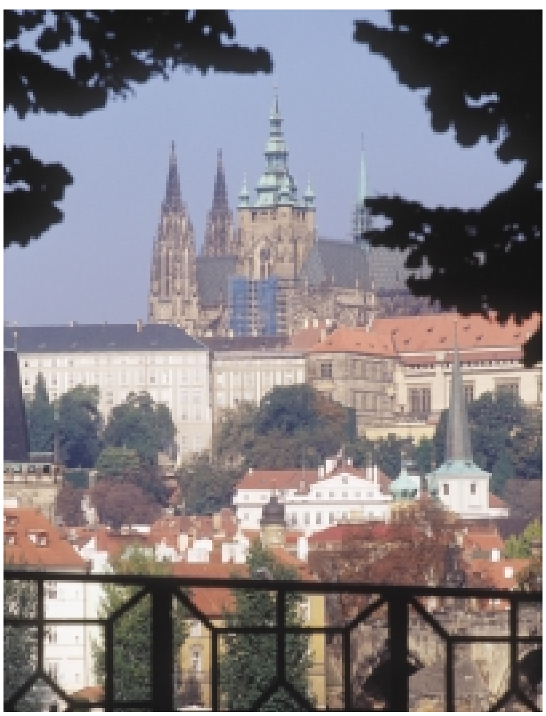
Annual Report 2001

International Monetary Fund
Washington D.C.

HIGHLIGHTS

IMF Reforms Advance in FY2001

Financial year 2001 saw the IMF actively engaged in the process of reform, while advancing its operational work. The IMF further increased its own openness and transparency by releasing more information to the public, and actively encouraged its member countries to be more transparent about their economic developments and policies. It strengthened its surveillance work, notably in the area of financial sector assessments and by progress in disseminating internationally recognized standards and codes of good practice. At the same time, it rationalized and updated its lending policies. The IMF also refocused work on its core responsibilities—especially the promotion of international financial stability as a public good—to give higher priority to preventing financial crises among its members. And it streamlined the conditionality attached to its loans, to focus and prioritize conditions on measures critical to success of IMF-supported programs.



Prague, the venue for the September 2000 Annual Meetings. The Meetings focused on efforts to make globalization work for the benefit of all, while minimizing any adverse effects.

To help its low-income member countries, the IMF concentrated its low-cost lending activities on implementing the enhanced strategy for poverty reduction introduced in 1999. By April 2001, 22 heavily indebted poor countries were benefiting from debt relief of about $20 billion (net present value terms) provided by the IMF, the World Bank, and other creditors under the joint IMF–World Bank Initiative for Heavily Indebted Poor Countries (HIPC Initiative).

In these and other ways, the IMF played its part in helping make globalization work for the benefit of all.

Highlights of the IMF's work during the year were as follows:

- Regular and concessional lending increased slightly in FY2001 following a sharp decline in the previous year. The IMF disbursed SDR 9.5 billion under regular policies and facilities, compared with SDR 6.3 billion in FY2000. Under the IMF's concessional facility for poor countries, disbursements rose to SDR 0.6 billion from SDR 0.5 billion in FY2000.[1]
- Total IMF credit outstanding declined to SDR 48.6 billion at the end of FY2001 from SDR 50.3 billion a year earlier. A high level of repayments, including substantial advance repayments, more than offset the increased lending. On April 30, 2001, the IMF had SDR 78.7 billion in usable quota resources available for new financing, compared with SDR 74.8 billion a year earlier, and nearly four times the low point prior to the 1999 quota increase. The IMF's liquidity ratio at the end of the financial year stood at 168.4 percent, up from 153.0 percent at the end of FY2000.
- In its surveillance of member country policies, the IMF devoted more attention to factors that make countries vulnerable to financial crises, including the health of their financial sectors, capital account developments, and public and external debt manage-

[1]As of April 30, 2001, SDR 1 = US$1.26579.

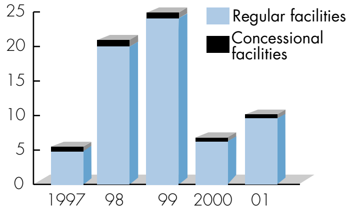
ment. To strengthen its role in promoting the stability of the international financial system, the IMF:

- further increased the transparency of its own operations and policy deliberations and of its members' economic policymaking, most notably by allowing publication of country reports and other country documents when the member concerned agrees;
- moved beyond the pilot phase of the Financial Sector Assessment Program (FSAP)—the joint IMF–World Bank program, launched in May 1999, to help strengthen member countries' financial sectors. In its pilot phase, the FSAP included a dozen countries. In December 2000–January 2001, the Executive Boards of the IMF and World Bank set a goal for assessing the financial sectors of about 24 countries a year;
- took steps to improve the IMF's analytical framework for evaluating countries' external vulnerability to financial crisis—including work on early warning systems. The IMF also developed a framework for evaluating the adequacy of international reserves, and developed guidelines with the World Bank for public debt management;
- laid the foundation for a new International Capital Markets Department to improve the IMF's understanding of financial markets and financial flows;
- established a Capital Markets Consultative Group as a channel for regular and informal dialogue with representatives of the private financial sector;
- moved forward with assessments of offshore financial centers;
- enhanced the IMF's contribution to international efforts to combat money laundering, in collaboration with the World Bank;

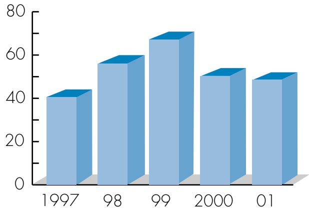
IMF Managing Director Horst Köhler greets school children at the start of a joint visit to Africa with World Bank President James Wolfensohn in February 2001.

- advanced its work on internationally recognized standards and codes of good practice to guide its members' policymaking, in areas that directly benefit macroeconomic policies and the functioning of financial markets. Using the Basel Core Principles, the IMF also assessed the adequacy of member countries' frameworks for banking supervision; and
- advanced toward agreement at the September 2000 Annual Meetings in Prague on a framework for the involvement of the private sector in crisis prevention and management. Work also advanced on two issues affecting the development of the framework—restructuring international sovereign bonds and corporate sector workouts.

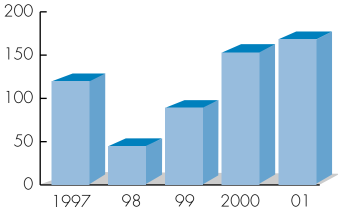
Regular and Concessional Lending
(In billions of SDRs, financial year)



Total IMF Credit Outstanding
(In billions of SDRs, end financial year)



IMF Liquidity Ratio
(In percent, end financial year)

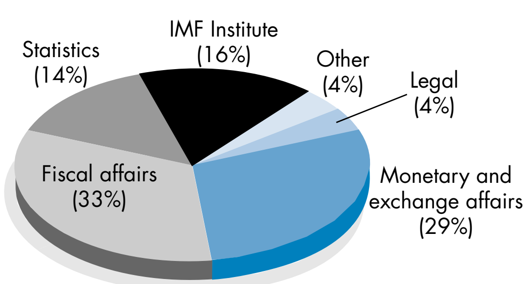


A lecturer at the IMF Institute in Washington, D.C. Technical assistance and training is an increasingly important area of the IMF's work. The IMF has issued guidelines to ensure that technical assistance better reflects its main priorities.

- In FY2001, the IMF took steps to update its lending policies and revisit its policy conditionality. Specifically, it:
  - ◆ restructured its regular lending facilities to allow the IMF to support more effectively its members' efforts to resolve crises, to prevent crises arising from contagion, and to help ensure a more efficient use of IMF financial resources. For example, it made the terms of Contingent Credit Lines more attractive to potential users and took steps to encourage more efficient use of IMF funds. It also introduced changes to encourage the early adoption of sound policies and to discourage overly long and heavy use of IMF financing.
  - ◆ began the process of streamlining its policy conditionality to increase its effectiveness and give greater scope for country ownership of IMF-supported programs, while ensuring that the essential objectives of such programs continue to be served and that the revolving character of the IMF's financial resources continues to be safeguarded. The streamlining effort will continue in the coming months, taking into account comments from the public and outside experts, as well as member countries.
  - ◆ clarified its role in promoting good governance in member countries by reaffirming the importance of good governance to sound economic management and of the IMF's role in this area, and by noting that the IMF's involvement should be limited to aspects of governance that can have a significant macroeconomic impact.
- In collaboration with the World Bank, the IMF continued to play an important role in the international community's efforts to promote poverty reduction, including by reducing debt burdens of heavily indebted poor countries and focusing its concessional lending activities more explicitly on the goal of poverty reduction. By April 2001, 22 heavily indebted poor countries (HIPCs) had reached their "decision points" under the initiative, allowing them to benefit over time from debt relief amounting to about $20 billion in net present value terms, and all 22 countries were receiving interim relief from some creditors. One country, Uganda, reached its "completion point" under the enhanced HIPC Initiative, at which point debt relief was delivered unconditionally, and several more countries are expected to do so by the end of 2001.
- In combination with traditional debt relief and pledges of additional bilateral debt forgiveness, the external indebtedness of the 22 countries receiving debt relief will be cut by almost two-thirds in net present value terms—by $33 billion—bringing their indebtedness to levels below the average for all developing countries. Real debt-service savings in these countries are also substantial—about $1.1 billion annually—and debt-service payments as a percent of exports, GDP, and government revenues will fall dramatically. The Executive Board agreed that HIPC debt relief provided the benefiting

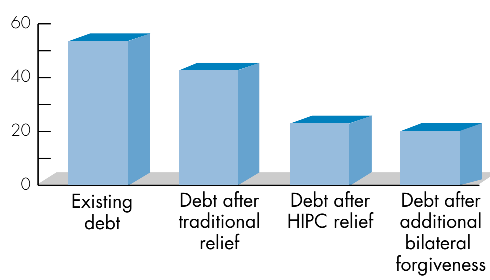
Technical Assistance by Function, FY2001

(As a percent of total resources in work-years)



Debt Stock Reduction for 22 HIPC Countries[1]

(Net present value of debt, in billions of US$ — in decision point terms)



[1] Countries that reached their decision points as of April 30, 2001. Excludes Chad, which reached its decision point in May 2001.

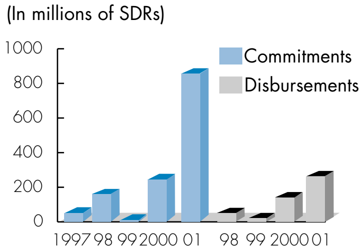
countries with a good basis for ensuring a sustainable debt burden over the long term, but it also required these countries' continued adherence to sound macroeconomic management and structural reforms, as well as adequate flows of concessional financing from abroad and better access to the markets of the advanced economies.

- Good progress was made in formulating and implementing Poverty Reduction Strategy Papers in FY2001, but challenges remained. Most poverty reduction strategy documents prepared in calendar 2000 were "Interim" PRSPs, many of which were provided to the Executive Boards of the World Bank and the IMF in connection with decision point documents discussed under the enhanced HIPC Initiative. As of April 30, 2001, the Boards had considered 32 Interim PRSPs and 4 full PRSPs, most prepared by African countries. For countries moving to the preparation of full PRSPs, the challenges include inadequate poverty data and limited institutional and analytical capacity on the part of both governments and civil society, and the need to ensure that broad-based participation does not undermine the authority of national parliaments and existing democratic processes.
- During FY2001, the IMF continued to provide considerable technical assistance to its member countries, with about three-quarters of this assistance provided to low- and lower-middle-income countries. At the September 2000 Annual Meetings in Prague, the International Monetary and Financial Committee agreed that technical assistance should play a major role in supporting the work of the IMF in crisis prevention and management, in capacity building for low-income countries, and in restoring macroeconomic stability in countries in the wake of crises. The Executive Board established new guidelines for planning and delivering technical assistance in FY2002 to achieve more effective prioritization of requests and delivery of services.
- Financial year 2001 was one of expansion for selected initiatives within overall resource constraints for the IMF's work program. The Executive Board approved the reclassification of the terms of employment of 217 staff positions, converting some contractual positions to staff jobs, and streamlined and consolidated outsourcing arrangements. Also, the IMF adopted several initiatives to reduce stress on its staff, and introduced and made public guidelines on ethical standards for the staff and the Executive Board.
- To further enhance the transparency and accountability of its activities, the IMF established in FY2001 an Independent Evaluation Office to provide objective reviews and assessments of its operational work. The Office will complement the review and evaluation work within the IMF and should improve its ability to draw lessons from its experience and more quickly integrate improvements into its work.
- Shortly after the end of the financial year, on May 8, 2001, First Deputy Managing Director Stanley Fischer announced his intention to leave his position later in 2001. Also after the close of the financial year, the Managing Director announced that Michael Mussa, Economic Counsellor and Director of the Research Department, and Jack Boorman, Counsellor and Director of the Policy Development and Review Department, would be leaving their posts. On June 7, the Managing Director announced the appointment of Anne Krueger as Mr. Fischer's successor. He also announced his intention to appoint Gerd Häusler to be Counsellor and Director of the new International Capital Markets Department; Kenneth S. Rogoff to become Economic Counsellor and Director of the IMF's Research Department, succeeding Mr. Mussa; and Timothy Geithner to be Director of the Policy Development and Review Department, succeeding Mr. Boorman.

Students view an exhibit at the IMF Center in Washington, D.C. The Center, part of a wider effort to make the IMF more transparent and accessible, was opened in November 2000.

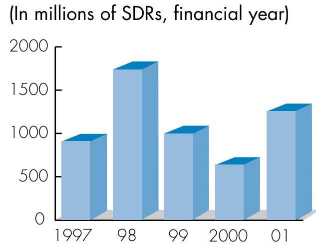
Assistance Under the HIPC Initiative

(In millions of SDRs)



Commitments Under the PRGF[1]

(In millions of SDRs, financial year)



[1] Poverty Reduction and Growth Facility; before November 1999, the Enhanced Structural Adjustment Facility

Managing Director and Deputy Managing Directors

on April 30, 2001

Managing Director Horst Köhler

First Deputy Managing Director Stanley Fischer

Deputy Managing Director Shigemitsu Sugisaki

Deputy Managing Director Eduardo Aninat

Message from the Managing Director

At our Annual Meetings in Prague in September 2000—my first Annual Meetings as Managing Director—I had the opportunity to outline my vision of the future role of the IMF. It is a vision in which I see the IMF playing an active role in making globalization work for the benefit of all, helping countries take advantage of the opportunities of the global economy, and finding ways of containing the risks. I see also an IMF where work is refocused on the areas of responsibility that form its core mandate. In Prague, our 183 member countries firmly endorsed this vision in which the IMF would:

- strive to promote sustained noninflationary economic growth that benefits all people of the world;
- be the center of competence for the stability of the international financial system;
- focus on its core macroeconomic and financial areas of responsibility, working in a complementary fashion with other institutions established to safeguard global public goods; and
- be an open institution, learning from experience and dialogue, and adapting continuously to changing circumstances.

Our member countries are keenly aware that globalization requires a policy response based on international cooperation, and the IMF is uniquely placed to help organize this cooperation in collaboration with other organizations that have complementary responsibilities.

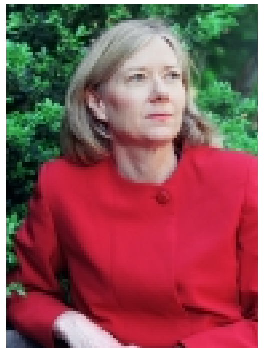
Our members want a strong IMF, but also a reformed IMF—one that focuses on promoting macroeconomic and financial stability in member countries; on helping its members develop sound financial sectors to protect them against vulnerability and mobilize financing for productive investment; and on safeguarding the stability and integrity of the international financial system, as a global public good. By concentrating on these core areas of responsibility, the IMF can make its maximum contribution to sustained growth and poverty reduction in its member countries.

The IMF made solid progress with reform in financial year 2001, as shown in this Annual Report. Its capabilities for crisis prevention were enhanced by further steps to increase transparency of the IMF and its member countries; further progress in the implementation of internationally recognized standards and codes; and the completion of a pilot phase of the Financial Sector Assessment Program (FSAP)—our joint effort with the World Bank to diagnose strengths and weaknesses in member countries' financial sectors. The FSAP, together with the IMF's newly instituted reviews of offshore financial sectors and our contributions to the international effort to fight money laundering, forms a comprehensive approach to strengthening the financial systems in member countries and, thereby, the soundness of the international financial system as a whole. Our reforms of the IMF's financing facilities will also contribute to crisis prevention, while helping to sharpen our necessary ability to help resolve crises when they occur. We have taken steps to streamline the IMF's policy conditionality, enhance its effectiveness, and promote ownership. In partnership with the World Bank, we have strengthened our assistance to low-income member countries and made substantial progress in the enhanced initiative to provide debt relief to heavily indebted poor countries.

Building on the progress to date, we intend to work even harder in the coming year to put crisis prevention and financial market issues at the center of the IMF's activities. What is crucial is that we sharpen our ability to identify emerging problems and bring about early and preemptive policy action in member countries. Thus, we will be working to develop the IMF's early warning capacity and to strengthen its financial markets expertise—including through the creation of the new International Capital Markets Department. More broadly, the IMF is committed to adapting its policies and operations continuously, to enable it to fulfill its mandate in an ever-changing and increasingly integrated global economy.

H. Köhler

Executive Board on April 30, 2001



United States

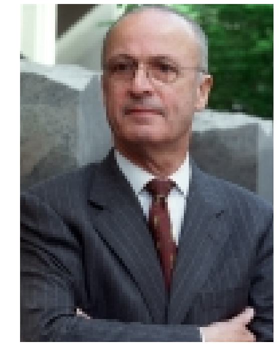
(Position Vacant)*
Meg Lundsager
(Alternate)

Japan

Yukio Yoshimura
Haruyuki Toyama

Germany

Bernd Esdar
Wolf-Dieter Donecker



France

Jean-Claude Milleron
Gilles Bauche

United Kingdom

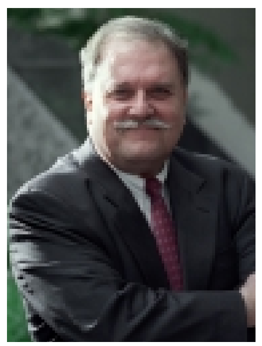
Stephen Pickford
Stephen P. Collins

Austria, Belarus, Belgium, Czech Republic, Hungary, Kazakhstan, Luxembourg, Slovak Republic, Slovenia, Turkey

Willy Kiekens
Johann Prader

Armenia, Bosnia and Herzegovina, Bulgaria, Croatia, Cyprus, Georgia, Israel, FYR Macedonia, Moldova, Netherlands, Romania, Ukraine

J. de Beaufort Wijnholds
Yuriy G. Yakusha



Costa Rica, El Salvador, Guatemala, Honduras, Mexico, Nicaragua, Spain, R.B. Venezuela

Hernán Oyarzábal
Fernando Varela

Albania, Greece, Italy, Malta, Portugal, San Marino

Riccardo Faini
Harilaos Vittas

Antigua and Barbuda, The Bahamas, Barbados, Belize, Canada, Dominica, Grenada, Ireland, Jamaica, St. Kitts and Nevis, St. Lucia, St. Vincent and the Grenadines

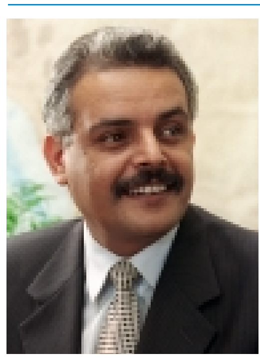
Thomas A. Bernes
Peter Charleton

Denmark, Estonia, Finland, Iceland, Latvia, Lithuania, Norway, Sweden

Olli-Pekka Lehmussaari
Åke Törnqvist

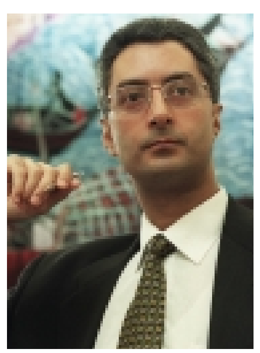
Australia, Kiribati, Korea, Marshall Islands, Federated States of Micronesia, Mongolia, New Zealand, Palau, Papua New Guinea, Philippines, Samoa, Seychelles, Solomon Islands, Vanuatu

Michael J. Callaghan
Diwa Guinigundo



Saudi Arabia

Sulaiman M. Al-Turki
Ahmed Saleh Alosaimi

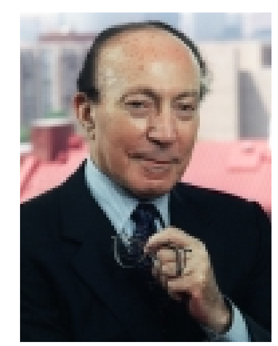


Angola, Botswana, Burundi, Eritrea, Ethiopia, The Gambia, Kenya, Lesotho, Liberia, Malawi, Mozambique, Namibia, Nigeria, Sierra Leone, South Africa, Sudan, Swaziland, Tanzania, Uganda, Zambia, Zimbabwe

Cyrus D.R. Rustomjee
Ismaila Usman

Brunei Darussalam, Cambodia, Fiji, Indonesia, Lao P.D.R., Malaysia, Myanmar, Nepal, Singapore, Thailand, Tonga, Vietnam

Dono Iskandar Djojosubroto
Kwok Mun Low



Bahrain, Egypt, Iraq, Jordan, Kuwait, Lebanon, Libya, Maldives, Oman, Qatar, Syrian Arab Republic, United Arab Emirates, Yemen

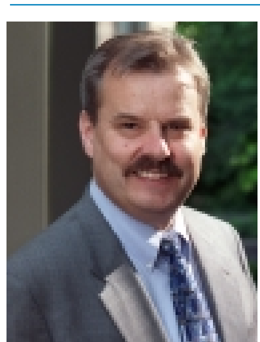
A. Shakour Shaalan
Abdelrazaq Faris Al-Faris

China

WEI Benhua
JIN Qi

Russia

Aleksei V. Mozhin
Andrei Lushin



Azerbaijan, Kyrgyz Republic, Poland, Switzerland, Tajikistan, Turkmenistan, Uzbekistan

Roberto F. Cippa
Wieslaw Szczuka

Brazil, Colombia, Dominican Republic, Ecuador, Guyana, Haiti, Panama, Suriname, Trinidad and Tobago

Murilo Portugal
Roberto Junguito

Bangladesh, Bhutan, India, Sri Lanka

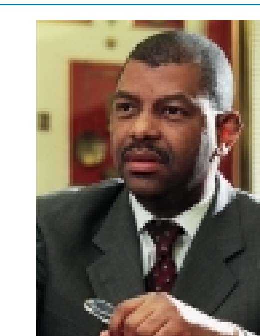
Vijay L. Kelkar
R.A. Jayatissa

Algeria, Ghana, I.R. of Iran, Morocco, Pakistan, Tunisia

Abbas Mirakhor
Mohammed Daïri

Argentina, Bolivia, Chile, Paraguay, Peru, Uruguay

A. Guillermo Zoccali
Guillermo Le Fort



Benin, Burkina Faso, Cameroon, Cape Verde, Central African Republic, Chad, Comoros, Republic of Congo, Côte d'Ivoire, Djibouti, Equatorial Guinea, Gabon, Guinea, Guinea-Bissau, Madagascar, Mali, Mauritania, Mauritius, Niger, Rwanda, São Tomé and Príncipe, Senegal, Togo

Alexandre Barro Chambrier
Damian Ondo Mañe

Note: Alternate Executive Directors are indicated in italics. *Karin Lissakers relinquished her duties as Executive Director for the United States, effective April 15, 2001.

Senior Officers on April 30, 2001

Michael Mussa
Economic Counsellor

G.E. Gondwe
Director, African Department

Yusuke Horiguchi
Director, Asia and Pacific Department

Michael C. Deppler
Director, European I Department

John Odling-Smee
Director, European II Department

Thomas C. Dawson II
Director, External Relations Department

Teresa M. Ter-Minassian
Director, Fiscal Affairs Department

Margaret R. Kelly
Director, Human Resources Department

Mohsin S. Khan
Director, IMF Institute

François P. Gianviti
General Counsel, Legal Department

Paul Chabrier
Director, Middle Eastern Department

Stefan Ingves
Director, Monetary and Exchange Affairs Department

Jack Boorman
Director, Policy Development and Review Department

Michael Mussa
Director, Research Department

Shailendra Anjaria
Secretary, Secretary's Department

Carol S. Carson
Director, Statistics Department

Brian C. Stuart
Director, Technology and General Services Department

Eduard Brau
Treasurer, Treasurer's Department

Claudio M. Loser
Director, Western Hemisphere Department

Ernst-Albrecht Conrad
Director, Office of Budget and Planning

Rafael Muñoz
Director, Office of Internal Audit and Inspection

Kunio Saito
Director, Regional Office for Asia and the Pacific

Flemming Larsen
Director, Office in Europe (Paris)

Grant B. Taplin
Acting Director and Special Trade Representative,
Office in Geneva

Reinhard Munzberg
Director and Special Representative to
the UN, Office at the United Nations

David M. Cheney
Chief, Editorial Division

Letter of Transmittal to the Board of Governors

August 22, 2001

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, 2001, in accordance with Article XII, Section 7*(a)* of the Articles of Agreement of the International Monetary Fund and Section 10 of the IMF's By-Laws. In accordance with Section 20 of the By-Laws, the administrative and capital budgets of the IMF approved by the Executive Board for the financial year ending April 30, 2002, are presented in Chapter 8. The audited financial statements for the year ended April 30, 2001, of the General Department, the SDR Department, and the accounts administered by the IMF, together with reports of the external audit firm thereon, are presented in Appendix IX.

Yours sincerely,

H. Köhler

Horst Köhler
Chairman of the Executive Board

Board of Governors, Executive Board, International Monetary and Financial Committee, and Development Committee

The *Board of Governors*, the highest decision-making body of the IMF, consists of one governor and one alternate governor for each member country. The governor is appointed by the member country and is usually the minister of finance or the governor of the central bank. All powers of the IMF are vested in the Board of Governors. The Board of Governors may delegate to the Executive Board all except certain reserved powers. The Board of Governors normally meets once a year.

The *Executive Board* (the Board) is responsible for conducting the day-to-day business of the IMF. It is composed of 24 Directors, who are appointed or elected by member countries or by groups of countries, and the Managing Director, who serves as its Chairman. The Board usually meets several times each week. It carries out its work largely on the basis of papers prepared by IMF management and staff. In 2000 / 2001, the Board spent more than half of its time on member country matters (regular country consultations and reviews and approvals of financial arrangements) and most of its remaining time on global surveillance and policy issues (such as the world economic outlook exercise, developments in international capital markets, the IMF’s financial resources, the architecture of the international monetary and financial system and the IMF’s role, debt of the heavily indebted countries, and issues concerning IMF facilities and program design).

The *International Monetary and Financial Committee* of the Board of Governors (formerly the Interim Committee on the International Monetary System) is an advisory body made up of 24 IMF governors, ministers, or other officials of comparable rank, representing the same constituencies as in the IMF's Executive Board. The International Monetary and Financial Committee normally meets twice a year, in April or May, and at the time of the Annual Meeting of the Board of Governors in September or October. Among its responsibilities are to provide ministerial guidance to the Executive Board and to advise and report to the Board of Governors on issues regarding the management and adaptation of the international monetary and financial system, including sudden disturbances that might threaten the international monetary system, and on proposals to amend the IMF's Articles of Agreement.

The *Development Committee* (the Joint Ministerial Committee of the Boards of Governors of the World Bank and the IMF on the Transfer of Real Resources to Developing Countries) is composed of 24 members—finance ministers or other officials of comparable rank—and generally meets the day after the International Monetary and Financial Committee. It advises and reports to the Boards of Governors of the World Bank and the IMF on all aspects of the transfer of real resources to developing countries.

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NOTE

This *Annual Report of the Executive Board of the IMF* reports on the activities of the Board during the financial year May 1, 2000, through April 30, 2001. Most of the Report consists of reviews of Board discussions of the whole range of IMF policy and operations. The discussions are based on papers prepared by the staff. Typically, a staff paper includes background factual and analytical material on various aspects of the issue at hand. It may also present proposals by the IMF's management on how the Board and the institution should move forward on an issue. Although a staff paper presents the positions of staff and management, it does not necessarily represent the IMF's position on the issue. The Board may or may not agree with the analysis or the proposals. The position of the IMF is, rather, the position of the Board as reflected in a decision, or as explained in a statement summarizing the discussion (usually referred to in the IMF as the "summing up").

Many documents discussed in this report can be found on the IMF's website (*www.imf.org*) and / or are available in print from IMF Publication Services.

The unit of account of the IMF is the SDR; conversions of IMF financial data to U.S. dollars are approximate and are provided for convenience. As of April 30, 2001, the SDR / U.S. dollar exchange rate was $1 = SDR 0.7900204, and the U.S. dollar / SDR exchange rate was SDR 1 = $1.26579. The year-earlier rates (April 30, 2000) were $1 = SDR 0.758030 and SDR 1 = $1.31921. (All dollar references in this report are to US$ unless otherwise noted.)

The following conventions are used in this Report:

. . . to indicate that data are not available;

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

– between years or months (for example, 2000–2001 or January–June) to indicate the years or months covered, including the beginning and ending years or months;

/ between years or months (for example 2000 / 01) to indicate a fiscal or financial year.

"Billion" means a thousand million; "trillion" means a thousand billion.

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

As used in this Report, the term "country" does not in all cases refer to a territorial entity that is a state as understood by international law and practice. As used here, the term also covers some territorial entities that are not states but for which statistical data are maintained on a separate and independent basis.