FUND FINANCIAL OPERATIONS AND POLICIES

The Fund approved 28 new Stand-By, Extended, and ESAF arrangements in 1996/97, with total resource commitments of SDR 5.3 billion. As of the end of 1996/97, 14 Stand-By Arrangements, 11 Extended Arrangements, and 35 ESAF arrangements were in effect. Members' purchases from the General Resources Account (GRA) and ESAF loans totaled SDR 5.6 billion during the financial year. With total repurchases and repayments of SDR 7.2 billion, Fund credit outstanding under all facilities declined, although at SDR 40.5 billion it remained at a high level in historical terms. With a moderation in the demand for use of the Fund's resources and an increase in the number of countries whose currencies are available for use by the Fund in financing purchases, the Fund's liquidity position strengthened in 1996/97. The Board continued to make progress on the Eleventh General Review of Quotas, focusing on narrowing views on the size and distribution of the quota increase and on the question of ad hoc increases for countries whose quotas are most out of line with their relative positions in the world economy. On January 27, 1997, the Board adopted a decision on the New Arrangements to Borrow (NAB), under which the Fund may potentially borrow up to SDR 34 billion when supplementary resources are needed to forestall or cope with an impairment of the international monetary system; the new arrangements will enter into force when the decision has been adhered to by potential participants meeting certain requirements. The Fund earned a net income of SDR 94 million in 1996/97. This income was added to the Fund's reserves, which rose to SDR 1.97 billion as of the end of the financial year. The level of outstanding overdue financial obligations to the Fund rose slightly to SDR 2.21 billion in 1996/97, and the number of countries in arrears by six months or more increased from six to seven.

Membership and Quotas

During 1996/97 the Fund's membership remained constant at 181 countries. The Republic of Palau filed an application for membership on January 7, 1997. The Federal Republic of Yugoslavia (Serbia/Montenegro) has yet to complete arrangements for succession to membership in the Fund; the Board decided on December 13, 1996 that the country had until June 14, 1997 to complete such arrangements. Subsequently, this period was extended until December 14, 1997.

Five member countries (Iraq, Liberia, Somalia, Sudan, and Zaïre[6]) have not been able to consent to their quota increases under the Ninth General Review of Quotas because they are in arrears to the GRA. The Board approved on December 18, 1996 a six-month extension of the periods for consent to and payment of increases in quotas under the Ninth General Review (see Appendix V).

The Board continued to make progress on the Eleventh General Review of Quotas. At its April 1996 meeting, the Interim Committee stressed the need to ensure the adequacy of quotas for the Fund to continue to carry out its mandate, taking into account changes in the world economy since the last increase in quotas was agreed in 1990. In view of the prospective evolution in the Fund's liquidity position, the Committee requested the Board to pursue work on quota issues with a view to reaching a conclusion as soon as possible. Toward this objective, the Board has discussed the factors bearing on the size and distribution of the increase in quotas, taking into account the importance of changes in the scale of the world economy since the last quota increase; the potential demand for use of the Fund's resources over the next five to seven years; the issue of how to reflect members' relative positions in the world economy in their Fund quotas; and the issue of basic votes in the Fund, which arose in the context of the quota discussions because of the declining significance of basic votes with increases

[6]The official name of Zaïre was changed to the Democratic Republic of the Congo on May 17, 1997.

in total quotas.[7] At a meeting in July 1996, the Board discussed technical considerations related to ad hoc increases in quotas as well as supplementary calculations of conversion factors for quota data.

At its September 1996 meeting, the Interim Committee welcomed the progress made by the Board and again requested it to do its utmost to reach a conclusion as soon as possible. The Board in December 1996 discussed ways of narrowing the difference in views on the size and distribution of the quota increase, and on the question of ad hoc increases in quotas for members whose quotas are most out of line with their relative positions in the world economy. Many Directors supported a predominantly equiproportional quota increase, while providing for an important selective quota element based on members' shares in formula-based calculated quotas to reflect relative economic positions. A number of Directors requested that the issue of basic votes be addressed in the course of completing the quota review and if the opportunity for an amendment of the Fund's Articles arose.

At its meeting in April 1997, the Interim Committee commended the Board for its work on quotas and requested it to complete that work as soon as possible and report on it in time for the September 1997 meeting of the Committee. The Committee indicated that the proposed distribution should be predominately equiproportional, while contributing to a correction of the most important anomalies in the present quota distribution. The Committee also directed the Board to review the quota formulas after the completion of the Eleventh Review.

Fund's Liquidity and Borrowing

Following two consecutive years of record high demand for the use of Fund resources, the Fund's liquidity position improved significantly in 1996/97, reflecting a lower demand for use of resources as well as an increase in the pool of currencies used by the Fund to finance purchases by members. Despite relatively large purchases, particularly by Russia and Ukraine under their respective Extended and Stand-By Arrangements, a high level of repurchases, including large advance repurchases by Mexico, caused the amount of credit outstanding in the GRA to decline by SDR 1.8 billion.

General Resources

The liquid resources of the Fund consist of usable currencies and SDRs held in the GRA. Usable currencies, the largest component of usable resources, are the currencies of members whose balance of payments and reserve positions are considered sufficiently strong to warrant the inclusion of their currencies in the operational budget for use in the financing of Fund operations and transactions (Box 8). With the addition of two countries that were judged to have sufficiently strong external positions, the Fund's usable resources rose to SDR 62.7 billion as of the end of April 1997 from SDR 56.4 billion a year earlier.

In assessing the adequacy of the Fund's liquidity position, the stock of usable currencies and SDRs held in the GRA is reduced by the amount of resources committed under arrangements and expected to be drawn, and is reduced further to take account of the need to maintain working balances of currencies and of the possibility that the currencies of some members in relatively weaker external positions would have to be removed from the operational budget. After these adjustments, the Fund's uncommitted and adjusted usable resources totaled SDR 43.5 billion as of April 30, 1997, compared with SDR 33.5 billion a year earlier.

The Fund's liquid liabilities as of the end of April 1997 amounted to SDR 36.1 billion, consisting entirely of reserve tranche positions (since the Fund had no outstanding borrowing); liquid liabilities a year earlier had amounted to SDR 37.3 billion. The ratio of the Fund's uncommitted and adjusted usable resources to its liquid liabilities—the liquidity ratio—which had declined to 89.8 percent as of the end of April 1996, increased to 120.5 percent as of the end of April 1997 (Figure 8).

Borrowing

The Fund has had no outstanding borrowing since it repaid all its remaining debt to lenders in March 1996. The Fund's ability to borrow when supplementary resources are needed to forestall or cope with an impairment of the international monetary system was strengthened by the Board's adoption on January 27, 1997 of a decision on the New Arrangements to Borrow. The NAB will enter into force when the decision has been adhered to by potential participants with credit arrangements amounting to no less than SDR 28.9 billion, including the five members or institutions with the largest credit arrangements (see Appendix V). The adoption of the decision on the NAB culminated intensive efforts undertaken since the June 1995 Halifax meeting of the leaders of the Group of Seven countries, which called for a doubling of the amount available under the General Arrangements to Borrow (GAB) to respond to financial emergencies. The NAB does not replace the GAB, which will remain in force. However, the NAB will be the facility of first and principal recourse in the event of a need to provide

[7] Under the Fund's Articles of Agreement, each member receives a fixed number of 250 basic votes in addition to 1 vote per SDR 0.1 million of quota; basic votes now account for 3 percent of total votes in contrast to 11.3 percent at the time of adoption of Schedule A of the original Articles.

Box 8

Operational Budget

In accordance with principles laid out in the Fund's Articles of Agreement, the Board adopts for each upcoming quarterly period an operational budget specifying the amounts of SDRs and selected member currencies to be used in purchases, repurchases, and other Fund financial operations and transactions expected to take place during that period.

Assessment of Members' External Positions

A member's currency is proposed for inclusion for transfers (that is, to finance the extension of credit) under the quarterly operational budget if the member's balance of payments and gross reserve positions are judged to be "sufficiently strong." This assessment is made by taking account of (1) recent and prospective movements in gross reserves, (2) balance of payments developments, (3) the relationship of gross reserves to a member's imports and to its Fund quota, and (4) developments in exchange markets. To the extent that recent data are available, changes in a member's net reserves are also taken into account. The balance of payments and gross reserve positions are a combined concept, wherein strength in one element may compensate for moderate weakness in the other. Although these indicators are used to maintain consistency and equity among members, a significant element of judgment is involved in the assessment of the strength of a member's external position.

Convertibility

Members whose currencies are used in transfers by the Fund are obliged to convert them into one of the five freely usable currencies at the request of purchasing members. In exchange for the use of their currencies in transfers, "strong members" receive a claim on the Fund in the form of a reserve tranche position that can be drawn in case of balance of payments need.

Guidelines on the Use of Currencies

The Board has established a set of guidelines governing the allocation of the amounts of currencies to be used in both transfers and receipts under the Fund's operational budget. The present guidelines call for the use of currencies on the transfers side of the budget to be determined in proportion to members' holdings of gold and foreign exchange reserves. A limit is placed, however, on the use of a member's currency in transfers so that the Fund's holdings of that currency do not fall appreciably below the Fund's average holdings, expressed in percent of quota, of other members' currencies included in the budget. The guidelines call for transfers of U.S. dollars to be made on the basis of ad hoc proposals, with the aim of maintaining, to the extent possible, the Fund's holdings of U.S. dollars relative to quota close to the average level of the Fund's holdings of other members' currencies included for transfers in the operational budget. On the receipts side, the guidelines specify that the allocation of currencies is to be made in relation to members' reserve tranche positions in the Fund, up to the norm for remuneration. Members that have relatively large reserve tranche positions in the Fund, but that are not otherwise considered sufficiently strong, may have their currencies used with their agreement on just the receipts side of the budget to facilitate the payment of repurchases.

The Board reviews these guidelines periodically to ensure that the objective of promoting "balanced positions" in the Fund over time is achieved. On the occasion of the last review, completed in December 1996, it was decided to reduce the level of the floor below which the Fund's holdings of a member's currency will not be allowed to fall to one-half (compared with two-thirds previously) of the average holdings of currencies relative to quota of other members included in the operational budget.

supplementary resources to the Fund. The amount potentially available under the GAB will remain unchanged (at SDR 17 billion, plus SDR 1.5 billion under the associated agreement with Saudi Arabia). The amount potentially available under the NAB will be up to SDR 34 billion, which will also be the maximum combined amount available under the GAB and the NAB. Table 44 shows the amounts of credit arrangements of participants in the NAB, which are based on relative economic strength—as measured by the actual Fund quotas of the participants—as a predominant criterion. The credit arrangements under the NAB may be activated for the benefit of a Fund member that is a participant or a nonparticipant in the NAB, under circumstances similar to those specified in the GAB. However, for a nonparticipant, activation of the GAB requires, in addition, that after consultation the Managing Director considers that the Fund faces an inadequacy of resources.

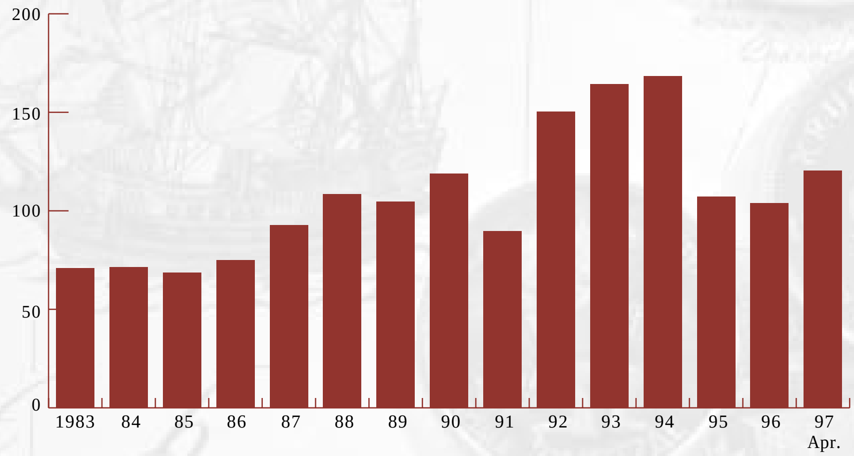
The Fund remains a quota-based institution. Nevertheless, the Fund is also authorized to borrow currencies from sources other than the GAB or NAB, in order to provide temporary supplements to its usable quota resources if needed.

Access Policy and Limits on Use of Resources

The Fund's current policies on access to Fund resources and access limits reflect the Board's decision in 1994 to raise the annual limit on access under the credit tranches and the Extended Fund Facility (EFF), for a period of three years, from 68 percent to 100 percent of quota, while keeping the cumulative access limit unchanged at 300 percent of quota. The Board has reviewed access policies and limits annually since then. At the November 1996 review, it decided to maintain the annual and cumulative access limits set in 1994 unchanged. The annual reviews take account of all relevant factors, including the magnitude of members' payments problems and developments in the Fund's liquidity. The access limits may be exceeded in exceptional circumstances, as the Board may decide.

The granting of access well above the prescribed limits in Mexico's 1995 Stand-By Arrangement, and the recognition that the increasing reliance of developing countries on potentially volatile private capital flows could result in other members seeking arrangements involving large-scale access, led to consideration by the Board in December 1996 of issues related to large-scale access to Fund resources—in particular, the questions of the level of charges in such cases, and of safeguards for the Fund's resources.

Figure 8
Fund's Liquidity Ratio, 1983–97
(In percent; end of December)



At the Board discussion of these issues, it was emphasized that the primary safeguard for the Fund's resources remained the strength of a member's adjustment program. In approving access to its resources, the Fund must be satisfied that the member's policies are such as to provide adequate safeguards for the use of those resources. Nevertheless, several Directors saw merit in indicating a threshold beyond which additional safeguards could be considered. Some Directors thought that the cumulative access limit under the credit tranches and the EFF—300 percent of quota—could be an important consideration in setting this threshold, although other factors, such as the Fund's holdings of the member's currency and credit outstanding, could also be considered.

To consider their efficacy as a possible safeguard in cases of large-scale access, it was agreed that the guidelines for early repurchase should be reviewed, since almost 20 years had elapsed since their introduction, and the world economic environment had changed considerably over that period. Such a review would examine, in particular, the causes of the underlying improvement in members' external financial positions, the formula that generates the amounts to be repurchased, the ways in which an early repurchase expectation can be met, and the possibility of applying remedies to a failure to meet an early repurchase expectation—specifically, the possibility of establishing policies pursuant to which the expectation could be converted into an obligation.

Under the Articles of Agreement, use of Fund resources raising the Fund's holdings of a member's currency above 200 percent of quota is allowed only if the Fund grants a waiver under Article V, Section 4. The Board examined several options for specifying conditions that could be required for granting such a waiver in cases of large-scale use of Fund resources. There was some interest in the possibility of making specific provision for advance repurchases in particular circumstances, an alternative that will be considered further. Among other options, establishing an advance schedule of repurchases at the time of approval of an arrangement, and requesting collateral, entailed practical difficulties that were likely to make these options unattractive.

If a higher rate of charge or a surcharge were to be levied on large-scale use, it would be intended to have the twofold purpose of discouraging use of the Fund's resources in excess of "normal" use, and of providing a financial incentive to members to reduce their use of Fund resources by means of voluntary advance repurchases earlier than would be called for under the Fund's early repurchase policy. To the extent that large-scale use called for higher precautionary balances than otherwise would be required, a higher rate of charge or surcharge would impose an additional cost on the members creating this need.

Although a number of Directors favored a higher rate of charge or a surcharge on large-scale use of resources, others indicated that they needed additional information to enable them to form a definite view and that the purpose to be served by higher charges would be important in affecting the view they would take on the desirability, or otherwise, of a proposal for differentiated charges. A third group of Directors was opposed to a higher rate of charge or a surcharge on large-scale use. It was noted that, unless such a surcharge were substantial, it would be unlikely to induce voluntary

Table 44
New Arrangements to Borrow[1]

Participant	Amount (in millions of SDRs)
Australia	810
Austria	412
Belgium	967
Canada	1,396
Denmark	371
Deutsche Bundesbank	3,557
Finland	340
France	2,577
Hong Kong Monetary Authority	340
Italy	1,772
Japan	3,557
Korea	340
Kuwait	345
Luxembourg	340
Malaysia	340
Netherlands	1,316
Norway	383
Saudi Arabia	1,780
Singapore	340
Spain	672
Sveriges Riksbank	859
Swiss National Bank	1,557
Thailand	340
United Kingdom	2,577
United States	6,712
Total	34,000

[1]The NAB will enter into force when adhered to by potential participants with credit arrangements amounting to no less than SDR 28.9 billion, including the five members or institutions with the largest credit arrangements.

advance repayments to the Fund. A substantial surcharge, moreover, might not be compatible with the cooperative nature of the Fund and, by adding to members' balance of payments difficulties, could prove counterproductive.

There was general agreement on the appropriateness of special postprogram monitoring in cases of large-scale use, although there were some doubts about the effectiveness of such monitoring. The modalities of special postprogram monitoring will be considered further.

Members' Use of Fund Resources and Credit Outstanding

In 1996/97 members' purchases from the GRA, excluding reserve tranche purchases,[8] amounted to SDR 4.9 billion or less than half the 1995/96 level of SDR 10.8 billion (Table 45; see also Appendix II, Table II.7). These purchases consisted of SDR 1.8 billion under Stand-By Arrangements (compared with SDR 8.4 billion in 1995/96), SDR 2.8 billion under Extended Arrangements (SDR 1.6 billion in 1995/96), and SDR 0.3 billion under the Compensatory and Contingency Financing Facility (CCFF; SDR 9 million in 1995/96).

For the second successive year, Russia was the largest user of Fund resources in 1996/97, drawing a total of SDR 2.1 billion (about 50 percent of its quota) in monthly purchases under an Extended Arrangement (Appendix II, Table II.7). Ukraine made monthly drawings totaling SDR 0.6 billion under a Stand-By Arrangement. Other large users of Fund resources were Algeria (SDR 0.5 billion), Venezuela (SDR 0.4 billion), Argentina (SDR 0.3 billion), Bulgaria (SDR 0.2 billion), and Peru (SDR 0.2 billion). The drawing by Peru was in support of a debt- and debt-service-reduction operation with commercial creditors. Broken down according to region, purchases by countries of the former Soviet Union and central and eastern European countries in 1996/97 amounted to SDR 3.2 billion; Latin American countries purchased SDR 0.9 billion; African countries purchased SDR 0.5 billion; Asian countries purchased SDR 0.1 billion; and purchases by Middle Eastern countries amounted to SDR 0.2 billion.

Repurchases in the GRA during 1996/97 totaled SDR 6.7 billion, the same level as in the previous financial year (Appendix II, Table II.8). The actual level of repurchases in 1996/97 was higher than the scheduled level of SDR 3.9 billion owing mainly to voluntary advance repurchases made by Mexico (SDR 2.6 billion) and Hungary (SDR 140 million). Scheduled repurchases will rise over the next several years on account of the recent increase in the use of Fund resources and the revolving nature and medium-term maturity of the Fund's balance of payments assistance (Figure 9).

Taking into account both purchases and repurchases, Fund credit outstanding in the GRA declined for the first time in six years in 1996/97, from SDR 36.3 billion as of April 30, 1996 to SDR 34.5 billion as of April 30, 1997, or by SDR 1.8 billion (Appendix II, Table II.9). If net disbursements of SDR 0.2 billion under the Structural Adjustment Facility (SAF) and ESAF are also included (see below), Fund credit outstanding under all facilities decreased by SDR 1.5 billion in 1996/97, from SDR 42.0 billion as of April 30, 1996 to SDR 40.5 billion as of April 30, 1997 (Figure 10).

Stand-By and Extended Arrangements

Commitments under 11 new Stand-By Arrangements totaling SDR 3.2 billion were approved in 1996/97

[8]No reserve tranche purchases were made by members in 1996/97, compared with purchases of less than SDR 50 million in 1995/96. Reserve tranche purchases represent members' use of their own Fund-related assets and not use of Fund credit.

Table 45
Selected Financial Indicators
(In millions of SDRs)

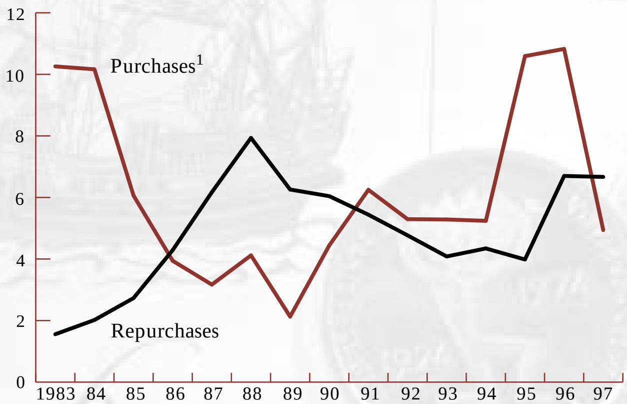
	Financial Year Ended April 30								
	1989	1990	1991	1992	1993	1994	1995	1996	1997
	During period								
Total disbursements	2,682	5,266	6,823	5,903	5,877	5,903	11,178	12,303	5,644
Purchases by facility (GRA)[1]	2,128	4,440	6,248	5,294	5,284	5,241	10,592	10,826	4,939
Stand-By and first credit tranche	1,702	1,183	1,975	2,343	2,940	1,052	7,587	9,127	1,836
Extended Fund Facility (EFF)	188	2,449	2,146	1,571	2,254	746	1,595	1,554	2,820
Compensatory and Contingency Financing Facility (CCFF)	238	808	2,127	1,381	90	718	287	9	282
Systemic Transformation Facility	—	—	—	—	—	2,725	1,123	136	—
Loans under SAF / ESAF arrangements	554	826	575	608	593	662	587	1,477	705
Special Disbursement Account resources	380	584	180	138	49	68	19	185	—
ESAF Trust resources	174	242	395	470	544	594	568	1,292	705
By region	2,682	5,267	6,823	5,903	5,877	5,903	11,178	12,303	5,644
Africa	701	1,289	577	740	377	1,185	1,022	2,304	992
Asia	469	525	1,714	1,476	1,806	690	383	367	181
Europe	338	268	1,960	1,516	1,343	3,258	2,896	5,156	3,381
Middle East	—	66	—	333	26	11	76	129	153
Western Hemisphere	1,174	3,119	2,572	1,838	2,325	758	6,801	4,427	937
Repurchases and repayments	6,705	6,399	5,608	4,770	4,117	4,509	4,231	7,100	7,196
Repurchases	6,258	6,042	5,440	4,768	4,081	4,343	3,984	6,698	6,668
Trust Fund and SAF / ESAF loan repayments	447	357	168	2	36	166	247	402	528
	End of period								
Total outstanding credit provided by Fund	25,520	24,388	25,603	26,736	28,496	29,889	36,837	42,040	40,488
Of which:									
General Resources Account	23,700	22,098	22,906	23,432	24,635	25,533	32,140	36,268	34,539
Special Disbursement Account	965	1,549	1,729	1,865	1,879	1,835	1,651	1,545	1,220
Administered accounts									
Trust Fund	682	326	158	158	158	105	102	95	90
ESAF Trust[2]	174	416	811	1,281	1,824	2,416	2,944	4,132	4,639
Percentage change in total outstanding credit	–14	–4	5	4	7	5	23	14	–4
Number of indebted countries	83	87	81	82	90	93	99	97	95

[1]Excludes reserve tranche purchases.
[2]Includes Saudi Fund for Development associated loans.

(Appendix II, Table II.1). Seven arrangements totaling SDR 1.7 billion were approved for countries of the former Soviet Union and central and eastern European countries (Bulgaria with two arrangements, Estonia, Latvia, Romania, Tajikistan, and Ukraine). Two arrangements totaling SDR 1.0 billion were approved for Latin American countries (El Salvador and Venezuela). Arrangements totaling SDR 0.3 billion were approved for a Middle Eastern country (Egypt) and an African country (Lesotho), and an increase of SDR 0.2 billion was approved for an existing arrangement for an Asian country (Pakistan). As of April 30, 1997, 14 countries had Stand-By Arrangements with the Fund, with total commitments of SDR 3.8 billion and undrawn balances of SDR 2.5 billion (Appendix II, Tables II.2 and II.3).

Five new Extended Arrangements with commitments totaling SDR 1.2 billion were approved in 1996 / 97—for Azerbaijan, Croatia, Kazakstan, Moldova, and Peru, all transition economies with the exception of Peru—and increases were approved for the existing arrangement with Jordan and the arrangement with Peru. The Extended Arrangements for Azerbaijan, Kazakstan, and Moldova succeeded earlier Stand-By Arrangements. As of April 30, 1997, 11 countries had Extended Arrangements, with

Figure 9
General Resources Purchases and Repurchases, Financial Years Ended April 30, 1983–97
(In billions of SDRs)



[1] Excluding reserve tranche purchases.

commitments totaling SDR 10.2 billion (Appendix II, Table II.2) and undrawn balances of SDR 6.6 billion (Appendix II, Table II.4).

Overall, commitments of Fund resources under Stand-By and Extended Arrangements in 1996/97 amounted to SDR 4.4 billion, of which nearly three-fourths was approved for the economies in transition.

Special Facilities

The Fund's special facilities consist of the CCFF and the Buffer Stock Financing Facility, which has not been utilized since 1983. Two countries, Algeria and Bulgaria, made use of the CCFF during 1996/97, with drawings totaling SDR 0.3 billion.

SAF and ESAF

During 1996/97 the Fund continued to provide concessional financial support to low-income countries under the ESAF. In December 1995 all of the remaining resources available for SAF arrangements were disbursed to Zambia under a one-year SAF arrangement. Twelve ESAF arrangements totaling SDR 0.9 billion were approved in 1996/97 (for Azerbaijan, Benin, Burkina Faso, Republic of the Congo, Ethiopia, Guinea, Haiti, the former Yugoslav Republic of Macedonia, Madagascar, Mozambique, Niger, and Tanzania). As of April 30, 1997, 35 ESAF arrangements were in effect. Cumulative commitments under all approved SAF and ESAF arrangements (excluding undisbursed amounts under expired and canceled arrangements) totaled SDR 8.8 billion as of April 30, 1997,[9] compared with SDR 8.0 billion a year earlier (Appendix II, Tables II.1 and II.5). Total ESAF disbursements amounted to SDR 0.7 billion during 1996/97, compared with SAF and ESAF disbursements of SDR 1.5 billion in 1995/96; cumulative SAF and ESAF disbursements through April 30, 1997 amounted to SDR 7.2 billion.

The ESAF has been financed mainly from contributions in the form of loans and grants by member countries to the ESAF Trust, which is administered by the Fund, and also from SAF resources in the Special Disbursement Account (SDA). SAF resources were made available in conjunction with loans from the ESAF Trust until February 1994, when the Board decided to cease approving new commitments of SAF resources under ESAF arrangements. As of April 30, 1997, total disbursements of SDA resources under SAF and ESAF arrangements amounted to SDR 2.2 billion.

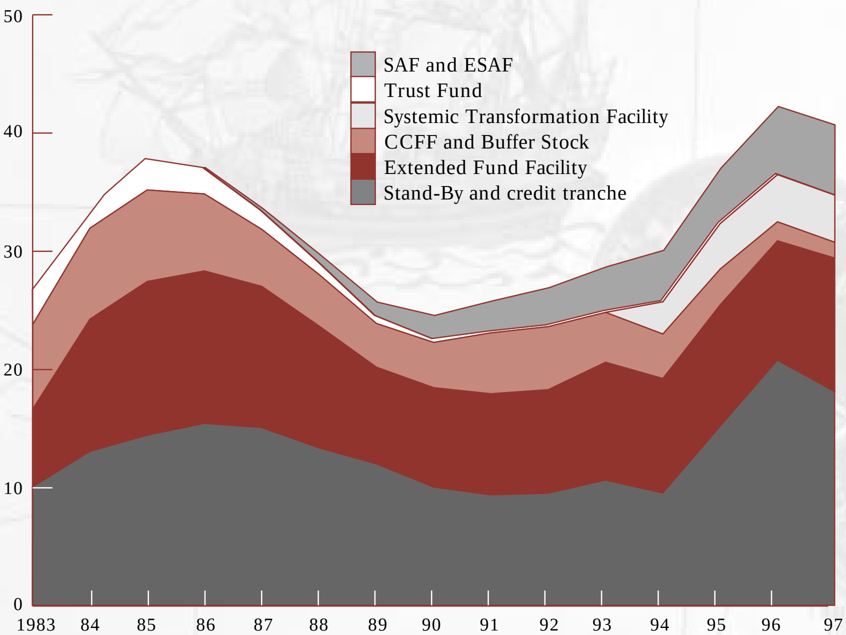
The enlarged and extended ESAF Trust, which became effective on February 23, 1994, has a target for total loan resources of SDR 10.1 billion. Financing has been provided by a broad cross-section of the Fund's membership. In the period since the enlargement became effective, the Board has approved borrowing agreements amounting to SDR 4.6 billion with 11 countries, 3 of which are developing countries, and with the OPEC Fund for International Development; one of the borrowing agreements, amounting to SDR 0.2 billion, is still subject to legislative approval. As of April 30, 1997, total loan commitments by lenders to the ESAF Trust under agreements approved by the Board amounted to SDR 9.7 billion. The resources available under loan agreements concluded prior to the enlargement were almost fully drawn by April 30, 1997; some of the resources available under the enlargement were also drawn down by that date.

In December 1996 the Board approved an extension of the commitment period for ESAF Trust loans from December 31, 1996 to December 31, 2000. This required a corresponding extension through December 31, 2003 of the drawdown periods in the agreements with lenders concluded under the enlargement. Such an extension of the drawdown period has been requested from all the lenders to the Trust.

Contributions to the Subsidy Account enable loans from the ESAF Trust to be provided at a highly concessional rate of interest (currently 0.5 percent a year). Under the arrangements for enlarging the ESAF Trust, 43 members have agreed to make contributions to the Subsidy Account in the form of direct grants and deposits or investments at concessional interest rates.

[9] Cumulative commitments under the SAF amounted to SDR 1.8 billion, while cumulative ESAF commitments amounted to SDR 7.1 billion.

Figure 10
Total Fund Credit Outstanding to Members, Financial Years Ended April 30, 1983–97
(In billions of SDRs)



About half the contributors are developing countries, and they have provided almost 20 percent of the total contributions. The modalities of most of the contributions have been agreed, and payments are being received by the Subsidy Account, while a few contributions will start to be paid when domestic legislative procedures have been completed. The value of bilateral subsidy contributions for the enlargement is estimated at SDR 1.3 billion. This amount, together with the SDR 2.4 billion in subsidy contributions provided prior to the enlargement, brings the total value of bilateral subsidy contributions to SDR 3.8 billion. In addition to these bilateral contributions, in early 1994 the Board transferred SDR 0.4 billion from the SDA to the Subsidy Account. This contribution by the Fund, including the interest it will earn, is valued at SDR 0.6 billion.

The availability of resources in the Subsidy Account, net of subsidies already paid, rose from SDR 1,425 million as of April 30, 1996 to SDR 1,562 million as of April 30, 1997. The ESAF Trust made interest payments of SDR 147 million to lenders in 1996 / 97, of which SDR 22 million was financed by payments of interest by borrowers from the Trust and the balance of SDR 125 million was drawn from the resources of the Subsidy Account.

Details of SAF and ESAF arrangements, and borrowing agreements and subsidy contributions for the ESAF Trust, are provided in Appendix II, Tables II.1, II.5, and II.10.

Fund's Income, Charges, and Burden Sharing

At the beginning of the financial year, the Fund sets the rate of charge on the use of its resources as a proportion of the weekly SDR interest rate in order to achieve a target amount of net income to add to its reserves. This method of setting the rate of charge is designed to ensure that the Fund's operational income closely reflects its operational costs, which depend largely on the SDR interest rate, thus minimizing the likelihood of the need for a discrete increase in the rate of charge during the financial year.

The proportion of the rate of charge to the SDR interest rate for 1996 / 97 was set at 109.4 percent in order to achieve a net income target of SDR 94 million, or 5 percent of reserves at the beginning of the financial year, with the proviso that any income in excess of the target be used to reduce retroactively the proportion of the rate of charge for the year. After actual net income in excess of the target of SDR 11 million was refunded to members that paid charges during the year, the proportion of the rate of charge to the SDR interest rate for 1996 / 97 was reduced to 108.6 percent. The average rate of charge on the use of Fund resources in 1996 / 97 was 4.28 percent before adjustments for burden sharing, which are discussed below (see also Appendix II, Table II.13).

The Fund pays remuneration to a member country on the amount by which its norm for remuneration exceeds the Fund's holdings of its currency, excluding holdings that reflect the member's use of Fund credit. The norm is calculated as the sum of 75 percent of a member's quota on April 1, 1978, plus any increases in quota paid after that date. For members joining the Fund after April 1, 1978, the norm is calculated as the sum of (1) a percentage of the member's quota equal to the weighted average of the norms of all existing members relative to quota on the date of admission, and (2) any increases in the member's quota paid after that date. The rate of remuneration, before the adjustments under the burden-sharing mechanisms discussed below, is set equal to the SDR interest rate, which averaged 3.91 percent in 1996 / 97.

The Fund has a number of measures in place to strengthen its financial position against the consequences of overdue financial obligations. First, a target amount of net income is determined each year to be added to reserves, which protect the Fund against administrative deficits and losses of a capital nature. Second, debtor and creditor members share equally, through adjustments to the rates of charge and remuneration, the financial costs of deferred overdue charges and of the allocation to the Special Contingent Account (SCA-1) of 5 percent of reserves at the beginning of the year (SDR 94 million for 1996/97), except that the adjustment to the rate of remuneration cannot reduce that rate to less than 85 percent of the SDR interest rate. The SCA-1 was established to protect the Fund against the risks resulting from overdue obligations. These burden-sharing procedures have been extended by the Board through 1997/98.

As part of the strengthened cooperative strategy to resolve the problem of protracted overdue financial obligations to the Fund, further (extended burden-sharing) adjustments have been made to the rate of charge and the rate of remuneration. The adjustment to the rate of remuneration was set so as to yield three times the amount of resources yielded by the adjustment to the rate of charge, subject to the floor on the rate of remuneration of 80 percent of the SDR interest rate stipulated in the Articles of Agreement. The resources so generated were placed in a second Special Contingent Account (SCA-2) and are intended to protect the Fund against risks associated with credit extended by the GRA for the encashment of rights earned in the context of rights accumulation programs (see next section) and to provide additional liquidity to finance those encashments. The extended burden-sharing procedures, which were adopted in July 1990, ended in the course of 1996/97, when the target amount of SDR 1 billion was accumulated in the SCA-2.

Settlements of deferred overdue charges amounted to SDR 9 million in 1996/97, of which SDR 2 million had given rise to burden-sharing adjustments. When deferred overdue charges subject to burden sharing are settled, an equivalent amount is refunded to members that paid higher charges or received lower remuneration. Cumulative refunds reached SDR 961 million as of April 30, 1997. Balances in the SCA-1, which amounted to SDR 785 million as of April 30, 1997, will be returned to contributors when there are no more overdue financial obligations, or at such earlier time as the Board may decide. Balances in the SCA-2, which amounted to SDR 1 billion as of April 30, 1997, will be returned to members that paid additional charges or received reduced remuneration when all outstanding purchases related to the encashment of rights have been repurchased, or at such earlier time as the Board may decide.

Unpaid charges due by members in protracted arrears and contributions to the SCA-1 resulted in an adjustment to the basic rate of charge of 20 basis points, and in an adjustment to the rate of remuneration of 23 basis points, in 1996/97. Adjustments for extended burden sharing further increased the average rate of charge by 3 basis points and further reduced the average rate of remuneration by 15 basis points.[10] For 1996/97, the adjusted rate of charge on the use of Fund resources averaged 4.51 percent, and the adjusted rate of remuneration averaged 3.53 percent.

After the retroactive reduction of charges amounting to SDR 11 million, net income for 1996/97 equaled the target amount of SDR 94 million and was added to the Fund's reserves, which increased from SDR 1.88 billion as of April 30, 1996 to SDR 1.97 billion as of April 30, 1997. For 1997/98, the Board established a net income target of SDR 99 million and set the proportion for the rate of charge at 109.6 percent of the SDR interest rate.

Precautionary balances generally available to protect the Fund's financial position against the consequences of overdue repurchases in the GRA (reserves plus the balances in the SCA-1) totaled SDR 2.8 billion as of April 30, 1997, which was equivalent to 259 percent of credit outstanding to member countries in arrears to the Fund by six months or more (SDR 1.1 billion). Total precautionary balances (reserves plus the balances in the two Special Contingent Accounts) amounted to SDR 3.8 billion, equivalent to 10.9 percent of total Fund credit outstanding as of April 30, 1997.

The level and adequacy of the Fund's precautionary balances were considered by the Board in April 1997. In reaching a judgment on the adequacy and the appropriate rate of accumulation of precautionary balances, Directors have been guided by two general principles. First, precautionary balances should fully cover the credit outstanding to members in protracted arrears to the Fund; second, precautionary balances should also include a margin for the potential exposure to risk related to credit outstanding to members that are currently meeting payments on a timely basis. After taking into account the level of outstanding Fund credit and such qualitative factors as the strength and perseverance of members' adjustment efforts and members' progress toward medium-term balance of payments viability, Directors agreed to set the net income target for 1997/98 and the contribution to the SCA-1, respectively, at 5 percent of reserves at the beginning of the year.

[10]The adjustments for extended burden sharing were effective from May 1, 1996 to February 7, 1997, when the target amount for the SCA-2 was reached. During this period, these adjustments amounted to 4 basis points for the rate of charge and 19 basis points for the rate of remuneration.

Table 46
Arrears to the Fund of Countries with Obligations Overdue by Six Months or More
(In millions of SDRs; end of period)

	Financial Year Ended April 30					
	1992	1993	1994	1995	1996	1997
Amount of overdue obligations	3,497.1	3,006.4	2,911.3	2,982.6	2,174.9	2,212.2
Number of countries	11	12	9	8	6	7
Of which:						
General Department	3,275.8	2,767.9	2,729.2	2,808.8	2,001.3	2,023.1
Number of countries	10	11	8	7	5	5
SDR Department	38.2	50.2	51.7	46.6	53.4	73.3
Number of countries	10	12	9	8	6	7
Trust Fund	183.1	188.3	130.4	127.2	120.2	115.8
Number of countries	6	6	4	4	3	3
Number of ineligible members	8	7	5	5	4	4

Overdue Financial Obligations

The level of outstanding overdue financial obligations to the Fund increased slightly in 1996/97 from SDR 2,175 million as of April 30, 1996 to SDR 2,212 million as of April 30, 1997.[11] There was one new case of protracted arrears to the Fund in 1996/97, with the number of countries in arrears to the Fund by six months or more increasing from six to seven. Of the seven countries in protracted arrears as of April 30, 1997, all were in arrears in the SDR Department; five to the GRA; three to the Trust Fund; and two were in arrears on SAF obligations. Selected data on arrears to the Fund are shown in Table 46, and further information on countries' overdue financial obligations by type and duration is shown in Table 47.

As of April 30, 1997, four countries were ineligible to use the general resources of the Fund, pursuant to declarations under Article XXVI, Section 2(*a*)—Liberia, Somalia, Sudan, and Zaïre. These four countries accounted for 95 percent of total overdue obligations to the Fund on that date. Declarations of noncooperation, a further step under the strengthened cooperative arrears strategy, were in effect with respect to three countries: Liberia (issued March 30, 1990), Sudan (September 14, 1990), and Zaïre (February 14, 1992). The voting rights of two countries remained suspended during 1996/97: Sudan (effective August 9, 1993) and Zaïre (June 2, 1994).

[11]The data in this section include the overdue financial obligations of the Federal Republic of Yugoslavia (Serbia/Montenegro), which has not yet completed arrangements for succession to membership in the Fund.

Progress Under the Strengthened Cooperative Strategy

The strengthened cooperative strategy to resolve the problem of protracted overdue obligations to the Fund was formulated in early 1990 and was endorsed by the Interim Committee in May of that year. The three key elements of the strategy—prevention, intensified collaboration, and remedial measures—continued to be implemented in 1996/97 in order to assist overdue countries in finding solutions to their arrears problems and to prevent the emergence of new arrears.

Prevention

The pursuit of sound economic policies by members with outstanding Fund credit and their willingness to sustain those policies and undertake further adjustment as needed provide the most fundamental safeguard for Fund resources. Thus, the key preventive elements against the emergence of new arrears are closely bound to the specification of the macroeconomic program supported by a Fund arrangement, including the appropriate conditionality underlying the use of Fund resources, technical assistance in the formulation and implementation of the adjustment program, and the assurance, through multilateral efforts as necessary, of adequate financing. In addition, the assessment of member countries' medium-term balance of payments viability and capacity to repay the Fund plays an important role.

Important actions have been taken to enhance surveillance practices (see Chapter 4) in order to improve the Fund's ability to identify at an early stage member countries' emerging economic and financial difficulties, including in the period after an arrangement has

Table 47
Arrears to the Fund of Countries with Obligations Overdue by Six Months or More, by Type and Duration, as of April 30, 1997
(In millions of SDRs)

	By Type				By Duration			
	Total	General Dept. (including SAF)	SDR Dept.	Trust Fund	Less than 1 year	1–2 years	2–3 years	3 years or more
Afghanistan	1.3	—	1.3	—	1.1	0.3	—	—
Iraq	28.9	—	28.9	—	3.7	4.1	3.8	17.3
Liberia	443.9	398.2	14.9	30.8	10.4	11.5	11.5	410.5
Somalia	188.1	166.7	13.7	7.7	6.9	7.4	7.8	166.0
Sudan	1,169.7	1,092.3	0.1	77.3	25.4	29.0	30.3	1,085.0
Yugoslavia, Federal Republic of (Serbia/Montenegro)	81.1	68.5	12.6	—	9.1	9.7	13.6	48.7
Zaïre[1]	299.1	297.3	1.8	—	35.0	29.4	50.9	183.8
Total	2,212.2	2,023.0	73.3	115.8	91.6	91.4	117.9	1,911.3

[1]The official name of Zaïre was changed to Democratic Republic of the Congo on May 17, 1997.

expired but when obligations remain outstanding. Emphasis is placed on improving the provision of information by member countries to the Fund, and a discussion of data issues is now included in staff reports for Article IV consultations and use of Fund resources. Initial steps have also been taken to strengthen the Fund's financial sector surveillance, underscoring the importance of the safety and soundness of the banking system in weathering economic shocks and enhancing members' overall performance.

The regular assessments of financing requirements and the member's capacity to repay the Fund in staff reports presenting a member's request for use of Fund resources take into consideration the sensitivity of the program assumptions to exogenous developments or policy slippages and the member country's payments record to the Fund and other international financial institutions. These assessments are being supplemented by analyses of debt sustainability of the heavily indebted poor countries (HIPCs) in the context of the HIPC Initiative (see Chapter 7). As of end-1996, preliminary debt sustainability analyses had been prepared for 37 HIPCs.

Intensified Collaboration and the Rights Approach

The intensified collaborative aspect of the arrears strategy is based on cooperation among the member country in arrears, the Fund, other international financial institutions, and bilateral creditors and donors. The member country is expected to establish a strong track record of policy performance and payments to the Fund, while bilateral and multilateral creditors, in turn, assist in organizing financing that will contribute to supporting the member's adjustment program and facilitating the clearance of arrears to the Fund and other multilateral creditors. Pursuit of the intensified collaborative strategy, including in several cases the rights accumulation approach, has been successful in resolving most of the cases of large and protracted arrears.

Staff-monitored programs and rights accumulation programs provide a framework for countries in protracted arrears to the Fund to establish a satisfactory track record of policy and payments performance. The availability of the rights approach is limited to the 11 countries that were in protracted arrears to the Fund at the end of 1989. To avail themselves of this approach, these countries must enter into a medium-term rights accumulation program by a certain deadline. A rights accumulation program, which shares many of the features of a normal Fund-supported macroeconomic stabilization and structural reform program, allows a country in protracted arrears to accumulate rights to future drawings of Fund resources in accordance with a phased schedule, and in amounts up to the level of arrears outstanding at the beginning of the program. Disbursements are made, however, only after the clearance of arrears, and they are conditional upon satisfactory conclusion of the rights program and approval by the Fund of a successor arrangement or arrangements. In light of the risks associated with potentially large disbursements to members previously in protracted arrears, it was decided to establish the SCA-2, financed through the extended burden-sharing mechanism, as an added precautionary balance and source of liquidity in respect of encashments of rights under arrangements in the GRA.

The deadline for entry into a rights accumulation program has been extended on a number of occasions.

Most recently, in March 1997 the Board agreed to extend the availability of the rights approach until the spring 1998 meeting of the Interim Committee. It was also agreed that the future of the rights approach, and that of the SCA-2, would be considered further before the spring 1998 meeting as appropriate in light of ongoing discussions on funding for the ESAF and the HIPC Initiative.

Five of the original 11 eligible countries—Cambodia, Guyana, Honduras, Panama, and Vietnam—cleared their arrears to the Fund without recourse to the rights approach. Three other eligible members—Peru, Sierra Leone, and Zambia—adopted rights accumulation programs. All three countries have successfully completed those programs, cleared their arrears to the Fund—Peru in March 1993, Sierra Leone in March 1994, and, most recently, Zambia in December 1995—and have remained current with the Fund following the arrears clearance. Liberia, Somalia, and Sudan continue to have outstanding overdue obligations to the Fund.

Collaboration with the World Bank and regional development banks remains close as seen in the cooperative effort underlying the March 1996 clearance of Bosnia and Herzegovina's arrears to the IBRD. Regular exchanges of information and contacts with bilateral donors and creditors also continue with respect to the arrears cases, as does Fund staff participation in various meetings of the international community involving members in arrears.

In addition, technical assistance has been provided, within the terms of Board decisions on members in arrears, where it has been considered that such assistance could contribute to a strengthening of the member's cooperation with the Fund. In 1996/97 such assistance was provided at times to Sudan and Zaïre.

Remedial Measures

The preventive and collaborative elements of the arrears strategy are complemented by remedial measures that seek to protect the Fund's resources from further use by members in arrears, and to set in motion a concerted effort to resolve the problems of overdue members. These measures consist of specific actions to be taken on the basis of a timetable agreed by the Board in early 1990. The timetable sets a framework for the Board's consideration of various measures, which are then implemented if the Board considers that the member concerned is not cooperating with the Fund in addressing the problem of its overdue obligations, taking into account the particular circumstances of the individual member. For instance, in a number of cases where civil conflicts have precluded the Fund from reaching a judgment on the member's cooperation, the application of further remedial measures has been delayed or suspended until such a judgment could be reached.

When a member has been in arrears for six weeks, the Managing Director is to consult with and recommend to the Board that a communication concerning the member's situation be sent to all Fund Governors or selected Fund Governors in the event that the member has not improved its cooperation with the Fund. A set of telexes were sent to selected Governors in August 1996 concerning the arrears of one such member. The member concerned cleared its arrears shortly thereafter, before it was necessary to issue a complaint, which is required by the timetable of remedial measures when arrears reach two months' duration.

The Board reviewed the decision with respect to the suspension of Zaïre's voting rights on two occasions during 1996/97. At the most recent review, on February 28, 1997, the Board regretted Zaïre's suspension in November 1996 of its regular monthly payments to the Fund, which the authorities had been making since February 1995, and noted the authorities' intention to resume payments to the Fund as soon as conditions permitted. The Board also regretted that economic policy implementation in 1996 did not meet expectations, but it recognized the authorities' efforts in the context of a difficult political and military situation. The Board decided to give further consideration to the initiation of the procedure on compulsory withdrawal within six months, unless Zaïre had resumed cooperation with the Fund in the areas of policy implementation and payments performance.

With the suspension of Zaïre's monthly payments in November 1996, the member fell into arrears again in the SDR Department. On February 28, 1997, the Board suspended Zaïre's right to use SDRs acquired after the suspension, other than for settlement of financial obligations to the Fund.

Compulsory withdrawal is the final and most severe sanction in the timetable of remedial measures. In the case of Sudan, which has the largest and most protracted arrears, the procedure for compulsory withdrawal was initiated on April 8, 1994 by the issuance of a complaint by the Managing Director. The Board considered this complaint on two occasions in 1996/97. At the most recent review, concluded on February 12, 1997, the Board decided that there was a basis to recommend that the Board of Governors require Sudan to withdraw from membership. Nevertheless, given the recent payments made by Sudan and the strong assurances provided by the Sudanese authorities on payments to the Fund and policy reinforcement, the Board decided that it would not recommend compulsory withdrawal if Sudan made monthly payments to the Fund according to a specific schedule and if Sudan adopted and satisfactorily implemented a program of economic and financial adjustment of a

Table 48
SDR Valuation Basket
(As of January 1, 1996)

Currency	Percentage Weight	Amount of Currency Units
U.S. dollar	39	0.582
Deutsche mark	21	0.446
Japanese yen	18	27.2
French franc	11	0.813
Pound sterling	11	0.105

quality that warranted monthly monitoring by Fund staff. On March 27, 1997, the Board considered an adjustment program drawn up by the Sudanese authorities in conjunction with the staff. The Board agreed that the program was broadly of a quality that warranted monitoring by the staff and supported such monitoring on a monthly basis.

SDR Transactions and Operations

The SDR is an international reserve asset created by the Fund under the First Amendment to its Articles of Agreement to supplement existing reserve assets. First allocated in January 1970, total SDR allocations are SDR 21.4 billion. These are held largely by Fund members, all of which are participants in the SDR Department, with the balance held by the Fund's GRA and by official entities prescribed by the Fund to hold SDRs. Prescribed holders do not receive SDR allocations, but they can acquire and use SDRs in transactions and operations with participants in the SDR Department and with other prescribed holders under the same terms and conditions as participants. During 1996/97 the number of prescribed holders remained unchanged at 15.[12] Following a broad review, involving outside experts, of the role and functions of the SDR in the light of changes in the world financial system, the Interim Committee in September 1996 endorsed the consensus reached in the Board that all members should receive an equitable share of cumulative SDR allocations through an amendment to the Articles of Agreement providing for a onetime allocation of SDRs based on a common benchmark ratio of cumulative allocations to present quotas (see Chapter 8).

[12]These prescribed holders of SDRs are the African Development Bank, African Development 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, Latin American Reserve Fund, and Nordic Investment Bank.

The SDR is the unit of account for Fund operations and transactions and is also used as a unit of account, or the basis for a unit of account, by a number of other international and regional organizations and international conventions. In addition, to a very limited extent the SDR has been used to denominate financial instruments created outside the Fund by the private sector (private SDRs). At the end of 1996/97, the currencies of two member countries were pegged to the SDR.

SDR Valuation and Interest Rate Basket

Since January 1, 1981 the value of and interest rate on the SDR have been determined on the basis of a basket of five currencies. In September 1995 the Board reviewed the valuation of the SDR, and the valuation basket was revised effective January 1, 1996. The currencies included in the new basket, which are those of the five member countries with the largest exports of goods and services during the five-year period ending one year prior to the date of the revision, are the same as those in the previous basket. However, their initial weights were modified to reflect changes from 1985–89 to 1990–94 in their relative importance in international trade and reserves, as measured by the value of exports of goods and services of the countries issuing them and the balances of the currencies held as reserves by members of the Fund. The initial weights and the corresponding amounts of each of the five currencies in the revised basket are shown in Table 48.

Since August 1, 1983 the SDR interest rate has been calculated weekly as a weighted average of interest rates on selected short-term instruments in the five countries whose currencies are included in the valuation basket. With effect from January 1, 1991, the interest rates and instruments are the market yield on three-month treasury bills in the United States, the three-month interbank deposit rate in Germany, the three-month rate on certificates of deposit in Japan, the three-month rate for treasury bills in France, and the market yield on three-month treasury bills in the United Kingdom.

SDR Transfers

Total transfers of SDRs in 1996/97 decreased to SDR 19.8 billion, after having reached a record level of SDR 27.4 billion in 1995/96. Two major developments contributed to this decline in SDR transfers. First, delays in a number of large purchases by members during 1996/97 constrained the transfer of SDRs by the GRA to participants, and contributed to inadequate availability of SDRs for members to acquire in transactions by agreement and subsequently to use in the discharge of their financial obligations to the Fund. Second, during the latter half of the year, there was a need for the GRA to expand its receipts of currencies in order to facilitate harmonization of the Fund positions

Table 49
Transfers of SDRs
(In millions of SDRs)

	Annual Average[1] 1/1/70–4/30/78	5/1/78–4/30/81	5/1/81–4/30/83	5/1/83–4/30/87	5/1/87–4/30/94	Financial Years Ended April 30 1995	1996	1997	1/1/70–4/30/97
Transfers among participants and prescribed holders									
Transactions with designation									
From own holdings	221	294	815	165	—	—	—	—	5,016
From purchase of SDRs from Fund	43	1,150	1,479	1,744	141	—	—	—	14,727
Transactions by agreement	439	771	1,262	3,121	5,609	8,987	8,931	7,411	85,565
Prescribed operations	—	—	277	520	1,304	124	1,951	88	13,923
Fund-related operations	—	—	—	43	236	301	704	606	3,434
Net interest on SDRs	42	161	259	285	369	174	319	268	5,832
Total	744	2,377	4,092	5,878	7,658	9,586	11,905	8,372	128,497
Transfers from participants to General Resources Account									
Repurchases	306	809	702	991	1,768	1,181	5,572	4,364	33,838
Charges	259	620	1,233	2,574	1,821	1,386	1,985	1,616	34,509
Quota payments	24	1,703	175	1,591	1,854	24	70	—	25,097
Interest received on General Resources Account holdings	16	135	551	307	118	262	53	51	4,058
Assessments	1	1	2	4	4	4	4	4	71
Total	606	3,269	2,662	5,466	5,565	2,857	7,683	6,035	97,573
Transfers from General Resources Account to participants and prescribed holders									
Purchases	208	1,474	2,227	2,554	2,154	5,970	6,460	4,060	52,385
Repayments of Fund borrowings	—	88	86	614	1,124	862	—	—	11,620
Interest on Fund borrowings	4	27	183	443	276	97	—	—	4,286
In exchange for other members' currencies									
Acquisitions to pay charges	—	3	95	896	356	99	49	224	6,646
Acquisitions to make quota payments	—	114	—	—	—	—	—	—	341
Reconstitution	175	33	—	—	—	—	—	—	1,555
Remuneration	26	165	604	1,536	1,012	815	1,092	1,055	18,112
Other	29	7	22	17	61	51	259	27	1,136
Total	442	1,911	3,217	6,059	4,982	7,894	7,859	5,366	96,082
Total transfers	1,792	7,556	9,971	17,404	18,205	20,336	27,448	19,773	322,152
General Resources Account holdings at end of period	1,371	5,445	4,335	1,960	6,038	1,001	825	1,494	1,494

[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 covers the period of the SDR allocations in the third basic period and the Seventh General Review quota increases; after an intervening period represented by the third column, the fourth column covers the period of the Eighth General Review quota increases and before the introduction of the two-way arrangements to facilitate transactions by agreement; and the fifth column covers, except for the three most recent financial years, the period since the designation mechanism became of a precautionary nature.

of creditor members, which resulted in a decrease in repurchases in SDRs. Summary data on transfers of SDRs by participants, the GRA, and prescribed holders are presented in Table 49 (see also Appendix II, Table II.11).

Transfers of SDRs from participants to the GRA fell from SDR 7.7 billion in 1995/96 to SDR 6.0 billion in 1996/97, reflecting mainly a decrease in the use of SDRs for repurchases from SDR 5.6 billion in 1995/96 to SDR 4.4 billion in 1996/97. The decline in repurchases in SDRs was due to a lack of availability of SDRs for acquisition by members needing to make repurchases and, as noted above, the need for larger receipts of currencies by the GRA in order to facilitate

Box 9

Designation Plan

Article XIX of the Fund's Articles of Agreement provides for a designation mechanism under which participants whose balance of payments and reserve positions are deemed sufficiently strong are obliged, when designated by the Fund, to provide freely usable currencies in exchange for SDRs up to specified amounts. The designation mechanism ensures that, in the case of need, participants can use SDRs to obtain freely usable currencies at short notice. The participant wishing to sell SDRs in a transaction with designation is required to make a representation to the Fund that it has a need to use its SDRs. While a request to sell SDRs through designation cannot be challenged at the time of use, the Fund examines recent developments in the participant's combined balance of payments and reserve position immediately afterward to determine that the requirement of need was met—that is, the use of SDRs was in accordance with Article XIX, Section 3(*a*). If, in the judgment of the Fund, the transaction was not in accordance with that Article, the participant may be designated to receive SDRs in order to offset the effect of the previous use. Adherence to the principle of this Article ensures that SDRs are not used under designation for the sole purpose of changing the composition of reserves.

The designation mechanism is executed through quarterly designation plans, approved by the Board, which list participants subject to designation and set maximum limits to the amounts of SDRs they can be designated to receive during the quarter. Apart from a participant being "sufficiently strong" for designation, the amounts of designation for individual participants are determined in a manner that promotes over time equality in the "excess holdings ratios" of participants (that is, SDR holdings above or below allocations as a proportion of participants' official gold and foreign exchange reserves). A participant will therefore be subject to designation if its excess holdings ratio is below the projected common ratio used in calculating the proposed plan. A participant's obligation to provide currency against SDRs in designation is limited, however, to its holdings of SDRs not exceeding 300 percent of its net cumulative allocations, unless the participant and the Fund agree to a higher limit.

Since September 1987 there have been no transactions with designation because potential exchanges of SDRs for currencies have been accommodated through voluntary transactions by agreement with other participants, primarily the 12 participants that have established with the Fund standing arrangements to buy or sell SDRs for one or more freely usable currencies at any time, provided that their SDR holdings remain within a certain range. These arrangements have helped to accommodate members' desires to both buy and sell SDRs and have facilitated the circulation of SDRs in the system.

harmonization of the Fund positions of creditor members. Charges paid in SDRs declined from SDR 2.0 billion in 1995/96 to SDR 1.6 billion in 1996/97, reflecting mainly lower interest rates. Other transfers to the GRA totaling SDR 0.1 billion consisted of interest on the SDR holdings of the GRA and reimbursements to the GRA for the costs of conducting the business of the SDR Department.

Given a relatively low level of holdings of SDR 0.8 billion at the beginning of the financial year, the reduced receipts of SDRs by the GRA in 1996/97, together with the delays in a number of large purchases, constrained transfers from the GRA to participants to SDR 5.4 billion for the year. Members' purchases from the Fund during 1996/97 of SDR 4.1 billion represented the largest category of transfers from the GRA, followed by remuneration payments to members with creditor positions of SDR 1.1 billion, including refunds of these members' previous contributions under the burden-sharing mechanisms. Acquisitions of SDRs from the GRA for the payment of charges, the third largest outflow, increased from SDR 49 million in 1995/96 to SDR 224 million in 1996/97.

Transfers among participants and prescribed holders decreased from SDR 11.9 billion in 1995/96 to SDR 8.4 billion in 1996/97, largely because of declines in prescribed operations and transactions by agreement. Prescribed operations in 1996/97 consisted mainly of settlements of financial obligations among participants and prescribed holders, whereas a record volume of prescribed operations in 1995/96 was largely due to bridge operations (loans and settlements of financial obligations) undertaken to assist two members to clear their arrears to the Fund and pay the reserve asset portion of their quota increases. Members continued to acquire substantial amounts of SDRs in transactions by agreement during 1996/97 in order to discharge their financial obligations to the Fund. Transactions by agreement were conducted for the most part with the assistance of the 12 members that have established standing arrangements with the Fund to buy or sell SDRs for one or more freely usable currencies at any time provided that their SDR holdings remain within certain limits. These "two-way" arrangements have proved to be resilient in accommodating desired acquisitions of SDRs and a very substantial proportion of desired sales of SDRs, obviating recourse to the designation mechanism (Box 9). Transactions by agreement decreased to SDR 7.4 billion in 1996/97 from SDR 8.9 billion in 1995/96. To help satisfy in part desired acquisitions of SDRs that could not be met from members with standing arrangements, or from other members wishing to sell SDRs in excess of their needs, one member with relatively large holdings agreed to the sale of an additional SDR 0.8 billion in 1996/97. Requests for acquisitions totaling SDR 0.6 billion by a number of members could not be met as of the end of the financial year.

Fund-related operations, representing the use of SDRs in connection with the SAF, ESAF, Trust Fund, and Supplemental Financing Facility Subsidy Account, decreased slightly from SDR 0.7 billion in 1995/96 to SDR 0.6 billion in 1996/97. Net interest on SDRs also declined slightly, reflecting lower interest rates and lower average holdings of SDRs by prescribed holders and participants with holdings in excess of their net cumulative allocations.

Pattern of SDR Holdings

Transfers of SDRs during 1996/97 resulted in some further redistribution of SDR holdings among the various groups of holders, with the Fund playing the major role in the circulation and redistribution of SDRs. In making transfers of SDRs under the quarterly operational budgets, the Fund has been guided since early 1993 by the aim of maintaining its SDR holdings in a range of SDR 1.0–1.5 billion. To maintain its holdings within that range, the Fund generally transfers each quarter the SDRs it receives to debtor members in connection with their purchases and to creditors in the payment of remuneration. Because a number of large anticipated purchases by members in 1996/97 were delayed, the holdings of the GRA as of April 30, 1997 amounted to SDR 1.5 billion, at the ceiling of the target range and nearly double the level of a year earlier.

Debtor members sold a substantial portion of the SDRs they received from the GRA to members with two-way arrangements in order to obtain freely usable currencies or used the SDRs to meet their financial obligations to the Fund, resulting in a decrease in their SDR holdings relative to their net cumulative allocations (Appendix II, Table II.12). In terms of net cumulative allocations, the SDR holdings of nonindustrial countries decreased from 67.9 percent to 60.3 percent during 1996/97. The SDR holdings of industrial countries declined from 102.4 percent to 99.3 percent of net cumulative allocations in 1996/97, mainly because they sold more SDRs in transactions by agreement than they acquired. The SDR holdings of prescribed holders increased from SDR 1.1 billion as of April 30, 1996 to SDR 1.3 billion as of April 30, 1997, representing largely the Fund's investments of SAF and ESAF resources in official SDRs maintained with the Bank for International Settlements (BIS).