International Monetary Fund

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Annual Report 2002

Cover Illustrations

Clockwise from the top:

(1) Abbas Mirakhor, dean of the IMF Executive Board (left), discusses an issue with IMF Managing Director Horst Köhler.

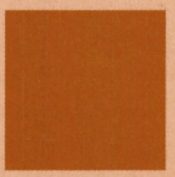
(2) IMF Executive Directors (left-to-right) Wei Benhua, Ian Bennett, A. Shakour Shaalan, and Alexandre Barro Chambrier at work in the Board Room at the IMF's headquarters in Washington, D.C.

(3) Lei Lei Myaing, a Senior Research Officer of the IMF Institute, assists a visiting official participating in an IMF training course. The IMF Institute offers courses in economic analysis and policy for officials of member countries.

(4) Fiscal Affairs Director Teresa Ter-Minassian (center) reviews the work of a technical assistance mission with team members George Tsibouris and Elena Frolia. (For more on the IMF's technical assistance work see Chapter 7.)

(5) IMF First Deputy Managing Director Anne Krueger chats with Executive Director J. de Beaufort Wijnholds. IMF Executive Directors represent a country or groups of countries. (See pages viii-ix.)

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Annual Report 2002

HIGHLIGHTS

Safeguarding Stability Amid Uncertainties

During the 2002 financial year the IMF faced important new challenges in an unusually unsettled world environment. These placed increased demands on the institution in two of its main areas of responsibility: preserving world economic and financial stability and assisting in the global war on poverty.

After a period of strong expansion, the global economy experienced a widespread slowdown during the 2001 calendar year. Contributing to this were further downward adjustments in equity prices, together with a rise in energy prices and the tightening of monetary policy in industrial countries that had occurred in 2000. The already weak international economy was further affected by the September 11, 2001, terrorist attacks in the United States, which had a substantial—although largely temporary—impact on economic conditions. By early 2002, however, thanks in large part to actions taken by key central banks to lower interest rates, there were encouraging signs that growth was recovering, although serious concerns remained in a number of countries.

In the face of the prevailing uncertainties, the IMF continued to work on the reform of the international monetary system and to focus on its core responsibilities, among them helping to prevent financial crises among its members.

Following are some of the highlights of the IMF's work during FY2002:

World financial leaders met in Ottawa in November 2001 to coordinate action to stimulate the global economy following the attack on the World Trade Center. The Chairman of the Development Committee, Yashwant Sinha (right), makes a point as (left to right) Group of 20 Chairman Paul Martin of Canada, U.S. Treasury Secretary Paul O'Neill, and International Monetary and Finance Committee Chairman Gordon Brown listen.



IMF Lending

The IMF's regular and concessional lending increased strongly as the slowdown in the world economy contributed to a worsening of the balance of payments difficulties of several members whose access to international capital markets was curtailed.

- *Commitments under the IMF's regular loan facilities*—Stand-By Arrangements and the Extended Fund Facility (EFF)—tripled, to SDR 39.4 billion[1] (almost $50 billion) in FY2002 from SDR 13.1 billion (almost $17 billion) in FY2001. The largest commitments were Stand-By Arrangements for Brazil and Turkey, SDR 12.1 billion and SDR 12.8 billion respectively. Of the commitment to Brazil, SDR 10 billion was provided under the Supplemental Reserve Facility (SRF), which is designed to assist members experiencing a sudden and disruptive loss of market access. A growing volume of IMF financing commitments are now treated as precautionary, with borrowers indicating that they do not intend to draw on the funds

[1]As of April 30, 2002, SDR 1 = US$1.2677.

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committed. Actual drawings were made in only 16 of the 34 Stand-By and Extended Arrangements in place during the year. As of the end of April 2002, undrawn balances amounted to SDR 26.9 billion.

- The IMF's net *uncommitted usable resources* amounted to SDR 64.7 billion ($82 billion) at the end of April 2002. The liquidity ratio (the ratio of net uncommitted usable resources to liquid liabilities) was 117 percent, significantly lower than the 168 percent reached a year previously, but more than three and a half times the low point reached before the 1999 increase in IMF quotas.
- In FY2002, the IMF's concessional *lending for poverty reduction* continued to be channeled through the Poverty Reduction and Growth Facility (PRGF) and the joint IMF–World Bank Initiative for Heavily Indebted Poor Countries (HIPCs). During the financial year, the Executive Board approved nine new PRGF arrangements totaling SDR 1.8 billion, with total disbursements amounting to SDR 1.0 billion, compared with SDR 0.6 billion in FY2001. By end-April 2002, 26 HIPC-eligible members had been brought to their decision points under the enhanced HIPC Initiative and one under the original Initiative, and the IMF had committed SDR 1.6 billion in grants and disbursed about SDR 0.7 billion.

Surveillance

The IMF conducts surveillance over the exchange rate policies of its member countries to ensure the effective operation of the international monetary system. To this end, it regularly discusses with members their economic and financial policies and continuously monitors economic and financial developments at the country, regional, and global levels.

- In April 2002 the Executive Board completed in large part its latest biennial review of the *principles and implementation of IMF surveillance*. While the review found that the current system of surveillance was working well, it identified a number of areas where further efforts were needed, including enhancing coverage of institutional and structural issues, especially relating to financial sectors, and improving analysis of debt sustainability.
- The Board in September 2001 discussed the IMF's role in promoting an *open trading system* and trade liberalization. Directors agreed that the IMF should stress the need for a successful launch of the Doha trade round; continue to address trade issues in the context of surveillance and IMF-supported programs; lay the groundwork for trade liberalization through its technical assistance; and cooperate closely with the World Trade Organization and the World Bank.

Strengthening the International Financial System

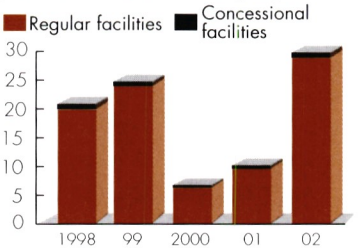
Since the Mexican crisis of 1994–95 and the Asian crises of 1997–98, much has been done to strengthen the international financial system and the capacity of the IMF and its members for *crisis prevention*. Nevertheless, it would be unrealistic to suppose that all countries will be able to avoid crises at all times. Thus, work has also advanced toward assisting countries to *resolve crises*.



First Deputy Managing Director Anne O. Krueger's proposal to establish a Sovereign Debt Restructuring Mechanism was one of the IMF's major initiatives for the year.

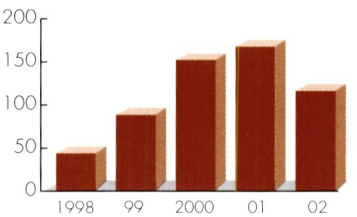
Regular and Concessional Lending

(In billions of SDRs, financial year)



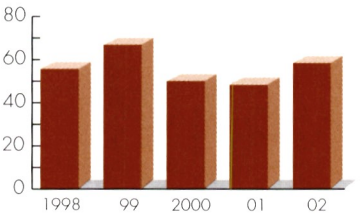
IMF Liquidity Ratio

(In percent, end financial year)



IMF Credit Outstanding

(In billions of SDRs, end financial year)



- The IMF has strengthened its monitoring of members' *vulnerability to external crises* by drawing on updated *World Economic Outlook* projections, early warning system models, detailed analyses of countries' financing requirements, market information, and assessments of financial sector vulnerability and risks of contagion.
- In recent years, the IMF has actively promoted increased *transparency* of its members' policies, sought to improve public understanding of its own policies and operations, and encouraged feedback from both national authorities and the public. Through its website (*www.imf.org*) it releases a wealth of information on its activities.
- During FY2002, the IMF reviewed its *Data Standards Initiatives* and approved a Data Quality Assessment Framework, integrated with the Reports on the Observance of Standards and Codes (ROSCs).
- Recognizing the critical importance of concerted action to strengthen financial systems, the IMF continued to conduct financial "health checkups" under the Joint IMF–World Bank *Financial Sector Assessment Program* (FSAP). By April 2002, 27 countries had completed their FSAP participation, and 50 others had committed to participate.

IMF Managing Director Horst Köhler (right) meets Afghanistan's Interim Authority Chairman Hamid Karzai, January 29, 2002. The IMF has offered technical assistance to Afghanistan to help with banking, currency issues, and the fiscal situation.



- During the year, discussions continued on a range of issues relating to *resolving financial crises and the role of the private sector*. A plan of work on crisis resolution outlined a four-point program designed to increase the IMF's capacity to assess a country's debt sustainability; clarify the policy on access to IMF resources; strengthen the tools available for securing private sector involvement in resolving financial crises; and examine a more orderly and transparent legal framework for sovereign debt restructurings. Proposals for a new *sovereign debt restructuring mechanism* were spelled out in late 2001 and early 2002 by Anne O. Krueger, the IMF's First Deputy Managing Director.
- The IMF's work on anti-money-laundering issues acquired increased importance after the September 11 attacks, when it was extended to combating the financing of terrorism.

Lending Policies and Conditionality

The IMF regularly reviews its "conditionality"—the conditions it attaches to its financial assistance to ensure that it is repaid (so that its resources become available to other members in need) and that external viability, financial stability, and sustainable economic growth are restored in the borrowing member country—and its policy on access to its financial resources.

- The latest *review of conditionality*, which was still in progress at the end of FY2002, emphasized that conditionality must be applied in a way that reinforces national ownership, should focus on policies critical to achieving a program's macroeconomic goals, and set a clearer division of labor between the IMF and other institutions, particularly the World Bank.
- After reviewing the policy governing *members' access to its resources*, the IMF determined to maintain current annual and cumulative access limits, but agreed to later review the policy involving high access to resources.

Poverty Reduction

Reducing poverty in low-income countries is a major international challenge, and the IMF continues to play its role. Besides the lending mentioned above, the IMF took a number of steps in FY2002 to reinforce and strengthen its support for reform and development efforts in low-income countries.

- The IMF received about SDR 7 million in contributions from five members to subsidize the rate of charge on Post-Conflict Emergency Assistance.
- The IMF and the World Bank jointly reviewed the *Poverty Reduction Strategy Paper (PRSP) approach*, which, combined with sound policies, is expected to put countries on a path to sustainable growth and

poverty reduction and toward achieving the UN's Millennium Development Goals.

- The IMF—jointly with the World Bank, Asian Development Bank, and European Bank for Reconstruction and Development—sponsored an initiative to help the seven *low-income members of the Commonwealth of Independent States* accelerate growth and poverty reduction.
- A *review of the PRGF* in March 2002 emphasized the need to build on progress in several specific areas, including designing policies to foster pro-poor economic growth, improving the quality and efficiency of government spending, coordinating program design with the World Bank, and enhancing communication with authorities, donors, and civil society in PRGF countries.
- Late in the financial year, the IMF reviewed the status of the HIPC Initiative and the movement toward long-term external debt sustainability. At that time, HIPC countries had received commitments of $40 billion (in nominal terms) in debt relief.

Technical Assistance and Training

IMF technical assistance supports the institution's surveillance and program work, and its importance has grown steadily in recent years. Recommendations emerging from the FSAP, the adoption of international standards, tracking indicators for the HIPC Initiative, and combating money laundering and the financing of terrorism have all increased members' requests for technical assistance.

- During the year, the IMF's Caribbean Regional Assistance Center was established; two more centers will open in late 2002 in East and West Africa under the IMF's Africa Capacity-Building Initiative.
- The IMF Institute increased training by about 9 percent over FY2001. A Joint Regional Training Center for Latin America was opened, bringing the number of such regional centers to five.

Organization, Budget, and Staffing

FY2002 saw several major changes within the IMF.

- The IMF bid farewell to First Deputy Managing Director Stanley Fischer and to Economic Counsellor and Director of the Research Department Michael Mussa and welcomed their successors—Anne Krueger and Kenneth Rogoff. Jack Boorman, who stepped down as Director of the Policy Development and Review (PDR) Department, retained his position as Counsellor and became a Special Advisor to the Managing Director. He was succeeded as PDR director by Timothy Geithner. Gerd Häusler joined the IMF as Counsellor and Director of the new International Capital Markets Department, which came into being in FY2002.
- The Independent Evaluation Office became operational.
- The IMF's internal budgeting process was reviewed by a panel of external experts, who made a number of recommendations. Some of these have already been put in place, while other changes will be introduced in FY2003 and FY2004.

* * *

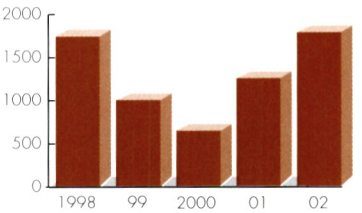
After the end of the financial year, on July 23, 2002, the Democratic Republic of East Timor became the 184th member of the IMF.



Stanley Fischer gets a standing ovation from the IMF Board. Fischer served as First Deputy Managing Director from September 1994 to August 2001 and then as Special Adviser to the Managing Director until January 31, 2002.

PRGF—New Commitments*

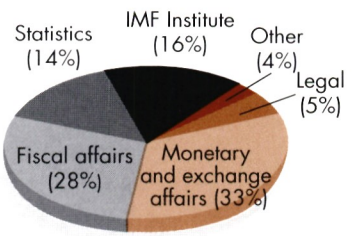
(In millions of SDRs, financial year)



*Poverty Reduction and Growth Facility; before November 1999, the Enhanced Structural Adjustment Facility.

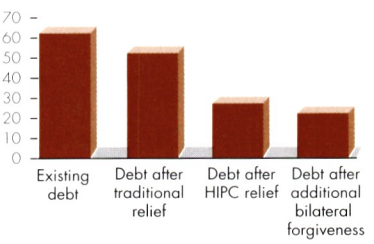
Technical Assistance

(By function, as a percent of total resources in work-years FY2002)



HIPCs—Debt Reduction**

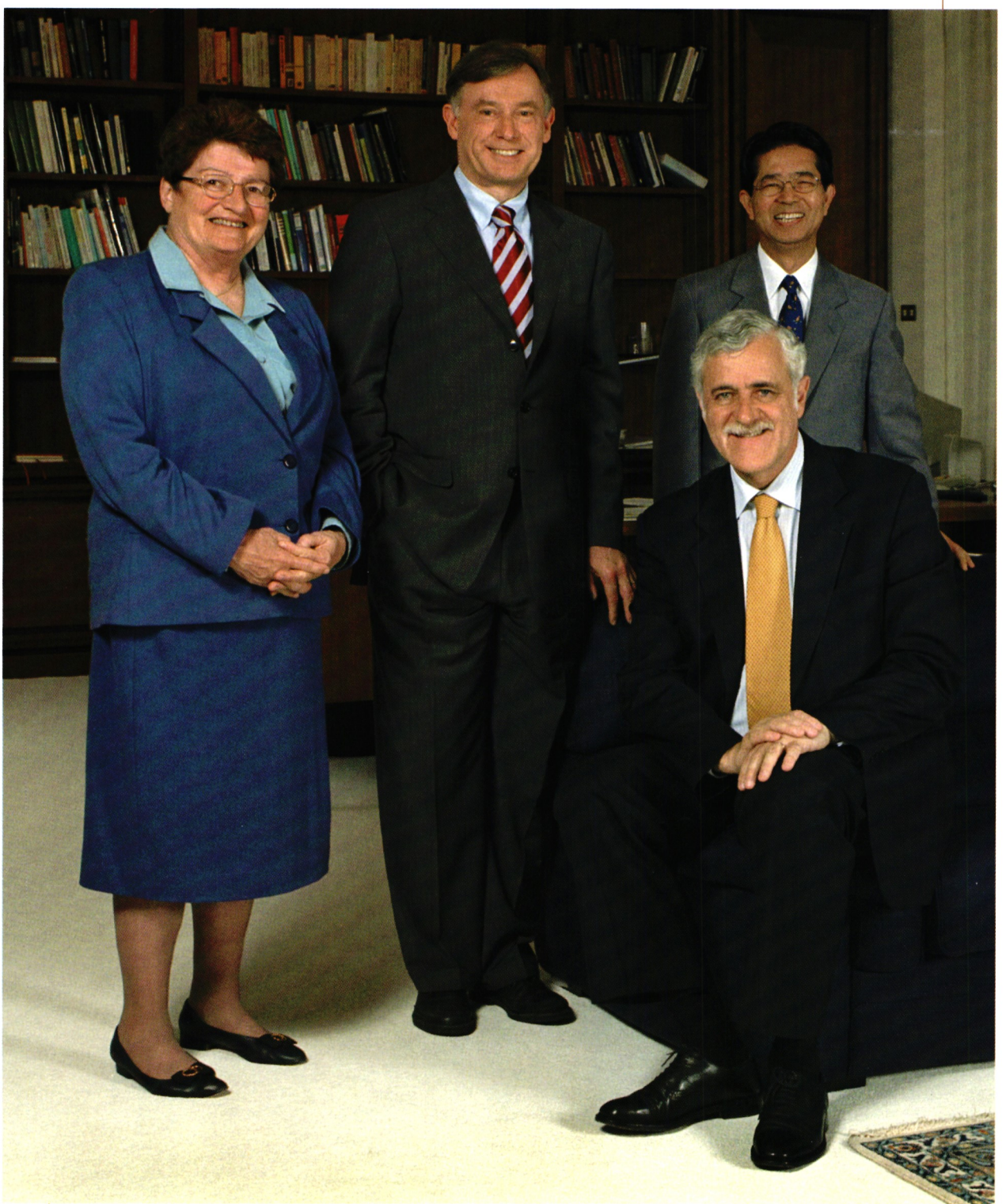
(Net present value of debt, in billions of US$ — in decision point terms)



**Countries that reached their decision points as of April 30, 2002.

Managing Director and Deputy Managing Directors

on April 30, 2002



Managing Director Horst Köhler (center), with his management team, First Deputy Managing Director Anne Krueger (left), Deputy Managing Director Eduardo Aninat (seated), and Deputy Managing Director Shigemitsu Sugisaki.

Message from the Managing Director

Over the past year, the international financial system has shown remarkable resilience in the face of a sharp slowdown in global economic growth, a fundamental reassessment in equity markets of the technology and telecommunications sectors, and the terrorist attacks in the United States. Most of the credit must go to decisive policy action by the United States and other industrial countries, including coordinated actions by central banks, supervisors, and private financial institutions to safeguard banking and payments systems in the aftermath of the September 11 attacks. It was also important that the membership of the IMF came together last November in Ottawa to define a collaborative approach to strengthen the global economy.

While an economic recovery has since gotten under way, there are still uncertainties and risks. Keeping the recovery on track will require strong leadership by the advanced industrial countries, including action to strengthen the prospects for sustained growth in their own economies and leading by example in the effort to make globalization work for the benefit of all.

The Asian crisis of 1997–98 sparked a critical debate about the process of globalization and the reform of the international financial architecture. And while we have not reached the end of that debate, the lessons learned have led to important reforms. The IMF has become more open and transparent. We have worked to streamline conditionality and build ownership of reforms. We are improving the IMF's capacities for crisis prevention and management. To strengthen the tools for crisis resolution, we are encouraging the use of collective action clauses in borrowing agreements, and have proposed the creation of a sovereign debt restructuring mechanism. We are also intensifying cooperation with the World Bank and other international institutions to ensure a good division of labor. Together with the Bank, we have embarked on a comprehensive program to assess financial sector strengths and weaknesses in our member countries. And during the past year, the IMF and other international organizations stepped up work on combating money laundering and the financing of terrorism.

Our surveillance of capital markets and assessments of systemic vulnerability have been strengthened by our new International Capital Markets Department and its quarterly reports on global financial stability. Recent accounting and corporate governance scandals have underscored the need to pay close attention to risks and vulnerabilities arising in the advanced economies, and to examine the adequacy of existing regulatory systems. Our work on internationally recognized standards and codes, which is helping to establish new rules of the game for the global economy, can be an element in that process.

The IMF is playing an active part in the effort to achieve the Millennium Development Goals. In my talks with political leaders, business persons, and civil society in low-income countries, I have been struck by the willingness to take responsibility for tackling the homegrown causes of poverty. It is particularly encouraging that African leaders have made good governance, sound policies, and increased trade and investment the cornerstones of the New Partnership for Africa's Development (NEPAD). Our global outreach and review have shown that the Poverty Reduction Strategy Paper (PRSP) process is broadly accepted as a practical way to put this approach into action. For its part, the IMF remains committed to assisting low-income countries with policy advice, financial assistance, HIPC debt relief, and technical assistance—including regional technical assistance centers to support institution building in Africa, the Caribbean, and the Pacific.

While it is crucial not to neglect any element of comprehensive support for poverty reduction, expanding opportunities for trade is clearly the best form of help for self-help—not only because it paves the way for greater self-sufficiency, but also because it is a win-win proposition for developed and developing countries alike. The elimination of trade-distorting subsidies, not least for agricultural products, and market opening by advanced and developing countries are key to bolstering confidence in the prospects for strong global growth and shared prosperity in the world.



Executive Board on April 30, 2002



United States

(Position Vacant)*
Meg Lundsager



Japan

Ken Yagi
Haruyuki Toyama



Germany

Karlheinz Bischofberger
Ruediger von Kleist



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

J. de Beaufort Wijnholds
Yuriy G. Yakusha



Costa Rica, El Salvador, Guatemala, Honduras, Mexico, Nicaragua, Spain, República Bolivariana de Venezuela

Fernando Varela
Hernán Oyarzábal



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

Pier Carlo Padoan
Harilaos Vittas



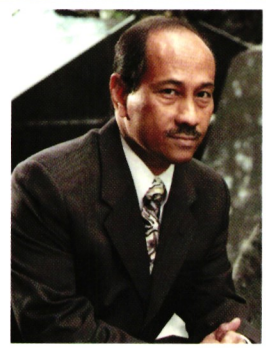
Saudi Arabia

Sulaiman M. Al-Turki
Ahmed Saleh Alosaimi



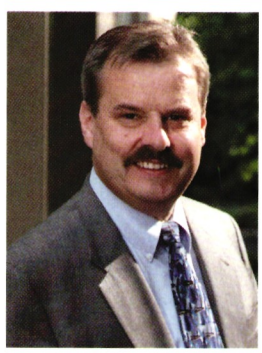
Angola, Botswana, Burundi, Eritrea, Ethiopia, The Gambia, Kenya, Lesotho, Liberia, Malawi, Mozambique, Namibia, Nigeria, Sierra Leone, South Africa, Sudan, Swaziland, Tanzania, Uganda, Zambia, Zimbabwe

Cyrus D.R. Rustomjee
Ismaila Usman



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

Dono Iskandar Djojosubroto
Kwok Mun Low



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

Roberto F. Cippà
Wieslaw Szczuka



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

Murilo Portugal
Roberto Junguito



Bangladesh, Bhutan, India, Sri Lanka

Vijay L. Kelkar
R.A. Jayatissa

Note: Alternate Executive Directors are indicated in italics.
*Randal Quarles relinquished his duties as Executive Director for the United States, effective April 2, 2002.



France

Pierre Duquesne
Sébastien Boitreaud



United Kingdom

Tom Scholar
Martin A. Brooke



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

Willy Kiekens
Johann Prader



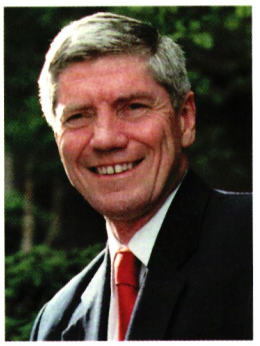
Antigua and Barbuda, The Bahamas, Barbados, Belize, Canada, Dominica, Grenada, Ireland, Jamaica, St. Kitts and Nevis, St. Lucia, St. Vincent and the Grenadines

Ian E. Bennett
Nioclás A. O'Murchú



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

Ólafur Ísleifsson
Benny Andersen



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

Michael J. Callaghan
Diwa Guinigundo



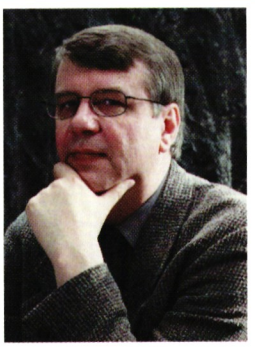
Bahrain, Egypt, Iraq, Jordan, Kuwait, Lebanon, Libya, Maldives, Oman, Qatar, Syrian Arab Republic, United Arab Emirates, Yemen

A. Shakour Shaalan
Mohamad B. Chatah



China

WEI Benhua
Wang Xiaoyi



Russia

Aleksei V. Mozhin
Andrei Lushin



Algeria, Ghana, Islamic Republic of Iran, Morocco, Pakistan, Tunisia

Abbas Mirakhor
Mohammed Daïri



Argentina, Bolivia, Chile, Paraguay, Peru, Uruguay

A. Guillermo Zoccali
Guillermo Le Fort



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

Alexandre Barro Chambrier
Damian Ondo Mañe

Senior Officers on April 30, 2002

Jack Boorman*
Counsellor and Special Advisor
to the Managing Director

Gerd Häusler*
Counsellor

Kenneth S. Rogoff*
Economic Counsellor

Abdoulaye Bio-Tchané
Director, African Department

Yusuke Horiguchi
Director, Asia and Pacific Department

Michael C. Deppler
Director, European I Department

John Odling-Smee
Director, European II Department

Thomas C. Dawson II
Director, External Relations Department

Teresa M. Ter-Minassian
Director, Fiscal Affairs Department

Margaret R. Kelly
Director, Human Resources Department

Mohsin S. Khan
Director, IMF Institute

Gerd Häusler
Director, International Capital Markets Department

François P. Gianviti
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Stefan Ingves
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Jeanette Morrison
Chief, Editorial Division

Timothy F. Geithner
Director, Policy Development and Review Department

Kenneth S. Rogoff
Director, Research Department

Shailendra J. Anjaria
Secretary, Secretary's Department

Carol S. Carson
Director, Statistics Department

Brian C. Stuart
Director, Technology and General Services Department

Eduard Brau
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Claudio M. Loser
Director, Western Hemisphere Department

Barry Potter
Director, Office of Budget and Planning

Rafael Muñoz
Director, Office of Internal Audit and Inspection

Claire Liuksila
Director, Office of Technical Assistance Management

Kunio Saito
Director, Regional Office for Asia and the Pacific

Flemming Larsen
Director, Office in Europe (Paris)

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

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

Montek Singh Ahluwalia
Director, Independent Evaluation Office

*Alphabetical order.

Letter of Transmittal to the Board of Governors

August 28, 2002

Dear Mr. Chairman:

I have the honor to present to the Board of Governors the Annual Report of the Executive Board for the financial year ended April 30, 2002, in accordance with Article XII, Section 7 *(a)* of the Articles of Agreement of the International Monetary Fund and Section 10 of the IMF's By-Laws. In accordance with Section 20 of the By-Laws, the administrative and capital budgets of the IMF approved by the Executive Board for the financial year ending April 30, 2003, are presented in Chapter 8. The audited financial statements for the year ended April 30, 2002, of the General Department, the SDR Department, and the accounts administered by the IMF, together with reports of the external audit firm thereon, are presented in Appendix IX.



Horst Köhler
Chairman of the Executive Board

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

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

The *Executive Board* (the Board) is responsible for conducting the day-to-day business of the IMF. It is composed of 24 Directors, who are appointed or elected by member countries or by groups of countries, and the Managing Director, who serves as its Chairman. The Board usually meets several times each week. It carries out its work largely on the basis of papers prepared by IMF management and staff. In 2001/2002, the Board spent about 70 percent of its time on member country matters (regular country consultations and reviews and approvals of financial arrangements) and much of its remaining time on global surveillance and policy issues (such as the world economic outlook exercise, developments in international capital markets, the IMF's financial resources, the architecture of the international monetary and financial system and the IMF's role, debt of the heavily indebted countries, and issues concerning IMF facilities and program design).

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

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

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NOTE

This *Annual Report of the Executive Board of the IMF* reports on the activities of the Board during the financial year May 1, 2001, through April 30, 2002. Most of the Report consists of reviews of Board discussions of the whole range of IMF policy and operations. The discussions are based on papers prepared by the staff. Typically, a staff paper includes background factual and analytical material on various aspects of the issue at hand and requests the Board's views on the main issues involved. It may also present proposals by the IMF's management on how the Board and the institution should move forward on an issue. Although a staff paper presents the positions of staff and management, it does not necessarily represent the IMF's position on the issue. The Board may or may not agree with the analysis or the proposals. The position of the IMF is, rather, the position of the Board as reflected in a decision, or as explained in a statement summarizing the discussion (usually referred to in the IMF as the "summing up").

The unit of account of the IMF is the SDR; conversions of IMF financial data to U.S. dollars are approximate and are provided for convenience. As of April 30, 2002, the SDR/U.S. dollar exchange rate was US$1 = SDR 0.788826, and the U.S. dollar/SDR exchange rate was SDR 1 = US$1.267706. The year-earlier rates (April 30, 2001) were US$1 = SDR 0.7900204 and SDR 1 = US$1.26579.

The following conventions are used in this Report:

. . . to indicate that data are not available;

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

– between years or months (for example, 1999–2000 or January–June) to indicate the years or months covered, including the beginning and ending years or months;

/ between years or months (for example 1999/00) to indicate a fiscal or financial year.

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

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

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

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CHAPTER 1

World Economic and Financial Developments in FY2002

In 2001 the world economy experienced a synchronized, widespread slowdown after the unusually strong expansion of the previous year, with growth slowing in every major region except Africa (Table 1.1 and Figure 1.1). The slowdown reflected a series of intertwined developments in 2001, including the downward adjustment in equity prices (particularly in the information technology sector), a rise in energy prices, and the tightening of monetary policy in industrial countries in response to evidence of rising demand pressures. The already weakening international economy was further affected by the September 11 terrorist attacks in the United States, which had a substantial—although largely temporary—influence on macroeconomic conditions. In the first few months of 2002, however, there were increasing signs that the slowdown was bottoming out in most regions and that growth was turning up in some—most notably North America and a number of east Asian countries. This reflected, at least in part, the significant easing of macroeconomic policies in the advanced countries in 2001, especially in the United States and in a number of emerging countries in Asia, as well as the completion of ongoing inventory cycles. Partly mirroring the weakening of growth in 2001, inflation remained extremely low almost everywhere. Indeed, ongoing deflation in Japan continued to worsen already difficult economic conditions.

Financial flows to emerging market economies followed a broadly similar pattern, being weak through much of 2001 as investors became more concerned about risk, particularly in the wake of the crisis in Turkey early in the year, the September terrorist attacks, and mounting difficulties in Argentina. The impact of the terrorist attacks, however, proved less durable than had been initially feared and the crisis in Argentina led to relatively little immediate contagion to other countries in late 2001. As a result, in the first quarter of 2002, flows to emerging markets strengthened and risk spreads, as reflected in the EMBI+, came down to levels not seen since before the Russian crisis in 1998.

Global Economic Environment

A series of fluctuations in the price of oil—reflecting both demand and supply factors—dominated *developments in commodity markets.* Oil prices remained in the Organization of Petroleum Exporting Countries' (OPEC) reference band of US$22–28 a barrel range through much of 2001 as falling demand due to slowing growth was essentially offset by OPEC production cuts. The terrorist attacks in September led to an extremely brief spike in prices on fears of supply disruptions, after which prices rapidly dropped below the lower bound of the OPEC reference range as slowing activity led to a fall in actual and anticipated demand, bottoming out at around US$19 per barrel. This weakness was largely reversed in early 2002 as demand revived while OPEC and some non-OPEC members responded to price weakness with further production cuts. During April prices remained highly volatile around US$25 a barrel when a series of largely noneconomic factors raised concerns about supply disruption, including increased tensions in the Middle East and political developments in Venezuela.

Nonoil commodity prices were generally depressed through 2001 and early 2002 as slowing activity reinforced longer-term price weakness caused largely by supply factors, as well as industrial country subsidies. Early 2002 saw some increases in prices, particularly in the more cyclically sensitive metals, but overall nonoil commodity prices remained below their levels at the start of 2001. Prices of semiconductors—the market for which is rapidly gaining the same characteristics as those for "traditional" commodities—fell rapidly through 2001 as demand for information technology goods slumped before showing some revival in early 2002 on evidence of a recovery in growth.

World trade volumes fell in 2001, reflecting the weakness in economic activity, particularly in manufacturing and, more specifically, information technology—sectors that are relatively trade-intensive. Owing to the generalized and synchronized nature of the economic slowdown, all regions were affected, with

Table 1.1
Overview of the World Economy
(Annual percent change unless otherwise noted)

	1994	1995	1996	1997	1998	1999	2000	2001
World output	**3.7**	**3.6**	**4.0**	**4.2**	**2.8**	**3.6**	**4.7**	**2.5**
Advanced economies	3.4	2.7	3.0	3.4	2.7	3.3	3.9	1.2
Major advanced economies	3.1	2.3	2.8	3.2	2.8	2.9	3.5	1.1
United States	4.0	2.7	3.6	4.4	4.3	4.1	4.1	1.2
Japan	1.1	1.5	3.6	1.8	–1.0	0.7	2.2	–0.4
Germany	2.3	1.7	0.8	1.4	2.0	1.8	3.0	0.6
France	1.9	1.8	1.1	1.9	3.5	3.0	3.6	2.0
Italy	2.2	2.9	1.1	2.0	1.8	1.6	2.9	1.8
United Kingdom	4.7	2.9	2.6	3.4	3.0	2.1	3.0	2.2
Canada	4.7	2.8	1.6	4.3	3.9	5.1	4.4	1.5
Other advanced economies	4.6	4.3	3.8	4.3	2.2	5.0	5.3	1.6
Memorandum								
European Union	2.8	2.4	1.7	2.6	3.0	2.7	3.4	1.7
Euro area	2.4	2.3	1.5	2.5	2.9	2.7	3.5	1.6
Newly industrialized Asian economies	7.7	7.5	6.3	5.8	–2.4	8.0	8.5	0.8
Developing countries	6.7	6.1	6.5	5.8	3.5	3.9	5.7	4.0
Africa	2.3	3.0	5.6	3.1	3.4	2.6	3.0	3.7
Developing Asia	9.6	9.0	8.3	6.6	4.0	6.1	6.7	5.6
China	12.6	10.5	9.6	8.8	7.8	7.1	8.0	7.3
India	6.8	7.6	7.5	5.0	5.8	6.7	5.4	4.3
ASEAN-4[1]	7.6	8.1	7.3	3.4	–9.4	2.9	5.1	2.6
Middle East and Turkey[2]	0.5	4.2	4.8	5.6	3.9	1.0	5.8	2.1
Western Hemisphere	5.0	1.8	3.6	5.2	2.3	0.2	4.0	0.7
Brazil	5.9	4.2	2.6	3.3	0.2	0.8	4.4	1.5
Countries in transition	–8.5	–1.5	–0.5	1.6	–0.8	3.6	6.6	5.0
Central and eastern Europe	3.0	5.6	4.0	2.6	2.3	2.2	3.8	3.1
Commonwealth of Independent States and Mongolia	–14.5	–5.5	–3.3	1.1	–2.8	4.6	8.3	6.2
Russia	–13.5	–4.2	–3.4	0.9	–4.9	5.4	9.0	5.0
Excluding Russia	–16.6	–8.6	–3.1	1.5	1.7	2.8	7.0	8.8
Memorandum								
World growth based on market exchange rates	3.1	2.8	3.3	3.5	2.3	3.0	4.0	1.4
World trade volume (goods and services)	**8.8**	**9.7**	**6.8**	**10.5**	**4.2**	**5.3**	**12.4**	**–0.2**
Imports								
Advanced economies	9.5	8.7	6.4	9.3	5.9	7.8	11.6	–1.5
Developing countries	6.5	19.1	9.6	11.7	–0.8	1.3	16.0	2.9
Countries in transition	6.0	11.2	8.9	15.2	–0.2	–7.0	13.2	10.8
Exports								
Advanced economies	8.6	8.3	6.0	10.5	4.0	5.2	11.7	–1.3
Developing countries	11.6	11.0	9.6	13.8	4.8	4.3	15.0	3.0
Countries in transition	3.0	9.4	6.6	9.0	3.6	–0.7	14.6	6.3
Commodity prices (U.S. dollars)								
Oil[3]	–5.0	7.9	18.4	–5.4	–32.1	37.5	57.0	–14.0
Nonfuel (average based on world commodity export weights)	13.4	8.4	–1.3	–3.0	–14.7	–7.0	1.8	–5.5
Consumer prices								
Advanced economies	2.6	2.6	2.4	2.1	1.5	1.4	2.3	2.2
Developing countries	55.3	23.2	15.4	10.0	10.6	6.9	6.1	5.7
Countries in transition	252.5	133.8	42.5	27.3	21.8	44.1	20.2	15.9
Six-month London interbank offered rate (LIBOR, percent)								
On U.S. dollar deposits	5.1	6.1	5.6	5.8	5.5	5.5	6.6	3.7
On Japanese yen deposits	2.4	1.3	0.7	0.7	0.6	0.2	0.3	0.2
On euro deposits	5.7	5.7	3.7	3.5	3.7	3.0	4.6	4.1

Source: IMF, *World Economic Outlook*, April 2002.
[1]Indonesia, Malaysia, the Philippines, and Thailand.
[2]Includes Malta.
[3]Simple average of spot prices of U.K. Brent, Dubai, and West Texas Intermediate crude oil.

the decline in exports being most marked in emerging Asia (excluding China and India), because of the importance of information technology production in the region. In contrast to other measures of activity, such as industrial production, there was little evidence of a pickup in trade volumes in early 2002.

Financial flows to emerging markets declined in 2001, with portfolio flows being especially affected by outflows from the crises in Argentina and Turkey, the deflation of the information technology bubble, and the economic slowdown in the United States, which resulted in a generalized move of investors to higher-quality assets. Indeed, in the aftermath of the September 11 terrorist attacks, bond markets were relatively closed to new issuers. In the closing months of the year, however, equity markets and then fixed-income markets revived as signs of a global recovery started to appear, and emerging market access and volumes picked up. Despite a drop in global foreign direct investment (FDI) and a fall in cross-border mergers and acquisitions activity, net FDI flows to emerging market countries are estimated to have increased to $175 billion. Emerging markets continued to pay down their external debt to international banks over the year.

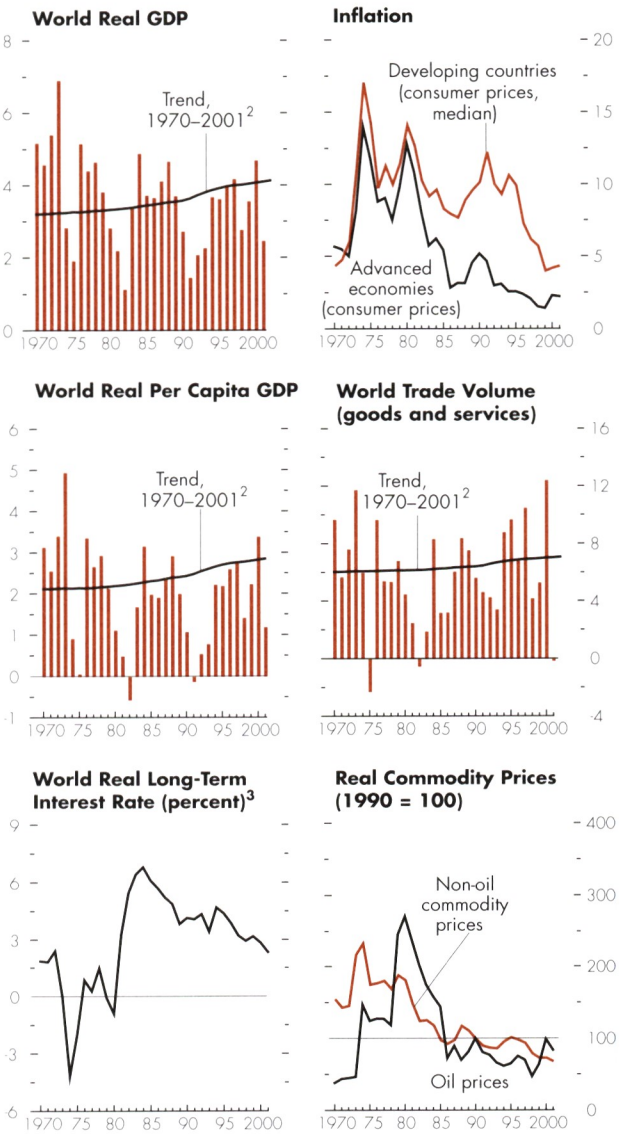
In *fixed-income markets*, the slopes of the yield curves in the United States and euro zone became quite steep, reflecting the anticipation of economic recovery. In contrast, the steeper yen yield curve pointed to renewed concerns about the health of the banking sector in Japan. Optimism about a U.S. recovery was also apparent in the corporate bond market, as credit spreads narrowed over the last two months of the year. The strength in long-term credit markets contrasted with the turbulence in short-term markets, and borrowers continued to replace short-term debt with longer-term issues as commercial paper markets became increasingly expensive.

New bond issuance by emerging market entities fell in 2001, mainly because two of the larger sovereign issuers, namely Argentina and Turkey, were affected by financial crises and were unable to maintain their traditionally large issuance programs. In the first quarter of 2002, bond issuance to emerging markets moved back in line with historical levels, as a number of sovereigns successfully tapped international markets.

In fixed-income emerging markets, the direct fallout from the Argentina crisis and default was initially limited, in part owing to more discriminating investment behavior by market participants. Other factors limiting contagion included the generally more appropriate economic policies adopted by many emerging market countries, including the use of more flexible exchange rate regimes. However, events at the beginning of financial year 2003 showed emerging markets were vulnerable as investors turned more risk averse and concerns over policy continuity and the debt structure of certain key emerging market borrowers mounted. These developments affected Latin American countries in particular as the effects of contagion were felt through banking sector channels and difficult access to new borrowing.

In *global and emerging stock markets*, a rally in January 2001 prompted by the surprise cut in U.S. interest

Figure 1.1
Global Indicators[1]
(Annual percent change unless otherwise noted)



Source: IMF *World Economic Outlook*, April 2002.
[1]Aggregates are computed on the basis of purchasing-power-parity weights unless otherwise indicated.
[2]Average growth rates for individual countries, aggregated using purchasing-power-parity weights; these shift over time in favor of faster growing countries, giving the line an upward trend.
[3]GDP-weighted average of the 10-year (or nearest maturity) government bond yields less inflation rates for the United States, Japan, Germany, France, Italy, the United Kingdom, and Canada. Excluding Italy prior to 1972.

rates quickly fizzled in February and March on continuing evidence of U.S. economic slowing and poor corporate earnings reports. Another rally in April and May 2001 also gave way to a sell-off in June. In the months before the September 11 terrorist attacks, unfavorable economic indicators caused severe weaknesses in global stock markets. After falling sharply in the two weeks following the attacks, stock prices regained pre-attack levels by mid-October. In fact, the rally that started in late September 2001 and continued well beyond the year was the longest sustained rally since April 2000. By mid-November, most major stock markets were returning to double-digit growth rates following increased investor confidence on expectations of an imminent economic recovery. The increased confidence partly reflected the rapid monetary policy response in industrial countries. However, in the first quarter of 2002, equity prices were broadly unchanged in the United States and Europe, despite an improved global outlook owing to concerns over the quality of reported earnings in the wake of the unexpected collapse of Enron and other large corporations. Emerging economy equity markets strongly outperformed mature equity markets during the first quarter of 2002, with emerging Asia performing best, on the back of impressive gains by technology companies.

In *foreign exchange markets*, the U.S. dollar remained remarkably strong in 2001, notwithstanding the economic downturn of the fourth quarter. This strength continued in the first quarter of 2002 because markets expected that the U.S. economy would be the first to rebound from the global slowdown. However, in April 2002, with sentiment toward the dollar becoming mixed, and against the background of increased uncertainty in the outlook for corporate earnings, the dollar softened. The euro remained weak relative to the dollar throughout 2001 and first quarter of 2002 but began to strengthen in April, whereas the Japanese yen remained strong, limiting the dollar's gains. In emerging markets, the Turkish lira fell more than any other currency in 2001, after Turkey was forced to float its currency early in the year. The South African rand and to a lesser extent the Egyptian pound, the Brazilian real, and the Chilean peso also weakened significantly during the year. In contrast, the Mexican peso and the currencies of the Czech Republic, Hungary, and Poland strengthened notably. In early 2002, Argentina was forced to abandon its currency board arrangement, and the Argentine peso weakened sharply. As of May 2002, the South African rand had recovered from its 2001 low in the wake of stronger commodity prices to be the emerging market currency with the largest appreciation in the early months of 2002, followed by the Indonesian rupiah, which benefited from progress in implementing reforms.

Key Developments in Emerging Market and Industrial Countries

In *Latin American* emerging market economies, growth slowed through much of 2001. This slowdown reflected the slowdown in industrial countries; difficult external financing conditions—particularly important given the region's large external funding requirements—that came to a head during the Argentine crisis in late 2001; and a range of country-specific factors. After the onset of the Argentine crisis, economic developments diverged, with extremely difficult conditions in Argentina but increasing signs that the slowdown was ending elsewhere, particularly in those countries with the closest trading ties with the United States, including those of Central America and the Caribbean. Inflation remained low, mirroring both weak activity and improved policy frameworks.

The countries in *emerging Asia*, with the important exceptions of China and India, generally experienced sharp falls in growth rates in 2001, but began to show signs of a turnaround in 2002, while region-wide inflation remained low. The path has been largely driven by the external environment including the downturn in the global information technology industry and oil price movements. For most oil-importing countries, high prices in late 2000 and much of 2001 contributed to the weakening of incomes and demand in many countries. Subsequently, weak oil prices in late 2001 and early 2002 provided support for recovery, although in early 2002 price increases reduced this impetus. The opposite pattern is true for the region's oil producers. Poorer external conditions during 2001 also spread to domestically exposed sectors, further lowering demand, confidence, and employment, with economic and political uncertainties in some countries putting downward pressure on growth. In contrast, activity remained relatively buoyant in China and to a lesser extent in India, largely because both economies are less dependent on external trade than other economies in the region, but also because of strong domestic demand, although they too have seen some slowing in growth since 2000.

Economic performance in *central and eastern Europe* generally held up well compared with other emerging market regions during the global slowdown. Not surprisingly, exports—which are largely directed to the European Union—weakened in 2001 and early 2002 as external demand slowed, partly offset by gains in market share in some cases. The loss in external demand was largely offset in most cases by relatively robust domestic demand, generally underpinned by lower inflation and interest rates, strong investment spending (often driven by foreign direct investment), and fiscal stimulus in several countries. There was an important exception to this pattern. Turkey suffered its worst recession in over fifty years in 2001, with the events of September 11 setting back the tentative signs

of recovery that had emerged following the economic and financial crisis at the start of the year, particularly through their impact on trade, tourism, and financial market confidence. Real and financial indicators in late 2001 and early 2002 suggested that conditions were again improving: capacity utilization increased throughout the second half of 2001, interest rates fell significantly after mid-October, and the exchange rate and stock market also strengthened.

Growth rates in the *countries of the Commonwealth of Independent States* remained remarkably resilient to the global slowdown in 2001, falling only slightly to an average of 6¼ percent, the highest growth rate among the major developing and transition country regions. This was underpinned by continued robust growth in the largest economies, which provided significant support to the rest of the region given the strong trade and financial linkages. In many cases, improved macroeconomic stability and policy implementation, as well as country-specific factors, supported robust growth.

Growth in *Africa* also held up relatively well in 2001 and early 2002 compared with other parts of the world, despite the weak external environment. The key influences on the outlook for much of the region continued to be the interaction between commodity market developments, the conduct of economic policies, and the extent of armed conflict and other forms of civil tension. Fluctuations in oil prices have had varying effects, with higher oil prices supporting activity in oil producers but having a harmful effect on the many other commodity exporters in the region. These include many of the poorest countries, which have also been affected by weakness in nonoil commodity prices. That said, both strong and weak performers can be found within each of these groups, with the quality of domestic policies and the extent of conflict having a key impact on whether countries have been able to resist the external downturn.

Growth in the *Middle East* slowed considerably in 2001 and early 2002, largely reflecting the global slowdown, lower oil production, and, after the September 11 terrorist attacks, the regional security situation. The curtailment of oil production associated with OPEC agreements to support flagging oil prices depressed real GDP in the oil-exporting countries, while the security situation dampened activity, including tourism, in particular in Egypt, Israel, Jordan, and the Syrian Arab Republic.

In the *industrial countries*, growth was weak in 2001. The slowdown was especially marked in the United States and Canada, in part because growth had been more robust over 2000. Both economies saw clear evidence of recovery in the early months of 2002—with positive growth in the last quarter of 2001 and a substantial acceleration in the first quarter of 2002. Europe also saw a significant deceleration in activity. Within Europe, activity was particularly weak in Germany and Italy, and relatively more robust in France and the United Kingdom, with the performance of domestic demand accounting for many of these variations across countries. Activity in Australia and New Zealand remained relatively strong, largely reflecting buoyant domestic demand. In contrast, Japan suffered its third and most severe recession of the last decade. While external factors promoted the slowdown, weakness in domestic demand was also a contributing factor. By early 2002, however, there were signs that the economy was bottoming out.

CHAPTER 2

IMF Surveillance in Action

In today's global economy, where economic developments and policies in one country affect other countries and financial market information is transmitted around the world instantaneously, the IMF's role in monitoring economic and financial developments and policies in member countries is more vital than ever before. The IMF has the mandate under its Articles of Agreement to oversee the exchange rate policies of its member countries to ensure the effective operation of the international monetary system. It exercises this "surveillance" responsibility by holding regular discussions with its member countries about their economic and financial policies, and by continuously monitoring and assessing economic and financial developments at the country, regional, and global levels. In these ways, the IMF can help signal dangers on the horizon and enable members to take early corrective policy actions.

IMF surveillance has evolved over time to reflect changing global realities, and both the practice and the underlying principles of IMF surveillance are reviewed by the Executive Board every two years (see Box 2.1). A central task is to make surveillance a more effective vehicle for preventing crises and promoting a global economic environment conducive to sustainable growth. The goal is neither the unrealistic aim of eliminating all risks of future crises nor an impractical promise to deliver definitive warnings about all future crises. Rather, the IMF's efforts focus on strengthening incentives for country authorities and market participants to assess risks appropriately and to base their policies and investment strategies on these assessments. A well-functioning market economy draws its strength and dynamism from a continuous search by producers, investors, and consumers for better results. This will always lead to some degree of overshooting and correction, particularly in asset markets. Thus the IMF encourages governments to adopt policies, including institutional reforms, to strengthen the resilience of members' economies in the face of harmful developments and financial stress—notably through appropriate exchange rate regimes; sound fiscal policies; prudent borrowing and debt management strategies; deeper, stronger, and more diversified financial systems and domestic capital markets; and more effective social safety nets.

Equally important are policies that promote sustainable growth and an open trade environment because growth, trade, debt-servicing capacity, and external viability are inextricably linked. The IMF thus has a role to play in promoting trade liberalization and has been moving toward increased coverage of market access issues in its surveillance consultations with member countries. It also encourages countries to liberalize trade by providing technical assistance to member countries in its areas of expertise that lay the groundwork for increased trade and by providing financial support for countries developing more open trade regimes.

Effective surveillance and crisis prevention have two key ingredients: sound policy advice and incentives to ensure that this advice has an impact. The IMF is continuing to strengthen its analytical capacity to identify sources of vulnerability as they emerge and to develop strategies to reduce vulnerabilities, promote stability, and foster growth. At the same time, it is paying greater attention to the factors that determine the effectiveness of its policy advice.

* * *

The IMF conducts surveillance in several ways—country (or bilateral) surveillance and global and regional (or multilateral) surveillance.

- *Country surveillance.* As mandated in Article IV of its Articles of Agreement, the IMF holds "Article IV" consultations, normally once every year, with each member country about its economic policies. These consultations are complemented by regular analysis of economic and financial developments provided by IMF staff, informal contacts with staff and national authorities, and interim Board discussions as needed.
- *Global surveillance.* The IMF's Executive Board regularly reviews international economic and financial market developments. The reviews are based partly on the *World Economic Outlook* reports, prepared by

Box 2.1

IMF Biennial Surveillance Review

The Executive Board reviews the principles and the implementation of the IMF's surveillance approximately every two years. The latest biennial review of surveillance activities was completed in large part in April 2002. The review took stock of the evolution of surveillance—both the framework within which surveillance takes place and the actual conduct of surveillance.

Directors noted that further discussions on the review of surveillance and on various surveillance-related issues—including the IMF's transparency policy—would continue, but the review so far had yielded a number of important conclusions. First, the coverage of surveillance had expanded over the years—from concentrating narrowly on monetary, fiscal, and exchange rate policies, to a broader purview encompassing external vulnerability assessments, external debt sustainability analyses, financial sector vulnerabilities, and structural and institutional policies (see Chapter 3)—and that broadened framework constituted a necessary and appropriate adaptation of surveillance to a changing global environment, most notably to the rapid expansion of international capital flows. Second, IMF surveillance had generally succeeded in embracing wider coverage without losing focus. The issues that were covered in individual Article IV consultations were generally determined by their macroeconomic relevance in country-specific circumstances. The current system of multilateral (or global) surveillance was working well and multilateral surveillance of capital markets had been improved by the creation of the International Capital Markets Department (ICM).

Given this overall record of coverage and focus, a number of specific areas were identified where further efforts were needed to ensure that IMF policy advice was sound and persuasive.

- More candid and comprehensive assessments of exchange arrangements and exchange rates within the framework of macroeconomic policies should become the normal practice throughout the membership.
- Coverage of financial sector issues should be brought up to par with coverage of other areas of surveillance. Voluntary participation in Financial Sector Assessment Programs (FSAPs) had provided for in-depth coverage of financial sector issues. However, in the absence of a member's participation in an FSAP, the quality of financial sector surveillance had been uneven across member countries, and mechanisms had to be found to improve that situation.
- To strengthen vulnerability assessments, analysis of debt sustainability had to be improved, particularly through the use of meaningful stress tests and alternative scenarios. Also, greater attention had to be paid to the private sector's balance-sheet exposure to interest rate, exchange rate, and general macroeconomic shocks, and to collecting the data required to assess that vulnerability.
- Coverage of institutional issues, such as public sector and corporate governance in certain countries, had sometimes been hampered by a lack of expertise and should be strengthened. Reports on the Observance of Standards and Codes (ROSCs) and, generally speaking, the work on standards and codes were important inputs to meeting this objective.
- Structural issues outside the IMF's traditional areas of expertise were, at times, key to a country's macroeconomic situation and, thus, had to be addressed by the IMF. To tackle such cases, the IMF should make effective use of the expertise of appropriate outside institutions, in particular the World Bank.
- There was some scope for enhancing the focus of surveillance in individual cases and areas. In particular, coverage of trade policies should be strengthened by concentrating on countries whose trade policies either had appreciable global or regional influence or had significant deleterious effects on domestic macroeconomic prospects.
- The results of multilateral (or global) surveillance exercises and the IMF's comparative advantage in cross-country analyses should be reflected in bilateral (or country) surveillance in a comprehensive and consistent manner. Particular attention should continue to be paid to the systemic impact of the policies of the largest economies in Article IV consultations with those countries.
- Article IV consultations with countries with IMF-supported programs should provide an effective reassessment of economic conditions and policies; that required a freshness of perspective and appropriate distance from day-to-day program implementation.

Directors stressed that, in many instances, the IMF could usefully complement sound advice on economic policy objectives with discussions with country authorities of alternative ways to achieve those objectives. An important component of such discussions would be consideration of social, political, and institutional factors to enhance ownership of policy recommendations and increase the likelihood of successful policy implementation.

IMF staff usually twice a year, and reports on international financial markets. In addition, the Board holds frequent, informal discussions about world economic and financial market developments.

- *Regional surveillance.* To supplement country consultations, the IMF also examines policies pursued under regional arrangements. It holds regular discussions with such regional economic institutions as the European Union, the West African Economic and Monetary Union, the Central African Economic and Monetary Community, and the Eastern Caribbean Currency Union. IMF management and staff have also increased their participation in regional initiatives of member countries—including

Box 2.2

IMF Launches Quarterly Report on Global Financial Markets

On March 14, 2002, the IMF issued the inaugural *Global Financial Stability Report*—a new publication on the health of the world's financial system. The report, which will be published quarterly, aims at providing timely and comprehensive coverage of both mature and emerging financial markets as part of the IMF's stepped-up tracking of financial markets.

The rapid expansion of financial markets during the past decade underscores the role that private sector capital flows play as an engine of world economic growth. But these flows can also be at the heart of crisis developments. In an effort to head off future crises, the *Global Financial Stability Report* seeks to deepen policymakers' understanding of the potential weaknesses in the system and to identify the fault lines that have the potential to lead to crises.

The March 2002 issue weighed the stability of the international financial system in light of an emerging global economic recovery, paying particular attention to risks posed by a slower-than-expected economic recovery and by the recent surge in the use of complex credit risk transfer mechanisms, such as credit derivatives and debt swaps. The report also examined the accuracy of selected early warning systems—statistical models designed to predict financial crises—and reviewed some alternative debt instruments that emerging market borrowers could use to tap global capital markets.

The report is prepared by the IMF's International Capital Markets Department, which was established in 2001 to enhance the IMF's surveillance, crisis prevention, and crisis management activities. It replaces both the annual *International Capital Markets* report, which has been published since 1980, and the quarterly *Emerging Market Financing* report, published since 2000.

the Southern African Development Community, the Common Market of Eastern and Southern Africa, the Manila Framework Group, the Association of South East Asian Nations, the Meetings of Western Hemisphere Finance Ministers, and the Gulf Cooperation Council (see also Appendix IV).

- IMF management and staff also take part in policy discussions of finance ministers, central bank governors, and other officials in such country groups as the Group of Seven major industrial countries, the Asia-Pacific Economic Cooperation forum, and the Mahgreb countries associated with the European Union (Algeria, Morocco, and Tunisia).

Country Surveillance

An IMF staff team meets with government and central bank officials of each member country, as well as other groups—such as trade unions, employer groups, academics, legislative bodies, and financial market participants—generally once every year (with interim discussions held as needed), to review economic developments and policies. These consultations touch on major aspects of macroeconomic and financial sector policies, but they also cover other policies affecting a country's macroeconomic performance, including, where relevant, structural economic policies and governance.

To provide the basis for country surveillance, an IMF staff team visits the country, collects economic and financial information, and discusses with the national authorities recent economic developments and the monetary, fiscal, and relevant structural policies the country is pursuing. The Executive Director for the member country usually participates. The IMF staff team normally prepares a concluding statement, or memorandum, summarizing the discussions with the member country and the findings of the staff team, and leaves this statement with the national authorities, who have the option of publishing it. On their return to headquarters, IMF staff members prepare a report describing the economic situation in the country and the nature of the policy discussions with the national authorities, and evaluating the country's policies. The Executive Board, where the entire membership is represented, then discusses the report. The country is represented at the Board meeting by its Executive Director. The views expressed by Executive Directors during the meeting are summarized by the Chairman of the Board (the Managing Director), or the Acting Chairman (a Deputy Managing Director), and a summing up is produced. If the Executive Director representing the member country agrees, the full Article IV consultation report is released to the public, together with the summary text of the Board discussion and background material in the form of a Public Information Notice (PIN). Otherwise, a PIN alone may be issued. In FY2002 the Board conducted 130 Article IV consultations with member countries (see Table 2.1). The PINs and Article IV reports are published on the IMF website.

(For more details of the IMF's bilateral surveillance, such as Financial Sector Stability Assessments, see Chapter 3, under "Crisis Prevention.") In addition, the Board assesses economic conditions and policies of member countries borrowing from the IMF through discussions of the lending arrangements that support the member countries' economic programs (see Chapter 4).

Global Surveillance

The Executive Board's conduct of global surveillance relies heavily on staff reports on the *World Economic Outlook* and international financial markets (see Box 2.2), as well as sessions on world economic and market developments.

World Economic Outlook

The *World Economic Outlook* reports feature comprehensive analyses of prospects for the world economy, individual countries, and regions, and also examine topical issues. These reports are prepared by the staff and discussed by the Executive Board usually twice a year (and later published), but they may be produced and discussed more frequently if rapid changes in world economic conditions warrant.

In FY2002 the Board discussed the World Economic Outlook on three occasions: two regular discussions were held in September 2001 and March 2002, and an additional discussion was held in December 2001 in the aftermath of the terrorist attacks in the United States of September 11, 2001. The two discussions during the 2001 calendar year focused on signs of a slowdown in world economic growth, sharply albeit temporarily exacerbated by the events of September 11. By March 2002, however, there were encouraging indications that the slowdown had bottomed out and that global economic growth was recovering.

At its *September 2001* meeting on the World Economic Outlook, the Board agreed that prospects for global growth had weakened since the last World Economic Outlook report had been released the previous May. In particular, Directors noted the substantial decline in growth in the United States over the past year; the serious deterioration in economic prospects for Japan; the weaker conditions and outlook in Europe; and the reduction in the projections for growth for most developing country regions. Slower GDP growth in almost all regions had been accompanied by a sharp decline in trade growth, Directors noted. Financing conditions for emerging markets had also deteriorated, although Board members were encouraged that the effects of contagion had been more moderate than in preceding episodes.

Directors considered that a number of interrelated factors had contributed to the slowdown, including a reassessment of corporate profitability and an associated adjustment in equity prices, higher energy and food prices, and tightening of monetary policy to contain demand pressures in the United States and in Europe. More broadly, the faster-than-expected slowdown also reflected the strong cross-country trade and financial linkages that were increasingly evident across countries.

At their *December 2001* meeting on revised projections for the World Economic Outlook, Directors discussed the impact of the September 11 attacks on the world economy. They observed that, before the attacks, there appeared to be a reasonable prospect for recovery in late 2001. However, more recent data, on which the interim World Economic Outlook revisions were based, indicated that the situation before the attacks was weaker than had earlier been projected in many areas, including in the United States, Europe, and Japan. Directors accordingly concluded that the tragic events of September 11 had exacerbated an already very difficult situation for the global economy.

In the aftermath of the September 11 attacks, consumer and business confidence had weakened further across the globe, Directors observed. There was a significant initial impact on demand and activity, particularly in the United States. In financial markets, there had been a generalized shift away from risky assets in both mature and emerging markets, including a substantial deterioration in financing conditions for emerging market economies. Between the end of September and early December 2001, however, financial markets strengthened, as equity markets recovered and the earlier flight to quality was reversed. Movements in major exchange rates had been moderate, while commodity prices had fallen back further, especially for oil, as the outlook for global growth had weakened.

The economic slowdown and worsening financing conditions had adversely affected many emerging market economies, Directors noted. Net capital flows, including foreign direct investment, were constrained. Those countries that required substantial external financing were vulnerable to reassessments of economic prospects and to further shocks in international capital markets.

Board members expressed concern that developing countries and, in particular, the poorest countries were being hurt by weaker external demand and falling commodity prices, with the oil exporters being particularly affected. Nonfuel commodity exporters would also be affected by further weakness in already depressed prices, although, for some, the benefits from lower oil prices would limit the increase in their requirement for external financing. Thus, while growth was projected to be relatively well sustained for the group as a whole, Directors were of the view that the prospects for individual countries varied widely.

Given the limitations of monetary policy in the then prevailing environment of weak confidence and excess capacity, most Directors agreed in their December discussion that fiscal policy should also play a role, particularly through the operation of the automatic stabilizers.

Directors also pointed out that the agreement reached at the World Trade Organization meetings in Doha, Qatar (see Box 2.3 below), in November 2001 to launch new trade negotiations was of particular importance, as they could be expected to contribute substantially to global economic growth over the medium term.

There had been a marked improvement in global economic prospects by the time of the Board's *March 2002* discussion. Directors welcomed the increasing signs that, since December 2001, the slowdown had

Table 2.1
Article IV Consultations Concluded in FY2002

Country Name	Board Date	PIN Issued	Staff Report Published
Albania	July 13, 2001	July 27, 2001	July 27, 2001
Algeria	August 29, 2001	September 19, 2001	September 19, 2001
Angola	March 29, 2002		
Antigua and Barbuda	March 15, 2002		
Armenia	May 21, 2001	April 2, 2002	April 2, 2002
Aruba	August 22, 2001	September 7, 2001	September 7, 2001
Austria	June 11, 2001	June 14, 2001	June 14, 2001
Azerbaijan	February 20, 2002	March 8, 2002	March 8, 2002
Bahamas	August 1, 2001	August 14, 2001	August 27, 2001
Bangladesh	April 29, 2002	May 15, 2002	June 7, 2002
Barbados	November 26, 2001		
Belarus	January 23, 2002	February 19, 2002	February 19, 2002
Belgium	March 1, 2002	March 13, 2002	March 13, 2002
Belize	July 9, 2001	August 2, 2001	August 27, 2001
Bhutan	May 7, 2001	May 23, 2001	
Bolivia	June 8, 2001	June 25, 2001	June 25, 2001
Bosnia & Herzegovina	February 25, 2002	March 22, 2002	March 22, 2002
Brazil	January 23, 2002	February 7, 2002	
Brunei Darussalam	March 4, 2002		
Burkina Faso	July 2, 2001	July 16, 2001	
Burkina Faso	April 9, 2002	May 1, 2002	May 1, 2002
Cambodia	February 6, 2002	March 1, 2002	March 1, 2002
Cameroon	July 16, 2001	July 26, 2001	August 6, 2001
Canada	February 4, 2002	March 12, 2002	March 12, 2002
Cape Verde	June 15, 2001	October 3, 2001	October 3, 2001
Chad	January 16, 2002	February 25, 2002	February 25, 2002
Chile	July 16, 2001	July 27, 2001	July 27, 2001
China, P.R. of	July 23, 2001	August 24, 2001	
Comoros	July 18, 2001	July 31, 2001	August 9, 2001
Congo, Democratic Rep. of the	July 13, 2001	July 20, 2001	July 30, 2001
Congo, Rep. of	February 6, 2002	February 25, 2002	
Costa Rica	July 30, 2001	April 24, 2002	April 24, 2002
Côte d'Ivoire	August 31, 2001	October 2, 2001	October 2, 2001
Czech Republic	July 16, 2001	July 25, 2001	July 25, 2001
Djibouti	November 30, 2001		
Dominica	June 15, 2001	July 13, 2001	July 20, 2001
Egypt	October 31, 2001	November 5, 2001	
El Salvador	July 23, 2001		
Equatorial Guinea	August 31, 2001	October 11, 2001	
Eritrea	November 26, 2001		
Estonia	June 27, 2001	July 9, 2001	July 9, 2001
Finland	November 9, 2001	November 21, 2001	November 21, 2001
France	October 26, 2001	October 31, 2001	November 5, 2001
Gabon	April 1, 2002	May 3, 2002	May 3, 2002
Gambia, The	July 13, 2001	July 26, 2001	August 20, 2001
Georgia	October 26, 2001	October 31, 2001	November 26, 2001
Germany	October 24, 2001	November 7, 2001	November 7, 2001
Ghana	June 27, 2001	August 9, 2001	August 9, 2001
Greece	February 22, 2002	March 1, 2002	March 15, 2002
Grenada	July 11, 2001	July 20, 2001	August 1, 2001
Guatemala	May 14, 2001	May 25, 2001	
Haiti	January 18, 2002	February 8, 2002	February 8, 2002
Honduras	October 5, 2001	October 26, 2001	
Hungary	May 4, 2001	May 18, 2001	
Iceland	May 2, 2001	May 24, 2001	June 12, 2001
India	June 20, 2001	August 14, 2001	
Indonesia	April 26, 2002		
Iran, Islamic Rep. of	September 6, 2001	September 18, 2001	
Ireland	August 1, 2001	August 13, 2001	August 13, 2001
Israel	July 30, 2001	August 6, 2001	August 3, 2001
Italy	November 5, 2001	November 20, 2001	November 20, 2001
Jamaica	May 30, 2001	June 6, 2001	June 14, 2001
Japan	August 3, 2001	August 10, 2001	August 10, 2001
Jordan	April 29, 2002	May 3, 2002	
Kazakhstan	January 23, 2002	February 5, 2002	March 19, 2002
Kenya	March 15, 2002	April 19, 2002	April 19, 2002

Table 2.1 *(concluded)*

Country Name	Board Date	PIN Issued	Staff Report Published
Kiribati	June 25, 2001	September 21, 2001	September 21, 2001
Korea	February 11, 2002	February 12, 2002	
Kuwait	June 27, 2001	June 29, 2001	July 20, 2001
Kyrgyz Republic	November 30, 2001	December 19, 2001	December 19, 2001
Latvia	January 18, 2002	January 25, 2002	January 25, 2002
Lebanon	October 17, 2001	October 29, 2001	
Lesotho	March 18, 2002	March 21, 2002	May 3, 2002
Liberia	February 25, 2002	July 18, 2002	July 18, 2002
Lithuania	January 16, 2002	January 24, 2002	January 24, 2002
Macedonia, FYR	March 4, 2002	March 8, 2002	March 8, 2002
Madagascar	December 5, 2001	December 13, 2001	
Malaysia	August 29, 2001	November 2, 2001	
Maldives	August 30, 2001		
Mali	December 17, 2001	January 9, 2002	January 9, 2002
Malta	July 30, 2001	August 3, 2001	August 3, 2001
Marshall Islands, Rep. of the	January 18, 2002	February 22, 2002	
Mauritania	May 9, 2001		
Mauritius	May 14, 2001	May 22, 2001	May 22, 2001
Mexico	August 2, 2001	September 27, 2001	October 25, 2001
Morocco	July 11, 2001	August 2, 2001	November 13, 2001
Namibia	February 11, 2002	February 22, 2002	
Nepal	August 31, 2001	September 21, 2001	October 3, 2001
Netherlands	June 6, 2001	July 6, 2001	July 6, 2001
Netherlands Antilles	May 7, 2001	May 17, 2001	May 17, 2001
New Zealand	March 22, 2002	March 27, 2002	March 27, 2002
Nicaragua	September 19, 2001	October 2, 2001	October 2, 2001
Niger	February 8, 2002	March 1, 2002	March 1, 2002
Nigeria	June 29, 2001	August 6, 2001	August 6, 2001
Norway	March 1, 2002	March 7, 2002	March 7, 2002
Palau	January 4, 2002	March 28, 2002	March 28, 2002
Paraguay	May 11, 2001	May 18, 2001	June 15, 2001
Portugal	March 25, 2002	April 26, 2002	April 26, 2002
Russian Federation	March 8, 2002	April 4, 2002	April 4, 2002
St. Vincent and the Grenadines	January 28, 2002	February 19, 2002	February 19, 2002
Samoa	May 9, 2001	July 11, 2001	
San Marino	December 5, 2001	December 21, 2001	December 21, 2001
São Tomé & Príncipe	January 30, 2002	February 28, 2002	February 28, 2002
Saudi Arabia	October 10, 2001	November 7, 2001	
Senegal	September 28, 2001	October 18, 2001	October 24, 2001
Sierra Leone	March 11, 2002		
Singapore	June 25, 2001		
Slovak Republic	July 27, 2001	August 1, 2001	August 6, 2001
Slovenia	May 11, 2001	May 21, 2001	May 21, 2001
Slovenia	March 20, 2002	April 4, 2002	April 4, 2002
Spain	February 1, 2002	February 28, 2002	March 13, 2002
Sudan	November 14, 2001		
Suriname	May 9, 2001	May 24, 2001	
Swaziland	March 20, 2002		
Sweden	August 31, 2001	September 25, 2001	September 25, 2001
Switzerland	May 9, 2001	May 21, 2001	May 21, 2001
Syrian Arab Republic	December 3, 2001		
Tanzania	September 24, 2001		
Thailand	August 2, 2001	August 16, 2001	
Tonga	September 4, 2001	October 31, 2001	
Trinidad & Tobago	July 6, 2001	July 17, 2001	July 24, 2001
Turkey	April 15, 2002	April 19, 2002	
Ukraine	April 24, 2002	May 8, 2002	
United Arab Emirates	October 12, 2001		
United Kingdom	March 4, 2002	March 7, 2002	March 7, 2002
United States	July 27, 2001	August 14, 2001	August 14, 2001
Uzbekistan	March 11, 2002		
Vietnam	November 21, 2001	January 4, 2002	January 9, 2002
Zambia	November 7, 2001	December 6, 2001	
Zimbabwe	December 14, 2001	June 19, 2002	June 25, 2002

bottomed out, and that a global recovery was under way. This recovery was evident in the United States and Canada, and, to a lesser extent, in Europe and in some countries in Asia. Financial markets had bounced back strongly after the September 11 shock, commodity prices had begun to pick up, and emerging market financing conditions had strengthened markedly. Nevertheless, different but serious concerns remained in a number of countries, notably Japan and Argentina.

Directors observed that several factors underpinned the recovery. Most important was the substantial easing of macroeconomic policies in advanced economies—particularly the United States—and also in a number of emerging economies, especially in Asia. The scope for such policy support owed much to earlier progress in lowering inflation, strengthening fiscal positions, and reducing other sources of vulnerability, which enabled the membership to respond promptly and effectively to the difficult situation that the world economy had faced the previous year. Directors also noted that the adjustment in inventories appeared to be well along in the United States and some other advanced economies, and that this would also help boost production in the period ahead. The recovery in the major currency areas had also been supported by lower oil prices, although this was less of a factor following the strong pickup in prices since late February 2002. Directors underscored the importance of stable oil prices for a durable world economic recovery.

Overall, Directors agreed that the risks to the outlook had become more evenly balanced since their December 2001 discussion. Indeed, recent indicators of confidence, employment, and activity in the United States had been surprisingly positive, suggesting that the recovery would be stronger than earlier projected.

At the same time, a number of potential downside risks in the outlook required continued attention, Directors noted. First, in part because of the synchronized slowdown, relatively little progress had been made in reducing persistent imbalances in the global economy—notably, the high U.S. current account deficit and surpluses elsewhere, the low U.S. personal saving rate, the apparent overvaluation of the dollar and undervaluation of the euro, and the relatively high household and corporate debts in a number of countries. With the United States leading the recovery, Directors considered that these imbalances could, at least in the short term, widen further.

In discussing the implications of this prospect for the global outlook, Directors observed that the continued favorable outlook for U.S. productivity growth and capital inflows might reduce the risk of a disorderly unwinding of the current account imbalances. Most agreed that in the major currency areas, policies—especially structural policies—should be formulated to ensure an orderly reduction of current account imbalances that would enhance the sustainability of the global recovery.

Directors noted a second source of risk to the outlook. Following the strong rebound in past months, global equity prices again appeared to be richly valued and might reflect an excessively optimistic outlook for corporate earnings. If earnings growth were to prove disappointing, there would be a renewed risk of a weakening in financial markets, confidence, and activity. The analysis of the impact of asset prices on consumption, provided in Chapter 2 of the April 2002 *World Economic Outlook*, indicated that asset prices, in particular equity prices, had become more important over time as a determinant of consumer spending. Given the aging of populations in industrial countries, as well as continued financial market development, this trend was likely to continue, suggesting that developments in asset prices might have become increasingly important in the formulation of macroeconomic policies.

Specific concerns highlighted by Directors included the adverse effects the continuing economic difficulties in Japan and Argentina—while different in nature—could have on other countries in their regions. Most Directors regretted the decision by the U.S. authorities in early 2002 to raise tariffs on steel imports and the prospect of retaliation by other countries. They reiterated the critical importance for all countries to resist protectionist pressures and to ensure that substantive progress is made with multilateral trade negotiations under the Doha round.

Directors concurred that macroeconomic policies in most industrial countries should remain generally supportive of the emerging recovery. However, they noted that, with the exception of Japan, there appeared little need for additional policy easing and that, in countries where the recovery was more advanced, attention should turn in time toward reversing earlier monetary policy easing. Over the medium term, policy should seek to support sustainable growth, while aiming for an orderly reduction in global imbalances. This would require continued structural reforms to encourage growth in the euro area and in some Asian emerging markets; decisive action in Japan to reinvigorate the economy; and for the United States to ensure that medium-term fiscal targets were met. Directors also underscored the importance of using the recovery to make further progress in reducing vulnerabilities, including through accelerated efforts to address looming problems created by the aging of the populations of industrial countries; a sustained effort to achieve balanced budgets in the euro area; development of a medium-term fiscal consolidation plan in Japan; reform of the corporate and financial sectors in Asia; and medium-term efforts to strengthen fiscal positions in China, India, and many Latin American countries.

Sustained broad-based economic growth would be crucial to achieve higher living standards and an enduring reduction in poverty in the developing countries, Directors agreed. They noted that, despite encouraging progress in a number of countries, GDP growth in sub-Saharan Africa remained well below what would be needed to reduce poverty significantly. National policies would have to play the lead in improving economic performance, especially those designed to improve the conditions for savings, investment, and private sector activity. Stronger international support of sound policies would also be essential. In this connection, Directors welcomed the progress made at the Monterrey, Mexico, Conference on Financing for Development in March 2002 (see Box 5.6), including the announcement of increased aid targets by the European Union and the United States. They stressed, in particular, the vital importance of phasing out trade-distorting subsidies and giving greater access in world markets to exports from developing countries.

Major Currency Areas. On the prospects for the major currency areas, Directors agreed that recent indicators increasingly pointed to recovery in the *United States.* Confidence and equity markets had picked up, household spending had remained strong, and manufacturing output had stabilized. Some Directors considered that activity could pick up even more rapidly than currently projected, especially given the size of the policy stimulus in the pipeline and the continued resilience of productivity growth. Some other Directors, however, pointed to the possibility of a less sustained or less resilient upturn, for example if low corporate profitability or excess capacity constrained investment growth, equity prices failed to sustain recent gains, or households rebuilt savings.

Given the balance of risks, Directors supported the U.S. Federal Reserve Board's decision to keep interest rates on hold for the time being. While they noted that monetary policy should not be tightened prematurely, they agreed some tightening would be required if economic activity continued to strengthen. Directors agreed that no further fiscal stimulus was warranted at this stage. While recognizing that the deterioration in the fiscal position over the past year was the result of a combination of factors—including tax cuts, a stimulus package, and the emergency and security spending measures taken in the aftermath of September 11—Directors considered that the time had come to turn attention to the efforts needed over the medium term to preserve fiscal balance and address pressures stemming from the social security system.

Directors expressed serious concern about economic conditions and prospects in *Japan.* The economy was in its third recession in a decade, confidence and activity remained very weak, and the banking sector experienced severe strains. While welcoming initiatives and noting some signs of a possible bottoming out in the fall of activity, Directors urged the authorities to push ahead vigorously with measures directed at bank and corporate sector restructuring, which would remain the key to restoring confidence and reestablishing prospects for solid growth. Although there was little scope for further macroeconomic stimulus, they also agreed that monetary policy needed to remain focused on ending deflation. Given the high public debt and rising long-term interest rates, Directors stressed the need for a clear and credible commitment by the Japanese authorities to medium-term fiscal consolidation, backed by reforms to the tax system, public enterprises, and the health sector.

Directors were encouraged that recent business confidence surveys and a pickup in industrial production pointed to an emerging recovery in the *euro area.* While the recovery was likely to be somewhat slower and to come later than in the United States, a number of Board members pointed to the contribution that Europe's strong fundamentals had made to global stability. Building on recent progress, further policy reforms to support a strong and sustained recovery should nevertheless have continued to receive the highest priority. Directors emphasized the need for euro area economies to move ahead with structural reforms, in particular in the financial sector, labor markets, and pension systems. They noted that the introduction of euro notes and coins in January 2002 meant that such structural reforms should be even more beneficial. Directors supported the European Central Bank's monetary policy stance, which was to keep interest rates on hold while being ready to move in either direction as macroeconomic developments unfolded. On the fiscal side, they said that countries with sizable structural deficits would need to strengthen their fiscal positions as growth picked up, both to provide scope for the automatic stabilizers to function during subsequent slowdowns, and to help tackle rising fiscal pressures from aging populations.

Emerging Markets. Directors noted that the prospective recovery in industrial countries should play a central role in supporting activity in *emerging markets,* along with continued efforts to strengthen economic fundamentals to reduce vulnerability and enhance productivity growth. In Asia, which—with the exception of China and India—was particularly hard hit by the global slowdown, there were clear signs of a pickup in activity, aided by a nascent strengthening in the electronics sector and easier macroeconomic policies in a number of countries. The emerging recovery would need to be supported by ongoing reforms across the region, especially in financial and corporate sectors. In India, structural fiscal reforms were needed to back the substantial consolidation required, Directors considered, while China should move ahead with reforms to

address the competitive challenges arising from WTO membership and, in particular, tackle difficulties in the state-owned enterprises, the banking sector, and the pension system.

Directors considered the diverse prospects facing Latin America. They noted with concern that the situation in Argentina remained very difficult, and that a significant contraction in output in 2002 appeared unavoidable. While Directors noted the steps the authorities had taken to address the difficult economic situation, they stressed the need to rein in the fiscal deficit and strengthen the banking system, and urged the authorities to move quickly to put in place a sustainable economic program that could receive financial support from the international community. Spillovers from Argentina on other regional economies initially appeared to have been generally limited (with the exception of Uruguay), although they remained a potential risk. Directors noted that the recovery was likely to be strongest in Mexico and Central America, two regions that are closely linked economically to the United States, as well as in some Andean countries. In other countries the pace of recovery was likely to be more subdued.

Directors welcomed the analysis in the *World Economic Outlook* of debt crises in Latin America. They cautioned against generalizations across countries and across different stages of their reform processes. Nevertheless, they noted the extent to which the region's relative closure to external trade, higher macroeconomic volatility, relatively underdeveloped domestic financial markets, and low saving rates might help to explain the high incidence of debt crises in this region. Many countries had made progress in recent years in reducing vulnerability, mainly by adopting more flexible exchange rate regimes and developing domestic capital markets. The analysis had again underscored the benefits that countries in the region could reap from further progress in strengthening fiscal positions as well as from continuing reforms of their trade and financial systems.

Growth among most candidates in *central and eastern Europe* for membership in the European Union had been generally well sustained during the global slowdown. Robust domestic demand had offset weaker export performance, and growth was expected to pick up further as the global recovery took hold. While the high current account deficits in many of these countries had so far been readily financed by direct investment and other capital inflows, they nevertheless represented a source of vulnerability that, Directors agreed, underscored the importance of ongoing fiscal discipline and structural reforms to ensure a positive climate for investment and growth. Directors welcomed the recent improvements in economic indicators in Turkey. They expected that strengthening confidence and exports should underpin a sustained recovery in 2002, provided the strong implementation of sound macroeconomic and structural policies continued.

Growth in the countries of the *Commonwealth of Independent States* (CIS) had also remained remarkably resilient to the global slowdown, Directors observed, although they considered that the pace of activity in 2002 might weaken somewhat—mainly as a result of slowing demand in the region's oil-exporting countries. Board members welcomed the accelerated structural reforms in Russia, while noting that efforts to improve the investment climate remained a key priority. For the region as a whole, the central challenge continued to be to accelerate progress in structural reforms, notably in the areas of institution-building and governance, enterprise and financial sector restructuring, and in reducing the role of the state. The high level of external debt in a number of the poorest CIS countries continued to be a serious concern and would require ongoing close monitoring.

Directors were encouraged that growth in *Africa* had held up well in 2001 and was expected to remain relatively strong in 2002. The outlook for much of the region continued to depend heavily on commodity market developments, and on further progress in eradicating armed conflict and other sources of civil tension. It would also be important to contain the rise of famine in the southern African regions. Directors highlighted the central role that sound economic policies had played in raising significantly per capita income growth in strongly performing African countries in recent years. Sustained economic growth and diversification would require faster structural reforms, including improvements in public service delivery and infrastructure, trade liberalization, and strengthened regulatory institutions and more secure and stable property rights. Directors welcomed the New Partnership for African Development, endorsed in July 2001 by the leaders of the Organization for African Unity (OAU), which emphasized African ownership, leadership, and accountability in improving the foundations for growth and eradicating poverty. They stressed that these efforts would need to be supported by external assistance, including the further reduction of trade barriers, increased development aid—especially for HIV/AIDS—and support for capacity-building efforts (see Box 5.5).

Directors observed that growth in the *Middle East* was projected to weaken in 2002, although much would depend on oil market developments and the impact of the regional security situation. They noted that the adverse impact of lower oil prices in 2001 on oil-exporting countries had been limited by the prudent macroeconomic policies of recent years. Over the medium term, a key policy priority in many countries was to continue efforts to diversify production into

nonenergy sectors and hence to reduce dependence on oil revenues.

Background Analysis. Directors welcomed the analysis of previous *recessions and recoveries* in industrial countries (Chapter 3 of the April 2002 *World Economic Outlook*). They noted that the synchronicity of the recent global slowdown had much in common with past downturns, whereas the relatively unsynchronized recessions of the early 1990s were an exception that reflected different shocks in different countries. In the recent downturn, the collapse in investment spending associated with the bursting of the technology bubble was also consistent with sharp drops in business fixed investment, which occurred typically in the lead-up to recessions in recent decades.

The mildness of the recent global slowdown was in line with the historical trend toward shallower recessions. However, the short duration and mildness of the recent downturn did not imply that the recovery would be slow or weak. Increases in interest rates prior to the recent downturns were smaller than before, which reflected relatively low inflation during the previous expansion. This helped to explain why the subsequent downturns had been relatively mild.

Regarding *monetary policies in a low-inflation environment*, Directors agreed that a major reason for the remarkable decline in inflation among industrial countries over recent decades had been the change in emphasis of central banks toward price stability and associated beneficial changes in private sector behavior. In discussing some of the policy challenges facing central banks, many Directors cautioned against drawing policy conclusions prematurely, noting that in several countries the low-inflation environment had not significantly hampered the effectiveness of monetary policy. More generally, in their view, the credibility of anti-inflationary monetary policy was an important asset that should be preserved.

International Capital Markets and Global Financial Stability

In June 2001, the Board held its last review of developments in the mature and emerging international capital markets in the context of an annual *International Capital Markets* report. Published since 1980, *International Capital Markets* has been combined with another report, *Emerging Market Financing*, in a new publication, the *Global Financial Stability Report* (see Box 2.2.). This report focuses on current conditions in global financial markets, and is intended to help the IMF look forward and draw policy implications to strengthen its role in promoting international financial stability and preventing crises. The frequency of the report—every quarter—and its focus on contemporary issues should enable the Board to keep up with fast-changing events in financial markets.

The new report is one element in a broad effort by the IMF to strengthen surveillance of international capital markets. Other elements include the *World Economic Outlook* reports, the Board's regular reviews of world economic and market developments, the ongoing work on private sector involvement in preventing and resolving financial crises, work on standards and codes, the Financial Sector Assessment Program (FSAP), and Special Data Dissemination Standards (SDDS).

International Capital Markets Report, June 2001

In their June 2001 discussion, Directors noted that the preceding year had been dominated by periods of increased asset price volatility, slowing growth in the global economy, and crises in key emerging markets. Adjustments in capital markets were evident in a repricing of risks in a wide range of equity and high-yield bond markets. Directors were of the view that the high correlation of asset price movements across countries reflected the globalization of finance and the increasing tendency of investors to invest on the basis of industrial sectors or credit ratings, rather than geographic location.

Slowing global economic growth had been both anticipated by, and reflected in, a sharp fall in global equity markets—particularly in technology stocks—and a dramatic rise in high-yield credit spreads, although financial markets had later recovered significantly after monetary policy was eased in the major countries. Directors noted that there had been a remarkable degree of co-movement in asset prices among the major advanced countries, particularly between European and U.S. stock markets. The key exception was Japan, which seemed somewhat delinked from global markets. This reflected the more important role of domestic than foreign investors and the remaining weakness in the country's corporate and financial sectors.

In discussing the risks facing international financial markets in the period ahead, Directors considered that—although the declines in equity markets had corrected part of the imbalances of recent years—there was still a risk that market sentiment might remain vulnerable to U.S. economic developments. Other sources of vulnerability could be concerns about the ability of monetary policy to offset economic weakness and about the sustainability of high productivity growth. In addition, if the sustainability of the current high U.S. household, corporate, and external imbalances came into question, a significant and potentially disorderly rebalancing of domestic and international portfolios might occur, which could affect key exchange rate relationships. The assessment of risks was complicated by a number of structural developments, including increasing concentration in the major financial systems, a growing reliance on over-the-counter (OTC) derivatives, and

structural changes in major government securities markets. Those structural changes appeared to have reduced transparency about the distribution of financial risks in the international financial system; greater disclosure could help to enhance market discipline and official oversight. Board members noted, nonetheless, that U.S. banks appeared to be more robust than in previous downturns and were sufficiently well capitalized to weather a possible credit deterioration.

Directors reviewed the risks in Europe and Japan. Regarding Europe, Directors cautioned that, while banks remained strong, capital markets might be more vulnerable to spillovers and contagion from volatility in U.S. capital markets as well as to common shocks that appeared to affect these large economies simultaneously. Directors also expressed concern that loan provisioning in the Japanese banking sector might be inadequate and that this sector also had significant exposures to bond and equity prices in the Japanese market. At the same time, the Japanese banking sector seemed vulnerable to continued poor domestic macroeconomic performance, large unanticipated external economic and financial shocks, and volatility in Japanese financial markets.

While noting that domestic developments remained the key drivers of capital flows to emerging markets, Directors considered that, in the past year, emerging markets' access to international capital markets had been strongly affected both by events in the mature markets and by crises in emerging markets. As a result, many emerging markets had found it difficult to maintain continuous market access. While, in earlier periods, exchange rate and banking crises in emerging markets and the ensuing contagion had led to an abrupt loss of markets access, during the past year many emerging markets had lost market access mainly because of developments in mature markets, such as the collapse of equity prices on the Nasdaq exchange in the United States.

Directors agreed that a shift in the investor base for emerging market instruments had increased the vulnerability of capital-importing emerging market countries to shifts in investor sentiment or investment strategies. Because holdings of emerging market assets by "dedicated" investors remained limited, "crossover" investors—those who could place a small fraction of their assets in emerging market instruments, with large effects on these markets—had come to dominate the current investor base. Directors emphasized that those investors were likely to reduce or eliminate their holdings of emerging market assets if the outlook for emerging markets deteriorated, if more attractive investment opportunities in mature markets arose, or if managers became more risk averse. That could result in an abrupt loss of market access for emerging market borrowers that was not necessarily related to changes in emerging market fundamentals. Although Directors noted that emerging market borrowers had shown welcome adaptability—particularly through syndicated loans, prefunding of obligations, and the use of alternate currencies—to the "on-off" nature of market access, such adaptations could sharply increase the cost of access to international financial markets. It was difficult to assess whether that shift would be long lasting. In any event, emerging market economies should not be deterred from pursuing sound and transparent policies. Over time, that could help to restore the role of investors in providing financing for emerging markets and hence reducing volatility.

Against the background of data pointing to a further weakening of global economic prospects, Directors reviewed the outlook for capital flows to emerging markets. They acknowledged that, while those flows were influenced by developments in mature markets and prospects for the global economy, the domestic policies in capital-importing countries could also be a factor in their distribution. With lower interest rates and a relatively soft landing, the gross issuance of international bonds, equities, and syndicated loans could increase, and net flows to emerging markets—particularly non-oil-exporting emerging markets—recover in line with the global economic recovery. Nevertheless, Directors also recognized that if the global slowdown in economic growth were sharper than expected, the consequence could be a marked slowdown in capital flows to emerging markets, including in foreign direct investment (FDI). Directors were of the view that, since FDI flows remained the single largest source of capital in all regions, the staff should monitor them closely and assess the conditions and policies that would foster greater stability.

Major Government Securities Markets. Directors agreed that the structural changes under way in the major government securities markets had implications for financial markets and should be kept under review. They noted that the shrinking supply of U.S. treasury securities had already resulted in important changes in U.S. and international financial markets, as market participants had come increasingly to rely on other instruments, including swaps. Directors noted, however, that private financial instruments might not easily, or fully, substitute for treasury securities as domestic and international safe havens.

Some harmonization of regulation and convergence of issuance and trading practices had already occurred in government securities markets in the euro area. Over time, greater convergence and integration was likely to promote the emergence of a uniform euro-area benchmark yield curve and an increase in euro-area market liquidity. At the same time, the region's corporate bond market had become more integrated and had grown rapidly.

Directors discussed the situation in Japan, where lingering economic uncertainty and financial imbalances had impaired corporate financial activity and fuelled a rise in the supply of government debt. The combination of a low-interest-rate environment and technically driven changes in the supply of and demand for Japanese government bonds (JGB), along with shortcomings in the market infrastructure that had adversely affected market liquidity, had led to JGB market volatility while spreads in the corporate bond market had been significantly compressed. That situation presented financial institutions with challenges in managing risk, and also highlighted the challenges to the Japanese authorities of managing the costs and risks of a large and growing supply of government debt. Directors noted the steps taken to improve the JGB market infrastructure to enhance the efficiency and attractiveness of the JGB market to domestic and international investors.

Financial Sector Consolidation in Emerging Markets. Many emerging markets had undergone financial sector consolidation, although its extent and pace had varied in different regions. Directors saw this process as one facet of the continuing globalization of international financial activities, and akin to a "quiet" opening of capital accounts. While the migration of financial activities to low-cost financial centers was profoundly altering the financial systems of many emerging markets, it also linked them to international financial markets.

Directors pointed out that a number of aspects of the consolidation process differed from the experience of mature markets, including the role of cross-border mergers and acquisitions, which had been rare in mature markets. Furthermore, consolidation in emerging markets had frequently been a vehicle for restructuring the financial system following major financial crises, whereas, in mature markets, consolidation had more often been designed to reduce excess capacity. Also, the authorities had played a major role in fostering consolidation in emerging markets, whereas market forces had been the predominant force for consolidation in mature markets.

The process of financial sector consolidation in emerging markets raised a number of complex policy issues, Directors observed, including how to create sufficient market discipline and official supervision for institutions that were "too-big-to-fail." The experience of mature markets indicated that dealing with these problems would involve strengthening supervisory capacity to monitor the activities of large complex financial institutions, and establishing clear entry and exit rules and prompt corrective action for distressed institutions.

Directors noted that the emergence of financial conglomerates providing a wide range of products and services complicated prudential supervision and regulation. These conglomerates raised the issue of how the regulatory agencies overseeing banks, securities, and insurance companies should be structured. Directors considered that this would depend on the specific circumstances of each country or region.

On the topic of e–finance, Directors noted that, while its development was still at an early stage in most emerging markets, there had been steady growth in the application of the Internet to the production and delivery of financial services. This underscored the need for improved liquidity management at the level of financial institutions and better supervision.

Global Financial Stability Report, February–March 2002

In the Board's February inaugural discussion of the *Global Financial Stability Report* (published in March), Directors welcomed the recovery in global markets and the reduction in global risk aversion since the fourth quarter of 2001. They noted the remarkable turnaround in market sentiment regarding the strength and speed of a U.S.-led global economic recovery. Overall, financial markets had responded well to the uncertainties that arose during the slowdown and following the events of September 11, and had recovered quickly once it became clear that economic prospects were improving.

Mature equity markets in early 2002 had shown lackluster performance. Directors noted that this reflected widespread concerns about accounting problems that, among other things, reduced transparency on the true extent of the leveraging undertaken by corporations and financial institutions during the boom years.

Turning to the emerging markets, Directors agreed that contagion from the default and devaluation in Argentina had been subdued. More careful discrimination by investors across emerging markets, a variety of technical factors, and the adoption of sound economic policies geared toward more flexible exchange rates, higher official reserves, lower short-term debt, and stronger current account positions had contributed to the resilience of emerging markets during the fourth quarter of 2001 and beyond. However, risks remained, as events in Argentina were still unfolding and there was still significant uncertainty. Evidence of contagion might take the form of slower capital flows, including foreign direct investment, to some emerging markets. Furthermore, Directors observed that any unexpected changes in the global risk environment or the global economic outlook could adversely affect emerging market borrowers.

Stability Implications of Global Financial Market Conditions. While the international financial system had remained resilient in the face of serious disruptions, global financial conditions had worsened during 2001 across a broad range of markets, institutions, and

sectors, Directors observed. Deteriorating credit quality and corporate earnings were reflected in higher corporate bond spreads and lower stock prices. These price adjustments had adversely affected the balance sheets of corporations and households. The slowdown had also affected financial institutions, although the major institutions in the United States and Europe seemed to be well capitalized. Directors acknowledged the heightened strains in Japan's financial system, and underscored the importance of decisive moves by the Japanese authorities to deal with long-standing weaknesses in the banking, insurance, and corporate sectors.

Turning to the outlook for global financial market conditions, Directors agreed that the main risks related to the potential for a subdued or delayed global recovery. With asset prices seemingly reflecting expectations of a near-term economic rebound, a subdued or delayed recovery could lead to market corrections. Directors noted that, under this scenario, Japan and emerging market borrowers could experience particularly adverse effects. The adjustment could also include a temporary and selective withdrawal from risk taking by financial institutions. At the same time, the resilience of the international financial system during financial disruptions in the 1990s was cause for optimism that the adjustments would be manageable.

Credit-Risk Transfer Market. Directors noted that credit-risk transfer markets had grown very rapidly, an indication of the useful role they played in spreading risk among economic agents and contributing to portfolio diversification, and in providing alternative sources of liquidity. Concerns about the activities of new and less-regulated participants in credit markets could be addressed by improved disclosure and transparency. Many Directors also called for strengthened oversight of nonbank and nonfinancial entities that were active in financial markets. They expressed concern that regulatory arbitrage might shift risks to institutions least capable of managing them, and that accounting and auditing standards and practices might be deficient in several major countries. These Directors suggested that a top priority in the period ahead should be to update the supervisory and regulatory frameworks to keep pace with the evolving credit-risk transfer markets.

Further Development of Early Warning System Models. Directors agreed that the development of models to provide advance warning of a country's vulnerability to crisis and of the buildup of systemic risk in financial markets was important for effective market surveillance and crisis prevention. Although such early warnings could be useful in helping the IMF to provide timely advice to prevent crises, given their current limited predictive power, early warning system (EWS) models should be used carefully and together with qualitative and other methods of vulnerability assessment. With this caveat in mind, Directors supported efforts to refine the EWS models currently being used in the IMF's work. Those efforts could also complement work at the national level on early warning systems. Noting that currency crises were not the only threat to financial stability, most Directors welcomed efforts to develop the basic building blocks of a more general early warning system able to predict other types of crises, including debt and banking crises.

Alternative Financing Instruments. Directors urged caution on the use of alternative debt instruments, other than "plain-vanilla" bonds and regular loan issues, to maintain access to global capital markets in times of financial difficulties. While acknowledging that some of those instruments might be useful under certain conditions, Directors stressed that they should not substitute for strong economic policies and sound debt management practices—the main foundation for sound and sustainable access by emerging market borrowers to international capital markets. They noted that where high bond yield spreads reflected investor concerns about a country's solvency, the use of some of those alternative instruments could make the problems worse.

Regional Surveillance

Central African Economic and Monetary Community

In May 2001, Executive Directors discussed developments and policy issues in the Central African Economic and Monetary Community (CEMAC), whose members include Cameroon, the Central African Republic, Chad, the Republic of Congo, Equatorial Guinea, and Gabon. They commended the authorities of the CEMAC countries for the progress made during 2000 in strengthening economic integration. The policy dialogue with the CEMAC regional institutions had served as a useful complement to bilateral surveillance, given the broadening range of policy issues dealt with at the regional level. They encouraged the authorities to continue to carry forward the process of integration at the next meeting of the Council of Ministers.

Directors noted that the sharp increase in oil-producing CEMAC countries' export earnings and government revenues in 2000 had led to a large reduction in the community's overall fiscal and external imbalances and to a strong recovery in the international reserves of the Bank of Central African States (BEAC). They viewed the competitive position of CEMAC as broadly adequate but noted that the economic situation remained fragile. The region was vulnerable to external shocks, especially to a drop in the price of crude oil and a weakening of the U.S. dollar against the euro, to which the CFA franc is pegged. In that context, Directors stressed the need for sustained implementation of structural reforms and efforts to

diversify the economic base and produce a stable macroeconomic environment. They expressed concern about the sharp increase in domestic demand in 2001, which was expected to lead to a widening of the external current account deficit. Consequently, Directors also stressed the importance of further fiscal consolidation with a focus on strict control of government expenditure and saving of the oil revenue windfalls.

Notwithstanding progress made in 2000, an acceleration of the pace of economic integration would enhance CEMAC's credibility. Directors encouraged the authorities to strengthen regional institutions and establish a solid framework for close coordination of fiscal and structural policies, which would provide firm support to the common exchange rate regime. The success of efforts to strengthen integration would depend on the implementation of both coherent and comprehensive convergence programs by individual member countries and the implementation of an effective system of mutual regional surveillance of member countries' policies. Such a system should include binding rules and quantitative criteria, periodic reviews, and mechanisms to compel individual countries to take corrective measures in case of slippages.

Directors encouraged the authorities to improve the conduct of monetary policy and to take steps to strengthen the functioning of the regional interbank money market, which was essential for an efficient distribution of bank liquidity. They welcomed the decision to phase out the automatic granting of central bank credit to governments but urged member countries to proceed very cautiously on a proposal to have the central bank guarantee government security issues.

While acknowledging the recent progress made in rehabilitating the banking sector, Directors expressed concern at its continuing fragility. There was ample scope for a further strengthening of banks' management and supervision of the banking system. A large number of banks did not comply with the core prudential ratios. Directors stressed the importance of completing the programs of bank restructuring and privatizations. They also underscored the importance of strengthening the Central African Banking Commission (COBAC) and keeping it free of political interference, and of reforming judicial systems to ensure that they did not contribute to a weakening of national banking systems.

Directors welcomed the member countries' decision to further liberalize trade through a simplification of the present structure of the common external tariff, a reduction of average tariff rates, and the elimination of remaining intraregional barriers. To enable them to reap the benefits of economies of scale and strengthen domestic enterprises' competitiveness, Directors encouraged the authorities to work on common sectoral policies that are critical to regional integration, focusing on infrastructure, transportation, communication, and energy. They also stressed the importance of creating a favorable environment for private investment by implementing initiatives in business laws, investment charters, and competition policy.

Directors encouraged the authorities to seek technical assistance to enhance and harmonize the production of regional statistics, especially in national accounts, consumer price indices, trade, balance of payments, and government financial operations. They considered that the IMF should provide technical assistance for data improvement, as well as to promote macroeconomic convergence and enhance COBAC's capacity to carry out regional surveillance.

West African Economic and Monetary Union

In October 2001, the Board discussed recent economic developments and the main policy issues in the West African Economic and Monetary Union (WAEMU), whose members include Benin, Burkina Faso, Côte d'Ivoire, Guinea-Bissau, Mali, Niger, Senegal, and Togo. The slowdown in the WAEMU region's overall growth performance that began in 1999 had continued. The negative effects of adverse external developments on the macroeconomic performance of the region had been compounded by a deterioration of the economic and financial situation in Côte d'Ivoire. There was a possibility that this economic slowdown could be prolonged beyond 2001 if the global environment and commodity prices weakened further. Against this background, Directors underlined the necessity of strengthening macroeconomic policies, deepening structural reforms, and improving competitiveness in the WAEMU countries to achieve the ultimate goals of economic integration in terms of growth and poverty reduction.

Directors commended the authorities of the WAEMU for the progress on the integration process in 2000, with the entry into force of the customs union and the steps taken to implement the Convergence, Stability, Growth and Solidarity Pact, which was adopted in December 1999. While welcoming adoption of the medium-term convergence programs by all countries, Directors noted that owing to weaknesses in policy implementation and the economic slowdown in the region, compliance with the regional convergence criteria by member countries had proved difficult, as indicated by the situation at the end of 2000. They believed that observing the convergence criteria by the end of 2002 would imply a more forceful political commitment, the implementation of corrective measures by member countries' governments, and a reinforcement of the institutional capacities at both the national level and on the part of the WAEMU Commission to oversee the convergence process. Directors attached particular importance to a stronger political commit-

ment on the part of member governments to remove remaining obstacles to the creation of a single regional market and the establishment of a full-fledged customs union. They also emphasized the importance of external support in moving the integration process forward and, in particular, the role of technical assistance in strengthening the regional institutions and ensuring the effective implementation of the various regional policy initiatives.

A prudent monetary policy had resulted in a further accumulation of foreign assets of the Central Bank of West African States (BCEAO) and an inflation rate broadly in line with that of the euro zone, Directors noted. The BCEAO's key policy rates had not been adjusted since mid-2000, and they considered that there could be scope for greater flexibility in monetary management in light of the slowdown in economic activity. However, Directors emphasized the critical importance of sound fiscal policies and the associated containment of the governments' domestic financing needs in supporting an appropriate monetary policy. In this connection, they drew particular attention to the need to bring public debt down to sustainable levels and to avoid arrears.

Directors underscored the importance of deepening the regional interbank market and achieving greater integration of the WAEMU region's financial markets in facilitating private economic growth and fostering financial stability. They welcomed the decision to eliminate outstanding central bank credits to governments and to establish a regional securities market for member countries' governments, although they recommended a realistic implementation schedule. Directors encouraged the authorities to identify and eliminate the obstacles to the regional interbank market. Those reforms would facilitate the financing of fiscal deficits from nonbank sources, enhance the BCEAO's ability to manage liquidity in the banking system through market mechanisms, and promote the development of an efficient and competitive financial sector.

Despite the progress over the past ten years in rehabilitating the banking sector and conducting an effective supervision of banks, compliance with the recently revised prudential arrangements and regulations on internal controls appeared inadequate. Steps to strengthen banks' loan portfolios in the region should include measures to improve the observance of prudential ratios by banks, strengthen loan-recovery mechanisms, and improve the judicial environment. Directors noted that more effective banking supervision was essential for the successful development of a regional financial market.

Directors supported recent steps to harmonize indirect taxation in the WAEMU, formulate a draft common investment code, strengthen common sectoral policies, and establish structural funds, all of which should contribute to the reduction of regional disparities. They encouraged the authorities to move forcefully in addressing the remaining agenda, including harmonizing taxation of petroleum products, promoting common tax regulations and a concerted effort to control tax exemptions, and making necessary improvements in the taxation of small businesses.

The external competitiveness of the WAEMU economies was adequate on the basis of a number of traditional exchange rate indicators, Directors agreed. In view of the longer-term structural problems besetting the WAEMU economies, however, an overriding priority for the authorities should be to implement policies aimed at broadening the productive base, improving productivity, and enhancing cost efficiency in the provision of key public utilities and services. Directors encouraged the authorities to develop and monitor nontraditional competitiveness indicators, such as export market shares.

Directors noted the efforts under way to integrate the WAEMU into the regional arrangement of the Economic Community of West African States (ECOWAS)[1] with a view to creating a larger regional market and extending the common monetary framework to cover a broader group of countries in the region. To achieve this goal, it would be essential to further harmonize macroeconomic policies and trade policies between the WAEMU and non-WAEMU members of ECOWAS and to establish a credible surveillance mechanism to promote convergence among member states. Notwithstanding the desirability of such increased convergence and despite the strong political support underpinning the integration process within ECOWAS, the goal of achieving a single monetary union in West Africa by 2004 appeared very ambitious, owing to a range of economic reasons and institutional capacity constraints.

Directors believed that a strategy for regional integration would need to include the production of timely and reliable regional statistics, especially on national accounts, domestic debt, foreign trade, balance of payments, and the adoption of new indices to measure movements in prices and factor costs.

Monetary and Exchange Policies of the Euro Area and Trade Policies of the European Union

In October 2001, Executive Directors discussed the monetary and exchange rate policies of the euro-area countries and developments in trade policies of the European Union.

[1]Comprising Benin, Burkina Faso, Cape Verde, Côte d'Ivoire, The Gambia, Ghana, Guinea, Guinea-Bissau, Liberia, Mali, Niger, Nigeria, Senegal, Sierra Leone, and Togo.

Policies of the Euro Area. Directors noted that in the face of large and global disturbances—including the earlier rise in energy prices, the downward correction in equity markets, and the marked slowdown in world trade growth—the euro area's economic expansion had proven less resilient than anticipated. Against this already sluggish background, the economic repercussions of the events of September 11 were likely to dampen near-term growth prospects further. Nonetheless, the area's macroeconomic fundamentals were sound, with low underlying inflation and much-strengthened fiscal positions, complemented by supportive policies that provide a base for a new cyclical upswing.

The area's cyclical setback should not detract from the considerable macroeconomic achievements of the last few years that were rooted in price stability, employment-friendly wage setting, fiscal consolidation, and a measure of structural reform. Those elements had provided the basis for faster income growth and job creation, especially in those countries that had implemented labor market reforms and sustained wage moderation. Structural rigidities remain pronounced, however, and Directors urged that reform efforts be stepped up across the area, especially in countries where labor market reforms had been lagging in recent years. More broadly, they highlighted the positive impact that growth-supporting macroeconomic and structural policies by the euro-area countries would have on global economic prospects.

As for monetary policy, Directors noted that risks to price stability were receding and that the European Central Bank (ECB) had properly reversed a significant portion of the monetary tightening it undertook in 2000. They commended the swift action by the ECB, in concert with the U.S. Federal Reserve and other central banks, to shore up confidence and provide sufficient liquidity to the banking system in the aftermath of the events of September 11.

Looking ahead, Directors expected risks to price stability to diminish further, particularly as weaker growth prospects and abating price pressures had increased the likelihood of continued wage moderation in 2002. The recent growth in M3 in excess of the ECB's reference value appeared to some extent to reflect temporary velocity shocks related, among other things, to portfolio shifts and should therefore not be given undue weight in policy assessments. Against this background, Directors saw room for further monetary policy easing, particularly if the euro appreciated. A number of Directors encouraged the authorities to continue their efforts to improve market understanding of the policy framework underlying the ECB's monetary decisions.

In discussing the factors responsible for the weakness of the euro's external value, many Directors noted the role played by the much steeper rise of stock market capitalization in the United States than in the euro area, the ongoing international diversification by euro-area investors, and the increased issuance by nonresidents of euro-denominated liabilities.

On fiscal policy, Directors strongly endorsed the objective, embedded in the Stability and Growth Pact (SGP),[2] that member countries reach and maintain budgetary positions either close to balance or in surplus over the medium term. This objective provided an anchor for assuring fiscal discipline while allowing for budget outcomes to vary over the cycle and across countries, as required for a well-functioning monetary union with a high degree of fiscal decentralization.

In considering how this objective might best be achieved, Directors discussed the merits of a framework that would combine the free play of automatic stabilizers with adherence to preannounced expenditure paths. In the view of a number of Directors, a key advantage of this approach would be to safeguard the medium-term orientation of the SGP while providing a stabilizing framework for monitoring each member state's position relative to its medium-term deficit objective. In contrast, focusing on meeting annual nominal deficit targets would, in the face of the global slowdown, require offsetting the operation of the automatic stabilizers, thus delaying the projected recovery. Other Directors, however, considered that reference to expenditure paths could usefully support the achievement of medium-term SGP objectives but should not replace nominal deficit targets.

Directors welcomed recent indications that, albeit with variations across countries, fiscal developments for the area as a whole broadly appeared to strike an appropriate balance between cyclical considerations and medium-term consolidation objectives. Most Directors agreed that, especially in light of the current generalized slowdown, the automatic stabilizers should be allowed to work. They generally did not see the need for significant discretionary fiscal policy actions to counteract the growth slowdown at that point, in view of the likely temporary nature of the adverse shocks and the effects such actions would have on fiscal positions.

Resolute and broad-based structural reforms would play a key role in raising the area's growth potential and rebuilding business and consumer confidence. Directors welcomed the recent progress made toward more competitive product markets. They looked forward to further steps being taken in areas such as public procurement, state aid, administrative reforms, and the reduction of the regulatory burden on business. They regretted that relatively little had been done to address

[2]The European Council's June 1997 agreement to secure budgetary discipline in member states during the final stage of European Economic and Monetary Union, it also called for annually updated medium-term stability programs

the work disincentives associated with tax and social benefits systems in many euro-area countries or to free up labor markets, including through more flexible wage-formation processes. Referring to the progress made by some countries on the basis of partial steps, Directors urged the authorities to aim for the major improvements in economic performance that should accrue from a more vigorous implementation of labor market reforms. Some Directors considered that a renewed effort toward structural reforms, aimed at enhancing the area's productivity growth rate, could also contribute to a stronger euro over time.

Directors expressed their appreciation for the intensive preparations that had been made to ensure a smooth changeover to euro banknotes and coins and welcomed assurances that the changeover would not lead to an increase in prices. They looked forward to a successful completion of this reform of unprecedented scope, which should result in greater price transparency and enhanced competition.

Referring to the integration of capital markets as one of the greatest potential benefits of European Economic and Monetary Union (EMU), Directors expressed the hope that the recommendations of the Lamfalussy Report[3] for streamlining the legislative process would soon come into play and encouraged the authorities to speed up implementation of the Financial Services Action Plan. Integrated capital markets posed new challenges to financial crisis prevention and management, and there was a need for significant strengthening of information exchanges among supervisors and of their decision-making processes.

Directors considered that further improvements in the availability, timeliness, and quality of euro-area statistics would be highly desirable, particularly for short-term cyclical indicators and balance of payments statistics, and they urged the authorities to continue their efforts to make improvements in these areas.

Directors welcomed the completion of three Reports on Standards and Codes (ROSCs) for the euro area (covering payment systems issues and the transparency of monetary policy and payments system oversight) and expressed broad agreement with their findings.

Recent Development in EU Trade Policies. Regarding the trade policies of the European Union (EU) as a whole, Directors expressed their conviction that the new Doha trade round would provide a much-needed boost to global growth prospects and urged the EU to continue to accord high priority to reaching agreement on the scope of such a round and to show leadership and flexibility to further the negotiations. They welcomed the EU's "Everything-but-Arms" initiative for the least-developed countries and the proposed steps to simplify the EU's Generalized System of Preferences. Directors emphasized that while those initiatives would be helpful in improving market access for eligible countries, more rapid progress in opening highly protected sectors to all trading partners would not only benefit developing countries but also entail significant gains for the EU itself. In this regard, they highlighted the essential contribution that a comprehensive reform of the EU's Common Agricultural Policy would make to both supporting trade liberalization and preparing for the EU's enlargement.

Trade and Market Access Issues

In September 2001, the Board discussed the role of the IMF in trade. Directors agreed that the IMF had a substantial role to play in supporting an open international trading system and trade liberalization. They saw four avenues through which the IMF could make an effective contribution. First, it should continue to highlight the need for the successful launch of the new Doha trade round (see Box 2.3) and the benefits it could bring, both by raising living standards in all countries and by ensuring a stable world trading system.

Second, Directors agreed, the IMF should continue to address trade issues and support trade liberalization in the context of surveillance and IMF-supported programs where appropriate. Some progress had been made in focusing on market access issues in Article IV consultations with industrial countries, but more needed to be done to identify practices that impeded the exports of developing countries. Developing countries should also be encouraged to continue trade liberalization efforts to improve efficiency and foster sustainable growth. Directors emphasized that trade reforms should be designed with appropriate sequencing and with due regard to their impact—particularly in the short term—on revenue and the current account. In the context of IMF-supported programs, any conditionality pertaining to trade measures should be consistent with the guidelines and evolving practice for streamlining conditionality.

Third, Directors considered that technical assistance from the IMF should continue to play a vital role in laying the groundwork for successful trade liberalization. Reforms by members in the areas of the IMF's particular expertise—namely, revenue systems and tax and customs administration—had often been essential in facilitating a smooth transition to more liberal trade regimes, with minimal impact on fiscal revenue.

[3]Alexandre Lamfalussy (Chairman) and others, 2001, *Final Report of the Committee of Wise Men on the Regulation of European Securities Markets* (Brussels: European Union, Council of Economic and Finance Ministers [ECOFIN], February 15); available on the Internet at http://europa.eu.int/comm/internal_market/en/finances/general/lamfalussyen.pdf.

Fourth, the IMF should continue to cooperate closely with the World Trade Organization (WTO) and the World Bank to avoid duplication and to ensure that the work of the three institutions on trade was complementary. Noting the strategic importance of trade for sustainable growth and poverty reduction in the poorest countries, Directors welcomed the cooperative efforts of the IMF, the World Bank, the WTO, and others in revitalizing the Integrated Framework for Trade-Related Technical Assistance. They supported the efforts of the World Bank and the IMF to help poor countries "mainstream" trade into their overall development and poverty reduction strategies, and, within that framework, to better target and coordinate technical assistance to improve its effectiveness.

Directors agreed that the IMF's financing facilities were generally adequate to support members' efforts to liberalize trade. The IMF was well placed to assist members, given the importance of a stable macroeconomic environment, an appropriate exchange rate policy, and the overall incentive framework for the success of trade liberalization efforts. In addition to the revenue and balance of payments implications of trade reform, Directors identified other areas where they thought further work, in collaboration with the World Bank, was needed in the design of trade liberalization, including the appropriate sequencing of trade liberalization; the impact on the poor; the short-run adjustment costs in terms of output and employment, and measures to mitigate these costs; and the potential for export diversification in relevant cases.

In the communiqué issued following its meeting on April 20, 2002, the International Monetary and Financial Committee of the IMF's Board of Governors noted that enlarging market access for developing countries and phasing out trade-distorting subsidies would benefit both developed and developing countries. The Committee welcomed the commitment, reiterated at the United Nations Conference in Monterrey, Mexico in March 2002, to work toward the objective of duty- and quota-free market access for the exports of the least-developed countries. It also noted the potential for increased opportunities from lowering trade barriers among developing countries.

Box 2.3
Doha Development Agenda

The November 9–14, 2001, Fourth Ministerial Conference of the World Trade Organization (WTO), held in Doha, Qatar, launched a new round of multilateral trade negotiations—the Doha Development Agenda. The new round is the ninth since the signing of the General Agreement on Tariffs and Trade (GATT) in 1947 and the first since the conclusion of the Uruguay Round in Marrakech in 1994, which led to the establishment of the WTO.

The new round is comprehensive and aims to liberalize trade across a wide range of tradable goods and services and to update and strengthen the rules of the multilateral trading system. It also extends the work of the WTO into essentially new areas, such as investment, competition policy, and the environment. Rule-making constitutes a significant portion of the work program and is aimed at clarifying and improving disciplines on trade remedies (for example, antidumping measures), regional trade agreements, trade-related intellectual property rights, and the dispute settlement mechanism.

The fuller integration of developing countries into the trading system is a common theme of the Doha agenda. The Ministerial Declaration adopted at the Doha conference seeks to place the needs and interests of the developing countries at the heart of the work program. This is manifested by the importance it attaches to including the objective of duty- and quota-free market access for least-developed-country (LDC) producers, rules that take account of the special circumstances and implementation constraints of developing countries, and trade-related technical assistance and capacity-building programs. The development provisions in the declaration include commitments to make special and differential treatment more precise, effective, and operational and for special work programs for LDCs and small economies to promote their integration into the world trading system.

The launch of the new round sent a clear signal rejecting inward-looking policies and protectionism and provides a boost to market confidence and global prospects. For the new round to succeed, however, the intentions set out in the Doha agenda will need to be translated into actions including the opening up of markets, particularly for goods and services of greatest importance to developing countries.

CHAPTER 3

Strengthening the International Financial System

Discussions of how to reform the international financial system took center stage in 1998 in the aftermath of the crises in the Asian countries. Since then, much has been done to improve the IMF's capacity for crisis prevention and the architecture of the international financial system more generally. Specifically, initiatives have been launched to improve the IMF's analysis of countries' vulnerability; to increase the transparency of economic policymaking by member countries as well as of the IMF's own policies and operations; to promote timely and accurate reporting to the IMF and publication of economic data within a framework of internationally accepted standards; to strengthen financial sectors, including through prudential supervision; and to encourage the adoption of consistent monetary and exchange rate regimes less prone to crisis. As a result, policies have been strengthened in many countries. The resilience of the global economy and the international financial system in the face of the economic slowdown of 2001 and the events of September 11 suggests that these efforts are beginning to bear fruit.

Nevertheless, it would be unrealistic to suppose that all member countries will always be able to avoid crises. Thus the IMF has also been working to strengthen its capacity to assist members to resolve crises. During FY2002, the Board discussed two main aspects of this work. First, it examined how to help members cope with difficulties, when they arise, of maintaining their access to capital markets in a fashion that also maintains the stability of the international financial system. Second, in relation to extreme cases when a member needs to restructure its financial obligations, the Board investigated frameworks for sovereign debt restructuring that would lead members to be more inclined to approach their creditors at an early stage, before delay destroys value and increases the scale of economic disruption. At the same time, the Board recognized that care should be taken in the design of a new framework to avoid inducing countries to look to default as an easy way of avoiding needed adjustments.

Another key area of work to strengthen the international financial system—the international effort against money laundering—took on heightened importance in the wake of the events of September 11, 2001. Those events prompted a reexamination at national and international levels of mechanisms to promote and enforce laws combating not just money laundering but also the financing of terrorism. In this context, the IMF discussed how it should intensify its contribution to these international efforts, and work advanced on several fronts.

This chapter describes the progress made in the areas of crisis prevention (external vulnerability, transparency, standards and codes, and strengthening financial sectors), crisis resolution (including sovereign debt restructuring), and combating money laundering and the financing of terrorism up to April 2002. It also covers work done in the related areas of offshore financial center assessments and capital account liberalization. For IMF surveillance of international capital markets during the year, see Chapter 2. In addition, more detailed information on the initiatives that have been launched can be found on the IMF website.

Crisis Prevention

Assessing External Vulnerability

The crises of the late 1990s were in many ways different from earlier crises and prompted a reevaluation of traditional methods of assessing a member's vulnerability to changes in external circumstances. This reevaluation has reflected the increased role of private financing in emerging markets, the increased interconnectedness of markets across the globe, and the links between external financing difficulties and distress in the financial and corporate sectors—links formed partly by pressures on a country's exchange rate. With the prevention of crises and the promotion of financial stability among its top priorities, the IMF has strengthened its analysis of the vulnerability of member countries to changes in external circumstances and, in particular, to capital market conditions.

In October 2001, the Executive Board took stock of the progress in monitoring members' external vulnerability on a more continuous basis, especially for emerging market economies, whose access to international capital markets is often not certain. Directors welcomed the increased efforts to combine qualitative analysis reflecting individual country circumstances with vulnerability indicators and other quantitative tools, and the improved integration of bilateral and multilateral surveillance activities, as crises can emanate from either advanced or emerging market economies. They noted that the use of information on markets and market developments in vulnerability assessments was being further strengthened by the work of the new International Capital Markets Department.

Directors observed that the IMF was drawing systematically on a number of separate inputs:

- *The latest revisions to the World Economic Outlook.* These are the starting point for any assessment of vulnerabilities because a key objective is to capture influences from the global economy on emerging market countries, including through the explicit consideration of adverse scenarios.
- *Early warning system models.* These models estimate the likelihood of a balance of payments crisis based on a combination of vulnerability indicators. While work continues on improving their performance, these models still miss many crises and predict others that do not occur, and are likely to remain imperfect, somewhat mechanical, signaling tools; as such they need to be qualified by detailed country analysis and used cautiously.
- *Financing requirements.* Where there is a risk that a country's access to global financial markets may become difficult or be interrupted, detailed estimates of its external financing needs and prospective sources and uses of funds are important. The potential for liquidity problems is also reflected in the work on reserve adequacy, which takes into account indicators such as the ratio of reserves to short-term external debt, and stress testing of the balance of payments. This work on reserve adequacy and the work on assessing the determinants of spreads and ratings are useful to inform preventive policies.
- *Market information and contagion risks.* Besides the direct information content of foreign exchange spreads on borrowing costs for individual countries, the analysis of spreads serves to focus attention on changes in market perceptions and as such sharpens the discussion of contagion. The new International Capital Markets Department is responsible for systematically drawing on market information as well as refining tools to understand markets and market behavior.
- *Financial sector vulnerability assessments.* The IMF's specialized knowledge about the financial sectors of its members is a key input into the IMF's evaluation of vulnerabilities. Evaluations under the Financial Sector Assessment Program (FSAP)—jointly sponsored by the IMF and World Bank—help to assess the robustness of the financial sector through stress tests and alternative scenarios. For all countries, the staff remains actively involved in financial sector monitoring and advice.
- *Area department expertise.* The specialist knowledge of the IMF's area departments on their countries provides a broader perspective and judgment on the tools used for vulnerability assessments.

The increased focus on vulnerability and appropriate policy responses has further highlighted the significance of addressing gaps and deficiencies in the required data. The IMF's Special Data Dissemination Standard (SDDS) already provides an agreed framework for making available data on reserves and external debt. Other data needed for vulnerability assessments include those on foreign exchange exposures of the financial sector and the nonfinancial corporate sectors, and countries' financing needs—including their reliance on rollovers, trade finance, and bond finance. Directors encouraged staff to focus more intensively on these informational needs to ensure that data availability improves over time, and stressed that many countries would require technical assistance to achieve this.

Strengthened vulnerability assessments allow for timely policy adjustments to forestall external crises. Directors agreed that the IMF had an important role to play in involving national authorities in the discussion on vulnerabilities and in convincing them of the urgency of such measures, while information on possible future crises had to be kept strictly confidential. They underscored the role of the Board—through, for example, applying peer pressure and charging management explicitly to take action to express heightened concern on the part of the IMF. In this regard, it was all the more essential that the results of the staff work on vulnerability be communicated to Executive Directors in a timely fashion.

Work to reduce external vulnerabilities of member countries has continued to involve the development of policy guidelines. *Guidelines for Public Debt Management*, developed by the IMF and the World Bank, were published at the end of FY2001. *Guidelines for Foreign Exchange Reserve Management* were also developed in close collaboration with reserve management entities from a broad group of member countries and international institutions and published in September 2001 (see Box 3.1). In October 2001, the Executive Board considered a paper on issues related to reserve adequacy and management, including the implications of the capital account approach to assessing reserve adequacy for reserve management. The paper was also

Box 3.1

Board Discusses Guidelines for Foreign Exchange Reserve Management

During their September 2001 review of the Guidelines for Foreign Exchange Reserve Management, subsequently published by the IMF, the Board noted that the guidelines would serve as a set of basic principles for countries to draw upon in formulating sound reserve management policies and practices. Directors welcomed the voluntary nature of the guidelines and agreed that their scope and coverage were appropriate. The focus on a prudent risk management framework, and the emphasis on transparency and accountability frameworks, provided a basis for disseminating sound reserve management practices. Such practices complemented prudent macroeconomic policies and sound financial sectors, which were critical for building countries' resilience to shocks and preventing financial crises.

Directors also expressed appreciation for the feedback received from a broad group of member countries and international institutions in a comprehensive outreach process organized during the preparation of the guidelines. This process had strengthened members' sense of ownership of the guidelines and helped to ensure that the guidelines were in line with generally accepted sound practices. In particular, reserve managers had welcomed the focus of the guidelines on broadly applicable principles, while avoiding prescriptive practices, so as to ensure their relevance for members with a wide range of institutional structures at different stages of development.

Since there was no universally applicable set of practices for all countries, implementing the guidelines should be done in a way that took into account specific country circumstances. In discussing the potential use under surveillance, and in line with the voluntary nature of the guidelines, Directors agreed that the guidelines could be used to inform discussion between the authorities and the IMF on key areas requiring improvement in reserve management but should not be treated as rigid requirements or formal benchmarks for assessing reserve management.

meant to assist countries in formulating strategies for investing reserve assets and managing risk and to complement existing guidelines on reserve management. A next step will be to consider reserve adequacy in the context of a broader approach to external liquidity management, including external debt management.

The agenda for further work on vulnerability assessment is broad and evolving, and Directors have discussed a number of potential improvements to the various inputs into the assessments. The priorities ahead include work on national balance sheet approaches to crisis prevention and resolution, and on financial sector indicators. In addition, continuing efforts will be made to better understand market dynamics, to identify developments in individual countries that may have implications for other members, and to take careful account of the aggregated effects on the global economy of similar policies synchronized across a number of countries.

Transparency

Increased transparency, in both economic policy and in economic and financial data, can strengthen a market participant's ability to assess credit risks appropriately and so reduce the likelihood of crises and lessen their severity when they do occur. To this end, the IMF has promoted the transparency of its members' policies, undertaken a wide-reaching program to improve public understanding of its own policies and operations, and encouraged feedback from national authorities and from the public on transparency and other key policy initiatives. The IMF website has been a primary channel for these efforts.

There has been a dramatic change in the last few years in the IMF's publication policy and the availability of information about the IMF and members' policies. Before 1994, as far as country information was concerned, little more than research-oriented working papers and some background papers to Article IV staff reports were published by the IMF. The only publicly available information on an Article IV consultation was usually a brief summary in the IMF's *Annual Report*. Details of IMF-supported programs were considered confidential. Now the IMF publishes a wealth of information about its policy advice, lending arrangements, finances, and policies and assessments on key topics.

The IMF took an important step in bringing greater transparency to the IMF's bilateral surveillance when it launched Public (originally Press) Information Notices (PINs) in mid-1997. As of April 30, 2002, PINs summarizing the Executive Board's Article IV consultations on the economic situation of member countries had been published for 90 percent of the IMF membership, up from 56 percent at end-1998. But more notably, full Article IV staff reports are now published when the country concerned agrees. Between June 1999, when the Board decided to authorize the release of Article IV staff reports on a voluntary basis, and end-April 2002, 106 members have published 177 reports. Participation has been uneven, however, with publication rates highest for advanced, Western Hemisphere, and Central and Eastern European members.

The change in transparency with respect to IMF-supported programs has been as important. Chairman's statements, news briefs, and press releases following Executive Board discussion of the use of IMF resources are now released on a routine basis. There is a presumption that the documents setting out the authorities' intentions under their IMF-supported programs will be released to the public, and 96 percent of

all such documents have been published since January 2001, when the Board approved the publication of all such documents. In January 2001, the Board agreed to the release of stand-alone staff reports on IMF-supported programs (Use of Fund Resources reports), subject to the member's consent. Through end-April 2002, 55 percent of stand-alone reports on IMF-supported programs had been released, with publication rates highest among the countries of Central and Eastern Europe.

The IMF is now more transparent in its policies and operations. Staff papers discussing key policy issues and summaries of Executive Board discussions of these papers are now released. In addition, the IMF has engaged in a dialogue with the public on some key policy issues. For example, public comment has been sought on the IMF's review of conditionality through the Internet and through seminars with wide participation of academics, policymakers, and nongovernmental organizations. A number of outside (as well as internal) evaluations of IMF activities and programs have been conducted in recent years, and the results of almost all of those studies have been published. Finally, an Independent Evaluation Office (IEO), which was established to complement the IMF's existing review and evaluation procedures, began operations in FY2002.

Standards and Codes

The spread of internationally accepted standards and codes of good practice in policymaking and institutional arrangements contributes to the better working of markets by allowing participants and policymakers to compare information on country practices against agreed benchmarks. Standards are also designed to improve transparency and good governance, and increase the accountability and credibility of policy.

Launched in response to the Asian crises, the IMF's standards and codes initiative has encouraged the development and improvement of internationally recognized standards in key areas; led to assessments of countries' observance of standards; and helped countries implement standards, including through the provision of technical assistance. Seeking and responding to feedback from authorities and the private sector have been important aspects of the initiative. During FY2002, progress was made on all these fronts.

Fourth Review of IMF's Data Standards Initiatives

In July 2001, the Executive Board concluded policy discussions on the IMF's Special Data Dissemination Standard (SDDS) and General Data Dissemination System (GDDS). This was the *Fourth Review of the IMF's Data Standards Initiatives*, in the course of which Directors discussed observance of the SDDS, the template for the dissemination of reserves data, the development of the external debt data category, and participation in the GDDS. In addition, the Board reviewed the staff's proposal to integrate an assessment methodology, called the Data Quality Assessment Framework, into the structure of the data module of the Reports on Observance of Standards and Codes (ROSCs), as a central element of a Data Quality Assessment Program. (See Box 3.2.)

Directors welcomed the opportunity to review the experience under the IMF's data standards initiatives and to consider proposals for their further refinement and consolidation. They expressed their strong appreciation to the staff for its work in this area. Directors supported the consultative approach applied in strengthening the design and implementation of these initiatives (see Box 3.3), and stressed that the voluntary nature of the initiatives as well as the cooperative approach to their implementation should remain important characteristics in moving forward. The substantial progress achieved in recent years under the IMF's data initiatives had further raised the IMF's standing as a center for dissemination of economic and financial statistics.

Directors highlighted the importance of members' data dissemination efforts for improved transparency and crisis prevention. They commended national authorities on the substantial progress achieved so far, as evidenced by the strong increase, since last year's review, in the number of countries meeting the specifications of the Special Data Dissemination Standard. They were also encouraged that participation in the General Data Dissemination System was increasing at a satisfactory pace and in line with the target set at the Third Review of Data Standards Initiatives.

The increased interest in the SDDS among users was evidenced by an increase in the usage of the Data Standards Bulletin Board (DSBB) and the feedback from the IMF's outreach efforts. Directors supported the staff's plans to strengthen further its outreach efforts through seminars on international standards and codes, as well as take advantage of the opportunities afforded by ROSC missions and surveys of the DSBB's users to solicit views.

Progress was also being made in the area of external debt statistics. Directors noted the work being done to finalize the *Debt Guide* as well as the positive response from the IMF membership to a series of seminars to raise awareness of the data dissemination standards for external debt and ascertain the extent to which countries were advancing toward meeting these requirements. The implementation of the new external debt data category would be discussed during the next review of the IMF's data standards initiatives.

Directors welcomed the development of the Data Quality Assessment Framework, and most supported its integration into the data module of the ROSC. Directors agreed to preserve the structure of the ROSC

module, whereby the module would continue to provide a summary assessment of a member's observance with the data dissemination standards complemented with a summary assessment of data quality.

Looking ahead, Directors broadly agreed that the IMF's data standards would need to be updated to take into account the latest developments in statistical methodology. They also supported implementing an open exchange system for the distribution and exchange of statistical information on the Internet, which would enhance the functionality and user friendliness of the DSBB.

Most Directors agreed that the next review of the IMF's data standards initiatives should take place in the second half of 2003.

Assessing Members' Observance of Standards

The number of assessments summarized in ROSC modules increased by over 100 percent during FY2002. As of end-April, 228 ROSC modules for 76 economies had been completed and 165 for 59 economies had been published. Assessments are being carried out by the World Bank on countries' observance of standards in the areas of corporate governance, and accounting and auditing. Participation in ROSC modules—which is voluntary—has been led by member countries in Central and Eastern Europe.

Although members are responsible for implementing standards, the IMF and other international bodies are helping by providing technical assistance. (For further details, see Chapter 7.)

Feedback from Users of Reports on Observance of Standards and Codes

The IMF—in cooperation with other institutions, including the World Bank and the Financial Stability Forum—has undertaken a series of outreach missions designed to inform and solicit feedback from members and markets of the work on standards. In the last financial year, IMF staff has participated in seminars in France, Germany, Italy, Spain, Tunisia, and the United States, as well as at the World Trade Organization in Geneva and the OECD/Development Assistance Committee in Paris.

This outreach has elicited feedback that is helping to make ROSCs more accessible to users—for example, shorter in length, with a standardized format, and with more comprehensive country coverage. National authorities have also expressed concern that adequate technical assistance be made available to help them address weaknesses identified in standards assessments. Steps are being taken to respond to these concerns and the associated resource implications.

Box 3.2

IMF's Data Standards

The IMF's Data Standards Initiatives aim to enhance the availability of timely and comprehensive statistics and therefore contribute to the pursuit of sound macroeconomic policies and to the improved functioning of financial markets.

The **Special Data Dissemination Standard** (SDDS) was established in 1996 to guide countries that have or might seek access to international capital markets in the provision of data to the public. As of April 30, 2002, there were 50 subscribers to the SDDS—in November 2001, Costa Rica became the third new subscriber (the others were Brazil and Tunisia) since the end of the transition period in December 1998. Subscription is voluntary. Among other things, subscribers undertake to follow SDDS requirements on the coverage, periodicity, and timeliness of the data; to issue calendars identifying when data are to be released; and to pursue good practices with respect to the integrity and quality of the data. SDDS subscribers supply information about their data dissemination practices for posting on the Internet on the Dissemination Standards Bulletin Board (DSBB) at http://dsbb.imf.org. In addition, subscribers are required to maintain an Internet website, referred to as a National Summary Data Page (NSDP), which contains the actual data and to which the DSBB is electronically linked.

The **General Data Dissemination System** (GDDS) was established in 1997 as a framework for countries to improve their statistical systems to meet the evolving requirements of the user community. The GDDS fosters the application of sound methodological principles, the adoption of rigorous compilation practices, and the observance of procedures that ensure professionalism and objectivity. Countries that participate in the GDDS provide metadata describing their data dissemination practices and detailed plans for improvement for posting on the DSBB.

In July 2001 the Executive Board approved an important enhancement to the IMF's data standards. The **Data Quality Assessment Framework**—and its integration into the data module of the Report on the Observance of Standards and Codes[1] (ROSC)—addresses the concern that standards assessments should examine not only the periodicity, timeliness, and coverage of data releases but also the quality of the data being released. The framework for assessing data quality was developed by the IMF in consultation with national statistical offices, international organizations, and data users outside the IMF. It brings together best practices and internationally accepted concepts and definitions in statistics and covers such dimensions of data quality as integrity, methodological soundness, accuracy and reliability, serviceability, and accessibility, as well as the related institutional prerequisites.

[1]Reports on the Observance of Standards and Codes, a joint endeavor of the IMF and World Bank carried out in consultation with the relevant authorities of the respective countries, summarize the extent to which countries observe certain internationally recognized standards.

Strengthening Financial Sectors

Along with the Asian crises, the banking sector problems faced by a large number of IMF members have highlighted the critical importance of concerted action to strengthen financial systems. During FY2002, as part of its intensified financial sector surveillance activities launched in recent years, the IMF continued to carry out a number of financial "health checkups" under the Joint IMF–World Bank Financial Sector Assessment Program (FSAP), examined the use of summary financial soundness indicators, and gave greater focus to assessments of offshore financial centers.

Financial Sector Assessment Program

The FSAP, participation in which is voluntary, aims at strengthening the monitoring of countries' financial systems in the context of the IMF's bilateral surveillance and the World Bank's financial sector development work. Following the pilot, the IMF and the Bank Executive Boards agreed that the FSAP should be undertaken in the future at a rate of up to 24 country assessments a year. At the IMF, Financial System Stability Assessment (FSSA) reports, which are derived from the discussion of FSAP findings, were endorsed as the preferred instrument for strengthened monitoring of financial systems as part of IMF surveillance. By April 2002, 27 countries had completed their FSAP participation.[1] An additional 50 countries had committed to participate in the program, and the work was already under way for 27 of these countries. In January 2001, publication of the FSSAs was authorized to allow sharing an integrated assessment of the strengths and vulnerabilities of these financial sectors with markets; 11 countries had published their FSSAs by April 2002. The program of assessments in financial year 2002 placed greater emphasis on systemically important countries in line with the views of the two Boards.

As a complement to the work on assessing external vulnerability and the Financial Sector Assessment Program, the IMF has developed a set of Financial Soundness Indicators (FSIs) and methods of macroprudential analysis designed to improve the assessment and monitoring of vulnerabilities in financial systems. (Macroprudential analysis includes stress testing of financial systems' sensitivity to a variety of shocks.) In June 2001, the Board endorsed a core and an "encouraged" set of FSIs. The core set focuses on the banking sector and was selected because of its analytical relevance, usefulness, and availability. The encouraged set includes additional indicators of the banking sector as well as indicators for the nonbank financial sector, the corporate and household sectors, and real estate markets. Directors agreed that a more general compilation and greater use of soundness indicators, with a focus on the core set, would pave the way for a significant strengthening of surveillance. They supported more systematic compilation of data on FSIs in the Financial Sector Assessment Program and in Article IV reports with in-depth financial sector assessments.

In July 2001, during their Fourth Review of the IMF's Data Standards Initiatives, Directors discussed the possible inclusion of FSIs in the SDDS. While a number of Directors believed this would be a useful development, others considered that such indicators should not be included even at a later stage, so as not to discourage new subscriptions and not to overburden

[1]An FSAP is considered complete once the FSSA has been discussed by the Executive Board and the FSAP report has been sent to the authorities.

Box 3.3

Collaborating on Standards

IMF staff members have collaborated with a number of other groups to revise and develop standards. Staff members are working with

- the Basel Committee on the New Basel Capital Accord—a crucial complement to the Basel Core Principles, the internationally recognized standard for banking supervision;
- relevant international agencies to develop assessment methodology and guidance on international standards for securities regulation (International Organization for Securities Commissions, IOSCO), insurance supervision (International Association of Insurance Supervisors, IAIS), and systemically important payment systems (Committee on Payment and Settlement Systems, CPSS);
- the Bank and the International Accounting Standards Board on developing more detailed standards and standards assessment methodologies for accounting and auditing;
- other agencies to complete their work on the *External Debt Guide* and are assisting countries to compile data on external debt consistent with the Special Data Dissemination Standard (SDDS) requirements and the General Data Dissemination System (GDDS) recommendations.[1] In this regard, the IMF posted the second draft of the *Debt Guide* on its external website seeking another round of comments before finalizing it; and
- the Financial Action Task Force (FATF) and the World Bank to develop a methodology for enhancing the assessment of legal, institutional, and financial supervisory standards relevant for countering money laundering and terrorist financing (see text).

[1]The Inter-Agency Task Force on Finance Statistics, formed under the aegis of the United Nations Statistical Commission and chaired by the IMF, is the coordinating body for this work.

existing subscribers. It was decided to return to the issue at a future date.

The work ahead on FSI-related issues includes activities in four areas: support of compilation efforts by national authorities; analytical and empirical work on measuring and analyzing FSIs; strengthened monitoring of FSIs, in cooperation with country authorities, as a key component of the FSAP/FSSA process; and encouraging national authorities to release the indicators to the public on a regular basis.

Offshore Financial Center Assessments

The IMF has extended its financial sector work to include offshore financial centers (OFCs). The program involves voluntary assessments of OFCs at three possible levels of intensity.[2] As of end-April 2002, IMF staff have undertaken missions to 19 offshore financial centers for the purpose of gathering information, providing technical assistance, and assisting self-assessments; staff completed 9 OFC assessments and three (Cyprus, Gibraltar, and Panama) were published during the period. The Coordinated Portfolio Investment Survey (CPIS) organized by the IMF, which includes the participation of several important OFCs, will support this work by helping national statisticians to compile more comprehensive data on cross-border investment positions.

Capital Account Liberalization

The IMF has strengthened its work on capital account issues, including by undertaking more analysis, giving more prominence to capital account issues in Article IV consultations, and expanding discussions with the private sector. The benefits of capital account opening include a more efficient international allocation of savings and improved productivity (for example, through technology transfer in foreign direct investment flows), enlarged opportunities for portfolio diversification, risk sharing, deeper financial markets, and a greater international division of labor. On the other hand, volatile international capital flows have played a role in a number of recent crises, pointing to the importance of appropriate sequencing of capital account liberalization.

In July 2001, in response to a request from the International Monetary and Financial Committee of the IMF, the Board held a preliminary discussion on financial sector stability and sequencing of capital account liberalization. Bearing in mind that there is no simple rule applicable to all countries, Directors discussed some general principles that could be helpful to countries in sequencing and coordinating capital account liberalization. These principles emphasize

- the importance of macroeconomic stability and of giving priority to financial sector reforms that support such stability;
- coordinating different financial sector policies to ensure mutually reinforcing reforms;
- taking into account the initial condition of financial and nonfinancial entities and the effectiveness of existing capital controls;
- implementing early, key measures that may have a long lead time;
- considering the sustainability of the reform process; and
- ensuring the transparency of the liberalization process.

The principles point to the desirability, in most cases, of liberalizing long-term flows (in particular foreign direct investment) ahead of short-term flows with suggestions of specific policy measures that should be put in place before different types of flows are liberalized. In many cases a gradual approach to liberalization may be required, but would not in itself guarantee orderly liberalization.

A workshop to discuss advanced country experiences with capital account liberalization took place in December 2001. Discussions will continue both within the IMF and with the private sector, including through the Capital Markets Consultative Group.[3]

Crisis Resolution

While the IMF's efforts at crisis prevention should reduce the number of crises over time, it would be unrealistic to expect that all member countries will always be able to avoid crises. During FY2002, the Executive Board held continuing and informal discussions on a range of issues related to the resolution of financial crises and the role of the private sector.

In August 2001, the Board had a preliminary, informal discussion on a staff paper that reviewed the *treatment of the claims of private sector and Paris Club creditors.* The Board had requested staff to prepare a paper on issues relating to comparability of treatment

[2]Module I is an assisted self-assessment with technical assistance from experts, as needed, to help offshore financial centers assess their compliance with particular standards. Module 2 is a stand-alone IMF-led assessment of standards, and Module 3 (or FSAP) is a comprehensive assessment of risks and vulnerabilities, institutional preconditions, and standards observance prepared by the IMF.

[3]Just before the September 2000 Annual Meetings in Prague, the IMF set up, at the behest of the Managing Director, a Capital Markets Consultative Group (CMCG) to foster a regular dialogue between IMF management and senior staff and representatives of the private financial sector. The CMCG meets several times a year, at various locations around the world, principally in the major financial centers. Representatives come from a range of financial institutions, including banks, investment houses, and institutional investors. All regions of the world are represented. The meetings are private and informal in nature.

between Paris Club and private sector claims in the exceptional cases in which a rescheduling by Paris Club and other official bilateral creditors is required. Directors felt that many of the questions raised by the paper were of a technical nature, but that the staff paper nevertheless provided a useful background to help advance the discussions between the staff and the Paris Club, and between the Paris Club and the private sector, on ways to address comparability of treatment and private sector involvement.

In September 2001, the Board assessed the determinants and prospects for the *pace of capital market access by countries emerging from crises*, a critical element of the framework for private sector involvement. Directors had a broad-ranging discussion but concluded that more theoretical and empirical work was needed before they could reach firm opinions on this complex subject. They also agreed with the staff that these assessments could not be made in a mechanical way, and that judgment and monitoring would continue to be required in each specific case.

Directors considered that improved understanding of the reasons behind the loss of market access could also provide useful indications on how countries might reaccess markets. Three determinants of market access stood out: namely, changes in global financial conditions; market contagion; and domestic economic policies. Past experience suggested that countries that lose market access as a result of adverse developments in global financial markets, or minor spillover from crises elsewhere, generally regain market access quickly as the effects of such developments pass. Some Directors stressed that domestic economic policies were often a major cause of loss of market access.

The Board considered the determinants of the restoration of market access identified in the staff paper to be a useful starting point, but stressed that the sample was limited. While noting the importance of favorable conditions in international capital markets for restoring access, Directors agreed that the single most important determinant of a country's prospects was adopting credible corrective policies—especially corrective macroeconomic and structural policies that improved a country's external accounts and debt sustainability. Other determinants were also considered.

Finally, many Directors stressed the need to seek greater input from market participants themselves and a better understanding of the rationale underlying their lending decisions as the IMF continued to refine its work in this area.

Work Program for Crisis Resolution

The Managing Director's April 2002 Report to the IMFC laid out a four-point work program to strengthen the framework for crisis resolution:

- Increasing the IMF's capacity to assess the sustainability of a country's debt;
- Clarifying the IMF's access policy;
- Strengthening the tools available for securing the private sector's involvement in the resolution of financial crises; and
- Examining a more orderly and transparent legal framework for sovereign debt restructurings, as well as identifying with more clarity the considerations that should guide the availability of IMF financing during and after a restructuring.

Improving the analytical framework that the IMF uses to judge *debt sustainability* is essential to the IMF's ability to respond appropriately to different crises. As outlined in the Prague framework, the IMF must strive to distinguish between those cases where a major debt restructuring, possibly involving a substantial write-down of claims, is called for; those cases where the official sector will need to encourage creditors to reach voluntary agreements to maintain their exposure to help overcome coordination problems; and cases in which it is appropriate for the IMF, in conjunction with others, to provide financing in support of the member's adjustment program to help restore confidence and catalyze the resumption of private capital inflows. This distinction should be based solidly on an assessment of the member's debt sustainability.

In assessing the sustainability of a member's external and fiscal position, the focus is on a member's ability to sustain financial and economic viability, and whether some form of debt reprofiling or restructuring is necessary to achieve that objective in the context of a well-designed program of adjustment. Sustainability analysis may not always yield unequivocal results, but the IMF is working to strengthen the analytic basis used to make an inherently difficult judgment. It is envisaged that staff would bring together in a more systematic fashion the elements that go into such a judgment, including the initial stock of actual and contingent liabilities, expected external and internal developments that will affect the debt-servicing burden, the likelihood of more adverse scenarios occurring, and the member's capacity—including its political and institutional capacity—to adjust policies in response to shocks.

A second strand in the work program will be to clarify the policy on access to IMF resources for members facing capital account crises. In this context, it will be important to recognize that a policy on access limits in such cases must be based on the reality that the IMF's resources are inherently limited, while the potential financing needs of a country integrated into global markets can be very large indeed, and, in some cases, are not adequately reflected in members' quotas. The policy would specify the circumstances under which the IMF would be prepared to support a member's policies

in the event it was facing difficulties. The general direction would be that larger levels of access require stronger justification. A clearer policy on access limits should allow the IMF to provide the scale of financing needed to support members addressing their problems, while at the same time reinforcing incentives for responsible policies and prudent assessment of risk.

A third strand of the work program aims to *strengthen the tools* available for securing the private sector's involvement in the resolution of financial crises within the context of the existing legal framework. One aspect of the work explores the use, in cases in which a member's debt burden is judged to be sustainable, of financing options to help resolve financial crises and to complement the catalytic approach. The broad conclusion is that although the use of alternative financing tools under certain circumstances may help to manage crises, they need to be carefully assessed on a case-by-case basis. In each case, the benefits of these financing techniques need to be weighed against potential dangers of unsettling markets that they may affect, as well as their impact on transferring risk from sovereigns to the domestic financial system.

To contain the harmful impact of sovereign debt restructuring, efforts will be needed to limit the erosion of confidence and keep the restructuring process orderly, including through the prompt announcement of corrective policy measures and the formulation of a fair restructuring offer.

Sovereign Debt Restructuring

In the infrequent cases when countries run up unsustainable debt burdens, they need to seek a restructuring of their obligations. A shortcoming in the international financial system is the absence of a framework for the predictable and orderly restructuring of sovereign debts. There is no comprehensive mechanism for majority decision making by private creditors—a problem that is compounded when the debt includes numerous different debt instruments issued in different jurisdictions. The upshot of this collective action problem is that debt restructuring is often delayed, prolonged, and disorderly, depleting asset values of creditors and imposing severe hardship on the debtor country. This is not only damaging to the debtor and its creditors, it is also disruptive to international capital markets and to the trading partners of the debtor country.

In a February 2002 Executive Board seminar to discuss staff papers that examined *complementary tools for the catalytic approach and further considerations in the restructuring of international sovereign bonds*, Directors made progress on their discussion of issues relating to the involvement of the private sector in the resolution of financial crises. Directors noted that even though the recent experience with the catalytic approach had been uneven, it was useful to give early consideration to the use of such complementary tools as rollover agreements with domestic investors aimed at helping meet financing needs while policies took hold and confidence was rebuilt. Directors stressed, however, that such policies could not substitute for sound economic policies, efficient public debt management, strengthened transparency, and active debtor-creditor relations. The use of alternative financing tools to help to manage crises would have to be examined on a case-by-case basis, carefully weighing the benefits and potential costs of these techniques in the specific context of each country.

Directors noted that, notwithstanding the principle that contractual obligations should be honored, in those exceptional circumstances in which financing requirements were large and prospects for an early return to spontaneous capital market access were poor, a broad spectrum of actions might be warranted. Bondholders along with other creditors may need to contribute to the resolution of the crisis. In cases in which a member's debt situation is not sustainable, these actions might need to include a restructuring that brought about debt and debt-service reduction so as to provide an adequately financed program.

On March 6 and March 8, 2002, the Executive Board held an informal seminar to discuss approaches to improving the legal framework for sovereign debt restructuring. They discussed two staff papers. The first—issued in November 2001—followed closely the speech by First Deputy Managing Director Anne Krueger (see Box 3.4) setting out a possible new statutory regime governing debt restructuring. The second staff paper—issued in February 2002—elaborated further on such statutory approaches and developed an approach in which the IMF played a less central role in decision making. The second paper also assessed the extent to which the use of collective action clauses in debt instruments could achieve the desired improvements in the sovereign debt restructuring process. There are pros and cons to all the options being considered, and it was recognized that substantial further consideration would be necessary before coming to concrete proposals.

The seminar highlighted a common belief among many Directors, a belief shared by management, that the existing process for restructuring sovereign debt was more prolonged, more damaging to the country and its creditors, and more unpredictable than was desirable. Both countries and their creditors would gain if stronger incentives were created for countries with unsustainable debts to address their problems rapidly, and if there were a more predictable process, in such exceptional cases, for reaching rapid agreement on a restructuring that paved the way toward the restoration of sustainability. This needed to be done without introducing incentives that might result in unnecessary

defaults or broadly increasing the perceived risk of default.

The twin challenges were to develop an improved framework that could facilitate the sovereign debt restructuring process and to improve the IMF's analytical basis for making judgments about debt sustainability. These efforts should be integrated into broader efforts to improve the effectiveness of crisis prevention and resolution. Recourse to a comprehensive debt restructuring would remain appropriate in only very limited and exceptional circumstances, consistent with the private sector involvement framework.

The staff paper for the discussion outlined broad statutory and contractual approaches for achieving these objectives: a statutory approach with enhanced IMF authority, a statutory approach based on majority action across the aggregated debts of the sovereign, and a contractual approach based on collective action clauses. The second statutory option envisages a restructuring mechanism with limited IMF involvement in the operations of the mechanism itself and where decisions on whether to give legal protection for the sovereign and provide seniority for new private financing would be left to the debtor and a qualified majority of its creditors. Although an amendment of the IMF's Articles of Agreement could provide the statutory basis for this power, the IMF would not be empowered to make decisions that limited the enforcement of creditor rights. Rather, it would give the qualified majority of creditors the ability to accord the debtor temporary protection against legal action, strengthen the hand of the debtor and a qualified majority of its creditors against a dissident group of creditors, and perhaps most crucially, allow the entire creditor body to vote as a whole rather than instrument by instrument (which is the case with existing collective action clauses). At the same time, safeguards would be established to protect the seniority of certain claims, and procedures would need to be put in place to verify claims and ensure the integrity of the voting process.

Box 3.4

FDMD Krueger Proposes a Sovereign Debt Restructuring Mechanism

Proposals for a new sovereign debt restructuring mechanism were spelled out by IMF First Deputy Managing Director Anne O. Krueger initially in a speech to the National Economists' Club in November 2001 and then in a more developed version at the Institute for International Economics in April 2002. The proposal was also described by Ms. Krueger in a pamphlet entitled "A New Approach to Sovereign Debt Restructuring," published in April 2002.

The First Deputy Managing Director took as her premise the growing international realization that the absence of a strong legal framework for sovereign debt restructuring generates considerable costs. First, sovereigns wait too long before seeking a restructuring, leaving both their citizens and creditors worse off. Second, when they finally do opt for restructuring, the process takes longer than needed and is less predictable than debtors and creditors would like. Ms. Krueger observed that the current international financial system lacks an established framework for an equitable debt restructuring that returns the country to sustainability.

In advancing her proposal, Ms. Krueger outlined the objective of a Sovereign Debt Restructuring Mechanism (SDRM) as being "to facilitate the orderly, predictable, and rapid restructuring of unsustainable sovereign debt." Use of the mechanism would be for the debtor country to decide and not for the IMF or a country's creditors to impose. The mechanism would only be invoked in very limited circumstances—specifically, when a country's debt had become unsustainable.

Two key challenges, she said, were, first, to create incentives for debtors to address their problems promptly and, second, to create incentives for all parties to reach rapid agreement on restructuring terms. The policies of the IMF regarding the availability of its resources before, during, and after the restructuring process would play a critical role in shaping these incentives.

Under the terms of the approach outlined by Ms. Krueger, an international legal framework would be created that would allow a qualified majority of a sovereign's creditors to approve a restructuring agreement, which would then be binding on a dissenting minority. This provision would be supported by three other features: a temporary stay on creditor litigation after a suspension of payments but before a restructuring agreement is reached; safeguards to protect creditor interests during the stay; and a mechanism to induce new financing by giving it seniority over preexisting private indebtedness during the period of the stay.

As envisaged by Ms. Krueger, an international judicial panel would be set up to arbitrate disputes and oversee voting. An amendment to the IMF's Articles of Agreement would provide the legal basis to make an agreement binding on all creditors. Significant legal authority would not, however, be transferred to the IMF itself; the IMF would not be in the position of imposing an agreement and the essential decision-making authority would rest with the debtor and a majority of its creditors.

Inevitably, it would take time to sort through the complex issues associated with the design of a restructuring mechanism, and then, if so agreed and if there was broad-based support for the steps that it would require, to put a statutory approach in place. Contractual improvements could help before then, and, as was emphasized by several Directors, such improvements should be pursued vigorously on their own merits. The IMF will continue to explore ways in which contractual approaches to debt restructuring can be made more effective. Future work in this area would include steps

that could be taken to create stronger incentives for the use of appropriate majority restructuring and majority enforcement provisions in international debt contracts. It would also include an assessment of the feasibility and market acceptability of collective action clauses that aggregate claims across instruments for voting purposes.

Finally, the Board agreed that efforts to improve the existing framework for debt restructuring should not displace other aspects of the work program on the resolution of financial crises. Improving the assessment of debt sustainability was crucial. The Board's discussion also confirmed that an early review of access limits would be a key element in IMF efforts to improve the effectiveness of the private sector involvement framework.

In its April 2002 Communiqué, the IMFC endorsed the IMF's work program to strengthen the existing Prague framework for crisis resolution, and in particular to provide members and markets with greater clarity and predictability about the decisions the IMF will take in a crisis.

The Committee also welcomed the consideration of innovative proposals to improve the restructuring of sovereign debt to help close a gap in the current framework. It encouraged the IMF to continue to examine the legal, institutional, and procedural aspects of two approaches, which could be complementary and self-reinforcing: a statutory approach, which would enable a sovereign debtor and a supermajority of its creditors to reach an agreement binding all creditors; and an approach, based on contract, which would incorporate comprehensive restructuring clauses in debt instruments. The Committee looked forward to reviewing progress in this area at its next meeting in fall 2002.

Combating Money Laundering and the Financing of Terrorism

Money laundering and the financing of terrorism are issues that concern countries at every stage of development, and involve both onshore and offshore financial centers. These are global problems that not only affect security, but also potentially harm economic prosperity and the international financial system.

Background

At the end of the last financial year, the Executive Boards of the IMF and the Bank considered how the two institutions might enhance their contributions to global efforts to fight money laundering. Directors recognized that more vigorous national and international efforts to counter money laundering were needed. Directors emphasized that the IMF's involvement in this area should be confined to its core areas of competence, and confirmed that it would not be appropriate for the IMF to become involved in law enforcement activities. The Board generally agreed that the IMF should take a number of steps to enhance the international efforts to counter money laundering, including:

- developing a methodology that would enhance the assessment of financial standards relevant for countering money laundering that could be used in reports under the Financial Sector Assessment Program;
- working more closely with major international anti-money-laundering groups;
- increasing the provision of technical assistance in this area;
- including anti-money-laundering concerns in its surveillance and other operational activities when macroeconomically relevant; and
- undertaking additional studies and publicizing the importance of countries acting to protect themselves against money laundering.

A set of similar steps was agreed to by the Bank.

Directors also generally agreed that the 40 Recommendations on anti-money laundering (AML) made by the Financial Action Task Force on Money Laundering (FATF) should be recognized as the appropriate standard for combating money laundering.[4] Directors agreed that work should go forward to determine how the recommendations could be adapted and made operational to the IMF's work, with a view toward eventually preparing related ROSCs. They noted that the FATF process needed to be made consistent with the ROSC process and once this was done, the FATF could be invited to participate in the preparation of a ROSC module on money laundering. The Board asked staff to contribute to the ongoing revisions to the FATF 40, discuss with the FATF principles underlying the ROSC procedures, and come back to the Board with a report and proposals.

Post–September 11 Board Discussion

At a November 12, 2001, Board discussion, Executive Directors welcomed the opportunity to review progress in the IMF's work on anti-money-laundering issues and to consider the IMF's role in combating terrorism financing in the aftermath of the attacks of September 11. They stressed that the IMF had a key role to play in combating money laundering and terrorism financing as part of international efforts to prevent the abuse of

[4]The FATF's 40 Recommendations are widely recognized as the key set of AML standards. These recommendations cover law enforcement, financial system regulation, and international cooperation. In October 2001, the FATF issued new international standards to combat terrorist financing, in the form of eight Special Recommendations. The "FATF 40+8" is the shorthand reference used by the FATF to cover all the Recommendations.

financial systems and to protect and enhance the integrity of the international financial system.

Directors acknowledged the progress achieved in implementing the measures contained in the Board's summing up of April 13, 2001, to enhance the role of the IMF in the area of anti–money laundering. In particular, Directors noted that:

- an AML Methodology Document had been prepared, circulated for comment, and was being piloted;
- work was under way with FATF to adapt the FATF 40 Recommendations to the IMF's Report on Observations of Standards and Codes process and to review and update the Recommendations; and
- technical assistance for anti–money laundering had been intensified and in some cases extended to include, for example, the creation of financial intelligence units.

In considering how the IMF could extend its activities to limit the use of financial systems for terrorism financing, and to make its anti-money-laundering work more effective, Directors stressed that the IMF's involvement in these areas should be consistent with its mandate and core areas of expertise. Recognizing that no single agency can resolve the problems independently, they emphasized that the IMF should adopt a disciplined and collaborative approach that respected the expertise, scope, and mandate of other institutions, and that the roles of the various institutions involved should be clarified. Directors reaffirmed that the IMF's primary efforts should be in assessing compliance with financial supervisory principles and providing corresponding technical assistance. They confirmed, in particular, that it would be inappropriate for the IMF to become involved in law enforcement issues.

Directors generally agreed on a set of measures (later known as the IMF's action plan) in response to the challenges facing the institution. In particular, Directors supported:

- Expanding the IMF's involvement beyond anti–money laundering to efforts aimed at countering terrorism financing.
- Expanding the joint IMF/World Bank AML Methodology Document and IMF technical assistance to include aspects relating to anti-terrorism financing. In addition, Directors noted that effective implementation of financial supervisory principles depends on a sound legal framework and on other institutional structures. Thus, most Directors considered it appropriate to expand coverage to legal and institutional issues in the anti-money-laundering methodology. Some Directors considered that the methodology document should eventually cover all the FATF recommendations, both the original 40 (as revised) and the additional 8 on anti–terrorist financing. Several other Directors, however, supported an evolutionary approach whereby the staff would work on expanding coverage of the assessment methodology to these issues while experience in the implementation of the current Methodology Document accumulated.
- Applying the expanded methodology in Offshore Financial Center (OFC) assessments (the pace of which would be speeded up), as well as onshore assessments in the context of Financial Sector Assessment Programs, though they stressed that these assessments should be done on a voluntary basis.
- Circulating to all IMF members over time in the context of Article IV consultations a voluntary questionnaire (based on the expanded AML methodology). This exercise should be seen as a complement to and not as a substitute for FSAPs and OFC assessments, and should inform the Article IV discussions and help set priorities for technical assistance. The results of the exercise could, with the agreement of the member, be made available to the Board.
- Enhancing the IMF's collaboration with the Financial Action Task Force, including by working closely and rapidly with the task force on a suitable assessment process compatible with the uniform, voluntary, and cooperative nature of the ROSC exercise and by contributing to the revision of the FATF 40 Recommendations.
- Increasing relevant IMF technical assistance—but avoiding diversion of assistance resources from their traditional uses—to correct deficiencies in countries' anti-money-laundering and anti-terrorism-financing regimes identified in the course of FSAPs and OFC assessments; and to develop an IMF role in the coordination of such technical assistance.
- Undertaking further research and analysis on relevant issues, including alternative remittance and payment systems, and corporate vehicles.

Directors further agreed that a key element in combating money laundering and terrorist financing was more effective information sharing and cooperation among national authorities and international agencies. They called upon governments to create mechanisms to enable collection and sharing, including cross-border sharing of financial information with appropriate supervisory and law enforcement authorities. Directors stressed that primary responsibility for enforcement of anti-money-laundering and anti-terrorism-financing measures would continue to rest with national authorities.

Directors noted the preliminary estimates of additional resources needed to undertake these tasks. They generally agreed that these estimates could be used as a basis for moving forward. Refining these

Box 3.5

Progress on Anti–Money Laundering and Combating the Financing of Terrorism During FY2002

In a joint progress report to the IMFC in April 2002 on the implementation of their intensified work on Anti–Money Laundering and Combating the Financing of Terrorism (AML/CFT), the IMF and the World Bank reviewed progress in developing assessment methodologies, in intensifying the assessment of members' AML/CFT regimes and offshore financial centers, in research on informal funds transfer systems, in analysis of AML/CFT legal and institutional frameworks, and in building capacity among members (for the last, see Chapter 7 on technical assistance).

Development of AML/CFT Methodologies

Convergence on a single comprehensive AML/CFT methodology. The November 17, 2001, IMFC Communiqué called for enhancing "collaboration with the FATF on developing a global standard covering the FATF recommendations, and working to apply the standard on a uniform, cooperative, and voluntary basis." In response to this call, and to earlier guidance, IMF and Bank staffs have intensified their consultations with the FATF. A single comprehensive methodology for assessing the FATF 40+8 Recommendations has not yet been agreed, although there is substantial convergence at the staff level.

Expanded Methodology Document. A preliminary redraft of the expanded methodology was sent for information to the Boards of the IMF and the Bank in February 2002. It extended an earlier draft: (1) combating the financing-of-terrorism elements were integrated into the assessments along with anti-money-laundering elements; (2) a separate new section was developed to address the adequacy of the legal and institutional AML/CFT framework; and (3) a section covering nonprudentially regulated financial service providers was introduced.

Simultaneously with circulating this expanded methodology to the IMF and Bank Boards, the draft was sent for comments to the standard setters (Basel Committee, IOSCO, IAIS, FATF, and the Egmont Group). As a result of consultations with standard setters, a revised version of the expanded methodology, including additional material from the FATF, was circulated to the Boards of the IMF and Bank before the Spring 2002 Meetings of the IMFC.

Intensification of AML/CFT Assessments

In FSAPs and OFC Assessments. AML/CFT issues are now being addressed in all FSAPs and OFC assessments. FSAP and OFC missions have provided the framework for raising issues and making concrete recommendations to national authorities for action to strengthen their AML/CFT regimes. Among the concerns identified in these assessments have been weak legal and regulatory frameworks for AML/CFT; ineffective implementation of AML/CFT regimes including poor industry awareness; narrow coverage of institutions; limited definition of violations under AML/CFT laws and regulations; and inadequate reporting and evaluation of suspicious activities.

Several countries have already taken actions to strengthen their AML/CFT regimes in response to IMF and Bank recommendations and the assessments conducted in FSAPs and the OFC assessment program. For example, a large offshore financial center conducted a comprehensive review of its AML/CFT policies and implemented a strong action plan to address weaknesses identi-

estimates and including the resource impact of the extra work, together with any possible offsets, would be examined in the budget discussions for the financial year 2003.

Directors believed that this package of further actions by the IMF, taken together, constituted a substantive and measured response to the global challenges by enabling the IMF to make a more useful contribution to combating money laundering and terrorist financing. They requested the staff to keep the Board informed on progress in this area, including on efforts to converge toward a single and comprehensive assessment methodology that was operational for the IMF's work, and to prepare a progress report for the Board by the Spring 2002 Meeting of the International Monetary and Financial Committee (see Box 3.5) as well as a paper on the outcome of the enhanced work program before the 2002 Annual Meetings.

IMFC April 2002 Communiqué

At its April 2002 meeting, the IMFC underscored that international efforts to counter abuse of the international financial system to finance terrorism and launder the proceeds of illegal activities remained a priority. It was encouraged by the response by many countries to its call in November 2001 for all countries to ratify and implement fully the UN instruments to counter terrorism financing, to freeze terrorist assets, and to establish financial intelligence units and ensure the sharing of information. The Committee urged countries that had not as yet done so to fully implement and comply with these instruments. It also welcomed the substantial progress made by the IMF, in close collaboration with the World Bank, in implementing all elements of its action plan to intensify the work on anti–money laundering and combating the financing of terrorism. The Committee noted in particular the good start made in assessing gaps in national AML/CFT regimes, and fully supported the provision of technical assistance to help countries identify and address such gaps.

While reiterating the responsibility of national authorities for combating money laundering and the financing of terrorism, the Committee stressed that success will critically depend on continued vigilance and timely action at the global level. It called on the

fied by the assessment; a major developing country enacted new AML/CFT legislation; another major developing country established a Financial Intelligence Unit and is joining the Egmont Group; and another is upgrading its supervisory capacity on AML/CFT. Further actions are being taken by a number of countries with technical assistance from the IMF and the Bank (see Chapter 7).

The OFC assessment program has been accelerated: IMF staff has agreed with jurisdictions to schedule double the number of Module 2 or Module 3 OFC assessments initiated in 2002 to 20 from the 10 assessments begun in 2001.

AML/CFT in the Context of Article IV Surveillance. Consistent with the call in the IMF Action Plan for expanded attention to AML/CFT issues in Article IV consultations, a specific questionnaire—covering legal, regulatory, supervisory, and institutional aspects of AML/CFT—has been distributed to an initial group of 38 members. Responses are voluntary. The initial group of 38 countries was selected so as to achieve representative geographical coverage, to complement assessments under FSAPs and the OFC assessment program, and to feed into the schedule of Article IV consultations.

Progress on Other Research and Analysis

Informal Funds Transfer Systems. The IMF and the Bank are conducting a study of these systems among various developed, transitional, and developing countries. The goal of the research is to study the technical details and functioning mechanisms of the systems with particular regard to their macroeconomic, financial, and regulatory implications, including their potential use for money laundering and the financing of terrorism.

The first informal funds transfer network examined was the Hawala system. The IMF-Bank fact-finding mission visited six countries (Germany, Pakistan, the Philippines, Saudi Arabia, the United Arab Emirates, and the United Kingdom). The mission examined the factors underlying the development of the Hawala system and the extent of its use as well as its economic and regulatory impact. It found that the system is largely driven by legitimate remittance activity of expatriate communities.

However, its characteristics—mainly anonymity and lack of traceability—have made it vulnerable to criminal activities. Regulation varies considerably from country to country. Although the system is prohibited in some countries (Saudi Arabia), it is permitted by other government authorities even though not necessarily supervised. Some countries (the United Kingdom) require registration. Others (Germany) license system dealers. Further research will be conducted, including on the best way to monitor these systems and constrain their use by criminals. A final report will be prepared in time for the Fall 2002 Annual Meetings.

AML/CFT Legal and Institutional Framework. The IMF's Legal Department has conducted a survey of the AML/CFT legal and institutional frameworks of a broad cross-section of countries using the criteria defined in the draft expanded methodology. The survey relies on publicly available documents and will form the basis for an analytical report, to be completed before the Fall 2002 Annual Meetings.

IMF to make further progress on all elements of its work program, consistent with its mandate and expertise. In particular, efforts should now focus on completing the comprehensive AML/CFT methodology, based on a global standard covering the Financial Action Task Force recommendations, and the development of assessment procedures compatible with the uniform, voluntary, and cooperative nature of the ROSC process. Enhancing the delivery of technical assistance on AML/CFT would also be crucial. The Committee urged the IMF, in cooperating with other international organizations and donor countries, to identify and respond to needs for technical assistance. It looked forward to receiving a full report on progress in this area at its next meeting in September 2002. The Committee called on members to share information on their own actions in this field.

CHAPTER 4

IMF Lending Policies and Conditionality

The IMF provides financial support to member countries under a variety of policies and lending instruments ("facilities"; see Table 4.1). Most forms of IMF financing are made conditional on the recipient country's adopting policy reforms to correct the underlying problems that gave rise to the request for support. During FY2002, the Executive Board continued the review of conditionality it had begun the previous year, working to focus and streamline the conditions attached to IMF financing and to enhance country ownership of reforms.

Besides periodic reexamination of its policies on conditionality, the Board regularly reviews its policy on access to its financial resources. The amount of financing to which a country has access is linked both to its quota in the IMF (a reflection of the country's economic size, openness to the global economy, and other factors) and to the terms of the particular lending window. In FY2002, the Board reviewed the access policy limits under the credit tranches and the Extended Fund Facility.

(For more details of developments in IMF financial operations and policies during the financial year, see Chapter 6.)

Review of Conditionality

The policy conditions under which the IMF extends financing to its member countries are designed to ensure that the country has adopted the reforms needed to address its external balance of payments problems. This practice, known as "conditionality," assures a country that it will continue to receive financing as long as it carries out a reform program's policies or achieves the intended outcome. Conditionality also protects the revolving character of the IMF's resources by extending financing only when the country concerned is committed to policies that will enable it to improve its external position and, hence, repay the IMF.

Conditionality has evolved considerably during the history of the IMF, reflecting the changing circumstances and challenges faced by its members. Over time, IMF-supported programs have increasingly emphasized the importance of economic growth as a policy goal. Programs have also stressed the need to tackle structural economic problems where these hamper a country's efforts to achieve a sustainable balance of payments position. More recently, the IMF has supported programs to deal with capital account crises, with an added emphasis on restoring market confidence; these cases have often called for large access and comprehensive policy packages. Because of this evolution, the IMF has regularly reviewed developments in conditionality.

The latest review began in the fall of 2000 (see *Annual Report 2001*, page 41) and was still in progress at the end of April 2002. A central concern is that if policy conditions are excessively broad and detailed they can undermine a country's "ownership" of its policy program—a key success factor. Thus, the review aims to ensure that conditionality in IMF-supported programs is designed and applied in a way that reinforces national ownership and a country's sustained implementation of its economic reform program. To this end, the review emphasizes that conditionality should focus on those policies that are critical to the macroeconomic goals and set a clearer division of labor between the IMF and other international institutions, especially the World Bank.

During FY2002, the Board made good progress on the review and met to discuss it on four separate occasions—in July and November 2001 and in January and April 2002. In addition, a comprehensive report was delivered to the International Monetary and Financial Committee (IMFC) in April 2002 summarizing the progress made to date in streamlining and focusing conditionality and enhancing the ownership of IMF-supported programs.

Streamlining Structural Conditionality—Initial Experience

In July 2001, the Board reviewed the initial experience with streamlining structural conditionality and considered issues related to coordinating program

conditionality with the World Bank. The Board also took the opportunity to consider comments on conditionality from outside the IMF, which had been solicited through the IMF's website (see Box 4.1) and under a program of seminars held in several major cities.

Board members reviewed the experience in applying an "Interim Guidance Note on Conditionality" that was issued to the staff by the Managing Director in September 2000. (For the text of the guidance note, see *Annual Report 2001*, pp. 42–43.) While noting that the shortness of the period and the limited number of cases precluded drawing firm conclusions, the Directors considered the review useful in highlighting the factors that would shape further progress in streamlining.

The purpose of streamlining and focusing conditionality, Directors affirmed, was to enhance the success and effectiveness of programs by concentrating on those conditions that were critical to achieving a program's macroeconomic objectives, while taking adequate account of national decision-making processes and the administrative capacity to carry out reforms.

Directors agreed that the discussion and feedback from the real-time assessments of new IMF-supported programs brought to the Executive Board would continue to be a key instrument for refining the balance in the scope and detail of IMF conditionality, and they agreed to discuss the role played by the World Bank in each case. They welcomed the focus on the case-by-case coverage of conditionality, and looked forward to its continuation, including the more detailed explanations for including or excluding particular reform measures.

Directors observed that the experience under arrangements supported by the Poverty Reduction and Growth Facility (PRGF) and those supported by other financial policies and facilities had differed, which to some extent reflected the corresponding different arrangements for coordination with the World Bank. For PRGF-supported programs, a division of labor had been established that had permitted a noticeable reduction in the number of conditions in PRGF-supported programs, and a concentration on measures critical to the success of a program and within the IMF's core areas. Under Stand-By Arrangements, where the framework was less formal, the experience was more mixed. However, the small number of cases made it difficult to draw conclusions from the observed differences.

The Board also reviewed IMF and World Bank collaboration on country programs and conditionality. Directors agreed that, to clarify the delineation of responsibilities, it would be useful to identify one institution as the "lead agency" for each policy area. That agency would be responsible for designing and monitoring conditionality. They noted the importance of strengthened and more systematic coordination between the IMF and the World Bank to secure the benefit of the complementary expertise of the two institutions.

Directors stressed that the policy advice, program design, and conditionality supported by the Bank and IMF needed to be consistent, and most Directors agreed that, wherever possible, these should be integrated within a coherent country-led framework. They also agreed that the application of the proposed approach would need to take account of the circumstances of individual countries.

Directors welcomed the extensive comments and suggestions on conditionality received from outside the IMF, including the comments on the papers posted on the IMF's website and those from seminars held in Berlin, Tokyo, and London. Points stressed in those comments included the benefits of national ownership of reform programs, the need to pay attention to the sequence and pace of policy implementation, and the importance of a clear and coherent strategy for assistance from the international community, including the IMF and multilateral development banks.

Box 4.1
IMF Requests Public Comment

In September 2001, the IMF issued a News Brief inviting public comment on a number of papers related to streamlining and focusing IMF conditionality. The papers were posted on the IMF's website and interested parties were invited to send in comments. All comments received by October 15 were conveyed to the IMF Executive Board as background information for its discussion in November 2001 and were taken into account in further work by IMF staff. They were also made public on the IMF website.

Strengthening Country Ownership of Programs

In November 2001, the Board informally reviewed the status of the ongoing efforts related to strengthening country ownership of IMF-supported programs. Directors agreed that, while ownership remained a difficult concept to define for operational purposes, ideally it should reflect a shared vision and an active support of program objectives by the country authorities and the IMF. Directors considered that ownership was present when a country's authorities willingly assumed responsibility for their policies, based on an understanding that the policy program was achievable and was in the country's own interest. At the same time, broader rather than narrower ownership—involving not only the executive branch of a country's government, but also its parliament and other major stakeholders—was desirable.

Table 4.1
IMF Financial Facilities

Credit Facility	Purpose	Conditions	Phasing and Monitoring[1]
Credit Tranches and Extended Fund Facility[4]			
Stand-By Arrangements (1952)	Medium-term assistance for countries with balance of payments difficulties of a short-term character	Adopt policies that provide confidence that the member's balance of payments difficulties will be resolved within a reasonable period	Quarterly purchases (disbursements) contingent on observance of performance criteria and other conditions
Extended Fund Facility (1974) (Extended Arrangements)	Longer-term assistance to support members' structural reforms to address balance of payments difficulties of a long-term character	Adopt 3-year program, with structural agenda, with annual detailed statement of policies for the next 12 months	Quarterly or semiannual purchases (disbursements) contingent on observance of performance criteria and other conditions
Special Facilities			
Supplemental Reserve Facility (1997)	Short-term assistance for balance of payments difficulties related to crises of market confidence	Available only in context of Stand-By or Extended Arrangements with associated program and with strengthened policies to address loss of market confidence	Facility available for one year; frontloaded access with two or more purchases (disbursements)
Contingent Credit Line (1999)	Precautionary line of defense that would be made readily available against balance of payments difficulties arising from contagion	Eligibility Criteria: (1) absence of balance of payments need from the outset, (2) positive assessment of policies by the IMF, (3) constructive relations with private creditors and satisfactory progress in limiting external vulnerability, (4) satisfactory economic program	Resources approved for up to one year. Small amount (5 –25 percent of quota) available on approval but not expected to be drawn. Presumption that one-third of resources are released on activation, with the phasing of the remainder determined by a postactivation review
Compensatory Financing Facility (1963)	Medium-term assistance for temporary export shortfalls or cereal import excesses	Available only when the shortfall/excess is largely beyond the control of the authorities and a member has an arrangement with upper credit tranche conditionality, or when its balance of payments position excluding the shortfall/excess is satisfactory	Typically disbursed over a minimum of six months in accordance with the phasing provisions of the arrangement
Emergency Assistance	Quick, medium-term assistance for balance of payments difficulties related to:		None, although post-conflict assistance can be segmented into two or more purchases
(1) Natural disasters (1962)	(1) natural disasters	(1) Reasonable efforts to overcome balance of payments difficulties	
(2) Post-conflict (1995)	(2) the aftermath of civil unrest, political turmoil, or international armed conflict	(2) Focus on institutional and administrative capacity building to pave the way toward an upper credit tranche arrangement or PRGF	
Facility for Low-Income Members			
Poverty Reduction and Growth Facility (1999) Note: Replaced the Enhanced Structural Adjustment Facility	Longer-term assistance for deep-seated balance of payments difficulties of structural nature; aims at sustained poverty-reducing growth participatory process, and integrating macroeconomic, structural, and poverty reduction policies	Adopt 3-year PRGF program. PRGF-supported programs are based on a Poverty Reduction Strategy Paper (PRSP) prepared by the country in a	Semiannual (or occasionally quarterly) disbursements contingent on observance of performance criteria and reviews

[1]The IMF's lending is financed from the capital subscribed by member countries; each country is assigned a *quota* that represents its financial commitment. A member provides a portion of its quota in foreign currencies acceptable to the IMF—or SDRs—and the remainder in its own currency. An IMF loan is disbursed or drawn by the borrower *purchasing* foreign currency assets from the IMF with its own currency. Repayment of the loan is achieved by the borrower *repurchasing* its currency from the IMF with foreign currency. See Box 6.1 on the IMF's Financing Mechanism.

[2]The *basic rate* of charge on funds disbursed from the General Resources Account (GRA) is set as a proportion of the weekly interest rate on SDRs and is applied to the daily balance of all outstanding GRA drawings during each IMF financial quarter. In addition to the basic rate plus surcharge, an up-front commitment fee (25 basis points on committed amounts up to 100% of quota, 10 basis points thereafter) is charged on the amount that may be drawn during each (annual) period under a Stand-By or Extended Arrangement. The fee is, however, refunded on a proportionate basis as subsequent drawings are made under the arrangement. A one-time service charge of 0.5 percent is levied on each drawing of IMF resources in the General Resources Account, other than reserve tranche drawings, at the time of the transaction.

Access Limit[1]	Charges[2]	Repurchase (Repayment) Terms[3]		
		Obligation schedule (years)	Expectation schedule (years)	Installments
Annual: 100% of quota; cumulative: 300% of quota	Basic rate plus surcharge (100 basis points on amounts above 200% of quota; 200 basis points on amounts above 300%)[5]	3¼–5	2¼–4	Quarterly
Annual: 100% of quota; cumulative: 300% of quota	Basic rate plus surcharge (100 basis points on amounts above 200% of quota; 200 basis points on amounts above 300%)[5]	4½–10	4½–7	Semiannual
No access limits; access under the facility only when access under associated regular arrangement would otherwise exceed either annual or cumulative limit	Basic rate plus surcharge (300 basis points rising by 50 basis points a year after first disbursement and every 6 months thereafter to a maximum of 500 basis points)	2–2½	1–1½	Semiannual
Expected access: 300%–500% of quota	Basic rate plus surcharge (150 basis points rising by 50 basis points at the end of the first year and every 6 months thereafter to a maximum of 350 basis points)	2–2½	1–1½	Semiannual
45% of quota each for export and cereal components. Combined limit of 55% of quota for both components	Basic rate	3¼–5	2¼–4	Quarterly
Generally limited to 25% of quota, though larger amounts can be made available in exceptional cases	Basic rate	3¼–5	Not applicable	Quarterly
140% of quota; 185% of quota in exceptional circumstances	0.5%	5½–10	Not applicable	Semiannual

[3]For purchases made after November 28, 2000, members are expected to make repurchases (repayments) in accordance with the schedule of expectations; the IMF may upon request by a member amend the schedule of repurchase expectations if the Executive Board agrees that the member's external position has not improved sufficiently for repurchases to be made.

[4]*Credit tranches* refer to the size of purchases (disbursements) in terms of proportions of the member's quota in the IMF; for example, disbursements up to 25 percent of a member's quota are disbursements under the *first* credit tranche and require members to demonstrate reasonable efforts to overcome their balance of payments problems. Requests for disbursements above 25 percent are referred to as *upper* credit tranche drawings; they are made in installments as the borrower meets certain established performance targets. Such disbursements are normally associated with a Stand-By or Extended Arrangement. Access to IMF resources outside of an arrangement is rare and expected to remain so.

[5]Surcharge introduced in November 2000.

One theme that emerged from the Board discussion was that the relationship between ownership and conditionality was complex, interactive, and dynamic. While strong conditionality could not compensate for weak ownership, conditionality and ownership could be complementary and mutually supportive. The IMF's experience suggested that conditionality could promote and strengthen ownership, in particular by demonstrating the authorities' commitment to a course of action. Directors agreed that the IMF would need to pay careful attention to each element and the ways in which they interacted. In that regard, early involvement of country authorities in the design of a program, and emphasis on the contribution of surveillance as a platform and foundation for program design, would be important for building and sustaining ownership over the long run. There was general agreement among Board members that the IMF should be open to programs that differed from the staff's preferred options, as long as the core objectives of the program were not compromised.

Directors noted that a key policy dilemma for the IMF was how to respond to requests for financial assistance by members in need whose commitment to reforms might be weak. Because the IMF was a cooperative institution, it would be hard to withhold financial support from members simply because of doubts about program ownership. In such cases, the IMF might need to rely on prior actions and a strengthening of conditionality to assure program implementation. Directors broadly supported the action plan set out by the staff for further improving relations with members applying to use IMF resources. That plan had five principal elements.

- The IMF had to strengthen its analysis of political economy issues to better understand the forces that might block or weaken implementation of programs, develop a more effective dialogue on feasible policy options, and avoid agreeing to programs that had a low probability of success.
- In cases where a country faced long-term structural problems and where the IMF was likely to remain engaged for a considerable period, a country-led process of consensus building was a promising way to strengthen national ownership of effective policies.
- Directors gave broad support to the idea that IMF technical assistance should be given more of a medium- and longer-term focus aimed at capacity building (including program design). Such a shift could make technical assistance a more effective instrument in helping countries take ownership of economic policies.
- The primary responsibility for communicating policy intentions and program content to the public rested with the authorities themselves, but the IMF could play an important supporting role.
- The establishment of the Independent Evaluation Office (IEO) already provided an intensive ex post evaluation of programs. Directors felt that, as the IEO's work unfolded, it should shed light on how ownership affected success rates.

Making Improvements

The Board had a further discussion on the modalities of conditionality in January 2002. Directors considered proposals for greater use of outcomes-based conditionality and floating-tranche disbursements, and reviewed the use of various tools of conditionality, including performance criteria, prior actions, and program reviews guided by indicative targets and structural benchmarks. Directors stressed the need to apply the modalities of conditionality flexibly and to take into account country- and program-specific circumstances, consistent with the objective of enhancing the effectiveness of IMF conditionality through streamlining, focusing, and enhanced ownership. Directors broadly welcomed proposals to base conditionality more on outcomes than on specific actions by the authorities. They noted that providing some financing in floating tranches could enhance flexibility and ownership, while cautioning that the scope for this could be limited. Along with an overall streamlining and focusing of conditionality, Directors agreed that some tools—notably agreeing to waivers and requiring prior actions—should be used more sparingly. As a result, Directors envisaged that program reviews could become even more important, and they noted that this should be accompanied by a clear delineation of the scope of reviews. In some cases, Directors noted, greater selectivity in approving financial arrangements would be preferable to requiring extensive prior actions as a way to address instances of poor performance and limited ownership.

To improve clarity and transparency, Directors stressed the importance of ensuring that the nature and boundaries of the IMF's conditionality be presented clearly in all IMF documents. In this connection, they welcomed the proposal to include in all staff reports on the use of IMF resources a single standardized table showing all the elements of conditionality that would be applied in a given case.

Review of Progress

In its final meeting before the Spring 2002 IMFC Meeting, the Board in early April 2002 took stock of the ongoing review of conditionality. It reviewed experience in implementing the Interim Guidance Note that had been in effect since September 2000. Directors welcomed the increased focus on the core areas of fiscal, financial, and exchange rate policies, and stressed that it was important to retain structural conditions in the fiscal domain. They also noted that

the nature and extent of conditionality continued to vary across countries and that, to a large extent, such differences were appropriate in view of variations in country circumstances and in the nature of IMF support.

While there had been progress in clarifying the scope and rationale for IMF conditionality in program documents, Directors stressed that more could be done to lay out both the macroeconomic goals of programs and the criteria for determining whether particular measures were critical for reaching these goals. In this connection, Board members stressed the importance of the enhanced framework for collaboration with the World Bank. IMF-supported programs should be consistent with an overall country framework, which would often require support from the World Bank and other agencies. The nature and extent of this collaboration would necessarily be more extensive in PRGF countries, where collaboration with the World Bank was closest.

A number of Directors were concerned that the IMF's initiative in streamlining and focusing conditionality might not result in an overall reduction of policy conditions when all international financial institutions were considered and asked that this aspect be monitored. At the same time, other Directors expressed concern that areas no longer covered by IMF conditionality might not be adequately covered by other agencies, particularly the World Bank.

The Managing Director then reported to the International Monetary and Financial Committee on the progress of the review of conditionality, noting that there was a broad consensus on how to streamline and focus conditionality and enhance ownership. This report indicated that the IMF was strengthening collaboration with the World Bank and establishing a track record of well-focused programs.

The report emphasized that successful and lasting implementation of policy reforms was not merely a function of conditionality. More fundamentally, it required a commitment on the part of a country's economic and financial authorities, its political leaders, and other domestic groups, based on their understanding that reforms were in their country's interest.

In the coming months the IMF would bring the review to closure. To this end, the Board would consider new guidelines that would incorporate the conclusions of the conditionality review with the aim of reaching agreement before the Committee's September 2002 meeting. Periodic reviews of conditionality should include assessments of consistency with the guidelines, interaction with the World Bank and other agencies, and transparent presentation and documentation of conditionality. The aim would be to ensure that the IMF remained focused and responsive to its members' needs and that IMF-supported programs had a strong chance of success.

Review of Access Policy

The IMF regularly reviews its policy governing access to its financial resources. This access policy is applied in individual cases based on certain agreed criteria, described below, and on a system of access limits. These limits, which are set on the annual and cumulative use of IMF resources by members, are expressed as a percentage of a member's quota and are generally reviewed annually. The limit on annual access to IMF resources under the credit tranches (typically in the form of Stand-By Arrangements) and the Extended Fund Facility is currently 100 percent of quota, and the limit on the cumulative use of IMF resources is 300 percent of quota. The Board may decide to exceed these limits in exceptional circumstances. In August 2001, the Board completed its review of access policy in the credit tranches and under the Extended Fund Facility.

The review covered both the limits on access and the criteria used to determine access within the limits in individual cases. Directors decided that the current annual and cumulative access limits should be maintained through the end of 2002, and agreed that the criteria for access to IMF resources agreed upon by the Board in 1983 remained appropriate. Directors further agreed that emergency assistance and the Compensatory Financing Facility should remain subject to their own access policies outside the access limits for the credit tranches and Extended Fund Facility.

The Board determined that it should later review its policy involving high access to IMF resources. Most Directors requested that this review consider financing under all facilities—including the Supplemental Reserve Facility—and that it be pursued in tandem with the continuing discussions by the Board on a framework for private sector involvement in the prevention and resolution of balance of payments crises.

Directors discussed a proposal to supplement access limits with an annual access norm, which would serve as an operational benchmark against which access criteria would be applied. They agreed that the proposal should not be pursued, since such a norm could lead to unintended bunching of access levels or be considered an entitlement.

Directors emphasized that proposals for access to IMF resources should be based on careful and explicit justification in staff papers. They encouraged the staff to base access proposals on the agreed access criteria, and to be prepared to propose substantial variation in access within the agreed access limits based on the criteria. Directors noted that the access criteria should also be applied in precautionary arrangements.

CHAPTER 5

Poverty Reduction and Debt Relief for Low-Income Countries

Reducing poverty in low-income countries remains one of the foremost challenges of our time. There is unprecedented agreement in the international community about what needs to be done: a new cooperative partnership between low-income countries and the donor community based on mutual accountability, including more aid for countries with strong and demonstrable commitments to reform, and ensuring a more equitable distribution of the benefits of globalization. The IMF has been a key player in the overall endeavor and has undertaken numerous activities in the past year to reinforce and strengthen its support for low-income countries' reform and development efforts.

Global Economic Environment and IMF's Support for Low-Income Countries

As the year progressed, it became clear that the economic downturn in industrial countries was having an adverse impact on many developing countries, including low-income member countries (those eligible for support under the IMF's Poverty Reduction and Growth Facility, PRGF, and the International Development Association). In the aftermath of September 11, which exacerbated the downturn, the IMF worked with low-income countries to assess the impact of the cyclical situation on external financing needs and necessary responses. The main channels through which the weaker global environment affected low-income countries were the decline in nonfuel commodity prices and the drop in travel and tourism receipts. Lower oil prices, however, helped to lessen the effects of shocks in oil-importing countries, as did strong policy frameworks. In 2001, within this group, sub-Saharan African countries with generally strong policies managed to sustain substantially higher per capita GDP growth than in the region as a whole.

Early analysis and consultation indicated an adverse but manageable impact on the external financing needs of many low-income countries, and IMF staff members continued to monitor the situation through ongoing consultations, including with authorities in more than 50 low-income countries by end-2001. The response to additional needs has been met through a combination of policy adjustment and additional financing from external sources, including modest PRGF augmentation. For 2002 and 2003, the outlook for developing countries was seen as depending heavily on the extent of the recovery in the industrial countries, commodity and oil price movements, and sound policy frameworks. In this uncertain environment, concessional financing by the donor community and the international financial institutions, particularly for countries pursuing good policies, would be an important safety cushion. The Managing Director of the IMF emphasized that the IMF stood ready to help if additional financing needs emerged in 2002.

Overall in 2001, the IMF committed new PRGF loan resources of $2.7 billion, a record high, partly reflecting approval of a few large new arrangements. Projections indicated that new commitments in 2002 could reach $2 billion. If high levels of new commitments continued thereafter, consideration would be needed about mobilizing new PRGF loan and subsidy resources. For subsidizing Post-Conflict Emergency Assistance, the IMF welcomed contributions (as of April 15, 2002, from Belgium, the Netherlands, Sweden, Switzerland, and the United Kingdom) that were sufficient to finance current and most prospective users of the facility (see Chapter 6).

Broader IMF Support for the Global Effort to Reduce Poverty

The Poverty Reduction Strategy Paper (PRSP) approach was devised as the nexus for bringing development partners, in-country and internationally, together to support a country's poverty reduction and growth strategy. This approach—combined with sound policies to promote macroeconomic stability, debt relief under the enhanced Initiative for Heavily Indebted Poor Countries (HIPC), and capacity building through technical assistance—is expected to put countries on a path to sustainable growth and poverty reduction and achievement of the Millennium Devel-

Box 5.1

Millennium Development Goals

All 189 member states of the United Nations have pledged to meet the following Millennium Development Goals by 2015:[1]

- *Curtail extreme poverty and hunger*: cut by half the proportion of people living on less than a dollar a day;
- *Achieve universal primary education*: ensure that all boys and girls complete a full course of primary schooling;
- *Promote gender equality and empower women*: eliminate gender disparity in primary and secondary education—preferably by 2005, and at all levels by 2015;
- *Reduce child mortality*: reduce by two-thirds the mortality rate among children under the age of five;
- *Improve maternal health*: reduce by three-quarters the maternal mortality rate;
- *Combat HIV/AIDS, malaria, and other diseases*: halt and begin to reverse the spread of HIV/AIDS; halt and begin to reverse the incidence of malaria and other major diseases;
- *Ensure environmental sustainability*: integrate the principles of sustainable development into country policies and programs; reverse the loss of environmental resources; reduce by half the proportion of people without sustainable access to safe drinking water; achieve significant improvement in the lives of at least 100 million slum dwellers by 2020; and
- *Develop a global partnership for development*: develop further an open trading and financial system that is rule-based, predictable, and nondiscriminatory (includes a commitment to good governance, development, and poverty reduction—nationally and internationally); address low-income countries' special needs (includes tariff- and quota-free access for their exports; enhanced debt relief for the HIPCs; cancellation of official bilateral debt; and more generous official development assistance for countries committed to poverty reduction); address the special needs of landlocked and small island developing countries; deal comprehensively with developing countries' debt problems through national and international measures to make debt sustainable in the long term; in cooperation with the developing countries, develop decent and productive work for youth; in cooperation with pharmaceutical companies, provide access to affordable essential drugs in developing countries; in cooperation with the private sector, make available the benefits of new technologies (especially information and communications technologies).

[1]Where relevant, 1990 is used as the base year. More information on the Millennium Development Goals and the text of the UN General Assembly's Millennium Declaration can be accessed on the Internet at *www.un.org/millenniumgoals/index.html* and at *www.developmentgoals.com*.

opment Goals (see Box 5.1). The IMF worked proactively during the year to further these ends, through policy dialogue, support under the PRGF and enhanced HIPC Initiative, and technical assistance for capacity building (see below). In parallel with these efforts, the staffs and Executive Boards of the IMF and the World Bank completed a joint review of the PRSP approach. The Executive Boards of the IMF and the World Bank also discussed a paper on actions to strengthen the tracking of poverty-reducing public spending in HIPCs. This paper contained country action plans agreed with IMF and Bank staff to strengthen the capacity of HIPCs to track poverty-reducing public spending in the short and medium term. In addition, the IMF's Executive Board reviewed the implementation of the PRGF and considered the status of implementation of the HIPC Initiative and the HIPCs' achievement of long-term debt sustainability.

Finally, the IMF sponsored—jointly with the World Bank, Asian Development Bank, and the European Bank for Reconstruction and Development—an initiative to help the seven low-income countries of the Commonwealth of Independent States to promote poverty reduction and debt sustainability.

The PRSP Review

In their review of the PRSP approach in March 2002, Directors welcomed the contributions from representatives of low-income countries, international development agencies, and civil society organizations, both in written form and in the context of four regional conferences, as well as an international conference held in Washington in January 2002 (see Box 5.2). The conferences provided an important opportunity for an exchange of views among international partners on the PRSP process, including the role of the IMF in that process, particularly through the PRGF.

The Board's review revealed an encouragingly broad-based endorsement of the PRSP approach as the umbrella framework and vehicle for organizing domestic and international efforts to achieve poverty reduction in low-income countries (see Box 5.3). Directors reaffirmed the underlying principles that national poverty reduction strategies should be country-driven, results-oriented, comprehensive, and long-term in perspective, and should foster domestic and external partnerships that improve the effectiveness of development assistance. The review also underscored the strong ownership of PRSPs among governments,

Box 5.2

International Conference on Poverty Reduction Strategies

Two years after the IMF and the World Bank adopted a new approach to poverty reduction based on broad-based country ownership of policies and programs, an International Conference on Poverty Reduction Strategies was held in Washington, D.C., during January 14–17, 2002. The conference—which brought together representatives from 60 low-income countries, their devlopment partners, and civil society—provided an opportunity to take stock, share experiences and concerns, and fine-tune strategies in order to be better prepared for, and to ensure the achievement of, the programs' objectives. The Poverty Reduction Strategy Paper (PRSP) approach embodies the principles of self-help, country ownership, and accountability. As such, the PRSP experience, its record to date, and means of enhancing its effectiveness were central themes of the discussions.

Prior to the conference, regional forums for low-income countries in Africa, East Asia, Latin America, Eastern Europe, Central Asia, and the Caucasus had brought government officials, parliamentarians, and representatives of civil society and the private sector together with multilateral and bilateral aid organizations to share early experiences on the design and implementation of the PRSP approach. Participants agreed that the early PRSPs had made poverty reduction a central component of policy development in these countries and had broadened participation in the formulation of strategies, as well as identifying the need to diagnose the nature and causes of poverty more systematically.

IMF Managing Director Horst Köhler described the PRSP approach as a work in progress where everyone is learning by doing. While underscoring the importance of self-help efforts to achieve peace, democracy, and good governance, Mr. Köhler stressed the need for official development assistance and encouraged donors to increase funding and better coordinate their aid efforts. In this context, PRSPs can serve as a framework within which to coordinate and direct resources toward antipoverty efforts. Donors have strongly supported the PRSP approach and are increasingly linking their financial assistance strategies to it.

In addition, the IMF is stepping up its efforts to help countries with capacity building, making them better equipped to tackle poverty and achieve sustainable growth (see Chapter 7).

more open dialogue with civil society, and greater prominence of poverty reduction in the policy debate. At the same time, Directors recognized that progress had been uneven, depending on each country's starting point, capacity, and priorities, and that the design and implementation of country-owned poverty reduction strategies was a complex task that taxed countries' limited institutional capacity. The PRSP approach was still evolving, and everyone involved was learning as they went along. The PRSP approach was a long-term approach that required patience, perseverance, and sustained effort.

While progress to date had been encouraging, Directors stressed that there was more that could be done. The main challenges ahead for improving the preparation, content, and implementation of poverty reduction strategies were:

- To encourage and broaden the systematic participation of stakeholders in developing and monitoring PRSPs;
- To strengthen the content and implementation of PRSPs, notably with respect to developing pro-poor growth policies, through greater specificity on macroeconomic targets and linkages between policies and poverty outcomes, systematically undertaking poverty and social impact analyses of major policy choices, and strengthening public expenditure management systems;
- To align donor strategies and assistance fully behind the PRSP approach; and
- To improve monitoring and evaluation of the effectiveness of poverty reduction strategies and progress toward growth and poverty reduction targets, including the Millennium Development Goals where relevant.

Directors noted that participatory processes were beginning to take hold in PRSP countries but that the process needed to be strengthened to include a broad range of domestic stakeholders and development partners. In particular, while government leadership must be respected, there was greater scope for including parliaments, the business community, trade unions and other workers' groups, and groups representing the poor. There was also scope for more openness and transparency in decision making and in the dialogue among governments, stakeholders, and their partners.

The key challenge that remained was to improve the quality of countries' policies and institutions and the political commitment that must underpin sustained implementation. Country poverty reduction strategies, Directors emphasized, needed to focus systematically on how to ensure sustainable pro-poor growth, establish an enabling environment for the private sector, and strengthen the linkages between macroeconomic and structural/sectoral policies and poverty outcomes. Particular attention needed to be placed on designing appropriate measures to respond to both endogenous and exogenous shocks. Public expenditure management systems also needed to be improved to ensure that poverty-reducing spending is effectively delivered and monitored. Finally, Directors stressed the need for development partners to assist countries in undertaking systematic poverty and social impact analysis of major policy choices, and in designing compensatory

measures whenever the adverse effects of policies could not be avoided. In all these areas, there was a complementary agenda for research and the development of better analytical tools.

Donors also needed to better align their assistance behind country-led poverty reduction strategies. There was a pressing need for donors to reduce the cost for low-income countries of mobilizing and utilizing aid, so that both aid resources and limited country capacity could be used more effectively. Directors urged donors to harmonize and simplify procedures and reporting requirements, and to align assistance with national cycles of government decision making, including annual budget cycles. In addition, more information on aid commitments and greater predictability in aid flows, especially to those countries implementing sound policies, would help low-income countries to plan and carry out their strategies.

As countries and development partners gained more experience in the implementation of PRSPs, it would be possible to assess more fully the impact on poverty outcomes and indicators. The success of the PRSP approach would ultimately be judged by results—namely, the delivery of sustainable growth and poverty reduction. At the country level, monitoring and evaluation capacity needed to be strengthened, and attention should be directed to developing indicators that could monitor progress toward key objectives—an area where the assistance of development partners would also be needed.

Review of the Poverty Reduction and Growth Facility

The Board's review of the PRGF in March 2002 allowed the IMF the opportunity to look carefully at the content of recent IMF-supported programs and its work in support of low-income countries. Directors noted that since the facility was introduced in 1999, more than 40 countries have had new PRGF arrangements or have had arrangements under the Enhanced Structural Adjustment Facility (the predecessor of the PRGF) transformed to reflect the new features of the PRGF. Given that it was too early to make an assessment of the PRGF's direct impact on poverty, the review focused on the design of PRGF-supported programs to see if they had met the expectations set out for them (see Box 5.4).

Directors agreed that there had been good progress to date in aligning program design with the goals of the facility. Policy goals, including macroeconomic frameworks in PRGF-supported programs, were generally derived from and consistent with those of PRSPs. There had been an increased allocation of budgetary resources toward poverty-reducing spending, and fiscal frameworks were accommodating higher spending to support country-defined poverty reduction goals. Structural conditionality had been streamlined to focus primarily on measures critical to the success of PRGF-supported programs, and within the IMF's area of expertise, while providing better coordination and definition of the IMF's role vis-à-vis that of the World Bank. The IMF would avoid becoming involved in micromanagement, but would promote the ownership of programs. Directors were of the view that outcomes-based conditionality would give the authorities greater flexibility and accountability in choosing how to achieve the desired results. In short, these efforts at streamlining conditionality were creating greater scope for national choices in program design and implementation.

There was, however, a need to build on this progress in several specific areas:

- An increased focus on the sources of pro-poor growth and the design of policies to facilitate such growth;
- Further efforts to improve the quality and efficiency of government spending;
- More systematic treatment of poverty and social impact analysis;
- Broader and deeper discussion and analysis of macroeconomic frameworks and structural policies;
- Greater emphasis on the risks of program implementation, including those related to growth projections, vulnerability to external shocks, and shortfalls in financing;

Box 5.3
What Is a PRSP?

Poverty Reduction Strategy Papers (PRSPs) are prepared by low-income countries through a participatory process involving domestic stakeholders as well as external development partners, including the IMF and World Bank. Updated periodically (up to five years) with annual progress reports, PRSPs describe the country's macroeconomic, structural, and social policies and programs over a three-year or longer horizon to promote broad-based growth and to reduce poverty, as well as associated external financing needs and major sources of financing.

Recognizing that preparation of a PRSP is a lengthy process, the World Bank and IMF have agreed to provide concessional assistance on the basis of Interim PRSPs. I-PRSPs summarize the current knowledge and analysis of a country's poverty situation, describe the existing poverty reduction strategy, and lay out the process for producing a fully developed PRSP in a participatory fashion.

The country documents, along with the accompanying IMF/World Bank Joint Staff Assessments (JSAs), are made available on the IMF and World Bank websites in agreement with the member country. PRSPs and I-PRSPs, as well as policy documents related to the PRSP approach, can be found on the IMF's website.

Box 5.4

Key Features of Programs Supported by the Poverty Reduction and Growth Facility

As use of the PRGF has evolved, distinctive features of the facility have emerged:

- Broad public participation and increased national ownership;
- Embedding the PRGF in the country's overall strategy for growth and poverty alleviation;
- National budgets that are more favorable to the poor and economic growth;
- Ensuring appropriate flexibility in fiscal targets;
- More selective structural conditionality;
- Emphasis on measures to improve public resource management and accountability; and
- Poverty and social impact analysis of major macroeconomic adjustments and structural reforms.

These features are closely related, and the overall approach is similarly cohesive. Basing a country's PRGF-supported program on the Poverty Reduction Strategy Paper (PRSP) aims to ensure that civil society has been involved in formulating the program, that the national authorities are the clear leaders of the process, and that the program is properly embedded in the country's broader strategy for growth and poverty reduction. IMF staff are required to explain to the Executive Board how PRGF-supported programs derive from the poverty reduction strategy and how they complement the World Bank's activities and conditionality.

An important outcome of the approach is greater attention to the economic aspects of governance. Still, greater emphasis needs to be given to the social impact of major reforms under PRGF-supported programs, including the impact on the poor (normally undertaken by the World Bank or other donors, where governments lack the capacity to do this work themselves). Where necessary, measures to offset harmful effects on the poor should be incorporated in programs. Given improved country ownership, PRGF conditionality can and should be more selective, focusing on measures central to success of the country's strategy, particularly in the macroeconomic and financial areas.

- Better coordination of program design and conditionality with the World Bank; and
- More effective and extensive communications with authorities, donors, and civil society in PRGF countries.

Economic growth was critical for achieving poverty reduction, Directors stressed. Attention to the sources of growth would therefore be essential in developing appropriate policies and projections. It would be important to underpin the growth projections in PRGF-supported programs with better analysis of the associated structural reforms to develop the private sector, improve property rights, increase foreign and domestic investment, enhance external competitiveness, diversify exports, and increase labor productivity. Good governance and strong institutions, moreover, would be important to ensuring growth prospects.

Almost all PRGF-supported programs had placed substantial emphasis on strengthening public expenditure management. But a substantial reform agenda remained, Directors noted, including with respect to the comprehensiveness of budgetary data, executing and reporting budget outcomes, and disseminating this information to the public. For HIPCs, in particular, action plans designed with the collaboration of the IMF and World Bank would need to be implemented to strengthen capacity to track poverty-reducing spending, and public spending more widely (see above). IMF staff are now required to report on the implementation of these action plans in program documents sent to the Executive Board.

Directors welcomed the progress made in incorporating poverty and social impact analysis but indicated that these assessments should be done for more PRGF-supported programs. Documents for more than half of the current programs provide such analyses. Going forward, the approach would be progressively strengthened so that a description of the assessment being carried out in the country—including a qualitative description of the likely impact of major macroeconomic and structural measures on the poor and a summary of countervailing measures being implemented—would become a routine feature of program documentation.

Both the PRSP and PRGF reviews underscored the importance of considering alternative policy choices and the constraints and trade-offs involved. The aim was for PRGF-supported program documentation to set out clearly the program's role in the context of the country's overall poverty reduction strategy, as well as the options that were considered and the commitments made by the authorities in the context of the program. However, in their discussion, Directors stressed that this would need to be done in a manner consistent with demonstrating the IMF staff's support for the program and respecting the need for frank and confidential discussions between IMF staff and the authorities.

In their review of the PRGF, Directors also pointed to the need for better communication among all the partners involved in the development and execution of countries' poverty reduction strategies. In this regard, IMF staff should stand ready to support national authorities in their efforts to explain to a broader audience the analysis on the links between the macroeconomic framework and growth and poverty reduction outcomes in the context of PRGF-supported programs.

The Board's PRGF review underscored the diverse needs of low-income countries for IMF support and

recommended further work on the adequacy of current facilities in meeting these needs. As such, during the coming year the IMF should also examine issues surrounding the structure of the PRGF and how to adapt the current structure of IMF financial assistance for the poorest countries, including those affected by commodity price or other shocks, countries emerging from conflict, and countries with little or no balance of payments need.

HIPC Initiative and Debt Sustainability

Debt relief can contribute to poverty reduction in significant ways. In April 2002 the Executive Board reviewed the status of the HIPC Initiative and the HIPCs' attainment of long-term external debt sustainability. Directors noted that, as of the time of their discussion, 26 countries had reached their decision point under the enhanced HIPC Initiative (see Figure 5.1), with commitments for $40 billion (in nominal terms) of debt relief (see Table 5.1). By cutting the ratio of debt service to exports by about a third, HIPC relief would provide annual budgetary savings for these countries varying between ½ of 1 percent and 1½ percent of GDP, allowing for significant increases in pro-poor spending. Directors expressed concern that, for developing countries as a whole, the recent global economic slowdown, coupled with a significant decline in many primary commodity prices over the past two years, had weakened the HIPCs' growth and export performance. Moreover, the slowdown had led to a deterioration of the external debt indicators for many, but not all, HIPCs. There were considerable differences in the evolution of the debt indicators among the HIPCs, reflecting differences in implementation of economic reform programs and in exposure to shocks. The impact of these unfavorable developments on the outlook for debt sustainability of the HIPCs would depend on a number of factors, notably the adequacy of policy responses and supporting resource transfers. The outlook for the sustainability of external debt had worsened for most of the 21 countries in the interim period (that is, the period between their decision and completion points) at end-April 2002, primarily because of lower exports, but had not necessarily been seriously impaired. The ratio of the net present value of debt to exports at the completion point was projected to be above the 150 percent threshold in 8–10 countries; deviations for 6 of these had already been anticipated at the time of the decision points, although to a lesser degree. For these countries, the debt in excess of the HIPC threshold could range from $0.5 billion to $0.9 billion in net present value terms.

For countries in the interim period, Directors pointed out, the enhanced HIPC Initiative allows some flexibility in exceptional cases to top-up debt relief at the completion point for countries where exogenous factors have caused fundamental changes in their economic circumstances. The enhanced HIPC Initiative thus provides for the possibility of additional debt relief at the completion point. However, Directors stressed that potential additional HIPC relief was not meant to compensate for slippages in policy reform, nor could it be provided on an ongoing basis to deal with future economic shocks. In the near term, to help countries deal with the deterioration in the external environment, some countries might require additional donor support, and increased interim relief might be helpful. Providing any additional debt relief at the completion point would raise the overall costs of the HIPC Initiative, Directors noted, and the financing implications of this would need to be explored in due course. In addition, HIPCs would need to improve their debt-management capacity, with donor assistance.

Capacity Building

Both the PRSP and PRGF reviews underscored that capacity building is critical for full ownership and effectiveness of the reform agenda in PRGF countries as national expertise is developed (including in policy choices, expenditure management, and poverty and social impact analysis). In low-income countries, it is often not a lack of political will that impedes reform but a lack of implementation capacity. Thus, the IMF has continued to strengthen its capacity-building technical assistance and training activities in the institution's core macroeconomic and financial areas of responsibility, including public finance and administration, financial sector development, development of sound statistical systems, and promotion of data dissemination (see Chapter 7). The PRSP approach is increasingly providing a means of coordinating the IMF's efforts with those of other technical assistance providers. Regional initiatives in the Pacific and in the Caribbean are allowing the IMF to make more efficient use of its limited resources for technical assistance, while ensuring that activities are closely aligned with local and regional priorities identified through IMF surveillance and, where available, PRSPs. In this vein, the IMF intends to establish two pilot regional technical assistance centers in sub-Saharan Africa in the second half of 2002 (see Chapter 7), as part of IMF support for the New Economic Partnership for Africa's Development (see Box 5.5). These centers aim to raise the effectiveness of the IMF's technical assistance projects by fostering ownership, enhancing accountability, increasing responsiveness, and strengthening coordination among technical assistance providers.

CIS Initiative

In FY2002 the IMF worked with the World Bank, the Asian Development Bank, and the European Bank for Reconstruction and Development on an Initiative

Figure 5.1
Enhanced HIPC Initiative Flow Chart

First Stage

- Country establishes three-year track record of good performance and develops together with civil society a Poverty Reduction Strategy Paper (PRSP); in early cases, an Interim PRSP may be sufficient to reach the decision point.
- Paris Club provides flow rescheduling on Naples terms, i.e., rescheduling of debt service on eligible debt falling due (up to 67 percent reduction on a net present value (NPV) basis).
- Other bilateral and commercial creditors provide at least comparable treatment.[1]
- Multilateral institutions continue to provide adjustment support in the framework of World Bank- and IMF-supported adjustment programs.

Decision Point

Either ← → *Or*

Paris Club stock-of-debt operation under Naples terms and comparable treatment by other bilateral and commercial creditors
is adequate
for the country to reach external debt sustainability.
=========> Exit
(Country does not qualify for HIPC Initiative assistance.)

Paris Club stock-of-debt operation under Naples terms and comparable treatment by other bilateral and commercial creditors
is not sufficient
for the country to reach external debt sustainability.
=========> World Bank and IMF Boards
determine eligibility for assistance.

↓

All creditors (multilateral, bilateral, and commercial) commit debt relief to be delivered at the floating completion point. The amount of assistance depends on the need to bring the debt to a sustainable level. This is calculated based on latest available data at the decision point.

Second Stage

- Country establishes a second track record by implementing the policies determined at the decision point (which are triggers to reaching the floating completion point) and linked to the (Interim) PRSP.
- World Bank and IMF provide interim assistance.
- Paris Club provides flow rescheduling on Cologne Terms (90 percent debt reduction on NPV basis or higher if needed).
- Other bilateral and commercial creditors provide debt relief on comparable terms.[1]
- Other multilateral creditors provide interim debt relief at their discretion.
- All creditors and donors continue to provide support within the framework of a comprehensive poverty reduction strategy designed by governments, with broad participation of civil society and donor community.

"Floating Completion Point"

- Timing of completion point for nonretroactive HIPCs (i.e., those countries that did not qualify for treatment under the original HIPC Initiative) is tied to at least one full year of implementation of a comprehensive poverty reduction strategy, including macroeconomic stabilization policies and structural adjustment. For retroactive HIPCs (those countries that did qualify under the original HIPC Initiative), the timing of the completion point is tied to the adoption of a comprehensive PRSP.
- All creditors provide the assistance determined at the decision point; interim debt relief provided between decision and completion points counts toward this assistance.
- All groups of creditors provide equal reduction (in NPV terms) on their claims as determined by the sustainability target. This debt relief is provided with no further policy conditionality.
  - Paris Club provides stock-of-debt reduction on Cologne terms (90 percent NPV reduction or higher if needed) on eligible debt.
  - Other bilateral and commercial creditors provide at least comparable treatment on stock of debt.[1]
  - Multilateral institutions provide debt relief, each choosing from a menu of options, and ensuring broad and equitable participation by all creditors involved.

[1] Recognizing the need for flexibility in exceptional cases.

Table 5.1
Progress Status of Countries Under the Enhanced HIPC Initiative, as of end-April 2002

Completion Points Reached (5)	Decision Points Reached (21)		Decision Point Not Yet Reached (12)		Sustainable Cases (4)
Bolivia	Benin	Malawi	Burundi	Lao P.D.R.	Angola
Burkina Faso	Cameroon	Mali	Central African Rep.	Liberia	Kenya
Mozambique	Chad	Mauritania	Comoros	Myanmar	Vietnam
Tanzania	Ethiopia	Nicaragua	Congo, Dem. Rep. of	Somalia	Yemen[1]
Uganda	Gambia, The	Niger	Congo, Rep. of	Sudan	
	Ghana	Rwanda	Côte d'Ivoire[2]	Togo	
	Guinea	São Tomé and Príncipe			
	Guinea-Bissau	Senegal			
	Guyana	Sierra Leone			
	Honduras	Zambia			
	Madagascar				

Sources: HIPC documents; and IMF and World Bank staff estimates.

[1]Yemen reached its decision point in June 2000. Its debt sustainability analysis indicated that the country has a sustainable debt burden after the application of traditional debt relief mechanisms. The Paris Club provided a stock-of-debt operation on Naples terms in July 2001.

[2]Côte d'Ivoire had reached its decision point under the original HIPC Initiative, but has not yet reached its decision point under the enhanced Initiative.

to accelerate growth and poverty reduction in seven low-income countries of the Commonwealth of Independent States (Armenia, Azerbaijan, Georgia, the Kyrgyz Republic, Moldova, Tajikistan, and Uzbekistan) to accelerate growth and poverty reduction. Primary responsibility for intensifying their development and reform efforts would rest with the CIS-7 countries themselves, but the Initiative calls for the international community to provide strong complementary support to countries following sound reform policies—to help these countries strengthen the conditions for growth, poverty reduction, and debt sustainability—both through international and regional institutions and through governments acting bilaterally.

Under the Initiative, the CIS-7 countries would undertake reforms to:

- Promote policy and institutional reform more consistently and resolutely, within the framework of fully participatory poverty reduction strategies;
- Strengthen the capacity of their governments, build greater public accountability, and strive to reduce corruption;
- Ensure macroeconomic stability, promote the transparency of public finances, strengthen tax collection, and adopt appropriate policies (including debt-management policies) to ensure that debt levels are sustainable;
- Implement growth-promoting structural reforms, including energy sector reform (through unbundling, setting tariffs that reflect costs, and eliminating arrears and noncash settlements), maintaining open trade regimes, and creating a favorable investment climate to encourage the growth of small and medium-sized enterprises;
- Target scarce resources to priority social services and safety nets, including by ensuring the adequate provision of health and education services and by acting now to counter the problems of HIV/AIDS, tuberculosis, malaria, and drug trafficking and abuse; and
- Work with their neighbors, with the support of the international community, to resolve conflicts and foster regional cooperation, especially in trade and transit, water, and energy.

The role of trade and development partners and creditors under the Initiative would be to extend support to those CIS-7 countries implementing strong reforms, including:

- More concessional financial support, as well as debt restructuring or debt relief where needed, in conjunction with strong reform programs, so that resources are well used;
- Increased access for CIS-7 countries to industrial countries' markets, and promotion of direct investment;
- Improved coordination between development agencies, anchored in country-led poverty reduction programs; and
- Added support from international and regional institutions through technical assistance, policy advice, and concessional financial assistance (including grants) in support of the reform efforts of the CIS-7 countries.

Support by the International Community

The IMF's work to improve development outcomes in its low-income member countries increasingly takes place within a larger, and complementary, international

Box 5.5
Africa Initiatives

IMF Managing Director Horst Köhler has called for a "two-pillar approach" to the war on poverty. The first pillar is based on the recognition by developing nations that they themselves have primary responsibility for tackling poverty and that this requires a commitment to good governance and accountability. The second pillar is based on increased and better-coordinated support from the industrial countries, and a willingness to open their markets to the exports of poorer nations and remove subsidies.

Mr. Köhler sees African initiatives, such as the New Economic Partnership for African Development (NEPAD), as an integral part of this two-pillar approach. Conceived by leaders from the member states of the Organization of African Unity (OAU), working together to achieve economic growth for all African nations and to reduce widespread poverty, the partnership's core objectives are to:

- encourage peace, democracy, and good governance;
- design and implement action plans to develop key pro-poor sectors: health care, education, infrastructure, and agriculture;
- achieve economic integration at the regional and global levels by building a strong private sector and fostering a climate conducive to domestic and foreign investment; and
- develop more productive partnerships with Africa's bilateral and multilateral development partners.

In order to help sustain the commitment of African nations to growth and poverty reduction, the IMF has launched a complementary Capacity-Building Initiative aimed at strengthening economic governance and the domestic capacity of governments to carry out sound economic poverty-reducing policies. Two new IMF technical assistance centers in sub-Saharan Africa (see Chapter 7) will assist governments to achieve these goals, including through developing effective poverty-monitoring systems, implementing accountability mechanisms, and identifying more effective ways to involve local governments in decision making.

To garner international support, the IMF is calling for more development assistance; thus far, the United States and the European Union have committed to increase their aid to countries with strong policies. Efforts to help African nations achieve economic integration at the regional and global levels include promoting greater involvement of the private sector through initiatives such as investors' councils and motivating investment through sound economic and fiscal frameworks. At the same time, the IMF is strongly encouraging industrial nations to remove subsidies and eliminate trade barriers for African exports.

The IMF has been working hard to promote true national ownership of programs. African countries themselves have shown the way forward by the progress they have made.

- Mozambique and Uganda, once devastated by war, are now among the most rapidly growing African countries.
- In Botswana and Cameroon, revenues from diamonds and oil are being used to help build more diversified economies.
- Mauritius and Tanzania have achieved noteworthy success in promoting stronger private sectors and attracting foreign investment.
- In Burkina Faso, policies to increase agricultural production and cotton exports are raising growth performance and improving the incomes of the rural poor.

The Poverty Reduction Strategy Paper (PRSP) approach is the guiding framework for the IMF's partnership with Africa, acting as a core mechanism to help these nations incorporate regional poverty reduction priorities into their national programs and to coordinate international support. As of end-April 2002, over two dozen countries in sub-Saharan Africa were preparing PRSPs with IMF and World Bank assistance, and 23 African countries had qualified for debt relief under the enhanced HIPC Initiative.

effort. The IMF is committed to help support the Millennium Development Goals agreed by the international community (see Box 5.1). In November 2001, the Managing Director of the IMF and the President of the World Bank proposed, at the Ottawa meetings of the IMF and Bank, a two-pillar approach for fighting global poverty: first, low-income countries must help themselves by implementing sound policies, strengthening institutions, and improving governance; second, for those countries that help themselves, the international community must provide strong support through greater trade opportunities as well as increased, and better delivery of, aid flows. The IMF will also be guided by the "Monterrey Consensus," which emerged from the United Nations Conference on Financing for Development in March in Monterrey, Mexico (see Box 5.6).

The international community must open markets and phase out trade-distorting subsidies, especially in areas where developing countries have a comparative advantage, such as agriculture, processed foods, textiles and clothing, and light manufactures. Greater transparency about and public awareness of the costs of the status quo to the world's poor are especially important if the political ground is to be prepared for serious reform.

In keeping with the outcomes of Monterrey and Doha, the IMF has stepped up its surveillance of issues related to market access (see Chapter 2) in the context of its Article IV consultations with member countries. Low-income countries need support to strengthen their ability to take full advantage of the opportunities of the global market and the multilateral trading system. As a participating agency under the Integrated

Framework for Trade-Related Technical Assistance, the IMF is helping by providing diagnostics of the trade environment in low-income countries, by identifying policy and assistance priorities, and by providing technical assistance in its areas of expertise (see Chapter 7).

Effective monitoring of progress toward the Millennium Development Goals is key to staying on track and for building sustained support for greater international assistance to poor countries. At the global level, a comprehensive and transparent system to monitor progress toward achieving the Millennium Development Goals is being developed, and the IMF has welcomed the efforts being undertaken by the United Nations to this end. The IMF participated in an interagency working group (including the World Bank, OECD, and UN agencies) led by the UN to agree on the targets and indicators to monitor progress toward the Millennium Development Goals. These will form the basis of the UN Secretary-General's first Millennium Report to the General Assembly in September 2002. The IMF's specific input to this global monitoring system is the provision of data on HIPC debt relief and contributions to the monitoring of the indicators on market access (both part of the "global partnership for development" Millennium Development Goal). As part of this process, the respective responsibilities of poor countries and their development partners—donor countries, international institutions, the private sector, and civil society—will need to be identified more clearly. On this basis better accountability can be established.

Box 5.6

Conference on Financing for Development, Monterrey, Mexico

Putting development issues at the center of the global agenda—an important goal of developing and developed nations alike—was the theme of the International Conference on Financing for Development held in Monterrey, Mexico, March 18–22, 2002. The conference served as a catalyst for various elements of the new development partnership being forged among debtor and donor governments, aid organizations, international financial institutions, and the private sector—a partnership based on mutual accountability and commitment to promoting growth and reducing poverty. The Monterrey Conference affirmed that the best way to help developing countries is to improve the environment for international trade. The emphasis on coherence between aid and trade policies echoed the key message of the Doha Declaration of the WTO Ministerial Meeting, held in November 2001 in Doha, Qatar (see Box 2.2 in Chapter 2). The consensus at the Doha Ministerial Conference was that the best defense against aid dependency and recurrent debt problems is to build prosperity by expanding and diversifying exports and attracting foreign direct investment. Estimates of the possible benefits to low-income countries from increased trade are substantially higher than current concessional flows.

The Monterrey Conference welcomed the commitments by the European Union and the United States to increase aid flows but noted that more needs to be done. Well-directed aid, combined with strong reform efforts, can greatly reduce poverty. However, building strong public support in donor countries for increased aid will require greater understanding of aid as an investment in peace, stability, and shared prosperity and—equally important—a demonstration by poor countries that they are putting aid to good use.

The World Summit on Sustainable Development in Johannesburg, South Africa, in late August 2002 is expected to follow up on some of the accomplishments of the Monterrey Conference.

Looking Ahead

The financial year saw slowdown, sudden shocks, and uncertainty—but it also witnessed the arrival of an unprecedented degree of agreement about what is required to overcome world poverty. The Monterrey Consensus defined the right priorities and made it clear that durable progress is not possible without good governance, respect for the rule of law, and policies and institutions that unlock creative energies and promote investment—including foreign direct investment. It also recognized that the international community should provide faster, stronger, and more comprehensive support to those low-income countries that provide this environment.

To meet the Millennium Development Goals, progress must be made simultaneously on many fronts by many actors. The implementation of the Monterrey Consensus should be a next chapter in international efforts to create a better world, and the IMF remains committed to contribute—in its areas of expertise—to this global effort to combat poverty.

CHAPTER 6

Financial Operations and Policies in FY2002

The IMF is a cooperative institution that provides financing to member countries experiencing balance of payments problems. It extends financing through three channels:

Regular Operations. The IMF provides financing from a revolving pool of funds consisting of members' capital subscriptions (quotas) on the condition that the borrower undertake economic adjustment and reform policies to address its balance of payments difficulties. This financing is extended under a variety of policies and facilities designed to address specific balance of payments problems (see Table 4.1). Interest is charged on the loans at market-related rates and with repayment periods that vary depending on the lending policy or facility.

Concessional Financing. The IMF lends at a very low interest rate to poor countries to help them address their balance of payments difficulties by restructuring their economies to promote growth and reduce poverty. The IMF also provides assistance on a grant (no-charge) basis to heavily indebted poor countries to help them achieve sustainable external debt positions. The principal for concessional loans is funded primarily by bilateral lenders to the IMF at market-based rates. Resources to subsidize the rate charged to borrowers, and grants for debt relief, are financed through voluntary bilateral contributions by members and income from the IMF's own resources.

SDRs. The IMF can also create international reserve assets by allocating special drawing rights (SDRs) to members, which can be used to obtain foreign exchange from other members and to make payments to the IMF (21.4 billion SDRs have been allocated). The SDR also serves as the IMF's unit of account and its value is based on a basket of major international currencies. The SDR interest rate is based on market interest rates for the currencies in the valuation basket and serves as the basis for other IMF interest rates.

To promote better understanding of IMF finances, the IMF regularly releases to the public a wide variety of timely and comprehensive data (see Box 6.1).

The key financial developments in FY2002 included:

- An increase in outstanding IMF loans as the slowdown in the world economy contributed to a worsening of the balance of payments difficulties of several members that experienced reduced access to international capital markets.
- Continued efforts to assist the IMF's poorest members with implementation of initiatives to reduce the debt burdens of the heavily indebted poor countries and to focus the IMF's concessional lending activities more explicitly on poverty reduction.
- Commencement by the IMF of a review of the size and distribution of members' capital subscriptions and consideration of a possible general allocation of SDRs.

Box 6.1

Public Information on IMF Finances

In recent years, the IMF has significantly expanded the volume, quality, and timeliness of information available to the public on its finances. During FY2002, a new edition of the IMF's standard pamphlet providing detailed information on its financial structure was published.[1] The IMF also provides background and current data on its financial activities on the IMF's website (*http://www.imf.org/external/fin.htm*), including:

- Current financial position
- IMF liquidity and sources of financing
- SDR valuation and interest rate
- Rates of charge on IMF loans and the interest rate paid to creditors
- Country information on
  - Current lending arrangements
  - Loan disbursements and credit outstanding
  - Loan repayments and projected obligations
  - Arrears
  - SDR allocations and holdings
- Financial statements

[1]Treasurer's Department, *Financial Organization and Operations of the IMF*, IMF Pamphlet Series, No. 45, 6th ed. (Washington: International Monetary Fund, 2001).

Regular Financing Activities

The IMF conducts its regular lending activity through the General Resources Account (GRA), which holds the quota subscriptions of members (see Box 6.2). The bulk of the financing is provided under Stand-By Arrangements, which address members' balance of payments difficulties of a short-term, cyclical nature, and under the Extended Fund Facility (EFF), which focuses on external payments difficulties arising from longer-term structural problems. Loans under Stand-By and Extended Arrangements can be supplemented with short-term resources from the Supplemental Reserve Facility (SRF) to assist members experiencing a sudden and disruptive loss of capital market access. All loans incur interest charges and can be subject to surcharges based on the type and duration of the loan and the amount of IMF credit outstanding. Repayment periods also vary by facility.

Box 6.2

The IMF's Financing Mechanism

The IMF's lending is financed from the paid-in capital subscribed by member countries. Each country is assigned a quota that determines its maximum financial commitment to the IMF. A portion of the quota is provided in the form of reserve assets (foreign currencies acceptable to the IMF or SDRs) and the remainder in the member's own currency. The IMF extends financing by providing reserve assets to the borrower from the reserve asset subscriptions of members or by calling on countries that are considered financially strong to exchange their currency subscriptions for reserve assets (see Box 6.3).

The loan is disbursed or drawn by the borrower "purchasing" the reserve assets from the IMF with its own currency. Repayment of the loan is achieved by the borrower "repurchasing" its currency from the IMF with reserve assets. The IMF levies a basic rate of interest (charges) on loans based on the SDR interest rate (see Box 6.6) and imposes surcharges depending on the type and duration of the loan and the level of credit outstanding.

A country that provides reserve assets to the IMF as part of its quota subscription or through the use of its currency receives a liquid claim on the IMF (reserve position) that can be encashed on demand to obtain reserve assets to meet a balance of payments financing need. These claims earn interest (remuneration) based on the SDR interest rate and are considered by members as part of their international reserve assets. As IMF loans are repaid (repurchased), the amount of SDRs and the currencies of creditor members is restored and the creditor claim on the IMF is extinguished.

The "purchase/repurchase" approach of IMF lending affects the composition, but not the overall size, of the IMF's resources. An increase in loans outstanding will reduce the IMF's holdings of reserve assets and the currencies of members that are financially strong and, at the same time, increase the IMF's holdings of the currencies of countries that are borrowing from the IMF. The amount of the IMF's holdings of reserve assets and the currencies of financially strong countries determines the IMF's lending capacity (liquidity) (see Box 6.4).

Lending

Augmentations of existing arrangements as well as new arrangements for Brazil and Turkey—all in amounts larger than usual—contributed to a sharp rise in new IMF commitments in FY2002. Total commitments increased to SDR 39.4 billion[1] in FY2002 from SDR 13.1 billion in FY2001. The IMF approved nine new Stand-By Arrangements involving commitments totaling SDR 26.7 billion, and commitments to Argentina and Turkey under Stand-By Arrangements already in place were augmented by SDR 12.7 billion. No EFF arrangements were approved in FY2002. (See Table 6.1.)

The largest IMF commitments during the year reflected new Stand-By Arrangements for Brazil and Turkey, including the provision of shorter-term financing under the SRF. In September 2001, a Stand-By Arrangement of SDR 12.1 billion (SDR 10.0 billion under the SRF) was approved for Brazil in support of the government's economic and financial program through December 2002. In February 2002, the IMF approved a three-year, SDR 12.8 billion Stand-By Arrangement for Turkey to support the government's economic program, which replaced the previous arrangement approved in December 1999.

In a continuation of recent trends, a growing volume of IMF financing commitments are being treated as precautionary, with borrowers indicating that they do not intend to draw on the funds committed to them by the IMF. Increased use of precautionary Stand-By Arrangements, as well as other factors such as uncompleted reviews and interrupted programs, resulted in drawings being made under only 16 of the 34 Stand-By and Extended Arrangements in place during the year (see Appendix II, Table II.7). At the end of April 2002, undrawn balances under the 17 Stand-By and Extended Arrangements still in effect amounted to SDR 26.9 billion, about half of the total amount committed (SDR 51.7 billion).

No commitments were made under the IMF's policy for emergency assistance, the Compensatory Financing Facility (CFF), or Contingent Credit Lines (CCLs) during the year.

During the financial year, the IMF disbursed SDR 29.1 billion in loans from its GRA. The amount of new credit exceeded the repayment of loans

[1]As of April 30, 2002, SDR 1 = US$1.267706.

Table 6.1
IMF Financial Assistance Approved in FY2002

Member	Type of Financial Arrangement	Date of Approval	Amount Approved[1] (in millions of SDRs)
Argentina	Augmentation of Stand-By	September 7, 2001	6,351.3
Armenia	Three-year PRGF	May 23, 2001	69.0
Azerbaijan	Three-year PRGF	July 6, 2001	80.5
Brazil[2]	15-month Stand-By	September 14, 2001	12,144.4
Bulgaria	Two-year Stand-By	February 27, 2002	240.0
Cape Verde	Three-year PRGF	April 10, 2002	8.6
Chad	Augmentation of PRGF	January 16, 2002	5.6
Côte d'Ivoire	Three-year PRGF	March 29, 2002	292.7
Ethiopia	Augmentation of PRGF	March 18, 2002	13.0
Ghana	Augmentation of PRGF	June 27, 2001	37.0
Guatemala	One-year Stand-By	April 1, 2002	84.1
Guinea	Three-year PRGF	May 2, 2001	64.3
Kyrgyz Republic	Three-year PRGF	December 6, 2001	73.4
Lithuania	18-month Stand-By	August 30, 2001	86.5
Mali	Augmentation of PRGF	July 26, 2001	4.7
Mongolia	Three-year PRGF	September 28, 2001	28.5
Pakistan	Three-year PRGF	December 6, 2001	1,033.7
Peru	Two-year Stand-By	February 1, 2002	255.0
Romania	18-month Stand-By	October 31, 2001	300.0
Sierra Leone	Three-year PRGF	September 26, 2001	130.8
Turkey	Augmentation of Stand-By	May 15, 2001	6,362.4
	Three-year Stand-By	February 4, 2002	12,821.2
Uruguay	Two-year Stand-By	April 1, 2002	594.1
Yugoslavia, Fed. Rep. of	One-year Stand-By	June 11, 2001	200.0

[1]For augmentations, only the amount of the increase is shown.
[2]Amount agreed includes commitment and amounts remaining available under the SRF.

extended in earlier years. Total repayments were SDR 19.2 billion, including advance repayments by Brazil (SDR 3.3 billion), Korea (SDR 1.9 billion), Russia (SDR 1.9 billion), and Turkey (SDR 4.5 billion). Consequently, IMF credit outstanding at the end of the financial year amounted to SDR 52.1 billion, SDR 9.9 billion higher than a year earlier but some SDR 8.5 billion below the peak attained during the recent financial crises.

A review of IMF facilities completed in FY2001 resulted in a number of important measures affecting the duration and size of future IMF financing under Stand-By and Extended Arrangements (see Chapter 4). The new policies on time-based early repurchase expectations and the level-based interest surcharge apply to drawings made after the date of the decision by the Executive Board (November 28, 2000). As of April 30, 2002, financing amounting to SDR 21.9 billion was subject to early repurchase expectations under these policies; at that time, SDR 11.6 billion was subject to the level-based surcharge.

Resources and Liquidity

The IMF's lending is financed primarily from the fully paid-in capital (quotas) subscribed by member countries in the form of reserve assets and currencies (see Box 6.2).[2] Only a portion of the resources are readily available to finance new lending, however, because of earlier commitments and IMF policies that limit use of the currencies to those of members that are financially strong (see Boxes 6.3 and 6.4). General reviews of IMF quotas are conducted at five-year intervals during which adjustments are proposed in the overall size and distribution of quotas to reflect developments in the world economy. A member's quota can also be adjusted separately from a general review to take account of major developments. The IMF can also borrow to supplement its quota resources.

The IMF's financial position weakened somewhat during the financial year but remained comfortable. On April 30, 2002, the IMF had SDR 64.7 billion in net uncommitted usable resources, compared with SDR 78.7 billion a year earlier. As noted above, a number of new, large Stand-By Arrangements and the augmentation of several existing arrangements resulted

[2]Quotas also determine a country's voting power in the IMF, its access to IMF financing, and its share in SDR allocations.

in a decline of available resources. However, this effect was partly offset by expirations of some arrangements with undrawn balances and by some advance repayments (including by Brazil, Korea, and Russia), both of which increased resources available for new lending. Similarly, the amount of usable resources increased because two countries (Cyprus and Korea) were considered sufficiently strong for their currencies to be newly included on the transfer side of the IMF's financial transactions plan.

Quota Developments

A number of quota-related developments took place during the financial year.

- The Twelfth General Review of Quotas began in December 2001 with the formation of a Committee of the Whole to consider the possible need to increase quotas. As part of this process, the Executive Board held an informal seminar on conceptual issues involved in assessing the adequacy of the IMF's resource base (Box 6.5). Directors noted that the Twelfth Review is being conducted in a context of increased global economic and financial integration, including access by a growing number of countries to private capital markets and greater vulnerability to economic shocks and financial market volatility. At the same time, many countries have improved economic policy and performance, leading to a decrease in vulnerability. There was broad recognition that these diverse factors, as well as the IMF's efforts to adapt its policies to deal with the challenges of globalization, would have important implications for the future demand for IMF financing. However, there was no converging view in the Executive Board on the extent to which, on balance, the various developments could affect the required size of the IMF's resource base.
- The Executive Board also held further discussions on possible revisions of the formulas used in determining members' quotas. Directors expressed a wide range of views on the structure and content of alternative quota formulas. They agreed that further work was needed to develop quota formulas that more fully reflected members' roles in the world economy, though many noted that this was a difficult task because quotas performed a variety of roles. Most Directors agreed that any new quota formula should be simple and transparent, and they generally endorsed the use in quota formulas of variables that had traditionally been considered to reflect the IMF's financial functions (that is, GDP, openness, variability, and, possibly, reserves). However, Directors noted that these variables needed to be modernized to take account of changes in the world economy—in particular, the large and growing role of international capital flows. Most Directors further recognized that issues related to the governance of the IMF were unlikely to be resolved solely through revisions of the quota formulas, although revised formulas that commanded wide support could contribute to the gradual adjustment of quotas. At the same time, many Directors considered that, apart from the choice of formula, it was important to address without delay the situation of countries whose actual quotas were significantly below their calculated quotas. Many Directors underscored the desirability of ensuring the proper representation in the IMF's decision making of developing countries, especially the Fund's poorest member countries, particularly those in Africa.

Box 6.3

Financial Transactions Plan

The IMF extends loans by providing reserve assets from its own holdings and by calling on financially strong countries to exchange the IMF's holdings of their currencies for reserve assets. The members that participate in the financing of IMF transactions in foreign exchange are selected by the Executive Board based on an assessment of each country's financial capacity. These assessments are ultimately a matter of judgment and take into account recent and prospective developments in the balance of payments and reserves, trends in exchange rates, and the size and duration of external debt obligations.

The amounts transferred and received by these members are managed to ensure that their creditor positions in the IMF remain broadly the same in relation to their quota, the key measure of each member's rights and obligations in the IMF. This is achieved in the framework of an indicative quarterly plan for financial transactions. The IMF publishes on its website the outcome of the financial transactions plan for the quarter ending three months prior to publication. As of April 30, 2002, the 40 members listed below were participating in financing IMF transactions.

Australia	Denmark	Korea	Saudi Arabia
Austria	Finland	Kuwait	Singapore
Belgium	France	Luxembourg	Slovenia
Botswana	Germany	Netherlands	Spain
Brunei Darussalam	Greece	New Zealand	Sweden
Canada	Hungary	Norway	Switzerland
Chile	Ireland	Oman	Trinidad and Tobago
China	Israel	Poland	United Arab Emirates
Cyprus	Italy	Portugal	United Kingdom
Czech Republic	Japan	Qatar	United States

Box 6.4

IMF Financial Resources and Liquidity

While the IMF's lending and other transactions are financed primarily from the quota subscriptions of member countries, only a portion of these funds is available to finance new lending. The IMF's *usable resources* consist of its holdings of the currencies of financially strong members included in the financial transactions plan (Box 6.2) and SDRs. Moreover, some of these usable resources will have been committed under existing loans and must be retained for working balances. Thus, the IMF's *net uncommitted usable resources* represent the funds available for new lending and to meet requests for encashment of creditor liquid claims (reserve positions).

The IMF's usable resources are replenished as borrowers repay outstanding loans.

As of April 30, 2002, the IMF's net uncommitted usable resources amounted to SDR 64.7 billion, about 30 percent of total quotas (see Schedule 2 to the financial statements of the General Resources Account in Appendix IX). Detailed information on the IMF's liquidity position is published monthly on the IMF's website.

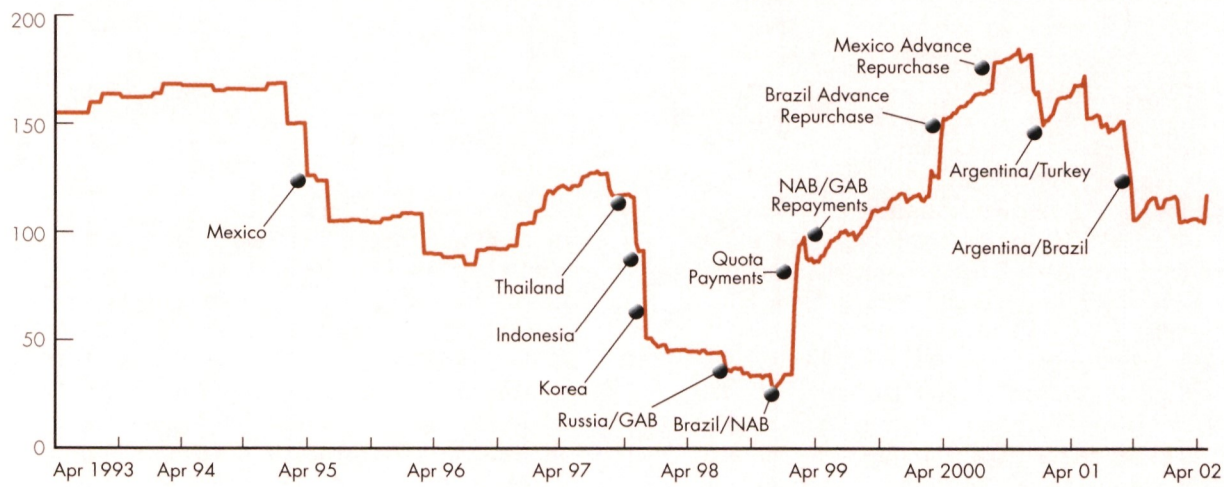
The IMF's two standing *borrowing arrangements*—the New Arrangements to Borrow (NAB) and the General Arrangements to Borrow (GAB)—can provide up to SDR 34 billion in supplementary resources in specified circumstances. Any such borrowing increases the creditor members' reserve positions and thus adds to the IMF's liquid liabilities.

The IMF must maintain sufficient liquidity to meet current and prospective financing needs. A *liquidity ratio,* which is the ratio of the IMF's net uncommitted usable resources to its liquid liabilities, has traditionally been used to assess the IMF's liquidity position. As of April 30, 2002, the liquidity ratio was 117 percent, compared with 168 percent a year before but more than three and a half times the low point prior to the 1999 increase in IMF quotas. (Figure 6.1).

Figure 6.1

IMF Liquidity Ratio, April 1993–April 2002

(In percent)



- As of April 30, 2002, 174 member countries accounting for more than 99 percent of total quotas proposed in 1998 under the Eleventh General Review of Quotas had consented to, and paid for, their quota increases. Three member countries eligible to consent to the proposed increases in their quotas had not done so by the end of the financial year, and six countries were ineligible to consent to their proposed increases because they were in arrears to the IMF. On January 31, 2002, the Executive Board approved an extension of the period for consent to, and payment of, quota increases under the Eleventh Review until July 31, 2002. At the close of the financial year, total quotas amounted to about SDR 212.4 billion.

Concessional Financing

The IMF provides concessional assistance to help its poorest members increase their economic growth and reduce poverty through the Poverty Reduction and Growth Facility (PRGF) and in the context of the Initiative for Heavily Indebted Poor Countries (HIPCs). In FY2002, the mobilization of loan and grant resources for the continuation of the PRGF in the period 2002–2005 and the HIPC Initiative was completed. A total of 36 member countries received PRGF

financing during FY2002, and 26 countries had received financial commitments under the enhanced HIPC Initiative by the end of the financial year.

Poverty Reduction and Growth Facility

The objectives of the IMF's concessional lending were modified in 1999 to include an explicit focus on poverty reduction in the context of a growth-oriented economic strategy. The IMF, along with the World Bank, supports strategies elaborated by the borrowing country in a Poverty Reduction Strategy Paper (PRSP), which is prepared with the participation of civil society and other development partners. Reflecting the new objectives and procedures, the IMF established the PRGF in place of the Enhanced Structural Adjustment Facility (ESAF) to provide financing under arrangements based on PRSPs. The loan commitment capacity of the PRGF is currently estimated to be about SDR 1.1 billion a year through 2005.

During FY2002, the Executive Board approved nine new PRGF arrangements (for Armenia, Azerbaijan, Cape Verde, Côte d'Ivoire, Guinea, the Kyrgyz Republic, Mongolia, Pakistan, and Sierra Leone) with commitments totaling SDR 1.8 billion; in addition, augmentations of existing commitments totaling SDR 66 million were approved for Chad, Ethiopia, Ghana, and Mali (Appendix II, Tables II.5 and II.7). Total PRGF disbursements during FY2002 amounted to SDR 1.0 billion, compared with SDR 0.6 billion in FY 2001. As of end-April 2002, 36 member countries' reform programs were supported by PRGF arrangements, with IMF commitments totaling SDR 4.3 billion and undrawn balances of SDR 2.7 billion.

Financing for the PRGF is provided through trust funds administered by the IMF—the PRGF Trust and PRGF-HIPC Trust—that are separate from the IMF's quota-based resources. Contributions from a broad spectrum of the IMF's membership and the IMF itself constitute the financing of both trusts. The PRGF Trust borrows resources at market or below-market interest rates from loan providers—central banks, governments, and government institutions—and lends them to PRGF-eligible member countries at an annual interest rate of 0.5 percent. The PRGF Trust receives grant contributions to subsidize the rate of interest on PRGF loans and maintains a Reserve Account as security for loans to the Trust. Subsidy resources in both the PRGF Trust and the PRGF-HIPC Trust are available to subsidize PRGF operations, and the PRGF-HIPC Trust also provides resources for HIPC Initiative assistance.[3]

During FY2002, 10 lenders (Table 6.2) made SDR 4.4 billion in new loan resources available to finance future PRGF operations. Consequently, the borrowing limit for loan resources of the PRGF Trust was increased from SDR 11.5 billion to SDR 16.0 billion in September 2001.

The framework for the PRGF envisages that commitments would be financed through 2005 from external sources. The continuation of concessional lending for the period after 2005 will need to be reassessed closer to that time, but a substantial proportion of such lending is expected to be provided from the IMF's own resources accumulating in the PRGF Trust Reserve Account. These resources will become available as PRGF lenders are repaid and the security provided by the Reserve Account is no longer needed.

Enhanced HIPC Initiative

The HIPC Initiative, originally launched by the IMF and World Bank in 1996, was considerably strengthened in 1999 to provide deeper, faster, and broader

Box 6.5
Twelfth Review of Quotas

The IMF normally conducts general reviews of members' quotas every five years to assess the adequacy of its resource base and to provide for adjustments of the quotas of individual members to reflect changes in their relative positions in the world economy. The Twelfth General Review of Quotas formally began in December 2001 and is scheduled to be completed by January 30, 2003.

During the financial year, the Executive Board held a series of discussions to consider issues related to the size and distribution of quotas. A seminar in February 2002 provided an opportunity for a preliminary exchange of views on the implications of developments in the world economy and the evolving role of the IMF for the institution's resource base. A follow-up staff paper will take into account these views and quantify the possible size of the IMF under various scenarios based on new and traditional indicators.

The Executive Board has also considered possible revisions in the formulas used by the IMF in determining quotas of individual members as requested by the IMF Board of Governors at the conclusion of the last quota review. Papers considered by the Executive Board included a report by a group of external experts and an accompanying staff commentary as well as a staff paper discussing basic considerations relating to the choice of variables, formula specification, and weights of variables.

[3]Amendments to the PRGF Trust and the PRGF-HIPC Trust approved in September 2001 provide for the transfer of subsidy resources from the PRGF-HIPC Trust to the Subsidy Account of the PRGF Trust to subsidize the continuation of PRGF lending after subsidy resources currently available in the PRGF Trust are fully utilized.

Table 6.2
New PRGF Loan Resources Committed by Lenders, as of February 21, 2002
(In millions of SDRs)

Belgium	150
China	100
Egypt	56
France	1,000
Germany	1,000
Italy	550
Japan	785
Netherlands	200
Spain	300
Switzerland	250
Total	**4,390**

debt relief for the world's heavily indebted poor countries. By end-April 2002, the IMF and the World Bank had brought 26 HIPC-eligible members to their decision points under the enhanced Initiative and 1 (Côte d'Ivoire) under the original Initiative.

The IMF provides HIPC Initiative assistance in the form of grants or interest-free loans that are used to service part of member countries' debt to the IMF. As of end-April 2002, the IMF had committed SDR 1.6 billion in HIPC Initiative grants to 27 eligible countries (Benin, Bolivia, Burkina Faso, Cameroon, Chad, Côte d'Ivoire, Ethiopia, The Gambia, Ghana, Guinea, Guinea-Bissau, Guyana, Honduras, Madagascar, Malawi, Mali, Mauritania, Mozambique, Nicaragua, Niger, Rwanda, São Tomé and Príncipe, Senegal, Sierra Leone, Tanzania, Uganda, and Zambia). Four members (Bolivia, Burkina Faso, Mozambique, and Tanzania) reached their completion points under the enhanced HIPC Initiative during FY2002. Under the enhanced Initiative, a portion of the resources committed at the decision point can be disbursed before a country reaches its completion point. Such interim assistance from the IMF may be up to 20 percent annually and 60 percent in total (25 percent and 75 percent, respectively, in exceptional circumstances) of the committed amount of HIPC assistance. As of end-April 2002, total disbursements of HIPC Initiative assistance by the IMF amounted to SDR 688.7 million (Table 6.3).

Table 6.3
Commitments and Disbursements of HIPC Initiative Assistance, as of April 30, 2002
(In millions of SDRs)

	Amount[1]			Amount[1]	
Member	**Committed**	**Disbursed**	**Member**	**Committed**	**Disbursed**
Benin	18.4	7.4	Malawi	23.1	2.3
Bolivia	65.5	65.5	Mali	44.4	17.2
Burkina Faso	44.0	33.0	Mauritania	34.8	16.9
Cameroon	28.5	2.5	Mozambique	108.0	108.0
Chad	14.3	2.9	Nicaragua	63.0	—
Côte d'Ivoire[2]	16.7	—	Niger	21.6	1.5
Ethiopia	26.9	4.0	Rwanda	33.8	9.1
Gambia, The	1.8	0.1	São Tomé and		
Ghana	90.1	9.9	Príncipe	—	—
Guinea	24.2	2.4	Senegal	33.8	8.2
Guinea-Bissau	9.2	0.5	Sierra Leone	98.5	23.6
Guyana	56.2	31.7	Tanzania	96.4	96.4
Honduras	22.7	4.5	Uganda	121.7	121.7
Madagascar	16.6	2.1	Zambia	468.8	117.2
Twenty-seven members, of which 26 are under the enhanced HIPC framework[2]				**1,582.9**	**688.7**

[1]Amounts may include interest on assistance committed but not disbursed during the interim period.

[2]Côte d'Ivoire reached its decision point under the original HIPC Initiative.

Financing of the HIPC Initiative and PRGF Subsidies

The financing of the IMF's participation in the enhanced HIPC Initiative and the subsidy requirements of the PRGF are administered through the PRGF-HIPC Trust and the PRGF Trust, respectively. The total resources required for these purposes are estimated at SDR 7.5 billion, of which HIPC Initiative assistance is estimated to amount to about SDR 2.2 billion and the cost of subsidies for PRGF lending is estimated at SDR 5.3 billion.

These resource requirements are expected to be fully met by bilateral contributions from member countries and by the IMF.

Bilateral pledges for the PRGF-HIPC Trust and the Subsidy Account of the PRGF Trust from member countries amount to about SDR 3.8 billion and come from a wide cross-section of the IMF's membership, demonstrating the broad support for the HIPC and PRGF initiatives. Altogether, 93 countries have pledged support: 27 advanced countries, 57 developing countries, and 9 countries in transition. As of end-April 2002, total effective bilateral contributions amounted to SDR 3.7 billion, of which contributions to the PRGF-HIPC Trust amounted to SDR 1.2 billion (Appendix II, Table II.11).

The IMF's own contributions amount to SDR 2.6 billion, of which the contributions to the PRGF-HIPC Trust amount to SDR 2.2

billion. The bulk of this contribution—SDR 1.76 billion—comes from investment income on the net proceeds generated from off-market transactions of 12.9 million troy ounces of gold. The off-market transactions were completed in April 2000, generating net proceeds of SDR 2,226 million. These funds have been placed in the Special Disbursement Account (SDA) and invested for the benefit of the HIPC Initiative.

The IMF also contributes about SDR 0.8 billion by means of a one-time transfer from the SDA and by foregoing compensation from the PRGF Reserve Account for the administrative expenses related to PRGF operations for the financial years 1998 through 2004, with the equivalent amount being instead transferred to the PRGF-HIPC Trust. In addition, part of the interest surcharge on financing provided in 1998 and 1999 under the Supplemental Reserve Facility related to activation of the New Arrangements to Borrow was also transferred to the PRGF-HIPC Trust. The contributions by the IMF's membership and the IMF itself are expected to be supplemented by investment income earned on such contributions.

Investment of SDA, PRGF, and PRGF-HIPC Resources

In March 2000, the IMF initiated a new investment strategy for SDR 6.4 billion in resources supporting the PRGF and HIPC initiatives with the objective of supplementing returns over time while maintaining prudent limits on risk. Supplemental income will be used to help meet the financial requirements of the PRGF and HIPC initiatives.

Under the new approach, the maturity of investments was lengthened by shifting the bulk of assets previously invested in short-term SDR-denominated deposits with the Bank for International Settlements (BIS) to portfolios of bonds and other medium-term instruments structured to reflect the currency composition of the SDR basket. Remaining short-term deposits are held at a level sufficient to meet liquidity requirements and to conform with the administrative arrangements agreed with certain contributors.

The performance benchmark for the portfolio of bonds and medium-term instruments is a customized index comprising one- to three-year government bond indices for Germany, Japan, the United Kingdom, and the United States, with each market weighted to reflect the currency composition of the SDR basket. Regular portfolio rebalancing ensures that the currency composition of the investment portfolio matches as closely as practicable the currency composition of the SDR basket. Following a temporary shortening of the average maturity of the portfolio in mid-January 2002, the benchmark was also changed temporarily to a customized index based on three-month deposit rates and zero-one year government bonds. The new strategy is implemented on the IMF's behalf by the BIS, the World Bank, and three private investment managers.

In the 24 months since its inception, the new investment strategy added 392 basis points (on an annualized basis, net of fees) to returns over the previous approach of investing in SDR-denominated deposits and generated supplemental income of SDR 250 million in support of PRGF and PRGF-HIPC operations.

Table 6.4
Contributions to Subsidize Post-Conflict Emergency Assistance, as of April 30, 2002
(In millions of SDRs)

Contributor	Contribution Pledged	Contribution Received	Subsidy Disbursed
Belgium	1.0	—	—
Netherlands	1.6	—	—
Sweden	0.8	0.8	0.2
Switzerland	0.8	—	—
United Kingdom	2.8	0.6	0.6
Total	**7.0**	**1.4**	**0.8**

Post-Conflict Emergency Assistance

The IMF provides emergency assistance to countries that are emerging from conflict through loans subject to the IMF's basic rate of charge. An administered account was established on May 4, 2001, to accept contributions by bilateral donors that would enable the IMF to provide such assistance at a concessional rate of charge of 0.5 percent for PRGF-eligible members.[4] As of April 30, 2002, Sweden and the United Kingdom had provided grants to the account, and Belgium, the Netherlands, and Switzerland had also committed to providing such resources. Total pledged grant contributions amounted to about SDR 7 million, of which SDR 1.4 million had been paid. Disbursements totaled SDR 0.8 million to subsidize the rate of charge on post-conflict emergency assistance for six countries (Albania, the Republic of Congo, Guinea-Bissau, Rwanda, Sierra Leone, and Tajikistan) (Table 6.4).

Special Drawing Rights

The SDR is a reserve asset created by the IMF in 1969 and allocated to members in proportion to their IMF

[4]If, in any quarter, the assets of the account are insufficient to subsidize the charge of all subsidy beneficiaries to ½ of 1 percent on an annual basis, the subsidy to each beneficiary will be prorated to bring the effective rate of charge paid after subsidization to the closest common percentage to ½ of 1 percent.

Box 6.6
SDR Valuation and Interest Rate

Valuation. The value of the SDR is based on the weighted average of the values of a basket of major international currencies. The method of valuation is reviewed at five-yearly intervals. The latest review was completed in FY2001, and the Executive Board decided on a number of changes to take account of the introduction of the euro as the common currency for a number of European countries and the growing role of international financial markets. Currencies included in the valuation basket are among the most widely used in international transactions and widely traded in the principal foreign exchange markets. Currencies selected for inclusion in the SDR basket for the period 2001–05 are the U.S. dollar, the euro, the Japanese yen, and the pound sterling (Table 6.5).

Interest rate. The IMF also reviewed the method for determining the SDR interest rate in FY2001 and decided to continue to set the weekly interest rate on the basis of a weighted average of interest rates on short-term instruments in the markets of the currencies included in the SDR valuation basket. However, the financial instruments used to determine the representative interest rate for the euro and the Japanese yen were modified to reflect financial market developments. The SDR interest rate evolved during the year in line with developments in the major money markets, declining during the first three quarters of the year and stabilizing thereafter, averaging 2.79 percent over the course of FY2002 (see Figure 6.2).

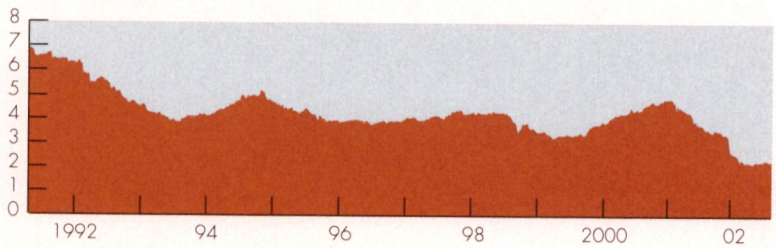
Table 6.5
SDR Valuation
(As of April 30, 2002)

Currency	Amount of Currency Units	Exchange Rate[1]	U.S. Dollar Equivalent
Euro	0.4260	0.90110	0.383869
Japanese yen	21.0000	128.45000	0.163488
Pound sterling	0.0984	1.45680	0.143349
U.S. dollar	0.5770	1.00000	0.577000
			1.267706

Memorandum:
SDR 1 = US$1.267706
US$1 = SDR 0.788826

[1]Exchange rates in terms of U.S. dollars per currency unit except for the Japanese yen, which is currency units per U.S. dollar.

Figure 6.2
SDR Interest Rates, 1992–2002
(In percent)



quotas to meet a long-term global need to supplement existing reserve assets. A member may use SDRs to obtain foreign exchange reserves from other members and to make payments to the IMF. Such use does not constitute a loan; members are allocated SDRs unconditionally and may use them to meet a balance of payments financing need without undertaking economic policy measures or repayment obligations. However, a member that makes net use of its allocated SDRs pays the SDR interest rate, while a member that acquires SDRs in excess of its allocation receives interest at the SDR rate. A total of SDR 21.4 billion has been allocated to members, including SDR 9.3 billion in 1970–72 and SDR 12.1 billion in 1978–81. The value of the SDR is based on the weighted average of the values of a basket of major international currencies and the SDR interest rate is an average of interest rates on short-term instruments in the markets of the currencies in the valuation basket (see Box 6.6). The SDR also serves as the unit of account for the IMF, and the SDR interest rate provides the basis for calculating the interest charges on regular IMF financing and the interest rate paid to members that are creditors to the IMF.

- *General allocations of SDRs.* Decisions on general allocations are made in the context of five-year basic periods and require a finding that an allocation would meet a long-term global need to supplement existing reserve assets. A decision to allocate SDRs requires an 85 percent majority of the total voting power. During the financial year, the IMF Executive Board considered whether to undertake a general allocation of SDRs in light of current and prospective conditions in the world economy. A number of Directors argued that the constellation of factors relevant to consideration of an SDR allocation was stronger today than it had been for many years, and in this regard they pointed to the difficulty and high cost of obtaining reserves through borrowing in more risk-averse capital markets. Other Directors emphasized that the global need for reserve supplementation had to be consid-

ered in a medium-term perspective. According to this view, current projections for the evolution of the world economy over the five years of the next basic period did not support the case for an SDR allocation. Consequently, the Managing Director reported to the IMF Board of Governors that there was not sufficiently broad support to make a specific proposal for an SDR allocation during the eighth basic period. However, in view of the interest in further consideration of the issues, the Managing Director indicated the intention to bring the issue of a general allocation of SDRs before the Executive Board for further discussion when appropriate.

- *Special one-time allocation.* In September 1997, the IMF Board of Governors proposed an amendment to the Articles of Agreement to allow a special one-time allocation of SDRs to correct for the fact that more than one-fifth of the IMF membership has never received an SDR allocation. The special allocation of SDRs would enable all members of the IMF to participate in the SDR system on an equitable basis and would double cumulative SDR allocations to SDR 42.87 billion. The proposal will become effective when three-fifths of the IMF membership (110 members) having 85 percent of the total voting power have accepted the proposal. As of April 30, 2002, 118 members having 73 percent of the total voting power had agreed and only the acceptance by the United States was required to implement the proposal.
- *SDR operations and transactions.* All SDR transactions are conducted through the SDR Department. SDRs are held largely by member countries with the balance held in the IMF's GRA and by official entities prescribed by the IMF to hold SDRs. Prescribed holders do not receive SDR allocations but can acquire and use SDRs in operations and transactions with IMF members and with other prescribed holders under the same terms and conditions as IMF members.[5] Transactions in SDRs are facilitated by 13 voluntary arrangements under which the parties stand ready to buy or sell SDRs for currencies that are readily usable in international transactions, provided that their own SDR holdings remain within certain limits. These arrangements have helped ensure the liquidity of the SDR system.[6]

The total level of transfers of SDRs continued to decrease in FY2002—to SDR 14.0 billion, compared with SDR 18.7 billion in the previous year and the peak of SDR 49.1 billion in FY1999, when the volume of SDR transactions increased significantly because of payments for the quota increase (see Table 6.6). By end-FY2002, the IMF's own holdings of SDRs, which had risen sharply as a result of payments for quota subscriptions in 1999, had fallen to SDR 1.5 billion from SDR 2.4 billion a year earlier, in the targeted range of SDR 1.0–1.5 billion in which the IMF seeks to maintain its SDR holdings. SDRs held by prescribed holders amounted to SDR 0.4 billion. Consequently, SDR holdings by participants increased to SDR 19.6 billion from SDR 18.7 billion in FY 2001. SDR holdings of the industrial and net creditor countries relative to their net cumulative allocation increased from a year earlier. This increase was mainly due to large interest (remuneration) payments made to those members. SDR holdings of nonindustrial members increased to 56.9 percent of their net cumulative allocations from 54.6 percent a year earlier.

Income, Charges, Remuneration, and Burden Sharing

The IMF, like other financial institutions, earns income from interest charges and fees levied on its loans and uses the income to meet funding costs and pay for administrative expenses. The IMF's reliance on capital subscriptions and internally generated resources provide some flexibility in setting the basic rate of charge. However, the IMF also needs to ensure that it provides creditors with a competitive rate of interest on their IMF claims. As an additional safeguard, the IMF's Articles of Agreement set limits on the interest rate paid to creditors in relation to the SDR interest rate.

The basic rate of charge on regular lending is determined at the beginning of the financial year as a proportion of the SDR interest rate to achieve an agreed net income target for the year. This rate is set to cover the cost of funds and administrative expenses as well as add to the IMF's reserves. The specific proportion is based on projections for income and expenses for the year and can be adjusted at midyear in light of actual net income and if income for the year as a whole is expected to deviate significantly from the projections. At the end of the year, any income in excess of the tar-

[5]There are 16 prescribed holders of SDRs: 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, European 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 European Central Bank became the latest prescribed holder on November 15, 2000.

[6]Under the designation mechanism, participants whose balance of payments and reserve positions are deemed sufficiently strong may be obliged, when designated by the IMF, to provide freely usable currencies in exchange for SDRs up to specified amounts. Owing to the existence of voluntary arrangements, the designation mechanism has not been used since 1987.

Table 6.6
Transfers of SDRs
(In millions of SDRs)

	Financial Years Ended April 30								
	1994	1995	1996	1997	1998	1999	2000	2001	2002
Transfers among participants and prescribed holders									
Transactions by agreement[1]	3,122	8,987	8,931	7,411	8,567	13,817	6,639	5,046	3,669
Prescribed operations[2]	406	124	1,951	88	86	4,577	293	544	290
IMF-related operations[3]	436	301	704	606	901	756	684	922	866
Net interest on SDRs	121	174	319	268	284	289	214	302	228
Total	**4,085**	**9,586**	**11,905**	**8,372**	**9,839**	**19,439**	**7,831**	**6,814**	**5,053**
Transfers from participants to General Resources Account									
Repurchases	642	1,181	5,572	4,364	2,918	4,761	3,826	3,199	1,631
Charges	1,425	1,386	1,985	1,616	1,877	2,806	2,600	2,417	2,304
Quota payments	71	24	70	—	—	8,644	528	65	—
Interest received on General Resources Account holdings	336	262	53	51	44	35	138	118	56
Assessments	4	4	4	4	4	3	3	2	2
Total	**2,478**	**2,857**	**7,683**	**6,035**	**4,844**	**16,249**	**7,094**	**5,800**	**3,993**
Transfers from General Resources Account to participants and prescribed holders									
Purchases	2,676	5,970	6,460	4,060	4,243	9,522	3,592	3,166	2,361
Repayments of IMF borrowings	300	862	—	—	—	1,429	—	—	—
Interest on IMF borrowings	162	97	—	—	—	46	18	—	—
In exchange for other members' currencies– Acquisitions to pay charges	166	99	49	224	20	545	1,577	1,107	1,130
Remuneration	958	815	1,092	1,055	1,220	1,826	1,747	1,783	1,361
Other	108	51	259	27	90	74	1,008	31	93
Total	**4,370**	**7,894**	**7,859**	**5,366**	**5,574**	**13,442**	**7,942**	**6,087**	**4,945**
Total transfers	**10,933**	**20,336**	**27,448**	**19,773**	**20,256**	**49,130**	**22,867**	**18,702**	**13,991**
General Resources Account holdings at end of period	**6,038**	**1,001**	**825**	**1,494**	**764**	**3,572**	**2,724**	**2,437**	**1,485**

[1]Transactions by agreement are transactions in which participants in the SDR Department (currently all members) and/or prescribed holders voluntarily exchange SDRs for currency at the official rate as determined by the IMF. These transactions are usually arranged by the IMF.

[2]Operations involving prescribed SDR holders. A prescribed SDR holder is a nonparticipant in the SDR Department that has been prescribed by the IMF as a holder of SDRs.

[3]Operations in SDRs between members and the IMF that are conducted through the intermediary of a prescribed holder are referred to as "IMF-related operations." The IMF has adopted a number of decisions to prescribe SDR operations under the Trust Fund, the SFF Subsidy Account, the SAF, the ESAF, the PRGF, and the HIPC Initiative.

get is refunded to the members that paid interest charges during the year and shortfalls are made up in the following year.

The IMF imposes level-based surcharges on credit extended after November 28, 2000, to discourage unduly large use of credit in the credit tranches and under Extended Fund Arrangements. The IMF also imposes surcharges on shorter-term loans under the SRF and CCL that vary according to the length of time credit is outstanding. Income derived from surcharges is placed in the IMF's reserves and is not taken into account in determining the income target for the year.

The IMF also receives income from borrowers in the form of service charges, commitment fees, and special charges. A one-time service charge of 0.5 percent is levied on each loan disbursement from the General Resources Account. A refundable commitment fee is charged on Stand-By and Extended Fund Facility credits, payable at the beginning of each 12-month period, on the amounts that may be drawn during that period, including amounts available under the SRF or CCL. The fee is 0.25 percent on amounts committed up to 100 percent of quota and 0.10 percent for amounts exceeding 100 percent of quota. The commitment fee is refunded when credit is used in proportion to the drawings made. The IMF also levies special charges on overdue principal payments and charges that are overdue by less than six months.

The IMF pays interest (remuneration) to creditors on their IMF claims (reserve positions) based on the

SDR interest rate. The basic rate of remuneration is currently set at 100 percent of the SDR interest rate (the maximum permitted), but the IMF's charter allows it to be set as low as 80 percent of the SDR interest rate (the lower limit).

Since 1986, the rates of charge and remuneration have been subject to a burden-sharing mechanism that distributes the cost of overdue financial obligations between creditor and debtor members. Loss of income from unpaid interest charges overdue for six months or more is recovered through upward adjustments to the rate of charge and downward adjustments to the rate of remuneration. The amounts thus collected are refunded when the overdue charges are settled. Additional adjustments to the basic rates of charge and remuneration are made to generate resources for a Special Contingent Account (SCA-1), which was established specifically to protect the IMF against the risk of loss resulting from overdue obligations. Resources in the SCA-1 are refundable after all arrears have been eliminated but can be refunded earlier by a decision by the IMF. In FY2002, the combined adjustment for unpaid interest charges and the allocation to the SCA-1 resulted in an increase to the basic rate of charge of 14 basis points and a reduction in the rate of remuneration of 15 basis points. The adjusted rates of charge and remuneration averaged 3.39 percent and 2.65 percent, respectively, for the financial year.

In April 2001, the basic rate of charge for FY2002 was set at 117.6 percent of the SDR interest rate to achieve the agreed income target. The IMF's net income, net of refunds of interest charges (see below), in FY2002 totaled SDR 360 million. This included income from surcharges of SDR 314 million, net of the annual expenses of administering the PRGF Trust. As initially agreed in FY1998, the IMF was not reimbursed for the expenses of administering the PRGF Trust in FY2002; instead, an equivalent amount (SDR 62 million) was transferred from the PRGF Trust through the Special Disbursement Account to the PRGF-HIPC Trust. As agreed at the beginning of the financial year, SDR 17 million of net income in excess of the income target was returned to members that paid interest charges at the end of FY2002, retroactively reducing the FY2002 rate of charge to 116.4 percent of the SDR interest rate. In addition, SDR 94 million generated through the burden sharing mechanism described above was placed in the SCA-1.

Following the retroactive reduction in the rate of charge, SDR 360 million was added to the IMF's reserves, of which SDR 314 million of surcharge income went to the General Reserve and the remainder to the Special Reserve. Total reserves rose to SDR 3.6 billion as of April 30, 2002, from SDR 3.3 billion a year earlier.

In April 2002, the Executive Board decided to continue the financial mechanism in place and set the basic rate of charge for FY2003 at 128.0 percent of the SDR interest rate.

Safeguarding IMF Resources and Dealing with Arrears

The IMF's efforts to safeguard its resources were strengthened in FY2002 by expanding and making permanent the process of Safeguards Assessments introduced in 2000 to improve the internal control, accounting, reporting, and auditing systems of the central banks of countries making use of IMF resources. Moreover, the legal and operational framework for dealing with misreporting of information was extended to include the HIPC Initiative. Finally, the IMF's strategy for dealing with arrears was also extended to PRGF loans, and the timeliness of public disclosure of arrears cases was improved.

Safeguards Assessments

In FY2002, the IMF continued to intensify efforts to safeguard its resources by conducting Safeguards Assessments of borrowing member countries' central banks, typically the recipients of IMF disbursements. Safeguards Assessments, which had been introduced in March 2000 on an experimental basis, were adopted as a permanent IMF policy by the Executive Board in March 2002 (see Box 6.7). The safeguards policy, initiated against the background of several instances of misreporting to the IMF and allegations of misuse of IMF resources, aims at supplementing conditionality, technical assistance, and other means that have traditionally ensured the proper use of IMF loans. In particular, Safeguards Assessments aim to provide reasonable assurance to the IMF that a central bank's framework of reporting and controls is adequate to manage resources, including IMF disbursements.

Safeguards Assessments apply to all countries with arrangements for use of IMF resources approved after June 30, 2000. Member countries with arrangements in effect before June 30, 2000 were subject to an abbreviated assessment that examined only one key element of the safeguards framework, namely that central banks publish annual financial statements that are independently audited by external auditors in accordance with internationally accepted standards. Although Safeguards Assessments do not formally apply to countries with Staff Monitored Programs (SMPs), countries under an SMP are encouraged to undergo an assessment on a voluntary basis, because in many cases these programs are followed by a formal arrangement with the IMF. In FY2002, 49 Safeguards Assessments were completed, including those subject to an abbreviated assessment.

Box 6.7

IMF Executive Board Reviews Experience with Safeguards Assessments

In March 2002, the Executive Board reviewed the safeguards framework and the collective experience with Safeguards Assessments since the implementation of the policy in March 2000. The Executive Board was assisted by a panel of eminent external experts who independently evaluated the effectiveness of the new policy.

The Executive Board, noting that central banks had widely embraced the findings of Safeguards Assessments, declared the introduction of the safeguards policy an unqualified success and adopted the safeguards framework as a permanent policy. The review of experience with Safeguards Assessments demonstrated that the policy had enhanced the IMF's reputation and credibility as a prudent lender, while helping to improve the operations and accounting procedures of central banks. The findings of Safeguards Assessments indicated that significant, but avoidable, risks to IMF resources may have existed in certain cases and the Executive Board welcomed the steps that many central banks had taken to mitigate identified vulnerabilities.

Safeguards Assessments have revealed that, despite improvements in central banks' safeguards over the past few years, significant vulnerabilities remain in the controls employed by a number of central banks of borrowing member countries. The identified vulnerabilities could lead to possible misreporting to the IMF or misuse of central bank resources, including IMF disbursements. In particular, Safeguards Assessments revealed that (1) a substantial number of central banks' financial statements were not subject to an independent and external audit conducted in accordance with internationally accepted standards; (2) several central banks had poor controls over foreign reserves and data reporting to the IMF; and (3) a number of central banks had adopted an unclear financial reporting framework and inadequate accounting standards.

The review of experience with Safeguards Assessments resulted in several enhancements to the policy, including the strengthening of internal and external communications during the safeguards process and removing the distinction between Stage One (off-site) and Stage Two (on-site) assessment reports. Also, the coverage of Safeguards Assessments was extended slightly to cover member countries that augment an existing IMF arrangement or that have a Rights Accumulation Program. Safeguards Assessments will continue to be a requirement for all new IMF arrangements, even where a previous assessment has been conducted. However, it is expected that the main focus of the safeguards work will shift from initial Safeguards Assessments to the monitoring of previous assessments.

The staff's and the expert panel's papers supporting the review by the Executive Board of experience with Safeguards Assessments, a summary of the Executive Board's discussion, and additional background information are available on the IMF website.

Safeguards Assessments follow an established set of procedures to ensure consistency in application. All central banks subject to an assessment provide a standard set of documents to IMF staff members, who review the information and communicate as needed with central bank officials and the external auditors. The review may be supplemented by an on-site visit to the central bank to obtain or clarify information necessary to draw conclusions and make recommendations. Such visits are conducted by IMF staff with possible participation of technical experts drawn from the IMF's membership. The review also takes into account the findings and timing of a previous Safeguards Assessment, including the results of any follow-up monitoring.

The outcome of a Safeguards Assessment is a confidential report that identifies vulnerabilities, assigns risk ratings, and makes recommendations to mitigate the identified risk. Country authorities, who have the opportunity to comment on all Safeguards Assessment reports, are expected to implement the safeguards recommendations, possibly under program conditionality. The conclusions and agreed-upon remedial measures are reported in summary form to the IMF's Executive Board either when an arrangement is approved or by no later than the first review of the arrangement. The implementation of safeguards recommendations is monitored periodically by IMF staff.

Misreporting

In FY2002, the IMF also continued strengthening its legal and operational framework dealing with misreporting of information. In February–March 2002, a new framework was established to handle revisions of information on economic and external debt data that underlies the IMF's HIPC Initiative decisions. In February, the Board approved an amendment to the HIPC Trust Instrument that provides for the exclusion from the stock of a member's external debt in the Debt Sustainability Analysis (DSA) of amounts owed to the IMF that are found under the IMF's Misreporting Guidelines to constitute noncomplying purchases/disbursements. In March, the Board approved a framework that provides for the amount of debt relief to be adjusted upward or downward (subject to a minimum threshold) in the event that the DSA used to determine the amount of assistance committed at the decision point turns out to be incorrect. The framework also permits the Board to ask for the return to the PRGF-HIPC Trust Fund of interim assistance disbursed on the basis of inaccurate information pertaining to the member's track record but not yet used to service debt

Table 6.7
Arrears to the IMF of Countries with Obligations Overdue by Six Months or More, by Type and Duration, as of April 30, 2002
(In millions of SDRs)

	Total	By Type				By Duration	
		General Department (incl. SAF)	SDR Department	Trust Fund	PRGF	Less than 6 months	More than 6 months
Afghanistan, Islamic State of	7.3	—[1]	7.3	—	—	0.5	6.9
Congo, Democratic Rep. of the	402.3	382.8	19.3	—	—	4.3	397.9
Iraq	49.7	—	49.6	—	—	1.6	48.1
Liberia	493.5	440.9	22.5	30.0	—	3.9	489.6
Somalia	214.2	196.9	9.4	7.9	—	1.9	212.2
Sudan	1,094.3	1,015.6	0.3	78.3	—	6.8	1,087.6
Zimbabwe	93.8	51.3	—	—	42.5	40.7	53.1
Total	**2,355.0**	**2,087.5**	**108.4**	**116.2**	**42.5**	**59.6**	**2,295.4**

[1]Less than SDR 50,000.

obligations. The framework does not allow for remedial action after a country reaches its completion point, or for countries that reached their decision points prior to approval of the framework. In the interest of transparency, and in line with existing policies, the IMF will make public and share with other creditors relevant information on each case.

Arrears to the IMF

In FY2002, total overdue financial obligations to the IMF increased to SDR 2.36 billion from SDR 2.24 billion a year earlier, mainly reflecting the continued accumulation of new arrears by Zimbabwe (Table 6.7). Zimbabwe represents the first new case of significant arrears to the GRA since 1993 and the first case of arrears to the PRGF Trust.

At end-April 2002, more than 97 percent of the total arrears to the IMF were protracted (outstanding for more than six months), about evenly divided between overdue principal and overdue charges and interest; almost 90 percent of arrears were to the GRA.

Five countries with the largest protracted arrears to the IMF—the Democratic Republic of the Congo, Liberia, Somalia, Sudan, and Zimbabwe—account for almost 98 percent of the overdue financial obligations to the IMF.[7] Under the IMF's strengthened cooperative strategy on arrears, remedial measures have been applied against the countries with protracted arrears to the IMF.[8]

During FY2002, 22 instances of short-term arrears were cleared quickly and did not result in the application of any remedial measures.

In FY2002, net deferrals of charges to the GRA of the protracted arrears countries, for which the IMF is compensated through the burden-sharing mechanism, amounted to SDR 33 million, raising the balance of deferred charges to SDR 1.1 billion.

The IMF's strategy on overdue financial obligations was reviewed on August 22, 2001, and the Executive Board adopted strengthened remedial procedures for arrears to the PRGF Trust paralleling, to the extent possible, the timetable of remedial measures for arrears to the GRA.[9] The Board also decided to strengthen transparency with respect to arrears by agreeing that (1) information on arrears be published on the IMF's website when they have been outstanding for three months (instead of six months as under the previous policy), and (2) a press release be issued on the occasion of each substantive Board action related to specific arrears cases. The Board also agreed that information on missed repurchase expectations would be made public on the IMF's website at the three-month stage.

The Executive Board conducted several reviews of member countries' overdue financial obligations to the IMF during FY2002:

- In reviewing the Democratic Republic of the Congo's overdue financial obligations to the IMF on July 13, 2001, the Executive Board welcomed the authorities' intention to implement a staff-

[7]The overdue net SDR charges of the Islamic State of Afghanistan and Iraq account for the remaining less than 3 percent.

[8]In some cases (the Islamic State of Afghanistan, the Democratic Republic of the Congo, Iraq, and Somalia) application of remedial measures has been delayed or suspended because of civil conflicts, the absence of a functioning government, or international sanctions.

[9]A fully parallel treatment of GRA and PRGF arrears is not possible, because the former are breaches of obligations under the Articles of Agreement and are subject to sanctions under Article XXVI whereas arrears to the PRGF are not.

monitored program and make efforts to improve relations with the international community.

- The Board reviewed Liberia's overdue financial obligations to the IMF on February 25, 2002, and determined that Liberia had not cooperated adequately with the IMF in resolving its overdue financial obligations to the IMF in the areas of policy implementation and payments. The Board also noted that it was the Managing Director's intention to initiate promptly the procedure to suspend Liberia's voting and related rights in the IMF. On April 16, 2002, the Board agreed to consider, on a later date, the complaint by the Managing Director with respect to the suspension of Liberia's voting and related rights in the IMF.
- The Executive Board reviewed Sudan's overdue financial obligations on November 24, 2001, and expressed regret over the delays that had occurred in Sudan's monthly payments to the IMF and the policy slippages under the staff-monitored program in the first half of 2001. However, the Board noted that Sudan had been affected by an adverse external environment and indicated that it was prepared to consider Sudan's request for a modification of the level of payments to the IMF to reflect Sudan's payments capacity in the context of a new staff-monitored program.
- Zimbabwe first incurred arrears to the IMF on February 14, 2001; a complaint was issued on May 15, 2001; and on September 24, 2001 the country was declared ineligible to use the general resources of the IMF and removed from the list of PRGF-eligible countries. The Executive Board reviewed the overdue financial obligations of Zimbabwe to the IMF on three occasions during FY2002 (June 8, 2001, September 24, 2001, and December 14, 2001). At the third review, the Board regretted Zimbabwe's continued failure to meet its financial obligations to the IMF and agreed to consider the application of further remedial measures on the occasion of the next review of Zimbabwe's arrears to the IMF.

During FY2002, the Board held no reviews of the overdue financial obligations of the Islamic State of Afghanistan, Iraq, and Somalia.

At the end of April 2002, the Democratic Republic of the Congo, Liberia, Somalia, Sudan, and Zimbabwe were ineligible under Article XXVI, Section 2*(a)* to use the general resources of the IMF. Declarations of noncooperation—a further step under the strengthened cooperative arrears strategy—were in effect for the Democratic Republic of the Congo and Liberia, and the voting rights of the Democratic Republic of the Congo remained suspended.

CHAPTER 7

Technical Assistance and Training

Besides its policy advice and financing, the IMF provides technical assistance and training to its member countries in its areas of expertise—including revenue administration and expenditure management, central banking, financial sector sustainability, exchange rate systems, economic and financial statistics, and related legal fields. Technical assistance is an important benefit of IMF membership and is free in most cases, except when provided to countries that can afford to defray the costs incurred in dispensing the assistance. The IMF's technical assistance aims at strengthening the design and implementation of sound macroeconomic and financial policies, and at transferring know-how in the process. By doing this, the IMF seeks to bolster the institutional capacity of its members and endeavors to deliver assistance that will have lasting benefits for the member's economy, including on sustainable growth and on poverty alleviation in the case of poorer member countries. Technical assistance helps countries to adopt and implement effective reforms, benefiting from the IMF's worldwide experience in addressing similar problems in other countries and from its high-caliber experts, drawn from the staff as well as from top public and private institutions, central banks, and economic agencies around the world.

The IMF's membership has, in the past few years, attached increasing importance to technical assistance to reinforce the effectiveness of the IMF's surveillance and program work. Technical assistance is also expected to play a central role in supporting the work of the IMF in crisis prevention and management; in capacity building for low-income countries; and in restoring macroeconomic stability in postcrisis situations. For example, systematically following up recommendations relating to the Financial Sector Assessment Program (FSAP), adopting international standards, tracking public expenditure and other indicators for the Heavily Indebted Poor Countries (HIPC) Initiative, and combating money laundering and the financing of terrorism (Box 7.1) have all led to increased demand for technical assistance.

Against this background, the IMF's Executive Board has emphasized the need for linking IMF technical assistance to institutional priorities; for improving the efficiency of technical assistance delivery; and for mobilizing additional external resources. In the face of the limited supply of technical assistance, effective coordination and collaboration among providers—especially the international financial and development institutions and bilateral development agencies—have become even more important.

In recognition of the increasing impact of technical assistance on the IMF's other core operational activities—surveillance and use of financial resources—management decided to strengthen its oversight of IMF technical assistance by upgrading the former *Technical Assistance Secretariat* to a separate office under the Office of the Managing Director in June 2001. The Office was renamed the *Office of Technical Assistance Management* (OTM), was expanded, and is now headed by a Director.

A more complete description of the goals, scope, and operational methods of the IMF's technical assistance is available in a number of documents, including the *Policy Statement on IMF Technical Assistance* (2001), accessible on the IMF's website.

Prioritizing the IMF's Technical Assistance

During the previous financial year, the Board put in place a process to allocate resources for technical assistance more effectively and to better align technical assistance with policy priorities. The resulting framework is based on a set of "filters" used to assess the merit of individual technical assistance requests or projects and to help staff make allocation decisions.[1] IMF technical assistance has been divided into five *main program areas* covering crisis prevention, poverty reduction, crisis resolution and management, post-conflict/post-isolation cases, and regional/multilateral arrangements. These program areas are complemented by three further categories of filters, as follows:

[1]For a description of these filters, see the *Annual Report 2001*, Box 7.1, page 75.

Box 7.1

Combating Money Laundering and Financing of Terrorism: Technical Assistance and Coordination Efforts

Since April 2001, the IMF has intensified its work in the global efforts to combat money laundering. These efforts took on heightened importance in the wake of the events of September 11, 2001, as reflected in the November 2001 and April 2002 communiqués of the IMFC. Both communiqués underscored the need for enhanced technical assistance to help countries identify and remedy gaps in their efforts on combating money laundering and the financing of terrorism (AML/CFT). As a result, the IMF has intensified technical assistance for AML/CFT to member countries and is coordinating its activities with the World Bank and other organizations to enhance the effectiveness of assistance and avoid duplication of effort. (See Chapter 3.)

To align its technical assistance for AML/CFT with its mandate and core areas of expertise, the IMF has focused on strengthening financial sector supervision (both onshore and offshore sectors) and the legal and institutional framework for AML/CFT. These areas broadly include:

- Formulation of AML/CFT laws and regulations that meet international conventions and best practices;
- Development of the legal and institutional framework for financial intelligence units that meet Egmont Group requirements, including arrangements for cross-border cooperation;
- Strengthening the regulatory and supervisory frameworks for the financial sectors that focus on AML/CFT review, compliance, and control mechanisms; and
- Training and awareness programs on AML/CFT for the public and private sectors. An important element of IMF technical assistance is its work with national authorities and offshore financial centers to prevent abuse of their financial systems and territories by criminal elements.

As the pace of IMF and World Bank assessments accelerates, the need for closer coordination with donors and organizers of technical assistance will become critical. To this end, the IMF and the World Bank, in collaboration with the UN, the Financial Action Task Force (FATF), and the Egmont Group have begun a global coordination initiative to avoid duplication of effort and enhance the effectiveness of available resources. In April 2002, the IMF and the World Bank organized a meeting in Washington of representatives from institutions that are globally active in AML/CFT, including the FATF, the UN, the Egmont Group, regional FATF-style bodies, multilateral development banks, the Commonwealth Secretariat, and bilateral donors. The main aim of this meeting was to enable stakeholders to target their technical assistance efforts more effectively and to establish a network of contacts among participating organizations. This meeting also provided a forum for exchanging views on the priority areas for technical assistance and the need for resources to build institutional capacity, particularly for the regional FATF-style bodies.

- *Target filters*: the technical assistance must fall within the IMF's core areas of specialization, support a limited number of key program areas, or buttress policy priorities.
- *Effectiveness filters*: the technical assistance must be deemed likely to have a substantial impact and be effectively supported and implemented by the recipient country. It also should be sustainable in terms of financing and lasting in its effect.
- *Partnership filters*: technical assistance requests have preference when they are delivered regionally, benefit several recipients, draw on multiple financial sources, or complement third-party assistance.

Although the overall volume of technical assistance delivered was broadly stable during FY2001 and FY2002 at some 340 person-years, and in spite of the relatively short period of implementation of the prioritization system, some shift among activities has taken place, mainly toward work in crisis prevention, post-conflict/isolation cases, and regional initiatives (Table 7.1).

New Developments

In recent years, regional arrangements to deliver the IMF's technical assistance have taken on greater prominence, particularly for delivering training, facilitating countries' participation in the General Data Dissemination System (GDDS), and cooperating with established regional organizations. The IMF has also used regional technical assistance centers to enhance the delivery of assistance to members, especially those facing similar needs. This approach was originally conceived to provide technical assistance to small island economies in the Pacific region in 1993, with the establishment of the *Pacific Financial Technical Assistance Center* (PFTAC) in Suva, Fiji. Jointly established by the IMF and the United Nations Development Program (UNDP) as the regional office for the "Fiscal and Monetary Management Reform and Statistical Improvement Project" in 15 Pacific island countries, the center has been operating successfully ever since.

Modeled on the PFTAC, a new regional technical assistance center was established in the Caribbean—the *Caribbean Regional Technical Assistance Center* (CARTAC)—in November 2001 (Box 7.2). As with the Pacific island countries, the Caribbean governments have a strong voice in the formulation of technical assistance work plans to ensure that they reflect national priorities and realities and benefit from strong local ownership in their design, implementation, and follow-up. Member governments' representatives play

an important role in guiding CARTAC's overall policies through their participation in its Steering Committee. Among other activities, the center is in the process of setting up an information-exchange website where stakeholders will be able to post information on current and proposed technical assistance activities.

Based on the positive experience with the Pacific and Caribbean Centers, the IMF adopted a similar approach in its new *Africa Capacity-Building Initiative*, launched in response to a request by African heads of state in 2001 for enhanced IMF support. The Initiative will involve establishing *Regional Technical Assistance Centers in Africa* (AFRITACs), with the first two to be opened in the fall 2002, on a pilot basis, in East and West Africa. If these are successful, another three centers will be added to cover the rest of sub-Saharan Africa. Each center will have a team of a center coordinator and up to five resident experts who will assist member countries to develop and implement their capacity-building programs, guided by the Poverty Reduction Strategy Paper (PRSP) each country has drawn up; help implement and monitor their ongoing technical assistance programs; facilitate donor coordination of ongoing capacity-building activities; and provide technical advice.

The IMF has increasingly assisted members with long-term capacity-building efforts; in addition to providing them with immediate policy advice, cooperation and coordination with other bilateral and multilateral providers of technical assistance have received greater emphasis. Such coordination has helped to avoid duplication of effort and to bring in technical assistance inputs that the IMF traditionally does not provide (for example, computer equipment, training equipment, and other materials, as well as hands-on, day-to-day support).

Cooperation between the IMF and other technical assistance providers covers many levels, from the simple exchange of information (for example, through the IMF's participation at regular consultative group or roundtable meetings to coordinate donor assistance for developing countries), through organizing the provision of complementary forms of assistance (such as working with the United Nations and other bilateral donors involved in reconstruction in immediate post-conflict situations, as in the case of Kosovo and East Timor), to a more comprehensive proactive role for the IMF in which it takes the lead in macroeconomic institution building—such as through comprehensive multiyear Technical Cooperation Action Plans (TCAPs).

Responding to calls from the IMFC, G-7, G-20, and the Financial Stability Forum, in April 2002 the IMF joined Canada, Switzerland, the United Kingdom, and the World Bank in launching the Financial Sector Reform and Strengthening (FIRST) Initiative, which will provide a mechanism for coordinating and mobilizing additional financing for technical assistance to help strengthen financial sectors and implement standards and codes. In addition, the IMF is now engaged with the World Bank, the UN, the Financial Action Task Force (FATF), and the Egmont Group in working out how best to coordinate, mobilize, and finance technical assistance efforts in combating money laundering and the financing of terrorism.

Although the IMF finances its technical assistance mainly from its own resources, external financing is an important source of additional support. Such external financing is provided as grant contributions under the IMF's Framework Administered Account for Technical Assistance Activities. There were nine active subaccounts under the umbrella Framework Account.[2] The Account was amended in December 2001 to permit the establishment of multidonor subaccounts to

Table 7.1
Technical Assistance Delivery Indicators for Main Program Areas and Key Policy Initiatives and Concerns
(Field delivery in person-years)[1]

	FY2001	FY2002
Main Program Areas		
Crisis prevention	28.6	32.6
Poverty reduction	77.3	69.3
Crisis resolution and management	35.9	28.9
Post-conflict/isolation	18.5	23.2
Regional	27.2	34.9
Total	187.4	188.8
Key Policy Initiatives and Concerns		
Assistance on standards and codes, excluding FSAP	16.2	13.6
FSAP-related	1.8	3.4
HIPC-associated	13.7	21.4
Safeguarding IMF resources	0.5	0.6
Offshore financial centers	1.4	5.1
Policy reform/capacity building	153.8	144.7
Total	187.4	188.8

Source: IMF Office of Technical Assistance Management.
Note: FSAP = Financial Sector Assessment Program; HIPC = Heavily Indebted Poor Countries Initiative.
[1]Excludes headquarters-based activities related to technical assistance.

[2]These include the Japan Advanced Scholarship Program Subaccount, the Australia-IMF Scholarship Program for Asia Subaccount, the Switzerland Technical Assistance Subaccount, the French Technical Assistance Subaccount, the Denmark Technical Assistance Subaccount, the Australia Technical Assistance Subaccount, the Netherlands Technical Assistance Subaccount, the UK-DFID Technical Assistance Subaccount, and the Italy Technical Assistance Subaccount.

Box 7.2

Caribbean Regional Technical Assistance Center

The Caribbean Regional Technical Assistance Center (CARTAC) provides technical assistance and training in economic and financial management for its member countries. Located in Barbados, the center was inaugurated in November 2001. It is organized as a UNDP regional program with the IMF as executing agency. The IMF manages the center's operations, provides its program coordinator, and recruits and technically supervises its resident advisors through its technical assistance departments. The center is designed to help Caribbean Community (CARICOM) members and the Dominican Republic strengthen economic and fiscal management; improve financial sector supervision and regulation; and compile more timely and useful economic, financial, and social statistics. Core areas of the center's technical assistance involve public expenditure management; tax/customs policy and administration; onshore and offshore financial sector regulation and supervision; and economic and financial statistics, as needs-assessments had shown that these were the areas in which improvements were most necessary. Because some of the Caribbean economies are small, and suitably qualified and skilled personnel are scarce, a regional approach was seen as the most cost-effective way of creating sustainable capacity.

The center provides assistance through a program coordinator and a team of five resident advisors, supplemented by short-term contractual specialists. It also features a strong training component, offering in-country workshops, regional training courses, and hands-on professional attachments (internship programs for mid-level government officials). CARTAC's training activities take place in cooperation with existing institutions, such as the University of the West Indies and the Eastern Caribbean Central Bank. Coordination and cooperation with other entities providing technical assistance in economic and financial management are an important aspect of CARTAC's work.

Canada contributes over 50 percent of CARTAC's funding. Other contributors include the U.K. Department for International Development, the Inter-American Development Bank, Ireland, the UNDP, USAID, and the World Bank. The Caribbean Development Bank is seconding a full-time economist. The participating countries contribute to the center's cost, while the host country provides office space and facilities.

Box 7.3

Recently Established Technical Assistance Subaccounts

Two new technical assistance subaccounts were established during FY2002.

- The *United Kingdom—Department for International Development (DFID) Technical Assistance Subaccount* was established in June 2001 to enhance the capacity of members to formulate and implement policies in the macroeconomic, fiscal, monetary, financial, and related statistical fields. Three contributions have been made to support the following specific projects: (1) Cambodia TCAP program ($1.2 million); (2) Distance Learning for African Countries ($0.9 million)—a 15-month project that will finance the participation of 80 officials in the IMF Institute's Financial Programming and Policies course using distance-learning techniques supplemented by a two-week residential component; and (3) General Data Dissemination System (GDDS) Project for Anglophone Africa ($2.4 million)—a two-year technical assistance project to help 14 countries in Anglophone Africa improve their capacity to produce and disseminate reliable and timely macroeconomic and social statistics using the GDDS as a framework.
- The *Italy Technical Assistance Subaccount* was established in November 2001 to enhance the capacity of member countries to formulate and implement policies in the macroeconomic, fiscal, monetary, financial, and related statistical fields, including training programs and projects that strengthen the legal and administrative reform frameworks in these areas. The first contribution of about $2 million is earmarked for financing technical assistance to strengthen the capacity to formulate and implement policies related to international standards and codes for financial, fiscal, and statistical management, including work related to combating money laundering and the financing of terrorism, in the countries of Central and Eastern Europe, the Baltics, Russia, and other members of the former Soviet Union.

support specific technical assistance programs, such as PFTAC and the AFRITACs. Box 7.3 describes the two subaccounts set up during FY2002.

In FY2002, external financing from bilateral and multilateral donor partners accounted for some 25 percent of total IMF technical assistance; Japan continued to be the largest donor, providing some 70 percent of this external financing. Other bilateral donors included Australia, Canada, Denmark, France, Italy, the Netherlands, New Zealand, Switzerland, the United Kingdom, and the United States. Multilateral donors included the Asian Development Bank, the European Union, the Inter-American Development Bank, the UNDP, and the World Bank.

Technical Assistance Delivery in FY2002

Changes in the geographical distribution of technical assistance delivery in FY2002 indicate how it has been

Table 7.2
Technical Assistance Sources and Delivery, FY1998–FY2002
(In effective person-years)[1]

	FY1998	FY1999	FY2000	FY2001	FY2002
IMF technical assistance budget	**257.1**	**266.2**	**251.7**	**265.5**	**268.8**
Staff	165.6	164.0	158.5	171.8	172.2
Headquarters-based consultants	22.0	20.3	16.4	22.7	23.2
Field experts	69.4	81.8	76.9	71.0	73.4
External technical assistance resources	**92.4**	**99.2**	**85.5**	**77.7**	**77.8**
United Nations Development Program	22.8	14.3	8.7	8.4	9.6
Japan	53.6	70.3	68.0	59.5	56.2
Other cofinanciers	16.0	14.7	8.8	9.8	12.0
Total technical assistance resources	*349.5*	*365.4*	*337.2*	*343.2*	*346.6*
Technical assistance regional delivery	**293.8**	**308.5**	**282.2**	**275.8**	**280.0**
Africa	64.5	72.9	69.8	68.2	71.9
Asia and Pacific	47.2	57.9	44.4	57.0	63.1
Europe I	24.8	22.7	24.1	30.2	30.3
Europe II	49.2	44.9	40.4	40.8	32.6
Middle East	29.2	31.9	27.5	27.8	22.4
Western Hemisphere	36.2	32.5	28.2	23.7	28.0
Regional and interregional	42.7	45.8	47.9	28.0	31.7
Technical assistance nonregional delivery [2]	**55.6**	**56.9**	**55.1**	**67.5**	**66.6**
Total technical assistance delivery	*349.5*	*365.4*	*337.2*	*343.2*	*346.6*
Technical assistance delivery by department					
Monetary and Exchange Affairs Department	121.9	127.2	112.2	101.2	115.5
Fiscal Affairs Department	103.2	107.4	101.4	111.9	97.5
IMF Institute	51.4	54.5	54.6	48.2	49.2
Statistics Department	47.2	48.9	49.1	54.4	56.0
Legal Department	10.5	12.7	8.6	15.4	15.5
Other departments[3]	15.4	14.7	11.3	12.2	12.9
Total technical assistance delivery	*349.5*	*365.4*	*337.2*	*343.2*	*346.6*

Source: IMF Office of Technical Assistance Management.
[1]An effective person-year of technical assistance is 260 days. New definitions used since 2001; data adjusted retroactively.
[2]Indirect technical assistance, including technical assistance policy, management, evaluation, and other related activities.
[3]Includes the Policy Development and Review Department, the Bureau of Information Technology Services, and the Office of Technical Assistance Management.

prioritized (Table 7.2 and Figures 7.1 and 7.2). With the added emphasis on poverty reduction over the last few years, sub-Saharan Africa's share rose, and in FY2002 received the largest share of technical assistance from the IMF. Technical assistance delivered to central and southern European transition countries peaked in FY2001, reflecting the large capacity-building effort in the Balkans, but has since started to decline. Consistent with the trend over the past five years, technical assistance for eastern European countries declined notably, as most of the transition economies no longer require the massive amounts of help that were delivered to them a decade ago. Technical assistance to the Asia-Pacific region has remained high, in spite of the waning impact of the 1997–98 financial crisis, reflecting a shift in delivery toward post-conflict cases, such as Cambodia and East Timor; a continued high level of assistance to support reforms in Indonesia and Mongolia; and increased technical assistance to China. The level of assistance to other geographical regions, as well as for interregional projects, has remained broadly the same.

The Monetary and Exchange Affairs Department was the IMF's largest technical assistance provider and increased its delivery in FY2002 by some 12 percent, to 114 person-years, reflecting the increase in activities linked to the emergence of the new international financial architecture. The Fiscal Affairs Department remained the IMF's second-largest technical assistance department, although its activities somewhat contracted. The IMF Institute (see below) and the Statistics Department provided the bulk of the remaining technical assistance delivered in FY2002.

Figure 7.1
Technical Assistance by Function, FY2002
(As a percent of total resources, in effective person-years)[1]

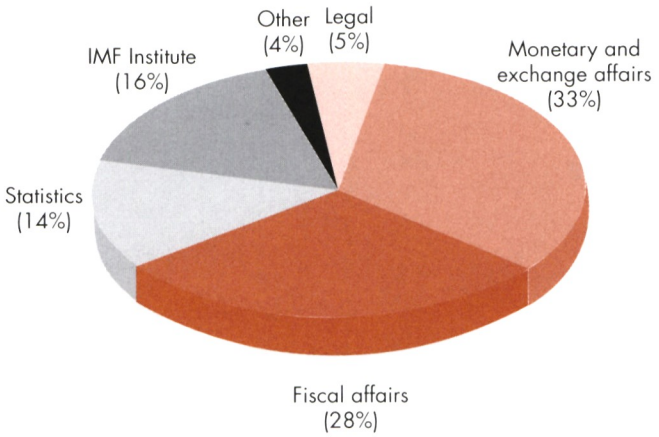
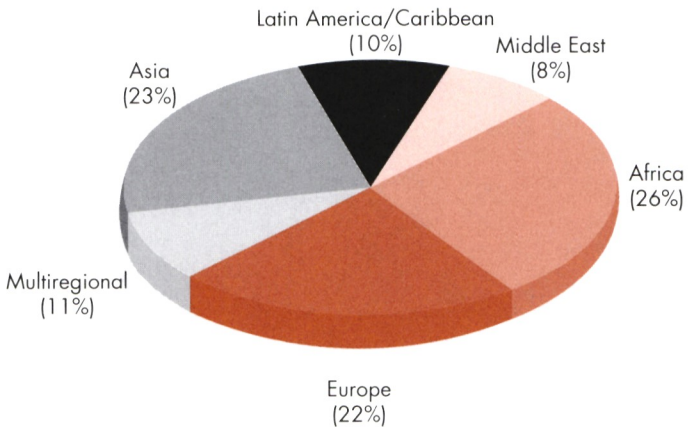


Figure 7.2
Technical Assistance by Region, FY2002
(As a percent of total resources, in effective person-years)



[1]An effective person-year of technical assistance is 260 days. For the IMF Institute, figure excludes training provided or coordinated by the Institute at headquarters.

Table 7.3
IMF Institute Training Programs for Officials, FY1998–FY2002

Program	FY1998	FY1999	FY2000	FY2001	FY2002
Headquarters training					
Courses and seminars	19	20	22	22	21
Participants	658	676	776	798	819
Participant-weeks	3,628	3,837	3,623	3,671	2,982
Regional training institutes and programs[1]					
Courses and seminars	21	38	57	67	80
Participants	567	1,095	1,632	2,102	2,536
Participant-weeks	1,575	2,325	3,185	3,760	4,613
Other overseas training					
Courses and seminars	21	20	24	19	16
Participants	631	605	775	564	439
Participant-weeks	1,196	1,120	1,364	1,048	828
Distance learning					
Courses[2]	—	—	1	1	3
Participants[3]	—	—	50	43	134
Participant-weeks[4]	—	—	100	86	311
Total courses and seminars	61	78	103	108	117
Total participants	1,856	2,376	3,183	3,464	3,794
Total participant-weeks	6,399	7,282	8,272	8,565	8,734

Source: IMF Institute.

[1]Includes Joint Vienna Institute (established in 1992), IMF-Singapore Regional Training Institute (1998), IMF-AMF Regional Training Program in United Arab Emirates (1999), Joint Africa Institute (JAI) in Côte d'Ivoire (1999), Joint China-IMF Training Program (2000), and Joint Regional Training Center for Latin America in Brazil (2001). Data for JAI include courses delivered by the African Development Bank and the World Bank.

[2]These are not included in the total course count below as the residential segment is already reflected in the headquarters' training category.

[3]Those participants who were invited to the residential part of the courses are included both here and under headquarters training. They are counted only once in the totals below.

[4]Includes only participant-weeks for the distance part of the course. Participant-weeks for the residential part are included in headquarters training.

Expanded Training by the IMF Institute

In recent years, the IMF Institute has substantially increased the number of training courses for government officials, in response to the large demand from member countries. At the same time, it continued to pay close attention to the evolving needs of member countries in the mix of courses offered and in the development of new courses.

In FY2002, the IMF Institute delivered 117 courses and seminars for officials, providing over 8,700 participant-weeks of training (Table 7.3). The number of training activities and participants rose by 8 percent and 10 percent, respectively, over FY2001 levels, to double what they had been in FY1998. The number of participant-weeks of training rose by 36 percent over the past four years—a more modest increase than in the number of training activities, reflecting the greater emphasis in recent years on shorter and more specialized courses adapted to the needs of the IMF's member countries.

The expansion of IMF Institute training has been greatly facilitated by the development of a network of IMF regional training institutes and

Table 7.4
IMF Institute Regional Training Programs

Regional Program	Date Established	Location	Cosponsors	Participating Countries
Joint Vienna Institute	1992	Austria	Austrian authorities, Bank for International Settlements, European Bank for Reconstruction and Development, Organization for Economic Cooperation and Development, World Bank, and World Trade Organization[1]	Transition countries in Europe and Asia
IMF-Singapore Regional Training Institute	1998	Singapore	Government of Singapore	Developing and transition countries in Asia and the Pacific
IMF-AMF Regional Training Program	1999	United Arab Emirates	Arab Monetary Fund	Member countries of the Arab Monetary Fund
Joint Africa Institute	1999	Côte d'Ivoire	African Development Bank, World Bank	African countries
Joint China-IMF Training Program	2000	China	Peoples Bank of China	China
Joint Regional Training Center for Latin America	2001	Brazil	Government of Brazil	Latin American countries and Portugese-speaking African countries

[1]A number of other European countries and the European Union, although not formal sponsors of the JVI, provide financial support.

programs, following on the favorable experience with the Joint Vienna Institute (JVI), established in 1992 (Table 7.4). Five new regional institutes and programs began operations over the past four years: the IMF-Singapore Regional Training Institute (STI) in 1998, the IMF-AMF Regional Training Program (RTP) and the Joint Africa Institute (JAI) in 1999, the Joint China-IMF Training Program (CTP) in 2000, and the Joint Regional Training Center for Latin America (BTC) in 2001. The number of training activities at the regional programs rose from 21 in FY1998 to 80 in FY2002.

This regional approach has allowed the IMF Institute to increase training considerably without expanding its facilities in Washington and to tailor its programs to the needs of the different regions. It has also been a cost-effective way of addressing the large demand for training, as cosponsors of the regional training institutes and programs are making substantial financial contributions through cost-sharing arrangements.

New technology applications have also contributed to the expansion of training through a distance-learning Financial Programming and Policies course, delivered for the first time in FY2000. In FY2002, the IMF Institute provided three deliveries of this course, combining 9–10 weeks of Internet-based instruction with a two-week residential segment in Washington, D.C.

Although the principal focus of its overseas training is now on the IMF regional institutes and programs, the IMF Institute continues to see its cooperation with regional training institutes outside the IMF network as an important tool for capacity enhancement. At the same time, courses and seminars in Washington have remained a central part of the IMF Institute's program. Headquarters-based courses offer access to a broader range of staff experience and skills than can be marshaled for overseas activities, which is especially important for longer courses. Washington participants can more broadly compare experiences, develop a wider network of contacts, and more easily gain insights into the operations of the IMF.

The IMF Institute pays close attention to curriculum development. In FY2002, new courses on Inflation Targeting and Banking Supervision were delivered, and courses on Assessing Financial System Stability, Financial Market Analysis, Fiscal Sustainability and Transparency, and Macroeconomic Forecasting were under development for delivery in FY2003. The IMF Institute has also continued to tailor programs on key current issues to the needs of high-level officials. In FY2002, these included seminars on exchange rate regimes, investor relations, fiscal rules, and poverty reduction strategies. The active research program maintained by the staff of the IMF Institute, together with the research contributions of visiting scholars, has helped to ensure that programs are topical and state of the art.

CHAPTER 8

Organization, Budget, and Staffing

Financial year 2002 saw several major changes within the institution. During the year the IMF bid farewell to First Deputy Managing Director Stanley Fischer and to Economic Counsellor and Director of the Research Department Michael Mussa and welcomed their successors—Anne Krueger and Kenneth Rogoff. Jack Boorman, who stepped down as Director of the Policy Development and Review (PDR) Department, retained his position as Counsellor and became a Special Adviser to the Managing Director. He was succeeded as PDR director by Timothy Geithner. Gerd Häusler joined the IMF as Counsellor and Director of the new International Capital Markets Department, which came into being in FY2002. In addition, the Independent Evaluation Office (IEO) under Montek Singh Ahluwalia became operational.

External experts provided the impetus for other significant developments. In June 2001 a panel of outside experts presented a report to the Executive Board on the IMF's internal budgeting processes. The report recommended a number of changes to the IMF's budget system, several of which have already been put into practice. Other reforms will be made in FY2003 and FY2004. And in early 2002, the Board was presented with a report by a panel of experts on the systems and procedures for resolving employment-related disputes between the IMF and its staff members. While generally supportive of the IMF's existing policies, the report made a number of suggestions for improvement, nearly all of which were accepted by management and will be implemented during FY2003.

In addition, the IMF reviewed its Emergency Operations and Business Continuity Plans, and tested both its short- and long-run plans. As a result, the IMF is improving its computer backup capabilities and business continuity plans.

Organization

The IMF is governed by its Board of Governors, and its business is conducted by an Executive Board, a Managing Director, a First Deputy Managing Director, two other Deputy Managing Directors, and a staff of international civil servants whose sole responsibility is to the IMF. The institution's founding Articles of Agreement require that staff appointed to the IMF demonstrate the highest standards of efficiency and technical competence and reflect the organization's diverse membership.

Executive Board

The IMF's 24-member Executive Board, as the IMF's permanent decision-making organ, conducts the institution's day-to-day business. In calendar year 2001, the Board held 129 formal meetings, 8 seminars, and 111 informal, committee, and other meetings.

The Executive Board's discussions are largely based on papers prepared by IMF management and staff. In 2001, the Board spent about 70 percent of its time on member country matters (especially Article IV consultations and reviews and approvals of IMF arrangements); 20 percent of its time on multilateral surveillance and policy issues (such as the world economic outlook, developments in international capital markets, global financial stability reports, IMF financial resources, strengthening the international financial system, the debt situation, and issues related to IMF lending facilities and program design); and its remaining time on administrative and other matters.

Departments

The IMF staff is organized mainly into departments with regional (or area), functional, information and liaison, and support responsibilities (Figure 8.1). These departments are headed by directors who report to the Managing Director.

Area Departments

Six area departments—*African, Asia and Pacific, European I, European II, Middle Eastern*, and *Western Hemisphere*—advise management and the Executive Board on economic developments and policies in countries in their region. Their staffs are responsible also for putting together financial arrangements to support members' economic reform programs and for review-

ing performance under these IMF-supported programs. Together with relevant functional departments, they provide member countries with policy advice and technical assistance and maintain contact with regional organizations and multilateral institutions in their geographic areas. Supplemented by staff in functional departments, area departments carry out much of the IMF's country surveillance work through direct contacts with member countries. In addition, 86 area department staff are assigned to members as IMF resident representatives (see Box 8.1).

Box 8.1
IMF Resident Representatives

At the end of April 2002, the IMF had 86 resident representatives covering 87 member countries in Africa, Asia, Europe, the Middle East, and the Western Hemisphere, and plans were under way to open new posts in Afghanistan, Kosovo, and the Democratic Republic of the Congo. These posts—usually filled by one IMF employee supported by local staff—help to enhance IMF policy advice and are often set up in conjunction with a reform program. The representatives, who typically have good access to key national policymakers, can have a major impact on the quality of IMF country work. In particular, resident representatives contribute to the formulation of IMF policy advice, monitor performance—especially under IMF-supported programs—and coordinate technical assistance. They can also alert the IMF and the host country to potential policy slippages, provide on-site program support, and play an active role in IMF outreach in member countries. Since the advent of enhanced initiatives for low-income countries, resident representatives have helped members develop their poverty reduction strategies by taking part in country-led discussions on the strategy and presenting IMF perspectives. They also support monitoring of program implementation and institution building, working with different branches of government, civil society organizations, donors, and other stakeholders.

Functional and Special Services Departments

The *Fiscal Affairs Department* is responsible for activities involving public finance in member countries. It participates in area department missions on fiscal issues, reviews the fiscal content of IMF policy advice and IMF-supported adjustment programs, and provides technical assistance in public finance. It also conducts research and policy studies on fiscal issues, as well as on income distribution and poverty, social safety nets, public expenditure policy issues, and the environment.

The *International Capital Markets Department* (ICM), established in May 2001, assists the Executive Board and management in overseeing the international monetary and financial system and enhances the IMF's crisis prevention and crisis management activities. As part of surveillance, the ICM prepares a quarterly *Global Financial Stability Report* (see Box 2.2) that assesses developments and systemic issues in international capital markets. The department liaises with private capital market participants, national authorities responsible for financial system policies, and official forums dealing with the international financial system. In addition, the department plays a leading role in the IMF's conceptual and policy work related to international capital market access and gives technical advice to members on access to, and how to benefit from, interactions with international markets, as well as on strategies for external debt management.

The *IMF Institute* provides training for officials of member countries—particularly developing countries—in such areas as financial programming and policy, external sector policies, balance of payments methodology, national accounts and government finance statistics, and public finance. The Institute also conducts an active program of courses and seminars in economics, finance, and econometrics for IMF economists. (See Chapter 7.)

The *Legal Department* advises management, the Executive Board, and the staff on the applicable rules of law. It prepares most of the decisions and other legal instruments necessary for the IMF's activities. The department serves as counsel to the IMF in litigation and arbitration cases, provides technical assistance on legislative reform, assesses the consistency of laws and regulations with selected international standards and codes, responds to inquiries from national authorities and international organizations on the laws of the IMF, and arrives at legal findings regarding IMF jurisdiction on exchange measures and restrictions.

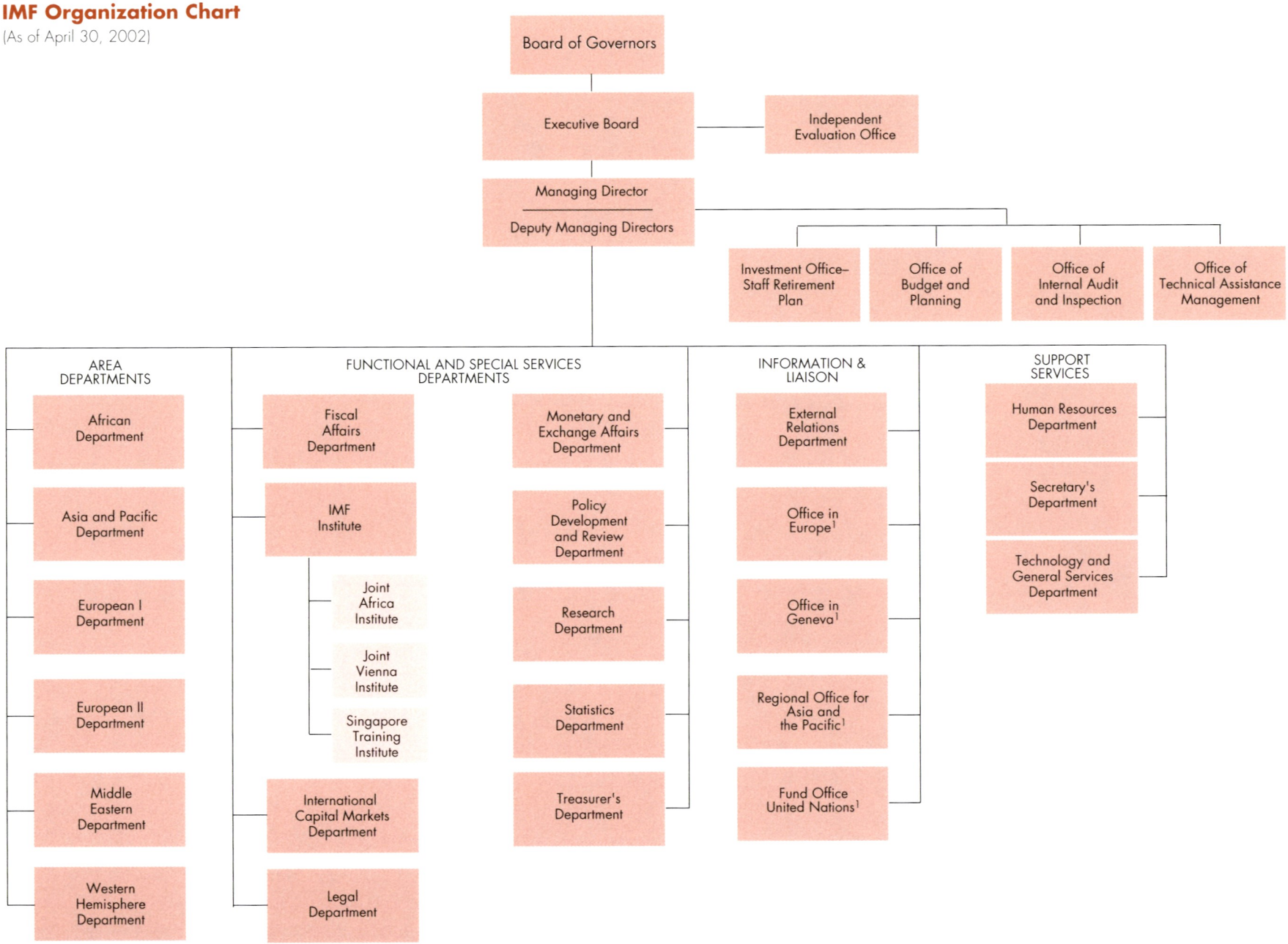
The *Monetary and Exchange Affairs Department* provides analytical and technical support, including development and dissemination of good policies and best practices, to member countries and area departments on issues related to financial sector systems and soundness—including prudential regulation, supervision, and systemic restructuring; central banking, monetary, and exchange policies and instruments; and capital flows and exchange measures and systems. In surveillance activities and requests for the use of IMF resources, the department reviews issues related to its areas of competence and provides its expertise in policy assessment and development. It also delivers and administers technical assistance in these areas, coordinating with collaborating central banks, supervisory agencies, and other international organizations.

The *Policy Development and Review Department* (PDR) plays a central role in the design and implementation of IMF financial facilities, surveillance, and other policies. Through its review of country and policy work, PDR ensures the consistent application of IMF policies

Figure 8.1

IMF Organization Chart

(As of April 30, 2002)



[1]Attached to the Office of Managing Director.

throughout the institution. In recent years, the department has spearheaded the IMF's work in strengthening the international financial system, in streamlining and focusing conditionality, and in developing the Poverty Reduction and Growth Facility and the HIPC Initiative. With area department staff, PDR economists participate in country missions and assist member countries that are making use of IMF resources by helping to mobilize other financial resources. The department plays a key role in the preparation of meetings of the IMFC and the Development Committee, as well as representing the IMF in other groups (e.g., Group of Twenty-Four) and at other institutions (especially the World Bank).

The *Research Department* conducts policy analysis and research in areas relating to the IMF's work. The department plays a prominent role in surveillance and in developing IMF policy concerning the international monetary system and cooperates with other departments in formulating IMF policy advice to member countries. It coordinates the semiannual World Economic Outlook exercise and prepares analysis for the surveillance discussions of the Group of Seven, Group of Twenty, and such regional groupings as the Asia Pacific Economic Cooperation (APEC) forum, and the Executive Board's seminars on world economic and market developments. The department also maintains contacts with the academic community and with other research organizations.

The *Statistics Department* maintains databases of country, regional, and global economic and financial statistics and reviews country data in support of the IMF's surveillance role. It is also responsible for developing statistical concepts in balance of payments, government finance, and monetary and financial statistics, as well as producing methodological manuals. The department provides technical assistance and training to help members develop statistical systems and produces the IMF's statistical publications. In addition, it is responsible for developing and maintaining standards for the dissemination of data by member countries.

The *Treasurer's Department* formulates the IMF's financial policies and practices; conducts and controls financial operations and transactions in the General Department, SDR Department, and Administered Accounts; controls expenditures under the administrative and capital budgets; and maintains IMF accounts and financial records. The department's responsibilities also include quota reviews, IMF financing and liquidity, borrowing, investments, the IMF's income, and operational policies on the SDR and is the lead department for the conduct of safeguards assessments of member country central banks.

Information and Liaison

The *External Relations Department* plays a key role in promoting public understanding of and support for the IMF and its policies. It aims to make the IMF's policies understandable through many activities aimed at transparency, communication, and engagement with a wide range of stakeholders. It prepares, edits, and distributes most IMF publications and other material, promotes contacts with the press and other external groups, such as civil society organizations and parliamentarians, and manages the IMF's website (see also Appendix V).

The IMF's offices in Asia, Europe, and at the United Nations maintain close contacts with other international and regional institutions (see Appendix IV). The UN Office also makes a substantive contribution to the Financing for Development process.

Support Services

The *Human Resources Department* helps ensure that the IMF has the right mix of staff skills, experience, and diversity to meet the changing needs of the organization, and that human resources are managed, organized, and deployed in a manner that maximizes their effectiveness, moderates costs, and keeps the workload and stress at acceptable levels. The department develops policies and procedures that help the IMF achieve its work objectives, manages compensation and benefits, recruitment, and career planning programs, and supports organizational effectiveness by assisting departments with their human resources management goals.

The *Secretary's Department* organizes and reports on the work of the IMF's governing bodies and provides secretariat services to them, as well as to the Group of Twenty-Four. In particular, it assists management in preparing and coordinating the work program of the Executive 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.

The *Technology and General Services Department* manages and delivers a wide range of services essential for the IMF's operation. These include information services (information technology; telecommunications; documents, records, and archives management; and library services); facilities construction and management; general administrative services (travel management, conference and catering services, graphics, procurement services, and Headquarters, field, and information technology security); and language services (translation, interpretation, and publications in languages other than English). In the wake of the terrorist attacks of September 11, 2001, in New York City and Washington and given the heightened awareness of security over the past few years, the department formed a new division to coordinate its security services.

The IMF also has *offices* responsible for internal auditing and review of work practices, budget matters, technical assistance, and investments under the staff retirement plan.

Table 8.1
Recommended Reforms to IMF Internal Budgeting

Recommendation	Status
Management to develop a top-down budget stance.	Adopted
Departments to prepare business plans.	Adopted
Identify outputs and output groups as focus of IMF activity.	Under review by Task Force
Distinguish between line and central departments, along with the full costing of resources allocated to outputs.	Under review by Task Force
Establish a better time and activity reporting system.	Under review by Task Force
Establish forward estimates by departments where first-year forward estimate becomes the starting point for the next budget.	To be implemented for FY2003 budget
Incorporate cost of all new activities into budget and forward estimates at the time of the policy decision.	Adopted
Develop measures of performance and zero-based reviews of outputs.	Under review by Task Force
Further review the scope for outsourcing.	In process
Maintain staff ceiling tables as an adjunct to the budget process.	Adopted

Independent Evaluation Office

Established by the International Monetary Fund's Executive Board in July 2001, the Independent Evaluation Office (IEO) provides objective and independent evaluation on issues related to the IMF. The office operates independently of IMF management and at arm's length from the IMF's Executive Board. The IEO enhances the learning culture of the IMF, promotes understanding of the IMF's work, and supports the IMF's Executive Board in its governance and oversight.

The IEO's work program for FY2003 was made final following extensive consultation with government authorities, nongovernment organizations, members of the academic community, and representatives of the financial sector, as well as the staff, management, and Executive Board. The first three projects chosen are (1) an investigation of prolonged use of IMF financial resources and its implications for the IMF; (2) an examination of fiscal adjustment in IMF-supported programs in a group of low- and middle-income countries; and (3) an evaluation of the role of the IMF in three recent capital account crisis cases (Brazil, Indonesia, and Korea). A description of the work program and terms of reference and issues papers for the first three projects are available on the IEO's website.

Administrative and Capital Budgets

Budget Reforms

A panel of external experts reviewed the IMF's internal budget processes in 2001. Their report contained a number of recommendations aimed at improving the transparency, accountability, and efficiency of the IMF's budget system. At a Board seminar held in June 2001, Executive Directors broadly supported a number of immediate reforms including:

- a shift to total resource costing, while retaining a staff ceiling;
- a comprehensive costing of new proposals to avoid future underfunded mandates;
- the reintroduction of a medium-term framework; and
- the preparation of departmental business plans.

In line with the evaluators' report, Executive Directors called for further work to assess how to achieve a greater focus on outputs in formulating the budget. Management established a task force to investigate such reforms and develop specific proposals. Table 8.1 lists the main recommendations and their status of implementation as of end-April 2002. Some reforms will be undertaken in FY2003, while others are under review for implementation in FY2004. The capital budget regime was also reformed to improve its transparency and efficiency.

Budgets and Actual Expenditure in FY2002

The IMF's Administrative Budget for the financial year that ended April 30, 2002 (FY2002) authorized total expenditure of $736.9 million (or $695.4 million net of estimated reimbursements). The FY2002 Capital Budget of $40 million included $14.8 million for building facilities projects, $15.4 million for information technology equipment, and $9.8 million for major software development. Actual gross administrative expenditures during the year totaled $721.3 million ($676.7 million net of reimbursements), and capital project disbursements totaled $61.5 million (Table 8.2).

Thus, actual administrative expenses fell below authorized spending by $18.7 million. The main factors that account for the underspent administrative budget in FY2002 are:

- the receipt of one-time credits totaling some $8 million due to past overpayments into the Medical Benefits Plan and the Group Life Insurance program;
- lower-than-budgeted travel expenditure in the aftermath of the attacks on September 11, 2001; and
- cancellation of the 2001 Annual Meetings.

The above were partially offset, however, by expenditures on heightened security measures.

Budgets in FY2003

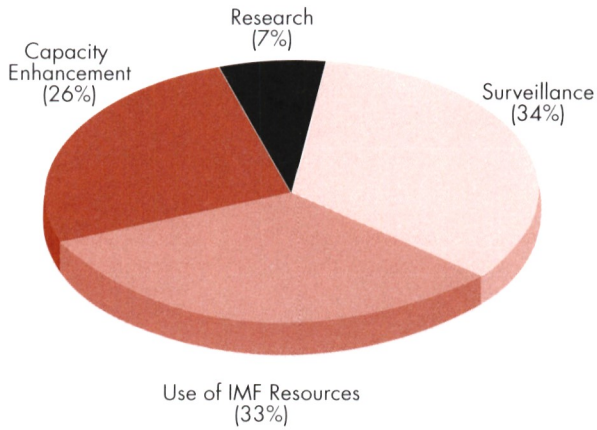
In April 2002, the Executive Board approved a gross Administrative Budget of $794.3 million for FY2003

($746.4 million net of estimated reimbursements). This represents a 7.8 percent increase in gross terms (7.3 on a net basis) over the approved budget of the previous year. Three factors account for the increase: intensified work on combating money laundering and the financing of terrorism; higher expenditures on security; and the establishment of two regional technical assistance centers in Africa (AFRITACs; see Chapter 7). The cost of all other substantive and administrative policy changes were more than fully offset by efficiency savings secured during budget discussions.

The external evaluators' report on internal budgeting discussed above recommended that the budget process pay attention to outputs as well as inputs. Based on available information, the estimated share of resources allocated to four output groups—surveillance, use of Fund resources, capacity enhancement (including technical assistance and external training), and research—is shown in Figure 8.2.

For the Capital Budget, the Executive Board approved an appropriation of $215.0 million for expenditures over the next three years, covering projects beginning in FY2003 as well as the completion of projects started in earlier years. Of this amount, $43.2 million is for building facilities and $42.5 million for information technology systems. The remaining $129.3 million is provided for the second headquarters building (HQ2), bringing the total budget for the HQ2 building to $149.3 million.

Figure 8.2
Share of Resources by Output Category, FY2003
(As a percent of total costs)



Medium-Term Framework

Management's goal for the medium term is to consolidate, not expand, the size of the institution while seeking efficiency savings and cutbacks on lower-priority work to accommodate new priorities and reduce staff stress. A nominal increase of about 4.5 percent in

Table 8.2
Administrative and Capital Budgets, Financial Years 2000–2003[1]
(Values expressed in millions of U.S. dollars and SDRs)

	Financial Year Ended April 30, 2000: Actual Expenses	Financial Year Ended April 30, 2001: Actual Expenses	Financial Year Ended April 30, 2002: Actual Expenses	Financial Year Ending April 30, 2003: Budget
Administrative Budget		*(In millions of U.S. dollars)*		
I. Personnel Expenses				
Salaries	267.7	292.1	320.7	348.2
Other Personnel Expenses	149.4	154.0	161.0	173.7
Subtotal	**417.1**	**446.1**	**481.7**	**521.9**
II. Other Expenses				
Travel	84.5	91.3	94.4	112.9
Other Expenses	122.7	138.1	145.3	159.5
Subtotal	**207.2**	**229.4**	**239.6**	**272.4**
III. Reimbursements	(41.3)	(37.5)	(44.6)	(47.9)
Total Administrative Budget	**583.0**	**638.0**	**676.7**	**746.4**
Capital Budget				
Capital projects	39.5	34.6	61.5	215.0
Memorandum item		*(In millions of SDRs)*		
Administrative expenses reported in the financial statements[2]	448.4	384.6	530.8	585.0

[1]Administrative and capital budgets as approved by the Board for the financial year ending April 30, 2003, compared with actual expenses for the financial years ended April 30, 2000, April 30, 2001, and April 30, 2002.

[2]The IMF's financial statements are prepared in SDRs in accordance with International Accounting Standards (IAS). They include depreciation of some capital budget projects and account for employee benefits in accordance with IAS 19 and other reconciled differences to the budget in U.S. dollars.

Table 8.3
Distribution of Professional Staff by Nationality
(In percent)

Region[1]	1980	1990	2001
Africa	3.8	5.8	6.6
Asia	12.3	12.7	16.3
Japan	1.4	1.9	1.3
Other Asia	10.9	10.8	15.0
Europe	39.5	35.1	29.7
France	6.9	5.5	3.9
Germany	3.7	4.3	3.7
Italy	1.7	1.4	2.2
United Kingdom	8.2	8.0	6.2
Russia and countries of the former Soviet Union	. . .	. . .	2.0
East Europe and Baltic countries			1.9
Other Europe	19.0	15.9	9.8
Middle East	5.4	5.5	4.5
Western Hemisphere	39.1	41.0	42.9
Canada	2.6	2.8	3.2
United States	25.9	25.9	25.4
Other Western Hemisphere	10.6	12.3	14.3
Total	**100.0**	**100.0**	**100.0**

[1]Regions are defined on the basis of the country distribution of the IMF's area departments. The European region includes countries in both the European I and European II area departments. The Middle East region includes countries in North Africa.

the administrative budget in both FY2004 and FY2005 is established as the estimated cost of existing policies.

Changes in Management and Senior Staff

- ***First Deputy Managing Director.*** On August 31, 2001, FDMD Stanley Fischer left his position, which he had held since 1994. His successor, Anne Krueger, Stanford University professor and former Vice President of the World Bank, took up her duties on September 1, 2001.
- ***Economic Counsellor and Director of the Research Department.*** After 10 years of IMF service, Michael Mussa relinquished his post on June 29, 2001. Harvard University professor Kenneth S. Rogoff, an authority on international economics, succeeded Mr. Mussa on August 2, 2001.
- ***Director of the Policy Development and Review Department.*** Long-serving PDR Director and latterly Counsellor Jack Boorman relinquished his director's position on November 30, 2001. His successor, Timothy Geithner, former U.S. Treasury Undersecretary for International Affairs and Senior Fellow for International Economics at the Council on Foreign Relations, assumed the duties of Director on December 3, 2001.
- ***Director of the International Capital Markets Department.*** Gerd Häusler, formerly chairman of Dresdner Bank AG's investment banking arm and a member of the banking group's Managing Board, became Counsellor and the first Director of the new International Capital Markets Department on August 1, 2001.
- ***Director of Special Operations.*** Anoop Singh, formerly Deputy Director of the Asia and Pacific Department, was appointed to the newly created position of Director of Special Operations on February 25, 2002, with responsibility for leading the IMF staff team working with the Argentine authorities. (Subsequently, on June 10, it was announced that Mr. Singh would succeed Claudio Loser as Director of the Western Hemisphere Department and that Special Operations would by the end of the summer be integrated into the IMF's organizational structure.)

Staff

The Managing Director appoints a staff whose sole responsibility is to the IMF, whose efficiency and technical competence are expected to be, as set forth in the Articles of Agreement, of the "highest standards," and whose diversity by nationality reflects its membership and gives "due regard to the importance of recruiting personnel on as wide a geographical basis as possible." In accordance with these high standards, the IMF has put in place a financial disclosure process for staff.

To provide the continuity and institutional memory from which the membership benefits, the IMF has an employment policy designed to recruit and retain a corps of international civil servants interested in spending a career, or a significant part of a career, at the IMF. At the same time, the IMF recognizes the value of shorter-term employment and recruitment of midcareer professionals consistent with the changing labor market and the benefit of fresh perspectives. In the case of a number of skills and jobs—relating mainly to certain services and highly specialized economic and financial skills—business considerations have called for shorter-term appointments or for outsourcing activities.

As of December 31, 2001, the IMF employed 787 staff at the assistant level and 1,846 professional staff (about two-thirds of whom were economists). In addition to its regular staff, the IMF had 343 contractual employees on its payroll, including technical assistance experts, consultants, and other short-term staff not included in the regular staff ceiling. Of the IMF's 183 member countries, 133 were represented on the staff. (See Table 8.3 for the evolution of the nationality distribution of IMF professional staff since 1980.)

Recruitment and Retention

Over the course of 2001, 324 new staff members joined the IMF—231 external recruits and 93 conversions to

staff status. The 231 external hires (125 economists, 37 hires in professional and managerial grades in specialized career streams, and 69 assistants) represent an increase of 2 over the 229 staff members hired in 2000. Of the external hires in 2001, 78 were midcareer economists and 36 (plus one internally recruited) entered the Economist Program. The two-year Economist Program serves to familiarize entry-level economists with the work of the IMF by placing them in two different departments, each for a 12-month period, and then offering regular staff appointments to those who perform well.

During 2001, 146 staff separated from the organization. The separation rate of staff in professional and managerial grades was 5.5 percent (101 staff) in 2001. This represents an increase from 5.1 percent (88 staff) in 2000 and a decline from 5.9 percent (92 staff) in 1999.

Table 8.4
IMF Staff Salary Structure
(In U.S. dollars, effective May 1, 2002)

Grade	Range Minimum	Range Maximum	Illustrative Position Titles
A1	22,210	33,350	Not applicable (activities at this level have been outsourced)
A2	24,900	37,320	Driver
A3	27,850	41,790	Staff Assistant (Clerical)
A4	31,200	46,840	Staff Assistant (Beginning Secretarial)
A5	34,990	52,470	Staff Assistant (Experienced Secretarial)
A6	39,100	58,720	Senior Secretarial Assistant, Other Assistants (e.g., Editorial, Computer Systems, Human Resources
A7	43,860	65,800	Research Assistant, Administrative Assistant
A8	49,120	73,700	Senior Administrative Assistants (e.g., Accounting, Human Resources)
A9	52,240	78,400	Librarian, Translator, Research Officer, Human Resources Officers
A10	60,100	90,140	Accountant, Research Officer, Administrative Officer
A11	69,010	103,550	Economist (Ph.D. entry level), Attorney, Specialist (e.g., Accounting, Computer Systems, Human Resources)
A12	77,280	115,940	Economist, Attorney, Specialist (e.g., Accounting, Computer Systems, Human Resources)
A13	86,580	129,840	Economist, Attorney, Specialist (e.g., Accounting, Computer Systems, Human Resources)
A14	96,950	145,450	Deputy Division Chief, Senior Economist
A15/B1	109,560	164,380	Division Chief, Deputy Division Chief
B2	126,310	183,270	Division Chief
B3	150,100	195,310	Assistant Department Director, Advisor
B4	174,920	218,640	Deputy Department Director, Senior Advisor
B5	205,980	247,260	Department Director

Note: The above salary structure for IMF staff is intended to be internationally competitive to enable the IMF to secure highly qualified staff from all member countries. The salaries are reviewed annually by the Executive Board. They are kept in line with the salaries for equivalent grades and positions in private sector financial and industrial firms and in representative public sector agencies, mainly in the United States. Because IMF staff other than U.S. citizens are usually not required to pay income taxes on their IMF compensation, the salaries are set on a net-of-tax basis, which is generally equivalent to the after-tax take-home pay of the employees of the public and private sector firms from which IMF salaries are derived.

Dispute Resolution

Early in 2001, management appointed an external panel of three independent experts to carry out a comprehensive review of its systems and procedures for resolving employment-related disputes arising between the IMF and staff members. The panel reported to management in early 2002. It concluded that the IMF has developed a large internal body of law that appropriately covers employment terms and conditions as well as the duties, obligations, and rights of staff members. In addition, it has set up comprehensive formal and informal systems for employees to raise concerns regarding rules and regulations on employment terms and conditions and to resolve employment-related disputes. Nevertheless, the panel recommended a number of changes or clarifications in the current system and current procedures. Nearly all of the recommendations were accepted by management and are being implemented during 2002. A report outlining management's views on the recommendations was presented to the Executive Board in April 2002.

Salary Structure

To recruit and retain the staff it needs, the IMF has developed a compensation and benefits system designed to be competitive, to reward performance, and to take account of the special needs of a multinational and largely expatriate staff. The IMF's staff salary structure is reviewed annually and, if warranted, adjusted 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. After analyses of updated comparator salaries, the salary structure was increased 4.8 percent for FY2002, and the Board approved an increase of 4.0 percent for FY2003 (Table 8.4).

Management Remuneration

Reflecting the responsibilities of each management position and the relationship between the management

Table 8.5
Distribution of Staff by Gender

Staff	1980 Number	1980 Percent	1990 Number	1990 Percent	2001[1] Number	2001[1] Percent
All Staff						
Total	1,444	100.0	1,774	100.0	2,633	100.0
Women	676	46.8	827	46.6	1,224	46.5
Men	768	53.2	947	53.4	1,409	53.5
Support Staff						
Total	613	100.0	642	100.0	787	100.0
Women	492	80.3	540	84.1	662	84.1
Men	121	19.7	102	15.9	125	15.9
Professional staff						
Total	646	100.0	897	100.0	1,494	100.0
Women	173	26.8	274	30.5	513	34.3
Men	473	73.2	623	69.5	981	65.7
Economists						
Total	362	100.0	529	100.0	936	100.0
Women	42	11.6	70	13.2	211	22.5
Men	320	88.4	459	86.8	725	77.5
Specialized career streams						
Total	284	100.0	368	100.0	558	100.0
Women	131	46.1	204	55.4	302	54.1
Men	153	53.9	164	44.6	256	45.9
Managerial staff						
Total	185	100.0	235	100.0	352	100.0
Women	11	5.9	13	5.5	49	13.9
Men	174	94.1	222	94.5	303	86.1
Economists						
Total	99	100.0	184	100.0	287	100.0
Women	4	4.0	9	4.9	31	10.8
Men	95	96.0	175	95.1	256	89.2
Specialized career streams						
Total	86	100.0	51	100.0	65	100.0
Women	7	8.1	4	7.8	18	27.7
Men	79	91.9	47	92.2	47	72.3

[1]Includes only staff on duty.

and staff salary structures, the salary structure for management, as of July 1, 2001, is as follows:

Managing Director	$327,880[1]
First Deputy Managing Director	$279,596
Deputy Managing Directors	$266,276

Management remuneration is subject to a combination of periodic structural reviews by the Executive Board and annual revisions. It is autonomous and not formally linked to remuneration in other international organizations.

Executive Board Remuneration

Upon the recommendation of the Board of Governors' Committee on the Remuneration of Executive Directors, the Governors approved from July 1, 2001, increases of 4.3 percent in the remuneration of Executive Directors and their Alternates. The remuneration of Executive Directors is $175,910.[2] The remuneration of Alternate Executive Directors is $152,160.[3]

Diversity

The Executive Board continued to emphasize staff diversity as important for improving the IMF's effectiveness as an international institution. The IMF's Senior Advisor on Diversity, who reports to the Managing Director, further developed indicators to monitor and strengthen nationality and gender diversity (Tables 8.3, 8.5, and 8.6), as well as diversity management in the organization. In line with the IMF's diversity strategy, during calendar year 2001, the Human Resources Department (HRD) focused on integrating diversity into its human resource management policies and practices, including performance competencies and management development, and initiated work on new programs and benchmarks to guide the IMF's diversity efforts.

The Senior Advisor works closely with HRD and other departments to identify needs and opportunities for promoting diversity and carrying out departmental action plans, which have been prepared and monitored every year since 1996. In FY2002, departments integrated these action plans into comprehensive human resource plans, which in the future will provide a framework for the IMF's diversity efforts. Typically, diversity actions include initiatives

[1]In addition, a supplemental allowance of $58,680 is paid to cover expenses.

[2]In determining the salary adjustments for Executive Directors for 2001, the committee took into consideration the percentage change in remuneration of the highest-level civil servant in the ministry of finance and central bank for selected member countries, and that country's change in its consumer price index.

[3]These figures do not apply to the U.S. Executive Director and Alternate Executive Director, who are subject to U.S. congressional salary caps.

in recruitment and career development, orientation and mentoring programs for newcomers, and measures to improve communication and increase the transparency of human resource policies, procedures, and statistics.

In addition to diversity-specific measures to address and prevent problems, the IMF is placing more emphasis on people management skills and diversity sensitivity in the performance assessment of supervisors and in recruitment and promotion decisions, which are of particular importance in an institution with a diverse workforce. To promote family-friendly work arrangements and benefits, the IMF opened a day care center and extended most benefits to domestic partners.

The departmental annual progress reports submitted to HRD in FY2002 and the supplementary input from departments to the Senior Advisor on Diversity showed improvements in diversity awareness and skills, more systematic and structured approaches, and better people management practices. Progress was also achieved in the recruitment, promotion, and overall representation of underrepresented staff groups. Progress toward having more women at the managerial level moved ahead after having stalled in 2001, but the number of developing country staff at the managerial level dropped slightly. Achieving satisfactory diversity of staff in an institution that emphasizes career employment is a continuing goal that requires concerted effort. Progress is monitored and problems are reported in a very transparent manner, including in the Diversity Annual Report on the IMF's website.

New Building

Planning is well under way to construct a second headquarters building on property owned by the IMF adjacent to the existing headquarters building. In April 2002 the District of Columbia's Zoning Commission voted to approve rezoning for the project, and demolition of the existing building has begun. After reviewing bids for construction and selecting a contractor, the IMF's development manager expects to begin construction in the fall of 2002. Under current projections, the new building will accommodate all staff within the headquarters complex, reducing overall costs by eliminating the need to lease office space. The project is expected to be completed by 2006.

Table 8.6
Distribution of Staff by Developing and Industrial Countries

Staff	1990		2001	
	Number	Percent	Number	Percent
All Staff				
Total	1,774	100.0	2,633	100.0
Developing countries	731	41.2	1,129	42.9
Industrial countries	1,043	58.8	1,504	57.1
Support Staff				
Total	642	100.0	787	100.0
Developing countries	328	51.1	439	55.8
Industrial countries	314	48.9	348	44.2
Professional staff				
Total	897	100.0	1,494	100.0
Developing countries	343	38.2	586	39.2
Industrial countries	554	61.8	908	60.8
Economists				
Total	529	100.0	936	100.0
Developing countries	220	41.6	385	41.1
Industrial countries	309	58.4	551	58.9
Specialized career streams				
Total	368	100.0	558	100.0
Developing countries	123	33.4	201	36.0
Industrial countries	245	66.6	357	64.0
Managerial staff				
Total	235	100.0	352	100.0
Developing countries	60	25.5	104	29.5
Industrial countries	175	74.5	248	70.5
Economists				
Total	713	100.0	287	100.0
Developing countries	274	38.4	92	32.1
Industrial countries	439	61.6	195	67.9
Specialized career streams				
Total	51	100.0	65	100.0
Developing countries	6	11.8	12	18.5
Industrial countries	45	88.2	53	81.5

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APPENDIX I

International Reserves

Total international reserves, including gold, increased by 9 percent during 2001 and stood at SDR 1.9 trillion at the end of the year (Table I.1). Foreign exchange reserves, which constitute the largest component of official reserve holdings, grew by 9 percent, to SDR 1.6 trillion. IMF-related assets, which make up the rest of nongold reserves, increased by 16 percent, to SDR 76 billion. The market value of gold held by monetary authorities increased by 2 percent in 2001, to SDR 203 billion at year-end.[1]

Foreign Exchange Reserves

Ninety-six percent of nongold assets consisted of foreign exchange reserves at the end of 2001. The developing countries, which held 62 percent of all foreign exchange reserves at the end of 2001, increased their holdings by 13 percent, to SDR 1 trillion, following comparable increases in the previous two years. During 2001, the foreign exchange holdings of industrial countries rose by 4 percent, to SDR 617 billion.

In 2001, the oil-exporting developing countries, which hold about 10 percent of all developing countries' foreign exchange reserves, increased their foreign exchange assets by 7 percent, following increases of 15 percent and 28 percent in the two preceding years. Foreign exchange reserves of the net creditor developing country group rose by 9 percent, to SDR 201 billion, and those of net debtor countries grew by 14 percent to SDR 799 billion at the end of 2001. Foreign exchange reserves of net debtors without debt-servicing problems increased by 16 percent, to SDR 659 billion, while those of countries with debt-servicing problems increased by 6 percent, to SDR 140 billion.

Holdings of IMF-Related Assets

During 2001, total IMF-related assets (that is, reserve positions in the IMF and SDRs) increased by 16 percent, following declines of 10 percent in each of the previous two years. Industrial countries hold a majority of IMF-related assets: 82 percent at the end of 2001. The increase in IMF-related assets was mainly attributable to a 20 percent growth in members' reserve positions in the IMF—which consist of members' reserve tranche and creditor positions—to SDR 57 billion. SDR holdings of IMF members increased by 6 percent, to SDR 20 billion, reflecting a decline in holdings by the IMF and other prescribed holders.

Gold Reserves

The market value of gold reserves increased by 2 percent, to SDR 203 billion, reflecting an increase of 3 percent in the SDR price of gold in 2001; the physical stock of official gold declined by one percent. The share of gold in officially held reserves has declined gradually to 11 percent at the end of 2001, whereas in the early 1980s gold represented about half of all officially held reserves. Most of the gold reserves (83 percent) are held by industrial countries: gold constituted 20 percent of these countries' total reserves at the end of 2001. Gold reserves accounted for 3 percent of the total reserves of the developing countries.

Developments During First Quarter of 2002

During the first quarter of 2002, total reserve assets rose by SDR 57 billion, of which SDR 32 billion represents an increase in foreign exchange reserves. As a consequence of a rise in the SDR price of gold since the end of 2001, the market value of gold reserves increased by SDR 23 billion during the first quarter of 2002, while the physical stock of official gold declined somewhat since end-2001. Holdings of IMF related assets remained close to their end-2001 level, at SDR 78 billion.

Currency Composition of Foreign Exchange Reserves

The currency composition of foreign exchange reserves has changed gradually over the past decade, with the share of U.S. dollar holdings in foreign exchange reserves rising from 55 percent in 1992 to 68 percent in 1999 and staying at that level through the end of 2001 (Table I.2). The euro, which replaced 11 European currencies and the European currency unit (ECU) on January 1, 1999, accounted for 13 percent of total foreign exchange reserves in 2001. The share of the euro has stayed effectively unchanged since 1999. Given that, at the introduction of the euro, the Eurosystem's reserves previously denominated in euro legacy currencies[2] became domestic assets of the euro area, the share of the euro in 1999–2001 is not directly comparable with the previous years' combined share of the four euro legacy currencies identified in Table I.2: deutsche mark, French franc, Netherlands guilder, and private ECU. However, after adjusting the data to take into account only holdings of these currencies outside

[1]Official monetary authorities comprise central banks and also currency boards, exchange stabilization funds, and treasuries, to the extent that they perform monetary authorities' functions.

[2]Those foreign exchange reserves that, up to December 31, 1998, were denominated in euro area former national currencies and private ECUs.

Table I.1

Official Holdings of Reserve Assets[1]

(In billions of SDRs)

	1996	1997	1998	1999	2000	2001	March 2002
All countries							
Total reserves excluding gold							
IMF-related assets							
Reserve positions in the IMF	38.0	47.1	60.6	54.8	47.4	56.9	58.1
SDRs	18.5	20.5	20.4	18.5	18.5	19.6	19.6
Subtotal, IMF-related assets	**56.5**	**67.6**	**81.0**	**73.2**	**65.9**	**76.4**	**77.7**
Foreign exchange	1,085.7	1,193.7	1,163.1	1,295.2	1,478.3	1,616.7	1,649.1
Total reserves excluding gold	**1,142.2**	**1,261.3**	**1,244.0**	**1,368.4**	**1,544.1**	**1,693.0**	**1,726.7**
Gold[2]							
Quantity (*millions of ounces*)	904.9	887.1	966.5	964.5	950.6	941.4	937.8
Value at London market price	232.4	190.8	197.6	204.0	200.2	203.3	226.7
Total reserves including gold	**1,374.6**	**1,452.1**	**1,441.6**	**1,572.4**	**1,744.3**	**1,896.4**	**1,953.4**
Industrial countries							
Total reserves excluding gold							
IMF-related assets							
Reserve positions in the IMF	32.6	41.3	53.9	46.8	39.7	47.0	47.6
SDRs	14.5	15.5	15.8	14.7	14.4	16.0	15.8
Subtotal, IMF-related assets	47.1	56.8	69.8	61.5	54.1	62.9	63.4
Foreign exchange	501.7	520.9	475.8	524.8	595.6	617.1	623.0
Total reserves excluding gold	**548.8**	**577.7**	**545.6**	**586.3**	**649.7**	**680.0**	**686.4**
Gold[2]							
Quantity (*millions of ounces*)	748.2	732.5	808.7	810.4	796.5	783.6	779.6
Value at London market price	192.1	157.5	165.3	171.4	167.8	169.2	188.4
Total reserves including gold	**740.9**	**735.2**	**710.9**	**757.7**	**817.5**	**849.3**	**874.8**
Developing countries							
Total reserves excluding gold							
IMF-related assets							
Reserve positions in the IMF	5.4	5.7	6.7	8.0	7.7	9.9	10.5
SDRs	4.0	5.0	4.5	3.7	4.1	3.6	3.8
Subtotal, IMF-related assets	**9.4**	**10.8**	**11.2**	**11.7**	**11.8**	**13.5**	**14.3**
Foreign exchange	584.1	672.8	687.3	770.4	882.7	999.6	1,026.0
Total reserves excluding gold	**593.4**	**683.6**	**698.5**	**782.1**	**894.4**	**1,013.0**	**1,040.3**
Gold[2]							
Quantity (*millions of ounces*)	156.7	154.6	157.9	154.1	154.1	157.9	158.2
Value at London market price	40.2	33.3	32.3	32.6	32.5	34.1	38.2
Total reserves including gold	**633.7**	**716.8**	**730.7**	**814.7**	**926.9**	**1,047.1**	**1,078.5**
Net debtor developing countries							
Total reserves excluding gold							
IMF-related assets							
Reserve positions in the IMF	3.9	4.2	5.0	5.6	5.4	6.4	6.4
SDRs	2.9	3.9	3.3	3.1	3.3	2.7	2.9
Subtotal, IMF-related assets	**6.9**	**8.1**	**8.4**	**8.7**	**8.7**	**9.1**	**9.3**
Foreign exchange	448.3	534.8	546.8	608.1	699.2	798.9	822.7
Total reserves excluding gold	**455.1**	**542.8**	**555.1**	**616.8**	**707.9**	**808.0**	**832.0**
Gold[2]							
Quantity (*millions of ounces*)	129.4	127.9	131.0	127.9	128.0	131.7	132.0
Value at London market price	33.2	27.5	26.8	27.1	27.0	28.5	31.9
Total reserves including gold	**488.3**	**570.4**	**581.8**	**643.9**	**734.8**	**836.4**	**863.9**
Net debtor developing countries without debt-servicing problems							
Total reserves excluding gold							
IMF-related assets							
Reserve positions in the IMF	3.5	3.8	4.6	4.8	4.6	5.7	5.7
SDRs	1.8	3.0	2.6	2.4	2.1	2.1	2.2
Subtotal, IMF-related assets	5.3	6.8	7.2	7.2	6.7	7.7	7.9
Foreign exchange	327.2	400.4	425.7	485.9	566.5	658.9	684.0
Total reserves excluding gold	**332.5**	**407.2**	**432.8**	**493.0**	**573.1**	**666.6**	**691.8**
Gold[2]							
Quantity (*millions of ounces*)	80.3	82.7	85.9	83.8	83.5	87.1	87.0
Value at London market price	20.6	17.8	17.6	17.7	17.6	18.8	21.0
Total reserves including gold	**353.1**	**424.9**	**450.4**	**510.8**	**590.7**	**685.4**	**712.8**

Note: Components may not sum to totals because of rounding.

Source: International Monetary Fund, *International Financial Statistics.*

[1]End of year figures for all years except 2002. "IMF-related assets" comprise reserve positions in the IMF and SDR holdings of all IMF members. The entries under "Foreign exchange" and "Gold" comprise official holdings of those IMF members for which data are available and certain other countries or areas.

[2]One troy ounce equals 31.103 grams. The market price is the afternoon price fixed in London on the last business day of each period.

Table I.2

Share of National Currencies in Total Identified Official Holdings of Foreign Exchange, End of Year[1]
(In percent)

	1992	1993	1994	1995	1996	1997	1998	1999	2000	2001
All countries										
U.S. dollar	55.3	56.7	56.6	57.0	60.3	62.4	65.9	68.4	68.1	68.3
Japanese yen	7.6	7.7	7.9	6.8	6.0	5.2	5.4	5.5	5.2	4.9
Pound sterling	3.1	3.0	3.3	3.2	3.4	3.7	3.9	4.0	3.9	4.0
Swiss franc	1.0	1.1	0.9	0.8	0.8	0.7	0.7	0.7	0.7	0.7
Euro	—	—	—	—	—	—	—	12.7[2]	13.0[2]	13.0[2]
Deutsche mark	13.3	13.7	14.2	13.7	13.1	12.9	12.2	—	—	—
French franc	2.7	2.3	2.4	2.3	1.9	1.4	1.4	—	—	—
Netherlands guilder	0.7	0.7	0.5	0.4	0.3	0.4	0.4	—	—	—
ECUs [3]	9.7	8.2	7.7	6.8	5.9	5.0	0.8	—	—	—
Unspecified currencies[4]	6.5	6.6	6.4	8.9	8.3	8.4	9.3	8.8	9.1	9.0
Industrial countries										
U.S. dollar	48.8	50.2	50.8	51.8	56.1	57.9	66.7	73.5	73.3	74.5
Japanese yen	7.6	7.8	8.2	6.6	5.6	5.8	6.6	6.5	6.3	5.5
Pound sterling	2.4	2.2	2.3	2.1	2.0	1.9	2.2	2.3	2.0	1.8
Swiss franc	0.4	0.3	0.2	0.1	0.1	0.1	0.2	0.1	0.2	0.4
Euro	—	—	—	—	—	—	—	10.7[2]	10.4[2]	9.7[2]
Deutsche mark	15.1	16.4	16.3	16.4	15.6	15.9	13.4	—	—	—
French franc	2.9	2.6	2.4	2.3	1.7	0.9	1.3	—	—	—
Netherlands guilder	0.4	0.4	0.3	0.2	0.2	0.2	0.2	—	—	—
ECUs[3]	16.7	15.2	14.6	13.4	12.0	10.9	1.9	—	—	—
Unspecified currencies[4]	5.7	4.8	5.0	7.0	6.7	6.4	7.4	6.9	7.6	8.1
Developing countries										
U.S. dollar	64.5	64.3	63.1	62.4	64.3	66.2	65.3	64.6	64.2	64.1
Japanese yen	7.7	7.5	7.6	7.0	6.5	4.7	4.5	4.7	4.4	4.5
Pound sterling	4.0	4.0	4.4	4.3	4.8	5.1	5.2	5.3	5.2	5.5
Swiss franc	1.9	2.0	1.7	1.5	1.4	1.1	1.1	1.1	1.0	0.9
Euro	—	—	—	—	—	—	—	14.2	15.0	15.3
Deutsche mark	10.8	10.5	11.9	11.0	10.6	10.3	11.3	—	—	—
French franc	2.3	2.0	2.4	2.3	2.0	1.8	1.5	—	—	—
Netherlands guilder	1.0	1.0	0.8	0.6	0.5	0.6	0.5	—	—	—
ECUs [3]	—	—	—	—	—	—	—	—	—	—
Unspecified currencies[5]	7.7	8.7	8.0	10.9	9.9	10.2	10.8	10.2	10.1	9.6

Note: Components may not sum to total because of rounding.

[1]Only IMF member countries that report their official holdings of foreign exchange are included in this table.

[2]Not comparable with the combined share of euro legacy currencies in previous years because it excludes the euros received by euro area members when their previous holdings of other euro area members' legacy currencies were converted into euros on January 1, 1999.

[3]In the calculation of currency shares, the ECU is treated as a separate currency. ECU reserves held by the monetary authorities existed in the form of claims on both the private sector and European Monetary Institute (EMI), which issued official ecus to European Union central banks through revolving swaps against the contribution of 20 percent of their gross gold holdings and U. S. dollar reserves. On December 31, 1998, the official ECUs were unwound into gold and U. S. dollars; hence, the share of ECUs at the end of 1998 was sharply lower than a year earlier. The remaining ecu holdings reported for 1998 consisted of ECUs issued by the private sector, usually in the form of ECU deposits and bonds. On January 1, 1999, these holdings were automatically converted into euros.

[4]The residual is equal to the difference between total foreign exchange reserves of IMF member countries and the sum of the reserves held in the currencies listed in the table.

[5]The calculations here rely to a greater extent on IMF staff estimates than do those provided for the group of industrial countries.

the euro area, their combined share in 1998 was virtually identical to the share of the euro in 1999.

The share of the Japanese yen in total foreign exchange reserves declined from 8 percent at end-1992 to 5 percent at the end of 1997, and has since stayed at about that level through 2001. During the past decade, the share of pound sterling has remained between 3 and 4 percent and that of the Swiss franc at approximately 1 percent. The share of unspecified currencies, which include currencies not identified in Table I.2 as well as foreign exchange reserves for which no information on currency composition is available, has remained at 9 percent since the end of 1998.

For industrial countries, the share of U.S. dollar holdings increased throughout the 1990s to reach 74 percent in 1999, and increased slightly to 75 percent at the end of 2001. The shares of the euro and the Japanese yen in those countries' foreign exchange reserves declined by less than one percentage point each from the preceding year, to 10 percent and 6 percent, respectively. Shares of pound sterling and the Swiss franc have been practically unchanged over the past ten years.

Table I.3

Currency Composition of Official Holdings of Foreign Exchange, End of Year[1]

(In millions of SDRs)

	1993	1994	1995	1996	1997	1998	1999	2000	2001
U.S. dollar									
Change in holdings	51,253	32,570	73,532	121,226	87,767	18,391	108,764	118,249	86,812
Quantity change	49,833	57,314	78,555	103,250	45,115	48,533	90,522	72,232	51,437
Price change	1,420	−24,744	−5,023	17,976	42,651	−30,142	18,242	46,017	35,375
Year-end value	390,698	423,269	496,801	618,027	705,793	724,185	832,949	951,197	1,038,010
Japanese yen									
Change in holdings	6,206	6,007	19	2,685	−3,197	975	7,122	6,402	1,730
Quantity change	930	3,123	3,089	8,021	−56	−3,494	−2,128	11,146	9,178
Price change	5,276	2,884	−3,070	−5,336	−3,141	4,469	9,250	−4,745	−7,448
Year-end value	53,023	59,030	59,048	61,733	58,536	59,511	66,634	73,036	74,765
Pound sterling									
Change in holdings	1,735	3,992	3,240	7,353	6,180	1,123	6,487	4,778	7,514
Quantity change	2,095	4,129	3,833	3,258	4,630	2,760	6,651	6,163	7,023
Price change	−361	−136	−594	4,095	1,549	−1,636	−163	−1,385	491
Year-end value	20,620	24,612	27,852	35,205	41,385	42,509	48,996	53,774	61,288
Swiss franc									
Change in holdings	1,284	−932	210	881	−35	−54	288	1,780	575
Quantity change	1,382	−1,372	−541	1,811	75	−128	1,260	1,481	468
Price change	−98	439	751	−930	−109	74	−972	299	107
Year-end value	7,621	6,689	6,899	7,780	7,745	7,691	7,979	9,759	10,335
Euro									
Change in holdings	—	—	—	—	—	—	9,786[2]	27,947	15,804
Quantity change	—	—	—	—	—	—	28,368	31,304	19,097
Price change	—	—	—	—	—	—	−18,582	−3,357	−3,293
Year-end value	—	—	—	—	—	—	154,163	182,110	197,914
Deutsche mark									
Change in holdings	12,725	11,862	13,296	14,050	11,896	−11,457	—	—	—
Quantity change	18,692	7,081	6,817	20,159	22,336	−15,344	—	—	—
Price change	−5,967	4,781	6,478	−6,109	−10,440	3,887	—	—	—
Year-end value	94,552	106,414	119,709	133,759	145,655	134,198	—	—	—
French franc									
Change in holdings	−131	1,912	1,974	−981	−3,388	−488	—	—	—
Quantity change	915	1,262	668	−334	−2,037	−890	—	—	—
Price change	−1,045	650	1,307	−647	−1,352	402	—	—	—
Year-end value	16,169	18,081	20,055	19,074	15,686	15,198	—	—	—
Netherlands guilder									
Change in holdings	423	−512	−301	−330	1,138	−569	—	—	—
Quantity change	718	−731	−547	−152	1,443	−708	—	—	—
Price change	−295	219	246	−178	−305	140	—	—	—
Year-end value	4,582	4,070	3,769	3,439	4,577	4,009	—	—	—
European currency unit									
Change in holdings	−2,820	959	1,665	985	−3,240	−47,848	—	—	—
Quantity change	1,503	−1,035	−1,157	1,833	515	−49,304	—	—	—
Price change	−4,323	1,994	2,822	−849	−3,755	1,456	—	—	—
Year-end value	56,654	57,613	59,278	60,262	57,022	9,174	—	—	—
Sum of the above[3]									
Change in holdings	70,675	55,859	93,635	145,868	97,120	−39,925	132,448	159,156	112,435
Quantity change	76,068	69,772	90,718	137,846	72,021	−18,576	124,673	122,327	87,203
Price change	−5,393	−13,914	2,917	8,022	25,099	−21,350	7,774	36,830	25,232
Year-end value	643,919	699,777	793,412	939,280	1,036,400	996,474	1,110,720	1,269,876	1,382,312
Total official holdings[4]									
Change in holdings	76,975	60,648	121,118	153,767	107,969	−30,581	132,104	183,255	138,204
Year-end value	750,192	810,841	931,959	1,085,726	1,193,695	1,163,114	1,295,218	1,478,473	1,616,677

Note: Components may not sum to totals because of rounding.

[1]The currency composition of foreign exchange is based on the IMF's currency survey and on estimates derived mainly, but not solely, from official national reports. The numbers in this table should be regarded as estimates that are subject to adjustment as more information is received. Quantity changes are derived by multiplying the changes in official holdings of each currency from the end of one quarter to the next by the average of the two SDR prices of that currency prevailing at the corresponding dates. This procedure converts the change in the quantity of national currency from own units to SDR units of account. Subtracting the SDR value of the quantity change so derived from the quarterly change in the SDR value of foreign exchange held at the end of two successive quarters and cumulating these differences yields the effect of price changes over the years shown.

[2]Represents the change from end–1998 holdings of euro legacy currencies by official institutions outside the euro area.

[3]Each item represents the sum of the currencies above.

[4]Includes a residual whose currency composition could not be ascertained, as well as holdings of currencies other than those shown.

The share of unspecified currencies stood at 8 percent in 2001.

The share of the U.S. dollar in developing countries' foreign exchange reserves was 64 percent in 2001, a level that has remained relatively constant over the last decade. Holdings of the euro accounted for 15 percent of those countries' foreign exchange reserves, a level unchanged from the previous year and one percentage point higher than its share in 1999. During the past decade, the share of the Japanese yen has gradually decreased by about 3 percentage points, to 5 percent at the end of 2001, while the share of pound sterling has increased by about 2 percentage points, to 6 percent. The share of the Swiss franc has remained virtually unchanged at 1 percent since 1997. Unspecified currencies accounted for 10 percent of developing countries' foreign exchange reserves in 2001.

Changes in the SDR value of foreign exchange reserves can be decomposed into quantity and valuation (price) changes (Table I.3). Official reserves held in U.S. dollars increased by SDR 87 billion in 2001, which reflects an increase of SDR 51 billion in the quantity of U.S. dollar holdings and a valuation increase of SDR 35 billion. The SDR 19 billion increase in the quantity of euro holdings was partly offset by a price decline of SDR 3 billion, resulting in a net increase of SDR 16 billion in 2001. Similarly, a quantity increase of SDR 9 billion in Japanese yen holdings was offset considerably by a SDR 7 billion valuation decline, resulting in a net increase of SDR 2 billion. Increases in pound sterling and Swiss franc holdings of SDR 8 billion and SDR 1 billion, respectively, are to a large extent attributable to changes in quantity.

APPENDIX II

Financial Operations and Transactions

The tables in this appendix supplement the information given in Chapter 6 on the IMF's financial operations and policies. Components may not sum to total because of rounding.

Table II.1
Arrangements Approved During Financial Years Ended April 30, 1953–2002

Financial Year	Number of Arrangements					Amounts Committed Under Arrangements (In millions of SDRs)				
	Stand-By	EFF	SAF	PRGF	Total	Stand-By	EFF	SAF	PRGF	Total
1953	2				2	55				55
1954	2				2	63				63
1955	2				2	40				40
1956	2				2	48				48
1957	9				9	1,162				1,162
1958	11				11	1,044				1,044
1959	15				15	1,057				1,057
1960	14				14	364				364
1961	15				15	460				460
1962	24				24	1,633				1,633
1963	19				19	1,531				1,531
1964	19				19	2,160				2,160
1965	24				24	2,159				2,159
1966	24				24	575				575
1967	25				25	591				591
1968	32				32	2,352				2,352
1969	26				26	541				541
1970	23				23	2,381				2,381
1971	18				18	502				502
1972	13				13	314				314
1973	13				13	322				322
1974	15				15	1,394				1,394
1975	14				14	390				390
1976	18	2			20	1,188	284			1,472
1977	19	1			20	4,680	518			5,198
1978	18				18	1,285				1,285
1979	14	4			18	508	1,093			1,600
1980	24	4			28	2,479	797			3,277
1981	21	11			32	5,198	5,221			10,419
1982	19	5			24	3,106	7,908			11,014
1983	27	4			31	5,450	8,671			14,121
1984	25	2			27	4,287	95			4,382
1985	24				24	3,218				3,218
1986	18	1			19	2,123	825			2,948

Table II.1 *(concluded)*

Financial Year	Number of Arrangements					Amounts Committed Under Arrangements (In millions of SDRs)				
	Stand-By	EFF	SAF	PRGF	Total	Stand-By	EFF	SAF	PRGF	Total
1987	22		10		32	4,118		358		4,476
1988	14	1	15		30	1,702	245	670		2,617
1989	12	1	4	7	24	2,956	207	427	955	4,545
1990	16	3	3	4	26	3,249	7,627	37	415	11,328
1991	13	2	2	3	20	2,786	2,338	15	454	5,593
1992	21	2	1	5	29	5,587	2,493	2	743	8,826
1993	11	3	1	8	23	1,971	1,242	49	527	3,789
1994	18	2	1	7	28	1,381	779	27	1,170	3,357
1995	17	3		11	31	13,055	2,335		1,197	16,587
1996	19	4	1	8	32	9,645	8,381	182	1,476	19,684
1997	11	5		12	28	3,183	1,193		911	5,287
1998	9	4		8	21	27,336	3,078		1,738	32,152
1999	5	4		10	19	14,325	14,090		998	29,413
2000	11	4		10	25	15,706	6,582		641	22,929
2001	11	1		14	26	13,093	–9		1,249	14,333
2002	11	0		9	20	39,438	0		1,781	41,219

Table II.2
Arrangements in Effect During Financial Years Ended April 30, 1991–2002

Financial Year	Number of Arrangements as of April 30					Amounts Committed Under Arrangements as of April 30 (In millions of SDRs)				
	Stand-By	EFF	SAF	PRGF	Total	Stand-By	EFF	SAF	PRGF	Total
1991	14	5	12	14	45	2,703	9,597	539	1,813	14,652
1992	22	7	8	16	53	4,833	12,159	101	2,111	19,203
1993	15	6	4	20	45	4,490	8,569	83	2,137	15,279
1994	16	6	3	22	47	1,131	4,504	80	2,713	8,428
1995	19	9	1	27	56	13,190	6,840	49	3,306	23,385
1996	21	7	1	28	57	14,963	9,390	182	3,383	27,918
1997	14	11		35	60	3,764	10,184		4,048	17,996
1998	14	13		33	60	28,323	12,336		4,410	45,069
1999	9	12		35	56	32,747	11,401		4,186	48,334
2000	16	11		31	58	45,606	9,798		3,516	58,921
2001	25	12		43	80	61,305	9,789		4,576	75,670
2002	26	8		35	69	74,344	8,697		4,201	87,242

Table II.3

Stand-By Arrangements in Effect During Financial Year Ended April 30, 2002

(In millions of SDRs)

Member	Arrangement Dates		Amounts Approved		Undrawn Balance	
	Effective date	Expiration date	Prior to FY2002	In FY2002	At date of termination	As of April 30, 2002
Argentina	3/10/00	3/9/03	10,586	6,351	—	7,180
Bosnia and Herzegovina	5/29/98	5/29/01	94	—	—	—
Brazil	12/2/98	9/14/01	13,025	—	3,554	—
Brazil	9/14/01	12/13/02	—	12,144	—	8,469
Bulgaria	2/27/02	2/26/04	—	240	—	208
Croatia, Republic of	3/19/01	5/18/02	200	—	—	200
Ecuador	4/19/00	12/31/01	227	—	—	—
Estonia	3/1/00	8/31/01	29	—	29	—
Gabon	10/23/00	4/22/02	93	—	79	—
Guatemela	4/1/02	3/31/03	—	84	—	84
Latvia	4/20/01	12/19/02	33	—	—	33
Lithuania	3/8/00	6/7/01	62	—	62	—
Lithuania	8/30/01	3/29/03	—	87	—	87
Nigeria	8/4/00	10/31/01	789	—	789	—
Pakistan	11/29/00	9/30/01	465	—	—	—
Panama	6/30/00	3/29/02	64	—	64	—
Papua New Guinea	3/29/00	9/28/01	86	—	—	—
Peru	3/12/01	1/31/02	128	—	128	—
Peru	2/1/02	2/29/04	—	255	—	255
Romania	10/31/01	4/29/03	—	300	—	248
Sri Lanka	4/20/01	8/19/02	200	—	—	48
Turkey	12/22/99	2/4/02	8,676	6,362	3,299	—
Turkey	2/4/02	12/31/04	—	12,821	—	4,627
Uruguay	5/31/00	3/31/02	150	—	—	—
Uruguay	4/1/02	3/31/04	—	594	—	472
Yugoslavia	6/11/01	5/31/02	—	200	—	50
Total			**34,906**	**39,438**	**8,004**	**21,961**

Table II.4
Extended Arrangements in Effect During Financial Year Ended April 30, 2002
(In millions of SDRs)

Member	Arrangement Dates		Amounts Approved		Undrawn Balance	
	Effective date	Expiration date	Prior to FY2002	In FY2002	At date of termination	As of April 30, 2002
Bulgaria	9/25/98	9/24/01	628	—	—	—
Colombia	12/20/99	12/19/02	1,957	—	—	1,957
Indonesia	2/4/00	12/31/03	3,638	—	—	2,202
Jordan	4/15/99	5/31/02	128	—	—	61
Kazakhstan	12/13/99	3/19/02	329	—	329	—
Macedonia	11/29/00	11/22/01	24	—	23	—
Ukraine	9/4/98	9/3/02	1,920	—	—	727
Yemen	10/29/97	10/28/01	73	—	26	—
Total			**8,697**	**—**	**378**	**4,947**

Table II.5

Arrangements Under the Poverty Reduction and Growth Facility in Effect During Financial Year Ended April 30, 2002

(In millions of SDRs)

Member	Arrangement Dates		Amounts Approved		Undrawn Balance	
	Effective date	Expiration date	Through April 30, 2001	In FY2002	At date of termination	As of April 30, 2002
Albania	5/13/98	7/31/01	45	—	—	—
Armenia	5/23/01	5/22/04	—	69	—	59
Azerbaijan	7/6/01	7/5/04	—	80	—	64
Benin	7/17/00	7/16/03	27	—	—	12
Bolivia	9/18/98	6/7/02	101	—	—	37
Burkina Faso	9/10/99	9/9/02	39	—	—	6
Cambodia[1]	10/22/99	2/28/03	59	—	—	17
Cameroon	12/20/00	12/20/03	111	—	—	64
Cape Verde	4/10/02	4/9/05	—	9	—	7
Central African Republic	7/20/98	1/19/02	49	—	25	—
Chad[2]	1/7/00	1/6/03	36	12	—	16
Côte d'Ivoire	3/29/02	3/27/05	—	293	—	234
Djibouti	10/18/99	10/17/02	19	—	—	10
Ethiopia[3]	3/22/01	3/21/04	87	13	—	42
Gambia, The	6/29/98	12/31/01	21	—	—	—
Georgia	1/12/01	1/11/04	108	—	—	81
Ghana[4]	5/3/99	11/30/02	192	37	—	53
Guinea	5/2/01	5/1/04	—	64	—	51
Guinea-Bissau	12/15/00	12/14/03	14	—	—	9
Guyana[5]	7/15/98	12/31/01	54	—	29	—
Honduras[6]	3/26/99	12/31/02	157	—	—	48
Kenya	8/4/00	8/3/03	190	—	—	156
Kyrgyz Republic[7]	6/6/98	12/5/04	73	73	29	62
Lao People's Dem Rep	4/25/01	4/24/04	32	—	—	23
Lesotho	3/9/01	3/8/04	25	—	—	14
Macedonia, former[8] Yugoslav Republic of	12/18/00	11/22/01	10	—	9	—
Madagascar	3/1/01	2/29/04	79	—	—	57
Malawi	12/21/00	12/20/03	45	—	—	39
Mali[9]	8/6/99	8/5/03	47	5	—	19
Mauritania	7/21/99	7/20/02	42	—	—	12
Moldova	12/21/00	12/20/03	111	—	—	92
Mongolia	9/28/01	9/27/04	—	28	—	24
Mozambique	6/28/99	6/27/02	87	—	—	25
Nicaragua	3/18/98	3/17/02	149	—	34	—
Niger	12/22/00	12/21/03	59	—	—	34
Pakistan	12/6/01	12/5/04	—	1,034	—	861
Rwanda	6/24/98	1/31/02	71	—	10	—
São Tomé and Príncipe	4/28/00	4/27/03	7	—	—	5
Senegal	4/20/98	4/19/02	107	—	11	—
Sierra Leone	9/26/01	9/25/04	—	131	—	75
Tajikistan	6/24/98	12/24/01	100	—	22	—
Tanzania	4/4/00	4/3/03	135	—	—	35
Vietnam	4/13/01	4/12/04	290	—	—	207
Yemen	10/29/97	10/28/01	265	—	26	—
Zambia	3/25/99	3/28/03	254	—	—	150
Total			**3,298**	**1,831**	**195**	**2,700**

[1]Extended from 2/5/02.
[2]Augmented by SDR 6 million on 5/16/01 and another SDR 6 million on 1/16/02.
[3]Augmented by SDR 13 million on 3/18/02.
[4]Augmented by SDR 37 million on 6/27/01.
[5]Extended from 7/12/01.
[6]Extended from 10/12/01.
[7]Arrangement expired on 7/25/01. New arrangement started 12/6/01.
[8]Cancelled 11/22/01.
[9]Augmented by SDR 5 million on 7/25/01.

Table II.6

Summary of Disbursements, Repurchases, and Repayments, Financial Years Ended April 30, 1948–2002

(In millions of SDRs)

Financial Year	Disbursements					Repurchases and Repayments				Total Fund Credit Outstanding[2]
	Purchases[1]	Trust Fund loans	SAF loans	PRGF loans	Total	Repurchases	Trust Fund repayments	SAF/PRGF repayments	Total	
1948	606				606					133
1949	119				119					193
1950	52				52	24			24	204
1951	28				28	19			19	176
1952	46				46	37			37	214
1953	66				66	185			185	178
1954	231				231	145			145	132
1955	49				49	276			276	55
1956	39				39	272			276	72
1957	1,114				1,114	75			75	611
1958	666				666	87			87	1,027
1959	264				264	537			537	898
1960	166				166	522			522	330
1961	577				577	659			659	552
1962	2,243				2,243	1,260			1,260	1,023
1963	580				580	807			807	1,059
1964	626				626	380			380	952
1965	1,897				1,897	517			517	1,480
1966	2,817				2,817	406			406	3,039
1967	1,061				1,061	340			340	2,945
1968	1,348				1,348	1,116			1,116	2,463
1969	2,839				2,839	1,542			1,542	3,299
1970	2,996				2,996	1,671			1,671	4,020
1971	1,167				1,167	1,657			1,657	2,556
1972	2,028				2,028	3,122			3,122	840
1973	1,175				1,175	540			540	998
1974	1,058				1,058	672			672	1,085
1975	5,102				5,102	518			518	4,869
1976	6,591				6,591	960			960	9,760
1977	4,910	32			4,942	868			868	13,687
1978	2,503	268			2,771	4,485			4,485	12,366
1979	3,720	670			4,390	4,859			4,859	9,843
1980	2,433	962			3,395	3,776			3,776	9,967
1981	4,860	1,060			5,920	2,853			2,853	12,536
1982	8,041				8,041	2,010			2,010	17,793
1983	11,392				11,392	1,555	18		1,574	26,563
1984	11,518				11,518	2,018	111		2,129	34,603
1985	6,289				6,289	2,730	212		2,943	37,622
1986	4,101				4,101	4,289	413		4,702	36,877
1987	3,685		139		3,824	6,169	579		6,749	33,443
1988	4,153		445		4,597	7,935	528		8,463	29,543
1989	2,541		290	264	3,095	6,258	447		6,705	25,520
1990	4,503		419	408	5,329	6,042	356		6,398	24,388
1991	6,955		84	491	7,530	5,440	168		5,608	25,603
1992	5,308		125	483	5,916	4,768		1	4,770	26,736
1993	8,465		20	573	9,058	4,083		36	4,119	28,496
1994	5,325		50	612	5,987	4,348	52	112	4,513	29,889
1995	10,615		14	573	11,202	3,984	4	244	4,231	36,837
1996	10,870		182	1,295	12,347	6,698	7	395	7,100	42,040
1997	4,939			705	5,644	6,668	5	524	7,196	40,488
1998	20,000			973	20,973	3,789	1	595	4,385	56,026
1999	24,071			826	24,897	10,465		627	11,092	67,175
2000	6,377			513	6,890	22,993		634	23,627	50,370
2001	9,599			630	10,229	11,243		588	11,831	48,662
2002	29,194			952	30,146	19,207		777	19,984	58,698

[1]Includes reserve tranche purchases.

[2]Excludes reserve tranche purchases.

Table II.7

Purchases and Loans from the IMF, Financial Year Ended April 30, 2002

(In millions of SDRs)

Member	Reserve Tranche	Stand-By/ Credit Tranche	Extended Fund Facility	SRF	Total Purchases	PRGF Loans	Total Purchases and Loans
Albania	—	—	—	—	—	5	5
Argentina	—	1,529	—	4,393	5,922	—	5,922
Armenia	—	—	—	—	—	10	10
Azerbaijan	—	—	—	—	—	16	16
Benin	—	—	—	—	—	4	4
Bolivia	—	—	—	—	—	19	19
Bosnia/Herzegovina	—	14	—	—	14	—	14
Brazil	—	1,960	—	3,317	5,277	—	5,277
Bulgaria	—	32	52	—	84	—	84
Burundi	6	—	—	—	6	—	6
Burkina Faso	—	—	—	—	—	17	17
Cambodia	—	—	—	—	—	17	17
Cameroon	—	—	—	—	—	32	32
Cape Verde	—	—	—	—	—	1	1
Central African Republic	—	—	—	—	—	—	—
Chad	—	—	—	—	—	21	21
Congo, Republic of	—	—	—	—	—	—	—
Côte D'Ivoire	—	—	—	—	—	59	59
Djibouti	—	—	—	—	—	4	4
Ecuador	—	113	—	—	113	—	113
Egypt	120	—	—	—	120	—	120
Ethiopia	—	—	—	—	—	41	41
Gambia, The	—	—	—	—	—	7	7
Gabon	—	—	—	—	—	—	—
Georgia	—	—	—	—	—	9	9
Ghana	—	—	—	—	—	105	105
Guinea	—	—	—	—	—	13	13
Guinea-Bissau	—	—	—	—	—	—	—
Guyana	—	—	—	—	—	—	—
Honduras	—	—	—	—	—	16	16
Indonesia	—	—	585	—	585	—	585
Jordan	—	—	30	—	30	—	30
Kenya	—	—	—	—	—	—	—
Kyrgyz Republic	—	—	—	—	—	12	12
Lao, PDR	—	—	—	—	—	5	5
Lesotho	—	—	—	—	—	7	7
Macedonia (FYR)	—	—	—	—	—	—	—
Madagascar	—	—	—	—	—	11	11
Malawi	—	—	—	—	—	—	—
Mali	—	—	—	—	—	18	18
Mauritania	—	—	—	—	—	12	12
Moldova	—	—	—	—	—	—	—
Mongolia	—	—	—	—	—	4	4
Mozambique	—	—	—	—	—	8	8
Nicaragua	—	—	—	—	—	—	—
Niger	—	—	—	—	—	17	17
Pakistan	—	210	—	—	210	172	382
Papua New Guinea	—	19	—	—	19	—	19
Romania	—	52	—	—	52	—	52
Rwanda	—	—	—	—	—	10	10
São Tomé & Príncipe	—	—	—	—	—	—	—
Senegal	—	—	—	—	—	18	18
Sierra Leone	—	—	—	—	—	56	56
Sri Lanka	—	48	—	—	48	—	48
Tajikistan	—	—	—	—	—	6	6
Tanzania	—	—	—	—	—	40	40
Turkey	—	12,819	—	3,181	16,000	—	16,000
Ukraine	—	—	291	—	291	—	291
Uruguay	—	273	—	—	273	—	273
Vietnam	—	—	—	—	—	41	41
Yemen	—	—	—	—	—	69	69
Yugoslavia	—	150	—	—	150	—	150
Zambia	—	—	—	—	—	50	50
Total	**126**	**17,219**	**958**	**10,891**	**29,194**	**952**	**30,146**

Table II.8

Repurchases and Repayments to the IMF, Financial Year Ended April 30, 2002

(In millions of SDRs)

Member	Stand-By/ Credit Tranche	Extended Fund Facility	CCFF and STF	Total Repurchases	SAF/PRGF and Trust Fund Repayments	Total Repurchases and Repayments
Albania	4	—	—	4	6	10
Algeria	—	139	—	139	—	139
Argentina	227	565	—	792	—	792
Armenia	—	—	6	6	5	11
Azerbaijan	9	3	17	29	—	29
Bangladesh	12	—	—	12	42	54
Belarus	—	—	23	23	—	23
Benin	—	—	—	—	12	12
Bolivia	—	—	—	—	22	22
Bosnia/Herzegovina	9	—	—	9	—	9
Brazil	3,385	—	—	3,385	—	3,385
Bulgaria	181	—	51	232	—	232
Burkina Faso	—	—	—	—	9	9
Burundi	—	—	—	—	4	4
Cambodia	—	—	1	1	8	9
Cameroon	—	—		—	—	—
Central African Republic	—	—	—	—	—	—
Chad	—	—	—	—	3	3
Congo, Democratic Rep. of the	—	—	—	—	1	1
Congo, Republic of	3	—	—	3	—	3
Côte d'Ivoire	—	—	—	—	53	53
Croatia	—	5	22	27	—	27
Djibouti	1	—	—	1	—	1
Dominican Republic	5	—	—	5	—	5
Ecuador	—	—	—	—	—	—
Equatorial Guinea	—	—	—	—	2	2
Estonia	—	—	4	4	—	4
Ethiopia	—	—	—	—	12	12
Gabon	—	9	—	9	—	9
Gambia, The	—	—	—	—	—	—
Georgia	—	—	9	9	8	17
Ghana	—	—	—	—	45	45
Guinea	—	—	—	—	9	9
Guyana	—	—	—	—	14	14
Guinea Bissau	—	—	—	—	1	1
Haiti	2	—	—	2	—	2
Honduras	6	—	—	6	7	13
India	—	—	—	—	—	—
Indonesia	1,651	—	—	1,651	—	1,651
Jamaica	—	14	—	14	—	14
Jordan	—	44	—	44	—	44
Kazakhstan	—	—	—	—	—	—
Kenya	—	—	—	—	15	15
Korea	1,924	—	—	1,924	—	1,924
Kyrgyz Republic	—	—	5	5	10	15
Lao People's Dem. Rep.	—	—	—	—	6	6
Latvia	—	—	8	8	—	8
Lesotho	—	—	—	—	3	3
Lithuania	—	21	8	29	—	29
Macedonia (FYR)	1	—	4	5	—	5
Madagascar	—	—	—	—	—	—
Malawi	—	—	—	—	4	4
Mali	—	—	—	—	18	18
Mauritania	—	—	—	—	11	11
Mexico	—	—	—	—	—	—
Moldova	—	5	7	12	—	12
Mongolia	—	—	—	—	6	6
Mozambique	—	—	—	—	18	18

Table II.8 *(concluded)*

Member	Stand-By/ Credit Tranche	Extended Fund Facility	CCFF and STF	Total Repurchases	SAF/PRGF and Trust Fund Repayments	Total Repurchases and Repayments
Nepal	—	—	—	—	3	3
Nicaragua	—	—	—	—	4	4
Niger	—	—	—	—	1	1
Pakistan	40	24	44	108	63	171
Panama	17	—	—	17	—	17
Papua New Guinea	1	—	—	1	—	1
Peru	—	134	—	134	—	134
Philippines	37	48	—	85	—	85
Romania	60	—	31	91	—	91
Russia	—	473	2,516	2,989	—	2,989
Rwanda	7	—	—	7	—	7
Senegal	—	—	—	—	24	24
Sierra Leone	38	—	—	38	22	60
Slovak Republic	—	—	—	—	—	—
Sri Lanka	—	—	—	—	51	51
Sudan	18	—	7	25	—	25
Tajikistan	9	—	—	9	—	9
Tanzania	—	—	—	—	15	15
Thailand	1,075	—	—	1,075	—	1,075
Togo	—	—	—	—	8	8
Tunisia	—	22	—	22	—	22
Turkey	5,784	—	—	5,784	—	5,784
Uganda	—	—	—	—	29	29
Ukraine	203	—	83	286	—	286
Uruguay	14	—	—	14	—	14
Uzbekistan	11	—	17	28	—	28
Venezuela	44	24	—	68	—	68
Vietnam	—	—	4	4	36	40
Yemen	31	—	—	31	—	31
Yugoslavia	—	—	—	—	—	—
Zambia	—	—	—	—	166	166
Zimbabwe	—	—	—	—	1	1
Total	**14,809**	**1,530**	**2,867**	**19,207**	**777**	**19,984**

Table II.9

Outstanding IMF Credit by Facility and Policy, Financial Years Ended April 30, 1994–2002

(In millions of SDRs and percent of total)

	1994	1995	1996	1997	1998	1999	2000	2001	2002
					Millions of SDRs				
Stand-By Arrangements[1]	9,485	15,117	20,700	18,064	25,526	25,213	21,410	17,101	28,612
Extended Arrangements	9,566	10,155	9,982	11,155	12,521	16,574	16,808	16,108	15,538
Supplemental Reserve Facility	—	—	—	—	7,100	12,655	—	4,085	5,875
Compensatory and Contingency Financing Facility	3,756	3,021	1,602	1,336	685	2,845	3,032	2,992	745
Systemic Transformation Facility	2,725	3,848	3,984	3,984	3,869	3,364	2,718	1,933	1,311
Subtotal (GRA)	**25,532**	**32,140**	**36,268**	**34,539**	**49,701**	**60,651**	**43,968**	**42,219**	**52,081**
SAF Arrangements	1,440	1,277	1,208	954	730	565	456	432	341
PRGF Arrangements[2]	2,812	3,318	4,469	4,904	5,505	5,870	5,857	5,951	6,188
Trust Fund	105	102	95	90	90	89	89	89	89
Total	**29,889**	**36,837**	**42,040**	**40,488**	**56,026**	**67,175**	**50,370**	**48,691**	**58,699**
					Percent of total				
Stand-By Arrangements[1]	32	41	49	45	46	38	43	35	49
Extended Arrangements	32	28	24	28	22	25	33	33	26
Supplemental Reserve Facility	—	—	—	—	13	19	—	9	10
Compensatory and Contingency Financing Facility	12	8	4	3	1	4	6	6	1
Systemic Transformation Facility	9	10	9	10	7	5	5	4	2
Subtotal (GRA)	**85**	**87**	**86**	**85**	**89**	**90**	**87**	**87**	**88**
SAF Arrangements	5	3	3	2	1	1	1	1	1
PRGF Arrangements[2]	9	9	11	12	10	9	12	12	11
Trust Fund	—[3]	—[3]	—[3]	—[3]	—[3]	—[3]	—[3]	—[3]	—[3]
Total	**100**	**100**	**100**	**100**	**100**	**100**	**100**	**100**	**100**

[1]Includes outstanding credit tranche and emergency purchases.

[2]Includes outstanding associated loans from the Saudi Fund for Development.

[3]Less than ½ of 1 percent total.

Table II.10

Summary of Bilateral Contributions to the PRGF and PRGF-HIPC Trusts

(In millions of SDRs; as of April 30, 2002)

	PRGF-HIPC Trust	PRGF Trust	
	Subsidies and HIPC grant contributions "as needed"[1]	Subsidy contributions "as needed"[2]	Loan commitments[3]
TOTAL	**1,559.1**	**3,496.1**	**15,676.8**
Major industrial countries	**880.5**	**2,304.9**	**12,864.8**
Canada	48.8	204.1	700.0
France	82.2	479.9	2,900.0
Germany	127.2	197.9	2,750.0
Italy	63.6	162.1	1,380.0
Japan	144.0	723.8	5,134.8
United Kingdom	82.2	359.1	—
United States	332.6	178.0	—
Other advanced countries	**299.7**	**984.7**	**2,456.4**
Australia	24.8	14.1	—
Austria	14.3	63.6	—
Belgium	35.3	123.1	350.0
Denmark	18.5	67.0	100.0
Finland	8.0	42.1	—
Greece	6.3	40.0	—
Iceland	0.9	4.6	—
Ireland	5.9	7.7	—
Israel	1.8	—	—
Korea	15.9	60.0	92.7
Luxembourg	0.7	14.4	—
Netherlands	45.4	140.0	450.0
New Zealand	1.7	—	—
Norway	18.5	45.5	150.0
Portugal	6.6	5.6	—
San Marino	0.0	—	—
Singapore	16.5	33.9	—
Spain[4]	23.3	27.0	712.0
Sweden	18.3	186.6	—
Switzerland	37.0	109.3	601.7
Fuel-exporting countries	**108.7**	**17.9**	**—**
Algeria	5.5	—	—
Bahrain	0.9	—	—
Brunei Darussalam	0.1	—	—
Gabon	2.5	—	—
Iran, Islamic Republic of	2.2	2.1	—
Kuwait	3.1	—	—
Nigeria	13.9	—	—
Oman	0.8	—	—
Qatar	0.5	—	—
Saudi Arabia	53.5	15.7	—
Trinidad and Tobago	1.6	—	—
United Arab Emirates	3.8	—	—
Venezuela, República Bolivariana de	20.4	—	—
Other developing countries	**227.1**	**175.4**	**355.6**
Argentina	16.2	35.0	—
Bangladesh	1.7	0.9	—
Barbados	0.4	—	—
Belize	0.3	—	—
Botswana	3.1	2.4	—
Brazil	15.0	—	—
Cambodia	0.0	—	—
Chile	4.4	4.0	—
China	19.7	14.8	200.0
Colombia	0.9	—	—
Cyprus	0.8	—	—
Dominican Republic	0.5	—	—
Egypt	1.3	13.3	155.6

Table II.10 *(concluded)*

	PRGF-HIPC Trust	PRGF Trust	
	Subsidies and HIPC grant contributions "as needed"[1]	Subsidy contributions "as needed"[2]	Loan commitments[3]
Fiji	0.1	—	—
Ghana	0.5	—	—
Grenada	0.1	—	—
India	22.9	13.6	—
Indonesia	8.2	6.2	—
Jamaica	2.7	—	—
Lebanon	0.4	—	—
Libya	7.3	—	—
Malaysia	12.7	47.1	—
Maldives	0.0	—	—
Malta	1.1	2.2	—
Mauritius	0.1	—	—
Mexico	54.5	—	—
Micronesia, F. S.	0.0	—	—
Morocco	1.6	9.8	—
Pakistan	3.4	4.1	—
Paraguay	0.1	—	—
Peru	2.5	—	—
Philippines	6.7	—	—
Samoa	0.0	—	—
South Africa	28.6	—	—
Sri Lanka	0.6	—	—
St. Lucia	0.1	—	—
St. Vincent and the Grenadines	0.1	—	—
Swaziland	0.0	—	—
Thailand	4.5	17.3	—
Tonga	0.0	—	—
Tunisia	1.5	1.9	—
Turkey	—	11.4	—
Uruguay	2.2	2.6	—
Vanuatu	0.1	—	—
Vietnam	0.4	—	—
Countries in transition	**42.9**	**13.3**	**—**
Croatia	0.4	—	—
Czech Republic	4.1	13.3	—
Estonia	0.5	—	—
Hungary	6.0	—	—
Latvia	1.0	—	—
Poland	12.0	—	—
Russian Federation	14.6	—	—
Slovak Republic	4.0	—	—
Slovenia	0.4	—	—

[1]The term "as needed" refers to the nominal undiscounted sum of the projected delivery of HIPC assistance plus the profile of projected subsidy needs for interim PRGF lending. All calculations are based on an SDR interest rate assumption of 5 percent per annum.

[2]The calculations are based on actual interest rates through end-2001 and an assumed SDR interest rate of 5 percent per annum thereafter.

[3] PRGF Trust also includes a loan commitment from the OPEC of US$50 million equivalent to SDR 37 million.

[4]Loan commitments include Spain's pledge of SDR 300 million.

Table II.11

Holdings of SDRs by All Participants and by Groups of Countries as Percent of Their Cumulative Allocations of SDRs, at End of Financial Years Ended April 30, 1993–2002

			Nonindustrial Countries[2]			
					Net debtor countries	
	All Participants[1]	Industrial Countries[2]	All nonindustrial countries	Net creditor countries	All net debtor countries	Heavily indebted poor countries
1993	63.0	73.1	41.6	166.6	35.1	4.6
1994	71.0	77.9	56.3	222.5	47.7	12.5
1995	90.9	105.1	60.4	263.9	49.8	14.1
1996	91.4	102.4	67.9	285.5	56.6	17.4
1997	87.2	99.8	60.5	303.6	47.8	17.3
1998	95.0	107.0	69.4	323.7	56.1	24.1
1999	81.1	94.6	52.5	170.7	46.3	26.3
2000	84.6	95.0	62.5	174.1	56.6	20.6
2001	86.6	101.6	54.6	204.2	46.5	12.4
2002	91.5	107.7	56.9	227.9	44.7	14.6

[1]Consists of member countries that are participants in the SDR Department. At the end of FY2002, of the total SDRs allocated to participants in the SDR Department (SDR 21.4 billion), SDR 1.9 billion was not held by participants but instead by the IMF and prescribed holders.

[2]Based on IFS classification (International Monetary Fund, *International Financial Statistics*, various years).

Table II.12
Key IMF Rates, Financial Year Ended April 30, 2002
(In percent)

Period Beginning	SDR Interest Rate and Unadjusted Rate of Remuneration[1]	Basic Rate of Charge[1]	Period Beginning	SDR Interest Rate and Unadjusted Rate of Remuneration[1]	Basic Rate of Charge[1]
2001			November 5	2.43	2.83
May 1	3.78	4.40	November 12	2.26	2.63
May 7	3.72	4.33	November 19	2.33	2.71
May 14	3.65	4.25	November 26	2.33	2.71
May 21	3.58	4.17	December 3	2.25	2.62
May 28	3.59	4.18	December 10	2.22	2.58
June 4	3.56	4.14	December 17	2.25	2.62
June 11	3.53	4.11	December 24	2.24	2.61
June 18	3.49	4.06	December 31	2.23	2.60
June 25	3.46	4.03			
July 2	3.56	4.14	**2002**		
July 9	3.56	4.14	January 7	2.22	2.58
July 16	3.55	4.13	January 14	2.18	2.54
July 23	3.52	4.10	January 21	2.19	2.55
July 30	3.53	4.11	January 28	2.25	2.62
August 6	3.48	4.05	February 4	2.27	2.64
August 13	3.42	3.98	February 11	2.25	2.62
August 20	3.37	3.92	February 18	2.26	2.63
August 27	3.39	3.95	February 25	2.27	2.64
September 3	3.34	3.89	March 4	2.27	2.64
September 10	3.30	3.84	March 11	2.29	2.67
September 17	2.92	3.40	March 18	2.32	2.70
September 24	2.61	3.04	March 25	2.33	2.71
October 1	2.67	3.11	April 1	2.32	2.70
October 8	2.55	2.97	April 8	2.30	2.68
October 15	2.60	3.03	April 15	2.27	2.64
October 22	2.56	2.98	April 22	2.27	2.64
October 29	2.52	2.93	April 29	2.28	2.65

[1]Under the FY2002 decision on burden sharing, the rate of remuneration was adjusted downward and the rate of charge was adjusted upward to share the burden of protecting the IMF's income from overdue charges and of contributing to the IMF's precautionary balances. The amounts generated from burden sharing in FY2002 are refundable when overdue charges are paid and when overdue obligations cease to be a problem. The basic rate of charge presented is the effective rate following the retroactive reduction that was implemented after the end of the financial year. The basic rate of charge, which was set at 117.6 percent of the SDR interest rate, was reduced to 116.4 percent of the SDR interest rate as a result of the retroactive reduction.

Table II.13

Members That Have Accepted the Obligations of Article VIII, Sections 2, 3, and 4 of the Articles of Agreement

Member	Effective Date of Acceptance	Member	Effective Date of Acceptance
Algeria	September 15, 1997	Guyana	December 27, 1966
Antigua and Barbuda	November 22, 1983	Haiti	December 22, 1953
Argentina	May 14, 1968	Honduras	July 1, 1950
Armenia	May 29, 1997	Hungary	January 1, 1996
Australia	July 1, 1965	Iceland	September 19, 1983
Austria	August 1, 1962	India	August 20, 1994
Bahamas, The	December 5, 1973	Indonesia	May 7, 1988
Bahrain	March 20, 1973	Ireland	February 15, 1961
Bangladesh	April 11, 1994	Israel	September 21, 1993
Barbados	November 3, 1993	Italy	February 15, 1961
Belarus	November 5, 2001	Jamaica	February 22, 1963
Belgium	February 15, 1961	Japan	April 1, 1964
Belize	June 14, 1983	Jordan	February 20, 1995
Benin	June 1, 1996	Kazakhstan	July 16, 1996
Bolivia	June 5, 1967	Kenya	June 30, 1994
Botswana	November 17, 1995	Kiribati	August 22, 1986
Brazil	November 30, 1999	Korea	November 1, 1988
Brunei Darussalam	October 10, 1995	Kuwait	April 5, 1963
Bulgaria	September 24, 1998	Kyrgyz Republic	March 29, 1995
Burkina Faso	June 1, 1996	Latvia	June 10, 1994
Cambodia	January 1, 2002	Lebanon	July 1, 1993
Cameroon	June 1, 1996	Lesotho	March 5, 1997
Canada	March 25, 1952	Lithuania	May 3, 1994
Central African Republic	June 1, 1996	Luxembourg	February 15, 1961
Chad	June 1, 1996	Macedonia, FYR	June 19, 1998
Chile	July 27, 1977	Madagascar	September 18, 1996
China	December 1, 1996	Malawi	December 7, 1995
Comoros	June 1, 1996	Malaysia	November 11, 1968
Congo, Republic of	June 1, 1996	Mali	June 1, 1996
Costa Rica	February 1, 1965	Malta	November 30, 1994
Côte d'Ivoire	June 1, 1996	Marshall Islands	May 21, 1992
Croatia	May 29, 1995	Mauritania	July 19, 1999
Cyprus	January 9, 1991	Mauritius	September 29, 1993
Czech Republic	October 1, 1995	Mexico	November 12, 1946
Denmark	May 1, 1967	Micronesia, Federated States of	June 24, 1993
Djibouti	September 19, 1980	Moldova	June 30, 1995
Dominica	December 13, 1979	Mongolia	February 1, 1996
Dominican Republic	August 1, 1953	Morocco	January 21, 1993
Ecuador	August 31, 1970	Namibia	September 20, 1996
El Salvador	November 6, 1946	Nepal	May 30, 1994
Equatorial Guinea	June 1,1996	Netherlands	February 15, 1961
Estonia	August 15, 1994	New Zealand	August 5, 1982
Fiji	August 4, 1972	Nicaragua	July 20, 1964
Finland	September 25, 1979	Niger	June 1, 1996
France	February 15, 1961	Norway	May 11, 1967
Gabon	June 1, 1996	Oman	June 19, 1974
Gambia, The	January 21, 1993	Pakistan	July 1, 1994
Georgia	December 20, 1996	Palau	December 16, 1997
Germany	February 15, 1961	Panama	November 26, 1946
Ghana	February 21, 1994	Papua New Guinea	December 4, 1975
Greece	July 7, 1992	Paraguay	August 22, 1994
Grenada	January 24, 1994	Peru	February 15, 1961
Guatemala	January 27, 1947	Philippines	September 8, 1995
Guinea	November 17, 1995	Poland	June 1, 1995
Guinea-Bissau	January 1, 1997	Portugal	September 12, 1988

Table II.13 *(concluded)*

Member	Effective Date of Acceptance	Member	Effective Date of Acceptance
Qatar	June 4, 1973	Suriname	June 29, 1978
Romania	March 25, 1998	Swaziland	December 11, 1989
Russian Federation	June 1, 1996	Sweden	February 15, 1961
Rwanda	December 10, 1998	Switzerland	May 29, 1992
St. Kitts and Nevis	December 3, 1984	Tanzania	July 15, 1996
St. Lucia	May 30, 1980	Thailand	May 4, 1990
St. Vincent and the Grenadines	August 24, 1981	Togo	June 1, 1996
Samoa	October 6, 1994	Tonga	March 22, 1991
San Marino	September 23, 1992	Trinidad and Tobago	December 13, 1993
Saudi Arabia	March 22, 1961	Tunisia	January 6, 1993
Senegal	June 1, 1996	Turkey	March 22, 1990
Seychelles	January 3, 1978	Uganda	April 5, 1994
Sierra Leone	December 14, 1995	Ukraine	September 24, 1996
Singapore	November 9, 1968	United Arab Emirates	February 13, 1974
Slovak Republic	October 1, 1995	United Kingdom	February 15, 1961
Slovenia	September 1, 1995	United States	December 10, 1946
Solomon Islands	July 24, 1979	Uruguay	May 2, 1980
South Africa	September 15, 1973	Vanuatu	December 1, 1982
Spain	July 15, 1986	Venezuela, República Bolivariana de	July 1, 1976
Sri Lanka	March 15, 1994	Yemen, Republic of	December 10, 1996
		Zambia	April 19, 2002
		Zimbabwe	February 3, 1995

Table II.14

Exchange Rate Arrangements and Anchors of Monetary Policy as of December 31, 2001

Classification of Exchange Rate Regimes

The classification system, in effect since 1999, is based on the members' actual, de facto, regimes that may differ from their officially announced arrangements. The scheme ranks exchange rate regimes on the basis of the degree of flexibility of the arrangement. It distinguishes between the more rigid forms of pegged regimes (such as currency board arrangements); other conventional fixed peg regimes against a single currency or a basket of currencies; exchange rate bands around a fixed peg; crawling peg arrangements; and exchange rate bands around crawling pegs, in order to help assess the implications of the choice of exchange rate regime for the degree of independence of monetary policy. This includes a category to distinguish the exchange arrangements of those countries that have no separate legal tender. The system presents members' exchange rate regimes against alternative monetary policy frameworks with the intention of using both criteria as a way of providing greater transparency in the classification scheme and to illustrate that different forms of exchange rate regimes could be consistent with similar monetary frameworks. The following explains the categories.

Exchange Rate Regimes

Exchange Arrangements With No Separate Legal Tender

The currency of another country circulates as the sole legal tender, or the member belongs to a monetary or currency union in which the same legal tender is shared by the members of the union. Adopting such regimes is a form of surrendering the monetary authorities' independent control over domestic monetary policy.

Currency Board Arrangements

A monetary regime based on an explicit legislative commitment to exchange domestic currency for a specified foreign currency at a fixed exchange rate, combined with restrictions on the issuing authority to ensure the fulfillment of its legal obligation. This implies that domestic currency be issued only against foreign exchange and that it remain fully backed by foreign assets, eliminating traditional central bank functions such as monetary control and the lender of the last resort and leaving little scope for discretionary monetary policy; some flexibility may still be afforded depending on how strict the rules of the boards are established.

Other Conventional Fixed Peg Arrangements

The country pegs (formally or de facto) its currency at a fixed rate to a major currency or a basket of currencies, where a weighted composite is formed from the currencies of major trading or financial partners and currency weights reflect the geographical distribution of trade, services, or capital flows. In a conventional fixed peg arrangement, the exchange rate fluctuates within a narrow margin of less than ±1 percent around a formal or de facto central rate. The currency composites can also be standardized, such as those of the SDR and the ECU. The monetary authority stands ready to maintain the fixed parity through intervention, limiting the degree of monetary policy discretion; the degree of flexibility of monetary policy, however, is greater relative to CBAs or currency unions, in that traditional central banking functions are, though limited, still possible, and the monetary authority can adjust the level of the exchange rate, though infrequently.

Pegged Exchange Rates Within Horizontal Bands

The value of the currency is maintained within certain margins of fluctuation of at least ±1 percent around a formal or a de facto fixed central rate. It also includes the arrangements of the countries in the exchange rate mechanism (ERM) of the European Monetary System (EMS) (replaced with ERM-II on January 1, 1999). There is some limited degree of monetary policy discretion, with the degree of discretion depending on the band width.

Crawling Pegs

The currency is adjusted periodically in small amounts at a fixed rate or in response to changes in selective quantitative indicators (past inflation differentials vis-à-vis major trading partners, differentials between the target inflation and expected inflation in major trading partners, etc). The rate of crawl can be set to generate inflation adjusted changes in the currency ("backward looking"), or at a preannounced fixed rate below the projected inflation differentials ("forward looking"). Maintaining a credible crawling peg imposes constraints on monetary policy in a similar manner as a fixed peg system.

Exchange Rates Within Crawling Bands

The currency is maintained within certain fluctuation margins of at least ±1 percent around a central rate, which is adjusted periodically at a fixed rate, or in response to changes in selective quantitative indicators. The degree of flexibility of the exchange rate is a function of the width of the band, with bands chosen to be either symmetric around a crawling central parity or to widen gradually with an asymmetric choice of the crawl of upper and lower bands (in the latter case, there is no preannouncement of a central rate). The commitment to maintain the exchange rate within the band continues to impose constraints on monetary policy, with the degree of policy independence being as a function of the band width.

Managed Floating With No Predetermined Path for the Exchange Rate

The monetary authority influences the movements of the exchange rate through active intervention in the foreign exchange market without specifying, or precommitting to, a regular preannounced path for the exchange rate. Indicators for managing the rate are broadly judgmental, including, for example, the balance of payments position, international reserves, parallel market developments, and the adjustments may not be automatic.

Independent Floating

The exchange rate is market determined, with any foreign exchange intervention aimed at moderating the rate of change and preventing undue fluctuations in the exchange rate, rather than at establishing a level for it. In these regimes, monetary policy is in principle independent of exchange rate policy.

Monetary Policy Framework

Members' exchange rate regimes are presented against alternative monetary policy frameworks in order to present the role of the exchange rate in broad economic policy and help identify potential sources of inconsistency in the monetary-exchange rate policy mix.

Exchange Rate Anchor

The monetary authority stands ready to buy/sell foreign exchange at given quoted rates to maintain the exchange rate at its preannounced level or range (the exchange rate serves as the nominal anchor or intermediate target of monetary policy). These regimes cover exchange rate regimes with no separate legal tender, CBAs, fixed pegs with and without bands, and crawling pegs with and without bands, where the rate of crawl is set in a forward-looking manner.

Monetary Aggregate Anchor

The monetary authority uses its instruments to achieve a target growth rate for a monetary aggregate (reserve money, M1, M2, etc.) and the targeted aggregate becomes the nominal anchor or intermediate target of monetary policy.

Inflation Targeting Framework

Involves the public announcement of medium-term numerical targets for inflation with an institutional commitment by the monetary authority to achieve these targets. Additional key features include increased communication with the public and the markets about the plans and objectives of monetary policymakers and increased accountability of the central bank for obtaining its inflation objectives. Monetary policy decisions are guided by the deviation of forecasts of future inflation from the announced inflation target, with the inflation forecast acting (implicitly or explicitly) as the intermediate target of monetary policy.

IMF-Supported or Other Monetary Program

Involves implementation of monetary and exchange rate policy within the confines of a framework that establishes floors for interna-

tional reserves and ceilings for net domestic assets of the central bank. As the ceiling on net domestic assets limits increases in reserve money through central bank operations, indicative targets for reserve money may be appended to this system.

Other

The country has no explicitly stated nominal anchor, but rather monitors various indicators in conducting monetary policy, or there is no relevant information available for the country.

	Monetary Policy Framework[1, 2]						
Exchange Rate Regime (number of countries)	**Exchange rate anchor**				**Monetary aggregate target**	**Inflation-targeting framework**	**IMF-supported or other monetary program**	**Other**
Exchange arrangements with no separate legal tender (40)	**Another currency as legal tender** Ecuador† El Salvador[13] Kiribati Marshall Islands Micronesia Palau Panama San Marino	*ECCU[3]* Antigua and Barbuda Dominica Grenada St. Kitts and Nevis St. Lucia St. Vincent and the Grenadines	*CFA franc zone* *WAEMU* Benin† Burkina Faso† Côte d'Ivoire† Guinea-Bissau† Mali† Niger† Senegal† Togo	*CAEMC* Cameroon† Central African Rep.† Chad† Congo, Rep. of† Equatorial Guinea Gabon†				*Euro area*[4, 5] Austria Belgium Finland France Germany Greece Ireland Italy Luxembourg Netherlands Portugal Spain
Currency board arrangements (8)	Argentina† Bosnia and Herzegovina† Brunei Darussalam Bulgaria† China: Hong Kong, SAR Djibouti† Estonia Lithuania†							
Other conventional fixed peg arrangements (including de facto peg arrangements under managed floating) (41)	*Against a single currency (31)* Aruba Bahamas, The[6] Bahrain Bangladesh Barbados Belize Bhutan Cape Verde China, People's Rep. of*[7] Comoros[9] Eritea Iran, Islamic Rep. of[6, 7] Jordan†[7] Lebanon[7] Lesotho† Macedonia, FYR†[7] Malaysia Maldives[7] Namibia Nepal Netherlands Antilles Oman Qatar[7, 8] Saudi Arabia[7, 8] Sudan[7] Suriname[6, 7] Swaziland Syrian Arab Republic[6] Turkmenistan[7] United Arab Emirates[7, 8] Zimbabwe[7]		*Against a composite (10)* Botswana[6] Fiji Kuwait Latvia† Libyan A.J. Malta Morocco Samoa Seychelles Vanuatu		China, People's Rep. of*[7]			
Pegged exchange rates within horizontal bands (5)[10]	*Within a cooperative arrangement ERM II (1)* Denmark		*Other band arrangements(4)* Cyprus Egypt[6]	Hungary* Tonga		Hungary*		

Table II.14 *(concluded)*

Exchange Rate Regime (number of countries)	Monetary Policy Framework[1, 2]					
	Exchange rate anchor		Monetary aggregate target	Inflation-targeting framework	IMF-supported or other monetary program	Other
Crawling pegs (4)	Bolivia† Costa Rica[7] Nicaragua† Solomon Islands[6]					
Exchange rates within crawling bands (6)[11]	Belarus Honduras† Israel*	Romania†[7] Uruguay† Venezuela, Rep. Bol. de		Israel*		
Managed floating with no pre-announced path for exchange rate (42)			Ghana† Guinea† Guyana† Indonesia† Jamaica†[7] Mauritius Mongolia† São Tomé and Príncipe† Slovenia Sri Lanka† Tunisia	Thailand*	Azerbaijan Cambodia[6] Croatia Ethiopia Kazakhstan Kenya Kyrgyz Republic Lao PDR[6] Mauritania Nigeria Pakistan Russian Federation Rwanda Trinidad & Tobago Ukraine Vietnam Yugoslavia Zambia	Algeria[4] Angola[4] Burundi[4] Dominican Rep.[4, 6] Guatemala[4] India[4] Iraq[12] Myanmar[4, 6, 7] Paraguay[4] Singapore[4] Slovak Rep.[4] Uzbekistan[4, 6]
Independently floating (40)			Gambia, The† Malawi† Peru† Philippines† Sierra Leone† Turkey† Yemen†	Australia Brazil† Canada Chile[6] Colombia† Czech Rep. Iceland Korea Mexico New Zealand Norway Poland South Africa Sweden United Kingdom	Albania Armenia Congo, Dem. Rep. Georgia Madagascar Moldova Mozambique Tajikistan Tanzania Uganda	Afghanistan[6, 12] Haiti[4] Japan[4] Liberia[4] Papua New Guinea[4] Somalia[6,12] Switzerland[4] United States[4]

Sources: IMF Staff Reports and *International Financial Statistics.*

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

[1]A country with a * indicates that the country has more than one nominal anchor that may guide monetary policy. It should be noted, however, that it would not be possible, for practical purposes, to infer from this table which nominal anchor plays the principal role in conducting monetary policy.

[2]A country with † indicates that the country has an IMF-supported or other monetary program.

[3]These countries have a currency board arrangement.

[4]The country has no explicitly stated nominal anchor, but rather monitors various indicators in conducting monetary policy.

[5]Until withdrawn in February 2002, national currencies retained their status as legal tender within their home territories.

[6]Member maintained exchange regimes involving more than one market. The regime shown is that maintained in the major market.

[7]The indicated country has a de facto regime, which differs from its de jure regime.

[8]Exchange rates are determined on the basis of a fixed relationship to the SDR, within margins of up to ±7.25%. However, because of the maintenance of a relatively stable relationship with the U.S. dollar, these margins are not always observed.

[9]Comoros has the same arrangement with the French Treasury as do the CFA Franc Zone countries.

[10]The band width for these countries is: Cyprus (±2.25%), Denmark (±2.25%), Egypt (±3%), Hungary (±15%), and Tonga (±5%).

[11]The band for these countries is: Belarus (±5%), Honduras (±7%), Israel (±22%), Romania (unannounced), Uruguay (±3%), and Venezuela (±7.5%).

[12]There is no relevant information available for the country.

[13]For El Salvador, the printing of new colones, the domestic currency, is prohibited, but the existing stock of colones will continue to circulate, along with the U.S. dollar, as legal tender until all notes physically wear out.

APPENDIX III

Principal Policy Decisions of the Executive Board

A. Access Policy and Limits in Credit Tranches and Under Extended Fund Facility—Extension of Deadline for Completion of Review

The Fund decides that the next annual review of the guidelines and limits for access to the Fund's general resources in the credit tranches and under the Extended Fund Facility prescribed by paragraph 2 of Decision No. 11876-(99/2),[1] as amended by Decision No. 12385-(00/129),[2] shall be completed by August 31, 2001.

Decision No. 12517-(01/68)
June 29, 2001

B. IMF's Income Position

(a) Disposition of Net Income for FY2002

1. SDR 51 million of the Fund's net income for FY2002 derived from the application of paragraph 2 of Decision No. 12464-(01/39),[3] adopted April 16, 2001, shall be placed to the Fund's Special Reserve after the end of the financial year.

2. The expense derived from the application of International Accounting Standard 19—Employee Benefits during FY2002 shall be charged against the Fund's Special Reserve and shall be recorded separately in the financial records of the Fund.

Decision No. 12729-(02/43)
April 26, 2002

(b) Rate of Charge on Use of Fund Resources for FY2003

1. Notwithstanding Rule I-6(4)(a), effective May 1, 2002, the proportion of the rate of charge referred to in Rule I-6(4) to the SDR interest rate under Rule T-1 shall be 128.0 percent.

2. The net income target for FY2003 shall be SDR 69 million. Any net income for financial year 2003 in excess of SDR 69 million shall be used to reduce retroactively the proportion of the rate of charge for financial year 2003. If net income for financial year 2003 is below SDR 69 million, the amount of projected net income for financial year 2004 shall be increased by the equivalent of that shortfall. For the purpose of this provision, net income shall be calculated without taking into account net operational income generated by the surcharges on purchases under the Supplemental Reserve Facility and Contingent Credit Lines, the surcharge on purchases in the credit tranches and under the Extended Fund Facility or the effect on income of the implementation of International Accounting Standard 19—Employee Benefits.

Decision No. 12730-(02/43)
April 26, 2002

(c) Surcharges on Purchases Under Supplemental Reserve Facility and Contingent Credit Lines, and in Credit Tranches and Under Extended Fund Facility—Disposition of Net Operating Income

For financial year 2003, after meeting the cost of administering the PRGF Trust, any remaining net operational income generated by the surcharges on purchases under the Supplemental Reserve Facility and the Contingent Credit Lines and the surcharges on purchases in the credit tranches and under the Extended Fund Facility shall be transferred, after the end of that financial year, to the General Reserve.

Decision No. 12733-(02/43) SRF/CCL
April 26, 2002

C. Post-Conflict Emergency Assistance

(a) Administered Account to Subsidize Post-Conflict Emergency Assistance to Poverty Reduction and Growth Facility–Eligible Members—Establishment

Pursuant to Article V, Section 2(b), the Fund adopts the Instrument to Establish an Account ("The Post-Conflict Emergency Assistance Subsidy Account for PRGF-Eligible Members") to subsidize the rate of charge on post-conflict purchases made by PRGF-eligible members under Decision No. 12341-(00/117),[4] November 28, 2000, which is annexed to this Decision.

Decision No. 12481-(01/45)
May 4, 2001

ANNEX: Instrument to Establish the Post-Conflict Emergency Assistance Subsidy Account for PRGF-Eligible Members

To help fulfill its purposes, the International Monetary Fund (the "Fund") has adopted this Instrument to establish an account in accordance with Article V, Section 2(b) (the "Account") which shall be governed by, and administered in accordance with, the following provisions:

Paragraph 1. Purpose of the Account

The purpose of the Account shall be the administration of resources provided to the Account by Contributors for the

[1]See *Selected Decisions*, Twenty-Sixth Issue (December 31, 2001), page 240.
[2]Ibid., page 241.
[3]Ibid., pages 362–63.
[4]Ibid., page 222.

subsidization of the rate of charge on post-conflict emergency assistance purchases made by PRGF-eligible members under Decision No. 12341-(00/117),[5] November 28, 2000 ("eligible purchases"). A member is PRGF-eligible if it is included in the list of members annexed to Decision No. 8240-(86/56) SAF.[6]

Paragraph 2. Resources of the Account

The resources held in the Account shall consist of:

(i) grant contributions made to the Account for the purposes of paragraph 1;

(ii) loans, deposits, and other types of investments made by Contributors to the Account to generate income to be used for the purposes of paragraph 1; and

(iii) net earnings from the investment of resources held in the Account.

Paragraph 3. Contributions to the Account

The Fund may accept contributions of resources to the Account on such terms and conditions as may be agreed between the Fund and the respective contributors, subject to the provisions of this Account. For this purpose the Managing Director is authorized to accept grants and enter into loan, deposit, or other type of investment agreements with the Contributors to the Account.

Paragraph 4. Unit of Account

The SDR shall be the unit of account.

Paragraph 5. Media of Payment of Contributions and Exchange of Resources

(a) Resources provided to the Account shall be in any freely usable currency or such other media as may be agreed by the Fund and the Contributor.

(b) Resources held in the Account may be currencies or currencies exchanged for SDRs in accordance with such arrangements as may be made by the Fund for the holding and use of SDRs.

(c) The Fund may exchange any of the resources held in the Account provided that any balance of a currency held in the Account may be exchanged only with the consent of the issuer of such currency.

(d) Payments made from the Account shall be made in SDRs or such other media as may be determined by the Fund.

Paragraph 6. Use of the Resources

(a) The resources of the Account (including any net income from the investment of such resources) shall be used to provide grants to PRGF-eligible members that have made post-conflict emergency purchases under Decision No. 12341-(00/117)[7] ("eligible recipients"), in order to subsidize to an annual rate of 0.5 percent the rate of charge payable to the Fund on the Fund's holding of the member's currency resulting from those purchases. Only charges payable after the establishment of the Account will be eligible for subsidization.

(b) The grants will be made available to eligible recipients at the same time as quarterly charges on eligible purchases fall due, subject to the availability of adequate resources in the Account, in an amount sufficient to reduce that quarterly rate of charge to 0.5 percent on an annual basis. If, in any quarter, the resources of the Account are insufficient to subsidize the rate of charge on all eligible purchases to 0.5 percent for that quarter, the subsidy to each eligible recipient shall be prorated to bring the effective rate of charge paid after subsidization to the closest common percentage to 0.5 percent.

(c) Earmarked resources contributed to the Account shall be used in accordance with the terms agreed with the Contributor and shall not be taken into consideration in the determination of the grant subsidy under subparagraph (b) above. An eligible recipient beneficiary of earmarked resources shall not receive a lower grant subsidy than provided under subparagraph (b) above.

Paragraph 7. Authority to Invest Resources in the Account

(a) Resources held in the Account and not immediately needed for operations of the Account shall be invested at the discretion of the Managing Director, subject to the provisions of subparagraph (c).

(b) The Managing Director is authorized (i) to make all arrangements, including the establishment of accounts in the name of the Fund, with such depositories as he deems necessary to carry out the operations of the Account, and (ii) to take all other measures he deems necessary to implement the provisions of this Instrument.

(c) Investments may be made in any of the following: (i) marketable obligations issued by an international financial organization and denominated in SDRs or in the currency of a member of the Fund; (ii) marketable obligations issued by a member or by a national official financial institution of a member and denominated in SDRs or in the currency of that member; and (iii) deposits with a commercial bank, a national official financial institution of a member, or an international financial institution that are denominated in SDRs or in the currency of a member.

Paragraph 8. Administration of the Account

(a) Assets held in the Account shall be kept separate from the assets and property of all other accounts of, or administered by, the Fund. The assets and property held in such other accounts shall not be used to discharge or meet any liabilities, obligations, or losses of the Fund incurred in the administration of the Account; nor shall the assets of the Account be used to discharge or meet any liabilities, obligations, or losses incurred by the Fund in the administration of such other accounts.

(b) The Fund shall maintain separate financial records and prepare separate financial statements for the Account. The financial statements for the Account shall be expressed in SDRs and prepared in accordance with International Accounting Standards.

(c) The external audit firm selected under Section 20 of the Fund's By-Laws shall audit the operations and

[5]Ibid.

[6]Ibid., pages 374–81.

[7]Ibid., page 222.

transactions conducted through the Account. The audit shall relate to the financial year of the Fund.

(d) The Fund shall report on the resources and position of the Account in the Annual Report of the Executive Board to the Board of Governors and shall include in that Annual Report the audit report of the external audit firm on the Account.

(e) Subject to the provisions of this Instrument, the Fund, in administering the Account, shall apply, mutatis mutandis, the same rules and procedures as apply to operations of the General Resources Account of the Fund.

Paragraph 9. Fees

(a) No charge shall be levied in respect of the services rendered by the Fund in the administration, operation, and termination of this Account.

(b) All investment costs, including but not limited to costs associated with the exchange of currencies, purchase of securities, and hiring of external asset managers and custodian banks, shall be borne by, and deducted from, the Account.

Paragraph 10. Termination

(a) The Account may be terminated at any time by the Fund.

(b) Termination shall be effective on the date that all Contributors have received a notice of termination or on such later date, if any, as may be specified in the notice of termination.

(c) Any balance remaining in the Account on the date of its termination and after discharge of all obligations of the Account shall be transferred promptly to each of the Contributors in the proportion that the SDR equivalent of its respective Contribution bears to the total Contributions; except that:

(i) in the case of earmarked Contributions that have been fully used, no such transfer shall be made, and

(ii) a Contributor may instruct that its share or a specified portion thereof be utilized for such other purposes as may be mutually agreed between the Contributor and the Managing Director.

Paragraph 11. Amendments

The provisions of this Instrument may be amended by a decision of the Fund. Should the Fund amend the terms and conditions of this Instrument, each Contributor shall have the right to withdraw its individual unused Contribution in the proportion that the SDR equivalent of its respective Contribution bears to the total Contributions.

Paragraph 12. Settlement of Questions

Any question arising under this Instrument shall be settled by mutual agreement between the Fund and the Contributors.

(b) Administered Account to Subsidize Post-Conflict Emergency Assistance to Poverty Reduction and Growth Facility–Eligible Members—Use of SDRs

In accordance with Article XVII, Section 3, the Fund prescribes that (i) a participant or a prescribed holder, by agreement with a participant or a prescribed holder and at the instruction of the Fund, may transfer SDRs to that participant or prescribed holder in effecting a transfer to or from "the Post-Conflict Emergency Assistance Subsidy Account for PRGF-Eligible Members" or in effecting a payment due to or by the Fund in connection with financial operations under "the Post-Conflict Emergency Assistance Subsidy Account for PRGF-Eligible Members," (ii) operations pursuant to these prescriptions shall be recorded in accordance with Rule P-9.

Decision No. 12482-(01/45) S
May 4, 2001

D. Poverty Reduction and Growth Facility (PRGF)

(a) Overdue Financial Obligations—Procedures Applicable to PRGF Trust

(See Section E below, subsection (c) for the full text of this decision).

(b) PRGF Trust Borrowing for Loan Account—Consultation with Creditors

The Managing Director, after having consulted with all creditors in accordance with Decision No. 12032-(99/87) PRGF,[8] adopted August 2, 1999, is authorized to confirm that he does not intend to propose to the Executive Board borrowing of more than SDR 16 billion for the Loan Account of the Poverty Reduction and Growth Facility Trust except after consultation with all creditors regarding the justification for such additional borrowing and the adequacy of the Trust's Reserve in relation thereto.

Decision No. 12559-(01/85) PRGF
August 23, 2001, effective September 23, 2001

(c) PRGF Trust Instrument—Amendment

1. The following changes shall be made to the Instrument of the Poverty Reduction and Growth Facility Trust established by Decision No. 8759-(87/176) PRGF,[9] adopted December 18, 1987:

(i) In Section II, paragraph 1(d), "December 31, 2006" shall be substituted for "December 31, 2001";

(ii) In Section III, paragraph 3, the following new sentence shall be added after the first sentence:
"The drawdown period under loan agreements to the Loan Account of the PRGF Trust for interim PRGF financing shall extend through December 31, 2009."

(iii) In Section III, paragraph 4(a), "August 31, 2001" shall be substituted for "November 30, 1993";

(iv) In Section III, paragraph 4(b), the following language shall be added after the second reference to "November 30, 1993,": "or prior to June 30, 2009, in case of a commitment under a loan agreement entered into after August 31, 2001, . . ."

(v) In Section IV, "paragraph 1(d)" shall become "paragraph 1(e)" and the following new "paragraph 1(d)" shall be added:
"(d) transfers from the Trust for Special PRGF Operations for the Heavily Indebted Poor Countries and Interim PRGF Subsidy Operations (PRGF-HIPC Trust) in accordance with Section III bis of that Trust Instrument; and . . ."

[8]Ibid., page 80.
[9]Ibid., page 43.

2. Paragraphs 1(iii) and 1(iv) of this decision shall become effective when all lenders to the PRGF Trust have consented to the changes proposed therein.

Decision No. 12560-(01/85) PRGF
August 23, 2001, effective September 19, 2001

(d) PRGF-HIPC Trust Instrument—Amendments

The following changes shall be made to the Instrument of the Trust for Special PRGF Operations for the Heavily Indebted Poor Countries and Interim PRGF Subsidy Operations established by Decision No. 11436-(97/10),[10] adopted February 4, 1997:

(i) In Section I, paragraph 1(vii), "December 31, 2001" shall be substituted for "December 31, 2000" and "2001/02–2006" for "2000/01–2004";

(ii) The following Section III bis shall be added after Section III:

"Section III bis. Subsidies for Interim PRGF Operations

For purposes of Section I, paragraph 2(b) of this Instrument, and to the extent that resources in the Subsidy Account of the PRGF Trust are insufficient for interim PRGF subsidy operations, the Trustee shall transfer to the Subsidy Account of the PRGF Trust, as needed, resources in the Trust Account not earmarked for assistance under Section III of this Instrument. Any such transfers shall be limited to the amounts needed for subsidy payments."

Decision No. 12561-(01/85) PRGF
August 23, 2001

(e) PRGF Trust and PRGF-HIPC Trust—Reserve Account—Review

Pursuant to Decision No. 10286-(93/23) ESAF,[11] the Fund has reviewed the adequacy of the Reserve Account of the PRGF Trust, and determines that amounts held in the account are sufficient to meet all obligations which could give rise to a payment from the Reserve Account to lenders to the Loan Account of the PRGF Trust in the six months from October 1, 2001 to March 31, 2002.

Decision No. 12568-(01/93) PRGF
September 12, 2001

(f) PRGF-HIPC Trust—Amendment

The Instrument to Establish a Trust for Special PRGF Operations for the Heavily Indebted Poor Countries and Interim PRGF Subsidy Operations (annexed to Decision No. 11436-(97/10),[12] adopted February 4, 1997) is amended as follows:

(a) The following sentence shall be added in Section I at the end of paragraph 1(v):

"For the purposes of these calculations, amounts that are subject to an early repurchase or repayment expectation established under the Misreporting Guidelines shall not constitute external debt."

(b) The following shall be added in Section I as a new paragraph 1(x):

"Misreporting Guidelines means the Guidelines on Corrective Action for Misreporting and Noncomplying Purchases in the General Resources Account (Decision No. 12249-(00/77),[13] adopted July 27, 2000), and the Provisions on Corrective Action for Misreporting and Noncomplying Disbursements in Arrangements under the Poverty Reduction and Growth Facility (Appendix I of the Instrument to Establish the Poverty Reduction and Growth Facility Trust annexed to Decision No. 8759-(87/176) ESAF,[14] adopted December 18, 1987)."

(c) The following sentence shall be added after the first sentence of Section III, paragraph 3(e):

"To the extent that the Trustee, in determining the amount committed to the member under paragraph 3(b) above, included in the member's external debt amounts that, after the decision point, were found to be subject to an early repurchase or repayment expectation under the Misreporting Guidelines, the Trustee shall recalculate and adjust the amount of its commitment, excluding from the member's external debt the amount that was subject to the repurchase or repayment expectation."

Decision No. 12680-(02/17) PRGF
February 20, 2002

(g) Instrument to Establish Trust for Special PRGF Operations for Heavily Indebted Poor Countries and Interim PRGF Subsidy Operations—Amendment

The Instrument to Establish a Trust for Special PRGF Operations for the Heavily Indebted Poor Countries and Interim PRGF Subsidy Operations (Decision No. 11436-(97/10)[15] shall be amended as follows:

1. In Section III, paragraph 3(b), the following new sentences shall be added at the end of the paragraph:

"The Trustee shall, subject to the conditions specified below, adjust the amount of assistance committed to a member under this provision, whether or not disbursed to the account established under paragraph 5 below, if the Trustee, on the basis of revised information, recalculates the member's debt sustainability position used for the purposes of reaching the decision point and determines that the recalculated amount of relief to be provided under the Initiative exceeds or falls short of the amount originally committed by more than one percentage point of the targeted net present value of debt as defined in Section I, paragraph 1(v) above. In such circumstances, the amount of the commitment shall be increased or reduced as necessary to reach the amount to which the member, on the basis of such recalculation, would be entitled under the terms of this Instrument. No such adjustment shall be made: (i) after the completion point; or (ii) in the case of an excess of more than one percentage point, if such excess is attributable to incorrect information on exports, gross domestic product, or fiscal revenues that was not provided by or at the behest of the member. If the amount

[10]Ibid., page 81.
[11]Ibid., pages 390–91.
[12]Ibid., page 81.
[13]Ibid., pages 188–90.
[14]Ibid., page 43.
[15]Ibid., page 81.

already disbursed by the Trustee to the account established under paragraph 5 below for the benefit of the member exceeds the adjusted amount of assistance, the Trustee shall retransfer to the Trust any amount remaining in the account equivalent to such excess."

2. In Section III, paragraph 3(d), the following new sentences shall be added at the end of the paragraph:

"Where the Trustee has made a disbursement of resources under this paragraph to the account established under paragraph 5 below for the benefit of the member on the understanding that all performance-related conditions specified for such disbursement have been met and subsequently determines that any such condition was not met, the Trustee shall retransfer to the Trust any amount remaining in such account from such disbursement up to the total amount of such disbursement as well as all net investment income accrued on the amounts disbursed on the basis of incorrect information provided, however, that no retransfer shall be made if (i) the member's completion point has been reached, or (ii) the Trustee decides that such disbursement remains appropriate in view of the member's record of policy implementation and its poverty reduction efforts. The retransfer of these amounts will not affect the amount of commitment in NPV terms to the member as established at the decision point. The Fund shall issue press releases on its decisions regarding the circumstances of the misreporting and the applicable remedies."

Decision No. 12696-(02/27) PRGF
March 15, 2002

(h) Trust for Special ESAF Operations for Heavily Indebted Poor Countries and Interim ESAF Subsidy Operations—Terms and Conditions for Administration of Account—Amendment

The Trust for Special ESAF Operations for Heavily Indebted Poor Countries and Interim ESAF Subsidy Operations—Terms and Conditions for Administration of Account Provided Under Section III, Paragraph 5(b) of Trust (Decision No. 11698-(98/38) ESAF)[16] shall be amended as follows:

1. Paragraph 1 shall be redrafted to read as follows (with changes underscored):

"1. The resources of the Account shall consist of (i) the proceeds of grants and/or loans paid into the Account for the benefit of a member by the ESAF-HIPC Trust, and (ii) contributions by other donors to the reduction of a member's debt service payments on its existing debt to the Fund, and *(iii)* net earnings from the investment of resources held in the Account."

2. In paragraph 3, the following new sentence shall be added at the end of the paragraph:

"The Trustee shall also be authorized to retransfer back to the Trust an amount equivalent to (i) resources disbursed from the Trust into a sub-account in excess of the amount needed to meet the Fund's share of debt reduction in accordance with Section III, paragraph 3(b) of the Instrument to Establish the PRGF-HIPC Trust, or (ii) resources disbursed as interim assistance from the Trust into a sub-account on the incorrect understanding that all performance-related conditions specified for such disbursement were met, in accordance with Section III, paragraph 3(d) of the Instrument to Establish the PRGF-HIPC Trust."

Decision No. 12697-(02/27) PRGF
March 15, 2002

(i) PRGF Trust and PRGF-HIPC Trust—Reserve Account—Review

Pursuant to Decision No. 10286-(93/23) ESAF,[17] the Fund has reviewed the adequacy of the Reserve Account of the PRGF Trust, and determines that amounts held in the account are sufficient to meet all obligations which could give rise to a payment from the Reserve Account to lenders to the Loan Account of the PRGF Trust in the six months from April 1, 2002 to September 30, 2002.

Decision No. 12720-(02/40) PRGF
April 9, 2002

E. Overdue Financial Obligations

(a) Review of Progress Under Strengthened Cooperative Strategy—Extension of Rights Approach

The availability of the rights approach is extended until end-August 2001.

Decision No. 12512-(01/67)
June 28, 2001

(b) Strengthened Cooperative Strategy—Review

The Fund has reviewed progress under the strengthened cooperative strategy with respect to overdue obligations to the Fund as described in EBS/01/122 (7/23/01). The Fund reaffirms its support for the strengthened cooperative strategy and agrees to extend the availability of the rights approach until end-August 2002.

Decision No. 12544-(01/84)
August 22, 2001

(c) Procedures Applicable to PRGF Trust

The Instrument to Establish the Poverty Reduction and Growth Facility annexed to Decision No. 8759-(87/176) ESAF[18] shall be amended by adding the following Appendix:

"APPENDIX II: Procedures for Addressing Overdue Financial Obligations to the Poverty Reduction and Growth Facility Trust

The following procedures aim at preventing the emergence or accumulation of overdue financial obligations to the Poverty Reduction and Growth Facility Trust (the "Trust") and at eliminating existing overdue obligations. These procedures will be implemented whenever a member has failed to make a repayment of principal or payment of interest to the Trust ("financial obligation").

1. Whenever a member fails to settle a financial obligation on time, the staff will immediately send a cable urging the member to make the payment promptly; this communication will be followed up through the office of the Executive Direc-

[16]Ibid., pages 96–99.

[17]Ibid., pages 390–91.

[18]Ibid., page 43.

tor concerned. At this stage, the member's access to the Fund, including PRGF and HIPC resources, will have been suspended.

2. When a financial obligation has been outstanding for two weeks, management will send a communication to the Governor for that member stressing the seriousness of the failure to meet obligations to the Trust and urging full and prompt settlement.

3. The Managing Director will notify the Executive Board normally one month after a financial obligation has become overdue, and will inform the Executive Board of the nature and level of the arrears and the steps being taken to secure payment.

4. When a member's longest overdue financial obligation has been outstanding for six weeks, the Managing Director will inform the member concerned that, unless all overdue obligations are settled, a report concerning the arrears to the Trust will be issued to the Executive Board within two weeks. The Managing Director will in each case recommend to the Executive Board whether a written communication should be sent to a selected set of Fund Governors, or to all Fund Governors. If it were considered that it should be sent to a selected set of Fund Governors, an informal meeting of Executive Directors will be held to consider the thrust of the communication. Alternatively, if it were considered that the communication should be sent to all Fund Governors, a formal Board meeting will be held to consider a draft text and the preferred timing.

5. A report by the Managing Director to the Executive Board will be issued two months after a financial obligation has become overdue, and will be given substantive consideration by the Executive Board one month later. The report will request that the Executive Board limit the member's use of PRGF Trust resources. A brief factual statement noting the existence and amount of arrears outstanding for more than three months will be posted on the member's country-specific page on the Fund's external website. This statement will also indicate that the member's access to the Fund, including PRGF and HIPC resources, has been and will remain suspended for as long as such arrears remain outstanding. A press release will be issued following the Executive Board decision to limit the member's use of the PRGF Trust resources. A similar press release will be issued following a decision to lift such limitation. Periods between subsequent reviews of reports on the member's arrears by the Executive Board will normally not exceed six months. The Managing Director may recommend advancing the Executive Board's consideration of the reports regarding overdue obligations.

6. The Annual Report and the financial statements will identify those members with overdue obligations to the Trust outstanding for more than six months.

Removal from the list of PRGF-eligible countries

7. When a member's longest overdue financial obligation has been outstanding for six months, the Executive Board will review the situation of the member and may remove the member from the list of PRGF-eligible countries. Any reinstatement of the member on the list of PRGF-eligible countries will require a new decision of the Executive Board.

The Fund shall issue a press release upon the decision to remove a member from the list of PRGF-eligible countries. A similar press release shall be issued upon reinstatement of the member on the list. The information contained in such press releases, where pertinent, shall be included in the Annual Report for the year concerned.

Declaration of noncooperation with the PRGF Trust

8. A declaration of noncooperation with the PRGF Trust may be issued by the Executive Board whenever a member's longest overdue financial obligation has been outstanding for twelve months. The decision as to whether to issue such a declaration would be based on an assessment of the member's performance in the settlement of its arrears to the Trust and of its efforts, in consultation with the Fund, to follow appropriate policies for the settlement of its arrears. Three related tests would be germane to this decision regarding (i) the member's performance in meeting its financial obligations to the Trust taking account of exogenous factors that may have affected the member's performance; (ii) whether the member had made payments to creditors other than the Fund while continuing to be in arrears to the Trust; and (iii) the preparedness of the member to adopt comprehensive adjustment policies. The Executive Board may at any time terminate the declaration of noncooperation in view of the member's progress in the implementation of adjustment policies and its cooperation with the Fund in the discharge of its financial obligations.

Upon a declaration of noncooperation, the Fund could also decide to suspend the provision of technical assistance. The Managing Director may also limit technical assistance provided to a member, if in his judgment that assistance was not contributing adequately to the resolution of the problems associated with overdues to the Trust.

The Fund shall issue a press release upon the declaration of noncooperation and upon the termination of the declaration. The information contained in such press releases shall be included in the Annual Report(s) for the year(s) concerned."

Decision No. 12545-(01/84) PRGF
August 22, 2001

(d) Amendment to Procedures for Dealing with Members with Arrears to General and SDR Departments

In the Procedures for Dealing with Members with Overdue Financial Obligations to the Fund adopted by the Executive Board on August 17, 1989,

(i) the title of the decision shall be amended to read:
"Procedures for Dealing with Members with Overdue Financial Obligations to the General Department and the SDR Department";

(ii) the following paragraphs shall be added between the paragraph beginning with the terms "A complaint by the Managing Director . . ." and the paragraph beginning with the terms "The Annual Report and the financial statements . . .":
"When a member has overdue financial obligations outstanding for more than three months, a brief factual statement noting the existence and amount of such arrears will be posted on the member's country-specific page on the Fund's external website. The statement will be updated as necessary. It will also indicate that the member's access to the Fund, including PRGF and HIPC resources, has

been and will remain suspended for as long as arrears remain outstanding.

A press release will be issued following the Executive Board's decision to limit the member's use of the general resources or, if the member has overdue obligations in the SDR Department, to suspend its right to use SDRs. A similar press release will be issued following a decision to lift such limitation or suspension."; and

(iii) the following paragraph shall be added between the paragraph beginning with the terms "A declaration of censure or noncooperation would come as an intermediate step . . ." and the paragraph beginning with the terms "A draft of the declaration is set out . . .":

"Upon a declaration of noncooperation, technical assistance to the member will be suspended unless the Executive Board decides otherwise."

Decision No. 12546-(01/84)
August 22, 2001

(e) Policy to Publish Information on Missed Repurchase Expectations

When a member has failed for three months to meet a repurchase expectation under paragraph 1(b) of Decision No. 5703-(78/39),[19] paragraph 10(a) of Decision No. 4377-(74/114),[20] or paragraphs 6(b) or 19 of Decision No. 11627-(97/123) SRF/CCL,[21] a brief factual statement noting such failure and the resulting suspension of use of Fund resources will be posted on the member's country-specific page on the Fund's external website. This statement will be removed when the Executive Board lifts the suspension, or if the member meets the missed repurchase expectation or settles the associated repurchase obligation.

Decision No. 12547-(01/84) SRF/CCL
August 22, 2001

(f) Amended Decisions

1. References in Fund decisions to Decision No. 7842-(84/165)[22] on the guidelines on corrective action in cases of misreporting and noncomplying purchases in the General Resources Account shall be understood to be references to Decision No. 12249-(00/77),[23] July 27, 2000.

2. Decision No. 7931-(85/41),[24] March 13, 1985, and Decision No. 7999-(85/90),[25] June 5, 1985 are hereby abrogated.

Decision No. 12548-(01/84)
August 22, 2001

(g) Burden Sharing—Implementation in FY2003

Section I. Principles of Burden Sharing

1. The financial consequences for the Fund that stem from the existence of overdue financial obligations shall be shared between debtor and creditor member countries.

2. The sharing shall be applied in a simultaneous and symmetrical fashion.

Section II. Determination of the Rate of Charge

The rate of charge referred to in Rule I-6(4) shall be adjusted in accordance with the provisions of Section IV of this decision and Section IV of Executive Board Decision No. 12189-(00/45),[26] adopted April 28, 2000.

Section III. Adjustment for Deferred Charges

Notwithstanding paragraph 1(a) of Section IV of Executive Board Decision No. 12189-(00/45),[27] adopted April 28, 2000, the rate of charge and the rate of remuneration determined under that Section shall be rounded to two decimal places.

Section IV. Amount for Special Contingent Account-1

1. An amount of SDR 94 million shall be generated during financial year 2003 in accordance with the provisions of this Section and shall be placed to the Special Contingent Account–1 referred to in Decision No. 9471-(90/98),[28] adopted June 20, 1990.

2. (a) In order to generate the amount to be placed to the Special Contingent Account-1in accordance with paragraph 1 of this Section, notwithstanding Rule I-6(4)(a) and (b) and Rule I-10, the rate of charge referred to in Rule I-6(4) and, subject to the limitation in (b), the rate of remuneration prescribed in Rule I-10 shall be adjusted in accordance with the provisions of this paragraph.

(b) Notwithstanding paragraph 1 above, adjustments to the rate of charge and the rate of remuneration under this paragraph shall be rounded to two decimal places. No adjustment in the rate of remuneration under this paragraph shall be carried to the point where the average remuneration coefficient would be reduced below 85 percent for an adjustment period.

(c) The adjustments under this paragraph shall be made as of May 1, 2002, August 1, 2002, November 1, 2002 and February 1, 2003; shortly after July 31 for the period May 1 to July 31; shortly after October 31 for the period from August 1 to October 31; shortly after January 31 for the period from November 1 to January 31; shortly after April 30 for the period from February 1 to April 30.

3. (a) Subject to paragraph 3 of Decision No. 8780-(88/12),[29] adopted January 29, 1988, the balances held in the Special Contingent Account-1 shall be distributed in accordance with the provisions of this paragraph to members that have paid additional charges or have received reduced remuneration as a result of the adjustment when there are no outstanding overdue charges and repurchases, or at such earlier time as the Fund may decide.

(b) Distributions under (a) shall be made in proportion to the amounts that have been paid or have

[19]Ibid., pages 301–03.
[20]Ibid., pages 193–97.
[21]Ibid., pages 264–70 and 605.
[22]Ibid., pages 190–91.
[23]Ibid., pages 188–90.
[24]Ibid., page 534.
[25]Ibid., page 535.
[26]Ibid., pages 358–61.
[27]Ibid.
[28]Ibid., pages 366–68.
[29]Ibid., pages 319–20.

not been received by each member as a result of the respective adjustments.

(c) If a member that is entitled to a payment under this paragraph has any overdue obligation to the Fund in the General Department at the time of payment, the member's claim under this paragraph shall be set off against the Fund's claim in accordance with Decision No. 8271-(86/74),[30] adopted April 30, 1986, or any subsequent decision of the Fund.

(d) Subject to paragraph 4 of Decision No. 8780-(88/12),[31] adopted January 29, 1988, if any loss is charged against the Special Contingent Account-1, it shall be recorded in accordance with the principles of proportionality set forth in (b).

Section V. Review

The operation of this decision shall be reviewed when the adjustment in the rate of remuneration reduces the remuneration coefficient to the limit set forth in paragraph 2(b) of Section III of this decision and Section IV of Executive Board Decision No. 12189-(00/45),[32] adopted April 28, 2000.

Decision No. 12731-(02/43)
April 26, 2002

(h) Review of System of Special Charges

The Fund has reviewed the system of special charges applicable to overdue obligations to the General Reserve Account, the Structural Adjustment Facility, and the Trust Fund.

Decision No. 12732-(02/43) G/SAF/TR
April 26, 2002

F. Eleventh General Review of Quotas

(a) Period for Consent to Increases—Extension

Pursuant to paragraph 4 of the Resolution of the Board of Governors No. 53-2,[33] "Increase in Quotas of Fund Members—Eleventh General Review," the Executive Board decides that notices of consent from members to increases in their quotas must be received in the Fund by 6:00 p.m., Washington time, on January 31, 2002.

Decision No. 12533-(01/76)
July 18, 2001

(b) Period for Consent to Increases—Extension

Pursuant to paragraph 4 of the Resolution of the Board of Governors No. 53-2,[34] "Increase in Quotas of Fund Members-Eleventh General Review," the Executive Board decides that notices of consent from members to increases in their quotas must be received in the Fund by 6:00 p.m., Washington time, on July 31, 2002.

Decision No. 12672-(02/11)
January 31, 2002

[30]Ibid., page 312.
[31]Ibid., pages 319–20.
[32]Ibid., pages 358–61.
[33]Ibid., pages 657–68.
[34]Ibid.

G. Technical Assistance—Framework Administered Account—Amendment to Instrument

The instrument establishing the Framework Administered Account for Technical Assistance Activities (Decision No. 10942-(95/33)[35]), as amended, is hereby further amended as provided in the Annex to EBS/01/202 (11/29/01).

Decision No. 12641-(01/126)
December 6, 2001

H. Biennial Review of Implementation of Fund Surveillance and of 1977 Surveillance Decision—Overview; and Extension of Deadline for Review

In Decision No. 12178-(00/41),[36] adopted on April 10, 2000, "April 10, 2002" in the first and second paragraphs shall be replaced with "July 10, 2002."

Decision No. 12713-(02/38)
April 5, 2002

I. General Data Dissemination System—Amendment

The Executive Board approves the draft amendments to the General Data Dissemination System as set forth in SM/01/208, Sup. 4 (11/5/01).

Decision No. 12614-(01/117)
November 12, 2001

J. Reducing Work Pressures

(a) Article IV Consultation Documentation—Recent Economic Developments

Article IV consultation documentation shall no longer include Recent Economic Development reports. Instead the staff could incorporate, as needed, the appropriate information on recent economic developments in a Selected Issues paper as analytical background for key policy issues.

Decision No. 12661-(02/6)
January 22, 2002

(b) Reports on Observance of Standards and Codes

Individual hard copies of Reports on the Observance of Standards and Codes that are to be published shall no longer be circulated to Executive Directors.

Decision No. 12662-(02/6)
January 22, 2002

(c) Summings Up for Internal Purposes on Use of Fund Resources

Following any Executive Board meeting on the use of Fund resources by a member combined with an Article IV consultation, summings up for internal purposes on the use of Fund resources shall no longer be prepared. Instead, a paragraph or paragraphs concerning Executive Directors' views regarding the member's Fund-supported program shall be attached to the summing up of the Board discussion of the Article IV consultation. Such paragraph(s) shall not be published with any Public Information Notice following the meeting.

Decision No. 12663-(02/6)
January 22, 2002

[35]Ibid., page 106.
[36]Ibid., page 17.

K. European Central Bank

(a) Observer Status—European Union Accession Countries

It is understood, for the purposes of paragraph 2 of the Decision on the Observer Status of the European Central Bank (ECB) (Decision No. 11875-(99/1),[37] adopted December 21, 1998), that the ECB shall be invited to send a representative to meetings of the Executive Board on Fund surveillance over the policies of, and to meetings of the Executive Board on use of Fund resources by, members that are accession countries to the European Union, provided that there is no objection from the member concerned.

Currently, the following members are accession countries to the European Union:

Bulgaria, Cyprus, Czech Republic, Estonia, Hungary, Latvia, Lithuania, Malta, Poland, Romania, Slovak Republic, Slovenia, and Turkey.

The Executive Board will be informed by management, after consultation with the Presidency of the Council of the European Union, of any changes to that list.

Decision No. 12479-(01/43)
April 27, 2001

(b) Observer Status

The Executive Board has reviewed Decision No. 11875-(99/1),[38] adopted December 21, 1998. The Decision shall be reviewed again before January 1, 2003.

Decision No. 12652-(02/1)
December 28, 2001

[37]Ibid., pages 510–11.

[38]Ibid.

APPENDIX IV

IMF Relations with Other International Organizations

FY2002 presented many challenges as economic activity weakened throughout the world, increasing the risks faced by vulnerable countries. Restoring the momentum of global economic growth has required an unprecedented level of cooperation between international financial institutions. Collaboration among the IMF, World Bank, the United Nations (UN) and its specialized agencies, the World Trade Organization (WTO), the Organization for Economic Cooperation and Development (OECD), the Bank for International Settlements (BIS), regional development banks, and intergovernmental groups took on added significance in an uncertain global economic environment.

Regional Representation and Technical Assistance

The IMF's Office in Europe, the Office in Geneva, and the Regional Office for Asia and the Pacific maintain close ties with other international organizations. The Office in Europe (Paris Office) liaises with regional and international institutions located in Europe and contributes to the IMF's European operations, focusing on multilateral and regional surveillance. The Paris Office also provides secretariat support to the Group of Ten, liaises with bilateral donors, regularly participates in and represents the IMF at donor and surveillance committees of the OECD in Paris, and keeps close contact with the BIS in Basel and the European Commission in Brussels. Additionally, Paris Office staff attend, on an ad hoc basis, meetings of organizations such as the Financial Action Task Force (FATF), the European Parliament, and the Council of Europe.

The Office in Geneva liaises with, monitors, and reports on activities of Geneva-based multilateral agencies in areas relevant to the IMF's mandate. Particular emphasis is placed on the WTO and the multilateral trading system. The Office also represents the IMF in a number of multiagency initiatives, such as the Integrated Framework for Trade-Related Technical Assistance to developing countries. In addition, the Office maintains contacts with the International Labor Organization (ILO), the UN Conference on Trade and Development (UNCTAD), the International Trade Center (ITC), the UN Economic Commission for Europe (ECE), the Inter-Parliamentary Union (IPU), and a number of other Geneva-based agencies.

The IMF's Office for Asia and the Pacific, located in Tokyo, is responsible for enhancing surveillance and promoting the IMF's initiatives in the Asia region. The office works closely with such regional groupings as the Asia-Pacific Economic Cooperation (APEC) forum; the Association of South East Asian Nations (ASEAN); the South Pacific Forum (FORUM); the South East Asian Central Banks (SEACEN); and the Executives' Meeting of East Asia and Pacific Central Banks (EMEAP). It provides the secretariat for the Manila Framework Group. The office maintains close contact with two regional organizations—the Asian Development Bank (AsDB) and the United Nations Economic and Social Commission of Asia and the Pacific (ESCAP)—as well as with the World Bank's office in Japan.

FY2002 saw the establishment of a regional technical assistance center in Bridgetown, Barbados. The Caribbean Regional Technical Assistance Center (CARTAC), a joint initiative by the IMF, bilateral donors, and other multilateral institutions to help 20 Caribbean countries improve their economic and fiscal management practices, was inaugurated on November 5, 2001. The IMF's Executive Board approved the establishment of two African Regional Technical Assistance Centers (AFRITACs). The Dar es Salaam and Abidjan centers will help countries build local capacity for East Africa and West Africa, respectively. The IMF provides policy-related training to public sector officials and private sector managers through its support of the Joint Africa Institute, the Joint Vienna Institute, and the Singapore Regional Training Institute. In addition, three regional training programs have been added in the past three years—the IMF-Arab Monetary Fund Regional Training Program in the United Arab Emirates, the Joint China Training Program, and in FY2002, the Joint Regional Training Center for Latin America in Brazil. Each of these regional facilities and programs offers courses and seminars on topics of relevance to regional capacity building. (For more details, see Chapter 7.)

Liaison with Intergovernmental Groups

One notable aspect of the altered international environment has been the increased emphasis given to collaboration with intergovernmental groups involved with devising measures to combat money laundering and the financing of terrorism. (See Chapter 3.)

The IMF, along with the World Bank, is working with the FATF to develop a methodology for assessing anti-money-laundering and combatting the financing of terrorism (AML/CFT) measures contained in the FATF 40 Recommendations on Money Laundering and their Eight Special Recommendations on Terrorist Financing. IMF staff attended the FATF Extraordinary Plenary Meeting, on October 29–30, 2001, in Washington and the global Forum on Countering the Financing of Terrorism, on February 1, 2002, in Hong Kong SAR.

The Financial Stability Forum (FSF) noted efforts to combat the financing of terrorism at its seventh meeting held on March 25–26, 2002, in Hong Kong SAR. As a member of the FSF, the IMF takes the lead on organizing and imple-

menting a process for assessing offshore financial centers' adherence to international standards. The chairman of the FSF participated as an observer at the November 2001 and April 2002 meetings of the International Monetary and Financial Committee. Contacts were established between the IMF and the Egmont Group, which comprises the Financial Intelligence Units of 58 member countries. The Basel Committee on Banking Supervision, the International Association of Insurance Commissioners, the International Organization of Securities Commissioners (IOSCO), and the Egmont Group also collaborated in the development of sector-specific contributions to the methodology for assessing anti-money-laundering and counterterrorist financing measures. Besides this stepped-up work in the AML/CFT area, the IMF continues to work closely with these bodies on other aspects of the international financial system, such as standards and codes.

Throughout FY2002, the IMF participated actively in the meetings and activities of other major intergovernmental groups, including the Group of Seven, Group of Ten, Group of Twenty, and Group of Twenty-Four. Managing Director Horst Köhler attended the third meeting of the G-20, held in Ottawa, on November 16, 2001. On February 9, 2002, he met with finance ministers and central bank governors of the G-7 countries in Meech Lake, Canada, to review recent economic developments.

Relations with the United Nations

The IMF cooperates with the United Nations on a regular basis through the IMF Special Representative to the UN and other institutional contacts, including management and the Executive Board.

During FY2002, the main issue on which the IMF and UN cooperated was the preparation for the UN International Conference on Financing for Development (FfD). On March 18–22, 2002, 51 heads of state or government, along with ministers of finance, trade, development, and foreign affairs, gathered in Monterrey, Mexico, for the conference. Throughout FY2002, IMF staff contributed to the work of the FfD Preparatory Committee, providing input for the event and its concluding document. Discussions between the chairpersons of the Preparatory Committee for the conference and the IMF Executive Board and management took place prior to the Monterrey conference. Speaking at the conference, the Managing Director noted the role that international financial institutions have in reinforcing the momentum for reform and consensus building.

The IMF's Managing Director participated in the High-Level Segment of the Annual Session of the Economic and Social Council (ECOSOC) on "Sustainable Development of Africa and the Role of the United Nations System" held in Geneva on July 16, 2001. He pledged the IMF's support for a global partnership for African economic development. The New African Initiative, launched previously at the African heads of state meeting in Lusaka, provided the session's reference point. The Initiative was subsequently renamed the New Partnership for Africa's Development, or NEPAD. Besides issues of particular concern to Africa, subjects of general interest discussed at the session included the prospects of opening a new round of multilateral trade negotiations, overseas development assistance, the possibility of enlarging the HIPC Initiative, and the overall coherence of international policymaking.

Deputy Managing Director Eduardo Aninat attended the High-Level Dialogue between ECOSOC, the Bretton Woods institutions, and the WTO following the Spring Meetings of the IMFC/DC. IMF management also participated in the sessions of the Chief Executives Board (CEB), which brings together the UN organizations, the IMF, the World Bank, and the WTO under the chairmanship of the UN Secretary-General.

The UN's announcement of the Millennium Development Goals (MDGs) on September 19, 2001, was welcomed by Managing Director Köhler. The MDG targets and indicators were the outcome of extensive consultations between the UN Secretariat and staff members of the IMF, World Bank, and OECD. They represent the harmonization of International Development Goals and the UN Millennium Declaration.

Collaboration with the World Bank

The collegial relationship between the IMF and the World Bank dates back to their founding at the Bretton Woods Conference of 1944. As mandated in their respective Articles of Agreements and in the joint 1989 Concordat, each institution plays an important, complementary role in ensuring the world's economic growth and stability. Both institutions conduct regular consultations of senior staffs, participate together on missions, attend joint meetings, and share documents. Collaboration at the staff level, both in policy advice and on operational matters, is supported by the ongoing dialogue between IMF and Bank management.

As the missions of the institutions have evolved over time, management has periodically redefined the division of labor between the two organizations, with a view toward enhancing their overall effectiveness. FY2002 saw a renewed momentum to strengthen the framework for collaboration. Building upon the joint management statements of 1998 and 2000, the institutions together reviewed IMF-Bank cooperation in supporting country development. Responsibilities were refined and clarified, as both organizations sought to ensure a more systematic working relationship.

Particular emphasis was given to streamlining and focusing conditionality. Although policy measures critical for a program to achieve its macroeconomic goal should continue to be included, program design and the conditions attached to program financing must be founded on strong national ownership. The revised framework, detailed in a joint document dated August 23, 2001, seeks to reduce institutional overlap and reinforce sustained implementation of country economic reforms.

An important element in this process has been the application of the "lead agency" concept for program design and monitoring. In order to better delineate roles, improve accountability, and increase transparency, one institution is identified as the agency to lead staff work on specific policy issues. Within the overall collaboration framework, each institution retains ultimate responsibility for its own lending decisions, reflecting separate accountability.

Among the major joint initiatives completed in FY2002 were a review of the Poverty Reduction Strategy Paper (PRSP) approach and a set of joint papers discussing the status of implementation of the HIPC Initiative. Other joint initiatives to support poverty reduction and growth included a statement from the Managing Director of the IMF and the

President of the Bank to the WTO, calling for unrestricted market access for poor countries; a commitment to implementing the "Monterrey Consensus," to fund financing for development; and the establishment of regional technical assistance centers, to support local capacity building. (For more details, see Chapter 5).

Finally, as discussed above under "Liaison with Intergovernmental Groups," since April 2001 the IMF and the Bank have intensified their work on global anti-money-laundering efforts and, since September 2001, on combating the financing of terrorism, including assessment of the AML/CFT framework in the context of the joint IMF-Bank Financial Sector Assessment Program work.

Cooperation with Regional Development Banks

Whether working to prevent crisis, alleviate poverty, combat financial abuse, or strengthen the global economic system, the IMF cooperates closely with the world's multilateral and regional development banks. This collaboration includes formulation and implementation of policies in the economic and financial areas, release of information, and exchange of staff visits. In FY2002, the IMF worked with the Asian Development Bank (AsDB) to establish a regional "early warning system," with the European Bank for Reconstruction and Development (EBRD), the AsDB, and the World Bank to promote poverty reduction and debt sustainability in the low-income countries of the Commonwealth of Independent States, with the Inter-American Development Bank (IDB) to address the crisis in Argentina, and with the African Development Bank (AfDB) to launch the AFRITACs. IMF staff regularly attend meetings, seminars, and forums sponsored by other regional, economic, and financial organizations throughout the world. Representatives of multilateral creditors are invited to attend country-specific Board discussions of HIPC matters.

In October 2001 and in March 2002, the IMF, together with the World Bank and 11 regional development banks, participated in semiannual meetings of multilateral creditors to HIPCs to review the progress of implementation of the HIPC Initiative. In the later part of 2001, the IMF and World Bank conducted a series of videoconferences with heads of multilateral development banks to discuss a number of significant issues, ranging from the global economic outlook to the combating of money laundering and terrorist financing.

Role of IMF Management

In a globalized world, close cooperation between financial, trade, and development organizations is essential. Efforts to prevent crisis and to promote growth depend upon the coordinated actions of many international institutions. This is especially true in times of economic stress and uncertainty. IMF management plays an important role in promoting this multilateral collaboration.

From May 10 to 15, IMF Managing Director Köhler visited Saudi Arabia, Bahrain—to attend the Gulf Cooperation Council (GCC) ministerial meeting—Egypt, and Paris to meet with authorities of the Maghreb countries. On May 31, 2001, Mr. Köhler addressed the spring membership meeting of the Institute for International Finance, held in Hong Kong SAR, where he spoke on the need to build a new partnership between the private financial sector and public institutions like the IMF. At the High-Level Meeting of the ECOSOC in Geneva on July 16, 2001, he pledged the IMF's support for a global partnership for African economic development. The Managing Director addressed the Fourth Ministerial Conference of the WTO, in Doha, Qatar, on November 10, 2001, regarding the importance of embarking on a new trade round to help build a better world. On December 14, 2001, Mr. Köhler attended the Informal Meeting of the ECOFIN Council in Laeken, Belgium, where he welcomed the introduction of euro notes and coins as an emblem of the successes and challenges of European integration. At the International Conference on Poverty Reduction Strategies in Washington on January 14, 2002, the Managing Director reviewed the ongoing process of change in the IMF's work with poor countries. Also in Washington, while speaking to the Conference on Humanizing the Global Economy on January 28, 2002, Mr. Köhler advanced the proposition that there is an obligation to work for better globalization. At the International Conference on Financing for Development in Monterrey, Mexico, on March 21, 2002, he urged adoption of the "Monterrey Consensus" and committed the IMF to playing an active role in the fight against world poverty. On April 17, 2002, the Managing Director outlined the IMF's agenda for promoting sustained growth and international financial stability, at the National Press Club in Washington. From April 28 to May 3, 2002, Mr. Köhler conducted his third tour of the African continent since assuming office. He visited Dar es Salaam, Kinshasa, Abidjan, Ouagadougou, and Accra, where he attended meetings with heads of state, participated in a series of workshops, and held discussions with a broad cross section of society on a range of topics of importance to Africa.

The IMF's Deputy Managing Directors also attended many conferences, meetings, and seminars throughout the year. On June 1, 2001, then First Deputy Managing Director Stanley Fischer addressed the Institute of Policy Studies in Singapore regarding the prospect of future relations between the IMF and member countries in Asia. In Berlin, on June 11, 2001, Deputy Managing Director Shigemitsu Sugisaki spoke to the International Policy Dialogue on the need to increase the effectiveness of conditionality, while giving maximum scope for national ownership. At the General Meeting of ELKARGI in San Sebastián, Spain, on June 29, 2001, Deputy Managing Director Eduardo Aninat reflected on the opportunities and risks of globalization. Current First Deputy Managing Director Anne Krueger proposed a new approach to sovereign debt restructuring at the National Economists' Club Annual Dinner in Washington on November 26, 2001.

APPENDIX V

External Relations

In FY2002, the IMF accelerated its efforts to increase its transparency and communicate effectively with people around the world. With regard to **public statements and publications**, the main activities were:

- Publishing a much wider range of *country- and policy-related documents* on the IMF's website (www.imf.org) under the IMF's new policy on transparency, adopted in 2000. Information and documents on the *Financial Sector Assessment Program (FSAP)* were added in FY2002. The website continued to be very popular, attracting users in steadily growing numbers, and a program of regular enhancements to the website's content, usability, and search facility begun during the financial year is expected to increase further the importance of the website in the IMF's external communications.
- *Speeches* and other public appearances by management and senior staff conveyed the IMF's views on broad policy and economic issues ranging from IMF reform to the outlook for the world economy following September 11, and on specific country and regional issues, ranging from the launch of the euro to the prospects for growth and reform in Russia. The IMF published most speeches on the website within hours of delivery.
- *Publication* of economic and financial research and policy analysis papers increased, including three issues of the *World Economic Outlook;* the inaugural issue of the new quarterly *Global Financial Stability Report;* a new Annual Research Conference issue of *IMF Staff Papers;* and a wide array of books, manuals and guides, Occasional Papers, Working Papers, Policy Discussion Papers, pamphlets, and leaflets (see Table V.1).
- *Finance & Development* (a quarterly magazine on issues in the international economy) and the *IMF Survey* (a biweekly journal on the activities of the IMF) were revamped to sharpen their focus on key policy concerns.
- To make the IMF's technical and analytical work more accessible, the IMF published new titles in its *Economic Issues*, *Issues Briefs*, and *Factsheets* series. *Economic Issues* are brief, simplified summaries of policy-related economic research findings. *Issues Briefs* discuss key issues facing the IMF and the global economy, while *Factsheets* explain in plain language how the IMF works.
- *Distribution* of IMF publications was expedited and expanded in FY2002. A streamlined inventory and order-fulfillment system, using state-of-the-art technology, will ensure timely distribution of publications worldwide. In addition, over 150 libraries in 183 countries were invited to join in the IMF's Depository Library Program—initiated to guarantee dissemination of IMF publications in member countries where people would otherwise have inadequate access to such information.
- A study by outside consultants of user requirements and dissemination and pricing strategies for IMF publications was conducted in FY2002. Two key findings were that (1) the IMF could significantly augment the dissemination of its publications, both priced and complimentary, by using e-commerce to contact consumers and complete orders, and—for such Internet publications as *International Financial Statistics*—to provide online access, and (2) despite the steady spread of electronic media worldwide, print editions of many publications will be needed for an indefinite period, particularly for users in developing countries with limited technology infrastructure.

The IMF also enhanced its **media relations** work in FY2002:

- Regular *press briefings* by the Director of the External Relations Department were held roughly every two weeks, with subsequent posting of transcripts and video on the website. *Press conferences* with management and senior staff, held on such occasions as the Spring and Annual Meetings, and on release of major reports such as the *World Economic Outlook* and the *Global Financial Stability Report,* were also made widely available to the public as transcripts and videos posted on the website. In addition, mission chiefs and resident representatives increased their contact with local press and media on country-related issues. To improve accessibility, new web pages—for IMF resident representatives in Angola, Bulgaria, China, Estonia, Latvia, Pakistan, and Vietnam—were established.
- *Press Releases* on decisions taken by the Executive Board, and *News Briefs* expressing the views of management and senior staff on topical matters, were posted on the website and also distributed directly by fax to journalists and others.
- *Public information notices* (PINs) on both country and policy issues were posted on the website. Country PINs convey summaries of the Executive Board's review of economic surveillance or Article IV consultations with IMF member countries. Publication is authorized by the countries themselves. Policy PINs summarize discussions of IMF policies. Decisions to publish policy PINs are based on whether discussions have either reached completion or are at a point where informing the public is deemed useful.
- Through *op-eds* and *letters to the editor*, the IMF sought to state its case directly to the public and correct misperceptions about its role. *Op-eds* addressed such broad policy

issues as "Globalization and the Poor Countries," "Should Countries Like Argentina Be Able to Declare Themselves Bankrupt?" and "Toward Faster Poverty Reduction." Senior staff and resident representatives responded to specific criticism leveled against the IMF in *letters to the editor,* which appeared in newspapers and other publications around the world.

To enhance awareness and understanding of its policies and operations, the IMF expanded its **public outreach** activities in FY2002. Participants included legislators and parliamentarians in a number of countries, the private sector (especially financial market participants), and civil society at large, including nongovernmental organizations, labor unions, religious groups, academia, and the general public. In the period leading up to the Annual Meetings—slated to take place on September 29–30, 2001—the IMF made a special effort to reach out to civil society and other critics to address their concerns. The terrorist attacks in the United States on September 11, 2001, however, led to a postponement of the Annual Meetings and dramatically changed the parameters of the debate on globalization and the role of the IMF. In the end, street protests against the IMF and the World Bank were relatively muted during the scaled-down meetings of the International Monetary and Financial Committee and the Development Committee held in Ottawa in November 2001, and the Spring Meetings held in Washington, D.C., in April 2002.

The IMF continued to seek a constructive dialogue with civil society on globalization and other important issues throughout FY2002.

- IMF staff had numerous contacts and participated in about 60 seminars and meetings with *civil society groups* during FY2002, including nongovernmental, labor, and religious organizations. The Managing Director participated in two "town hall" meetings with NGO representatives—at the Ministry of Finance in Berlin in September 2001, and during the international Poverty Reduction Strategy Paper (PRSP) review conference held in Washington, D.C., in January 2002.
- During FY2002, the Managing Director maintained regular contact with the *private financial sector*, including through the Capital Markets Consultative Group (CMCG). The CMCG met in Hong Kong SAR (May 2001), in New York (October 2001), and in Frankfurt (March 2002). The meetings focused generally on the world economic outlook, vulnerabilities in emerging and other markets, and cooperation between the official and private sectors on issues such as crisis prevention and resolution.
- Management and staff continued to meet with *legislators in various countries* on topics ranging from IMF reform to specific country issues. IMF staff also organized and/or participated in a number of special seminars with parliamentarians from many countries. In April 2002, for example, the IMF, together with the National Assembly of Kenya, organized a workshop on managing an economy. The workshop provided an opportunity for senior IMF staff and parliamentarians to discuss various topics of common interest, including the importance of macroeconomic stability and poverty reduction, good governance, financial sector reforms, and the social dimension of reforms.
- The IMF organized, and beginning in FY2002 broadcast live over the Internet, a series of *Economic Forums* on topical issues ranging from "The Euro—Ready or Not" to "New Ideas for Reducing Poverty" and "Globalization—North-South Linkages." Economic Forums are always open to the public, free of charge.
- IMF staff became more active in engaging *students* and the *academic and policy research community* in the Washington, D.C., area. IMF staff participated in discussions and gave presentations on topics related to the work of the IMF, including globalization and trade. Two new multilingual educational segments, "IMF in Action," intended to help students better understand what the IMF does, and "Monetary Mania," a quiz show about money, economics, and monetary policy, were developed and added to the website.
- The *IMF Center,* which opened in 2001 at IMF headquarters, hosted 12,000 visitors and held briefings on financial and monetary issues for a growing number of visiting groups in FY2002. Directly accessible to the general public, the center featured a new exhibit, "The Artistry of African Currency," complementing its permanent exhibit, "Money Matters," on the history of global cooperation in financial and monetary policy.
- The IMF's *community relations program* continued to assist less fortunate members of the Washington area community in FY2002. IMF staff carried out extensive volunteer work in the Washington metro region and, in some cases, overseas. Through the IMF Civic Program, over $650,000 was donated to charities working to reduce poverty in the Washington, D.C., metropolitan region and in low-income countries, and surplus goods—such as used computers and furniture—were donated to charitable and educational organizations.

Table V.1

Publications and Videos Issued, Financial Year Ended April 30, 2002

*Available in English and selected other languages in full text on the IMF's website (www.imf.org).

Reports and Other Documents

*Annual Report of the Executive Board for the Financial Year Ended April 30, 2001**
(Chinese, English, French, German, and Spanish). Free.

Annual Report on Exchange Arrangements and Exchange Restrictions, 2001
$95; $47.50 to full-time university faculty members and students.

Summary Proceedings of the Fifty-Fifth Meeting of the Board of Governors (2000).* Free.

*The IMF Committee on Balance of Payments Statistics, Annual Report, 2001.** Free.

Selected Decisions and Selected Documents of the International Monetary Fund. Free.

By-Laws, Rules, and Regulations, Fifty-Eighth Edition. (May 2001) (English, French, and Spanish). Free.

IMF Financial Statement, Quarters ended April 30, 2001; October 31, 2001; January 31, 2002. Free.

Periodic Publications

Balance of Payments Statistics Yearbook
Vol. 52, 2001. A two-part yearbook. $78 a year.

Direction of Trade Statistics
Quarterly, with yearbook. $128 a year; $89 to full-time university faculty members and students. $45 for yearbook only.

*Finance and Development**
Quarterly (Arabic, Chinese, English, French, and Spanish). Free by subscription. Airspeed delivery, $20. Individual copies, $10.

Government Finance Statistics Yearbook
Vol. 25, 2001 (Introduction and titles of lines in English, French, and Spanish). $65.

International Financial Statistics
Monthly, with yearbook (English). $286 a year; $199 to full-time university faculty members and students. $72 for yearbook only. *International Financial Statistics* is also available on CD-ROM; price information is available on request.

*IMF Staff Papers**
Three times a year. $56 a year; $28 to full-time university faculty members and students.

IMF Staff Papers: Special Issue: Transition Economies: How Much Progress? 2001. $18.

IMF Staff Papers: Special Issue of the Proceedings of the First Annual Research Conference, 2001. $18.

*IMF Research Bulletin**
Quarterly. Free.

*IMF Survey**
Twice monthly, once in December (English, French, and Spanish). Private firms and individuals are charged an annual rate of $79. Annual bound editions available for $89: Vol. 30-2001 (English), Vol. 29-2000 (English), Vol. 29-2000 (French), and Vol. 29-2000 (Spanish).

Occasional Papers

No. 206. *The Dominican Republic: Stabilization, Structural Reform, and Economic Growth*
Alessandro Giustiniani, Werner C. Keller, and Randa E. Sab. 2001.

No. 207. *Malaysia: From Crisis to Recovery*
Kanitta Meesook, Il Houng Lee, Olin Liu, Yougesh Khatri, Natalia Tamirisa, Michael Moore, and Mark H. Krysl. 2001.

No. 208. *Yemen in the 1990s: From Unification to Economic Reform*
Klaus Enders, Sherwyn Williams, Nada Choueiri, Yuri Sobolev, and Jan Walliser. 2002.

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APPENDIX VI

Press Communiqués of the International Monetary and Financial Committee and the Development Committee

International Monetary and Financial Committee of the Board of Governors of the International Monetary Fund

PRESS COMMUNIQUÉS

Fourth Meeting, Ottawa, Canada, November 17, 2001

1. Recognizing the need for a determined and cooperative policy response to the challenges facing the world economy, the International Monetary and Financial Committee held its fourth meeting in Ottawa on November 17, 2001, under the Chairmanship of Mr. Gordon Brown, Chancellor of the Exchequer of the United Kingdom. The Committee expresses its gratitude to Finance Minister Paul Martin and the Canadian government for hosting this meeting and for the excellent arrangements.

2. The Committee notes that the September 11 terrorist attacks have prolonged the slowdown in the world economy. Bold policy action has already been taken to support a robust recovery during 2002, but the outlook remains subject to considerable uncertainty. Continuing vigilance is needed, and it is essential that the international community stands ready to take timely action to maintain stability and invigorate growth. The Committee welcomes the Managing Director's October 5 statement on the situation of the world economy and the IMF response, which outlines a collaborative approach to give a new momentum to the world economy. The IMF has a central role to play, including through a strengthened focus on surveillance, in ensuring global macroeconomic and financial stability and in ensuring that globalization works for the benefit of all.

3. The advanced economies have a key responsibility to promote early recovery in global growth. The recent easing of monetary policy in the United States, the euro area, and other advanced economies is welcome, and the authorities stand ready to take further action if appropriate. While the scope for discretionary fiscal policy action varies across countries, the advanced economies should allow automatic stabilizers to operate. The Committee stresses that determined implementation of structural reforms to take advantage of the promise of technology for increased productivity is important to restore confidence and growth. Japan, in particular, needs to move ahead with vigorous reforms of its banking and corporate sectors, and Europe should give priority to accelerating labor and product market reforms. The United States stands ready to take further action to support growth, consistent with maintaining sound public finances in the medium term.

4. Increased trade opportunities will play a vital role in the recovery, and the Committee strongly welcomes the outcome of the Doha meeting of the World Trade Organization and the Doha Development Agenda. All countries should stand firm against protectionist pressures, and the advanced economies, in particular, should improve access to their markets and reduce trade-distorting subsidies both for the benefit of their own citizens and to provide critical support for developing countries. The IMF should strengthen its surveillance of these issues and help promote international efforts to open markets. The Committee is vigilant on stability in the oil market at prices reasonable for consumers and producers.

5. Emerging markets and developing countries are facing a weakening of global demand, reduced capital flows, higher risk aversion in financial markets, reduced income from tourism, and lower and more volatile commodity prices. Sound and proactive policies in these countries will be critical. The IMF stands ready to provide additional financial assistance, where needed, to those countries pursuing sound policies. The IMF has a range of instruments available and its current financial position is strong. The IMF should be ready to adjust its policies if necessary. The Contingent Credit Line (CCL) is an important signal of the strength of countries' policies and a safeguard against contagion in financial markets, and the Committee encourages eligible countries to consider applying for it. The Committee also underscores the critical importance of involving the private sector in the prevention and resolution of financial crises. The Committee recommends an early implementation of the Fourth Amendment.

6. The Committee expresses particular concern at the adverse impact of the global slowdown on low-income countries and heavily indebted poor countries (HIPCs). It calls on the IMF, in close collaboration with the World Bank, to respond flexibly and proactively to the needs of these countries, including through additional concessional financing and debt relief where appropriate. The Committee welcomes the additional contributions to the Poverty Reduction and Growth Facility (PRGF), and encourages further contribu-

tions. The IMF, working closely with the World Bank, should intensify its efforts within the Poverty Reduction Strategy Paper (PRSP) framework to assess the poverty and social impacts of reforms on the poor. The Committee looks forward to discussing the findings of the PRGF and the PRSP Reviews at the Spring Meetings next year. The enhanced HIPC Initiative framework provides for the consideration of additional assistance at the completion point if there has been a fundamental change in a country's economic circumstances due to exceptional exogenous shocks. The Committee recognizes the need to take into account worsening global growth prospects and declines in terms of trade when updating HIPC Initiative debt sustainability analyses at completion point. It encourages the heavily indebted poor countries to continue to work expeditiously toward meeting the conditions that will secure access to debt relief and ensure its effective use, including through the maintenance of sound economic policies. Advanced economies must also be prepared to meet their special responsibility in providing increased development assistance and debt relief to tackle the increased challenges of poverty reduction, and to achieve the Millennium Development Goals. The Committee reiterates the importance of fully financing the enhanced HIPC Initiative, and it urges bilateral donors to fulfill this commitment.

7. Recognizing the importance of close collaboration and effective partnership among the community of international institutions in this endeavor, Committee members look forward, with their colleagues in the Development Committee, to their joint discussion with the UN Secretary-General, Mr. Kofi Annan, on how best to work together to meet the challenges ahead, including in the context of the upcoming Conference on Financing for Development.

8. The Committee expresses grave concern at the use of the international financial system to finance terrorist acts and to launder the proceeds of illegal activities. It therefore calls on all member countries to ratify and implement fully the UN instruments to counter terrorism, particularly United Nations Security Council Resolution 1373, and welcomes and supports the Special Recommendations of the Financial Action Task Force (FATF) to combat terrorist financing. Each member should freeze, within its jurisdiction, the assets of terrorists and their associates, close their access to the international financial system, and, consistent with its laws, make public the list of terrorists whose assets are subject to freezing and the amount of assets frozen, if any, with monthly reports. The fight against money laundering and the financing of terrorism requires the active participation of both financial intermediaries and the public sector. The Committee endorses the IMF's action plan to intensify, where consistent with its mandate and expertise, its contribution to this global effort, namely by:

- extending the IMF's involvement beyond anti-money laundering to efforts aimed at countering terrorism financing;
- expanding its anti-money-laundering work, including through Financial Sector Assessment Programs (FSAPs), to cover legal and institutional frameworks;
- accelerating its program of Offshore Financial Center assessments, and undertaking onshore assessments in the context of the FSAP;
- helping countries identify gaps in their anti-money-laundering and anti-terrorist-financing regimes in the context of Article IV voluntary questionnaires;
- enhancing its collaboration with the FATF on developing a global standard covering the FATF recommendations, and working to apply the standard on a uniform, cooperative, and voluntary basis; and
- increasing technical assistance to enable members to implement effectively the agreed international standards.

In addition, the Committee urges further international action to combat the financing of terrorism, and calls for:

- all countries to establish financial intelligence units to receive and process reports of suspicious transactions from the country's financial sector, and to monitor and analyze suspected terrorist funds;
- provisions to ensure the sharing of information and cooperation between national financial intelligence units, building on the work of the Egmont Group; and
- the deployment of technical assistance to ensure that every country can play its part, based on support either bilaterally or through an international trust fund.

Countries are urged to take these measures as soon as possible, preferably by February 1, 2002.

The IMF should report on progress at its Spring 2002 Meeting, with a full report at its Annual Meeting.

9. The Committee encourages the IMF to continue to strengthen its surveillance and crisis prevention, including through the implementation of standards and codes (and related technical assistance), and emphasizes that these remain key priorities. It calls on the IMF to implement the agreed framework for private sector involvement, and to intensify the ongoing analysis of outstanding issues. It welcomes the progress on improving the effectiveness of conditionality through streamlining and enhancing the country ownership of IMF-supported programs, and looks forward to reviewing progress in this area at its next meeting. Quotas should reflect developments in the international economy. The Committee looks forward to further work on this issue. The Committee looks forward to the Independent Evaluation Office (IEO) finalizing its work program and to receiving a progress report on its activities at the next meeting.

10. The Committee expresses its heartfelt appreciation to Stanley Fischer and Jack Boorman for their eminent records of service to the IMF and deep commitment to the well-being of all its member countries. Both have been pivotal in shaping the role of the IMF in the globalized economy and the evolving international financial architecture.

11. The next meeting of the IMFC will be held in Washington, D.C. on April 21, 2002.

Annex: International Monetary and Financial Committee Attendance
November 17, 2001

Chairman
Gordon Brown

Managing Director
Horst Köhler

Members or Alternates
Hamad Al-Sayari, Governor, Saudi Arabian Monetary Agency
(Alternate for Ibrahim A. Al-Assaf, Minister of Finance and National Economy, Saudi Arabia)
Sir Edward George, Governor, Bank of England
(Alternate for Gordon Brown, Chancellor of the Exchequer, United Kingdom)

Domingo Cavallo, Minister of Economy, Argentina
Peter Costello, Treasurer, Australia
Dai Xianglong, Governor, People's Bank of China
M.R. Pridiyathorn Devakula, Governor, Bank of Thailand
Emile Doumba, Minister of Finance, Economy, Budget and Privatization, Gabon
Ernst Welteke, President, Deutsche Bundesbank
(Alternate for Hans Eichel, Federal Minister of Finance, Germany)
Laurent Fabius, Minister of Economy, Finance and Industry, France
Francisco Gil Diaz, Secretary of Finance and Public Credit, Mexico
Sultan Bin Nasser Al-Suwaidi, Governor, Central Bank of the United Arab Emirates
(Alternate for Mohammed K. Khirbash, Minister of State for Finance and Industry, United Arab Emirates)
Aleksei Kudrin, Deputy Chairman of the Government and Minister of Finance, Russian Federation
Mohammed Laksaci, Governor, Banque d'Algérie
Pedro Sampaio Malan, Minister of Finance, Brazil
Paul Martin, Minister of Finance, Canada
Mrs. Linah K. Mohohlo, Governor, Bank of Botswana
Sauli Niinistö, Minister of Finance, Finland
Paul H. O'Neill, Secretary of the Treasury, United States
Didier Reynders, Minister of Finance, Belgium
Masaru Hayami, Governor, Bank of Japan
(Alternate for Masajuro Shiokawa, Minister of Finance, Japan)
Yashwant Sinha, Minister of Finance, India
Giulio Tremonti, Minister of Economy and Finance, Italy
Jean-Pierre Roth, Chairman of the Governing Board, Swiss National Bank
(Alternate for Kaspar Villiger, Minister of Finance, Switzerland)
Gerrit Zalm, Minister of Finance, Netherlands

Observers

Mary W. Covington, Associate Director of the Washington Branch, International Labor Organization (ILO)
Andrew D. Crockett, Chairman, Financial Stability Forum (FSF)
Nitin Desai, Under-Secretary-General for Economic and Social Affairs, United Nations (UN)
Willem F. Duisenberg, President, European Central Bank (ECB)
John William Hancock, Counsellor, Trade and Finance Division, World Trade Organization (WTO)
André Icard, Assistant General Manager, Bank for International Settlements (BIS)
Jan Allen Kregel, High Level Expert in International Finance, United Nations Conference on Trade and Development (UNCTAD)
Klaus Regling, Director-General, European Commission
Yashwant Sinha, Chairman, Joint Development Committee
Ignazio Visco, Head, Economics Department, Organization for Economic Cooperation and Development (OECD)
James D. Wolfensohn, President, World Bank

Fifth Meeting, Washington, D.C., April 20, 2002

1. The International Monetary and Financial Committee held its fifth meeting in Washington, D.C. on April 20, 2002, under the Chairmanship of Mr. Gordon Brown, Chancellor of the Exchequer of the United Kingdom. The Committee welcomes the international community's decisive policy actions, especially following the tragic events of September 11, 2001, to maintain financial stability, restore the momentum of world economic growth, and reinvigorate the fight against poverty. We will also sustain our global action to combat money laundering and the financing of terrorism. Our meeting in Ottawa last November emphasized the importance of a collaborative approach for the IMF and its members. Going forward, we will continue to work together for sustained, broad-based growth, creating opportunities for productive employment, reducing vulnerabilities, opening up our economies for trade, and providing resources for durable poverty reduction.

The Global Economy

2. Since the Committee's last meeting, the prospects for the world economy have improved markedly. The challenge now is for governments to help foster the global recovery that is under way. This will require continued vigilance and a further strengthening of medium-term policy frameworks—both to improve prospects for sustainable growth and stability, and to reduce vulnerabilities. The Committee notes the uncertainties associated with the international security issues around the world. The Committee notes also the deteriorating situation in the Middle East. The Committee underscores the importance of stability in oil markets at prices reasonable for consumers and producers.

3. The advanced economies have a responsibility to promote a strong and sustained world economic recovery. While keeping inflation under control, monetary policies should remain broadly supportive of growth. In countries where the recovery is more advanced, consideration may need to be given in the months ahead to reversing earlier policy easing. Reforms should be pursued vigorously, with the aim of improving economic flexibility and resilience, contributing to high and sustainable world growth, and supporting the orderly reduction of persistent imbalances in the global economy. This process will be helped, in Japan, by decisive action to reform the banking and corporate sectors, along with monetary easing to help end deflation; in Europe, by continued progress with wide-ranging reforms to enhance its growth potential; and in the United States, by focusing on the efforts needed over the medium term to preserve fiscal balance.

4. The recovery in industrial countries will contribute to supporting activity in emerging market and developing countries. The Committee is encouraged that many emerging market economies have become more resilient by the adoption of sound economic policies—including more sustainable exchange rate regimes. It will nevertheless remain crucial to further strengthen fiscal positions, and to press ahead with corporate, financial, and institutional reforms to support the emerging recovery and attract foreign direct investment. Improved differentiation and risk assessments by markets have served to limit so far the contagion effects of the Argentine crisis. The Committee acknowledges the steps being taken by Argentina to address its difficult economic situation, and urges the authorities, in cooperation with the Fund, to move quickly to reach agreement on a sustainable economic program that could receive the support of the international

financial institutions and provide the basis for the reestablishment of stability and growth.

5. The Committee strongly welcomes the commitment by the international community, at the UN Conference in Monterrey, to improve living standards and reduce poverty through sound policies and higher and more effective aid. It fully supports the New Partnership for Africa's Development and its call for strong domestic ownership, sound policies, strengthened institutions, and improved governance. The Committee welcomes recent announcements of increased and more effective aid, and urges further progress. The Monterrey Consensus will constitute an important input to the World Summit on Sustainable Development in Johannesburg. The Committee also welcomes the new initiative to enhance growth and reduce poverty in low-income CIS countries.

6. The Committee stresses the vital importance of more open trade for a durable economic recovery, and for sustained, broad-based growth in the developing countries in particular. It urges all countries to resist protectionist pressures and to continue to lower trade barriers, concluding the Doha trade round successfully and in a timely manner. Enlarging market access for developing countries and phasing out trade-distorting subsidies will benefit both developed and developing countries. The Committee welcomes the commitment, reiterated at Monterrey, to work toward the objective of duty- and quota-free market access to the exports of least-developed countries. It also notes the potential for increased opportunities from lowering trade barriers among developing countries.

Strengthening Crisis Prevention and Resolution

7. Surveillance remains central to the IMF's mandate to promote sound economic growth and financial stability, and to help prevent crises. The Committee is encouraged by the substantial progress in recent years to adapt and broaden the coverage of surveillance in response to a changing global environment, while focusing on issues central to economic and financial stability.

8. The Committee calls on the IMF to spare no effort in enhancing the high quality of its policy advice, and on members to implement this advice. Surveillance will be further enhanced by:

- strengthened assessments of vulnerabilities, with particular attention to debt sustainability and the private sector's balance sheet exposure;
- focusing on the global impact of the policies, including trade policies, of the largest economies;
- more candid and comprehensive assessments of exchange arrangements and exchange rates;
- expansion of substantive financial sector surveillance to the entire membership, including to offshore financial centers;
- strengthened coverage of relevant structural and institutional issues;
- on issues outside the IMF's core expertise, more effective use of the expertise of appropriate outside institutions, in particular the World Bank;
- further integration of multilateral, regional, and country surveillance; and
- deeper coverage of international capital markets.

The Committee notes that the process of surveillance should cover effective and timely reassessments of economic conditions and policies. In program countries, this may require a fresh perspective and appropriate distance from day-to-day program implementation issues.

9. The Committee encourages the IMF to press ahead with the range of recent initiatives designed to enhance the effectiveness of surveillance and crisis prevention. These include the Financial Sector Assessment Program (FSAP) and policies on transparency, including encouraging publication of Article IV and other IMF reports. Further work on standards and codes is a crucial item in the forward agenda to strengthen their relevance and contribution to IMF surveillance, and to ensure that countries have adequate access to technical assistance. The Committee encourages eligible countries to consider applying for the Contingent Credit Line (CCL), and looks forward to a review.

10. The Committee endorses the IMF's work program to strengthen the existing Prague framework for crisis resolution, in particular to provide members and markets with greater clarity and predictability about the decisions the IMF will take in a crisis. This will involve:

- improving debt sustainability assessments;
- clarifying the policy on access to IMF resources for members facing financial crises—with access beyond normal limits requiring more substantial justification, and recognizing that some of these members' quotas do not adequately reflect their potential financing needs;
- strengthening the tools for securing private sector involvement; and
- examining a more orderly and transparent framework for addressing the exceptional cases in which a sovereign needs to restructure an unsustainable debt, as well as clarifying the conditions under which the IMF would be prepared to lend into arrears.

The Committee welcomes the consideration of innovative proposals to improve the process of sovereign debt restructuring to help close a gap in the current framework. It encourages the Fund to continue to examine the legal, institutional, and procedural aspects of two approaches, which could be complementary and self-reinforcing: a statutory approach, which would enable a sovereign debtor and a super-majority of its creditors to reach an agreement binding all creditors; and an approach, based on contract, which would incorporate comprehensive restructuring clauses in debt instruments. The Committee looks forward to reviewing progress in this area at its next meeting.

The IMF's Role in Low-Income Countries

11. The Committee fully endorses the Monterrey Consensus, which has reaffirmed that sound economic policies and institutions, together with strong, broad-ranging international support, are the twin pillars on which to build enduring poverty reduction. It encourages the IMF to work closely with the UN, the World Bank, the regional development banks, and bilateral donors in developing a comprehensive and transparent system to monitor progress toward the Millennium Development Goals.

12. The Committee welcomes the outcome of the recent reviews of the IMF's Poverty Reduction and Growth Facility (PRGF) and of the Poverty Reduction Strategy Paper (PRSP) approach. The PRSP process should continue to be nurtured as the suitable framework for fostering the efforts of low-income countries and their international partners to achieve

poverty reduction and higher growth. The substantial progress under PRGF-supported programs in implementing the PRSP approach will be further enhanced by better identifying the sources of sustained growth, strengthening public expenditure management, and using poverty and social impact analysis more systematically. The Committee encourages the IMF and the Bank to continue their collaboration on each of these issues and looks forward to reviewing progress at its next meeting. Capacity building will remain a potent vehicle for ensuring ownership and enhancing the implementation of effective poverty reduction strategies, and the Committee looks forward to the review of technical assistance leading to its increased effectiveness. The Committee welcomes, in particular, the African Regional Technical Assistance Centers (AFRITACs), whose establishment will support the New Partnership for Africa's Development, and looks forward to the timely financing of this initiative.

13. The recovery of low-income countries that have been affected by the recent economic slowdown and commodity price shocks will continue to require particular attention. The Committee supports the IMF's continued readiness to respond flexibly and proactively to the financing needs of low-income countries, including by augmenting PRGF financing where necessary. It recognizes that there may be a need to consider mobilizing new PRGF resources if the high demand for PRGF financing continues. While the Committee is encouraged by the progress with the implementation of the HIPC Initiative, it notes that, in a number of cases, debt sustainability remains an issue and calls on the IMF and World Bank to review the situation. It urges eligible countries to step up their reform efforts to reach their decision and completion points, noting, in this context, the flexibility embedded in the HIPC Initiative framework to accommodate the special circumstances of countries emerging from conflict. The Committee notes the application within the current guidelines of the topping-up feature designed to help countries cope with exceptional exogenous shocks. It calls for further efforts to enhance debt management in HIPCs and continued close monitoring of their debt sustainability as they move toward, and beyond, their completion points.

Streamlining Conditionality and Enhancing Ownership

14. The Committee welcomes the initial progress made toward enhancing the effectiveness of IMF-supported programs through streamlined and focused conditionality and strong national ownership of economic reforms. It urges further progress, in cooperation with the Bank, and looks forward to a report on these issues, including on the IMF's consideration of new conditionality guidelines, at its next meeting.

Combating Money Laundering and the Financing of Terrorism

15. The Committee underscores that international efforts to counter abuse of the international financial system to finance terrorism and launder the proceeds of illegal activities remain a priority. It is encouraged by the response by many countries to its call last November for all countries to ratify and implement fully the UN instruments to counter terrorism financing, to freeze terrorist assets, and to establish financial intelligence units and ensure the sharing of information. The Committee urges countries that have not as yet done so to fully implement and comply with these instruments. It also welcomes the substantial progress made by the IMF, in close collaboration with the World Bank, in implementing all elements of its action plan to intensify the work on anti-money laundering and combating the financing of terrorism (AML/CFT). The Committee notes in particular the good start made in assessing gaps in national AML/CFT regimes, and fully supports the provision of technical assistance to help countries identify and address such gaps.

16. While reiterating the responsibility of national authorities for combating money laundering and the financing of terrorism, the Committee stresses that success will critically depend on continued vigilance and timely action at the global level. It calls on the IMF to make further progress on all elements of its work program, consistent with its mandate and expertise. In particular, efforts should now be focused on completing the comprehensive AML/CFT methodology, based on a global standard covering the Financial Action Task Force (FATF) recommendations, and the development of assessment procedures compatible with the uniform, voluntary, and cooperative nature of the ROSC[1] process. Enhancing the delivery of technical assistance on AML/CFT will also be crucial. The Committee urges the Fund, in cooperating with other international organizations and donor countries, to identify and respond to needs for technical assistance. It looks forward to receiving a full report on progress in this area at its next meeting. The Committee calls on members to share information on their own actions in this field.

Other Issues

17. The Committee notes that the Twelfth General Review of IMF Quotas has commenced. Quotas should reflect developments in the international economy. The Committee recommends an early implementation of the Fourth Amendment.

18. The Committee welcomes the progress report on the Independent Evaluation Office, and looks forward to receiving regular updates on its activities.

Next Meeting

19. The next meeting of the IMFC will be held in Washington, D.C. on September 28, 2002.

Annex: International Monetary and Financial Committee Attendance
April 20, 2002

Chairman
Gordon Brown

Managing Director
Horst Köhler

Members or Alternates
Ibrahim A. Al-Assaf, Minister of Finance and National Economy, Saudi Arabia
Sir Edward George, Governor, Bank of England (Alternate for Gordon Brown, Chancellor of the Exchequer, United Kingdom)

[1]ROSCs are Reports on the Observance of Standards and Codes.

Ian Campbell, Parliamentary Secretary to the Treasurer, Australia
(Alternate for Peter Costello, Treasurer, Australia)
Dai Xianglong, Governor, People's Bank of China)
Rodrigo de Rato y Figaredo, Second Vice President and Minister of Economy, Spain
Hans Eichel, Federal Minister of Finance, Germany
Nicolás Eyzaguirre, Minister of Finance, Chile
Laurent Fabius, Minister of Economy, Finance and Industry, France
Geir H. Haarde, Minister of Finance, Iceland
Sultan Bin Nasser Al-Suwaidi, Governor, United Arab Emirates Central Bank
(Alternate for Mohammed K. Khirbash, Minister of State for Finance and Industry, United Arab Emirates)
Aleksei Kudrin, Deputy Chairman of the Government and Minister of Finance, Russian Federation
Mohammed Laksaci, Governor, Banque d'Algérie
Pedro Sampaio Malan, Minister of Finance, Brazil
Paul Martin, Minister of Finance, Canada
Ms. Linah K. Mohohlo, Governor, Bank of Botswana
Paul H. O'Neill, Secretary of the Treasury, United States
Didier Reynders, Minister of Finance, Belgium
Agus Haryanto, Secretary General, Ministry of Finance
(Alternate for Syahril Sabirin, Governor, Bank of Indonesia)
Masajuro Shiokawa, Minister of Finance, Japan
Yashwant Sinha, Minister of Finance, India
Paul Toungui, Minister of State, Minister of Finance, Economy, Budget and Privatization, Gabon
Giulio Tremonti, Minister of the Economy and Finance, Italy
Kaspar Villiger, President of the Swiss Confederation and Minister of Finance, Switzerland
A.H.E.M. Wellink, President, De Nederlandsche Bank N.V.
(Alternate for Gerrit Zalm, Minister of Finance, Netherlands)

Observers

Yilmaz Akyuz, Director, Division on Globalization and Development Strategies, United Nations Conference on Trade and Development (UNCTAD)
Andrew D. Crockett, Chairman, Financial Stability Forum (FSF)
Willem F. Duisenberg, President, European Central Bank (ECB)
André Icard, Deputy General Manager, Bank for International Settlements (BIS)
Donald J. Johnston, Secretary-General, Organization for Economic Cooperation and Development (OECD)
Ian Kinniburgh, Director, Development Policy Analysis Division, Department of Economic and Social Affairs, United Nations (UN)
Eddy Lee, Director, International Policy Group, International Labor Organization (ILO)
Trevor A. Manuel, Chairman, Joint Development Committee
Ms. Karen McCusker, Counsellor, World Trade Organization (WTO)
Pedro Solbes Mira, Commissioner for Economic and Monetary Affairs, European Commission
James D. Wolfensohn, President, World Bank

Joint Ministerial Committee of the Boards of Governors of the Bank and the Fund on the Transfer of Real Resources to Developing Countries (Development Committee)

PRESS COMMUNIQUÉS

Sixty-Fourth Meeting, Ottawa, Canada, November 18, 2001

1. The 64th meeting of the Development Committee was held in Ottawa, Canada, on November 18, 2001 under the chairmanship of Mr. Yashwant Sinha, Minister of Finance of India. Ministers expressed their great appreciation to the Canadian Government for facilitating the holding of this meeting under unusual circumstances.

2. **Impact of Recent Events in Low- and Middle-Income Countries: Response of the World Bank Group.** Ministers reviewed the impact of the September 11 terrorist attacks and their aftermath on developing countries. They recognized that poverty in many developing countries was likely to worsen as these events have deepened the pre-existing global economic slowdown, which had already led to weaker exports and commodity prices, and have other more specific impacts: e.g., increased refugee movements within countries and across borders; reduced private investment flows due to increased risk aversion in financial markets; reduced tourism revenues; and increased trade transaction costs. Ministers called for further enhancing the collaboration among the Bank Group, the IMF, the regional development banks, and UN agencies, in their actions to help member countries address these additional challenges and to strengthen social safety nets. Ministers underlined the importance of renewed growth in industrialized countries to the improvement of prospects for poverty reduction in developing countries.

3. Ministers reviewed the response of the World Bank Group. They stressed the importance of the Group using its financial capacity and the flexibility in its available instruments to respond effectively and promptly to current circumstances and emerging needs. They emphasized that financial support should continue to be linked to strong country performance and reform programs in support of poverty reduction. Ministers agreed that, from a financial standpoint, the magnitude of likely incremental demands on the Bank Group currently appears manageable, but they urged that the Board and Management keep under close review the Bank Group's capacity to respond in more challenging circumstances. Ministers agreed that IDA had a particularly critical role in helping the poorest countries manage the adverse impact of recent events on their economies and people, and emphasized that timely agreement on a substantial IDA 13 replenishment was essen-

tial. They encouraged all member governments to complete their subscription to MIGA's general capital increase.

4. Ministers considered improved governance to be an important element in generating the conditions for investment, private-sector-led growth, improved productivity, job creation, and trade, and, as a result, for poverty reduction. Thus, they highlighted the need for the Bank and the Fund, in accordance with their respective mandates and comparative advantage, to pay more attention to governance-related issues, including public expenditure management, diagnostic (e.g., through the Financial Sector Assessment Program) and capacity-building work to help countries identify and address abuses such as money laundering and terrorist financing. In light of this, they also stressed the importance of working to strengthen further country procurement and financial management systems. They also recognized the need to allocate increased resources to address capacity-building concerns in many countries to help them meet new internationally agreed commitments and standards.

5. **United Nations Financing for Development Conference**. Ministers expressed appreciation to United Nations Secretary-General Kofi Annan for the opportunity to discuss with him, at the joint IMFC/Development Committee dinner on November 17, issues related to the March 2002 International Conference on Financing for Development (FfD). They expressed strong interest in contributing to the Conference's success, which they saw as an important milestone in the effort to halve the incidence of poverty by 2015 and to reach the other Millennium Development Goals (MDGs) (endorsed by Heads of State and Government in the UN General Assembly on September 8, 2000), and other agreed targets. They urged governments to involve all relevant ministries in preparing for the Conference to enhance coherence of policies with impact on development. (The Committee's views on Conference issues are attached.)

6. **Poverty Reduction Strategies**. Ministers welcomed the significant progress made in implementing the PRSP approach, noting that 38 countries had completed interim PRSPs and eight countries their first full PRSPs. They appreciated the extent to which poverty reduction strategies build on existing national strategies and processes, with a focus on broadening participation and sharpening poverty diagnosis and monitoring, as well as on prioritizing and costing policies and programs for poverty reduction. Ministers welcomed the Bank and Fund's efforts to work with countries to analyze the poverty and social impact of programs and to help them to build their own capacity. Ministers noted that the joint Bank/Fund staff review of the PRSP approach was under way. They called for a broad-based inclusive process that would draw upon the experience of other stakeholders and development partners, and looked forward to considering the report at their next meeting.

7. **HIPC.** Ministers welcome the continued progress made in implementing the HIPC Initiative, noting that twenty-four countries have now reached their decision points under the enhanced HIPC framework, qualifying for debt service relief amounting to some $36 billion; three countries have now reached their completion points and are receiving their full relief under the enhanced Initiative. There has also been a significant reduction in debt stock and debt service in these countries, and the commitment of qualifying HIPCs to increased poverty reduction spending has been encouraging. Ministers urged the Bank and the Fund to work with remaining eligible countries to bring them to their decision and completion points, as quickly as circumstances permit.

8. Ministers reiterated their commitment to the enhanced HIPC Initiative as a means for achieving a lasting exit from unsustainable debt for eligible countries. They stressed that long-term debt sustainability will depend upon the maintenance of sound economic policies, strengthened debt management, and the provision of appropriate financing. With regard to recent events, they noted that the enhanced HIPC Initiative framework provides for the consideration of additional assistance at the completion point if there has been a fundamental change in a country's economic circumstances due to exceptional exogenous shocks. The Committee recognized the need to take into account worsening global growth prospects and declines in terms of trade, when updating HIPC Initiative debt sustainability analysis at completion point. Ministers noted that the relevant operational procedures for exercising such an option were recently approved by the Bank and IMF Boards. Ministers also reiterated the importance of fully financing the enhanced HIPC Initiative and urged bilateral donors to fulfill this commitment. They welcomed the agreement among donors to continue their regular consultations on the financial requirements of HIPC. They also urged those creditors that had yet to confirm their participation in the Initiative to do so as soon as possible.

9. **Education for All (EFA)**. Ministers consider education as one of the most powerful instruments for reducing poverty and laying the basis for sustained growth. They welcomed the World Bank's background paper on this subject and noted the efforts of the Bank and its partners to help ensure that quality primary education is available to all children worldwide as a necessary first step towards strengthening overall education systems. Ministers looked forward to full consideration of this subject at their next meeting, based on an action plan that will address, inter alia, the policy and resource requirements needed to ensure that EFA goals are reached by 2015 through the development of sustainable and high-quality EFA programs at the country level.

10. The Committee expressed its great appreciation to Mr. Yashwant Sinha for his valuable leadership and guidance to the Committee as its Chairman during the last fifteen months, and welcomed his successor, Mr. Trevor Manuel, Finance Minister of South Africa. The Ministers also expressed their warm thanks to Mr. Alexander Shakow upon his retirement as the Committee's Executive Secretary, and welcomed his successor, Mr. Thomas A. Bernes.

11. The Committee's next meeting is scheduled for April 22, 2002 in Washington, D.C.

Attachment to the Development Committee Communique

(64th Meeting—Ottawa, Canada, November 18, 2001)

Financing for Development Conference (FfD)

1. *Building Development Partnerships on a Foundation of Sound Policies and Good Governance.* Ministers reaffirmed the critical importance of sound national policies and good governance as prerequisites for poverty reduction and sustained growth. They noted that the Millennium Development Goals (endorsed by Heads of State and Government in the UN General Assembly on September 8, 2000) and other interna-

tionally agreed development targets can help guide country-owned short- and medium-term national priorities on which external partnerships of support could be based. They noted that the Comprehensive Development Framework principles and Poverty Reduction Strategy Papers provide a vehicle for structuring partnerships with donors; they also provide a framework for the interventions of donors and other partners—such as through country assistance strategies and UN Development Assistance Frameworks—to ensure that external support is well integrated into national programs. An important contribution by the international community would be the strengthened provision of technical assistance to help developing countries—particularly low-income countries and those emerging from conflict—improve their capacity for sound economic management and efficient use of resources.

2. *Strengthening the Conditions for Investment and Growth.* Ministers stressed that, in addition to a stable and conducive international framework, a sound national policy environment, essential infrastructure, and good governance are needed to allow the private sector to invest efficiently and create employment. They recognized that in many countries major reforms of the policy and regulatory framework will be required to encourage domestic investment and job creation. Such reforms can also help to promote foreign investment and contribute to productivity growth and the additional resources needed for sustainable development. Ministers underlined the need for coherent and comprehensive support to private sector development. They emphasized the important role that IFC, MIGA, and other agencies working directly with the private sector can play in this regard.

3. *Promoting Integration into the International Trading System.* Trade is an important source of growth and poverty reduction, and developing countries need to be able to take greater advantage of the opportunities it offers. In this connection, the Committee warmly welcomed the decision reached by the WTO last week in Doha to launch a new round of trade negotiations. They endorsed the WTO Ministerial Declaration's aim to place the needs and interests of developing countries at the heart of their Work Programme. Ministers emphasized the importance of countries integrating trade into their development strategies and improving their investment regulations, standards and technical regulations, removing obstacles to efficient transport of goods and materials, and strengthening telecommunications and business services. Ministers noted that greater access to markets would provide a major boost to development. They also stressed the priority they attach to helping developing countries strengthen their capacity to respond to market opportunities and to implement trade-related agreements.

4. *Importance of Enhancing ODA Flows.* Ministers recognized that for most low-income countries the availability of Official Development Assistance (ODA) remains an essential supplement to domestic resource mobilization and foreign investment if growth and poverty reduction goals are to be achieved. Ministers agreed that special emphasis should be placed on ensuring that adequate resources are directed to countries implementing sound policies and exercising good governance. They recognized that a substantial increase in current ODA levels would be required if the opportunities emerging from policy improvements in low-income countries are to be realized and the MDGs to be met. In this context, a number of Ministers referred to the need to reach the 0.7 percent ODA/GNP target. It would also require that, among countries with sound policies and governance, ODA be allocated with greater emphasis on countries with the greatest need (in part based on the difficulties they face in the achievement of their MDGs) and with capacity to make the most effective and efficient use of the resources. Ministers also emphasized the importance of appropriate concessionality in ODA flows.

5. *Harmonization—Reducing the Transaction Costs of Aid.* Ministers noted that major improvements in development effectiveness and efficiency, as well as reduced administrative burdens and costs on recipient governments, would be gained from eliminating rigidities in aid delivery mechanisms. In this regard, they highlighted the critical importance of harmonization of operational policies and procedures by the Bank, other multilateral agencies, and bilateral aid donors. Ministers welcomed the World Bank's report on progress achieved to date in this area and commended the action programs set forth in this report. The Committee urged that the Bank and its partners continue vigorously to pursue these programs, and that the FfD Conference be encouraged to recognize the importance of, and provide broad-based support for, further progress in such harmonization and its implementation at the country level.

6. *Debt and Other Instruments.* Ministers underscored the need to deploy a flexible mix of instruments so as to respond appropriately to the needs of developing countries in a manner consistent with their economic circumstances and public expenditure management capacities. While urging that the HIPC Initiative continue to be implemented expeditiously to achieve debt sustainability for the poorest countries, they noted that debt relief is only one of many possible actions and instruments to support country poverty reduction strategies.

7. *Global Public Goods.* Ministers noted that FfD provides an opportunity for enhancing a common approach to global public goods and accelerating progress on the coordination of priority global public goods areas, such as those addressing HIV/AIDS and other major infectious diseases. They agreed on the importance of focusing on specific priority activities, while consolidating initiatives to achieve efficient use of resources. They stressed the need to ensure that activities are anchored in national as well as global strategies. In some cases this would require ensuring additionality in funding, while in others flexibility and reinforcement of existing mechanisms would be needed to help countries own and implement global public-goods-related national programs.

8. *Making the Most of Existing Institutions.* Ministers noted that FfD offers an opportunity to establish a broad international consensus—among governments, institutions, the private sector, and civil society—for action on the basis of common objectives and for the identification of specific gaps that may require enhanced international action. This would provide a platform for individual institutions to use their respective mandates, governance structures, and strengths to undertake high-priority initiatives as well as to promote more focused and coherent action among bilateral and multilateral agencies. Ministers strongly believe in making the most of existing institutions.

9. *Integration into the Global System.* Ministers agreed on the importance of promoting the greater integration of developing countries into the global financial system. They noted that progress is being achieved through the efforts of, inter

alia, the international financial institutions, including in areas of crisis prevention, standards and codes, legal and regulatory frameworks, transparency, financial sector strengthening, combating terrorist financing and other abuses, debt management, and private sector participation in the resolution of financial crises. Ministers also agreed that it is important to find pragmatic and innovative ways to continue to enhance the effective participation of developing countries in international dialogues and decision-making processes.

10. *Staying Engaged.* Ministers noted that the FfD Conference should be seen as part of ongoing efforts to intensify concerted international action for development and poverty reduction, to expand growth opportunities for developing countries, and to improve the effectiveness and responsiveness of development cooperation. They urged that the follow-up to the Conference be seen in this context. They believe that the dialogue among the ECOSOC and the Bretton Woods Institutions offers unrealized potential, as does further progress within the framework of the coordinating committee of the heads of United Nations agencies (ACC). Greater cooperation among existing institutions is needed, based on a clear understanding and respect for their respective responsibilities and governance structures. For example, a combined effort by the Bretton Woods institutions and the United Nations, along with the OECD, to check periodically on progress towards the MDGs, would provide an efficient and practical approach for improved cooperation.

11. Ministers requested their Chairman to convey these conclusions to the President of the United Nations General Assembly.

Sixty-Fifth Meeting, Washington, D.C., April 21, 2002

1. We met today to discuss future challenges for development and an action plan for universal primary education.

2. We welcomed the very important progress achieved in the Monterrey Consensus laying out a new partnership compact between developed and developing countries, based on mutual responsibility and accountability, to achieve measurable improvements in sustainable growth and poverty reduction. We recognized the efforts of the World Bank and the IMF, working together with the UN, in contributing to this result. We look forward to their continuing collaboration and to strengthening this new partnership as we work towards a successful World Summit on Sustainable Development.

3. This new partnership for development recognizes that country-owned and driven development strategies embodying sound policies and good governance have to be the starting point. Such strategies need to be supported by increased and more effective development assistance and by greater efforts to integrate developing countries into the global economy. We are committed to the implementation of these strategies and partnerships, such as NEPAD, as part of the scaling up of activities that is necessary for implementing the Monterrey Consensus and to meet the Millennium Development Goals[1]; we will regularly review progress at future meetings. We welcomed the pledges made at Monterrey by a number of donors to increase their official development assistance.

4. The CDF/PRSP approach is increasingly providing a common foundation for implementing the new partnership at the country level. While recognizing that scope for improvement exists, we shared the positive assessment of implementation to date, particularly in enhancing ownership. We look forward to continued progress in extending the participatory processes for the elaboration and monitoring of PRSPs, implementing pro-poor growth policies, enhancing collaboration to strengthen public expenditure management and to improve poverty and social impact analysis; and, among multilateral and bilateral development agencies, in better aligning their programs with country strategies.

5. We reaffirmed our strong support for the current work program to harmonize operational policies and procedures of bilateral and multilateral agencies so as to enhance aid effectiveness and efficiency. We committed to further action in streamlining such procedures and requirements over the period leading to the high-level forum scheduled for early 2003.

6. Evidence demonstrates that effective assistance in support of good policies and institutions can bring important development benefits. More attention should be given to the building of institutions and capacities as well as the timing and sequencing of the reform process. We underlined the importance of an enhanced focus on results that can be used by countries in designing and implementing their strategies, and by donors and development agencies in scaling up and allocating their support. We asked the World Bank to report to us at our next meeting on its efforts in this respect. We would also welcome a report on efforts under way to engage more effectively with weak-performing low-income countries.

7. Economic growth requires a strong and vibrant private sector and an enabling climate that encourages investment, entrepreneurship, and job creation. However, it is not enough to strengthen the private sector in developing countries without further progress in integrating them into the global trading system. We thus strongly endorsed the call at Monterrey for coherence between development assistance and trade policies. We urged an acceleration of efforts to lower trade barriers (including trade-distorting subsidies) and we called upon the World Bank and others to provide more support in helping developing countries address policy, institutional, social, and infrastructure impediments limiting their ability to share in the benefits of trade.

8. Education is one of the most powerful instruments for reducing poverty. We strongly endorsed the action plan presented by the Bank as a basis for reaching international consensus to help make primary education a reality for all children by 2015. We appreciated in particular that the action plan is consistent with the new partnership for development based on mutual responsibility and accountability. We called on the Bank to continue to work in partnership with UNESCO and other relevant agencies. We encourage all countries to place education at the heart of their poverty reduction strategies, reform their education policies to achieve Universal Primary Completion, and monitor progress towards the 2015 education goals in line with an enhanced focus on results. We committed ourselves to work together in a much more coherent way to help bring this about and to

[1]From the UN Millennium Declaration, endorsed by Heads of State and Government in the UN General Assembly on September 8, 2000.

provide the necessary additional domestic and external resources. The Bank and all other stakeholders should strengthen their efforts to achieve the MDG on gender equality in primary and secondary education by 2005. We will review progress at our next meeting.

9. We reviewed and welcomed the steady progress that has been made on the HIPC Initiative. We remain committed to its vigorous implementation and full financing. Our objective remains an early and enduring exit from unsustainable debt for HIPC countries. We noted that within existing guidelines, additional relief can be provided at the completion point, on a case-by-case basis. Success will require a sustained commitment by HIPC countries to improvements in policies and debt management and by the donor community to continue to provide adequate and appropriate concessional financing. We will discuss the issue of debt sustainability and, consequently, financing and policy implications, at the next meeting.

10. Finally, we reviewed a progress report on anti-money laundering and combating terrorist financing. Recognizing the serious risks posed by these activities, we welcomed the action plans agreed by the World Bank and the IMF and the enhanced collaboration with other institutions. We encouraged the World Bank and the IMF to continue to integrate these issues into their diagnostic work in line with their respective mandates, and urged that capacity-building assistance be increased so that countries could better address these issues.

11. The Committee's next meeting is scheduled for September in Washington.

APPENDIX VII

Executive Directors and Voting Power on April 30, 2002

Director *Alternate*	Casting Votes of	Votes by Country	Total Votes[1]	Percent of IMF Total[2]
Appointed				
Vacant *Meg Lundsager*	United States	371,743	371,743	17.16
Ken Yagi *Haruyuki Toyama*	Japan	133,378	133,378	6.16
Karlheinz Bischofberger *Ruediger von Kleist*	Germany	130,332	130,332	6.02
Pierre Duquesne *Sébastien Boitreaud*	France	107,635	107,635	4.97
Tom Scholar *Martin A. Brooke*	United Kingdom	107,635	107,635	4.97
Elected				
Willy Kiekens (Belgium) *Johann Prader* *(Austria)*	Austria	18,973		
	Belarus	4,114		
	Belgium	46,302		
	Czech Republic	8,443		
	Hungary	10,634		
	Kazakhstan	3,907		
	Luxembourg	3,041		
	Slovak Republic	3,825		
	Slovenia	2,567		
	Turkey	9,890	111,696	5.16
J. de Beaufort Wijnholds (Netherlands) *Yuriy G. Yakusha* *(Ukraine)*	Armenia	1,170		
	Bosnia and Herzegovina	1,941		
	Bulgaria	6,652		
	Croatia	3,901		
	Cyprus	1,646		
	Georgia	1,753		
	Israel	9,532		
	Macedonia, former Yugoslav Republic of	939		
	Moldova	1,482		
	Netherlands	51,874		
	Romania	10,552		
	Ukraine	13,970	105,412	4.87
Fernando Varela (Spain) *Hernán Oyarzábal* *(República Bolivariana de Venezuela)*	Costa Rica	1,891		
	El Salvador	1,963		
	Guatemala	2,352		
	Honduras	1,545		
	Mexico	26,108		
	Nicaragua	1,550		
	Spain	30,739		
	Venezuela, República Bolivariana de	26,841	92,989	4.29
Pier Carlo Padoan (Italy) *Harilaos Vittas* *(Greece)*	Albania	737		
	Greece	8,480		
	Italy	70,805		
	Malta	1,270		
	Portugal	8,924		
	San Marino	420	90,636	4.18

Director *Alternate*	Casting Votes of	Votes by Country	Total Votes[1]	Percent of IMF Total[2]
Elected *(continued)*				
Ian E. Bennett (Canada) *Nioclás A. O'Murchú* *(Ireland)*	Antigua and Barbuda	385		
	Bahamas, The	1,553		
	Barbados	925		
	Belize	438		
	Canada	63,942		
	Dominica	332		
	Grenada	367		
	Ireland	8,634		
	Jamaica	2,985		
	St. Kitts and Nevis	339		
	St. Lucia	403		
	St. Vincent and the Grenadines	333	80,636	3.72
Ólafur Ísleifsson (Iceland) *Benny Andersen* *(Denmark)*	Denmark	16,678		
	Estonia	902		
	Finland	12,888		
	Iceland	1,426		
	Latvia	1,518		
	Lithuania	1,692		
	Norway	16,967		
	Sweden	24,205	76,276	3.52
Michael J. Callaghan (Australia) *Diwa Guinigundo* *(Philippines)*	Australia	32,614		
	Kiribati	306		
	Korea	16,586		
	Marshall Islands	285		
	Micronesia, Federated States of	301		
	Mongolia	761		
	New Zealand	9,196		
	Palau	281		
	Papua New Guinea	1,566		
	Philippines	9,049		
	Samoa	366		
	Seychelles	338		
	Solomon Islands	354		
	Vanuatu	420	72,423	3.34
Sulaiman M. Al-Turki (Saudi Arabia) *Ahmed Saleh Alosaimi* *(Saudi Arabia)*	Saudi Arabia	70,105	70,105	3.24
Cyrus D.R. Rustomjee (South Africa) *Ismaila Usman* *(Nigeria)*	Angola	3,113		
	Botswana	880		
	Burundi	1,020		
	Eritrea	409		
	Ethiopia	1,587		
	Gambia, The	561		
	Kenya	2,964		
	Lesotho	599		
	Liberia	963		
	Malawi	944		
	Mozambique	1,386		
	Namibia	1,615		
	Nigeria	17,782		
	Sierra Leone	1,287		
	South Africa	18,935		
	Sudan	1,947		
	Swaziland	757		
	Tanzania	2,239		
	Uganda	2,055		
	Zambia	5,141		
	Zimbabwe	3,784	69,968	3.23

Director *Alternate*	Casting Votes of	Votes by Country	Total Votes[1]	Percent of IMF Total[2]
Elected *(continued)*				
Dono Iskandar Djojosubroto	Brunei Darussalam	1,750		
(Indonesia)	Cambodia	1,125		
Kwok Mun Low	Fiji	953		
(Singapore)	Indonesia	21,043		
	Lao People's Democratic Republic	779		
	Malaysia	15,116		
	Myanmar	2,834		
	Nepal	963		
	Singapore	8,875		
	Thailand	11,069		
	Tonga	319		
	Vietnam	3,541	68,367	3.16
A. Shakour Shaalan	Bahrain	1,600		
(Egypt)	Egypt	9,687		
Mohamad B. Chatah	Iraq	5,290		
(Lebanon)	Jordan	1,955		
	Kuwait	14,061		
	Lebanon	2,280		
	Libya	11,487		
	Maldives	332		
	Oman	2,190		
	Qatar	2,888		
	Syrian Arab Republic	3,186		
	United Arab Emirates	6,367		
	Yemen	2,685	64,008	2.95
WEI Benhua	China	63,942	63,942	2.95
(China)				
WANG Xiaoyi				
(China)				
Aleksei V. Mozhin	Russia	59,704	59,704	2.76
(Russia)				
Andrei Lushin				
(Russia)				
Roberto F. Cippà	Azerbaijan	1,859		
(Switzerland)	Kyrgyz Republic	1,138		
Wieslaw Szczuka	Poland	13,940		
(Poland)	Switzerland	34,835		
	Tajikistan	1,120		
	Turkmenistan	1,002		
	Uzbekistan	3,006	56,900	2.63
Murilo Portugal	Brazil	30,611		
(Brazil)	Colombia	7,990		
Roberto Junguito	Dominican Republic	2,439		
(Colombia)	Ecuador	3,273		
	Guyana	1,159		
	Haiti	857		
	Panama	2,316		
	Suriname	1,171		
	Trinidad and Tobago	3,606	53,422	2.47
Vijay L. Kelkar	Bangladesh	5,583		
(India)	Bhutan	313		
R.A. Jayatissa	India	41,832		
(Sri Lanka)	Sri Lanka	4,384	52,112	2.41
Abbas Mirakhor	Algeria	12,797		
(Islamic Republic of Iran)	Ghana	3,940		
Mohammed Daïri	Iran, Islamic Republic of	15,222		
(Morocco)	Morocco	6,132		
	Pakistan	10,587		
	Tunisia	3,115	51,793	2.39

Director *Alternate*	Casting Votes of	Votes by Country	Total Votes[1]	Percent of IMF Total[2]
Elected *(continued)*				
A. Guillermo Zoccali	Argentina	21,421		
(Argentina)	Bolivia	1,965		
Guillermo Le Fort	Chile	8,811		
(Chile)	Paraguay	1,249		
	Peru	6,634		
	Uruguay	3,315	43,395	2.00
Alexandre Barro Chambrier	Benin	869		
(Gabon)	Burkina Faso	852		
Damian Ondo Mañe	Cameroon	2,107		
(Equatorial Guinea)	Cape Verde	346		
	Central African Republic	807		
	Chad	810		
	Comoros	339		
	Congo, Republic of	1,096		
	Côte d'Ivoire	3,502		
	Djibouti	409		
	Equatorial Guinea	576		
	Gabon	1,793		
	Guinea	1,321		
	Guinea-Bissau	392		
	Madagascar	1,472		
	Mali	1,183		
	Mauritania	894		
	Mauritius	1,266		
	Niger	908		
	Rwanda	1,051		
	São Tomé and Príncipe	324		
	Senegal	1,868		
	Togo	984	25,169	1.16
			2,159,676[3,4]	99.71[5]

[1]Voting power varies on certain matters pertaining to the General Department with use of the IMF resources in that Department.

[2]Percentages of total votes 2,166,749 in the General Department and the Special Drawing Rights Department.

[3]This total does not include the votes of the Islamic State of Afghanistan, Somalia, and the Federal Republic of Yugoslavia, which did not participate in the 2000 Regular Election of Executive Directors. The total votes of these members is 7,073—0.33 percent of those in the General Department and Special Drawing Rights Department.

[4]This total does not include the votes of the Democratic Republic of the Congo, which was suspended effective June 2, 1994, pursuant to Article XXVI, Section 2 *(b)* of the Articles of Agreement.

[5]This figure may differ from the sum of the percentages shown for individual Directors because of rounding.

APPENDIX VIII

Changes in Membership of the Executive Board

Changes in membership of the Executive Board between May 1, 2001 and April 30, 2002 were as follows:

Bernd Esdar (Germany) relinquished his duties as Executive Director for Germany, effective May 20, 2001.

Wolf-Dieter Donecker (Germany), formerly Alternate Executive Director to Bernd Esdar (Germany), was appointed Executive Director by Germany, effective May 21, 2001.

Ruediger von Kleist (Germany) was appointed Alternate Executive Director to Wolf-Dieter Donecker (Germany), effective May 21, 2001.

Riccardo Faini (Italy) relinquished his duties as Executive Director for Albania, Greece, Italy, Malta, Portugal, and San Marino, effective June 13, 2001.

Pier Carlo Padoan (Italy) was elected Executive Director by Albania, Greece, Italy, Malta, Portugal, and San Marino, effective June 14, 2001.

Yukio Yoshimura (Japan) relinquished his duties as Executive Director for Japan, effective July 4, 2001.

Ken Yagi (Japan) was appointed Executive Director by Japan, effective July 5, 2001.

Jean-Claude Milleron (France) relinquished his duties as Executive Director for France, effective July 31, 2001.

Randal Quarles (United States) was appointed Executive Director by the United States, effective August 7, 2001

Wolf-Dieter Donecker (Germany) relinquished his duties as Executive Director for Germany, effective August 14, 2001.

Karlheinz Bischofberger (Germany) was appointed Executive Director by Germany, effective August 15, 2001.

Pierre Duquesne (France) was appointed Executive Director by France, effective August 20, 2001.

Abdelrazaq Faris Al-Faris (United Arab Emirates) relinquished his duties as Alternate Executive Director to A. Shakour Shaalan (Egypt), effective August 31, 2001.

Mohamad B. Chatah (Lebanon) was appointed Alternate Executive Director to A. Shakour Shaalan (Egypt), effective September 14, 2001.

Thomas A. Bernes (Canada) relinquished his duties as Executive Director for Antigua and Barbuda, The Bahamas, Barbados, Belize, Canada, Dominica, Grenada, Ireland, Jamaica, St. Kitts and Nevis, St. Lucia, and St. Vincent and the Grenadines, effective October 7, 2001.

Ian E. Bennett (Canada) was elected Executive Director by Antigua and Barbuda, The Bahamas, Barbados, Belize, Canada, Dominica, Grenada, Ireland, Jamaica, St. Kitts and Nevis, St. Lucia, and St. Vincent and the Grenadines, effective October 8, 2001.

Peter Charleton (Ireland) relinquished his duties as Alternate Executive Director to Ian E. Bennett (Canada), effective November 18, 2001.

Nioclás O'Murchú (Ireland) was appointed Alternate Executive Director to Ian E. Bennett (Canada), effective November 19, 2001.

Stephen Pickford (United Kingdom) relinquished his duties as Executive Director for the United Kingdom, effective December 16, 2001.

Thomas W. Scholar (United Kingdom) was appointed Executive Director by the United Kingdom, effective December 17, 2001.

Åke Törnqvist (Sweden) relinquished his duties as Alternate Executive Director to Olli-Pekka Lehmussaari (Finland), effective December 19, 2001.

Benny Andersen (Denmark) was appointed Alternate Executive Director to Olli-Pekka Lehmussaari (Finland), effective December 20, 2001.

Olli-Pekka Lehmussaari (Finland) relinquished his duties as Executive Director for Denmark, Estonia, Finland, Iceland, Latvia, Lithuania, Norway, and Sweden, effective December 31, 2001.

Ólafur Ísleifsson (Iceland) was elected Executive Director by Denmark, Estonia, Finland, Iceland, Latvia, Lithuania, Norway, and Sweden, effective January 1, 2002.

Stephen P. Collins (United Kingdom) relinquished his duties as Alternate Executive Director to Thomas W. Scholar (United Kingdom), effective January 15, 2002.

Martin A. Brooke (United Kingdom) was appointed Alternate Executive Director to Thomas W. Scholar (United Kingdom), effective January 16, 2002.

Gilles Bauche (France) relinquished his duties as Alternate Executive Director to Pierre Duquesne (France), effective January 31, 2002.

Sebastien Boitreaud (France) was appointed Alternate Executive Director to Pierre Duquesne (France), effective February 1, 2002.

Fernando Varela (Spain), formerly Alternate Executive Director to Hernàn Oyarzàbal (República Bolivariara de Venezuela), was elected Executive Director by Costa Rica, El Salvador, Guatemala, Honduras, Mexico, Nicaragua, Spain, and República Bolivariara de Venezuela, effective February 9, 2002.

Hernàn Oyarzàbal (República Bolivariara de Venezuela), formerly Executive Director, was appointed Alternate Executive Director to Fernando Varela (Spain), effective February 9, 2002.

JIN Qi (China) relinquished her duties as Alternate Executive Director to WEI Benhua (China), effective March 3, 2002.

WANG Xiaoyi (China) was appointed Alternate Executive Director to WEI Benhua (China), effective March 4, 2002.

Randal Quarles (United States) relinquished his duties as Executive Director for the United States, effective April 2, 2002.

APPENDIX IX

Financial Statements

April 30, 2002

PRICEWATERHOUSECOOPERS

PricewaterhouseCoopers LLP
Suite 800W
1301 K Street NW
Washington DC 20005
Telephone (202) 414 1000
Facsimile (202) 414 1301

Report of the Independent Accountants

To the Board of Governors
of the International Monetary Fund:

In our opinion, the accompanying balance sheets and the related statements of income, changes in resources and cash flows give a true and fair view of the financial condition of the General Department and the SDR Department of the International Monetary Fund (the "IMF") as at April 30, 2002 and 2001, and their respective results of operations and cash flows for the years then ended in conformity with International Accounting Standards. These financial statements are the responsibility of the IMF's management; our responsibility is to express an opinion on these financial statements based on our audits. We conducted our audits of these statements in accordance with International Standards on Auditing, which require that we plan and perform the audits to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements, assessing the accounting principles used and significant estimates made by management, and evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

Our audits were conducted for the purpose of forming an opinion on the basic financial statements taken as a whole. The supplementary information on pages 166 to 171 and 176 to 181 is presented for purposes of additional analysis and is not a required part of the basic financial statements. The supplementary information has been subjected to the auditing procedures applied in the audits of the financial statements and, in our opinion, is fairly stated, in all material respects, in relation to the financial statements taken as a whole.

PricewaterhouseCoopers LLP

May 24, 2002

General Department

Balance Sheets
as at April 30, 2002 and 2001

(In thousands of SDRs)

	2002	2001
Assets of the General Resources Account		
Credit outstanding	52,080,697	42,219,061
Usable currencies	102,460,003	109,654,428
Other currencies	54,625,246	56,030,973
Total currencies (Notes 3 and 4)	209,165,946	207,904,462
SDR holdings	1,484,927	2,436,744
Gold holdings (Note 5)	5,851,771	5,851,771
Receivables (Note 6)	500,670	561,562
Other assets (Notes 7 and 14)	752,987	696,043
Assets of the Special Disbursement Account		
Investments and cash equivalents (Note 8)	2,537,301	2,405,928
Structural Adjustment Facility loans (Note 3)	341,692	432,526
	2,878,993	2,838,454
Total Assets	220,635,294	220,289,036

	2002	2001
Liabilities and Resources		
Liabilities:		
Remuneration payable	272,187	394,281
Other liabilities	120,750	147,883
Special Contingent Account (Note 10)	1,307,019	1,213,019
Total Liabilities	1,699,956	1,755,183
Members' Resources:		
Quotas, represented by:		
Reserve tranche positions (Notes 2 and 4)	55,327,139	46,732,986
Subscription payments: Usable	102,460,003	109,654,428
Other	54,628,758	56,027,486
Total quotas	212,415,900	212,414,900
Reserves of the General Resources Account	3,640,445	3,280,499
Accumulated resources of the Special Disbursement Account	2,878,993	2,838,454
Total Liabilities and Resources	220,635,294	220,289,036

The accompanying notes are an integral part of these financial statements.

/s/ Eduard Brau
Treasurer

/s/ Horst Köhler
Managing Director

General Department

Income Statements for the Years Ended April 30, 2002 and 2001

(In thousands of SDRs)

	2002	2001
Income of the General Resources Account		
Operational Income		
Interest and charges (Note 6)	2,032,921	2,207,100
Interest on SDR holdings	41,284	112,514
Other charges and income (Note 6)	157,496	68,699
	2,231,701	2,388,313
Operational Expenses		
Remuneration (Note 9)	1,246,961	1,734,294
Allocation to the Special Contingent Account	94,000	94,000
	1,340,961	1,828,294
Administrative Expenses (Note 13)	530,794	384,554
Net Income of the General Resources Account	359,946	175,465
Income of the Special Disbursement Account		
Investment income	131,372	150,027
Interest on Structural Adjustment Facility loans	1,131	1,389
Net Income of the Special Disbursement Account	132,503	151,416

The accompanying notes are an integral part of these financial statements.

General Department

Statements of Changes in Resources for the Years Ended April 30, 2002 and 2001

(In thousands of SDRs)

	Quotas	General Resources Account		Total Reserves	Special Disbursement Account Accumulated Resources
		Special Reserve	General Reserve		
Balance at April 30, 2000	210,251,400	2,178,382	926,652	3,105,034	2,767,727
Quota subscriptions	2,163,500	—	—	—	—
Net income of the General Resources Account transferred to reserves	—	166,600	8,865	175,465	—
Net income of the Special Disbursement Account	—	—	—	—	151,416
Transfers from the Trust Fund	—	—	—	—	131
Transfers from the Supplementary Financing Facility Subsidy Account	—	—	—	—	104
Transfers to the PRGF Trust	—	—	—	—	(25,924)
Transfers to the PRGF-HIPC Trust	—	—	—	—	(55,000)
Balance at April 30, 2001	212,414,900	2,344,982	935,517	3,280,499	2,838,454
Quota subscriptions	1,000	—	—	—	—
Net income of General Resources Account transferred to reserves	—	46,242	313,704	359,946	—
Net income of the Special Disbursement Account	—	—	—	—	132,503
Transfers from the Trust Fund	—	—	—	—	191
Transfers from the Supplementary Financing Facility Subsidy Account	—	—	—	—	103
Transfers to the PRGF Trust	—	—	—	—	(30,658)
Transfers to the PRGF-HIPC Trust	—	—	—	—	(61,600)
Balance at April 30, 2002	212,415,900	2,391,224	1,249,221	3,640,445	2,878,993

The accompanying notes are an integral part of these financial statements.

General Department

Statements of Cash Flows for the Years Ended April 30, 2002 and 2001

(In thousands of SDRs)

	2002	2001
Usable currencies and SDRs from operating activities		
Net income of the General Resources Account	359,946	175,465
Net income of the Special Disbursement Account	132,503	151,416
Adjustments to reconcile net income to usable resources generated by operations		
Changes in receivables and other assets	3,948	(153,434)
Changes in remuneration payable and other liabilities	(149,227)	(6,529)
Allocation to the Special Contingent Account	94,000	94,000
Unrealized losses (gains) on investments	24,415	(28,587)
Net usable currencies and SDRs provided by operating activities	**465,585**	**232,331**
Usable currencies and SDRs from investment activities		
Net acquisition of investments by the Special Disbursement Account	(155,788)	(121,252)
Net usable currencies and SDRs used by investment activities	**(155,788)**	**(121,252)**
Usable currencies and SDRs from credit to members		
Purchases in currencies and SDRs, including reserve tranche purchases	(29,194,497)	(9,599,529)
Repurchases in currencies and SDRs	19,207,036	11,243,299
Repayments of Structural Adjustment Facility loans	90,834	79,112
Net usable currencies and SDRs from credit to members	**(9,896,627)**	**1,722,882**
Usable currencies and SDRs from financing activities		
Subscription payments in SDRs and usable currencies	250	1,746,500
Changes in composition of usable currencies	1,532,302	367,228
Transfers from SDA to the PRGF Trust, PRGF-HIPC Trust, and other accounts	(91,964)	(80,689)
Net usable currencies and SDRs provided by financing activities	**1,440,588**	**2,033,039**
Net (decrease) increase in usable currencies and SDRs	(8,146,242)	3,867,000
Usable currencies and SDRs, beginning of period	112,091,172	108,224,172
Usable currencies and SDRs, end of period	**103,944,930**	**112,091,172**

The accompanying notes are an integral part of these financial statements.

General Department

Notes to the Financial Statements as at April 30, 2002 and 2001

1. Purpose and Organization

The IMF is an international organization of 183 member countries. It was established, among other purposes, to promote international monetary cooperation and exchange stability and to maintain orderly exchange arrangements among members; to foster economic growth and high levels of employment; and to provide temporary financial assistance to countries under adequate safeguards to help ease balance of payments adjustment. The IMF conducts its operations and transactions through the General Department and the Special Drawing Rights Department (the SDR Department). The General Department consists of the General Resources Account (GRA), the Special Disbursement Account (SDA), and the Investment Account. The latter has not been activated. The IMF also administers trusts and accounts established to perform financial and technical services and financial operations consistent with the purposes of the IMF. The resources of these trusts and accounts are contributed by members or the IMF through the SDA. The financial statements of the SDR Department and these trusts and accounts are presented separately.

General Resources Account

The GRA holds the general resources of the IMF. Its resources reflect the receipt of quota subscriptions, use and repayment of IMF credit, collection of charges on the use of credit, payment of remuneration on creditor positions, borrowings, and payment of interest and repayment of borrowings.

Special Disbursement Account

The assets and resources of the SDA are held separately from other accounts of the General Department. Resources of the SDA include transfers received from the Trust Fund, an account administered by the IMF, and part of the proceeds from the sales of the IMF's gold. There were no gold sales in financial year 2002 or 2001. Income from the investment of gold profits in the SDA is to be transferred, as needed, to the Poverty Reduction and Growth Facility–Heavily Indebted Poor Countries Trust (PRGF-HIPC Trust), in accordance with decisions of the IMF. The SDA also holds outstanding claims on loans extended under the Structural Adjustment Facility (SAF), which was established in March 1986 to provide balance of payments assistance on concessional terms to qualifying low-income developing country members.

Assets that exceed the financing needs of the SDA, excluding investments arising from the sales of gold undertaken pursuant to the 1999 decision on gold sales by the IMF, are transferred to the Reserve Account of the Poverty Reduction and Growth Facility Trust (PRGF Trust), which is administered separately by the IMF as trustee.

2. Summary of Significant Accounting Policies

Basis of Presentation

The financial statements of the IMF are prepared in accordance with International Accounting Standards (IAS). Specific accounting principles and disclosure practices are explained further below. The preparation of financial statements in conformity with IAS requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenue and expenses during the reporting period. Actual results could differ from those estimates.

In financial year 2001, the IMF elected early adoption of IAS 39, *Financial Instruments: Recognition and Measurement*. The adoption of IAS 39 had no material effect on the IMF's financial statements.

Revenue and Expense Recognition

The financial statements are prepared on the accrual basis; accordingly, income is recognized as it is earned, and expenses are recorded as they are incurred.

Unit of Account

The financial statements are expressed in terms of SDRs. The value of the SDR is determined by the IMF each day by summing the values in U.S. dollars, based on market exchange rates, of the currencies in the SDR valuation basket. The IMF reviews the SDR valuation basket every five years. The latest review was completed in October 2000, and the new composition of the SDR valuation basket became effective on January 1, 2001. The value of the SDR in terms of U.S. dollars on the last business day prior to the change (December 29, 2000) was identical under both valuation baskets. The currencies in the basket as of April 30, 2002 and 2001 and their amounts were as follows:

Currency	Amount
Euro	0.426
Japanese yen	21.0
Pound sterling	0.0984
U.S. dollar	0.577

As of April 30, 2002, one SDR was equal to 1.26771 U.S. dollars (one SDR was equal to 1.26579 U.S. dollars as of April 30, 2001).

Credit Outstanding

The IMF provides balance of payments assistance in accordance with established policies by selling to members, in exchange for their own currencies, SDRs or currencies of other members. When members make purchases, they incur obligations to repurchase the IMF's holdings of their currencies arising from the purchases within specified periods by payments in SDRs or other currencies, as determined by the IMF. Fund credit is subject to specific repayment schedules over periods which vary depending on the type of facility used. Repayment schedules comprise two elements: (i) repurchase expectations, aimed at securing early repayment from

members in a position to do so, in keeping with a long-standing principle of the IMF that its resources should be used only as long as there is a balance of payments need, and (ii) repurchase obligations. Repayments on the *expectation* schedules can be extended by a period of up to one year for Stand-By and Supplemental Reserve Facility (SRF) purchases or three years for Extended Fund Facility (EFF) purchases, upon a member's request if its external position is not sufficiently strong. The IMF approved two such requests from Argentina to extend by one year SRF repayments due on January 17, 2002 for an amount of SDR 741 million and, subsequent to year-end, on May 22, 2002 an amount of SDR 106 million. A member is considered overdue after failure to make payment at the date of a repurchase expectation if a waiver is not granted, or after failure to make payment on a repurchase obligation. Failure to obtain a waiver for payment according to the repurchase expectations schedule date without the granting of a waiver by the IMF would result, inter alia, in a suspension of the right to make further purchases, including prospective purchases under an existing arrangement. The IMF's policies on the use of its general resources are intended to ensure that their use is temporary and will be reversed within agreed-upon repurchase periods.

A member is entitled to repurchase, at any time, the IMF's holdings of its currency on which charges are levied and is expected to make repurchases as and when its balance of payments and reserve position improve.

Overdue Obligations and the First Special Contingent Account

It is the policy of the IMF to exclude from current income, charges due by members that are six months or more overdue in meeting payments to the IMF, unless these members are current in the payment of charges.

Debtor and creditor members share equally the financial consequences of overdue obligations under a mechanism referred to as burden sharing. The IMF generates compensating income equal to unpaid and deferred charges, excluding special charges, by adjusting the rates of charge and remuneration. Members that have borne the financial consequences of overdue charges will receive refunds only to the extent that overdue charges that had given rise to burden sharing adjustments are settled, and these amounts are therefore not presented as liabilities. In view of the risk resulting from overdue credit, the IMF also accumulates precautionary balances in the first Special Contingent Account (SCA-1). Allocations to the SCA-1 are financed by further adjustments to the rates of charge and remuneration and charged to the Income Statement (see Note 10).

Currencies

Currencies consist of members' currencies and securities held by the IMF. Each member has the option to substitute non-negotiable and non-interest-bearing securities for the IMF's holdings of its currency that exceed ¼ of 1 percent of the member's quota. These securities are encashable by the IMF on demand.

Each member is required to pay to the IMF its initial quota and subsequent quota increases partly in its own currency, with the remainder to be paid in usable currencies prescribed by the IMF, or SDRs. One exception was the quota increase of 1978, which was paid entirely in members' own currencies.

Usable Currencies

Usable currencies consist of currencies of members considered by the IMF to have strong balance of payment and reserve positions. These currencies are included in the IMF's financial transactions plan to finance purchases and other transfers of the IMF. Participation in the financial transactions plan is reviewed on a quarterly basis.

Valuation of Currencies

Currencies, including securities, are valued in terms of the SDR on the basis of the currency/SDR exchange rate determined for each currency. Securities are not marketable, but can be converted into cash on demand. Each member is obligated to maintain, in terms of the SDR, the SDR value of the balances of its currency held by the IMF in the GRA. This requirement is referred to as the maintenance-of-value obligation. Whenever the IMF revalues its holdings of a member's currency, a receivable or a payable is established for the amount required to maintain the SDR value of the IMF's holdings of that currency. The currency balances in the balance sheet include these receivables and payables. All currencies were revalued in terms of the SDR on April 30, 2002 and 2001.

SDR Holdings

Although SDRs are not allocated to the IMF, the IMF may acquire, hold, and dispose of SDRs through the GRA. The IMF receives SDRs from members in the settlement of their financial obligations to the IMF and uses SDRs in transactions and operations with members. The IMF earns interest on its SDR holdings at the same rate as all other holders of SDRs.

SDR Interest Rate

The SDR interest rate is determined weekly by reference to a combined market interest rate, which is a weighted average of yields on short-term instruments in the capital markets of the euro area, Japan, the United Kingdom, and the United States.

Gold Holdings

The Articles of Agreement limit the use of gold in the IMF's operations and transactions. Any use provided for in the Articles requires a decision supported by an 85 percent majority of the total voting power. In accordance with the provisions of the Articles, whenever the IMF sells gold held on the date of the Second Amendment of the IMF's Articles of Agreement (April 1, 1978), the portion of the proceeds equivalent at the time of sale to one SDR per 0.888671 gram of fine gold, which is equal to SDR 35 per fine troy ounce, must be placed in the GRA. Any excess over this value will be held in the SDA or transferred to the Investment Account. The IMF may also sell gold held on the date of the Second Amendment to those members that were members on August 31, 1975, in proportion to their quotas on that date, in exchange for their own currencies, at a price equivalent at the time of sale to one SDR per 0.888671 gram of fine gold.

The IMF values its gold holdings at historical cost using the specific identification method (see Note 5).

SAF Loans in the Special Disbursement Account

SAF loans in the SDA are held at historical cost. Allowances for loan losses would be established if and when the IMF expected to incur a loss; no losses have been incurred in the

past, and it is the current expectation that no losses will be incurred in the future. Repayments of all SAF loans are transferred to the PRGF Trust Reserve Account when received.

Investments in the Special Disbursement Account

The resources of the SDA are invested pending their use. Investments are made in debt securities, medium-term instruments which are fixed-income securities, and fixed-term deposits, either directly or by participation in an investment pool. Debt securities comprise securities issued by national financial organizations and domestic government bonds in the euro area, Japan, the United Kingdom and the United States; and securities issued by certain international financial institutions. Medium-term instruments offer a spread over domestic government bonds in the euro, Japanese yen, U.S. dollar and pound sterling. Investments are marked to market on the last business day of the accounting period. Purchases are valued and reflected on the trade date basis and sales are based on the actual settlement date valuations. Investment income comprises interest earned on investments, realized and unrealized gains and losses on investments, and currency valuation differences arising from exchange rate movements against the SDR.

Interest rate risk is managed by limiting the investment portfolio to a weighted average effective duration that does not exceed three years. Currency risk is minimized by investing in securities denominated in SDRs or in the constituent currencies of the SDR valuation basket. Risk is further minimized by ensuring that the currency composition of the investment portfolio matches, as closely as possible, the currency composition of the SDR valuation basket.

Fixed Assets

Fixed assets with a cost in excess of a threshold amount are capitalized at cost. Buildings and equipment are depreciated using the straight-line method over the estimated useful lives of the assets, which range from 3 years for equipment to 30 years for buildings.

Quotas

Each member is assigned a quota that forms the basis of its financial and organizational relationship with the IMF. A member's quota is related to, but not strictly determined by, economic factors such as national income, the value of external trade and payments, and the level of official reserves. Quotas determine members' subscriptions to the IMF, their relative voting power, access to financing, and their share in SDR allocations. Should a member withdraw from the Fund, quotas are repayable to the extent they are not needed to settle other net obligations of the member to the Fund.

Reserve Tranche Position

A member has a reserve tranche in the IMF when the IMF's holdings of its currency, excluding holdings that reflect the member's use of IMF credit, are less than the member's quota. A member's reserve tranche is considered a part of the member's external reserves and the member may draw on the reserve tranche at any time when it represents that it has a balance of payments need. Reserve tranche purchases are not considered a use of IMF credit and are not subject to repurchase obligations or charges.

Reserves

The IMF determines annually what part of its net income will be retained and placed to the General Reserve or the Special Reserve, and what part, if any, will be distributed. The Articles of Agreement permit the IMF to use the Special Reserve for any purpose for which it may use the General Reserve, except distribution. After meeting the expenses of conducting the PRGF Trust, net operational income generated from the surcharges on purchases under the SRF, the credit tranches, and the EFF, have been transferred to the General Reserve. All other income has been transferred to the Special Reserve.

Charges

The IMF levies periodic charges on members' use of IMF credit. The rate of charge is set as a proportion of the SDR interest rate. For financial year 2002, the basic rate of charge after the retroactive reduction in charges was 116.4 percent (113.7 percent during financial year ended April 30, 2001) of the SDR interest rate. The basic rate of charge is increased to offset the effect on the IMF's income of the deferral of unpaid charges and to finance the additions to the SCA-1. The average adjusted rate of charge before applicable surcharges for financial year 2002 was 3.44 percent (for financial year 2001 the average rate was 5.26 percent). A surcharge progressing from 150 to 500 basis points above the rate of charge applies to use of credit under the SRF and the Contingent Credit Lines (CCL). In addition, credit outstanding in excess of 200 percent of quota, resulting from purchases after November 28, 2000 in the credit tranches and under the EFF (other than those under the SRF and CCL), is subject to a surcharge of 100–200 basis points. Special charges are levied on members' currency holdings that are not repurchased when due and on overdue charges. Special charges do not apply to members that are six months or more overdue to the IMF. A service charge is levied by the IMF on all purchases, except reserve tranche purchases. A refundable commitment fee is charged on Stand-By and Extended Arrangements. At the expiration or cancellation of an arrangement, the unrefunded portion of the commitment fee is taken into income.

Remuneration

The IMF pays interest, referred to as remuneration, on a member's reserve tranche position. The rate of remuneration is equal to the SDR interest rate, adjusted downward to finance a share of the nonpayment of charges and additions to the SCA-1. The average adjusted rate of remuneration for the financial year ended April 30, 2002 was 2.65 percent (4.30 percent for the financial year 2001). A portion of the reserve tranche is unremunerated and is equal to 25 percent of the member's quota on April 1, 1978—that part of the quota that was paid in gold prior to the Second Amendment of the Fund's Articles. For a member that joined the Fund after that date, the unremunerated reserve tranche is the same percentage of its initial quota as the average unremunerated reserve tranche was as a percentage of the quotas of all other members when the new member joined the Fund. The unremunerated reserve tranche remains fixed for each member in nominal terms, but because of subsequent quota increases, it is now significantly lower when expressed as a percentage of quota. The average is equal to 3.8 percent of

quota at April 30, 2002 and 2001, but the actual percentage is different for each member.

Pension and Other Post-Retirement Obligations

The IMF operates two defined-benefit pension plans and provides post-retirement benefits to retired staff.

The pension plans are funded by payments from the staff and the IMF, taking into account the recommendations of independent actuaries. Assets of the plans are held in separate trustee-managed funds and are measured at fair value as of the balance sheet date. Pension obligations are measured using the Projected Unit Credit Method, which measures the present value of the estimated future cash outflows, using interest rates of government securities that have maturities approximating the terms of the pension liabilities.

The assets set aside for the provision of post-retirement benefits are held in an investment account administered by the IMF. This account is funded by contributions from the IMF. The expected costs of the post-retirement medical and life insurance benefits are accrued over the period of employment using the Projected Unit Credit Method. Valuations of these obligations are carried out by independent actuaries.

Comparatives

When necessary, comparative figures have been reclassified to conform with changes in the presentation of the current year.

3. Credit Outstanding

Changes in the outstanding use of IMF credit under the various facilities of the GRA during the years ended April 30, 2002 and 2001 were as follows:

	April 30, 2000	Purchases	Repurchases	April 30, 2001	Purchases	Repurchases	April 30, 2002
	In millions of SDRs						
Regular facilities	20,968	4,396	(8,658)	16,706	17,219	(5,698)	28,227
Extended Fund Facility	16,361	1,013	(1,417)	15,957	959	(1,425)	15,491
Supplemental Reserve Facility	—	4,085	—	4,085	10,891	(9,101)	5,875
Systemic Transformation Facility	2,718	—	(785)	1,933	—	(622)	1,311
Enlarged Access	752	—	(322)	430	—	(109)	321
Compensatory and Contingency Financing Facility	3,032	—	(40)	2,992	—	(2,246)	746
Supplementary Financing Facility	137	—	(21)	116	—	(6)	110
Total credit outstanding	43,968	9,494	(11,243)	42,219	29,069	(19,207)	52,081

As of April 30, 2002 and 2001, SDA loans and interest receivable computed at 0.5 percent a year, consisted of the following:

	2002	2001
	In millions of SDRs	
Structural Adjustment Facility loans	341	432
Interest accrued	8	8
Less: interest deferred	(8)	(7)
	341	433

Scheduled repurchases in the GRA and repayments of SAF loans in the SDA are summarized below:

Financial Year Ending April 30	General Resources Account	Special Disbursement Account
	In millions of SDRs	
2003	12,882	62
2004	9,649	51
2005	13,801	40
2006	8,906	36
2007	2,462	—
2008 and beyond	3,500	—
Overdue	881	152
Total	52,081	341

As of April 30, 2002 and 2001, use of credit in the GRA by the largest users was as follows:

	2002		2001	
	In millions of SDRs and as a percent of total GRA credit outstanding			
Largest user of credit	14,510	27.9%	8,546	20.2%
Three largest users of credit	32,337	62.1%	22,308	52.8%
Five largest users of credit	41,143	79.0%	28,728	68.0%

Overdue Obligations

At April 30, 2002, seven members (as of April 30, 2001, six members) were six months or more overdue in settling their financial obligations to the IMF. Five (four members as of April 30, 2001) of these members were overdue to the General Department.

GRA repurchases, GRA charges, SAF loan repayments, and SAF interest that are six or more months overdue in the General Department were as follows:

	Repurchases and SAF Loans		Charges and SAF Interest	
	2002	2001	2002	2001
	In millions of SDRs			
Total overdue	1,033	1,011	1,055	1,017
Overdue for six months or more	1,010	1,011	1,039	992
Overdue for three years or more	977	985	930	886

The type and duration of the overdue amounts in the General Department as of April 30, 2002, were as follows:

	Repurchases and SAF Loans	Charges and SAF Interest	Total Obligation	Longest Overdue Obligation
	In millions of SDRs			
Congo, Democratic Republic of	300	83	383	May 1991
Liberia	201	240	441	May 1985
Somalia	106	91	197	July 1987
Sudan	379	636	1,015	July 1985
Zimbabwe	47	5	52	February 2001
Total	1,033	1,055	2,088	

4. Currencies

Changes in the IMF's holdings of members' currencies for the years ended April 30, 2002 and 2001 were as follows:

	April 30, 2000	Net Change	April 30, 2001	Net Change	April 30, 2002
	In millions of SDRs				
Members' quotas	210,251	2,164	212,415	1	212,416
Members' outstanding use of IMF credit in the GRA	43,913	(1,694)	42,219	9,862	52,081
Members' reserve tranche positions in the GRA	(48,872)	2,139	(46,733)	(8,594)	(55,327)
Administrative currency balances	(3)	6	3	(7)	(4)
Currencies	205,289	2,615	207,904	1,262	209,166

Receivables and payables arising from valuation adjustments at April 30, 2002, when all holdings of currencies of members were last revalued, amounted to SDR 17,953 million and SDR 3,648 million, respectively (SDR 14,736 million and SDR 3,886 million, respectively, at April 30, 2001). Settlements of these receivables or payables are required to be made promptly after the end of each financial year.

Other currency holdings, other than those resulting from the use of credit or usable currencies, amounted to SDR 54,625 million (SDR 56,031 million as of April 30, 2001); of this amount SDR 28,996 million (SDR 33,129 million as of April 30, 2001) represents currencies of members that use IMF credit.

5. Gold Holdings

At April 30, 2002 and April 30, 2001, the IMF held 3,217,341 kilograms of gold, equal to 103,439,916 fine ounces of gold, at designated depositories. As of April 30, 2002, the value of the IMF's holdings of gold calculated at the market price was SDR 25.1 billion (SDR 21.5 billion at April 30, 2001).

6. Interest and Charges

As of April 30, 2002, the total holdings on which the IMF levies charges amounted to SDR 52,081 million (SDR 42,219 million as of April 30, 2001). Charges and other receivables due to the IMF as of April 30, 2002 and 2001 were as follows:

	2002	2001
	In millions of SDRs	
Periodic charges	1,546	1,560
Less: deferred income	(1,053)	(1,020)
	493	540
Other receivables	8	22
Receivables	501	562

Periodic charges for the years ended April 30, 2002 and 2001 consisted of the following:

	2002	2001
	In millions of SDRs	
Periodic charges	2,002	2,174
Add: adjustments for deferred charges, net of refunds, and for contributions to the SCA-1	64	60
Less: income deferred, net of settlements	(33)	(27)
Total periodic charges	2,033	2,207

Special charges, service charges and the unrefunded commitment fees are included in *Other Charges and Income* which amounted to SDR 157 million (SDR 69 million for the year ended April 30, 2001).

7. Fixed Assets

Other assets include capital assets, which at April 30, 2002 and 2001 amounted to SDR 238 million and SDR 223 million, respectively, and consisted of:

	2002	2001
	In millions of SDRs	
Land and buildings	314	307
Equipment	45	46
Total fixed assets	359	353
Less: accumulated depreciation	(121)	(130)
Net fixed assets	238	223

8. Investments and Cash Equivalents

As at April 30, the investments in the SDA consisted of the following:

	2002	2001
	In millions of SDRs	
Fixed-term deposits	2,537	39
Medium-term instruments	—	1,601
Debt securities	—	766
Total	2,537	2,406

Included in fixed-term deposits are cash equivalents amounting to SDR 2,166 million (SDR 39 million as at April 30, 2001) comprising short-term deposits with maturities of less than ninety days.

As at April 30, the maturity profile of the investments is summarized below:

	2002	2001
	In millions of SDRs	
Less than 1 year	2,537	39
1–3 years	—	2,247
3–5 years	—	117
Over 5 years	—	3
Total	2,537	2,406

Investment income for the years ended April 30 included the following:

	2002	2001
	In millions of SDRs	
Interest income	96	110
Realized gains	60	11
Unrealized (losses)/gains	(25)	29
Total income	131	150

9. Remuneration

At April 30, 2002, total creditor positions on which the IMF paid remuneration amounted to SDR 48,817 million (SDR 40,176 million at April 30, 2001). Remuneration for the years ended April 30, 2002 and 2001 consisted of the following:

	2002	2001
	In millions of SDRs	
Remuneration	1,311	1,794
Less: adjustments for deferred charges net of refunds, and for contributions to the SCA-1	(64)	(60)
	1,247	1,734

10. Deferred Income and the First Special Contingent Account

The SCA-1 is financed by quarterly adjustments to the rate of charge and the rate of remuneration. Balances in the SCA-1 are to be distributed to the members that shared the cost of its financing when there are no outstanding overdue repurchases and charges, or at such earlier time as the IMF may decide. At April 30, 2002, the balances held in the SCA-1 amounted to SDR 1,307 million (SDR 1,213 million at April 30, 2001).

Cumulative charges, net of settlements, that have been deferred since May 1, 1986 and have resulted in adjustments to charges and remuneration amounted to SDR 865 million at April 30, 2002 (SDR 832 million at April 30, 2001). The cumulative refunds for the same period, resulting from the settlements of deferred charges for which burden sharing adjustments have been made, amounted to SDR 994 million (SDR 993 million at April 30, 2001).

11. Borrowings

Under the General Arrangements to Borrow (GAB), the IMF may borrow up to SDR 18.5 billion when supplementary resources are needed, in particular, to forestall or to cope with an impairment of the international monetary system. The GAB became effective on October 24, 1962, and has been extended through December 25, 2003. Interest on borrowings under the GAB is calculated at a rate equal to the SDR interest rate.

Under the New Arrangements to Borrow (NAB), the IMF may borrow up to SDR 34 billion of supplementary resources. The NAB is the facility of first and principal recourse, but it does not replace the GAB, which will remain in force. Outstanding drawings and commitments under these two borrowing arrangements are limited to a combined total of SDR 34 billion. The NAB became effective for a five-year period on November 17, 1998 and was activated on December 2, 1998. Interest on borrowings under the NAB is payable to the participants at the SDR interest rate or any such higher rate as may be agreed between the IMF and participants representing 80 percent of the total credit arrangement.

12. Arrangements and Commitments in the General Department

An arrangement is a decision of the IMF that gives a member the assurance that the IMF stands ready to provide SDRs or usable currencies during a specified period and up to a specified amount, in accordance with the terms of the arrangement. Credit under these arrangements is subject to interest and charges that are uniform to all members and that reflect the cost to the IMF of financing such credit, plus a margin. In addition, certain surcharges may apply. At April 30, 2002, the undrawn balances under the 17 arrangements that were in effect in the GRA amounted to SDR 26,908 million (SDR 22,316 million under 25 arrangements at April 30, 2001).

The IMF has committed to lease commercial office space through 2005. Expenditures totaling SDR 32 million will be incurred over this period.

13. Administrative Expenses

The administrative expenses for the years ended April 30, 2002 and 2001 were as follows:

	2002	2001
	In millions of SDRs	
Personnel	338	302
Pension and other related expenses/(income)	5	(90)
Travel	73	69
Other	117	106
Less: reimbursements for the administration of the SDR Department	(2)	(2)
Total administrative expenses, net of reimbursements	531	385

The majority of these expenses are incurred in U.S. dollars; exchange gains and losses incurred in the normal course of business are reflected in administrative expenses and are not significant.

The GRA is reimbursed for the cost of administering the SDR Department.

The GRA is to be reimbursed annually for expenses incurred in administering the SDA and the PRGF Trust. Following the establishment of the SRF and CCL and the consequent increase in net operational income, the Executive Board decided to forgo reimbursement of the expenses incurred in administering the PRGF Trust for financial years 2002 and 2001 and to transfer the amounts that would otherwise have been reimbursed to the GRA from the PRGF Trust Reserve Account, through the SDA, to the PRGF-HIPC Trust. These transfers amounted to SDR 61.6 million for financial year 2002 (SDR 55 million for financial year 2001) and have been included under transfers to the PRGF-HIPC Trust in the statement of changes in resources.

14. Pension and Other Post-Retirement Benefits

The IMF has a defined-benefit Staff Retirement Plan (SRP) that covers substantially all eligible staff and a Supplemental Retirement Benefits Plan (SRBP) for selected participants of the SRP. Participants contribute a fixed percentage of their pensionable remuneration. The IMF contributes the remainder of the cost of funding the plans and pays certain administrative costs of the plans. In addition, the IMF provides other employment and post-retirement benefits, including medical and life insurance benefits. In 1995, the IMF established a separate account, the Retired Staff Benefits Investment Account (RSBIA), to hold and invest resources set aside to fund the cost of these employment benefits.

On March 23, 2001, the RSBIA was amended to include the funding and administration of all existing long-term benefits, other than pension benefits for regular staff, including separation and repatriation benefits, accrued annual leave up to 60 days, payments in lieu of pension for contractual employees, and associated tax allowances.

The obligations of the SRP, SRBP, and RSBIA are valued by independent actuaries every year using the Projected Unit

Credit Method. The latest actuarial valuations were carried out as at April 30, 2002. The key assumptions used are as shown below. The present value of the defined-benefit obligation and current service cost was calculated using the Projected Unit Credit Method.

Amounts recognized in the balance sheets are as follows:

	2002	2001
	In millions of SDRs	
Fair value of plan assets	3,099	3,200
Present value of the defined-benefit obligation	(2,884)	(2,538)
Unrecognized actuarial (losses)/gains	242	(231)
Unrecognized prior service cost	13	—
Net balance sheet asset	470	431

Movement in the net balance sheets asset:

	2002	2001
	In millions of SDRs	
Net balance sheet asset, beginning of year	431	223
Reclassification of related liability	—	(6)
Income/(expense) recognized in income statement	(5)	90
Contributions paid	44	124
Net balance sheet asset, end of year	470	431

The amounts recognized in the income statements are as follows:

	2002	2001
	In millions of SDRs	
Current service cost	116	90
Interest cost	186	184
Expected return on assets	(295)	(321)
Amortization of actuarial gain	(2)	(43)
Total expense/(gain) recognized in income statement	5	(90)
Actual (loss)/return on assets	(79)	315

Principal actuarial assumptions used:

	2002	2001
	In percent	
Discount rate	7.5	7.5
Expected return on plan assets	9.3	9.3
Future salary increases	6.4–10.8	6.6–11.0
Ultimate health care costs growth rates	5.5	5.5

Schedule 1

General Department

Quotas, IMF's Holdings of Currencies, Reserve Tranche Positions, and Members' Use of Resources as at April 30, 2002

(In thousands of SDRs)

	General Resources Account				Use of Resources				
		IMF's holdings of currencies[1]			GRA				
Member	Quota	Total	Percent of quota	Reserve tranche position	Amount (A)	Percent[2]	+ SDA[3] (B)	+ PRGF Trust[4] (C)	= Total[5] (D)
Afghanistan, Islamic State of	120,400	115,488	95.9	4,928	—	—	—	—	—
Albania	48,700	48,659	99.9	3,355	3,309	0.01	—	59,441	62,750
Algeria	1,254,700	2,328,433	185.6	85,082	1,158,813	2.23	—	—	1,158,813
Angola	286,300	286,445	100.1	—	—	—	—	—	—
Antigua and Barbuda	13,500	13,499	100.0	1	—	—	—	—	—
Argentina	2,117,100	12,966,922	612.5	11	10,849,821	20.83	—	—	10,849,821
Armenia, Republic of	92,000	110,286	119.9	—	18,281	0.04	—	114,287	132,568
Australia	3,236,400	2,098,119	64.8	1,138,329	—	—	—	—	—
Austria	1,872,300	1,233,300	65.9	638,949	—	—	—	—	—
Azerbaijan	160,900	294,811	183.2	10	133,911	0.26	—	98,000	231,911
Bahamas, The	130,300	124,063	95.2	6,239	—	—	—	—	—
Bahrain, Kingdom of	135,000	67,463	50.0	67,568	—	—	—	—	—
Bangladesh	533,300	618,978	116.1	186	85,859	0.16	—	14,375	100,234
Barbados	67,500	62,758	93.0	4,752	—	—	—	—	—
Belarus, Republic of	386,400	438,975	113.6	20	52,575	0.10	—	—	52,575
Belgium	4,605,200	3,080,484	66.9	1,524,724	—	—	—	—	—
Belize	18,800	14,562	77.5	4,239	—	—	—	—	—
Benin	61,900	59,721	96.5	2,188	—	—	1,750	55,547	57,297
Bhutan	6,300	5,280	83.8	1,020	—	—	—	—	—
Bolivia	171,500	162,638	94.8	8,875	—	—	—	161,793	161,793
Bosnia and Herzegovina	169,100	254,435	150.5	—	85,330	0.16	—	—	85,330
Botswana	63,000	40,833	64.8	22,177	—	—	—	—	—
Brazil	3,036,100	6,285,891	207.0	—	3,249,138	6.24	—	—	3,249,138
Brunei Darussalam	150,000	114,727	76.5	35,285	—	—	—	—	—
Bulgaria	640,200	1,434,866	224.1	32,778	827,424	1.59	—	—	827,424
Burkina Faso	60,200	52,957	88.0	7,246	—	—	6,636	89,005	95,641
Burundi	77,000	76,641	99.5	360	—	—	—	1,934	1,934
Cambodia	87,500	89,063	101.8	—	1,563	—	—	66,985	68,548
Cameroon	185,700	185,152	99.7	553	—	—	—	209,880	209,880
Canada	6,369,200	4,154,014	65.2	2,215,117	—	—	—	—	—
Cape Verde	9,600	9,598	100.0	2	—	—	—	1,230	1,230
Central African Republic	55,700	55,584	99.8	116	—	—	—	24,480	24,480
Chad	56,000	55,719	99.5	282	—	—	—	77,230	77,230
Chile	856,100	550,495	64.3	305,605	—	—	—	—	—
China	6,369,200	4,420,415	69.4	1,948,831	—	—	—	—	—
Colombia	774,000	488,202	63.1	285,803	—	—	—	—	—
Comoros	8,900	8,362	94.0	540	—	—	540	—	540
Congo, Democratic Republic of	291,000	448,109	154.0	—	157,109	0.30	142,910	—	300,019
Congo, Republic of	84,600	99,178	117.2	536	15,100	0.03	—	12,506	27,606
Costa Rica	164,100	144,113	87.8	20,000	—	—	—	—	—
Côte d'Ivoire	325,200	324,884	99.9	320	—	—	—	421,795	421,795
Croatia, Republic of	365,100	448,876	122.9	159	83,933	0.16	—	—	83,933
Cyprus	139,600	94,238	67.5	45,369	—	—	—	—	—
Czech Republic	819,300	698,858	85.3	120,451	—	—	—	—	—
Denmark	1,642,800	1,048,357	63.8	594,446	—	—	—	—	—

Schedule 1 *(continued)*

Member	General Resources Account				Use of Resources				
		IMF's holdings of currencies[1]			GRA				
	Quota	Total	Percent of quota	Reserve tranche position	Amount (A)	Percent[2]	SDA[3] + (B)	PRGF Trust[4] + (C)	Total[5] = (D)
Djibouti	15,900	17,485	110	1,100	2,685	0.01	—	9,087	11,772
Dominica	8,200	8,192	99.9	9	—	—	—	—	—
Dominican Republic	218,900	253,636	115.9	3	34,738	0.07	—	—	34,738
Ecuador	302,300	511,879	169.3	17,153	226,730	0.44	—	—	226,730
Egypt	943,700	943,716	100.0	—	—	—	—	—	—
El Salvador	171,300	171,303	100.0	—	—	—	—	—	—
Equatorial Guinea	32,600	32,609	100.0	—	—	—	1,032	440	1,472
Eritrea	15,900	15,900	100.0	5	—	—	—	—	—
Estonia, Republic of	65,200	73,914	113.4	6	8,719	0.02	—	—	8,719
Ethiopia	133,700	126,555	94.7	7,169	—	—	16,958	86,576	103,534
Fiji	70,300	55,300	78.7	15,004	—	—	—	—	—
Finland	1,263,800	831,296	65.8	432,559	—	—	—	—	—
France	10,738,500	7,004,568	65.2	3,733,980	—	—	—	—	—
Gabon	154,300	213,770	138.5	179	59,643	0.11	—	—	59,643
Gambia, The	31,100	29,618	95.2	1,485	—	—	—	20,610	20,610
Georgia	150,300	180,362	120.0	10	30,063	0.06	—	190,725	220,788
Germany	13,008,200	8,563,891	65.8	4,444,321	—	—	—	—	—
Ghana	369,000	369,004	100.0	—	—	—	—	275,505	275,505
Greece	823,000	553,132	67.2	269,870	—	—	—	—	—
Grenada	11,700	11,701	100.0	—	—	—	—	—	—
Guatemala	210,200	210,206	100.0	—	—	—	—	—	—
Guinea	107,100	107,026	99.9	75	—	—	—	97,215	97,215
Guinea-Bissau	14,200	17,750	125.0	—	3,550	0.01	—	14,740	18,290
Guyana	90,900	90,902	100.0	—	—	—	3,198	70,900	74,098
Haiti	60,700	73,924	121.8	56	13,278	0.03	—	15,175	28,453
Honduras	129,500	162,437	125.4	8,627	41,563	0.08	—	125,250	166,813
Hungary	1,038,400	716,447	69.0	321,954	—	—	—	—	—
Iceland	117,600	99,021	84.2	18,580	—	—	—	—	—
India	4,158,200	3,669,478	88.2	488,776	—	—	—	—	—
Indonesia	2,079,300	8,910,394	428.5	145,478	6,976,572	13.40	—	—	6,976,572
Iran, Islamic Republic of	1,497,200	1,497,203	100.0	—	—	—	—	—	—
Iraq	504,000	504,013	100.0	—	—	—	—	—	—
Ireland	838,400	546,847	65.2	291,570	—	—	—	—	—
Israel	928,200	705,848	76.0	222,359	—	—	—	—	—
Italy	7,055,500	4,392,166	62.3	2,663,338	—	—	—	—	—
Jamaica	273,500	302,550	110.6	—	29,000	0.06	—	—	29,000
Japan	13,312,800	8,831,949	66.3	4,481,278	—	—	—	—	—
Jordan	170,500	499,749	293.1	52	329,299	0.63	—	—	329,299
Kazakhstan, Republic of	365,700	365,700	100.0	5	—	—	—	—	—
Kenya	271,400	258,864	95.4	12,557	—	—	—	78,647	78,647
Kiribati	5,600	5,601	100.0	—	—	—	—	—	—
Korea	1,633,600	1,404,759	86.0	228,845	—	—	—	—	—
Kuwait	1,381,100	888,033	64.3	493,067	—	—	—	—	—
Kyrgyz Republic	88,800	96,863	109.1	5	8,063	0.02	—	129,317	137,380
Lao People's Democratic Republic	52,900	52,900	100.0	—	—	—	586	32,520	33,106
Latvia, Republic of	126,800	143,921	113.5	55	17,156	0.03	—	—	17,156
Lebanon	203,000	184,168	90.7	18,833	—	—	—	—	—
Lesotho	34,900	31,365	89.9	3,539	—	—	—	14,049	14,049
Liberia	71,300	272,213	381.8	28	200,932	0.39	—	—	223,822
Libya	1,123,700	728,206	64.8	395,505	—	—	—	—	—
Lithuania, Republic of	144,200	252,430	175.1	16	108,244	0.21	—	—	108,244
Luxembourg	279,100	180,181	64.6	98,946	—	—	—	—	—
Macedonia, former Yugoslav Republic of	68,900	95,197	138.2	—	26,295	0.05	—	29,004	55,299
Madagascar	122,200	122,174	100.0	27	—	—	—	101,374	101,374
Malawi	69,400	67,132	96.7	2,271	—	—	—	56,578	56,578

Schedule 1 *(continued)*

Member	General Resources Account				Use of Resources				
		IMF's holdings of currencies[1]			GRA				
	Quota	Total	Percent of quota	Reserve tranche position	Amount (A)	Percent[2]	+ SDA[3] (B)	+ PRGF Trust[4] (C)	= Total[5] (D)
Malaysia	1,486,600	878,450	59.1	608,156	—	—	—	—	—
Maldives	8,200	6,646	81.0	1,554	—	—	—	—	—
Mali	93,300	84,467	90.5	8,835	—	—	2,032	126,043	128,075
Malta	102,000	61,745	60.5	40,260	—	—	—	—	—
Marshall Islands	3,500	3,500	100.0	1	—	—	—	—	—
Mauritania	64,400	64,406	100.0	—	—	—	682	77,871	78,553
Mauritius	101,600	87,132	85.8	14,474	—	—	—	—	—
Mexico	2,585,800	2,585,407	100.0	409	—	—	—	—	—
Micronesia, Federated States of	5,100	5,100	100.0	1	—	—	—	—	—
Moldova, Republic of	123,200	216,950	176.1	5	93,750	0.18	—	18,480	112,230
Mongolia	51,100	51,038	99.9	63	—	—	—	35,791	35,791
Morocco	588,200	517,760	88.0	70,441	—	—	—	—	—
Mozambique	113,600	113,600	100.0	7	—	—	—	154,365	154,365
Myanmar	258,400	258,402	100.0	—	—	—	—	—	—
Namibia	136,500	136,463	100.0	38	—	—	—	—	—
Nepal	71,300	65,557	91.9	5,746	—	—	—	4,476	4,476
Netherlands	5,162,400	3,447,344	66.8	1,715,079	—	—	—	—	—
New Zealand	894,600	580,366	64.9	314,237	—	—	—	—	—
Nicaragua	130,000	130,010	100.0	—	—	—	—	125,330	125,330
Niger	65,800	57,240	87.0	8,561	—	—	—	72,714	72,714
Nigeria	1,753,200	1,753,122	100.0	143	—	—	—	—	—
Norway	1,671,700	1,073,632	64.2	598,093	—	—	—	—	—
Oman	194,000	125,736	64.8	68,330	—	—	—	—	—
Pakistan	1,033,700	1,969,508	190.5	115	935,922	1.80	—	513,660	1,449,582
Palau	3,100	3,100	100.0	1	—	—	—	—	—
Panama	206,600	234,752	113.6	11,860	40,000	0.08	—	—	40,000
Papua New Guinea	131,600	216,835	164.8	313	85,540	0.16	—	—	85,540
Paraguay	99,900	78,428	78.5	21,475	—	—	—	—	—
Peru	638,400	879,298	137.7	—	240,864	0.46	—	—	240,864
Philippines	879,900	2,266,916	257.6	87,182	1,474,195	2.83	—	—	1,474,195
Poland, Republic of	1,369,000	1,002,164	73.2	366,836	—	—	—	—	—
Portugal	867,400	568,031	65.5	299,370	—	—	—	—	—
Qatar	263,800	169,836	64.4	93,964	—	—	—	—	—
Romania	1,030,200	1,315,582	127.7	—	285,377	0.55	—	—	285,377
Russian Federation	5,945,400	11,501,505	193.5	1,137	5,557,186	10.67	—	—	5,557,186
Rwanda	80,100	82,344	102.8	—	2,231	—	—	61,880	64,111
St. Kitts and Nevis	8,900	10,242	115.1	82	1,422	—	—	—	1,422
St. Lucia	15,300	15,300	100.0	1	—	—	—	—	—
St. Vincent and the Grenadines	8,300	7,800	94.0	500	—	—	—	—	—
Samoa	11,600	10,918	94.1	683	—	—	—	—	—
San Marino, Republic of	17,000	12,900	75.9	4,101	—	—	—	—	—
São Tomé and Príncipe	7,400	7,403	100.0	—	—	—	—	1,902	1,902
Saudi Arabia	6,985,500	4,667,976	66.8	2,317,528	—	—	—	—	—
Senegal	161,800	160,373	99.1	1,432	—	—	—	202,532	202,532
Seychelles	8,800	8,799	100.0	1	—	—	—	—	—
Sierra Leone	103,700	103,685	100.0	24	—	—	10,808	109,267	120,075
Singapore	862,500	565,377	65.6	297,162	—	—	—	—	—
Slovak Republic	357,500	357,505	100.0	—	—	—	—	—	—
Slovenia, Republic of	231,700	148,544	64.1	83,162	—	—	—	—	—
Solomon Islands	10,400	9,867	94.9	543	—	—	—	—	—
Somalia	44,200	140,907	318.8	—	96,701	0.19	8,840	—	112,004
South Africa	1,868,500	1,868,131	100.0	373	—	—	—	—	—
Spain	3,048,900	1,989,443	65.3	1,059,468	—	—	—	—	—
Sri Lanka	413,400	517,319	125.1	47,785	151,680	0.29	—	50,400	202,080
Sudan	169,700	549,077	323.6	11	379,357	0.74	—	—	438,585
Suriname	92,100	85,976	93.4	6,125	—	—	—	—	—

Schedule 1 *(concluded)*

Member	General Resources Account				Use of Resources				
		IMF's holdings of currencies[1]			GRA				
	Quota	Total	Percent of quota	Reserve tranche position	Amount (A)	Percent[2]	+ SDA[3] (B)	+ PRGF Trust[4] (C)	= Total[5] (D)
Swaziland	50,700	44,154	87.1	6,552	—	—	—	—	—
Sweden	2,395,500	1,538,367	64.2	857,139	—	—	—	—	—
Switzerland	3,458,500	2,194,774	63.5	1,263,762	—	—	—	—	—
Syrian Arab Republic	293,600	293,603	100.0	5	—	—	—	—	—
Tajikistan, Republic of	87,000	93,563	107.5	2	6,563	0.01	—	78,280	84,843
Tanzania	198,900	188,923	95.0	9,975	—	—	—	291,220	291,220
Thailand	1,081,900	2,131,895	197.1	20	1,050,000	2.02	—	—	1,050,000
Togo	73,400	73,097	99.6	305	—	—	—	44,208	44,208
Tonga	6,900	5,197	75.3	1,710	—	—	—	—	—
Trinidad and Tobago	335,600	287,037	85.5	48,566	—	—	—	—	—
Tunisia	286,500	266,335	93.0	20,167	—	—	—	—	—
Turkey	964,000	15,361,688	1,593.5	112,775	14,510,460	27.86	—	—	14,510,460
Turkmenistan, Republic of	75,200	75,200	100.0	5	—	—	—	—	—
Uganda	180,500	180,506	100.0	—[6]	—	—	—	213,790	213,790
Ukraine	1,372,000	2,829,813	206.3	3	1,457,813	2.80	—	—	1,457,813
United Arab Emirates	611,700	403,729	66.0	207,972	—	—	—	—	—
United Kingdom	10,738,500	7,167,656	66.7	3,570,851	—	—	—	—	—
United States	37,149,300	24,377,035	65.6	12,766,071	—	—	—	—	—
Uruguay	306,500	643,357	209.9	35,675	372,525	0.72	—	—	372,525
Uzbekistan, Republic of	275,600	333,788	121.1	5	58,188	0.11	—	—	58,188
Vanuatu	17,000	14,506	85.3	2,496	—	—	—	—	—
Venezuela, República Bolivariana de	2,659,100	2,337,201	87.9	321,900	—	—	—	—	—
Vietnam	329,100	337,153	102.4	5	8,053	0.02	—	270,040	278,093
Yemen, Republic of	243,500	291,785	119.8	13	48,297	0.09	—	238,750	287,047
Yugoslavia, Federal Republic of (Serbia/Montenegro)	467,700	734,639	157.1	—	266,925	0.51	—	—	266,925
Zambia	489,100	489,101	100.0	18	—	—	145,400	636,165	781,565
Zimbabwe	353,400	472,029	133.6	328	118,955	0.23	—	89,484	208,439
Total	212,415,900	209,165,946		55,327,139	52,080,697	100.00%	341,372	6,172,848	58,683,498

[1]Includes nonnegotiable, non-interest-bearing notes that members are entitled to issue in substitution for currencies, and outstanding currency valuation adjustments.

[2]Represents the percentage used by each member of total use of GRA resources (column A).

[3]The Special Disbursement Account (SDA) of the General Department had financed loans under Structural Adjustment Facility (SAF) and Poverty Reduction Growth Facility (PRGF) arrangements.

[4]For information purposes only. The PRGF Trust provides financing under PRGF arrangements and is not a part of the General Department.

[5]Includes outstanding Trust Fund loans to Liberia (SDR 23 million), Somalia (SDR 6 million), and Sudan (SDR 59 million).

[6]Less than SDR 500.

Schedule 2

General Department

Financial Resources and Liquidity Position in the General Resources Account as at April 30, 2002 and 2001

(In thousands of SDRs)

	2002	2001
Total Resources		
Currencies	209,165,946	207,904,462
SDR holdings	1,484,927	2,436,744
Gold holdings	5,851,771	5,851,771
Sundry assets, net of sundry liabilities[1]	860,720	715,441
Total resources	217,363,364	216,908,418
Less: **Non-Usable Resources**[2]	113,418,434	104,817,246
Equals: **Usable Resources**[3]	103,944,930	112,091,172
Resources Committed and Working Balances		
Undrawn balances under arrangements[4]	23,730,009	18,097,849
Minimum working balances[4]	15,466,430	15,289,110
Resources committed and working balances	39,196,439	33,386,959
Net Uncommitted Usable Resources[5]	64,748,491	78,704,213
Liquid Liabilities		
Reserve tranche positions[6]	55,327,139	46,732,986
Liquidity Ratio[7]	117.0%	168.4%
Memorandum Item		
Resources available under borrowing arrangements	34,000,000	34,000,000

[1]Sundry assets, net of sundry liabilities, reflect current assets (charges, interest, and other receivables) and other assets (which include capital assets such as land, buildings, and equipment), net of sundry liabilities (remuneration payable and other liabilities).

[2]Resources regarded as non-usable in the financing of the IMF's ongoing operations and transactions are (1) gold holdings, (2) currencies of members that are using IMF credit, (3) currencies of other members with relatively weak external positions, and (4) sundry assets, net of sundry liabilities.

[3]Usable resources consist of (1) holdings of currencies of members considered by the IMF as having balance of payments and reserve positions sufficiently strong for their currencies to be used in transfers, (2) SDR holdings, and (3) any unused amounts under credit lines that have been activated.

[4]Amounts committed under arrangements, which reflect undrawn balances committed under operative Stand-By and Extended Arrangements, other than precautionary arrangements, are deducted from the total of usable resources, as are one-half of the amounts committed under precautionary arrangements. The Executive Board has decided that the minimum working balances be set at 10 percent of the quotas of members deemed sufficiently strong for their currencies to be used in operations and transactions.

[5]Net uncommitted usable resources are defined as usable resources less resources committed under arrangements and minimum working balances, as described above. The amount represents the resources available to meet requests for use of IMF credit under new credit arrangements and for members' use of their reserve positions in the IMF.

[6]Liquid liabilities consist of (1) members' reserve tranche positions, and (2) the amount of any outstanding borrowing by the IMF under the GAB or NAB. There are currently no borrowings under the GAB or NAB. Both reserve tranche positions and outstanding lending under the GAB and NAB (together called members' reserve positions in the IMF) are part of members' international reserves. A member may draw on its reserve position when it represents that it has a need and the IMF must therefore at all times be in a position to meet such requests.

[7]The liquidity ratio is a measure of the IMF's liquidity position, represented by the ratio of its net uncommitted usable resources to its liquid liabilities.

Schedule 3

General Department

Status of Arrangements as at April 30, 2002

(In thousands of SDRs)

Member	Date of Arrangement	Expiration	Total Amount Agreed	Undrawn Balance
General Resources Account				
Stand-By Arrangements				
Argentina	March 10, 2000	March 9, 2003	16,936,800[1]	7,180,490
Brazil	September 14, 2001	December 13, 2002	12,144,400[2]	8,468,817
Bulgaria	February 27, 2002	February 26, 2004	240,000	208,000
Croatia, Republic of	March 19, 2001	May 18, 2002	200,000	200,000
Guatemala	April 1, 2002	March 31, 2003	84,000	84,000
Latvia, Republic of	April 20, 2001	December 19, 2002	33,000	33,000
Lithuania, Republic of	August 30, 2001	March 29, 2003	86,520	86,520
Peru	February 1, 2002	February 29, 2004	255,000	255,000
Romania	October 31, 2001	April 29, 2003	300,000	248,000
Sri Lanka	April 20, 2001	August 19, 2002	200,000	48,320
Turkey	February 4, 2002	December 31, 2004	12,821,200	4,627,200
Uruguay	April 1, 2002	March 31, 2004	594,100	471,500
Yugoslavia, Federal Republic of	June 11, 2001	May 31, 2002	200,000	50,000
Total Stand-By Arrangements			44,095,020	21,960,847
Extended Arrangements				
Colombia	December 20, 1999	December 19, 2002	1,957,000	1,957,000
Indonesia	February 4, 2000	December 31, 2003	3,638,000	2,201,960
Jordan	April 15, 1999	May 31, 2002	127,880	60,890
Ukraine	September 4, 1998	September 3, 2002	1,919,950	726,950
Total Extended Arrangements			7,642,830	4,946,800
Total General Resources Account			51,737,850	26,907,647

[1]Includes SDR 6.09 billion available until January 11, 2002 under the Supplemental Reserve Facility.
[2]Includes SDR 9.95 billion available until September 13, 2002 under the Supplemental Reserve Facility.

SDR Department

Balance Sheets as at April 30, 2002 and 2001

(In thousands of SDRs)

	2002	2001		2002	2001
Assets			**Liabilities**		
Charges receivable	119,954	215,387	Interest payable	120,458	215,861
Overdue assessments and charges (Note 3)	108,863	98,245			
Participants with holdings below allocations (Note 2)			Participants with holdings above allocations (Note 2)		
Allocations	12,484,980	12,646,264	SDR holdings	15,778,796	14,690,440
Less: SDR holdings	3,847,668	3,865,939	*Less:* allocations	8,948,350	8,787,066
Allocations in excess of holdings	8,637,312	8,780,325	Holdings in excess of allocations	6,830,446	5,903,374
			Holdings by the General Resources Account	1,484,927	2,436,744
			Holdings of SDRs by prescribed holders	430,298	537,978
Total Assets	8,866,129	9,093,957	Total Liabilities	8,866,129	9,093,957

The accompanying notes are an integral part of these financial statements.

/s/ Eduard Brau
Treasurer

/s/ Horst Köhler
Managing Director

SDR Department

Income Statements
for the Years Ended April 30, 2002 and 2001

(In thousands of SDRs)

	2002	2001
Revenue		
Net charges from participants with holdings below allocations	240,177	400,216
Assessments on SDR allocations	2,409	2,451
	242,586	402,667
Expenses		
Interest on SDR holdings		
Net interest to participants with holdings above allocations	186,618	261,127
General Resources Account	41,283	112,514
Prescribed holders	12,276	26,575
	240,177	400,216
Administrative expenses	2,409	2,451
	242,586	402,667
Net Income	—	—

The accompanying notes are an integral part of these financial statements.

SDR Department

Statements of Cash Flows
for the Years Ended April 30, 2002 and 2001

(In thousands of SDRs)

	2002	2001
Cash flows from operating activities		
Receipts of SDRs		
Transfers among participants and prescribed holders	5,053,550	6,815,404
Transfers from participants to the General Resources Account	3,992,991	5,800,216
Transfers from the General Resources Account to participants and prescribed holders	4,944,808	6,087,364
Total Receipts of SDRs	13,991,349	18,702,984
Uses of SDRs		
Transfers among participants and prescribed holders	4,825,971	6,513,836
Transfers from participants to the General Resources Account	3,937,218	5,682,687
Transfers from the General Resources Account to participants and prescribed holders	4,944,808	6,087,364
Charges paid in the SDR Department	272,764	426,404
Other	10,588	(7,307)
Total Uses of SDRs	13,991,349	18,702,984

The accompanying notes are an integral part of these financial statements.

SDR Department

Notes to the Financial Statements as at April 30, 2002 and 2001

1. Nature of Operations

The SDR is an international interest-bearing reserve asset created by the IMF following the First Amendment of the Articles of Agreement in 1969. All transactions and operations involving SDRs are conducted through the SDR Department. The SDR was created as a supplement to existing reserve assets and is allocated by the IMF to members participating in the SDR Department. Its value as a reserve asset derives, essentially, from the commitments of participants to hold and accept SDRs and to honor various obligations connected with its proper functioning as a reserve asset.

At April 30, 2002, all members of the IMF were participants in the SDR Department. SDRs have been allocated by the IMF to members that are participants in the SDR Department at the time of the allocation in proportion to their quotas in the IMF. Six allocations have been made (in 1970, 1971, 1972, 1979, 1980, and 1981) for a total of SDR 21.4 billion. A proposed amendment of the IMF's Articles of Agreement was approved by the Executive Board in January 1998 to allow for a special one-time allocation of SDRs equal to 21.4 billion. The amendment will enter into force after three-fifths of the members, having 85 percent of the total voting power, have accepted it. Upon termination of participation or liquidation of the SDR Department, the IMF will provide to holders the currencies received from the participants in settlement of their obligations. The IMF is empowered to prescribe certain official entities as holders of SDRs; at April 30, 2002 and 2001, 16 institutions were prescribed as holders. Prescribed holders do not receive allocations.

The SDR is also used by a number of international and regional organizations as a unit of account or as the basis for their units of account. Several international conventions also use the SDR as a unit of account, notably those expressing liability limits for the international transport of goods and services.

Uses of SDRs

Participants and prescribed holders can use and receive SDRs in transactions and operations by agreement among themselves. Participants can also use SDRs in operations and transactions involving the General Resources Account, such as the payment of charges and repurchases. The IMF ensures, by designating participants to provide freely usable currency in exchange for SDRs, that a participant can use its SDRs to obtain an equivalent amount of currency if it has a need because of its balance of payments, its reserve position, or developments in its reserves.

General Allocations and Cancellations of SDRs

The IMF has the authority to create unconditional liquidity through general allocations of SDRs to participants in the SDR Department in proportion to their quotas in the IMF. The IMF cannot allocate SDRs to itself or to other holders it prescribes. The Articles also provide for the cancellation of SDRs, although to date there have been no cancellations. In its decisions on general allocations of SDRs, the IMF, as prescribed under its Articles, has sought to meet the long-term global need to supplement existing reserve assets in such a manner as will promote the attainment of the IMF's purposes and avoid economic stagnation and deflation, as well as excess demand and inflation.

2. Summary of Significant Accounting Policies

Basis of Presentation

The financial statements of the IMF are prepared in accordance with International Accounting Standards (IAS). Specific accounting principles and disclosure practices are explained further below. The preparation of financial statements in conformity with IAS requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenue and expenses during the reporting period. Actual results could differ from those estimates.

In financial year 2001, IAS 39, *Financial Instruments: Recognition and Measurement* was adopted and had no material effect on the SDR Department's financial statements.

Unit of Account

The financial statements are expressed in terms of SDRs. The value of the SDR is determined by the IMF each day by summing the values in U.S. dollars, based on market exchange rates, of the currencies in the SDR valuation basket. The IMF reviews the SDR valuation basket every five years. The latest review was completed in October 2000 and the new composition of the SDR valuation basket became effective on January 1, 2001. The value of the SDR in terms of U.S. dollars on the last business day prior to the change (December 29, 2000) was identical under both valuation baskets. The currencies in the basket as of April 30, 2002 and 2001 and their amounts were as follows:

Currency	Amount
Euro	0.426
Japanese yen	21.0
Pound sterling	0.0984
U.S. dollar	0.577

As of April 30, 2002, one SDR was equal to 1.26771 U.S. dollars (one SDR was equal to 1.26579 U.S. dollars as of April 30, 2001).

Allocations and Holdings

At April 30, 2002 and 2001, IMF net cumulative allocations to participants totaled SDR 21.4 billion. Participants with holdings in excess of their allocations have established a net claim on the SDR Department, which is represented on the balance sheet as a liability. Participants with holdings below their allocations have used part of their allocations, which results in a net obligation to

the SDR Department and is presented as an asset of the SDR Department. Participants' net SDR positions as of April 30, 2002 and 2001 were as follows:

	2002			2001		
	Total	Below Allocations	Above Allocations	Total	Below Allocations	Above Allocations
	In millions of SDRs					
Cumulative allocations	21,433.3	12,485.0	8,948.3	21,433.3	12,646.3	8,787.0
Holdings of SDRs by participants	19,626.4	3,847.7	15,778.7	18,556.4	3,866.0	14,690.4
Net SDR positions	1,806.9	8,637.3	(6,830.4)	2,876.9	8,780.3	(5,903.4)

A summary of SDR holdings is provided below:

	2002	2001
	In millions of SDRs	
Participants	19,626.5	18,556.4
General Resources Account	1,484.9	2,436.7
Prescribed holders	430.3	538.0
	21,541.7	21,531.1
Less: Overdue charges receivable	108.4	97.8
Total holdings	21,433.3	21,433.3

Administrative Expenses

The expenses of conducting the business of the SDR Department are paid by the IMF from the General Resources Account, which is reimbursed in SDRs by the SDR Department at the end of each financial year. For this purpose, the SDR Department levies an assessment on all participants in proportion to their net cumulative allocations.

Interest and Charges

Interest is paid on holdings of SDRs. Charges are levied on each participant's cumulative allocations plus any allocations in excess of holdings of the participant and unpaid charges. Interest on SDR holdings is paid quarterly. Charges on net cumulative allocations are also collected quarterly. Interest and charges are levied at the same rate and are settled by crediting and debiting individual holdings accounts on the first day of the subsequent quarter. The SDR Department is required to pay interest to each holder, whether or not sufficient SDRs are received to meet the payment of interest. If sufficient SDRs are not received because charges are overdue, additional SDRs are temporarily created.

The rate of interest on the SDR is determined by reference to a combined market interest rate, which is a weighted average of yields or rates on short-term instruments in the capital markets of the euro area, Japan, the United Kingdom, and the United States. The combined market interest rate used to determine the SDR interest rate is calculated each Friday, using the yields or rates of that day. The SDR interest rate, which is set equal to the combined market interest rate, enters into effect on the following Monday and applies through the following Sunday. The average SDR interest rate was 2.79 percent for the year ended April 30, 2002 (4.46 percent for the year ended April 30, 2001).

Overdue Obligations

An allowance for losses resulting from overdue SDR obligations would be created if and when the IMF were to expect a loss to be incurred; no losses have been incurred in the past, and it is the current expectation that no losses will be incurred in the future, and consequently no allowance account has been established.

3. Overdue Assessments and Charges

At April 30, 2002, assessments and charges amounting to SDR 108.9 million were overdue to the SDR Department (SDR 98.2 million at April 30, 2001). At April 30, 2002 and 2001, six members were six months or more overdue in meeting their financial obligations to the SDR Department.

Assessments and charges due from members that are six months or more overdue to the SDR Department were as follows:

	2002	2001
	In millions of SDRs	
Total	108.9	98.2
Overdue for six months or more	104.2	91.0
Overdue for three years or more	74.2	63.6

The amount and duration of arrears as of April 30, 2002 were as follows:

	Total	Longest Overdue Obligation
	In millions of SDRs	
Afghanistan, Islamic State of	7.3	February 1996
Congo, Democratic Republic of	19.5	April 1992
Iraq	49.7	November 1990
Liberia	22.6	April 1986
Somalia	9.4	February 1991
Sudan	0.4	April 1991
Total	108.9	

Schedule 1

SDR Department

Statements of Changes in SDR Holdings for the Years Ended April 30, 2002 and 2001

(In thousands of SDRs)

	Participants	General Resources Account	Prescribed Holders	Total 2002	Total 2001
Total holdings, beginning of the year	18,556,379	2,436,744	537,978	21,531,101	21,538,408
Receipts of SDRs					
Transfers among participants and prescribed holders					
Transactions by agreement	3,565,622	—	103,453	3,669,075	5,046,467
Operations					
Loans	250	—	—	250	165,619
Settlement of financial obligations	154,641	—	135,605	290,246	378,571
IMF-related operations					
SAF and PRGF loans	267,991	—	—	267,991	111,544
SAF loans under PRGF Trust	—	—	—	—	24,940
SAF repayments and interest	—	—	17,136	17,136	15,214
Special charges on SAF, PRGF, Trust Fund	—	—	2	2	3
PRGF contributions and payments	86,740	—	94,099	180,839	318,612
PRGF repayments and interest	—	—	330,349	330,349	294,456
HIPC payments	6,726	—	—	6,726	3,352
PRGF-HIPC contributions	719	—	60,683	61,402	153,858
SCA-2 refunds	—	—	1,182	1,182	1,199
Post-Conflict Subsidy payment	773	—	—	773	—
Net interest on SDRs	212,547	—	15,032	227,579	301,569
Transfers from participants to the General Resources Account					
Repurchases	—	1,630,640	—	1,630,640	3,198,592
Charges	—	2,303,949	—	2,303,949	2,417,144
Quota payments	—	250	—	250	64,500
Interest on SDRs	—	55,773	—	55,773	117,529
Assessment on SDR allocation	—	2,379	—	2,379	2,451
Transfers from the General Resources Account to participants and prescribed holders					
Purchases	2,360,765	—	—	2,360,765	3,165,713
In exchange for currencies of other members' acquisitions to pay charges	1,129,701	—	—	1,129,701	1,107,457
Remuneration	1,360,694	—	—	1,360,694	1,782,790
Other					
Refunds and adjustments	93,648	—	—	93,648	31,404
Total receipts	9,240,817	3,992,991	757,541	13,991,349	18,702,984

Schedule 1 *(concluded)*

	Participants	General Resources Account	Prescribed Holders	Total 2002	Total 2001
Uses of SDRs					
Transfers among participants and prescribed holders					
Transactions by agreement	3,367,085	—	301,990	3,669,075	5,046,467
Operations					
Loans	250	—	—	250	165,619
Settlement of financial obligations	135,855	—	154,391	290,246	378,571
IMF-related operations					
SAF and PRGF loans	—	—	267,991	267,991	111,544
SAF loans under PRGF Trust	—	—	—	—	24,940
SAF repayments and interest	17,136	—	—	17,136	15,214
Special charges on SAF, PRGF, Trust Fund	2	—	—	2	3
PRGF contributions and payments	94,099	—	86,740	180,839	318,612
PRGF repayments and interest	330,349	—	—	330,349	294,456
HIPC payments	—	—	6,726	6,726	3,352
PRGF-HIPC contributions	14,792	—	46,610	61,402	153,858
SCA-2 refunds	1,182	—	—	1,182	1,199
Post-Conflict Subsidy payment	—	—	773	773	—
Transfers from participants to the General Resources Account					
Repurchases	1,630,640	—	—	1,630,640	3,198,592
Charges	2,303,949	—	—	2,303,949	2,417,144
Quota payments	250	—	—	250	64,500
Assessment on SDR allocation	2,379	—	—	2,379	2,451
Transfers from the General Resources Account to participants and prescribed holders					
Purchases	—	2,360,765	—	2,360,765	3,165,713
In exchange for currencies of other members					
Acquisitions to pay charges	—	1,129,701	—	1,129,701	1,107,457
Remuneration	—	1,360,694	—	1,360,694	1,782,790
Other					
Refunds and adjustments	—	93,648	—	93,648	31,404
Charges paid in the SDR department					
Net charges due	283,352	—	—	283,352	419,098
Total uses	8,181,320	4,944,808	865,221	13,991,349	18,702,984
Charges not paid when due	12,177	—	—	12,177	17,274
Settlement of unpaid charges	(1,589)	—	—	(1,589)	(24,581)
Total holdings, end of the year	19,626,464	1,484,927	430,298	21,541,689	21,531,101

Schedule 2

SDR Department

Allocations and Holdings of Participants as at April 30, 2002

(In thousands of SDRs)

Participant	Net Cumulative Allocations	Holdings		
		Total	Percent of Cumulative Allocations	Above (Below) Allocations
Afghanistan, Islamic State of	26,703	—	—	(26,703)
Albania	—	64,136	—	64,136
Algeria	128,640	7,197	5.6	(121,443)
Angola	—	139	—	139
Antigua and Barbuda	—	6	—	6
Argentina	318,370	143,135	45.0	(175,235)
Armenia, Republic of	—	3,275	—	3,275
Australia	470,545	89,429	19.0	(381,116)
Austria	179,045	137,932	77.0	(41,113)
Azerbaijan	—	3,482	—	3,482
Bahamas, The	10,230	127	1.2	(10,103)
Bahrain, Kingdom of	6,200	810	13.1	(5,390)
Bangladesh	47,120	22,004	46.7	(25,116)
Barbados	8,039	50	0.6	(7,989)
Belarus, Republic of	—	168	—	168
Belgium	485,246	383,267	79.0	(101,979)
Belize	—	1,396	—	1,396
Benin	9,409	243	2.6	(9,166)
Bhutan	—	217	—	217
Bolivia	26,703	27,316	102.3	613
Bosnia and Herzegovina	20,481	1,123	5.5	(19,358)
Botswana	4,359	31,793	729.4	27,434
Brazil	358,670	79,807	22.3	(278,863)
Brunei Darussalam	—	6,427	—	6,427
Bulgaria	—	34,752	—	34,752
Burkina Faso	9,409	384	4.1	(9,025)
Burundi	13,697	195	1.4	(13,502)
Cambodia	15,417	1,984	12.9	(13,433)
Cameroon	24,463	137	0.6	(24,326)
Canada	779,290	498,148	63.9	(281,142)
Cape Verde	620	11	1.8	(609)
Central African Republic	9,325	52	0.6	(9,273)
Chad	9,409	53	0.6	(9,356)
Chile	121,924	23,578	19.3	(98,346)
China	236,800	691,434	292.0	454,634
Colombia	114,271	109,108	95.5	(5,163)
Comoros	716	14	2.0	(702)
Congo, Democratic Republic of	86,309	—	—	(86,309)
Congo, Republic of	9,719	171	1.8	(9,548)
Costa Rica	23,726	216	0.9	(23,510)
Côte d'Ivoire	37,828	364	1.0	(37,464)
Croatia, Republic of	44,205	71,656	162.1	27,451
Cyprus	19,438	1,176	6.1	(18,262)
Czech Republic	—	1,060	—	1,060
Denmark	178,864	61,897	34.6	(116,967)
Djibouti	1,178	105	8.9	(1,073)
Dominica	592	6	1.0	(586)
Dominican Republic	31,585	689	2.2	(30,896)
Ecuador	32,929	2,444	7.4	(30,485)
Egypt	135,924	31,959	23.5	(103,965)

Schedule 2 *(continued)*

SDR Department

Allocations and Holdings of Participants as at April 30, 2002

(In thousands of SDRs)

Participant	Net Cumulative Allocations	Holdings		
		Total	Percent of Cumulative Allocations	Above (Below) Allocations
El Salvador	24,985	24,982	99.9	(3)
Equatorial Guinea	5,812	583	10.0	(5,229)
Eritrea	—	—	—	—
Estonia, Republic of	—	84	—	84
Ethiopia	11,160	287	2.6	(10,873)
Fiji	6,958	4,860	69.8	(2,098)
Finland	142,690	140,895	98.7	(1,795)
France	1,079,870	406,789	37.7	(673,081)
Gabon	14,091	478	3.4	(13,613)
Gambia, The	5,121	49	1.0	(5,072)
Georgia	—	563	—	563
Germany	1,210,760	1,385,819	114.5	175,059
Ghana	62,983	12,686	20.1	(50,297)
Greece	103,544	8,421	8.1	(95,123)
Grenada	930	7	0.7	(923)
Guatemala	27,678	6,399	23.1	(21,279)
Guinea	17,604	1,451	8.2	(16,153)
Guinea-Bissau	1,212	146	12.1	(1,066)
Guyana	14,530	2,125	14.6	(12,405)
Haiti	13,697	4,225	30.8	(9,472)
Honduras	19,057	324	1.7	(18,733)
Hungary	—	17,832	—	17,832
Iceland	16,409	69	0.4	(16,340)
India	681,170	9,570	1.4	(671,600)
Indonesia	238,956	17,671	7.4	(221,285)
Iran, Islamic Republic of	244,056	267,510	109.6	23,454
Iraq	68,464	—	—	(68,464)
Ireland	87,263	44,494	51.0	(42,769)
Israel	106,360	1,431	1.3	(104,929)
Italy	702,400	248,129	35.3	(454,271)
Jamaica	40,613	723	1.8	(39,890)
Japan	891,690	1,834,366	205.7	942,676
Jordan	16,887	1,000	5.9	(15,887)
Kazakhstan, Republic of	—	608	—	608
Kenya	36,990	579	1.6	(36,411)
Kiribati	—	9	—	9
Korea	72,911	3,270	4.5	(69,641)
Kuwait	26,744	88,597	331.3	61,853
Kyrgyz Republic	—	1,678	—	1,678
Lao People's Democratic Republic	9,409	6,042	64.2	(3,367)
Latvia, Republic of	—	152	—	152
Lebanon	4,393	19,544	444.9	15,151
Lesotho	3,739	458	12.2	(3,281)
Liberia	21,007	—	—	(21,007)
Libya	58,771	445,484	758.0	386,713
Lithuania, Republic of	—	46,243	—	46,243
Luxembourg	16,955	5,327	31.4	(11,628)
Macedonia, former Yugoslav Republic of	8,379	508	6.1	(7,871)
Madagascar	19,270	80	0.4	(19,190)
Malawi	10,975	516	4.7	(10,459)

Schedule 2 *(continued)*

SDR Department

Allocations and Holdings of Participants as at April 30, 2002

(In thousands of SDRs)

Participant	Net Cumulative Allocations	Holdings		
		Total	Percent of Cumulative Allocations	Above (Below) Allocations
Malaysia	139,048	102,389	73.6	(36,659)
Maldives	282	256	90.7	(26)
Mali	15,912	225	1.4	(15,687)
Malta	11,288	26,675	236.3	15,387
Marshall Islands	—	—	—	—
Mauritania	9,719	101	1.0	(9,618)
Mauritius	15,744	16,868	107.1	1,124
Mexico	290,020	283,403	97.7	(6,617)
Micronesia, Federated States of	—	1,156	—	1,156
Moldova, Republic of	—	652	—	652
Mongolia	—	15	—	15
Morocco	85,689	90,570	105.7	4,881
Mozambique	—	51	—	51
Myanmar	43,474	793	1.8	(42,681)
Namibia	—	17	—	17
Nepal	8,105	38	0.5	(8,067)
Netherlands	530,340	567,328	107.0	36,988
New Zealand	141,322	13,386	9.5	(127,936)
Nicaragua	19,483	151	0.8	(19,332)
Niger	9,409	228	2.4	(9,181)
Nigeria	157,155	1,114	0.7	(156,041)
Norway	167,770	249,961	149.0	82,191
Oman	6,262	5,356	85.5	(906)
Pakistan	169,989	3,633	2.1	(166,356)
Palau	—	—	—	—
Panama	26,322	2,250	8.5	(24,072)
Papua New Guinea	9,300	6,317	67.9	(2,983)
Paraguay	13,697	81,804	597.2	68,107
Peru	91,319	660	0.7	(90,659)
Philippines	116,595	12,865	11.0	(103,730)
Poland, Republic of	—	22,183	—	22,183
Portugal	53,320	50,770	95.2	(2,550)
Qatar	12,822	18,334	143.0	5,512
Romania	75,950	2,831	3.7	(73,119)
Russian Federation	—	3,290	—	3,290
Rwanda	13,697	9,040	66.0	(4,657)
St. Kitts and Nevis	—	1	—	1
St. Lucia	742	1,465	197.5	723
St. Vincent and the Grenadines	354	32	9.0	(322)
Samoa	1,142	2,352	206.0	1,210
San Marino, Republic of	—	359	—	359
São Tomé & Príncipe	620	10	1.7	(610)
Saudi Arabia	195,527	203,347	104.0	7,820
Senegal	24,462	1,846	7.5	(22,616)
Seychelles	406	16	4.0	(390)
Sierra Leone	17,455	9,288	53.2	(8,167)
Singapore	16,475	121,626	738.2	105,151
Slovak Republic	—	531	—	531
Slovenia, Republic of	25,431	4,180	16.4	(21,251)
Solomon Islands	654	3	0.4	(651)

Schedule 2 *(concluded)*

SDR Department

Allocations and Holdings of Participants as at April 30, 2002

(In thousands of SDRs)

Participant	Net Cumulative Allocations	Holdings		
		Total	Percent of Cumulative Allocations	Above (Below) Allocations
Somalia	13,697	—	—	(13,697)
South Africa	220,360	222,547	101.0	2,187
Spain	298,805	283,898	95.0	(14,907)
Sri Lanka	70,868	1,422	2.0	(69,446)
Sudan	52,192	—	—	(52,192)
Suriname	7,750	1,522	19.6	(6,228)
Swaziland	6,432	2,454	38.2	(3,978)
Sweden	246,525	155,737	63.2	(90,788)
Switzerland	—	260,665	—	260,665
Syrian Arab Republic	36,564	462	1.3	(36,102)
Tajikistan, Republic of	—	1,062	—	1,062
Tanzania	31,372	204	0.7	(31,168)
Thailand	84,652	4,740	5.6	(79,912)
Togo	10,975	121	1.1	(10,854)
Tonga	—	162	—	162
Trinidad and Tobago	46,231	187	0.4	(46,044)
Tunisia	34,243	5,852	17.1	(28,391)
Turkey	112,307	18,735	16.7	(93,572)
Turkmenistan, Republic of	—	—	—	—
Uganda	29,396	602	2.0	(28,794)
Ukraine	—	127,247	—	127,247
United Arab Emirates	38,737	1,543	4.0	(37,194)
United Kingdom	1,913,070	230,833	12.1	(1,682,237)
United States	4,899,530	8,667,918	176.9	3,768,388
Uruguay	49,977	1,208	2.4	(48,769)
Uzbekistan, Republic of	—	167	—	167
Vanuatu	—	802	—	802
Venezuela	316,890	7,403	2.3	(309,487)
Vietnam	47,658	9,198	19.3	(38,460)
Yemen, Republic of	28,743	43,894	152.7	15,151
Yugoslavia, Federal Republic of (Serbia/Montenegro)	56,665	4,770	8.4	(51,895)
Zambia	68,298	53,194	77.9	(15,104)
Zimbabwe	10,200	4	—	(10,196)
Above allocations	8,948,350	15,778,796	176.3	6,830,446
Below allocations	12,484,980	3,847,668	30.8	(8,637,312)
Total Participants	21,433,330	19,626,464		
General Resources Account		1,484,927		
Prescribed holders		430,298		
Overdue charges	108,359			
	21,541,689	21,541,689		

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Report of the Independent Accountants

To the Board of Governors
of the International Monetary Fund:

We have audited the accompanying combined balance sheets as at April 30, 2002 and 2001, and the related combined statements of income and changes in resources for the years then ended of the following entities:

Poverty Reduction and Growth Facility Trust

Poverty Reduction and Growth Facility—Heavily Indebted Poor Countries Trust and Related Accounts

We have also audited the accompanying balance sheets at April 30, 2002 and 2001, and the related statements of income and changes in resources for the years then ended of the following entities:

Poverty Reduction and Growth Facility Administered Accounts
- Austria,
- Belgium,
- Botswana,
- Greece,
- Indonesia,
- Islamic Republic of Iran,
- Portugal.

Other Administered Accounts
- Administered Account Japan,
- Administered Account for Selected Fund Activities – Japan,
- Framework Administered Account for Technical Assistance Activities,
- Administered Account – Spain,
- Administered Account for Rwanda,
- Supplementary Financing Facility Subsidy Account,
- Post-Conflict Emergency Assistance Subsidy Account.

These financial statements are the responsibility of the management of the International Monetary Fund, as trustee of the entities listed above. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with International Standards on Auditing. Those standards require that we plan and perform the audits to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the financial statements referred to above give a true and fair view of the financial position of the entities listed above as at April 30, 2002 and 2001, and the results of their operations for the years then ended in conformity with International Accounting Standards.

Our audits were conducted for the purpose of forming an opinion on the basic financial statements taken as a whole. The supplementary information on pages 188 to 191 and 202 to 207 is presented for purposes of additional analysis and is not a required part of the basic financial statements. The supplementary information has been subjected to the auditing procedures applied in the audits of the respective financial statements and, in our opinion, is fairly stated, in all material respects, in relation to the financial statements taken as a whole.

PricewaterhouseCoopers LLP

May 24, 2002

Poverty Reduction and Growth Facility Trust

Combined Balance Sheets as at April 30, 2002 and 2001

(In thousands of SDRs)

	2002	2001
Assets		
Cash and cash equivalents	2,684,641	860,357
Investments (Note 3)	2,629,285	4,178,257
Loans receivable (Note 4)	6,172,848	5,899,478
Interest receivable	15,993	18,716
Total Assets	11,502,767	10,956,808
Liabilities and Resources		
Borrowings (Note 5)	6,764,434	6,352,841
Interest payable	42,412	72,686
Other liabilities	76	12,506
Total Liabilities	6,806,922	6,438,033
Resources	4,695,845	4,518,775
Total Liabilities and Resources	11,502,767	10,956,808

The accompanying notes are an integral part of these financial statements.

/s/ Eduard Brau
Treasurer

/s/ Horst Köhler
Managing Director

Poverty Reduction and Growth Facility Trust

Combined Statements of Income and Changes in Resources for the Years Ended April 30, 2002 and 2001

(In thousands of SDRs)

	2002	2001
Balance, beginning of the year	4,518,775	4,305,726
Investment income (Note 3)	232,344	272,465
Interest on loans	30,292	28,916
Interest expense	(174,670)	(239,603)
Other expenses	(1,650)	(1,645)
Operational income (loss)	86,316	60,133
Contributions (Note 6)	60,096	126,992
	146,412	187,125
Transfers from the Special Disbursement Account	92,258	80,924
Transfers through the Special Disbursement Account to the PRGF-HIPC Trust (Note 8)	(61,600)	(55,000)
Net changes in resources	177,070	213,049
Balance, end of the year	4,695,845	4,518,775

The accompanying notes are an integral part of these financial statements.

Poverty Reduction and Growth Facility Trust
Notes to the Combined Financial Statements as at April 30, 2002 and 2001

1. Nature of Operations

The Poverty Reduction and Growth Facility Trust (PRGF Trust), for which the IMF is Trustee, was established in December 1987 and was extended and enlarged in February 1994 to provide loans on concessional terms to qualifying low-income developing country members. The resources of the Trust are held separately from the assets of all other accounts of, or administered by, the IMF and may not be used to discharge liabilities or to meet losses incurred in the administration of other accounts.

The operations of the Trust are conducted through a Loan Account, a Reserve Account, and a Subsidy Account. Combining balance sheets and income statements and statements of changes in resources for each of these accounts are provided in Note 9 to these financial statements.

Loan Account

The resources of the Loan Account consist of the proceeds from borrowings, repayments of principal, and interest payments on loans extended by the Trust. At April 30, 2002, loans totaling SDR 6,172.8 million were outstanding (SDR 5,899.5 million at April 30, 2001). At April 30, 2002, the resources of the Loan Account also included an advance from the Reserve Account of SDR 41.5 million resulting from the non-payment of principal by Zimbabwe.

Reserve Account

The resources of the Reserve Account consist of amounts transferred by the IMF from the Special Disbursement Account and net earnings from investment of resources held in the Reserve Account and in the Loan Account.

The resources held in the Reserve Account are to be used by the Trustee, in the event that amounts payable from borrowers' principal repayments and interest, together with the authorized interest subsidy, are insufficient to repay loan principal and interest on borrowings of the Loan Account.

Subsidy Account

The resources held in the Subsidy Account consist of donations to the Trust, including transfers of net earnings from PRGF Administered Accounts' SDR 400 million transferred by the IMF from the Special Disbursement Account, net earnings on loans made to the Trust for the Subsidy Account, and the net earnings from investment of Subsidy Account resources.

The resources available in the Subsidy Account are drawn by the Trustee to pay the difference, with respect to each interest period, between the interest due from the borrowers under the Trust and the interest due on Loan Account borrowings.

2. Summary of Significant Accounting Policies

Basis of Presentation

The financial statements of the PRGF Trust are prepared in accordance with International Accounting Standards (IAS). Specific accounting principles and disclosure practices are explained further below. The preparation of financial statements in conformity with IAS requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenue and expenses during the reporting period. Actual results could differ from those estimates.

In financial year 2001, IAS 39, *Financial Instruments: Recognition and Measurement* was adopted and had no material effect on the PRGF Trust's financial statements.

Revenue and Expense Recognition

The financial statements of the Trust are maintained on the accrual basis; accordingly, income is recognized as it is earned, and expenses are recorded as they are incurred.

Unit of Account

The financial statements are expressed in terms of SDRs. The value of the SDR is determined by the IMF each day by summing the values in U.S. dollars, based on market exchange rates, of the currencies in the SDR valuation basket. The IMF reviews the SDR valuation basket every five years. The latest review was completed in October 2000 and the new composition of the SDR valuation basket became effective on January 1, 2001. The value of the SDR in terms of U.S. dollars on the last business day prior to the change (December 29, 2000) was identical under both valuation baskets. The currencies in the basket as of April 30, 2002 and 2001 and their amounts were as follows:

Currency	Amount
Euro	0.426
Japanese yen	21.0
Pound sterling	0.0984
U.S. dollar	0.577

As of April 30, 2002, one SDR was equal to 1.26771 U.S. dollars (one SDR was equal to 1.26579 U.S. dollars as of April 30, 2001).

Cash and Cash Equivalents

Cash and cash equivalents include short-term deposits with a maturity of less than ninety days. These deposits are denominated in SDRs or other currency and are carried at cost, not exceeding market value. Interest received on these instruments varies and is based on prevailing market rates.

Investments

The resources of the Trust are invested pending their use. The Trust invests in debt securities and fixed-term deposits, either directly or by participation in an investment pool. Investments are marked to market on the last business day of the accounting period. Purchases are valued and reflected on the trade date basis and sales are based on the actual settlement date valuations. Investment income comprises interest

earned on investments, realized and unrealized gains and losses on investments, and currency valuation differences arising from exchange rate movements against the SDR.

Interest rate risk is managed by limiting the investment portfolio to a weighted-average effective duration that does not exceed three years. Currency risk is minimized by investing in securities denominated in SDRs or in the constituent currencies of the SDR basket. Risk is further minimized by ensuring that the currency composition of the investment portfolio matches, as closely as possible, the currency composition of the SDR basket.

Loans

Loans in the Trust are valued at historical cost. Allowances for loan losses would be established if and when the Trust expects to incur a loss; no losses have been incurred in the past, and it is the current expectation that no losses will be incurred in the future. Resources held in the Reserve Account are to be used to meet obligations to lenders, if so required.

Contributions

Bilateral contributions are reflected as increases in resources after the achievement of specified conditions and are subject to bilateral agreements stipulating how the resources are to be used.

Transfers

Internal transfers of resources within the IMF are accounted for under the accrual method of accounting.

Foreign Currency Translation

Foreign currency transactions are recorded at the rate of exchange on the date of the transaction. At the balance sheet date, monetary assets and liabilities denominated in foreign currencies are reported using the closing exchange rates. Exchange differences arising on the settlement of transactions at rates different from those at the originating date of the transaction and unrealized foreign exchange differences on unsettled foreign currency monetary assets and liabilities are included in the determination of net income.

3. Investments

The maturities of the investments are as follows:

Maturity as at April 30	2002	2001
	In thousands of SDRs	
Less than 1 year	1,794,460	425,548
1–3 years	724,909	3,430,643
3–5 years	91,997	297,516
Over 5 years	17,919	24,550
Total	2,629,285	4,178,257

At April 30, the investments consisted of the following:

	2002	2001
	In thousands of SDRs	
Debt securities	2,271,428	3,962,729
Fixed-term deposits	357,857	215,528
Total	2,629,285	4,178,257

At April 30, investment income comprised:

	2002	2001
	In thousands of SDRs	
Interest income	207,462	242,912
Realized losses	(26,318)	(76,692)
Unrealized gains	52,705	107,979
Exchange rate losses	(1,505)	(1,734)
Total	232,344	272,465

4. Loans Receivable

Resources of the Loan Account are committed to qualifying members for a three-year period, upon approval by the Trustee of a three-year arrangement in support of the member's macroeconomic and structural adjustment programs. Interest on the outstanding loan balances is currently set at the rate of ½ of 1 percent a year. Scheduled repayments of loans by borrowers are summarized below:

Period of Repayment, Financial Year Ending April 30	
	In thousands of SDRs
2003	722,241
2004	834,998
2005	876,190
2006	857,453
2007	730,949
2008 and beyond	2,109,523
Overdue	41,494
Total	6,172,848

The above includes one member (Zimbabwe) that is overdue at the end of financial year 2002 for more than six months in the amount of SDR 41.5 million.

As of April 30, 2002 and 2001, use of credit in the Trust by the largest users was as follows:

	2002		2001	
	In millions of SDRs and percent of total PRGF credit			
Largest user of credit	636.2	10.3%	716.6	12.2%
Three largest users of credit	1,571.6	25.5%	1,508.2	25.6%
Five largest users of credit	2,138.3	34.6%	2,039.2	34.6%

5. Borrowings

The following summarizes the borrowing agreements concluded as of April 30, 2002 and 2001:

	Amount Undrawn	
	2002	2001
	In thousands of SDRs	
Loan Account	6,613,837	3,448,248
Subsidy Account	3,997	4,664

The Trustee has agreed to hold and invest, on behalf of a lender, principal repayments of Trust borrowing in a suspense account within the Loan Account. Principal repayments will be accumulated until the final maturity of the borrowing, when the full proceeds are to be transferred to the lender. Amounts deposited in this account are invested by the Trustee, and payments of interest to the lender are to be made exclusively from the earnings on the amounts invested.

The Trust borrows on such terms and conditions as agreed between the Trust and the lenders. Interest rates on borrow-

ings at April 30, 2002 and April 30, 2001 varied between 0.5 percent and 7.4 percent a year. The principal amounts of the borrowings are repayable in one installment at maturity dates.

Scheduled repayments of borrowings are summarized below:

Period of Repayment, Financial Year Ending April 30	*In thousands of SDRs*
2003	525,454
2004	704,176
2005	953,566
2006	1,504,589
2007	982,706
2008 and beyond	2,093,943
Total	6,764,434

Borrowings and repayments during the financial year ended April 30, 2002 amounted to SDR 1,238 million and SDR 826 million, respectively (SDR 786 million and SDR 657 million, respectively for the financial year ended April 30, 2001).

6. Contributions

The Trustee accepts contributions for the Subsidy Account on such terms and conditions as agreed between the Trust and the contributor. At April 30, 2002, cumulative contributions received, including transfers from the Special Disbursement Account, amounted to SDR 2,352.5 million (SDR 2,292.4 million at April 30, 2001).

7. Commitments Under Loan Arrangements

An arrangement is a decision of the IMF that gives a member the assurance that the institution stands ready to provide foreign exchange or SDRs during a specified period and up to a specified amount in accordance with the terms of the decision. At April 30, 2002, undrawn balances under 35 arrangements amounted to SDR 2,700.6 million (SDR 1,997.3 million under 37 arrangements at April 30, 2001).

8. Transfers Through the Special Disbursement Account

The expenses of conducting the business of the Trust are paid by the General Resources Account of the IMF and reimbursed by the Reserve Account of the Trust through the Special Disbursement Account; corresponding transfers are made from the Reserve Account to the Special Disbursement Account when and to the extent needed. For financial years 2002 and 2001, the Executive Board of the IMF decided to forgo such reimbursement to the General Department and to transfer an equivalent amount from the Reserve Account, through the Special Disbursement Account, to the PRGF-HIPC Trust. The amounts transferred for financial years 2002 and 2001 were SDR 61.6 million and SDR 55.0 million, respectively.

Resources of up to SDR 250 million may be transferred, as needed, from the Reserve Account through the Special Disbursement Account to the PRGF-HIPC Trust to be used to provide grant or loans to eligible members under the HIPC initiative. At April 30, 2002 and 2001, SDR 43.5 million had been transferred for this purpose.

9. Combining Balance Sheets and Statements of Income and Changes in Resources

The balance sheets and income statements and changes in resources for each of the accounts in the PRGF Trust are presented below:

Note 9

Combining Balance Sheets as at April 30, 2002 and 2001

(In thousands of SDRs)

	Loan Account		Reserve Account		Subsidy Account		Combined	
	2002	2001	2002	2001	2002	2001	2002	2001
Assets								
Cash and cash equivalents	341,378	159,594	1,263,561	519,695	1,079,702	181,068	2,684,641	860,357
Investments (Note 3)	204,657	215,529	1,591,760	2,200,508	832,868	1,762,220	2,629,285	4,178,257
Loans receivable (Note 4)	6,172,848	5,899,478	—	—	—	—	6,172,848	5,899,478
Accrued account transfers	14,221	27,231	13,068	30,647	(27,289)	(57,878)	—	—
Interest receivable	14,363	13,245	1,402	5,119	228	352	15,993	18,716
Total Assets	6,747,467	6,315,077	2,869,791	2,755,969	1,885,509	1,885,762	11,502,767	10,956,808
Liabilities and Resources								
Borrowings (Note 5)	6,664,950	6,244,024	—	—	99,484	108,817	6,764,434	6,352,841
Interest payable	40,947	71,022	—	—	1,465	1,664	42,412	72,686
Other liabilities	76	31	—	12,475	—	—	76	12,506
Total Liabilities	6,705,973	6,315,077	—	12,475	100,949	110,481	6,806,922	6,438,033
Resources	41,494	—	2,869,791	2,743,494	1,784,560	1,775,281	4,695,845	4,518,775
Total Liabilities and Resources	6,747,467	6,315,077	2,869,791	2,755,969	1,885,509	1,885,762	11,502,767	10,956,808

Note 9 *(concluded)*

Combining Statements of Income and Changes in Resources for the Years Ended April 30, 2002 and 2001

(In thousands of SDRs)

	Loan Account		Reserve Account		Subsidy Account		Combined	
	2002	2001	2002	2001	2002	2001	2002	2001
Balance, beginning of the year	—	—	2,743,494	2,558,354	1,775,281	1,747,372	4,518,775	4,305,726
Investment income (Note 3)	191	28	138,942	155,829	93,211	116,608	232,344	272,465
Interest on loans	30,292	28,916	—	—	—	—	30,292	28,916
Interest expense	(172,875)	(237,524)	—	—	(1,795)	(2,079)	(174,670)	(239,603)
Other expenses	(76)	(82)	(1,574)	(1,563)	—	—	(1,650)	(1,645)
Operational (loss) income	(142,468)	(208,662)	137,368	154,266	91,416	114,529	86,316	60,133
Contributions (Note 6)	—	—	—	—	60,096	126,992	60,096	126,992
	(142,468)	(208,662)	137,368	154,266	151,512	241,521	146,412	187,125
Transfers from the Special Disbursement Account (Note 8)	—	—	92,258	80,924	—	—	92,258	80,924
Transfers through the Special Disbursement Account to the PRGF-HIPC Trust (Note 8)	—	—	(61,600)	(55,000)	—	—	(61,600)	(55,000)
Transfers between:								
Reserve and Subsidy Accounts	—	—	(52)	1,059	52	(1,059)	—	—
Loan and Reserve Accounts	41,677	(3,891)	(41,677)	3,891	—	—	—	—
Loan and Subsidy Accounts	142,285	212,553	—	—	(142,285)	(212,553)	—	—
Net changes in resources	41,494	—	126,297	185,140	9,279	27,909	177,070	213,049
Balance, end of the year	41,494	—	2,869,791	2,743,494	1,784,560	1,775,281	4,695,845	4,518,775

Schedule 1

Poverty Reduction and Growth Facility Trust

Schedule of Outstanding Loans as at April 30, 2002

(In thousands of SDRs)

	PRGF Loan Account		Structural Adjustment Facility[1]	
Member	Balance	Percent	Balance	Percent
Albania	59,441	0.96	—	—
Armenia, Republic of	114,287	1.85	—	—
Azerbaijan	98,000	1.59	—	—
Bangladesh	14,375	0.23	—	—
Benin	55,547	0.90	1,750	0.51
Bolivia	161,793	2.62	—	—
Burkina Faso	89,005	1.44	6,636	1.94
Burundi	1,934	0.03	—	—
Cambodia	66,985	1.09	—	—
Cameroon	209,880	3.40	—	—
Cape Verde	1,230	0.02	—	—
Central African Republic	24,480	0.40	—	—
Chad	77,230	1.25	—	—
Comoros	—	—	540	0.16
Congo, Democratic Republic of	—	—	142,910	41.86
Congo, Republic of	12,506	0.20	—	—
Côte d'Ivoire	421,795	6.83	—	—
Djibouti	9,087	0.15	—	—
Equatorial Guinea	440	0.01	1,032	0.30
Ethiopia	86,576	1.40	16,958	4.97
Gambia, The	20,610	0.33	—	—
Georgia	190,725	3.09	—	—
Ghana	275,505	4.46	—	—
Guinea	97,215	1.57	—	—
Guinea-Bissau	14,740	0.24	—	—
Guyana	70,900	1.15	3,198	0.94
Haiti	15,175	0.25	—	—
Honduras	125,250	2.03	—	—
Kenya	78,647	1.27	—	—
Kyrgyz Republic	129,317	2.09	—	—
Lao People's Democratic Republic	32,520	0.53	586	0.17
Lesotho	14,049	0.23	—	—
Macedonia, former Yugoslav Republic of	29,004	0.47	—	—
Madagascar	101,374	1.64	—	—
Malawi	56,578	0.92	—	—
Mali	126,043	2.04	2,032	0.60
Mauritania	77,871	1.26	682	0.20
Moldova, Republic of	18,480	0.30	—	—
Mongolia	35,791	0.58	—	—
Mozambique	154,365	2.50	—	—
Nepal	4,476	0.07	—	—
Nicaragua	125,330	2.03	—	—
Niger	72,714	1.18	—	—
Pakistan	513,660	8.32	—	—
Rwanda	61,880	1.00	—	—
São Tomé and Príncipe	1,902	0.03	—	—
Senegal	202,532	3.28	—	—
Sierra Leone	109,267	1.77	10,808	3.17
Somalia	—	—	8,840	2.59
Sri Lanka	50,400	0.82	—	—
Tajikistan, Republic of	78,280	1.27	—	—
Tanzania	291,220	4.72	—	—
Togo	44,208	0.72	—	—
Uganda	213,790	3.46	—	—
Vietnam	270,040	4.37	—	—
Yemen, Republic of	238,750	3.87	—	—
Zambia	636,165	10.31	145,400	42.59
Zimbabwe	89,484	1.46	—	—
Total loans outstanding	6,172,848	100.00	341,372	100.00

[1]Since Structural Adjustment Facility (SAF) loans have been disbursed in connection with PRGF arrangements, the above list includes these loans, as well as loans disbursed to members under SAF arrangements. These loans are held by the Special Disbursement Account and reflected in the financial statements of the General Department. Repayments of all SAF loans are transferred to the PRGF Reserve Account when received.

Schedule 2

Poverty Reduction and Growth Facility Trust

Contributions to and Resources of the Subsidy Account as at April 30, 2002

(In thousands of SDRs)

Contributor[1]	Amount
Direct contributions to the Subsidy Account	
Argentina	18,133
Australia	4,488
Bangladesh	387
Canada	176,398
China	7,100
Czech Republic	8,000
Denmark	38,299
Egypt	8,000
Finland	22,684
Germany	129,880
Iceland	3,000
India	5,739
Ireland	3,769
Italy	142,215
Japan	506,997
Korea	31,198
Luxembourg	6,766
Morocco	5,806
Netherlands	85,484
Norway	28,074
Sweden	110,887
Switzerland	28,840
Turkey	4,000
United Kingdom	296,673
United States	126,079
Total direct contributions to the Subsidy Account	1,798,896
Net income transferred from PRGF Administered Accounts	
Austria	39,563
Belgium	75,877
Botswana	1,446
Chile	2,910
Greece	25,630
Indonesia	3,993
Iran, Islamic Republic of	1,210
Portugal	2,945
Total net income transferred from Administered Accounts	153,574
Total contributions received	1,952,470
Transfers from Special Disbursement Account	400,000
Total contributions received and transfers from Special Disbursement Account	2,352,470
Cumulative net income of the Subsidy Account	796,472
Resources disbursed to subsidize Trust lending	(1,364,382)
Total resources of the Subsidy Account	1,784,560

[1]In addition to direct contributions, a number of members also make loans available to the Loan Account on concessional terms. See Schedule 3.

Schedule 3

Poverty Reduction and Growth Facility Trust

Schedule of Borrowing Agreements as at April 30, 2002

(In thousands of SDRs)

Member	Interest Rate (in percent)	Amount of Agreement	Amount Drawn	Outstanding Balance
Loan Account				
Prior to enlargement of PRGF				
Canada	Fixed[1]	300,000	300,000	164,181
France	0.50[2]	800,000	800,000	292,856
Germany	Variable[3]	700,000	700,000	325,091
Italy	Variable[3]	370,000	370,000	189,828
Japan	Variable[3]	2,200,000	2,200,000	1,194,142
Korea	Variable[3]	65,000	65,000	23,482
Norway	Variable[3]	90,000	90,000	39,864
Spain	Variable[3]	220,000	216,429[4]	32,067
Total prior to enlargement of PRGF		4,745,000	4,741,429	2,261,511
For enlargement of PRGF				
Belgium	Variable[3]	350,000	198,041	198,041
Canada	Variable[3]	400,000	271,069	271,069
China	Variable[3]	200,000	100,000	100,000
Denmark	Variable[3]	100,000	21,180	21,180
Egypt	Variable[3]	155,600	100,000	100,000
France	Variable[2]	2,100,000	649,889	649,889
Germany	Variable[3]	2,050,000	537,904	537,904
Italy	Variable[3]	1,010,000	254,913	254,913
Japan	Variable[3]	2,934,800	1,369,713	1,369,713
Korea	Variable[3]	27,700	27,700	27,700
Netherlands	Variable[3]	450,000	29,930	29,930
Norway	Variable[3]	60,000	60,000	60,000
OPEC Fund for International Development	Variable[3]	39,441[5]	36,732	36,732
Spain	0.50	192,000	48,633	48,633
Switzerland	Variable[3]	401,700	151,700	151,700
Total for enlargement of PRGF		10,471,241	3,857,404	3,857,404
Resources held pending repayment		—	—	546,035[6]
Total—Loan Account		15,216,241	8,598,833	6,664,950
Subsidy Account				
Malaysia (1994 loans)	2.00	40,000	40,000	40,000
Malta	0.50	2,730	2,730	2,730
Pakistan	0.50	10,000	6,003	6,003
Singapore	2.00	80,000	80,000	40,000
Tunisia	0.50	3,551	3,551	3,551
Uruguay	Variable[7]	7,200	7,200	7,200
Total—Subsidy Account		143,481	139,484	99,484

[1]The loans under this agreement are made at market-related rates of interest fixed at the time the loan was disbursed.

[2]The agreement with France made before the enlargement of PRGF (SDR 800 million) provides that the interest rate shall be 0.5 percent on the first SDR 700 million drawn, and for variable, market-related rates of interest thereafter. The agreement with France made for the enlargement of the PRGF (SDR 2.1 billion) provides that the interest rate shall be 0.5 percent until the cumulative implicit interest subsidy reaches SDR 250 million, and at variable, market-related rates of interest thereafter.

[3]The loans under these agreements are made at variable, market-related rates of interest.

[4]The agreement expired with an undrawn balance of SDR 3.6 million.

[5]The agreement with the OPEC Fund for International Development is for an amount of $50 million.

[6]This amount represents principal repayments held and invested on behalf of a lender.

[7]The interest rate payable on the borrowing from Uruguay is equal to the rate on SDR-denominated deposits less 2.6 percent a year.

Schedule 4

Poverty Reduction and Growth Facility Trust

Status of Loan Arrangements as at April 30, 2002

(In thousands of SDRs)

Member	Date of Arrangement	Expiration Date	Amount Agreed	Undrawn Balance
Armenia, Republic of	May. 23, 2001	May. 22, 2004	69,000	59,000
Azerbaijan	Jul. 6, 2001	Jul. 5, 2004	80,450	64,350
Benin	Jul. 17, 2000	Jul. 16, 2003	27,000	12,120
Bolivia	Sep. 18, 1998	Jun. 7, 2002	100,960	37,097
Burkina Faso	Sep. 10, 1999	Dec. 9, 2002	39,120	5,580
Cambodia	Oct. 22, 1999	Feb. 28, 2003	58,500	16,715
Cameroon	Dec. 21, 2000	Dec. 20, 2003	111,420	63,660
Cape Verde	Apr. 10, 2002	Apr. 9, 2005	8,640	7,410
Chad	Jan. 7, 2000	Jan. 6, 2003	47,600	15,800
Côte d'Ivoire	Mar. 29, 2002	Mar. 28, 2005	292,680	234,140
Djibouti	Oct. 18, 1999	Oct. 17, 2002	19,082	9,995
Ethiopia	Mar. 22, 2001	Mar. 21, 2004	100,277	41,716
Georgia	Jan. 12, 2001	Jan. 11, 2004	108,000	81,000
Ghana	May. 3, 1999	Nov. 30, 2002	228,800	52,583
Guinea	May. 2, 2001	May. 1, 2004	64,260	51,408
Guinea-Bissau	Dec. 15, 2000	Dec. 14, 2003	14,200	9,120
Honduras	Mar. 26, 1999	Dec. 31, 2002	156,750	48,450
Kenya	Aug. 4, 2000	Aug. 3, 2003	190,000	156,400
Kyrgyz Republic	Dec. 6, 2001	Dec. 5, 2004	73,400	61,680
Lao People's Democratic Republic	Apr. 25, 2001	Apr. 24, 2004	31,700	22,640
Lesotho	Mar. 9, 2001	Mar. 8, 2004	24,500	14,000
Madagascar	Mar. 1, 2001	Feb. 29, 2004	79,430	56,736
Malawi	Dec. 21, 2000	Dec. 20, 2003	45,110	38,670
Mali	Aug. 6, 1999	Aug. 5, 2003	51,315	19,650
Mauritania	Jul. 21, 1999	Jul. 20, 2002	42,490	12,140
Moldova, Republic of	Dec. 21, 2000	Dec. 20, 2003	110,880	92,400
Mongolia	Sep. 28, 2001	Sep. 27, 2004	28,490	24,420
Mozambique	Jun. 28, 1999	Jun. 27, 2002	87,200	25,200
Niger	Dec. 22, 2000	Dec. 21, 2003	59,200	33,820
Pakistan	Dec. 6, 2001	Dec. 5, 2004	1,033,700	861,400
São Tomé and Príncipe	Apr. 28, 2000	Apr. 27, 2003	6,657	4,755
Sierra Leone	Sep. 26, 2001	Sep. 25, 2004	130,840	74,669
Tanzania	Apr. 4, 2000	Apr. 3, 2003	135,000	35,000
Vietnam	Apr. 13, 2001	Apr. 12, 2004	290,000	207,200
Zambia	Mar. 25, 1999	Mar. 28, 2003	254,450	149,630
			4,201,101	2,700,554

Poverty Reduction and Growth Facility Administered Accounts

Balance Sheets as at April 30, 2002 and 2001

(In thousands of SDRs)

	Austria		Belgium		Botswana	
	2002	2001	2002	2001	2002	2001
Assets						
Investments (Note 3)	35,000	44,940	80,000	80,000	6,894	6,885
Advance payments to the PRGF Trust Subsidy Account	160	257	—	—	116	124
Interest receivable	—	—	20	11	—	—
Total assets	35,160	45,197	80,020	80,011	7,010	7,009
Liabilities and Resources						
Deposits (Note 4)	35,000	45,000	80,000	80,000	6,894	6,894
Interest payable	160	197	2	1	116	115
Total liabilities	35,160	45,197	80,002	80,001	7,010	7,009
Resources	—	—	18	10	—	—
Total Liabilities and Resources	35,160	45,197	80,020	80,011	7,010	7,009

	Greece		Indonesia		Iran, I. R. of		Portugal	
	2002	2001	2002	2001	2002	2001	2002	2001
Assets								
Investments (Note 3)	14,000	20,967	25,000	25,000	5,000	4,993	11,831	12,691
Advance payments to the PRGF Trust Subsidy Account	15	48	—	324	23	29	57	78
Interest receivable	—	—	214	186	—	—	—	—
Total assets	14,015	21,015	25,214	25,510	5,023	5,022	11,888	12,769
Liabilities and Resources								
Deposits (Note 4)	14,000	21,000	25,000	25,000	5,000	5,000	11,831	12,708
Interest payable	15	15	118	510	23	22	57	61
Total liabilities	14,015	21,015	25,118	25,510	5,023	5,022	11,888	12,769
Resources	—	—	96	—	—	—	—	—
Total Liabilities and Resources	14,015	21,015	25,214	25,510	5,023	5,022	11,888	12,769

The accompanying notes are an integral part of these financial statements.

/s/ Eduard Brau
Treasurer

/s/ Horst Köhler
Managing Director

Poverty Reduction and Growth Facility Administered Accounts

Statements of Income and Changes in Resources for the Years Ended April 30, 2002 and 2001

(In thousands of SDRs)

	Austria		Belgium		Botswana	
	2002	2001	2002	2001	2002	2001
Balance, beginning of the year	—	—	10	2,331	—	—
Investment income	2,134	3,077	2,420	6,620	358	431
Other expenses	(27)	(34)	—	—	(5)	(6)
Interest expense on deposits	(201)	(243)	(400)	(749)	(138)	(136)
Net income	1,906	2,800	2,020	5,871	215	289
Transfers to the:						
PRGF Trust Subsidy Account	(1,906)	(2,800)	(2,012)	16	(215)	(289)
PRGF/HIPC Trust Account	—	—	—	(8,208)	—	—
Net changes in resources	—	—	8	(2,321)	—	—
Balance, end of the year	—	—	18	10	—	—

	Greece		Indonesia		Iran, I. R. of		Portugal	
	2002	2001	2002	2001	2002	2001	2002	2001
Balance, beginning of the year	—	361	—	117	—	26	—	11
Investment income	1,052	2,143	635	1,625	259	313	616	794
Other expenses	(12)	(19)	—	—	(3)	(5)	(8)	(11)
Interest expense on deposits	(96)	(129)	(240)	(495)	(25)	(24)	(59)	(61)
Net income	944	1,995	395	1,130	231	284	549	722
Transfers to the:								
PRGF Trust Subsidy Account	(944)	(2,356)	(299)	(1,247)	(231)	(310)	(549)	(733)
Net changes in resources	—	(361)	96	(117)	—	(26)	—	(11)
Balance, end of the year	—	—	96	—	—	—	—	—

The accompanying notes are an integral part of these financial statements.

Poverty Reduction and Growth Facility Administered Accounts

Notes to the Financial Statements as at April 30, 2002 and 2001

1. Nature of Operations

At the request of certain member countries, the IMF established the Poverty Reduction and Growth Facility Administered Accounts (PRGF Administered Accounts or Administered Accounts) for the benefit of the Subsidy Account of the PRGF Trust. The PRGF Administered Accounts comprise deposits made by contributors. The difference between interest earned by the Administered Accounts and the interest payable on deposits is transferred to the Subsidy Account of the PRGF Trust.

The Saudi Fund for Development (SFD) Special Account was established at the request of the SFD to provide supplementary financing in association with loans under the Poverty Reduction and Growth Facility (PRGF). The IMF acts as agent of the SFD. Disbursements from the SFD Special Account are made simultaneously with PRGF disbursements. Payments of interest and principal due to the SFD under associated loans are to be transferred to the SFD.

The resources of each administered account are held separately from the assets of all other accounts of, or administered by, the IMF and may not be used to discharge liabilities or to meet losses incurred in the administration of other accounts.

2. Summary of Significant Accounting Policies

Basis of Presentation

The financial statements of the PRGF Administered Accounts are prepared in accordance with International Accounting Standards (IAS). Specific accounting principles and disclosure practices are explained further below. The preparation of financial statements in conformity with IAS requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenue and expenses during the reporting period. Actual results could differ from those estimates.

In financial year 2001, IAS 39, *Financial Instruments: Recognition and Measurement* was adopted and had no material effect on the PRGF Administered Accounts' financial statements.

Revenue and Expense Recognition

The financial statements are maintained on the accrual basis; accordingly, income is recognized as it is earned, and expenses are recorded as they are incurred.

Unit of Account

The financial statements are expressed in terms of SDRs. The value of the SDR is determined by the IMF each day by summing the values in U.S. dollars, based on market exchange rates, of the currencies in the SDR valuation basket. The IMF reviews the SDR valuation basket every five years. The latest review was completed in October 2000 and the new composition of the SDR valuation basket became effective on January 1, 2001. The value of the SDR in terms of U.S. dollars on the last business day prior to the change (December 29, 2000) was identical under both valuation baskets. The currencies in the basket as of April 30, 2002 and 2001 and their amounts were as follows:

Currency	Amount
Euro	0.426
Japanese yen	21.0
Pound sterling	0.0984
U.S. dollar	0.577

As of April 30, 2002, one SDR was equal to 1.26771 U.S. dollars (one SDR was equal to 1.26579 U.S. dollars as of April 30, 2001).

Investments

The resources of the Administered Accounts are invested pending their use. Investments are made in debt securities and fixed term deposits, either directly or by participation in an investment pool. Investments are marked to market on the last business day of the accounting period. Purchases are valued and reflected on the trade date basis and sales are based on the actual settlement date valuations. Investment income comprises interest earned on investments, realized and unrealized gains and losses on investments and currency valuation differences arising from exchange rate movements against the SDR.

Interest rate risk is managed by limiting the investment portfolio to a weighted-average effective duration that does not exceed three years. Currency risk is minimized by investing in securities denominated in SDRs or in the constituent currencies of the SDR basket. Risk is further minimized by ensuring that the currency composition of the investment portfolio matches, as closely as possible, the currency composition of the SDR basket.

Transfers

Internal transfers of resources within the IMF are accounted for under the accrual method of accounting.

Foreign Currency Translation

Foreign currency transactions are recorded at the rate of exchange on the date of the transaction. At the balance sheet date, monetary assets and liabilities denominated in foreign currencies are reported using the closing exchange rates. Exchange differences arising on the settlement of transactions at rates different from those at the originating date of the transaction, and unrealized foreign exchange differences on unsettled foreign currency monetary assets and liabilities are included in the determination of net income.

Transfers to PRGF Trust Subsidy Account

The difference between the interest earned by the PRGF Administered Accounts on the amount invested and the interest payable on the deposits of the Administered

Accounts, net of any cost, is to be transferred to the Subsidy Account of the PRGF Trust.

Administrative Costs

The expenses of conducting the activities of the Administered Accounts are incurred and borne by the General Department of the IMF.

3. Investments

The maturities of the administered accounts' investments are as follows:

Maturity as at April 30	2002	2001
	in thousands of SDRs	
Less than 1 year	165,674	107,887
1–3 years	12,051	84,051
3–5 years	—	3,239
Over 5 years	—	299
Total	177,725	195,476

At April 30, the investments consisted of the following:

	2002	2001
	in thousands of SDRs	
Debt securities	72,725	90,476
Fixed-term deposits	105,000	105,000
Total	177,725	195,476

At April 30, investment income comprised:

	2002	2001
	in thousands of SDRs	
Interest income	6,990	14,612
Realized gains/(losses), net	1,802	(983)
Unrealized (losses)/gains, net	(1,318)	1,374
Total	7,474	15,003

4. Deposits

Austria

The Administered Account Austria was established on December 27, 1988 for the administration of resources deposited in the account by the Austrian National Bank. Two deposits (one of SDR 60.0 million made on December 30, 1988 and one of SDR 50.0 million made on August 10, 1995) are to be repaid in ten equal semiannual installments beginning five and a half years after the date of each deposit and ending at the end of the tenth year after the date of each deposit. The deposits bear interest at a rate of ½ of 1 percent a year. The first deposit from Austria had been repaid in full.

Belgium

The Administered Account Belgium was established on July 27, 1988 for the administration of resources deposited in the account by the National Bank of Belgium. Four deposits (SDR 30.0 million made on July 29, 1988; SDR 35.0 million made on December 30, 1988; SDR 35.0 million made on June 30, 1989; and SDR 80.0 million made on April 29, 1994) have an initial maturity of six months and are renewable by the IMF, on the same basis. The final maturity of each deposit, including renewals, will be ten years from the initial dates of the individual deposits. The deposits bear interest at a rate of ½ of 1 percent a year. In accordance with an addendum to the account, effective on July 24, 1998, the maturities of the first three deposits will be extended by the National Bank of Belgium, for further periods of six months, provided that the total maturity period of each deposit does not exceed five years. The deposits are invested by the IMF, and the IMF pays the National Bank of Belgium interest on each deposit at an annual rate of ½ of 1 percent. The difference between the interest paid to the National Bank of Belgium and the interest earned on the deposits (net of any cost to the IMF) was retained in the account and invested. As of January 31, 2001, the Ministry of Finance of Belgium authorized a transfer of SDR 8.2 million in net earnings to the PRGF-HIPC Trust. The first three deposits, totaling SDR 100 million, were paid in full in January 2001.

Botswana

The Administered Account Botswana was established on July 1, 1994 for the administration of resources deposited in the account by the Bank of Botswana. The deposit, totaling SDR 6.9 million, is to be repaid in one installment ten years after the date of deposit. The deposit bears interest at a rate of 2 percent a year.

Greece

The Administered Account Greece was established on November 30, 1988 for the administration of resources deposited in the account by the Bank of Greece. Two deposits of SDR 35.0 million each (December 15, 1988 and April 29, 1994) are to be repaid in ten equal semiannual installments beginning five and a half years after the date of deposit and will be completed at the end of the tenth year after the date of the deposits. The deposits bear interest at a rate of ½ of 1 percent a year. The first deposit from Greece has been repaid in full.

Indonesia

The Administered Account Indonesia was established on June 30, 1994 for the administration of resources deposited in the account by the Bank Indonesia. The deposit, totaling SDR 25.0 million, is to be repaid in one installment ten years after the date the deposit was made. The interest payable on the deposit is equivalent to that obtained for the investment of the deposit less 2 percent a year.

Islamic Republic of Iran

The Administered Account Islamic Republic of Iran was established on June 6, 1994 for the administration of resources deposited in the account by the Central Bank of the Islamic Republic of Iran (CBIRI). The CBIRI has made five annual deposits, each of SDR 1.0 million. All of the deposits will be repaid at the end of ten years after the date of the first deposit. Each deposit bears interest at a rate of ½ of 1 percent a year.

Portugal

The Administered Account Portugal was established on May 16, 1994 for the administration of resources deposited in the account by the Banco de Portugal (BdP). The BdP has agreed to make six annual deposits, each of SDR 2.2 million. Each deposit is to be repaid in five equal annual installments beginning six years after the date of the deposit and will be

completed at the end of the tenth year after the date of the deposit. Each deposit bears interest at a rate of ½ of 1 percent a year.

5. Associated Loans Under the SFD Special Account

The SFD has provided additional resources to support arrangements under the PRGF. Funds become available under an associated loan after a bilateral agreement between the SFD and the recipient country has been effected. Amounts denominated in SDRs, for disbursement to a recipient country under an associated loan, are placed by the SFD in the Saudi Fund for Development Special Account for disbursement by the IMF simultaneously with disbursements under PRGF arrangement. These loans are repayable in ten equal semiannual installments commencing not later than the end of the first six months of the sixth year, and are to be completed at the end of the tenth year after the date of disbursement. Interest on the outstanding balance is currently set at a rate of ½ of 1 percent a year.

The receipts and uses of resources for the Saudi Fund for Development Special Account were as follows:

	2002	2001
	In thousands of SDRs	
Receipts of Resources		
Cumulative transfers from the Saudi Fund for Development	49,500	49,500
Cumulative repayments of associated loans	34,300	26,150
Cumulative receipts of interest on associated loans	1,783	1,668
Accrued interest on associated loans	28	44
	85,611	77,362
Uses of Resources		
Associated loans	49,500	49,500
Cumulative repayments to the Saudi Fund for Development	34,300	26,150
Cumulative payments of interest on transfers	1,783	1,668
Accrued interest on transfers	28	44
	85,611	77,362

PRGF-HIPC Trust and Related Accounts

Combined Balance Sheets as at April 30, 2002 and 2001

(In thousands of SDRs)

	2002	2001
Assets		
Cash and cash equivalents	965,867	943,652
Investments (Note 3)	438,524	486,719
Transfers receivable (Note 4)	—	12,475
Interest receivable	2,236	10,706
Total Assets	1,406,627	1,453,552
Liabilities and Resources		
Borrowings (Note 5)	541,787	477,159
Interest payable	1,085	860
Total Liabilities	542,872	478,019
Resources	863,755	975,533
Total Liabilities and Resources	1,406,627	1,453,552

The accompanying notes are an integral part of these combined financial statements.

/s/ Eduard Brau
Treasurer

/s/ Horst Köhler
Managing Director

PRGF-HIPC Trust and Related Accounts

Combined Statements of Income and Changes in Resources for the Years Ended April 30, 2002 and 2001

(In thousands of SDRs)

	2002	2001
Balance, beginning of the year	975,533	928,927
Investment income (Note 3)	51,266	64,308
Interest expense	(1,925)	(1,443)
Other expenses	(173)	(184)
Operational income	49,168	62,681
Contributions received	73,697	191,921
Disbursements	(251,532)	(91,376)
	(128,667)	163,226
Transfers	16,889	(116,620)
Net changes in resources	(111,778)	46,606
Balance, end of the year	863,755	975,533

The accompanying notes are an integral part of these combined financial statements.

PRGF-HIPC Trust and Related Accounts

Notes to the Combined Financial Statements as at April 30, 2002 and 2001

1. Nature of Operations

The Trust for Special PRGF Operations for the Heavily Indebted Poor Countries and for Interim PRGF Subsidy Operations (the PRGF-HIPC Trust) and Related Accounts comprise the PRGF-HIPC Trust Account, the Umbrella Account for HIPC Operations, and the Post-SCA-2 Administered Account. The PRGF-HIPC Trust Account comprises three subaccounts: the PRGF-HIPC, PRGF, and HIPC subaccounts. Combining balance sheets and income statements and changes in resources for each of these accounts are provided in Note 6. Transactions between the above accounts are eliminated on combination in the combined balance sheets and combined income statements and changes in resources.

PRGF-HIPC Trust

The PRGF-HIPC Trust, for which the IMF is trustee, was established on February 4, 1997 to provide balance of payments assistance to low-income developing members by making grants or loans to eligible members for the purpose of reducing their external debt burden and for interim PRGF subsidy purposes. The resources of the PRGF-HIPC Trust are held separately from the assets of all other accounts of, or administered by, the IMF and may not be used to discharge liabilities or to meet losses incurred in the administration of other accounts.

The operations of the PRGF-HIPC Trust are conducted through the PRGF-HIPC Trust Account and the Umbrella Account for HIPC Operations.

PRGF-HIPC Trust Account

The resources of the PRGF-HIPC Trust Account consist of grant contributions, borrowings, and other types of investments made by contributors; amounts transferred by the IMF from the Special Disbursement Account and the General Resources Account; and net earnings from investment of resources held in the PRGF-HIPC Trust Account.

The PRGF-HIPC subaccount holds resources that can finance either HIPC operations or interim PRGF subsidy operations; the PRGF subaccount holds resources earmarked for interim PRGF subsidy operations, while the HIPC subaccount holds resources earmarked for HIPC operations. PRGF-HIPC subaccount resources used to finance HIPC operations through the HIPC subaccount are repayable to the PRGF-HIPC subaccount and bear interest at a rate equal to the average return on investments in the Special Disbursement Account.

The resources held in the PRGF-HIPC Trust Account are to be used by the trustee to make grants or loans to eligible members that qualify for assistance under the HIPC Initiative and for subsidizing the interest rate on interim PRGF operations to PRGF-eligible members.

Umbrella Account for HIPC Operations

The Umbrella Account for HIPC Operations (the Umbrella Account) receives and administers the proceeds of grants or loans made to eligible members that qualify for assistance under the terms of the PRGF-HIPC Trust. Within the Umbrella Account, resources received are administered through the establishment of subaccounts for each eligible member upon the approval of disbursements under the PRGF-HIPC Trust.

The resources of a subaccount of the Umbrella Account consist of (1) amounts disbursed from the PRGF-HIPC Trust Account as grants or loans for the benefit of a member, and (2) net earnings from investment of the resources held in the subaccount.

The resources held in a subaccount of the Umbrella Account are to be used to meet the member's debt obligations to the IMF, or accounts administered by it, in accordance with the schedule agreed upon by the trustee and the member for the use of the proceeds of the PRGF-HIPC Trust disbursements.

Post-SCA-2 Administered Account

The Post-SCA-2 Administered Account, which is administered by the IMF on behalf of members, was established on December 8, 1999 for the temporary administration of resources transferred by members following the termination of the second Special Contingent Account (SCA-2), prior to the final disposition of those resources.

Resources received from a member's cumulative SCA-2 contributions, together with the member's pro rata share of investment returns, shall be transferred to the PRGF-HIPC Trust or to the member, in accordance with the member's instructions. The assets held in the Post-SCA-2 Administered Account are held separately from the assets and property of all other accounts of, or administered by, the IMF and may not be used to discharge liabilities or to meet losses incurred in the administration of other accounts.

2. Summary of Significant Accounting Policies

Basis of Presentation

The financial statements of the IMF are prepared in accordance with International Accounting Standards (IAS). Specific accounting principles and disclosure practices are explained further below. The preparation of financial statements in conformity with IAS requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenue and expenses during the reporting period. Actual results could differ from those estimates.

In financial year 2001, IAS 39, *Financial Instruments: Recognition and Measurement* was adopted and had no material effect on the PRGF-HIPC Trust and Related Accounts' financial statements.

Revenue and Expense Recognition

The financial statements are prepared on the accrual basis; accordingly, income is recognized as it is earned, and expenses are recorded as they are incurred.

Unit of Account

The financial statements are expressed in terms of SDRs. The value of the SDR is determined by the IMF each day by summing the values in U.S. dollars, based on market exchange rates, of the currencies in the SDR valuation basket. The IMF reviews the SDR valuation basket every five years. The latest review was completed in October 2000 and the new composition of the SDR valuation basket became effective from January 1, 2001. The value of the SDR in terms of U.S. dol-

lars on the last business day prior to the change (December 29, 2000) was identical under both valuation baskets. The currencies in the basket as of April 30, 2002 and 2001 and their amounts were as follows:

Currency	Amount
Euro	0.426
Japanese yen	21.0
Pound sterling	0.0984
U.S. dollar	0.577

As of April 30, 2002, one SDR was equal to 1.26771 U.S. dollars (one SDR was equal to 1.26579 U.S. dollars as of April 30, 2001).

Cash and Cash Equivalents

Cash and cash equivalents include short-term deposits with a maturity of less than ninety days. These deposits are denominated in SDRs or other currencies and are carried at cost not exceeding market value. Interest received on these instruments varies and is based on prevailing market rates.

Investments

The resources of the Trust are invested pending their use. The Trust invests in debt securities and fixed-term deposits, either directly or by participation in an investment pool. Investments are marked to market on the last business day of the accounting period. Purchases are valued and reflected on the trade date basis and sales are based on the actual settlement date valuations. Investment income comprises interest earned on investments, realized and unrealized gains and losses on investments, and currency valuation differences arising from exchange rate movements against the SDR.

Interest rate risk is managed by limiting the investment portfolio to a weighted-average effective duration that does not exceed three years. Currency risk is minimized by investing in securities denominated in SDRs or in the constituent currencies of the SDR basket. Regular portfolio rebalancing to ensure that the currency composition of the investment portfolio matches, as closely as possible, the currency composition of the SDR basket, further minimizes risk.

Contributions

Bilateral contributions are reflected as increases in resources after the achievement of specified conditions and are subject to bilateral agreements stipulating how the resources are to be used.

Transfers

Internal transfers of resources within the IMF are accounted for under the accrual method of accounting.

Foreign Currency Translation

Foreign currency transactions are recorded at the rate of exchange on the date of the transaction. At the balance sheet date, monetary assets and liabilities denominated in foreign currencies are reported using the closing exchange rates. Exchange differences arising on the settlement of transactions at rates different from those at the originating date of the transaction and unrealized foreign exchange differences on unsettled foreign currency monetary assets and liabilities are included in the determination of net income.

Administrative Costs

The expenses of conducting activities of the Trust and related accounts are incurred and borne by the General Department of the IMF.

3. Investments

The maturities of the investments in debt securities and fixed-term deposits are as follows:

Maturity as at April 30	2002	2001
	In thousands of SDRs	
Less than 1 year	376,817	247,851
1–3 years	61,707	229,222
3–5 years	—	8,832
Over 5 years	—	814
Total	438,524	486,719

At April 30, the investments consisted of the following:

	2002	2001
	In thousands of SDRs	
Debt securities	225,352	241,310
Fixed-term deposits	213,172	245,409
Total	438,524	486,719

At April 30, investment income is comprised of:

	2002	2001
	In thousands of SDRs	
Interest income	49,714	62,768
Realized gains/(losses), net	4,677	(1,759)
Unrealized (losses)/gains, net	(3,152)	3,411
Exchange rate gains/(losses), net	27	(112)
Total	51,266	64,308

4. Transfers Receivable and Payable

At April 30, 2002, the HIPC subaccount had transfers payable to the PRGF-HIPC subaccount arising from past disbursements to the Umbrella Account under the HIPC Initiative in the amount of SDR 437.0 million, including interest (SDR 214.2 million at April 30, 2001). Interest payable between subaccounts is eliminated on combination. At April 30, 2002, there was no transfer due from the Special Disbursement Account (SDR 12.5 million at April 30, 2001).

5. Borrowings

The Trust borrows on such terms and conditions as agreed between the Trust and the lenders. Interest rates on borrowings at 2002 and 2001 varied between 0 percent and 2 percent a year. The principal amounts of the borrowings are repayable in one installment at their maturity dates. Scheduled repayments of borrowings are summarized below:

Financial Year Ending April 30	
	In thousands of SDRs
2003	—
2004	—
2005	15,000
2006	—
2007	310
2008 and beyond	526,477
Total	541,787

Borrowings during the financial year ended April 30, 2002 amounted to SDR 150 million (SDR 76 million for the financial year ended April 30, 2001). Repayments amounted to SDR 15 million for the year ended April 30, 2002 (none in the year ended April 30, 2001). Borrowings include foreign currency amounts.

6. Combining Balance Sheets and Statements of Income and Changes in Resources

The balance sheets and statements of income and changes in resources for each of the accounts and subaccounts in the PRGF-HIPC Trust and Related Accounts are presented below:

Combining Balance Sheets as at April 30, 2002 and 2001

(In thousands of SDRs)

	2002							2001			
	PRGF-HIPC Trust Account subaccount				Umbrella Account for HIPC Operations	Post-SCA-2 Administered Account	Combined Total	PRGF-HIPC Trust Account	Umbrella Account for HIPC Operations	Post-SCA-2 Administered Account	Combined Total
	PRGF-HIPC	PRGF	HIPC	Combined							
Assets											
Cash and cash equivalents	576,105	9,651	—	585,756	330,115	49,996	965,867	547,159	304,356	92,137	943,652
Investments	433,614	4,910	—	438,524	—	—	438,524	451,676	35,043	—	486,719
Transfers receivable	—	—	—	—	—	—	—	12,475	—	—	12,475
Transfers to and from subaccounts	437,001	—	(437,001)	—	—	—	—	—	—	—	—
Interest receivable	914	30	—	944	1,013	279	2,236	5,514	4,011	1,181	10,706
Total Assets	1,447,634	14,591	(437,001)	1,025,224	331,128	50,275	1,406,627	1,016,824	343,410	93,318	1,453,552
Liabilities and Resources											
Borrowings	541,787	—	—	541,787	—	—	541,787	477,159	—	—	477,159
Interest payable	1,085	—	—	1,085	—	—	1,085	860	—	—	860
Total Liabilities	542,872	—	—	542,872	—	—	542,872	478,019	—	—	478,019
Resources	904,762	14,591	(437,001)	482,352	331,128	50,275	863,755	538,805	343,410	93,318	975,533
Total Liabilities and Resources	1,447,634	14,591	(437,001)	1,025,224	331,128	50,275	1,406,627	1,016,824	343,410	93,318	1,453,552

Note 6 *(concluded)*

Combining Statements of Income and Changes in Resources for the Years Ended April 30, 2002 and 2001

(In thousands of SDRs)

	2002							2001			
	PRGF-HIPC Trust Account subaccount				Umbrella Account for HIPC Operations	Post-SCA-2 Administered Account	Combined Total	PRGF-HIPC Trust Account	Umbrella Account for HIPC Operations	Post-SCA-2 Administered Account	Combined Total
	PRGF-HIPC	PRGF	HIPC	Combined							
Balance, beginning of the year	735,089	14,003	(210,287)	538,805	343,410	93,318	975,533	511,051	160,825	257,051	928,927
Investment income[1]	56,734	593	49	39,910	9,688	1,668	51,266	45,268	11,153	7,887	64,308
Interest expense[1]	(1,925)	—	(17,466)	(1,925)	—	—	(1,925)	(1,443)	—	—	(1,443)
Other expenses	(166)	(5)	(2)	(173)	—	—	(173)	(184)	—	—	(184)
Operational income/(loss)	54,643	588	(17,419)	37,812	9,688	1,668	49,168	43,641	11,153	7,887	62,681
Contributions received	53,430	—	20,267	73,697	—	—	73,697	191,921	—	—	191,921
Grants	—	—	(229,562)	(229,562)	229,562	—	—	(262,808)	262,808	—	—
Disbursements	—	—	—	—	(251,532)	—	(251,532)	—	(91,376)	—	(91,376)
	108,073	588	(226,714)	(118,053)	(12,282)	1,668	(128,667)	(27,246)	182,585	7,887	163,226
Transfers	61,600	—	—	61,600	—	(44,711)	16,889	55,000	—	(171,620)	(116,620)
Net changes in resources	169,673	588	(226,714)	(56,453)	(12,282)	(43,043)	(111,778)	27,754	182,585	(163,733)	46,606
Balance, end of the year	904,762	14,591	(437,001)	482,352	331,128	50,275	863,755	538,805	343,410	93,318	975,533

[1]Interest payable between subaccounts amounting to SDR 17.5 million (SDR 13.5 million at April 30, 2001) has been eliminated in the combined totals.

Schedule 1

Post-SCA-2 Administered Account

Holdings, Interest and Transfers as at April 30, 2002

(In thousands of SDRs)

Member	Balance Beginning of the Year	Interest Earned	Transfers from Member	Transfers to Member	Transfers to PRGF-HIPC Trust	Balance End of the Year
Algeria	412	—	—	—	(412)	—
Argentina	20,794	150	—	—	(15,628)	5,316
Brazil	10,598	300	—	—	—	10,898
Brunei Darussalam	55	1	—	—	(56)	—
Colombia	—	12	1,182	—	(1,194)	—
Croatia, Republic of	31	—	—	—	(31)	—
Dominican Republic	957	27	—	—	—	984
Estonia, Republic of	146	4	—	—	(149)	1
Fiji	206	6	—	—	—	212
Finland	322	—	—	—	(322)	—
Gabon	458	—	—	—	(458)	—
Jordan	1,087	30	—	—	—	1,117
Latvia, Republic of	17	—	—	(2)	(15)	—
Malaysia	7,821	24	—	—	(7,845)	—
Oman	1,123	7	—	—	(1,130)	—
Saudi Arabia	978	—	—	—	(978)	—
Singapore	249	—	—	—	(249)	—
Sweden	11,254	188	—	—	(11,442)	—
Thailand	350	—	—	—	(350)	—
Tonga	27	1	—	—	—	28
Trinidad & Tobago	2,334	66	—	—	—	2,400
Tunisia	136	—	—	—	(136)	—
United Arab Emirates	5,450	46	—	—	(5,496)	—
Vanuatu	46	2	—	—	—	48
Venezuela	28,467	804	—	—	—	29,271
Total	93,318	1,668	1,182	(2)	(45,891)	50,275

Schedule 2

PRGF-HIPC Trust Account

Contributions and Transfers for the Years Ended April 30, 2002 and 2001

(In thousands of SDRs)

	Subaccount			
	PRGF-HIPC	PRGF	HIPC	Combined
Year ended April 30, 2001				
Australia	—	—	3,910	3,910
Austria	—	—	9,981	9,981
Belgium	12,208	—	—	12,208
Belize	20	—	—	20
Denmark	2,374	—	—	2,374
Egypt	37	—	—	37
France	17,196	—	—	17,196
Iceland	366	—	—	366
India	390	—	—	390
Indonesia	124	—	—	124
Italy	43,309	—	—	43,309
Japan	16,356	—	—	16,356
Kuwait	108	—	—	108
Latvia, Republic of	269	—	—	269
Mexico	8,000	—	—	8,000
Morocco	49	—	—	49
Netherlands	—	6,147	—	6,147
New Zealand	1,158	—	—	1,158
Norway	1,144	—	—	1,144
Pakistan	105	—	—	105
Poland, Republic of	877	—	—	877
Russian Federation	10,200	—	—	10,200
South Africa	4,000	—	—	4,000
Spain	16,550	—	—	16,550
Sri Lanka	12	—	—	12
Switzerland	3,184	—	—	3,184
United Kingdom	—	—	33,837	33,837
Vietnam	10	—	—	10
	138,046	6,147	47,728	191,921
Transfers from SDA	55,000	—	—	55,000
	193,046	6,147	47,728	246,921

Schedule 2 *(concluded)*

PRGF-HIPC Trust Account

Contributions and Transfers for the Years Ended April 30, 2002 and 2001

(In thousands of SDRs)

	Subaccount			
	PRGF-HIPC	PRGF	HIPC	Combined
Year ended April 30, 2002				
Algeria	412	—	—	412
Australia	—	—	3,920	3,920
Belgium	2,621	—	—	2,621
Belize	20	—	—	20
Brunei Darussalam	4	—	—	4
Colombia	13	—	—	13
Croatia, Republic of	31	—	—	31
Denmark	2,386	—	—	2,386
Estonia, Republic of	372	—	—	372
Finland	322	—	—	322
Gabon	458	—	—	458
Iceland	184	—	—	184
Japan	15,441	—	—	15,441
Latvia, Republic of	157	—	—	157
Malaysia	478	—	—	478
Mexico	7,982	—	—	7,982
Netherlands	—	—	16,347[1]	16,347
Nigeria	4,314	—	—	4,314
Norway	2,302	—	—	2,302
Oman	73	—	—	73
Poland, Republic of	1,234	—	—	1,234
St. Vincent and the Grenadines	22	—	—	22
Saudi Arabia	978	—	—	978
Singapore	249	—	—	249
South Africa	4,000	—	—	4,000
Sweden	5,322	—	—	5,322
Switzerland	3,216	—	—	3,216
Thailand	350	—	—	350
Tunisia	136	—	—	136
United Arab Emirates	353	—	—	353
	53,430	—	20,267	73,697
Transfers from SDA	61,600	—	—	61,600
	115,030	—	20,267	135,297

[1]Represents an additional grant contribution by the Netherlands to Zambia in the context of the HIPC Initiative.

Schedule 3

Umbrella Account for HIPC Operations

Grants, Interest and Disbursements for the Years Ended April 30, 2002 and 2001

(In thousands of SDRs)

	Balance Beginning of the Year	Grants from PRGF-HIPC Trust Account	Interest Earned	Disbursements	Balance End of the Year
Year ended April 30, 2001					
Benin	—	3,700	77	2,975	802
Bolivia	7,906	—	217	5,539	2,584
Burkina Faso	—	17,800	614	3,718	14,696
Cameroon	—	2,240	28	1,837	431
Gambia, The	—	80	1	9	72
Guinea	—	2,424	39	228	2,235
Guinea-Bissau	—	541	8	158	391
Guyana	18,862	6,140	889	7,251	18,640
Madagascar	—	677	6	677	6
Malawi	—	2,314	33	1,203	1,144
Mali	—	11,490	334	1,586	10,238
Mauritania	—	9,922	75	4,988	5,009
Mozambique	83,423	—	3,285	22,976	63,732
Niger	—	430	7	—	437
Rwanda	—	6,762	95	3,149	3,708
Senegal	—	4,777	47	1,709	3,115
Tanzania	13,375	13,340	314	13,609	13,420
Uganda	37,259	62,971	2,908	19,764	83,374
Zambia	—	117,200	2,176	—	119,376
	160,825	262,808	11,153	91,376	343,410
Year ended April 30, 2002					
Benin	802	3,680	50	3,839	693
Bolivia	2,584	44,234	1,090	8,851	39,057
Burkina Faso	14,696	15,240	456	4,644	25,748
Cameroon	431	290	15	—	736
Chad	—	2,850	57	2,067	840
Ethiopia	—	4,036	33	2,212	1,857
Gambia, The	72	—	2	9	65
Ghana	—	9,913	36	—	9,949
Guinea	2,235	—	30	2,238	27
Guinea-Bissau	391	—	7	393	5
Guyana	18,640	—	465	6,857	12,248
Honduras	—	4,500	46	2,250	2,296
Madagascar	6	1,446	13	—	1,465
Malawi	1,144	—	22	1,143	23
Mali	10,238	5,746	358	6,999	9,343
Mauritania	5,009	6,960	117	7,640	4,446
Mozambique	63,732	12,519	1,864	17,339	60,776
Niger	437	1,079	15	430	1,101
Rwanda	3,708	2,367	79	5,845	309
Senegal	3,115	3,387	44	3,132	3,414
Sierra Leone	—	23,640	37	9,818	13,859
Tanzania	13,420	69,715	809	13,332	70,612
Uganda	83,374	1,585	2,287	18,607	68,639
Zambia	119,376	16,375[1]	1,756	133,887	3,620
	343,410	229,562	9,688	251,532	331,128

[1]Includes an additional grant contribution by the Netherlands to Zambia in the context of the HIPC Initiative.

Schedule 4

PRGF-HIPC Trust Account

Cumulative Contributions and Transfers as at April 30, 2002

(In thousands of SDRs)

	Subaccount			
	PRGF-HIPC	PRGF	HIPC	Combined
Algeria	412	—	—	412
Australia	—	—	17,019	17,019
Austria	—	—	9,981	9,981
Bangladesh	1,163	—	—	1,163
Barbados	250	—	—	250
Belgium	14,829	—	—	14,829
Belize	80	—	—	80
Brunei Darussalam	4	—	—	4
Cambodia	27	—	—	27
Canada	32,929	—	—	32,929
China	13,132	—	—	13,132
Colombia	13	—	—	13
Croatia, Republic of	31	—	—	31
Cyprus	544	—	—	544
Denmark	10,880	—	—	10,880
Egypt	37	—	—	37
Estonia, Republic of	372	—	—	372
Finland	2,583	—	—	2,583
France	55,892	—	—	55,892
Gabon	458	—	—	458
Greece	2,200	—	—	2,200
Iceland	643	—	—	643
India	390	—	—	390
Indonesia	124	—	—	124
Ireland	3,937	—	—	3,937
Israel	1,189	—	—	1,189
Italy	43,309	—	—	43,309
Jamaica	1,800	—	—	1,800
Japan	98,355	—	—	98,355
Korea	10,625	—	—	10,625
Kuwait	108	—	—	108
Latvia, Republic of	426	—	—	426
Luxembourg	488	—	—	488
Malaysia	478	—	—	478
Malta	706	—	—	706
Mauritius	40	—	—	40
Mexico	15,982	—	—	15,982
Morocco	49	—	—	49
Netherlands	—	13,092	16,347[1]	29,439
New Zealand	1,158	—	—	1,158

Schedule 4 *(concluded)*

PRGF-HIPC Trust Account

Cumulative Contributions and Transfers as at April 30, 2002

(In thousands of SDRs)

	Subaccount			
	PRGF-HIPC	PRGF	HIPC	Combined
Nigeria	5,416	—	—	5,416
Norway	10,698	—	—	10,698
Oman	73	—	—	73
Pakistan	105	—	—	105
Philippines	4,500	—	—	4,500
Poland, Republic of	2,112	—	—	2,112
Portugal	4,430	—	—	4,430
Russian Federation	10,200	—	—	10,200
St. Vincent and the Grenadines	22	—	—	22
Samoa	3	—	—	3
San Marino, Republic of	32	—	—	32
Saudi Arabia	978	—	—	978
Singapore	249	—	—	249
Slovak Republic	2,669	—	—	2,669
Slovenia, Republic of	311	—	—	311
South Africa	8,895	—	—	8,895
Spain	16,550	—	—	16,550
Sri Lanka	12	—	—	12
Swaziland	20	—	—	20
Sweden	5,322	—	—	5,322
Switzerland	6,400	—	—	6,400
Thailand	350	—	—	350
Tunisia	136	—	—	136
United Arab Emirates	353	—	—	353
United Kingdom	23,551	—	33,837	57,388
United States	—	—	221,932	221,932
Vietnam	10	—	—	10
	419,040	13,092	299,116	731,248
Transfers from SDA	287,997	—	—	287,997
Transfers from GRA	72,456	—	—	72,456
	360,453	—	—	360,453
	779,493	13,092	299,116	1,091,701

[1]Represents an additional grant contribution by the Netherlands to Zambia in the context of the HIPC Initiative.

Other Administered Accounts

Balance Sheets as at April 30, 2002 and 2001

	Administered Account Japan		Administered Account for Selected Fund Activities—Japan		Framework Administered Account for Technical Assistance Activities		Administered Account—Spain		Administered Account for Rwanda[1]	Supplementary Financing Facility Subsidy Account		The Post-Conflict Emergency Assistance Subsidy Account[2]
	2002	2001	2002	2001	2002	2001	2002	2001	2001	2002	2001	2002
	← (In thousands of U.S. dollars) →								← (In thousands of SDRs) →			
Assets												
Cash and cash equivalents	117,277	114,184	20,459	14,580	8,484	4,539	—	—	—	2,290	2,319	587
Interest receivable	—	—	—	—	—	—	—	—	—	13	24	—
Total Assets	117,277	114,184	20,459	14,580	8,484	4,539	—	—	—	2,303	2,343	587
Resources												
Total Resources	117,277	114,184	20,459	14,580	8,484	4,539	—	—	—	2,303	2,343	587

The accompanying notes are an integral part of these financial statements.

[1]The Administered Account for Rwanda was terminated on November 30, 2000.

[2]The Post-Conflict Emergency Assistance Account for PRGF-eligible members was established on May 4, 2001.

/s/ Eduard Brau
Treasurer

/s/ Horst Köhler
Managing Director

Other Administered Accounts

Statements of Income and Changes in Resources for the Years Ended April 30, 2002 and 2001

	Administered Account Japan		Administered Account for Selected Fund Activities—Japan		Framework Administered Account for Technical Assistance Activities		Administered Account—Spain		Administered Account for Rwanda[1]	Supplementary Financing Facility Subsidy Account		The Post-Conflict Emergency Assistance Subsidy Account[2]
	2002	2001	2002	2001	2002	2001	2002	2001	2001	2002	2001	2002
	← *(In thousands of U.S. dollars)* →								← *(In thousands of SDRs)* →			
Balance, beginning of the year	114,184	107,439	14,580	18,854	4,539	4,201	—	—	291	2,343	2,343	—
Income earned on investments	3,093	6,745	298	718	129	257	33	72	6	63	104	—
Contributions received	—	—	24,965	15,119	8,411	3,882	329,154	506,329	—	—	—	1,360
Payments to and on behalf of beneficiaries	—	—	(19,384)	(20,111)	(4,595)	(3,801)	(329,187)	506,401	(297)	—	—	(773)
Net income	3,093	6,745	5,879	(4,274)	3,945	338	—	—	(291)	63	104	587
Transfers to the Special Disbursement Account (Note 4)	—	—	—	—	—	—	—	—	—	(103)	(104)	—
Net changes in resources	3,093	6,745	5,879	(4,274)	3,945	338	—	—	(291)	(40)	—	587
Balance, end of the year	117,277	114,184	20,459	14,580	8,484	4,539	—	—	—	2,303	2,343	587

The accompanying notes are an integral part of these financial statements.

[1]The Administered Account for Rwanda was terminated on November 30, 2000.

[2]The Post-Conflict Emergency Assistance Account for PRGF-eligible members was established on May 4, 2001.

Other Administered Accounts

Notes to the Financial Statements as at April 30, 2002 and 2001

1. Nature of Operations

At the request of members, the IMF has established special purpose accounts to administer contributed resources and to perform financial and technical services consistent with the purposes of the IMF. The assets of each account and each subaccount are separate from the assets of all other accounts of, or administered by, the IMF and are not to be used to discharge liabilities or to meet losses incurred in the administration of other accounts.

Administered Account Japan

At the request of Japan, the IMF established an account on March 3, 1989 to administer resources, made available by Japan or other countries with Japan's concurrence, that are to be used to assist certain members with overdue obligations to the IMF. The resources of the account are to be disbursed in amounts specified by Japan and to members designated by Japan.

Administered Account for Selected Fund Activities—Japan

At the request of Japan, the IMF established the Administered Technical Assistance Account—Japan on March 19, 1990 to administer resources contributed by Japan to finance technical assistance to member countries. On July 21, 1997, the account was renamed the Administered Account for Selected Fund Activities—Japan and amended to include the administration of resources contributed by Japan in support of the IMF's Regional Office for Asia and the Pacific (OAP). The resources of the account designated for technical assistance activities are used with the approval of Japan and include the provision of scholarships. The resources designated for the OAP are used as agreed between Japan and the IMF for certain activities of the IMF with respect to Asia and the Pacific through the OAP. Disbursements can also be made from the account to the General Resources Account to reimburse the IMF for qualifying technical assistance projects and OAP expenses.

Framework Administered Account for Technical Assistance Activities

The Framework Administered Account for Technical Assistance Activities ("the Framework Account") was established by the IMF on April 3, 1995 to receive and administer contributed resources that are to be used to finance technical assistance consistent with the purposes of the IMF. The financing of technical assistance activities is implemented through the establishment and operation of subaccounts within the Framework Account.

Resources are to be used in accordance with the written understandings between the contributor and the Managing Director. Disbursements can also be made from the Framework Account to the General Resources Account to reimburse the IMF for its costs incurred on behalf of technical assistance activities financed by resources from the Framework Account.

Subaccount for Japan Advanced Scholarship Program

At the request of Japan, this subaccount was established on June 6, 1995 to finance the cost of studies and training of nationals of member countries in macroeconomics and related subjects at selected universities and institutions. The scholarship program focuses primarily on the training of nationals of Asian member countries, including Japan.

Rwanda—Macroeconomic Management Capacity Subaccount

At the request of Rwanda, this subaccount was established on December 20, 1995 to finance technical assistance to rehabilitate and strengthen Rwanda's macroeconomic management capacity.

Australia—IMF Scholarship Program for Asia Subaccount

At the request of Australia, this subaccount was established on June 5, 1996 to finance the cost of studies and training of government and central bank officials in macroeconomic management so as to enable them to contribute to their countries' achievement of sustainable economic growth and development. The program focuses primarily on the training of nationals of Asian countries.

Switzerland Technical Assistance Subaccount

At the request of Switzerland, this subaccount was established on August 27, 1996 to finance the costs of technical assistance activities of the IMF that consist of policy advice and training in macroeconomic management.

French Technical Assistance Subaccount

At the request of France, this subaccount was established on September 30, 1996 to cofinance the costs of training in economic fields for nationals of certain member countries.

Denmark Technical Assistance Subaccount

At the request of Denmark, this subaccount was established on August 25, 1998 to finance the costs of technical assistance activities of the IMF that consist of advising on policy and administrative reforms in the fiscal, monetary, and related statistical fields.

Australia Technical Assistance Subaccount

At the request of Australia, this subaccount was established on March 7, 2000 to finance the costs of technical assistance activities of the IMF that consist of advising on the design of policy and administrative reforms in the fiscal, monetary and related statistical fields, as well as to provide training in the formulation and implementation of macroeconomic and financial policies.

The Netherlands Technical Assistance Subaccount

At the request of the Netherlands, this subaccount was established on July 27, 2000 to finance projects that seek to enhance the capacity of the members to formulate and implement policies in the macroeconomic, fiscal, monetary, financial, and related statistical fields, including training pro-

grams and projects that strengthen the legal and administrative framework in these core areas.

The United Kingdom Department for International Development (DFID) Technical Assistance Subaccount

At the request of the United Kingdom, this subaccount was established on June 22, 2001 to finance projects that seek to enhance the capacity of the members to formulate and implement policies in the macroeconomic, fiscal, monetary, financial, and related statistical fields, including training programs and projects that strengthen the legal and administrative framework in these core areas.

Italy Technical Assistance Subaccount

At the request of Italy, this subaccount was established on November 16, 2001 to finance projects that seek to enhance the capacity of certain members to formulate and implement policies related to fiscal, financial, and statistical standards and codes, including training programs and projects that strengthen the legal and administrative framework in these core areas.

Administered Account—Spain

At the request of Spain, the IMF established an account on March 20, 2001 to receive and disburse resources up to $1 billion contributed by Spain for Argentina. The resources of this account are to be used to assist Argentina in the implementation of the adjustment program supported by the IMF under the Stand-By Arrangement for Argentina approved on March 10, 2000 and augmented on January 12, 2001.

Administered Account for Rwanda

At the request of the Netherlands, Sweden, and the United States ("the donor countries"), the IMF established an account on October 27, 1995 to administer resources contributed by the donor countries to provide grants to Rwanda. These grants are to be used for reimbursing the service charge and reducing, to the equivalent of a rate of ½ of 1 percent a year, the rate of the quarterly charges payable by Rwanda on its use of the IMF's financial resources under the Compensatory and Contingency Financing Facility (CCFF). The account was terminated on November 30, 2000 and the balance transferred to donor countries, in proportion to their contributions. The distribution of the final accrued interest was made in February 2001 when quarterly interest on SDR accounts was paid.

Supplementary Financing Facility Subsidy Account

The Supplementary Financing Facility Subsidy Account ("the Subsidy Account"), which is administered by the IMF, was established in December 1980 to assist low-income developing country members to meet the cost of using resources made available through the IMF's Supplementary Financing Facility and under the policy on exceptional use. All repurchases due under these policies were scheduled for completion by January 31, 1991, and the final subsidy payments were approved in July 1991. However, two members (Liberia and Sudan), overdue in the payment of charges, remain eligible to receive previously approved subsidy payments when their overdue charges are settled. Accordingly, the account remains in operation and has retained amounts for payment to these members after the overdue charges are paid.

The Post-Conflict Emergency Assistance Subsidy Account

The Post-Conflict Emergency Assistance Subsidy Account for PRGF-eligible members was established in May 2001 to administer contributed resources for the purpose of providing assistance to PRGF-eligible members in support of their adjustment efforts. Contributions to the account will be used to provide grants to PRGF-eligible members that have made post-conflict emergency assistance purchases under the IMF General Resources Account, effectively subsidizing the basic rate of charge on these purchases to 0.5 percent per annum. The Subsidy to each eligible member would be prorated if resources are insufficient to reduce the basic rate of charge to 0.5 percent.

Trust Fund

In addition to the aforementioned accounts, the IMF is also the trustee of the Trust Fund, which is in liquidation. The Trust Fund was established in 1976 to provide balance of payments assistance on concessional terms to eligible members that qualify for assistance.

In 1980, the IMF, as trustee, decided that, upon the completion of the final loan disbursements, the Trust Fund would be terminated as of April 30, 1981, and after that date, the activities of the Trust Fund have been confined to the conclusion of its affairs. As of April 30, 2002 and 2001, the Trust Fund had overdue loans receivable of SDR 88.6 million and SDR 88.8 million, respectively. Member resources exist in the Trust Fund to the full amount of the loans and are available to absorb any losses should this occur. All interest is deferred. Cash receipts on these loans are to be transferred to the Special Disbursement Account.

Overdue loans, interest and charges at April 30, 2002 were as follows:

Member	Loans	Interest and Special Charges	Total	Longest Overdue Obligation
	In millions of SDRs			
Liberia	22.9	7.1	30.0	June 1985
Somalia	6.5	1.4	7.9	July 1987
Sudan	59.2	19.1	78.3	June 1985
Total	88.6	27.6	116.2	

2. Summary of Significant Accounting Policies

Basis of Presentation

The financial statements of the Other Administered Accounts are prepared in accordance with International Accounting Standards (IAS). Specific accounting principles and disclosure practices are explained further below. The preparation of financial statements in conformity with IAS requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenue and expenses during the reporting period. Actual results could differ from those estimates.

In financial year 2001, IAS 39, *Financial Instruments: Recognition and Measurement* was adopted and had no material effect on the Other Administered Accounts' financial statements.

Unit of Account

Administered Account Japan, Administered Account for Selected Fund Activities—Japan, Framework Administered Account for Technical Assistance Activities, and Administered Account—Spain

These accounts are expressed in U.S. dollars. All transactions and operations of these accounts, including the transfers to and from the accounts, are denominated in U.S. dollars, except for transactions and operations in respect of the OAP, which are denominated in Japanese yen, or transactions in other currencies as agreed between Japan and the IMF. Contributions denominated in other currencies are converted into U.S. dollars upon receipt of the funds.

The Post-Conflict Emergency Assistance Subsidy Account, Administered Account for Rwanda, Trust Fund, and Supplementary Financing Facility Subsidy Account

These accounts are expressed in terms of SDRs. The value of the SDR is determined by the IMF each day by summing the values in U.S. dollars, based on market exchange rates, of the currencies in the basket. The IMF reviews the SDR valuation basket every five years. The latest review was completed in October 2000 and the composition of the SDR valuation basket became effective from January 1, 2001. The value of the SDR in terms of U.S. dollars on the last business day prior to the change (December 29, 2000) was identical under both valuation baskets. The method of valuing the SDR has been revised following the introduction of the euro as the common currency of a number of members. The currencies in the basket as of April 30, 2002 and 2001 and their amounts were as follows:

Currency	Amount
Euro	0.426
Japanese yen	21.0
Pound sterling	0.0984
U.S. dollar	0.577

As of April 30, 2002, one SDR was equal to 1.26771 U.S. dollars (one SDR was equal to 1.26579 U.S. dollars as of April 30, 2001).

Transactions and operations of the accounts are denominated in SDRs. Contributions denominated in other currencies are converted into SDRs upon receipt of the funds.

Revenue and Expense Recognition

The accounts are maintained on the accrual basis; accordingly, income is recognized as it is earned and expenses are recorded as they are incurred.

Cash and Cash Equivalents

Cash and cash equivalents include short-term deposits with a maturity of less than ninety days. These deposits are denominated in SDRs or other currencies and are carried at cost not exceeding market value. Interest on these instruments varies and is based on prevailing market rates.

Contributions

Bilateral contributions are reflected as increases in resources after the achievement of specified conditions and are subject to bilateral agreements stipulating how the resources are to be used.

Payments to and on behalf of beneficiaries

Payments to and on behalf of beneficiaries are recognized when the specified conditions in the respective agreements are achieved.

Transfers

Internal transfers of resources within the IMF are accounted for under the accrual method of accounting.

Foreign Currency Translation

Foreign currency transactions are recorded at the rate of exchange on the date of the transaction. At the balance sheet date, monetary assets and liabilities denominated in foreign currencies are reported using the closing exchange rates. Exchange differences arising on the settlement of transaction at rates different from those at the date of the transaction and unrealized foreign exchange differences on unsettled foreign currency monetary assets and liabilities are included in the determination of net income.

Administrative Expenses

The expenses of conducting the activities of the Other Administered Accounts and the Trust Fund are incurred and borne by the General Department of the IMF. To help defray the expenses incurred by the Fund in the administration of the Administered Account for Selected Fund Activities—Japan and the Framework Administered Account for Technical Assistance Activities, reimbursement equal to 13 percent of the expenses financed from the accounts is paid to the IMF from these accounts. The Administered Account—Spain pays the IMF an annual fee of $40,000 for administrative costs incurred. As at April 30, 2002 the administrative costs for Administered Account for Selected Fund Activities—Japan amounted to $2.1 million ($2.1 million at April 30, 2001), and for Framework Administered Account for Technical Assistance Activities $0.53 million ($0.48 million at April 30, 2001). These amounts are included in Payments to and on behalf of beneficiaries on the Income Statements and Changes in Resources.

3. Cumulative Contributions and Disbursements

The cumulative contributions to and disbursements from the Other Administered Accounts are as follows:

Account	April 30, 2002 Cumulative Contributions	April 30, 2002 Cumulative Disbursements[1]	April 30, 2001 Cumulative Contributions	April 30, 2001 Cumulative Disbursements[1]
	(In millions of U.S. dollars)			
Administered Account Japan	135.2	72.5	135.2	72.5
Administered Account for Selected Fund Activities—Japan	178.5	165.1	153.6	145.8
Technical Assistance	162.8	150.5	141.2	134.2
Scholarships	10.3	9.3	8.0	7.3
Office of Asia and Pacific	5.4	5.3	4.4	4.3
Framework Administered Account for Technical Assistance Activities	27.3	20.0	18.9	15.3
Subaccount for Japan Advanced Scholarship Program	8.7	7.2	7.2	5.8
Rwanda—Macroeconomic Management Capacity Subaccount	1.5	1.6	1.5	1.6
Australia—IMF Scholarship Program for Asia Subaccount	2.0	1.9	1.4	1.4
Switzerland Technical Assistance Subaccount	8.3	6.6	6.8	5.3
French Technical Assistance Subaccount	0.7	0.5	0.7	0.4
Denmark Technical Assistance Subaccount	0.5	0.5	0.5	0.5
Australia Technical Assistance Subaccount	0.3	—	0.3	0.0
The Netherlands Technical Assistance Subaccount	1.8	1.1	0.6	0.4
The United Kingdom DFID Technical Assistance Subaccount	1.7	0.6	—	—
Italy Technical Assistance Subaccount	1.8	—	—	—
Administered Account—Spain	835.5	835.6	506.3	506.4
	(In millions of SDRs)			
Administered Account for Rwanda	—	—	1.5	1.7
The Post-Conflict Emergency Assistance Subsidy Account	1.4	0.8	—	—

[1]Disbursements had been made from resources contributed to these accounts as well as from interest earned on these resources.

4. Transfer of Resources

Resources of the Supplementary Financing Facility Subsidy Account in excess of the remaining subsidy payments are to be transferred to the Special Disbursement Account. At April 30, 2002 and 2001, subsidy payments totaling SDR 2.2 million had not been made to Liberia and Sudan and were being held pending the payment of overdue charges by these members.

5. Accounts Termination

Administered Account Japan

The account can be terminated by the IMF or by Japan. Any remaining resources in the account at termination are to be returned to Japan.

Administered Account for Selected Fund Activities—Japan

The account can be terminated by the IMF or by Japan. Any resources that may remain in the account at termination, net of accrued liabilities under technical assistance projects or in respect of the OAP, are to be returned to Japan.

Framework Administered Account for Technical Assistance Activities

The Framework Account or any subaccount thereof may be terminated by the IMF at any time. The termination of the Framework Account shall terminate each subaccount thereof. A subaccount may also be terminated by the contributor of the resources to the subaccount. Termination shall be effective on the date that the IMF or the contributor, as the case may be, receives notice of termination. Any balances, net of the continuing liabilities and commitments under the activities financed, that may remain in a subaccount upon its termination are to be returned to the contributor.

Administered Account—Spain

The account will be terminated when Argentina repays all the resources that were distributed, or at an earlier time as agreed between Spain and the IMF. Any remaining resources in the account at termination are to be returned to Spain.

The Post-Conflict Emergency Assistance Subsidy Account

The account can be terminated by the IMF at any time. Any remaining balances after discharge of all obligations of the account upon the account's termination are to be returned to the contributors.

Frequently Used Abbreviations

AfDB	African Development Bank
AML/CFT	Anti–money laundering/combating the financing of terrorism
APEC	Asia-Pacific Economic Cooperation
AsDB	Asian Development Bank
ASEAN	Association of South East Asian Nations
BCBS	Basel Committee on Banking Supervision
BIS	Bank for International Settlements
CARTAC	Caribbean Regional Technical Assistance Center
CCL	Contingent Credit Line
CEMAC	Central African Economic and Monetary Committee
CFF	Compensatory Financing Facility
CMCG	Capital Markets Consultative Group
CSF	Currency Stabilization Fund
DSBB	Data Standards Bulletin Board
EBRD	European Bank for Reconstruction and Development
ECB	European Central Bank
ECOWAS	Economic Community of West African States
ECU	European currency unit
EFF	Extended Fund Facility
EMS	European Monetary System
EMU	European Economic and Monetary Union
ERM	Exchange rate mechanism (of the EMS)
ESAF	Enhanced Structural Adjustment Facility
EU	European Union
EWS	Early warning system
FATF	Financial Action Task Force
FDI	Foreign direct investment
FIU	Financial Intelligence Unit
FSAP	Financial Sector Assessment Program
FSF	Financial Stability Forum
FSI	Financial soundness indicator
FSLC	Financial Sector Liaison Committee
FSSA	Financial System Stability Assessment
GAB	General Arrangements to Borrow
GDDS	General Data Dissemination System
GDP	Gross domestic product
GNP	Gross national product
GRA	General Resources Account
HIPC	Heavily Indebted Poor Countries
IAIS	International Association of Insurance Supervisors
IASC	International Accounting Standards Committee
IATF	Inter-Agency Task Force on Finance Statistics
IDA	International Development Association
IDB	Inter-American Development Bank
IEO	Independent Evaluation Office (of the IMF)
IFAC	International Federation of Accountants
IFC	International Finance Corporation
ILO	International Labor Organization
IMFC	International Monetary and Financial Committee
IOSCO	International Organization of Securities Commissioners
I-PRSP	Interim Poverty Reduction Strategy Paper
LOI	Letter of Intent
NAB	New Arrangements to Borrow
NPV	Net present value
ODA	Official Development Assistance
OECD	Organization for Economic Cooperation and Development
OFC	Offshore financial center
OPEC	Organization of Petroleum Exporting Countries
PIN	Public Information Notice
PRGF	Poverty Reduction and Growth Facility
PRSP	Poverty Reduction Strategy Paper
ROSC	Report on the Observance of Standards and Codes
SAF	Structural Adjustment Facility
SDDS	Special Data Dissemination Standard
SDR	Special drawing right
SMP	Staff-Monitored Program
SRF	Supplemental Reserve Facility
STF	Systemic Transformation Facility
TCAP	Technical Cooperation Action Plan
UFR	Use of Fund Resources
UN	United Nations
UNDP	United Nations Development Program
WAEMU	West African Economic and Monetary Union
WTO	World Trade Organization

Purposes of the IMF

(i) To promote international monetary cooperation through a permanent institution which provides the machinery for consultation and collaboration on international monetary problems.

(ii) To facilitate the expansion and balanced growth of international trade, and to contribute thereby to the promotion and maintenance of high levels of employment and real income and to the development of the productive resources of all members as primary objectives of economic policy.

(iii) To promote exchange stability, to maintain orderly exchange arrangements among members, and to avoid competitive exchange depreciation.

(iv) To assist in the establishment of a multilateral system of payments in respect of current transactions between members and in the elimination of foreign exchange restrictions which hamper the growth of world trade.

(v) To give confidence to members by making the general resources of the Fund temporarily available to them under adequate safeguards, thus providing them with opportunity to correct maladjustments in their balance of payments without resorting to measures destructive of national or international prosperity.

(vi) In accordance with the above, to shorten the duration and lessen the degree of disequilibrium in the international balances of payments of members.

The Fund shall be guided in all its policies and decisions by the purposes set forth in this Article.

Article I of the IMF's Articles of Agreement

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