

## *Message from the Managing Director*

This is a time of transformation, in the global economy and in the International Monetary Fund. The sources of global growth have broadened: Europe, Japan, and the United States have all enjoyed solid economic performance over the past year, while middle-income emerging economies, including China and India, were also important contributors to global growth. Innovation in financial markets has continued, bringing with it many opportunities and some new risks. In the Fund, work on the reforms set out in the Medium-Term Strategy has proceeded, and we saw its first fruits in Financial Year 2007.

Some of the most important changes we have made in the past year have been in our economic oversight function, or surveillance, which is the Fund's core activity. The introduction of multilateral consultations gives the Fund—and the international community—an important new tool to forge consensus on approaches to common problems. The first multilateral consultation, which focused on reducing global imbalances while sustaining strong global growth, resulted in the five participants—China, the euro area, Japan, Saudi Arabia, and the United States—jointly setting out their policy plans in a document circulated at our Spring Meetings to ministers representing the Fund's 185 members. The participating countries putting forward these policies and discussing them collaboratively shows their commitment to multilateralism. As they are implemented, these policy plans will reduce global imbalances while helping to sustain growth.

The Fund also made important progress in deepening its work on financial markets and financial systems. We are better integrating our work on financial sectors with our work on macroeconomic issues. And through the merger of two Fund departments into the Monetary and Capital Markets Department in June 2006, we have established a center of excellence in financial market issues—an area of growing importance to the global economy and to the Fund's members.

In FY2007 we also began work on reforms of the legal framework for bilateral surveillance, which culminated in an Executive Board Decision on a New Framework for Surveillance early in FY2008. The new decision is the first major revision of the surveillance framework in some 30 years, and has broad support from our membership. It reflects current best practice in our work of monitoring members' exchange rate policies and domestic economic policies; reaffirms that surveillance should be focused on the Fund's core mandate—promoting countries' external stability; updates the principles for the guidance of members in the conduct of their exchange rate policies; and sets out clearly what is expected of surveillance, including candor and evenhandedness.

The Fund's work with low-income countries has remained intense. Ten new programs under the Poverty Reduction and Growth Facility were approved last year, and 24 countries have now benefited from debt relief under the Multilateral Debt Relief Initiative. We are also taking steps to ensure that we are focusing on critical macroeconomic and financial areas, which is where we can make the greatest contribution to stability, growth, and poverty reduction in low-income countries. We will continue to work in partnership with the World Bank and other development agencies, and in doing so can now draw on an important report on Bank-Fund collaboration by a committee of external experts headed by Pedro Malan. The Committee's report, delivered in February 2007, will help us clarify roles and work better with our World Bank colleagues.

Technical assistance and training remain important elements of our work, especially in low-income countries. FY2007 saw the opening of a regional technical assistance center in Libreville, Gabon, the third in Africa, as well as the opening



*Rodrigo de Rato, IMF Managing Director  
and Chair of the Executive Board*

of the Joint Indian-IMF Training Program in Pune, India, the seventh regional training center worldwide. Meanwhile, the consolidation of anti-money laundering and combating the financing of terrorism (AML/CFT) activities in the Fund's Legal Department has made it the largest multilateral provider of technical assistance on AML/CFT.

In January 2007, we received a report from a Committee of Eminent Persons chaired by Andrew Crockett. Arguing that the Fund needs a new income model and that it should not continue to rely almost entirely on lending to finance public goods such as surveillance and technical assistance, the Crockett Report recommended that the Fund broaden its sources of income. Establishing reliable income sources—together with effective management of expenditure—is important to give our members confidence that the Fund will be able to carry out its mandate in the future and to enable us to make reliable plans to implement agreed policies. We have already acted on expenditure: the medium-term budget for FY2008–10 implies a reduction in the IMF's real administrative resources in each of the next three years, to be achieved by increasing efficiency and by scaling back or eliminating lower-priority activities. Addressing the income side of the equation will be a major priority for FY2008.

The September 2006 Annual Meetings were held in Singapore. The meetings gave all of our members a chance to see how far Asia has come since the crisis a decade ago. They also saw the Fund take a major step forward with the completion of the first stage of reform of quotas and voice. On September 18, 2006, our Board of Governors approved ad hoc quota increases for four countries—China, Korea, Mexico, and Turkey—that were clearly underrepresented and agreed on more fundamental reforms to be delivered within two years. This was a historic agreement for the Fund. In January 2007, the Executive Board began work on a proposed amendment to the Articles of

Agreement to increase basic votes, with the aim of protecting the voting share of low-income countries as a group. And at its meeting on April 14, 2007, the International Monetary and Financial Committee (IMFC) gave us guidance on a new formula for broader changes in quotas. The IMFC agreed that the new formula should be simple and transparent, and appropriately capture the relative positions of members in the global economy. The reform should also result in higher shares for dynamic economies, many of which are emerging market economies, whose weight and role in the global economy have increased. Our objective remains to complete these reforms by the 2007 Annual Meetings if possible, and by no later than the 2008 Annual Meetings. Meeting this target will require leadership from members, and compromises among them. But if we can continue to draw on the spirit of multilateral cooperation that we saw in Singapore then I am confident that we will succeed.

The past year has been a year of great change at the Fund, and there are many changes still to come. There have also been changes in staff and management. Anne Krueger, First Deputy Managing Director from 2001 to 2006, has been succeeded by John Lipsky. Agustín Carstens, Deputy Managing Director from 2003 to 2006, has become Secretary of Finance of Mexico and has been succeeded by Murilo Portugal. Among the changes to come will be my own departure. I will step down as Managing Director after the 2007 Annual Meetings.

However, there are also important continuities: in the commitment to the Fund of our members, represented by our excellent Executive Board; in the dedicated career staff of the Fund; in the work of the institution; and in our sense of vision and purpose. I am proud to have been able to help guide the Fund during this time of change, and to have had the opportunity to serve all of the members of this great institution.



*The IMF Executive Board and senior management*

## Letter of Transmittal to the Board of Governors

August 3, 2007

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, 2007, 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, 2008, are presented in Chapter 5. The audited financial statements for the year ended April 30, 2007, 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 VI. The external audit and financial reporting processes were overseen by the External Audit Committee, comprising Dr. Len Konar (Chair), Mr. Satoshi Itoh, and Mr. Steve Anderson, as required under Section 20(c) of the Fund's By-Laws.

Rodrigo de Rato  
Managing Director and Chair of the Executive Board