disparities in the terms and conditions under which different countries could obtain reserves. There was some support for the view that this disparity had resulted in an uneven distribution of international liquidity, which could undermine efforts to achieve global growth and adjustment. According to this view, the SDR system provides a direct means of alleviating the uneven distribution of reserves and liquidity. However, it was also argued that the terms and conditions under which a country can obtain reserves depend in the final analysis on its own policies. The establishment and maintenance of sound and prudent macroeconomic policies was seen as key to restoring creditworthiness, at least over the medium term, and to reducing disparities in the cost of obtaining reserves.

There was some support in the Board for the use of SDR allocations in support of debt- and debt-service-reduction operations as an effective means of providing additional resources that could enhance the current strengthened debt strategy. However, there were also a number of objections to these proposals. The rationale for creating conditional liquidity outside the Fund's general resources was questioned, and it was argued that the use of the SDR system to support debt- or debt-service-reduction would undermine the monetary character of the SDR.

Although a majority of Directors favored a resumption of SDR allocations, there was not the degree of support required under the Articles for a proposal to be presented to the Board of Governors.

2. External Debt Situation and Strategy

The debt strategy has been strengthened by measures to help the heavily indebted countries through debt- and debt-service-reduction operations vis-à-vis commercial banks. Another major development has been the progressive adaptation of policies by official creditors to the deep-rooted problems of the poorest countries that are indebted mainly to official institutions. These developments encourage indebted countries to persevere with policy adjustments and reforms that lay the basis for price stability, external creditworthiness, and sustained growth. The strategy also places emphasis on measures to promote investment and repatriation of flight capital. Throughout the debt crisis the Fund has played an important role by providing policy advice and financial assistance. This assistance usually stimulates ("catalyzes") lending and debt reduction from other sources. The experience of early cases involving debt reduction is encouraging. It suggests the Fund's existing guidelines are versatile enough to deal with diverse financing needs and strategies. Progress to date in implementing the strengthened debt strategy has been good; a number of countries reached agreement on financing packages with their creditors and others are negotiating such packages. The Fund welcomes these positive steps and underlines the need for a flexible, case-by-case approach, especially where further progress is needed to deal with individual countries' problems.

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The Board has continued to devote considerable attention to the external debt problems of Fund members. Ever since the debt crisis broke out in 1982, the Fund's cooperative, case-by-case strategy for dealing with the problems of heavily indebted countries has evolved in response to changing world economic developments and country circumstances. However, the three main elements of the strategy have remained intact. They are to ensure that (1) debtor countries pursue growth-oriented structural reforms; (2) multilateral, official, and private sources provide adequate finance; and (3) all countries collaborate in maintaining a favorable global economic environment. This strategy has helped improve the economic health of many debtor countries. But in a number of others, debt-service burdens have remained onerous, external financial support has not always been prompt or adequate, and, most important, adjustment has been weak.

In response to these continuing problems, the debt strategy has, in recent years, been strengthened by measures to reduce debt burdens through the incorporation in this strategy of debt- and debt-service-reduction operations. Such operations are necessary to encourage heavily indebted countries to persevere with effective adjustment and reforms, which are critical for the restoration of their economic health. Voluntary debt reduction is also expected to ease adjustment, by complementing new lending, cutting back financing needs to more manageable levels, reducing the stock of debt over time, and generally improving the investment climate. As such, debt reduction is consistent with the main objectives of the debt strategy—to promote satisfactory economic growth in debtor countries and to restore their access to credit markets.

Debt Strategy

The Fund has played an important role throughout the debt crisis by providing both policy advice and financial assistance. Such assistance, in turn, mobilizes funds from other sources, because it assures the international financial community that appropriate policies are being implemented. In May 1989, the Board considered the Fund's involvement in debt-reduction operations. A set of guidelines was agreed to determine countries' eligibility to receive Fund support for such operations, the sort of operations the Fund would support, the extent of access to Fund resources, and the Fund's policy on financing assurances (these guidelines are detailed in the 1989 *Annual Report*). The Board agreed that the Fund's policy toward debt-reduction operations and the way in which the policy will be applied will be kept under review. The guidelines were applied in four initial cases: Costa Rica, Mexico, the Philippines, and Venezuela. In the course of 1989/90, the first three of these countries concluded agreements on financing packages with their commercial bank creditors (see Box 4). The Fund also approved stand-by and extended arrangements with six countries (Argentina, Côte d'Ivoire, Ecuador, Jordan, Poland, and Venezuela) that had yet to conclude negotiations on financing packages. In each of these cases, the Fund supported the members' policies on the grounds that its prompt assistance was important to strengthen the country's efforts and that agreements with banks could be expected within a reasonable time.

Experience with Debt Reduction

In an early review of the experience in implementing the strengthened debt strategy in August 1989, the Board put this strategy into perspective and agreed that while debt-reduction operations may be important for some countries, they alone are not sufficient to lay the basis for a sustained revival of investment and growth. Such operations can help break the cycle of rising debt and dwindling prospects for regaining market access only when they are supported by sound policies, particularly policies that attract direct investment and other financial inflows, and reverse capital flight.

Nevertheless, the early cases in which the strengthened debt strategy has been applied are encouraging. Experience to date suggests that the Fund's guidelines are versatile enough to deal with diverse financing needs and strategies. Indeed, their diversity attests to the soundness of the guidelines.

Basis for Support

The Board, in its August 1989 review, noted that a country should base its decision to seek debt reduction and official support for such operations on a coherent financing strategy. This strategy should be designed to support an appropriate medium-term economic reform program and to maintain or regain access to funds from various sources.

While cautioning that countries should not be rigidly categorized, the Board pointed out that:

- For countries that have succeeded in maintaining access to credit markets, debt reduction through buying back or exchanging commercial bank credits is usually not appropriate. But it is crucial that official and multilateral support, including support from the Fund, continue to be made available to these countries.
- Some countries have resumed growth through strong policies, while avoiding both new borrowing and the

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rescheduling of interest on official debt, but their debt still trades at a heavy discount. Such countries would need to assess carefully whether pursuing officially supported debt reduction would speed up or slow down the restoration of access to credit markets.

- For countries that still depend on concerted commercial bank resources to support adjustment programs, market-based debt reduction can complement appropriate economic policies. Substantial officially supported commercial bank debt reduction is perhaps most clearly needed for such countries.
- For countries facing more severe external difficulties, debt reduction operations may not represent a priority use of funds in the near term. These countries may first need to normalize relations with official creditors and ensure payments for essential imports as well as access to short-term trade credits.

Scope for Debt Reduction

In the August 1989 discussion of the potential scope for debt reduction, there was much concern about the reluctance of commercial banks to lend to developing countries, including to some that have avoided recent debt-servicing difficulties. It was stressed that developing countries—including those pursuing debt reduction—will often continue to need new money as part of a financing package.

The Board agreed that the modifications decided in May 1989 to the Fund's policy on financing assurances (see Box 5) continue to be appropriate, but the Fund will need to assess both the efficiency of debt-reduction operations and the adequacy of financing agreed with banks, from a short-term and a medium-term perspective. If an overall package were to fall short of the assumptions of a member's adjustment program or be delayed unreasonably, the Fund will need to reassess the package at an early stage to consider, especially, the implications for the program and for official creditors, including the Fund.

Regulatory, accounting, and tax issues in industrial countries can influence banks' attitudes to lending, as well as to various debt and debt-reduction instruments, but national policies in these areas are determined mainly by prudential and fiscal considerations. Nevertheless, the governments of major industrial countries

Box 4

Recent Financing Packages

By May 1990, Mexico, the Philippines, and Costa Rica had concluded negotiations on financing packages with commercial banks, which include arrangements for debt- and debt-service-reduction operations.

The package for *Mexico*, which covers medium- and long-term claims totaling about $48.5 billion, contains three main elements:

- New money commitments for 1989–92, amounting to 25 percent of banks' exposure at the time the agreement was signed. These loans have a maturity of 15 years (including 7 years' grace) and carry an interest rate spread of 13/16 over the London interbank offered rate (LIBOR).
- The conversion of bank claims into discount bonds at 65 percent of face value carrying market interest rates (at a spread of 13/16 over LIBOR). The repayment of principal in one lump sum after 30 years is fully assured by collateral and there is an 18-month rolling interest guarantee; that is, interest payments are guaranteed for successive 18-month periods.
- The conversion of claims into par bonds with a reduced fixed interest rate (6.25 percent) with the same maturity and backing as for the discount bonds.

In addition, the agreement provides for the resumption of debt-equity swaps and the recovery by banks of some additional claims if, beginning in 1996, real oil prices exceed the 1990 benchmark level of $14 a barrel.

The agreement implies a total reduction of about $14.5 billion in the present value of Mexico's debt to commercial banks. When all the features of the agreement are taken into account, the debt and debt-service reduction achieved represents an efficient use of Fund resources.

Mexico will fund its principal and interest guarantees to banks, using resources from the World Bank ($2 billion), the Fund (SDR 1.3 billion), and its own reserves ($1.3 billion). In addition, the Export-Import Bank of Japan will provide import financing of $2 billion in the form of cofinancing with the World Bank and parallel lending with the Fund. As some of these resources were not available at the time the agreement was signed, commercial banks provided bridge financing of $1.2 billion.

Under the *Philippines*' agreement with its commercial bank creditors, creditor banks have two options: to provide new money or to tender claims for cash buy-backs at a market-related price. Banks offered new money of $714 million, which is to be disbursed in 1990. And in January 1990, the Philippines completed a buy-back of just over $1.3 billion of bank claims at a price of 50 cents on the dollar—close to the prevailing secondary market price. The buy-

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agreed in early 1989 to review their tax, regulatory, and accounting regimes with a view, as appropriate, to removing unnecessary obstacles to debt and debt-service reduction.

At its September 1989 meeting, the Interim Committee welcomed the setting up of operational guidelines for Fund support for significant debt and debt-service reduction as part of financing packages supporting strong, growth-oriented adjustment programs. It noted the progress that the Fund, in collaboration with the World Bank, has already made in several cases in implementing the strengthened debt strategy. The approach adopted has been able to accommodate the diverse circumstances of individual members.

Financial Packages

While recognizing that time is needed to put together complex financial packages involving both new money and debt reduction, the Interim Committee urged that commercial banks should move quickly in this regard. The Fund should carefully evaluate each financing package for its adequacy to the circumstances of the member, the efficiency of debt reduction, and in light of the need to safeguard Fund resources. The Committee reaffirmed that official creditors should not substitute for private lenders. It also stressed that officially supported debt-reduction operations must not divert financial support from those countries that have succeeded in preserving access to capital markets through sound economic policies, despite heavy debt burdens.

The Committee welcomed the concrete steps some creditor governments had taken to review tax, regulatory, and accounting practices to remove unnecessary constraints to debt reduction and encouraged others to do likewise.

The Fund's Executive Board again considered the issue of the management of the debt situation in April 1990. By that time, more experience had been gained: The negotiations between Costa Rica, Mexico, and the Philippines and their creditors on financing packages involving debt-reduction operations, as mentioned above, had been concluded. The Fund had approved arrangements with six additional countries that had yet to conclude such negotiations (Argentina, Côte d'Ivoire, Ecuador, Jordan, Po-

backs will provide a net interest saving of about $80 million a year during the program period, which extends from May 1989 through May 1992.

The Philippines financed the buy-back partly with Fund resources totaling SDR 94 million. In addition, the World Bank provided a loan of $150 million (of which $100 million has been disbursed), while the Export-Import Bank of Japan agreed to lend $300 million (which will be disbursed in parallel with Fund purchases) to replenish the Philippines' reserves.

Costa Rica agreed with its commercial bank creditors on a package to restructure $1.8 billion of eligible commercial bank debt and past-due interest. The package, which includes debt and debt-service reduction, but not a new money component, comprises three options:

- To buy back both principal and past due interest at a price of 16 cents per U.S. dollar face value of the claim.
- To exchange remaining debt for one of two types of bearer bonds: Type A bonds, which are available to banks tendering at least 60 percent of their claims for buy-backs, and which carry a fixed interest rate of 6.25 percent a year and are repayable in 20 years with a 10-year grace period; and Type B bonds, which are available to banks tendering less than 60 percent of their claims for buy-backs, and pay the same rate of interest as Type A bonds, but are repayable in 25 years with a 15-year grace period. Type A bonds will be backed by a one-year interest guarantee, but Type B bonds will not.
- The treatment of unrepurchased past-due interest as a separate debt requiring a 20 percent cash downpayment, and repayment of the balance over 15 years at a spread of $\frac{13}{16}$ of a percentage point over LIBOR. Holders of these claims who have tendered at least 60 percent of their debt for the cash buy-back option will receive a three-year interest guarantee on these claims.

The agreement also allows for additional payments to banks if Costa Rica's real GDP exceeds its 1989 level by 20 percent, as well as a debt-equity conversion program.

The financing package would eliminate $1.1 billion of claims through the buy-back option. The reduction in interest rates on the bearer bonds is equivalent to an additional debt reduction of $0.2 billion. Assuming that the financing terms apply to the full $1.8 billion of eligible bank debt and past-due interest and that all banks opt for Type A bonds, the agreement will require funding of about $265 million. On this basis, the net debt reduction achieved through the package would be close to that which would result from a buy-back carried out at the secondary market price.

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Box 5

Financing Assurances

The key objectives of the Fund's policy on financing assurances are to ensure that adjustment programs are adequately financed, that financing is consistent with a return to a viable balance of payments position and with the member's ability to repay the Fund, and that the program, if appropriately implemented and supported, would contribute to the maintenance or re-establishment of orderly relations between the member and its creditors.

In May 1989, the Fund modified its policy on financing assurances in light of changes in the financial environment and the possibility that debtors and creditors may need more time to agree on financing packages with their creditors. The modifications were as follows:

- The Fund may, on a case-by-case basis, approve an arrangement outright before agreement on a financing package is concluded between a member and commercial bank creditors, (1) if it is thought that prompt Fund support is essential for the implementation of the adjustment program and (2) provided that negotiations between a country and its creditors have begun and that it can be expected that a financing package consistent with external viability will be agreed within a reasonable period. Progress in the negotiations with bank creditors would be closely monitored.
- In promoting orderly financial relations, every effort will be made to avoid arrears. Nevertheless, an accumulation of arrears to banks—though not to official creditors—may have to be tolerated where negotiations continue and the country's financing situation makes such arrears unavoidable.

land, and Venezuela). Two of these—Ecuador and Venezuela—had made substantial progress in negotiations with their creditors. (Venezuela reached an agreement with its bank advisory committee in March 1990.)

The Board considered that the progress in implementing the strengthened debt strategy has been good. This reinforces two central elements of the strategy—the case-by-case approach and the importance of sound economic policies in normalizing debtor-creditor relations.

The agreements on financing packages reached by Costa Rica, Mexico, and the Philippines provide for a substantial restructuring of commercial debt. If supported by sustained adjustment, they will contribute importantly to restoring growth and a satisfactory medium-term balance of payments position in these countries. The Board concluded that, consistent with the guidelines on Fund support, the agreements represent an efficient use of Fund resources.

The adoption by countries of policies that foster private capital inflows has been an important element reinforcing the beneficial impact of the financing packages agreed with banks. The rise in private sector confidence has been encouraging and has already been reflected in higher domestic investment, financed in part by capital repatriation. In this connection, the Board underscored the importance of strong policies to increase domestic saving, direct investment, and capital inflows, including reversal of capital flight. This is, indeed, an important part of the effort to restore viability with growth, which should continue to receive close attention in the formulation and implementation of members' programs. Some of the packages agreed with banks have, however, resulted in lower financing than had been anticipated. While the debt-reduction elements themselves were efficient, the overall shortfall has resulted in tighter-than-expected external cash-flow positions. Rapid policy responses may be needed to counter the effects of any adverse developments and keep the programs on course.

In many cases, progress in negotiating financing packages containing debt-reduction operations, as well as new money or interest refinancing, has been slow. The causes for the delays include debtors' uneven adjustment records, banks' reluctance to make additional loans, and, in a number of cases, substantial payments arrears.

The Board reaffirmed the key objectives of the Fund's policy on financing assurances (see Box 5). It stressed the need for the Fund to monitor closely the negotiations between members and banks where Fund support is provided at an early stage, in order to assure that the financing provided is consistent with the requirements of the program and the safeguarding of Fund financing. The Board considered that the guidelines on Fund involvement remained appropriate and approved the Fund's attitude of continuing to avoid any direct role in negotiations; the responsibility of the members themselves is to ensure that the packages agreed with

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commercial banks are consistent with the requirements of the program supported by the Fund. In this framework, however, it is important that these requirements be well understood between the members and the Fund, and that it be clearly established that a package that falls substantially short of needed financing could call for compensating changes in a member's policies.

An important aim of Fund support is to help members normalize their relations with their creditors. All parties must be aware of the adverse consequences of arrears and the need for reasonable measures to avoid them. Some countries, especially those with large arrears at the start of a negotiation, have not been able to repay banks in full during the negotiating process. However, the Fund's early support for arrangements in the presence of arrears, has helped promote normal debtor-creditor relations in a number of cases.

Experience has shown the 1989 guidelines governing Fund support for debt reduction to be reasonable and versatile, although, in the view of many Directors, cases may arise in the future in which various considerations may warrant more flexibility in the use of Fund resources between principal reduction and interest support. Others felt the demarcation continued to be appropriate and were concerned that modifications of an important feature of the guidelines not be reconsidered without a compelling reason.

The setting aside, for up to one year in advance, of resources to support principal reduction—as approved for Costa Rica, Ecuador, Mexico, and the Philippines—provides a reasonable standard where there is a sound track record of performance and where such up-front financing contributes to more effective debt and debt-service reduction. In other cases, especially where a track record remains to be established, more evenly phased Fund support, in line with satisfactory program performance, may be appropriate. In such cases, debt operations with Fund support could take place in the context of a framework spanning several years, and which might involve, on a case-by-case basis, understandings with banks regarding partial interest payments while the debt reduction is being implemented.

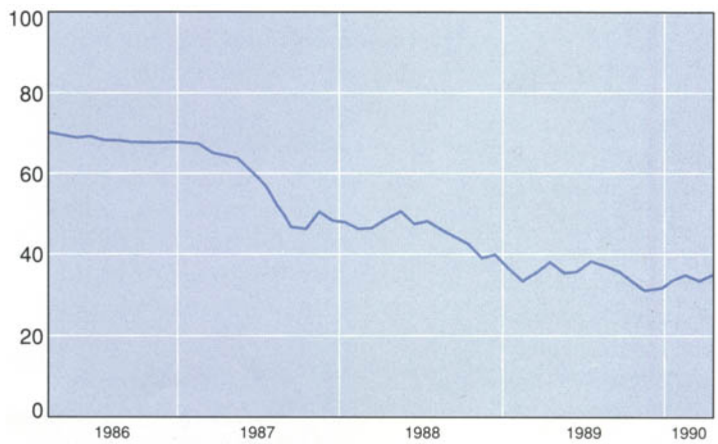
At their May 1990 meetings, the Interim Committee and the Development Committee welcomed the progress under the strengthened debt strategy and reaffirmed the guidelines on the involvement of the Fund and the World Bank, adding that these guidelines should continue to be implemented flexibly. Both Committees stressed the need for measures to encourage domestic savings and capital flows—including the return of flight capital and new investment—in debtors' growth-oriented reform programs under the strengthened debt strategy.

Official Creditors

A major development over the past three years has been the progressive adaptation of policies by official creditors ("Paris Club") to the chronic and deep-rooted problems of the heavily indebted low-income countries. In mid-1987, official creditors eased repayment terms by lengthening maturities and grace periods for some countries. They followed this up with a more far-reaching step in late 1988, when they introduced a "menu" of options for the poorest countries that included the partial cancellation of debts, further extensions of maturities, and interest rate concessions. This menu was endorsed by the creditor governments participating in the Toronto summit in June 1988. It has been implemented in 19 reschedulings for 16 low-income countries with total

Chart 9

Secondary Market Prices for Developing Country Loans, 1986–April 1990[1]
(In percent of face value)



Source: Salomon Brothers.
[1] Weighted average for 15 heavily indebted countries.

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debt-service payments of more than $3 billion. About $350 million in debt-service payments have been cancelled and interest on these reschedulings has been reduced by some $45 million a year.

During 1989, reschedulings of debts to official creditors became more frequent, reaching a peak of 24, compared with an average of 16 a year during 1986–88. Seven countries approached the Paris Club for the first time, while repeat reschedulings continued unabated. In late 1989, official creditors agreed to lengthen maturities beyond ten years for Côte d'Ivoire and Poland—two middle-income countries facing very serious difficulties. And in 1990—also for the first time—they applied the concessional menu to a country outside sub-Saharan Africa (Bolivia).

The Board welcomed the positive steps taken by official creditors, including the lengthening of maturities and rescheduling of interest for certain hard-pressed middle-income countries

Box 6

Secondary Market For Developing Country Debt

The debt of the developing countries experiencing debt-servicing difficulties tends to be traded at a discount to its face value on what is known as the secondary market; secondary market discounts have typically not been observed for countries that have scrupulously serviced their debt and avoided reschedulings. All agreements on financing packages for debt- and debt-service-reduction operations concluded so far indicate that bank debt reduction is being achieved broadly in line with prices on this market. The market has provided opportunities for banks to manage their portfolio of loans to the developing countries and has facilitated the use of debt-conversion techniques, including debt-equity swaps and debt-reduction operations.

The exact size of the secondary market for developing country debt is uncertain. Its annual turnover is estimated to have grown from less than $5 billion in 1985 to about $30–40 billion in 1988. The cutting back of debt-equity conversion programs in a number of debtor countries contributed to a decline in turnover in the first two months of 1989 to about one half the level of 1988, on a yearly basis. But the announcement in March 1989 by U.S. Treasury Secretary Nicholas Brady of official support for debt-reduction operations caused turnover to recover strongly, as market participants anticipated more debt-restructuring agreements and the resumption of debt-equity programs.

Two types of transactions dominate activity on the secondary market:

- Debt swaps, in which, for example, a bank having claims on one country exchanges some or all of them for claims on another country. Such transactions can help banks reshuffle their developing country loan portfolios to their advantage; banks can, for example, increase their holdings of claims on countries where they have strategic interests and reduce their holdings in other countries.

- Cash transactions, which include purchases by countries of their own debt at a discount and conversions of debt into equity. Such transactions have grown in importance with the increase in debt-conversion schemes and with the emergence of specialized market makers in developing country debt.

Several influences help determine demand and supply—and thus prices—on the secondary market. On the demand side, the demand for debt swaps among banks depends mainly on banks' longer-term objectives, their levels of loan-loss reserves, their varying views on country risk, and tax considerations. The demand for cash transactions also derives from many sources, including, for example, the extent to which companies finance direct investment through debt-equity swaps, the use of debt-conversion schemes by debtor country residents to repatriate flight capital, and purchases by retail and institutional investors. Elements influencing the supply of claims on the secondary market include the discounts on such claims, banks' provisioning levels, tax and accounting practices in creditor countries, and capital adequacy considerations. The importance of these elements varies over time and with banks' nationalities, exposures, and profitabilities.

The structure of the secondary market—especially its relatively low (but growing) liquidity and lack of standardized products—has tended to result in volatile price behavior. Moreover, movements in the average market price have tended to conceal large variations in prices for individual countries.

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and the application of the Paris Club's concessional menu to low-income countries outside sub-Saharan Africa. It also noted the contribution of creditor governments in providing trade finance and other bilateral assistance to help heavily indebted countries. The Board underlined the need for a flexible, case-by-case, approach in dealing with individual countries' problems.

In May 1990, the Interim Committee and the Development Committee also welcomed the efforts of official bilateral creditors. The Interim Committee noted especially the actions under the Toronto Agreement of June 1988 and the financial contribution of the Export-Import Bank of Japan to support debtors' adjustment efforts. It emphasized the special needs of the lower middle-income countries.

3. Fund Financial Support of Member Countries

The Fund supports in a number of ways countries that adopt policies and reforms aimed at promoting a better environment for price and exchange rate stability, economic growth, more open markets, and external creditworthiness. In extending its assistance, the Fund recognizes the distinct circumstances and needs of different countries or groups of countries. During 1989/90, the Board approved 26 new arrangements with member countries, amounting to more than SDR 11 billion—the largest amount in six years. The Fund's financial support is part of its much broader assistance to member countries; its policy support and technical assistance are described elsewhere in this Report. Collaboration with the World Bank has been intensified, and there are regular contacts between the two staffs, both at headquarters and on staff missions. Particular attention is being paid to the implications of economic developments for the poor, and an effort is made, often in conjunction with other organizations, to identify and encourage measures to lessen the impact of negative developments on vulnerable groups among the poor.

A principal activity of the Fund is its support of macroeconomic and structural policy adjustments in its member countries. Such support is provided through various policies and facilities, two of which are specially designed to assist low-income countries.

The Fund committed SDR 11.3 billion to member countries in 1989/90—the highest amount since 1983/84 and more than double that in any of the intervening years. The Board took decisions to support 26 new arrangements in 1989/90, two more than in the year before. These included 16 stand-by arrangements, totaling SDR 3.2 billion; 3 extended arrangements, totaling SDR 7.6 billion; and 3 arrangements under the structural adjustment facility (SAF) and 4 under the enhanced structural adjustment facility (ESAF), totaling SDR 460.5 million. Two arrangements incorporated contingency mechanisms under the compensatory and contingency financing facility (CCFF), while three were accompanied by drawings for compensatory financing of export fluctuations. Among the countries that entered into arrangements with the Fund in 1989/90, 9 were from the Western Hemisphere, (Argentina, Chile, Costa Rica, Ecuador, Haiti, Jamaica, Mexico, Trinidad and Tobago, and Venezuela); 10 were from Africa (Algeria, Benin, Côte d'Ivoire, Gabon, Kenya, Madagascar, Mauritania, Sao Tome and Principe, Togo, and Zaïre); 1 was from the Middle East (Jordan); 3 were from Asia (the Lao People's Democratic Republic, Papua New Guinea, and the Philippines); and 3 were from Europe (Hungary, Poland, and Yugoslavia).

As of April 30, 1990, the Fund had 51 arrangements with 49 countries. Of these, 19 were stand-by arrangements, 4 extended arrangements, 17 SAF arrangements, and 11 ESAF arrangements. The number of countries using Fund resources totaled 87—well over half the Fund's membership.

In May 1990, the Interim Committee urged the Fund to encourage and support market-oriented economic reforms in all countries. In particular, it stated, the Eastern European countries' moves toward a market system warrant Fund support as part of a broad international cooperative effort; such support should not however be at the expense of the developing countries.

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Stand-By and Extended Arrangements

Main Developments

The SDR 10.9 billion committed by the Fund under stand-by and extended arrangements in 1989/90 represents a more than threefold increase over the average of the preceding six years. This rise partly reflects what the Managing Director described during the 1989 Annual Meetings as "the silent revolution in attitudes in many developing countries," which has prompted many such countries to request Fund assistance in support of policies that seek to bring down inflation, improve resource allocation, and reduce barriers to trade and foreign investment. Commitments under extended arrangements, in particular, rose dramatically (to SDR 7.6 billion, compared with SDR 1.4 billion in the previous six years combined). The rise in total Fund commitments in 1989/90 derived also from the fact that, for the first time, resources (totaling SDR 2.4 billion) were earmarked to support debt- and debt-service-reduction operations.

Following a review of the Fund's policy on enlarged access and access limits in August 1989, the Board decided to extend the policy and maintain the existing limits on access to Fund resources until June 30, 1990. During the discussion, Directors thought that maintaining the existing access limits for 1990 would be needed to enable the Fund to provide adequate financial support for members making strong adjustment efforts, including efforts to address their debt problems. It was stressed that access limits should not be viewed as targets or entitlements, and that the guidelines on access in individual cases should continue to be applied prudently but flexibly. Existing limits should generally be sufficient to allow for additional resources that might be made available by the Fund for interest support relating to a member's debt- and debt-service-reduction operations. The Fund could, however, decide to provide access to its resources over and above these limits in exceptional circumstances.

The Board agreed that the policy on enlarged access and related issues—including access limits—would need to be reviewed before the new quotas resulting from the completion of the Ninth Review of Quotas become effective. At the same time, the Board decided to maintain, for 1990, the current access limits under the buffer stock financing facility. At its May 1990 meetings, the Interim Committee agreed that the enlarged access policy and the present access limits should remain unchanged until the increase in quotas under the Ninth Review becomes effective.

Policies in Member Countries

In assisting its members, the Fund analyzes their economies in detail, helps formulate policies, and provides financial and technical support. Although different policies focus on different problem areas, they are interrelated and are part of a broader effort to promote price stability, economic openness, and sustained growth. The 19 stand-by and extended arrangements supported by the Fund in 1989/90 have diverse features and aims and reflect the unique problems and circumstances of members.

Algeria was prompted to adopt new economic policies (supported by a stand-by arrangement for SDR 155.7 million) by a series of external shocks—notably, lower oil prices—and a decline in agricultural production, which contributed to slower growth and a weaker external position. The policies, Fund support for which was approved on May 31, 1989, aim at laying the foundation for higher growth and employment through structural reforms that improve efficiency. They are designed to decentralize rapidly the public enterprise and financial sectors; ease controls on prices, salaries, and interest rates; enhance the role of the private sector and encourage foreign investment; and rely more on macroeconomic instruments, as opposed to administrative targets, in overall economic management.

On taking office in July 1989, the new Government of *Argentina* was faced with inflation at record levels, depleted international reserves, and weakening growth. The policies and measures put into place for 1990 (supported by a stand-by arrangement for SDR 1.1 billion, approved on November 10, 1989) aim to reduce inflation, raise real economic growth to about 5 percent, and strengthen the country's external position. They also seek to eliminate the nonfinancial public sector deficit. Argentina is expected to regularize its relations with its external creditors in the course of the arrangement. The measures adopted by the Government include a number of structural reforms, notably tax, banking, and external sector reforms, and privatization. Modifications of the arrangement were approved in May 1990, following policy slippages that had occurred in late 1989 and the introduction of a new policy package in March 1990.

Chile underwent a major economic transformation in the 1980s, which involved trade liberalization, a rationalization of the public sector, a streamlining of government expenditure, and a reform of the pension system. The one-year stand-by arrangement in the first credit tranche (for SDR 64 million, approved on November 8, 1989) maintains the me-

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dium-term framework, policies, and objectives developed under a four-year extended arrangement that ran from 1985 to 1989. The goals are to expand Chile's exports, continue to strengthen domestic saving and investment, and improve the balance of payments position with a view to maintaining output growth of 4–5 percent a year.

The economic policies of the Government of *Costa Rica* (supported by a stand-by arrangement for SDR 42 million, approved on May 23, 1989) focus on consolidating the gains achieved in the external sector in recent years to lay the basis for sustained growth. The policies are designed to lower inflation, raise domestic savings, promote private investment, reverse capital flight, and improve the efficiency of resource use. They aim to achieve these goals by reducing the public sector deficit and maintaining an appropriate credit policy and flexible interest and exchange rate policies. The measures also include continued structural reforms focused on the import tariff schedule, the financial sector, agricultural pricing, and the operations of public enterprises.

In its first application of the strengthened debt strategy, the Fund accepted Costa Rica's request to set aside 25 percent of each purchase under the stand-by arrangement for debt reduction. In addition, the Fund will consider providing additional resources in conjunction with the stand-by arrangement, of up to 40 percent of Costa Rica's quota, in the event of financing arrangements being concluded with commercial bank creditors for debt-service reduction and if the Fund determines these arrangements are consistent with its guidelines.

The Government of *Côte d'Ivoire* adopted economic policies in response to declining terms of trade, a loss of export competitiveness, and large foreign exchange outflows. The policies (supported by a stand by arrangement for SDR 146.5 million, as modified on June 22, 1990) seek to stabilize the economy by reducing major imbalances, boosting investment, and limiting further declines in GDP. They also initiated four key structural reforms: restructuring pricing, marketing, and subsidy policies in the agricultural sector; rationalizing and privatizing public enterprises; strengthening domestic tax administration and budgetary procedures; and reforming the financial sector.

During 1986–87, declines in world oil prices, earthquakes, and a weakening of financial policies contributed to serious budgetary and external imbalances in *Ecuador*. The Government that took office in August 1988 adopted a series of measures, including stronger fiscal and monetary policies and a more flexible exchange rate policy. The Government's economic measures (supported by a stand-by arrangement for SDR 109.9 million, approved on September 15, 1989) seek to consolidate these gains and, notably, to reduce inflation, further narrow the external current account deficit, strengthen the foreign reserve position, and make resource use more efficient through structural reforms. During the mid-term review of the arrangement, the Fund accepted Ecuador's request to set aside 25 percent of purchases for debt reduction.

Gabon has suffered a sharp deterioration in its terms of trade since 1986, triggered by falling oil prices—which lowered both export receipts and government revenue—and widened macroeconomic imbalances. The main aims of the Government's economic policies (backed by a stand-by arrangement for SDR 43 million, approved on September 15, 1989) are to strengthen the current account position, revive growth in the non-oil sector, and contain inflation. The policies include fiscal, monetary, and structural measures. Fiscal measures and a restrictive credit policy were implemented to restrain demand, while the structural measures include continued liberalization and the rehabilitation of public enterprises.

Economic performance in *Haiti* deteriorated during 1987 and 1988: GDP and investment declined, inflation rose, and the external position remained strained. The Government's policies aim at reversing these developments by, among other means, increasing savings, reducing the public sector deficit, implementing a cautious monetary policy, and encouraging foreign investment. These measures are supported by a stand-by arrangement for SDR 21 million, approved on September 18, 1989.

Hungary was beset by a number of economic problems in 1989, including a deteriorating fiscal position, a widening of the current account deficit in convertible currencies, and an unexpectedly large balance of payments surplus in nonconvertible currencies. Although the Government took some corrective action at midyear, the problems persisted. The Fund supports policies (through a stand-by arrangement for SDR 159.2 million, approved on March 14, 1990) that aim to reduce Hungary's economic imbalances while continuing the process of restructuring, reforming, and liberalizing the economy. The policies include fiscal measures designed to reduce the absorption of resources by the public sector, appropriate monetary and credit policies, and a range of structural reforms.

Hurricane Gilbert, which hit *Jamaica* in September 1988, hampered the country's adjustment efforts, which it had pursued with much success since the early 1980s. As a result of the reconstruction effort, the public

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Box 7

Fund Facilities and Policies

The facilities and policies through which the Fund provides financial support to its member countries differ, depending on the nature of the macroeconomic and structural problems they seek to address and the terms and degree of conditionality attached to them. They comprise the following:

- *Stand-by arrangements*, which typically cover periods of one to three years, focus on appropriate exchange rate and interest rate policies aimed at overcoming short-term balance of payments difficulties. Members make purchases (or drawings) in tranches (or segments) of 25 percent of quota each. For drawings within the first credit tranche, the member is required to show reasonable efforts to overcome its balance of payments difficulties. Performance criteria—such as budgetary and credit ceilings, appropriate exchange and interest rate policies, and avoidance of restrictions on current payments and transfers—are not applied. Purchases in the upper credit tranches require substantial justification; the member must have a strong and viable program. Performance criteria are applied and purchases are made in installments. Repurchases (or repayments) on all drawings are made in 3¼ years to 5 years.
- *Extended arrangements*, under which the Fund supports medium-term programs that generally run for three years (or up to four years in exceptional circumstances) and are aimed at overcoming balance of payments difficulties attributable to structural, as well as macroeconomic, problems. The initial annual program states the general objectives and policies for the three-year period, and policies for subsequent years are spelled out in annual reviews. Performance criteria are applied and repurchases are made in 4½ years to 10 years.
- *Enlarged access policy*, which is used to increase the resources available under stand-by and extended arrangements for programs that need substantial Fund support. Members' access to the Fund's general resources are subject to annual limits of 90 percent or 110 percent of quota, three-year limits of 270 percent or 330 percent of quota, and cumulative limits, net of repurchases, of 400 percent or 440 percent of quota. Access within these limits depends on the seriousness of a member's balance of payments need and the strength of its adjustment effort.
- *Structural adjustment facility* (SAF) arrangements, where resources are provided on concessional terms to support medium-term macroeconomic and structural adjustments in low-income countries facing protracted balance of payments problems. The member develops and updates, with the assistance of the staffs of the Fund and the World Bank, a medium-term policy framework for a three-year period, which is set out in a policy framework paper. Within this framework, detailed yearly policy programs are formulated and are supported by annual SAF loan disbursements. The programs include quarterly benchmarks to assess performance. The rate of interest on SAF loans is 0.5 percent, and repayments are made in 5½ years to 10 years.
- *Enhanced structural adjustment facility* (ESAF) arrangements, whose objectives, conditions for eligibility, and program features are similar to those of SAF arrangements, but which differ in the scope and strength of structural policies, and in terms of access levels, monitoring procedures, and sources of funding.
- The *compensatory and contingency financing facility* (CCFF), which serves two purposes. The compensatory element provides resources to members to cover export shortfalls or excessive cereal import costs arising from events beyond their control; and the contingency element helps members with Fund-supported arrangements to maintain the momentum of adjustment when faced with a broad range of unforeseen, adverse external shocks, such as declines in export prices or increases in import prices. Repurchases are made in 3¼ years to 5 years.
- The *buffer stock financing facility* (BSFF), under which the Fund provides resources to help finance members' contributions to approved buffer stocks. Repayments are made within three to five years or earlier if contributions to a buffer stock are refunded or the borrowing country's balance of payments situation improves. Since the facility's establishment in 1969, the Fund has assisted members under the Fourth, Fifth, and Sixth International Tin Agreements, the 1979 International Sugar Agreement, and the 1979 International Natural Rubber Agreement. In April 1990, the Fund decided that its BSFF may be used for financing eligible members' contributions to the 1987 International Natural Rubber Agreement.

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sector deficit increased and international reserves declined. The Government's economic policies (supported by a stand-by arrangement for SDR 82 million, approved on March 23, 1990) are designed to foster strong fiscal adjustment and exchange rate stability and thus restore growth. They emphasize measures to liberalize the economy, promote exports, and increase domestic savings, particularly in the public sector.

Since the mid-1980s, economic and financial performance in *Jordan* has been weakened by the prolonged recession in the Middle East, which, together with other external developments, has reduced the flows of official grants and worker remittances and has limited export expansion. Consequently, growth declined and the underlying weaknesses in the balance of payments and the budget—which had relied strongly on external receipts—surfaced. The Government's policies aim to remedy these problems over the medium term. They comprise major policy adjustments—notably tight fiscal and monetary policies—and structural reforms, including modified investment incentives, trade liberalization, and tariff reforms. The policies are supported by a stand-by arrangement for SDR 60 million, approved on July 14, 1989.

Jordan also made two compensatory drawings (totaling SDR 39.4 million) under the compensatory contingency and financing facility (CCFF) during 1989/90. These were in respect of a shortfall in 1988 in its earnings from merchandise exports, travel receipts, and workers' remittances.

In recent years, *Mexico* has contended with major external shocks and domestic imbalances. In response the Government has, since early 1983, implemented policy measures and reforms. During this period, the Fund has provided analytical and financial support on an almost continuous basis. The Fund is currently supporting Mexico through an extended arrangement for SDR 2,797.2 million approved on May 26, 1989 that will help Mexico continue its growth-oriented strategy, curb inflation, and produce a viable balance of payments position. It relies on budget and monetary policies to achieve macroeconomic balance and an array of structural policies to improve efficiency and mobilize resources for investment, increase saving, and promote foreign direct investment and capital reflows.

Mexico's policies are predicated on a significant reduction in net resource transfers to its creditors. The Fund has therefore accepted the Government's request that 30 percent of each purchase under the extended arrangement be set aside for debt reduction. In addition, the Fund indicated it would be prepared to consider increasing the amount of the arrangement by up to 40 percent of Mexico's quota, if financing arrangements were concluded with commercial bank creditors for debt-service reduction and if these arrangements conform with the Fund's guidelines. This augmentation was approved in January 1990, and the amounts set aside for 1989 and 1990 were released at the same time.

During 1989/90, Mexico drew SDR 453.5 million under the CCFF to compensate for an export shortfall and excessive cereal imports in 1988.

Papua New Guinea was badly hit by the closure, in May 1989, of its largest copper mine, which accounted for 10 percent of GDP, 35 percent of exports, and 15 percent of government revenue. The adverse impact of the closure was compounded by sharp declines in the prices of almost all of Papua New Guinea's major export commodities. As a result, both export earnings and GDP growth fell, and unemployment rose. The Government's measures (supported by a stand-by arrangement for SDR 26.36 million, approved on April 26, 1990) have two interrelated aims: to strengthen budget and monetary policies so as to preclude a sharp deterioration in the external position as well as to contain price pressures; and to promote growth-oriented structural change.

Papua New Guinea also drew SDR 42.84 million under the compensatory element of the CCFF in respect of an export shortfall in the year ended June 1990.

The Government of the *Philippines* is implementing a medium-term program (backed by an extended arrangement for SDR 660 million approved on May 23, 1989) that aims to reduce inflation, strengthen the external payments position, and ease the external debt burden. The strategy to achieve these aims has five elements: a significant increase in productive investments; higher savings; prudent financial policies; structural reforms—mainly public enterprise, financial sector, trade policy, and land reforms; and substantial external support. Of each purchase under the extended arrangement, 25 percent will be set aside for debt reduction. In addition, the Fund would consider an augmentation of the arrangement by up to 40 percent of the Philippines' quota.

The Fund has also approved an arrangement under the CCFF (totaling SDR 286.3 million) for the Philippines. This is aimed at providing additional financing should adverse external contingencies occur during the period of the extended arrangement. It will cover unanticipated deviations from projections for a number of export and import prices; for trading partners' import demand; and for interest payments on net external debt with variable interest rates.

The Government that took office in *Poland* in September 1989 inherited

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an economy that verged on hyperinflation and was weakened by acute scarcities, badly distorted incentives, and falling output. The authorities responded swiftly to the crisis with a set of emergency measures. They subsequently adopted an ambitious economic program (supported by a stand-by arrangement for SDR 545 million) designed to consolidate these measures. The program, which was approved on February 5, 1990, aims first to stabilize the economy quickly and decisively with particular emphasis on reducing inflation; and second, to enhance the role of market forces. The stabilization efforts involve three main initiatives: using the exchange rate and wage policy to slow down inflation; reducing demand pressures and strengthening financial discipline; and implementing a tight money and credit policy. The shift to market mechanisms involves measures to liberalize prices and the foreign exchange and trade systems; and the introduction of a wide range of market economy institutions.

During 1982–86, the economy of *Trinidad and Tobago* deteriorated markedly, but since 1987, the Government has made much progress in reducing economic imbalances. Its economic policies for 1990 are designed to achieve positive growth for the first time in a number of years, reduce inflation, and increase international reserves. In addition to cautious budget and monetary policies, measures to strengthen structural reforms are already under way. Among these measures are further exchange and trade liberalization, the second phase of a tax reform, and public enterprise reforms. The Government's objectives are supported by a stand-by arrangement for SDR 85 million, approved on April 20, 1990.

Trinidad and Tobago's stand-by arrangement is accompanied by possible external contingency financing under the CCFF up to a maximum of SDR 42.5 million. This covers unexpected negative deviations from projections of key external variables including export prices of crude petroleum and petroleum products as well as interest rates on external debt carrying variable interest rates.

The medium-term objectives of the Fund-supported program in *Venezuela* are to strengthen the country's current account position consistent with real economic growth of 4½–6 percent a year; reduce its external debt burden while improving the external reserve position; and boost domestic investment through an increase in domestic savings, mainly via an improvement in public sector finances. The program, which was approved on June 23, 1989, is backed by an extended arrangement for SDR 3,703.1 million. The Fund has accepted Venezuela's request that between 25 percent and 31.25 percent of purchases under the arrangement be set aside for debt reduction. In addition, the Fund will be prepared to consider augmenting the amount of the arrangement by up to 40 percent of Venezuela's quota if financing arrangements are concluded with commercial banks for debt-service reduction and if the Fund finds these arrangements to be consistent with its guidelines. Venezuela's economic program emphasizes fiscal and monetary restraint and wage policies consistent with lowering inflation.

Faced with spiraling inflation, at the beginning of 1990 the Government of *Yugoslavia* adopted a bold and comprehensive program of rapid disinflation as part of a broader plan to transform Yugoslavia into a market-guided economy over the medium term. This program is supported by an 18-month stand-by arrangement for SDR 460 million, approved on March 16, 1990. It relies, initially, on the anchors of a fixed nominal exchange rate, a strict cap on nominal wages, and a partial price freeze. These are backed by strict monetary restraint and a major fiscal effort.

Since late 1986, the economy of *Zaïre* has deteriorated as expansionary fiscal and monetary policies reinforced its underlying weaknesses, especially in the areas of basic infrastructure, public finance, and the public enterprise sector. The Government's economic and financial policies (supported by a stand-by arrangement for SDR 116.4 million, approved on June 9, 1989) are aimed at boosting growth, reversing the deterioration in public finances, reducing inflation, consolidating the external accounts, and increasing international reserves. The stand-by arrangement runs parallel with another arrangement under the SAF, approved in May 1987, which addresses deep-rooted structural problems and various policy-induced distortions.

Arrangements Under SAF and ESAF

Of the seven low-income countries for which the Fund approved new three-year arrangements under the SAF and the ESAF, six (Benin, Kenya, Madagascar, Mauritania, Sao Tome and Principe, and Togo) are in sub-Saharan Africa and one (the Lao People's Democratic Republic) in Asia.

The economy of *Benin* went into crisis following the sharp deterioration of the external environment after 1985—particularly the declines in world market prices for oil and cotton. In response to the ensuing negative growth and growing external and fiscal imbalances, the Government took a number of remedial measures in 1987–88. Although it made some progress in strengthening budget and monetary

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policies, the situation remained critical. The Government has therefore adopted comprehensive medium-term policies, supported by the Fund under a SAF arrangement for SDR 21.91 million, approved on June 16, 1989. These measures aim to reduce the role of the Government in the economy while strengthening the private sector by relying more on market forces to boost growth, to contain domestic cost and price increases, and to bolster the external position. Toward these ends, they seek to reform the government sector (including public enterprises), strengthen incentives, restructure the banking system, and reduce the fiscal deficit.

The policies adopted by the Government of *Kenya* under the ESAF (for SDR 241.4 million, approved on May 15, 1989) build on earlier measures supported by the Fund under the SAF and under a stand-by arrangement, which covered the period 1988–90. The policies backed by the ESAF—which runs from 1989 to 1991—are designed to further reduce inflation; achieve average real GDP growth of about 5 percent a year; reduce the current account deficit; and increase employment. They emphasize structural fiscal reforms, financial sector restructuring, key trade and industrial reforms, and export promotion.

The medium-term objectives of the Government of the *Lao People's Democratic Republic* under a SAF arrangement (for SDR 20.51 million, approved on September 18, 1989) are to achieve real GDP growth of 5–6 percent a year, to reduce inflation to the level of the country's trading partners by 1992, and to strengthen the balance of payments. In the first year of the arrangement (to June 1990), monetary and fiscal policies were tightened; reforms were put in place to mobilize savings; steps were taken to increase the efficiency of investment in the public sector; and a number of external sector reforms were implemented to encourage both export growth and import substitution. In addition, the Government provided food aid to those adversely affected by a drought that hit the country in 1988.

In the case of *Madagascar*, the ESAF arrangement (for SDR 76.9 million, approved on May 15, 1989) replaces two earlier arrangements (a stand-by arrangement and a SAF arrangement), which included a number of structural reforms. The ESAF-supported policies aim at achieving positive real per capita growth and more stable finances. They include policy reforms that further strengthen the role of the private sector and reinforce the use of price signals for both internal and external transactions. The arrangement also contains explicit measures to alleviate poverty.

For *Mauritania*, the ESAF arrangement (for SDR 50.85 million, approved on May 24, 1989) replaces an earlier arrangement under the SAF. The ESAF arrangement aims at achieving real economic growth of about 3.5 percent a year during 1989–91, reducing inflation to about 4.5 percent by 1991, and strengthening the country's external position. They include measures to contain aggregate demand—particularly its public sector component—and to restore efficiency in manufacturing by rehabilitating public enterprises. The Government also seeks to further the role of the private sector in the economy, for which purpose it has already implemented a number of structural reforms.

Sao Tome and Principe adopted policies supported by the SAF (for SDR 2.8 million) on June 2, 1989, following a severe contraction in the production of cocoa and food crops after 1975, which led to intensified balance of payments pressures. The country also experienced an increase in foreign debt and significant monetary and fiscal strains. The Government's policies seek to achieve real GDP growth of about 4 percent, on average, during 1989–91; to contain inflation; and eventually to reduce the external current account deficit to a level that can be financed by grants and concessional loans. The policies envisaged include a well-conceived investment program, stronger budgetary management, and improved domestic resource mobilization and budgetary control. To improve incentives, particular importance will be given to flexible exchange rate management, public enterprise and civil service reforms, and distribution of public lands.

The three-year ESAF arrangement for *Togo* (for SDR 46.08 million, approved on May 31, 1989) replaces an arrangement under the SAF. The earlier arrangement was put in place following a weakening of Togo's economy and finances, largely because of sharp declines in the world prices of its major exports during 1986–87, aggravated by the appreciation of its currency, the CFA franc, against the U.S. dollar. The ESAF arrangement aims to sustain Togo's real GDP growth at more than 4 percent a year, contain inflation to about 3 percent, and reduce the current account deficit (excluding grants) to 7.7 percent of GDP by 1991. It includes measures to improve the allocation of public expenditure, make public enterprises more efficient, and give the private sector more scope.

Fund-Bank Collaboration

The Fund and the World Bank share the objective of promoting sustained growth and development of their member countries. While their charters provide them with differing but complementary mandates in pursuing this objective, they cooperate to help

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their members by pooling their specialized expertise and coordinating policy advice and financial assistance. The scope for such cooperation has increased substantially in the past decade, as the efforts of both institutions to address the severe economic and financial imbalances of their members have led to an increasing complementarity in their activities. Because of this, and in order to avoid duplication, the two managements agreed in March 1989 to define better each institution's responsibilities under its Articles and to develop previously agreed procedures by adopting additional administrative and procedural steps.[1]

Fund-Bank collaboration is based on regular contacts between the two staffs, both at headquarters and in the field; these are intended to better integrate each institution's analysis and policy advice, and ensure timely assistance to member countries. Communication between staffs at headquarters includes systematic contacts at the operational level—including a continuous exchange of information on each institution's work program, proposed lending operations, diagnoses of members' economic problems, and prospective positions in dealing with members or other international institutions. Staff in one institution also may attend the other's Executive Board meetings whenever matters of common interest are discussed.

Detailed procedures enable staff jointly to assist member countries in the preparation of policy framework papers for SAF-eligible and ESAF-eligible countries, which set out medium-term economic objectives and planned policy measures. During the 15-month period ended March 31, 1990, discussions on policy framework papers took place in 44 joint or parallel missions, as well as in missions with a cross participation of staff of the other institution. During 1989, the process for policy framework papers was strengthened to ensure a central role for country authorities as well as closer collaboration between the staffs. There is also cooperation in the field either through joint staff missions or through staff participating in each other's missions. Between January 1, 1989 and March 31, 1990, Bank staff participated in 21 Fund missions that did not directly involve discussions on policy framework papers; Fund staff participated in 13 Bank missions. Collaboration is also close on a range of administrative matters, including preparations for Annual Meetings and meetings of the Development Committee, statistics, and some publications.

Following the 1989 agreement, additional procedures for collaboration have included systematic and frequent meetings of the senior staffs and managements of the two institutions. These meetings help to plan ways to resolve particularly complex country issues and to exchange views on general policy aspects. Also, collaboration has been close in the context of the debt strategy. A joint task force was established to promote cooperation, analyze debt strategy issues, and exchange information on financing techniques. As part of this effort, in May 1989, the Fund and the Bank adopted broadly similar guidelines to support debt- and debt-service-reduction operations. Such contacts have been continuous on those countries for which set-asides for debt- and debt-service-reduction have been approved by both Boards. This had led to unified positions regarding financial packages under discussion with commercial banks, thereby facilitating relations between indebted countries and their bank creditors.

Likewise, there has been considerable collaboration where members have overdue obligations to either the Fund or the Bank, in line with the principles laid out in the 1989 agreement. Both institutions urge members with overdue obligations to become current. Their staffs work together closely to develop general policies and procedures to address the problem of arrears, as well as to assist individual countries to eliminate their arrears. Close working relations are also maintained through consultative and support groups formed to assist members to resolve financing difficulties.

Compensatory and Contingency Financing Facility

The *compensatory and contingency financing facility* (CCFF) was established on August 23, 1988. This facility has two purposes:

- to help stabilize the earnings of countries exporting primary commodities; and
- to protect the Fund-supported economic policies of members from the disruptive effects of unanticipated external shocks.

The CCFF combines a contingency financing element with the previously existing compensatory financing facility. *Compensatory financing*, first introduced in 1963, assists members experiencing, for reasons largely beyond their control, balance of payments problems owing to temporary shortfalls in export earnings. Members obtaining financing agree to cooperate with the Fund to find solutions to their balance of payments difficulties. In 1979, compensatory financing was broadened to include tourist receipts and worker remittances in calculating the export shortfall, and in 1981 a further extension allowed compensation for countries faced with an excessive rise in the cost of specific cereal im-

[1] *Annual Report, 1989,* page 38.

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ports. An export shortfall is defined as the amount by which export earnings or cereal import costs deviate from their medium-term trends.

Contingency financing helps members that are engaged in economic policy adjustments supported by the Fund, by providing advance assurances of financial protection in the event of a disruptive external shock. Contingency financing covers deviations in certain key economic variables from "baseline" forecasts. These variables could include export earnings, import prices, international interest rates, worker remittances, tourism receipts, and other variables affected by external conditions beyond members' control. The contingency element is symmetrical: if the member experiences an external shock that has a positive net balance of payments impact, it is expected to add to its international reserves, where these are low; if reserves are adequate, the member is expected to forgo further borrowings from the Fund under the associated arrangement or make early repayments on previous contingency financing loans (see Box 8).

A member using the CCFF may draw, under the compensatory mechanism, up to 40 percent of its quota for export shortfalls and 17 percent for the excess costs of cereal imports. Under the contingency mechanism, a member may also draw up to 40 percent of quota to cover applicable external contingencies. (Contingency financing associated with any particular arrangement is generally limited to 70 percent of the amount of the arrangement.) In addition, the Fund allows an optional drawing of up to 25 percent of quota to supplement either the compensatory or contingency element, at the member's choice. Cumulative purchases under the compensatory, contingency, and cereal elements at any one time are limited to 122 percent of quota.

The CCFF was reviewed by the Board in April 1990. Although the essential features of contingency financing were maintained, the Board agreed on a number of changes to make it possible to adapt the facility to the particular needs of members. In particular, in determining coverage of contingency financing, it was agreed to focus on those key external components of the member's current account that are highly volatile, are easily identified, and whose movements are clearly beyond the authorities' control. Due consideration will be given to the effects on the current account of changes in excluded external variables that are widely recognized to have been influenced substantially by developments in world markets. The Board acknowledged greater flexibility in determining the threshold. Directors also examined conditions of access to compensatory financing under the facility, with a view to tailoring the availability of financing to the particular circumstances of each member.

Box 8

Calculating Contingency Financing

To calculate the amount of financing for eligible members under the contingency mechanism, the Fund "nets out" the effects on the country's balance of payments of both positive and negative external disturbances. Financing is provided where the net negative effect on the member's balance of payments exceeds a minimum threshold—that is, for major balance of payments disturbances that are unlikely to be reversed quickly. The threshold is set flexibly around a target of 10 percent of the member's quota in the Fund. Once the threshold is reached, the Fund extends financing equivalent to a specified percentage of the net sum of deviations that exceeds the threshold. This percentage is determined flexibly on a case-by-case basis.

The Fund and Poverty Alleviation

The Fund has paid increasing attention to the social issues confronting members seeking support. Discussions of poverty-related issues have become more frequent and detailed, and have involved not only the Executive Board, management, and staff, but also member governments and international institutions. Moreover, the staff has increasingly sought to take account of such issues in its analysis and policy advice.

The Board first discussed poverty issues in operational terms in February 1988. It revisited the subject in September 1988 when, meeting as a Committee of the Whole for the Development Committee, it discussed a joint Fund-World Bank report on poverty issues in economic adjustment. During these discussions, it was understood that the Fund's central mandate is to help members maintain or restore policies conducive to growth, balance of payments and price stability, and a more open economy. However, it is a country's prerogative to make social choices in implementing its policies; questions of income distribution should not be part of Fund conditionality.

The Board noted that policy adjustments do not necessarily lower the

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living standards of the poor; sound economic policies are necessary to control inflation and achieve sustainable growth, and growth is necessary for the lasting alleviation of poverty. Timely and appropriate policies are important; the experience of many members has shown that the alternative is often bad economic performance, which affects the poor especially severely.

The Board recognized, however, that some policy changes can adversely affect some of the poor in the short run. It therefore welcomed the greater attention being paid to the impact on poverty and income distribution of policy changes supported by Fund financial assistance.

To better understand the effects of economic measures on the poor, the Fund staff is:

- improving its data base on the poor in individual member countries, in close collaboration with the Bank staff and drawing on authorities' views during consultations and on information provided by international institutions and nongovernmental organizations;
- discussing with country authorities, during consultations and missions, the effects of policy adjustments on the poor; and
- examining whether programs can be designed to lessen their adverse effects on the poor, without weakening adjustment.

The staff has taken a number of concrete steps. First, it has discussed poverty-related issues as a matter of course with governments in all discussions on policy framework papers with countries with arrangements under the SAF and the ESAF. The discussions have been wide ranging and have included both the general implications of adjustment for the poor and the specific implications of particular adjustment measures for identified groups among the poor.

The Fund has also stepped up its contacts with other institutions, both at headquarters and in the field. It has worked especially closely with the World Bank, which has the mandate and considerable experience in dealing with poverty-related issues. In addition to collaborating with the Fund in preparing policy framework papers, which routinely cover the social aspects of adjustment in SAF-supported and ESAF-supported programs, World Bank staff have provided information and expertise on poverty issues, and have contributed substantially to the Fund's in-house seminars on these issues. In addition, the Fund staff is strengthening its collaboration with a number of UN agencies and nongovernmental organizations.

The Fund's increasing focus on poverty issues has influenced its approach to policy analysis and recommendations. A number of arrangements have contained measures to lessen or compensate for the adverse impact of certain economic developments and policies on specific groups among the poor. However, it has not been feasible, so far, to quantify precisely the impact on the poor of either program policies or compensating measures.

Issues relating to the impact on the poor of economic developments and policy measures receive especially close attention in policy framework papers, which provide the framework for SAF-supported and ESAF-supported arrangements. Policy framework papers identify the types of policies that are likely to affect the poor. Among those that are likely to benefit some of the poor are policies aimed at stabilization and external adjustment—for example, demand management policies to stabilize prices, devaluation, and policies that improve economic efficiency, such as price reforms and trade liberalization. These measures help the poor in the tradables sector—for example, small farmers who grow exportable crops. Other beneficial measures are those aimed directly at alleviating poverty or improving social services, such as increases in public health and education expenditures, the establishment of employment schemes, and food subsidies targeted at the poor.

Policy framework papers also identify measures that are likely to affect some of the poor adversely. These include fiscal retrenchment and public sector reform—particularly when accompanied by a freezing of public sector employment or wages. In addition, measures that help certain groups among the poor—for example, those that aim at changing relative prices—can hurt other such groups.

Of course, the possible adverse impact of economic policies on the poor needs to be seen in perspective. Judgments cannot be made on the basis of isolated measures; the collective influence of all policies adopted by a country needs to be considered. Besides, an appraisal of the costs for the poor of policy adjustments should take into account what the outcome might have been in the absence of such policy changes. Studies that have done this have proved revealing. They have found, for example, that although devaluation has, in some cases, hurt some of the poor in the short run (but has benefited other poor), alternative policy responses to an overvalued exchange rate—such as trade restrictions or increases in foreign borrowing—have proved even more damaging to the poor.

Nevertheless, in connection with Fund-supported programs, governments can, and do, implement targeted measures to mitigate or compensate for some of the negative effects on the poor of certain policy

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adjustments. The following three cases illustrate some of these mitigating measures:

- While implementing policy adjustments under the SAF in 1988 and 1989, the Government of *Mozambique* built into the policy framework a comprehensive set of compensatory measures aimed at cushioning the impact of adjustment on specific social groups. The policy adjustments had included devaluation, cuts in civil service employment, and reduced food subsidies. The measures introduced by the authorities to mitigate some of the adverse effects of the program included the establishment of food rationing for casual and informal sector workers as well as for the rural population, the provision of free food for displaced public workers, and wage supplements for large families.
- To deal with the adverse social effects of the hyperinflation of 1984–85 and the subsequent stabilization program, the Government of *Bolivia,* under a SAF-supported program begun in 1987, sought to improve low-income groups' access to education, health care, clean water, and housing. In addition, the Government established the Emergency Social Fund—a three-year program to channel concessional foreign resources to carefully selected public works programs to improve basic infrastructure and to support other labor-intensive production through the provision of seed capital and credit.
- In connection with the sharp devaluation that was part of the adjustment program supported by a stand-by arrangement with the Fund in 1989, the Government of *Jordan* did not allow prices of certain essential items to increase. The consequent budgetary subsidies were offset by revenue measures that had a relatively larger effect on upper income groups.

Although the Fund's operational experience in addressing poverty concerns is increasing, it is still limited. The need to identify more closely the poor, assess the impact on them of policy reforms, and improve the policy mix in programs remains urgent. The Fund seeks to meet these needs. Notably, it is further expanding its research in poverty-related issues, strengthening its collaboration with governments and other institutions, and improving its design of policies to minimize the adverse effects on the poor.

Technical Assistance and Training

The Fund has provided its member countries with technical assistance and training in economic and financial matters almost since its inception. Such assistance and training continued to be an important element of the Fund's relations with its member countries during 1989/90, and members sought assistance on a wide range of issues. These ranged from broad policy issues connected with stabilization and adjustment policies and external debt management, to more specialized technical, legal, and data processing matters.

Training is provided by the IMF Institute—both at headquarters and overseas—and by many other departments, including the Central Banking, Fiscal Affairs, and Legal Departments, the Bureau of Computing Services, and the Bureau of Statistics. There were several important developments in the Fund's technical assistance in 1989/90. Agreement was reached between the United Nations Development Program (UNDP) and the Fund, which allows the Fund to act as executing agency for UNDP-financed technical assistance. The IMF Institute introduced new courses on programming and policies for medium-term adjustment and on techniques of financial analysis and programming and sharply increased the number of external seminars and workshops. There was a sharp rise in the Fiscal Affairs Department's technical assistance, owing to the continued increase in the number of Fund-supported structural adjustment programs and the changes in Eastern Europe. The Bureau of Statistics initiated an expanded program of assistance that generally requires the services of a resident statistical adviser in a member country.

The Central Banking Department's assistance to *Poland* and *Angola*—both in the process of transforming a centrally planned economy—shows the diversity of forms of assistance to member countries. In Poland, the rapid pace of market-oriented reforms has necessitated new approaches to assistance in the central banking area. In addition to providing a resident technical expert, the Central Banking Department sought the cooperation of six Western central banks, each to contribute in a specific area of functional modernization of the National Bank of Poland. The Fund staff and consultants from the cooperating central banks developed a coordinated program of reforms in each area based on advisory missions and diagnostic studies. The department made available a high-level advisor on money management issues for periodic consultations, at the request of the senior management of the Polish central bank. Also, over the past two years, experts from the Fiscal Affairs Department have advised the Polish authorities on matters of tax policy. For Angola, the Central Banking Department developed a long-term reform and assistance program to restructure the existing monobank and build up a modern banking system. Two missions were organized and an expert was assigned as Advisor to the Gover-

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nor; two more will be assigned in 1990 as part of a UNDP-IMF project to carry through the reforms.

Much of the policy assistance is provided through the Fund's Article IV consultation with members or in connection with Fund-supported arrangements. A further type of assistance is to be found in the policy framework programs that are prepared in conjunction with the World Bank for lending under the SAF and the ESAF. In supporting members efforts to adapt their economic policies, the Fund will often use both the expert services of staff members from headquarters and of those assigned to countries as resident representatives. (Further information on the Fund's technical assistance activities during 1989/90 is to be found in Appendix III.)

4. Trade Policy Issues

Stronger efforts are urgently needed to counter protectionism and to foster a more open trading system with transparent, predictable, and nondiscriminatory rules in order to sustain world trade expansion, to provide markets for exports from indebted developing countries, and to promote market-oriented reforms. For this reason, the Fund considers it essential to reach a successful conclusion of the Uruguay Round of multilateral trade negotiations by December 1990. The Fund continues to promote the adoption of more liberal trade policies by its members.

The Fund is required by its charter to facilitate a balanced growth of international trade. To this end, trade policy issues are an integral part of surveillance, and are regularly addressed in Article IV consultations with member countries, the World Economic Outlook exercise, and periodic trade review papers. Trade liberalization is also often an important element of Fund-supported adjustment programs.

The Board has repeatedly reaffirmed its commitment to trade liberalization as a means to promote steady and balanced economic growth that promotes economic adjustment. In the April 1990 discussion of the World Economic Outlook, it was stressed that the successful conclusion of the Uruguay Round of multilateral trade negotiations by the deadline of December 1990 is essential, as it will bring about substantial gains in efficiency for the world economy and reduce frictions among trading partners that have had visible adverse effects on international trade and on financial markets. Renewed efforts are called for in key areas such as agriculture and textiles, where there are significant differences among participants in the Round. Multilateral resolution of trade issues is important if potentially harmful unilateral and bilateral approaches are to be discouraged.

At their September 1989 and May 1990 meetings, both the Interim Committee and the Development Committee underscored the urgency of resisting trade restrictions, in keeping with political commitments made under the Uruguay Round, and of bringing the Round itself to a successful conclusion by December 1990.

The rapid changes taking place in Eastern European countries in liberalizing trade and payments systems are a positive development for the expansion of world trade and lend further urgency to the need to take full advantage of the opportunity provided by the Uruguay Round to liberalize trade and strengthen the multilateral trading system. The plans for removing trade barriers within the internal European Community (EC) market by 1992 and for moving toward an EC-EFTA European Economic Space and the 1988 Free Trade Agreement between the United States and Canada also have implications for global trade. The Fund considers it essential that regional and bilateral trade arrangements contribute to a more liberal multilateral trading system and take into account the interests of third countries.

Developments in 1989/90

Despite the continued growth in world trade in 1989 and some positive developments in international trade policy, there are constant pressures to maintain and expand protectionist trade measures. The positive developments during the year include liberalization measures in some industrial countries, such as Australia and the EC member

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Box 9

Obligations of Article VIII

During 1989/90, two members notified the Fund that they had accepted the obligations of Article VIII of the Articles of Agreement—Swaziland, on December 11, 1989, and Turkey, on March 22, 1990. Also, Thailand accepted Article VIII status on May 4, 1990. They are, respectively, the sixty-sixth, sixty-seventh, and sixty-eighth members to assume this status (Appendix Table II.16).

Members accepting the obligations of Article VIII undertake to refrain from imposing restrictions on the making of payments and transfers for current international transactions or engaging in discriminatory currency arrangements or multiple currency practices without Fund approval. They also undertake to assure that their currencies are fully convertible. Some of the main purposes of the Fund are to facilitate the expansion and balanced growth of international trade, and thereby contribute to high levels of employment and real income and to assist in establishing a multilateral system of payments in respect of current transactions between Fund members. Among the ways the Fund seeks to achieve these objectives is by helping to eliminate restrictive practices in the exchange and payments areas.

Countries that accept Article VIII status give confidence to the international community that they will pursue sound economic policies that will obviate the need to use exchange and payments restrictions on current transactions and thereby enhance their contribution to a multilateral payments system free of restrictions.

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countries; some reduction in barriers to trade in tropical products following the mid-term review of the Uruguay Round; and liberalization in a number of developing countries, including measures implemented as part of Fund-supported adjustment programs. Eastern European countries have initiated market-oriented trade policy reforms, in some cases with Fund support. There has been an increased participation in the General Agreement on Tariffs and Trade (GATT); 14 countries have applied for membership or observer status. Also, effective January 1, 1990, Korea disinvoked the GATT provision that had permitted it to maintain import provisions for balance of payments reasons.

On the negative side, there were concerns over contraventions of the Uruguay Round agreement on abstaining from new restrictions, and a number of GATT panel findings have not been implemented. Trade tensions persist among major industrial countries, as well as between industrial and developing countries. Specific areas of concern include the following:

- Certain aspects of the U.S. Trade and Competitiveness Act of 1988, which permit remedies to trade disputes outside the GATT system.
- Persistent reliance on selective measures taken outside GATT rules to restrain imports, particularly those used by the EC.
- The continued heavy recourse to the use of anti-dumping and countervailing duty investigations, notably by the EC and the United States.
- Problems in bilateral trade issues between the United States and Japan, with each country considering that the other had taken inadequate action on structural reform. Recent discussions have eased trade tensions somewhat.
- An escalation of trade tensions between the United States and the EC, with disagreements on agriculture and on other issues.
- Complaints voiced by the developing countries that the Uruguay Round does not adequately address their specific concerns in the trade area.

Some moves toward regional integration (including the EC internal market and the U.S.-Canada Free Trade Agreement), while leading to liberalization among the countries in a region, have been of concern to third countries, which fear the possible trade-diverting effects of such regional liberalization.

Role of the Fund

Given the increased importance of trade policy issues in the world economy, the Fund has accorded greater weight to such issues, both in its surveillance activities and when it provides financial support. The Fund and the GATT cooperate to promote an open and nondiscriminatory multilateral trading system. Ways of further increasing such cooperation are under consideration in the Uruguay Round.

The Fund continues to emphasize the need for further trade liberalization among its member countries. Trade liberalization and macroeconomic adjustment complement each other, since protectionist pressures can best be reduced by addressing underlying domestic macroeconomic imbalances. In the case of the industrial countries, in particular the major ones, the Fund stresses their special responsibility to provide an external environment that is supportive of adjustment efforts in

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developing countries. The Fund also underpins the trade liberalization efforts of developing countries by strengthening their economies through financial and technical assistance in the context of Fund-supported programs. The Fund's periodic trade policy reviews enhance the transparency of trade policies of member countries and simplify the assessment of countries' trade policies in a global trade and financial environment.

Uruguay Round

The Uruguay Round of multilateral trade negotiations has now entered its final phase. Notwithstanding the progress that has been made, many substantive issues remain to be resolved before the conclusion of the Round. These include:

- Enhancing and broadening market access under strengthened and more predictable trade rules, both in areas (such as agriculture and textiles and clothing) that in the past have largely escaped GATT discipline, and in new areas (such as services, trade-related intellectual property rights, and trade-related investment measures).
- Resolving differences among participants with regard to the nature and extent of reforms in agriculture, in textiles and clothing, and in tropical products and natural resource-based products.
- Strengthening multilateral trade rules to improve market access, both to give countries confidence that market access will not be arbitrarily denied and to provide for temporary limitations on access under agreed conditions.
- Resolving disagreements over safeguards, or temporary import restrictions designed to protect domestic producers, where discriminatory trade-distorting measures, such as voluntary export restraints, have increasingly been used in place of measures taken under GATT rules. Differences center on whether these restraints could apply selectively, or whether nondiscrimination should continue to be the guiding principle.
- Resolving differences over the rules related to the use of trade restrictions for balance of payments reasons.
- Seeking to resolve difficulties in the areas of antidumping and subsidies.
- Improving the dispute-settlement mechanism within the GATT to increase predictability of treatment and to reduce the need for unilateral or bilateral measures to resolve trade differences. Although some streamlining of GATT's dispute-settlement mechanism was implemented following the

Box 10

The Fund and the GATT

Close links already exist between the Fund and the GATT. In GATT consultations with members using trade measures for balance of payments reasons, the Fund provides members of the relevant GATT committee with the latest report on recent economic developments for the consulting country. When full consultations are held the Fund representative makes a statement on a country's economic adjustment strategy and financial policies.

The GATT's balance of payments provisions are under discussion in the Round. Industrial countries generally support tighter disciplines on the use of trade measures for balance of payments reasons, which could entail more active Fund involvement. However, most developing countries maintain that the present disciplines are adequate, and that no tightening is acceptable until better market access and an improved international economic environment can ameliorate their external financial difficulties.

Besides the Fund's role in GATT balance of payments consultations, cooperation between the Fund and the GATT includes frequent meetings between Fund and GATT officials, day-to-day contacts through the Fund's Office in Geneva, and exchanges of documents. Further cooperation may result from negotiations on a framework of multilateral rules and disciplines for trade in services. The need to respect Fund jurisdiction and responsibilities is recognized, and the Fund staff is being consulted on how to ensure this.

A strengthening of links between the GATT and the Fund and the World Bank are being discussed in the context of the relationship between trade policies and other aspects of the global economic environment. Participants are considering two different approaches: The first would allow collaboration to develop pragmatically in response to issues that need to be addressed jointly. The second would be based on a formalization of institutional links. Both approaches, but especially the formal one, are resisted by some countries that fear that closer GATT links with the Fund (and the Bank) may give rise to "cross-conditionality"—that is, that the GATT might seek to encourage the Fund to support programs only if they include additional specific trade measures.

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mid-term review of the Round, basic problems remain.

- Developing a consensus on trade-related property rights and investment measures and services. For many countries, mainly developing countries, agreement means overcoming fundamental problems in the way they view development needs and sovereignty requirements. In addition, agreement would, for some, be contingent on what the Round can offer in other areas, particularly agriculture and textiles.
- Reaching a full agreement on services, although the short time remaining before the end of the Round makes it uncertain how much liberalization will be achieved.

In addition to market access and rule-making, the Round is addressing systemic issues related to the functioning of the GATT. Among much broader issues, these negotiations aim at strengthening GATT surveillance over trade policies of the Contracting Parties to the GATT and increasing the contribution of the GATT to international policy coordination. Following the mid-term review of the Uruguay Round, a new trade policy review mechanism was introduced on a provisional basis, and in December 1989, the trade policies of three countries (Australia, Morocco, and the United States) were reviewed. In addition, increased collaboration between the GATT, the Fund, and the World Bank is being discussed (see Box 10).

5. The Fund's Financial Operations and Policies

Commitments of Fund resources increased substantially for the second year in a row to SDR 11.3 billion in 1989/90, compared with SDR 4.6 billion and SDR 3.0 billion, respectively, in the previous two years. Purchases from the General Resources Account also increased markedly, to SDR 4.4 billion. Repurchases decreased only slightly to SDR 6.0 billion during 1989/90, and thus Fund credit outstanding in the General Resources Account fell SDR 1.6 billion to SDR 22.1 billion as of April 30, 1990. Nonetheless, the Fund's holdings of uncommitted and usable ordinary resources at the end of the financial year fell to SDR 41.2 billion, while available borrowed resources were SDR 2.0 billion. Although the Fund's liquidity remained satisfactory, use of Fund resources is expected to increase further over the next few years. The Fund's Board of Governors has proposed that the present total of Fund quotas be increased by 50 percent to SDR 135.2 billion as a result of the Ninth General Review of Quotas. The increase will not become effective until a proposed amendment of the Articles of Agreement goes into effect. This amendment would provide for the suspension of voting and related rights of members that do not fulfill their obligations under the Articles.

Overdue financial obligations to the Fund increased during 1989/90 to SDR 3.3 billion. Progress has been made in implementing the Fund's cooperative strategy for resolving members' arrears problems. The first two successful cases under the strategy were concluded with the restoration of the eligibility of Guyana and Honduras to use the Fund's general resources, effective June 20 and June 28, 1990, respectively. The Fund also took steps to strengthen its financial position through additions to precautionary balances and reserves. The Fund's net income was SDR 85.5 million.

The allocation of SDRs remained unchanged at SDR 21.4 billion and their use continued at the relatively high level of recent years.

Ninth General Review of Quotas

The Executive Directors held 33 meetings on the Ninth General Review of Quotas in the financial year 1989/90. The Board of Governors adopted the resolution proposing increases in quotas under the Ninth Review on June 28, 1990.

The agreed increase in quotas of SDR 45,082.15 million will increase the size of the Fund to SDR 135,214.7 million. Under the Articles, the next review of quotas will be conducted by March 31, 1993. Japan and the Federal Republic of Germany will share the second place in terms of quotas after the United States, followed by the United Kingdom and France, which will also have equal quotas.

The agreed increase in the size of the Fund reflects the Interim Committee's restatement at its September 1989 meeting of the central role of the Fund in the international monetary system, the need for the Fund to be adequately endowed so as to maintain an effective presence at the center of the system, and its basic monetary character. There was agreement by the Executive Board that this character must be preserved by ensuring that the Fund would continue to provide balance of payments assistance on a temporary basis, that Fund resources revolve, and that the Fund

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Box 11

Fund Quotas

Each Fund member is assigned a quota, which determines its financial and organizational relations with the institution. Quotas determine members' subscriptions to the Fund, their relative voting power, their maximum access to financing from the Fund, and their shares in SDR allocations.

- *Subscriptions.* The amount of a member's quota is expressed in terms of SDRs, and is equal to the subscription the member must pay, in full, to the Fund. Up to 25 percent of the subscription has to be paid in reserve assets specified by the Fund (SDRs or usable currencies) and the remainder in the member's own currency.
- *Voting power.* Each Fund member has 250 basic votes plus one additional vote for each SDR 100,000 of quota. A member's voting power is important for two reasons. First, many of the principal policy and operational decisions of the Fund require a certain majority of votes. For example, an adjustment of quota needs an 85 percent majority of the Board of Governors, as does an allocation of SDRs and sales of the Fund's gold; a 70 percent majority is required for the determination of charges. Second, the voting power of a member has a bearing on the member's representation on the Board. The five members with the largest quotas each appoint their Executive Director, as can the two members with the largest net creditor positions in the Fund over the past two years. The remaining Directors are elected by groups or constituencies of members, and since a member's voting power depends on the size of its quota, quotas have a bearing on the formation of these groups as well.
- *Access to financing.* The maximum access of a member to Fund resources—that is, the maximum amount of financing the member can obtain from the Fund—is determined in proportion to its quota.
- *Allocation of SDRs.* The SDR facility was created in 1969 to enable the Fund to meet the long-term global need to supplement existing reserves. Members receive shares in an allocation of SDRs in proportion to their quotas on the date immediately preceding the allocation. There have been allocations of SDRs in 1970–72 and 1979–81 for a cumulative total of SDR 21.4 billion.
- *Determination and adjustment of quotas.* The Articles of Agreement do not indicate how a member's quota should be determined, though from the very start, quotas have been related to, but not strictly determined by, economic factors, such as national incomes and the values of external trade and payments. In connection with the Ninth General Review, the set of five quota formulas that were agreed in connection with the Eighth General Review were used to derive "calculated quotas," which serve as broad measures of members' relative positions in the world economy.[2] These formulas employ economic data relating to members' gross domestic product, current account transactions, the variability of current receipts, and official reserves.

Under the Articles, the Board of Governors is required to conduct a general review of quotas at intervals not longer than five years and to propose any adjustments that it deems appropriate. Such reviews provide an opportunity to consider the adequacy of the Fund's resources to fulfill its systemic responsibilities and to respond to the temporary balance of payments needs of its members, while maintaining the revolving character of its resources. Reviews and adjustments of quotas of individual members are also designed to reflect such factors as the growth of the world economy and changes in the relative economic size and circumstances of member countries.

When a country applies for membership, its quota can be expected to be determined within the same range as the quotas of members of the Fund considered to be in a comparable situation. The other terms for membership, such as the proportion of subscription to be paid in reserve assets, are set so as not to discriminate in other respects between applicants and existing members in similar circumstances.

[2] See *Annual Report, 1983,* page 86.

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would continue to hold a level of usable assets sufficient to protect the liquidity and immediate usability of members' claims on the Fund, thereby maintaining members' confidence in and support of the institution.

The distribution of the overall increase in quotas was guided by the principles agreed by the Interim Committee in its meetings in April and September 1989. In the latter meeting, the Committee reiterated that the

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size and distribution of any quota increase should take into account changes in the world economy since the last review of quotas, as well as members' relative positions in the world economy and the need to maintain a balance between different groups of countries, and the Fund's effectiveness in fulfilling its systemic responsibilities, including its role in the strengthened debt strategy. In order to provide all members with a meaningful increase in quotas and to help maintain a balance between different groups of countries, 60 percent of the overall increase in quotas will be distributed to all members in proportion to their present individual quotas; the remainder will be devoted to bringing members' quotas more in line with their relative economic positions, and will be distributed in proportion to members' shares in the total of the calculated quotas.

The quota of Japan, after being raised as described above, will be further increased to be equal to that of Germany, and the rises in the quotas of the other Group of Seven countries will be adjusted in a manner that would maintain unchanged the increases in quotas for all other Fund members. Agreement was also reached between the United Kingdom and France on an equal distribution of quotas between themselves under the Ninth Quota Review and subsequent reviews of quotas. The quotas of four countries (Antigua and Barbuda, Bhutan, Maldives, and Seychelles), with very small quotas of less than SDR 10 million at present, will be increased by additional amounts that would increase their shares in the total of new quotas to their individual shares in the total of calculated quotas.

The quotas determined as indicated above have been rounded to the next higher multiple of SDR 0.5 million for members with present quotas amounting to SDR 10 million or less, and to the next higher multiple of SDR 0.1 million for all other quotas.

A member can consent to the amount of quota increase proposed for it at any time before December 31, 1991. The period may be extended by the Executive Board. However, a member cannot consent as long as it has overdue obligations with respect to repurchases, charges, or assessments to the General Resources Account. The participation requirement will be reached (1) during the period ending December 30, 1991, when the Fund has determined that members having not less than 85 percent of the total quotas on May 30, 1990 have consented to increases in their respective quotas; (2) thereafter, on the date of the Fund's determination that members having not less than 70 percent of the total of quotas on May 30, 1990 have consented to increases in their respective quotas. A communication of consent from a member with overdue financial obligations to the General Resources Account may not be taken into account in the determination. A further condition before such quota increases can become effective is that the proposed amendment of the Articles of Agreement, which would provide for suspension of voting and other related rights of members that do not fulfill their obligations under the Articles, has come into effect. A member must pay the increase in its quota within 30 days after the later of (a) the date on which the member notifies the Fund of its consent; (b) the date of the determination that the participation requirement is met; or (c) the date of the determination that the proposed amendment of the Articles of Agreement has become effective. The period for payment may be extended by the Executive Board. A member may not make such a payment unless it is current in its obligations with respect to repurchases, charges, and assessments to the General Resources Account.

At its meeting in May 1990, the Interim Committee agreed that every effort should be made by members to ensure that both the quota increase and the amendment of the Articles shall be effective before the end of 1991, and that the Committee would consider what steps might need to be taken if it appeared that these resolutions might not be effective by that date.

Twenty-five percent of the increase in quotas shall be paid in SDRs or in the currencies of other members specified by the Fund, subject to their concurrence, or in any combination of SDRs and such currencies. The balance of the increase shall be paid in a member's own currency. In addition, the Fund stands ready to assist members that do not hold sufficient reserves to make their reserve asset payments to the Fund, by arranging for them to borrow SDRs from other members that are willing to cooperate, provided that such members would on the same day repay the loans from the SDR proceeds of drawings of reserve tranche positions in the Fund that had been established by the payment of SDRs.

Fund Liquidity, Borrowing, and Member Access

The quota increase will help preserve the Fund's liquidity in the event of an increase in the use of Fund credit. The liquid resources of the Fund consist of usable currencies and SDRs held in the General Resources Account, supplemented, as necessary, by borrowed resources. Usable currencies, the largest component of these resources, are those of members whose balance of payments and gross reserve positions are considered sufficiently strong to warrant their in-

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clusion in the operational budget for use in financing Fund operations and transactions. As of April 30, 1990, the Fund's uncommitted and usable ordinary resources totaled SDR 41.2 billion, compared with SDR 42.9 billion a year earlier. Although repurchases were in excess of purchases during the financial year, this was more than offset by the removal of two currencies from the operational budget, which largely contributed to the SDR 1.7 billion decline in the Fund's usable ordinary resources (Chart 10).

The Fund borrows from official sources to supplement its resources and to finance members' purchases under the enlarged access policy established in 1984. Under the enlarged access policy, at present a member may have annual access of up to 90 or 110 percent of quota under a stand-by or an extended arrangement and cumulative access of 400 or 440 percent of quota, depending upon the strength of a member's adjustment program and balance of payments need. These levels of access represent limits and not entitlements, but these limits can be exceeded under exceptional circumstances. At its September 1989 meeting, the Interim Committee recommended the continuation of the policy of enlarged access and the maintenance of the existing limits on the use of Fund resources through 1989/90. At its May 1990 meeting, the Interim Committee agreed that the enlarged access policy and the present access limits should remain unchanged until the increase in quotas under the Ninth General Review of Quotas becomes effective. On June 25, 1990, the Executive Board approved this agreement, with a provision for review not later than December 31, 1991, and annually thereafter, so long as the decision remains in effect.

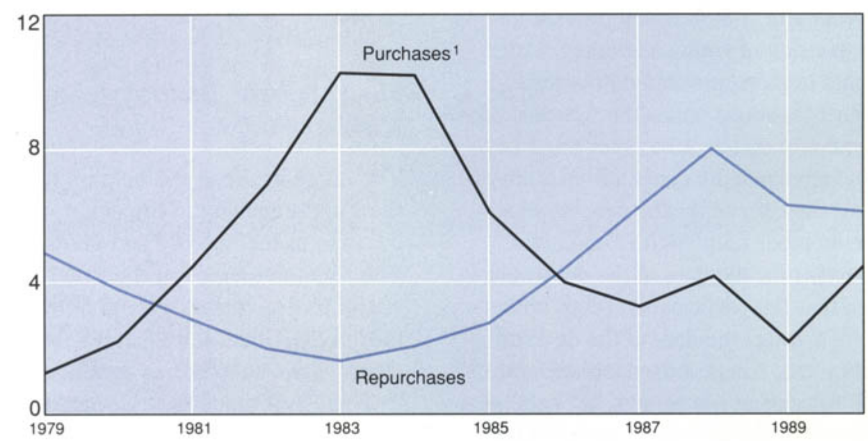
On April 30, 1990, available borrowed resources amounted to SDR 2.0 billion, all under the 1986 short-term borrowing agreement with the Government of Japan.[3] This represented a use of borrowed resources during 1989/90 of SDR 1.0 billion, compared with the use of SDR 0.2 billion during 1988/89 (Appendix Table II.10).

Against these assets, the Fund's liquid liabilities declined to SDR 24.8 billion at April 30, 1990 from SDR 27.3 billion at April 30, 1989. These liabilities comprised reserve tranche positions, which declined by SDR 0.4 billion to SDR 21.3 billion, and loan claims on the Fund, which fell to SDR 3.5 billion from SDR 5.6 billion a year earlier.

In order to assess the adequacy of the Fund's liquidity, the stock of usable currencies is adjusted downward to take into account the staff's assessment of the need to maintain working balances in all currencies and the possibility that currencies of weakening members may become unusable. Undrawn balances of commitments of ordinary and borrowed resources are also taken into account in assessing the Fund's liquidity. The resulting ratio of the Fund's adjusted and uncommitted resources to its liquid liabilities—the so-called liquidity ratio—declined by about 10 percentage points by the end of 1989/90 to 105.6 percent (see Box 12).

Chart 10

General Resources: Purchases and Repurchases, Financial Years Ended April 30, 1979–90
(In billions of SDRs)



[1] Purchases excluding reserve tranche.

[3] For a summary of the Fund's borrowings from 1981 onward, see *Annual Report, 1988*, page 75. Under the agreement with the Government of Japan, the Fund may make drawings until March 31, 1991, although the period may be extended for up to two years if warranted in light of the Fund's liquidity and borrowing requirements. In addition, the Fund may borrow up to SDR 17 billion under the General Arrangements to Borrow (GAB) and a further SDR 1.5 billion under a borrowing arrangement with the Saudi Arabian Monetary Agency (SAMA) in association with the GAB, when supplementary resources are needed to forestall or to cope with an impairment of the international monetary system.

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Box 12

Liquidity Ratio

The "liquidity ratio" shows the relationship between the Fund's highly liquid assets (i.e., adjusted and uncommitted resources and investments in connection with enlarged access) and the Fund's liquid liabilities in the form of reserve tranche positions and loan claims. The liquidity ratio has ranged between 71.0 and 108.5 at the end of each year from 1983 to 1989.

Financial Operations

The Fund's liquidity is affected by its financing of members' balance of payments shortfalls and members' servicing of previous purchases. The total of purchases (drawings) from the General Resources Account increased substantially to SDR 4.4 billion in 1989/90 from SDR 2.1 billion in 1988/89 (Table 1).[4] The increase primarily reflected a rise of SDR 2.2 billion in disbursements under extended arrangements. In addition, ordinary resources were used to repay SDR 0.4 billion of Fund borrowing that was to be repaid before the corresponding repurchases became due.[5]

Repurchases in the General Resources Account in 1989/90 amounted to SDR 6.0 billion, representing a decrease of SDR 0.3 billion from the previous fiscal year. Of this total, about SDR 0.4 billion consisted of early repurchases made by Mauritius and Thailand whose balance of payments and reserve positions improved during the period.[6]

The relatively high levels of repurchases in the late 1980s reflect the record use of Fund credit in the period up to the mid-1980s, and the revolving nature and medium-term maturity of the Fund's balance of payments lending.[7] Repurchases are projected to continue to decrease in the short term, reflecting relatively lower levels of purchases in the recent past.

These flows resulted in a fall in Fund credit outstanding in the General Resources Account from SDR 23.7 billion in 1988/89 to SDR 22.1 billion in 1989/90 (Chart 11). Details are provided in Appendix Table II-9.

Stand-By and Extended Arrangements

In 1989/90, 16 new stand-by arrangements came into effect, all with developing member countries, involving total commitments of SDR 3.2 billion of Fund resources. These compared with 12 new stand-by arrangements and commitments of SDR 3.0 billion in 1988/89. The largest commitments were made to Argentina (SDR 1.1 billion); Poland and Yugoslavia (SDR 0.5 billion each); and Algeria, Hungary, and Côte d'Ivoire (SDR 0.2 billion each). About half of these arrangements involved the use of borrowed resources. As of April 30, 1990, 19 stand-by arrangements were in effect, with total commitments of SDR 3.6 billion in Fund resources, and undrawn balances of SDR 2.5 billion.

Three extended arrangements were approved during the financial year 1989/90: Mexico (SDR 3.3 billion), the Philippines (SDR 0.7 billion), and Venezuela (SDR 3.7 billion). These commitments of SDR 7.6 billion, which included commitments of borrowed resources for all three arrangements, represented the highest level of new commitments under extended arrangements since 1984. In connection with the strengthened debt strategy to reduce debt and debt service for qualifying, heavily indebted countries (see Section 2), a total of SDR 1.9 billion has been set aside under the three arrangements for possible debt-reduction operations, and all these included provision for augmentation of arrangements to provide collateral to support debt-service reduction.[8] An extended arrangement of SDR 0.2 billion, approved for Tunisia in July 1988, remained in effect, but no purchase has yet been made. Of the total of SDR 7.8 billion committed under extended arrangements at the end of financial year 1989/90, SDR 5.4 billion was undrawn.

The new commitments made in 1989/90 under extended arrangements followed the Executive Board's June 1988 decision to enhance the facility and the advent of the debt-reduction initiative. This reflected the Fund's commitment to structural adjustment programs by making Fund resources available under more flexible terms to members with strong programs of macroeconomic adjustment and struc-

[4] The figures exclude reserve tranche purchases by three members in 1989/90 (SDR 62 million) and by five members in 1988/89 (SDR 413 million). Reserve tranche purchases represent members' use of their own Fund-related assets and do not constitute use of Fund credit.

[5] Such use of ordinary resources to repay borrowing will be reversed beginning in 1990/91 when repurchases of purchases financed with borrowed resources will exceed repayments of credit lines.

[6] In accordance with the guidelines for early repurchases, Executive Board Decision No. 6172 (79/101), adopted June 28, 1979.

[7] Depending on the sources of the financing, repurchases tend to peak about four to five years after the corresponding purchases.

[8] The Executive Board agreed to such augmented support for debt-service reduction in January 1990 under the extended arrangement with Mexico for SDR 0.5 billion, or 40 percent of quota. Mexico purchased this amount on February 2, 1990.

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Table 1

Selected Financial Activities, 1984–90
(In millions of SDRs)

	Financial Year Ended April 30						
	1984	1985	1986	1987	1988	1989	1990
				During period			
Total Disbursements	**10,164**	**6,060**	**3,941**	**3,307**	**4,562**	**2,682**	**5,266**
Purchases by facility (General Resources Account)[1]	10,164	6,060	3,941	3,168	4,118	2,128	4,440
Stand-by and first credit tranche	4,164	2,768	2,841	2,325	2,313	1,702	1,183
Buffer stock financing facility	102	—	—	—	—	—	—
Compensatory financing facility	1,180	1,248	601	593	1,544	238	808
Extended Fund facility	4,718	2,044	498	250	260	188	2,449
Loans under SAF/ESAF arrangements	—	—	—	139	445	554	826
Special Disbursement Account resources	—	—	—	139	445	380	584
ESAF Trust resources	—	—	—	—	—	174	242
By Region							
Industrial countries	—	—	—	—	—	—	—
Developing countries	10,164	6,060	3,941	3,307	4,562	2,682	5,267
Africa	1,643	1,018	842	647	955	701	1,289
Asia	2,590	747	844	1,282	804	469	525
Europe	1,658	838	323	68	—	338	268
Middle East	—	57	—	—	116	—	66
Western Hemisphere	4,273	3,401	1,933	1,311	2,688	1,174	3,119
Repurchases and repayments	**2,129**	**2,943**	**4,702**	**6,749**	**8,463**	**6,705**	**6,398**
Repurchases[2]	2,018	2,730	4,289	6,169	7,935	6,258	6,042
Trust Fund loan repayments	111	212	413	579	528	447	356
				End of period			
Total outstanding credit provided by Fund	**34,603**	**37,622**	**36,877**	**33,443**	**29,543**	**25,520**	**24,389**
Of which:							
General Resources Account	31,742	34,973	34,640	31,646	27,829	23,700	22,098
Special Disbursement Account	—	—	—	139	584	965	1,549
Administered Accounts							
Trust Fund	2,862	2,650	2,237	1,658	1,129	682	327
ESAF Trust	—	—	—	—	—	174	416
Percentage change in total outstanding credit	30.3	8.7	−2.0	−9.3	−11.7	−13.6	−4.4
Number of indebted countries	90	91	87	88	86	83	88

[1] Excluding reserve tranche purchases.
[2] Including sales of currencies, which have the effect of repurchases.

tural reforms. Drawings under an extended arrangement are financed up to 140 percent of quota with ordinary resources and the balance with borrowed resources.

Total new commitments of Fund resources under stand-by and extended arrangements in 1989/90 amounted to SDR 10.9 billion, more than three times the amount of SDR 3.2 billion in the previous year. Average annual access under new stand-by arrangements was 47 percent of quota and average annual access under new extended arrangements was 78 percent of quota. Annual access for members, as a percent of quota, ranged from 15 percent in the case of Chile to 93 percent for Mexico, after augmentation to support debt-service reduction.

SAF and ESAF

The Fund continued its financial support to low-income members through the structural adjustment facility (SAF) and the enhanced structural adjustment facility (ESAF) in 1989/90.

New commitments in 1989/90 comprised three SAF arrangements totaling SDR 45 million and four ESAF arrangements, totaling SDR 415 million. The largest of these arrangements was with Kenya, for which a SAF arrangement (SDR 99.4 million) was replaced by an ESAF arrangement (SDR 241 million). All SAF arrangements approved during 1989/90, with the exception of a SAF arrange-

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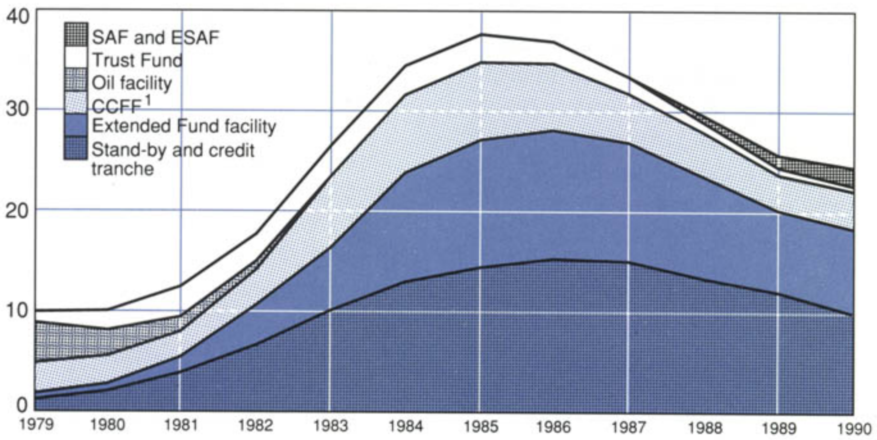
Chart 11

Total Fund Credit Outstanding to Members (Including Trust Fund, SAF, and ESAF), Financial Years Ended April 30, 1979–90
(In billions of SDRs)



[1] Includes the compensatory financing facility prior to September 1988 and the buffer stock financing facility.

ment with the Lao People's Democratic Republic (SDR 20.5 million), were with African countries. Cumulative commitments under SAF and ESAF arrangements totaled SDR 3.0 billion as of April 30, 1990. Cumulative disbursements under the two facilities amounted to SDR 2.0 billion as of April 30, 1990, compared with SDR 1.1 billion as of April 30, 1989.

Under SAF arrangements, qualified members may borrow up to the equivalent of 70 percent of quota in three annual installments. Under ESAF arrangements, the equivalent of up to 250 percent of quota can be available, depending upon the member's adjustment program and its financing needs; under exceptional circumstances, this upper limit can be increased to 350 percent of quota. Access under ESAF arrangements approved thus far has ranged from 116 to 180 percent of quota, and has averaged 161 percent of quota.

Resources totaling about SDR 8.8 billion are expected to become available to finance SAF and ESAF arrangements. Loans under SAF arrangements are funded with resources projected to total SDR 2.8 billion, derived from repayments on loans from the Trust Fund (established in 1976). ESAF arrangements are funded with Special Disbursement Account resources not utilized under SAF arrangements and with ESAF Trust resources expected to total about SDR 6.0 billion. At the end of April 1990, the resources available for lending in the ESAF Trust amounted to SDR 5.3 billion, unchanged from the preceding year. Total borrowing agreements in effect were also unchanged at SDR 4.8 billion, including an associated agreement with the Saudi Fund for Development. Some borrowing agreements call for market-related interest rates, while others bear concessional interest rates.

To enable all ESAF financing to be available at low concessional interest rates (currently 0.5 percent a year), subsidy contributions are received by the ESAF Trust Subsidy Account. Contributions to the ESAF Trust Subsidy Account take a variety of forms, including direct grants and deposits made at varying concessional interest rates. Available resources in the ESAF Trust Subsidy Account as of April 30, 1990 amounted to SDR 227 million, up from SDR 79 million as of April 30, 1989.

Details on SAF and ESAF arrangements, and borrowing agreements and subsidy contributions for the ESAF Trust, are provided in Appendix Tables II.4, II.5, and II.11.

Special Facilities

The Fund's special facilities consist of the compensatory and contingency financing facility (CCFF) and the buffer stock financing facility (BSFF). The compensatory element of the CCFF provides financial assistance to countries whose export earnings have fallen substantially below medium-term trends or whose costs of cereal imports have risen significantly owing to exogenous factors. The CCFF's contingency element provides additional financing to members with Fund-supported adjustment programs to meet external contingencies, including those arising from higher interest rates on external debt.

Purchases under the CCFF rose to SDR 0.8 billion in 1989/90 from SDR 0.2 billion in 1988/89, and accounted for almost one fifth of total purchases from the General Resources Account (Appendix Table II.7). This increase reflected purchases totaling SDR 769 million by Mexico and Algeria under the compensatory financing element of the decision, comprising assistance of SDR 532 million for shortfalls in export earnings and SDR 237 million for increased cereal import costs. In addition, Jordan made purchases of

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SDR 39 million under the compensatory element of the facility for shortfalls in export earnings. There were no purchases under the contingency element of the CCFF.

Through the BSFF the Fund may finance members' payments to approved international organizations whose aim is to stabilize commodity prices by building up buffer stocks. For the sixth consecutive year there were no purchases under the BSFF and no amounts were outstanding under this facility at the end of 1989/90.

SDR Department

SDRs, the international reserve asset allocated by the Fund to its participating members, may be held by Fund members (all of which are currently participants in the SDR Department), by the Fund's General Resources Account, 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 unchanged at 16 during 1989/90.[9] Prescribed holders do not receive allocations, but can acquire and use SDRs in transactions and operations with participants in the SDR Department and other prescribed holders under the same terms and conditions as participants.

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. A number of international conventions also use the SDR as a unit of account. In addition, the SDR has been used to denominate financial instruments created outside the Fund (private SDRs). At the end of the financial year, the currencies of seven member countries were pegged to the SDR.

Pattern of Holdings

The total allocation of SDRs remained at SDR 21.4 billion in 1989/90. Holdings of SDRs by participants increased during the year to SDR 20.8 billion from SDR 19.9 billion. The Fund's holdings of SDRs declined to SDR 0.6 billion from SDR 1.0 billion, and prescribed holders reduced their holdings to SDR 20 million from about SDR 0.5 billion. In 1989/90, SDR holdings of developing countries as a group increased by about 2 percent, while those of industrial countries increased by about 5 percent. (See Appendix Tables II.12 and II.13.)

Total Transfers

Total transfers of SDRs during 1989/90 of SDR 16.8 billion remained at the high levels of recent years, although they were slightly lower than last year's transfers. This marginal decline reflected the effect of a substantial decrease in transfers among participants and prescribed holders and a moderate increase in transfers between the General Resources Account and participants and prescribed holders. Summary data on transfers of SDRs by participants, the General Resources Account, and other prescribed holders are presented in Table 2.

Transfers Among Participants and Prescribed Holders

Transfers of SDRs among participants and prescribed holders declined somewhat in 1989/90 to SDR 7.8 billion, mainly because of a significant decrease in prescribed operations (Table 2). Transactions by agreement were at about the level of last year, totaling SDR 6.8 billion (of which SDR 1.2 billion involved prescribed holders). The other SDR 1.0 billion was accounted for mainly by transfers for SDR interest payments and prescribed operations.[10] There were no transactions with designation during the year, as all prospective uses of SDRs through the designation process were arranged through transactions by agreement with other participants.

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. Participants also sold in transactions by agreement most of the SDRs they received in purchases and operational payments.

The high volume of SDR use in transactions by agreement during the last three years was facilitated by buying and selling (two-way) arrangements for voluntary SDR transactions. While maintaining the SDR holdings of participating members within the desired ranges, these arrangements have greatly facilitated the smooth functioning of the SDR system by accommodating temporary mismatches between the desired purchases and sales of SDRs by other participants. Of the total transactions by agreement of SDR 6.8 billion in 1989/90, only SDR 1.8 billion was effected by direct

[9] Prescribed holders of SDRs are the African Development Bank, African Development Fund, Andean Reserve Fund, Arab Monetary Fund, Asian Development Bank, Bank of Central African States, Bank for International Settlements, Central Bank of West African States, East African Development Bank, Eastern Caribbean Central Bank, International Bank for Reconstruction and Development, International Development Association, International Fund for Agricultural Development, Islamic Development Bank, Nordic Investment Bank, and Swiss National Bank.

[10] These consisted of forward operations, settlement of financial obligations, and transfers of interest under swaps. These "prescribed operations" in SDRs totaled SDR 291 million during 1989/90.

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Table 2

Transfers of SDRs, January 1, 1970–April 30, 1990
(In millions of SDRs)

	Annual Averages[1] 01/01/70–04/30/78	05/01/78–04/30/81	05/01/81–04/30/83	05/01/83–04/30/87	Financial Year Ended April 30 1988	1989	1990	Total Jan. 1, 1970–April 30, 1990
Transfers among participants and prescribed holders								
Transactions with designation								
From own holdings	222	271	743	166	—	—	—	5,016
From purchase of SDRs from Fund	41	1,174	1,553	1,744	986	—	—	14,727
Transactions by agreement	439	771	1,262	3,121	7,335	6,686	6,777	41,773
Prescribed operations	—	—	277	520	540	1,689	291	5,155
Fund-related operations	—	—	—	43	296	334	211	1,014
Net interest on SDRs	42	161	259	283	361	344	480	3,604
Total	743	2,377	4,092	5,877	9,459	9,053	7,759	71,289
Transfers from participants to General Resources Account								
Repurchases	306	809	702	991	2,518	2,466	2,339	17,666
Charges	259	620	1,233	2,573	2,002	1,734	1,897	22,411
Quota payments	24	1,704	175	1,591	—	—	33	12,058
Interest received on General Resources Account holdings	16	135	551	307	81	56	86	3,092
Assessments	1	2	2	6	4	4	4	44
Total	606	3,269	2,663	5,466	4,605	4,260	4,360	55,270
Transfers from General Resources Account to participants and prescribed holders								
Purchases	172	1,474	2,227	2,554	1,848	624	945	24,236
Repayments of Fund borrowings	—	88	86	614	1,999	1,782	1,845	8,519
Interest on Fund borrowings	4	27	184	443	585	490	334	3,664
In exchange for other members' currencies								
Acquisitions to pay charges	—	3	95	896	402	244	368	4,796
Acquistions to make quota payments	—	114	—	—	—	—	—	341
Reconstitution	210	33	—	—	—	—	—	1,555
Remuneration	26	165	605	1,536	932	894	1,196	11,090
Other	29	7	22	17	31	20	24	450
Total	442	1,911	3,218	6,060	5,798	4,054	4,712	54,649
Total transfers	1,792	7,556	9,971	17,402	19,862	17,367	16,831	181,209
General Resources Account holdings at end of period	1,371	5,445	4,335	1,960	770	976	628	628

[1] The first column covers the period from the creation of the SDR until the Second Amendment to the Articles of Agreement; the second column shows the period covering the SDR allocations in the third basic period, as well as the Seventh General Quota increases; and the fourth column covers the period during which the Eighth General Quota increase came into effect and before the SDR two-way arrangements imparted significant increases to the SDR transactions by agreement.

matching of purchasers and sellers. The remainder, that is, SDR 5.0 billion, represented temporary excess supply or demand and was effected through the sales of SDR 2.6 billion to, and purchases of SDR 2.4 billion from, members with two-way arrangements in exchange for U.S. dollars, deutsche mark, French francs, pounds sterling, or Japanese yen.

Transfers Involving the Fund

The remaining amount of SDR transfers of about SDR 9 billion in 1989/90 took place between participants and the Fund. Receipts of SDRs by the General Resources Account increased marginally in 1989/90 to SDR 4.4 billion. Receipts consisted mainly of payments of charges on members' use of Fund resources, which amounted to SDR 1.9 billion, and repurchases of 2.3 billion made in SDRs (at participant's option). The proportion of total repurchases that was discharged in SDRs in 1989/90 was about 40 percent.

Transfers from the General Resources Account to participants rose by about 17 percent, to SDR 4.7 bil-

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lion, in 1989/90. The total of SDRs used for interest payments and in repayments of Fund borrowings in 1989/90 declined slightly from the previous year to SDR 2.2 billion. SDRs used to finance purchases increased to SDR 0.9 billion, while remuneration payments made in SDRs on members' creditor positions in the Fund increased to SDR 1.2 billion and SDRs acquired by members against foreign exchange was SDR 0.4 billion.

SDRs are used in other operations involving SAF, ESAF, and Trust Fund loans, including their repayment, interest payments and payment of special charges on these obligations; and subsidy payments to members. In 1989/90, these Fund-related operations in SDRs totaled SDR 211 million.

Overdue Financial Obligations

Overdue financial obligations to the Fund remained a serious problem in 1989/90. The total amount of overdue obligations at the end of the financial year was SDR 3.27 billion, and overdue obligations of members in arrears to the Fund by six months or more increased to SDR 3.25 billion as of April 30, 1990 from SDR 2.80 billion as of April 30, 1989. The number of members in arrears on obligations to the Fund by six months or more remained the same at 11.[11] All these members were in arrears to the General Resources Account; nine had arrears in the SDR Department; eight had arrears to the Trust Fund; and two were in arrears on interest payments on SAF loans. Unpaid charges due from these members (deferred charges), which are excluded from the Fund's current income, amounted to SDR 834.4 million at the end of 1989/90, compared with SDR 642.2 million at the end of 1988/89.

In 1989/90 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—Panama on June 30, 1989 and Honduras on November 30, 1989. At the date of ineligibility, Panama had overdue obligations of SDR 126.6 million to the General Resources Account (with the longest overdue obligation having been outstanding for 18 months) and SDR 2.7 million in the SDR Department (16 months),[12] and Honduras had overdue obligations of SDR 17.3 million to the General Resources Account (with the longest overdue obligation having been outstanding for 12 months), SDR 0.4 million in the SDR Department (less than a month), and SDR 2.8 million to the Trust Fund (12 months). As of the end of the financial year, earlier declarations of ineligibility with respect to Viet Nam (January 15, 1985), Guyana (May 15, 1985), Liberia (January 24, 1986), Sudan (February 3, 1986), Peru (August 15, 1986), Zambia (September 30, 1987), Sierra Leone (April 25, 1988), and Somalia (May 6, 1988) remained in effect. These ten ineligible members accounted for 98.4 percent of total overdue obligations to the Fund as of April 30, 1990.[13] The eligibility of Guyana and Honduras was subsequently restored effective June 20 and June 28, 1990, respectively, following full settlement of their overdue obligations on those dates. Selected data on arrears to the Fund for 1984/85–1989/90 are shown in Table 3; additional data on members' overdue obligations by type and duration are shown in Table 4.

The reduction and elimination of overdue financial obligations to the Fund are essential for ensuring the cooperative nature of the institution and preserving its monetary character. During 1989/90 the Executive Board continued to implement the cooperative strategy for resolving members' arrears problems. This strategy has led to some encouraging progress. In particular, with the assistance of the Support Group for Guyana, chaired by Canada, Guyana's arrears to the Fund were eliminated. Honduras was also able to settle its arrears with the help of donor and creditor countries. Furthermore, the emergence of any new protracted arrears cases has been avoided. Despite the payments by Guyana, Honduras, and others, overdue obligations to the Fund were SDR 3.20 billion at the end of June 1990. A number of countries with overdue obligations continued, or began, during 1989/90 to pursue economic policies aimed at restoring growth and external viability as part of their efforts to cooperate with the Fund in addressing the problem of their arrears. There were, however, slippages in policy implementation in some of these cases, in part due to shortfalls in external assistance. Two members (Somalia and Zambia) formulated policy framework papers outlining medium-term economic objectives and policies as well as financing requirements, which were discussed by the Executive Boards of the Fund and the World Bank, and the two institutions are cooperating closely to secure the necessary financing for these countries. Two other members (Sierra Leone and Viet Nam) were also implementing policy measures with the objective of redressing their underlying domestic and external imbalances and

[11] Guyana and Honduras settled their overdue obligations to the Fund on June 20 and June 28, 1990, respectively, reducing this number to nine.

[12] Panama's overdue obligations to the SDR Department were cleared on May 23, 1990 and its right to use SDRs was therefore restored.

[13] One other member—Democratic Kampuchea—has had overdue obligations to the Fund since 1975, but has not been declared ineligible.

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Table 3

Arrears to the Fund of Members with Obligations Overdue by Six Months or More, 1986–90
(In millions of SDRs)

	Financial Year Ended April 30				
	1986	1987	1988	1989	1990
Amount of overdue obligations	489.0	1,186.3	1,945.2	2,801.5	3,251.1
Number of members	8	8	9	11	11
Of which:					
General Department	418.9	1,088.4	1,787.7	2,594.2	3,018.6
Number of members	8	8	9	11	11
SDR Department	12.2	15.6	25.1	35.0	44.7
Number of members	5	4	6	6	9
Trust Fund	57.9	82.3	132.4	172.3	187.8
Number of members	6	6	7	7	8
Number of ineligible members	4	5	7	8	10

normalizing their relations with the Fund. Other members have begun to cooperate with the Fund by entering into discussions on the formulation and implementation of sound adjustment policies. Except for Democratic Kampuchea, all members with protracted arrears to the Fund made some payments to the Fund during the year. In 1989/90 a support group of creditor and donor countries was established for Somalia under the chairmanship of Italy, for the purpose of mobilizing external financing to assist in clearing Somalia's arrears to the international financial institutions.

In the few cases in which members have not shown a willingness to cooperate with the Fund in resolving the problem of their overdue obligations, the Executive Board has applied remedial measures in accordance with the guidelines established under the cooperative strategy. During 1989/90, the Board further defined the procedures for the application of remedial measures and added two new instruments—communications with Fund Governors and heads of selected international financial institutions and a declaration of noncooperation. Communications have been sent by the Managing Director regarding a member's failure to fulfill its financial obligations to the Fund in four instances, of which three involved ineligible members and one related to a member that had not yet reached the stage of ineligibility. The Board issued a declaration of noncooperation in the case of one member (Liberia), which noted, inter alia, that if the member did not resume active cooperation with the Fund, the Fund would consider initiating procedures under Section 22 of its

Table 4

Arrears to the Fund of Members with Obligations Overdue by Six Months or More, by Type and Duration, as of April 30, 1990
(In millions of SDRs)

		By Type			By Duration			
Member	Total	General Department	SDR Department	Trust Fund	Less than one year	One–two years	Two–three years	Three years or more
Guyana[1]	104.8	96.3	0.3	8.1	12.7	15.4	20.3	56.5
Honduras[2]	25.7	22.2	—	3.5	17.4	8.4	—	—
Kampuchea, Democratic	36.3	29.4	6.8	—	2.5	2.0	1.8	29.9
Liberia	307.8	277.1	3.1	27.6	51.6	53.2	64.1	138.9
Panama	181.5	176.9	4.6	—	64.8	77.1	39.6	—
Peru	626.2	626.2	—	—	54.0	151.5	163.2	257.6
Sierra Leone	70.8	58.4	2.0	10.4	11.1	20.3	34.4	5.0
Somalia	103.5	96.8	—	6.6	45.0	34.4	24.1	—
Sudan	889.4	813.7	1.2	74.4	135.9	148.6	185.0	419.8
Viet Nam	104.6	43.4	11.1	50.0	7.1	12.5	18.8	66.2
Zambia	800.6	777.9	15.5	7.2	184.8	192.4	244.8	178.7

[1] Guyana settled its arrears to the Fund on June 20, 1990.
[2] Honduras settled its arrears to the Fund on June 28, 1990.

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by-laws leading to the compulsory withdrawal of the member from the Fund.

Rights Approach

The Interim Committee, in its communiqué of May 8, 1990, endorsed the concept of a "rights" approach, under which a member having at present protracted arrears could earn rights, based on sustained performance during the period of an adjustment program monitored by the Fund, toward future financing from the Fund once its arrears to the Fund had been cleared.

Following the Interim Committee's endorsement of the approach, the Executive Board agreed on certain key elements of the rights accumulation programs to be pursued under this approach and of the financing of accumulated rights. It was envisaged that the rights approach would be limited to those of the 11 members with protracted arrears to the Fund at the end of 1989 that adopt a comprehensive economic program that can be endorsed by the Executive Board by the time of the Spring 1991 Interim Committee meeting. Rights accumulation programs should adhere to macroeconomic and structural policy standards associated with programs supported by extended and ESAF arrangements. In particular, the programs would involve policies that would help create the conditions for sustained growth and substantial progress toward external viability. The member would also be expected to make maximum efforts to reduce its outstanding overdue obligations to the Fund during the period of the rights accumulation program. However, it has been envisaged that, where necessary, rights could be accumulated up to the equivalent of the overdue obligations outstanding to the Fund at the beginning of the program.

Rights accumulation programs would generally span a period of about three years, and the member would be expected with the assistance of donors and creditors to generate the financing needed to meet the requirements of its economic program and, at a minimum, to remain current on obligations falling due to the Fund and the World Bank. Rights accumulation would generally be phased evenly throughout the period of the program, with a possibility of some front-loading of rights within the first annual Fund-monitored program, if warranted by special circumstances. Monitoring of performance, and hence the accumulation of rights, would be on a quarterly basis. If the program were to go off track, a member could retain accumulated rights for a period of six months, while efforts were made to bring the program back on track or to formulate a new program. After six months, the previously accumulated rights would begin to lapse at a rate of 25 percent of accumulated rights per quarter, although the Executive Board could decide to accelerate or slow this pace as warranted.

Upon the successful completion of a rights accumulation program, prior clearance of the member's arrears to the Fund, and approval by the Fund of a successor arrangement, the member would be able to encash its accumulated rights as the first disbursement under the successor financial arrangement. The successor arrangement under which rights would be encashed would be financed by the Fund's general resources or, for the SAF-eligible countries currently in protracted arrears, by the general resources or SAF and ESAF resources, or an appropriate blend of these resources.

The Interim Committee concurred with the proposal that the Fund pledge use of up to 3 million ounces of gold, if needed, as additional security for use of the resources of the ESAF Trust in connection with the financing of accumulated rights. The Executive Board will establish such a pledge after certain members have completed the legislative action necessary to vote for the decision.

Proposed Third Amendment

The Interim Committee emphasized that, even as cooperative efforts were being intensified to eliminate arrears, it was necessary to strengthen and enhance the instruments available to the Fund to prevent and deter overdue obligations. Prevention is a key element in the Fund's cooperative strategy. In this connection, in staff papers supporting the use of Fund resources assessments of a member's capacity to repay the Fund will be expanded and made more comprehensive. A particularly important factor is the readiness of the authorities in member countries using Fund resources to adapt their policies in response to unexpected developments, which could include the possibility of some additional Fund financing. The Interim Committee invited the Executive Board to propose to the Board of Governors by the end of May 1990 the text of an amendment of the Articles of Agreement providing for the suspension of voting and related rights of members that do not fulfill their obligations under the Articles. The Executive Board transmitted such a proposal to the Board of Governors, which adopted it effective June 28, 1990. Activation of the provision for suspension in an individual case would require a 70 percent majority of the total voting power in the Executive Board.

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Fund Income, Charges, and Burden Sharing

In view of the further increases in overdue obligations, the Board maintained and reinforced the various measures taken in recent years to strengthen the Fund's financial position. For financial year 1989/90, the amount to be added to the Special Contingent Account was set at SDR 65 million and the target amount of net income, which is to be added to the Fund's reserves, at SDR 85 million (5 percent of reserves plus the shortfall in 1988/89). Unpaid charges due by members with protracted arrears continued to be offset through adjustments applied to the basic rates of charge and remuneration, which also produced the amounts added to the Special Contingent Account. For 1989/90 the adjustments to the rate of charge amounted to 100 basis points (resulting in an adjusted rate of charge that averaged 9.34 percent), and the adjustments to the rate of remuneration to 94 basis points (resulting in an adjusted rate of remuneration that averaged 7.72 percent).

For the financial year 1989/90, the Board decided that the basic rate of charge would be set as a proportion of the weekly SDR interest rate in order to avoid sharp steplike increases or decreases in the rate of charge that in the past had been necessary to achieve the target amount of net income. The proportion was set at 96.3 percent and continued after the review at midyear. The Board decided to continue in the financial year 1990/91 the proportional relationship between the basic rate of charge and the SDR interest rate. The proportion was reduced to 91.3 percent, so as to achieve a target amount of net income of 5 percent of reserves, and is to be reviewed at midyear. The Board decided also to continue existing arrangements to share the cost of deferred charges, and allocations to the Special Contingent Account of 5 percent of the Fund's reserves at the beginning of the year. Net income for financial year 1989/90, taking into account a retroactive reduction of charges on the use of ordinary resources of SDR 30 million, was equal to the net income target of SDR 85.5 million. Net income was added to the Fund's reserves, which rose to about SDR 1.4 billion on April 30, 1990 from SDR 1.31 billion on April 30, 1989, an increase of 6.5 percent. Total precautionary balances, which include amounts in the Special Contingent Account, reached SDR 1.61 billion at the end of 1989/90, an increase of 10.3 percent over a year earlier.

In the context of the arrears strategy, the Interim Committee endorsed, at its meeting in May 1990, an extension of the Fund's mechanisms for the sharing of burdens associated with overdue obligations among creditor and debtor members. This extension, adopted by the Fund and effective July 1, 1990, will be reviewed annually and will accumulate SDR 1 billion over approximately five years, financed by a further adjustment of 0.35 percent to the rate of charge and, subject to the floor to the rate of remuneration of 80 percent of the SDR interest rate, a further adjustment to the rate of remuneration to yield three times the amount generated by the further adjustment to the rate of charge. The amounts thus accumulated are to assist in the financing and to safeguard purchases that are made as a result of the encashment of rights accumulated under Fund-monitored programs by members with protracted arrears at the end of 1989. This scheme provides for refunds of contributions upon full repayment to the Fund of the use of such credit or at such earlier date as the Fund may determine.

At the same meeting, the Interim Committee welcomed the proposal for voluntary contributions by members whose contributions under the extended burden-sharing mechanism was not commensurate with those of member countries participating in burden sharing. Such voluntary contributions would contribute to the financing requirements of adjustment policies in countries with protracted arrears. It was also noted that the Executive Board was considering a proposal under which individual contributors under the existing mechanism for coverage of deferred charges would agree that their contributions be retained temporarily in the Fund following settlement of those deferred charges.

Membership

Angola became a member of the Fund, effective September 19, 1989.

The Czech and Slovak Federal Republic and the People's Republic of Bulgaria applied for Fund membership on January 22 and February 23, 1990, respectively. Staff missions visited both countries between March and June 1990 to gather the information necessary for the preparation, in each case, of a membership paper for consideration by a membership committee of Executive Directors to the Board, which then submits a draft resolution on membership, including an initial quota increase for the new member, for adoption by the Board of Governors. On July 23, a draft resolution proposing an initial quota of SDR 590 million under the Eighth Review of Quotas for the Czech and Slovak Federal Republic was submitted to the Board of Governors for a vote by August 20, 1990.

In addition, Switzerland applied for

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membership in a letter dated May 31, 1990—with a staff mission visiting Switzerland in June—while the Republic of Namibia and Mongolia applied for membership in letters dated June 8 and June 26, 1990, respectively.

In June 1990, the Board concluded that, following the merger of the Yemen Arab Republic and the People's Democratic Republic of Yemen, the Republic of Yemen is a single member of the Fund with a single quota and subject to the provisions of the Articles of Agreement. The Republic of Yemen's quota is SDR 120.5 million, with a total voting power of 1,455 votes.

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Appendices

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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 1989, total international reserves measured in terms of the SDR increased by more than 5 percent, to SDR 874 billion, reflecting an increase in the holdings of non-gold reserves partially offset by a fall in 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 developing countries.

Non-Gold Reserves

Non-gold reserves increased by 9 percent in 1989 to SDR 588 billion at the end of the year. This expansion of non-gold reserves followed a sharp increase in such holdings during 1987 and 1988. The growth of non-gold reserves in 1989 mainly reflected developments in the industrial countries, which expanded their holdings of non-gold reserves at an annual rate of more than 8 percent. All groups of developing countries also increased their non-gold reserves during 1989. While the non-gold reserves of capital importing developing countries without debt-servicing problems increased by 16 percent, the holdings by those developing countries that have experienced recent debt-servicing problems rose by more than 14 percent.

Foreign Exchange Reserves

Foreign exchange reserves increased by 10 percent in 1989 to reach SDR 542 billion by the end of the year. This growth of foreign exchange reserves in 1989 followed sharp increases in 1987 and 1988. While total holdings of foreign exchange reserves grew by SDR 49 billion, the expansion of the holdings of the industrial countries accounted for a substantial part of this increase as their holdings rose by SDR 29 billion, which represented an annual rate of growth of 9 percent. Developing countries also increased their holdings of foreign exchange reserves by 11 percent. This increase continued the process of accumulation of foreign exchange reserves by developing countries initiated in 1987 after successive declines in 1985 and 1986. However, the capital importing developing countries without debt problems accounted for most of this accumulation, and the foreign exchange reserves of those capital importing countries that have experienced debt-servicing problems are still below their 1985 level.

Holdings of Fund-Related Reserve Assets

Holdings of Fund-related assets decreased by 5 percent in 1989 to reach SDR 46 billion at the end of the year, reflecting an SDR 2 billion decline in holdings of reserve positions in the Fund. 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 16 billion in the period 1984–89. Member's holdings of SDRs remained unchanged in 1989.

Gold

The market value of the global stock of gold reserves declined by 1 percent in 1989, to SDR 287 billion. This decrease reflected a small decline in the physical stock of official gold reserves. This stock 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 85 percent and developing countries 15 percent of the total physical stock of gold reserves of 939 million ounces at the end of 1989.

Developments in First Quarter of 1990

Total international reserves fell by over SDR 18 billion during the first quarter of 1990 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 1 billion) and developing countries (by SDR 2 billion).

The market value of official holdings of gold decreased from SDR 287 billion at the end of 1989 to SDR 266 billion at the end of the first quarter of 1990. The reduction in the market value of gold was due to a decrease in the market price of gold, falling to SDR 283 an ounce at the end of the quarter, as well as a small decrease in total physical holdings of gold.

Currency Composition of Reserves

Since the mid-1970s, there has been a continuing diversification of the currency composition of foreign exchange reserves. Whereas 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 (Table I.2). 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 sterling increased. The extensive foreign exchange market intervention by some major industrial countries that occurred 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 sterling declined slightly. However, the share of reserves held as dollar-denominated assets fell to 60 percent at the end of 1989. The counterpart of the fall in the share of the dollar was a sharp increase in the share of the deutsche mark (which increased from 14 percent at the end of 1987 to 19 percent at the end of 1989).

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

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Table I.1

Official Holdings of Reserve Assets, End of Year 1984–89 and End of March 1990[1]
(In billions of SDRs)

	1984	1985	1986	1987	1988	1989	March 1990
All countries							
Total reserves excluding gold							
Fund-related assets							
Reserve positions in the Fund	41.6	38.7	35.3	31.5	28.3	25.5	25.2
SDRs	16.5	18.2	19.5	20.2	20.2	20.5	20.4
Subtotal, Fund-related assets	58.0	56.9	54.8	51.7	48.4	46.0	45.6
Foreign exchange	348.9	348.3	363.8	455.0	493.2	542.2	545.1
Total reserves excluding gold	407.0	405.2	418.6	506.6	541.6	588.1	590.7
Gold[2]							
Quantity (*in millions of ounces*)	946.8	949.4	949.1	944.5	944.9	938.9	938.2
Value at London market price	297.8	282.6	303.3	322.3	288.1	286.5	265.6
Industrial countries							
Total reserves excluding gold							
Fund-related assets							
Reserve positions in the Fund	27.4	25.3	23.1	20.5	19.6	19.6	19.7
SDRs	13.4	14.9	16.1	16.5	17.6	17.7	17.6
Subtotal, Fund-related assets	40.7	40.2	39.2	36.9	37.1	37.2	37.3
Foreign exchange	185.3	189.2	212.1	287.4	315.9	344.8	346.0
Total reserves excluding gold	226.0	229.4	251.3	324.3	353.1	382.1	383.3
Gold[2]							
Quantity (*in millions of ounces*)	810.4	810.8	809.1	804.8	801.1	797.9	797.1
Value at London market price	254.9	241.4	258.6	274.6	244.2	243.5	225.6
Developing countries							
Total reserves excluding gold							
Fund-related assets							
Reserve positions in the Fund	14.2	13.4	12.3	11.0	8.7	5.9	5.5
SDRs	3.1	3.3	3.4	3.7	2.6	2.8	2.8
Subtotal, Fund-related assets	17.3	16.7	15.6	14.7	11.3	8.7	8.3
Foreign exchange	163.7	159.1	151.7	167.6	177.2	197.3	199.1
Total reserves excluding gold	181.0	175.8	167.3	182.3	188.6	206.1	207.5
Gold[2]							
Quantity (*in millions of ounces*)	136.4	138.5	140.0	139.7	143.8	141.0	141.1
Value at London market price	42.9	41.2	44.7	47.7	43.8	43.0	39.9
Net debtors							
Total reserves excluding gold							
Fund-related assets							
Reserve positions in the Fund	2.7	2.5	2.3	2.1	1.5	1.6	1.6
SDRs	1.9	2.1	2.3	2.6	1.6	1.6	1.6
Subtotal, Fund-related assets	4.6	4.6	4.6	4.6	3.1	3.2	3.3
Foreign exchange	116.7	106.9	90.1	89.4	100.1	117.6	123.3
Total reserves excluding gold	121.3	111.5	94.7	94.0	103.2	120.8	126.5
Gold[2]							
Quantity (*in millions of ounces*)	112.9	114.7	115.7	113.4	111.7	108.9	108.9
Value at London market price	35.5	34.1	37.0	38.7	34.0	33.2	30.8
Countries with debt-servicing problems							
Total reserves excluding gold							
Fund-related assets							
Reserve positions in the Fund	1.0	0.8	0.8	0.6	0.1	0.1	0.1
SDRs	0.6	0.7	0.7	1.3	0.5	0.6	0.6
Subtotal, Fund-related assets	1.6	1.5	1.5	1.8	0.6	0.7	0.6
Foreign exchange	50.1	45.7	35.9	34.8	33.3	38.1	37.6
Total reserves excluding gold	51.7	47.3	37.3	36.7	33.9	38.7	38.3
Gold[2]							
Quantity (*in millions of ounces*)	54.0	54.1	54.1	54.1	52.2	50.2	50.8
Value at London market price	17.0	16.1	17.3	18.5	15.9	15.3	14.4

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.

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Table I.2

Share of National Currencies in Total Identified Official Holdings of Foreign Exchange, End of Year 1980–89[1]
(In percent)

	1980	1981	1982	1983	1984	1985	1986	1987	1988	1989	Memorandum: ECUs Treated Separately[2] 1989
All countries											
U.S. dollar	68.6	71.5	70.5	71.4	70.1	64.9	67.1	67.2	64.9	60.2	52.4
Pound sterling	2.9	2.1	2.3	2.5	2.9	3.0	2.6	2.4	2.8	2.7	2.6
Deutsche mark	14.9	12.8	12.4	11.8	12.7	15.2	14.6	14.4	15.7	19.3	18.2
French franc	1.7	1.3	1.0	0.8	0.8	0.9	0.8	0.8	1.0	1.3	1.2
Swiss franc	3.2	2.7	2.7	2.4	2.0	2.3	2.0	2.0	1.9	1.7	1.6
Netherlands guilder	1.3	1.1	1.1	0.8	0.7	1.0	1.1	1.2	1.1	1.1	1.0
Japanese yen	4.4	4.2	4.7	5.0	5.8	8.0	7.9	7.5	7.7	7.9	7.4
Unspecified currencies[3]	3.0	4.2	5.2	5.3	5.0	4.6	3.9	4.4	4.9	5.7	15.6
Industrial countries											
U.S. dollar	77.2	78.4	76.6	77.1	73.5	65.0	69.4	70.3	67.8	59.4	48.3
Pound sterling	0.8	0.7	0.7	0.7	1.4	1.9	1.3	1.1	1.6	1.4	1.3
Deutsche mark	14.3	13.0	12.5	13.0	15.2	19.5	16.8	15.9	17.4	22.9	21.0
French franc	0.7	0.5	0.1	0.1	0.1	0.1	0.1	0.4	0.7	1.1	1.0
Swiss franc	1.7	1.7	1.7	1.5	1.5	2.1	1.7	1.6	1.7	1.5	1.3
Netherlands guilder	0.7	0.8	0.7	0.5	0.6	1.0	1.1	1.3	1.1	1.2	1.1
Japanese yen	3.3	3.6	4.5	5.1	6.3	8.9	8.3	7.1	7.0	8.2	7.6
Unspecified currencies[3]	1.3	1.3	3.2	2.1	1.4	1.5	1.4	2.3	2.7	4.4	18.4
Developing countries[4]											
U.S. dollar	59.9	64.4	64.2	65.4	66.6	64.8	63.5	60.4	58.1	62.1	62.1
Pound sterling	5.1	3.5	4.0	4.4	4.4	4.3	4.6	5.2	5.6	5.7	5.7
Deutsche mark	15.4	12.7	12.3	10.5	10.0	10.2	11.1	11.1	11.7	11.4	11.4
French franc	2.7	2.1	2.0	1.7	1.5	1.9	2.0	1.8	1.7	1.8	1.8
Swiss franc	4.8	3.8	3.8	3.4	2.6	2.7	2.6	2.7	2.6	2.4	2.4
Netherlands guilder	1.9	1.4	1.5	1.1	0.8	0.9	1.1	1.1	0.9	0.8	0.8
Japanese yen	5.4	4.9	4.9	4.8	5.2	7.0	7.1	8.6	9.4	7.1	7.1
Unspecified currencies[3]	4.8	7.3	7.3	8.7	8.8	8.3	7.9	9.0	9.9	8.7	8.7

[1] Starting with 1980, 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 1980 as is explained in the preceding footnote. The share of ECUs in total foreign exchange holdings was 14.4 percent for industrial countries and 9.1 percent for all countries.
[3] The 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.

of the holdings of dollars. The overall picture of changes in the trend in the currency composition of foreign exchange reserves is similar if ECUs, which were introduced in 1979 and accounted for 9 percent of total identified official holdings of foreign exchange at the end of 1989, are treated separately. In particular, the share of the dollar (excluding holdings of ECUs) in total identified reserve holdings fell from 57 percent at the end of 1987 to 52 percent at the end of 1989 (Table I.2).

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 1989, total identified foreign exchange reserves increased by SDR 42 billion as a result of a sharp positive quantity change of SDR 32 billion and a valuation gain of SDR 10 billion.

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 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 2 billion fall in holdings of ECUs that

[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.

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Table I.3

Currency Composition of Official Holdings of Foreign Exchange, 1984–89[1]
(In millions of SDRs)

	1984	1985	1986	1987	1988	1989
U.S. dollar						
Change in holdings	24,498	−19,185	2,771	38,492	17,532	11,213
Quantity change	12,168	2,932	21,881	70,785	4,965	5,547
Price change	12,330	−22,117	−19,110	−32,292	12,567	5,666
Year-end value	203,873	184,688	187,459	225,951	243,483	254,697
Pound sterling						
Change in holdings	2,166	203	−1,389	1,177	2,582	1,050
Quantity change	3,488	−724	−677	441	2,392	2,219
Price change	−1,322	926	−712	735	190	−1,169
Year-end value	8,813	9,016	7,627	8,804	11,386	12,436
Deutsche mark						
Change in holdings	7,423	7,007	−2,084	9,603	11,105	24,215
Quantity change	10,379	1,411	−7,952	6,729	14,805	17,711
Price change	−2,956	5,596	5,868	2,874	−3,700	6,504
Year-end value	38,644	45,652	43,568	53,171	64,276	88,491
French franc						
Change in holdings	138	410	−324	578	1,217	1,816
Quantity change	324	64	−454	470	1,483	1,404
Price change	−186	346	131	108	−266	411
Year-end value	2,342	2,751	2,428	3,006	4,223	6,038
Swiss franc						
Change in holdings	−125	829	−953	1,097	762	6
Quantity change	550	116	−1,931	449	1,516	27
Price change	−675	713	978	648	−754	−20
Year-end value	6,224	7,053	6,100	7,196	7,958	7,965
Netherlands guilder						
Change in holdings	84	734	401	1,249	−113	514
Quantity change	266	411	5	996	189	181
Price change	−182	323	396	253	−302	333
Year-end value	2,164	2,898	3,299	4,547	4,434	4,948
Japanese yen						
Change in holdings	4,470	6,502	−686	4,329	3,572	4,736
Quantity change	4,679	4,245	−3,809	1,708	2,541	8,448
Price change	−209	2,257	3,123	2,621	1,031	−3,712
Year-end value	17,643	24,145	23,458	27,787	31,359	36,096
European currency unit						
Change in holdings	−3,959	−297	2,721	13,828	−3,035	−1,666
Quantity change	−429	−4,551	−306	11,463	−372	−3,765
Price change	−3,530	4,254	3,027	2,365	−2,663	2,099
Year-end value	38,040	37,742	40,464	54,291	51,257	49,590
Total identified holdings[2]						
Change in holdings	34,695	−3,798	458	70,352	33,623	41,884
Quantity change	31,424	3,904	6,757	93,040	27,518	31,772
Price change	3,270	−7,702	−6,300	−22,689	6,104	10,112
Year-end value	317,742	313,944	314,402	384,753	418,376	460,260
Total official holdings[3]						
Change in holdings	40,644	−648	15,473	91,175	38,225	48,968
Year-end value	348,972	348,323	363,796	454,971	493,196	542,164

[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 changes 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 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.

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occurred in 1989 resulted from a negative quantity change (SDR 4 billion) and a positive valuation effect (SDR 2 billion).

There are significant differences in the pattern of currency diversification between industrial and developing countries (see Table I.2). During 1980–86 the industrial countries' experienced greater diversification of reserve holdings than the developing countries. The industrial countries' share of dollar-denominated reserves decreased by 8 percentage points during this period, whereas the developing countries' share rose by 4 percentage points. Since 1986, moreover, the share of the dollar in the total reserve holdings by developing countries has fallen by 1 percentage point, compared with a decrease of 10 points for industrial countries. In addition, while industrial countries increased the share of the deutsche mark and the Japanese yen in their reserve portfolios by 9 and 4 percentage points, respectively, since 1980, developing countries decreased the share of reserves denominated in deutsche mark by over 4 percentage points and increased the share of the Japanese yen by 2 percentage points.

Placement of Official Holdings of Foreign Exchange

Total official holdings of foreign exchange increased during 1989 by SDR 49 billion (Table I.4). This sharp increase reflected a modest increase in dollar claims on residents of the United States (SDR 1 billion) and an SDR 32 billion increase in the claims on residents of other countries denominated in the debtor's own currency. This reflects the continuing diversification of the currency composition of reserve portfolios noted earlier.

Official holdings of Eurocurrencies increased by SDR 6 billion in 1989, but their share in total official holdings of foreign exchange continued to decrease. The share of ECUs in total official holdings of foreign exchange fell by the end of 1989.

Table I.4

Placement of Official Holdings of Foreign Exchange Reserves, End of Year 1982–89[1]
(In billions of SDRs)

	1982	1983	1984	1985	1986	1987	1988	1989
Liabilities of residents of the United States to foreign official institutions	149	163	178	159	172	183	222	231
Items not included in reported official U.S. dollar holdings[2]	−50	−52	−46	−41	−34	−33	−35	−43
Reported official U.S. dollar claims on residents of the United States	99	111	132	118	138	150	187	188
Reported official claims on residents of other countries denominated in the debtor's own currency	38	40	46	56	61	79	88	120
Subtotal	137	151	178	174	199	229	275	316
Identified official holdings of Eurocurrencies								
Eurodollars	56	57	66	60	54	60	57	58
Other currencies	30	33	38	41	35	48	55	60
Subtotal	86	90	104	101	89	108	112	118
ECUs	38	42	38	38	40	54	51	50
Residual[3]	25	25	29	35	36	64	55	58
Total official holdings of foreign exchange	285	308	349	348	364	455	493	542

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 Arabia 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.

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Operations and Financial Transactions of the Fund

The tables in this appendix supplement the information given in the section on the Fund in 1989/90 on the activities of the Fund during the financial year ended April 30, 1990.

Table II.1

Summary of Arrangements Approved During the Financial Years Ended April 30, 1953–90

Financial Year	Number of Arrangements					Amount Committed Under Arrangements (*In millions of SDRs*)				
	Stand-by	EFF	SAF	ESAF	Total	Stand-by	EFF	SAF[1]	ESAF[2]	Total
1953	2				2	55.00				55.00
1954	2				2	62.50				62.50
1955	2				2	40.00				40.00
1956	2				2	47.50				47.50
1957	9				9	1,162.28				1,162.28
1958	11				11	1,043.78				1,043.78
1959	15				15	1,056.63				1,056.63
1960	14				14	363.88				363.88
1961	15				15	459.88				459.88
1962	24				24	1,633.13				1,633.13
1963	19				19	1,531.10				1,531.10
1964	19				19	2,159.85				2,159.85
1965	24				24	2,159.05				2,159.05
1966	24				24	575.35				575.35
1967	25				25	591.15				591.15
1968	32				32	2,352.36				2,352.36
1969	26				26	541.15				541.15
1970	23				23	2,381.28				2,381.28
1971	18				18	501.70				501.70
1972	13				13	313.75				313.75
1973	13				13	321.85				321.85
1974	15				15	1,394.00				1,394.00
1975	14				14	389.75				389.75
1976	18	2			20	1,188.02	284.20			1,472.22
1977	19	1			20	4,679.64	518.00			5,197.64
1978	18	0			18	1,285.09	—			1,285.09
1979	14	4			18	507.85	1,092.50			1,600.35
1980	24	4			28	2,479.36	797.35			3,276.71
1981	21	11			32	5,197.93	5,220.60			10,418.53
1982	19	5			24	3,106.21	7,907.75			11,013.96
1983	27	4			31	5,449.98	8,671.26			14,121.24
1984	25	2			27	4,287.33	94.50			4,381.83
1985	24	0			24	3,218.33	—			3,218.33
1986	18	1			19	2,123.40	825.00			2,948.40
1987	22	0	10		32	4,117.51	—	487.69		4,605.20
1988	14	1	15		30	1,701.90	245.40	1,008.63		2,955.93
1989	12	1	4	7	24	2,956.03	207.30	441.42	954.97	4,559.72
1990	16	3	3	4	26	3,249.37	7,627.10	45.22	415.23	11,336.92

[1] Amount originally committed, based on total access to Special Disbursement Account (SDA) resources of 70 percent of quota. See Table II.4. footnote 1 for details of adjustments totaling SDR 69 million.
[2] Includes undisbursed amounts under SAF arrangements that were replaced by ESAF arrangements.

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Table II.2

Arrangements in Effect as of Financial Years Ended April 30, 1953–90

Financial Year	Number of Arrangements as of April 30					Amount Committed as of April 30 (*In millions of SDRs*)				
	Stand-by	EFF	SAF	ESAF	Total	Stand-by	EFF	SAF	ESAF[1]	Total
1953	2				2	55.00				55.00
1954	3				3	112.50				112.50
1955	3				3	112.50				112.50
1956	3				3	97.50				97.50
1957	9				9	1,194.78				1,194.78
1958	9				9	967.53				967.53
1959	11				11	1,013.13				1,013.13
1960	12				12	351.38				351.38
1961	12				12	416.13				416.13
1962	21				21	2,128.63				2,128.63
1963	17				17	1,520.00				1,520.00
1964	19				19	2,159.85				2,159.85
1965	23				23	2,154.35				2,154.35
1966	24				24	575.35				575.35
1967	25				25	591.15				591.15
1968	31				31	2,227.36				2,227.36
1969	25				25	538.15				538.15
1970	23				23	2,381.28				2,381.28
1971	18				18	501.70				501.70
1972	13				13	313.75				313.75
1973	12				12	281.85				281.85
1974	15				15	1,394.00				1,394.00
1975	12				12	337.25				337.25
1976	17	2			19	1,158.96	284.20			1,443.16
1977	17	3			20	4,672.92	802.20			5,475.12
1978	19	3			22	5,075.09	802.20			5,877.29
1979	15	5			20	1,032.85	1,610.50			2,643.35
1980	22	7			29	2,340.34	1,462.85			3,803.19
1981	22	15			37	5,331.03	5,464.10			10,795.13
1982	23	12			35	6,296.21	9,910.10			16,206.31
1983	30	9			39	9,464.48	15,561.00			25,025.48
1984	30	5			35	5,448.16	13,121.25			18,569.41
1985	27	3			30	3,925.33	7,750.00			11,675.33
1986	24	2			26	4,075.73	831.00			4,906.73
1987	23	1	10		34	4,313.10	750.00	327.45		5,390.55
1988	18	2	25		45	2,187.23	995.40	1,357.38		4,540.01
1989	14	2	23	7	46	3,054.05	1,032.30	1,566.25	954.97	6,607.57
1990	19	4	17	11	51	3,597.02	7,834.40	1,109.64	1,370.20	13,911.26

[1] Includes undisbursed amounts under SAF arrangements that were replaced by ESAF arrangements.

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Table II.3

Stand-By and Extended Fund Facility Arrangements in Effect During the Financial Year Ended April 30, 1990
(In millions of SDRs)

		Arrangement Dates		Amounts Approved Through 4/30/89[1]		Amounts Approved in 1989/1990		Undrawn Balance	
Member	Number[2]	Date of inception	Date of expiration	Total amount	Borrowed resources	Total amount	Borrowed resources	At date of termination	As at 4/30/90
Stand-by arrangements									
Algeria	1	05/31/89	05/30/90	—	—	155.70	—	—	—
Argentina	13	11/10/89	03/31/91	—	—	1,104.00	736.00	—	920.00
Brazil	11	08/23/88	02/28/90	1,096.00	—	—	—	730.70	—
Cameroon	1	09/19/88	06/30/90[3]	61.80	—	—	—	—	23.18
Chile	14	11/08/89	11/07/90	—	—	64.00	—	—	—
Costa Rica	11	05/23/89	05/22/90	—	—	42.00	—	—	42.00
Côte d'Ivoire	5	11/20/89	04/19/91	—	—	175.80	116.36	—	146.50
Ecuador	14	09/15/89	02/28/91	—	—	109.90	73.27	—	70.65
Gabon	3	09/15/89	03/14/91	—	—	43.00	28.67	—	32.50
Guatemala	11	10/26/88	02/28/90	54.00	—	—	—	30.84	—
Haiti	21	09/18/89	12/31/90	—	—	21.00	—	—	6.00
Hungary	4	05/16/88	06/30/89[4]	265.35	—	—	—	50.00	—
		03/14/90	03/13/91	—	—	159.21	—	—	127.37
Jamaica	8	09/19/88	05/31/90[5]	82.00	54.67	—	—	40.90	—
		03/23/90	05/31/91	—	—	82.00	54.67	—	68.30
Jordan	1	07/14/89	01/13/91	—	—	60.00	—	—	33.20
Kenya	7	02/01/88	07/31/89[6]	85.00	—	—	—	22.40	—
Madagascar	8	09/02/88	07/01/89[7]	13.30	—	—	—	10.50	—
Malawi	4	03/02/88	05/30/89[8]	13.02	—	—	—	3.77	—
Mali	9	08/05/88	06/04/90[9]	12.70	—	—	—	—	2.54
Morocco	12	08/30/88	12/31/89	210.00	140.00	—	—	—	—
Nigeria	2	02/03/89	04/30/90	475.00	—	—	—	475.00	—
Pakistan	8	12/28/88	06/30/90[10]	273.15	—	—	—	—	78.67
Papua New Guinea	1	04/25/90	06/24/91	—	—	26.36	—	—	26.36
Poland	1	02/05/90	03/04/91	—	—	545.00	—	—	375.00
Trinidad and Tobago	2	01/13/89	02/28/90	99.00	—	—	—	—	—
		04/20/90	03/31/91	—	—	85.00	56.67	—	75.00
Yugoslavia	12	06/28/88	06/27/89	306.00	—	—	—	183.60	—
		03/16/90	09/15/91	—	—	460.00	306.67	—	394.30
Zaïre	9	06/09/89	06/08/90	—	—	116.40	—	—	41.40
Subtotal				3,046.32	194.67	3,249.37	1,372.29	1,547.71	2,462.97
Extended arrangements									
Chile	2	08/15/85	08/14/89[11]	825.00	370.83	—	—	18.75	—
Mexico	3	05/26/89	05/25/92	—	—	3,263.40	2,677.17	—	1,655.01
Philippines	2	05/23/89	05/22/92	—	—	660.60	142.59	—	424.68
Tunisia	1	07/25/88	07/24/91	207.30	70.27	—	—	—	207.30
Venezuela	1	06/23/89	06/22/92	—	—	3,703.10	1,783.00	—	3,116.78
Subtotal				1,032.30	441.10	7,627.10	4,602.76	18.75	5,403.77
Total				4,078.62	635.77	10,876.47	5,975.05	1,566.46	7,866.74

[1] Approved in 1988/89 unless otherwise noted.
[2] Total number of stand-by or extended arrangements approved for member since 1953.
[3] Extended from March 31, 1990 and amount decreased from 69.53.
[4] Extended from May 15, 1989.
[5] Extended from November 30, 1989 and canceled as at March 23, 1990.
[6] Approved in 1987/88 and canceled as at May 15, 1989.
[7] Canceled as at May 15, 1989.
[8] Approved in 1987/88.
[9] Extended from October 4, 1989.
[10] Extended from March 27, 1990.
[11] Approved in 1985/86, mix of resources modified, extended from August 14, 1988 and amount increased from SDR 750 million.

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Table II.4

Arrangements Under the Structural Adjustment Facility Through Financial Year Ended April 30, 1990
(In millions of SDRs)

Member	Arrangement Dates: Date of approval	Arrangement Dates: Date of expiration	Amount Approved[1]: through 4/30/89[1]	Amount Approved[1]: 1989/90	Amount Disbursed Through 4/30/90	Undisbursed: At expiration/ replacement[2]	Undisbursed: As at 4/30/90
Bangladesh	02/06/87	02/05/90	201.25	—	201.25	—	—
Benin	06/16/89	06/15/92	—	21.91	6.26	—	15.65
Bolivia	12/15/86	07/27/88	54.42	—	18.14	36.28	—
Burundi	08/08/86	08/07/89	29.89	—	29.89	—	—
Central African Rep.	06/01/87	05/31/90	21.28	—	15.20	—	6.08
Chad	10/30/87	10/29/90	21.42	—	15.30	—	6.12
Dominica	11/26/86	11/25/89	2.80	—	2.80	—	—
Equatorial Guinea	12/07/88	12/06/91	12.88	—	3.68	—	9.20
Gambia, The	09/17/86	11/23/88	11.97	—	8.55	3.42	—
Ghana	11/06/87	11/09/88	143.15	—	40.90	102.25	—
Guinea	07/29/87	07/28/90	40.53	—	28.95	—	11.58
Guinea-Bissau	10/14/87	10/13/90	5.25	—	3.75	—	1.50
Haiti	12/17/86	12/16/89	8.82	—	8.82	—	—
Kenya	02/01/88	05/15/89	99.40	—	28.40	71.00	—
Lao People's Democratic Republic	09/18/89	09/17/92	—	20.51	5.86	—	14.65
Lesotho	06/29/88	06/28/91	10.57	—	7.55	—	3.02
Madagascar	08/31/87	05/15/89	46.48	—	13.28	33.20	—
Mali	08/05/88	08/04/91	35.56	—	25.40	—	10.16
Mauritania	09/22/86	05/24/89	20.34	—	16.95	3.39	—
Mozambique	06/08/87	06/07/90	42.70	—	42.70	—	—
Nepal	10/14/87	10/13/90	26.11	—	26.11	—	—
Niger	11/17/86	12/12/88	23.59	—	16.85	6.74	—
Pakistan	12/28/88	12/27/91	382.41	—	273.15	—	109.26
Sao Tome and Principe	06/02/89	06/01/92	—	2.80	0.80	—	2.00
Senegal	11/10/86	11/21/88	54.04	—	42.55	11.49	—
Sierra Leone	11/14/86	11/13/89	11.58	—	11.58	—	—
Somalia	06/29/87	06/28/90	30.94	—	8.84	—	22.10
Sri Lanka	03/09/88	03/08/91	156.17	—	111.55	—	44.62
Tanzania	10/30/87	10/29/90	74.90	—	74.90	—	—
Togo	03/16/88	05/31/89	26.88	—	7.68	19.20	—
Uganda	06/15/87	04/17/89	69.72	—	49.80	19.92	—
Zaïre	05/15/87	05/14/90	203.70	—	145.50	—	58.20
Total			1,868.75	45.22	1,292.94	306.89	314.14

[1] Amounts have been reduced from the 70 percent access level to account for the expiration of the commitment period for Bolivia (SDR 9.07 million), Haiti (SDR 22.05 million), Mauritania (SDR 3.39 million), Senegal (SDR 5.53 million), and Sierra Leone (SDR 28.95 million).
[2] See Table II.5 for undisbursed amounts that were subsequently committed under an ESAF arrangement that replaced the SAF arrangement on date shown as SAF expiration date.

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Table II.5

Arrangements Under the Enhanced Structural Adjustment Facility Through Financial Year Ended April 30, 1990
(In millions of SDRs)

	Arrangement Dates		Approved Through 4/30/89		Approved in 1989/90		Disbursements Through 4/30/90		Undisbursed
Member	Date of approval	Date of expiration	Total amount	ESAF Trust resources	Total amount	ESAF Trust resources	Total	ESAF Trust[1]	as at 4/30/90
Bolivia	07/27/88	07/26/91	136.05	99.77	—	—	68.03	31.75	68.02
Gambia, The	11/23/88	11/22/91	20.52	17.10	—	—	10.26	6.84	10.26
Ghana	11/09/88	11/08/91	368.10	265.85	—	—	224.10	142.30	144.00
Kenya	05/15/89	05/14/92	—	—	241.40	170.40	80.47	37.87	160.93
Madagascar	05/15/89	05/14/92	—	—	76.90	43.70	25.63	5.71	51.27
Malawi	07/15/88	07/14/91	55.80	29.76	—	—	37.20	18.60	18.60
Mauritania	05/24/89	05/23/92	—	—	50.85	47.46	16.95	13.56	33.90
Niger	12/12/88	12/11/91	50.55	43.81	—	—	16.85	10.11	33.70
Senegal	11/21/88	11/20/91	144.67	133.18	—	—	102.12	90.63	42.55
Togo	05/31/89	05/30/92	—	—	46.08	26.88	15.36	3.84	30.72
Uganda	04/17/89	04/16/92	179.28	159.36	—	—	74.70	54.78	104.58
Total			954.97	748.83	415.23	288.44	671.67	415.99	698.53

[1] Financed with drawings under the following ESAF borrowing agreements: Export-Import Bank of Japan (SDR 154.6 million); Caisse Centrale de Coopération Economique-France (SDR 134.0 million); Bank of Spain (SDR 28.2 million); Canada (SDR 31.2 million); the Bank of Norway (SDR 11.2 million); and Korea (SDR 6.8 million). The balance of SDR 50.0 million was financed using resources available under the borrowing agreement with the Swiss Confederation.

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Table II.6

Summary of Disbursements, Repurchases, and Repayments, Financial Years Ended April 30, 1948–90
(In millions of SDRs)

Financial Year	Disbursements					Repurchases and Repayments			Total Fund Credit Outstanding
	Purchases[1]	Trust Fund loans	SAF loans	ESAF loans[2]	Total	Repurchases[3]	Trust Fund repayments	Total	
1948	606.04				606.04	—		—	133.90
1949	119.44				119.44	—		—	192.70
1950	51.80				51.80	24.21		24.21	204.10
1951	28.00				28.00	19.09		19.09	175.80
1952	46.25				46.25	36.58		36.58	213.50
1953	66.12				66.12	184.96		184.96	178.20
1954	231.29				231.29	145.11		145.11	132.10
1955	48.75				48.75	276.28		276.28	54.90
1956	38.75				38.75	271.66		271.66	72.00
1957	1,114.05				1,114.05	75.04		75.04	610.60
1958	665.73				665.73	86.81		86.81	1,026.50
1959	263.52				263.52	537.32		537.32	897.60
1960	165.53				165.53	522.41		522.41	329.60
1961	577.00				577.00	658.60		658.60	551.50
1962	2,243.20				2,243.20	1,260.00		1,260.00	1,022.80
1963	579.97				579.97	807.25		807.25	1,058.90
1964	625.90				625.90	380.41		380.41	951.80
1965	1,897.44				1,897.44	516.97		516.97	1,480.10
1966	2,817.29				2,817.29	406.00		406.00	3,039.00
1967	1,061.28				1,061.28	340.12		340.12	2,945.30
1968	1,348.25				1,348.25	1,115.51		1,115.51	2,462.50
1969	2,838.85				2,838.85	1,542.33		1,542.33	3,299.00
1970	2,995.65				2,995.65	1,670.69		1,670.69	4,020.20
1971	1,167.41				1,167.41	1,656.86		1,656.86	2,556.30
1972	2,028.49				2,028.49	3,122.33		3,122.33	840.20
1973	1,175.43				1,175.43	540.30		540.30	998.20
1974	1,057.72				1,057.72	672.49		672.49	1,084.70
1975	5,102.45				5,102.45	518.08		518.08	4,869.20
1976	6,591.42				6,591.42	960.10		960.10	9,759.80
1977	4,910.33	31.61			4,941.94	868.19		868.19	13,686.91
1978	2,503.01	268.24			2,771.25	4,485.01		4,485.01	12,366.05
1979	3,719.58	670.05			4,389.63	4,859.18		4,859.18	9,843.30
1980	2,433.26	961.54			3,394.80	3,775.83		3,775.83	9,967.44
1981	4,860.01	1,059.87			5,919.88	2,852.93		2,852.93	12,536.13
1982	8,040.62				8,040.62	2,009.88		2,009.88	17,792.93
1983	11,391.89				11,391.89	1,555.12	18.45	1,573.57	26,562.76
1984	11,517.73				11,517.73	2,017.65	110.97	2,128.62	34,603.47
1985	6,288.87				6,288.87	2,730.39	212.34	2,942.73	37,622.18
1986	4,101.22				4,101.22	4,289.01	412.71	4,701.72	36,877.03
1987	3,684.56		139.34		3,823.90	6,169.32	579.32	6,748.64	33,443.29
1988	4,152.56		444.87		4,597.43	7,934.57	528.15	8,462.72	29,542.99
1989	2,541.18		290.14	264.00	3,095.32	6,257.74	447.23	6,704.97	25,520.37
1990	4,502.68		418.59	407.67	5,328.94	6,042.09	356.55	6,398.64	24,388.23

[1] Includes reserve tranche purchases.
[2] Includes SDR 255.68 million of SAF resources disbursed under ESAF arrangements.
[3] Excludes sales of currency and adjustments that have the effect of repurchase.

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Table II.7

Purchases of Currencies and SDRs from the Fund, Financial Year Ended April 30, 1990
(In millions of SDRs)

			Stand-By Arrangements		Extended Arrangements[1]				Financed by		
									Ordinary resources		Enlarged access resources
Member	Reserve Tranche	First Credit Tranche	Ordinary resources	Enlarged access resources	Ordinary resources	Enlarged access resources	Compensatory Financing Facility[2]	Total Purchases[3]	Currencies	SDRs	Currencies
Algeria	—	—	155.70	—	—	—	315.20	470.90	468.55	2.35	—
Angola	33.06	—	—	—	—	—	—	33.06	—	33.06	—
Argentina	—	—	61.33	122.67	—	—	—	184.00	60.41	0.92	122.67
Bangladesh	22.40	—	—	—	—	—	—	22.40	—	22.40	—
Cameroon	—	—	15.45	—	—	—	—	15.45	14.85	0.60	—
Chile	—	18.75	64.00	—	18.75	—	—	101.50	81.20	20.30	—
Côte d'Ivoire	—	—	10.61	18.69	—	—	—	29.30	10.46	0.15	18.69
Ecuador	—	—	13.08	26.17	—	—	—	39.25	13.08	—	26.17
Gabon	—	—	3.50	7.00	—	—	—	10.50	3.50	—	7.00
Haiti	—	—	15.00	—	—	—	—	15.00	—	15.00	—
Hungary	—	—	31.84	—	—	—	—	31.84	31.68	0.16	—
Jamaica	—	—	13.70	27.40	—	—	—	41.10	4.50	9.20	27.40
Jordan	—	—	26.80	—	—	—	39.44	66.24	47.78	18.46	—
Mali	—	—	7.62	—	—	—	—	7.62	7.62	—	—
Mexico	—	—	—	—	586.23	1,022.16	453.50	2,061.89	641.34	398.39	1,022.16
Morocco	—	—	46.67	93.33	—	—	—	140.00	35.00	11.67	93.33
Pakistan	—	—	26.22	—	—	—	—	26.22	—	26.22	—
Papua New Guinea	6.98	—	—	—	—	—	—	6.98	—	6.98	—
Philippines	—	—	—	—	235.92	—	—	235.92	203.23	32.69	—
Poland	—	—	170.00	—	—	—	—	170.00	18.00	152.00	—
Trinidad and Tobago	—	—	59.83	6.67	—	—	—	66.50	45.73	14.10	6.67
Venezuela	—	—	—	—	586.32	—	—	586.32	456.59	129.72	—
Yugoslavia	—	—	21.90	43.80	—	—	—	65.70	21.57	0.33	43.80
Zaïre	—	—	75.00	—	—	—	—	75.00	24.88	50.13	—
Total	62.44	18.75	818.26	345.72	1,427.21	1,022.16	808.14	4,502.68	2,189.97	944.82	1,367.89

[1] Includes augmentation of arrangement to provide collateral for interest support for Mexico totaling SDR 466 million.
[2] Includes purchases of SDR 237 million for cereal import excesses (Algeria SDR 66 million and Mexico SDR 171 million).
[3] Includes reserve tranche purchases of SDR 62 million. Purchases excluding reserve tranche total SDR 4,440 million (see Table 1).

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Table II.8

Repurchases of Currencies and SDRs from the Fund, Financial Year Ended April 30, 1990
(In millions of SDRs)

	Ordinary Resources			Borrowed Resources		
Member	Stand-by/ first credit tranche	Extended Fund facility	Compensatory financing facility	Supplementary financing facility	Enlarged access resources	Total
Argentina	280.84	—	134.00	—	213.74	628.59
Bangladesh	48.00	18.33	27.48	—	—	93.81
Barbados	0.24	—	—	—	3.35	3.60
Belize	3.26	—	—	—	—	3.26
Bolivia	9.02	—	3.75	—	—	12.77
Brazil	—	228.59	30.99	—	342.89	602.47
Central African Republic	7.00	—	—	—	1.66	8.66
Chad	—	—	3.50	—	—	3.50
Chile	23.63	2.60	35.30	—	90.50	152.03
China	74.72	—	—	—	—	74.72
Congo	2.38	—	—	—	—	2.38
Costa Rica	7.88	1.88	—	—	15.72	25.47
Côte d'Ivoire	39.41	26.60	—	42.30	8.45	116.76
Dominica	0.27	0.68	—	0.59	—	1.53
Dominican Republic	33.61	7.88	7.75	—	15.47	64.71
Ecuador	30.72	—	9.93	—	33.07	73.72
Equatorial Guinea	2.31	—	—	—	—	2.31
Ethiopia	—	—	17.65	—	0.80	18.45
Fiji	—	—	1.78	—	—	1.78
Gabon	2.28	—	—	—	—	2.28
Gambia, The	0.26	—	1.18	1.20	0.33	2.96
Ghana	39.09	—	21.83	—	53.50	114.41
Grenada	—	—	—	—	0.28	0.28
Guatemala	—	—	—	—	6.08	6.08
Guinea	6.01	—	—	—	—	6.01
Guinea-Bissau	0.47	—	—	—	—	0.47
Guyana	—	0.82	—	—	—	0.82
Haiti	2.15	2.70	—	—	9.73	14.58
Honduras	—	—	—	—	0.32	0.32
Hungary	187.19	—	—	—	110.44	297.63
India	—	325.00	—	262.50	75.00	662.50
Jamaica	34.83	15.72	9.08	2.59	40.03	102.23
Jordan	—	—	21.53	—	—	21.53
Kenya	21.30	—	18.95	2.05	52.20	94.50
Liberia	0.87	—	—	1.49	—	2.36
Madagascar	18.16	—	7.84	—	11.89	37.89
Malawi	—	3.09	3.45	—	11.76	18.30
Mali	7.15	—	—	—	7.92	15.07
Mauritania	8.29	—	—	—	—	8.29
Mauritius	11.38	—	3.75	—	16.07	31.19
Mexico	173.81	185.58	—	—	344.80	704.19
Morocco	4.38	24.34	57.55	—	89.68	175.94
Nepal	5.65	—	—	—	—	5.65
Niger	8.73	—	—	—	3.01	11.74
Pakistan	—	90.32	—	42.19	0.00	132.51
Panama	4.21	—	0.20	—	8.01	12.42
Peru	—	17.59	0.04	—	10.64	28.27
Philippines	96.81	—	56.03	—	50.38	203.21
Senegal	13.46	3.43	—	3.22	21.21	41.32
Sierra Leone	—	1.36	—	—	1.06	2.42
Solomon Islands	0.31	—	—	—	—	0.31
Somalia	0.54	—	—	—	0.68	1.22
Sri Lanka	—	36.72	—	—	4.30	41.02
Tanzania	7.47	—	—	—	—	7.47
Thailand	111.25	—	115.63	—	142.02	368.90
Togo	9.78	—	—	—	5.52	15.30
Tunisia	4.38	—	14.34	—	—	18.71
Turkey	35.16	—	—	85.00	—	120.16
Uganda	—	—	—	—	38.50	38.50
Uruguay	17.56	—	33.05	—	30.09	80.70
Western Samoa	0.66	—	—	—	0.42	1.08
Yugoslavia	127.66	—	—	207.75	79.53	414.94
Zaïre	157.20	16.85	37.30	—	49.47	260.82
Zimbabwe	—	—	—	—	25.11	25.11
Total	1,681.69	1,010.06	673.83	650.87	2,025.63	6,042.09

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Table II.9

Outstanding Fund Credit by Facility and Policy, April 30, 1984–90

(In millions of SDRs)

	Financial Year Ended April 30													
	1984		1985		1986		1987		1988		1989		1990	
	Amount	As percent of total	Amount	As percent of total	Amount	As percent of total	Amount	As percent of total	Amount	As percent of total	Amount	As percent of total	Amount	As percent of total
Stand-by arrangements[1]														
Ordinary resources	5,197	15.0	5,511	14.6	6,315	17.1	6,575	19.7	5,732	19.4	5,964	23.4	5,119	21.0
Supplementary financing	4,252	12.3	3,788	10.1	3,030	8.2	2,061	6.2	1,064	3.6	527	2.1	226	0.9
Enlarged access policy	3,548	10.3	5,065	13.5	6,021	16.3	6,380	19.1	6,500	22.0	5,458	21.4	4,648	19.1
Extended Fund facility arrangements														
Ordinary resources	5,568	16.1	6,529	17.4	6,498	17.6	6,242	18.7	5,762	19.5	5,055	19.8	5,472	22.4
Supplementary financing	2,668	7.7	2,522	6.7	2,246	6.1	1,708	5.1	1,097	3.7	599	2.3	249	1.0
Enlarged access policy	2,830	8.2	3,831	10.2	4,026	10.9	3,867	11.6	3,329	11.3	2,409	9.4	2,561	10.5
Compensatory and contingency financing	7,304	21.1	7,490	19.9	6,430	17.4	4,779	14.3	4,342	14.7	3,689	14.5	3,823	15.7
Buffer stock financing	375	1.1	237	0.6	73	0.2	34	0.1	3	—	—	—	—	—
Oil facility (1974 and 1975)	—	—	—	—	—	—	—	—	—	—	—	—	—	—
Subtotal (General Resources Account)	31,742	91.7	34,973	93.0	34,640	93.9	31,646	94.6	27,829	94.2	23,700	92.9	22,098	90.6
SAF arrangements	—	—	—	—	—	—	139	0.4	584	2.0	874	3.4	1,293	5.3
ESAF arrangements	—	—	—	—	—	—	—	—	—	—	264	1.0	672	2.8
Trust Fund	2,862	8.3	2,650	7.0	2,237	6.1	1,658	5.0	1,129	3.8	682	2.7	326	1.3
Total	34,603	100.0	37,622	100.0	36,877	100.0	33,443	100.0	29,543	100.0	25,520	100.0	24,388	100.0

[1] Includes outstanding first credit tranche and emergency purchases.

Table II.10

Borrowed Resources and Repayments to Lenders (Excluding the GAB and ESAF), May 29, 1980–April 30, 1990

(In millions of SDRs)

	Total Amount of Agreements (1)	Amount Borrowed (2)	As Percent of Total Agreed (3)	Repayments (4)	Outstanding Balance (2)−(4) (5)	Balance Available (1)−(2) (6)
Enlarged access resources						
Medium term						
Saudi Arabian Monetary Agency (SAMA)	8,000	8,000	100	5,665	2,335	—
Short term						
Concluded in 1981[1,2]	1,275	1,275	100	1,260	15	—
Concluded in 1984	6,000	4,200	70	4,200	0	—
Of which						
BIS, Japan, and BNB[3]	3,000	3,000	100	3,000	0	—
SAMA[4]	3,000	1,200	40	1,200	0	—
Subtotal	15,275	13,475	88	11,125	2,350	—
Borrowing agreement with Japan	3,000	1,040	35	0	1,040	1,960
Supplementary financing facility[5]	7,784	7,232	93	7,108	124	—
Total	26,059	21,748		18,233	3,514	1,960

[1] Composed of agreements with the BIS (SDR 675 million), National Bank of Belgium (SDR 50 million), Swiss National Bank, Bank of England, and Japan (SDR 150 million each), the Reserve Bank of Australia (SDR 50 million), Bank of Finland (SDR 30 million), and the Central Bank of Ireland (SDR 20 million). Another agreement for SDR 30 million was not drawn upon before it expired in view of lender's weak balance of payments and reserve position.

[2] Of these, six-month bearer notes have been issued for a total of SDR 30 million.

[3] Composed of agreements with the BIS, Japan, and the National Bank of Belgium and fully repaid by August 1988.

[4] Agreement has expired and was fully repaid on November 6, 1989.

[5] Fully committed by March 1981.

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Table II.11

Enhanced Structural Adjustment Facility—Contributions as of April 30, 1990[1]
(In millions of SDRs)

Contributor	Subsidies (Grant or grant equivalent)[2]	Loans[3]
Austria	(42)	—
Belgium	(84)	—
Canada	(163)	300
Denmark	45	—
Finland	38	—
France	(380)	800
Germany, Federal Republic of	130	700
Greece	(25)	—
Iceland	2	—
Italy	(201)	370
Japan	329	2,200[4]
Korea	(47)	65
Luxembourg	5	—
Malaysia	(35)	—
Malta	1	—
Netherlands	68	—
Norway	27	90
Saudi Arabia	(109)	200
Singapore	(24)	—
Spain	(22)	260
Sweden	121	—
Switzerland	(119)	200
United Kingdom	411	—
United States	107	—
Other[5]	(38)	130
Total	2,538	5,315[4]

[1] Some of the contributions listed are subject to parliamentary approval or completion of other internal procedures.

[2] The subsidy contributions listed take a variety of forms, including grants and the grant element of resources provided for the benefit of the ESAF at concessional rates of interest. Figures indicated are partly staff estimates taking into account information on the likely timing of subsidy contributions in relation to projected operational needs and estimated investment earnings on balances held by or for the benefit of the Subsidy Account. Amounts in parentheses represent estimates of the subsidy value of contributions at concessional interest rates or in the form of grants sufficient to reduce the effective interest rate on accompanying loans to 0.5 percent or less; in general, the calculated subsidy value of these contributions will rise or fall with increases or decreases in interest rates over time. The other amounts listed are based on specific grant amounts indicated by contributors. Contributions expressed in local currency are valued at April 30, 1990 exchange rates.

[3] Loan contributions are provided either at concessional interest rates or on the basis of weighted averages of market interest rates in the five currencies comprising the SDR basket. The interest rate basis for one market-related loan is somewhat higher than for other loans.

[4] Additional loan amounts up to SDR 0.3 billion could be provided by Japan, subject to the availability of further contributions to the Subsidy Account to subsidize those amounts down to 0.5 percent, and to the extent that total loan contributions do not thereby exceed SDR 6 billion. With the possibility of this additional loan amount, the total of loan contributions could rise to up to SDR 5.6 billion.

[5] Includes contributions that have not been announced publicly or have been advised but on which discussions are continuing.

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Table II.12

Summary of Transactions and Operations in SDRs, Financial Year Ended April 30, 1990

(In thousands of SDRs)

Holders	Total Holdings April 30, 1989	Receipts from Participants and Prescribed Holders: Designated	Receipts from Participants and Prescribed Holders: Other	Transfers to Participants and Prescribed Holders: Designated	Transfers to Participants and Prescribed Holders: Other	Receipts from the General Resources Account	Transfers to the General Resources Account	Interest, Charges, and Assessment (Net)	Positions as at April 30, 1990: Holdings	Positions as at April 30, 1990: Net cumulative allocations	Positions as at April 30, 1990: Holdings as percent of cumulative allocations
PARTICIPANTS											
Afghanistan	9,185	—	—	—	—	—	—	−1,521	7,664	26,703	—
Algeria	2,676	—	26,576	—	6,061	19,371	31,413	−10,731	418	128,640	—
Angola	—	—	32,915	—	33,060	33,102	32,915	+33	75	—	—
Antigua and Barbuda	3	—	—	—	—	—	—	—	3	—	—
Argentina	2,583	—	215,646	—	—	107,265	276,577	−26,592	22,325	318,370	—
Australia	244,704	—	—	—	—	4,984	—	−19,511	230,177	470,545	—
Austria	178,959	—	195,580	—	209,357	16,248	—	+1,075	182,505	179,045	0.1
Bahamas, The	231	—	655	—	—	284	—	−844	326	10,230	—
Bahrain	15,302	—	—	—	—	25	—	+787	16,114	6,200	0.3
Bangladesh	3,531	—	148,688	—	11,205	22,802	127,784	−3,050	32,982	47,120	0.1
Barbados	168	—	—	—	—	1,099	402	−672	193	8,039	—
Belgium	406,327	—	275,785	—	269,200	13,084	—	−5,379	420,617	485,246	0.1
Belize	109	—	—	—	—	272	354	+3	30	—	—
Benin	243	—	700	—	—	150	—	−787	306	9,409	—
Bhutan	174	—	—	—	—	28	—	+16	218	—	—
Bolivia	136	—	8,744	—	—	3,054	9,581	−2,227	126	26,703	—
Botswana	17,224	—	—	—	—	1,238	—	+1,148	19,610	4,359	0.4
Brazil	2,456	—	182,412	—	—	36,028	189,004	−30,086	1,806	358,670	—
Burkina Faso	5,641	—	—	—	—	324	—	318	5,647	9,409	0.1
Burundi	295	—	150	—	—	989	—	−1,146	288	13,697	—
Cameroon	2,114	—	9,150	—	—	699	7,389	−1,967	2,607	24,463	—
Canada	1,027,528	—	—	—	10,000	7,522	—	+21,540	1,046,590	779,290	0.1
Cape Verde	21	—	50	—	—	4	—	−50	25	620	—
Central African Republic	5,699	—	8,519	—	1,542	—	9,934	−456	2,286	9,325	—
Chad	4,636	—	900	—	24	6	3,888	−506	1,124	9,409	—
Chile	12,409	—	94,959	—	19,613	21,164	83,177	−9,914	15,828	121,924	—
China	429,454	—	—	—	—	13,098	53,584	+15,452	404,420	236,800	0.2
Colombia	114,255	—	—	—	—	—	—	−24	114,231	114,271	0.1
Comoros	96	—	—		—	—	—	−54	42	716	—
Congo	475	—	2,650	—	—	10	833	−741	1,561	9,719	—
Costa Rica	43	—	—	—	—	6,161	3,482	−1,976	746	23,726	—
Côte d'Ivoire	5,808	—	29,693	—	—	626	27,484	−3,013	5,630	37,828	—
Cyprus	426	—	700	—	—	836	—	−1,627	335	19,438	—
Denmark	153,509	—	165,104	—	159,577	13,612	—	−414	172,234	178,864	0.1
Djibouti	295	—	—	—	—	40	—	−75	260	1,178	—
Dominica	400	—	1,750	—	14	3	1,804	−31	304	592	0.1
Dominican Republic	876	—	2,283	—	—	10,386	10,908	−2,637	—	31,585	—
Ecuador	6,126	—	98,560	—	—	346	97,448	−2,440	5,144	32,929	—
Egypt	5,196	—	62,586	—	39,884	104	10,399	−11,319	6,284	135,924	—
El Salvador	2	—	—	—	—	2,670	—	−2,102	570	24,985	—
Equatorial Guinea	843	—	3,480	—	—	5	2,630	−419	1,279	5,812	—
Ethiopia	1,045	—	2,486	—	—	849	2,636	−917	827	11,160	—
Fiji	15,242	—	—	—	—	353	721	+721	15,595	6,958	0.2
Finland	153,331	—	99,322	—	113,377	9,412	—	+1,836	150,524	142,690	0.1
France	955,154	—	206,860	—	274,265	56,667	—	−8,390	936,026	1,079,870	0.1

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Gabon	4,361	—	11,050	—	—	63	10,850	−989	3,635	14,091	—
Gambia, The	1,512	—	4,390	—	857	10	3,974	−293	788	5,121	—
Germany, Federal Republic of	1,326,456	—	—	—	164,536	150,702	—	+11,325	1,323,947	1,210,760	0.1
Ghana	5,951	—	62,864	—	2,725	202	53,266	−4,785	8,241	62,983	—
Greece	1,530	—	5,021	—	—	3,801	—	−8,686	1,666	103,544	—
Grenada	7	—	—	—	—	107	33	−78	3	930	—
Guatemala	1	—	—	—	—	7,601	5,277	−2,318	7	27,678	—
Guinea	1,034	—	8,427	—	1,794	21	6,216	−1,451	21	17,604	—
Guinea-Bissau	3	—	19	—	—	118	21	−102	17	1,212	—
Guyana	286	—	—	—	—	3,336	2,731	−892	−1	14,530	—
Haiti	—	—	25	—	12,811	18,511	4,569	−1,147	9	13,697	—
Honduras	—	—	—	—	—	2,298	319	−1,980	−1	19,057	—
Hungary	375	—	35,412	—	—	586	36,321	+29	81	—	—
Iceland	705	—	700	—	—	303	—	−1,355	353	16,409	—
India	149,003	—	830,196	—	—	20,583	805,501	−49,179	145,102	681,170	—
Indonesia	1,003	—	77,000	—	—	973	41,498	−19,910	17,568	238,956	—
Iran, Islamic Republic of	244,283	—	60,000	—	—	7	—	+1,657	305,947	244,056	0.1
Iraq	1,382	—	—	—	—	4,401	—	−5,753	30	68,464	—
Ireland	136,883	—	—	—	—	7,220	—	+4,511	148,614	87,263	0.2
Israel	2,202	—	9,300	—	—	—	—	−8,931	2,571	106,360	—
Italy	716,567	—	—	—	—	58,307	—	+2,862	777,736	702,400	0.1
Jamaica	799	—	5,342	—	8,000	34,939	28,748	−3,411	921	40,613	—
Japan	1,942,905	—	—	—	265,393	171,351	—	+84,644	1,933,507	891,690	0.2
Jordan	943	—	15,400	—	22,538	18,607	4,797	−1,307	6,308	16,887	—
Kampuchea, Democratic	—	—	—	—	—	—	—	—	—	15,417	—
Kenya	2,196	—	124,989	—	—	1,683	116,304	−2,573	9,991	36,990	—
Kiribati	5	—	—	—	—	—	—	—	5	—	—
Korea	2,141	—	1,000	—	—	5,892	—	−6,017	3,016	72,911	—
Kuwait	86,227	—	—	—	2,549	12,711	—	+5,618	102,007	26,744	0.4
Lao People's Democratic Republic	190	—	225	—	—	834	—	−790	459	9,409	—
Lebanon	4,492	—	—	—	—	1,255	—	+47	5,794	4,393	0.1
Lesotho	915	—	—	—	—	3	—	−245	673	3,739	—
Liberia	—	—	—	—	—	2,028	—	−2,028	—	21,007	—
Libyan Arab Jamahiriya	225,704	—	—	—	—	17,976	—	+15,003	258,683	58,771	0.4
Luxembourg	18,550	—	—	—	—	548	—	+152	19,250	16,955	0.1
Madagascar	1,689	—	8,130	—	—	1,777	8,661	−1,591	1,344	19,270	—
Malawi	1,066	—	5,887	—	—	33	4,761	−882	1,343	10,975	—
Malaysia	121,351	—	—	—	—	9,394	—	−1,269	129,476	139,048	0.1
Maldives	11	—	25	—	—	—	—	−22	14	282	—
Mali	745	—	4,000	—	—	296	3,048	−1,313	680	15,912	—
Malta	51,238	—	—	—	1,365	1,592	—	+3,492	54,957	11,288	0.5
Mauritania	874	—	6,935	—	3,373	30	2,666	−792	1,008	9,719	—
Mauritius	3,655	—	39,005	—	—	27	36,345	−951	5,391	15,744	—
Mexico	404,988	—	713,200	—	190,688	404,354	1,038,480	+4,410	297,784	290,020	0.1
Morocco	7,113	—	86,216	—	38,354	12,307	52,785	−7,031	7,466	85,689	—
Mozambique	21	—	—	—	—	—	—	+2	23	—	—
Myanmar	1,091	—	4,000	—	—	10	—	−3,628	1,473	43,474	—
Nepal	571	—	2,000	—	—	214	1,442	−664	679	8,105	—
Netherlands	528,548	—	310,528	—	304,875	28,200	—	+1,969	564,370	530,340	0.1
New Zealand	3,062	—	12,500	—	—	—	—	−11,854	3,708	141,322	—
Nicaragua	—	—	—	—	—	1,655	—	−1,655	—	19,483	—
Niger	1,118	—	4,500	—	1,606	429	3,111	−753	577	9,409	—
Nigeria	3,206	—	6,794	—	—	3,972	283	−13,190	499	157,155	—
Norway	323,982	—	179,888	—	208,910	28,875	—	+14,047	337,882	167,770	0.2
Oman	9,218	—	—	—	—	1,971	—	+317	11,506	6,262	0.2

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Table II.12 (*concluded*)

Summary of Transactions and Operations in SDRs, Financial Year Ended April 30, 1990

(In thousands of SDRs)

Holders	Total Holdings April 30, 1989	Receipts from Participants and Prescribed Holders: Designated	Receipts from Participants and Prescribed Holders: Other	Transfers to Participants and Prescribed Holders: Designated	Transfers to Participants and Prescribed Holders: Other	Receipts from the General Resources Account	Transfers to the General Resources Account	Interest, Charges, and Assessment (Net)	Positions as at April 30, 1990: Holdings	Positions as at April 30, 1990: Net cumulative allocations	Positions as at April 30, 1990: Holdings as percent of cumulative allocations
Pakistan	12,519	—	54,788	—	25,000	26,835	41,161	−13,900	14,081	169,989	—
Panama	—	—	—	—	—	—	—	—	—	26,322	—
Papua New Guinea	2,959	—	—	—	6,976	7,124	66	−546	2,495	9,300	—
Paraguay	48,175	—	—	—	—	659	—	+3,003	51,837	13,697	0.4
Peru	1,795	—	—	—	—	42,521	34,579	−7,677	2,060	91,319	—
Philippines	11,449	—	61,188	—	27,000	34,181	68,915	−9,615	1,288	116,595	—
Poland	90	—	—	—	151,150	153,779	2,213	+8	514	—	—
Portugal	1,468	—	36,500	—	—	3,029	—	−4,362	36,635	53,320	0.1
Qatar	26,958	—	—	—	—	1,142	—	+1,258	29,358	12,822	0.2
Romania	77,708	—	4	—	—	49	1,351	−428	75,982	75,950	0.1
Rwanda	7,775	—	—	—	—	178	—	−510	7,443	13,697	0.1
St. Lucia	15	—	284	—	—	48	—	−62	285	742	—
St. Vincent	8	—	—	—	—	24	—	−30	2	354	—
Sao Tome and Principe	2	—	54	—	—	44	—	−52	48	620	—
Saudi Arabia	382,855	—	—	—	2,140,978	2,139,100	—	+21,192	402,169	195,527	0.2
Senegal	2,310	—	16,634	—	3,264	65	11,627	−1,966	2,152	24,462	—
Seychelles	10	—	35	—	—	20	—	−34	31	406	—
Sierra Leone	—	—	—	—	—	1,911	—	−1,911	—	17,455	—
Singapore	81,366	—	200	—	10,000	5,348	—	+5,411	82,325	16,475	0.5
Solomon Islands	39	—	400	—	—	95	423	−53	58	654	—
Somalia	—	—	—	—	—	1,235	100	−1,135	—	13,697	—
South Africa	5,435	—	19,300	—	—	84	—	−18,405	6,414	220,360	—
Spain	470,937	—	—	—	—	57,299	—	+16,579	544,815	298,805	0.2
Sri Lanka	5,323	—	70,324	—	38,021	6,506	37,030	−5,410	1,692	70,868	—
Sudan	—	—	985	—	—	13,191	10,913	−3,263	—	52,192	—
Suriname	2	—	—	—	—	653	—	−654	1	7,750	—
Swaziland	1,131	—	—	—	1	2	—	−460	672	6,432	—
Sweden	226,173	—	276,857	—	238,139	12,975	—	−981	276,885	246,525	0.1
Syrian Arab Republic	722	—	—	—	—	2,367	—	−3,085	4	36,564	—
Tanzania	—	—	—	—	14	6,752	4,051	−2,657	30	31,372	—
Thailand	50,466	—	431,400	—	9,255	283	399,496	−3,203	70,195	84,652	0.1
Togo	674	—	4,200	—	—	24	3,420	−897	581	10,975	—
Tonga	90	—	—	—	—	36	—	+9	135	—	—
Trinidad and Tobago	17,821	—	—	—	9,000	14,348	13,348	−2,826	6,995	46,231	—
Tunisia	16,255	—	65,000	—	13,728	196	37,474	−1,842	28,407	34,243	0.1
Turkey	3,098	—	13,311	—	—	4,852	9,097	−9,394	2,770	112,307	—
Uganda	12,803	—	23,274	—	5,830	3,402	27,303	−2,279	4,067	29,396	—
United Arab Emirates	83,127	—	—	—	97	224	—	+3,836	87,090	38,737	0.2
United Kingdom	913,522	—	843,435	—	784,735	41,854	—	−85,627	928,449	1,913,070	—
United States	7,238,953	—	—	—	139,231	448,906	—	+208,532	7,757,160	4,899,530	0.2
Uruguay	19,053	—	88,500	—	—	129	96,568	−2,850	8,264	49,977	—
Vanuatu	333	—	—	—	—	58	—	+31	422	—	—
Venezuela	61,111	—	—	—	108,590	132,363	52,648	−22,140	10,096	316,890	—
Viet Nam	—	—	—	—	—	7,806	—	−7,806	—	47,658	—
Western Samoa	1,661	—	—	—	138	2	1,218	+7	314	1,142	—
Yemen Arab Republic[1]	16,641	—	—	—	4,673	2	—	+881	12,851	6,160	0.2
Yemen, People's Democratic Republic of[1]	12,759	—	18,953	—	29,690	1	—	−1,414	609	22,583	—

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Yugoslavia	3,983	—	117,877	—	—	1,470	66,382	−12,949	43,999	155,161	—
Zaïre	—	—	7,633	—	14,297	81,904	65,808	−7,133	2,299	86,309	—
Zambia	—	—	—	—	—	—	—	—	—	68,298	—
Zimbabwe	381	—	31,400	—	—	28	27,794	−794	3,221	10,200	—
Total Participants	19,947,044	—	6,694,406	—	6,137,357	4,702,136	4,269,341	−106,663	20,833,446	21,433,330	204.2
PRESCRIBED HOLDERS											
Arab Monetary Fund	2,281	—	335,717	—	338,878	—	—	+958	78	—	—
Bank of Central African States	59	—	36,154	—	35,725	—	—	+99	587	—	—
Bank for International Settlements	525,623	—	156,945	—	695,519	—	—	+22,767	9,816	—	—
East African Development Bank	392	—	—	—	—	—	—	+34	426	—	—
Eastern Caribbean Central Bank	1,322	—	—	—	—	—	—	+114	1,436	—	—
International Bank for Reconstruction and Development	4,760	—	13,800	—	14,473	—	—	+425	4,512	—	—
Islamic Development Bank	1,509	—	—	—	—	—	—	+131	1,640	—	—
Nordic Investment Bank	281	—	—	—	—	—	—	+24	305	—	—
Swiss National Bank	9,508	—	—	—	15,070	5,339	—	+707	484	—	—
Total Prescribed Holders	545,735	—	542,616	—	1,099,664	5,339	—	+25,259	19,769	—	—
GENERAL RESOURCES ACCOUNT	975,951	—	4,269,341	—	4,707,475	—	—	+90,670	628,487	—	—
Total	21,468,730	—	11,506,362	—	11,944,496	4,707,475	4,269,341	+9,265	22,106,482	21,433,330	—

[1] In June 1990, the Executive Board of the Fund, following the merger of the Yemen Arab Republic and the People's Democratic Republic of Yemen concluded that the Republic of Yemen is a single member of the Fund.

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Table II.13

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, 1970–90

			Developing Countries				
					Net debtor countries[2]		
	All Participants[1]	Industrial Countries	All developing countries	Net creditor countries	All net debtor countries	With recent debt-servicing problems	Without recent debt-servicing problems
Holdings of SDRs as percent of cumulative allocations							
1970	93.8	101.4	73.5	100.0	72.9	82.9	56.0
1971	92.3	103.3	63.2	2.8	64.7	71.6	53.1
1972	90.2	100.0	64.4	34.5	65.2	61.5	71.2
1973	93.4	105.7	60.8	55.4	60.9	56.4	68.3
1974	94.6	106.2	64.3	59.5	64.4	61.3	69.6
1975	94.5	106.5	63.1	72.5	62.8	64.2	60.6
1976	95.1	108.4	59.8	99.1	58.8	60.3	56.4
1977	91.7	105.7	54.9	106.3	53.6	56.3	49.2
1978	85.3	95.6	58.1	117.6	56.6	60.1	50.7
1979	90.3	97.0	74.5	112.3	71.5	71.1	72.2
1980	91.9	96.8	81.0	148.3	75.6	71.0	82.6
1981	74.5	81.0	60.8	139.6	53.5	53.2	53.9
1982	74.6	81.9	59.1	140.5	51.5	45.6	60.3
1983	79.8	95.1	47.4	207.9	32.4	21.6	48.4
1984	69.8	80.4	47.3	183.9	34.6	22.0	53.1
1985	78.4	95.2	42.8	182.2	29.8	20.3	43.8
1986	87.3	105.3	49.0	192.5	35.6	25.5	50.6
1987	90.8	110.0	49.9	195.4	36.4	22.5	56.8
1988	96.2	115.9	54.4	202.8	40.6	31.7	53.7
1989	93.1	116.3	43.5	181.6	30.7	21.0	45.0
1990	97.2	121.9	44.4	205.3	29.4	17.0	47.6
Holdings of SDRs as percent of non-gold reserves							
1970	7.5	9.0	4.3	0.8	5.0	5.8	3.8
1971	9.2	9.9	6.1	0.0	7.7	8.7	6.2
1972	9.1	9.3	7.0	0.4	9.2	9.4	9.0
1973	8.0	8.7	4.9	0.5	6.2	6.1	6.2
1974	7.3	9.2	3.5	0.4	4.4	4.4	4.4
1975	6.1	8.9	2.3	0.2	3.8	3.7	4.0
1976	5.5	8.3	1.9	0.2	3.2	3.4	3.0
1977	4.5	7.4	1.4	0.2	2.2	2.5	1.9
1978	3.6	5.3	1.4	0.2	2.0	2.4	1.6
1979	4.8	5.8	2.8	1.1	3.5	3.9	3.0
1980	5.7	7.1	3.5	1.5	4.4	4.7	4.0
1981	5.0	6.2	2.9	1.8	3.5	4.0	3.0
1982	5.5	6.9	3.0	1.6	3.7	4.3	3.2
1983	5.5	7.2	2.3	2.2	2.3	2.4	2.3
1984	4.3	5.6	2.0	1.9	2.1	2.0	2.1
1985	4.6	6.3	1.7	1.7	1.6	1.5	1.7
1986	5.2	6.7	2.0	1.8	2.2	2.2	2.2
1987	4.9	5.7	2.0	1.4	2.4	2.2	2.6
1988	4.6	5.1	2.0	1.4	2.5	3.1	2.2
1989	4.1	4.7	1.5	1.2	1.7	2.4	1.5
1990	4.0	4.6	1.4	1.5	1.4	1.4	1.4

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

[1] This category consists of member countries that are participants in the Fund's SDR Department. At the end of the financial year 1990, of the total SDRs allocated to participants in the SDR Department (SDR 21.4 billion), SDR 0.65 billion was not held by participants but by the Fund (SDR 0.63 billion) and by prescribed holders (SDR 0.02 billion).

[2] Countries with recent debt-servicing problems are those countries that incurred external payments arrears or rescheduled their debts during the period 1986–88.

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Table II.14

Purchases and Subsidy Payments Under Supplementary Financing Facility, May 29, 1980–April 30, 1990
(In millions of SDRs)

	Cumulative Purchases	Cumulative Subsidy Payments
Recipients of subsidy at the full rate[1]		
Bangladesh	110.0	16.35
Bolivia	25.5	3.89
Dominica	4.5	0.61
Gambia, The	4.8	0.64
Guyana	30.9	4.66
India	1,200.0	156.56
Kenya	94.8	13.84
Liberia	42.9	6.26
Madagascar	22.2	3.30
Malawi	28.1	4.18
Mauritania	16.0	2.33
Pakistan	537.1	75.82
Philippines	333.0	49.26
Senegal	54.2	7.78
Sierra Leone	17.2	2.54
Sri Lanka	—	0.59[2]
Sudan	171.4	25.36
Tanzania	16.3	2.45
Togo	7.3	1.07
Zambia	—	3.52[3]
Subtotal	2,716.2	381.01
Recipients of subsidy at half the full rate[4]		
Côte d'Ivoire	286.4	19.31
Jamaica	227.1	16.80
Mauritius	69.2	5.07
Morocco	137.5	10.23
Peru	195.1	15.06
Subtotal	915.3	66.47
Total	3,631.5	447.48[5]

[1] Members with per capita incomes equal to or below the level of per capita income used to determine eligibility for assistance from the International Development Association (IDA) are eligible for the full rate subsidy (not to exceed 3 percent a year).
[2] Subsidy paid in respect of Fund holdings in excess of 140 percent of quota under the Fund's policy on exceptional use.
[3] Subsidy paid in respect of Fund holdings in excess of 200 percent of quota under the Fund's policy on exceptional use.
[4] Members with per capita incomes in excess of the IDA level but not more than the per capita income of the member with the highest per capita income in 1979 that was eligible to receive assistance from the Trust Fund.
[5] Including SDR 3.7 million of subsidies approved but not paid to five members on account of nonpayment of SFF charges by these members.

Table II.15

Key IMF Rates, May 1, 1989–April 30, 1990

Week Beginning	SDR Interest Rate and Unadjusted Rate of Remuneration[1]	Basic Rate of Charge on Ordinary Resources[2]
1989		
May 1	7.93	7.64
May 8	7.98	7.68
May 15	7.97	7.68
May 22	8.15	7.85
May 29	8.41	8.10
June 5	8.30	7.99
June 12	8.27	7.96
June 19	8.24	7.94
June 26	8.20	7.90
July 3	8.28	7.97
July 10	8.13	7.83
July 17	8.13	7.83
July 24	8.27	7.96
July 31	8.14	7.84
August 7	8.13	7.83
August 14	8.18	7.88
August 21	8.15	7.85
August 28	8.24	7.94
September 4	8.25	7.94
September 11	8.24	7.94
September 18	8.21	7.91
September 25	8.31	8.00
October 2	8.55	8.23
October 9	8.56	8.24
October 16	8.75	8.43
October 23	8.71	8.39
October 30	8.89	8.56
November 6	8.97	8.64
November 13	8.89	8.56
November 20	8.92	8.59
November 27	8.83	8.50
December 4	8.87	8.54
December 11	8.87	8.54
December 18	8.86	8.53
December 25	8.99	8.66
1990		
January 1	9.01	8.68
January 8	9.08	8.74
January 15	9.04	8.71
January 22	9.11	8.77
January 29	9.06	8.72
February 5	9.09	8.75
February 12	9.16	8.82
February 19	9.18	8.84
February 26	9.16	8.82
March 5	9.24	8.90
March 12	9.31	8.97
March 19	9.32	8.98
March 26	9.24	8.90
April 2	9.15	8.81
April 9	9.07	8.73
April 16	9.07	8.73
April 23	9.04	8.71
April 30	9.05	8.72

[1] The rate of remuneration is adjusted downward in light of overdue charges so as to share the burden of protecting the Fund's income. These burden-sharing amounts are refundable when overdue charges are paid.
[2] The rate of charge is adjusted upward in light of overdue charges so as to share the burden of protecting the Fund's income. These burden-sharing amounts are refundable when overdue charges are paid.

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Table II.16

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	Luxembourg	February 15, 1961
Argentina	May 14, 1968	Malaysia	November 11, 1968
Australia	July 1, 1965	Mexico	November 12, 1946
Austria	August 1, 1962	Netherlands	February 15, 1961
Bahamas, The	December 5, 1973	New Zealand	August 5, 1982
Bahrain	March 20, 1973	Nicaragua	July 20, 1964
Belgium	February 15, 1961	Norway	May 11, 1967
Belize	June 14, 1983	Oman	June 19, 1974
Bolivia	June 5, 1967	Panama	November 26, 1946
Canada	March 25, 1952	Papua New Guinea	December 4, 1975
Chile	July 27, 1977	Peru	February 15, 1961
Costa Rica	February 1, 1965	Portugal	September 12, 1988
Denmark	May 1, 1967	Qatar	June 4, 1973
Djibouti	September 19, 1980	St. Kitts and Nevis	December 3, 1984
Dominica	December 13, 1979	St. Lucia	May 30, 1980
Dominican Republic	August 1, 1953	St. Vincent	August 24, 1981
Ecuador	August 31, 1970	Saudi Arabia	March 22, 1961
El Salvador	November 6, 1946	Seychelles	January 3, 1978
Fiji	August 4, 1972	Singapore	November 9, 1968
Finland	September 25, 1979	Solomon Islands	July 24, 1979
France	February 15, 1961	South Africa	September 15, 1973
Germany, Federal Republic of	February 15, 1961	Spain	July 15, 1986
Guatemala	January 27, 1947	Suriname	June 29, 1978
Guyana	December 27, 1966	Swaziland	December 11, 1989
Haiti	December 22, 1953	Sweden	February 15, 1961
Honduras	July 1, 1950	Thailand	May 1, 1990
Iceland	September 19, 1983	Turkey	March 22, 1990
Indonesia	May 7, 1988	United Arab Emirates	February 13, 1974
Ireland	February 15, 1961	United Kingdom	February 15, 1961
Italy	February 15, 1961	United States	December 10, 1946
Jamaica	February 22, 1963	Uruguay	May 2, 1980
Japan	April 1, 1964	Vanuatu	December 1, 1982
Kiribati	August 22, 1986	Venezuela	July 1, 1976
Korea	November 1, 1988		
Kuwait	April 5, 1963		

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Table II.17

Exchange Rate Arrangements as of March 31, 1990[1]

Pegged					Flexibility Limited vis-à-vis a Single Currency or Group of Currencies		More Flexible		
Single currency			Currency composite						
U.S. dollar	French franc	Other	SDR	Other	Single currency[2]	Cooperative arrangements[3]	Adjusted according to a set of indicators	Other managed floating	Independently floating
Afghanistan[4]	Benin	Bhutan (Indian rupee)	Burundi	Algeria	Bahrain[5]	Belgium	Chile[4,9]	China[4]	Argentina
Angola	Burkina Faso	Kiribati (Australian dollar)	Iran, Islamic Republic of[4]	Austria	Qatar[5]	Denmark	Colombia	Costa Rica[4]	Australia
Antigua and Barbuda	Cameroon	Lesotho[4] (South African rand)	Libyan Arab Jamahiriya[6]	Bangladesh[4]	Saudi Arabia[5]	France	Madagascar	Ecuador[4]	Bolivia
Bahamas, The[4]	Central African Republic	Swaziland (South African rand)	Myanmar	Botswana	United Arab Emirates[5]	Germany, Federal Republic of	Portugal	Egypt[4]	Brazil
Barbados	Chad	Tonga (Australian dollar)	Rwanda	Cape Verde		Ireland		El Salvador[4]	Canada
Belize	Comoros		Seychelles	Cyprus		Italy		Greece	Gambia, The
Djibouti	Congo		Zambia[4]	Fiji		Luxembourg		Guinea	Ghana[4]
Dominica	Côte d'Ivoire			Finland[7]		Netherlands		Guinea Bissau	Guatemala
Dominican Republic	Equatorial Guinea			Hungary		Spain		Honduras[4]	Japan
Ethiopia	Gabon			Iceland[8]				India[10]	Lebanon
Grenada	Mali			Israel[9]				Indonesia	Maldives
Guyana[4]	Niger			Jordan				Korea	New Zealand
Haiti	Senegal			Kenya				Lao People's Democratic Republic	Nigeria
Iraq	Togo			Kuwait				Mauritania	Paraguay
Jamaica				Malawi				Mexico[4]	Philippines
Liberia[4]				Malaysia[8]				Morocco	South Africa[4]
Nicaragua[4]				Malta				Pakistan	United Kingdom
Oman				Mauritius				Singapore	United States
Panama				Mozambique				Sri Lanka	Uruguay
Peru[4]				Nepal				Tunisia	Venezuela
St. Kitts and Nevis				Norway[8]				Turkey	Zaïre
St. Lucia				Papua New Guinea				Viet Nam	
St. Vincent and The Grenadines				Poland[4]				Yugoslavia[11]	
Sierra Leone				Romania					
Sudan[4]				Sao Tome and Principe					
Suriname				Solomon Islands					
Syrian Arab Republic[4]				Somalia					
Trinidad and Tobago				Sweden[12]					
Yemen Arab Republic[13]				Tanzania					
Yemen, People's Democratic[13] Republic of				Thailand					
				Uganda					
				Vanuatu					
				Western Samoa					
				Zimbabwe					

[1] Current information relating to Democratic Kampuchea is unavailable.
[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 Spain in which case the exchange rate is maintained within a margin of 6 percent.
[4] Member maintains exchange arrangements involving more than one exchange market. The arrangement shown is that maintained in the major market.
[5] Exchange rates are determined on the basis of a fixed relationship to the SDR, within margins of up to ∓ 7.25 percent. However, because of the maintenance of a relatively stable relationship with the U.S. dollar, these margins are not always observed.
[6] The exchange rate is maintained within margins of ∓ 7.5 percent.
[7] The exchange rate is maintained within margins of ∓ 3.0 percent.
[8] The exchange rate is maintained within margins of ∓ 2.25 percent.
[9] The exchange rate is maintained within margins of ∓ 5.0 percent.
[10] The exchange rate is maintained within margins of ∓ 5 percent on either side of a weighted composite of the currencies of the main trading partners.
[11] Member maintains a fixed relationship of Din 7 = DM 1.
[12] The exchange rate is maintained within margins of ∓ 1.5 percent.
[13] In June 1990, the Executive Board of the Fund, following the merger of the Yemen Arab Republic and the People's Democratic Republic of Yemen, concluded that the Republic of Yemen is a single member of the Fund.

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Technical Assistance and Training, Relations with International Organizations, and External Relations

Technical assistance and training are extended by the Fund to members in a wide range of economic and financial areas, either at Fund headquarters or through staff missions to a member country. Staff from almost every department and bureau of the Fund may be provided in response to members' requests. Assistance may relate to a whole range of subjects, including economic policy, balance of payments adjustment programs, legal matters, debt management, exchange and trade issues, financial sector topics, and accounting, statistics, and data processing.

The *IMF Institute* trains officials of member countries, both at headquarters and overseas, through courses and seminars held in Arabic, English, French, and Spanish. It also organizes briefings for visiting officials and assists training programs of member countries and other international organizations by providing lecturers in the Fund's fields of expertise.

During 1989/90, training at headquarters consisted of 14 courses and 3 seminars for senior officials, attended by 511 participants. This program included, for the first time, two 10-week courses on techniques of financial analysis and programming, and two 8-week courses on programming and policies for medium-term adjustment. The former course extended the previous 8-week course on techniques of economic analysis to allow coverage of some basic financial programming techniques and related policy issues. The course on programming and policies for medium-term adjustment reviewed techniques and policy issues in the formulation and implementation of programs. In addition, there were presentations of three 16-week courses on financial analysis and policy; with the development of the course on techniques of financial analysis and programming, the longer financial analysis and policy course is being phased out of the program. There were also presentations of three 10-week courses on public finance, two 8-week courses on balance of payments methodology, and two 8-week courses on government finance statistics. Courses on public finance were conducted in collaboration with the Fiscal Affairs Department, and those on balance of payments methodology and government finance statistics with the Bureau of Statistics. High-level seminars on budgeting and expenditure control and on current legal issues affecting central banks were conducted in collaboration with the Fiscal Affairs and Legal Departments, respectively. A seminar on the design of Fund-supported adjustment programs was conducted by the IMF Institute. The Institute also organized 25 briefings at headquarters, for a total of 245 visiting officials.

The Institute conducted 15 overseas seminars and workshops and provided assistance through lectures to four training organizations. This represented a significant expansion of the Institute's external training program, which was facilitated by the availability of financing from the UN Development Program (UNDP).

The provision of technical assistance to Fund member countries continued to represent a major part of the *Fiscal Affairs Department's* activities. As in previous years, technical assistance in the fiscal field covered a wide range of issues, including tax policy and administration; budget presentation, preparation, and control; government accounting; fiscal reporting; and public enterprise finances. While the bulk of this assistance was given to developing countries, the department also provided technical advice to an increasing number of industrial countries, as well as to the Eastern European countries.

Moreover, with the rapid expansion of SAF and ESAF activities, fiscal technical assistance played a key role in the design of Fund-supported structural adjustment programs. Following detailed technical analysis by the Fiscal Affairs Department, recommendations were made to increase government revenue, mainly through a broadening of the tax base; to rationalize expenditure policy; to improve fiscal reporting; and to strengthen control procedures.

With the continued increase in the number of Fund-supported structural adjustment programs, and the important changes taking place in Eastern Europe, the department's technical assistance activity expanded rapidly in 1989/90, mainly through short-term staff or panel missions. Assistance was provided to 76 countries (up from 57 in 1988/89); this included 29 long-term panel and 92 short-term, staff/panel assignments in the field (compared with 24 and 69, respectively), involving 85 panel members and 45 staff members (compared with 61 and 34, respectively). Departmental staff at headquarters continued to provide support guidance to experts in the field. Following the signing, in July 1989, of an agreement between the UNDP and the Fund, enabling the latter to act as an executing agency for technical assistance, the Fiscal Affairs Department undertook two UNDP-financed consultancy assignments in 1989/90.

The *Central Banking Department* provides technical assistance on central banking and financial sector issues through the assignment of outside experts and through staff advisory missions. The objective is to strengthen monetary policy management and the regulation and development of the financial system, often as part of the framework for Fund-supported adjustment programs.

In 1989/90, 164 experts and consultants were assigned by the department to executive and advisory positions with the monetary authorities of 73 member countries and four regional organizations, for a total of 75 man-years of assistance. Ninety percent of this assistance was in the broad areas of research and policy, bank regulation and supervision, and banking operations in general. The specialized fields of accounting, organization and methods, and external debt made up the remaining 10 percent. A number of projects with the Fund serving as executing agency for the UNDP were being planned. The first such project document, for assistance to a member in the field of bank supervision, was signed in April 1990.

Departmental staff carried out 34 advisory missions during 1989/90, giving advice on a wide range of policy issues, including design of monetary instruments, development of securities markets, bank regulation and supervision, the structure of the financial system, and (in cooperation with the Legal Department) banking legislation. In addition, departmental staff participated in two joint Bank-Fund advisory missions.

Policy-oriented research by the department included completion of a series of studies on the causes and impact of financial crises; papers on central bank independence and functions; and financial sector reform in Eastern Europe. The department's computerized data base on banking legislation was continuously updated during the year. It now contains laws from 138 countries, mostly central and general banking laws. This data base is an important source of information for member countries and other departments of the Fund.

In 1989/90, the *Bureau of Statistics* continued its program of technical assistance in statistics. Particular attention was devoted to

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assisting members that were actual or prospective users of Fund resources or whose statistical base was at an early stage of development. Technical assistance was primarily provided through staff missions to address problems in specific areas. However, several multi-topic missions responded to situations where member countries were encountering statistical problems in a number of areas simultaneously. The principal areas of statistics covered were money and banking, government finance, balance of payments, and the general economy. Training activities at headquarters consisted of familiarizing national statisticians with current statistical methodologies as well as their application to individual cases.

A total of 36 technical assistance missions to 31 countries was mounted and training was provided at headquarters to officials from 11 member countries. A seminar in money and banking statistics was held in Dakar. Bureau staff lectured at seminars organized by the Arab Monetary Fund in public finance and money and banking statistics. Similar assistance was also provided for seminars on balance of payments statistics organized by the Center for Latin American Monetary Studies (CEMLA).

In 1989/90, the Bureau of Statistics initiated an expanded program of technical assistance, implementing projects that generally require the services of a resident statistical adviser. This development, which resulted from the signature of an Executive Agency Agreement with the UNDP and the availability of resources from an Administered Account for Japan, will make it possible to provide a much broader range of technical assistance in statistics and enable the Bureau to tackle statistical problems in a more comprehensive manner than before.

The *Bureau of Computing Services* provides technical assistance in electronic data processing to member countries. This assistance is narrowly defined in that it must be in direct support of Fund operational programs, be deemed necessary to facilitate the work of economic missions of the Fund, and be concerned only with the Fund's areas of expertise. During 1989/90, the Bureau conducted one mission to Myanmar to provide guidance on computer issues relating to tax administration, customs, and budgeting. Looking ahead to the next several years, it is anticipated that there will be an increase in the number of requests for short-term electronic data processing technical assistance. With many member countries now developing computer systems to process, analyze, and manage economic information, and with the continuing explosion of desktop microcomputers and associated application software, member countries may look toward the Fund for overall guidance on the development of capabilities to collect, store, process, and exchange economic and financial data with the Fund. Such guidance is likely to include advice in data organization and management, statistical processing, and estimation and modeling.

In 1989/90, the Bureau continued to receive a large number of delegations and visitors from member countries for training in analytical software. Also, there were numerous short technology training sessions that focused on the various Fund computer applications. Formal training and presentations were given to visitors from Bhutan, Canada, Cyprus, Ecuador, Egypt, Honduras, Japan, Malaysia, Thailand, Venezuela, and three regional institutions. To date, ten member countries have purchased and are now using the analytical software under the IMF site license agreement. In addition, some 45 demonstration copies of this software have been distributed to member countries and to regional and international institutions for evaluation and testing.

Relations with Other International Organizations

Cooperation with other international and regional organizations having related responsibilities or sharing common interests is important in enabling the Fund to fulfill its responsibilities. Close ties are maintained with, among others, the United Nations, the General Agreement on Tariffs and Trade (GATT), the Organization for Economic Cooperation and Development (OECD), the Commission of the European Communities (CEC), and the Bank for International Settlements (BIS).

An important responsibility for liaison with these organizations rests with three offices located away from Fund headquarters. The Director of the Fund Office in the United Nations and Special Representative to the United Nations is responsible for relations with the UN and its subsidiary bodies. The Office in Europe, in Paris, deals in particular with the BIS, CEC, and OECD. The Geneva Office maintains close relations with the GATT, the UN Conference on Trade and Development, and other UN organizations located in Geneva, such as the Economic Commission for Europe and the International Labor Office. Liaison includes attendance at meetings, participation in seminars and expert groups, and exchange of information and pertinent documents. The work of these offices is supplemented, as necessary, by assignment of staff and technical experts from headquarters. In addition, staff members participate in meetings and seminars, such as those of the regional economic and financial organizations in Africa, Asia and the Pacific, Latin America and the Caribbean, and the Middle East, including the regional development banks.

The Fund has a unique relationship with the World Bank, and collaboration between the two institutions takes a variety of forms, including joint participation in missions, attendance at each other's Executive Board meetings, regular exchange of documents and information, and attendance at and participation in conferences and seminars. Fund staff attend a number of aid coordination meetings held under World Bank auspices, including Aid Groups, Consultative Groups, and Donors Conferences.

Long-standing cooperative arrangements with the GATT regarding consultations with common member countries on trade restrictions imposed for balance of payments purposes continue to involve staff participation and provision of pertinent documents. In addition, Fund staff attend meetings of the GATT Council of Representatives, as well as the annual sessions of the CONTRACTING PARTIES to the GATT. Progress within the Uruguay Round of multilateral trade negotiations continues to be closely monitored by the Geneva Office and through staff attendance at meetings of many of the trade negotiating groups.

During the year under review, the Fund intensified its contacts with a number of international organizations that are currently engaged in, or actively considering, support for the reform efforts currently under way in the countries of Eastern and Central Europe. Staff members have been involved in a number of meetings aimed at coordinating assistance to these countries, including the meetings of the Group of Twenty-Four countries engaged in coordinated assistance to Hungary and Poland, under the auspices of the Commission of the EC. The Managing Director participated in one such meeting on December 13, 1989.

The Managing Director participated in other meetings convened under the auspices of various international and regional organizations, most notably the United Nations, where he attended regular

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meetings of the Administrative Committee on Coordination (ACC) and the Economic and Social Council (ECOSOC). On July 13, 1989, the Managing Director addressed the second regular session of ECOSOC in Geneva. The Managing Director also addressed the Special Session of the UN General Assembly on April 28, 1990.

External Relations

During 1989/90, the Fund continued to explain its role and policies to a wider audience. Priority was given to continuing to reverse the negative perceptions held in a number of countries. In recognition of the increasing interest being shown in the Fund by nongovernmental organizations, the academic community, and the general public, a new Public Affairs Division was formed within the External Relations Department to direct this aspect of the Fund's information work.

The high level of interest in the activities of the Fund, both from the general public and the news media, was stimulated by the evolving events in Eastern Europe, the continuing discussions on the Ninth General Review of Quotas, and the Fund's role in the strengthened debt strategy. To meet this expanding interest, the Managing Director and senior staff delivered speeches on a range of economic issues at both international and national forums. Staff members also delivered papers and participated in conferences, seminars, and symposiums. The seminar program for nonofficials continued to be an important aspect of the Fund's external relations efforts. Three seminars were held in Mexico City in May 1989, in Kuala Lumpur in late June 1989, and in Brussels in October 1989.

During the financial year, the Fund intensified its contacts with the news media in Africa, Asia, Europe, Latin America and the Caribbean, and North America as part of its ongoing effort to improve public understanding of the institution and its role in the international monetary system. Presentations on the role and the work of the Fund were given to representatives of academic, business, financial, labor, and political groups in member countries and at Fund headquarters. The IMF Visitors' Center maintained an active calendar of seminars on a variety of international economic issues, as well as presenting art exhibitions (in conjunction with embassies of member countries) and other cultural events, such as film screenings and concerts.

The Fund's publications are important in disseminating information on its work. It has a vigorous publications program and both the number of titles and the variety of subject matter have continued to expand. In order to determine better the audience for the Fund's statistical publications and the potential demand for receiving some of these publications in electronic format, a survey was conducted by a consultant firm; as a result a number of modifications are being made in these publications. The *World Economic Outlook* and other publications in the series of World Economic and Financial Surveys, as well as those published in the Occasional Papers series, continue to attract considerable public attention. Effective with the May 1990 edition, the *World Economic Outlook* is being published in French and Spanish, as well as in English. A complete list of publications issued during the financial year appears in Table III.1.

Executive Directors and Staff

A list of Executive Directors and their voting power on April 30, 1990 is given in Appendix VI. The changes in membership of the Executive Board during 1989/90 are shown in Appendix VII.

In the financial year ended April 30, 1990, there were 128 appointments to the Fund's regular staff and 88 separations. At the end of the financial year, the staff numbered 1,731 and was drawn from 104 countries.

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Table III.1

Publications Issued, Financial Year Ended April 30, 1990

Reports and Other Documents

Annual Report of the Executive Board for the Financial Year Ended April 30, 1989
(English, French, German, and Spanish). Free.

Exchange Arrangements and Exchange Restrictions, Annual Report 1989
$15.00.

Selected Decisions of the International Monetary Fund and Selected Documents, Supplement to the Thirteenth Issue
(French and Spanish). Free.

Selected Decisions of the International Monetary Fund and Selected Documents, Fourteenth Issue
(English). Free.

Selected Decisions of the International Monetary Fund and Selected Documents, Annex to the Fourteenth Issue
(English). Free.

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

Periodic Publications

Balance of Payments Statistics
Vol. 40. A two-part yearbook and 12 monthly booklets. $54.00 a year. $27.00 to university faculty members and students. $25.00 for yearbook only.

Direction of Trade Statistics
Monthly, with yearbook. $52.00 a year. $26.00 to university faculty members and students. $18.00 for yearbook only.

Government Finance Statistics Yearbook
Vol. 13, 1989. (Introduction and titles of lines in English, French, and Spanish) $32.00. $16.00 to university faculty members and students.

International Financial Statistics
Monthly, with yearbook (English, French, and Spanish) and two supplements (English). $148.00 a year. $74.00 to university faculty members and students. $30.00 for yearbook only.

Staff Papers
Four times a year. $24.00 a year. $12.00 to university faculty members and students.

The five publications listed above may be obtained at a special rate of $230.00 ($115.00 to university faculty members and students).
Magnetic tape subscriptions to *Balance of Payments Statistics, Direction of Trade Statistics, Government Finance Statistics Yearbook,* and *International Financial Statistics* are also available. Price information is available on request.

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

IMF Survey
Twice monthly, but only once in December (English, French, and Spanish). Private firms and individuals are charged at an annual rate of $45.00.

Occasional Papers

No. 65. *Managing Financial Risks in Indebted Developing Countries*
By Donald J. Mathieson, David Folkerts-Landau, Timothy Lane, and Iqbal Zaidi.

No. 66. *The European Monetary System in the Context of the Integration of European Financial Markets*
By David Folkerts-Landau and Donald J. Mathieson.

No. 67. *The Role of National Saving in the World Economy: Recent Trends and Prospects*
By Bijan B. Aghevli, James M. Boughton, Peter J. Montiel, Delano Villanueva, and Geoffrey Woglom.

No. 68. *Debt Reduction and Economic Activity*
By Michael P. Dooley, David Folkerts-Landau, Richard D. Haas, Steven A. Symansky, and Ralph W. Tryon.

No. 69. *International Comparisons of Government Expenditure Revisited: The Developing Countries, 1975–86*
By Peter S. Heller and Jack Diamond.

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

World Economic and Financial Surveys

Primary Commodities: Market Developments and Outlook
(July 1989)
By the Commodities Division of the Research Department
$15.00 ($10.00 to university faculty members and students).

Staff Studies for the World Economic Outlook (August 1989)
By the Research Department of the International Monetary Fund
$20.00 ($12.00 to university faculty members and students).

Developments in International Exchange and Trade Systems
(September 1989)
By a staff team from the Exchange and Trade Relations Department.
$25.00 ($15.00 to university faculty members and students).

World Economic Outlook: A Survey by the Staff of the International Monetary Fund
(October 1989)
$20.00 ($12.00 to university faculty members and students).

International Capital Markets: Developments and Prospects
(April 1990)
By a Staff Team from the Exchange and Trade Relations and Research Departments. $20.00 ($12.00 to university faculty members and students).

Officially Supported Export Credits: Development and Prospects
(May 1990).
$15.00 ($10.00 to university faculty members and students).

World Economic Outlook: A Survey by the Staff of the International Monetary Fund
(May 1990) (English, French, and Spanish).
$30.00 ($20.00 to university faculty members and students).

Books

Analytical Issues in Debt
Edited by Jacob A. Frenkel, Michael P. Dooley, and Peter Wickham.
$26.50

Fiscal Policy, Economic Adjustment, and Financial Markets
Edited by Mario Monti.
$16.00

Fiscal Policy, Stabilization, and Growth in Developing Countries
Edited by Mario I. Blejer and Ke-Young Chu.
$22.50

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Table III.1 (*concluded*)

Publications Issued, Financial Year Ended April 30, 1990

The Fund Agreement in the Courts, Volume IV
By Joseph Gold
$45.00

Macroeconomic Policies in an Interdependent World
Edited by Ralph C. Bryant, David A. Currie, Jacob A. Frenkel, Paul R. Masson, and Richard Portes.
$17.50

Privatization and Structural Adjustment in the Arab Countries
Edited by Said El-Naggar (English and Arabic).
$18.50

Pamphlet Series
No. 44. *SDRs, Currencies, and Gold: Seventh Survey of New Legal Developments*
By Joseph Gold (French and Spanish). Free.

Booklets
Promoting Economic Stability: The IMF's Compensatory and Contingency Financing Facility
By David M. Cheney (French and Spanish). Free.

The Fund's International Banking Statistics
By Joslin Landell-Mills (French and Spanish).
$5.00

Publications Catalog, 1989–90. Free.

Copies of the Fund's publications may be obtained from Publication Services, International Monetary Fund, 700 19th Street, N.W., Washington, D.C. 20431, U.S.A.

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Principal Policy Decisions of the Executive Board

A. Surveillance Over Members' Exchange Rate Policies

In Decision No. 8857-(88/64)[1] and in Decision No. 8858-(88/64),[2] "April 1, 1990" shall be replaced by "June 30, 1990."

Decision No. 9398-(90/50)
March 30, 1990

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

(a) Extension of Period and Access Limits for 1990

(a) 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 buffer stock financing facility of the Fund, and confirming that the policy on enlarged access will be reviewed in the light of the outcome of the Ninth General Review of Quotas, decides that:

1. In paragraph a. of Decision No. 7599-(84/3),[3] as amended, "1989" shall be replaced by "June 1990."

2. (a) In the third sentence of paragraph a. of Decision No. 7600-(84/3),[4] as amended, "1986, 1987, 1988, and 1989" shall be replaced by "1986, 1987, 1988, 1989, and the first six months of 1990."

(b) In paragraph b. of Decision No. 7600-(84/3),[4] as amended, "1989" shall be replaced by "June 1990."

3. The review of the policy on enlarged access and access limits thereunder in the light of the outcome of the Ninth General Review of Quotas shall be completed not later than June 30, 1990.

Decision No. 9326-(89/167)
December 20, 1989

(b) Further Extension of Period and Access Limits

(b) 1. The Fund has reviewed the decision on the policy on enlarged access and the limits on access to Fund resources under that policy, in accordance with Decisions No. 7599-(84/3),[3] as amended, No. 7600-(84/3),[4] as amended, and No. 9326-(89/167).[5]

2. In paragraph a. of Decision No. 7599-(84/3),[3] as amended, "the end of June 1990" shall be replaced by "the date on which the requirement for the effectiveness of increases in quotas under the Ninth General Review of Quotas specified by paragraph 3 of the proposed Resolution of the Board of Governors on the Ninth General Review of Quotas, attached to Decision No. 9436-(90/79),[6] adopted by the Executive Board on May 21, 1990, has been fulfilled," whereafter paragraph a. shall read as follows:

> a. The Fund may approve a stand-by or extended arrangement that provides for enlarged access under Decision No. 6783-(81/40)[7] on the policy on enlarged access until the date on which the requirement for the effectiveness of increases in quotas under the Ninth General Review of Quotas specified by paragraph 3 of the proposed Resolution of the Board of Governors on the Ninth General Review of Quotas, attached to Decision No. 9436-(90/79)[6] adopted by the Executive Board on May 21, 1990, has been fulfilled, provided that the Fund may extend this period.

3. In paragraph b. of Decision No. 7599-(84/3),[3] as amended, "not later than December 31, 1984" shall be replaced by "when it determines that the requirement referred to in paragraph a. of this Decision is about to be fulfilled, but in any event not later than December 31, 1991," whereafter paragraph b. shall read as follows:

> b. The Fund will review Decision No. 6783-(81/40)[7] when it determines that the requirement referred to in paragraph a. of this decision is about to be fulfilled, but in any event not later than December 31, 1991, and annually thereafter as long as the Decision remains in effect, in order to consider the future of the policy on enlarged access in light of all relevant factors, including the magnitude of members' payments problems and developments in the Fund's liquidity.

4. In paragraph (a) of Decision No. 7600-(84/3),[4] as amended, "and the first six months of 1990" shall be replaced by "and the period until the date on which the requirement for the effectiveness of increases in quotas under the Ninth General Review of Quotas specified by paragraph 3 of the proposed Resolution of the Board of Governors on the Ninth General Review of Quotas, attached to Decision No. 9436-(90/79)[6] adopted by the Executive Board on May 21, 1990, has been fulfilled."

5. In paragraph (b) of Decision No. 7600-(84/3),[4] as amended, "before the end of June 1990" shall be replaced by "at the time of each review of the Decision on the policy on Enlarged Access pursuant to Decision No. 7599-(84/3),[3] as amended."

Decision No. 9476-(90/101)
June 25, 1990

C. Conditionality—Review

1. Pursuant to Decision No. 8583-(87/72),[8] adopted May 8, 1987, the Fund has reviewed the experience with recent programs supported by stand-by and extended arrangements, and decides that the guidelines on conditionality will remain in force in the present circumstances.

2. In view of the comprehensive reconsideration of the extended Fund facility undertaken in 1988, the Fund decides to postpone the review of the provisions of the extended Fund facility envisaged in Section 2 of Decision No. 8583-(87/72).[8]

3. The Fund will again review the experience relating to programs supported by stand-by and extended arrangements at an appropriate time pursuant to paragraph 12 of the guidelines on conditionality. At that time, the Fund will also review the provisions of the extended Fund facility.

Decision No. 9189-(89/77)
June 19, 1989

[1] See *Selected Decisions,* Fourteenth Issue, page 16.
[2] Ibid., page 18.
[3] Ibid., page 78.
[4] Ibid., pages 78–79.
[5] See Item (a), above.
[6] See Item (c), below.
[7] See *Selected Decisions,* Fourteenth Issue, pages 74–77.
[8] Ibid., pages 65–66.

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D. Compensatory and Contingency Financing Facility—Amendment

(a) The Fund decides that in paragraphs 28, 41, and 47 of Decision No. 8955-(88/126),[9] as amended, "December 1, 1989" shall be replaced by "January 15, 1990."

Decision No. 9293-(89/149)
November 16, 1989

(b) The Fund decides that in paragraphs 28, 41, and 47 of Decision No. 8955-(88/126),[9] as amended, "January 15, 1990" shall be replaced by "March 31, 1990."

Decision No. 9345-(90/5)
January 12, 1990

(c) The Fund decides that in paragraphs 28, 41, and 47 of Decision No. 8955-(88/126),[9] as amended, "March 31, 1990" shall be replaced by "June 30, 1990."

Decision No. 9391-(90/43)
March 22, 1990

(d) The Fund decides that in paragraphs 28, 41, and 47 of Decision No. 8955-(88/126),[9] as amended, "June 30, 1990" shall be replaced by "July 31, 1990."

Decision No. 9479-(90/102)
June 25, 1990

E. Special Charges on Overdue Financial Obligations to the Fund—Reviews

(a) The Fund has reviewed Decision No. 8165-(85/189) G/TR,[10] adopted December 30, 1985, as amended.

Decision No. 9215-(89/94) G/TR
July 19, 1989

(b) The Fund has reviewed Decision No. 8165-(85/189) G/TR,[10] adopted December 30, 1985, as amended.

Decision No. 9458-(90/89) G/TR
June 8, 1990

F. Use of the Fund's Resources—Early Repurchase Expectations

In the context of the guidelines on the role of the Fund in the debt strategy, the Fund adopts the following decision on expectations of early repurchase by members with respect to purchases of additional resources for interest support under stand-by or extended arrangements, and purchases of amounts set aside under such arrangements to support operations involving debt reduction:

[9] Ibid., pages 112–30.
[10] Ibid., pages 179–81

(a) Failure to Use Resources for Specified Purposes

1. Whenever the Fund approves a member's request for (i) purchases of amounts set aside to support operations involving debt reduction under a stand-by or extended arrangement, or (ii) additional resources for interest support under a stand-by or extended arrangement, pursuant to the Fund's guidelines on the role of the Fund in the debt strategy, the Fund shall specify in the decision approving the request the purposes for which, and the period of time within which, such set-aside amounts or additional resources can be used.

2. If the member, having purchased such set-aside amounts or additional resources, has not used them by the end of the specified period of time for the specified purposes, the Managing Director shall, after consultation with the member, promptly report the matter to the Executive Board. In this report, the Managing Director shall recommend that the Executive Board decide that the member is expected to make an early repurchase of the set-aside amounts of additional resources that were not used for the specified purposes, or shall recommend such other action as may be appropriate.

3. The Fund may decide that the member shall be expected to repurchase the set-aside amounts or additional resources that were not used for the specified purposes within 30 days of the decision or within such longer period as the Executive Board may specify.

(b) Subsequent Derailment of Program

4. (a) If the program of a member that has previously made accelerated purchases of amounts set aside to support operations involving debt reduction under a standy-by or extended arrangement is off track on the date a purchase becomes available under the phasing provision in the arrangement, and is not back on track within 90 days after that date, the Managing Director shall report the matter to the Executive Board promptly after the expiration of the 90-day period.

(b) For purposes of this decision, a member's program is off track if the member is unable to make a purchase under the arrangement because of (i) the nonobservance of a performance criterion, the noncompletion of a review or the failure to meet any other condition under the arrangement, or (ii) the cancellation of the arrangement by the member before the purchase; the program is back on track if the member is again able to make purchases under the arrangement.

(c) Subparagraph (a) shall not apply if, on the date the purchase becomes available, all set-aside amounts that were purchased by the member by virtue of the acceleration would already have become available to the member under the phasing provision in the stand-by or extended arrangement in the absence of the acceleration.

5. In the report submitted under paragraph 4 above, the Managing Director shall recommend such action as may be appropriate, including the possibility of an expectation of early repurchase of the accelerated set-aside amounts.

6. (a) In the event that the Executive Board, taking into account the member's economic and financial position, decides that the member shall be expected to repurchase accelerated set-aside amounts, the member would be expected to make the repurchase, to the extent that such amounts would not yet have become available to the member under the phasing provision in the stand-by or extended arrangement in the absence of acceleration, within a period specified by the Executive Board, provided that such period would not be less than 30 days. The Executive Board shall give

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special consideration to those cases where the program has gone off track because of circumstances beyond the control of the member.

(b) A member shall not be expected to repurchase pursuant to subparagraph (a) above if its program is back on track within the period specified in that subparagraph, or if the Executive Board determines that the member has already begun to implement measures designed to bring the program back on track.

(c) If the Fund finds that the program is back on track after the repurchase has been made under this paragraph, the amount of the stand-by or extended arrangement shall be increased by an amount equivalent to the repurchase, subject to such phasing as shall be specified.

(c) General Provisions

7. The Fund shall not approve, and the Managing Director shall not recommend for approval, a request for the use of the general resources of the Fund by a member that is failing to meet a repurchase expectation pursuant to paragraph 3 or 6 above.

8. (a) Provision shall be made in stand-by and extended arrangements for the suspension of further purchases under the arrangement whenever a member fails to meet a repurchase expectation pursuant to paragraph 3 or 6 above.

(b) Paragraph 5 of the standard form of the stand-by arrangement in Attachment A to Decision No. 6838-(81/70),[11] adopted April 29, 1981, as amended, shall be modified as follows:

> (Member) will not make purchases under this stand-by arrangement during any period of the arrangement in which (member) has an overdue financial obligation to the Fund or is failing to meet a repurchase expectation pursuant to the Guidelines on Corrective Action in respect of a noncomplying purchase or pursuant to Decision No. --.

(c) Paragraph 5 of the standard form of the extended arrangement in Attachment B to Decision No. 6838-(81/70)[11] adopted April 29, 1981, as amended, shall be modified as follows:

> (Member) will not make purchases under this extended arrangement during any period of the arrangement in which (member) has an overdue financial obligation to the Fund or is failing to meet a repurchase expectation pursuant to the Guidelines on Corrective Action in respect of a noncomplying purchase or pursuant to Decision No. --.

9. If a repurchase pursuant to the expectation under paragraph 3 or 6 above has not been effected within the specified period of time, the Managing Director shall submit promptly a report to the Executive Board accompanied with a proposal on how to deal with this matter.

10. Nothing in this decision shall be deemed to limit the power of the Fund to take any other action that may be taken pursuant to the Fund's Articles.

Decision No. 9331-(89/167)
December 19, 1989

G. Fund's Income Position

(a) Burden Sharing—Implementation in Financial Year 1991

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. The sharing shall be applied in a simultaneous and symmetrical fashion.

Section II. Determination of the Rate of Charge

1. The rate of charge for financial year 1991 referred to in Rule I-6(4)(a) shall be adjusted in accordance with the provisions of Section IV.

2. The rate of charge in force as of the end of financial year 1991, as adjusted under Section IV, shall continue to apply subsequently unless it is otherwise decided.

Section III. Amount for Special Contingent Account

An amount equivalent to 5 percent of the Fund's reserves at the beginning of the financial year shall be generated during financial year 1991, in accordance with the provisions of Section IV, and shall be placed to the Special Contingent Account.

Section IV. Implementation of Burden Sharing

1. During financial year 1991, 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 1991 to the Special Contingent Account in accordance with Section III, 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,[10] 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, 1990, as of August 1, 1990, as of November 1, 1990, and as of February 1, 1991:

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, 1990. If, after any adjustment under para-

[11] Ibid., pages 89–99.

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graph 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 by 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),[12] 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, 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.

(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),[13] adopted April 30, 1986, or any subsequent decision of the Fund.

(e) Subject to paragraph 4 of Decision No. 8780-(88/12),[12] 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. 9410-(90/62)
April 20, 1990

(b) Retroactive Reduction of the Rate of Charge for Financial Year 1990

An amount of SDR 30,493,488 shall be used to reduce retroactively for financial year 1990 the rate of charge referred to in Rule I-6(4), determined in accordance with the provisions of Decision No. 9186-(89/74),[14] adopted June 14, 1989.

Decision No. 9454-(90/89)
June 8, 1990

(c) Disposition of Net Income for Financial Year 1990

The Fund's net income for financial year 1990 of SDR 85,509,726 shall be placed to the Special Reserve.

Decision No. 9455-(90/89)
June 8, 1990

[12] Ibid., pages 191–92.
[13] Ibid., pages 181–82.
[14] See *Annual Report, 1989*, page 91.

(d) Net Income Target for Financial Year 1991

In accordance with Rule I–6(4)(a) the target amount of net income for financial year 1991 shall be 5 percent of the Fund's reserves at the beginning of the year.

Decision No. 9456-(90/89)
June 8, 1990

(e) Rate of Charge on the Use of Ordinary Resources in Financial Year 1991

1. During financial year 1991, and notwithstanding Rule I-6(4), the rate of charge referred to in Rule I-6(4) shall be a proportion of the SDR interest rate under Rule T-1.

2. Effective May 1, 1990, the proportion shall be 91.3 percent.

3. In accordance with Section IV, paragraph 3 of Decision No. 9410-(90/62),[15] adopted April 20, 1990, a midyear review of the Fund's income position shall be held shortly after October 31, 1990. At that time, the proportion of the SDR interest rate shall be reviewed on the basis of (i) the then prevailing SDR interest rate, and (ii) the revised estimated income and expense of the Fund during the year and the target amount of net income for the year. If after any adjustments under Section IV, paragraph 2 of Decision No. 9410-(90/62),[15] 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 by December 15 no agreement has been reached as a result of this consideration, the proportion of the SDR interest rate shall be increased as of November 1 to the level necessary to reach the target amount of net income for the year.

4. When estimating income, no deduction shall be made for projected deferred income.

5. The Executive Board shall be notified, shortly after the end of each quarter, of the average rate of charge for the quarter.

Decision No. 9457-(90/89)
June 8, 1990

(f) Implementation of Extended Burden Sharing and Modalities of the New Special Contingent Account (SCA-2)

1. Effective July 1, 1990, during the remainder of financial year 1991 and during subsequent financial years, adjustments to the rate of charge referred to in Rule I-6(4) and the rate of remuneration prescribed in Rule I-10 shall be made in accordance with this decision until the amount of SDR 1 billion has been generated. Amounts generated in accordance with this decision shall be placed to an additional Special Contingent Account ("Special Contingent Account 2").

2. 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 this paragraph. During financial year 1991, such adjustments shall be made after adjustments in accordance with Decision No. 9410-(90/

[15] See Item (a), above.

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62),[15] adopted April 20, 1990. In subsequent financial years, such adjustments shall be made, after any other adjustments, to the rate of charge referred to in Rule I-6(4), as in effect during that year, and to the rate of remuneration prescribed in Rule I-10.

(a) The rate of charge shall be increased by 0.35 percentage point and, subject to the limitation in (b), an amount equivalent to three times the proceeds of that adjustment during an adjustment period shall be generated through reduction in the rate of remuneration during the same period.

(b) 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 80 percent for an adjustment period.

(c) The adjustments under this paragraph shall be made as of May 1, as of August 1, as of November 1, and as of February 1 of each financial year:

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

(d) Whenever an adjustment in the rate of remuneration cannot be made to the full extent prescribed in (a) because of the limitation in (b), then the amount that could not be generated shall be added to the amounts to be generated by adjustments to the rate of remuneration under (a) in subsequent adjustment periods to the extent possible under the limitation in (b), until the amount of SDR 1 billion has been generated through adjustments to the rate of charge under (a) and the rate of remuneration under (a) and under this subparagraph.

3. (a) Distributions of the balances held in the Special Contingent Account 2 shall be made when all repurchases have been made with respect to purchases made for the financing of "rights," as defined in the Managing Director's summing up of the Executive Board's discussion, or at such earlier time as the Fund may decide.

(b) Distributions under (a) 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.

(c) If a member that is entitled to a payment under this paragraph has any overdue obligations 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),[13] adopted April 30, 1986, or any subsequent decision of the Fund.

(d) Any loss in relation to an undischarged repurchase obligation resulting from the financing of rights, as defined above, shall be charged, first, against the Special Contingent Account 2, and shall be recorded in accordance with the principles of proportionality set forth in (b) above, and any remaining balance shall be charged against the existing Special Contingent Account ("Special Contingent Account 1").

4. The operation of this decision, including the amounts of adjustments, shall be reviewed shortly before the end of each financial year as long as the mechanism continues in effect.

Decision No. 9471-(90/98)
June 20, 1990

H. Supplementary Financing Facility Subsidy Account—Subsidy Payments for July 1, 1988 Through June 30, 1989

1. In accordance with 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, 1988 through June 30, 1989, in the amount indicated to each of the eligible members as listed in Column 4 of the attachment [see page 98].

2. The subsidy payments shall be made to each eligible member on July 26, 1989, or as soon thereafter as the member has paid all overdue charges, if any, on balances eligible for the subsidy.

Decision No. 9222-(89/97) SBS
July 24, 1989

I. Increases in Quotas of Members—Ninth General Review

(a) Continuation Until March 31, 1990

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 of quotas ended on March 31, 1988. The Ninth Review was not completed by that date. In April 1988 the Board of Governors decided to continue its review and requested the Executive Board to report on this matter and submit appropriate proposals to the Board of Governors not later than April 30, 1989. In May 1989, the Board of Governors again decided to continue its review and requested the Executive Board to complete its work on the Ninth Review with a view to a decision by the Board of Governors on the completion of the Review before the end of this year. The Executive Board believes that further consideration is needed of the substantive issues relating to the Ninth Review before it will be in a position to make appropriate recommendations to the Board of Governors. The Executive Board is submitting this report, and the attached draft resolution, 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 and Resolution No. 44-1,[16] adopted May 30, 1989.

2. Since April 1989, the Executive Board has considered: (i) the role of the Fund in the early 1990s; (ii) the size of the overall increase in quotas; (iii) the issues bearing on the distribution of the overall increase, including the question of ad hoc increases in the context of the review, and an examination of the position of the developing countries in the Fund, in particular, those members with very small quotas; and (iv) the mode of payment for the increase in quotas. The Executive Board also considered the issues relating to the quota formulas used in making quota calculations for the Ninth Review. The Directors have concluded certain technical aspects of their work and have made considerable progress in their discussions relating to the role of the Fund, as well as on the size, distribution, and payment for the increased subscriptions. However, the Directors have concluded that further consideration of the main issues

[16] See *Annual Report, 1989*, page 94.

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Attachment

SFF Subsidy Account:
Past Disbursements and Proposed Disbursements
for July 1988–June 1989

(In SDRs)

	Cumulative Approved Subsidies for Period 1981–June 1988[2] (1)	Proposed Amount of Disbursement[1] July–December 1988 (2)	January–June 1989 (3)	Total July 1988–June 1989[3] (4)
(a) Members eligible to receive subsidy at the full rate				
Bangladesh[4]	16,347,415	—	—	—
Bolivia[4]	3,892,179	—	—	—
Dominica	584,275	17,547	8,301	25,848
Gambia, The	611,963	22,571	10,537	33,108
Guyana	4,661,887	1,072	—	1,072
India	146,363,549	6,762,094	3,433,704	10,195,798
Kenya	13,715,974	101,697	20,245	121,942
Liberia	6,200,169	46,226	9,162	55,388
Madagascar[4]	3,297,841	—	—	—
Malawi	4,182,420	1,793	—	1,793
Mauritania	2,302,402	19,231	3,656	22,887
Pakistan	74,028,729	1,285,569	502,429	1,787,998
Philippines	49,138,666	120,669	—	120,669
Senegal	7,650,495	100,208	34,123	134,331
Sierra Leone[4]	2,539,567	—	—	—
Sri Lanka[4]	591,705	—	—	—
Sudan	25,250,933	95,578	16,686	112,264
Tanzania[4]	2,447,084	—	—	—
Togo[4]	1,074,507	—	—	—
Zambia[4]	3,520,127	—	—	—
Subtotal	368,401,887	8,574,255	4,038,843	12,613,098
(b) Members eligible to receive subsidy at half the full rate				
Côte d'Ivoire	18,421,337	599,980	293,438	893,418
Jamaica	16,653,898	117,052	28,883	145,935
Mauritius	5,062,372	4,688	—	4,688
Morocco[4]	10,226,265	—	—	—
Peru[4]	15,061,171	—	—	—
Subtotal	65,425,043	721,720	322,321	1,044,041
Total	433,826,930	9,295,975	4,361,164	13,657,139

[1] Subject to full payment by members of the relevant charges.
[2] These amounts include SDR 4,522,645 withheld by the Fund pending payment by members of their overdue SFF charges.
[3] This is the sum of Columns 2 and 3.
[4] These members have no outstanding holdings eligible for subsidy for the period July 1988–June 1989.

relating to the increase in quotas is needed. Consequently, the Executive Board is not in a position to complete its work on the Ninth Review in time to enable the Board of Governors to complete the Ninth Review before the end of this year.

3. The Interim Committee considered the subject of the Ninth General Review during the thirty-first, thirty-second, and thirty-third meetings of the Committee in Berlin (West) on September 25–26, 1988 and, for the latter two meetings, in Washington, D.C., on April 3, 1989 and September 24–25, 1989, respectively. In connection with its latest meeting, the Executive Board submitted a report on the Ninth General Review which outlined the progress made in its work relating to the Ninth General Review and requested guidance from the Committee in particular on the size of an overall increase and on the principles that could be followed in distributing an enlargement of the Fund between members. Paragraph 4 of the communiqué issued at the conclusion of the meeting reads in part as follows:

> There was widespread support in the Committee on the need for a substantial increase in quotas under the Ninth General Review, although a few members believe that the Fund has adequate resources at the present time to fulfill its responsibilities. The Committee underscored the central role of the Fund in fostering a stable international monetary system and in

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promoting a strong and sound global economy. It agreed that it is of fundamental importance further to reinforce the role of the Fund as the central monetary institution and that it must be adequately endowed to fulfill its systemic responsibilities in the first half of the 1990s, while reducing reliance on borrowing. It also agreed that the Fund must be able to respond in an effective manner to the balance of payments needs of individual members that implement strong programs of growth-oriented adjustment—and to assist them in mobilizing support from other sources—while maintaining a strong liquidity position and the revolving character of its resources. In this context, the Committee noted that prolonged use of Fund resources by some countries could impair the revolving character of the Fund and asked the Executive Board to examine actions that could be taken to address these problems.

The Committee reiterated that the size and distribution of any quota increase should take into account changes in the world economy since the last review of quotas as well as members' relative positions in the world economy and the need to maintain a balance between different groups of countries, and the Fund's effectiveness in fulfilling its systemic responsibilities, including its role in the strengthened debt strategy. The main principles that could guide the distribution of the enlargement of the Fund among members are: (i) all members should receive a meaningful increase in quotas and (ii) the distribution should be based on uniform methods. The Committee agreed that, in the case of a general quota increase, an ad hoc increase in quotas should be considered where appropriate.

4. In light of the above, and taking into account the conclusion of the Interim Committee as expressed in its latest communiqué, the Executive Board proposes that the Board of Governors continue its review and that the Executive Board 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 for increases in subscriptions, with a view to enable the Board of Governors to complete the Ninth Review not later than March 31, 1990.

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 of quotas under Article III, Section 2(*a*), and requests the Executive Board to complete its work on the Ninth General Review of Quotas with a view to a decision by the Board of Governors on the completion of the Ninth Review not later than March 31, 1990.

Board of Governors Resolution No. 44-5
December 28, 1989

(b) Continuation Until June 30, 1990

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 of quotas ended on March 31, 1988. The Ninth Review was not completed by that date. In April 1988, May 1989, and December 1989 the Board of Governors decided to continue its review under Article III, Section 2(*a*). In December 1989, the Board of Governors requested the Executive Board to complete its work on the Ninth General Review with a view to a decision by the Board of Governors on the completion of the Review not later than March 31, 1990. The Executive Board believes that further consideration is needed of some of the substantive issues relating to the Ninth Review before it will be in a position to make appropriate recommendations to the Board of Governors. The Executive Board is submitting this report, and the attached draft resolution, 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 and Resolution No. 44-5,[17] adopted December 28, 1989.

2. The Executive Directors have concluded certain technical aspects of their work. They have also considered further the issues relating to an increase in quotas under the Ninth General Review in the light of the guidance received from the Interim Committee as expressed in the communiqués issued at the conclusion of the Meetings of the Committee in April and September 1989. The Executive Directors have made substantial progress in their discussions on the Ninth General Review of Quotas as well as all related issues including the strengthening of the Fund's intensified cooperative approach in dealing with the problem of overdue financial obligations to the Fund.

3. The Executive Directors have concluded that further consideration of the issues relating to the increase in quotas is needed. Consequently, the Executive Board is not in a position to complete its work on the Ninth Review in time to enable the Board of Governors to complete the Review before March 31, 1990 as called for in Resolution No. 44-5.[17]

The Executive Board therefore proposes that the Board of Governors continue its review and that the Executive Board submit a report to the Board of Governors, together with appropriate recommendations, with a view to enable the Board of Governors to complete the Ninth Review not later than June 30, 1990.

4. 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 of quotas under Article III, Section 2(*a*), and requests the Executive Board to complete its work on the Ninth General Review of Quotas with a view to a decision by the Board of Governors on the completion of the Ninth Review not later than June 30, 1990.

Board of Governors Resolution No. 45-1
March 29, 1990

[17] See Item (a), above.

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(c) Completion and Proposed Quotas

Report of the Executive Board to the Board of Governors

1. Article III, Section 2(*a*) of the Articles of Agreement provides that "The Board of Governors shall at intervals of not more than five years conduct a general review, and if it deems it appropriate propose an adjustment, of the quotas of the members. It may also, if it thinks fit, consider at any other time the adjustment of any particular quota at the request of the member concerned." This Report and the attached Resolution on increases in quotas under the Ninth General Review are submitted to the Board of Governors in accordance with Article III, Section 2. The views expressed by the Interim Committee in the communiqués issued by the Committee at the conclusion of its thirtieth, thirty-first, thirty-second, thirty-third, and thirty-fourth meetings are set out in the Appendix to this Report.

2. The Eighth General Review of Quotas was completed by Board of Governors' Resolution No. 38-1,[18] adopted March 31, 1983. The five-year period prescribed by Article III, Section 2(*a*) since the completion of the Eighth General Review ended on March 31, 1988. On March 27, 1987, the Ninth General Review commenced with the formation of a Committee of the Whole of the Executive Board. As the Ninth Review was not completed by March 31, 1988, the Board of Governors adopted a number of Resolutions which continued its review of quotas under the Ninth General Review. The last Resolution, adopted on March 29, 1990, was as follows:

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 of quotas under Article III, Section 2(*a*), and requests the Executive Board to complete its work on the Ninth General Review of Quotas with a view to a decision by the Board of Governors on the completion of the Ninth Review not later than June 30, 1990.

3. The Executive Board has considered: (i) the role of the Fund in the early 1990s; (ii) the size of the overall increase in quotas; (iii) the issues bearing on the distribution of the overall increase, including the question of ad hoc increases in the context of the review, and an examination of the position of the developing countries in the Fund, in particular, those members with very small quotas; (iv) the mode of payment for the increase in quotas; and (v) the timing of the next review of quotas. The Executive Board also considered the issues relating to the quota formulas used in making quota calculations for the Ninth Review.

4. The Executive Board has considered the need for an increase in the Fund's resources to enable the Fund to promote more effectively its purposes, as set out in its Articles of Agreement, namely: to promote stability and growth in the world economy; to contribute to the maintenance of an open system of trade and payments and to encourage further liberalization of trade; and to make its resources temporarily available to its members on appropriate terms and conditions in support of their programs of growth-oriented balance of payments adjustment.

In assessing the Fund's need for resources over the medium term in order to carry out its purposes, the Executive Board has stressed that (i) the Fund is the central institution in the international monetary system and it must be adequately endowed so as to maintain an effective presence at the center of the system and (ii) the Fund is a monetary institution and must preserve its monetary character by providing balance of payments assistance on a temporary basis, ensuring that its resources revolve, and holding a level of usable assets sufficient to protect the liquidity and immediate usability of members' claims on the Fund, and thereby maintaining members' confidence in and support of the institution.

As reflected in its report to the Interim Committee in September 1989, the Executive Board is agreed that the Fund must have adequate resources to meet the temporary balance of payments financing needs of all members on appropriate terms and conditions. The financing provided by the Fund should be such as to encourage members to take early measures of adjustment, including the liberalization of trade and capital flows and to pursue appropriate exchange rate policies, which would help avoid the emergence of crisis situations that may cause strains that could impair the working of the international monetary system.

The Fund's role in the financing of members' payments deficits is now essentially catalytic. This role is of enhanced significance in the strengthened international debt strategy, which needs to be considered in the context of the Fund's basic responsibility of providing general balance of payments financing in support of growth-oriented adjustment programs. The Fund's purpose is achieved primarily through promoting adjustment, thereby helping members to achieve sustainable external payments positions, renewed economic growth, and price stability, and to increase or restore members' creditworthiness with official and private creditors. Through an appropriate combination of adjustment and financing, it can, moreover, encourage increased flows, both official and private, which would provide the bulk of the external financing needs of members. The Executive Board is agreed that the Fund must not replace private market financing with its own resources.

5. In its consideration of the size of the increase in quotas, the Executive Board has taken into account a number of factors, as discussed by the Interim Committee, including changes in the world economy since the last review of quotas, the imbalance in international payments, the Fund's systemic responsibilities, and the support of members' growth-oriented adjustment programs, of which some may involve far-reaching economic reforms. The Executive Board has also taken into account the Fund's current and prospective liquidity position as well as the conclusion of the Interim Committee at its September 1988 meeting that the Fund should reduce its reliance on borrowing to exceptional circumstances.

6. In light of these considerations and the understandings reached during the course of the thirty-fourth meeting of the Interim Committee on May 7 and 8, 1990, the Executive Board now proposes to the Board of Governors that the present total of Fund quotas be increased by 50 percent, from approximately SDR 90.1 billion to approximately SDR 135.2 billion before applying the rounding procedures and adjustments for the very small quotas agreed by the Executive Board and described in paragraphs 9 and 10 below.

7. In accordance with Article III, Section 2(*a*), the Board of Governors must conduct the Tenth General Review of Quotas not later than March 31, 1993, that is, five years from the date on which the Ninth Review of Quotas should have been conducted. The Interim Committee at its meeting on May 7 and 8, 1990, noted that "the review could be conducted earlier if there is a clear need to do so."

[18] See *Selected Decisions*, Fourteenth Issue, pages 435–39.

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8. As regards the distribution of the overall increase in quotas, the Executive Board has been guided by the principles agreed by the Interim Committee as expressed in its communiqués of April and September 1989. In its communiqué of September 1989, "the Committee reiterated that the size and distribution of any quota increase should take into account changes in the world economy since the last review of quotas as well as members' relative positions in the world economy and the need to maintain a balance between different groups of countries, and the Fund's effectiveness in fulfilling its systemic responsibilities, including its role in the strengthened debt strategy. The main principles that could guide the distribution of the enlargement of the Fund among members are: (i) all members should receive a meaningful increase in quotas and (ii) the distribution should be based on uniform methods. The Committee agreed that, in the case of a general quota increase, an ad hoc increase in quotas should be considered where appropriate." The Executive Board has agreed that in order to provide all members with a meaningful increase in quotas and to help maintain a balance between different groups of countries, 60 percent of the overall increase in quotas should be distributed to all members in proportion to their present individual quotas; the remainder should be devoted to the objective of bringing members' quotas more in line with their relative economic positions and should be distributed in proportion to members' shares in the total of the calculated quotas.

9. The Executive Board has also considered a request for an ad hoc increase in the quotas of Japan, the Islamic Republic of Iran, and Korea and has also considered the possibility of a special adjustment of very small quotas, that is, those quotas that are currently less than SDR 10 million. The Executive Board proposes that the quota of Japan should, after being increased in accordance with paragraph 8 above, be further increased to that shown in the Annex. In making the further adjustment of the quota of Japan, the increases in quotas of Canada, France, the Federal Republic of Germany, Italy, the United Kingdom, and the United States have also been adjusted in a manner that would maintain unchanged the increases in quotas for all other members as determined under paragraph 8 above. The Executive Board notes the agreement reached between the United Kingdom and France on an equal distribution of quotas between themselves under the Ninth General Review and subsequent reviews of quotas. The quotas of Antigua and Barbuda, Bhutan, Maldives, and Seychelles shall be further increased by amounts that would increase their shares in the total of new quotas so that they correspond to their individual shares in the total of the calculated quotas before taking account of the rounding procedures described in paragraph 10 below.

10. The Executive Board proposes that the quotas determined in paragraphs 8 and 9 above be rounded to the next higher multiple of SDR 0.1 million, except that the quotas that are currently SDR 10 million or less should, after being increased in accordance with paragraphs 8 and 9 above, be rounded to the next higher multiple of SDR 0.5 million. The proposed quotas set out in the Annex to the proposed Resolution would raise Fund quotas from SDR 90,132.55 million to SDR 135,214.7 million.

11. The Executive Board reviewed the quota formulas used for calculating quotas in connection with the Ninth General Review. While accepting the quota calculations based on the present five quota formulas and on data ended 1985 as reasonable indicators, the Executive Board, as agreed in its Report to the Interim Committee in September 1989, would further examine the working of the quota formulas in the context of the preparatory work for the next general review of quotas, so as to ensure that they would take adequate account of all relevant developments bearing on members' quotas.

12. Article III, Section 3(*a*) provides that 25 percent of an increase in quota shall be paid in SDRs, but permits the Board of Governors to prescribe, inter alia, that this payment may be made on the same basis for all members, in whole or in part in the currencies of other members specified by the Fund, subject to their concurrence. Paragraph 7 of the Resolution provides that 25 percent of the increase in quotas proposed as a result of the current review should be paid in SDRs or in currencies of other members specified by the Fund, subject to their concurrence, or in any combination of SDRs and such currencies. The balance of the increase shall be paid in a member's own currency. A reserve asset payment will help strengthen the liquidity of the Fund and will not impose an undue burden on members because it will either enlarge or create a reserve tranche position of an equivalent amount. In addition, the Fund stands ready to assist members that do not hold sufficient reserves to make their reserve asset payments to the Fund to borrow SDRs from other members willing to cooperate; these loans would be made on the condition that such members would on the same day repay the loans from the SDR proceeds of drawings of reserve tranches which had been established by the payment of SDRs.

13. Under the proposed Resolution, a member that does not have overdue obligations with respect to repurchases, charges, or assessments to the General Resources Account will be able to consent to the amount proposed for it in the Annex to the proposed Resolution. The member will be able to consent at any time before 6:00 p.m., Washington time, December 31, 1991. In order to meet this deadline, the member will have to have completed before that date whatever action that may be necessary under its laws to enable it to give its consent. The Executive Board is authorized in paragraph 4 of the proposed Resolution to extend the period for consent.

14. The participation requirement in paragraph 3 of the proposed Resolution will be reached: (i) during the period ending December 30, 1991, when the Fund determines that members having not less than 85 percent of the total of quotas on May 30, 1990 have consented to increases in their respective quotas as set out in the Annex or (ii) thereafter on the date of the Fund's determination that members having not less than 70 percent of the total of quotas on May 30, 1990 have consented to increases in their respective quotas as set out in the Annex. Since a member with the specified overdue financial obligations to the General Resources Account may not consent to an increase in its quota, a communication of consent from such a member will not be taken into account in the determination.

15. The Executive Board has, in the context of the discussions on the Ninth Review of Quotas and the strengthened arrears strategy, also explored the issue of an amendment of the Articles of Agreement providing for suspension of voting and related rights of members that do not fulfill their obligations under the Articles. Such an amendment is being proposed to the Board of Governors in a draft resolution separate from the draft resolution on the quota increase.

The Executive Board, taking into account the recommendations of the Interim Committee, proposes that no increase in quota shall become effective before the effective date of the third amendment of the Articles.

The Interim Committee, at its meeting on May 7 and 8, 1990,

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stated that "every effort should be made by members to ensure that both the quota increase and the amendment shall be effective before end-1991. If it appeared that these resolutions might not be effective by this date, the Committee would consider what steps might need to be taken."

16. A member's quota cannot be increased until it has paid for the increase. The proposed Resolution provides that a member must pay the increase in its quota within 30 days after (a) the date on which the member notifies the Fund of its consent or (b) the date on which the requirement for the effectiveness of increases in quotas under paragraphs 14 and 15 has been met, whichever is the later. A member may not make such a payment unless it is current in its obligations with respect to repurchases, charges, and assessments to the General Resources Account. The Executive Board is authorized in paragraph 5 of the proposed Resolution to extend the period for payment.

17. The Executive Board has agreed that, when considering any extension of the period for consent or payment, it shall give particular consideration to the situation of members that may still wish to consent to or pay for the increase in quota, including those members with protracted arrears to the General Resources Account, consisting of overdue repurchases, charges, or assessments to the General Resources Account, that are judged to be cooperating with the Fund toward the settlement of these obligations.

18. The Executive Board recommends that the Board of Governors adopt the attached Resolution that covers all the matters on which the Governors are requested to act. The adoption of the Resolution by the Board of Governors requires an 85 percent majority of the total voting power.

Appendix

Ninth General Review of Quotas— Consideration by the Interim Committee

The Interim Committee considered the subject of the Ninth General Review on a number of occasions. It expressed views and reached understandings on a number of the main issues which helped guide the work of the Executive Board in coming to a conclusion of its work on the Ninth General Review. The views of the Committee, as set forth in the communiqués issued by the Committee at the conclusion of its thirtieth, thirty-first, thirty-second, thirty-third, and thirty-fourth meetings, are as follows:

Thirtieth Meeting, Washington, April 14–15, 1988

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.

Thirty-First Meeting, Berlin (West), September 25–26, 1988

7. In connection with the Ninth General Review of Quotas, which also would reduce the reliance of the Fund on borrowing, the Committee noted the progress made and urged the Executive Board to give high priority to its work on the Review and to report to the Committee before the Committee's next meeting so that appropriate proposals can be made to the Board of Governors not later than April 30, 1989, as agreed.

Thirty-Second Meeting, Washington, April 3–4, 1989

5. The Committee agreed that the size and distribution of any quota increase should take into account changes in the world economy since the last review of quotas as well as members' relative positions in the world economy and the need to maintain a balance between different groups of countries, the Fund's effectiveness in fulfilling its systemic responsibilities, including its role in the strengthened debt strategy, and reduce the Fund's reliance on borrowing. The Committee urged the Executive Board to complete its work on the Ninth Review with a view to a decision on this matter by the Board of Governors before the end of this year.

Thirty-Third Meeting, Washington, September 24–25, 1989

4. The Committee discussed issues relating to the Ninth General Review of Quotas and the role envisaged for the Fund in the 1990s. The Committee noted the progress toward an agreement on an increase in the size of the Fund that was reported by the Executive Board as well as on the principles that could be followed in distributing an enlargement of the Fund between members.

There was widespread support in the Committee on the need for a substantial increase in quotas under the Ninth General Review, although a few members believe that the Fund has adequate resources at the present time to fulfill its responsibilities. The Committee underscored the central role of the Fund in fostering a stable international monetary system and in promoting a strong and sound global economy. It agreed that it is of fundamental importance further to reinforce the role of the Fund as the central monetary institution and that it must be adequately endowed to fulfill its systemic responsibilities in the first half of the 1990s, while reducing reliance on borrowing. It also agreed that the Fund must be able to respond in an effective manner to the balance of payments needs of individual members that implement strong programs of growth-oriented adjustment—and to assist them in mobilizing support from other sources—while maintaining a strong liquidity position and the revolving character of its resources. In this context, the Committee noted that prolonged use of Fund resources by some countries could impair the revolving character of the Fund and asked the Executive Board to examine actions that could be taken to address these problems.

The Committee reiterated that the size and distribution of any quota increase should take into account changes in the world economy since the last review of quotas as well as members' relative

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positions in the world economy and the need to maintain a balance between different groups of countries, and the Fund's effectiveness in fulfilling its systemic responsibilities, including its role in the strengthened debt strategy. The main principles that could guide the distribution of the enlargement of the Fund among members are: (i) all members should receive a meaningful increase in quotas and (ii) the distribution should be based on uniform methods. The Committee agreed that, in the case of a general quota increase, an ad hoc increase in quotas should be considered where appropriate.

The Fund has not yet concluded its consideration of the issues regarding the appropriate size of the Fund in the 1990s. The Committee requested the Executive Board to pursue its work on the outstanding issues relating to the Ninth Review as a matter of highest priority, with a view to a decision by the Board of Governors on the completion of the Ninth Review before the end of this year.

Thirty-Fourth Meeting, Washington, May 7–8, 1990

7. The Committee commended the Executive Board for its work on the Ninth General Review of Quotas and on the arrears strategy. It expressed satisfaction that the Executive Board had agreed on an interrelated set of measures to increase quotas and strengthen the cooperative strategy on arrears.

On quotas, it welcomed the agreement reached by the Board on the method to be used to distribute the overall increase in quotas, including a special increase in the quota of Japan, as well as on the modalities of the size of the participation requirement and the period of consent to and payment for the increase in quotas. The Committee agreed that:

a. The present total of Fund quotas should be increased by 50 percent.

b. Another review of quotas should be conducted by March 31, 1993, though the review could be conducted earlier if there is a clear need to do so.

c. The Executive Board should be requested to prepare and complete, for final decision by the Board of Governors before June 30, 1990, a proposed resolution that would include all the necessary provisions to effect increases in the quotas of members in accordance with the agreement already reached by the Executive Board and with the understandings reached during the course of the Committee meeting.

d. The Committee agreed that the enlarged access policy and the present access limits should remain unchanged until the increase in quotas becomes effective.

Attachment

Proposed Resolution Submitted to the Board of Governors Increases in Quotas of Fund Members—Ninth General Review

WHEREAS, the Executive Board has submitted to the Board of Governors a report entitled "Increases in Quotas of Fund Members—Ninth General Review" containing recommendations on increases in the quotas of individual members of the Fund; and

WHEREAS, the Executive Board has recommended the adoption of the following Resolution of the Board of Governors, which Resolution proposes increases in the quotas of members of the Fund as a result of the Ninth General Review of Quotas and deals with certain related matters, by vote without meeting pursuant to Section 13 of the By-Laws of the Fund;

NOW, THEREFORE, the Board of Governors hereby RESOLVES that:

1. The International Monetary Fund proposes that, subject to the provisions of this Resolution, the quotas of members of the Fund shall be increased to the amounts shown against their names in the Annex to this Resolution.

2. A member's increase in quota as proposed by this Resolution shall not become effective unless the member has notified the Fund of its consent to the increase not later than the date prescribed by or under paragraph 4 below and has paid the increase in quota in full within the period prescribed by or under paragraph 5 below, provided that no member with overdue repurchases, charges, or assessments to the General Resources Account may consent to or pay for the increase in its quota until it becomes current in respect of these obligations.

3. No increase in quota shall become effective before the later of:

(i) during the period ending December 30, 1991, the date of the Fund's determination that members having not less than eighty-five (85) percent of the total of quotas on May 30, 1990 have consented to the increases in their quotas, or, after December 30, 1991, the date of the Fund's determination that members having not less than seventy (70) percent of the total of quotas on May 30, 1990 have consented to the increases in their quotas; or

(ii) the effective date of the third amendment of the Articles.

4. Notices in accordance with paragraph 2 above shall be executed by a duly authorized official of the member and must be received in the Fund before 6:00 p.m., Washington time, on December 31, 1991, provided that the Executive Board may extend this period as it may determine.

5. Each member shall pay to the Fund the increase in its quota within 30 days after the later of (a) the date on which it notifies the Fund of its consent or (b) the date on which the requirement for the effectiveness of the increase in quota under paragraph 3 above has been met, provided that the Executive Board may extend the payment period as it may determine.

6. When deciding on an extension of the period for consent to or payment for the increase in quotas, the Executive Board shall give particular consideration to the situation of members that may still wish to consent to or pay for the increase in quota, including members with protracted arrears to the General Resources Account, consisting of overdue repurchases, charges, or assessments to the General Resources Account, that, in its judgment, are cooperating with the Fund toward the settlement of these obligations.

7. Each member shall pay 25 percent of its increase either in special drawing rights or in the currencies of other members specified, with their concurrence, by the Fund, or in any combination of special drawing rights and such currencies. The balance of the increase shall be paid by the member in its own currency.

Board of Governors Resolution No. 45-2
June 28, 1990

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Annex

	Proposed Quota *(In millions of SDRs)*
1. Afghanistan	120.4
2. Algeria	914.4
3. Angola	207.3
4. Antigua and Barbuda	8.5
5. Argentina	1,537.1
6. Australia	2,333.2
7. Austria	1,188.3
8. Bahamas, The	94.9
9. Bahrain	82.8
10. Bangladesh	392.5
11. Barbados	48.9
12. Belgium	3,102.3
13. Belize	13.5
14. Benin	45.3
15. Bhutan	4.5
16. Bolivia	126.2
17. Botswana	36.6
18. Brazil	2,170.8
19. Burkina Faso	44.2
20. Burundi	57.2
21. Cameroon	135.1
22. Canada	4,320.3
23. Cape Verde	7.0
24. Central African Republic	41.2
25. Chad	41.3
26. Chile	621.7
27. China	3,385.2
28. Colombia	561.3
29. Comoros	6.5
30. Congo	57.9
31. Costa Rica	119.0
32. Côte d'Ivoire	238.2
33. Cyprus	100.0
34. Denmark	1,069.9
35. Djibouti	11.5
36. Dominica	6.0
37. Dominican Republic	158.8
38. Ecuador	219.2
39. Egypt	678.4
40. El Salvador	125.6
41. Equatorial Guinea	24.3
42. Ethiopia	98.3
43. Fiji	51.1
44. Finland	861.8
45. France	7,414.6
46. Gabon	110.3
47. Gambia, The	22.9
48. Germany, Federal Republic of	8,241.5
49. Ghana	274.0
50. Greece	587.6
51. Grenada	8.5
52. Guatemala	153.8
53. Guinea	78.7
54. Guinea-Bissau	10.5
55. Guyana	67.2
56. Haiti	60.7
57. Honduras	95.0
58. Hungary	754.8
59. Iceland	85.3
60. India	3,055.5
61. Indonesia	1,497.6
62. Iran, Islamic Republic of	1,078.5
63. Iraq	864.8
64. Ireland	525.0
65. Israel	666.2
66. Italy	4,590.7
67. Jamaica	200.9
68. Japan	8,241.5
69. Jordan	121.7
70. Kampuchea, Democratic	25.0
71. Kenya	199.4
72. Kiribati	4.0
73. Korea	799.6
74. Kuwait	995.2
75. Lao People's Democratic Republic	39.1
76. Lebanon	146.0
77. Lesotho	23.9
78. Liberia	96.2
79. Libyan Arab Jamahiriya	817.6
80. Luxembourg	135.5
81. Madagascar	90.4
82. Malawi	50.9
83. Malaysia	832.7
84. Maldives	5.5
85. Mali	68.9
86. Malta	67.5
87. Mauritania	47.5
88. Mauritius	73.3
89. Mexico	1,753.3
90. Morocco	427.7
91. Mozambique	84.0
92. Myanmar	184.9
93. Nepal	52.0
94. Netherlands	3,444.2
95. New Zealand	650.1
96. Nicaragua	96.1
97. Niger	48.3
98. Nigeria	1,281.6
99. Norway	1,104.6
100. Oman	119.4
101. Pakistan	758.2
102. Panama	149.6
103. Papua New Guinea	95.3
104. Paraguay	72.1
105. Peru	466.1
106. Philippines	633.4
107. Poland	988.5
108. Portugal	557.6
109. Qatar	190.5
110. Romania	754.1
111. Rwanda	59.5
112. Sao Tome and Principe	5.5
113. Saudi Arabia	5,130.6
114. Senegal	118.9
115. Seychelles	6.0
116. Sierra Leone	77.2
117. Singapore	357.6
118. Solomon Islands	7.5
119. Somalia	60.9
120. South Africa	1,365.4
121. Spain	1,935.4
122. Sri Lanka	303.6
123. St. Kitts and Nevis	6.5
124. St. Lucia	11.0
125. St. Vincent	6.0
126. Sudan	233.1
127. Suriname	67.6
128. Swaziland	36.5
129. Sweden	1,614.0
130. Syrian Arab Republic	209.9
131. Tanzania	146.9
132. Thailand	573.9
133. Togo	54.3
134. Tonga	5.0
135. Trinidad and Tobago	246.8
136. Tunisia	206.0
137. Turkey	642.0
138. Uganda	133.9
139. United Arab Emirates	392.1
140. United Kingdom	7,414.6
141. United States	26,526.8
142. Uruguay	225.3
143. Vanuatu	12.5
144. Venezuela	1,951.3
145. Viet Nam	241.6
146. Western Samoa	8.5
147. Yemen Arab Republic	70.8
148. Yemen, People's Democratic Republic of	105.7
149. Yugoslavia	918.3
150. Zaïre	394.8
151. Zambia	363.5
152. Zimbabwe	261.3

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J. Proposed Third Amendment of the Articles of Agreement

Report of the Executive Board to the Board of Governors on the Proposed Third Amendment of the Articles of Agreement of the International Monetary Fund

Part I. Introduction

1. Article XXVI, Section 2(*a*) of the Fund's Articles of Agreement empowers the Fund to declare a member ineligible to use the general resources of the Fund if the member fails to fulfill any of its obligations under the Articles. Such a declaration may be made by a decision of the Executive Board carried by a majority of the votes cast. Article XXVI, Section 2(*b*) provides that if the member persists in its failure to fulfill any of its obligations under the Articles, it may be required to withdraw from membership by a decision of the Board of Governors carried by a majority of the Governors having 85 percent of the total voting power.

2. The Interim Committee of the Board of Governors included the following sentence in its communiqué of May 8, 1990:

> In order to deal with the rare cases where it is evident that a member with arrears to the Fund is persistently not cooperating with the Fund, the Committee invited the Executive Board to propose to the Board of Governors, by end May 1990, the text of an amendment of the Articles providing for suspension of voting and related rights of members that do not fulfill their obligations under the Articles.

3. The Executive Board is hereby proposing the text of such an amendment. The proposed amendment would add new provisions to the Articles, in Article XXVI, Section 2 and in a new Schedule L, under which a member's voting rights and certain related rights may be suspended by the Fund if the member, having been declared ineligible to use the general resources of the Fund, persists in its failure to fulfill any of its obligations under the Articles. In addition, new provisions would be inserted in Article XII, Section 3(*i*) and Schedule D concerning the effects of a termination of suspension. The Commentary in Part II of this Report analyzes the proposed amendment and describes the main aspects of the new power that would be conferred upon the Fund. Part III describes the procedure for the adoption of the proposed amendment. Part IV proposes a Resolution for adoption by the Board of Governors. The text of the proposed amendment is attached to the proposed Resolution.

Part II. Commentary

This Commentary examines, first, the conditions for the imposition of suspension of voting and related rights of a member, then the consequences of suspension, and finally the conditions and effects of a termination of suspension.

A. Conditions of Suspension

1. The conditions applicable to a suspension of voting and related rights of a member are set out in a revised version of Article XXVI, Section 2. Suspension forms part of a required sequence: it can be imposed only after the expiration of a reasonable period of time following a declaration of ineligibility of the member to use the general resources of the Fund under Article XXVI, Section 2(*a*), and compulsory withdrawal of the member can be required by the Fund under Article XXVI, Section 2(*c*) only after the expiration of a further reasonable period of time following the decision of suspension of the voting rights of the member.

2. Under Article XXVI, Section 2(*d*), the member must be informed in reasonable time of the complaint against it, and must be given an adequate opportunity for stating its case, before the Fund can decide to suspend its voting rights. The provision means that the complaint preceding a decision of suspension is distinct from the complaints that must be made before the member is declared ineligible to use the general resources of the Fund and before the member is required to withdraw.

3. Suspension requires a decision of the Executive Board by a 70 percent majority of the total voting power. It can be imposed in case of breach of any obligation under the Articles, except, in accordance with Article XXIII, Section 2(*f*), for the breach of an obligation with respect to special drawing rights.

B. Consequences of Suspension

1. Article XXVI, Section 2(*b*) provides that "the Fund may. . .suspend the voting rights of the member" and that "[d]uring the period of the suspension, the provisions of Schedule L shall apply." Therefore, while the decision of the Fund is to suspend the voting rights of the member, the precise consequences of that decision are set out in Schedule L, and they include not only the suspension of voting rights of the member (paragraph 1 of Schedule L), but other consequences as well (paragraphs 2 to 4 of the same Schedule).

2. The consequences of suspension listed in Schedule L are automatic, temporary, indivisible, and exhaustive. They are automatic in the sense that they take effect without the need for any further action on the part of the Fund. They are temporary because their effects cease upon termination of the suspension (see Section C below). They are indivisible, since all the consequences set out in Schedule L apply as a unit; the Fund cannot decide that some of the consequences in the Schedule shall apply and some others shall not apply. Finally, they are exhaustive, because no consequences other than those listed in the Schedule can attach to the decision of suspension.

3. A decision to suspend the voting rights of a member results in the suspension of the right of the member to participate in the adoption of a proposed amendment of the Articles (paragraph 1(*a*) of Schedule L). Therefore, the member will not be asked whether it accepts a proposed amendment and will not be counted among the members that have accepted it, and the number of votes allotted to the member will not be included in the voting power of the members accepting the proposed amendment, for purposes of the last sentence of Article XXVIII(*a*). In addition, the member is excluded from the total number of members, and the number of votes allotted to the member are excluded from the total voting power, for purposes of the same sentence (paragraphs 1(*a*) and 2 of Schedule L, respectively). As a result of these provisions, the suspended member is to be disregarded for purposes of ascertaining whether a proposed amendment has been accepted by the required majorities. Such an amendment will nevertheless enter into effect for the suspended member, as for all other members, in accordance with Article XXVIII(*c*). The suspension of the voting rights of the member does not affect, however, the right of the member to participate in the adoption of, and otherwise be counted for purposes of, proposed amendments that require the acceptance of all members under Article XXVIII(*b*) or proposed amendments that pertain exclusively to the SDR Department. The member shall be treated like non-suspended members for the purposes of the adoption of such amendments, although, as a result of the suspension, pursuant to

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paragraph 3 of Schedule L, there will not be any Governor, Executive Director, or Councillor for the member to participate in the process of recommendation and approval of the amendment. The right to participate in the adoption of a proposed amendment must be distinguished from the right to propose an amendment; the suspension of the voting rights of the member does not preclude the member from proposing an amendment in accordance with the first sentence of Article XXVIII(*a*).

4. The other voting right of the member that is suspended (paragraph 1(*b*) of Schedule L) is the right to select or participate in the selection of officials of the Fund who are entitled to cast the number of votes allotted to members, namely, a Governor and an Alternate Governor, as well as an Executive Director (Councillors and Alternate Councillors are also named in case the Council is established). The suspension affects the right of the member to select such an official either on its own or with other members of a group, and either by way of appointment or by way of election. Alternates to Executive Directors are not included because they are appointed by the Executive Directors and not by the members (Article XII, Section 3(*e*)), and Associates in the Council are omitted because they are not entitled to cast votes (Schedule D, paragraph 1).

5. The first sentence of paragraph 2 of Schedule L provides that the number of votes allotted to a suspended member shall not be cast in any organ of the Fund (i.e., the Board of Governors, the Council if it is established, and the Executive Board). This provision complements the provisions of paragraph 3 of Schedule L, under which the Governor, the Alternate Governor, and the Executive Director (as well as the Councillor and the Alternate Councillor, if the Council is established) for the member cease to hold office, whereupon they are unable to cast the number of votes allotted to the suspended member. While paragraph 3 of Schedule L sets out the rule that these officials cease to hold office immediately upon effectiveness of the decision of suspension, it allows, in specified circumstances, an Executive Director (and a Councillor) to remain in office for a short period of time (see paragraph 7 below). Pursuant to paragraph 2 of Schedule L, the Executive Director (and the Councillor) for the suspended member shall not cast the number of votes allotted to the suspended member during that period of time.

6. The second sentence of paragraph 2 has the effect of excluding the number of votes allotted to the member from the calculation of the total voting power, not only for purposes of the acceptance of proposed amendments of the Articles (see paragraph 3 above), but also for purposes of the adoption of decisions by organs of the Fund. It is not necessary to exclude the Governor, Councillor, and Executive Director for the suspended member from the calculation of quorums under the Articles, since these officials cease to hold office, and therefore cease to be regarded as Governor, Councillor, and Executive Director for any purpose under the Articles, including the calculation of quorums, pursuant to paragraph 3 of Schedule L.

7. Under paragraph 3 of Schedule L, all the officials selected by the member who are entitled to cast the number of votes allotted to the member cease to hold office (the Alternate to the Executive Director for the member is not referred to in the provision, because he is not appointed by the member, but by the Executive Director who can replace him at any time). This means that these officials cease to be officials of the Fund for all purposes under the Articles.

(a) The principle is that these officials cease to hold office immediately upon effectiveness of the decision of suspension. This principle applies to the Governor and the Alternate Governor appointed by the member. It also applies to the Executive Director appointed by the member, if the member may appoint an Executive Director under Article XII, Section 3(*b*) or (*c*), except, as discussed below, in the case of an appointed Executive Director who is entitled to cast the number of votes allotted to members other than the member that appointed him, pursuant to an agreement under Article XII, Section 3(*i*)(ii). Finally, the principle that the official ceases to hold office immediately upon the effectiveness of the decision of suspension applies also to an Executive Director elected by one member that has later been suspended, or by several members, all of which have later been suspended (the principle also applies to a Councillor and Alternate Councillor in similar circumstances).

(b) The principle that the officials chosen by the member shall cease to hold office immediately receives an exception in the case of an Executive Director who is entitled to cast the number of votes allotted to other, non-suspended members, in order to allow the number of votes allotted to these members to continue to be cast (the same exception applies to a Councillor and an Alternate Councillor who were appointed by a group of members that includes non-suspended members). This may apply either when the Executive Director was elected by more than one member, or when the Executive Director was appointed by a member and it was agreed that this Executive Director would cast the number of votes allotted to other members in accordance with Article XII, Section 3(*i*)(ii). Then, the Executive Director in office when the decision of suspension became effective is entitled to remain in office for a short period, the length of which will depend on whether or not a regular election of Executive Directors under Article XII, Section 3(*d*) is about to take place. On the one hand, if a regular election is scheduled to be conducted within 90 days after the date of effectiveness of the decision of suspension, the Executive Director in office when the decision of suspension became effective will remain in office for the remainder of the term. If, on the other hand, a regular election is not scheduled to be conducted within 90 days, a special election will be conducted to replace the Executive Director in office, as in the case contemplated in Article XII, Section 3(*f*). This new Executive Director, who may be the same person, will be elected by the non-suspended members by a majority of the votes cast. Once elected, he will be entitled to cast the number of votes allotted to all such non-suspended members and will serve for the remainder of the term of the Executive Director who ceased to hold office as a result of the suspension. The Executive Director in office when the decision of suspension became effective shall cease to hold office not later than 30 days after the date of effectiveness of the decision of suspension, even if another Executive Director has not yet been elected by that time. In such case, the Alternate Executive Director would still, however, hold office until another Executive Director is so elected, or until the next regular election, whichever comes first. It is expected that a period of 30 days will provide sufficient time for the other members of the constituency to hold an election.

8. The amendment does not contemplate that, if a member having one of the five largest quotas were suspended, the member with the sixth largest quota would be called upon to appoint an Executive Director so as to maintain at five the minimum number of Executive Directors appointed on account of the size of quotas. Instead, the number of Executive Directors appointed by members would be reduced during the period of the suspension.

9. Paragraph 4 of Schedule L confers an entitlement on suspended members to send representatives to meetings of the Board of Governors and the Executive Board (and the Council if it is

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established) whenever these organs consider requests made by the member or matters that particularly affect the member. The provision does not create an entitlement for suspended members to send representatives to meetings of committees of these organs of the Fund when such matters are under consideration, because non-suspended members do not have such an entitlement under the Articles. In the cases where suspended members do not have an entitlement to send representatives to meetings of these organs or of their committees, the provision does not prohibit, however, such representatives from being invited to such meetings in accordance with the applicable rules of procedure.

C. Termination of Suspension

Conditions for Termination

1. The termination of suspension requires a decision of the Executive Board carried by the same majority required for the imposition of suspension, namely, 70 percent of the total voting power.
2. The amendment leaves it to the Fund to decide when to terminate suspension. In particular, the Fund is not compelled to terminate the suspension upon resumption by the suspended member of compliance with all of its obligations under the Articles, nor is it prohibited from terminating the suspension prior to the resumption by the member of compliance with all such obligations, if this were considered appropriate. The Fund has similar flexibility under the Articles with respect to termination of a member's ineligibility to use the general resources of the Fund.

Effects of Termination

3. Termination of suspension revives the voting and related rights of the member that had been suspended. Thus, the member may immediately participate in the adoption of a proposed amendment of the Articles. For instance, if a proposed amendment had been submitted to members for their acceptance under Article XXVIII(*a*), and the Fund had not yet certified to members that the required majorities had been obtained by the time the member's suspension was terminated, the member shall be asked whether it accepts the proposed amendment and both the member and the number of votes allotted to it shall be counted for purposes of calculating whether the majorities of three-fifths of the members and of 85 percent of the total voting power have been obtained.
4. Immediately upon termination of the suspension, the member is also able to appoint a Governor and an Alternate Governor, as well as a Councillor and an Executive Director if it is a member that appoints such officials, and the number of votes allotted to the member can again be cast in any organ of the Fund by such officials as soon as they are appointed by the member.
5. In the case of a member that may not appoint an Executive Director, different situations must be envisaged, depending on the timing of the termination:

(a) if no regular election of Executive Directors has been conducted under Article XII, Section 3(*d*) between the date of the suspension and the termination of the suspension, the member is automatically reintegrated in the constituency to which it belonged before the suspension (subject to paragraph (c) below). Accordingly, the number of votes allotted to the member will be cast by the Executive Director who has been elected under paragraph 3(*c*) of Schedule L as a result of the member's suspension (or by any successor of such an Executive Director, if in the meantime he has been replaced in accordance with Article XII, Section 3(*f*) or paragraph 3(*c*) of Schedule L);

(b) if a regular election of Executive Directors has taken place before termination of suspension, the possibility is offered instead to the member to join any constituency prior to the next regular election, provided that all the members of that constituency agree (a comparable provision appears in Article XII, Section 3(*i*)(ii)). In that case, the member becomes part of that constituency and is thereupon treated as if it had participated in the election of the Executive Director elected by the members of that constituency;

(c) if the member was the only member of the constituency, or if all the members of the constituency have been suspended, the member will also have to join a constituency by agreement, even if no regular election of Executive Directors has been conducted during the period of the suspension, because there is no Executive Director in office to whom the member could be automatically attached;

(d) if suspension is terminated before another Executive Director is elected in accordance with paragraph 3(*c*) of Schedule L, since the electoral process has already been initiated, the election required by Schedule L must take place notwithstanding the termination of the suspension and the member will participate in that election; in the meantime, in accordance with Article XII, Section 3(*i*)(v), the number of votes allotted to the member will again be cast by the same Executive Director who was casting this number of votes prior to the suspension.

6. When a member becomes part of a constituency in accordance with the procedure described in paragraph 5 above, it is deemed to be one of the members that participated in the election of the Executive Director elected by the members of that constituency. Accordingly, if the office of that Executive Director subsequently becomes vacant, the member will participate in the election of the successor of that Executive Director. Another effect is that the Executive Director is automatically entitled to vote and cast the number of votes allotted to the member, including for decisions under Article XXI(*a*)(ii) on matters that pertain exclusively to the SDR Department, even in the case where the member has joined the constituency by agreement with the other members. Also, as a result of becoming part of a constituency for the casting of votes in the Executive Board, the member automatically becomes part of the corresponding group of members for purposes of the Council (paragraph 5(*f*) of Schedule D); accordingly, the Councillor appointed by the group will cast the number of votes allotted to the member and the member will participate in the appointment of any successor Councillor with the other members of the group.

Part III. Procedure

1. The procedure for the adoption of modifications in the Articles of Agreement is set forth in Article XXVIII. Under those provisions, a proposed amendment is to be communicated to the Chairman of the Board of Governors for consideration by the Board of Governors. If the proposed amendment is approved by the Board of Governors, the Fund is to ask all members whether they accept it. When three-fifths of the members, having 85 percent of the total voting power, have accepted the proposed amendment, the Fund is to certify that fact by a formal communication to all members. Under Article XXVIII(*c*), an amendment enters into force for every member, whether or not it has accepted the amendment, three months after the date of that communication unless a shorter period

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is specified. In the case of the amendment now being proposed, the Executive Board recommends that it should enter into force on the date of the formal communication.

2. Part IV of this Report contains the text of a Resolution, to which is attached the text of the proposed amendment discussed above. The Chairman of the Board of Governors has requested that on his behalf the Secretary of the Fund bring the Resolution and proposed amendment before the Board of Governors for its approval. It is pursuant to this request that the Secretary is transmitting this Report to the Board of Governors.

3. In the judgment of the Executive Board, and particularly in view of the desirability of an early completion of the amendment process,[1] the action requested of the Board of Governors should not be postponed until the next regular meeting of the Board and does not warrant the calling of a special meeting of the Board. For this reason, the Executive Board, pursuant to Section 13 of the By-Laws, requests Governors to vote without meeting. To be valid, votes must be received at the seat of the Fund before 6:00 p.m., Washington time, on June 28, 1990. The Resolution will be adopted if replies are received from a majority of the Governors exercising two thirds of the total voting power and if a majority of the votes is cast in favor of the Resolution. The Resolution must be voted on as a whole.

Part IV. Resolution

WHEREAS the Interim Committee of the Board of Governors has invited the Executive Board to propose an amendment of the Articles of Agreement of the International Monetary Fund providing for suspension of voting and related rights of members that do not fulfill their obligations under the Articles; and

WHEREAS the Executive Board has proposed such an amendment and prepared a Report on the same; and

WHEREAS the Chairman of the Board of Governors has requested the Secretary of the Fund to bring the proposal of the Executive Board before the Board of Governors; and

WHEREAS the Report of the Executive Board setting forth its proposal has been submitted to the Board of Governors by the Secretary of the Fund; and

WHEREAS the Executive Board has requested the Board of Governors to vote on the following Resolution without meeting, pursuant to Section 13 of the By-Laws of the Fund;

NOW, THEREFORE, the Board of Governors, noting the said Report of the Executive Board, hereby RESOLVES that:

1. The proposals for modifications (Proposed Third Amendment) that are attached to this Resolution and are to be incorporated in the Articles of Agreement of the International Monetary Fund are approved.
2. The Secretary of the Fund is directed to ask, by circular letter, telegram, or other rapid means of communication, all members of the Fund whether they accept, in accordance with the provisions of Article XXVIII of the Articles, the Proposed Third Amendment.
3. The circular letter, telegram, or other communication to be sent to all members in accordance with 2 above shall specify that the Proposed Third Amendment shall enter into force for all members as of the date on which the Fund certifies, by formal communication addressed to all members, that three-fifths of the members, having 85 percent of the total voting power, have accepted the modifications.

Board of Governors Resolution No. 45-3
June 28, 1990

Attachment

Proposed Third Amendment of the Articles of Agreement of the International Monetary Fund

The Governments on whose behalf the present Agreement is signed agree as follows:

1. The text of Article XXVI, Section 2 shall be amended to read as follows:

(*a*) If a member fails to fulfill any of its obligations under this Agreement, the Fund may declare the member ineligible to use the general resources of the Fund. Nothing in this Section shall be deemed to limit the provisions of Article V, Section 5 or Article VI, Section 1.

(*b*) If, after the expiration of a reasonable period following a declaration of ineligibility under (*a*) above, the member persists in its failure to fulfill any of its obligations under this Agreement, the Fund may, by a 70 percent majority of the total voting power, suspend the voting rights of the member. During the period of the suspension, the provisions of Schedule L shall apply. The Fund may, by a 70 percent majority of the total voting power, terminate the suspension at any time.

(*c*) If, after the expiration of a reasonable period following a decision of suspension under (*b*) above, the member persists in its failure to fulfill any of its obligations under this Agreement, that member may be required to withdraw from membership in the Fund by a decision of the Board of Governors carried by a majority of the Governors having 85 percent of the total voting power.

(*d*) Regulations shall be adopted to ensure that before action is taken against any member under (*a*), (*b*), or (*c*) above, the member shall be informed in reasonable time of the complaint against it and given an adequate opportunity for stating its case, both orally and in writing.

2. A new Schedule L shall be added to the Articles, to read as follows:

Schedule L

Suspension of Voting Rights

In the case of a suspension of voting rights of a member under Article XXVI, Section 2(*b*), the following provisions shall apply:

1. The member shall not:
   (*a*) participate in the adoption of a proposed amendment of this Agreement, or be counted in the total number of members for that purpose, except in the case of an amendment requiring acceptance by all members under Article XXVIII(*b*) or pertaining exclusively to the Special Drawing Rights Department;
   (*b*) appoint a Governor or Alternate Governor, appoint or participate in the appointment of a Councillor or Alternate Councillor, or appoint, elect, or participate in the election of an Executive Director.
2. The number of votes allotted to the member shall not be cast in any organ of the Fund. They shall not be included in the calculation of the total voting power, except for purposes of the acceptance of a proposed amendment pertaining exclusively to the Special Drawing Rights Department.

[1] In its May 8 communiqué, the Interim Committee noted: "After having carefully listened to the comments of all members, and the reservations of some members, the Committee came to a consensus that, as part of the overall quota increase package, no increase in quota shall become effective before the effective date of such an amendment, and that every effort should be made by members to ensure that both the quota increase and the amendment shall be effective before end 1991."

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3. (*a*) The Governor and Alternate Governor appointed by the member shall cease to hold office.
   (*b*) The Councillor and Alternate Councillor appointed by the member, or in whose appointment the member has participated, shall cease to hold office, provided that, if such Councillor was entitled to cast the number of votes allotted to other members whose voting rights have not been suspended, another Councillor and Alternate Councillor shall be appointed by such other members under Schedule D, and, pending such appointment, the Councillor and Alternate Councillor shall continue to hold office, but for a maximum of 30 days from the date of the suspension.
   (*c*) The Executive Director appointed or elected by the member, or in whose election the member has participated, shall cease to hold office, unless such Executive Director was entitled to cast the number of votes allotted to other members whose voting rights have not been suspended. In the latter case:
   (i) if more than 90 days remain before the next regular election of Executive Directors, another Executive Director shall be elected for the remainder of the term by such other members by a majority of the votes cast; pending such election, the Executive Director shall continue to hold office, but for a maximum of 30 days from the date of suspension;
   (ii) if not more than 90 days remain before the next regular election of Executive Directors, the Executive Director shall continue to hold office for the remainder of the term.

4. The member shall be entitled to send a representative to attend any meeting of the Board of Governors, the Council, or the Executive Board, but not any meeting of their committees, when a request made by, or a matter particularly affecting, the member is under consideration.

3. The following shall be added to Article XII, Section 3(*i*):

(v) When the suspension of the voting rights of a member is terminated under Article XXVI, Section 2(*b*), and the member is not entitled to appoint an Executive Director, the member may agree with all the members that have elected an Executive Director that the number of votes allotted to that member shall be cast by such Executive Director, provided that, if no regular election of Executive Directors has been conducted during the period of the suspension, the Executive Director in whose election the member had participated prior to the suspension, or his successor elected in accordance with paragraph 3(*c*)(i) of Schedule L or with (*f*) above, shall be entitled to cast the number of votes allotted to the member. The member shall be deemed to have participated in the election of the Executive Director entitled to cast the number of votes allotted to the member.

4. The following shall be added to paragraph 5 of Schedule D:

(*f*) When an Executive Director is entitled to cast the number of votes allotted to a member pursuant to Article XII, Section 3(*i*)(v), the Councillor appointed by the group whose members elected such Executive Director shall be entitled to vote and cast the number of votes allotted to such member. The member shall be deemed to have participated in the appointment of the Councillor entitled to vote and cast the number of votes allotted to the member.

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Press Communiqués of the Interim Committee and the Development Committee

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

PRESS COMMUNIQUÉS

Thirty-Third Meeting, Washington, September 24–25, 1989

1. The Interim Committee of the Board of Governors of the International Monetary Fund held its thirty-third meeting in Washington, D.C. on September 24–25, 1989 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. The Committee noted that after two years of rapid expansion, the growth of economic activity in the industrial countries is moderating to a more sustainable pace. Inflation remains contained thanks to the implementation of appropriate policies. Policies will need to remain vigilant, particularly in those countries where inflationary pressures persist. Growth has also been strong in a number of developing countries, particularly among the exporters of manufactures, reflecting the continued buoyancy of world trade.

While prospects for sustained economic expansion among many countries continue to be favorable, a number of developments require close attention. Inflation remains high in some industrial countries; some further progress is being made in reducing external imbalances, although adjustment has slowed; several countries, particularly in Europe, continue to face high unemployment. Growth remains weak in most of the heavily indebted middle-income developing countries and in many of the low-income countries of Africa.

The Committee agreed that, where inflationary pressures persist, and given the present high level of capacity utilization, monetary policies should remain cautious; a premature easing could well result in an intensification of cost-price pressures and eventually lead to a renewed rise in interest rates. At the same time the slowing of the pace of adjustment and the prospect of sizable and persistent current account imbalances among the largest industrial countries remain a matter of close attention. To give renewed impetus to the process of external adjustment, deficit countries should strengthen saving through fiscal policy, where appropriate, and by removing impediments to private saving, while surplus countries should continue to sustain adequate expansion of domestic demand without endangering price stability. In order to enhance their efficiency and to integrate further developing countries into the world economy, all industrial countries, as well as the newly industrializing economies, should step up structural reforms, including opening up sectors shielded from market competition and removing subsidies, to support noninflationary growth, facilitate external adjustment, and help to reduce unemployment over time.

The need to restore satisfactory growth in the developing countries with debt-servicing difficulties is urgent. These countries should intensify efforts to raise national saving and investment, promote efficiency through structural reforms, curb inflationary pressures, encourage the return of flight capital, and promote foreign direct investment while giving due attention to shielding the poorest from the adverse transitory effects of economic reforms. These efforts require maintenance of a favorable international environment, as well as an adequate flow of financial resources. In this connection, the Fund continues to stand ready to provide its resources, including enhanced structural adjustment facility (ESAF) resources, in support of strong growth-oriented adjustment programs in low-income countries.

The Committee emphasized the importance of economic reforms in certain Eastern European member countries and expressed the hope that these would soon be integrated within strong and sustainable economic programs that could be supported by the Bretton Woods institutions.

To increase their own efficiency and strengthen the health of the world economy, all countries must act forcefully to counter protectionist pressures, reverse the trend toward managed trade, and reduce existing trade barriers. The Committee emphasized that the successful completion of the current round of multilateral trade negotiations by the end of 1990 is essential.

3. The Committee welcomed the establishment by the Executive Board of operational guidelines for Fund support for significant debt and debt service reduction where these are part of financing packages in support of strong growth-oriented adjustment programs. It noted the progress already made in several cases in implementing, in close collaboration with the World Bank, the strengthened debt strategy.

The approach adopted had allowed the development of financing packages reflecting the diversity of circumstances facing individual debtor countries. While recognizing that time is needed to negotiate complex and difficult arrangements involving both new money and debt and debt service reduction options, Committee members reiterated that commercial banks needed to move expeditiously in arranging financing packages in support of strong adjustment programs. Each financing package must be evaluated carefully by the Fund for its adequacy to the circumstances of the member, the efficiency of debt reduction, and in light of the need to safeguard the Fund resources that would be made available so as to preserve the financial integrity of the Fund. The Committee reaffirmed its view that official creditors should not substitute for private lenders.

The Committee stressed that implementation of officially supported debt and debt service reduction must not divert financial support from those countries that, notwithstanding heavy debt burdens, have been able to preserve access to international financial markets through sound economic policies.

The Committee welcomed the initiatives that have been taken by donors and creditors, both individually and through the Paris Club, to forgive or alleviate external obligations of the poorest low-income countries that rely mainly on official financing. It hoped that these initiatives could be pursued as appropriate on a flexible, case-by-case basis.

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The Committee also welcomed the review by creditor governments of tax, regulatory, and accounting practices to remove unnecessary constraints to debt and debt service reduction operations. It noted with satisfaction that concrete steps had already been taken in some countries and encouraged all other countries to do likewise.

4. The Committee discussed issues relating to the Ninth General Review of Quotas and the role envisaged for the Fund in the 1990s. The Committee noted the progress toward an agreement on an increase in the size of the Fund that was reported by the Executive Board as well as on the principles that could be followed in distributing an enlargement of the Fund between members.

There was widespread support in the Committee on the need for a substantial increase in quotas under the Ninth General Review, although a few members believe that the Fund has adequate resources at the present time to fulfill its responsibilities. The Committee underscored the central role of the Fund in fostering a stable international monetary system and in promoting a strong and sound global economy. It agreed that it is of fundamental importance further to reinforce the role of the Fund as the central monetary institution and that it must be adequately endowed to fulfill its systemic responsibilities in the first half of the 1990s, while reducing reliance on borrowing. It also agreed that the Fund must be able to respond in an effective manner to the balance of payments needs of individual members that implement strong programs of growth-oriented adjustment—and to assist them in mobilizing support from other sources—while maintaining a strong liquidity position and the revolving character of its resources. In this context, the Committee noted that prolonged use of Fund resources by some countries could impair the revolving character of the Fund and asked the Executive Board to examine actions that could be taken to address these problems.

The Committee reiterated that the size and distribution of any quota increase should take into account changes in the world economy since the last review of quotas as well as members' relative positions in the world economy and the need to maintain a balance between different groups of countries, and the Fund's effectiveness in fulfilling its systemic responsibilities, including its role in the strengthened debt strategy. The main principles that could guide the distribution of the enlargement of the Fund among members are (i) all members should receive a meaningful increase in quotas; and (ii) the distribution should be based on uniform methods. The Committee agreed that, in the case of a general quota increase, an ad hoc increase in quotas should be considered where appropriate.

The Fund has not yet concluded its consideration of the issues regarding the appropriate size of the Fund in the 1990s. The Committee requested the Executive Board to pursue its work on the outstanding issues relating to the Ninth Review as a matter of highest priority, with a view to a decision by the Board of Governors on the completion of the Ninth Review before the end of this year.

5. The Committee discussed the Fund's policy on enlarged access and, having taken note of the Fund's liquidity position, agreed that the enlarged access policy and the present access limits under it should be maintained for 1990 and reviewed in the light of the outcome of the Ninth General Review of Quotas.

6. The Committee reiterated its strong support for the three aspects—preventive, collaborative, and remedial—of the cooperative approach to reducing and eventually eliminating overdue financial obligations to the Fund that it had endorsed at its meeting in Berlin. It welcomed the strong and continued implementation by the Fund of the strategy and noted with satisfaction the significant reduction in the number of members in arrears, the establishment of a Support Group for two others, and progress by several members in embarking on significant policy reforms as a step toward clearing their arrears to the Fund and other international financial institutions and normalizing their financial relations with the international community.

The Committee was also encouraged by the resumption of payments by certain other countries that were cooperating with the Fund in the search for solutions to their outstanding arrears. It was concerned, however, that the overall amount of arrears had nonetheless continued to rise, owing to the failure of a few countries with protracted arrears to meet their financial obligations. It noted with regret that a few members were still not cooperating adequately in addressing the problem of their arrears to the Fund and that remedial measures had had to be adopted. The Committee again called on all members in arrears to adopt policies promptly to correct their economic imbalances and regularize their relations with the Fund, bearing in mind the burden that overdue obligations impose on other Fund members. It urged all members to assist the Fund in the implementation of the cooperative strategy. The Committee requested the Executive Board to submit a progress report for consideration at its spring meeting.

7. The Committee welcomed further discussions in the Executive Board on key issues relating to the functioning of the international monetary system, international liquidity, and the systemic role of the SDR. The Committee encouraged the Executive Board to continue to analyze present developments in the system with a view to identifying improvements that could be implemented. Although the broad support necessary for an allocation of SDRs during the fifth basic period has not emerged, the Committee requested the Managing Director to continue to conduct consultations on this issue.

8. The Committee reaffirmed the central role of Fund surveillance in fostering more consistent and disciplined economic policies. It noted the contribution of the Fund to the process of policy coordination through its work on key economic indicators and the development of medium-term scenarios to clarify the implications of alternative policy stances. The Committee encouraged the Executive Board to continue improving the analytical and empirical framework underlying multilateral surveillance, including the measurement, determinants, and systemic consequences of international capital flows.

9. The Committee agreed to hold its spring meeting in Washington, D.C. on May 7, 1990.

Annex: Interim Committee Attendance
September 24–25, 1989

Chairman

H. O. Ruding, Minister of Finance, Netherlands

Managing Director

Michel Camdessus

Members or Alternates

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

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Hikmat Omar Al-Hadithi, Minister of Finance, Iraq
Alhaji Abubakar Alhaji, Minister of State for Planning and Budget, Nigeria
Pedro Aspe, Secretary of Finance and Public Credit, Mexico
Pierre Bérégovoy, Ministry of State for Economy, Finance, and the Budget, France
Nicholas F. Brady, Secretary of the Treasury, United States
Guido Carli, Minister of the Treasury, Italy
S. B. Chavan, Minister of Finance, India
Ryutaro Hashimoto, Minister of Finance, Japan
J. S. Dawkins, Minister for Employment, Education, and Training, Australia (Alternate for Paul J. Keating, Treasurer, Australia)
Nigel Lawson, Chancellor of the Exchequer, United Kingdom
QIU Qing, Deputy Governor, People's Bank of China (Alternate for LI Guixian, State Councillor and Governor of the People's Bank of China)
Philippe Maystadt, Minister of Finance, Belgium
Mailson Ferreira da Nóbrega, Minister of Finance, Brazil
Bader-Eddine Nouioua, Governor, Banque Centrale d'Algérie
PAY PAY wa Syakassighe, Governor, Banque du Zaïre
Erik Hoffmeyer, Chairman, Board of Governors, Danmarks Nationalbank (Alternate for Niels Helveg Petersen, Minister of Economic Affairs, Denmark)
Javier Gonzàlez Fraga, President, Banco Central de la Republica Argentina (Alternate for Nestor Rapanelli, Minister of Economy, Argentina)
W.F. Duisenberg, President, De Nederlandsche Bank, NV (Alternate for H. O. Ruding, Minister of Finance, Netherlands)
Kamchorn Sathirakul, Governor, Bank of Thailand
Theo Waigel, Federal Minister of Finance, Federal Republic of Germany
Michael H. Wilson, Minister of Finance, Canada

Observers

Horst Bockelmann, Economic Adviser and Head of the Monetary and Economic Department, BIS
B.T.G. Chidzero, Chairman, Development Committee
Henning Christophersen, Vice President, CEC
Barber B. Conable, President, World Bank
Kenneth K.S. Dadzie, Secretary-General, UNCTAD
Arthur Dunkel, Director General, GATT
Markus Lusser, Chairman of the Governing Board, Swiss National Bank
Goran Ohlin, Assistant Secretary-General, Department of International Economics and Social Affairs, UN
Jean-Claude Paye, Secretary-General, OECD

Thirty-Fourth Meeting, Washington, May 7–8, 1990

1. The Interim Committee of the Board of Governors of the International Monetary Fund held its thirty-fourth meeting in Washington, D.C. on May 7–8, 1990 under the chairmanship of Mr. Michael H. Wilson, Minister of Finance of Canada. Mr. Michel Camdessus, Managing Director of the International Monetary Fund, participated in the meeting, which was also attended by observers from a number of international and regional organizations and from Switzerland. The Committee expressed its appreciation to Mr. Onno Ruding, former Minister of Finance of the Netherlands, for his invaluable contribution to the work of the Committee during the five years of his stewardship as Committee Chairman.

2. The long economic expansion in the industrial countries has continued, albeit at a slower, more sustainable pace. Inflationary pressures have been countered by appropriately tightened monetary conditions and, though progress has been uneven, external imbalances have narrowed further. In developing countries, the performance of the exporters of manufactures, especially in Asia, generally has remained strong. However, with a few encouraging exceptions, growth has been weak elsewhere, owing in part to some less favorable features in the international environment and in some cases to slippages in the implementation of adjustment policies.

The progress toward completion of the single European market in 1992, the prospective unification of Germany, and successful economic reforms in Eastern Europe will strengthen the outlook for economic growth. These developments, together with the continued need to support productive investment in developing countries, have clear implications for the global demand for capital and for economic policies in industrial countries. Continuing efforts are required in both surplus and deficit countries to reduce external imbalances. In particular, substantial efforts must be made to raise national saving in order to lessen pressure on interest rates and thereby promote investment and alleviate debt burdens. To this end, further progress toward fiscal consolidation is imperative in a number of countries, together with the adoption of policies that reduce impediments to private saving. Structural measures are required to reduce distortions that hinder investment and limit market access, and to remove rigidities that interfere with the efficient allocation of resources and, in some industrial countries, keep unemployment high despite relatively rapid growth. Recent price developments point to the need for continued vigilance and restraint in monetary policy, particularly in countries where inflationary pressures continue strong. Fiscal and monetary policies should take account of the need to bolster saving and deal with the inflation problems. Policy should also help to foster exchange rates consistent with a better working of the global adjustment process.

Increased saving, structural reform in industrial countries, and freer trade would improve the international environment and help support a resumption of adequate growth in the developing countries. The conditions for economic recovery in these countries nevertheless depend primarily on strengthened domestic policies aimed at controlling inflation and raising saving, restoring confidence, and achieving greater efficiency in resource use.

3. Market-oriented economic reforms in all countries must be encouraged and supported. In particular, the reforms on which Eastern European countries have recently embarked deserve support, but not at the expense of the developing countries. Committee members agreed that the Fund, in the context of a broad international cooperative effort, must continue to provide assistance as these countries steer their economies toward a market system and integrate them into the world economy. In this context the Committee welcomed the applications for membership of Czechoslovakia and Bulgaria.

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4. The Committee stressed the vital importance of renewed efforts to counter protectionism and foster a more open and transparent trading system. Although progress has been made in many areas of the Uruguay Round, important issues remain to be solved. Prospects for the world economy and, in particular, for those countries that are seeking to adjust their economies through the adoption of more market-oriented systems depend to a significant degree upon a successful conclusion of the Round by the end of 1990. To this end, all countries are urged to resolve the outstanding issues and achieve the greatest possible reductions in all forms of barriers to trade.

5. The Committee welcomed the progress under the strengthened debt strategy, noting that the arrangements agreed with commercial banks under the strategy can be expected to contribute to an improvement in members' growth and balance of payments prospects. The Committee reaffirmed the guidelines on the Fund's involvement, and similar guidelines in the Bank, which have facilitated a diversity of financial arrangements. These should continue to be implemented with the necessary flexibility. The Committee welcomed the efforts of official bilateral creditors, in particular the actions under the Toronto agreement, as well as the financial contribution made by the Export-Import Bank of Japan, to support debtors' adjustment efforts. It noted the special needs of the lower middle-income countries. It also noted that programs supported by the Fund would continue to need adequate financing, including in some cases debt restructuring. The Committee emphasized the importance of measures to encourage domestic savings and inflows of capital, including the return of flight capital and new investment, as part of growth-oriented debtor reform programs under the strengthened debt strategy.

6. The Committee underscored the role of the Fund as the central institution for international monetary cooperation, whose resources derive principally from the reserve assets of members. The Committee also emphasized the special contribution of the World Bank in providing long-term financial assistance to developing countries based on its access to capital markets around the world. For these reasons, the Committee stressed the importance of all members lending their active and tangible support to ensure that countries using the resources of the Fund or the Bank fulfill their financial obligations to these institutions in full promptly as they fall due.

7. The Committee commended the Executive Board for its work on the Ninth General Review of Quotas and on the arrears strategy. It expressed satisfaction that the Executive Board had agreed on an interrelated set of measures to increase quotas and strengthen the cooperative strategy on arrears.

On quotas, it welcomed the agreement reached by the Board on the method to be used to distribute the overall increase in quotas, including a special increase in the quota of Japan, as well as on the modalities of the size of the participation requirement and the period of consent to and payment for the increase in quotas. The Committee agreed that:

a. The present total of Fund quotas should be increased by 50 percent.
b. Another review of quotas should be conducted by March 31, 1993, though the review could be conducted earlier if there is a clear need to do so.
c. The Executive Board should be requested to prepare and complete, for final decision by the Board of Governors before June 30, 1990, a proposed resolution that would include all the necessary provisions to effect increases in the quotas of members in accordance with the agreement already reached by the Executive Board and with the understandings reached during the course of the Committee meeting.
d. The Committee agreed that the enlarged access policy and the present access limits should remain unchanged until the increase in quotas becomes effective.

8. Noting recent progress in the containment of overdue obligations to the Fund, the Committee stated that the early reduction and elimination of arrears to the Fund is of the highest importance and welcomed the strengthening of the strategy developed by the Executive Board for this purpose. It endorsed the proposed approach that will permit a member in arrears to earn a claim, based on sustained economic performance, toward future financing that can help form a basis for settlement of arrears. In this context the Committee noted the agreed additional safeguard for the use of enhanced structural adjustment facility resources, which help finance the programs. The Committee concurred with the proposal that the Fund pledge use of up to 3 million ounces of gold, if needed, as additional security for use of the resources of the enhanced structural adjustment facility in connection with the financing of the claims referred to above. It urged that members approve the decisions necessary to establish such a pledge as soon as possible.

The Committee noted that this approach, combined with the techniques already available, and with sufficient cooperation by members, can help them eliminate their existing arrears. It called on all members in arrears to adopt promptly the policies needed to correct imbalances and maladjustments in their economies and regularize their positions with the Fund.

The Committee emphasized that, even as cooperative efforts are being intensified to eliminate arrears, it is necessary to strengthen the Fund's financial position still further and to enhance the instruments available to the Fund to prevent and deter arrears. In this connection:

a. The Committee endorsed an extension of the Fund's mechanisms for the sharing of burdens associated with overdue obligations among creditor and debtor members. This extension, which would be reviewed annually, would accumulate SDR 1 billion over approximately five years, financed by a further adjustment of 0.35 percent to the rate of charge and, subject to the limit in the Articles of Agreement, a further adjustment to the rate of remuneration to yield three times the amount generated by the further adjustment to the rate of charge.
b. The Committee warmly welcomed the proposal for voluntary contributions to this effort by members whose contributions under these mechanisms are not commensurate with those of member countries participating in burden sharing. The Committee considered that such voluntary contributions would complement efforts to support appropriate adjustment policies in countries with protracted arrears and would be fully in keeping with the cooperative nature of the institution. The Committee therefore called upon those members ready to make such contributions to do so expeditiously.
c. The Committee noted that the Executive Board is considering a proposal under which individual contributors under the existing mechanism for coverage of deferred charges would agree that accumulated balances be retained temporarily in the Fund following settlement of these deferred charges.
d. In order to deal with the rare cases where it is evident that a

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member with arrears to the Fund is persistently not cooperating with the Fund, the Committee invited the Executive Board to propose to the Board of Governors, by the end of May 1990, the text of an amendment of the Articles providing for suspension of voting and related rights of members that do not fulfill their obligations under the Articles. The provision for suspension would be activated by a 70 percent majority of the total voting power in the Executive Board. Such an amendment should be proposed to the Board of Governors in a draft resolution separate from the draft resolution on the quota increase. After having carefully listened to the comments of all members, and the reservations of some members, the Committee came to a consensus that, as part of the overall quota increase package, no increase in quota shall become effective before the effective date of such an amendment, and that every effort should be made by members to ensure that both the quota increase and the amendment shall be effective before end 1991. If it appeared that these resolutions might not be effective by this date, the Committee would consider what steps might need to be taken.

9. With the understandings on the increase in quotas and with the steps taken to strengthen the arrears and debt strategies, the Fund is now better equipped to discharge its operational responsibilities toward its member countries. Recent developments indicate that the Fund can be expected to face a heavy workload in dealing with requests for the use of Fund resources and catalyzing other assistance, helping countries in the implementation of their economic reforms, and improving more generally the effectiveness of surveillance. In this connection, the Committee reaffirmed the importance it attaches to surveillance by the Fund as the means for promoting economic policies in members that are conducive to sustainable economic growth and improved global welfare. It stressed that the pursuit of sound economic policies by member countries is a prerequisite for effective international economic cooperation.

10. The Committee also encouraged the Executive Board to continue its analysis of developments and of key issues in the functioning of the international monetary system. The Committee emphasized the positive contribution that policy coordination is making to the evolution of the system. It urged the Executive Board to study further improvements that could be implemented and to keep the role of the SDR under review.

11. The Committee agreed to hold its next meeting in Washington, D.C. on September 23, 1990.

Annex: Interim Committee Attendance
May 7–8, 1990

Chairman

Michael H. Wilson, Minister of Finance, Canada

Managing Director

Michel Camdessus

Members or Alternates

Mohammad Abalkhail, Minister of Finance and National Economy, Saudi Arabia
Pierre Bérégovoy, Ministry of State for Economy, Finance, and the Budget, France
Nicholas F. Brady, Secretary of the Treasury, United States
Zelia Maria Cardoso de Mello, Minister of Economy, Finance and Planning, Brazil
Guido Carli, Minister of the Treasury, Italy
Madhu Dandavate, Minister of Finance, India
Antonio Erman Gonzàlez, Minister of Economy, Argentina
S. Olu Falae, Minister of Finance and Economic Development, Nigeria
Abderrahmane Hadj-Nacer, Governor, Banque Centrale d'Algérie
Yasushi Mieno, Governor, The Bank of Japan (Alternate for Ryutaro Hashimoto, Minister of Finance, Japan)
Bob McMullan, Parliamentary Secretary to the Treasurer, Australia (Alternate for Paul J. Keating, Deputy Prime Minister and Treasurer, Australia)
Wim Kok, Deputy Prime Minister and Minister of Finance, Netherlands
Rolf Kullberg, Governor, Bank of Finland
CHEN Yuan, Deputy Governor, People's Bank of China (Alternate for LI Guixian, State Councillor and Governor of the People's Bank of China)
John Major, Chancellor of the Exchequer, United Kingdom
Philippe Maystadt, Minister of Finance, Belgium
Adrianus Mooy, Governor, Bank of Indonesia
PAY PAY wa Syakassighe, Governor, Banque du Zaïre
Mohammed Mehdi Saleh, Acting Minister of Finance, Iraq
Pedro R. Tinoco, Jr., President, Banco Central de Venezuela
Theo Waigel, Federal Minister of Finance, Federal Republic of Germany
John W. Crow, Governor, Bank of Canada (Alternate for Michael H. Wilson, Minister of Finance, Canada)

Observers

Rafeeudin Ahmed, Under-Secretary-General for International Economic and Social Affairs, UN
Pascal Arnaud, Financial Adviser, Delegation in Washington, CEC
S. Balabanoff, Head of Economics Section, Economics and Finance Department, OPEC
Horst Bockelmann, Economic Adviser 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
Markus Lusser, Chairman of the Governing Board, Swiss National Bank
M.G. Mathur, Deputy Director General, GATT
Jean-Claude Paye, Secretary-General, OECD

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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-Sixth Meeting, Washington, September 25, 1989

1. The Development Committee met in Washington on September 25, 1989 under the chairmanship of the Hon. B.T.G. Chidzero, Senior Minister of Finance, Economic Planning and Development of Zimbabwe.[1]

2. The Committee focused its discussion on three subjects: (a) the external economic environment and resource requirements of structural adjustment programs; (b) development prospects in severely indebted countries and the evolving debt strategy; and (c) World Bank support for the environment. Reports on the status of the negotiations for the Ninth Replenishment of the International Development Association (IDA), trends in the transfer of resources to developing countries, and current developments in international trade were also considered.

3. At the April Committee meeting it was agreed that the essential ingredients in the design and sustainability of successful structural adjustment programs were the strong political commitment by developing countries to sound policies, broad public support, the integration of poverty and environmental considerations, the strengthening of institutional capacity, adequate and timely financing, and supportive external economic conditions. In reviewing the implications of the external economic environment for structural adjustment, members were of the view that while growth-oriented structural adjustment can yield positive results even under unfavorable external conditions, the pace, scale, and sustainability of benefits would be adversely affected by an unsupportive external setting. Industrial countries should take seriously their responsibilities in respect of the impact which their policies have on developing countries. It was generally considered that the adoption by industrial countries of economic policies supportive of developing countries' adjustment efforts would also help improve their own economic performance. Moreover, it would assist the integration of developing countries into the world economy. Bearing in mind the Committee's conclusions and its ongoing interest in this question, the Bank and Fund were asked to keep under review the impact of industrial countries' trade, agricultural, and industrial policies on developing countries as well as the results of adjustment programs that developing countries undertake.

4. In view of the uncertainty of external economic conditions, members agreed on the importance of contingency planning in the design of structural adjustment programs. In this connection, members emphasized the need for the Bank and Fund to continue to adapt their support to changing circumstances.

5. The Committee noted that experience had shown that inadequate resources and delays in their provision can impede the implementation of structural adjustment programs. Accordingly, the need for adequate and timely financing to support structural adjustment programs was emphasized. In this connection, members noted that there is an urgent need to increase savings rates in the world economy so as to enhance the availability of resources to developing countries.

6. The Committee underlined the need to strengthen the resources of the Bank and the Fund. It took note of the status of the negotiations for the Ninth Replenishment of IDA held by IDA Deputies in recent months. Members recognized the pressing needs of IDA recipient countries for concessional assistance as they address adjustment, development, and poverty-reduction objectives. Accordingly, the Committee stressed the urgency of completing negotiations by the November meeting of IDA Deputies in Kyoto, and of achieving agreement on a substantial replenishment of IDA-9 commensurate with the pressing needs of IDA-eligible countries.

7. Members noted the importance of ensuring that the Fund is provided with adequate resources, and, in this connection, also noted that the Interim Committee had requested the Fund's Executive Board to pursue its work on the outstanding issues relating to the Ninth Review as a matter of highest priority, with a view to a decision by the Board of Governors on the completion of the Ninth Review before the end of this year.

8. The Committee stressed the importance of an open multilateral trading system in improving the external economic environment for structural adjustment programs. It noted the adverse effects of industrial and agricultural protectionism on the effective implementation of such programs. The Committee heard from the Director General of the General Agreement on Tariffs and Trade (GATT) that, after having successfully concluded its mid-term review, the Uruguay Round had now entered its final and critical phase. The Committee called on both developed and developing countries to take the fullest advantage of the unique opportunity provided by the Round—set for conclusion at the end of 1990—to strengthen and expand the multilateral trading system. Members emphasized the need to ensure that the emergence of regional trading arrangements did not adversely affect developing countries' market access and the multilateral trading system. The Bank and Fund were requested to keep under study, in close consultation with the GATT, the possible implications of regional trading arrangements for developing countries' economic prospects for consideration at a future meeting.

9. The Committee reviewed the debt strategy and its impact on development prospects for all severely indebted countries. It reaffirmed its support for the strengthened debt strategy endorsed at its April meeting, based on a cooperative framework between the debtor countries, the commercial banks, and official creditors. The Committee commended the prompt response of the Fund and the

[1] Mr. Barber B. Conable, President of the World Bank, Mr. Michel Camdessus, Managing Director of the International Monetary Fund, Mr. Yves L. Fortin, Executive Secretary of the Development Committee, and Mr. Lemboumba-Lepandou, Chairman of the Group of Twenty-Four, participated in the meeting. Observers from Switzerland and a number of international and regional organizations also attended.

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Bank in developing operational guidelines for support of voluntary commercial bank debt and debt service reduction. It stressed that the implementation of officially supported debt and debt service reduction should not divert Bank and Fund financial support from good performing countries. It expressed its appreciation of the substantial financial support of the Japanese Government of adjustment programs by debtor countries and encouraged other countries in a position to do so to take similar action. It re-emphasized the importance of special efforts by debtor countries to attract new investment, to promote the repatriation of flight capital, and to implement appropriate debt-equity swap programs. Furthermore, it underscored the need for a flexible case-by-case approach to realistic commercial bank financing packages including both debt and debt service reduction and new financing as appropriate. It welcomed the progress made in several cases in implementing the strengthened debt strategy and noted that a number of countries were currently undertaking negotiations with banks. They encouraged other debtor countries to develop strong economic reform programs in cooperation with the two institutions. Such programs could provide the basis for World Bank and IMF support for debt and debt service reduction within the established Bank and Fund guidelines.

10. In discussing the problems of the severely indebted low-income countries, the Committee welcomed the recent recommendation by the World Bank Board to its Governors to support commercial debt reduction in eligible IDA-only countries by setting aside $100 million from the IBRD's net income for this purpose. The Committee welcomed the measures taken in the past by many donors and the announcements made more recently by others to forgive official development assistance debt owed by low-income countries in sub-Saharan Africa. Despite efforts made to assist the debt-distressed low-income countries in sub-Saharan Africa, their debt and external financing problems remain pressing. The Committee requested the institutions to evaluate at an appropriate time the impact of the various debt-relief measures taken so far in favor of the severely indebted low-income countries. As the benefits of concessional rescheduling within the framework agreed by the Paris Club in 1988 have so far been extended to thirteen countries, the Committee suggested continued implementation of such concessional terms to debt-distressed low-income countries undertaking adjustment programs.

11. Members also recalled the concern expressed last April that the development needs of lower middle-income countries whose debts are mainly to official creditors should be given special attention.

12. Members agreed that it was also important to recognize the needs of a number of countries which have so far avoided debt and debt service difficulties. The Committee urged that efforts be made to maintain an orderly and adequate flow of finance to these countries to support adjustment, development and poverty reduction. In this connection, it welcomed the decision by the World Bank Board to enlarge the Bank's cofinancing operations to help these countries maintain and expand access to financial markets.

13. The Committee welcomed the World Bank's report on its efforts to support the environment. Members commended the Bank on the progress made in integrating environmental issues into Bank activities, including the preparation and release to the Executive Directors of environmental impact assessment guidelines, thus providing an opportunity for interested parties to comment. They also noted with satisfaction the steps taken to increase public awareness of Bank activities in the environmental field. Members emphasized the need for continuing and even intensifying these efforts. The Bank was encouraged to increase public access to environmental information on projects and programs.

14. While it was recognized that the bulk of environmental pollution so far stemmed from the industrial countries, it was agreed that a cooperative effort was required by both the developed and the developing countries in addressing this critical problem. All countries were urged to take measures to penalize polluters and to check the flow of exports and imports of environmentally damaging materials. Members took special note of the importance of global climate change issues. They welcomed the Bank's increasing emphasis on energy conservation and efficiency programs and on conversion to less environmentally damaging fuels. The Bank was encouraged to assist in the introduction of alternatives to chlorofluorocarbons. They commended the Bank's efforts in increasing its work in conservation and sustainable development of forestry resources and, more generally, for the promotion of environmental action plans. They also encouraged the Bank to assist countries in the development of such arrangements as debt-for-nature swaps. Members called on the Bank to continue to expand the scope of its activities in these areas.

15. The Committee noted that the integration of environmental considerations into development projects could result in increased costs as well as benefits and could require technological transfers to the developing countries. They recognized that additional external financial and technical support on appropriate terms could help meet these costs and requirements. Donor governments and multilateral development institutions were requested to consider ways by which they could provide assistance and, in this connection, the Committee requested the Bank to prepare a study of the mechanisms and financial requirements that may be needed to address the environmental challenges of the developing world.

16. The Committee stressed the importance of the links between poverty, population growth, and environmental degradation and expressed concern at the impact of world population pressures on physical and human infrastructure, as well as urban and rural environments. It recognized that excessive population growth reinforces the problems of poverty and environment and called on governments to increase their efforts in the field of population and on the multilateral development institutions and bilateral agencies to intensify their support.

17. The Committee reaffirmed the importance attached to the reduction of poverty in developing countries and encouraged greater efforts by the Bank for poverty reduction. It reiterated the agreement reached at a September 1988 meeting that the Committee should periodically review progress made by the international community in addressing poverty issues. The Bank was requested to prepare a report to serve as a basis for such a discussion at a future meeting.

18. In reviewing the trends in the transfer of resources to the developing countries, the Committee noted that, while net flows in real terms remained well below the levels of the early 1980s, the sharp annual decline was arrested in 1988. The Committee welcomed the efforts of the international community in increasing flows of official development assistance in 1988. It recognized, however, that more needed to be done by all countries to support the objectives of growth and poverty reduction. It called on donor countries, particularly those with assistance levels below the 0.7 percent ODA/GDP target, to make further efforts for securing financial flows to the developing countries. On the basis of the reform programs under way and the current economic performance

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in particular in sub-Saharan Africa, the Committee also considered that these high-priority programs should continue to be supported. The Committee called for sustained efforts on the part of developing and developed countries to stimulate the flow of private direct investment and the repatriation of capital. The Committee encouraged the creation of an economic climate conducive to foreign and domestic investment. Countries that have not done so were encouraged to consider joining the Multilateral Investment Guarantee Agency (MIGA).

19. The Committee reviewed the priorities for its forthcoming meetings. It confirmed its undertaking last April to have a discussion in the spring of 1990 on enhancing the contribution of the private sector to development including the promotion of foreign private investment, and the support that the Bank and Fund can provide for this purpose. It was also agreed to continue next spring the review of the debt strategy and its impact on the development prospects for all severely indebted countries. The long-term perspective for sub-Saharan Africa would also be discussed at that time. The Committee called on the Bank and the Fund to prepare documentation on these subjects, as appropriate. They also requested the Bank to prepare a progress report for the next meeting on environmental issues. In connection with the Committee's undertaking to consider the economic role of women in development at a future meeting, it was agreed to give full consideration to this subject in the fall of 1990.

20. The Committee agreed to meet again in Washington, D.C. on May 8, 1990.

Thirty-Seventh Meeting, Washington, May 8, 1990

1. The Development Committee met in Washington, D.C. on May 8, 1990 under the chairmanship of the Hon. B.T.G. Chidzero, Senior Minister of Finance, Economic Planning and Development of Zimbabwe.[1]

2. In the context of its broad mandate for the transfer of resources to developing countries, the Committee focused its discussion on three topics: (a) the contribution of the private sector to development and the roles of the World Bank Group and the International Monetary Fund; (b) the debt strategy and its impact on the development prospects for all severely indebted countries; and (c) the long-term perspective for development of sub-Saharan Africa. The concept of a global environmental facility, trends in the transfers of resources, and current international trade developments were also considered.

3. The Committee welcomed the growing emphasis given by developing countries to the role of the private sector, including the promotion of domestic and foreign investment, in their development strategies. It underscored the importance of creating an enabling environment favorable to private sector activities through macroeconomic stability, structural adjustment, and appropriate price and investment policies. The need to adopt legislation and administrative practices compatible with sound private sector development was also stressed. The complementarity of the roles of efficient and well-managed private and public sectors in development was emphasized. The Committee noted that infrastructure and social services, including investments in human resources, are needed to support private sector development and for economic growth in general. The Committee also noted that the confidence of private investors could be enhanced through the adoption by all countries of open markets and sectoral adjustment policies and a supportive financial environment. Recalling its earlier invitation to the Bank and the Fund to keep under review the impact of industrial countries' trade, agricultural, and industrial policies on developing countries, members requested a report on this topic for its spring 1991 meeting.

4. Members recognized that foreign direct investment is a valuable non-debt-creating external resource for developing countries and emphasized the need, particularly for severely indebted countries, to mobilize direct investment and repatriate flight capital. They also noted the role of such investment in transferring technology, improving managerial skills, and facilitating market development. Members underscored the need for policies that would increase savings and could facilitate a greater flow of direct investment to developing countries. Such investment could best be attracted to developing countries through the adoption of sound macroeconomic and market-oriented policies.

5. The Committee urged the World Bank Group and the Fund to strengthen further their efforts to support private sector development. Members encouraged the Bank to give a very high priority to private sector development in its operations, to continue to expand the scope of its activities in this area, including new approaches and instruments as may be needed, as well as to assist developing countries' efforts to implement long-term institutional, regulatory, and legal reforms, consistent with their socioeconomic situation. Members therefore emphasized the importance of close coordination within the Bank Group so as to ensure that private sector considerations are better integrated in its operations while avoiding duplication. To help achieve this, the Committee requested the Bank to move expeditiously to implement its action plan for private sector development. Considering the importance of the contribution of the private sector to development, the Committee requested that this issue be reviewed at its fall 1990 meeting.

6. The Committee noted the increasingly important role that the International Finance Corporation (IFC) and the Multilateral Investment Guarantee Agency (MIGA) can play in assisting private sector development in developing countries, including through their policy advisory roles. It emphasized the benefits that countries can derive from membership in the Agency. Given the rapidly growing needs for private sector assistance, members noted the need for IFC to have adequate means to fulfill its role in the years ahead. In this respect, the Committee encouraged the IFC's Executive Board to continue its discussion on the adequacy of the capital of the Corporation, including modalities of subscription. Members requested that they be informed of progress on this issue at the fall 1990 meeting.

7. The Committee reaffirmed its support for the strengthened debt strategy as endorsed at its last meeting and welcomed the progress achieved so far. Members reiterated the need to maintain

[1] Mr. Barber B. Conable, President of the World Bank, Mr. Michel Camdessus, Managing Director of the International Monetary Fund, Mr. Yves L. Fortin, Executive Secretary of the Development Committee, and Mr. S.M.A. Adeli, Chairman of the Group of Twenty-Four, participated in the meeting. Observers from Switzerland and a number of international and regional organizations also attended.

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the case-by-case approach to commercial bank financing packages and underlined again the central importance of appropriate adjustment programs, including measures to encourage investment and the return of flight capital, as a basis for implementing the strategy. Members noted that the combination of growth-oriented adjustment programs and commercial bank financing arrangements, which include debt and debt service reduction, can help improve confidence in debtor country economies. They commended the Bank, the Fund, and Japan for their early and substantial support for debt and debt service reduction packages negotiated by debtors and their creditor banks. The Committee called on the Bank and the Fund to continue to provide support for debt and debt service reduction programs, with the necessary flexibility, under their established guidelines, which they reaffirmed, and to keep the strengthened debt strategy under review. It also called on the Bank and the Fund to emphasize measures to promote investment and capital repatriation in country reform programs.

8. The Committee also recalled the concerns it had expressed at its last two meetings that the development needs of severely indebted lower middle-income countries whose debts are mainly to official creditors should be given special attention. Members noted that a return to external viability and sustained growth remained uncertain for a number of these countries. Members therefore asked the Bank and the Fund to continue to analyze the debt problems of these countries as well as those of severely indebted middle-income countries with significant official debt.

9. Members welcomed the various measures taken to alleviate the debt burden of the severely indebted low-income countries, in particular the concessional official debt reschedulings by the Paris Club, the cancellation of official development assistance (ODA) debt of many low-income countries by an increasing number of creditor countries, the utilization of International Development Association (IDA) reflows for the benefit of IDA-only countries with outstanding IBRD debt, and the activation by the Bank of its $100 million facility to assist eligible IDA-only countries to reduce their debt to commercial banks. Members noted that even with these arrangements a number of these countries have uncertain prospects for an early return to external viability. The Committee requested the Bank and the Fund to undertake an evaluation of the benefits of the debt relief and other measures taken so far in favor of the severely indebted low-income countries. In view of the low debt service capacity of these countries, members also considered that their new commitments of assistance to the severely indebted low-income countries should be provided on highly concessional terms.

10. Members agreed that it was also important to recognize the needs of a number of indebted countries which have not restructured their external debt obligations and which have been implementing sound macroeconomic policies. The Committee urged that efforts be made to maintain adequate financial flows to these countries, including multilateral flows, to support adjustment, development, and poverty reduction.

11. The Committee welcomed the World Bank's report "Sub-Saharan Africa: From Crisis to Sustained Growth." It emphasized the complementary roles of the Bank and the Fund in the long-term development process in sub-Saharan Africa. The Committee endorsed the approach of the report's strategic agenda. It stressed that sustained growth and development required firm commitment and good governance on the part of the concerned African governments given their primary responsibility in the design and implementation of their development strategies. Members also agreed that there is a need for adequate, effective, and well-coordinated funding from donors and multilateral institutions, noting that large official development assistance flows to sub-Saharan Africa would continue to be required in the 1990s. They expressed their support for the recommendation in the report that resources be channeled more selectively to countries implementing adjustment programs, thereby maximizing the effectiveness of external assistance. The Committee requested to be kept informed of the progress in respect of the long-term strategic agenda. In this respect it welcomed the Dutch Government's initiative to hold a conference on sub-Saharan Africa next July in Maastricht.

12. Members recalled their earlier recommendation that the Special Program of Assistance to Africa (SPA) framework be extended beyond 1990. They welcomed the agreement in principle of donors for an extension of the Program and urged them to indicate their levels of adjustment assistance for 1991–93 at the SPA session scheduled for the fall of 1990. They also suggested that donors take that occasion to continue to consider steps to untie their commitments under the SPA and to further harmonize procurement and disbursement procedures.

13. The Committee reiterated the importance it attaches to environmental issues and noted the progress being made by the Bank on a number of issues such as the new Operational Directive on environmental assessment, the integration of environmental concerns into economic analysis, and the growth in lending for free-standing environmental projects. It encouraged the Bank to continue its efforts to integrate better environmental considerations in its operations. The Committee noted that there would be a comprehensive review of Bank-related environmental issues in the Bank's 1990 Annual Report on Environment in accordance with the request made by the Committee at the September 1988 Berlin meeting. It stressed that this report should be comprehensive in its coverage of the progress made by the Bank, particularly in respect of Bank-related environmental issues discussed by the Committee at its recent meetings, including environmental assessments, Bank environmental action plans, energy efficiency and conservation, forestry protection, and debt-for-nature swaps.

14. Members considered a report prepared by the World Bank on funding global environmental protection and generally agreed that the Bank should play an important role in this area. Members agreed that further work was necessary to develop methods for the Bank to assist developing countries to take actions which contribute to the reduction of global environmental problems. Members agreed that efforts should continue to develop proposals for a pilot mechanism for this purpose, taking into account the Bank's existing programs. They also urged the Bank to take steps to reinforce and expand its existing environmental programs and thus assist developing countries to contribute to the achievement of the same objective according to their priorities. The Bank was urged to proceed with this work expeditiously in consultation with interested parties and close collaboration with the United Nations Environmental Program (UNEP) and the United Nations Development Program (UNDP). Members underlined the need for sufficient flexibility to attract as wide support as possible.

15. The Committee expressed its appreciation for the successful conclusion of the negotiations for the Ninth Replenishment of IDA and called on all member governments to act swiftly to ensure that IDA-9 begins on July 1, 1990. Members also welcomed the signing of the Lomé IV Convention. In spite of these positive developments and a modest increase in official development finance, members

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noted with concern the impact of the recent rise in interest rates on the cost of debt servicing and the significant decline in aggregate net flows to the severely indebted middle-income countries in 1989, reflecting a sharp drop in private flows. They noted the implications of this trend on domestic investment in these countries at a time when many of them were struggling with severe poverty problems. The Committee called on donor countries, particularly those with assistance levels below the 0.7 percent ODA/GDP target, to make further efforts to increase the transfer of resources to developing countries. The Committee welcomed the recent Policy Statement on Development Cooperation in the 1990s by countries of the Organization for Economic Coordination and Development (OECD), including their commitment to work for a greater degree of coherence in their policies with regard to their impact on developing countries.

16. The Committee welcomed the understandings reached by the Interim Committee on the Ninth General Review of Quotas that will allow the Fund to continue playing its role at the center of the international monetary system.

17. The Committee welcomed the decision to create the European Bank for Reconstruction and Development (EBRD) aimed at assisting economic and political reforms and the transition to market economies in Central and Eastern Europe. It called on the Bank Group and the Fund to work with the EBRD in fulfilling these objectives. Members emphasized that financial support for reforms in Eastern Europe calls for adequate resources so that the requirements of this region can be met while also allowing increased financial flows on appropriate terms to developing countries.

18. The Committee also noted that among countries facing payment difficulties, there are some with overdues to the World Bank and regional development banks. Since it is in the interest of all borrowers and shareholders to have overdues handled in a way which continues to allow these institutions to keep the costs of borrowed funds to the lowest level possible, the Committee asked the World Bank, in consultation with the regional development banks, to review the current policies and procedures for handling overdues and to present a report to the Development Committee at its next meeting. The Committee recognized that there are other broader issues of coordination which needed to be considered.

19. The Committee heard from the Deputy Director General of the General Agreement on Tariffs and Trade (GATT) that the multilateral trade negotiations under the Uruguay Round were in their final crucial phase and that, while much progress had been achieved, a number of key agricultural, industrial and other issues remained unresolved. Members called on both developed and developing countries to reach an early agreement on these issues and to agree on a strengthened multilateral trading system based on predictable and uniform rules to promote trade liberalization by all countries. They stressed that a successful conclusion of the negotiations was essential to prevent the drift toward protectionism. Members also emphasized that an improvement in market access and greater participation by developing countries in GATT benefits were essential and in many cases more important than official development assistance flows or debt relief in facilitating the adjustment and growth efforts of developing countries. The Committee reiterated its call on the Bank and the Fund to keep under study, in close consultation with the GATT, the implications of regional trading arrangements for developing countries, economic prospects for consideration at a future meeting.

20. In view of its previous commitment to review periodically progress in addressing poverty issues, the Committee agreed to discuss at its next meeting strategies for the effective reduction of poverty in the 1990s in the light of an issues paper based on the Bank's forthcoming World Development Report on poverty and on a contribution from the Fund. Given continuing major indebtedness problems, members agreed to continue at their September meeting their review of the debt strategy and its impact on the development prospects of all severely indebted countries with the assistance of documentation prepared by the Bank and the Fund. The Committee also reaffirmed its undertaking to give full consideration in September to the economic role of women in development and requested the Bank to prepare a paper on this subject. Emphasizing the importance it attaches to environmental issues, the Committee will consider these further at its next meeting.

21. The Committee agreed to meet again in Washington, D.C. on September 24, 1990.

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Executive Directors and Voting Power on April 30, 1990

Director *Alternate*	Casting Votes of	Votes by Country	Total Votes[1]	Percent of Fund Total[2]
APPOINTED				
Thomas C. Dawson II	United States	179,433	179,433	19.10
Charles S. Warner				
Frank Cassell	United Kingdom	62,190	62,190	6.62
Charles Enoch				
Guenter Grosche	Germany, Federal Republic of	54,287	54,287	5.78
Bernd Goos				
Jean-Pierre Landau	France	45,078	45,078	4.80
Jean-François Cirelli				
Koji Yamazaki	Japan	42,483	42,483	4.52
Shinichi Yoshikuni				
Yusuf A. Nimatallah	Saudi Arabia	32,274	32,274	3.44
Muhammad Al-Jasser				
ELECTED				
Renato Filosa (Italy)	Greece	4,249		
Nikos Kyriazidis (Greece)	Italy	29,341		
	Malta	701		
	Poland	7,050		
	Portugal	4,016	45,357	4.83
Leonor Filardo (Venezuela)	Costa Rica	1,091		
Miguel A. Fernández Ordóñez (Spain)	El Salvador	1,140		
	Guatemala	1,330		
	Honduras	928		
	Mexico	11,905		
	Nicaragua	932		
	Spain	13,110		
	Venezuela	13,965	44,401	4.73
G. A. Posthumus (Netherlands)	Cyprus	947		
G. P. J. Hogeweg (Netherlands)	Israel	4,716		
	Netherlands	22,898		
	Romania	5,484		
	Yugoslavia	6,380	40,425	4.30
Jacques de Groote (Belgium)	Austria	8,006		
Johann Prader (Austria)	Belgium	21,054		
	Hungary	5,557		
	Luxembourg	1,020		
	Turkey	4,541	40,178	4.28
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		

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Director *Alternate*	Casting Votes of	Votes by Country	Total Votes[1]	Percent of Fund Total[2]
ELECTED (continued)				
	Qatar	1,399		
	Somalia	692		
	Syrian Arab Republic	1,641		
	United Arab Emirates	2,276		
	Yemen Arab Republic	683		
	Yemen, People's Democratic Republic of	1,022	39,526	4.21
C. Scott Clark (Canada) *Gabriel C. Noonan (Ireland)*	Antigua and Barbuda	300		
	Bahamas, The	914		
	Barbados	591		
	Belize	345		
	Canada	29,660		
	Dominica	290		
	Grenada	310		
	Ireland	3,684		
	Jamaica	1,705		
	St. Kitts and Nevis	295		
	St. Lucia	325		
	St. Vincent	290	38,709	4.12
E. A. Evans (Australia) *Seung-Woo Kwon (Korea)*	Australia	16,442		
	Kiribati	275		
	Korea	4,878		
	New Zealand	4,866		
	Papua New Guinea	909		
	Philippines	4,654		
	Seychelles	280		
	Solomon Islands	300		
	Vanuatu	340		
	Western Samoa	310	33,254	3.54
Markus Fogelholm (Finland) *Indridi H. Thorláksson (Iceland)*	Denmark	7,360		
	Finland	5,999		
	Iceland	846		
	Norway	7,240		
	Sweden	10,893	32,338	3.44
G. K. Arora (India) *L. Eustace N. Fernando (Sri Lanka)*	Bangladesh	3,125		
	Bhutan	275		
	India	22,327		
	Sri Lanka	2,481	28,208	3.00
Alexandre Kafka (Brazil) *Luis Manuel Piantini (Dominican Republic)*	Brazil	14,863		
	Colombia	4,192		
	Dominican Republic	1,371		
	Ecuador	1,757		
	Guyana	742		
	Haiti	691		
	Panama	1,272		
	Suriname	743		
	Trinidad and Tobago	1,951	27,582	2.94

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Director *Alternate*	Casting Votes of	Votes by Country	Total Votes[1]	Percent of Fund Total[2]
ELECTED (continued)				
J. E. Ismael (Indonesia)	Fiji	615		
Tanya Sirivedhin (Thailand)	Indonesia	10,347		
	Lao People's Democratic Republic	543		
	Malaysia	5,756		
	Myanmar	1,620		
	Nepal	623		
	Singapore	1,174		
	Thailand	4,116		
	Tonga	282		
	Viet Nam	2,018	27,094	2.88
El Tayeb El Kogali (Sudan)	Botswana	471		
L.B. Monyake (Lesotho)	Burundi	677		
	Ethiopia	956		
	Gambia, The	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	2,160	26,738	2.85
DAI Qianding (China) *ZHANG Zhixiang (China)*	China	24,159	24,159	2.57
Ernesto V. Feldman (Argentina)	Argentina	11,380		
Ricardo J. Lombardo (Uruguay)	Bolivia	1,157		
	Chile	4,655		
	Paraguay	734		
	Peru	3,559		
	Uruguay	1,888	23,373	2.49
Mohammad Reza Ghasimi (Islamic Republic of Iran)	Afghanistan	1,117		
	Algeria	6,481		
Omar Kabbaj (Morocco)	Ghana	2,295		
	Iran, Islamic Republic of	6,850		
	Morocco	3,316		
	Tunisia	1,632	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		

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Director *Alternate*	Casting Votes of	Votes by Country	Total Votes[1]	Percent of Fund Total[2]
ELECTED (concluded)				
	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	3,160	18,940	2.02
			927,718[3]	98.76[4]

[1] Voting power varies on certain matters pertaining to the General Department with use of the Fund's resources in that department.

[2] Percentages of total votes (939,325) in the General Department and the SDR Department.

[3] This total does not include the votes of Angola, Democratic Kampuchea, and South Africa, which did not participate in the 1988 Regular Election of Executive Directors. The combined votes of those members total 11,607—1.24 percent of those in the General Department and SDR Department.

[4] This figure may differ from the sum of the percentages shown for individual Directors because of rounding.

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Changes in Membership of Executive Board

Changes in membership of the Executive Board between May 1, 1989 and April 30, 1990, were as follows:

Charles H. Dallara (United States) resigned as Executive Director for United States, effective May 26, 1989.

Chang-Yuel Lim (Korea) resigned as Alternate Executive Director to E. A. Evans (Australia), effective May 31, 1989.

Seung-Woo Kwon (Korea) was appointed Alternate Executive Director to E. A. Evans (Australia), effective June I, 1989.

Jorgen Ovi (Denmark) resigned as Executive Director for Denmark, Finland, Iceland, Norway, and Sweden, effective June 30, 1989.

Markus Fogelholm (Finland), formerly Alternate Executive Director to Jorgen Ovi (Denmark), was elected Executive Director by Denmark, Finland, Iceland, Norway, and Sweden, effective July 1, 1989.

Magnús Pétursson (Iceland) was appointed Alternate Executive Director to Markus Fogelholm (Finland), effective July 1, 1989.

Hélène Ploix (France) resigned as Executive Director for France, effective August 29, 1989.

Hélène Ploix (France) was reappointed Executive Director for France, effective September 18, 1989.

Dominique Marcel (France) was reappointed Alternate Executive Director to Hélène Ploix (France), effective September 18, 1989.

Dominique Marcel (France) resigned as Alternate Executive Director to Hélène Ploix (France), effective September 20, 1989.

Thomas C. Dawson II was appointed Executive Director for United States, effective September 21, 1989.

Jean-François Cirelli (France) was appointed Alternate Executive Director to Hélène Ploix (France), effective September 21, 1989.

Marcel Massé (Canada) resigned as Executive Director for Antigua and Barbuda, The Bahamas, Barbados, Belize, Canada, Dominica, Grenada, Ireland, Jamaica, St. Kitts and Nevis, St. Lucia, and St. Vincent, effective September 27, 1989.

C. Scott Clark (Canada) was elected Executive Director by Antigua and Barbuda, The Bahamas, Barbados, Belize, Canada, Dominica, Grenada, Ireland, Jamaica, St. Kitts and Nevis, St. Lucia, and St. Vincent, effective September 29, 1989.

Hélène Ploix (France) resigned as Executive Director for France, effective October 1, 1989.

Dara McCormack (Canada) formerly Alternate Executive Director to Marcel Massé (Canada) was appointed Alternate Executive Director to C. Scott Clark (Canada), effective October 2, 1989.

Ibrahim Al-Assaf (Saudi Arabia) resigned as Alternate Executive Director to Yusuf A. Nimatallah (Saudi Arabia), effective October 10, 1989.

Muhammad Al-Jasser (Saudi Arabia) was appointed Alternate Executive Director to Yusuf A. Nimatallah (Saudi Arabia), effective October 11, 1989.

Dara McCormack (Canada) resigned as Alternate Executive Director to C. Scott Clark (Canada), effective October 26, 1989.

Gabriel C. Noonan (Ireland) was appointed Alternate Executive Director to C. Scott Clark (Canada), effective October 27, 1989.

Jean-Pierre Landau (France) was appointed Executive Director for France, effective October 30, 1989.

Jean-François Cirelli (France) formerly Alternate Executive to Hélène Ploix (France) was appointed Alternate Executive Director to Jean-Pierre Landau (France), effective October 30, 1989.

Ekamol Kiriwat (Thailand) resigned as Alternate Executive Director to J. E. Ismael (Indonesia), effective October 31, 1989.

Tanya Sirivedhin (Thailand) was appointed Alternate Executive Director to J. E. Ismael (Indonesia), effective November 1, 1989.

Bimal Jalan (India) resigned as Executive Director for Bangladesh, Bhutan, India, and Sri Lanka, effective January 2, 1990.

G. K. Arora (India) was elected Executive Director for Bangladesh, Bhutan, India, and Sri Lanka, effective January 3, 1990.

L. Eustace N. Fernando (Sri Lanka) formerly Alternate Executive Director to Bimal Jalan (India) was appointed Alternate Executive Director to G. K. Arora (India), effective January 3, 1990.

Magnús Pétursson (Iceland) resigned as Alternate Executive Director to Markus Fogelholm (Finland), effective January 12, 1990.

Indridi H. Thorláksson (Iceland) was appointed Alternate Executive Director to Markus Fogelholm (Finland), effective January 13, 1990.

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The following served at certain meetings of the Executive Board during 1989/90 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*)
John Aderibigbe (*Nigeria*)	El Tayeb El Kogali (*Sudan*)
Meekal A. Ahmed (*Pakistan*)	Mohamed Finaish (*Libya*)
Felix Enrico R. Alfiler (*Philippines*)	E. A. Evans (*Australia*)
Muhammad Al-Jasser (*Saudi Arabia*)	Yusuf A. Nimatallah (*Saudi Arabia*)
T. S. Allouba (*Egypt*)	Mohamed Finaish (*Libya*)
José Roberto Novaes de Almeida (*Brazil*)	Alexandre Kafka (*Brazil*)
Sandro Appetiti (*Italy*)	Renato Filosa (*Italy*)
Edgar Ayales (*Costa Rica*)	Leonor Filardo (*Venezuela*)
Jerzy Basiuk (*Poland*)	Renato Filosa (*Italy*)
Hasan Sukru Binay (*Turkey*)	Jacques de Groote (*Belgium*)
George Bindley-Taylor (*Trinidad and Tobago*)	Alexandre Kafka (*Brazil*)
Christer Bjorklund (*Sweden*)	Markus Fogelholm (*Finland*)
Mohamed Bahaa Chatah (*Lebanon*)	Mohamed Finaish (*Libya*)
Bent A. Christiansen (*Denmark*)	Jorgen Ovi (*Denmark*) Markus Fogelholm (*Finland*)
Harold E. Codrington (*Barbados*)	Marcel Massé (*Canada*) C. Scott Clark (*Canada*)
Edgardo Carlos Demaestri (*Argentina*)	Ernesto V. Feldman (*Argentina*)
DI Weiping (*China*)	DAI Qianding (*China*)
DO Tran Trong (*Viet Nam*)	J. E. Ismael (*Indonesia*)
Fakhry El Fiky (*Egypt*)	Mohamed Finaish (*Libya*)
Abda Y. El Mahdi (*Sudan*)	El Tayeb El Kogali (*Sudan*)
Walter N. Engert (*Canada*)	Marcel Massé (*Canada*)
Miki Eran (*Israel*)	G. A. Posthumus (*Netherlands*)
Antonio Fanna (*Italy*)	Renato Filosa (*Italy*)
Salam K. Fayyad (*Jordan*)	Mohamed Finaish (*Libya*)
L. Eustace N. Fernando (*Sri Lanka*)	Bimal Jalan (*India*)
B. R. Fuleihan (*United Kingdom*)	Yusuf A. Nimatallah (*Saudi Arabia*)
Gustavo García (*Venezuela*)	Leonor Filardo (*Venezuela*)
M. A. Ghavam (*Iran, Islamic Republic of*)	Mohammad Reza Ghasimi (*Iran, Islamic Republic of*)
Judith Gold (*Canada*)	Marcel Massé (*Canada*) C. Scott Clark (*Canada*)
Parviz Gorjestani (*Iran, Islamic Republic of*)	Mohammad Reza Ghasimi (*Iran, Islamic Republic of*)
Audun Gronn (*Norway*)	Markus Fogelholm (*Finland*)
Steinar Guriybe (*Norway*)	Jorgen Ovi (*Denmark*)
S. Gurumurthi (*India*)	Bimal Jalan (*India*) G. K. Arora (*India*)
Mohamed Ali Hammoudi (*Algeria*)	Mohammad Reza Ghasimi (*Iran, Islamic Republic of*)
Mary Elizabeth Hansen (*United States*)	Charles H. Dallara (*United States*) Thomas C. Dawson II (*United States*)
Asiah Hashim (*Malaysia*)	J. E. Ismael (*Indonesia*)
Sabir Mohamed Hassan (*Sudan*)	El Tayeb El Kogali (*Sudan*)
Cleviston L. Haynes (*Barbados*)	Marcel Massé (*Canada*)
Margarita Hepp (*Chile*)	Ernesto V. Feldman (*Argentina*)
Jeremy Heywood (*United Kingdom*)	Frank Cassell (*United Kingdom*)
Chee-Won Hon (*Singapore*)	J. E. Ismael (*Indonesia*)
Luc K. Hubloue (*Belgium*)	Jacques de Groote (*Belgium*)
Kenta Ichikawa (*Japan*)	Koji Yamazaki (*Japan*)
Achjar Iljas (*Indonesia*)	J. E. Ismael (*Indonesia*)
Zubair Iqbal (*Pakistan*)	Yusuf A. Nimatallah (*Saudi Arabia*)
Abdel Rehman Ismael (*Mauritius*)	MAWAKANI Samba (*Zaïre*)

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Temporary Alternate Executive Director	Executive Director for whom Temporary Alternate Served
Luis I. Jácome (*Ecuador*)	Alexandre Kafka (*Brazil*)
Christopher J. Jarvis (*United Kingdom*)	Frank Cassell (*United Kingdom*)
Joseph Mills Jones (*Liberia*)	El Tayeb El Kogali (*Sudan*)
Martin E. Jones (*United Kingdom*)	Frank Cassell (*United Kingdom*)
Planinko Kapetanović (*Yugoslavia*)	G. A. Posthumus (*Netherlands*)
Karl-Heinz Kleine (*Germany, Federal Republic of*)	Guenter Grosche (*Germany, Federal Republic of*)
Kwassivi Kpetigo (*Togo*)	Mawakani Samba (*Zaïre*)
G. Ladant (*France*)	Jean-Pierre Landau (*France*)
Christopher Y. Legg (*Australia*)	E. A. Evans (*Australia*)
V. K. Malhotra (*India*)	Bimal Jalan (*India*)
Roberto Marino (*Mexico*)	Leonor Filardo (*Venezuela*)
Jean-Luc Menda (*France*)	Hélène Ploix (*France*) Jean-Pierre Landau (*France*)
M. J. Mojarrad (*Iran, Islamic Republic of*)	Mohammad Reza Ghasimi (*Iran, Islamic Republic of*)
Gina Montiel (*Venezuela*)	Leonor Filardo (*Venezuela*)
Pedro O. Montórfano (*Paraguay*)	Ernesto V. Feldman (*Argentina*)
Tokio Morita (*Japan*)	Koji Yamazaki (*Japan*)
Nader Morshed (*Pakistan*)	Mohamed Finaish (*Libya*)
James A. K. Munthali (*Malawi*)	El Tayeb El Kogali (*Sudan*)
Analia Napky (*Honduras*)	Leonor Filardo (*Venezuela*)
Barry C. Newman (*United States*)	Thomas C. Dawson II (*United States*)
Jean-Christian Obame (*Gabon*)	MAWAKANI Samba (*Zaïre*)
John Kobina Orleans-Lindsay (*Ghana*)	MAWAKANI Samba (*Zaïre*)
William Koaya Parmena (*Tanzania*)	El Tayeb El Kogali (*Sudan*)
Patrick D. Péroz (*France*)	Yusuf A. Nimatallah (*Saudi Arabia*)
Pál Péterfalvy (*Hungary*)	Jacques de Groote (*Belgium*)
Magnús Pétursson (*Iceland*)	Jorgen Ovi (*Denmark*)
Dorothy Powell (*Canada*)	C. Scott Clark (*Canada*)
Felix Armando Quirós (*Panama*)	Alexandre Kafka (*Brazil*)
A. Raza (*India*)	Bimal Jalan (*India*) G. K. Arora (*India*)
Alexis Rieffel (*United States*)	Charles H. Dallara (*United States*) Thomas C. Dawson II (*United States*)
Sadok Rouai (*Tunisia*)	Mohammad Reza Ghasimi (*Iran, Islamic Republic of*)
Daniel Saha (*Cameroon*)	MAWAKANI Samba (*Zaïre*)
Bassirou A. Sarr (*Mauritania*)	MAWAKANI Samba (*Zaïre*)
H-J. Scheid (*Germany, Federal Republic of*)	Guenter Grosche (*Germany, Federal Republic of*)
Ciro Schioppa (*Italy*)	Renato Filosa (*Italy*)
Jean-Pierre Schoder (*Luxembourg*)	Jacques de Groote (*Belgium*)
Georges Serre (*France*)	Hélène Ploix (*France*) Jean-Pierre Landau (*France*)
M. J. Shaffrey (*New Zealand*)	E. A. Evans (*Australia*)
SHAO Zhengkang (*China*)	DAI Qianding (*China*)
S. P. Shrestha (*Nepal*)	J. E. Ismael (*Indonesia*)
Donald Charles Templeman (*United States*	Charles H. Dallara (*United States*)
Norbert Toé (*Burkina Faso*)	MAWAKANI Samba (*Zaïre*)
Carel C. A. van den Berg (*Netherlands*)	G. A. Posthumus (*Netherlands*)
A. Vasudevan (*India*)	Bimal Jalan (*India*)
Rolf Wenzel (*Germany, Federal Republic of*)	Guenter Grosche (*Germany, Federal Republic of*)
J. C. Westerweel (*Netherlands*)	G. A. Posthumus (*Netherlands*)
YANG Jingping (*China*)	DAI Qianding (*China*)

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Administrative and Capital Budgets

Administrative Budget as Approved by the Executive Board for the Financial Year Ending April 30, 1991 Compared with Actual Expenses for the Financial Years Ended April 30, 1989 and April 30, 1990 and Capital Budget as Approved by the Executive Board for Capital Projects Beginning in Financial Year 1991

(Values expressed in thousands of SDRs)[1]

	Financial Year Ended April 30, 1989	Financial Year Ended April 30, 1990		Financial Year Ending April 30, 1991
	Actual Expenses	Revised Budget	Actual Expenses	Budget
ADMINISTRATIVE BUDGET				
I. Personnel Expenses				
Salaries	84,821	96,710	96,709	101,837
Other personnel expenses	45,517	47,527	47,526	42,911
Subtotal	130,338	144,237	144,235	144,748
II. Travel Expenses				
Business travel	15,021	16,379	16,378	17,495
Other travel	9,819	10,851	10,851	11,034
Subtotal	24,840	27,230	27,229	28,529
III. Other Administrative Expenses				
Communications	4,847	5,138	5,138	5,513
Building occupancy	11,872	13,528	13,528	14,522
Books and printing	3,568	3,759	3,758	4,249
Supplies and equipment	4,050	3,274	3,272	3,526
Data processing	11,525	10,228	10,228	11,088
Miscellaneous	2,259	3,362	3,361	3,653
Subtotal	38,121	39,289	39,285	42,551
IV. Reimbursements	(6,813)	(7,622)	(7,622)	(8,310)
TOTAL ADMINISTRATIVE BUDGET	186,486	203,134	203,127	207,518
Less: Reimbursement for administering the SDR Department	(3,700)	(4,100)	(4,300)	(4,000)
Reimbursement for administering the SAF/ESAF	(11,100)	(12,700)	(13,100)	(14,600)
Net Administrative Budget Expenses[2]	171,686	186,334	185,727	188,918

Capital Projects Beginning in Financial Year 1991

	Total Budget	Financial Year 1991	Financial Year 1992	Financial Year 1993
CAPITAL BUDGET				
Building Space Facilities				
Headquarters	1,246	955	252	38
Other locations	413	260	153	—
	1,658	1,215	405	38
Equipment for EDP Systems				
Computing	3,057	1,528	1,146	382
Less sales proceeds	(334)	(334)	—	—
TOTAL CAPITAL BUDGET	4,381	2,409	1,551	420

[1] The administrative and capital budgets are expressed in terms of U.S. dollars and converted to SDR equivalents. Totals may not add due to rounding.

[2] 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, 1990, fixed property expenditures were SDR 2,664,000 and the valuation loss on administrative currency holdings was SDR 177,000.

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Financial Statements

REPORT OF THE EXTERNAL AUDIT COMMITTEE

Washington, D.C.
June 29, 1990

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, 1990,
—SDR Department for the year ended April 30, 1990, and
—Accounts administered by the Fund, which consist of the Supplementary Financing Facility Subsidy Account, the Trust Fund, the Enhanced Structural Adjustment Facility Trust, the Enhanced Structural Adjustment Facility Administered Accounts, the Administered Account—Japan, the Administered Account—Guyana, and the Voluntary Contribution Account—Bolivia for the year ended April 30, 1990; and the Administered Technical Assistance Account—Japan for the period March 19, 1990 to April 30, 1990.

Our audit was conducted in accordance with international auditing guidelines and, accordingly, included reviews of accounting and control systems, tests of accounting records, evaluation of the extent and results of work performed by the Office of Internal Audit and the Independent Accountants, 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 Administered Technical Assistance Account—Japan which was established in financial year 1990) and give a true and fair view of the respective financial positions and the allocations and holdings of SDRs as at April 30, 1990, and of the financial results of operations and transactions during the respective periods.

In connection with our examination of the Voluntary Contribution Account, 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/ Abdulaziz Al-Nasrullah, Chairperson (*Saudi Arabia*)
/s/ Michael Jacobs (*Australia*)
/s/ Mamadou A. Sow (*Senegal*)

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GENERAL DEPARTMENT

BALANCE SHEET

as at April 30, 1990

(In thousands of SDRs)

(Note 1)

	1990	1989
ASSETS		
GENERAL RESOURCES ACCOUNT		
Currencies and securities (Notes 2 and 5)	90,936,410	92,016,728
SDR holdings (Note 3)	628,486	975,951
Gold holdings (Note 4)	3,620,396	3,620,396
Borrowed resources held in suspense	17	350,362
Charges receivable and accrued (Note 5)	511,335	491,646
Deferred charges receivable (Note 5)	960,666	716,237
Interest receivable on SDR holdings	21,681	19,904
Other assets	30,792	17,462
TOTAL GENERAL RESOURCES ACCOUNT	96,709,783	98,208,686
SPECIAL DISBURSEMENT ACCOUNT		
Currency deposits	14	3,232
Interest-earning deposits	844,899	1,072,473
Structural adjustment facility loans	1,548,619	964,555
Accrued income on investments and loans	40,009	40,679
TOTAL SPECIAL DISBURSEMENT ACCOUNT	2,433,541	2,080,939
TOTAL GENERAL DEPARTMENT	99,143,324	100,289,625
QUOTAS, RESERVES, LIABILITIES, AND SPECIAL DISBURSEMENT ACCOUNT RESOURCES		
GENERAL RESOURCES ACCOUNT		
Quotas		
Subscriptions of members	90,132,550	89,987,550
Reserves (Note 6)	1,396,977	1,311,467
Special Contingent Account (Note 5)	214,816	149,816
Liabilities		
Borrowing (Note 7)	3,514,162	5,607,483
Remuneration payable (Note 5)	314,396	272,717
Accrued interest on borrowing	76,239	113,954
Other liabilities and deferred credits	99,977	49,462
	4,004,774	6,043,616
Deferred income from charges (Note 5)	960,666	716,237
TOTAL GENERAL RESOURCES ACCOUNT	96,709,783	98,208,686
SPECIAL DISBURSEMENT ACCOUNT		
Accumulated resources	2,433,312	2,080,739
Deferred income	229	200
TOTAL SPECIAL DISBURSEMENT ACCOUNT	2,433,541	2,080,939
TOTAL GENERAL DEPARTMENT	99,143,324	100,289,625

The accompanying notes and Schedules 1–4 are an integral part of the financial statements.

/s/ Gerhard Laske
Treasurer

/s/ M. Camdessus
Managing Director

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GENERAL DEPARTMENT

STATEMENT OF INCOME AND EXPENSE

for the year ended April 30, 1990

(In thousands of SDRs)
(Note 1)

	1990	1989
GENERAL RESOURCES ACCOUNT		
OPERATIONAL INCOME (Note 5)		
Periodic charges	1,878,090	1,786,166
Addition to periodic charges	127,113	141,648
Special charges	64,283	42,457
Deduct: Income deferred, net	244,429	250,839
	1,825,057	1,719,432
Interest on SDR holdings (Note 3)	88,176	61,286
Service charges	22,201	10,641
Other	4,783	2,001
	1,940,217	1,793,360
OPERATIONAL EXPENSE		
Remuneration (Note 5)	1,383,323	1,130,046
Reduction of remuneration (Note 5)	127,146	141,415
	1,256,177	988,631
Interest on borrowing, net of income from temporary investments in Borrowed Resources Suspense Accounts (SDR 14,857 in 1990 and SDR 24,397 in 1989)	344,962	514,952
Allocation to the Special Contingent Account (Note 5)	65,000	62,862
	1,666,139	1,566,445
NET OPERATIONAL INCOME	274,078	226,915
ADMINISTRATIVE EXPENSE (Note 9)		
Personnel	141,610	127,663
Travel	26,866	24,509
Other, net (Note 1)	20,092	20,519
	188,568	172,691
NET INCOME OF GENERAL RESOURCES ACCOUNT	85,510	54,224
SPECIAL DISBURSEMENT ACCOUNT		
Investment income	73,770	71,719
Interest and special charges on loans	6,441	3,561
	80,211	75,280
Gain (loss) in SDR value pending investment and loan disbursements	(63)	247
Administrative expense (Note 9)	13,100	11,100
NET INCOME OF SPECIAL DISBURSEMENT ACCOUNT	67,048	64,427

The accompanying notes and Schedules 1–4 are an integral part of the financial statements.

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GENERAL DEPARTMENT

STATEMENT OF CHANGES IN RESERVES AND RESOURCES

for the year ended April 30, 1990

(In thousands of SDRs)

(Note 1)

	1990	1989
RESERVES—GENERAL RESOURCES ACCOUNT		
SPECIAL RESERVE (Note 6)		
Balance at beginning of the year	945,887	891,663
Net income	85,510	54,224
Balance at end of the year	1,031,397	945,887
GENERAL RESERVE (Note 6)		
Balance at beginning and end of the year	365,580	365,580
TOTAL RESERVES OF THE GENERAL RESOURCES ACCOUNT	1,396,977	1,311,467
RESOURCES—SPECIAL DISBURSEMENT ACCOUNT		
Balance at beginning of the year	2,080,739	1,618,771
Transfers from Trust Fund	361,301	452,482
Transfers from SFF Subsidy Account	3,303	5,000
Transfers to ESAF Trust	(79,079)	(59,941)
	2,366,264	2,016,312
Net income	67,048	64,427
TOTAL RESOURCES OF THE SPECIAL DISBURSEMENT ACCOUNT	2,433,312	2,080,739

The accompanying notes and Schedules 1–4 are an integral part of the financial statements.

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GENERAL DEPARTMENT

NOTES TO THE FINANCIAL STATEMENTS

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, 1990. The Executive Board also established in May 1981, the Borrowed Resources Suspense Accounts.

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 is 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 the member consents to the increase and pays the subscription.

The Fund makes its resources available to its members in accordance with policies on the use of its resources by selling to members in exchange for their own currency, SDRs or currencies of other members. 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 incur an obligation 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 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 caption "Currencies and securities" in the Balance Sheet reflects holdings of currencies of all members, including those of members that make use of the Fund's resources and those used to finance the Fund's operations and transactions.

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 when the member represents that it has a need. 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 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 make or have made use of the Fund's resources under decisions on:

- Compensatory and contingency financing—to assist members, particularly exporters of primary commodities, 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. The compensatory financing facility includes a mechanism for contingency financing to support adjustment programs supported by the Fund.
- 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 not exceeding three years (and where appropriate, at the request of a member, up to four years), medium-term assistance to members to make structural adjustments in their economies. Purchases under these arrangements depend upon the member's meeting the performance criteria included in the arrangements.
- Supplementary financing facility and the policy on enlarged access—to make resources available under stand-by and extended arrangements, in addition to those available in the credit tranches or under the extended Fund facility, to members facing serious payments imbalances that are large in relation to their quotas. These policies are temporary and may be utilized only in conjunction with the use of resources in the upper credit tranches.

Members that purchase resources from the Fund have an obligation 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. Purchases in the credit tranches, purchases under the compensatory and contingency 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. Purchases financed with borrowed resources under the supplementary financing facility or the enlarged access policy are to be repurchased in semiannual installments beginning three and one half years and ending not later than seven years after the date of purchase. Purchases 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 repurchased 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.

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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, 1990, there were SDR 0.02 million in borrowed resources held in suspense (SDR 350.36 million at April 30, 1989).

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 transferred to the Enhanced Structural Adjustment Facility Trust through the Special Disbursement Account.

Within the Special Disbursement Account a structural adjustment facility was established in March 1986 to provide balance of payments assistance to qualifying low-income developing members. Resources are committed to qualifying members for a three-year period, upon approval by the Fund, in support of a three-year macroeconomic and structural adjustment program presented by the member.

Loans disbursed under the structural adjustment facility are repayable in ten semiannual installments commencing not later than the end of the first six months of the sixth year, and to be completed at the end of the tenth year after the date of the disbursement. Interest is charged on the outstanding loan balances at the rate of ½ of 1 percent per annum.

Members are not obligated to maintain the SDR value of their currency held by the Fund in the Special Disbursement Account. Pending their use, the resources held in the Special Disbursement Account are placed in SDR-denominated investments. Prior to an SDR-denominated investment, balances may be placed temporarily in U.S. dollar-denominated investments. Thus, there may be valuation gains and losses in terms of the SDR on these resources from the time they are received until they can be invested in SDR-denominated investments.

The Special Disbursement Account is a part of the General Department of the Fund. However, the assets of the account are to be held separately from other accounts of the General Department and the income of the account is placed to the Special Disbursement Account.

The Fund administers the Enhanced Structural Adjustment Facility Trust (ESAF Trust) which was established in December 1987 to provide loans on concessional terms to eligible members to support programs to strengthen substantially and in a sustainable manner their balance of payments position and to foster growth. The Special Disbursement Account transfers the following resources to the Reserve Account of the ESAF Trust: (i) all income received from the investment of the resources available for the structural adjustment facility; (ii) all interest 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 remaining liabilities shall be transferred to the Special Disbursement Account. Transfers to the ESAF Trust Reserve Account commenced in March 1988. For the year ended April 30, 1990, SDR 79 million (SDR 60 million at April 30, 1989) 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 specific currencies. The Fund's procedures require that the SDR valuation basket be reviewed 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 held by the Fund 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

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discussion of deferred charges in 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 property, furniture and equipment, except for the cost of an acquisition of land which is accumulated in other assets pending completion of the project (SDR 12.1 million and SDR 0.2 million in 1990 and 1989, respectively). For the year ended April 30, 1990, the cost of building improvements and equipment in excess of $100,000 amounted to SDR 2.5 million (SDR 2.0 million in 1989). The total accumulated cost of land and buildings, excluding the cost of the project which is accumulated in other assets, amounts to SDR 99 million (SDR 96 million in 1989).

2. Currencies and Securities

Each member has the option to substitute nonnegotiable and noninterest-bearing securities for the amount of its currency held by the Fund in the General Resources Account that is in excess of ¼ of 1 percent of the member's quota. These securities, which are part of the Fund's currency holdings, are encashable by the Fund on demand.

Changes in the Fund's holdings of members' currencies and securities for the year ended April 30, 1990 were as follows:

	April 30, 1990	April 30, 1989	Net Change
	In millions of SDRs		
Members' quotas	90,133	89,988	145
Members' use of Fund resources	22,098	23,700	(1,602)
Members' reserve tranche positions	(21,297)	(21,675)	378
Administrative currency balances	2	4	(2)
Currencies and securities	90,936	92,017	(1,081)

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, 1990 accounts receivable to maintain SDR values of currency holdings amounted to SDR 14,826.2 million and accounts payable amounted to SDR 1,422.0 million (SDR 14,369.4 million and SDR 2,117.8 million, respectively at April 30, 1989). At June 25, 1990 the amounts receivable were SDR 5,030.2 million and the amounts payable were SDR 483.7 million.

The Fund's holdings of members' currencies at April 30, 1990 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, 1990 and 1989, the Fund held 3,217,341 kilograms of gold at designated depositories.

5. Fund Operations

For the year ended April 30, 1990, members' purchases amounted to SDR 4,502 million of which SDR 62 million were reserve tranche purchases. Over the same period, repurchases by members totaled SDR 6,042 million. Members' purchases subject to repurchase are shown in Schedule 2.

The outstanding use of Fund credit under various facilities and changes during the year ended April 30, 1990 were as follows:

	April 30, 1989	Purchases	Repurchases	April 30, 1990
	In millions of SDRs			
Regular facilities	5,964	837	1,682	5,119
Compensatory and contingency financing	3,689	808	674	3,823
Extended Fund facility	5,055	1,427	1,010	5,472
Supplementary financing facility	1,126	—	651	475
Enlarged access	7,866	1,368	2,025	7,209
Total	23,700	4,440	6,042	22,098

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 balance available during the subsequent 12-month period 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, 1990 amounted to SDR 4.8 million (SDR 2.0 million in 1989).

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) are 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

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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, 1990, the total holdings on which the Fund levied charges amounted to SDR 22,098 million (SDR 23,700 million at April 30, 1989) and total creditor positions on which the Fund paid remuneration amounted to SDR 15,486 million (SDR 15,892 million in 1989).

Overdue Obligations

At April 30, 1990 and 1989, 11 members were six months or more overdue to the Fund. Credit outstanding to these members amounted to SDR 2,569 million as of April 30, 1990 (SDR 3,067 million as of April 30, 1989). Overdue repurchases and charges of these members were as follows:

	Repurchases		Charges	
	1990	1989	1990	1989
	In millions of SDRs			
Total overdue of which:	2,140	1,951	879	643
Overdue for more than six months	2,009	1,698	765	524
Overdue for more than three years	828	348	238	98

The type and duration of arrears of these members are as follows:

Member	Repurchases	Charges and SAF Interest	Total	Longest Overdue Obligation
	In millions of SDRs			
Guyana	66.4	29.9	96.3	May 1983
Honduras	19.3	2.9	22.2	November 1988
Kampuchea, Democratic	18.8	10.7	29.5	March 1975
Liberia	186.0	91.1	277.1	January 1985
Panama	127.4	49.5	176.9	December 1987
Peru	450.6	175.7	626.3	December 1985
Sierra Leone	43.1	15.4	58.5	January 1987
Somalia	74.1	22.7	96.8	July 1987
Sudan	564.3	249.4	813.7	July 1984
Viet Nam	28.4	15.0	43.4	February 1984
Zambia	561.5	216.4	777.9	June 1986
Total	2,139.9	878.7	3,018.6	

Deferred Charges

It is the policy of the Fund to exclude from current income charges owed by members that are six months or more overdue in meeting payments to the Fund unless the member is current in the payment of charges. 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. Charges due and accrued by members that are six months or more overdue and that have been deferred amounted to SDR 961 million (SDR 716 million in 1989).

Effective May 1, 1986, the Fund adopted a policy under which debtor and creditor members share the financial consequences of overdue obligations ("burden sharing"). An amount equal to deferred charges (excluding special charges) is generated each quarter by an adjustment of the rate of charge and the rate of remuneration. However, the average rate of remuneration is not to be reduced below 85 percent of the SDR interest rate. The amounts received in settlement of overdue charges are distributed to members that paid additional charges or received reduced remuneration when (and to the extent that) deferred charges that gave rise to adjustments are paid. The cumulative amount of deferred charges outstanding which have arisen subsequent to May 1, 1986, and have resulted in adjustments to charges and remuneration, amounts to SDR 729 million (SDR 539 million in 1989).

During the year ended April 30, 1990, new deferred charges net of settlement amounted to SDR 244 million (SDR 251 million in 1989), of which SDR 55 million (SDR 42 million in 1989) were deferred special charges. Including the adjustments described in the following paragraph, an amount of SDR 254 million (SDR 299 million in 1989) was recorded as additional periodic charges and reduced remuneration during the same period.

Special Contingent Account

In view of protracted overdue obligations, the Fund decided at the end of financial year 1987 further to strengthen its financial position by, inter alia, placing SDR 26.5 million into a Special Contingent Account. Additional amounts of SDR 60.4 million and SDR 62.9 million, generated through adjustments of the rate of charge and the rate of remuneration, were allocated to the Special Contingent Account in financial years 1988 and 1989, respectively. An amount of SDR 65.0 million also generated through adjustments of the rate of charge and the rate of remuneration was allocated to this account in financial year 1990. 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 charged first against the Special Reserve.

7. Borrowing

Outstanding borrowing by the Fund was as follows:

	April 30, 1989	Borrowing	Repayment	April 30, 1990
	In millions of SDRs			
Supplementary financing facility	639	—	515	124
Enlarged access	4,953	—	2,603	2,350
Other	15	1,025	—	1,040
Total	5,607	1,025	3,118	3,514

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 mem-

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bers, 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 years and seven years after the date of borrowing. Interest paid by the Fund on amounts borrowed under the borrowing agreements is based on the average yield on U.S. Government securities with a constant maturity of five years.

Enlarged Access

The policy on enlarged access became operational in May 1981. The Fund entered into borrowing agreements with seven members, or institutions within their territories, the Bank for International Settlements, and the Swiss National Bank under which the lenders have agreed to make resources available to the Fund, up to SDR 15,305 million, to finance purchases by members under the policy. The maturities of borrowing by the Fund under these agreements vary from three months to seven years. Interest paid by the Fund on amounts borrowed under these agreements is at variable rates of interest which are established periodically, and are related to market interest rates, based on Eurocurrency deposit rates and weighted average yields of domestic instruments denominated in the five currencies in the SDR valuation basket.

Bilateral Arrangement with Japan

In December 1986, the Fund and the Government of Japan agreed to an arrangement under which Japan will make available to the Fund SDR 3 billion, of which SDR 2 billion remains available, 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

Under the General Arrangements to Borrow (GAB) and an associated agreement with a nonparticipant to the GAB, the Fund may borrow up to SDR 18.5 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 borrowing by the Fund under the GAB, or two thirds of the total credit lines under the GAB and associated agreements, whichever is the greater. The borrowing guidelines are subject to review by the Executive Board. Total outstanding borrowing and unused credit lines, calculated in accordance with these guidelines, at April 30, 1990 was equal to 19.8 percent of quotas (25.3 percent of quotas at April 30, 1989).

8. Arrangements Under the General Department

At April 30, 1990, 51 arrangements were in effect and undrawn balances under these arrangements amounted to SDR 8,258.1 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, the Special Disbursement Account, and the Enhanced Structural Adjustment Facility Trust.

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 and pays certain administrative costs of the Plan.

The Fund uses 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 annually as a percent of pensionable remuneration of the active participants. The funding and cost of the Plan during the year ended April 30, 1990 were based upon an actuarial valuation as at April 30, 1988.

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 maintained separately 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. These amounts are accounted for as they are earned and entitlements have been accrued.

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Schedule 1

GENERAL DEPARTMENT

QUOTAS, FUND'S HOLDINGS OF CURRENCIES, MEMBERS' USE OF FUND RESOURCES, AND RESERVE TRANCHE POSITIONS

as at April 30, 1990

(In thousands of SDRs)

		Fund's Holdings of Currencies[1]			
	Quotas	Total	Percent of quota	Use of Fund Resources	Reserve Tranche Positions
Afghanistan	86,700	81,833	94.4	—	4,884
Algeria	623,100	1,093,999	175.6	470,900	3
Angola	145,000	145,145	100.1	—	—
Antigua and Barbuda	5,000	4,999	100.0	—	1
Argentina	1,113,000	3,277,124	294.4	2,164,099	—
Australia	1,619,200	1,374,076	84.9	—	245,135
Austria	775,600	520,427	67.1	—	255,174
Bahamas, The	66,400	57,762	87.0	—	8,642
Bahrain	48,900	19,882	40.7	—	29,019
Bangladesh	287,500	596,315	207.4	308,812	—
Barbados	34,100	34,223	100.4	2,298	2,177
Belgium	2,080,400	1,760,044	84.6	—	320,358
Belize	9,500	9,224	97.1	1,631	1,908
Benin	31,300	29,280	93.5	—	2,024
Bhutan	2,500	1,930	77.2	—	570
Bolivia	90,700	185,933	205.0	95,211	4
Botswana	22,100	3,542	16.0	—	18,565
Brazil	1,461,300	3,213,872	219.9	1,752,435	—
Burkina Faso	31,600	24,064	76.2	—	7,540
Burundi	42,700	33,556	78.6	—	9,156
Cameroon	92,700	177,457	191.4	84,975	218
Canada	2,941,000	2,542,544	86.5	—	398,470
Cape Verde	4,500	4,500	100.0	—	1
Central African Republic	30,400	38,683	127.2	8,375	111
Chad	30,600	32,090	104.9	1,750	264
Chile	440,500	1,367,988	310.6	927,490	5
China	2,390,900	2,611,312	109.2	523,009	302,608
Colombia	394,200	394,201	100.0	—	—
Comoros	4,500	4,498	100.0	—	5
Congo	37,300	43,957	117.8	7,125	482
Costa Rica	84,100	105,473	125.4	21,352	—
Côte d'Ivoire	165,500	408,276	246.7	242,778	2
Cyprus	69,700	52,320	75.1	—	17,395
Denmark	711,000	480,647	67.6	—	230,358
Djibouti	8,000	6,765	84.6	—	1,237
Dominica	4,000	5,886	147.2	1,894	9
Dominican Republic	112,100	186,801	166.6	74,700	—
Ecuador	150,700	398,639	264.5	247,910	—
Egypt	463,400	579,407	125.0	116,000	6
El Salvador	89,000	89,003	100.0	—	—
Equatorial Guinea	18,400	20,247	110.0	1,838	—
Ethiopia	70,600	88,263	125.0	17,650	—
Fiji	36,500	28,620	78.4	—	7,888
Finland	574,900	401,165	69.8	—	173,740
France	4,482,800	3,462,832	77.2	—	1,020,031
Gabon	73,100	179,963	246.2	106,901	38
Gambia, The	17,100	25,967	151.9	8,898	46
Germany, Federal Republic of	5,403,700	3,215,255	59.5	—	2,188,458
Ghana	204,500	481,957	235.7	277,453	2
Greece	399,900	317,349	79.4	—	82,552

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Schedule 1 (*continued*)

	Quotas	Fund's Holdings of Currencies[1] Total	Percent of quota	Use of Fund Resources	Reserve Tranche Positions
Grenada	6,000	6,142	102.4	141	—
Guatemala	108,000	162,652	150.6	54,645	—
Guinea	57,900	72,900	125.9	14,991	—
Guinea-Bissau	7,500	7,500	100.0	—	[2]
Guyana	49,200	120,125	244.2	70,922	—
Haiti	44,100	65,604	148.8	21,548	70
Honduras	67,800	91,116	134.4	23,315	—
Hungary	530,700	728,487	137.3	197,784	—
Iceland	59,600	55,579	93.3	—	4,025
India	2,207,700	2,826,705	128.0	1,106,250	487,244
Indonesia	1,009,700	1,400,180	138.7	462,900	72,425
Iran, Islamic Republic of	660,000	660,007	100.0	—	—
Iraq	504,000	504,013	100.0	—	—
Ireland	343,400	221,654	64.5	—	121,748
Israel	446,600	446,606	100.0	—	—
Italy	2,909,100	1,829,043	62.9	—	1,080,059
Jamaica	145,500	420,028	288.7	274,462	—
Japan	4,223,300	1,752,359	41.5	—	2,470,962
Jordan	73,900	140,133	189.6	66,235	2
Kampuchea, Democratic	25,000	37,494	150.0	12,500	7
Kenya	142,000	315,095	221.9	185,300	12,218
Kiribati	2,500	2,501	100.0	—	—
Korea	462,800	263,288	56.9	—	199,526
Kuwait	635,300	508,165	80.0	—	127,144
Lao People's Democratic Republic	29,300	29,300	100.0	—	—
Lebanon	78,700	59,869	76.1	—	18,833
Lesotho	15,100	13,807	91.4	—	1,294
Liberia	71,300	273,063	383.0	201,782	28
Libyan Arab Jamahiriya	515,700	272,200	52.8	—	243,505
Luxembourg	77,000	64,762	84.1	—	12,251
Madagascar	66,400	139,311	209.8	72,909	—
Malawi	37,200	78,752	211.7	43,758	2,209
Malaysia	550,600	376,158	68.3	—	174,453
Maldives	2,000	1,996	99.8	—	4
Mali	50,800	73,068	143.8	30,955	8,688
Malta	45,100	22,451	49.8	—	22,677
Mauritania	33,900	56,672	167.2	22,763	—
Mauritius	53,600	90,700	169.2	37,140	41
Mexico	1,165,500	5,952,561	510.7	4,787,041	—
Morocco	306,600	897,019	292.6	590,449	33
Mozambique	61,000	61,000	100.0	—	7
Myanmar	137,000	137,003	100.0	—	—
Nepal	37,300	43,317	116.1	11,719	5,707
Netherlands	2,264,800	1,759,448	77.7	—	505,360
New Zealand	461,600	417,425	90.4	—	44,189
Nicaragua	68,200	68,210	100.0	—	—
Niger	33,700	51,071	151.5	25,932	8,561
Nigeria	849,500	849,490	100.0	—	68
Norway	699,000	278,131	39.8	—	420,869
Oman	63,100	36,428	57.7	—	26,716
Pakistan	546,300	935,524	171.2	389,272	49
Panama	102,200	333,178	326.0	230,976	14
Papua New Guinea	65,900	65,919	100.0	—	—
Paraguay	48,400	36,363	75.1	—	12,041
Peru	330,900	898,072	271.4	567,139	—
Philippines	440,400	1,182,487	268.5	780,870	38,826
Poland	680,000	850,002	125.0	170,000	—
Portugal	376,600	271,103	72.0	—	105,498
Qatar	114,900	96,110	83.6	—	18,791
Romania	523,400	523,405	100.0	—	—

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Schedule 1 (*concluded*)

	Quotas	Fund's Holdings of Currencies[1] Total	Percent of quota	Use of Fund Resources	Reserve Tranche Positions
Rwanda	43,800	36,710	83.8	—	7,104
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	2,759,159	86.2	—	443,242
Senegal	85,100	189,815	223.0	105,722	1,014
Seychelles	3,000	2,948	98.3	—	54
Sierra Leone	57,900	113,332	195.7	55,443	24
Singapore	92,400	12,952	14.0	—	79,449
Solomon Islands	5,000	5,413	108.3	938	528
Somalia	44,200	142,794	323.1	98,588	—
South Africa	915,700	915,665	100.0	—	41
Spain	1,286,000	429,130	33.4	—	856,873
Sri Lanka	223,100	382,034	171.2	158,968	34
Sudan	169,700	774,998	456.7	605,301	11
Suriname	49,300	49,301	100.0	—	—
Swaziland	24,700	24,692	100.0	—	8
Sweden	1,064,300	803,747	75.5	—	260,560
Syrian Arab Republic	139,100	139,103	100.0	—	5
Tanzania	107,000	145,016	135.5	38,003	—
Thailand	386,600	411,659	106.5	53,861	28,804
Togo	38,400	68,200	177.6	30,013	219
Tonga	3,250	2,512	77.3	—	738
Trinidad and Tobago	170,100	364,147	214.1	194,050	6
Tunisia	138,200	325,184	235.3	186,996	16
Turkey	429,100	408,078	95.1	11,250	32,275
Uganda	99,600	166,407	167.1	66,800	—
United Arab Emirates	202,600	67,831	33.5	—	134,770
United Kingdom	6,194,000	4,989,652	80.6	—	1,204,342
United States	17,918,300	11,249,757	62.8	—	6,669,399
Uruguay	163,800	288,621	176.2	124,814	—
Vanuatu	9,000	7,396	82.2	—	1,607
Venezuela	1,371,500	2,300,694	167.8	929,191	—
Viet Nam	176,800	205,195	116.1	28,395	5
Western Samoa	6,000	6,872	114.5	896	26
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	1,128,072	184.0	515,038	—
Zaïre	291,000	578,813	198.9	287,812	—
Zambia	270,300	944,780	349.5	674,498	22
Zimbabwe	191,000	203,205	106.4	12,244	39
Total[3]	90,132,550	90,936,410		22,098,001	21,296,477

[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.

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Schedule 2

GENERAL DEPARTMENT

MEMBERS' PURCHASES SUBJECT TO REPURCHASE

BY YEAR OF SCHEDULED REPURCHASE[1]

as at April 30, 1990

(In thousands of SDRs)

	Ordinary Resources			Borrowed Resources		
Financial Year Ending April 30	Credit tranches	Extended Fund facility	Compensatory and contingency financing	Supplementary financing	Enlarged access	Total
1991	1,832,940	1,336,278	1,444,297	474,841	2,477,458	7,572,057[2,3]
1992	1,102,430	971,569	1,014,988	—	1,395,372	4,484,358
1993	1,019,109	781,606	791,602	—	947,448	3,539,765
1994	885,955	627,035	468,609	—	966,530	2,948,128
1995	278,546	434,882	103,864	—	699,256	1,516,548
1996	—	317,356	—	—	366,645	684,000
1997	—	297,455	—	—	356,360	653,815
1998	—	280,441	—	—	—	280,441
1999	—	256,619	—	—	—	256,619
2000	—	168,497	—	—	—	168,497
Total[4]	5,118,980	5,471,739	3,823,358	474,841	7,209,069	22,104,228

[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 that are subject to repurchase.
[3] The total of members' purchases subject to repurchase exceeds the outstanding use of Fund credit by SDR 6.23 million because certain purchases made prior to the Second Amendment of the Articles of Agreement effective on April 1, 1978, which do not represent the extension of Fund credit, must be repurchased in accordance with the repurchase terms then in effect.
[4] Details may not add to totals due to rounding.

Schedule 3

GENERAL DEPARTMENT

SCHEDULED REPAYMENTS OF FUND BORROWING

as at April 30, 1990

(In thousands of SDRs)

Periods of Repayment[1] Financial Years Ending April 30	Supplementary Financing Facility	Enlarged Access Resources	Other	Total
1991	123,788	1,050,000	—	1,173,788
1992	—	575,000	15,000	590,000
1993	—	350,000	—	350,000
1994	—	300,000	—	300,000
1995	—	75,000	1,025,374	1,100,374
Total	123,788	2,350,000	1,040,374	3,514,162

[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.

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Schedule 4

GENERAL DEPARTMENT

STATUS OF ARRANGEMENTS

as at April 30, 1990

(In thousands of SDRs)

Member	Date of Arrangement	Expiration	Total Amount Agreed	Undrawn Balance
GENERAL RESOURCES ACCOUNT				
STAND-BY ARRANGEMENTS				
Algeria	May 31, 1989	May 30, 1990	155,700	—
Argentina	November 10, 1989	March 31, 1991	1,104,000	920,000
Cameroon	September 19, 1988	June 30, 1990	61,800	23,175
Chile	November 8, 1989	November 7, 1990	64,000	—
Costa Rica	May 23, 1989	May 22, 1990	42,000	42,000
Côte d'Ivoire	November 20, 1989	April 19, 1991	175,800	146,500
Ecuador	September 15, 1989	February 28, 1991	109,900	70,650
Gabon	September 15, 1989	March 14, 1991	43,000	32,500
Haiti	September 18, 1989	December 31, 1990	21,000	6,000
Hungary	March 14, 1990	March 13, 1991	159,210	127,370
Jamaica	March 23, 1990	May 31, 1991	82,000	68,300
Jordan	July 14, 1989	January 13, 1991	60,000	33,200
Mali	August 5, 1988	June 4, 1990	12,700	2,540
Pakistan	December 28, 1988	June 30, 1990	273,150	78,670
Papua New Guinea	April 25, 1990	June 24, 1991	26,360	26,360
Poland	February 5, 1990	March 4, 1991	545,000	375,000
Trinidad and Tobago	April 20, 1990	March 31, 1991	85,000	75,000
Yugoslavia	March 16, 1990	September 15, 1991	460,000	394,300
Zaïre	June 9, 1989	June 8, 1990	116,400	41,400
			3,597,020	2,462,965
EXTENDED ARRANGEMENTS				
Mexico	May 26, 1989	May 25, 1992	3,263,400	1,655,010
Philippines	May 23, 1989	May 22, 1992	660,600	424,680
Tunisia	July 25, 1988	July 24, 1991	207,300	207,300
Venezuela	June 23, 1989	June 22, 1992	3,703,100	3,116,784
			7,834,400	5,403,774
TOTAL GENERAL RESOURCES ACCOUNT			11,431,420	7,866,739
SPECIAL DISBURSEMENT ACCOUNT				
STRUCTURAL ADJUSTMENT FACILITY				
Benin	June 16, 1989	June 15, 1992	21,910	15,650
Central African Republic	June 1, 1987	May 31, 1990	21,280	6,080
Chad	October 30, 1987	October 29, 1990	21,420	6,120
Equatorial Guinea	December 7, 1988	December 6, 1991	12,880	9,200
Guinea	July 29, 1987	July 28, 1990	40,530	11,580
Guinea-Bissau	October 14, 1987	October 13, 1990	5,250	1,500
Lao People's Democratic Republic	September 18, 1989	September 17, 1992	20,510	14,650
Lesotho	June 29, 1988	June 28, 1991	10,570	3,020
Mali	August 5, 1988	August 4, 1991	35,560	10,160
Mozambique	June 8, 1987	June 7, 1990	42,700	—
Nepal	October 14, 1987	October 13, 1990	26,110	—
Pakistan	December 28, 1988	December 27, 1991	382,410	109,260
Sao Tome and Principe	June 2, 1989	June 1, 1992	2,800	2,000
Somalia	June 29, 1987	June 28, 1990	30,940	22,100
Sri Lanka	March 9, 1988	March 8, 1991	156,170	44,620
Tanzania	October 30, 1987	October 29, 1990	74,900	—
Zaïre	May 15, 1987	May 14, 1990	203,700	58,200
			1,109,640	314,140

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Schedule 4 (*concluded*)

Member	Date of Arrangement	Expiration	Total Amount Agreed	Undrawn Balance
SAF RESOURCES COMMITTED UNDER ESAF ARRANGEMENTS[1]				
Bolivia	July 27, 1988	July 26, 1991	36,280	—
Gambia, The	November 23, 1988	November 22, 1991	3,420	—
Ghana	November 9, 1988	November 8, 1991	102,250	20,450
Kenya	May 15, 1989	May 14, 1992	71,000	28,400
Madagascar	May 15, 1989	May 14, 1992	33,200	13,280
Malawi	July 15, 1988	July 14, 1991	26,040	7,440
Mauritania	May 24, 1989	May 23, 1992	3,390	—
Niger	December 12, 1988	December 11, 1991	6,740	—
Senegal	November 21, 1988	November 20, 1991	11,489	—
Togo	May 31, 1989	May 30, 1992	19,200	7,680
Uganda	April 17, 1989	April 16, 1992	19,920	—
			332,929	77,250
TOTAL SPECIAL DISBURSEMENT ACCOUNT			1,442,569	391,390
TOTAL GENERAL DEPARTMENT			12,873,989	8,258,129

[1] Resources under enhanced structural adjustment facility arrangements may be provided from the structural adjustment facility within the Special Disbursement Account and from the Enhanced Structural Adjustment Facility Trust.

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SDR DEPARTMENT

STATEMENT OF ALLOCATIONS AND HOLDINGS

as at April 30, 1990

(In thousands of SDRs)

	1990	1989
ALLOCATIONS		
Net cumulative allocations of SDRs to participants	21,433,330	21,433,330
Charges due but not paid	44,665	35,400
	21,477,995	21,468,730
HOLDINGS		
Participants with holdings above allocations		
Allocations	11,408,282	10,453,514
Net receipt of SDRs	5,891,031	5,125,641
	17,299,313	15,579,155
Participants with holdings below allocations		
Allocations	10,025,048	10,979,816
Net use of SDRs	6,494,137	6,611,927
	3,530,911	4,367,889
Total holdings by participants	20,830,224	19,947,044
General Resources Account	628,486	975,951
Prescribed holders	19,285	545,735
	21,477,995	21,468,730

The accompanying note is an integral part of the financial statements.

/s/ Gerhard Laske
Treasurer

/s/ M. Camdessus
Managing Director

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SDR DEPARTMENT

STATEMENT OF RECEIPT AND USE OF SDRs

for the year ended April 30, 1990

(In thousands of SDRs)

	Participants	General Resources Account	Prescribed Holders	Total 1990	Total 1989
Total holdings at beginning of the year	19,947,044	975,951	545,735	21,468,730	21,458,767
Receipt of SDRs					
Transfers among participants and prescribed holders					
Transactions by agreement	6,493,988		282,617	6,776,605	6,686,288
Operations					
Forward operations			123,000	123,000	12,437
Settlement of financial obligations	80,378		65,916	146,294	154,525
Swaps					1,510,026
Transfer of interest under swaps	21,786			21,786	12,410
Fund-related operations					
Subsidy payments	14,473			14,473	34,968
SAF loan	104,551			104,551	165,277
SAF repayments and interest			2,668	2,668	1,397
Trust Fund repayments and interest			41,543	41,543	57,138
Special charges on SAF, ESAF, and Trust Fund			20	20	19
ESAF contributions and payments	1,016		46,365	47,381	75,076
ESAF repayment and interest			537	537	8
Net interest on SDRs	457,550		25,259	482,809	355,519
Transfers from participants to General Resources Account					
Repurchases		2,339,306		2,339,306	2,465,717
Charges		1,897,119		1,897,119	1,733,707
Quota payments		32,915		32,915	
Interest on SDRs		86,399		86,399	56,453
Assessment on SDR allocation		4,270		4,270	3,671
Transfers from General Resources Account to participants and prescribed holders					
Purchases	944,823			944,823	623,799
Repayments of Fund borrowings	1,844,841			1,844,841	1,782,368
Interest on Fund borrowings	328,294		5,339	333,633	489,850
In exchange for currencies of other members					
Acquisitions to pay charges	363,815			363,815	244,045
Remuneration	1,196,200			1,196,200	894,252
Other					
Refunds and adjustments	24,162			24,162	19,589
Total receipts	11,875,877	4,360,009	593,264	16,829,150	17,378,539

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SDR DEPARTMENT

STATEMENT OF RECEIPT AND USE OF SDRs

for the year ended April 30, 1990 (*concluded*)

(In thousands of SDRs)

	Participants	General Resources Account	Prescribed Holders	Total 1990	Total 1989
Use of SDRs					
Transfers among participants and prescribed holders					
Transactions by agreement	5,879,095		897,510	6,776,605	6,686,288
Operations					
Forward operations	123,000			123,000	12,437
Settlement of financial obligations	65,916		80,378	146,294	154,525
Swaps					1,510,026
Transfer of interest under swaps			21,786	21,786	12,410
Fund-related operations					
Subsidy payments			14,473	14,473	34,968
SAF loan			104,551	104,551	165,277
SAF repayments and interest	2,668			2,668	1,397
Trust Fund repayments and interest	41,543			41,453	57,138
Special charges on SAF, ESAF, and Trust Fund	20			20	19
ESAF contributions	46,365		1,016	47,381	75,076
ESAF repayment and interest	537			537	8
Transfers from participants to General Resources Account					
Repurchases	2,339,306			2,339,306	2,465,717
Charges	1,897,119			1,897,119	1,733,707
Quota adjustment	32,915			32,915	
Assessment on SDR allocation	4,270			4,270	3,671
Transfers from General Resources Account to participants and prescribed holders					
Purchases		944,823		944,823	623,799
Repayments of Fund borrowings		1,844,841		1,844,841	1,782,368
Interest on Fund borrowings		333,633		333,633	489,850
In exchange for currencies of other members					
Acquisitions to pay charges		363,815		363,815	244,045
Remuneration		1,196,200		1,196,200	894,252
Other					
Refunds and adjustments		24,162		24,162	19,589
Charges paid in the SDR Department					
Net charges due	569,208			569,208	411,972
Charges not paid when due	(63,711)			(63,711)	(40,835)
Settlement of unpaid charges	54,446			54,446	30,872
Total uses	10,992,697	4,707,474	1,119,714	16,819,885	17,368,576
Total holdings at end of the year	20,830,224	628,486	19,285	21,477,995	21,468,730

The accompanying note is an integral part of the financial statements.

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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.

Interest, Charges, and Assessment

Interest is paid to each holder on its holdings of SDRs. Charges are levied 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 levied at the same rate and 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, 1990, six members (six members at April 30, 1989) were six months or more overdue to the SDR Department. The amount of unpaid charges of these members to the SDR Department was as follows:

	1990	1989
	In millions of SDRs	
Total overdue, of which:	43.1	35.0
Overdue for more than six months	36.3	28.0
Overdue for more than three years	7.6	5.5

The duration of arrears of these members is as follows:

Member	Total	Longest Overdue Obligation
	In millions of SDRs	
Kampuchea, Democratic	6.8	November 1984
Liberia	3.1	August 1988
Panama	4.6	February 1988
Sierra Leone	2.0	May 1987
Viet Nam	11.1	November 1985
Zambia	15.5	May 1987
Total	43.1	

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.

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SUPPLEMENTARY FINANCING FACILITY

SUBSIDY ACCOUNT

BALANCE SHEET

as at April 30, 1990

(In thousands of SDRs)
(Note 1)

	1990	1989
ASSETS		
Interest-earning deposits (Note 2)	11,512	27,220
Accrued interest on deposits	452	1,206
Total	11,964	28,426
RESOURCES		
Resources—Account balance	11,964	28,426

The accompanying notes are an integral part of the financial statements.

/s/ Gerhard Laske
Treasurer

/s/ M. Camdessus
Managing Director

SUPPLEMENTARY FINANCING FACILITY

SUBSIDY ACCOUNT

STATEMENT OF CHANGES IN RESOURCES

for the year ended April 30, 1990

(In thousands of SDRs)
(Note 1)

	1990	1989
Balance at beginning of the year	28,426	65,936
Investment income	1,314	2,458
Transfers to the Special Disbursement Account	(3,303)	(5,000)
Balance before subsidy payments	26,437	63,394
Subsidy payments (Note 3)	14,473	34,968
Balance at end of the year	11,964	28,426

The accompanying notes are an integral part of the financial statements.

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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. Cumulative contributions from members to the Supplementary Financing Facility Subsidy Account at April 30, 1990 amounted to SDR 57.4 million. 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 subsidy payments are transferred back to the Special Disbursement Account. As of April 30, 1990, the cumulative amount of transfers to the Special Disbursement Account from the Subsidy Account amounted to SDR 75.4 million (SDR 72.1 million at April 30, 1989).

1. Accounting Practices

Unit of Account

The accounts of the Supplementary Financing Facility Subsidy Account are expressed in terms of the SDR. At present, the currency value of the SDR is determined by the Fund each day by summing the values in U.S. dollars, based on market exchange rates, of a basket of five specified currencies as follows:

Currencies	*Amount*
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.

2. Interest-Earning Deposits

The assets of the account, pending their disbursement, are held in the form of interest-earning time deposits denominated in SDRs.

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. The rate of subsidy to be paid is determined by the Fund in light of the resources available. The subsidy may not exceed the equivalent of 3 percent per annum of the currency holdings resulting from purchases under the supplementary financing facility nor reduce the effective rate on the use of credit under the supplementary financing facility below the rate of charge on the use of the Fund's ordinary resources. Subsidy payments are withheld from members that have not paid the charges to which the subsidy applies. At April 30, 1990, subsidy payments totaling SDR 3.7 million have not been made to five members (at April 30, 1989, SDR 4.5 million to the same members).

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TRUST FUND

BALANCE SHEET

as at April 30, 1990

(In thousands of SDRs)
(Note 1)

	1990	1989
ASSETS		
Loans (Note 2)	325,621	682,168
Interest and special charges receivable and accrued (Note 3)	18,252	13,789
Investments, at cost (which approximates market value)	3,252	3,107
Accrued interest on investments	95	100
Total	347,220	699,164
TRUST RESOURCES AND LIABILITIES		
Trust resources	326,075	682,776
Liabilities—		
Undistributed profits from sale of gold (Note 4)	3,064	3,080
Deferred income (Note 3)	17,891	12,787
Borrowing (Note 5)	189	520
Accrued interest on borrowing	1	1
Total	347,220	699,164

The accompanying notes are an integral part of the financial statements.

/s/ Gerhard Laske
Treasurer

/s/ M. Camdessus
Managing Director

TRUST FUND

STATEMENT OF INCOME AND EXPENSE

for the year ended April 30, 1990

(In thousands of SDRs)
(Note 1)

	1990	1989
Income		
Interest and special charges on loans (Note 2)	9,463	9,662
Deduct income deferred (Note 3)	5,104	4,890
	4,359	4,772
Investment income	269	230
	4,628	5,002
Less		
Exchange valuation loss	27	14
Interest expense on borrowing (Note 5)	1	3
Net income	4,600	4,985

The accompanying notes are an integral part of the financial statements.

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TRUST FUND

STATEMENT OF CHANGES IN TRUST RESOURCES

for the year ended April 30, 1990

(In thousands of SDRs)

(Note 1)

	1990	1989
Balance at beginning of the year	682,776	1,130,273
Net income	4,600	4,985
Balance before transfers to the Special Disbursement Account	687,376	1,135,258
Transfers to the Special Disbursement Account (Note 6)	361,301	452,482
Balance at end of the year	326,075	682,776

The accompanying notes are an integral part of the financial statements.

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 the 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 accordance with the provisions of the Trust Fund Instrument. The final loan disbursements were made on March 31, 1981. Each loan disbursement is repayable in ten semiannual installments which shall begin not later than the end of the first six months of the sixth year, and be completed at the end of

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the tenth year after the date of disbursement, except that most of the final loan disbursements made to members on March 31, 1981 that amounted to about 0.4 percent of quotas are to be repaid in a single installment not later than ten years after the date of that disbursement. Interest on the outstanding loan balances is charged at the rate of ½ of 1 percent per annum, and special charges are levied on late payments of interest and principal.

3. Overdue Obligations

At April 30, 1990, eight members (seven members at April 30, 1989) 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 interest. For these members the recognition of income from interest on the outstanding loans and special charges is being deferred. At April 30, 1990, 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 17.9 million (SDR 12.8 million at April 30, 1989). Overdue loan repayments and interest and special charges due from these members were as follows:

	Loans		Interest and Special Charges	
	1990	1989	1990	1989
	In millions of SDRs			
Total overdue, of which	172.0	161.2	15.7	11.0
Overdue for more than six months	160.5	147.8	13.1	8.6
Overdue for more than three years	75.4	42.3	3.4	1.2

The type and duration of the arrears of these members at April 30, 1990 were as follows:

Member	Loans	Interest and Special Charges	Total	Longest Overdue Obligation
		In millions of SDRs		
Guyana	7.7	0.4	8.1	March 1987
Honduras	3.4	0.1	3.5	November 1988
Liberia	24.7	2.8	27.5	January 1985
Sierra Leone	9.8	0.6	10.4	January 1987
Somalia	6.3	0.3	6.6	July 1987
Sudan	66.8	7.6	74.4	July 1984
Viet Nam	46.6	3.4	50.0	February 1984
Zambia	6.7	0.5	7.2	April 1989
Total	172.0	15.7	187.7	

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 $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 ½ of 1 percent per annum.

6. Termination and Transfer of Resources

The Fund, as Trustee, decided that upon the completion of the final loan disbursements, the Trust Fund shall be terminated as of April 30, 1981. After that date, the activities of the Trust Fund have been confined to the completion of any unfinished business of the Trust Fund and the winding up of its affairs, including the collection of overdue obligations.

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 borrowing. The remaining resources are transferred to the Special Disbursement Account.

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ENHANCED STRUCTURAL ADJUSTMENT FACILITY TRUST

COMBINED BALANCE SHEET

as at April 30, 1990

(In thousands of SDRs)

(Note 1)

	Loan Account	Reserve Account	Subsidy Account	Combined 1990	Combined 1989
ASSETS					
Investments (Note 2)	150,523	261,384	296,328	708,235	459,298
Loans	415,986	—	—	415,986	173,793
Accrued interest receivable	4,049	7,780	7,271	19,100	10,780
Accrued account transfers	3,368	3,413	(6,781)	—	—
Currency	—	—	—	—	4
Total	573,926	272,577	296,818	143,321	643,875
LIABILITIES AND RESOURCES					
Resources	—	272,577	214,734	487,311	245,083
Borrowing (Note 4)	565,987	—	81,365	647,352	395,842
Accrued interest on borrowing	7,911	—	719	8,630	2,933
Other liabilities	28	—	—	28	17
Total	573,926	272,577	296,818	1,143,321	643,875

The accompanying notes and Schedules 1–4 are an integral part of the financial statements.

/s/ Gerhard Laske
Treasurer

/s/ M. Camdessus
Managing Director

ENHANCED STRUCTURAL ADJUSTMENT FACILITY TRUST

COMBINED STATEMENT OF INCOME AND EXPENSE

for the year ended April 30, 1990

(In thousands of SDRs)

(Note 1)

	Loan Account	Reserve Account	Subsidy Account	Combined 1990	Combined 1989
Income					
Investment income	13,012	18,234	20,972	52,218	19,027
Interest on loans	1,422	—	—	1,422	254
Exchange valuation gain	—	2	65	67	79
Deduct: Interest expense on borrowing	(14,923)	—	(920)	(15,843)	(3,347)
Other expenses	(28)	—	—	(28)	(17)
Net income (loss)	(517)	18,236	20,117	37,836	15,996

The accompanying notes and Schedules 1–4 are an integral part of the financial statements.

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ENHANCED STRUCTURAL ADJUSTMENT FACILITY TRUST

COMBINED STATEMENT OF CHANGES IN RESOURCES

for the year ended April 30, 1990

(In thousands of SDRs)

(Note 1)

	Loan Account	Reserve Account	Subsidy Account	Combined 1990	Combined 1989
Balance at beginning of the year	318	160,106	84,659	245,083	95,972
Contributions (Note 3)	—	—	125,313	125,313	73,174
Transfers from Special Disbursement Account	—	79,079	—	79,079	59,941
Subsidy Account transfers	15,355	—	(15,355)	—	—
Loan Account transfers	(15,156)	15,156	—	—	—
Net income (loss)	(517)	18,236	20,117	37,836	15,996
Balance at end of the year	—	272,577	214,734	487,311	245,083

The accompanying notes and Schedules 1–4 are an integral part of the financial statements.

ENHANCED STRUCTURAL ADJUSTMENT FACILITY TRUST

NOTES TO THE FINANCIAL STATEMENTS

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.

Loan Account

The resources of the Loan Account 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 are 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 ½ of 1 percent per annum. At April 30, 1990, SDR 416.0 million in loans had been disbursed (SDR 173.8 million at April 30, 1989).

Reserve Account

The resources of the Reserve Account 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 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 are to be used by the Trustee to make payments of principal and interest on its borrowings for the Loan Account to the extent that the amounts 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.

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Subsidy Account

The resources held in the Subsidy Account consist of the proceeds of donations made for the Subsidy Account including transfers of net earnings on resources temporarily placed to administered accounts; the proceeds of loans made to 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 are 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

The resources of the Enhanced Structural Adjustment Facility Trust are invested pending their use in operations and transactions. Investments may be denominated in SDRs or in currency. Balances held in currency-denominated investments may give rise to valuation gains and losses. Pending their investment, resources may be temporarily held in currency, which also may give rise to valuation gains and losses.

3. Contributions

The Trustee accepts donations of resources for the Subsidy Account on such terms and conditions as agreed between the Trustee and the respective contributors. Cumulative contributions received as at April 30, 1990 amounted to SDR 203.9 million (SDR 78.6 million at April 30, 1989) and are listed in Schedule 1.

4. Borrowing

The Trustee borrows resources for the Loan Account and for the Subsidy Account on such terms and conditions as agreed between the Trustee and the respective lenders.

The following summarizes borrowing agreements concluded as at April 30, 1990 (in thousands of SDRs):

	Amounts Agreed	Amounts Borrowed	Amounts Available
Loan Account	4,575,000	565,987	4,009,013
Subsidy Account	101,365	81,365	20,000

At April 30, 1989 borrowing agreements had been concluded for the Loan Account and the Subsidy Account amounting to SDR 4,575 million and SDR 100 million, respectively. Amounts available under these agreements at April 30, 1989 were SDR 4,239 million for the Loan Account and SDR 40 million for the Subsidy Account.

Scheduled repayments of outstanding borrowing by the Trustee are shown in Schedule 2.

5. Commitments under Loan Arrangements

At April 30, 1990 resources of the Loan Account were committed to members under eleven loan arrangements and undrawn balances under those arrangements amounted to SDR 621 million. At April 30, 1989 undrawn balances under seven loan arrangements amounted to SDR 560 million. Loan arrangements are listed in Schedule 3. Scheduled repayments of outstanding loans are shown in Schedule 4.

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Schedule 1

ENHANCED STRUCTURAL ADJUSTMENT FACILITY TRUST

CONTRIBUTIONS TO THE SUBSIDY ACCOUNT[1]

as at April 30, 1990

(In thousands of SDRs)

Contributor	Cumulative Contributions
Austria	4,434
Belgium	7,111
Canada	1,300
Denmark	22,521
Finland	13,782
Germany, Federal Republic of	4,455
Greece	2,551
Japan	37,509
Korea	27,700
Luxembourg	1,003
Netherlands	3,477
Norway	9,102
Sweden	36,571
United Kingdom	32,374
Total contributions received	203,890

[1] The Subsidy Account also benefits from the net investment earnings of the proceeds of loans on investments which amounted to SDR 81.4 million at April 30, 1990.

Schedule 2

ENHANCED STRUCTURAL ADJUSTMENT FACILITY TRUST

SCHEDULE OF REPAYMENTS OF BORROWING

as at April 30, 1990

(In thousands of SDRs)

Periods of Repayment Financial Years Ending April 30[1]	Loan Account	Subsidy Account
1994	1,465	—
1995	56,739	—
1996	113,197	—
1997	113,197	—
1998	113,197	—
1999	111,732	60,000
2000	56,458	20,000
2001	—	—
2002	—	—
2003	—	1,365
Total[2]	565,987	81,365

[1] Dates of repayment are the dates provided in the borrowing agreements between the Trustee and lenders. The borrowing agreements also permit earlier repayment in certain circumstances.
[2] Details may not add to total due to rounding.

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Schedule 3

ENHANCED STRUCTURAL ADJUSTMENT FACILITY TRUST
STATUS OF LOAN ARRANGEMENTS[1]
as at April 30, 1990

(In thousands of SDRs)

			Amount Agreed			Undrawn Balance		
Member	Date of Arrangement	Expiration	ESAF Loan Account	Structural adjustment facility	Total	ESAF Loan Account	Structural adjustment facility	Total
Bolivia	July 27, 1988	July 26, 1991	99,770	36,280	136,050	68,025	—	68,025
Gambia, The	Nov. 23, 1988	Nov. 22, 1991	17,100	3,420	20,520	10,260	—	10,260
Ghana	Nov. 9, 1988	Nov. 8, 1991	265,850	102,250	368,100	123,550	20,450	144,000
Kenya	May 15, 1989	May 14, 1992	170,400	71,000	241,400	132,533	28,400	160,933
Madagascar	May 15, 1989	May 14, 1992	43,700	33,200	76,900	37,987	13,280	51,267
Malawi	July 15, 1988	July 14, 1991	29,760	26,040	55,800	11,160	7,440	18,600
Mauritania	May 24, 1989	May 23, 1992	47,460	3,390	50,850	33,900	—	33,900
Niger	Dec. 12, 1988	Dec. 11, 1991	43,810	6,740	50,550	33,700	—	33,700
Senegal	Nov. 21, 1988	Nov. 20, 1991	133,182	11,488	144,670	42,550	—	42,550
Togo	May 31, 1989	May 30, 1992	26,880	19,200	46,080	23,040	7,680	30,720
Uganda	Apr. 17, 1989	Apr. 16, 1992	159,360	19,920	179,280	104,580	—	104,580
Total[2]			1,037,272	332,928	1,370,200	621,286	77,250	698,535

[1] Resources under enhanced structural adjustment facility arrangements may be provided from the structural adjustment facility within the Special Disbursement Account and from the Enhanced Structural Adjustment Facility Trust.
[2] Details may not add to totals due to rounding.

Schedule 4

ENHANCED STRUCTURAL ADJUSTMENT FACILITY TRUST
SCHEDULE OF REPAYMENTS OF LOANS
as at April 30, 1990

(In thousands of SDRs)

Periods of Repayment Financial Years Ending April 30	Loan Account
1994	1,465
1995	40,534
1996	83,197
1997	83,197
1998	83,197
1999	81,732
2000	42,663
Total[1]	415,986

[1] Details may not add to total due to rounding.

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ENHANCED STRUCTURAL ADJUSTMENT FACILITY

ADMINISTERED ACCOUNTS

BALANCE SHEET

as at April 30, 1990

(In thousands of SDRs)
(Note 1)

	1990			1989		
	Austria	Belgium	Greece	Austria	Belgium	Greece
ASSETS						
Investments (Note 2)	60,000	100,000	35,000	60,000	65,028	35,000
Accrued interest receivable	1,750	2,714	1,133	1,504	1,460	988
Total	61,750	102,714	36,133	61,504	66,488	35,988
LIABILITIES AND RESOURCES						
Resources	1,650	2,563	1,067	1,404	1,392	922
Deposits (Note 3)	60,000	100,000	35,000	60,000	65,000	35,000
Accrued interest on deposits	100	151	66	100	96	66
Total	61,750	102,714	36,133	61,504	66,488	35,988

The accompanying notes are an integral part of the financial statements.

/s/ Gerhard Laske
Treasurer

/s/ M. Camdessus
Managing Director

ENHANCED STRUCTURAL ADJUSTMENT FACILITY

ADMINISTERED ACCOUNTS

STATEMENT OF INCOME AND EXPENSE

for the year ended April 30, 1990

(In thousands of SDRs)

(Note 1)

	1990			1989		
	Austria	Belgium	Greece	Austria	Belgium	Greece
Income						
Investment income	4,980	7,806	2,871	1,504	2,511	988
Deduct: Interest expense on deposits	300	471	175	100	172	66
Net income	4,680	7,335	2,696	1,404	2,339	922

The accompanying notes are an integral part of the financial statements.

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ENHANCED STRUCTURAL ADJUSTMENT FACILITY

ADMINISTERED ACCOUNTS

STATEMENT OF CHANGES IN RESOURCES

for the year ended April 30, 1990

(In thousands of SDRs)

(Note 1)

	1990			1989		
	Austria	Belgium	Greece	Austria	Belgium	Greece
Balance at beginning of year	1,404	1,392	922	—	—	—
Net income	4,680	7,335	2,696	1,404	2,339	922
Transfers to Enhanced Structural Adjustment Facility Trust Subsidy Account	(4,434)	(6,164)	(2,551)	—	(947)	—
Balance at end of year	1,650	2,563	1,067	1,404	1,392	922

The accompanying notes are an integral part of the financial statements.

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ENHANCED STRUCTURAL ADJUSTMENT FACILITY

ADMINISTERED ACCOUNTS

NOTES TO THE FINANCIAL STATEMENTS

Purpose

The Administered Accounts were established for the administration of resources deposited in the accounts. The difference, net of any investment cost, between interest earned by the Fund on the investment of resources and the interest on deposits due will be transferred to the Subsidy Account of the Enhanced Structural Adjustment Facility Trust.

The resources of each of the Administered Accounts 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.

1. Accounting Practices

Unit of Account

The accounts of the Administered Accounts 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 of the Administered Accounts 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 Fund to make all calculations on the basis of the exact number of days in the accounting period.

2. Investments

The resources of the Administered Accounts are invested by the Fund in SDR-denominated deposits.

3. Deposits

The Administered Account Austria was established December 27, 1988 for the administration of resources deposited in the account by the Austrian National Bank. The deposit totaling SDR 60 million will be repaid in ten equal semiannual installments which begin five and one half years after the date of the deposit and will be completed at the end of the tenth year after the date of the deposit. The deposit will bear interest at an annual rate of ½ of 1 percent per annum.

The Administered Account Belgium was established July 27, 1988 for the administration of resources deposited in the account by the National Bank of Belgium. The deposits totaling SDR 100 million will each have an initial maturity of six months and will be renewable, at the option of the Fund, on the same basis. The final maturity of each deposit, including renewals, will be ten years from the initial date of the deposit. The deposits will bear interest at an annual rate of ½ of 1 percent per annum.

The Administered Account Greece was established November 30, 1988 for the administration of resources deposited in the account by the Bank of Greece. The deposit totaling SDR 35 million will be repaid in ten equal semiannual installments which begin five and one half years after the date of deposit and will be completed at the end of the tenth year after the date of the deposit. The deposit will bear interest at an annual rate of ½ of 1 percent per annum.

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ADMINISTERED ACCOUNT — JAPAN

BALANCE SHEET

as at April 30, 1990

(In thousands of U.S. dollars)
(Note 1)

	1990	1989
ASSETS		
Investments (Note 2)	60,900	43,800
Currency deposit pending investment	97	27
Accrued interest receivable	—	25
Total	60,997	43,852
RESOURCES		
Resources—Account balance	60,997	43,852

The accompanying notes are an integral part of the financial statements.

/s/ Gerhard Laske
Treasurer

/s/ M. Camdessus
Managing Director

ADMINISTERED ACCOUNT — JAPAN

STATEMENT OF CHANGES IN RESOURCES

for the year ended April 30, 1990

(In thousands of U.S. dollars)
(Note 1)

	1990	1989
Balance at beginning of the year	43,852	—
Contributions received	16,260	43,644
Income earned on investments (Note 2)	3,885	208
	63,997	43,852
Payment to beneficiary	3,000	—
Balance at end of the year	60,997	43,852

The accompanying notes are an integral part of the financial statements.

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ADMINISTERED ACCOUNT—JAPAN

NOTES TO THE FINANCIAL STATEMENTS

Purpose

At the request of Japan, the Fund established an account on March 3, 1989, to administer resources contributed by Japan that are to be used to assist certain members with overdue obligations to the Fund. The resources of the Administered Account are to be disbursed in amounts specified by Japan and only to members designated by Japan. The Fund performs financial services in the administration of the resources contributed, and the assets of the Account are separate from the assets of all other accounts of, or administered by, the Fund and are not to be used to discharge liabilities or to meet losses incurred in the administration of other accounts.

Contributions received by the Administered Account are held in temporary investment accounts pending the receipt of notification to the Fund from Japan that resources should be disbursed. Cumulative contributions since the inception of the Administered Account amount to $59.9 million of which $3 million has been disbursed.

1. Accounting Practices

Unit of Account

The accounts of the Administered Account are expressed in U.S. dollars. All transactions and operations of the Administered Account, including the transfers to and by the Account, are denominated in U.S. dollars.

Basis of Accounting

The accounts of the Administered Account 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 Fund to make all calculations on the basis of the exact number of days in the accounting period.

2. Investments

The assets of the Administered Account, pending their disbursement, are held in the form of repurchase agreements with the Federal Reserve Bank of New York. Interest received on these assets varies and is market related.

3. Account Termination

The Administered Account can be terminated by the Fund or by Japan. Any resources in the account at termination are to be returned promptly to Japan.

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ADMINISTERED ACCOUNT—GUYANA

BALANCE SHEET

as at April 30, 1990

(In thousands of U.S. dollars)

(Note 1)

	1990	1989
ASSETS		
Investments (Note 2)	6,218	—
Accrued interest receivable	58	—
Total	6,276	—
RESOURCES		
Resources—Account balance	6,276	—

The accompanying notes are an integral part of the financial statements.

/s/ Gerhard Laske
Treasurer

/s/ M. Camdessus
Managing Director

ADMINISTERED ACCOUNT — GUYANA

STATEMENT OF CHANGES IN RESOURCES

for the year ended April 30, 1990

(In thousands of U.S. dollars)

(Note 1)

	1990	1989
Balance at beginning of year	—	—
Contributions received	7,925	1,000
Income earned on investments (Note 2)	127	—
	8,052	1,000
Payment to beneficiary	1,700	1,000
Unrealized translation loss (Note 2)	76	—
Balance at end of the year	6,276	—

The accompanying notes are an integral part of the financial statements.

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ADMINISTERED ACCOUNT—GUYANA

NOTES TO THE FINANCIAL STATEMENTS

Purpose

At the request of Guyana, the Fund established an account on April 5, 1989, to administer resources made available by various contributors in connection with Guyana's adjustment effort. The Fund administers this Account and performs financial services at the request of Guyana. The resources of the Administered 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.

Cumulative contributions since the inception of the Administered Account amount to $8.9 million, of which $2.7 million has been disbursed. Contributions received by the account are temporarily invested pending the receipt of notification to the Fund that resources, including investment income, are to be disbursed.

1. Accounting Practices

Unit of Account

The accounts of the Administered Account are expressed and denominated in U.S. dollars. All transfers to and by the Account are denominated in U.S. dollars or in other freely usable currencies.

Basis of Accounting

The accounts of the Administered Account 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 Fund to make all calculations on the basis of the exact number of days in the accounting period.

2. Investments

The assets of the Administered Account, 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. Account resources have been temporarily invested at the Bank for International Settlements in SDR-denominated obligations in anticipation of Guyana's settlement of obligations denominated in SDRs. Interest received on these assets varies and is market related.

3. Account Termination

The Administered Account can be terminated by the Fund, by Guyana, or by the Chairman of the Support Group for Guyana. Otherwise, the Administered Account shall be terminated on December 31, 1991, or such later date as may be agreed. Any proceeds that remain in the Account at termination shall be returned to the transferor, unless otherwise indicated by them.

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ADMINISTERED TECHNICAL ASSISTANCE ACCOUNT — JAPAN

BALANCE SHEET

as at April 30, 1990

(In thousands of U.S. dollars)
(Note 1)

ASSETS	
Investments (Note 2)	290
RESOURCES	
Resources—Account balance	290

The accompanying notes are an integral part of the financial statements.

/s/ Gerhard Laske
Treasurer

/s/ M. Camdessus
Managing Director

ADMINISTERED TECHNICAL ASSISTANCE ACCOUNT — JAPAN

STATEMENT OF CHANGES IN RESOURCES

for the period March 19, 1990 to April 30, 1990

(In thousands of U.S. dollars)
(Note 1)

Contribution received	288
Income earned on investments (Note 2)	2
Balance at end of the period	290

The accompanying notes are an integral part of the financial statements.

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ADMINISTERED TECHNICAL ASSISTANCE ACCOUNT—JAPAN

NOTES TO THE FINANCIAL STATEMENTS

Purpose

At the request of Japan, the Fund established an account on March 19, 1990, to administer resources contributed by Japan that are to be used to finance technical assistance to member countries. Resources of the Administered Technical Assistance Account will be used to help Fund members strengthen their administrative capacity and their capacity to formulate, implement, and maintain macroeconomic programs and structural adjustment programs aimed, inter alia, at helping to resolve or to avoid debt-related difficulties. Disbursements can also be made from the Administered Technical Assistance Account to the Fund's General Resources Account to reimburse the Fund for expenditures incurred on behalf of Technical Assistance Projects.

The assets of the account are accounted for separately 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 by the Administered Technical Assistance Account are invested by the Fund pending disbursement. Net investment earnings of the account accrue to and are available for the purposes of the account. Cumulative contributions since the inception of the Administered Technical Assistance Account amount to $0.3 million.

1. Accounting Practices

Unit of Account

The accounts of the Administered Technical Assistance Account are expressed in U.S. dollars. All transactions and operations of the Administered Technical Assistance Account, including the transfers to and by the account, are denominated in U.S. dollars.

Basis of Accounting

The accounts of the Administered Technical Assistance Account 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 Fund to make all calculations on the basis of the exact number of days in the accounting period.

2. Investments

The assets of the Administered Technical Assistance Account, pending their disbursement, are invested. Interest received on these investments varies and is market related.

3. Account Termination

The Administered Technical Assistance Account can be terminated by the Fund or by Japan. Any resources that remain in the Administered Technical Assistance Account at termination, net of accrued liabilities under Technical Assistance Projects, are returned to Japan.

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VOLUNTARY CONTRIBUTION ACCOUNT—BOLIVIA

BALANCE SHEET

as at April 30, 1990

(In thousands of U.S. dollars)
(Note 1)

	1990	1989
ASSETS		
Investments (Note 2)	8,284	73
RESOURCES		
Resources—Account balance	8,284	73

The accompanying notes are an integral part of the financial statements.

/s/ Gerhard Laske
Treasurer

/s/ M. Camdessus
Managing Director

VOLUNTARY CONTRIBUTION ACCOUNT — BOLIVIA

STATEMENT OF CHANGES IN RESOURCES

for the year ended April 30, 1990

(In thousands of U.S. dollars)
(Note 1)

	1990	1989
Balance at beginning of the year	73	22,391
Contributions received	14,537	13,668
Interest earned on investments (Note 2)	322	681
	14,932	36,740
Payment to beneficiary	6,648	36,667
Balance at end of the year	8,284	73

The accompanying notes are an integral part of the financial statements.

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VOLUNTARY CONTRIBUTION ACCOUNT — BOLIVIA

NOTES TO THE FINANCIAL STATEMENTS

Purpose

Voluntary Contribution Accounts may be established by the Fund at the request of a member to perform financial services including the administration of contributed resources. The resources of each Voluntary Contribution Account are separate from the assets of all other accounts of, or administered by, the Fund and are not available to discharge liabilities or to meet losses incurred in the administration of other accounts. Contributions received are held in temporary investments pending the receipt of notification to the Fund that resources should be disbursed.

Effective October 21, 1987, the Fund established, at the request of Bolivia, a Voluntary Contribution Account to be administered by the Fund in order to assist Bolivia to discharge a portion of the external indebtedness owed or guaranteed to nonofficial creditors. Cumulative contributions received since the inception of the Voluntary Contribution Account amount to $50.4 million, of which $43.3 million has been disbursed.

1. Accounting Practices

Unit of Account

The accounts of the Voluntary Contribution Account are expressed in U.S. dollars. All transactions and operations of the Voluntary Contribution Account, including the transfers to and by the account, are denominated in U.S. dollars.

Basis of Accounting

The accounts of the Voluntary Contribution Account 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 Fund to make all calculations on the basis of the exact number of days in the accounting period.

2. Investments

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.

3. Account Termination

The Voluntary Contribution Account can be terminated by the Fund or Bolivia. Any resources in the Voluntary Contribution Account at its termination are to be returned to those that transferred assets to the Account or, in accordance with their instructions, to Bolivia.

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REPORT OF THE EXTERNAL AUDIT COMMITTEE
STAFF RETIREMENT PLAN

Washington, D.C.
June 29, 1990

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, 1990.

Our audit was conducted in accordance with international auditing guidelines and, accordingly, included reviews of accounting and control systems, tests of accounting records, evaluation of the extent and results of work performed by the Office of Internal Audit and the Independent Accountants, 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, and give a true and fair view of the financial status of the Staff Retirement Plan as at April 30, 1990 and of the changes in financial status for the year then ended.

EXTERNAL AUDIT COMMITTEE

/s/ Abdulaziz Al-Nasrullah, Chairperson (*Saudi Arabia*)
/s/ Michael Jacobs (*Australia*)
/s/ Mamadou A. Sow (*Senegal*)

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STAFF RETIREMENT PLAN

STATEMENT OF ACCUMULATED PLAN BENEFITS

AND NET ASSETS AVAILABLE FOR BENEFITS

as at April 30, 1990

(In thousands of U.S. dollars)

(Note 1)

	1990	1989
Accumulated Plan Benefits		
Actuarial present value of accumulated Plan benefits		
Vested benefits		
Retired participants	286,800	256,400
Active participants	211,600	186,000
Nonvested benefits	308,300	284,000
Total actuarial present value of accumulated Plan benefits	806,700	726,400
Net Assets Available for Benefits		
Investments, at current value (Note 3)		
Portfolio denominated in U.S. dollars	860,297	810,656
Portfolio denominated in other currencies	366,033	324,005
	1,226,330	1,134,661
Receivables		
Contributions	318	256
Accrued interest and dividends	9,201	9,188
Other	1,904	2,467
	11,423	11,911
Cash at banks	43	146
Total Assets	1,237,796	1,146,718
Liabilities		
Accounts payable	1,669	1,734
Net assets available for benefits	1,236,127	1,144,984
Excess of net assets available for benefits over actuarial present value of accumulated Plan benefits (Note 2)	429,427	418,584

The accompanying notes are an integral part of the financial statements.

/s/ Gerhard Laske
Treasurer

/s/ M. Camdessus
Managing Director

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STAFF RETIREMENT PLAN

STATEMENT OF CHANGES IN ACCUMULATED PLAN BENEFITS

for the year ended April 30, 1990

(In thousands of U.S. dollars)

(Note 1)

	1990	1989
Actuarial present value of accumulated Plan benefits at beginning of the year	726,400	673,900
Increase (decrease) during the year attributable to		
Benefits accumulated	43,399	17,375
Increase for interest due to decrease in discount period	60,700	56,400
Benefits paid	(23,799)	(21,275)
Net increase	80,300	52,500
Actuarial present value of accumulated Plan benefits at end of the year	806,700	726,400

The accompanying notes are an integral part of the financial statements.

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STAFF RETIREMENT PLAN

STATEMENT OF CHANGES IN NET ASSETS AVAILABLE FOR BENEFITS

for the year ended April 30, 1990

(In thousands of U.S. dollars)

(Note 1)

	1990	1989
Investment Income		
Net gain in current value of investments (Note 3)	23,491	87,633
Interest and dividends	71,100	70,457
	94,591	158,090
Contributions (Note 2)		
International Monetary Fund	15,141	19,918
Participants	12,555	11,271
Participants restored to service	117	95
Net transfers to retirement plans of other international organizations	(350)	(78)
	27,463	31,206
Total additions	122,054	189,296
Benefits		
Pension	20,687	18,828
Withdrawal	1,866	1,853
Commutation	1,118	230
Death	128	364
	23,799	21,275
Investment Fees		
Custodian	814	771
Manager	6,298	5,085
	7,112	5,856
Total payments	30,911	27,131
Net additions	91,143	162,165
Net Assets Available for Benefits at		
Beginning of year	1,144,984	982,819
End of year	1,236,127	1,144,984

The accompanying notes are an integral part of the financial statements.

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STAFF RETIREMENT PLAN

NOTES TO THE FINANCIAL STATEMENTS

Description of the 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, retired participants, and their beneficiaries.

Benefits

The Plan was amended twice during financial year 1990. The first amendment, which limits the compensation on which benefits may be based, has an effective date of May 1, 1989. The second amendment, which makes the changes referred to below as the new Plan provisions, has an effective date of May 1, 1990.

Annual Pension

Participants are entitled to an annual pension beginning at normal retirement age of 65 (62 under the new Plan provisions). The amount of the pension is based on the number of years of service, age at retirement, and highest average gross remuneration. The provisions determining gross remuneration have been amended under the new Plan.

The accrual rate of benefits under the old Plan is 2 percent of gross remuneration for each year of service, while the accrual rate under the new Plan will be 2.2 percent for the first 25 years of service and 1.8 percent for the next 10 years of service.

Beginning May 1, 1989 the gross remuneration on which pensions from the Plan are based is limited to a predetermined amount that is periodically adjusted. Pension benefits attributable to gross remuneration in excess of this amount are paid from the Supplemental Retirement Benefit Plan.

Transitional arrangements provide that the pensions of participants hired before May 1, 1990 will be based on a prorated combination of the old and new Plan provisions, based on the number of years of service before and after May 1, 1990.

Under the new Plan, a grandfathering option allows certain participants to receive pension benefits based on the larger of old Plan benefits or transitional benefits. Participants electing the grandfathering option will be eligible for three of the new Plan provisions described below; they will be able to begin receiving their pensions before age 55, they may elect the split currency option, and their survivors will receive improved benefits. Those electing the grandfathering option will continue to make contributions on the basis of the (higher) gross remuneration determined in accordance with the provisions of the old Plan.

Participants who have reached the age of 55 (50 under the new Plan, if their age and years of service total at least 75) 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 (85 under the new Plan). Early retirement pensions are based on normal pensions, determined under the old Plan provisions or the transitional rules discussed above, whichever is applicable.

Cost of Living Adjustment

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. Deferred pensions become subject to cost of living adjustments when the sum of participant's age and years of service is at least 55 (50 under the new Plan).

Withdrawal Benefit

Upon termination a participant with at least three years of eligible service may elect to receive either a withdrawal benefit or a deferred pension to commence after the participant has reached the age of 55 (50 under the new Plan). Under the old Plan the withdrawal benefit was equal to the sum of the accumulated contributions of the participant and a percentage of such accumulated contributions, the percentage being based on the number of months of eligible service. Under the new Plan the withdrawal benefit will be a percentage of the participant's highest average gross remuneration. However, the withdrawal benefit under the new Plan is guaranteed to be at least what it would have been under the old Plan provisions.

Commutation

A pensioner 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.

Disability Pensions, Death Benefits, and Survivor Benefits

The Plan also provides for disability pensions, death benefits, and benefits to surviving spouses and children. Under the old Plan, surviving spouses and children receive benefits only if certain age and eligible service requirements are met. Under the new Plan these benefits will be paid without regard to age and eligible service.

Currency of Pension Payments

A participant may elect to have his pension paid in the currency of the country in which he has established permanent residency. Under the new Plan participants may receive their pensions in a combination of two currencies—the U.S. dollar and the currency of the country in which the participant is a permanent resident.

Contributions

Participants

As a condition of employment, regular staff members are required to participate in and to contribute to the Plan. The contribution rate is at present 7 percent of the participant's gross remuneration. Certain other categories of staff members may elect to participate in the Plan. Contributions of participants electing the grandfathering option are based on the grossing-up formula in effect on April 30, 1990.

Employer

The Employer meets certain administrative costs of the Plan, such as the actuary's fees, and contributes any additional amount not provided by the contribution of participants to pay costs and expenses of the Plan not otherwise covered. In financial year 1990

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the costs met by the Employer were approximately $0.7 million ($0.2 in 1989).

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 presented for two categories. For retired participants, the amount presented 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 presented 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.

The valuation of accumulated Plan benefits is based on Plan provisions in effect on April 30, 1990. It does not reflect the benefits provided for in the new Plan because participants were not entitled to those benefits as of that date.

In contrast to the actuarial valuation for funding purposes, the actuarial valuation used for the financial statements represents the portion of the benefit obligation which had been accumulated by April 30, 1990. 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 that the excess of assets over the present value of accumulated benefits is needed to meet the obligation to pay benefits in the future.

Valuation of Investments

Investments in securities listed on stock exchanges are valued at the last reported market 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. Investments in real estate are valued at the last reported appraisal value. Purchases and sales made by U.S. investment managers are recorded on the settlement date basis, and transactions made by the international investment managers are recorded on the trade date basis.

Investment Income

Dividend and interest income from investments are recorded as earned.

2. Actuarial Valuation and Funding Policy

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.

Funding by the Employer is based upon a valuation method, known as the "aggregate method," which expresses liabilities and contribution requirements as single consolidated figures that 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 and are based upon the valuation completed 12 months previously. For the financial year which began on May 1, 1988 this rate was 12.62 percent and was 8.45 percent for the year that began on May 1, 1989 based upon the valuation at April 30, 1988. The proposed rate for the year beginning May 1, 1990 is 3.91 percent of the new gross remuneration.

The actuarial assumptions used in the valuation include (a) life expectancy based upon United Nations staff life expectancy, (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 8.5 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.

The results of the April 30, 1989 and 1988 valuations are:

	1989	1988
	In millions of U.S. dollars	
Present value of benefits payable	1,193	1,106
Less: Assets for valuation purposes	999	842
Required future funding	194	264
Less: Present value of prospective contributions from participants (7 percent of gross remuneration)	129	122
Present value of future funding required from the Employer	65	142

3. Investments

A summary of investments at market values is as follows:

	1990	1989
	In thousands of U.S. dollars	
Portfolio denominated in U.S. dollars		
U.S. Government securities	140,676	152,608
Corporate bonds and debentures	72,949	48,912
Common and preferred stock	503,121	480,555
Real estate	46,523	36,767
Venture capital	4,053	4,393
Short-term investments	92,975	87,421
Subtotal	860,297	810,656
Portfolio denominated in other currencies	366,033	324,005
Total	1,226,330	1,134,661

The net gain 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.

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REPORT OF THE EXTERNAL AUDIT COMMITTEE

SUPPLEMENTAL RETIREMENT BENEFIT PLAN

Washington, D.C.
June 29, 1990

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 year ended April 30, 1990.

Our audit was conducted in accordance with international auditing guidelines and, accordingly, included reviews of accounting and control systems, tests of accounting records, evaluation of the extent and results of work performed by the Office of Internal Audit and the Independent Accountants, 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 applied on a basis consistent with that of the preceding period, and give a true and fair view of the financial status of the Supplemental Retirement Benefit Plan as at April 30, 1990 and of the changes in financial status for the year then ended.

EXTERNAL AUDIT COMMITTEE

/s/ Abdulaziz Al-Nasrullah, Chairperson (*Saudi Arabia*)
/s/ Michael Jacobs (*Australia*)
/s/ Mamadou A. Sow (*Senegal*)

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SUPPLEMENTAL RETIREMENT BENEFIT PLAN

STATEMENT OF ACCUMULATED PLAN BENEFITS

AND ASSETS AVAILABLE FOR BENEFITS

as at April 30, 1990

(In thousands of U.S. dollars)

(Note 1)

	1990	1989
Accumulated Plan Benefits		
Actuarial present value of accumulated Plan benefits		
Vested benefits	900	700
Nonvested benefits	100	100
Total actuarial present value of accumulated Plan benefits	1,000	800
Assets Available for Benefits		
Receivables:		
Contributions	1	—
Cash at bank (Note 3)	166	126
Assets available for benefits	167	126
Excess of actuarial present value of accumulated Plan benefits over assets available for benefits	833	674

The accompanying notes are an integral part of the financial statements.

/s/ Gerhard Laske
Treasurer

/s/ M. Camdessus
Managing Director

SUPPLEMENTAL RETIREMENT BENEFIT PLAN

STATEMENT OF CHANGES IN ACCUMULATED PLAN BENEFITS

for the year ended April 30, 1990

(In thousands of U.S. dollars)

(Note 1)

	1990	1989
Actuarial present value of accumulated Plan benefits at the beginning of the year	800	1,200
Increase (decrease) during the period attributable to		
Benefits accumulated	197	(424)
Increase for interest due to decrease in discount period	100	100
Benefits paid	(97)	(76)
Net increase (decrease)	200	(400)
Actuarial present value of accumulated Plan benefits at the end of the year	1,000	800

The accompanying notes are an integral part of the financial statements.

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SUPPLEMENTAL RETIREMENT BENEFIT PLAN

STATEMENT OF CHANGES IN ASSETS AVAILABLE FOR BENEFITS

for year ended April 30, 1990

(In thousands of U.S. dollars)

(Note 1)

	1990	1989
Interest income	5	9
Contributions		
International Monetary Fund	62	—
Participants	71	—
	133	—
Total additions	138	9
Payments	97	76
Pension		
Total payments	97	76
Net increase (decrease)	41	(67)
Net assets available for benefits at		
Beginning of the year	126	193
End of the year	167	126

The accompanying notes are an integral part of the financial statements.

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SUPPLEMENTAL RETIREMENT BENEFIT PLAN

NOTES TO THE FINANCIAL STATEMENTS

Description of Supplemental Retirement Benefit Plan

General

The Supplemental Retirement Benefit Plan (SRBP) 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 SRBP was amended during financial year 1990 with an effective date of May 1, 1989.

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. An additional limitation was adopted by the Staff Retirement Plan in financial year 1990. This limit requires that the gross compensation on which pensions are based be no greater than a predetermined amount which is periodically adjusted.

In financial year 1990, ten pensioners received benefits from the SRBP (seven in 1989).

Contributions

Before financial year 1990, the SRBP was entirely funded by the Employer. Beginning May 1, 1989, participants with gross remuneration exceeding the predetermined limit are required to contribute 7 percent of their gross remuneration in excess of this limit to the SRBP. The Employer meets administrative costs of the SRBP and contributes any additional amounts not provided by the contributions of participants to pay costs and expenses of the SRBP not otherwise covered.

The Employer makes regular contributions in relation to non-U.S. citizens whose calculated gross remuneration exceeds the predetermined limit, as adjusted. There is also a partial prefunding by the Employer, 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 any of the prefunded assets of the Staff Retirement Plan. The contributions of participants and the prefunded amounts are used to pay any of the benefits payable, whether for U.S. or non-U.S. staff. Should the assets of the SRBP be exhausted, benefits will be paid from current contributions by the Employer.

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 presented for two categories. The vested benefits relate to retired participants and the amount presented 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 presented 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

Cash balances are maintained in a money market account.

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