During 1996 growth maintained a moderate underlying pace and became more broadly based. In late 1996 and early 1997, although activity appeared to be well sustained, concerns about the effects on demand of the planned withdrawal of fiscal stimulus adversely affected sustained growth rates of 1994–95 and resulted partly from a mild cyclical correction following the above-trend growth of key export markets in Europe. Unemployment in Germany reached a new postwar peak of 12½ percent. In Italy, the slowdown of activity in 1996 was particularly marked, reflecting in part the strengthening of the lira since early 1995 and the weakness of key export markets in Europe. Unemployment was relatively stable at about 12 percent.

Economic activity was more buoyant in a number of other European countries in 1996. In Sweden, prospects for substantially lower inflation and the ongoing rapid fiscal consolidation allowed monetary policy to be eased significantly. Economic activity picked up in the middle of the year, fueled primarily by the external sector and investment spending. In Finland and Spain, a similar strengthening of exports during 1996 contributed to a resumption of growth. The strengthening of economic activity in Denmark and the Netherlands, in contrast, was primarily driven by domestic demand.

In response to the sluggishness of activity, absence of inflationary pressures, and continued efforts at fiscal consolidation, monetary authorities in Germany and its partner countries in the exchange rate mechanism (ERM) of the European Monetary System (EMS) allowed short-term interest rates to decline further in 1996. These reductions in short-term rates, combined with declines in long-term rates and depreciations of the deutsche mark and other ERM currencies vis-à-vis the dollar, constituted a substantial easing of monetary conditions, which by early 1997 had significantly boosted growth prospects for these countries.

Growth moderated in the newly industrialized economies of Asia in 1996. The slowdown represented a mild cyclical correction following the above-trend growth rates of 1994–95 and resulted partly from a tightening of financial policy intended to diminish the risk of overheating. At the same time, exports slowed owing to losses in the external competitiveness of currencies tied to the appreciating U.S. dollar, to weaker

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**Box 1**

**Revised Country Classification: Advanced Economies**

Beginning with the May 1997 issue of the World Economic Outlook, the newly industrialized economies in Asia (Hong Kong, China; Korea; Taiwan Province of China; and Singapore), as well as Israel, are considered as advanced economies together with the group of countries traditionally known as industrial countries.

The reclassification reflects the advanced stage of economic development these economies have now reached. In fact, they all now share a number of important industrial country characteristics, including relatively high per capita income levels well within the range indicated by the group of industrial countries, well-developed financial markets and high degrees of financial intermediation, and diversified economic structures with relatively large and rapidly growing service sectors.

Rather than retaining the old industrial country label, the expanded group is labeled the "advanced economies" in recognition of the declining share of employment in manufacturing common to all of these economies.
Box 2
Role of EMU in the International Monetary System

The role of European Economic and Monetary Union (EMU) in the international monetary system was featured at a conference held at the Fund on March 17–18, 1997. Participants included academics and government officials from around the world, as well as members of the Fund’s Board and staff. There was a broad consensus on several issues, but it was also agreed that there would be considerable uncertainty even after the start of monetary union.

Most participants considered that EMU was likely to start as scheduled on January 1, 1999, although there was some risk of a postponement if key countries were unable to satisfy the criteria for monetary union on the basis of their 1997 data. It was generally accepted that the euro, the designated currency for participants in the EMU, would most likely be a strong currency, backed by conservative fiscal policies and a monetary policy oriented toward price stability. There was concern, however, that the dollar would be more volatile against the euro than it currently was vis-à-vis the European currencies. Some participants pointed to the dangers of instability resulting from the European Central Bank (ECB) being less concerned about the exchange rate because the external trade of the euro area would be a small share of its GDP. Other participants were concerned about the consequences of a sharp shift of portfolios out of the dollar and into euro-denominated assets. Several participants noted the difficulties of managing a single currency with inadequate labor market flexibility and uncoordinated fiscal policies.

It was generally agreed that the attractiveness of the euro would be determined mainly by the macroeconomic policy stance in Europe and, in particular, by the success of the ECB in achieving low inflation. There was also general agreement that the ECB would follow the Bundesbank’s example of dedication to price stability and would remain independent of political interference as provided for in its statutes. Other factors, including the development of integrated, liquid, and efficient European financial markets, would also be important determinants of the euro’s international use. Reserve currency use was likely to evolve slowly, but the euro would start out as the second most important reserve currency and could, over time, rival the dollar. However, it was pointed out that this would no more confer any special economic benefits on Europe than had been the case for the United States over the past fifty years.

Creation of the euro was viewed as having generally positive effects on neighboring countries, provided that the euro was stable and neither too strong nor too weak, but negative effects if it were volatile. It was hoped that European integration would increase cooperation between the European Union and neighboring countries and that the euro would become an important pole for exchange rate stability. The prospects for international economic policy coordination were considered in some detail at the conference. The two aspects of this issue that received the most attention were what EMU would mean for the effectiveness of coordination by the Group of Seven industrial countries and how the Fund would need to adapt its procedures and relationships with its European Union members when the ECB became responsible for monetary policy and the euro replaced national currencies.

As regards the relationship between the Fund and its members, although it was clear that EMU would not affect the rights and obligations of members under the Articles of Agreement, the transfer of monetary policy responsibilities to the ECB and the replacement of existing currencies by the euro raised a number of issues, including how surveillance was to be carried out, whether and how Fund resources could be made available to EMU members, how Fund quotas might be affected, whether the composition of the SDR needed to be redefined, and how the euro would be used in Fund operations. No simple answers were yet available, and work on these questions was urgently needed.

Advanced Economies

During the September 1996 discussion, a number of Directors cautioned that, although inflation had remained low, monetary policy would need to be tightened to prevent an emergence of inflationary pressures in the United States, where growth had been buoyant. Directors considered Japan’s monetary stance appropriate, but some did not rule out additional fiscal stimulus to sustain the recovery. In continental Europe, despite isolated signs of pickup in economic activity, notably in Germany, the Board did not discern a broad economic revival. With regard to the high unemployment that continued to afflict many industrial countries, especially in Europe, Directors noted the challenge of promoting labor market flexibility and building a social consensus for change. In their view, greater attention should be given to the scope for upward income mobility, such as through education and training.

In their March–April 1997 discussion, the Board expected growth in the United States during 1997–98 to continue at about the rate of potential. Despite the high utilization of resources, inflation remained low. Nonetheless, noting that a pickup in inflation remained a risk, Directors welcomed the recent preemptive tightening of monetary conditions by the Federal Reserve Board. Notwithstanding significant progress in recent years, Directors considered that continued effort was needed to achieve a balanced budget in the medium term and to prevent a growing deficit in the longer run, given the projected rapid growth in spending on
Box 3

Interim Committee Declaration on Partnership for Sustainable Global Growth

The following Declaration on Partnership for Sustainable Global Growth was adopted at the conclusion of the forty-seventh meeting of the Interim Committee of the Board of Governors of the Fund, September 29, 1996.

The Interim Committee has reviewed the Declaration on Cooperation to Strengthen the Global Expansion, which it adopted two years ago in Madrid. It notes that the strategy set out in the Declaration, which emphasized sound domestic policies, international cooperation, and global integration, remains valid. It reiterates the objective of promoting full participation of all economies, including the low-income countries, in the global economy. Favorable developments in, and prospects for, many industrial, developing, and transition economies owe much to the implementation of sound policies consistent with the common medium-term strategy.

The Interim Committee sees a need to update and broaden the Declaration, in light of the new challenges of a changing global environment, and to strengthen its implementation, in a renewed spirit of partnership. It attaches particular importance to the following:

- Stressing that sound monetary, fiscal, and structural policies are complementary and mutually reinforcing; steady application of consistent policies over the medium term is required to establish the conditions for sustained noninflationary growth and job creation, which are essential for social cohesion.

- Implementing sound macroeconomic policies and avoiding large imbalances are essential to promote financial and exchange rate stability and avoid significant misalignments among currencies.

- Creating a favorable environment for private savings.

- Consolidating the success in bringing inflation down and building on the hard-won credibility of monetary policy.

- Maintaining the impetus of trade liberalization, resisting protectionist pressures, and upholding the multilateral trading system.

- Encouraging current account convertibility and careful progress toward increased freedom of capital movements through efforts to promote stability and financial soundness.

- Achieving budget balance and strengthened fiscal discipline in a multiyear framework. Continued fiscal imbalances and excessive public indebtedness, and the upward pressures they put on global real interest rates, are threats to financial stability and durable growth. It is essential to enhance the transparency of fiscal policy by persevering with efforts to reduce off-budget transactions and quasi-fiscal deficits.

- Improving the quality and composition of fiscal adjustment, by reducing unproductive spending while ensuring adequate basic investment in infrastructure. Because the sustainability of economic growth depends on development of human resources, it is essential to improve education and training; to reform public pension and health systems to ensure their long-term viability and enable the provision of effective health care; and to alleviate poverty and provide well-targeted and affordable social safety nets.

- Tackling structural reforms more boldly, including through labor and product market reforms, with a view to increasing employment and reducing other distortions that impede the efficient allocation of resources, so as to make our economies more dynamic and resilient to adverse developments.

- Promoting good governance in all its aspects, including by ensuring the rule of law, improving the efficiency and accountability of the public sector, and tackling corruption, as essential elements of a framework within which economies can prosper.

- Ensuring the soundness of banking systems through strong prudential regulation and supervision, improved coordination, better assessment of credit risk, stringent capital requirements, timely disclosure of banks’ financial conditions, action to prevent money laundering, and improved management of banks.

The Committee encourages the Fund to continue to cooperate with other international organizations in all relevant areas. It welcomes the recent strengthening of Fund surveillance of member countries’ policies, which is an integral part of the strategy. It reaffirmed its commitment to strengthen the Fund’s capacity to fulfill its mandate. It will keep members’ efforts at achieving the common objectives of this strategy under review.

On the issue of inflation, the Board observed that price stability was a principal macroeconomic policy objective and that the reduction of even moderate rates of inflation was a key task for many members. Some Directors noted that, in a number of emerging market economies, growth had been high despite moderate inflation. This suggested that some circumstances, such as the rapid structural changes taking place in some transition countries, might warrant a more gradual pace of disinflation. Most Directors, however, were of the opinion that inflation inertia could undermine the foundation for sustained growth.

Finally, in the area of trade reforms, Directors noted that many transition countries had made important progress in recent years. Most Directors concurred that Fund policy advice and financial support should emphasize minimizing backward steps, pursuing further trade reform, and adopting tariff-based import regimes. They also agreed that it was preferable not to utilize trade measures to supplement insufficient fiscal revenues; the authorities should instead focus on improving the efficiency of tax administration. The complementarities between trade liberalization and other structural reforms were noted by Directors; thus,
Box 4
Dissemination Standards Bulletin Board on the Internet

The Fund’s electronic bulletin board for the Special Data Dissemination Standard on the Internet provides public access to information about the data dissemination practices of subscribing member countries or territorial entities. These subscribers undertake to follow sound practices regarding (1) the coverage, periodicity, and timeliness of the data; (2) access by the public; (3) the integrity of the data; and (4) the quality of the disseminated data. The bulletin board posts information on the practices of subscribers in each of these areas—the so-called metadata.

Countries and entities that had subscribed to the Special Standard by the end of April 1997 are listed below, and subscribers for which metadata had been posted are indicated with an asterisk:

- Argentina* Belgium* Colombia* Finland* Hong Kong, China* India* Israel* Korea* Malaysia* Norway* Poland* Slovenia* Sweden* Turkey* Austria* Australia* Croatia* Denmark* Hungary* Indonesia* Italy* Japan* Malaysia* Mexico* Netherlands* Singapore* South Africa* Spain* Slovak Republic* Sweden* Switzerland* Thailand* United Kingdom* United States*

Electronic links (hyperlinks) between the bulletin board and actual data on national data sites were also established by the end of April 1997. These hyperlinks allow data users to move quickly between the bulletin board, which describes the statistical practices of subscribers, to their actual data. At the end of the financial year, such links were in place for Canada; Hong Kong, China; Israel; Mexico; Singapore; South Africa; and Switzerland. The existence of such links is not intended to signal Fund endorsement of the data. Data users can access the DSBB at the Internet address (http://dsbb.imf.org) or through the Fund’s public Internet site (http://www.imf.org). (See also Box 11 in Appendix IV.)

tion Standard (SDDS), which is targeted at countries participating in international financial markets or aspiring to do so. In April 1996, the Board approved the SDDS, to which Fund members could subscribe on a voluntary basis (Annual Report, 1996, pages 48–51). The process reached an important new stage in September 1996, when the Fund opened an electronic bulletin board for the SDDS that the public could access on the Internet.

Special Data Dissemination Standard

At the end of April 1997, 42 countries or territorial entities had subscribed to the SDDS (Box 4). In subscribing to the SDDS, countries are expected to follow the best practices incorporated in the standard regarding the coverage, periodicity, and timeliness of data; ready and equal access by the public; and assisting users in assessing the integrity and the quality of data. It is expected that most subscribing countries will need to adapt their dissemination practices to meet the standards of best practices incorporated in the SDDS. To meet the standard fully, a transition period through the end of 1998 is provided during which subscribing countries need to make the necessary adjustments in their practices. During this transition period, the Fund, in cooperation with member countries, will continue to elaborate certain aspects of the SDDS and to undertake reviews of its operation in light of experience.

In a September 1996 discussion, Directors observed that member countries may require considerable technical assistance to comply fully with the needs stemming from the data standards initiative. These needs would add to the requests for technical assistance already in the pipeline and would have to be considered in formulating the Fund’s budget and in establishing Fund technical assistance priorities. Some speakers proposed that, where feasible, member countries participating in the SDDS should meet some of the costs of technical assistance themselves, while others thought that the work on the SDDS should not have a negative impact on the availability of other technical assistance for countries that were not in a position to participate. To support the technical assistance effort, coordination with other multilateral and bilateral organizations was also needed. Directors encouraged the staff to pursue opportunities for additional financing and asked the staff to look into the potential for cost recovery from users of the Dissemination Standards Bulletin Board (DSBB).

Directors agreed that it would be useful to establish a hyperlink facility for the DSBB that would enable users to move directly from a country’s so-called metadata (that is, information about its data, such as measurement characteristics and calendars for the release of the data) on the DSBB to actual country economic and financial data on the Internet. They agreed with the staff proposal to introduce hyperlinks from the DSBB to country data sites on the Internet for countries wishing to have such links, while taking into consideration country-specific circumstances in setting a date for the provision of such links. The first links were opened in April 1997, and many more subscribers are expected to open links in the future.

General Data Dissemination System

In March 1997, the Board reviewed and welcomed the progress toward a framework for the GDDS, the primary
Box 5

Fund Facilities and Policies

The Fund provides financial assistance to its members through several facilities and policies tailored to members’ needs. The size of the Fund’s financial support and the conditionality attached to it vary according to the nature of the macroeconomic and structural problems that the member seeks to address and the Fund facility or policy designed to meet this need. Access to Fund resources is determined in relation to a member’s quota. In October 1994—in order to give confidence to members that the Fund would be able to respond quickly and on an appropriate scale in support of strong programs of economic adjustment—the Board increased for three years the annual access limit in the General Resources Account from 68 percent to 100 percent of quota, while keeping the cumulative access limit unchanged at 300 percent of quota.

Regular Facilities

Credit Tranche Policies. The Fund’s credit under its regular facilities is made available to members in four tranches or segments of 25 percent of quota each. For first credit tranche purchases, members are required to demonstrate reasonable efforts to overcome their balance of payments difficulties. Upper credit tranche purchases are normally associated with Stand-By Arrangements. These typically cover periods of one to two years and focus on macroeconomic policies—such as fiscal, monetary, and exchange rate policies—aimed at overcoming balance of payments difficulties. Performance criteria to assess policy implementation—such as budgetary, credit, and external debt ceilings and targets for reserves—are applied during the period of the arrangement, and purchases are made in quarterly installments. Repurchases are made in 3½ to 5 years.

Extended Fund Facility. In addition to Stand-By Arrangements, the Fund makes credit available for longer periods under Extended Fund Facility arrangements. Under this facility, the Fund supports medium-term programs that generally run for three years (up to four years in exceptional circumstances) and are aimed at overcoming balance of payments difficulties stemming from macroeconomic and structural problems. Typically, a program states the general objectives for the three-year period and the specific policies for the first year; policies for subsequent years are spelled out in program reviews. Performance criteria are applied, and repurchases are made in 4½ to 10 years.

Special Facilities

Compensatory and Contingency Financing Facility (CCFF). The purpose of this facility is twofold. The compensatory element provides resources to members to cover shortfalls in export earnings and services receipts and excesses in cereal import costs that are temporary and arise from events beyond their control. The contingency element helps members with Fund arrangements to maintain the momentum of reforms when faced with a broad range of unforeseen adverse external shocks, such as declines in export prices, increases in import prices, and fluctuations in interest rates. Repurchases are made in 3½ to 5 years.

Buffer Stock Financing Facility. Under this facility the Fund provides resources to help finance members’ contributions to approved buffer stocks. Repurchases are made in 3½ to 5 years.

Emergency Assistance

In addition to balance of payments support under its regular and special facilities, the Fund provides emergency assistance in the form of purchases to help members overcome balance of payments problems arising from sudden and unforeseeable natural disasters or in postconflict situations. Such purchases involve neither performance criteria nor, normally, the phasing of disbursements. Repurchases must be made in ¾ to 5 years.

Facilities for Low-Income Countries

Structural Adjustment Facility (SAF) and Enhanced Structural Adjustment Facility (ESAF). Under these facilities the Fund provides resources on concessional terms to support medium-term macroeconomic adjustment and structural reforms in low-income countries facing protracted balance of payments problems. The member develops and updates, with the help of the staffs of the Fund and the World Bank, a medium-term policy framework for a three-year period, which is set out in a policy framework paper. Within this framework, detailed yearly policy programs are formulated and are supported by SAF or ESAF drawings. SAF and ESAF programs include quarterly benchmarks to assess performance. The rate of interest on SAF and ESAF loans is 0.5 percent, and repayments are made in ½ to 10 years.

ESAF arrangements differ from SAF arrangements in the scope and strength of structural policies, and in terms of access levels, monitoring procedures, and sources of funding. All available resources under the SAF were fully utilized as of December 1995, and no further SAF commitments are expected. There was broad consensus in the Board at an April 1995 meeting that an ESAF-type facility should continue to be available, provided that the revolving nature of the Fund’s resources and the monetary character of the Fund were respected. Directors also agreed that the basic modalities of the existing ESAF had worked well and should be retained.

Over the medium term, achieve a growth rate of 5 percent a year in 1997 and 7–8 percent in subsequent years. Reduce annual inflation to 6 percent by 1999. The external current account deficit was expected to widen to 24 percent of GDP in 1999 from 19 percent in 1996, largely as a result of rising oil sector imports of capital goods over the period. To these ends, the general government deficit was targeted to decline from 2.7 percent of GDP in 1996 to 0.5 percent by 1999.
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Box 6

**Group Travel by Executive Directors**

A trial program of group travel by Board members during 1996/97 was initiated to broaden Directors’ understanding of the economic problems and policies in individual member countries. Such travel by groups of up to five Directors would, in the Board’s view, enable Directors to observe at first hand economic conditions in Fund member countries they might not otherwise have an opportunity to visit. As a result, they would gain a better understanding of the economic situation in these countries, the policy challenges facing the authorities—including political and social issues—and the authorities’ responses to these challenges. This improved understanding would enable Directors better to contribute to the Board’s discussions on country items relating to surveillance and the use of Fund financial resources and, consequently, enhance the overall effectiveness of the Fund’s work.

During the trial program, Directors participated in two group travel visits. The first group of Directors, in June 1996, went to Egypt, Jordan, and the Republic of Yemen, spending two to three days in each country. The second, in October, traveled to Georgia, Hungary, and Ukraine. During both visits, Directors met not only with government and central bank officials who were already familiar with the Fund’s work, but also with representatives of other groups, such as political parties, the private sector, employer and employee organizations, nongovernmental organizations, and the news media. These contacts included press conferences, meetings with representatives of both governmental and opposition parties, and travel outside the capital city.

The Board considered the report of the group that traveled to the Middle East in September 1996. Participants in the visit commented that their on-site experience increased their understanding of the three countries’ economic and political situations. Such visits “humanized” the Fund’s image, in their view, and helped to promote a better understanding of the institution. Participants noted that it was important to include in a group visit at least one Director from a program country and said they found value in meeting with a wide variety of political parties and interest groups, including representatives of opposition parties. Board members generally expressed support for group travel, while agreeing on the need to avoid weakening staff and management negotiations with the countries that were visited. The trial group travel program will be kept under review by the Board.

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**Policies**

The authorities undertook to maintain a tight monetary policy, with a view to bolstering confidence in the domestic currency. Increased tax revenues were expected to help reduce the deficit by covering most existing government expenditure. External resources were to be directed toward financing capital investment and servicing the foreign debt.

Structural reforms were to be strengthened, with a focus on banking reform, privatization, and termination of the government’s heavy involvement in production and trade through improvements in the legal framework. Trade liberalization was expected to be completed.

Social priorities included reforming the social safety net, eliminating cash compensation and pension arrears, and establishing a financially secure and fair pension system. The Employment Fund would be restructured to focus on job retraining, job search counseling, and public relief works.

**Benin**

**Financial Support**

A three-year ESAF arrangement for SDR 27.18 million was approved on August 28, 1996.

**Program Objectives**

Over the medium term, achieve sustained economic growth within a framework of financial stability by gradually reducing Benin’s dependence on external foreign assistance and maintaining external competitiveness. Increase income-earning opportunities and improve the provision of services to the poorest segments of the population. Specifically, achieve annual real GDP growth of over 5 percent, annual inflation of about 3 percent, and a reduction in the external current account deficit, excluding grants, to about 5.5 percent of GDP by 1999.

**Policies**

The program focuses on strengthening public finances by reducing the overall budget deficit, excluding grants, to 6.6 percent of GDP in 1996 and 6.2 percent in 1997 from 7 percent in 1995. (See Chapter 5.) Measures to increase revenues include reducing customs exemptions and increasing the taxation of a number of products. On the expenditure side, wage policy was reformed to ensure that wage increases were more closely linked to merit and performance and did not exceed productivity increases in the economy. Credit policy is to remain tight, and the use of indirect instruments of monetary policy is to be strengthened.

Structural policies are designed to reinforce the role of the private sector and promote diversification of economic activity and exports while ensuring full exploitation of the cotton sector. (See Chapter 5.) To encourage private sector development, the authorities would seek to streamline regulations, modernize business laws, create a more efficient judiciary system, and strengthen the financial sector. To address social needs, public expenditure policy in 1996 and 1997 is to give priority to education and health, including rehabilita-
Box 7

**External Evaluation of ESAF**

In October 1996 Directors approved an evaluation of several aspects of ESAF-supported programs to be undertaken by independent external experts. These experts are Dr. Kwesi Botchwey, Harvard Institute for International Development; Professor Paul Collier, Oxford University; Professor Jan Willem Gunning, Free University, Amsterdam; and Professor Koichi Amada, Yale University.

The project, which will be undertaken in the framework of Fund policy for the evaluation of key Fund instruments, is being coordinated by a group of Directors on behalf of the Board. The experts are to concentrate particularly on three topics related to ESAF-supported programs: developments in countries’ external positions; social policies and the composition of government spending; and the determinants and influence of differing degrees of national ownership of the programs. The experts are to have full access to all information in the Fund and have been invited to conduct all consultations they judge appropriate. They are expected to complete their report by the end of 1997.

It is intended to undertake other evaluations, which will also be coordinated by a group of Directors on behalf of the Board.

...and World Bank Boards would formally decide on a country’s eligibility and assistance under the Initiative, subject to assurances of action by other creditors. This decision point would typically be reached after three years of strong performance under adjustment and reform programs supported by the Fund and the World Bank (the first stage). To qualify for exceptional assistance under the Initiative, countries would have to face an unsustainable debt situation at the completion point after the full application of traditional debt-relief mechanisms and would have to demonstrate an appropriate track record of adjustment and reform. The completion point would be reached after successful implementation of a second three-year period of adjustment and reform (the second stage). The required six-year performance period would be implemented flexibly on a case-by-case basis, with countries receiving credit toward the decision point for programs that are already under way; exceptionally, the second stage of three years might be shortened for countries that have already sustained records of strong performance.

- **Debt Sustainability.** The objective of the Initiative is to bring a country’s debt burden to sustainable levels, subject to satisfactory policy performance. Sustainable levels at the completion point would be when the ratios of the net present value (NPV) of debt (public and publicly guaranteed) to exports and of debt-service (on public and publicly guaranteed loans) to exports are below certain country-specific target levels within ranges of 200-250 percent and 20-25 percent, respectively. Country-specific targets within these ranges would be determined in light of vulnerability factors, such as the concentration and variability of exports, and with particular attention to the fiscal burden of external debt service.

- **The First Stage.** The Initiative builds on the existing mechanisms for providing debt relief, including those of the Paris Club under Naples terms. During a first three-year performance period, Paris Club creditors would provide a flow rescheduling under Naples terms (up to 67 percent reduction of the NPV of eligible debt), and there would be at least comparable action by other bilateral and commercial creditors. Multilateral institutions and bilateral donors would continue to provide assistance under adjustment programs supported by the Fund and the World Bank. During this three-year period countries would need to establish a track record of good performance.

- **Possible Country Situations.** Toward the end of the first stage (at the decision point), the staffs of the Fund and the World Bank and the concerned member country would jointly prepare an external debt sustainability analysis in consultation with other creditors concerned. On the basis of this analysis, the Boards of the Fund and World Bank will determine whether strong policies, a Paris Club stock-of-debt operation on Naples terms, with at least comparable treatment by other bilateral and commercial creditors, and continued bilateral and multilateral support are sufficient to put the country in a sustainable external debt position within the following three years (by the completion point). In the event they do, the country would not be eligible for assistance under the Initiative. Alternatively, if the assessment indicated that a country’s overall debt burden would not be sustainable by the completion point, it would be deemed eligible for and might request support under the Initiative. In borderline cases, the country might defer the stock-of-debt operation and request a further flow rescheduling under Naples terms, but it would be eligible for additional action at the completion point, if needed to achieve debt sustainability.

- **The Second Stage.** For countries deemed eligible for support under the Initiative, all creditors will commit at the decision point to provide the relief necessary to attain the targeted debt ratios established for that country, in support of continued reform efforts. Between the decision and completion points, the Paris Club—along with other bilateral and commercial creditors—would, on a case-by-case basis, provide flow rescheduling on more concessional terms involving a reduction of eligible debt by up to 80 percent in present value terms. The country would establish a further three-year track record of strong policy performance...
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...
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

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Box 10

External Evaluation of Technical Assistance in Monetary and Exchange Affairs

In developing the evaluation function in the Fund (see Annual Report, 1996, Box 13, page 219), the Board and Fund management commissioned an external evaluation of technical assistance provided in recent years by the Monetary and Exchange Affairs Department (MAE). The three-member independent panel convened in June 1995 and submitted its report in January 1996. Terms of reference for the study were to evaluate the department’s technical assistance activities—with the emphasis on institution building—in terms of the quality of advice given, its usefulness to the recipient authorities, its adaptation to specific country circumstances, its implementation and modes of delivery, and the coordination of technical assistance with other related Fund activities. The sample for the study consisted of some 20 countries that the panel chose from the roughly 130 members that had received technical assistance during 1992–94, 1 taking into account geographical balance and economic size, the type and importance of technical assistance received, and the absence or presence of a concurrent Fund program.

The Independent Panel’s Findings

The panel’s main findings were that MAE technical assistance had been critical in supporting recipients’ structural reforms in central banking and financial markets and had made a valuable—in some cases essential—contribution to the transition to a market economy; that the technical assistance had, on the whole, been relevant and useful to recipients; and that the analytical and technical quality of the assistance had generally been of high standard. In the panel’s view, technical assistance advice designed to build and improve central banks’ capacity to operate in a changing environment had contributed to the countries’ ability to cooperate with the Fund in meeting performance criteria under Fund programs and to participate in the Fund’s surveillance function. However, full integration of technical assistance with the macroeconomic work of the Fund appeared to be harder to achieve in cases where the economic transformation process had been incomplete.

In addition to recommendations tailored specifically to the provision of technical assistance by MAE, the panel made recommendations pertaining to the provision of technical assistance by the Fund generally. First and foremost, assistance should be confined to the Fund’s areas of expertise. Second, given the changing role of technical assistance, such assistance—particularly that provided to central banks—should be viewed as self-liquidating. Third, since provision of technical assistance at below-market price had entailed excess demand, alternative rationing devices—such as positive pricing, conditionality based on past performance in implementing technical assistance, and branching of technical assistance beyond some benchmark—should be considered.

The Board’s Response

At the Board’s meeting in May 1996, most Directors commended the panel’s work and agreed with its findings that the quality and usefulness of MAE’s technical assistance had been high. In particular, the department’s cooperative program with central banks in the transition economies had made an essential contribution to the process of transformation to a market economy. The Board also concurred that certain areas of MAE’s technical assistance delivery could be strengthened further. Directors supported the panel’s finding that the scope of technical assistance be carefully reviewed, to ensure that it pertained to areas of core interest to the Fund. Continued assistance in such areas as banking supervision and restructuring, accounting, and the payments system, in which the Fund would play a largely coordinating role, would be appropriate because it contributed to effective macroeconomic policy.

Directors agreed with the report’s recommendation that the monitoring and evaluation of MAE’s technical assistance should be improved, and they urged staff to enhance self-evaluation. Directors also concurred with the report’s emphasis on training the staff of institutions receiving MAE’s technical assistance. In the Board’s view, the current framework of courses in the context of activities of the IMF Institute and the Joint Vienna Institute, MAE workshops, and the department’s training projects with cooperating central banks—with European Community financing—provided a solid basis on which to build and adapt to changing needs. The Board also agreed that specific technical assistance activities should in principle be self-liquidating, but Directors recognized that during the next several years demand would continue to strain available resources.

The Board gave considerable attention to the report’s proposals to ration technical assistance, given the excess demand, including through the introduction of Letters of Intent and a certain measure of conditionality. Many Directors took a negative view of conditionality for technical assistance; other Directors thought that the subject merited further consideration. There was broad agreement, however, on the importance of assessing a recipient’s track record in implementing the recommendations of past technical assistance before agreeing to additional requests. A number of Board members stressed that further consideration should be given to the issue of the pricing of technical assistance. Other Directors pointed out that technical assistance was recognized as one of the Fund’s core activities alongside surveillance, to which no charge was applied; further, it was precisely those countries with the least ability to pay that needed technical assistance the most.

1Bolivia, Bulgaria, China, Egypt, El Salvador, Fiji, Guyana, Indonesia, Kyrgyz Republic, Lithuania, Madagascar, Mongolia, Namibia, Poland, Russia, Solomon Islands, Tanzania, Thailand, Vietnam, and Zambia.
reference to basic information about the Fund. And management and staff have become steadily more active—for example, through op-ed articles and letters to the editor—in correcting misunderstandings about the work of the institution.

**New Initiatives in 1996/97**

During the financial year, external relations activities continued at a high level. New initiatives also served to extend further the reach of these activities and the institution’s openness. These included:

- the decision by the Executive Board in April 1997 on the release of Press Information Notices following Article IV consultations (see Chapter 4);
- the establishment, in September 1996, of a public website on the Internet, offering an assortment of material on the Fund (Box 11);
- the focusing of overseas information and public affairs work (with the media, NGOs, and members of the academic community) primarily in Asia, ahead of the September 1997 Annual Meetings in Hong Kong, China;¹
- the participation by staff, at the request of the governments of Venezuela and Egypt, in a series of meetings of the authorities with the media, civil society, and

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¹Thus, a regional press seminar was held in Brunei Darussalam for representatives of the media from Hong Kong, China; Indonesia; Thailand; Malaysia; the Philippines; and Singapore. Information and public affairs missions visited Hong Kong, China; India; Japan; and the Philippines. Regional conferences were organized in Hong Kong, China, and Indonesia. Regional press seminars were also held in Bolivia and Jordan in 1996/97, and a regional labor leaders seminar was held in Zimbabwe.
The Capital Budget represents a continuation of plans for completing major building projects, replacing older facilities and electronic data-processing equipment, and other medium-term programs. Figure 14 (on preceding page) summarizes the five-year Capital Budget Plan. The Administrative Budget for financial years 1994–97 in nominal and real terms is shown in Figure 15.

**Organization and Staffing**

The total authorized staffing of the Fund was reduced by six staff positions in 1996/97 and will be reduced by a further three positions in 1997/98. The main emphasis of the work program of the institution—namely the strengthening of surveillance, work associated with the use of Fund resources, the strengthening of the Fund’s financial resources, and ensuring that the institution continues to meet the changing needs of the membership—will be met through internal redeployment. The effect of eliminating positions will be somewhat moderated through the filling of existing vacancies.

**Recruitment and Composition of Staff**

The Fund’s recruitment policy is based on Article XII, Section 4(d) of the Articles of Agreement, which states: “In appointing the staff the Managing Director shall, subject to the paramount importance of securing the highest standards of efficiency and of technical competence, pay due regard to the importance of recruiting personnel on as wide a geographical basis as possible.” At the end of the 1996/97 financial year, 121 of the Fund’s 181 member countries were represented on the staff. Table IX.3 (on page 227) shows the evolution of the nationality distribution since 1980 for Fund staff at the professional level.

In addition, the Fund views staff diversity as an important asset in developing its quality as an international institution. In this respect, 1996/97 was an important year. A Special Advisor on Diversity, appointed in late 1995, completed her first full year of operation; the Managing Director issued a statement and action plan, “Measures to Promote Staff Diversity and Address Discrimination,” in July; Fund departments subsequently prepared action plans to promote...
The Policy Development and Review Department plays a central role in the design and implementation of Fund financial facilities and operations, in surveillance policies, and in other areas. Together with the Research Department, it takes a lead in the areas of multilateral surveillance, policy coordination, and associated review and support activities. With area departments, it helps to mobilize other financial resources for members using Fund assistance, including work on debt and program financing (through the Paris Club and international banks).

The Research Department carries out policy analysis and research in areas relating to the Fund’s work. The department plays a prominent role in the development of Fund policy concerning the international monetary system and surveillance. It cooperates with other departments in formulating the Fund’s policy advice to member countries. It also coordinates the semiannual World Economic Outlook exercise and the International Capital Markets report, as well as analysis for the Group of Seven policy coordination exercise and for the Board’s seminars on World Economic and Market Developments. The department also develops the Fund’s contacts with the academic community and with other research organizations.

The Statistics Department maintains a database of country, regional, and global economic and financial statistics and reviews country data in support of the Fund’s surveillance role. It is also responsible for developing statistical concepts in balance of payments, government finance, and money and financial statistics, and for producing methodological manuals. The department provides technical assistance and training to help members develop statistical systems and produces the Fund’s statistical publications. In addition, it is responsible for the development and maintenance of standards for the dissemination of data by member countries.

The main functions of the Treasurer’s Department are formulating the Fund’s financial policies and practices; conducting financial operations and transactions in the General Department, SDR Department, and Administered Accounts (including the ESAF Trust and related accounts); controlling expenditures under the administrative and capital budgets; and maintaining the Fund’s accounts and financial records. The department’s responsibilities include work on quotas, borrowing, the Fund’s liquidity, the Fund’s policies on the SDR, its policies on its currency and gold holdings, and its policies on accounting and on financing its capital projects and expenditures.

Information and Liaison
The External Relations Department is responsible for the editing, production, and distribution of the Fund’s nonstatistical publications; providing information services to the press and the general public; and maintaining contacts with nongovernmental organizations and parliamentary bodies.

The Fund’s offices for Asia and the Pacific, in Europe, in Geneva, and at the United Nations maintain close contacts with other international and regional institutions in the areas of their responsibilities.

Support Services
The Administration Department manages recruitment, training, and career planning programs; supervises the operation of the headquarters building and leased space; provides administrative services to the Fund; and administers the Joint Fund-Bank Library.

The Secretary’s Department assists management in preparing and coordinating the work program of the Board and other official bodies, including scheduling and assisting in the conduct of Board meetings. The department also manages the Annual Meetings, in cooperation with the World Bank, and is responsible for the Fund’s archives, communications, and security program.

The Fund’s bureaus and offices are responsible for such aspects as computer services, language services, auditing, budget matters, technical assistance, work practices, and investments under the staff retirement plan.

Staff diversity with respect to gender and nationality; in addition to achieving diversity through recruitment efforts, a strong emphasis was placed on the managerial qualities required to administer and supervise the Fund’s increasingly diverse staff.

Table IX.4 (on page 229) shows the evolution of the gender distribution since 1980 for Fund staff at various administrative levels. At the end of 1996, women accounted for 46.3 percent of total staff and 27.7 percent of combined professional and managerial staff. Among economists—the largest group of professionals in the Fund—the share of women was 18.2 percent in 1996, up from 11.6 percent in 1980. Among professionals in other career streams in 1996, the share of women was much higher—58.8 percent (compared with 46.1 percent in 1980).

Recruitment in calendar year 1996 consisted of a total of 133 new staff members (67 economists, 24 other professionals, and 42 support staff). This was broadly in line with recruitment in the previous calendar year and slightly higher than the number of separations (117) in 1996. The total turnover rate in 1996 was 5.3 percent, closely in line with the medium-term average. The flow of new entrants into the institution has now stabilized at about the level immediately preceding the temporary surge in recruitment during the period 1992-93, when a total of over 500 new staff members entered on duty. It is expected that recruitment of new staff will decline slightly in the next two or three years.

The salary structure for the Fund staff is reviewed and, if warranted, adjusted annually on the basis of a comparison with salaries paid by selected private financial and industrial firms and public sector organizations in the United States, France, and Germany. The objective is to maintain Fund salaries at an internationally competitive level that supports the recruitment and retention of staff drawn from the full range of the Fund’s members and of the high caliber needed to meet the needs of the organization’s member countries. The salary structure was increased by 3.5 percent for the 1996/97 financial year (for the 1997/98 financial year, the increase was 4.3 percent).