



# ANNUAL REPORT

*of the  
Executive Board  
for the Financial Year  
Ended  
April 30, 1996  
Washington, D.C.*



The following conventions have been 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, 1995–96 or January–June) to indicate the years or months covered, including the beginning and ending years or months;
- / between years or months (for example, 1995/96) to indicate a fiscal or financial year.

“Billion” means a thousand million; “trillion” means a thousand billion.

“Basis points” refer to hundredths of 1 percentage point (for example, 25 basis points are equivalent to  $\frac{1}{4}$  of 1 percentage point).

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

The 1995/96 financial year began May 1, 1995 and ended April 30, 1996.

All references to dollars are to U.S. dollars unless otherwise noted; as of April 30, 1996, the SDR/U.S. dollar exchange rate was US\$1 = SDR 0.689629, and the U.S. dollar/SDR exchange rate was SDR 1 = US\$1.45006.

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.

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GLOSSARY OF ABBREVIATIONS . . . . .	Inside back cover
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Michel Camdessus

First Deputy Managing Director  
Stanley Fischer

## Deputy Managing Directors

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\*Alphabetical listing.

\*\*Reinhard Munzberg, Associate Secretary, effective May 1, 1996.

\*\*\*Redesignated as the Office of Internal Audit and Inspection—with Eduard Brau, Director—effective May 1, 1996.

## BOARD OF GOVERNORS, EXECUTIVE BOARD, INTERIM COMMITTEE, AND DEVELOPMENT COMMITTEE

The *Board of Governors*, the highest decision-making body of the Fund, consists of one governor and one alternate governor for each member country. The governor is appointed by the member and is usually the minister of finance or the governor of the central bank. All powers of the Fund 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 Fund. 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. The Executive Board carries out its work largely on the basis of papers prepared by Fund management and staff. In 1995/96, the Board spent more than half of its time on member country matters (Article IV consultations and reviews and approvals of arrangements) and most of its remaining time on policy issues (such as the world economic outlook, developments in international capital markets, the Fund's financial resources, surveillance, data issues, the debt situation, and issues related to Fund facilities and program design).

The *Interim Committee* of the Board of Governors on the International Monetary System is an advisory body made up of 24 Fund governors, ministers, or other officials 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 Meeting of the Board of Governors in September or October. Among its responsibilities are to advise and report to the Board of Governors on issues regarding the management and adaptation of the international monetary system, including sudden disturbances that might threaten the international monetary system, and on proposals to amend the Articles of Agreement.

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 24 members—finance ministers or other officials of comparable rank—and generally meets at the same time as the Interim Committee. It advises and reports to the Boards of Governors of the World Bank and the Fund on all aspects of the transfer of real resources to developing countries.

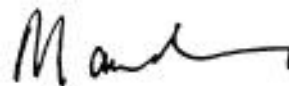
## LETTER OF TRANSMITTAL TO THE BOARD OF GOVERNORS

July 23, 1996

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, 1996, 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, 1997 are presented in Appendix IX. The audited financial statements for the year ended April 30, 1996 of the General Department, the SDR Department, accounts administered by the Fund, and the Staff Retirement Plan and the Supplemental Retirement Benefit Plan, together with reports of the External Audit Committee thereon, are presented in Appendix X.

Yours sincerely,



Michel Camdessus  
*Chairman of the Executive Board*

Chairman of the Board of Governors  
International Monetary Fund





## OVERVIEW





## YEAR SEES SWIFT RESPONSE TO NEW CHALLENGES OF GLOBALIZED MARKETS; FINANCIAL SUPPORT FOR MEMBERS RISES TO RECORD LEVELS

**T**he financial year 1995/96 was an extremely active one for the International Monetary Fund. Its operations continued to increase in almost every area, and far-reaching changes were made in the policies and practices governing its relations with member countries.

The Fund acted swiftly to respond to *the challenges of globalized financial markets and the lessons from the crisis in Mexico* that broke out at the end of 1994. Specifically, it worked to strengthen its surveillance operations, to adapt its financial instruments and procedures, and to review the adequacy of its financial resources. The Executive Board<sup>1</sup> also re-examined the role of the Fund in dealing with the problems of the low-income countries, focusing particularly on financing for the continuation of the enhanced structural adjustment facility (ESAF) and, in conjunction with the World Bank, on developing a framework of action to help resolve the problems of the heavily indebted poor countries. The Board also addressed the future role and functions of the SDR, based on the conclusions of a seminar held on these issues in March 1996.

The provision of *financial support to member countries* rose to an unprecedentedly high level during the year. The three-year extended arrangement approved in March 1996 for Russia totaling SDR 6.9 billion (about \$10 billion) was the largest extended arrangement in the history of the Fund. This arrangement, together with the Board's decision to make available the augmented amount (of SDR 6.8 billion) under the stand-by arrangement for SDR 12.1 billion with Mexico and approval of a new stand-by arrangement for Argentina (SDR 720 million) helped bring total new commitments during the year under stand-by and extended arrangements to SDR 18.0 billion (\$26 billion), compared with SDR 14.1 billion (\$20 billion) committed in 1982/83 at the height of the debt crisis and SDR 15.5 billion (\$22 billion) committed in 1994/95.

\* \* \*

<sup>1</sup>In this report, "Board" refers to the Executive Board of the Fund; references to the Board of Governors are stated fully.

*Surveillance over member countries' exchange rate policies*, which lies at the heart of the Fund's responsibilities, was comprehensively re-examined in the wake of the Mexican crisis and has been strengthened through the following initiatives:

- Increasing, to once a month, the frequency of informal meetings of the Executive Board to review major developments in selected countries. These meetings are intended to facilitate the early identification of emerging financial tensions through focusing on potential problems and providing additional factual material.
- Twice-yearly discussions by the Board of members' policies in the context of country surveillance, to review the principal issues that surface regularly in consultations and provide the basis for reports to the Interim Committee, thereby enhancing the Committee's oversight role.
- Scheduling interim staff visits to countries, as needed, to supplement annual consultations. In several cases, Fund management has followed up on the Board's annual consultation discussions with letters to country authorities on important policy issues.
- Concentrating Article IV consultations more sharply on core topics directly linked to the Fund's mandate of surveillance over members' exchange rate policies.
- Giving greater importance in consultations to the analysis of capital account developments, with closer scrutiny of those countries where developments have potential spillover effects on others.
- According added priority to regional surveillance, particularly where important economic policies are formulated at the supranational level.
- Encouraging all countries to improve the quality and timeliness of their basic statistical data and of the information provided to the Fund.

This last initiative reflected the recognition that high-quality, timely, and comprehensive statistics are essential both for countries to formulate their economic policies and for the Fund to meet its surveillance responsibilities.

At the same time, work continued on the development of standards to guide member countries in the dissemination of economic and financial statistics to the public. In April 1996, the Managing Director reported to the Interim Committee that the Special Data Dissemination Standard had been established and that invitations to subscribe to it had been sent to member countries. At that time, the Managing Director expressed his high expectations that this standard, which will be for members having or seeking access to international capital markets, will enhance access to timely and comprehensive statistics and hence will contribute both to the formulation of sound macroeconomic policies and to the improved functioning of financial markets. Information on those members that meet the special standard will be available on an electronic Data Standard Bulletin Board, to be maintained by the Fund on a World Wide Web site on the Internet.

In the area of multilateral surveillance, the spillover effects of the Mexican crisis featured prominently in the Board's reviews of *international capital market developments* during the year. The consensus was that

- after the initial crisis had been dealt with, international capital markets had generally performed well despite increased exchange rate volatility and some problems in emerging markets initially;
- the emerging markets most affected by the withdrawal of investors were those that also were perceived to have had one or more such weaknesses as low saving rates, misaligned exchange rates, large fiscal and current account deficits, fragile banking systems, and extensive foreign debt; and
- the international support provided to Mexico, coupled with the policy adjustments made by developing countries, had helped to contain contagion effects from the crisis.

\* \* \*

Recognizing that, despite the strengthening of surveillance, economic crises were still likely to occur from time to time, in September 1995 the Board formalized the accelerated procedures for extending emergency assistance to member countries by establishing an *emergency financing mechanism* designed to enable the Fund to respond rapidly to support members facing an external financial crisis. It was agreed that this mechanism would involve exceptional procedures rather than become a new financial facility and that its use would be restricted to exceptional circumstances.

Other steps to adapt the Fund's financial instruments and procedures in 1995/96 included the elaboration of conditions under which the institution would be prepared to support *currency stabilization funds*, on a short-term basis, in the context of an exchange-rate-based disinflation strategy; and extension of the scope of the Fund's guidelines on the provision of emergency assistance to include *countries in post-conflict situations*. Access to the Fund's resources in the latter situations is normally to be limited to one credit tranche and would carry with it the expectation that the country would move relatively rapidly to an upper credit tranche stand-by or extended arrangement, or to an ESAF arrangement.

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The heavy demands on the institution's financial resources for the second year in a row, coupled with the potential for continuing large demands in the new globalized economy, led the Board to give increased attention to actions to strengthen the *adequacy of the Fund's resources*.

- *Members' purchases* from the General Resources Account (GRA) were SDR 10.8 billion in 1995/96, slightly more than the level of SDR 10.6 billion in the previous financial year. In addition, SDR 1.5 billion in concessional assistance was provided under the structural adjustment facility (SAF) and the ESAF, bring-



ing cumulative disbursements under these two facilities through the end of 1995/96 to SDR 6.5 billion.

- As a result of the heavy use of Fund financing, *the liquidity ratio*—the ratio between the institution’s uncommitted usable resources and its liquid liabilities—declined to 89.8 percent at the end of April 1996 from 126.1 percent at the end of the previous year. The Fund’s liquid resources, consisting of usable currencies and SDRs held in the GRA, fell to SDR 56.4 billion as of April 30, 1996 from SDR 61.6 billion a year earlier and were projected to continue to decline steadily over the next 18 months.

- Against this background, the Board accorded added priority to its study of the *future size of the Fund* and work on the current five-yearly General Review of Quotas (the Eleventh Review). The Board agreed that an increase in quotas under the Eleventh Quota Review would be justified, and discussions on the appropriate size and timing of the increase are under way. Preliminary consideration was given both to the size of the equiproportional element in the overall increase for all members and to various methods that might be used to distribute the remaining element of the quota increase among members. There was support for providing ad hoc quota adjustments for those members whose current quotas were significantly out of line with their relative positions in the world economy. At its April 1996 meeting, the Interim Committee noted the prospective evolution of the Fund’s liquidity position and requested the Board to reach a conclusion on quota issues as soon as possible.

- The Interim Committee in April 1996 also welcomed the progress toward augmenting the resources currently available to the Fund under the *General Arrangements to Borrow*. Under procedures in effect during the financial year 11 industrial countries or their central banks stand ready to lend up to SDR 17 billion to the Fund, with an additional SDR 1.5 billion under an associated arrangement with Saudi Arabia. The Committee welcomed in particular the agreement that had been reached on the broad principles that will guide the design of the new arrangements as well as the indication by a number of countries of their readiness to participate in borrowing arrangements on appropriate terms. It emphasized that expanded borrowing should not be a substitute for a quota increase and urged an early conclusion to this work. Subsequently, at their meeting in Paris on May 23, 1996, the representatives of the Group of Ten countries and a number of other countries with financial capacity to support the international monetary system reached agreement on the main features of new borrowing arrangements to provide supplementary resources to the Fund. The aim is to reach final agreement by the time of the October 1996 Annual Meetings.

- While discussions advanced on strengthening the Fund’s resource base, significant progress was also made in reducing the level of *overdue financial obligations* to the institution. With Bosnia and Herzegovina and Zambia clearing their arrears, overdue obligations to the Fund declined to SDR 2.2 billion on April 30, 1996 from SDR 3.0 billion one year before. As of the end of the financial year,



four countries—Liberia, Somalia, Sudan, and Zaïre—accounted for the bulk of overdue obligations to the Fund.

- On the same day that Bosnia and Herzegovina cleared its arrears to the Fund, the Board moved to support its economic reconstruction program by approving a drawing of SDR 30.3 million under the policy of emergency assistance to post-conflict countries.

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The role of the institution in assisting its low-income members in confronting particularly pressing economic problems was a major focus of the deliberations of the Board in 1995/96. In the process, work advanced both on providing for the continuation of ESAF and on a joint initiative with the World Bank to help resolve the debt problems of the most heavily indebted poor countries.

- At its April 1996 meeting, the Interim Committee reiterated its support for continuing *ESAF* as the centerpiece of the Fund's ongoing strategy to help the low-income countries, including those that are most heavily indebted. The Committee requested the Board to conclude its discussions on financing arrangements to ensure continued ESAF lending as soon as possible with a view to devising acceptable financing proposals by the time of the 1996 Annual Meetings.

- As regards the *debt problem of low-income countries*, the Board and the Interim Committee endorsed analyses by the Fund and World Bank staff that suggested that for most heavily indebted poor countries, sound policies coupled with new concessional financing and debt relief under existing mechanisms would be sufficient to ensure debt sustainability in the medium term. For many of the heavily indebted poor countries, however, the debt burden would remain above sustainable levels over the medium term, even with strong policies and full use of existing debt-relief mechanisms. Additional assistance would be needed for these countries to ensure that their adjustment and reform efforts would not be put at risk by continued high debt and debt-service burdens.

Six principles were agreed for the coordinated work on debt sustainability in the Fund and the World Bank:

- Overall debt sustainability should be approached on a case-by-case basis, focusing on a country's entire debt.
- Action should be envisaged only when the debtor has demonstrated, through a record of reform and sound policies, that it could put the exceptional support it receives to good use.
- New debt-relief measures should build, as much as possible, on existing measures.
- Additional action should be coordinated to ensure broad and equitable participation among all creditors.
- Any action on relieving debt to multilateral creditors should preserve their financial integrity and preferred creditor status.

- New external finance for highly indebted countries should be granted on concessional terms.

The proposed framework to resolve the debt problems of the heavily indebted low-income countries was welcomed by the Interim Committee at its April 1996 meeting. It agreed that further support was needed on a case-by-case basis, including contributions by the international financial institutions and appropriate actions by the Paris Club and other creditors. The Committee asked the Fund, in conjunction with the World Bank and other creditors and donors, to put forward as soon as possible specific proposals with the aim of reaching a decision by the time of the 1996 Annual Meetings.

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The *future role and functions of the SDR* in light of changes in the world financial system were addressed by the Board in April 1996, based on the conclusions of a seminar held on these issues the previous month. During the Board discussion, there was little support for the provision in the Articles of Agreement that the SDR should become the principal reserve asset of the international monetary system. At the same time, it was noted that, under the existing system, many of the newer members of the Fund had never received SDR allocations or had not participated in all the allocations, which led to concerns about equity. Although there was not the broad Board majority needed for periodic general SDR allocations on the basis of the provisions of the Articles, it was agreed that there should be renewed efforts to resolve the equity issue as soon as possible. At its April 1996 meeting, the Interim Committee requested the Board to reflect further on the proposals that had been made and to reach a consensus on a way for all members to receive an equitable share of cumulative SDR allocations.

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With the shift to market from centrally planned economies, and as countries sought to balance their budgets and build their monetary and financial institutions, the demand for the Fund's *technical assistance and training* continued to increase in a wide range of areas of macroeconomic management, including central banking, fiscal topics, statistics, and financial accounts. In the 1995/96 financial year, technical assistance and training accounted for about 15 percent of the Fund's total administrative expenditures.

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Notwithstanding the considerable increase in activity, *the Fund's medium-term budget strategy*, as endorsed by the Board, is to hold the real growth in its expenses to a minimum. Consistent with this, the total authorized staffing of the Fund was reduced by 40 positions in the 1995/96 financial year, to a total of some 2,200 staff positions, and will be cut by a further 6 positions in the 1996/97 financial year. In addition, during 1996/97 more than 20 staff posi-

tions are to be redeployed to strengthen the Fund's surveillance work, its work on international capital markets, and its work on developing standards to guide members in the provision and dissemination of economic and financial statistics. In February 1996, the Board confirmed its desire to strengthen the Fund's evaluation functions and adopted for a two-year trial period a pragmatic approach under which the Board would identify annually with the Fund management which activities of the Fund would warrant an evaluation study, and would set the terms of reference for each project, including the selection of outside experts. The number of studies would realistically be limited to two or three a year. As part of this effort, the Office of Internal Audit and Review was reorganized and its mandate expanded; effective May 1, 1996, it was redesignated the Office of Internal Audit and Inspection.

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The *membership of the Fund* rose to 181 countries during the financial year from 179 countries a year earlier. Brunei Darussalam joined the Fund in October 1995, and in December 1995 the Board determined that Bosnia and Herzegovina had fulfilled the conditions for succession to membership.

