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INTERNATIONAL MONETARY FUND

ANNUAL REPORT
2004

MAKING THE GLOBAL ECONOMY WORK FOR ALL

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A Global Institution

The International Monetary Fund is a specialized agency of the United Nations system set up by treaty in 1945 to help promote the health of the world economy. Headquartered in Washington, D.C., it is governed by its almost global membership of 184 countries.

The IMF is the central institution of the international monetary system—the system of international payments and exchange rates among national currencies that enables business to take place among countries.

The IMF's statutory purposes include facilitating the balanced expansion of world trade, promoting the stability of exchange rates, avoiding competitive currency devaluations, and helping in the orderly correction of a country's balance of payments problems.

To achieve these goals, the IMF

- Monitors economic and financial developments and policies, in member countries and at the global level, and gives policy advice to its members based on its 60 years of experience.

- Lends to member countries with balance of payments problems, to provide temporary financing in support of adjustment and reform policies aimed at correcting the underlying problems.
- Provides the governments and central banks of its member countries with technical assistance and training in its areas of expertise.

By working to strengthen the international financial system and to accelerate progress toward reducing poverty, as well as promoting sound economic policies among all its member countries, the IMF is helping to make globalization work for the benefit of all.

This *Annual Report of the Executive Board of the IMF* reports on the activities of the Board during the financial year May 1, 2003, through April 30, 2004. Most of the Report consists of reviews of Board discussions of the whole range of IMF policy and operations. Further information is provided on the Fund's website: www.imf.org.

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MAKING THE GLOBAL ECONOMY WORK FOR ALL

Highlights



The opening session of the joint IMF-World Bank Annual Meetings in Dubai, United Arab Emirates, September 2003—the first time the event had been held in the Middle East.

The IMF's work in FY2004 took place during a welcome recovery in the world economy after the slowdown of 2001–02. Global GDP growth in 2003 almost reached its long-term trend rate of 4 percent, while inflation remained subdued. World trade growth also picked up, and net private capital flows to emerging market and developing countries increased, as emerging market bond spreads narrowed.

The strengthening global recovery was led by the United States and a number of Asian economies, including China. Continuing low interest rates in the advanced economies, in an environment of more credible monetary policies and expansionary fiscal policies in several countries, contributed to the improvement in global growth. The strong performance of a number of emerging market economies reflected measures taken in recent years to improve their flexibility and resilience.

During FY2004, the IMF continued to work with its member countries to foster sustained growth and financial stability—and reduce poverty in its low-income members—through its surveillance activities and policy advice; lending in support of stabilization and reform programs; and technical assistance in formulating sound policies and building robust institutions.

Surveillance

As in previous years, a major part of the IMF's activities during the financial year were directly related to its responsibility for overseeing the international monetary system and the economic, financial, and exchange rate policies of member countries.

The Executive Board conducted its twice-yearly comprehensive assessments of the *world economic outlook* and *global financial stability* in August 2003

and March 2004. By March, the global economic recovery had strengthened and broadened, and Directors agreed that the focus of policy efforts should be on medium-term measures that would underpin the sustainability of growth while rebuilding room for maneuver to respond to possible future shocks. They observed that managing the transition to a higher interest rate environment would be a key challenge. Directors also agreed that the relatively benign conditions in mature and emerging financial markets provided a window of opportunity to focus policy attention on structural reforms.

The Fund completed *Article IV (country) consultations* with 115 members. It continued to emphasize financial sector surveillance. Under the IMF-World Bank *Financial Sector Assessment Program* (FSAP), introduced in 1999, over 100 countries have either undertaken an FSAP exercise or formally committed to do so; 58 assessments have been completed. During the 2003 FSAP exercises in both Germany and Japan, the Fund contributed to domestic debates on financial sector reform. Significant reforms related to FSAP exercises are under way in several developing countries, including Tanzania and Tunisia. In addition, as of end-April 524 Reports on the Observance of Standards and Codes (ROSCs) had been completed for 106 economies across 12 areas of interest.

Crisis Prevention and Resolution

During the financial year, the IMF's Board and staff took further steps to make Fund surveillance more effective.

The Fund sharpened its analytical tools—for example, *debt sustainability assessments* and *balance sheet analysis*—and completed draft guidelines on *financial soundness indicators*.

After the completion in October 2003 of the 12-month pilot program of the Fund and the World Bank for assessing *anti-money-laundering/combating the financing of terrorism* (AML/CFT) regimes, the Board decided that this work should be included in all Financial Sector Assessment Program reports and Offshore Financial Center (OFC) assessments. The Board endorsed the 40 + 8 Recommendations of the Financial Action Task Force as the new, expanded standard for AML/CFT assessments.

The Board also reviewed the *OFC assessment program*. To date, 41 of the 44 jurisdictions contacted by the IMF have undergone initial assessments.

Given the importance of *good data for surveillance*, during FY2004 the Board expanded, effective January 2005, the categories of data that members are obliged to provide to the Fund under Article VIII, Section 5, and set out a procedural framework for enforcing this obligation.

Besides working on crisis prevention tools, the IMF sought ways to ensure the more orderly resolution of crises that do occur. With the Fund's encouragement, the number of emerging market countries that are including *collective action clauses* (CACs) in their international sovereign bonds issued under New York law, where CACs have not been the market standard, has grown (to 18 as of end-April 2004). Sovereign bonds containing CACs accounted for more than 70 percent of the total volume of sovereign bonds issued during the second half of 2003 and early 2004.

Lending Policies and Facilities

To better meet the evolving needs of its members, the IMF made a number of changes to its lending policies and facilities during the year and reviewed the design of several programs and the policy conditions that borrowing countries are expected to meet.

The Fund's *Contingent Credit Lines*—an instrument introduced in 1999 to provide a precautionary line of defense for countries vulnerable to contagion despite sound fundamentals—expired, unused, on November 30, 2003. Subsequently, the IMF began exploring the scope for adapting precautionary arrangements as an instrument for crisis prevention.

The IMF reviewed the policy framework relating to financing in amounts that exceed normal limits ("*exceptional access*").

Based on the recommendations of the Independent Evaluation Office, the Fund introduced *ex post assessments of IMF-supported programs*.

The Fund's *Independent Evaluation Office* issued two reports—one on the role of the Fund in capital account crises in Brazil, Indonesia, and Korea, and another on fiscal adjustment in IMF-supported programs. The latter report found that some common criticisms—notably, that IMF-supported programs adopted a "one-size-fits-all" approach, were inflexible, and caused a decline in social spending—were not supported by the evidence.

Support for Low-Income Countries

The main objective of the IMF's work with low-income countries is deep and lasting poverty reduction, as elaborated in the UN's Millennium Development Goals (MDGs). Working closely with the World Bank, and in the context of the policy frameworks set out in countries' Poverty Reduction Strategy Papers, the IMF provides its low-income members with policy advice, technical assistance, and concessional loans under the Poverty Reduction and Growth Facility (PRGF), and makes grants under the Heavily Indebted Poor Countries (HIPC) Initiative.

During the financial year, 36 countries received disbursements totaling SDR 865 million (\$1.3 billion) under their *PRGF arrangements*. Ten new PRGF arrangements, with IMF loan commitments totaling SDR 955 million (\$1.4 billion), were approved. As of April 30, 2004, 36 member countries' adjustment and reform programs were being supported by PRGF arrangements with total commitments of SDR 4.4 billion (\$6.4 billion).

As of April 30, 2004, the Fund had committed SDR 1.8 billion (\$2.6 billion) in grants and disbursed



Schoolboy in front of his parents' shop in Aksum, Ethiopia—one of five low-income countries to reach their completion points under the HIPC Initiative during FY2004.



Investors in Manila check asset prices. The Philippines has included collective action clauses—promoted by the IMF to facilitate crisis resolution—in its sovereign bonds issued under New York law.

SDR 1.2 billion (\$1.7 billion) in *HIPC assistance*. By end-April, 27 countries had reached their *decision points* under the enhanced HIPC Initiative, and Ethiopia, Guyana, Nicaragua, Niger, and Senegal had reached their *completion points*, bringing the total to 13 countries.

The IMF and World Bank collaborated on the first *Global Monitoring Report on Policies and Actions for Achieving the MDGs and Related Outcomes*, which was discussed by the joint IMF/World Bank Development Committee in April 2004.

In March 2004, the IMF's Executive Board discussed the benefits of subsidizing the rate of charge for *emergency assistance* to PRGF-eligible countries hit by natural disasters and asked staff to prepare specific proposals for implementation.

Given concerns that many low-income countries will be unable to achieve the MDGs without increased external assistance, the staffs of the IMF and the World Bank have proposed a *debt sustainability framework* to guide both the borrowing decisions of these countries and the lending and grant-allocation decisions of official creditors and donors.

To enhance aid predictability and effectiveness, the Fund is working on *donor harmonization* with the Development Assistance Committee of the Organization for Economic Cooperation and Development (OECD) and the multilateral development banks.

Trade

A few months after the *Doha Round trade talks* stalled in Cancún in September 2003, the Fund's Managing Director and the World Bank's President sent a joint letter to heads of state and government as well as finance and trade ministers stressing the importance of the successful completion of the round, and, in particular, the importance of liberalizing agricultural trade and the need for greater flexibility in applying trade regulations with which poor countries may be unable to comply.

In April 2004, the IMF's Board approved a new financing policy, the *Trade Integration Mechanism*, under which the Fund will help

countries suffering temporary balance of payments shortfalls arising from trade liberalization by other countries.

The Fund also provided *technical assistance* to a number of countries in customs and tax and tariff reform; collaborated with other agencies and donors in the Integrated Framework for Trade-Related Technical Assistance to help incorporate trade reforms in national poverty reduction strategies; identified potential risks and helped authorities understand the benefits of international integration; and studied the impact of trade reforms on member countries.

Technical Assistance and Training

The IMF provides technical assistance to member countries and training for their officials, both at its Washington, D.C., headquarters and at regional centers.

The *amount of technical assistance* provided by the Fund increased in FY2004 to 367 person-years, from 356 in FY2003. Sub-Saharan Africa continued to be the largest recipient region, but technical assistance increased in the Asia-Pacific region, in part because of the assistance provided to post-conflict countries such as Cambodia and Timor-Leste, and increased assistance to China, Indonesia, and Mongolia. A number of countries in central and eastern Europe received technical assistance related to their preparation for joining the European Union on May 1, 2004.

In May 2003, the Fund opened its second *regional technical assistance center* in Africa. West AFRITAC, which is located in Bamako, Mali, will serve Benin, Burkina Faso, Côte d'Ivoire, Guinea, Guinea-Bissau, Mali, Mauritania, Niger, Senegal, and Togo.

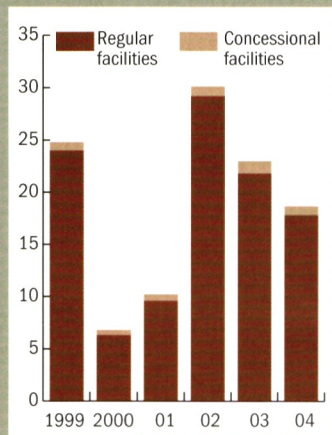
External financing accounted for 29 percent of total assistance delivered by the IMF in FY2004.

Governance, Cooperation, and Transparency

At the IMF–World Bank April 2004 meetings, the Communiqué of the International Monetary and Financial Committee (IMFC) called for continued efforts to enhance the capacity

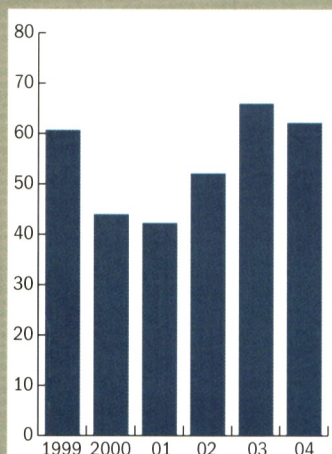
Regular and Concessional Lending (Disbursement)

(In billions of SDRs, financial year)



IMF Credit Outstanding¹

(In billions of SDRs, end of financial year)



¹Excludes concessional lending.

of developing countries to participate more effectively in IMF decision making, and called for the Board to continue working on *quotas, voice, and representation*. The Development Committee circulated a proposed road map on procedures and next steps.

The Board also reviewed the Fund's *transparency policy*. Publication of Article IV country reports increased in FY2004—nearly three-fourths of the Fund's member countries agreed to publish at least one country report, and nearly all documents summarizing countries' policy intentions were published. To further enhance transparency, the Board established a policy of presumed but still voluntary publication for all reports on the use of Fund resources and post-program monitoring, as well as Article IV reports.

Financial Operations

The improvement in global economic conditions and increased resilience of many emerging market economies were reflected in reduced demand for IMF lending.

New commitments under the Fund's regular loan facilities dropped from SDR 29.4 billion (\$42.7 billion) in FY2003 to SDR 14.5 billion (\$21.1 billion) in FY2004. Together, Argentina and Brazil accounted for more than 90 percent of total new commitments. The Fund also approved or augmented Stand-By Arrangements with the Dominican Republic, Guatemala, Paraguay, and Ukraine, and Burundi received SDR 9.6 million (\$13.9 million) in post-conflict emergency assistance. (For lending to low-income countries, see above.)

The Fund's *outstanding credit* reached an all-time high of SDR 70 billion (\$101.6 billion) in September 2003 but declined to SDR 62.2 billion (\$90.3 billion) by the end of the financial year, SDR 3.5 billion (\$5.1 billion) less than a year earlier, mostly owing to large net repayments by Brazil, and to a lesser extent, Russia and Turkey.

The IMF's one-year *forward commitment capacity*—the quota-based resources available for new lending over the next 12 months, which provides the main measure of the IMF's liquid-

ity or lending capacity—had declined to SDR 58 billion (\$84 billion) at end-April 2004 from SDR 61 billion (\$89 billion) a year earlier, primarily because of the Fund's large commitments to Argentina and Brazil.

Human Resources, Organization, and Administration

Several *senior personnel* changes took place. Managing Director Horst Köhler resigned in March 2004 to accept the nomination for the Presidency of Germany, to which he was elected in May. He was succeeded in June 2004 by Rodrigo de Rato, who served as Spain's Minister of Economy and Vice President for Economic Affairs during 2000–04. Deputy Managing Director Eduardo Aninat left the Fund in June 2003, and Deputy Managing Director Shigemitsu Sugisaki retired in January 2004. Mr. Aninat was succeeded by Agustín Carstens, former Deputy Secretary of Finance in Mexico, and Mr. Sugisaki by Takatoshi Kato, who has held important posts in government, business, and academia in Japan. Raghuram G. Rajan, Professor of Finance at the University of Chicago, succeeded Kenneth Rogoff as the Fund's Economic Counsellor and Director of the Research Department in October 2003.

There were also some *departmental changes*. The European II Department, formed in 1992 to work with the 15 countries of the former Soviet Union, was dissolved and responsibility for these countries was transferred partly to the European Department and partly to the Middle East and Central Asia Department. The African Department was reorganized to increase its effectiveness.

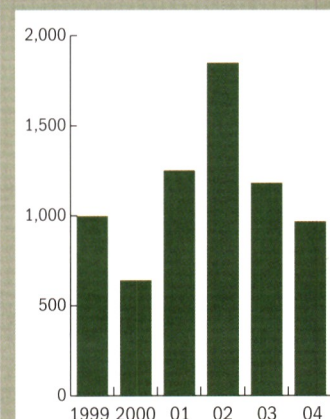
The IMF's net *administrative expenses* in FY2004 were \$747.6 million, a 3.8 percent increase over last year's expenditure outturn, the lowest such increase since FY1997. Expenditures were well under budget. Efficiency gains, lower-than-projected personnel and travel costs, and higher-than-forecast reimbursements contributed to the underrun in net expenditures; in addition, contingencies were not utilized. The Fund continued to modernize its internal budget procedures.



Then-Managing Director Horst Köhler visiting Madagascar in July 2003. Mr. Köhler resigned in March 2004 to accept the nomination for the Presidency of Germany.

PRGF—New Commitments¹

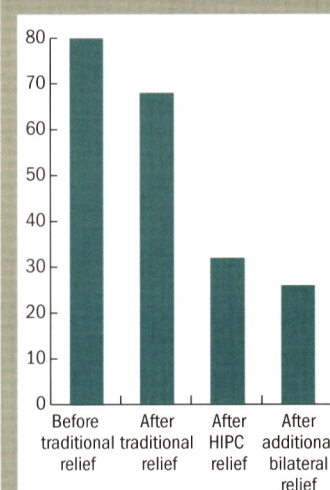
(In millions of SDRs, financial year)



¹Includes augmentations less approved reduction.

HIPCs—Debt Reduction¹

(In billions of U.S. dollars, in 2003 net-present-value terms)



¹For the 27 countries that had reached their decision points as of April 30, 2004.

Message from the Managing Director

Although my signature appears on this Annual Report, the IMF's activities during the past financial year took place under the leadership of my predecessor, Horst Köhler—who served as Managing Director and Chair of the Executive Board from May 2000 to March 2004—and of his first deputy, Anne O. Krueger, who was Acting Managing Director until I took up my position in June. Theirs is the credit for leading the IMF's work during the year.

The beginning of my term coincides with the 60th anniversary of the IMF and the World Bank. I have been considering the past achievements of the Fund and the lessons to be learned from its experience, and also looking to its future. Whether looking back or looking ahead, I see the IMF's main role as promoting economic and financial stability and improving the prospects for sustained growth worldwide. This is the Fund's core mandate, as relevant to the challenges that countries face in the early twenty-first century as it was at the end of World War II.

But what it takes to promote such economic and financial stability has changed markedly since 1944

because of global developments. In recent years, the IMF has adapted many of its tools and designed new ones—in the areas of surveillance, lending, and technical assistance—to strengthen its work on crisis prevention and resolution, and to enhance its contribution to poverty reduction in low-income countries.



I believe that these initiatives continued to show results in financial year 2004. The global economic recovery gathered pace and broadened, after a relatively mild slowdown, with inflation remaining subdued. A number of low-income countries that have made progress in curbing inflation, establishing better control of finances, and implementing reforms have experienced significant improvements in economic

performance, benefiting the poor. In fact, Africa saw its best growth performance since the mid-1990s. The international financial system continued to display remarkable resilience in the wake of the shocks of recent years—including sharp equity market declines, the terrorist attacks of 9/11, and the Iraq war—and I am sure that this was due, in part, to the increased safeguards and policy improvements put in place over the past decade.

The year also saw the consolidation of many recent Fund initiatives. One of the most important of these has been the push for more transparency in economic policies and developments. During the year, the IMF released more and better information about its activities and its member countries' economies than ever before: three-fourths of the Fund's country reports were published, as were almost all policy papers. This increased transparency promotes greater accountability and helps markets assess risks more accurately. In the area of surveillance, intensive health check-ups of financial sectors continued to be carried out through the Financial Sector Assessment Program (FSAP) introduced in 1999. The

Fund also honed some of its innovative tools—such as debt sustainability assessments and balance sheet analysis—so that it can more effectively evaluate the vulnerabilities of, and risks faced by, countries and regions.

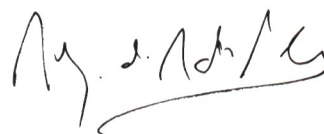
A dynamic global market economy will tend to experience occasional crises, and the IMF's role must then be to help the countries affected, by providing policy advice and financial support, to mitigate the impact of the crises, shorten their duration, and restore stability and growth. Throughout the year, the Fund took further steps to improve its ability to help resolve crises, including by promoting collective action clauses in sovereign bonds and clarifying policies on exceptional access to Fund resources in capital account crises. Fund-supported programs increasingly reflected the guidelines on streamlined conditionality introduced in 2002. One of the lessons of recent years is that the IMF needs to say "no" to potential borrowers selectively, perhaps more assertively, and, above all, more predictably, than it has in the past. We may have to think of ways of linking access to Fund resources more explicitly to

a country's policy efforts before a crisis and, perhaps, to its responsiveness to the surveillance process and its adherence to international financial standards and codes. The Contingent Credit Lines, which expired during the year, took steps in this direction, and the issue of possible alternative precautionary arrangements is on our work program.

Another focus of financial year 2004 was the IMF's role in the ongoing war on poverty in low-income countries. The UN's Millennium Development Goals (MDGs) provide clear objectives for low-income countries and their partners in the international community. The IMF-World Bank joint Poverty Reduction Strategy Paper (PRSP) approach, together with the enhanced Heavily Indebted Poor Countries (HIPC) Initiative, both introduced in 1999, define the Bretton Woods institutions' basic approach to poverty reduction. I believe it is the right approach, and during FY2004 we continued to see signs that this approach is bearing fruit. Nevertheless, formidable obstacles remain, as highlighted in the June 2004 *Global Monitoring Report* on the

progress countries are making toward the MDGs. Especially important for developing countries is a successful conclusion to the Doha Round of trade negotiations begun in 2001, although it is a must for all countries.

I am proud to be leading an institution that has such strong traditions of serving as the forum for successful international cooperation, of learning from research and from experience, and of constantly adapting its tools to meet the needs of a changing global environment. As I look ahead, I am confident these will continue to be the hallmarks of the IMF.



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

Deputy Managing Directors

on April 30, 2004



Anne O. Krueger
First Deputy Managing Director



Agustín Carstens
Deputy Managing Director



Takatoshi Kato
Deputy Managing Director

Executive Board

on April 30, 2004



United States

Nancy P. Jacklin
Meg Lundsager



Japan

Ken Yagi
Michio Kitahara



Germany

Karlheinz Bischofberger
Gert Meissner



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

Jeroen Kremers
Yuriy G. Yakusha



Costa Rica, El Salvador, Guatemala, Honduras, Mexico, Nicaragua, Spain, Venezuela

Luis Martí
Moises Schwartz



Albania, Greece, Italy, Malta, Portugal, San Marin, Timor-Leste

Pier Carlo Padoan
Harilaos Vittas



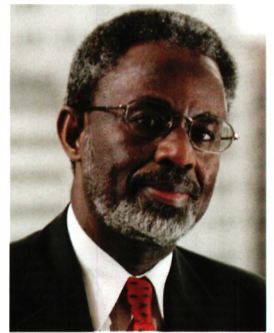
Saudi Arabia

Sulaiman M. Al-Turki
Abdallah S. Alazzaz



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

Sri Mulyani Indrawati
Ismail Alowi



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

Ismaila Usman
Peter J. Ngumbullu



Russian Federation

Aleksei V. Mozhin
Andrei Lushin



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

Abbas Mirakhor
Mohammed Da'iri



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

Murilo Portugal
Roberto Steiner

Note: Alternative Executive Directors are indicated in italics.



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
Charles X. O'Loghlin



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

Jon A. Solheim
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
Michael H. Reddell



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

A. Shakour Shaalan
Oussama T. Kanaan



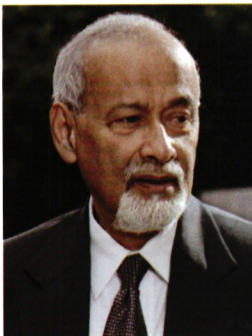
China

WANG Xiaoyi
GE Huayong



Azerbaijan, Kyrgyz
Republic, Poland,
Serbia and Montenegro,
Switzerland, Tajikistan,
Turkmenistan, Uzbekistan

Fritz Zurbrugg
Wieslaw Szczuka



Bangladesh,
Bhutan, India,
Sri Lanka

B.P. Misra
R.A. Jayatissa



Argentina, Bolivia,
Chile, Paraguay, Peru,
Uruguay

Guillermo Le Fort
Héctor Torres



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

Damian Ondo Mañe
Laureen W. Rutayisire

Senior Officers

on April 30, 2004

Gerd Häusler, Counsellor
Raghuram G. Rajan, Economic Counsellor

Area Departments

Abdoulaye Bio-Tchané
Director, African Department

David Burton
Director, Asia and Pacific Department

Michael C. Deppler
Director, European Department¹

Mohsin S. Khan
Director, Middle East and Central Asia Department¹

Anoop Singh
Director, Western Hemisphere Department

Functional and Special Services Departments

Eduard Brau
Director, Finance Department

Teresa M. Ter-Minassian
Director, Fiscal Affairs Department

Leslie Lipschitz
Director, IMF Institute

Gerd Häusler
Director, International Capital Markets Department

François P. Gianviti
General Counsel, Legal Department

Stefan Ingves
Director, Monetary and Financial Systems Department

Mark Allen
Director, Policy Development and Review Department

Raghuram G. Rajan
Director, Research Department

Carol S. Carson²
Director, Statistics Department

¹The European I Department, European II Department, and Middle Eastern Department were reconfigured on November 1, 2003, to form the European Department and the Middle East and Central Asia Department.

Information and Liaison

Thomas C. Dawson II
Director, External Relations Department

Hiroyuki Hino
Director, Regional Office for Asia and the Pacific

Flemming Larsen
Director, Offices in Europe

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

Support Services

Margaret R. Kelly³
Director, Human Resources Department

Shailendra J. Anjaria
Secretary, Secretary's Department

Brian C. Stuart
Director, Technology and General Services Department

Offices

Barry Potter
Director, Office of Budget and Planning

Alain Coune
Director, Office of Internal Audit and Inspection

Claire Liuksila
Director, Office of Technical Assistance Management

Montek Singh Ahluwalia
Director, Independent Evaluation Office

Jeanette Morrison
Chief, Editorial and Publications Division

²Robert Edwards will assume the position of Director, Statistics Department, when Carol Carson relinquishes her responsibilities as Director on September 1, 2004.

³Jorge Márquez-Ruarte assumed the position of Director, Human Resources Department, when Margaret Kelly relinquished her responsibilities as Director on July 5, 2004.

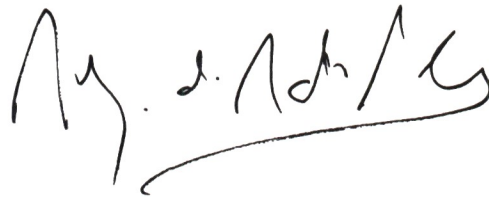
Letter of Transmittal to the Board of Governors

August 27, 2004

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, 2004, 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, 2005, are presented in Section 8. The audited financial statements for the year ended April 30, 2004, 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.

A handwritten signature in black ink, appearing to read 'R. de Rato', with a long horizontal flourish underneath.

Rodrigo de Rato

Managing Director and Chair of the Executive Board

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The IMF's financial year is May 1 through April 30.

The unit of account of the IMF is the SDR; conversions of IMF financial data to U.S. dollars are approximate and provided for convenience. As of April 30, 2004, the SDR/U.S. dollar exchange rate was US\$1 = SDR 0.68879, and the U.S. dollar/SDR exchange rate was SDR 1 = US\$1.45183. The year-earlier rates (April 30, 2003) were US\$1 = SDR 0.722589 and SDR 1 = US\$1.38391.

The following conventions are used in this Report:

- 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, 2003–04 or January–June) to indicate the years or months covered, including the beginning and ending years or months;
- / between years or months (for example 2003/04) 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.



INTERNATIONAL MONETARY FUND

ANNUAL REPORT

2004

IMF Surveillance— Promoting Growth and Stability



One of the core responsibilities of the International Monetary Fund is to maintain a dialogue with its member countries on the national and international consequences of their economic and financial policies. This process of monitoring and consultation, referred to as surveillance, is mandated under Article IV of the IMF's Articles of Agreement and lies at the heart of the Fund's efforts to prevent crises.

The IMF exercises this responsibility of surveillance in several ways (see Box 1.1). Highlights of its surveillance activities during financial year 2004 follow.

- As part of the Fund's surveillance of the global economy, the Executive Board conducted its twice-yearly comprehensive assessments of the *World Economic Outlook* in August 2003 and March 2004. Against the background of prospects for a gradual—albeit moderate—global economic recovery, Directors in August 2003 called for macroeconomic policies to remain appropriately supportive and for reinvigorated structural reform efforts. By March, the nascent recovery had strengthened and broadened, and Directors agreed that the focus of policy efforts should be on medium-term measures that would underpin the sustainability of the recovery while rebuilding room for maneuver to respond to possible future shocks. In addition, they observed that managing the transition to a higher interest rate environment would be a key challenge.
- Also in August 2003 and March 2004, the Board discussed developments in financial markets worldwide, based on *Global Financial Stability Reports* prepared by the staff. In August 2003, Directors noted that financial markets had remained resilient, notwithstanding continued lackluster economic growth, but expressed their concern about several downside risks, with a focus

on the policy implications of these market developments. By March 2004, with the prospects for financial stability appearing brighter, Directors stressed, among other things, that relatively benign conditions in mature and emerging markets provided a window of opportunity to focus policy attention on several key structural reforms.

- The Board completed 115 consultations with individual member countries as mandated under Article IV of its Articles of Agreement.
- Executive Directors discussed regional developments on several occasions. In particular, they discussed euro area policies (September 2003), the adoption of the euro by central European members (February 2004), and developments and policies in the Central African Economic and Monetary Community (November 2003).

Country Surveillance

To conduct surveillance in accordance with Article IV, an IMF staff team visits each member country to meet government and central bank officials and collect and analyze economic and financial information. The consultations cover recent economic developments and the exchange rate, monetary, fiscal, and relevant structural policies the country is pursuing. The Executive Director for the member country usually participates as an observer. The team generally also meets with other groups—such as members of legislative bodies, trade unions, employer associations, academics, and financial market participants. The IMF staff team normally prepares a concluding statement, or memorandum, summarizing the findings and policy advice of the staff team and leaves this statement with the national authorities, who have the option of publishing it.

Box 1.1 Forms of IMF Surveillance

With its nearly universal membership of 184 countries, the IMF serves as an international forum where members can monitor global, country, and regional economic developments. IMF surveillance takes three main forms:

- **Country (“Bilateral”) Surveillance.** As mandated by Article IV, the Executive Board holds regular consultations with each member country on its economic and financial policies, and the international repercussions of these policies. Through these “Article IV” consultations, which are based on staff reports, the IMF aims to identify policy strengths and weaknesses, indicate potential vulnerabilities, and advise countries on appropriate and corrective policy actions. The IMF also conducts bilateral surveillance through the Financial Sector Assessment Program, or FSAP (see Section 2).
- **Global (“Multilateral”) Surveillance.** The IMF’s Executive Board regularly reviews global economic and financial market developments. The reviews are based partly on the staff’s *World Economic Outlook*

reports and the *Global Financial Stability Reports*, both of which are prepared twice a year. In addition, the Board holds more frequent, informal discussions about world economic and financial market developments. Activities in mature and emerging financial markets are monitored continuously, including in a daily internal report prepared by the staff.

- **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 Commission, the European Central Bank, the Central African Economic and Monetary Community, the Eastern Caribbean Currency Union, and the West African Economic and Monetary Union.

The IMF also takes part in policy discussions of finance ministers, central bank governors, and other officials in a variety of groups, such as the Group of Seven major industrial countries, the Group of 24, and the Asia-Pacific Economic Cooperation Forum. (See also Section 6 on governance.)

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 then discusses the report. The views of the country’s authorities are conveyed to the Board by the country’s Executive Director. The views expressed by the Executive Directors during the meeting are summarized by the Chair (or Acting Chair) of the Board, and a written summing up is produced. Subject to the approval of the member country concerned, the full Article IV consultation report and a Public Information Notice (PIN), containing a summary of the Board discussion and background material, are released to the public. The country authorities may authorize release of a PIN even if they do not wish to release the full report. In FY2004, the Board conducted 115 Article IV consultations with member countries (see Table 1.1). All PINs and the Article IV reports that the authorities have agreed to release are published on the IMF website.

In addition, the Board assesses the economic conditions in, and policies of, member countries borrowing from the IMF in the context of its discussions on the lending arrangements that support the member countries’ economic programs. The Board also holds frequent informal meetings to

monitor and discuss developments in individual countries.

Global Surveillance

The Executive Board’s conduct of global surveillance relies heavily on two staff reports—the *World Economic Outlook* and the *Global Financial Stability Report*—as well as on regular sessions on world economic and market developments.

World Economic Outlook

The Board’s twice-yearly reviews of the *World Economic Outlook* are an integral part of the Fund’s ongoing surveillance of economic developments and policies in its member countries and of the global economic system. These surveys of prospects and policies are the outcome of a comprehensive review of world economic developments and analyze short-term and medium-term prospects for the world economy as well as for individual countries and

country groups. They draw for the most part on information gathered through the staff’s consultations with member countries and provide a framework for assessing the relationships among the economic policies of Fund members.

In FY2004, the Board discussed the *World Economic Outlook* on two occasions—in August 2003 and in March 2004. (See Box 1.2 for a chronology of key economic developments during FY2004.)

World Economic Outlook, August 2003

At the time of the August 2003 *World Economic Outlook* discussion, economic data in some countries and forward-looking indicators, particularly in financial markets, pointed to a strengthening of global growth in the second half of 2003 and 2004, and Executive Directors noted the prospects for a gradual—albeit moderate—recovery.

Given this environment, Directors called for macroeconomic policies to remain appropriately supportive and for reinvigorated structural reform efforts to strengthen confidence and reduce vulnerabilities over the medium term. In particular, monetary policies in industrial countries should remain supportive for the time being, and—

Table 1.1 Article IV Consultations Completed in FY2004

Country	Board Date	PIN Issued	Staff Report Published
Afghanistan, Islamic State of	November 21, 2003	December 22, 2003	December 22, 2003
Algeria	January 14, 2004	January 29, 2004	February 10, 2004
Angola	July 25, 2003	September 10, 2003	September 10, 2003
Antigua and Barbuda	October 24, 2003		
Australia	October 22, 2003	October 29, 2003	October 29, 2003
Austria	November 24, 2003	November 26, 2003	November 26, 2003
Azerbaijan	May 14, 2003	June 4, 2003	June 6, 2003
Bahamas, The	July 2, 2003	July 23, 2003	July 23, 2003
Bangladesh	June 20, 2003	July 11, 2003	July 11, 2003
Belgium	February 13, 2004	February 27, 2004	February 27, 2004
Belize	March 24, 2004	April 16, 2004	April 16, 2004
Bolivia	July 7, 2003	August 20, 2003	August 20, 2003
Bosnia and Herzegovina	February 25, 2004	March 5, 2004	March 16, 2004
Botswana	March 24, 2004	July 30, 2004	July 30, 2004
Burkina Faso	June 11, 2003	June 30, 2003	June 30, 2003
Burundi	January 23, 2004	February 10, 2004	February 20, 2004
Canada	February 18, 2004	March 10, 2004	March 10, 2004
Central African Republic	April 2, 2004	April 14, 2004	June 10, 2004
Chad	March 19, 2004	April 29, 2004	April 29, 2004
Chile	August 18, 2003	August 20, 2003	September 26, 2003
China	October 31, 2003	November 18, 2003	
Comoros	April 30, 2004	May 14, 2004	
Congo, Republic of	June 13, 2003	June 30, 2003	June 30, 2003
Côte d'Ivoire	March 31, 2004	April 21, 2004	
Czech Republic	August 22, 2003	September 5, 2003	January 9, 2004
Djibouti	January 7, 2004	March 19, 2004	March 19, 2004
Dominican Republic	August 29, 2003	October 14, 2003	
El Salvador	July 18, 2003	December 22, 2003	
Equatorial Guinea	November 12, 2003	December 9, 2003	December 9, 2003
Eritrea	May 2, 2003	July 1, 2003	July 1, 2003
Estonia	October 22, 2003	October 27, 2003	October 27, 2003
Finland	October 8, 2003	October 17, 2003	October 17, 2003
France	October 8, 2003	October 29, 2003	October 29, 2003
Gabon	November 10, 2003	November 20, 2003	February 5, 2004
Gambia, The	March 8, 2004	May 18, 2004	May 18, 2004
Georgia	October 17, 2003	November 7, 2003	November 7, 2003
Germany	November 3, 2003	November 6, 2003	November 6, 2003
Ghana	May 9, 2003	May 16, 2003	May 21, 2003
Greece	May 16, 2003	June 11, 2003	June 11, 2003
Guinea	July 16, 2003	August 14, 2003	August 14, 2003
Honduras	May 5, 2003		
Hong Kong SAR	May 16, 2003	May 30, 2003	May 30, 2003
Hungary	May 2, 2003	May 9, 2003	May 9, 2003
Iceland	August 22, 2003	August 29, 2003	August 29, 2003
India	July 18, 2003	August 21, 2003	
Iran, Islamic Republic of	August 25, 2003	September 5, 2003	September 5, 2003
Ireland	July 30, 2003	August 5, 2003	August 6, 2003
Israel	April 19, 2004	April 29, 2004	June 3, 2004
Italy	November 7, 2003	November 13, 2003	November 13, 2003
Jamaica	June 9, 2003	March 23, 2004	March 23, 2004
Japan	August 20, 2003	September 5, 2003	September 5, 2003
Jordan	April 2, 2004	April 28, 2004	May 4, 2004
Kazakhstan	May 28, 2003	June 17, 2003	July 18, 2003
Kenya	May 2, 2003	July 9, 2003	July 9, 2003
Kiribati	June 16, 2003	July 7, 2003	
Korea	February 20, 2004	February 25, 2004	February 25, 2004
Kuwait	February 9, 2004	February 25, 2004	July 12, 2004
Lesotho	January 21, 2004	February 5, 2004	February 5, 2004
Libya	August 18, 2003	October 23, 2003	October 23, 2003
Lithuania	September 5, 2003	September 9, 2003	September 11, 2003

Table 1.1 (concluded)

Country	Board Date	PIN Issued	Staff Report Published
Luxembourg	April 28, 2004	May 4, 2004	May 5, 2004
Malaysia	February 9, 2004	March 24, 2004	
Mali	December 15, 2003	January 12, 2004	January 12, 2004
Malta	August 18, 2003	September 3, 2003	September 3, 2003
Marshall Islands	January 26, 2004	February 13, 2004	
Mauritania	July 18, 2003	August 13, 2003	October 10, 2003
Mauritius	June 30, 2003	August 6, 2003	October 14, 2003
Mexico	October 15, 2003	October 30, 2003	
Moldova	January 26, 2004	February 2, 2004	February 18, 2004
Mozambique	December 10, 2003	December 22, 2003	March 5, 2004
Myanmar	March 17, 2004		
Nepal	August 22, 2003	September 5, 2003	September 5, 2003
Netherlands	July 30, 2003	August 8, 2003	August 8, 2003
Netherlands Antilles	June 4, 2003	June 13, 2003	June 13, 2003
New Zealand	April 30, 2004	May 5, 2004	May 5, 2004
Norway	March 22, 2004	March 31, 2004	April 2, 2004
Oman	October 6, 2003	October 22, 2003	
Palau	February 27, 2004	March 2, 2004	April 1, 2004
Panama	March 22, 2004	March 26, 2004	
Papua New Guinea	June 4, 2003	June 25, 2003	June 25, 2003
Peru	February 23, 2004	May 28, 2004	May 28, 2004
Philippines	March 5, 2004	March 30, 2004	
Poland	June 9, 2003	June 19, 2003	June 25, 2003
Portugal	March 15, 2004	March 22, 2004	March 22, 2004
Russian Federation	May 2, 2003	May 9, 2003	May 30, 2003
St. Kitts and Nevis	October 24, 2003	November 4, 2003	
Samoa	June 2, 2003	June 30, 2003	June 30, 2003
São Tomé and Príncipe	March 17, 2004	April 2, 2004	January 19, 2004
Saudi Arabia	October 10, 2003	December 5, 2003	
Seychelles	February 20, 2004		
Singapore	March 15, 2004	April 26, 2004	April 26, 2004
Slovak Republic	July 23, 2003	August 5, 2003	August 5, 2003
South Africa	August 20, 2003	July 1, 2004	July 1, 2004
Spain	March 19, 2004	April 2, 2004	April 2, 2004
Sri Lanka	March 5, 2004	March 12, 2004	March 16, 2004
Sudan	October 31, 2003	December 19, 2003	December 19, 2003
Suriname	October 17, 2003	November 19, 2003	November 19, 2003
Swaziland	February 9, 2004	May 25, 2004	
Sweden	July 25, 2003	August 5, 2003	August 5, 2003
Switzerland	May 23, 2003	June 2, 2003	June 2, 2003
Syrian Arab Republic	April 30, 2004		
Thailand	August 25, 2003	September 17, 2003	
Timor-Leste	July 14, 2003	July 28, 2003	July 28, 2003
Togo	April 28, 2004	May 13, 2004	
Trinidad and Tobago	June 23, 2003	July 10, 2003	August 4, 2003
Tunisia	July 25, 2003	August 7, 2003	August 21, 2003
Ukraine	May 14, 2003	June 13, 2003	June 19, 2003
United Kingdom	March 3, 2004	March 5, 2004	March 5, 2004
United States	July 30, 2003	August 5, 2003	August 5, 2003
Uruguay	July 11, 2003	August 4, 2003	August 7, 2003
Uzbekistan	May 19, 2003		
Vietnam	October 3, 2003	December 1, 2003	December 5, 2003
Yemen, Republic of	December 22, 2003		
Zambia	April 7, 2004	July 16, 2004	July 21, 2004
Zimbabwe	June 6, 2003	July 28, 2003	July 28, 2003

with inflationary pressures very moderate—Directors considered that most regions had scope for further monetary easing if the recovery faltered or inflation significantly undershot policy objectives. The orderly depreciation of the dollar was generally welcomed. Going forward, most Directors agreed that the cooperative approach, which would be needed to underpin the global adjustment process, would be helped by currency adjustments that were more broadly spread, with several emerging Asian economies being relatively well placed to handle greater upward exchange rate flexibility.

Directors agreed that fiscal policy would have much less room for maneuver. While automatic stabilizers should generally be allowed to operate, they stressed that greater priority would need to be given to credible, high-quality fiscal consolidation to address both the recent deterioration in the fiscal outlook of the largest economies and the impending pressures of population aging. Directors also called on industrial and emerging market economies to make sustained further progress in vigorously implementing ongoing structural reforms.

Directors underscored the particular importance of a successful outcome of the World Trade Organization (WTO) Cancún Ministerial meeting in September 2003 in curbing protectionist pressures and achieving further trade liberalization, which would help strengthen confidence in the economic recovery. Progress with agricultural reforms—especially in the largest industrial economies—would be critical for boosting the growth prospects of developing economies and making progress with poverty reduction. In this context, Directors expressed strong support for the initiatives being taken by the IMF and the World Bank to strengthen their support for developing countries' efforts to liberalize their trade regimes.

World Economic Outlook, March 2004

The nascent recovery apparent in mid-2003 had begun to spread by the time of the Board's second meeting on the *World Economic Outlook*. Directors welcomed the strengthening and broadening of the global economic recovery, noting especially rapid upturns in the United States and emerging Asia; a sharp pickup in industrial production and global trade; strengthened business and consumer confidence; and positive investment growth in most regions. A broad-based rally in financial markets, including a rise in equity prices, a further drop in bond spreads, and a rebound in private financing flows to emerging markets, supported the recovery. Although growth had picked up and oil and commodity prices had moved up, worldwide inflation remained subdued—a reflection of continued excess capacity, still-weak labor markets, and competitive pricing in both domestic and global markets.

Directors noted the significant upward revision to the global growth forecasts for 2004 and 2005, with the strength of the ongoing recovery pointing to upside risks in the short run. However, Directors also highlighted a number of downside risks. The terrorist attacks in Madrid of March 11, 2004, and developments in the Middle East were sobering reminders of the continuing geopolitical uncertainties under which the global outlook was being shaped. Although recent exchange rate adjustments had been helpful given the large global current account imbalances, most Directors cautioned that these imbalances would still remain large, thereby posing risks of potentially disorderly currency movements and increased protectionist pressures. Most Directors also pointed to possible increased market volatility and adverse consequences for private consumption in countries with buoyant housing markets that could result from an abrupt increase in interest rates from their currently very low levels.

Against the backdrop of the improved global outlook, Directors agreed that the focus of policy efforts should be on medium-term measures that would underpin the sustainability of the recovery while rebuilding room for maneuver to respond to possible future shocks. Managing the transition to a higher interest rate environment in most countries where growth was strengthening was a key challenge facing monetary policy in the period ahead. While the situation was likely to vary significantly among countries, depending on the evolving pace and nature of the recovery, Directors expected that, as the recovery continued, interest rates in most countries would need to rise toward more neutral levels. In this context, they considered it especially important that central banks communicate their policy intentions clearly to the financial markets to reduce the risk of abrupt changes in expectations, and that rate increases, when they actually occur, be well anchored on fundamentals.

To support an orderly resolution of the global imbalances in the context of sustained growth in the world economy, Directors called for the membership to adopt a credible and cooperative strategy that would facilitate the medium-term rebalancing of demand across countries and regions. The main pillars of this strategy should be a credible medium-term fiscal consolidation effort in the United States; an acceleration of structural reforms in the euro area; further banking and corporate reforms in Japan; and a gradual shift toward more exchange rate flexibility, combined with additional structural reforms to support domestic demand, in most of emerging Asia. Reiterating the critical importance of open markets for supporting broad-based global economic growth and poverty reduction in low-income countries, Directors called for a timely resumption and successful conclusion of multilateral trade negotiations under the Doha Round.

Box 1.2 Key Economic and Financial Developments, May 2003–April 2004

The global economic recovery gained traction during 2003, with growth nearly reaching its long-term trend rate (Figure 1.1). With accommodative policy stances in the industrial countries and renewed confidence beginning in the second quarter of 2003, economic growth strengthened and broadened. Growth in world trade volume also picked up, buttressed by increases in intra-regional trade in Asia, involving especially China and Japan. Net private capital flows to emerging market and developing countries increased as portfolio investment rebounded, and foreign direct investment (FDI) also picked up. Emerging market bond spreads narrowed and many emerging market sovereigns took advantage of the low interest rates to issue debt.

Although the recovery became increasingly broad-based, its pace and nature varied significantly. During the financial year, growth was most rapid in the emerging market countries of Asia, particularly China, and the United States, and least well established in the euro area. The recoveries in the *United States and Japan* gained steam—spurred by the growth of private consumption and a rebound in business investment in the United States, and the growth of net exports, business investment, and consumption in Japan. More than in the corresponding stage of most previous cycles, employment growth in the

United States was subdued during much of the financial year, turning up only toward the end.

The *euro area* showed some signs of recovery beginning in the second half of 2003, but growth remained well below its potential and domestic demand growth was lackluster. Cyclically induced job losses were less pronounced in the euro area, but the gradual recovery was insufficient for unemployment to fall from its nearly 9 percent rate.

In FY2004, the recovery broadened to include improved GDP growth in all emerging market regions. In many cases, the recoveries were export-led, but, gradually, the strengthening of domestic demand began to contribute to growth.

Growth improved in most countries of *Latin America*. There was a sharp rebound in economic activity in Argentina following its deepest recession in 20 years. Brazil's growth picked up during the financial year, but in a number of other countries, notably Venezuela and Bolivia, political uncertainties continued to undermine growth. As of end-FY2004, economic activity, initially spurred by exports, was becoming more reliant on domestic demand.

Emerging Asia continued to experience the fastest growth, with those countries affected early in the financial year by the Severe Acute

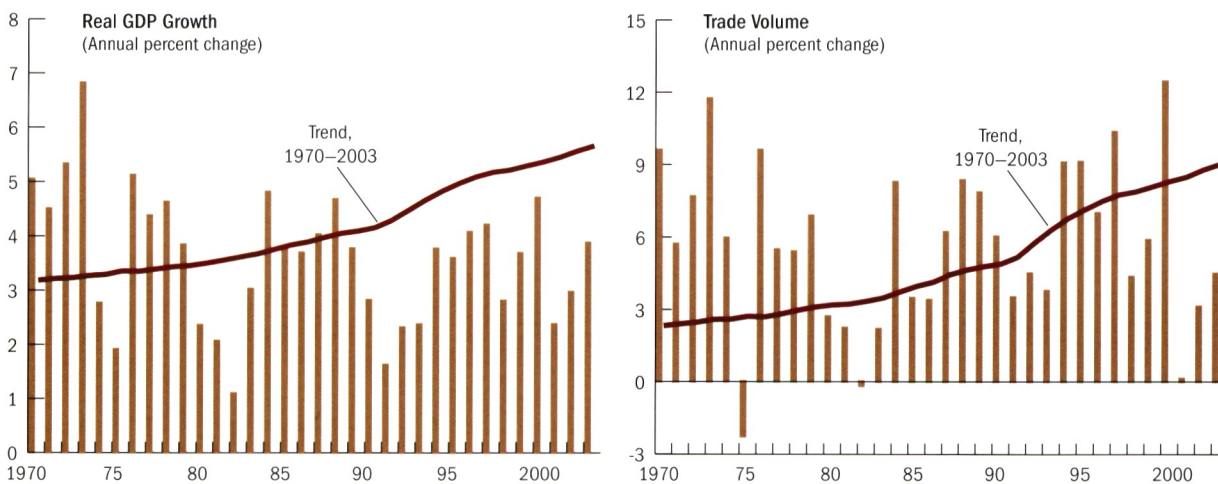
Respiratory Syndrome (SARS) epidemic rapidly recovering. The region accounted for about half of world output growth in 2003, demonstrating its importance as an engine of global expansion. China continued to grow strongly, exhibiting incipient signs of overheating toward the end of the financial year. India's growth accelerated, reflecting both cyclical and structural factors.

Central and eastern Europe maintained relatively strong growth despite the sluggish performance of its largest trading partner, the euro area. In some countries, current account deficits widened as rapid credit growth and expansionary fiscal policies fueled imports. Net FDI inflows contributed less to growth than in the previous year, but, in most countries, the risks of a capital flow reversal were held in check. Higher global oil prices, as well as positive domestic factors, increased growth in the oil-exporting countries of the former Soviet Union. Oil importers in the region also experienced strong GDP growth on the back of robust domestic demand.

The *Middle East* also benefited from rising oil prices and increased oil production (including restored capacity in Iraq). Toward the end of FY2004, however, the intensification of hostilities in Iraq raised the prospect of renewed disruptions in oil supply.

Growth in *Africa* strengthened during FY2004, supported by improved macroeconomic poli-

Figure 1.1 World Real GDP Growth and Trade Volume (Goods and Services)



cies, favorable weather, the abatement of conflicts, and debt relief under the HIPC (Heavily Indebted Poor Countries) Initiative. Higher oil and non-fuel-commodities prices also helped sustain higher growth rates in a number of exporting African countries.

With the firming recovery, producer and non-fuel-commodities prices rose. Oil prices surpassed levels seen before the Iraq war, owing to increased demand as well as to uncertainties about supply stemming from geopolitical risks. Consumer price inflation remained relatively subdued, in part reflecting substantial excess capacity and moderate wage increases. The dollar depreciated during the financial year on a trade-weighted basis. Toward the end of the financial year, however, the dollar steadied, and the euro fell back from its peak. Emerging Asian currencies also depreciated on a trade-weighted basis, accompanied by a further significant buildup in official reserves in countries with relatively inflexible exchange rate regimes.

Monetary policies remained accommodative in most countries, although in some cyclically advanced countries (including the United Kingdom) interest rates were raised, and, in others, policymakers were readying markets for such an event. *Fiscal policies* were varied. Looser fiscal policy in the United States helped to spur growth during much of the year, but the Stability and Growth Pact con-

strained the use of fiscal policy in some euro area countries.

In the *major financial markets*, nominal bond yields reached a four-decade low in the United States in mid-2003. Encouraged by abundant global liquidity, broadening economic growth, and the improving credit quality of both mature and emerging market borrowers, investors increasingly favored riskier assets. As a result, credit spreads on mature and emerging bond markets narrowed, and the cost of default protection fell. Toward the end of the financial year, as expectations of an upturn in policy rates in the United States gathered, market participants began to unwind carry trades and to reduce risk exposures.

Global equity markets rallied strongly on expectations of continued strong global growth and associated improvements in corporate earnings, as well as low interest rates (see Figure 1.2). The S&P 500 rose 45 percent from its March 2003 lows before retracing part of those gains as interest rate expectations changed near the end of the financial year. European equities followed a similar pattern, rising 50 percent from their mid-March 2003 trough before surrendering part of those gains by the end of the financial year. In Japan, stocks rallied almost 60 percent, as the growth of the Japanese economy strengthened, before falling back slightly, along with other mature market indices.

A rise in risk appetite and a search for yield fueled strong inflows into *emerging markets*. Driven by improving fundamentals and abundant liquidity, the spread on the EMBI+ fell precipitously from 756 basis points in late January 2003 to a near-record low of 384 basis points in early January 2004 (see Figure 1.3). Low nominal yields and strong investor demand facilitated increased bond issuance by emerging market borrowers, as many sought to lock in attractive financing costs by prefinancing their future funding requirements. Emerging market bond issuance in the primary market touched a record monthly high in January 2004 and totaled some \$40 billion in January–April, covering more than half of the calendar year's financing needs. Some 56 percent of total issuance during this period was from nonsovereign entities. Brazilian debt experienced one of its longest rallies in history, with continually narrowing spreads for 15 straight months. Similarly, having peaked at over 1,100 basis points in March 2003, the spread on Turkey's EMBI+ sub-index fell by almost three-fourths in less than a year. However, by the end of the financial year, spreads on emerging market bonds had started to rise again as bond yields in the United States rose in anticipation of an increase in policy rates. Primary issuance of equities in emerging markets was also strong during the financial year, although investor appetite dimmed as the year came to a close.

Figure 1.2 Equity Market Performance

(May 2003 = 100)

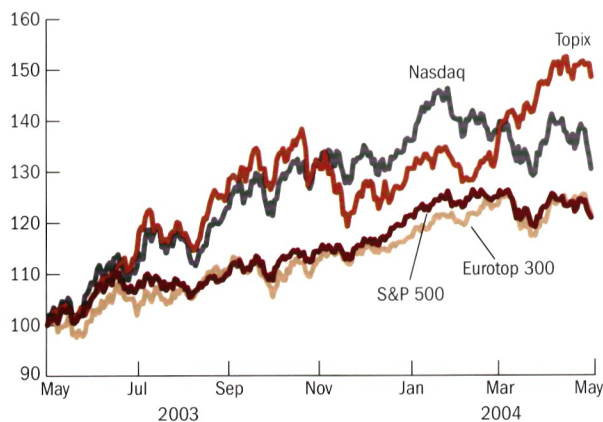
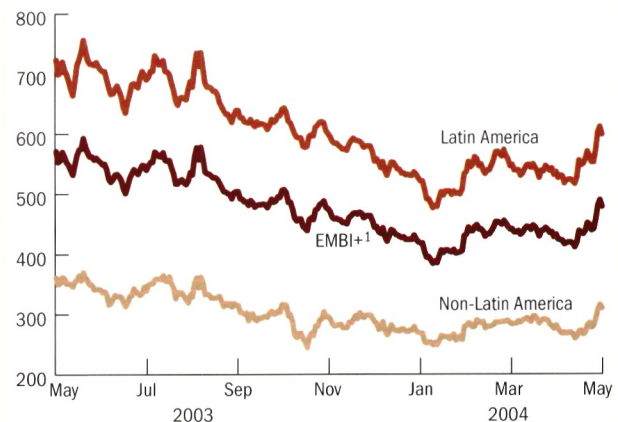


Figure 1.3 Sovereign Spreads

(In basis points)



¹J.P. Morgan Emerging Markets Bond Index Plus.

Directors emphasized that the relatively benign economic outlook provides an advantageous window of opportunity to address vulnerabilities. In particular, efforts to restore sustainable medium-term fiscal positions should be pursued vigorously. In most industrial countries, these will need to involve, in addition to timely fiscal consolidation, credible and high-quality measures to reform pension and health care systems. In addition, for emerging market and other developing countries the priority should be to address remaining public debt sustainability concerns through tax reforms to reduce revenue volatility, steps to strengthen fiscal institutions, and measures to improve the structure of debt.

Major Currency Areas

Directors welcomed the recent strong growth in the *United States*. With the impact of past fiscal and monetary stimulus gradually waning, they considered that the sustainability of the recovery would increasingly depend on continued solid investment and productivity growth and a pickup in employment, which had so far been lagging. In view of the weak labor market and low inflation, Directors supported the U.S. Federal Reserve's decision to maintain a very accommodative monetary policy stance. In the future, Directors observed, the ground should continue to be laid for a move toward a more neutral monetary policy stance. While recognizing that the expansionary fiscal policy pursued by the U.S. authorities in recent years had supported U.S. growth and had had a positive impact on global output, Directors underscored that the priority henceforth would be sustained fiscal consolidation. On the basis of the IMF staff's analysis of the global impact of U.S. fiscal policy, most Directors supported the conclusion that a more ambitious fiscal consolidation path than currently envisaged would produce significant benefits, in particular by containing the risk that higher real interest rates would crowd out productive investments. Accordingly, these Directors urged the U.S. authorities to establish a viable fiscal framework with the objective of returning the budget to balance (excluding Social Security) over the medium term and to undertake reforms to strengthen the financial position of Social Security and health care programs.

The recovery in the *euro area* remained subdued. While prospects for stronger domestic-led growth were being supported by an expected pickup in fixed investment, Directors saw the pass-through effects of euro appreciation, the ongoing balance sheet restructurings, and the Madrid bombings' possible impact on confidence as factors that had the potential to dampen the outlook. In view of this fragile environment, Directors supported the continuation of the current monetary policy stance until convincing signs of a self-sustaining recovery in domestic demand

emerged. Regarding fiscal policy, countries with weak budget positions should aim for a sustained adjustment of underlying imbalances, to achieve fiscal consolidation within the Stability and Growth Pact framework. Directors welcomed the recent progress on structural reforms, including the Agenda 2010 initiative in Germany and pension reforms in France. They considered, however, that to increase sustainable long-term growth and improve the euro area's ability to adjust to shocks, more would need to be done. In particular, in anticipation of future demographic changes, Directors observed that product and labor markets should be strengthened further, and labor force participation and productivity growth increased.

In *Japan*, the strength of the recovery had continued to exceed expectations substantially, with welcome signs of a pickup in private consumption to complement exports and business investment as the main engines of growth. Deflationary pressures had also eased, and the authorities had made progress in strengthening the bank and corporate sectors. Directors encouraged the Japanese authorities to build on these achievements by making further strong efforts to sustain the recovery. In this context, they recommended continued quantitative monetary easing to bring a decisive end to deflation, adoption of a well-defined fiscal consolidation plan to tackle the very difficult budgetary situation, and further reforms of the financial and corporate sectors, particularly of smaller banks and enterprises.

Directors discussed the IMF staff's analysis of the industrial countries' experiences with structural reforms, which provided useful insights on how to move forward. While reforms had, in general, progressed fastest in areas that yielded the most immediate benefits, the experience over the past two decades showed that the end of a protracted period of slow growth provided a particularly favorable environment to embark on more difficult reforms. In such an environment, policymakers and voters remain aware of the costs of weak growth; at the same time, the economic recovery under way mitigates any short-term adjustment costs. Directors accordingly encouraged policymakers to take advantage of the recovery to press ahead with their structural reform agendas, including by carefully exploiting the complementarities between different reform areas.

Emerging Market and Other Developing Countries

Turning to *emerging market and other developing countries*, Directors welcomed the recovery, which had been aided by improved fundamentals, strong private capital inflows, and historically low spreads. GDP growth was expected to strengthen in most regions, although the outlook—particularly in countries where public debt remains high—could be affected by a deterioration in external financing conditions—for example, as a result of an abrupt or unex-

pected increase in interest rates. Directors acknowledged that, in addition to abundant liquidity in global financial markets, the decline in emerging market bond spreads also reflected the considerable progress being made by many countries in strengthening their fundamentals and improving the structure of their public debt.

The Board was encouraged by the improved outlook for *Latin America*, with stronger domestic demand beginning to contribute to an initially export-led recovery. To sustain the prospects for a further firming of the recovery, countries would need to continue making strong efforts to reduce their vulnerabilities to a possible deterioration in the global financial market environment and to further strengthen investor confidence. A number of countries in the region face a challenge in addressing pressing social needs against a backdrop of still high public debt levels. In this context, Directors stressed the importance of implementing broad-based reform strategies aimed at achieving strong and sustained growth. These strategies should be combined with well-targeted social programs and investments.

Directors highlighted the exceptionally strong growth in *emerging Asia*, which was underpinned by accommodative macroeconomic policies, growing domestic demand, competitive exchange rates, and the recovery in the information technology sector. Economic activity in the region was supported by buoyant growth in China. With growth accelerating and some financial imbalances emerging, many countries in the region would need to gradually tighten macroeconomic policies in 2004–05. In a number of countries, accelerated fiscal consolidation may be warranted, along with strengthened prudential oversight of the banking system to ensure that lenders appropriately evaluate and manage risks. Most Directors considered that timely, gradual steps by China toward greater exchange rate flexibility—combined with progress on developing the exchange markets and strengthening the banking sector—would contribute to price stability over the longer term by containing the continuous buildup of international reserves. Such steps would also facilitate similar moves by other countries in the region facing a need for monetary tightening and allow the region as a whole to contribute to more balanced growth globally. Directors discussed the implications of China's rapid growth and integration for the global economy, and they noted that, while China itself clearly stands to gain the most from this process, the rest of the world will also continue to enjoy long-term benefits from China's economic emergence, as already evidenced by dynamic productivity gains. To maximize these gains, Directors underscored the importance of continued further efforts by all countries to increase the flexibility of their economies to foster the mobility of resources among sectors.

The robust economic performance in most other emerging market countries was welcomed by the Board. Prospects for continued strong growth remain favorable across regions, provided timely actions continue to be taken to address vulnerabilities and further strengthen the foundations for private-sector-led growth. For many countries in *central and eastern Europe*, it was important to press ahead with fiscal consolidation efforts, in particular in those countries where a sharp widening in the current account deficit calls for firm action to reestablish budgetary discipline. In the *Commonwealth of Independent States* (CIS) countries, the priority should be to continue with reforms to improve the investment environment, strengthen banking systems and judicial frameworks, and dismantle intraregional trade barriers. Directors highlighted the importance of fiscal consolidation in most oil-exporting countries in the *Middle East* to reduce their vulnerability to oil price fluctuations. For the region as a whole, a more stable security situation and reduced geopolitical tensions will—along with employment-generating reforms—be key to accelerating medium-term growth.

Credit booms in emerging market economies, particularly the risk that such booms may presage sharp economic downturns and financial crises, were also examined by Directors. Credit booms are difficult to foresee, and authorities need to remain vigilant, especially in situations where rapid credit growth is accompanied by other signs of macroeconomic imbalance, such as current account deficits, investment booms, and increases in the relative prices of nontradables. Containment of credit booms usually requires strengthened surveillance of the banking system and close scrutiny of corporate borrowing during periods of rapid growth.

Directors were encouraged by the continued improvement in *Africa's* economic performance, and the expectation that growth will accelerate further in the period ahead. A sustained further effort to accelerate growth and reach the Millennium Development Goal of halving poverty by 2015 remains nevertheless a pressing priority. This will require promoting stronger private sector activity and investment; reducing vulnerability to exogenous shocks; developing infrastructure; and strengthening institutions, governance, and transparency; as well as strong efforts to avoid the resurgence of civil conflicts. Directors welcomed recent regional initiatives to accelerate progress in these areas, including the African Peer Review Mechanism and the African Union's adoption of a Convention on Preventing and Combating Corruption. They also emphasized that additional assistance from the international community would remain critical for Africa's development and called for increased aid, continued debt relief, and—most important—greater access to industrial country markets.

Iraq



Iraq was one of the founding members of the International Monetary Fund in 1946. Between 1980 and 2002, however, because of internal political developments, three wars, and international sanctions, the IMF had little official contact with the government of Iraq. With the fall of Saddam Hussein's government in March 2003, the IMF reestablished contact with Iraqi officials working with the Iraqi Governing Council. A number of missions were fielded to Baghdad until the bombing of the UN compound in August 2003 led to the suspension of IMF travel to Iraq. The dialogue between the Fund and Iraq has since continued at locations outside Iraq. Fund staff have concentrated their work in two areas: (1) developing a macroeconomic framework and (2) providing technical assistance. In addition, the Fund's Managing Director is represented on the International Advisory and Monitoring Board (IAMB), which was set up according to the directives of the UN Security Council to oversee the audits of the Development Fund for Iraq, the oil-export proceeds that go into the Development Fund, and the financial controls in place in the spending ministries.

Early work on the macroeconomic framework served as input into the initial needs assessment that was prepared for the donors conference in Madrid in October 2003. During this conference, which was attended by representatives from 73 countries and 20 international organizations, donors pledged some \$33 billion in grants and

loans in support of the reconstruction of Iraq in 2003–07. In April 2004, the Fund participated in a meeting at the U.S. State Department in Washington at which the core group of donors and institutions began preparations for the International Reconstruction Fund Facility for Iraq.

Fund staff worked on a debt sustainability analysis in consultation with Iraqi officials and representatives of the Coalition Provisional Authority (CPA). After contacting 50 countries that are not members of the Paris Club to get information about any outstanding loans to Iraq, the Fund estimated that debt to non-Paris Club creditors is probably about \$60–\$65 billion, compared with about \$42 billion to Paris Club creditors and \$15 billion to commercial creditors. This analysis was provided to the Paris Club in late May 2004 for their consideration of possible debt relief for Iraq. The G-8 summit in June declared that an agreement on debt relief based on the IMF's work on the debt sustainability analysis should be reached by the end of 2004, after the G-8 and Paris Club members have consulted among themselves and with non-Paris Club creditors. On June 8, 2004, the UN Security Council endorsed the formation of the interim government of Iraq, which assumed power upon the dissolution of the CPA on June 28. The interim government is intended to serve until an elected transitional government takes office, which should happen by December 31, 2004, or, at the latest, January 31, 2005. The UN endorsement should pave the way for international recognition of the interim government and make possible the normalization of Iraq's relations with the Fund.

The IMF has been a lead provider of technical assistance in Iraq since the summer of 2003. It has provided extensive technical assistance in a number of areas, including the introduction of a new currency, central bank and commercial bank legislation, the payments system, budget execution and public expenditure management, tax policy, revenue administration, and the compilation and dissemination of economic statistics. Training programs for Iraqi officials have also been provided in the macroeconomic, fiscal, monetary, and statistical areas.

Global Financial Stability Report

Another key tool for the IMF's monitoring of global economic activity is the *Global Financial Stability Report* (GFSR), which, like the *World Economic Outlook*, is published twice a year. The GFSR focuses on the world's financial markets, covering developments in both mature and emerging markets and analyzing topical structural issues relating to the global financial system. The report aims to identify potential fault lines in the global financial system, in an effort to help head off systemic crises. The Executive Board discussed two reports—one in August 2003 and another in March 2004.

Global Financial Stability Report, August 2003

At their August discussion, Directors noted that financial markets had remained resilient during the first half of 2003,

notwithstanding continued lackluster economic growth, geopolitical uncertainties, and high market volatility. However, some concerns remained, associated with risks related to the macroeconomic outlook, rising long-term bond yields, the potential for weak corporate earnings, and the vulnerability of emerging bond markets to a correction.

Several policy implications of market developments were noted by Board members. They urged authorities in major financial centers to persist in reforms to shore up market foundations, including strengthening corporate governance to restore investor confidence; bolstering the regulation and supervision of insurance companies; and improving the accounting practices and regulation of defined-benefit pension funds.

Although the external financing climate for emerging market countries improved somewhat in 2003, Directors

cautioned that public sector debt in these countries remained high and that there was no room for complacency by borrowers. They urged countries to take advantage of enhanced access to international capital markets to press ahead with the implementation of sound policies and improve the structure of their liabilities, including extending maturities and reducing the dependence on dollar-linked debt. Directors noted that several countries had undertaken successful liability-management operations. They also welcomed the use of collective action clauses (CACs) in recent sovereign bond issues.

The discussion in the *Global Financial Stability Report* of the volatility of capital flows to emerging markets was welcomed by Board members, and they agreed that foreign direct investment should be encouraged. However, Directors pointed out that, while capital flows were inevitably somewhat volatile, sound economic policies and transparency could help countries make flows more stable. There was also much that emerging market countries could do to “self-insure” against the effects of volatility, including managing assets and liabilities; adapting exchange rate arrangements to the degree of capital account openness; strengthening domestic financial institutions; enhancing supervision and regulation; and developing local securities markets. Directors noted that developing efficient and stable local sources of finance had become all the more relevant since emerging markets as a group had become net exporters of capital in recent years. Directors also discussed the implications of increased holdings of international reserves by some countries.

Global Financial Stability Report, March 2004

Financial market conditions had strengthened by the time of the Executive Board’s GFSR discussion in March 2004, and the prospects for global financial stability appeared brighter. Directors noted that the improved outlook was supported by a firming of the global economic recovery, rising corporate earnings, and a strengthening of corporate balance sheets. Emerging market borrowers, many of which had taken steps to put their public finances on a sounder footing and improved the structure of their domestic and external debt, were benefiting from higher export demand and commodity prices.

Global Financial Market Surveillance

In response to this improved outlook and the exceptionally low short-term interest rates, Directors noted, global financial markets had staged a strong, broad-based rally in 2003. While low short-term interest rates were continuing to influence investor behavior and were, in some cases, encouraging increased risk taking in search for yield, most mature and emerging market indices appeared to be point-

ing to a period of consolidation, with investors showing renewed caution and increased discrimination.

The improved outlook for financial stability was not without risks, Directors emphasized, noting that risks would require vigilant monitoring, not least because of their interconnected nature. A first set of risks stemmed from the environment of prolonged low interest rates and abundant liquidity. In this environment, asset valuations may be pushed beyond levels justified by fundamental improvements, eventually necessitating a transition to higher interest rates in mature markets. Such an outcome may have broader ramifications, including increased bond market volatility if investors were to revise their interest rate outlook abruptly—as they did during the 1994 sell-off in global fixed-income markets—or if asset valuations that were predicated on an unusually low level of risk-free rates were corrected abruptly. To guard against these risks, Directors encouraged policymakers to develop timely and forward-looking communication strategies that encourage investors to base their decisions on fundamentals rather than on the expectation that interest rates will be kept indefinitely at very low levels. Directors noted that the potential effects of higher interest rates on emerging market economies were being mitigated owing to the progress that many of them have made in reducing vulnerabilities, while stronger world growth would also help offset the impact of higher interest rates.

The potential for market instability arising from large global external imbalances, including the possibility that adverse developments in the currency markets might spill over into other asset markets, was also discussed. The depreciation of the U.S. dollar against other major currencies had so far been orderly. Most Directors considered that, in view of the substantial capital flows that the U.S. economy will continue to need to attract, the risk of a pronounced currency depreciation—possibly resulting in higher U.S. dollar interest rates and a correction in asset valuations—can nevertheless not be dismissed. A strong and sustained cooperative effort—aimed at ensuring a smooth adjustment of global imbalances over the medium term—would remain a key policy priority for the international community.

Turning to the improved external financing environment for emerging market borrowers, Directors observed that the improved credit quality of many emerging market borrowers and low interest rates in the major financial centers contributed to the impressive compression of spreads on emerging market bonds in 2003. Directors commended many emerging markets for steps taken in the current favorable market environment to meet a substantial part of their borrowing needs, improve their debt structures, and extend maturities. The correction in 2004 of the downward

exchange rate overshooting that occurred in 2003 in many Latin American economies was expected to enhance debt sustainability in these countries. Directors also welcomed the trend toward making the inclusion of collective action clauses in sovereign bond issues an industry standard. Notwithstanding the encouraging performance of the region as a whole, some countries appear to have relaxed their fiscal and structural reform efforts. Unless they take timely corrective action, Directors cautioned, these countries face a heightened risk of exposing their underlying vulnerabilities in the event of a turnaround in the current favorable external financing environment.

Board members welcomed the continued strengthening of the balance sheets of the household, corporate, and bank sectors over the course of 2003, as corporate and household sectors continued to build up liquidity, and rising asset values strengthened net worth. Nevertheless, rising interest rates may increase the debt service burden, particularly in a number of European countries where debt levels of the corporate sector remain high. Directors noted that the fall in long-term yields had increased refinancing activity in the U.S. mortgage market, reopening the possibility of hedging activity that might amplify yield movements. They welcomed, in this context, proposals to strengthen the regulation of the U.S. mortgage agencies and address the implicit government guarantee.

The relatively benign overall conditions in mature and emerging markets, Directors stressed, provided an advantageous window of opportunity to focus policy attention on several key structural reforms to underpin financial stability over the longer run. In mature markets, scandals in the mutual funds industry and some companies, such as Parmalat, again underscored the need to build on efforts to improve corporate governance and strengthen market foundations. In particular, Directors called for steps to strengthen scrutiny by investors and regulators of firms with complex ownership and capital structures, as well as to enhance public oversight of auditing practices. Priorities on emerging market countries' agenda should include further reductions in the level and vulnerability of public debt, development of local capital markets, and continued strong efforts to improve the climate for foreign direct investment, which had remained at disappointingly low levels in spite of the general rebound in capital flows.

Risk Transfer and the Insurance Industry

The Board discussed a range of regulatory and disclosure issues raised by the transfer of risk from banking to non-banking institutions in mature markets, including the hedge fund industry, where, despite closer counterparty and investor monitoring, there appears to be a need for broader and more systematic transparency of exposures and prac-

tices. Directors noted that future staff work would focus on the hedge fund and pension fund industries.

Directors observed that the reallocation of credit risk to the insurance sector, together with improvements in risk management in the sector, appeared to have contributed to enhanced overall financial stability. Moreover, by allocating a greater share of their portfolio to credit instruments, many life insurers had availed themselves of a more predictable return. While the investment in credit instruments by insurers deserves to be supported, Directors stressed that this would need to go hand in hand with continued efforts to improve risk management and regulatory oversight of the sector. Recommended improvements include wider implementation of risk-based capital standards by regulators; enhancement of supervisory resources in many mature market jurisdictions; increased information sharing among supervisors; and strengthened disclosure requirements. Directors welcomed the current debate on international accounting standards for insurers and looked forward to the development of converging standards that provide an accurate reflection of insurance companies' financial positions. Directors noted that disclosure should be comprehensive and include information on sensitivities and risks. While rating agencies play a helpful role in disseminating information on risks, Directors cautioned that they should not be a substitute for appropriate supervision.

Institutional Investors in Emerging Markets

As to the institutional investor base for claims on emerging markets, Directors saw the development of a stable investor base as a key element in reducing the volatility of capital flows to emerging markets. While ongoing changes have been contributing to a welcome broadening and diversification of the investor base, the decline in dedicated—relative to crossover—investors may also have increased the volatility of capital flows. Another source of potential volatility arises from the impact that even small changes in the portfolio positions of institutional investors can have on emerging markets, given the large size of the assets under the management of these investors. Directors agreed that the factors influencing the changing nature of the investor base as well as their policy implications—including for debt-management policies and practices in emerging markets—would require continued careful analysis. They emphasized the importance of adequate transparency and disclosure regarding both government policies and corporate developments, with investor relations programs being a particularly useful instrument. In addition, Directors noted that the development of an efficient market infrastructure in emerging economies would be helpful in attracting institutional investors from both mature and domestic markets.

Directors also commented on the supervisory and regulatory implications of the expanding portfolios of nonbank institutional investors in emerging markets, in particular the rapid growth of pension funds. In view of the growing imbalance between the assets under the management of these funds and the available securities, close coordination would be required between changes in the regulatory framework, the development of local capital markets, and the gradual easing of limits on foreign investment by pension funds to increase their opportunities for portfolio diversification. Directors viewed the development of local securities markets as key to ensuring proper risk management by the insurance industry. In view of the rapid growth and increasing sophistication of the activities of local institutional investors involved in both local and international markets, Directors observed that it would also be important to persevere with strong efforts to enhance the risk-management skills of both investors and regulators.

Regional Surveillance

Euro Area Policies

In September 2003, the Executive Board discussed euro area policies and the trade policies of the European Union (EU).

Euro area authorities faced many policy challenges, Directors noted. In particular, economic growth had come to a virtual standstill since the last quarter of 2002, with net exports and investment declining, and unemployment on the rise. Moreover, challenges loomed, with the aging of the population and slowing of labor force growth becoming an increasing drag on potential output growth, fiscal sustainability, and old-age income security. EU enlargement, while of benefit to all concerned, would also be a source of new challenges. Directors advised that meeting these challenges successfully would require a sustained shift toward more forward-looking national policies and the vigorous implementation of structural reforms. While adversity had begun to induce such forward-looking policies, notably on the structural side, the Board noted that it was essential that these potentially promising steps be sustained once difficulties recede.

Directors considered that the weakness of area-wide activity reflected a number of shocks as well as structural rigidities and policy lapses. The shocks included the bursting equity bubble, low business and consumer confidence, reduced external demand, the correction of the euro to longer-run equilibrium levels, and geopolitical uncertainties. Rigidities in labor markets and lesser reliance on market-based financing had, in some measure, contained the effects of the shocks, but they had also slowed both the post-bubble and intra-area adjustments. As a result, the area-wide stagnation

was expected to be overcome only gradually, with growth remaining subpar well into 2004. Board members were encouraged, however, by improvements in survey and confidence indicators, which signaled a gradual pickup in growth during the second half of 2003. They saw the risks to the outlook as having become more balanced.

Despite the possible implications of the recent appreciation of the euro for the area's short-term prospects, Directors viewed the appreciation as beneficial on balance, noting that it had helped curb inflation and that the competitiveness of the euro area was back to its long-term average. Most Directors agreed that the euro area had borne a disproportionately large share of the burden of adjustment to a weaker dollar and called for a more equitable global distribution of any further adjustment burden to reduce imbalances in the global economy and to achieve balanced growth in the major currency areas.

Monetary policy had done well and had established its credibility. It has been in line with inflation and output developments, and the monetary framework has been appropriately modified based on the experience of the past five years. In particular, the European Central Bank's (ECB's) clarification of its inflation objective as being "below but close to 2 percent" substantially reduced the scope for misinterpretation and provided a clear anchor for longer-run inflationary expectations. Most Directors noted that aiming for such inflation outcomes over the medium term provided scope for inflation differentials across member countries and a buffer against shocks that could lead to area-wide deflation. Directors also welcomed the clarification of the relative roles of long-term monetary analysis and short-term economic analysis in the ECB's anti-inflation strategy.

Directors agreed that the ECB needed to guard against downside risks to inflation, noting that inflation pressures had subsided. While the downside risks had become somewhat more balanced with the pullback in the euro, the cumulative effects of weak activity, a continued softening of labor markets, and the significant past appreciation of the euro should combine to push headline inflation well below 2 percent by late 2004. Directors saw the costs of undershooting the inflation objective as greater than those of overshooting it. Low inflation would not help balance sheet adjustments and would provide less room for, and, hence, increase the costs of, relative price adjustments across the area. This, Directors observed, together with the risk of euro appreciation, strengthened the case for monetary policy to maintain an accommodative bent in order to support confidence until a self-sustaining upturn in domestic demand is in place.

There is a need for forward-looking fiscal policies to improve the quality and ensure the long-term sustainability of public finances in light of potential fiscal pressures

Japan



The IMF's FY2004 policy dialogue with the Japanese authorities focused on initiatives that could stimulate high and sustained medium-term growth. In recent Article IV consultations, the Fund emphasized the need to revitalize the corporate and financial sectors, tackle deflation, put the fiscal balance on a sustainable medium-term footing, and undertake regulatory reforms to facilitate the reallocation of resources.

The authorities shared the Fund's view and have taken steps to address these issues. They have fashioned a framework for corporate restructuring, strengthened bank supervision and regulation, taken monetary policy steps to counter deflation, reduced and allocated public works spending more efficiently, and started to deregulate important sectors.

In addition, Japan participated in the Financial Sector Assessment Program. The authorities will continue to address issues identified by the assessment, which stressed the need for the government to pursue further banking reforms and to reduce its involvement in Japan's banking sector over the medium term.

Japan-IMF activities in FY2004

August 2003	Completion of Article IV consultation by the Fund's Executive Board
September 2003	Publication of Financial System Stability Assessment and supplementary information
February 2004	Visit of Managing Director Horst Köhler

created by population aging. In this regard, the Board noted that fiscal developments have not been positive, particularly in the three largest economies, where most policies have had a short-term focus, and fiscal excesses during the boom years contributed to difficulties in observing the nominal deficit ceiling. Directors agreed that these developments underlined the need for a fiscal framework in the European Economic and Monetary Union (EMU). Directors felt that, from a longer-term standpoint, the basic parameters of the EU Treaty and Stability and Growth Pact (SGP) were broadly appropriate. Noting the focus on breaches of the 3 percent deficit limit, Directors stressed that past lapses in fiscal discipline, and not the fiscal framework itself, had been responsible for the limited amount of fiscal leeway in the three largest euro area economies. The aging of the population requires that most euro-area countries move at least toward underlying balance over the medium term. If they did so, there would be room for the automatic stabilizers to work, and the 3 percent limit would not be binding aside from exceptional circumstances, which the pact allows for.

There was a potential conflict between the short-term need for fiscal stimulus to boost economic growth and the need for fiscal consolidation to restore the credibility of the SGP and to achieve fiscal sustainability. However, Directors believed that more forward-looking fiscal policies could provide a bridge to long-term sustainability while permitting greater short-run flexibility. The SGP should indeed focus on growth as well as stability, but that growth means first and foremost structural reforms rather than short-term demand management. Within such a framework, most Directors acknowledged that there was scope to trade short-run fiscal consolidation for credible multiyear commitments to growth- and consolidation-oriented structural reforms, notably by cutting spending and increasing incentives rather than raising taxes. Although it was recognized that this entails credibility risks for the SGP insofar as it implies further breaches of the 3 percent deficit limit, the standard remains that countries with weak underlying positions should take discretionary fiscal policy actions to achieve underlying high-quality fiscal adjustments of 0.5 percent of GDP a year. Many Directors agreed, however, that, where underpinned by meaningful gains on the long-run structural and macroeconomic fronts, delays that meet the standard on a cumulative basis—that is, 1.5 percent of GDP—during 2004–06 would also strike an appropriate balance between long- and short-run goals. A number of Directors, though, cautioned against departures from commitments to achieve a steady underlying fiscal adjustment of 0.5 percent of GDP a year.

Board members called for more sustained and vigorous implementation of structural reforms. They noted that, while the area's low underlying growth rate reflects, in large part, slow population growth, there was considerable scope

for raising rates of utilization of labor resources and for increasing technological progress and innovation. Long lags in effecting increases in labor force participation rates require early concerted actions to slow—if not reverse—the aging-induced fall-off in potential per capita growth and deterioration in public finances. In this context, Directors emphasized the importance of labor market and pension reform. The loss of the exchange rate as an adjustment mechanism within the monetary union, particularly in the context of limited labor mobility, makes greater flexibility in goods and labor markets imperative.

The promising reform steps recently taken in some countries was welcomed by Directors, but they emphasized that much more is needed to achieve the goals set out in the Lisbon agenda agreed by the European Council in 2000. Directors were particularly encouraged by progress in creating a single market for financial services. Moreover, the reform process in the larger countries, particularly with respect to labor markets and social security systems, had been revived. In some cases, progress surpassed earlier expectations. There was also a growing recognition of the largely unexploited synergies to be reaped between structural reforms, improved economic performance, and fiscal sustainability. These synergies hold the promise of improving medium-term growth prospects and restoring the credibility of the SGP. However, Directors noted that the agenda of needed reforms was long and varied across countries, while resistance to reform remains strong and is likely to strengthen as the economic situation improves. It is essential that the new reform momentum not become simply a response to economic adversity but that it be sustained for many years to come. Directors, therefore, welcomed the steps taken by the Commission and endorsed by ECOFIN to toughen surveillance by making the Broad Economic Policy Guidelines both more targeted and more forward-looking.

Directors endorsed the recent decision to reform the Common Agricultural Policy, noting that the agreed “decoupling” of agricultural supports from production would lessen downward pressures on world prices. Many Directors noted that greater commitment to opening EU markets will be crucial to achieving the objectives of the Doha Round of multilateral trade negotiations and that creating a multilateral trade environment supportive of economic development and poverty reduction would require more concessions by the EU and other advanced economies to developing countries.

Adopting the Euro in Central Europe

In February 2004, Executive Directors discussed the challenges facing the five former transition countries of Central Europe (CECs)—the Czech Republic, Hungary, Poland, the Slovak Republic, and Slovenia—as they moved toward the

adoption of the euro along with the Baltic states, Cyprus, and Malta.

The discussion focused on how best to address two fundamental questions: when to adopt the euro, and how to prepare for it. Directors noted that, while all countries acceding to the European Union faced challenges, the macroeconomic issues surrounding euro adoption would be especially complex for the CECs, which maintained flexible exchange rate arrangements. They observed that addressing these issues would require careful case-by-case assessment, and the path and pace of euro adoption would differ according to individual country circumstances.

Euro adoption is likely to bestow substantial benefits on the CECs over the long term, Directors noted, provided strong supporting policies are in place. These benefits would stem from the elimination of exchange rate risk, lower transaction costs, enhanced policy discipline, lower real interest rates, and greater transparency of prices. Although difficult to quantify, the benefits would be manifested primarily through increased trade and investment and more rapid productivity and income growth. Directors stressed that, to realize these gains, the countries would need to secure sound macroeconomic and structural conditions and continue to foster private sector development. In particular, goods and factor markets should be flexible, and public finances should be put on a sustainable track with minimal rigidities from nondiscretionary spending. Directors noted that the CECs’ policy strategies were already on a promising path toward fulfilling these conditions in many important areas.

Adopting the euro would also entail costs stemming from the loss of the monetary policy instrument, Directors observed, given the role that monetary policy can play in offsetting asymmetric demand shocks and providing an instrument for containing demand pressures. While further convergence of business cycles would help to minimize the risk of asymmetric shocks, countries would be well advised to build up sufficient policy flexibility to deal with any remaining shocks prior to adopting the euro. Joining the euro area would effectively eliminate the high degree of exchange-rate-induced volatility to which CECs are exposed.

The path to euro adoption involves participation in the Exchange Rate Mechanism (ERM2) and meeting the Maastricht criteria. The Board’s discussion confirmed that decisions on the timing of these steps would need to be made on a case-by-case basis, taking into full account the policy issues involved. Three considerations appear to be of primary importance to ensure that the euro candidates will be well prepared for successful participation in the EMU.

- Prior to adopting the euro, the harmonization of economic conditions—particularly the correlation of

business cycles and trade links—should be strong. While business cycles can be expected to become even more synchronized once countries adopt the euro, a sufficient degree of cyclical convergence, prior to euro adoption, would help improve prospects for a successful experience in the euro area.

- Adjustment mechanisms—wage and price flexibility and the capacity to run countercyclical fiscal policy—would need to be in place to ensure that asymmetric shocks can be effectively absorbed in the absence of monetary policy.
- Euro candidates must achieve an adequate degree of nominal convergence. Directors indicated that the issue of how best to assess the appropriate standards for nominal convergence deserved further reflection. Several Directors saw the proposal to use the ECB's inflation objective as the basis for defining "best performing in terms of price stability" when setting the Maastricht inflation ceiling as judicious. This approach would ensure that appropriate consideration is given to the conditions prevailing in the candidate countries. However, others cautioned against interpretations of the Maastricht Treaty criteria that could raise issues of unequal treatment of new and current members.

Meeting these conditions will require further strong efforts, but Directors noted that, in many respects, in particular progress with trade integration, the CECs were already at least as well positioned as some of the current EMU members were at the same stage of the accession process.

The discussion highlighted several sources of vulnerability that would need to be carefully managed. Directors noted that the CECs would continue to attract capital inflows that could be volatile by virtue of their size and susceptibility to speculation about the timing and conditions of euro adoption. They also noted that the prospect of rapid credit growth starting from the present low rates of bank intermediation entailed possible risks of overheating and asset price bubbles. Sound and consistent macroeconomic policies and strong and effective bank supervision would be key to minimizing these vulnerabilities and positioning the CECs for a successful experience in ERM2 and the early years in the euro area, Directors cautioned. While it was acknowledged that temporary restrictions on capital inflows could, in some limited circumstances, play a complementary role, it was also considered that this option would go against the objective of greater integration.

Directors agreed that further progress toward fiscal consolidation would likely be the greatest challenge facing the CECs in preparing for euro adoption. They noted that fiscal consolidation would require both the articulation of credible plans for medium-term fiscal adjustment based on a strong consensus and the demonstration of sustained

progress in meeting adjustment goals. It was also suggested that the CECs should stand ready to accelerate the pace of fiscal consolidation in the event of a boom in bank credit. While they acknowledged the challenge of reaching this objective in practice, Directors saw considerable merit in a medium-term strategy that would bring structural fiscal deficits well below the Maastricht deficit criterion of 3 percent of GDP by the time of euro adoption, with a view to allowing the full operation of the automatic stabilizers in the event of adverse cyclical conditions. Lower deficit levels would also help the CECs achieve public debt ratios that are sufficiently prudent given the volatility of fiscal revenues and the extent of expenditure rigidities. At the same time, the need to maintain public investment at levels that support further real convergence underscores the importance of high-quality fiscal adjustments focused on restraining the least productive expenditures, in particular social transfers and subsidies.

The discussion raised several important aspects of ERM2 in the run-up to euro adoption. Decisions about the central parity at which the CECs would enter the mechanism will require difficult and delicate judgments about where the parity should be set given the uncertainties as to the equilibrium exchange rate. In any event, participating members would have to agree on the parity and conversion rates.

Participation in ERM2 would also require well-planned policy strategies on the part of the CECs. There was support for the view that countries should apply to enter ERM2 only after they have made substantial progress toward achieving low inflation, correcting fiscal imbalances, and implementing structural reforms. This would allow the stay in ERM2 to be limited to the minimum two-year period. However, there was also support for the view that ERM2 would provide participating countries with a useful and flexible framework for testing policy consistency and the appropriateness of the central parity, and for helping them direct economic policies toward sustainable convergence and reduced exchange rate variations. In this view, there are good arguments against any bias toward shortening the length of stay in ERM2, which may need to vary across countries. At the same time, the discussion highlighted that the conversion to the euro should not be unduly delayed for countries entering ERM2 with sound fundamentals and policies consistent with full participation in the euro area, given the potential risks of speculative pressures related to a prolonged stay in ERM2 and the obligation set out in the Maastricht Treaty to move toward euro adoption once all criteria are fully met.

Directors pointed to the importance of a clearly defined monetary policy framework during ERM2. With the support of sound underlying policies, the aim should be to put in place a framework that enhances the stabilizing effects of an

appropriately set central parity, strengthens the likelihood of achieving the criteria for exchange rate stability and inflation, and offers protection against speculative pressures. Directors discussed a variety of possible frameworks but cautioned that no single monetary regime met the requirements of all countries. They accordingly stressed the constructive role the IMF staff and regional institutions could play in encouraging national authorities in candidate countries to make choices on their monetary policy frameworks with a full appreciation of the trade-offs and risks involved. Directors also stressed the need for chosen frameworks to provide markets with a clear indication of how monetary policy would respond to various types of potential shocks.

Lastly, the Board underscored that, given the considerable policy challenges ahead, each country will need to place a high priority on building broad-based support for its euro adoption strategy. Maintaining clear and timely communication with the markets, and between the CECs and the European Commission and the ECB, will help in this task. This will also involve minimizing any uncertainties about the criteria to be used in assessing compliance with the requirements for euro adoption while preserving the room for using judgment when making the final assessment of compliance with the Maastricht criteria.

Central African Economic and Monetary Community

In November 2003, Directors discussed developments and regional policy issues in the Central African Economic and Monetary Community (CAEMC), whose members are Cameroon, the Central African Republic, Chad, the Republic of Congo, Equatorial Guinea, and Gabon.

Macroeconomic developments in the CAEMC region were generally satisfactory in 2002, with growth remaining buoyant, inflation moderate, and the level of official reserves rising. However, the region remained excessively dependent on the oil sector, and human development indicators had improved only marginally despite the region's endowment of natural resources. More broadly, Directors considered that greater convergence in members' fiscal, monetary, and trade policies would help CAEMC realize the full potential of regional economic integration.

Against that background, Directors regretted the slow progress in macroeconomic convergence and urged greater political commitment to, and strengthening of, the surveillance process. They welcomed the introduction of improved convergence criteria and suggested further strengthening the peer review process. Given the volatility of oil revenues, they encouraged the CAEMC authorities to modify the basic fiscal balance criterion by using a fiscal rule and to introduce greater transparency in the management of oil resources in line with international best practices. Directors

welcomed the plans for making the administration of national stabilization funds and "Funds for Future Generations" more flexible and suggested that consideration be given to improved ways of investing these resources with the Bank of Central African States (BEAC).

As for monetary policy, Directors considered the BEAC's stance in 2002 to have been generally prudent, and the 2003 monetary program was broadly consistent with the regional inflation objective. However, Directors noted that more progress was needed in removing the long-standing structural weaknesses that hinder the effective conduct of monetary policy in the region. Directors urged the CAEMC authorities not to delay further the replacement of the BEAC financing of budget deficits by the issuance of treasury bills. In that context, they encouraged the BEAC to consider issuing its own negotiable certificates of deposit to enhance its liquidity-management capacity until government treasury bills become more generally available. Directors also considered that country-specific reserve requirements might create distortions across the region's financial markets, which could impair the competitiveness of financial service providers in some member countries, and called for their realignment. Board members also called for additional measures, such as freeing up interest rates, improving the payments system, and simplifying the procedures used for open market operations, to enhance the functioning of the interbank market.

Continued efforts were needed to strengthen the banking system, which remained fragile despite the restructuring of distressed banks, and Directors emphasized the role of the Banking Commission of Central Africa (COBAC) in ensuring banks' compliance with prudential norms. They recommended that COBAC be made the sole authority for issuing and withdrawing bank licenses, and that the common bank licensing rules be revised to further facilitate opening of bank branches across the region. Directors welcomed COBAC's plans for progressive tightening of the capital adequacy ratio, but highlighted the need to match capital requirements to the high operational risks inherent in CAEMC economies because of their undiversified economic structure.

Directors encouraged the CAEMC authorities to press ahead with other financial sector reforms, including early and effective implementation of new regulations for the microfinance sector. They welcomed the adoption of anti-money-laundering regulations, but noted that additional steps were needed to make them fully operational. In light of the modest size of the private sector in CAEMC countries, Directors expressed a preference for merging the nascent regional stock exchange in Libreville with the existing one in Douala. There is merit in adopting a prudent approach in the operations of the recently reorganized

Mozambique



Mozambique completed four IMF-supported programs during 1987–2003. These programs helped the country make significant structural reforms—moving from a centrally planned economy to a market-based one—achieve macroeconomic stability, and substantially reduce its debt burden. GDP growth averaged nearly 7 percent a year during this period. The country built up its foreign exchange reserves, and the net present value of Mozambique's public external debt fell from over 500 percent of exports at the end of 1998 to less than 100 percent at the end of 2003. The proportion of the population living below the poverty line has declined by about 15 percentage points since 1997, when it was 70 percent.

The government's program for calendar year 2004 calls for broadening and sustaining growth by maintaining prudent macroeconomic management and addressing an important agenda of unfinished reforms to accelerate private sector development.

The Fund provides significant levels of technical assistance in the financial and fiscal sectors in close cooperation with development partners, which also contribute financial support. This assistance has enabled Mozambique to make great strides in strengthening public finances, including customs and tax administration.

Mozambique-IMF activities in FY2004

June 2003	Completion of the fifth review of Mozambique's performance under the country's PRGF-supported program
July 2003	Visit of Managing Director Horst Köhler, who also attended the second African Union Heads of State meeting in Maputo
November 2003	Mozambique began participating in the Fund's General Data Dissemination System; publication of Financial System Stability Assessment by the IMF and the World Bank
December 2003	Completion of Article IV consultation and ex post assessment of Mozambique's performance under Fund-supported programs by the Fund's Executive Board

regional development bank (BDEAC) so as to confine its lending operations to refinancing activities in accordance with sound financial criteria, relying on its own funds and long-term resources borrowed on the regional market.

Directors regretted that member countries still do not consistently apply the provisions of the common external tariff (CET), and they saw expediting trade integration among CAEMC nations as urgent. Remaining nontariff barriers need to be eliminated; customs codes, valuations, and exemptions need to be harmonized; and the CET needs to be overhauled, including by reducing the top tariff rate of 30 percent. Directors encouraged the authorities to pursue tax harmonization in other fiscal areas as well and to strengthen the collection of the regional tax on imports to ensure financing of the regional institutions and regional integration funds.

Some of the competitiveness gains resulting from the 1994 devaluation of the CFA franc had been eroded, Directors observed. To maintain the region's external competitiveness and its share in export markets, they underscored the need to pursue policies aimed at broadening the productive base and diversifying the economies, including by accelerating structural reforms, strengthening basic infrastructure, and adopting common sectoral policies.

Directors urged the authorities to improve the quality, harmonization, and distribution of CAEMC's economic data, notably in the areas of price indices, the real sector, and public finance. In light of the high incidence of poverty in the region, the collection of social sector statistics to track progress with poverty reduction and human development indicators was especially important. Directors supported elevating the regional discussions on economic developments and policies to the level of formal regional surveillance of CAEMC-wide issues in the context of Article IV consultations with member countries.

Structural Reforms and Growth

A common theme in many of the Executive Board's discussions during the financial year was the need in many countries for more vigorous efforts at structural reform, especially to enhance economic growth. The theme arose in a variety of contexts: not only in surveillance discussions at the country, regional, and global levels, but also in discussions of policy programs supported by IMF financing.

Many economic problems are due to shortcomings in the working of markets, rather than to resource shortages or an excess or deficiency of overall demand. There is broad consensus that where there are such problems, structural reforms—policy measures that change the institutional and regulatory frameworks governing market behavior—can

lead to greater efficiency in the allocation and use of resources and to stronger incentives for innovation, and thus not only to higher productivity and per capita incomes but also to faster long-run growth. Structural reforms can also boost growth in the short run by increasing returns to investment and by providing scope for macroeconomic policies to allow the economy to run at higher levels of capacity utilization without inflationary pressures. Unfortunately, however, many structural reforms impose costs on a few individuals or social groups in the short run, and those who perceive themselves as potential losers often successfully oppose reforms.

For the April 2004 *World Economic Outlook*, an IMF staff team researched structural reforms in industrial countries to distill lessons from the experience of the past three decades, particularly on the obstacles to reform and what can be done to overcome them. The analysis suggested that several considerations could make a difference in the success of reforms:

1. A recovery from an economic downturn is a good time to start reforms. Difficult economic conditions often make the need for reform more obvious, thereby weakening traditionally strong interest groups.
2. There are advantages to starting with reforms that bring quick, clear benefits. Trade and financial market reforms, for example, produce benefits in the short run. If these are successful, they not only have a demonstration effect but may also increase competitive pressures, making further reform easier.
3. Strong fiscal positions enable countries to provide compensation to those hit hardest by reforms, suggesting that countries should seek to improve their fiscal positions to gain the flexibility to support reforms in this way.
4. Outside support for reforms can be helpful. Signing an international agreement or joining an international club can provide external discipline that will force the pace of reforms. For example, membership in the World Trade Organization provides support for trade liberalization. Membership in the IMF is another example.

Through the Fund's surveillance, financial assistance, and technical assistance, the Executive Board continued in the latest financial year to press for structural reforms in

many countries and highlighted the success of past reforms.

In its surveillance of policies in the industrial countries—in its discussions of the *World Economic Outlook* and the relevant country surveillance cases—the Board observed that growth-enhancing structural reforms were particularly important for both the euro area and Japan, which have suffered sluggish growth in recent years because they lacked the scope to ease macroeconomic policies, given the already low level of interest rates as well as actual and projected fiscal imbalances. Structural reforms in the euro area and Japan were thus seen as an important component of the policies needed to rebalance global growth and narrow payments imbalances. The Board also emphasized the importance of labor market reforms in many European countries to tackling problems of chronic unemployment.

For many emerging market countries, the Board emphasized the importance of fiscal and financial sector reforms to make growth more robust. The three Baltic countries—Estonia, Latvia, and Lithuania—are examples of successful reformers in which the Fund was able to play a crucial role in guiding the authorities in making difficult choices. These three countries have recorded growth rates of 6 to 9 percent annually, with low inflation, over the past few years despite a difficult global environment—a remarkable recovery from the recession triggered by Russia's financial crisis of 1998. The recovery was due, in large part, both to sound macroeconomic policies and to the implementation of often painful structural reforms in anticipation of European Union accession in May 2004.

For many low-income countries, the Board stressed, in particular, the need for reforms that would improve governance and other features of the investment climate, because of the importance for growth and poverty reduction of attracting private investment—including from abroad—and fostering domestic saving.

Specific reform agendas in the financial sector, trade and tax systems, and product and labor markets were discussed in many Article IV country consultations and in multilateral and regional surveillance activities. Instances of how various countries have benefited from structural policy assistance as well as from macroeconomic advice provided by the Fund appear throughout this report.



Strengthening the International Financial System

The growing integration of the world economy in recent decades has brought substantial benefits to the IMF's member countries. But this economic interdependence has also created new challenges, as demonstrated by the financial crises of the 1980s and 1990s. The IMF has responded to these challenges, in part, by strengthening its framework for, and enhancing the content of, surveillance—its foremost means of helping countries avert crises. Surveillance allows the Fund, working with its member countries, to identify economic and financial policy strengths and weaknesses and vulnerabilities that could lead to crises and to formulate policy actions that can safeguard stability. And, given the potential for national crises to spill over to other countries in today's global economy, surveillance is a means for the Fund to fulfill its mandate of promoting international economic and financial stability.

During FY2004, the Fund sharpened its focus on global imbalances, vulnerabilities, and structural rigidities that impede economic growth and undermine the resilience of the world economy as well as on tools such as debt sustainability assessments and analysis of balance sheet fragilities. It also continued to strengthen financial sector surveillance through such mechanisms as the Financial Sector Assessment Program (FSAP), financial soundness indicators (FSIs), and assessments of Offshore Financial Centers (OFCs) and Anti-Money-Laundering and Combating the Financing of Terrorism (AML/CFT) regimes. Further enhancements to its surveillance framework, including a number that draw on recommendations of the Independent Evaluation Office (see Section 3), are in train. The Fund is also enhancing the modalities of its relationships with member countries to maximize the impact of surveillance. The Board will further consider these and

other issues in the context of the next Biennial Surveillance Review, scheduled for mid-2004.

Given the importance of timely, accurate, and comprehensive data for effective surveillance, during the financial year the IMF's Executive Board conducted reviews of the quality and timeliness of the data members provide to the Fund. In line with the Fund's evolving surveillance needs, the Board expanded the categories of data that members are required to provide and took steps to strengthen the legal framework for data provision.

Despite the best efforts of national authorities and the international community to prevent them, crises are likely to continue to occur, however, and the IMF will continue to play a key role in their resolution. During the financial year, the Board further discussed mechanisms that could facilitate the rapid and orderly resolution of crises. Such mechanisms include Collective Action Clauses (CACs), aggregation provisions, and a voluntary code of conduct.

Enhancing the Framework and Content of Surveillance

In a Board discussion in August 2003, Directors reviewed the challenges faced by the IMF in its surveillance work, assessed the initiatives the Fund had set in motion to address them, and had a preliminary exchange of views on avenues for strengthening those initiatives preparatory to the 2004 Biennial Surveillance Review.

Periodic reassessments of economic conditions and policies were necessary in all members, Directors stressed, noting that, for members with IMF-supported programs, it was essential to step back from the program framework at regular intervals to recon-

sider the economic strategy underlying the program. For other members—particularly countries whose policies have a systemic or regional impact or those experiencing a buildup of vulnerabilities, facing significant changes in domestic or external conditions, or showing a chronic inability to realize their growth potential—it was important to augment regular surveillance activities periodically with reflection on the broad thrust of the Fund’s analysis and policy recommendations. Emphasizing that the Fund should take full advantage of its knowledge of experiences in a broad range of countries, Directors called for more cross-country analyses.

Although periodic Article IV country consultations were the cornerstone of Fund surveillance, Directors underscored that effective surveillance required mechanisms operating with greater frequency. They also emphasized the need for country authorities to reassess the adequacy of their policy frameworks in the face of changing conditions and, in the case of countries with IMF arrangements, to engage in discussions of broad issues relevant for Fund surveillance that went beyond the specific details of program review.

Against these broad considerations, Directors generally thought that the current framework of surveillance, if consistently implemented and enhanced by recent initiatives, had the capacity to deliver fresh assessments of economic conditions and policies on a regular basis in each member country. They noted that several measures had been taken to promote reassessments of members’ economic strategies during Article IV consultations:

- New tools had been introduced to ensure that actual and incipient financial and balance sheet fragilities receive adequate attention. These tools include the strengthened framework for debt sustainability assessments; the FSAP and associated Financial System Stability Assessments (FSSAs); and Reports on the Observance of Standards and Codes (ROSCs), which assess the extent to which countries observe certain internationally recognized standards and codes.
- The IMF’s internal review process had been modified to enhance independent reviews of the strategy recommended by the relevant area department. Modifications included early consultations between area and functional departments, more systematic incorporation of lessons

from cross-country experiences, and greater focus on strategic issues.

- Steps had been taken to clarify the substantive content of Article IV country consultations in a program context. Rules guiding the timing of Article IV consultations were modified to allow them to take place when a reassessment of economic strategy was most useful. A few area departments had experimented with alternative models for the conduct of Article IV consultations in program countries. Based on early feedback, Directors encouraged area departments to pursue these experiments but stressed the need for flexibility, to reflect differences in members’ circumstances and in departments’ resource constraints.

Directors observed that several high-frequency multilateral surveillance procedures—for example, the World Economic and Market Developments sessions, which focus on developments in the Fund’s largest members and emerging markets; informal meetings on country matters; and ad hoc informal Board sessions on individual countries—could be integrated with Article IV country consultations. Directors also pointed to the periodic vulnerability assessment exercise introduced in May 2001, which provides a platform for independent assessments of key risks in individual countries.

Directors considered candor and transparency to be essential dimensions of surveillance and took note of efforts to improve information provided to the Executive Board and to encourage members to consent to publication of staff reports. There was also a need for staff to improve communication with national authorities and to better engage civil society in each country.

The IMF faced a difficult task implementing the surveillance framework systematically across the membership, not least because of the framework’s substantial evolution in recent years. Directors considered that challenges were concentrated in the following areas: data availability, realism of baseline scenarios, analysis of alternate scenarios, integration of bilateral and multilateral surveillance, attention to systemic or regional spillovers from domestic policies, early integration of vulnerability assessments, impact of developments in international capital markets, the evaluation of cushions against shocks, follow-through on recommendations of FSAP exercises and ROSCs, and use of outside expertise.

Pakistan



In 2001, Pakistan embarked on a three-year adjustment program supported by an arrangement under the IMF's Poverty Reduction and Growth Facility (PRGF). The arrangement expires in December 2004.

During FY2004, the Fund's Executive Board completed its fifth, sixth, and seventh reviews of Pakistan's performance under the PRGF-supported program. The Fund also sent a mission to Pakistan to provide technical assistance in public-expenditure management.

Pakistan has come a long way in a short time. Its public debt burden has been reduced considerably, and the country has become much less vulnerable to external shocks. Growth has picked up significantly in the past few years and is expected to exceed 6 percent in 2004. The recovery was spurred by the authorities' determined implementation of sound financial policies and structural reforms. In the macroeconomic area, the crucial elements have been the sizable fiscal adjustment and a monetary policy geared toward achieving and maintaining low inflation. Meanwhile, some improvement has been made in establishing a more favorable business environment to foster private sector development, including reforms of taxes and tariffs, bank supervision, and major public enterprises.

Despite this progress, a large part of Pakistan's population still lives below or close to the poverty line. Pakistan's full Poverty Reduction Strategy Paper (PRSP), finalized in December 2003, calls for a special effort to ensure that the benefits of economic growth are shared by all by emphasizing greater social inclusion, increasing the poor's access to physical and financial resources, and setting up safety nets designed to protect the poorest and most vulnerable.

Pakistan-IMF activities in FY2004

June 2003	Completion of the fifth review of Pakistan's PRGF arrangement
October 2003	Completion of the sixth and seventh reviews of Pakistan's PRGF arrangement
November 2003	Pakistan began participating in the IMF's General Data Dissemination System
December 2003	Publication of Pakistan's finalized PRSP; publication of ROSC data module assessment of Pakistan's macroeconomic data sets
March 2004	PRSP endorsed by the Fund's Executive Board

Maintaining a reasonable degree of stability of the surveillance framework would help the IMF tackle these implementation challenges and contribute to strengthening Fund surveillance. At the same time, Directors stressed that the framework of surveillance must continue to evolve to reflect lessons from experience and changes in the global environment and felt that there was scope for further steps to strengthen the surveillance framework.

Board members supported a proposal to reassess surveillance in low-income countries in light of the frameworks provided by the Poverty Reduction Strategy Papers (PRSPs) and arrangements under the Poverty Reduction and Growth Facility (PRGF) (see Section 4). Generally, they saw merit in reevaluating how IMF surveillance could best contribute to the development of conditions propitious to sustained high growth in these countries.

Strengthening Analytical Tools

The IMF is improving its analytical tools for the early identification of vulnerabilities, including in the financial sector, sharpening its focus on balance sheet weaknesses in the context of large and volatile international capital flows, and looking at accounting issues related to public investment.

Debt Sustainability Assessments

In June 2002, as part of the Fund's efforts at crisis prevention and resolution, the Executive Board endorsed a new framework for assessing the sustainability of countries' public and external debt. Such assessments underpin the Fund's policy advice in both program and surveillance contexts. The new framework was intended to bring a greater degree of consistency and discipline to sustainability analyses, including by laying bare the basis on which projections are made and subjecting projections systematically to sensitivity tests. At the time of that Board discussion, it was understood that the approach represented work in progress.

In July 2003, Directors reviewed the application of the framework and considered possible methodological refinements.

They noted that realistic and credible assessments of debt sustainability were a necessary basis for effective IMF surveillance and informed decisions on the use of Fund resources. Debt sustainability depends on a confluence of factors, including macroeconomic developments, political and social constraints on adjustment, and the availability and cost of private and official financing. Debt dynamics should therefore be viewed against a variety of indicators—including the level, structure, and characteristics of the debt; the plausibil-

ity of whether the primary surplus required to stabilize the debt dynamics can be infinitely sustained; and the possible rollover risk arising from financing needs. Directors also highlighted the importance of a good understanding of market views and sound debt-management strategies.

During the past year, debt sustainability assessments based on the standard framework were progressively introduced and became routine in connection with requests for use of Fund resources under the General Resources Account and Article IV consultations with countries with significant market access. Directors agreed that sustainability assessments had, on the whole, contributed to more realistic projections of debt dynamics.

While welcoming the promising start of the debt sustainability framework, Directors agreed that there was scope for improvement. In particular, debt sustainability assessments were still insufficiently integrated with the rest of the staff's analysis and its policy discussions with country authorities, and experience thus far pointed to an overly optimistic bias in baseline projections.

Against this backdrop, Directors welcomed modifications and enhancements intended to facilitate interpretation of the debt sustainability analysis and its integration into staff reports. In particular, they supported the use of alternative, country-specific scenarios—including a scenario based on no policy changes—highlighting the main vulnerabilities in the baseline projections against which corrective measures might be contemplated.

Although contingent liabilities, in particular those associated with the potential costs of financial sector restructuring, were often a source of increases in public indebtedness, Directors recognized the inherent difficulties of quantifying such liabilities. They emphasized the need for a flexible, case-by-case approach and encouraged country authorities to provide relevant information to help refine estimates of contingent liabilities in the context of FSAP missions and Article IV consultations.

Agreeing that debt sustainability assessments should become an integral part of the analyses underlying staff reports, Directors noted that further improvements might be needed. They underscored the importance of continued efforts to ensure technical understanding of the framework by markets and country authorities and of engaging the latter fully in discussing debt sustainability assessments.

(For the Board's discussion of debt sustainability in low-income countries, see Section 4.)

Balance Sheet Approach

The financial crises of the mid- to late 1990s pointed to the need to complement more systematically the Fund's

traditional flow-based analysis with an examination of countries' stock variables as shown on their balance sheets (see Box 2.1). Balance sheet mismatches—of currencies, maturities, and capital stock—can help gauge a country's exposure to interest rate, exchange rate, and rollover risk. The Fund is using the balance sheet approach to examine how the structure of public debt, and balance sheet mismatches more generally, can contribute to financial crises, and how these factors should affect judgments of reserve adequacy.

During the financial year, the Fund worked on improving its analysis of the balance sheets of both the public and the private sectors. The balance sheet approach is already used in the advanced countries by the authorities (for example, the Bank of England's Financial Stability Review), who discuss the risks identified with the Fund during Article IV consultations. The Fund applied the approach during Article IV consultations with Thailand (2002) and Peru (2004) and has begun similar work with other members. Corporate sector balance sheets in several emerging market economies have been analyzed in some detail, and a chapter in the April 2004 *World Economic Outlook* evaluated the risks posed by credit booms.

The role of the balance sheet approach was considered by the Executive Board at informal seminars in July 2003 and March 2004. While Directors felt that the balance sheet approach provided a useful analytical framework for the study of vulnerabilities, its data requirements and resource costs are high. Most viewed it as complementary

Box 2.1 What Is the Balance Sheet Approach?

Traditionally, analysts seeking to assess the financial health of a country looked mainly at the *flow variables*, such as annual GDP, the external current account balance, and fiscal balances. After the capital account crises of the 1990s, observers realized that signs of impending trouble might have been spotted had they looked more closely at countries' balance sheets and, specifically, paid more attention to mismatches between the stock of a country's assets and the stock of its liabilities—that is, *stock imbalances*. For example, did short-term foreign-currency-denominated debt exceed foreign currency reserves?

The balance sheet approach to crisis prevention and resolution begins with a look at a country's consolidated external balance sheet—the external debts that the country's government, banks, firms, and households have relative to their external assets (notably, liquid external reserves). Close attention is also paid to the balance sheets of individual sectors, because mismatches at the sectoral level might not show up on the consolidated sheet. These sectoral balance sheets are often linked, so that if one sector has trouble servicing its debt, a second sector's assets will deteriorate and it may, in turn, have difficulty repaying its creditors.

to traditional flow-based analysis. Directors generally supported integrating the balance sheet approach into Fund operations in a phased, cautious manner, but not making full-fledged balance sheet analysis a standard requirement for surveillance. Thus, for the time being, given data and resource constraints, the Fund's work on balance sheet analysis will be focused on emerging market countries based on a risk-oriented approach.

Public Investment and Fiscal Policy

The Fund has continued to seek ways not only to help members reduce vulnerabilities but also, within the framework of its mandate, to help them promote growth. These two strands of work are closely related, not only because vulnerabilities threaten instability that would jeopardize growth but also because a failure to grow may jeopardize external and public debt sustainability.

In an informal seminar in April 2004, Directors discussed fiscal policy and accounting issues related to public investment, with a view to finding ways to protect infrastructure investment when fiscal adjustment is required. They emphasized the importance of ensuring that borrowing is consistent with macroeconomic stability and debt sustainability, and the need for a rigorous cost-benefit analysis of projects. At the same time, they stressed that infrastructure investment should be accommodated to the extent possible within these constraints. The primary focus of analysis should remain the overall fiscal balance and gross public debt, but appropriate attention should be paid to current and cyclically adjusted balances. In addition, the operations of commercially run public enterprises should be excluded from fiscal indicators and targets. Preliminary criteria put forward by the staff for identifying such public enterprises were broadly endorsed and will be studied further.

Public-private partnerships (PPPs) were viewed as having the potential to attract private capital to infrastructure investment and to secure efficiency gains in asset building and service provision. At the same time, their appropriate role must be carefully assessed, and their fiscal risks transparently reflected in the government's accounts.

The Fund is reviewing the accounting framework for public investment and has proposed approaches that safeguard infrastructure financing, allow commercially run public enterprises to be excluded from fiscal indicators and targets, and clarify the accounting treatment of public-private partnerships. Pilot case studies have commenced (including in Brazil, Chile, Colombia, and Peru) to refine these approaches. The Fund's Executive Board is expected to discuss the results of the pilots early next year.

Systemic Issues

The Fund continues to search for ways to make its work more incisive in its traditional core areas. In November 2003, the Executive Board held a discussion on *exchange rate arrangements*, suggesting that the "bipolar" view of exchange rates—according to which rates should be either firmly fixed or freely floating—needed to be nuanced in recognition of the fact that the benefits of exchange rate flexibility increase with economic and institutional development. Directors emphasized that macroeconomic and structural policies should be consistent with the chosen exchange rate regime.

In March 2004, the Board considered the implications for surveillance of the Independent Evaluation Office's report on *fiscal adjustment* in Fund-supported programs. The action plan discussed by the Board seeks to ensure that, in countries where structural and institutional fiscal reform is a priority, this area receives appropriate attention in surveillance.

The IMF, together with the World Bank, is also helping to support further *international cooperation on trade*, including through stepped-up surveillance of trade policies, especially in countries whose trade policies are of fundamental importance for the world trading system, with a focus on increasing market access. (See Sections 3 and 4 for more developments related to trade.)

Financial Sector Stability

In recognition of the key role played by the financial sector in the generation and transmission of vulnerabilities, financial sector surveillance has been strengthened further. It is now a core area of Article IV country consultations. The Fund is also refining tools such as the Financial Sector Assessment Program and financial soundness indicators. Recognizing the risks that offshore financial centers could pose to the international financial system and the importance of strong anti-money-laundering and combating the financing of terrorism regimes, in FY2004 the Board endorsed assessments of OFCs and AML/CFT regimes as core areas of Fund work.

Financial Sector Assessment Program

The FSAP, undertaken in collaboration with the World Bank, remains the primary vehicle for identifying vulnerabilities in financial sector supervision and oversight at the country level and the development of programs to strengthen the financial sector. FSAP teams (IMF and Bank staff and experts from central banks, national super-

visory agencies, and international standard-setting bodies) conduct comprehensive checkups of financial systems—the whole range of financial institutions; financial markets; payment systems; and regulatory, supervisory, and legal frameworks. The teams use a variety of tools (including stress tests and FSIs) to review financial sectors, evaluate how risks are managed, weigh possible technical assistance needs, and help countries prioritize policy responses.

In addition to providing important input for surveillance purposes, the FSAP is a vehicle for institution building in the financial sector. The Fund is working with the World Bank to deepen the coverage of development issues in FSAP exercises and has stepped up its research and policy advice in such areas as the development of securities and derivatives markets. Work is also being done to strengthen the links between the FSAP and other Fund and World Bank financial sector activities, especially follow-up technical assistance. The new Basel capital agreement, Basel II, will be a focus of both FSAP assessments and technical assistance.

Roughly half of the Fund's members have had an FSAP. Therefore, consistent with the recommendations of the March 2003 Board review, and to release resources for FSAP follow-ups and updates, the number of FSAP exercises has been reduced by about one-fourth to 18 a year and their scope streamlined, with more selective preparation of Reports on the Observance of Standards and Codes.

The Independent Evaluation Office will carry out an evaluation of the FSAP and the associated Financial System Stability Assessments in FY2005.

Financial Soundness Indicators

Efforts to strengthen the analytical underpinnings of financial system stability assessments are supported by the Fund's ongoing work to develop FSIs. FSIs are used to assess the soundness of financial institutions and identify vulnerabilities in the corporate and household sectors that may pose risks to the stability of the financial system. (See Table 2.1.)

In June 2003, the Executive Board endorsed further work to encourage the compilation and dissemination of FSIs and

to develop their role in financial stability analysis. Directors considered FSIs to be a key tool that enhances the overall effectiveness of Fund surveillance, increases the transparency and stability of the international financial system, and strengthens market discipline. They commended the results achieved in three areas since the Board endorsed a “core” and “encouraged” set of FSIs in June 2001: a draft *Compilation Guide* on FSIs has been completed; substantial progress has been made in enhancing the role of FSIs in macroprudential analysis; and the use of FSIs in Fund surveillance has been further developed.

Directors noted that FSIs differed from country to country because of differences in accounting and bank supervision

Table 2.1 Financial Soundness Indicators: Core and Encouraged Sets

	Core Set
Deposit-taking institutions	
Capital adequacy	Ratio of regulatory capital to risk-weighted assets Ratio of regulatory Tier I capital to risk-weighted assets Ratio of nonperforming loans net of provisions to capital
Asset quality	Nonperforming loans as share of total gross loans Sectoral distribution of loans
Earnings and profitability	Return on assets Return on equity Ratio of interest margin to gross income Ratio of noninterest expenses to gross income
Liquidity	Liquid assets as share of total assets (liquid asset ratio) Ratio of liquid assets to short-term liabilities
Sensitivity to market risk	Ratio of net open position in foreign exchange to capital
	Encouraged Set
Deposit-taking institutions	Ratio of capital to assets Geographical distribution of loans Ratio of gross asset position in financial derivatives to capital Ratio of gross liability position in financial derivatives to capital Trading income as share of total income Personnel expenses as share of noninterest expenses Spread between reference lending and deposit rates Spread between highest and lowest interbank rate Ratio of customer deposits to total (non-interbank) loans Foreign-currency-denominated loans as share of total loans Foreign-currency-denominated liabilities as share of total liabilities Ratio of net open position in equities to capital Ratio of large exposures to capital
Market liquidity	Average bid-ask spread in the securities market ¹ Average daily turnover ratio in the securities market ¹
Nonbank financial institutions	Assets as share of total financial system assets Ratio of assets to GDP
Corporate sector	Ratio of total debt to equity Return on equity Ratio of earnings to interest and principal expenses Ratio of corporate net foreign exchange exposure to equity Number of applications for protection from creditors
Households	Ratio of household debt to GDP Ratio of household debt service and principal payments to income
Real estate markets	Real estate prices Residential real estate loans as share of total loans Commercial real estate loans as share of total loans

¹Or in other markets that are most relevant to bank liquidity, such as foreign exchange markets.

rules and varying levels of financial sector development but felt that convergence toward internationally accepted accounting standards should result in greater data comparability.

The use of both FSIs and stress testing in macroprudential surveillance was encouraged by Directors. They noted that stress tests could be particularly valuable in assessing market risk but cautioned that they should complement, not substitute for, FSIs.

As for the staff's proposed Framework for Financial Stability Analysis, Directors considered it a useful tool for integrating macroprudential surveillance, analysis of macrofinancial linkages, and surveillance of macroeconomic conditions. They observed that macrofinancial linkages might vary across countries and endorsed further analysis to clarify these linkages, including the role of financial market functioning and cross-border linkages, and to identify the data needed to assess them.

While recognizing resource constraints, Directors encouraged countries to compile at least a core set of FSIs on a continuing basis. They endorsed proposals for assessing countries' capacity to compile FSIs and helping them develop this capacity. They generally endorsed the preparation of a guidance note on financial sector monitoring, including the use of FSIs, and the continued development of an operational database on FSIs.

Directors endorsed the proposal that, to support country compilation efforts, the Fund should conduct, with the assistance of other international agencies, a coordinated compilation exercise for supervisors and statisticians after finalization of the *Guide* in the second half of 2004. About 60 countries will participate.

Progress on the FSI work program will be reviewed in about two years.

Offshore Financial Center Assessments

In November 2003, the Board reviewed the OFC assessment program. They commended the significant progress made by the program, which was initiated in 2000. Since that time, of 44 jurisdictions contacted by the Fund, 41 have undergone initial assessments. The assessments will be updated in four to five years' time, with interim risk-focused assessments triggered by specific concerns carried out as needed.

Directors welcomed the improvements made to the supervisory and regulatory systems of a number of OFCs as a result of the program but noted that supervision and regulation of the nonbanking sector, in particular, needed to be strengthened in many.

The Board emphasized that the IMF's role should continue to be guided by the Fund's mandate and expertise in this area, and that the program should, in the future, be based on four broad elements:

- regular monitoring of OFCs' activities and compliance with supervisory standards;
- improved transparency of OFC supervisory systems and activities;
- technical assistance in collaboration with bilateral and multilateral donors; and
- collaboration with standard-setters and onshore and offshore supervisors to strengthen standards and exchanges of information.

Directors stressed that participation in OFC assessments and monitoring should continue to be voluntary.

Ongoing monitoring of OFC activities would help ensure that well-managed jurisdictions maintained good supervisory practices and that other jurisdictions were making progress in the development of supervisory systems. Directors encouraged all jurisdictions to consent to publication of their reports, noting that this was in their interest since failure to do so would send an adverse signal to the market. They underlined that all OFCs should meet minimum international financial regulatory standards but stressed that the Fund should not set financial supervisory standards. Directors recognized that information-sharing arrangements play a key role in effective cross-border supervision, and, in this context, they indicated that the Fund should help strengthen information-sharing mechanisms through increased collaboration with standard-setters and supervisors.

Directors agreed that the staff should continue to provide periodic updates on the OFC program and that the Board should conduct its next review of the OFC program in two to three years.

Anti-Money-Laundering and Combating the Financing of Terrorism

In its March 2004 review of the 12-month pilot program of AML/CFT assessments jointly undertaken by the Fund and the World Bank (see Box 2.2), the Board endorsed the 40 + 8 Recommendations of the Financial Action Task Force (FATF) as the new, expanded standard for AML/CFT assessments. The Board decided to expand the Fund's AML/CFT assessment and technical assistance work to cover the full scope of the expanded recommendations.

Directors welcomed the participation of the FATF and FATF-style regional bodies in the pilot program, underlined the importance of coordinating the work of the Fund and

the Bank with that of the FATF and FATF-style bodies to avoid duplication, and were encouraged by the assessment reports received. Directors looked forward to receiving (1) a full review of the assessments and their consistency with the principles of the ROSCs, as well as the effectiveness of coordination efforts, in about 18 months' time and (2) a comprehensive review of the overall effectiveness of the Fund/Bank program in about 3 years' time.

The pilot had achieved its initial goals, Directors noted. It had led to a considerable deepening of international attention to AML/CFT issues and to the provision of substantial technical assistance in this area. They were encouraged that most jurisdictions responded positively to the assessments. Directors commended the generally high level of compliance with the FATF recommendations in higher- and middle-income countries, while noting that many lower-income countries faced a challenge in implementing the FATF standard owing, in part, to resource constraints. While observing that there were more general weaknesses regarding compliance with the 8 Special Recommendations on Terrorist Financing established in 2001 than with the original 40 FATF Recommendations, Directors welcomed the heightened awareness among jurisdictions of the need

for strong legislative and institutional frameworks in this area and emphasized that a key element of raising global compliance with the FATF standard is the delivery of technical assistance. In particular, they welcomed the significant and increased assistance by the Fund in the areas of legislative drafting, support for supervisory bodies, establishment of financial intelligence units, and training.

In view of the success of the pilot program and the importance of AML/CFT work, Directors agreed that it should be a regular part of the Fund's work and that AML/CFT assessments, whether prepared by the Fund or the Bank or the FATF and FATF-style bodies, should continue to be included in all FSAP and OFC assessments. Directors agreed on the importance of continuing collaboration with the FATF. The FATF and FATF-style regional bodies combined are expected to conduct assessments of 15 to 20 countries a year.

In considering the options for advancing the Fund's work on AML/CFT, the majority of Directors agreed to support the Fund's becoming fully accountable, together with the World Bank, for carrying out AML/CFT assessments and providing technical assistance, including in the sectors previously covered by the independent AML/CFT experts.

Box 2.2 The Pilot AML/CFT Assessments Program

During the 12 months that ended in October 2003, the Fund and the World Bank, in collaboration with the Financial Action Task Force (FATF) and FATF-style regional bodies, undertook a pilot program of AML/CFT assessments of 41 jurisdictions. The assessments all employed a common methodology based on the FATF's original 40 Recommendations, plus 8 Special Recommendations on Terrorist Financing (40 + 8). The Fund conducted 20 of the assessments, the World Bank conducted 6, and 7 were conducted jointly by the Fund and the World Bank. The FATF and the FATF-style regional bodies conducted the remaining 8. Reports on the Observance of Standards and Codes (ROSCs) have been or will be completed for all of the pilot assessments and, with the consent of national authorities, are being posted on the IMF website.

To help countries address weaknesses in their AML/CFT regimes, the delivery of technical assistance by the Fund and other donors has been greatly increased. During the past two years, there have been 85 country-specific technical assistance projects benefiting 63 countries, and 32 regional projects reaching more than 130 countries.

In response to the assessments, a Fund and Bank priority has been to provide assistance in legislative drafting, supporting financial intelligence units, and training financial sector supervisors. Most progress is being made in developing up-to-date legal and institutional frameworks. The staffing and training of supervisory and law enforcement agencies is a longer-term process, requiring additional resources in the countries concerned. Since the Fund is only one of many technical assistance providers, close collaboration with other donors will continue to be a hallmark of IMF involvement in AML/CFT assistance.

Data Provision to the IMF and the Public

Financial year 2004 saw a continuation of the steady progress made in both data provision to, and data dissemination by, the IMF.

The framework for data provision to the Fund for surveillance purposes is based on the Articles of Agreement (particularly, Article VIII, Section 5) and relevant decisions of the Executive Board, and relies on a cooperative approach. The current framework, established in 1995, has three main components: (1) a common set of data that all members provide to the Fund and complementary data, as needed, that vary according to members' individual circumstances; (2) the Fund's assessment of the adequacy of the data provided and, where relevant, of the impact of any data deficiencies and how they can be addressed; and (3) a graduated approach to address the rare cases of members' reluctance to provide the data necessary for surveillance. (See Box 2.3.)

In three discussions during the year, the Board reviewed and refined these related issues: the voluntary Data Standards Initiatives, the legal framework for data provision, and the current data provision framework.

Data Standards Initiatives

In July 2003, the Executive Board concluded its fifth review of the Fund's Data Standards Initiatives (see Box 2.4).

Box 2.3 Revisions to the IMF's Data Provision Framework

Under Article VIII, Section 5, of the Fund's Articles of Agreement, IMF members have an obligation to provide certain information to the Fund. In 1995, it was agreed that members should be encouraged to provide to the Fund, on a voluntary basis and in the context of surveillance, information referred to as the "core statistical indicators" in addition to the information required under Article VIII, Section 5. In January 2004, the Board decided, first, to expand the categories of data members would be obliged to provide to the Fund under Article VIII, Section 5, and, second, to set out a procedural framework for enforcing this obligation. The expanded list of data members will be obliged to provide to the Fund effective end-January 2005 corresponds to the so-called core statistical indicators. In March 2004, the Board renamed these the "common indicators required for surveillance," which, pursuant to the decision of January 2004, will have to be provided to the Fund on an obligatory basis.

Directors discussed developments of the Special Data Dissemination Standard (SDDS) and the General Data Dissemination System (GDDS), proposals for updating the SDDS and the GDDS to maintain their relevance and reflect evolving international best practice, plans for follow-up on the data modules of the ROSCs, refinements to the Data Quality Assessment Framework (DQAF), and the integration of the Data Standards Initiatives within the Data Quality Program.

Directors expressed their strong satisfaction with the significant contribution that the Data Standards Initiatives had made toward strengthening the compilation, dissemination, quality, and transparency of data in member countries, and saw continued progress in these areas as a key pillar of surveillance and crisis prevention. (For example, all subscribers to the SDDS now meet the requirements for the template on international reserves and foreign currency liquidity as well as for the international investment position, with many subscribers exceeding the dissemination requirements for the last.) They highlighted the important role that the Fund has come to play as a data standard-setting body and in providing technical assistance on data issues. Directors supported the overall strategy for promoting data transparency by increasing members' participation in the Data Standards Initiatives, keeping up with international best practices. They called for a continuation of the consultative process with members and other institutions and underscored the importance of the voluntary nature of the Data Standards Initiatives.

Underscoring the role of the GDDS as a catalyst in the mobilization and coordination of technical assistance by the Fund, the World Bank, and other donors, Directors welcomed the support provided by some bilateral donors for technical assistance activities and encouraged others to

follow suit. Given the expanding number of GDDS participants and the continued interest of nonparticipating countries in joining, Directors stressed the importance of making the most effective use of available resources.

Directors underscored that the data module of the ROSCs played a key role in contributing to data transparency and facilitating the identification of priority areas for statistical improvements. Directors supported the proposed strategy to balance the preparation of "new" ROSCs with follow-up ROSCs, including for those countries whose reports were undertaken before the incorporation of the Data Quality Assessment Framework. The possibility of self-assessments by countries that have the capacity to carry them out was also highlighted.

Directors agreed that the next review of the Fund's Data Standards Initiatives should take place in the second half of 2005.

Legal Framework for Data Provision

The IMF relies primarily on voluntary cooperation to obtain from member countries the information needed to carry out its responsibilities, including surveillance and the provision of financing to member countries. On the whole, this cooperative approach has served the institution and its members well. In recent years, however, several instances of reporting problems—including delayed reporting, failure to report certain information, and reporting of inaccurate information—have motivated efforts to improve the legal framework of the provision of data by members. In June and December 2003, the Executive Board discussed strengthening the legal framework for the provision of information to the Fund. The conclusions of this discussion were incorporated in the decision that the Board approved on January 30, 2004.

The decision is intended to strengthen the effectiveness of Article VIII, Section 5, of the IMF's Articles of Agreement, a central pillar of this legal framework, which requires member countries to report certain information to the Fund to the extent that they have the capacity to do so. Remedies and sanctions are available to the Fund to address the relatively rare cases involving reporting problems that are not amenable to cooperative approaches.

The Board decision augments the categories of data that members are required to provide, in line with the Fund's evolving surveillance needs, and establishes a new framework of procedures and remedial actions to address a failure to provide data or the provision of inaccurate data. The decision also limits the circumstances in which Article VIII, Section 5, may be applied in the context of the use of Fund resources in the General Resources Account, to avoid possi-

ble nuisance cases whose pursuit would not be in the interest of the Fund.

Data Provision for Surveillance Purposes

In March 2004, the Executive Board held its sixth review since 1995 of data provision to the Fund for surveillance purposes. Data needs vary according to members' circumstances, and the Fund's data requirements have evolved over time in line with developments in the coverage of surveillance and other Fund activities. This is reflected in the Executive Board's review in FY2004 of the legal framework for the provision of information to the Fund, which, as explained above, expanded the categories of information that members will be required to report to the IMF under Article VIII, Section 5 (the "common indicators required for surveillance").

In taking stock of developments in the coverage and frequency of data provision by members, Directors were encouraged that a rising share of members were providing data deemed adequate for Fund surveillance and that most

members—including virtually all countries with market access—provided them on a timely basis. At the same time, Directors recognized that in nearly one-third of the Fund's membership—mostly countries with small populations or low per capita incomes—severe data deficiencies continued to hamper policy analysis and Fund surveillance. Directors acknowledged that, in many cases, time, national effort, and international support would be needed to overcome long-standing statistical capacity constraints.

Other key points from the March 2004 review:

- Directors agreed that the current framework for data provision to the Fund should be essentially preserved but called for strengthened implementation, stressing that Article IV reports should identify data shortcomings and their policy implications and recommend remedial actions if data are inadequate for effective surveillance.
- Directors supported addressing data quality issues in staff reports based on available ROSCs.
- New initiatives to strengthen surveillance call for new data requirements. Directors focused on the data

Box 2.4 Data Standards Initiatives and ROSCs

The Fund's Data Standards Initiatives aim to enhance the public availability of reliable, timely, and comprehensive statistics, thereby contributing to the pursuit of sound macroeconomic policies and to the improved functioning of financial markets.

Special Data Dissemination Standard (SDDS). Created in 1996, the SDDS is a voluntary standard whose subscribers—countries with market access or seeking it—commit to meeting internationally accepted levels of data coverage, frequency, and timeliness. Subscribers also agree to issue calendars on data releases and follow good practice with respect to the integrity, access by the public, and quality of the data. SDDS subscribers provide information about their data dissemination practices for posting on the Dissemination Standards Bulletin Board (DSBB) at <http://dsbb.imf.org>. Subscribers are also required to maintain an Internet website that contains the actual data. It is referred to as a national summary data page and is electronically linked to the DSBB. SDDS subscribers began disseminating prescribed data on external debt in September 2003. As of April 30, 2004, there were 57 subscribers to the SDDS.

General Data Dissemination System (GDDS). For countries that do not have market access but are eager to improve the quality of their national statistical systems, the GDDS offers a comprehensive approach. Voluntary participation allows countries to set their own pace but provides a detailed framework that promotes the use of internationally accepted methodological principles, the adoption of rigorous compilation practices, and ways in which the professionalism of national statistical agencies can be enhanced. The 70 IMF members participating in the GDDS at end-April 2004 provide metadata describing their data compilation and dissemination practices as well as detailed plans for improvement for posting on the DSBB.

Reports on the Observance of Standards and Codes (ROSCs). A ROSC is an assessment of a country's observance of one of 12 areas and associated standards useful for the operational work of the Fund and the Bank. The reports—about 70 percent of which have subsequently been published—examine three broad areas: (1) transparent government operations and policymaking (data dissemination, fiscal transparency, monetary and financial policy transparency); (2) financial

sector standards (banking supervision, payment systems, securities regulation, insurance supervision, and AML/CFT); and (3) market integrity standards for the corporate sector (corporate governance, accounting, auditing, insolvency, and creditor rights).

Participation in the standards and codes initiative continues to grow. As of end-April 2004, 524 ROSC modules had been completed for 106 economies, or 57 percent of the Fund's membership, and most systemically important countries have volunteered for assessments. Participation rates continue to vary substantially across regions. Based on completed ROSC modules, they range from 28 percent of members in developing Asia to 88 percent in central and eastern Europe.

Data Quality Assessment Framework (DQAF). The DQAF is an assessment methodology that was integrated into the structure of the data module of the ROSCs following the fourth review of the Data Standards Initiatives in 2001. The DQAF's broader application in providing guidance for improving data quality has been integrated into the Data Quality Program as well as more prominently into Article IV consultations.

implications of the work the Fund is doing in four areas: the balance sheet approach, the framework for debt sustainability assessments, liquidity management, and financial soundness indicators. Most Directors agreed that a priority in the period ahead is to improve the availability of data needed to conduct balance sheet analysis, emphasizing the importance of breakdowns of assets and liabilities that would make it possible to gauge currency and maturity mismatches in sectoral balance sheets and the need to address weaknesses in public debt data. In this context, the Board considered a pragmatic action plan to deal with the implications for resources.

- The significantly increased dissemination of macroeconomic data by the Fund has been a vital part of efforts in recent years to strengthen the international financial architecture. To minimize the risk of misperceptions about the accuracy and reliability of Fund data that may arise from the publication of different data series for a given variable, Directors endorsed efforts to strengthen metadata and explain data differences; work to promote common sourcing and better sharing of data across the Fund; and inclusion of a general disclaimer on published staff reports.

Directors agreed that the next review of data provision to the Fund should be conducted in about two years' time.

Crisis Resolution

Crisis prevention efforts notwithstanding, debt-servicing difficulties, which may develop into financial crises, will still be experienced by some countries, and during FY2004 the IMF continued to work toward improving crisis resolution mechanisms. Guided by the September 2003 Communiqué of the International Monetary and Financial Committee (IMFC), the Fund's efforts on crisis resolution focused on promoting the inclusion of collective action clauses (CACs) in international sovereign bonds to be issued in jurisdictions where CACs were not yet the market standard, contributing to initiatives aimed at formulating a voluntary code of conduct for sovereign debtors and their creditors, and considering issues that are of general relevance to the orderly resolution of financial crises.

Collective Action Clauses

The IMF has taken an active role in promoting the inclusion of such clauses in international sovereign bond issues in all markets, through increased dialogue with sovereign issuers (including in the context of Article IV discussions) and private market participants. In part because of these efforts, financial year 2004 saw a clear shift toward the use of CACs in international sovereign bonds issued under New York

law, where, until recently, these clauses had not been the market standard. There is no evidence that issue prices included a premium for CACs. Among the key developments during FY2004 were the following:

- Sovereign bonds containing CACs accounted for more than 70 percent of the total volume of sovereign bonds issued during the second half of 2003 and early 2004.
- An increasing number of emerging market countries (18 as of end-April 2004—Belize, Brazil, Chile, Colombia, Costa Rica, Guatemala, Indonesia, Israel, Korea, Mexico, Panama, Peru, the Philippines, Poland, South Africa, Turkey, Uruguay, and Venezuela) have included CACs in their international sovereign bonds issued under New York law.
- In 2003, Turkey and Peru were the first non-investment-grade countries to include CACs in bonds governed by New York law. The CACs included a voting threshold of 75 percent of outstanding principal for majority restructuring clauses. This represented a change in market practice, since previous non-investment-grade issuers had included higher voting thresholds. Moreover, Brazil announced in April 2004 that it would reduce the voting threshold for majority restructuring provisions to 75 percent in future sovereign issues.
- Eight industrial countries included CACs in their sovereign bonds issued in foreign jurisdictions. However, with the exception of Italy, all issued their bonds under English law, in which the inclusion of CACs has long been market practice.

Notwithstanding this rapid progress, a large share (58 percent) of the outstanding stock of emerging market sovereign bonds do not contain CACs.

Related Issues

Aggregation Provisions

The IMF is also continuing to explore the potential contribution that aggregation can make to the resolution of collective action problems and difficulties associated with creditor coordination. The benefits and risks of aggregation clauses were discussed at a Board seminar in October 2003. Despite some progress in the inclusion of aggregation clauses in sovereign bonds, it was considered premature for the Fund to endorse a particular set of provisions. The Fund will continue to monitor the use and evolution of aggregation provisions.

Code of Conduct

In its Communiqués of September 2003 and April 2004, the IMFC looked forward to efforts to develop a voluntary code

of conduct—which would outline standards of behavior and responsibilities for debtors and their private creditors—and encouraged the Fund to contribute to work in this area. A code could, in principle, facilitate dialogue between creditors and debtors, promote corrective policy action to reduce the frequency and severity of crises, and improve the prospects for an orderly and expeditious resolution of crises.

Progress in this area has been limited, but work continues in both the official and the private sectors. The G-20 has held several high-level meetings on this issue with representatives of the private sector, indicating that proposals for introducing a voluntary code are a key element of its work on crisis resolution.¹ A technical working group including Brazil, Korea, and Mexico has been established to work further with private sector representatives to prepare a draft code for broader consideration. At the same time, the Institute of International Finance (IIF) is continuing its efforts to develop a code based on key principles predicated on enhanced debtor-creditor cooperation.

IMF surveillance already supports many of the elements that would likely be part of a code, such as investor relations programs, CACs, and adherence to standards and codes. Beyond these elements, the Fund's involvement in assessing progress in creditor-debtor dialogue and negotiations will continue to be guided by the Fund's lending into arrears policy and the Board's recent review of the application of the good faith criterion to reach a collaborative agreement. The content and application of that policy may, however, need to be revisited when greater clarity emerges concerning the precise content of the code.

Sovereign Debt Litigation by Private Creditors

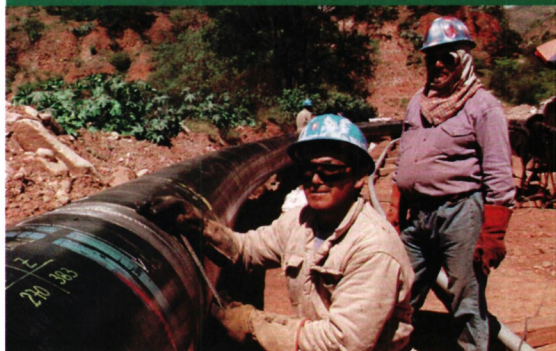
In April 2004, the Board held a seminar on developments in sovereign debt litigation and the implications of such litigation for countries' efforts to reach agreement with their creditors in sovereign debt restructuring and debt relief processes. There has been a significant increase in litigation against sovereign debtors over the past several years. The Fund will continue to closely monitor developments in this important area.

The Evian Approach

In an effort to contribute to the orderly resolution of financial crises, the Paris Club agreed in October 2003 on a new, flexible approach for addressing debt sustainability

¹The G-20 was set up in 1999 on the recommendation of the G-7 finance ministers. It is an informal forum that seeks to promote dialogue between industrial and emerging market countries on key issues related to the international financial system.

Peru



In a difficult external environment and despite an unsettled domestic political situation, Peru stayed the course in FY2004, pursuing the sound macroeconomic policies adopted under its two-year Stand-By Arrangement, which expired in February 2004. Its economic performance under its program has been strong. In 2003, it registered solid GDP growth of 4 percent and low inflation of 2.5 percent and reduced its fiscal deficit to 1.7 percent of GDP. Developments in early 2004 indicate that it is well on the way to achieving its medium-term goal of limiting the deficit to 1 percent or less of GDP. The government has been able to secure the passage of key laws to establish a sound legal framework for fiscal decentralization, and the authorities are working with the IMF, the World Bank, and the Inter-American Development Bank on further measures to ensure that decentralization supports medium-term fiscal consolidation.

During FY2004, IMF staff provided the Peruvian authorities with an ex post assessment of long-term engagement highlighting the importance of structural reform in the fiscal area and reduction of the public debt. The Fund also sent a mission to Peru to provide technical assistance in tax policy. In April 2004, IMF staff completed a Report on the Observance of Standards and Codes (ROSC) with suggestions on steps the Peruvian authorities could take to improve fiscal transparency, including clarifying functions within the public sector; establishing a stable and unified legal framework for the budget process, treasury operations, and debt management; and making explicit the spending responsibilities, revenue sources, and borrowing limits of subnational governments.

Peru-IMF activities in FY2004

October 2003	Publication of ROSC data module and detailed assessment using the Data Quality Assessment Framework
February 2004	Completion by the Fund's Executive Board of Article IV consultation and fourth (last) review of Stand-By Arrangement
April 2004	Publication of ROSC fiscal transparency module

concerns in non-HIPC countries. The so-called Evian approach focuses on enabling the Paris Club to (1) take explicit account of debt sustainability considerations; (2) adapt its response to the financial situation of the debtor countries; and (3) make a contribution to current efforts to make the resolution of crises more orderly, timely, and predictable. The Fund's debt sustainability analysis framework would be the principal instrument through which the Paris Club would form initial judgments about a country's debt sustainability prospects. For countries facing a liquidity problem but considered to have sustainable debt, the Paris Club would continue to provide flow relief based on exist-

ing terms and tailored to the debtors' needs. Countries with serious debt problems could be provided, on a case-by-case basis, with a comprehensive debt treatment, including flow rescheduling, stock reprofiling, or stock-of-debt reduction, with a view to restoring debt sustainability.

In line with a case-by-case approach, the Paris Club could deliver debt treatment in a number of different ways. In some cases, a debt treatment could be delivered in several phases to maintain a strong link with the debtor country's track record under its Fund-supported programs. To date, experience with the Evian approach has been limited.

Improving IMF Lending Policies and Practices



Providing financial support under adequate safeguards to member countries with balance of payments difficulties is one of the IMF's main responsibilities. In a time of increasing and volatile capital flows, the Fund continues to seek better ways of bolstering members' efforts to adjust to adverse circumstances, restore a viable balance of payments, implement reforms, and strengthen growth.

Financing Facilities and Policies

The IMF has a number of "facilities," or loan programs, through which it provides assistance to its member countries to help them deal with different kinds of balance of payments problems. (See Table 3.1.) Following major changes to its lending policies in recent years, the Fund has kept these facilities under review to ensure that they remain responsive to the changing global environment and the evolving needs of members, including those related to their growing financial interdependence.

The great majority of members that draw on Fund financing use either Stand-By or Extended Arrangements within the normal access limits or the Poverty Reduction and Growth Facility (PRGF). But the Fund also has other means through which it seeks to provide more focused support for members in particular circumstances, and the Board reviewed three of these in FY2004: the Contingent Credit Lines (CCL), aimed at crisis prevention; the provisions for access in excess of the normal limits; and the Compensatory Financing Facility (CFF), intended to provide financing for certain types of temporary current account shocks.

Review of Contingent Credit Lines and Possible Alternatives

The Fund has been working to develop or revamp instruments through which it can provide members pursuing strong policies with a precautionary line of defense against adverse capital market developments. This was the objective of the CCL, which the Fund introduced in April 1999 as part of its response to financial market crises in Asia and elsewhere in 1997–98, to provide a precautionary line of defense for members with "first-class" policies that might nevertheless be vulnerable to contagion. The facility was intended to provide assurances of substantial financial support to members that met the demanding eligibility criteria in the face of financial market pressures resulting from factors outside the members' control and to reinforce incentives for implementing sound policies.

In 2000, several changes were made to the terms of the CCL to make the facility more attractive. Nevertheless, the CCL remained unused, and, in March 2003, the Executive Board began a review of the facility. While there continued to be general support for the objectives of the CCL, there was no broad consensus that redesigning the CCL would enhance the facility's attractiveness. The Executive Board agreed that the staff would explore the possibility of strengthening surveillance and improving existing Fund lending instruments to make them more effective in crisis prevention and to strengthen the Fund's capacity to respond quickly to the needs of members with strong policies.

In June 2003, the Executive Board discussed a staff paper that proposed enhancements to an existing instrument—precautionary arrangements—to help in crisis prevention and achieve some of the objectives of the CCL. Precautionary arrangements are

Table 3.1 IMF Financial Facilities

Credit Facility	Purpose	Conditions	Phasing and Monitoring ¹	Access Limits ¹
Credit tranches and Extended Fund Facility⁴				
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	Quarterly purchases (disbursements) contingent on observance of performance criteria and other conditions within a reasonable period	Annual: 100% of quota; cumulative: 300% of quota
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	Annual: 100% of quota; cumulative: 300% of quota
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)	No access limits; access under the facility only when access under associated regular arrangement would otherwise exceed either annual or cumulative limit
Compensatory Financing Facility (1988)	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 a member's balance of payments position excluding the shortfall/excess is satisfactory	Stand-alone disbursements or, if there is an arrangement, disbursements are in two phases	45% of quota each for export and cereal components. Combined limit of 55% of quota for both components
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	Generally limited to 25% of quota, although larger amounts can be made available in exceptional cases
(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 for an upper credit tranche arrangement or PRGF		
Facility for low-income members				
Poverty Reduction and Growth Facility (1999)	Longer-term assistance for deep-seated balance of payments difficulties of structural nature; aim is sustained poverty-reducing growth	Adopt 3-year PRGF program. PRGF-supported programs are based on a Poverty Reduction Strategy Paper (PRSP) prepared by the country in a participatory process and integrating macroeconomic, structural, and poverty reduction policies	Semiannual (or occasionally quarterly) disbursements contingent on observance of performance criteria and reviews	140% of quota; 185% of quota in exceptional circumstances

¹The resources used in the IMF's lending come mainly 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 in 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. The loan is considered repaid when the borrower *repurchases* its currency from the IMF with foreign currency. See Box 7.1 on the IMF's Financing Mechanism.

²The *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, refinanced 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 GRA, other than reserve tranche drawings, at the time of the transaction.

³For 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.

Charges ²	Repurchase (Repayment) Terms ³		Installments
	Obligation Schedule (Years)	Expectation Schedule (Years)	
Basic rate plus surcharge (100 basis points on amounts above 200% of quota; 200 basis points on amounts of 300%) ⁵	3¼-5	2¼-4	Quarterly
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
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)	2½-3	2-2½	Semiannual
Basic rate	3¼-5	2¼-4	Quarterly
Basic rate	3¼-5	Not applicable	Quarterly
0.5%	5½-10	Not applicable	Semiannual

⁴The term *credit tranches* refers 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 called *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.

⁵Surcharge introduced in November 2000.

Stand-By Arrangements in which a country indicates its intention not to draw upon the Fund's resources unless its economic circumstances deteriorate. Precautionary arrangements are common—56 were approved between 1987 and April 2003—and experience with them has generally been positive. They are typically used when balance of payments pressures are likely to arise in the current account, although they have been used on occasion to help prevent capital account crises. The staff proposed several modifications designed to enhance the suitability of precautionary arrangements to crisis prevention. While there was interest in the proposed modifications, there was not sufficient Board support for them during the June discussion. In particular, Directors differed on a proposal to make more explicit the policy for using high, possibly exceptional, access levels in precautionary settings.

In concluding the review of the CCL on November 26, 2003, the Board discussed a staff paper that outlined the issues examined to date in the review of the facility and proposed several options for responding to its approaching sunset date (November 30). Most Directors again broadly supported the CCL's objectives but noted that, despite the modification of the facility in 2000, the CCL had remained unused.

Many Directors considered that the sunset clause should be extended for a short period: they felt that the CCL should not be allowed to lapse before the design of the facility was improved or alternative means were found to achieve its objectives. They were concerned that allowing the CCL to expire on the sunset date would leave a gap in the Fund's toolkit for crisis prevention, given remaining imperfections in the functioning of international capital markets, and might be misinterpreted as a weakening of the credibility of the Fund's commitment to help countries with good policies become more resilient to crises. But a number of other Directors saw little prospect of the CCL being used if extended and favored its expiration. Overall support among Directors to extend the facility fell well short of the 85 percent of votes necessary and the CCL therefore expired on November 30, 2003.

The discussion by Directors highlighted a number of considerations that mitigated concerns about the scheduled expiration of the CCL.

- First, as the IMF's record of helping members facing capital account crises shows, the Fund stands ready to move quickly and flexibly to approve the use of Fund resources and to adjust the level and phasing of access to a member's need when conditions so require and permit.
- Second, the IMF's strengthened surveillance, support for greater transparency, and technical assistance operations are promoting sound policies and helping to prevent crises more generally.

- Third, recent innovations in the financial architecture, improvements in market differentiation across different borrowers, and stronger policy efforts by many emerging market countries seem to have lessened the threat of contagion that the CCL facility was intended to avert.

Looking forward, most Directors expressed interest in precautionary arrangements as a potential instrument in crisis prevention. The staff will further explore the scope for adapting precautionary arrangements, paying special attention to a number of concerns that have been raised in this connection—including the potential impact of high-access precautionary arrangements on debtor and creditor behavior and on IMF liquidity, the appropriate circumstances for use of such arrangements, and ways of measuring potential balance of payments need.

Directors also considered the option of establishing an Enhanced Monitoring Policy that would provide a framework for close monitoring without performance criteria and with a limited financial backstop. Directors generally felt that such a policy would not be effective in meeting the objectives of the CCL and—given its similarity to precautionary arrangements—would not be a useful addition to the Fund’s toolkit. A number of Directors, nevertheless, considered that an Enhanced Monitoring Policy might provide a useful signaling device for low-income member countries making the transition to a pure surveillance relationship. They encouraged the staff to explore this idea further.

Exceptional Access Policy Review

In April 2004, the Executive Board met to review experience with the Fund’s policy framework relating to its provision of financing in amounts that exceed the Fund’s normal limits, which is called “exceptional access.” (See the discussion of financial risk management and the concentration of IMF lending in Section 7.) The framework for exceptional access in capital account crises was put in place in September 2002 and clarified in February 2003, and informed the Board’s decisions to provide exceptional access for Argentina and Brazil.

The framework set out four criteria for determining the circumstances in which exceptional access in capital account crises could be considered:

- The member is experiencing exceptional balance of payments pressures on the capital account resulting in a need for Fund financing that cannot be met within the normal limits.
- A rigorous and systematic analysis indicates that there is a high probability that the debt will remain sustainable.
- The member has good prospects of regaining access to private markets within the time Fund resources would be outstanding.

- The policy program of the member country provides a reasonably strong prospect of success, including not only the member’s adjustment plans but also its institutional and political capacity to deliver that adjustment.

The framework also set out procedures to ensure involvement of the Executive Board before the formal Board discussion and increased information requirements. It lengthened the maturity of Supplemental Reserve Facility (SRF) repurchase expectations by one year and repurchase obligations by six months, and strengthened the presumption that exceptional access during capital account crises would be provided under the SRF.

At their one-year review of the framework in April 2004, Directors noted that it had helped improve the clarity and predictability of the Fund’s response to capital account crises for both members and markets. They underlined that the strengthened decision-making procedures agreed to in February 2003 should continue to apply to all requests for exceptional access. Most Directors felt that the four substantive criteria for exceptional access remained appropriate and, given the limited experience with the framework, considered that it was still premature to change the exceptional access criteria. Stressing that the number of cases of exceptional access should be limited to safeguard Fund resources, these Directors were in favor of maintaining the requirement that every request for exceptional access be justified in terms of the four substantive criteria.

However, Directors noted that the exceptional access criteria were designed for members facing capital account crises and acknowledged that, in rare circumstances, a need for exceptional access could arise in situations other than a capital account crisis and that, in those cases, a member could not be expected to meet all four criteria. Directors noted that the Fund has the flexibility to grant access under the exceptional-circumstances clause.

Most Directors opposed a staff proposal to establish four principles to guide exceptional access in the case of a member that has a pre-existing high exposure to the Fund and that does not face a capital account crisis. They felt that the proposal could be seen as a weakening of the policy on exceptional access that could lead to an inappropriate increase in the number of exceptional access cases, with risks to the Fund’s financial position. A number of other Directors, however, thought that the criteria in place had not provided sufficient guidance in recent requests for exceptional access and were unlikely to do so for future requests. Most Directors expressed preliminary views on the merits of exceptional access in the context of a precautionary arrangement, and many of them were willing to consider the possibility of exceptional access in precautionary arrangements. A number of other Directors, however, did not support use of the concept of “potential

need” for exceptional access. They expressed concerns about the provision of Fund financing as “insurance” against potential problems, as this could create problems of moral hazard, diminish the role of conditionality, and lead markets to expect the augmentation of exceptional access.

Most Directors noted the importance of incentives for members to repay the Fund as their balance of payments improves and reiterated the strong presumption that exceptional access should be provided in the form of SRF resources. But many Directors noted that the maximum maturity of the SRF obligations may sometimes be too short relative to the duration of the balance of payments need. Directors agreed to continue their discussion of the applicability of the SRF to precautionary settings in July 2004. The Board will review issues related to charges and maturity of the SRF and other facilities at a date to be determined.

In connection with exit strategies, and based on experience in earlier cases where the IMF was repaid, Directors observed that a member’s capacity to make repurchases and reduce its large Fund exposure would depend on improvements to both the current account and the capital account of the balance of payments. Directors recognized that some of the features of countries that have been granted exceptional access, particularly high debt levels, will require the relevant members to sustain large primary fiscal surpluses into the medium term. Given that the balance of payments difficulties of the beneficiaries of exceptional access appear to be of a medium-term nature, Directors could not rule out the possibility of continued Fund financing for some of these countries.

Directors agreed that the strengthened decision-making procedures for exceptional access cases—with early Board involvement and the provision of additional information and documentation—have worked well.

Directors agreed to include future reviews of the exceptional access policy with general reviews of access to Fund resources; the next such review is scheduled to take place by the end of 2004.

Compensatory Financing Facility Review

The Board reviewed the CFF in March 2004. This facility was established in 1988. It supersedes a similar facility established in 1963 to help member countries cope with temporary shortfalls in export earnings and temporary excesses in cereal import costs that are largely attributable to circumstances beyond the member’s control. It has been modified several times. In 2000, the Board simplified the structure of the facility and decided that CFF financing could be used if at the time of the request the member’s

Brazil



Brazil’s economic and financial situation improved significantly in FY2004. Under Brazil’s IMF-supported program, the country’s new government pursued policies that were both prudent and courageous, combining fiscal and monetary discipline with initiatives to relieve poverty.

To allay concerns over debt sustainability, the government increased the primary surplus target from 3¾ percent of GDP to 4¼ percent of GDP, while the central bank undertook a proactive interest rate policy to guide inflation back to the target under the program. Moreover, the government has adopted key structural measures—including pension and tax reforms and the adoption of a new bankruptcy law—that should pave the way to equitable and sustainable economic growth. The resulting increase in economic policy credibility, together with supportive international capital flows to emerging markets, contributed to record high equity prices and a substantial narrowing of sovereign bond spreads. When international financial markets became more volatile in the spring of 2004, the government’s efforts to reduce vulnerabilities paid off. Higher international reserves, improvement in the structure of domestic public debt, and a swing to current account surpluses have helped limit the impact on Brazil.

Brazil-IMF activities in FY2004

May 2003	Visit of First Deputy Managing Director Anne Krueger
June 2003	Completion of third review of Brazil’s performance under Stand-By Arrangement
September 2003	Completion of fourth review of Brazil’s performance under Stand-By Arrangement
November 2003	Visit of First Deputy Managing Director Anne Krueger
December 2003	Completion of fifth review of Brazil’s performance under Stand-By Arrangement. IMF approval of 15-month extension of the arrangement, coupled with an increase in access of SDR 4.5 billion. Brazilian authorities have been treating the arrangement as precautionary
February 2004	Visit of Managing Director Horst Köhler
March 2004	Completion of sixth review of Brazil’s performance under Stand-By Arrangement

balance of payments position is satisfactory apart from the effects of the exports shortfall and that it should be in parallel with a Fund-supported adjustment program when preexisting balance of payments weaknesses have to be addressed. The CFF has not been used since these modifications were introduced. At the March review, the Board considered the reasons for this and discussed the role of the CFF in the Fund's array of lending facilities.

Directors reflected on whether the CFF was not being used because there was less need for the facility, particularly in light of the availability of other financing options, or whether the changes made to the CFF in 2000 had reduced demand for it. Directors considered the premises on which the usefulness of the CFF rests: (1) temporary shocks are common, and the appropriate response to such shocks consists of up-front financing rather than adjustment; (2) members have little or no access to alternative sources of financing to cushion a temporary balance of payments shock; and (3) other Fund facilities are not suitable for dealing with CFF-type shocks.

Many Board members agreed that it is hard to distinguish in advance between the temporary and persistent components of balance of payments shocks, especially those caused by commodity price shocks. Directors also pointed to evidence of the significant downward trend and increased volatility of commodity prices over time, as well as the persistence of negative commodity price shocks. In their view, these factors indicate that up-front compensatory financing entails the risk that needed adjustment could be postponed.

Given that private capital flows have increased substantially since the inception of the CFF, most Directors felt that the usefulness of the facility in coping with shocks had diminished for middle-income countries. Members with access to private capital markets can be expected to retain such access in the face of temporary shocks as long as their balance of payments position remains strong. Directors acknowledged that low-income members enjoy access to capital market financing to a much smaller degree and that official financing is often not large enough or flexible enough to deal with temporary shocks. But they noted that the CFF is typically not an attractive option for low-income members in the face of such shocks, mainly because of its nonconcessional nature.

Exploring the usefulness of other Fund facilities in dealing with the types of shocks that would be covered by the CFF, here, too, Directors noted a fundamental asymmetry between middle- and low-income members. Many Directors considered that Stand-By or Extended Arrangements could provide sufficient resources to middle-income countries in a timely fashion, and these arrangements are suffi-

ciently flexible to incorporate appropriately tailored conditionality. But Stand-By or Extended Arrangements are often ill suited, owing to their nonconcessional nature, to low-income members without an active PRGF arrangement, and the CFF suffered from the same shortcoming. For low-income countries, Directors considered the possibility of subsidizing the rate of charge for Stand-By or CFF resources, but viewed such an option as a suboptimal way to allocate scarce concessional resources. Many Directors believed that a short-term "window" under the PRGF Trust Fund would be a better way to help PRGF-eligible countries that did not have an active PRGF arrangement deal with temporary shocks. For countries with an active PRGF arrangement, Directors generally supported the use of augmented access to PRGF resources to accommodate temporary shocks. Overall, Directors were in favor of developing the PRGF instrument, as is currently being considered in the context of the discussions on the role of the IMF in low-income countries, so that it could play the role of the CFF in low-income countries.

With regard to the possibility of other changes to the CFF, a number of Directors argued in favor of broadening the coverage of the facility's import element by including other basic food items beyond cereals. Many, however, acknowledged that data shortages would limit the usefulness of such an option. Many Directors considered that the strengthened requirements introduced at the time of the previous review of the facility were consistent with the Fund's mandate to support orderly balance of payments adjustment with appropriate safeguards to Fund resources and should be retained.

Many Directors argued that, on balance, there is a strong case for eliminating the CFF, to further streamline the structure of the Fund's facilities. Other sources of Fund and non-Fund financing were adequate to help middle-income members cope with temporary balance of payments shocks, while the envisaged new financing instruments would be more useful than the CFF to low-income members. Most of these Directors, however, were willing to retain the CFF in its current form until the next review, both to give the facility extra time to prove its usefulness and in recognition of the time it would take to develop and gauge the usefulness of the new financing instruments being considered for low-income countries. They suggested that the CFF should be eliminated if there was no clear demand for it by the time of the next review. Many other Directors were of the view that the CFF provided a useful element in the mix of financing options available to the membership, and most of these Directors supported keeping the CFF as it is, while others considered that demand for the facility could pick up with appropriate modifications. Directors agreed to review the CFF again in three years.

Box 3.1 Trade Integration Mechanism

In April 2004, the Executive Board established the Trade Integration Mechanism (TIM). The TIM is designed to mitigate concerns in some developing countries that their balance of payments position could suffer temporarily as multilateral liberalization changes their competitive position in world markets. Chief among these concerns is that, in the context of a Doha Round agreement, broad-based tariff liberalization might erode the value of developing countries' preferential access to important export markets or that a reduction of agricultural subsidies might result in higher prices and thus higher import costs for food-importing developing countries. Another concern is that the expiration of the World Trade Organization's (WTO) Agreement on Textiles and Clothing (ATC) in January 2005 will hurt some developing countries as quota constraints on competitors are eliminated.

While the phasing out of the ATC and Doha Round-related concerns provided the impetus for the new mechanism, its application will not be limited to shocks stemming from trade liberalization under the aegis of the WTO. More generally, countries may request support from the Fund under the TIM if they expect a net balance of payments shortfall as a consequence of measures implemented by other countries opening their markets in a nondis-

crimatory manner. Balance of payments difficulties stemming from a country's liberalization of its own trade regime will continue to be addressed through other Fund facilities.

The TIM details that the Fund

- stands ready to discuss with countries facing such balance of payments shortfalls new arrangements within its existing lending facilities;
- will take into account the expected impact on the members' balance of payments in determining the size of access under both new and existing arrangements (the "baseline feature"); and
- is prepared to augment arrangements under simplified procedures if the actual balance of payments effect turns out to be larger than expected (the "deviation feature").

Potential Impact

Estimates of the impact of the trade policy changes suggest that balance of payments shortfalls are likely to be small and generally offset by the positive effects of a more liberal global trade system. Assuming a fairly ambitious Doha Round liberalization scenario, model simulations suggest that a 40 percent reduction in average preference margins

(through the reduction in most-favored-nation tariff rates) could result in about two dozen countries experiencing a fall in their average export prices of more than 2 percent. A slightly smaller group of countries might be vulnerable to a food import price shock. It is difficult to predict the impact on individual countries from the imminent expiration of the ATC, but if the elimination of 15 percent of bilateral quotas in 2002 is any guide (the ATC's Phase III liberalization), a significant shift in the allocation of worldwide production of garments will take place starting later this year.

TIM's Architecture

The TIM is not a new lending facility but, rather, a measure making Fund resources more predictably available to qualifying member countries under existing Fund facilities—that is, assistance will not be available on a stand-alone basis but only in connection with a regular Fund arrangement. A similar approach underlay the Fund's 1980s policy to increase the predictability of financing for debt and debt-service-reduction operations in the context of Fund support of the Brady Plan. Arrangements that incorporate a TIM are subject to the same general access limits as other arrangements.

Support for Trade-Related Balance of Payments Adjustments

In April 2004, the Executive Board met to discuss IMF support for trade-related balance of payments adjustments. Directors welcomed the opportunity to discuss ways in which the Fund could give its member countries additional confidence to pursue ambitious trade liberalization under the Doha Round of trade negotiations. They reiterated that a successful conclusion of the Doha Round would bring significant benefits to the world economy. Any transition to a more liberal trade environment, however, also involves economic adjustments, which may create added policy challenges for several developing countries. Directors underscored the important role that the Fund is already playing—in accordance with its mandate—in advocating the benefits of open trade in the context of its surveillance across the membership and promoting trade-related reforms through the provision of technical assistance and program support (see Section 4). They stressed the importance of continued efforts to communicate clearly the Fund's role in supporting trade liberalization.

While some Directors felt that the Fund's readiness to make its existing instruments available for supporting trade liberalization should give sufficient confidence to members, most Directors saw considerable merit in a more tailored approach to addressing the balance of payments impact of trade adjustment resulting from the Doha Round. Directors, accordingly, supported the establishment of a Trade Integration Mechanism (TIM) (see Box 3.1) within the Fund's existing lending facilities to clarify the Fund's readiness to help its members mitigate short-term balance of payments pressures stemming from trade liberalization.

The Board highlighted the importance of close cooperation with the World Bank, in particular in view of the lending initiatives that the Bank is developing to facilitate members' adjustment to trade reforms and help them strengthen their institutions and infrastructure for trade. If a member requests support from the Fund and the Bank concurrently under these new policies, the staffs will be expected to coordinate closely—in line with the established framework for Fund/Bank collaboration—to avoid duplication of work and ensure that their policy advice is tailored to effectively

Tanzania



Tanzania has made considerable progress in macroeconomic and structural adjustment since the mid-1990s under IMF-supported programs. It registered an average annual growth rate of 5 percent in 1996–2002—roughly double the rate of the previous five years—and reduced inflation from an average of over 30 percent a year during the previous two decades to about 5 percent from 1999 onward.

Tanzania is using the revenues freed up from debt relief granted in 2001 (about \$2 billion over time in net-present-value terms) under the HIPC Initiative to increase spending on education, health care, and agriculture and to keep its debt levels sustainable.

The country's latest program, which is supported by the Poverty Reduction and Growth Facility (PRGF), aims at stabilizing inflation at about 4 percent and achieving real GDP growth averaging over 6 percent a year during 2003–06. Tanzania will underpin growth through improvements in the business climate—in particular, reforms of the financial sector based, in part, on recommendations that grew out of a Financial Sector Assessment Program (FSAP) exercise completed in July 2003. In addition, Tanzania intends to undertake a range of reforms to encourage agricultural production, notably changes to crop boards and local government taxation. To help maintain macroeconomic stability and avoid undue dependency on aid, the Tanzanian authorities plan to enhance revenue performance through improvements in tax administration and changes in tax policy aimed at broadening the tax base and closing loopholes.

During FY2004, the Fund provided Tanzania with technical assistance in tax and customs administration, as well as in the rationalization of tax incentives in the East African Community.

Tanzania-IMF activities in FY2004

July 2003	Completion of sixth (last) review under PRGF arrangement; approval of new PRGF arrangement
August 2003	Publication of joint IMF-World Bank Financial System Stability Assessment (FSSA)
September 2003	Publication of joint IMF-World Bank assessment of PRSP progress report
February 2004	Completion of first review of performance under new PRGF arrangement; visit by IMF Deputy Managing Director Agustín Carstens
March 2004	Publication of Report on the Observance of Standards and Codes (data module and detailed assessments)

addressing the member's needs. The importance of avoiding cross-conditionality was highlighted in this context. Directors also called for close coordination with the World Trade Organization (WTO) and donors in the trade-related assistance area, as well as for continued technical assistance by the Fund to help members address the loss of tariff revenue resulting from trade reforms.

Directors stressed that the TIM is designed as a temporary policy to address concerns associated with the current round of multilateral trade negotiations. They therefore expected that a decision would be taken as to the duration of the TIM when it is reviewed in three years.

Program Design and Conditionality

Well-thought-out programs are critical not only for lasting prosperity in borrowing countries but also for the IMF, which needs to be assured of timely repayment so that it can assist other members as need arises. Program design and the conditions attached to the Fund's loans therefore remain subject to continual review.

Lessons from the Crisis in Argentina

In November 2003, the Executive Board discussed the lessons from the severe financial crisis experienced by Argentina in 2001–02. During that crisis, output, which had begun to contract in the second half of 1998, fell by about 20 percent in the three years ending December 2002; inflation reignited; the government defaulted on its debt; the banking system became largely paralyzed; and the Argentine peso, which was then pegged at par to the U.S. dollar, reached lows of Arg\$3.90 a U.S. dollar (in mid-2002). The economy began to recover in 2003, but the road back to sustained growth and stability remains long.

The severity of the crisis—and the fact that it occurred in a country that had been widely hailed as a model performer until a few years earlier and that had been engaged in a nearly uninterrupted program relationship with the IMF since the early 1990s—made Argentina's case a particularly important one to examine for lessons for other countries and for the Fund. The Executive Board reviewed a staff paper that examined the origins of the Argentine crisis and its evolution up until early 2002, with a view to drawing out such lessons. This report was to be complemented by an evaluation by the IMF's Independent Evaluation Office in July 2004 (see below).

The Board noted that Argentina's crisis reflected the interaction of several sources of vulnerability that were already present during the boom years of the 1990s: the public debt dynamics, the constraints on monetary policy imposed by

the currency board, and a variety of structural and institutional factors. These vulnerabilities were not adequately taken into account in the design of Fund-supported programs during the 1990s; in particular, the fiscal policies pursued were, in hindsight, unsustainable, reflecting in part overoptimistic medium-term growth projections. The crisis also underscores the importance of ensuring that a country's exchange rate regime is supported by fully consistent macroeconomic and structural policies and that there be broad domestic ownership for these policies. Directors also noted that Argentina's experience highlights the need for strong and candid surveillance in countries with Fund-supported programs.

IEO Reports and Discussions

The Executive Board established the Independent Evaluation Office (IEO) in July 2001 to conduct objective and independent evaluations of issues relevant to the mandate of the IMF. The IEO serves as a means to enhance the learning culture within the IMF, strengthen the Fund's external credibility, promote greater understanding of the IMF's work throughout the membership, and provide independent feedback to the Executive Board in its institutional governance and oversight responsibilities. Independent of IMF management and staff, the IEO works at arm's length from the Executive Board. The IEO's activities complement the IMF's review and evaluation of its work. The IEO's website (www.imf.org/ieo) gives detailed information on its terms of reference, work to date, status of ongoing projects, evaluation reports, and seminars and outreach activities. The website also provides opportunities for interested stakeholders (country authorities, academia, nongovernmental organizations, and other members of civil society) to interact with the IEO in defining its work program, determining the terms of reference of individual studies, and submitting substantive inputs to these studies.

The IEO's establishment has provided an additional dimension to the learning process in the IMF through regular independent assessments of the Fund's work. The IEO reports have, in some cases, raised new issues and, in others, added impetus to work already under way. Box 3.2 summarizes common themes in IEO evaluation reports to date.

The IEO's evaluations have had a distinct impact on the Fund's approach to issues, and IMF staff have undertaken extensive work to put into practice specific IEO recommendations endorsed by the Board.

- *Changes in procedures.* IEO recommendations have led in some cases to the establishment of new procedures, for example, for ex post assessments of IMF-supported programs, particularly in instances where the IEO has identified a need for a major redirection of the staff's efforts.
- *Incorporation of lessons into regular reviews.* For instance, the IEO's analysis of the need for better signaling arrangements provided a basis for the staff's work on ways of signaling assessments of members' policies, and some of the results of the IEO report on fiscal adjustment will figure prominently in a forthcoming conditionality review.
- *Dissemination of lessons to staff.* The incorporation of lessons learned into established work procedures is key to the successful implementation of recommendations. Some of the shortcomings identified by the IEO could be remedied by ensuring institution-wide application of what is already best practice within the IMF. Over time, a priority will be to enhance internal dissemination—through seminars, guidance notes to staff, website postings, and dialogue between area and review departments—to ensure that such practices are fully absorbed into the IMF's everyday operations.

In the fiscal year under review, the IEO completed work on two evaluation reports—the role of the IMF in the capital account crises of Brazil, Indonesia, and Korea; and fiscal adjustment in IMF-supported programs. It also issued its

Box 3.2 Common Themes in IEO Evaluations

The first three published IEO reports contain a number of common themes related to surveillance, program design and uncertainty, and conditionality and ownership.

Surveillance

- Greater candor is key to making surveillance more effective.
- Systematic stocktaking allows for greater learning from experience, especially in countries with IMF-supported programs.
- Surveillance can and should inform program design. Based on its surveillance activities, the Fund should provide the authorities with a frank assessment of critical weaknesses and encourage the authorities to develop a road map of reforms to address them.

Program design and uncertainty

- Risks should be explicitly taken into account in program design, and excessively optimistic assumptions avoided. Explicit contingency planning would help make programs more flexible. Greater transparency about the assumptions and rationale of program design would permit more rapid redesign in the event contingencies actually occur.

Conditionality and ownership

- Domestic political commitment to core policy adjustments is more important than specific conditions.
- The IMF should be willing to consider "second-best" adjustment programs that meet minimum criteria, but it should also be prepared to hold back financing when country ownership of programs is insufficient or programs do not meet minimum criteria.

first *Annual Report*, detailing the IEO's activities since its inception. (The IEO's first evaluation report, on the implications of the prolonged use of IMF resources, was discussed by the Executive Board in September 2002; see IMF *Annual Report 2003*, p. 60.)

In their discussion in July 2003, Executive Directors commented that the *evaluation report on the IMF's role in the capital account crises in Brazil (1998–99), Indonesia (1997–98), and Korea (1997–98)* and the lessons to be learned from these experiences were a useful complement to previous studies undertaken both within and outside the IMF. They broadly agreed with the report's conclusions.

However, Directors expressed several caveats regarding the findings and conclusions of the report. First, the report focused mainly on the IMF's involvement in the early stages of the crises, and the IEO's mandate not to interfere with ongoing IMF operations constrained the extent to which the report could examine later developments. Second, the IMF had already taken steps to address many of the concerns voiced by the IEO in areas such as transparency, conditionality, standards and codes, financial sector surveillance, vulnerability assessments, and Fund-Bank collaboration. Third, the report confirmed that every capital account crisis was unique. Thus, anticipating crises would always require difficult judgments in the context of great uncertainty, and distilling lessons from past crises was no guarantee of future success. Directors emphasized that there was no standard solution to capital account crises, that policy advice would need to take account of the causes and specific circumstances of each crisis, and that the capacity to prevent crises would depend to a large extent on the actions of member countries.

Directors noted that most of the IMF's efforts to anticipate or deal with the three crises were steps in the right direction. Nevertheless, they shared the report's view that the IMF had made some mistakes and that the crises highlighted the need for improvements in the IMF's policies and procedures.

In discussing the IEO *evaluation report on fiscal adjustment in IMF-supported programs* in August 2003, Executive Directors agreed that the report made a number of constructive recommendations whose implementation would enhance the IMF's advice and programs in the fiscal area. Most Directors were encouraged by the report's finding that some of the common criticisms of fiscal adjustment in IMF-supported programs—notably, that these programs adopted a “one-size-fits-all” approach, were inflexible, and caused a decline in social spending—were not supported by empirical evidence. Directors also noted that the report found significant weaknesses in the results of fiscal adjustment in programs and that fiscal targets were not met in a large number of cases. However, they cautioned against drawing

conclusions based on generalizations across a large number of countries and stressed that the appropriateness of the size, pace, and results of fiscal adjustment could be assessed only against the specific circumstances of each individual country.

Directors welcomed the report's conclusion that there was no evidence that IMF-supported programs were uniformly contractionary, but stated that a contractionary bias could exist in certain circumstances. Directors supported IEO's recommendation that program documentation should provide a more in-depth and coherent justification for the magnitude and pace of fiscal adjustment. They also noted the report's finding that IMF-supported programs were not associated with lower spending on public education and health care, but emphasized the need to shield the poor from economic downturns and called for the cost of social safety nets to be incorporated into IMF-supported programs.

In the coming financial year, the IEO will publish three new studies. The first will be an *evaluation of the role of the IMF in the PRSP approach and the PRGF initiatives*. (The World Bank's Operations Evaluation Department is preparing a parallel report on the Bank's experience with PRSPs.) Drawing on detailed case studies and broader cross-country analysis, the study will address a number of key questions: does the design of these initiatives ensure the achievement of their objectives? Is the IMF delivering the promises of the PRSP and PRGF approaches? And what improvements are needed in the design of these initiatives and their implementation by the IMF?

The second report will analyze the *role of the IMF in Argentina* from 1991 to early 2002. It will review the evolution of the IMF's advice and internal views on key areas of Argentina's economic policy, examine certain IMF decisions at critical junctures in its relationship with the country, and assess how reasonable the decisions were in light of information available at that time.

The third study will examine *IMF technical assistance during 2000–03*. It will focus on such themes as the effectiveness of internal IMF processes for identifying technical assistance priorities at the country level and for allocating resources accordingly; the effectiveness of technical assistance delivery and the dialogue with the authorities in ensuring success during implementation; and IMF monitoring of the impact of technical assistance.

Review of Bank-Fund Collaboration in Program Design and Conditionality

In March 2004, the IMF's Executive Board again reviewed collaboration between the World Bank and the IMF, this time on the basis of a joint report by the two institutions that presented the results of a survey of national authorities

and Bank and Fund staff. The Board concluded that the framework for collaboration between the Bank and the Fund, including in the area of program design and conditionality, is working well, although there is scope for improvement.

Directors reiterated that close collaboration between the Bank and the Fund is indispensable to ensuring that member countries receive support that is effective in promoting financial stability, sustainable growth, and poverty reduction. Bank-Fund collaboration is particularly important to ensure the effectiveness of the Fund's efforts in assisting low-income countries with the implementation of reform programs, based on strong country ownership, through the PRGF and the enhanced Heavily Indebted Poor Countries (HIPC) Initiative, and in helping low-income countries make progress toward the Millennium Development Goals.

Effective collaboration between the Bank and the Fund requires a clear demarcation of responsibilities based on the institutions' respective mandates and comparative advantages, Directors emphasized. They also stressed that the focus of conditionality should be on reforms that are critical to program success. Directors highlighted the importance of designating one of the two institutions as lead agency in particular policy areas, of systematic information sharing between the institutions, and of early interaction on program design and conditionality.

The survey found that the staffs of the two institutions typically share a common perspective regarding a country's critical areas for reform, and that the division of labor is now clearer than it has been in the past. Directors were also encouraged by the indications—in the survey responses of national authorities—that Bank-Fund collaboration is increasingly strengthening national ownership of programs, but stressed that continued progress in this area remains critical to the success of reform programs. Both institutions also appear to be showing increased sensitivity to social and political constraints, and close collaboration between the institutions is helping to reduce the time spent in program negotiations. At the same time, national authorities perceive a need for further progress in aligning program design and conditionality with a country's own reform priorities and implementation capacity.

While the survey results provide renewed support for the existing operational framework on collaboration, Directors stressed that there is no room for complacency. They noted that the survey results point to scope for further improvements in the implementation of the agreed division of labor, coordination in interaction with government author-

ities with a view to further promoting country ownership, and information sharing between the staffs of the two institutions.

Most Directors welcomed the decision by Bank and Fund managements to strengthen the role of the Joint Implementation Committee (JIC) to facilitate Bank-Fund cooperation at the senior staff level, complementing the broad-based mechanisms for institutional coordination that already exist. The role of this committee will be expanded to cover matters affecting both middle- and low-income countries. The Fund and the Bank will also explore ways to facilitate closer collaboration in analyzing thematic issues that feed into program design, such as public expenditure and fiscal management and coordination on poverty and social impact analysis (PSIA).

Board members underscored that the IMF should look to the Bank for assistance with the PSIA of reforms in Fund-supported programs, as this would be the best way of fully utilizing the relative strengths of each institution. At the same time, most Directors acknowledged that some in-house Fund capability in this area will be necessary, in particular, to facilitate the integration of PSIA's into PRGF-supported programs. Directors also suggested several other thematic areas in which more Bank-Fund collaboration could be useful and which will be carefully considered in the future.

The formal mechanisms for collaboration, embedded in the PRSP process (see Section 4), are playing an important role in strengthening Bank-Fund collaboration in the institutions' work on low-income countries, Directors observed. They recognized that formal arrangements are not always well suited to middle-income countries, given the diversity of these countries' circumstances and the differences in the degrees and timing of the engagement by each institution in them. But they reaffirmed that the principles for collaboration remain the same: a coherent program of support based on a country-owned strategy; early consultation on program conditionality and effective information sharing; and a clear division of responsibilities based on respective mandates.

Directors stressed that progress on Bank-Fund collaboration will remain a challenge, requiring steady implementation and sustained commitment, in particular by the country teams of each institution. They looked forward to keeping progress under review and agreed that, to allow for sufficient additional experience under the enhanced framework for collaboration, the next review should take place by 2007. In the meantime, Bank-Fund collaboration will be reviewed in the context of progress reports on thematic issues.



The Fight Against Poverty in Low-Income Countries

The IMF's goal in low-income countries is to help them achieve deep and lasting poverty reduction through policies that promote growth, generate employment, and target assistance to the poor. This aim is consistent with the IMF's mandate to "contribute . . . 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."¹ The Fund pursues this goal in close collaboration with other development partners—particularly the World Bank. In doing so, the IMF focuses on its core areas of responsibility and expertise, namely, helping member countries achieve stable macroeconomic conditions by providing them with policy advice supported by financial and technical assistance.

In the late 1990s, the IMF and the World Bank launched two new major programs to help low-income countries: the Poverty Reduction Strategy Paper (PRSP) approach and the Heavily Indebted Poor Countries (HIPC) Initiative. Around the same time, the IMF established the Poverty Reduction and Growth Facility (PRGF) to make poverty reduction and growth more central to lending operations in its poorest member countries. These initiatives stress country ownership of programs, including through the broad participation of civil society. Subsequently, in 2002, the international community endorsed the "Monterrey Consensus" based on two pillars. First, low-income countries must be proactive in implementing sound policies, strengthening institutions, and improving governance. Second, the international community must provide strong support, in the form of greater trade opportunities and increased aid

flows, to those countries that carry out sound policies and reforms.

Recently, there have been encouraging signs that these strategies have begun to bear fruit. A review of the PRGF completed in 2002 confirmed that program design under the facility is becoming more pro-poor and pro-growth. In many low-income countries, growth of output and per capita incomes have increased markedly since the late 1990s. Indeed, Bangladesh, Benin, Cambodia, Mali, Mozambique, Tanzania, Uganda, and Vietnam have seen real growth averaging 5 percent or more a year for the past five years. Internal and external imbalances have been reduced, inflation has fallen to single digits—the lowest levels in two decades—and external reserves are at their highest levels since the 1980s. Moreover, improvements in macroeconomic performance have been especially marked in countries that have, or have had, Poverty Reduction and Growth Facility arrangements.

Nevertheless, while the progress in promoting good policies and the associated improvements in outcomes are heartening, they do not yet provide a sufficient basis for achieving the sustained high growth necessary for global achievement of the Millennium Development Goals (MDGs) by the deadline set out in the 2000 UN Millennium Declaration. Placed at the heart of the global agenda, the goals include combating poverty, hunger, disease, illiteracy, environmental degradation, and discrimination against women, and establishing a global partnership for development.

During FY2004, the IMF continued to work on these challenges by strengthening the PRSP approach, making available suitably tailored financial support, advancing HIPC debt relief, looking at ways countries can promote growth and support the efforts to achieve the MDGs without incurring unsustainable debt, and fostering an open trading system.

¹Article I, IMF Articles of Agreement.

PRSP Approach to Development Assistance

The IMF and the World Bank jointly developed the PRSP approach to help focus the attention and resources of both low-income countries and the international donor community on poverty reduction. Since its introduction in December 1999, the approach has been widely adopted in low-income countries and has been increasingly embraced by these countries' external development partners. In this context, alignment and harmonization of donor processes have been critical to sustaining the PRSP approach, designed to overcome long-standing problems of poor donor coordination and weak country ownership. Consequently, PRSPs are becoming effective instruments for countries to gain better control over external assistance.

Low-income countries prepare their Poverty Reduction Strategy Papers through a participatory process involving domestic stakeholders and external development partners. The strategies are endorsed by the Executive Boards of the IMF and the World Bank. Updated periodically (at least once every five years) and with annual progress reports, PRSPs describe countries' macroeconomic, structural, and social policies and programs over a three-year or longer horizon aimed at promoting broad-based growth and reducing poverty, as well as associated external financing needs and major sources of financing. Under the PRSP approach, countries may receive financing from the Poverty Reduction and Growth Facility loan program. PRSPs also provide the operational basis for debt relief under the enhanced Heavily Indebted Poor Countries Initiative.

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

During FY2004, the Executive Board approved 10 new PRGF arrangements (for Bangladesh, Burkina Faso, Burundi, Dominica, Ghana, Honduras, Kenya, Mauritania, Nepal, and Tanzania), with commitments totaling SDR 955 million (see Table 7.3). In addition, an augmentation of the existing arrangements for Madagascar was approved. Total

PRGF disbursements to these countries and other countries with existing arrangements amounted to SDR 865 million during FY2004. As of April 30, 2004, 36 member countries' reform programs were supported by PRGF arrangements, with commitments totaling SDR 4.4 billion.

In their latest annual review of the program, in September 2003, Executive Directors welcomed the continuing strong momentum of the approach. They noted evidence of progress across a wide range of fronts as the approach matured, and stated that the imperative was to address the emerging challenges in implementation, including the need for better prioritization of policies and objectives, improved donor alignment and harmonization, and strengthened public expenditure management and budgetary processes.

Directors underscored the importance of national ownership of poverty reduction strategies. They welcomed the increasing engagement of parliaments and noted that the PRSP process had survived transitions in national governments in several countries, while requiring adaptations to reflect the programs of the new administrations. Directors emphasized the need for greater cohesion between PRSPs and other planning documents and for better integration between teams responsible for PRSP preparation and other units of government.

The greater openness of policymaking processes, which the PRSP approach is facilitating, was welcomed by Directors. The private sector is increasingly active, and nongovernmental organizations have often carved out roles for themselves as suppliers of information and watchdogs in monitoring government efforts. Directors acknowledged that, at the same time, there remained some continuing criticisms from civil society organizations, in particular, that they were being asked to react rather than to contribute to program formulation, and that some critical policies underpinning the PRSP—such as the macroeconomic framework—were sometimes not sufficiently open to public debate.

Directors underscored that macroeconomic policies and projections provided the framework for any PRSP. Consistent with the preparation of the PRSP as a country-owned process, they emphasized that the government, and not the Fund, should lead the discussion of the macroeconomic framework in the public domain. It was, however, also

Democratic Republic of the Congo



The IMF has been providing policy advice to the Democratic Republic of the Congo (DRC) since early 2001—when the country was still torn by internal strife and armies from seven neighboring countries occupied about half its territory—first under a staff-monitored program and then under a program supported by the Poverty Reduction and Growth Facility (PRGF), which also provided financial assistance.

The two programs have contributed to a turnaround of the DRC's economy. Real GDP growth was positive in 2002 for the first time in 13 years, and it accelerated to 5.6 percent in 2003. The vicious circle of hyperinflation and currency depreciation has been broken. By implementing prudent fiscal and monetary policies, adopting a floating exchange rate regime, and undertaking bold structural reforms, the DRC has achieved macroeconomic stability. This turnaround has contributed to the peace process. Foreign troops have withdrawn from the country, which was reunified under the transitional government formed in June 2003.

In FY2004, the Fund continued to provide extensive technical assistance to the DRC in a number of areas. As part of this assistance, it posted resident experts to the ministry of finance and the ministry of the budget.

DRC-IMF activities in FY2004

June 2003	Submission to the Fund's Executive Board of the DRC's Preparation Status Report on the first year of implementation of the country's Interim Poverty Reduction Strategy Paper (prepared in 2002) and the preparation of the full PRSP
July 2003	The DRC became the 27th country to reach its decision point under the enhanced Heavily Indebted Poor Countries (HIPC) Initiative, making it eligible for debt-service relief of \$6.3 billion, in net-present-value terms
March 2004	Completion of the third review of the DRC's program, supported by an arrangement under the PRGF

important for the Fund to continue its outreach efforts to civil society and donors. Directors called on governments to provide an explicit forum for macroeconomic dialogue in the context of the PRSP process in which Fund Resident Representatives could participate. Noting that the deepening and widening of skills is a prerequisite to strengthen any government's ownership of its macroeconomic framework, Directors emphasized that the Fund would need to continue to support countries' capacity-building efforts.

Board members considered it generally too early in the implementation of PRSPs to form judgments about whether the policies were delivering on their stated objectives. They welcomed the focus being placed in PRSPs on measures to foster private sector development. Noting the identification by a number of PRSPs of weak governance and corruption as significant constraints, they considered the implementation of measures to improve the investment climate as key to improving growth prospects. Directors noted that poverty-reducing spending has increased in the PRSP countries where data are available and were encouraged by the tentative signs of improved access of the poor to some basic services.

FY2004 saw a number of related measures to support the PRSP process:

- The Fund sought to coordinate PRGF arrangements with country budgets and PRSP cycles to ensure that macroeconomic policymaking moved in concert with national and donor decisions on poverty reduction initiatives.
- The Fund and the Bank collaborated more closely on country programs and conditionality (see Section 3). However, there is scope for improvement, and Fund staff will monitor performance closely and deal with issues of mutual concern through a reinvigorated Joint Implementation Committee.
- The Fund intensified its efforts to incorporate poverty and social impact analysis into the design of PRGF-supported programs. Plans called for a small group (four staff members) to be set up shortly within a division of the Fiscal Affairs Department.
- The IMF pressed for fuller inclusion of trade policy considerations in PRSPs, including through the Integrated Framework for Trade-Related Technical Assistance, a cooperative interagency effort supported by bilateral donors, as well as for regional conferences with development and trade officials.

The next Fund-Bank PRSP progress report, which will be completed before the 2004 Annual Meetings, will be informed by a forthcoming Independent Evaluation Office report on the PRSP approach and the PRGF. The report will propose ways to sharpen the focus of PRSPs so as to provide

a better link to the Millennium Development Goals and a better operational basis for policy choice and donor coordination.

Role of the IMF in the Medium Term

The Board met in August 2003 and again in March 2004 to consider various aspects of the role of the IMF in low-income countries.

The August discussion was broad. Directions considered that the Fund could best support poor members and contribute to the stepped-up international effort toward the achievement of the Millennium Development Goals by intensifying its policy advice, technical assistance, capacity building, and, when warranted, temporary financial assistance. They also reached the following conclusions:

- While Fund involvement in these countries will continue over the long term, greater selectivity about the circumstances in which it provides financial support may be required.
- The IMF's financial role is to focus on the provision of temporary assistance in support of macroeconomic reform efforts and the policy response necessary to help countries adjust to the effects of exogenous shocks.
- The IMF's instruments need to be strengthened further in three areas: (1) supporting post-conflict and other countries with severe institutional weaknesses in their efforts to get to a point where they can implement PRGF-supported programs; (2) assisting countries with more durable records of macroeconomic performance to move from a program-based to a surveillance-based relationship; and (3) providing policy advice and financial assistance to help member countries deal with exogenous shocks.

Directors also acknowledged the need to consider more carefully how the IMF's instruments might be better tailored to the diverse needs of its low-income country members.

In March 2004, the Board followed up by reviewing the instruments and financing for low-income countries. After affirming that the Fund had an important role in low-income member countries in terms of surveillance, policy advice, and technical assistance, Directors considered that the Fund would continue, where necessary, to support low-income countries financially, carefully calibrating its financing to the country's circumstances. Directors endorsed the following proposals:

- For members with continuing needs for IMF financing, to establish norms for access to PRGF resources for the third and subsequent arrangements under the facility,

and to strengthen Fund policy and guidelines for granting resources from both the PRGF and General Resources Account;

- For countries with a limited need for IMF financing, to establish a standard low-access level for PRGF arrangements;
- For countries that do not need IMF financing, to strengthen surveillance;
- For members with outstanding PRGF loans of 100 percent of quota or more, to cover under Post-Program Monitoring; and
- For countries emerging from conflicts, to modify the policy on emergency assistance to allow a longer time for transition to regular IMF lending through programs of longer duration and more tapered access.

Directors considered low-income countries to be particularly vulnerable to economic shocks outside their control—such as natural disasters and commodity price changes—that can harm growth, macroeconomic stability, debt sustainability, and antipoverty efforts. To help countries prepare for such events and provide financial support when appropriate, the Board endorsed the following proposals:

- To establish explicit principles for augmenting PRGF arrangements;
- To introduce a subsidy for emergency assistance for natural disasters; and
- To develop a vehicle that would provide lending on PRGF terms but with the program design features and duration of a Stand-By Arrangement. Such a vehicle could provide rapid and concessional assistance in response to shocks in circumstances where a comprehensive three-year PRGF arrangement might not be appropriate.

The Board also discussed the potential size of the financial resources required to support the Fund's continued involvement in low-income countries and of various options for financing (see Box 7.6).

HIPC Initiative

The HIPC Initiative was launched in 1996 by the IMF and World Bank with the aim of ensuring that no poor country would face a debt burden it could not manage. The Initiative entails coordinated action by the international financial community, including multilateral organizations and governments, to reduce to sustainable levels the external debt burdens of the most heavily indebted poor countries (see Box 4.1). Following a comprehensive review in September

1999, a number of enhancements were approved to provide faster, deeper, and broader debt relief and to strengthen the links between debt relief, poverty reduction, and social policies. Countries' continued efforts toward macroeconomic adjustment and structural and social policy reforms—including increased spending on social sector programs such as basic health care and education—are central to the enhanced HIPC Initiative.

The HIPC Initiative has freed up resources. Before the Initiative, eligible countries were, on average, spending slightly more on debt service than on health care and education combined. This is no longer the case in the 27 countries receiving HIPC relief. Under their recent IMF- and World Bank-supported programs, these countries have markedly increased their expenditures on health care, education, and other social services, and such spending is now almost four times the amount of debt-service payments, on average.

During FY2004, progress continued to be made in implementing the enhanced HIPC Initiative (Table 4.1) and reducing the debt burdens of poor countries:

- Five additional countries reached their *completion points* (Ethiopia, Guyana, Nicaragua, Niger, and Senegal) during FY2004, taking the total to 13.
- As of end-April 2004, about \$52 billion had been committed in *debt-service relief* to the 27 countries that

had reached their decision points. The debt stocks of these countries are projected to decline by about two-thirds as a result of debt relief under the HIPC Initiative.

- Of the 14 countries that have reached their *decision points but not their completion points*, the majority are on track with their macroeconomic programs and have made progress in the implementation of their full Poverty Reduction Strategy Papers. Several are expected to reach their completion points by the end of calendar year 2004.
- For the remaining 11 eligible HIPC (9 of which are in Africa), the *sunset clause* of the enhanced HIPC Initiative is due to take effect at end-2004. Many of these countries are affected by conflict and, in some instances, have substantial arrears outstanding to various creditors. A few of these countries are moving toward establishing a track record of macroeconomic performance. Burundi started a PRGF arrangement in January 2004, and discussions for establishing a track record toward a PRGF arrangement by putting in place staff-monitored programs are under way for Comoros and the Republic of Congo. The Executive Boards of the Fund and the World Bank will consider later in 2004 options for addressing the sunset clause of the enhanced HIPC Initiative.
- *Topping up* is provided under the Initiative to countries

that have experienced a fundamental change in their economic circumstances during the interim period because of developments beyond their control. By the end of FY2004, the Boards of the World Bank and the Fund had agreed to provide topping up to Burkina Faso, Niger, and Ethiopia.

- Three countries—Liberia, Somalia, and Sudan—have been in *protracted arrears* to the Fund, the World Bank, and other creditors for up to two decades. To date, no provision has been made for the HIPC grant resources that would be needed for these countries once they clear their arrears. Given the magnitude of their debt problems, achieving debt sustainability will require substantial additional resources from the international community. The mobilization of these resources could soon become urgent.

Box 4.1 How the HIPC Initiative Works

To qualify for HIPC assistance, a country must pursue strong economic policies supported by the IMF and the World Bank. There are two phases. In phase I, leading up to the decision point, it needs to establish a track record of good performance (normally, over a three-year period) and develop a Poverty Reduction Strategy Paper or an Interim-PRSP. Its efforts are complemented by concessional aid from all relevant donors and institutions and traditional debt relief from bilateral creditors, including the Paris Club.

In this phase, the country's external debt situation is analyzed in detail. If its external debt in net-present-value (NPV) terms, after the full use of traditional debt relief, is above 150 percent of exports (or, for small open economies, above 250 percent of government revenue), it qualifies for HIPC relief. At the *decision point*, the IMF and the World Bank formally decide on the country's eligibility, and the international community commits itself to reducing the country's debt to a sus-

tainable level. A country reaches its *completion point*—the second phase—once it has met the objectives set up at the decision point. It then receives the balance of the debt relief committed. This means all creditors are expected to reduce their claims on the country, measured in NPV terms, to the agreed sustainable level.

Once it qualifies for HIPC relief, the country must continue its good track record with the support of the international community, satisfactorily implementing key structural policy reforms, maintaining macroeconomic stability, and adopting and implementing a poverty reduction strategy. Paris Club bilateral creditors reschedule obligations coming due, with a 90 percent reduction in NPV terms, and other bilateral and commercial creditors are expected to do the same. The IMF and the World Bank and some other multilateral creditors may provide interim debt relief between the decision and completion points.

Table 4.1 Progress of Countries Under the HIPC Initiative, as of End-April 2004

Completion points reached (13)		Countries in the interim period (14)		Countries still to be considered (11)	
Benin	Mozambique	Cameroon	Honduras	Côte d'Ivoire	Myanmar
Bolivia	Nicaragua	Chad	Madagascar	Burundi	Somalia
Burkina Faso	Niger	Congo, Dem. Rep. of	Malawi	Central African Republic	Sudan
Ethiopia	Senegal	Gambia, The	Rwanda	Comoros	Togo
Guyana	Tanzania	Ghana	São Tomé and Príncipe	Congo, Rep. of	
Mali	Uganda	Guinea	Sierra Leone	Lao P.D.R.	
Mauritania		Guinea-Bissau	Zambia	Liberia	

Debt Sustainability for Low-Income Countries

Excessive debt in low-income countries poses serious problems. A debt overhang may undermine urgently needed progress on policy reforms and discourage private investment.

Donors and creditors can help low-income countries achieve debt sustainability, but the primary responsibility lies with the countries themselves. As they strive to reach the MDGs, low-income countries will need to preserve debt sustainability by limiting new borrowing to what they are able to repay and adopting better policies and institutions that help accelerate growth and gradually increase their resilience to exogenous shocks.

IMF staff, in collaboration with World Bank staff, have developed a debt sustainability framework for low-income countries. The aim of the proposed framework is to guide the borrowing decisions of these countries in a way that matches their need for funds with their current and prospective ability to service debt. At the same time, the framework provides guidance for the lending and grant-allocation decisions of official creditors and donors. Specifically, it combines (1) a template for analyzing the actual and projected debt-burden indicators in a baseline scenario and in the face of plausible shocks; and (2) indicative country-specific external debt-burden thresholds related to the quality of the country's policies and institutions.

Following the Executive Board's initial discussion of this framework in February 2004, staff members are undertaking further work on the framework, especially on the indicative thresholds and on the operational implications for the Fund and for other international financial institutions and donors. They will submit a report to the Board for consideration before the 2004 Annual Meetings. In the interim, the IMF is beginning to apply the debt-dynamics template in the Article IV context, in close consultation with World Bank staff. In many countries, debt-sustainability analysis is likely to show that additional borrowing, even on concessional terms, would be incompatible with debt sustainability, pointing to the need to ensure that an adequate share of donor support is provided in the form of grants.

Millennium Development Goals

The eight Millennium Development Goals seek, by 2015, to (1) halve extreme poverty and hunger relative to 1990, (2) achieve universal primary education, (3) promote gender equality, (4) reduce child mortality, (5) improve maternal health, (6) combat HIV/AIDS, malaria, and other diseases, (7) ensure environmental sustainability, and (8) establish a global partnership for development. The Fund has a key role in helping its member countries make progress toward achieving the MDGs through a variety of channels.

The Fund encourages low-income countries to use their Poverty Reduction Strategy Papers to set out realistic plans to achieve the MDGs by strengthening domestic policies and securing additional external financing. Since not all low-income countries have the absorptive capacity to use external assistance on a large scale, Fund staff regularly examine and discuss with country authorities the potential macroeconomic implications of fluctuations in aid flows and of a possible substantial increase in aid to finance the additional spending needed to achieve the MDGs. In this work, the Fund pays close attention to the implications of increasing aid flows for fiscal policy and debt sustainability.

Debt relief, especially through the enhanced HIPC Initiative, is essential to enable low-income countries to free up resources for the social and infrastructure spending that they will need to achieve the MDGs.

Sound domestic policies in low-income countries need to be matched by more support from the international community if the MDGs are to be met. More financial support is crucial and must be on the right terms if future debt distress is to be avoided. In addition, support includes strengthening international trade by improving market access for developing countries' exports and reducing trade-distorting subsidies in advanced economies (see below). Through its multilateral surveillance role, the Fund can act as an advocate for increased foreign aid and increased trade opportunities for low-income countries.

To enhance aid predictability and effectiveness, the Fund is working on donor harmonization and alignment with

Tajikistan



A key element of Tajikistan's Poverty Reduction Strategy Paper (PRSP), which was submitted to the IMF and the World Bank in 2002, was a commitment to undertake reforms that could accelerate growth. These reforms involve addressing constraints to growth in several sectors—namely, agriculture, banking, energy, and infrastructure—and increasing budget expenditures (as a share of GDP) on social services. For example, the Budget Law for 2004 increases spending in these areas by more than 1 percent of GDP. The authorities have finalized a comprehensive strategy for the education sector that includes reforming the curriculum and raising teacher salaries based on merit. And the authorities are reforming the gas (heating) sector in an effort to reduce the quasi-fiscal deficit. While this has meant increasing gas tariffs to cost-recovery levels, the government has sought to protect low-income households through a targeted compensation mechanism. As a result of these efforts and the country's advances under a program supported by the Fund's Poverty Reduction and Growth Facility (PRGF), in April 2004 the Tajik authorities were able to report progress in reducing poverty.

Tajikistan has also strengthened several institutions with ongoing Fund technical assistance in banking, debt management, and tax administration. Technical assistance in the banking sector has led to the restructuring of the central bank as part of an effort to improve the implementation of monetary policy. And, under the country's Fund-supported program, the authorities plan to strengthen the supervision of the banking sector and enhance the banking environment to improve the sector's intermediation function, especially for financing investment.

Tajikistan—IMF activities in FY2004

January 2004	Completion of second review of Tajikistan's performance under the country's PRGF-supported program
April 2004	Submission to Fund's Executive Board of Tajikistan's first Poverty Reduction Strategy Paper progress report; assessment of Tajikistan's statistical standards by Report on Observation of Standards and Codes (ROSC) mission

the Development Assistance Committee of the Organization for Economic Cooperation and Development (OECD) and the multilateral development banks. It is also helping donors and national authorities in the field develop more coordinated and streamlined frameworks for disbursing aid.

Joint efforts with the World Bank to strengthen the capacity of public expenditure management systems to track poverty-reducing public spending could contribute to such streamlining by simplifying reporting to donors.

The first *Global Monitoring Report*, prepared by the World Bank in 2004 with input from Fund staff, addresses policies and actions in developed and developing countries needed to achieve the MDGs and the related contribution of major agencies. The report makes clear that, although progress has been made, achievement of the development goals will require all parties to scale up their actions in line with the principles and partnership established at Monterrey.

The Fund staff is cooperating with the World Bank in the preparation of a report, "Mobilizing Financing for Development," scheduled to be completed by the time of the 2004 Annual Meetings. This report will consider proposals for international financing facilities and other modalities to increase current official development aid. (For an example of other joint efforts, see Box 4.2.)

Doha Round and Other Trade-Related Issues

A successful conclusion of the Doha Development Round of multilateral trade talks is essential for the world economy and will benefit all countries. As noted above, it will also contribute significantly to efforts by the international community to meet the Millennium Development Goals. Indeed, Directors have noted that the MDGs will be hard to achieve should the Doha Round fail.

During FY2004, the IMF continued to press for the successful conclusion of the Doha Development Round (begun in 2001), and, together with the World Bank, urged participants from both developed and developing nations to make this a priority. In response to the setback in talks in Cancún, Mexico, in September 2003, the IMF Managing Director and the President of the World Bank sent a letter in November to heads of state and government, as well as trade and finance ministers, stressing the importance of pressing forward with the Doha Round. The letter emphasized the need for the meaningful liberalization of agricultural trade, for all countries to take on substantive obligations to liberalize trade, and for flexibility in areas that may result in heavy regulatory burdens on poor countries.

These messages were echoed in the April 2004 Communiqué of the International Monetary and Financial Committee (IMFC), which called for all countries to achieve early progress with the Doha Round by focusing their efforts on open markets and fair access and the reduction of trade-distorting subsidies, especially in agriculture. The IMFC members noted that a successful completion of the round is a shared responsibility, important for all countries, particularly developing countries.

The IMF itself has been doing its part to support an open international trading system. In April 2004, the Board approved a new financing policy, the Trade Integration Mechanism (TIM; see Section 3), aimed at mitigating concerns that countries might find it hard to cope with temporary balance of payments shortfalls resulting from the implementation of World Trade Organization agreements or nondiscriminatory trade liberalization by other countries. Under the new policy, the Fund has committed itself to providing access to its resources, within its existing facilities, to help countries meet balance of payments needs

resulting from specified trade measures taken by other countries and to augment such access if the effect is larger than anticipated.

Apart from the TIM, the Fund has helped to ensure member countries can take full advantage of the opportunities of multilateral trade liberalization by

- providing technical assistance in such areas as customs reform, tax and tariff reform, and data improvements;
- participating in the Integrated Framework for Trade-Related Technical Assistance to help incorporate trade reforms in national poverty reduction strategies;
- identifying potential risks and helping authorities to understand the benefits of international integration; and
- using its research capacity to assess the impact of trade reforms on member countries (for example, model simulations to measure the implications of reduced agricultural subsidies, preference erosion, and the phase-out of textile quotas).

Box 4.2 Second Regional Conference on Poverty Reduction Strategies

More than 150 government and civil society representatives, parliamentarians, and academics gathered at the second East Asia and Pacific Regional Conference in Phnom Penh on October 16–18 to share their experiences with designing and implementing poverty reduction strategies. Delegates also offered practical advice on broadening participation, decentralizing, “localizing” efforts to achieve Millennium Development Goals (MDGs), and addressing gender issues.

The conference—sponsored by the Asian Development Bank, the IMF, the United Nations Development Program, and the World Bank—focused on developments in Cambodia, Indonesia, Lao People’s Democratic Republic, Mongolia, Timor-Leste, and Vietnam.

Delegates emphasized the need to coordinate and integrate poverty reduction strategies with core national planning and budgeting to enable effective implementation as well as strengthen links between poverty reduction

strategies and the MDGs. They agreed that rural development, agricultural productivity, and trade opportunities played a critical role in efforts to boost growth and reduce poverty. On the theme of broadening participation, the delegates called for expanding the role of legislators, as representatives of the people, in the poverty reduction process.

A number of speakers at the conference recognized the challenges posed by decentralization. Dr. Bambang Bintoro struck a more optimistic, though still cautious, note when he said that the “big bang” approach to decentralization in Indonesia has led to “a new intergovernmental fiscal framework . . . a new accountability system at the local level, and it has promoted a vibrant civil society at the local level that can critically monitor local politics.”

The conference participants recognized the critical importance of the MDGs in providing benchmarks to measure progress in reducing poverty and promoting human development

and in mobilizing political commitment. Delegations from Cambodia and Vietnam described how their countries were “localizing the MDGs”—tailoring them to their specific circumstances. Mr. Nguyen Van Phuc of Vietnam indicated that his country had created different time frames for different goals. Vietnam had made substantial progress, for example, in boosting incomes, he said, but in other areas where more progress is needed, the country had added new goals, such as governance measurements.

As the conference drew to a close, participants pointed to the progress that had been made since the country teams met two years earlier at the first East Asia and Pacific Regional Conference in Hanoi when the countries were just embarking on their poverty reduction strategies. They also acknowledged that more needed to be done to coordinate and simplify external assistance and ease the reporting burden on limited local capacity.



Technical Assistance and Training

Designing and implementing economic policy require know-how and effective government institutions. Many developing countries need help to build up expertise in economic management and advice about what policies, reforms, and institutional arrangements are appropriate and have worked well elsewhere. The IMF provides such technical advice and training to officials in member countries. Poor countries receive this assistance free of charge.

Through staff missions sent from headquarters, the provision of specialists on a short-term basis, resident advisors, and training on the job or at the Fund's headquarters or its regional training institutes, the IMF offers assistance in the core areas of its expertise. These include macroeconomic policy formulation and management; monetary policy; central banking; financial systems; foreign exchange markets and policy; public finances and fiscal management; and macroeconomic, external, fiscal, and financial statistics.

Since the early 1990s, as the IMF's membership has expanded and a growing number of countries have made the transition to a market-oriented economy, the Fund's technical assistance has increased rapidly. More recently, the IMF's efforts to strengthen the global financial architecture so as to reduce the risk of crises and improve the management and resolution of those that do occur have generated new demands for technical assistance from countries seeking to adopt international standards and codes for financial, fiscal, and statistical management. The Fund's work on offshore financial centers, and the fight against money laundering and the financing of terrorism, have also been associated with new requests for technical assistance. In addition, the IMF has mounted significant efforts in recent years, in coordination with other bilateral and multilateral technical assistance providers, to give prompt policy advice and opera-

tional assistance to countries emerging from conflict. At the same time, there is a continuing demand from Heavily Indebted Poor Countries (HIPCs) for help with debt sustainability analyses and management of debt-reduction programs, and from low-income countries for help with the design and implementation of programs to enhance growth and reduce poverty.

The IMF is keen to make its technical assistance as effective as possible, particularly by integrating it more closely with its surveillance activities and its financial support for policy programs. To this end, it is reinforcing coordination and collaboration with other technical assistance providers, especially the World Bank (see Appendix IV); improving the way technical assistance is delivered, in particular by establishing regional technical assistance centers (Box 5.1); strengthening the monitoring and evaluation of

Box 5.1 Regional Delivery of Technical Assistance in Africa

As part of the IMF's Africa Capacity-Building Initiative—which aims to increase the volume, range, and coordination of technical assistance from various multilateral and bilateral providers—the IMF opened two Africa Regional Technical Assistance Centers (AFRITACs) in 2002–03. AFRITAC East, based in Dar es Salaam, Tanzania, serves Eritrea, Ethiopia, Kenya, Rwanda, Tanzania, and Uganda. AFRITAC West, based in Bamako, Mali, serves Benin, Burkina Faso, Côte d'Ivoire, Guinea, Guinea-Bissau, Mali, Mauritania, Niger, Senegal, and Togo.

The AFRITACs aim to strengthen the capacity of African countries to design and implement their poverty reduction strategies, in particular by improving the coordination of technical assistance in the Poverty Reduction Strategy Paper (PRSP) process.

The IMF has made use of this regional approach in delivering technical assistance to its member countries since 1993, when it opened the Pacific Financial Technical Assistance Center

its technical assistance program; and disseminating information on the program more widely.

In light of the growing demand and competing needs for technical assistance, the IMF must prioritize its technical assistance resources effectively. The Fund introduced a set of prioritization filters and guidelines in 2001 to enable its functional departments to align resources with recipient-country needs more systematically, consistent with the IMF's core areas of competence, main program areas, and key policy initiatives. (See Box 5.2.)

External Financing

The IMF finances its technical assistance mainly from its own resources, but external financing provides an important complement. External financing is provided in the form of grant contributions, mainly under the IMF's Framework Administered Account for Technical Assistance Activities but also through cost-sharing arrangements under United Nations Development Program (UNDP) projects and, in a small number of cases, direct reimbursement arrangements. There were 15 subaccounts

(PFTAC) in Fiji. All of these regional centers are guided by steering committees with representatives from participating countries and supporting donor agencies, as well as observers from regional institutions involved in capacity building. Each country appoints a representative and an alternate to the committee. The committees hold semiannual meetings. Center coordinators, who are IMF staff members, have responsibility for the day-to-day management of the centers and their work programs.

At each center, a small number of resident advisors deliver technical assistance and training throughout the subregion; they are typically supported by short-term specialists. The benefits of this regional approach include flexibility to respond rapidly as needs emerge; the ability to make frequent follow-up visits, which keep up the momentum of reforms and solidify relationships; and continued access to high-quality technical expertise that might otherwise be difficult for resource-constrained countries to obtain. In addition, the format and role of the regional centers enable them to help shape and advance regional policy initiatives and strengthen cooperation.

Box 5.2 A Framework for Selecting Projects

The IMF's Executive Board in FY2001 put in place a formal framework to allocate resources for technical assistance more effectively and better align technical assistance with policy priorities. Under this framework, IMF technical assistance is divided into five "main program areas": crisis prevention, poverty reduction, crisis resolution and management, post-conflict/post-isolation cases, and regional/multilateral arrangements. These program areas are complemented by three categories of "filters," as follows:

- **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 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 delivered regionally, benefit several recipients, draw on multiple financial sources, or complement third-party assistance.

under the umbrella Framework Administered Account in FY2004, including three multidonor subaccounts to support the Pacific Financial Technical Assistance Center (PFTAC), the Africa Regional Technical Assistance Centers (AFRITACs), and technical assistance to Iraq (see the "Other Administered Accounts" section of the Financial Statements for additional information). Box 5.3 describes the new subaccounts set up in the past financial year.

In FY2004, external financing accounted for 29 percent of total assistance delivered by the IMF. Japan remained the largest single donor, providing some 60 percent of all external finance for technical assistance. Other bilateral donors were Australia, Austria, Brazil, Canada, China, Denmark, Finland, France, Germany, India, Ireland, Italy, Luxembourg, the Netherlands, New Zealand, Norway, Portugal, Russia, Singapore, Sweden, Switzerland, the United Kingdom, and the United States. Multilateral donors were the African Development Bank, the Arab Monetary Fund, the Asian Development Bank, the European Commission, the Inter-American Development Bank, the United Nations, the UNDP, and the World Bank.

Box 5.3 New Technical Assistance Subaccounts

The China Technical Assistance Subaccount was established in May 2003 as a special arrangement to co-finance the East AFRITAC. A contribution of \$200,000 was received.

The Technical Assistance Subaccount for Iraq was established in July 2003 to enhance Iraq's capacity to formulate and implement policies in the macroeconomic, fiscal, monetary, financial, and related statistical fields, including training programs and activities that strengthen the legal and administrative framework in these core areas. The United Kingdom, Canada, Australia, Italy, and India have pledged a total contribution of \$7.6 million. (For more about Fund relations with Iraq, see Section 1.)

The Canada Technical Assistance Subaccount was established in January 2004 to promote voluntary compliance among taxpayers, increase the efficiency of tax administration, and restore taxpayers' confidence in the fairness and integrity of tax administration in Indonesia. The Canadian International Development Agency (CIDA) has pledged a contribution of \$2.3 million toward the Indonesia Tax Administration Reform project.

IMF technical assistance is coordinated and supervised by the Office of Technical Assistance Management in the Office of the Managing 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*, available on the IMF's website.

Technical Assistance Delivery in FY2004

One way the IMF measures its technical assistance is by tracking the time spent helping countries. In FY2004 the IMF provided the equivalent of 367 person-years of technical assistance. This was 3 percent higher than in FY2003 and over 100 person-years higher than a decade earlier (263 person-years in FY1994).

Reflecting new needs within program areas, technical assistance in FY2004 increased for policy reform and capacity building. Assistance for countries trying to meet international standards and codes and to promote financial sector improvements also rose. Technical assistance for the Heavily Indebted Poor Countries (HIPC) Initiative declined, reflecting the maturing of the program (see Table 5.1).

Of all the regions, sub-Saharan Africa continued to receive the largest, and an increasing, share of IMF technical assistance. Technical assistance also increased, and has remained high, in the Asia-Pacific region, in part because of the assistance provided to post-conflict countries such as Cambodia and Timor-Leste, and support for reforms in China, Indonesia, and Mongolia. Some of the technical assistance

Table 5.1 Technical Assistance Program Areas, FY2002–04

(Field delivery in person-years)¹

	FY2002	FY2003	FY2004
Main program areas			
Crisis prevention	32.0	34.9	34.8
Poverty reduction	69.3	60.8	57.0
Crisis resolution and management	28.9	26.3	25.2
Post-conflict/isolation	23.2	30.4	27.2
Regional	34.9	41.2	57.0
Total	188.2	193.6	201.1
Key policy initiatives and concerns			
Assistance on standards and codes, excluding FSAP	13.6	18.1	21.7
FSAP-related	3.4	6.0	9.9
HIPC-associated	21.4	16.8	11.5
Offshore financial centers and AML/CFT	5.1	10.4	8.6
Policy reform/capacity building	144.7	142.3	147.4
Other	—	—	1.9
Total	188.2	193.6	201.1

Source: IMF, Office of Technical Assistance Management.

Note: FSAP = Financial Sector Assessment Program, HIPC = Heavily Indebted Poor Countries Initiative, AML/CFT = Anti-Money-Laundering and Combating the Financing of Terrorism.

¹Excludes headquarters-based activities related to technical assistance. An effective person-year of technical assistance is 260 days.

provided to central and eastern Europe supported those countries' preparations for EU membership on May 1, 2004. Technical assistance to other geographical regions, as well as for interregional projects, remained broadly the same as over the past three years (see Table 5.2 and Figure 5.1).

The IMF's Monetary and Financial Systems Department remained the Fund's largest technical assistance provider, delivering 122 person-years of assistance, reflecting the IMF's financial sector initiatives. The Fiscal Affairs Department, the IMF's second-largest technical assistance provider, increased its delivery to some 96 person-years. The Statistics and Legal Departments both stepped up

Figure 5.1 Technical Assistance by Region, FY2004

(As a percent of total regional delivery, in effective person-years)

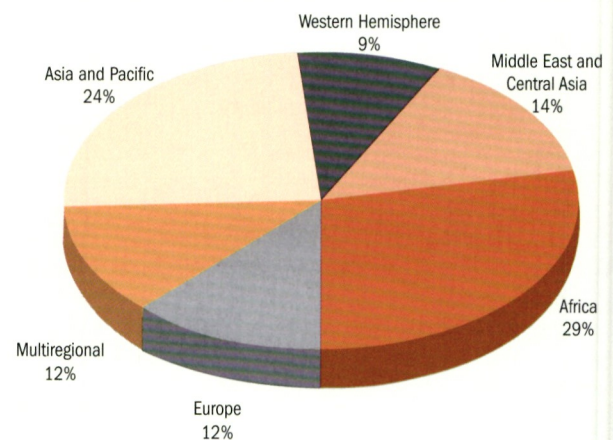


Table 5.2 Technical Assistance Sources and Delivery, FY2000–04

 (In effective person-years)¹

	FY2000	FY2001	FY2002	FY2003	FY2004
IMF technical assistance budget	251.7	265.5	268.8	262.2	262.1
Staff	158.5	171.8	172.2	174.1	186.1
Headquarters-based consultants	16.4	22.7	23.2	20.1	20.6
Field experts	76.9	71.0	73.4	68.0	55.4
External technical assistance resources	85.5	77.7	77.8	93.5	105.3
United Nations Development Program	8.7	8.4	9.6	9.6	8.1
Japan	68.0	59.5	56.2	61.9	61.6
Other cofinanciers	8.8	9.8	12.0	22.0	35.6
Total technical assistance resources	337.2	343.3	346.6	355.7	367.4
Technical assistance regional delivery²	282.2	275.8	280.0	286.5	291.1
Africa	69.8	68.2	71.9	72.1	83.8
Asia and Pacific	44.4	57.0	63.1	67.5	69.0
Europe I	24.1	30.2	30.3	27.7	—
Europe II	40.4	40.8	32.6	25.1	—
Europe	—	—	—	—	35.5
Middle East	27.5	27.8	22.4	26.5	—
Middle East and Central Asia	—	—	—	—	40.1
Western Hemisphere	28.2	23.7	28.0	32.6	26.6
Regional and interregional	47.9	28.0	31.7	35.1	36.0
Technical assistance nonregional delivery³	55.1	67.5	66.6	69.2	76.4
Total technical assistance delivery	337.2	343.3	346.6	355.7	367.4
Technical assistance delivery by Fund department					
Monetary and Financial Systems Department	112.2	101.2	115.5	120.0	122.0
Fiscal Affairs Department	101.4	111.9	97.5	94.3	95.6
Statistics Department	49.1	48.2	49.2	55.7	59.0
IMF Institute ⁴	54.6	54.4	56.0	55.4	53.6
Legal Department	8.6	15.4	15.5	19.6	23.9
Other departments ⁵	11.3	12.2	12.9	10.7	13.3
Total technical assistance delivery	337.2	343.3	346.6	355.7	367.4

Source: IMF, Office of Technical Assistance Management.

¹An effective person-year of technical assistance is 260 days. New definition used since 2001; data adjusted retroactively.

²In FY2004 the former European II Department was dissolved, and its countries were absorbed by the new European Department and the Middle East and Central Asia Department.

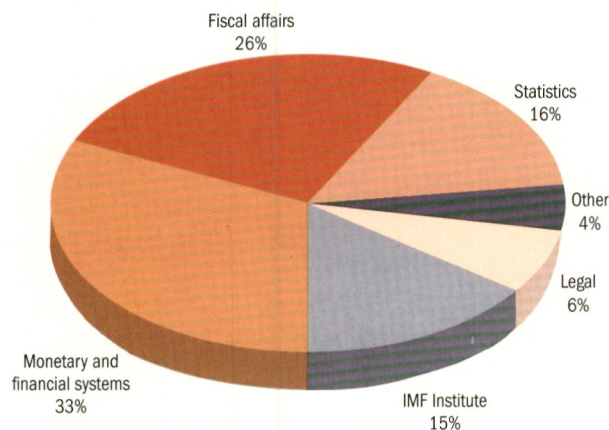
³Indirect technical assistance, including technical assistance policy, management, evaluation, and other related activities.

⁴The decline in technical assistance delivered by the IMF Institute in FY2003–04, as measured in this table, reflects changes in financial arrangements related to the administration of IMF regional training institutes and not a decline in the delivery of training. As indicated in Table 5.5, training delivered by the IMF Institute rose over this period.

⁵Includes the Fund's Policy Development and Review Department, the Technology and General Services Department, and the Office of Technical Assistance Management.

Figure 5.2 Technical Assistance by Department, FY2004

(As a percent of total resources, in effective person-years)



technical assistance. The increase by the Legal Department was mainly a result of its involvement in activities to combat money laundering and the financing of terrorism (see Figure 5.2 and Table 5.3).

Evaluation of Technical Assistance

In April 2003, the IMF launched a formal evaluation program to gauge the effectiveness and impact of its technical assistance. The first three evaluations were provided to the Fund's Executive Board in March 2004.

The objectives of the evaluation program include (1) improving the accountability and transparency of Fund technical assistance; (2) increasing the frequency and coverage of technical assistance evaluations; (3) generating and disseminating lessons learned to make Fund technical assistance more effective; and (4) integrating technical assistance with the Fund's surveillance and program work. Evaluation findings are expected to inform responses to future technical assistance requirements and to make collaboration with other technical assistance providers and initiatives more effective. As the number of evaluations grows, generating lessons of wider

relevance, the findings will also inform the Executive Board's periodic reviews of the Fund's technical assistance policy and practices.

The intention is to provide the Executive Board with three or four evaluations a year, internal as well as external, covering a mix of topics.

In selecting the initial set of topics, four areas of particular policy relevance were given prominence: (1) the link between technical assistance and the Fund's surveillance and policy work; (2) technical assistance delivered by regional centers such as the East and West AFRITACs; (3) the role of Fund technical assistance in the heavily indebted poor countries (HIPC) and in low-income countries eligible for support from the Fund's Poverty Reduction and Growth Facility; and (4) technical assistance

Table 5.3 Technical Assistance Delivery by Assignment, FY2004¹

Topics	Long-Term Assignments ²			Short-Term Missions		
	Assignments (Number)	Delivery (Person-years)	Average duration (Days)	Assignments (Number)	Delivery (Person-years)	Average duration (Days)
Fiscal	83	26	114	259	27	19
Monetary, exchange, and financial systems	55	38	246	435	34	17
Macroeconomic and financial statistics	26	12	163	209	16	22
Legal	4	2	145	158	8	16
Other	7	4	203	19	3	19
Total	175	81	167	1,080	88	18

¹Technical assistance delivered out of headquarters, training activities, and missions related to the management of the technical assistance program, such as resource mobilization, monitoring, and evaluation, are not included.

²Long-term assignments have a minimum duration of six months. Because extensions, which can be shorter, are counted as separate assignments, the average duration can be shorter than six months.

activities designed to respond to new initiatives and calls for international assistance.

Two of the first three evaluations, initiated in FY2003 and completed in FY2004, were assessments of technical assistance delivered by the Fund's Fiscal Affairs Department in the area of public expenditure management in selected countries in sub-Saharan Africa. They were carried out by IMF staff and external consultants. The third, a mid-term review of the Caribbean Regional Technical Assistance Center (CARTAC), was carried out by an external team. (The report on the evaluations is available at www.imf.org/external/np/ta/2004/eng/030104.htm.) Ten additional evalu-

Table 5.4 Technical Assistance (TA) Evaluation Program—FY2005–07

Subject of Evaluation Report	Financial Year Due
Pacific Financial Technical Assistance Center (PFTAC) ¹	2005
TA related to strengthening the commercial court and implementing the bankruptcy law in Indonesia	
Africa Regional Technical Assistance Centers (AFRITACs) ¹	
TA on tax policy in countries facing a loss of revenue as a result of trade and tariff reform	2006
TA in anti-money-laundering and combating the financing of terrorism	
TA to the Democratic Republic of the Congo	
TA to post-conflict countries	2007
Revenue administration—TA to Middle Eastern countries	
Revenue administration—TA to Southeast Asia	
General Data Dissemination System (GDSS)—Regional TA projects	

¹The reviews and evaluations of the regional TA centers are being carried out as part of a two-tier monitoring and evaluation process employed by the centers in which the regular reviews of the centers' performance are the responsibility of the centers' governing committees, while the less frequent but in-depth reviews and evaluations are usually undertaken by external consultants or parties on behalf of the steering committees.

ations are planned for FY2005–07 (see Table 5.4).

The IMF's Independent Evaluation Office (IEO) is also conducting an assessment of the Fund's technical assistance activities during 2000–03. The IEO's report is expected to be completed during FY2005.

Board Review of Technical Assistance

In March 2004, the IMF Executive Board reviewed the Fund's technical assistance since the previous review, conducted in July 2002. The Board

examined, in particular, the Fund's experience in low-income countries, as well as with using a regional approach to technical assistance and training. In addition, the Board considered the growing importance of external financing of technical assistance, the ongoing efforts to strengthen technical assistance information and resource management, proposals to broaden external dissemination of technical assistance reports, and technical assistance project monitoring and related resource use.

Directors generally considered that technical assistance had made considerable strides toward acquiring a strategic focus and enhancing its impact and effectiveness in the past two years. However, given the critical role of technical assistance across a range of policy areas—and the continued strong demand for it by IMF members—Directors emphasized that the main challenges continued to be to ensure that technical assistance was well focused and effective and that appropriate priorities were being set. A number of Directors were of the view that, given the significant excess demand for IMF technical assistance, consideration should also be given to allocating more resources for it. Directors underscored the essential contribution of IMF technical assistance for low-income countries and countries emerging from conflict situations, particularly in laying the institutional foundations for sustained poverty reduction.

Directors were encouraged by the Fund's progress in implementing the prioritization process, which was introduced in 2001. They looked forward to continuing strong efforts at further improving the prioritization and effectiveness of technical assistance, sharpening the focus on results, and systematically incorporating the lessons of technical assistance evaluations. They endorsed the steps being proposed to work toward these objectives.

To stay well focused, the technical assistance program would need to remain flexible, as this would help ensure that the

balance among programs and initiatives was in line with the evolving needs of the membership. While technical assistance requirements needed to be met in a strategic way, the IMF must continue to have the technical assistance instruments to respond to changing needs in a flexible and timely manner. Close coordination of IMF functional departments, which organize and provide the technical assistance, and IMF area departments would continue to be important in this regard.

Careful planning and monitoring, coordination with other providers in both the design and the implementation of technical assistance strategies, efficient leveraging of external financing, and broader dissemination of lessons learned, Directors stressed, would all be critical steps in the broad-based effort to enhance the effectiveness of technical assistance. Directors highlighted the importance of actively involving national authorities in the design of technical assistance projects to foster strong country ownership and commitment and help ensure the sustainability of technical assistance results. In this context, Directors expressed support for the proposal to set milestones for the continuation of technical assistance, in particular in the context of longer-term programs. They also suggested that further consideration be given to the development of exit strategies as a way of enhancing effectiveness and ownership of reform efforts.

Directors supported the actions under way to improve the management, monitoring, and results-based evaluation of technical assistance. They looked forward to a standardized evaluation methodology and the possible establishment of an independent technical assistance evaluation function within the IMF. Directors also endorsed the swift establishment of an IMF-wide computerized technical-assistance information-management system, which will provide the basis for more effective monitoring.

The major share of IMF technical assistance to low-income countries was provided in the context of IMF financial arrangements, Directors noted. To help ensure effectiveness and lasting results in these circumstances, Directors underscored that technical assistance strategies for these countries needed to be firmly aligned with country-owned poverty reduction strategies, taking into account absorptive and administrative capacity constraints, and the role of other technical assistance providers. It is also important that technical assistance strategies in low-income countries go beyond the objective of producing short-term results and remain firmly directed at supporting institution building over the longer term, while remaining flexible enough to respond swiftly to evolving needs. To ensure close coordination of IMF technical assistance with that of other technical assistance providers, Board members encouraged the staff to identify potential technical assistance partners

Indonesia



Boosting Tax Revenues Through Capacity Building

Indonesia has made significant progress over the past two years in strengthening its tax and customs administrations with assistance from the IMF. Initiatives to register more corporate and individual taxpayers, rationalize audit programs, and speed up the collection of tax arrears generated tax revenues amounting to 0.3 percent of GDP in 2002 and 0.5 percent of GDP in 2003. Other achievements included setting up a modern tax office dedicated to large taxpayers and a computerized system for filing tax returns and recording tax payments. In the area of customs administration, a comprehensive modernization strategy is being carried out, including streamlining customs clearance procedures, curbing smuggling, controlling undervaluation of imports, and improving the customs department's governance.

Reform of Indonesia's revenue administration has benefited from close cooperation between the IMF and donor agencies from Australia, Canada, and the United States. In view of the broad division of responsibilities among the agencies, the IMF's Fiscal Affairs Department (FAD) formulated the reform strategy—which was closely linked to Indonesia's IMF-supported program—and identified the technical assistance requirements, while the bilateral agencies financed and recruited technical experts. FAD developed terms of reference for the various technical assistance assignments, monitored the implementation of the reforms and the progress of the experts, and kept donor agencies informed of developments.

The IMF is also coordinating technical assistance from donors in the area of legal reform. The program, which is financed by the Netherlands, is supporting the efforts of the Indonesian authorities to establish an effective bankruptcy regime and a competent and objective judiciary to carry it out. While significant progress has been made, considerable work remains.

proactively and to promote clear understandings between technical assistance providers and the authorities of client countries on the broad road map for assistance and division of labor. They noted the useful role that IMF resident representatives can play in this area.

The growing evidence that regional arrangements for delivery of technical assistance and training appeared to be effective while fostering ownership and enhancing coordination with other technical assistance providers was welcomed by Directors. In view of the significant resource requirements of the IMF and external donors, they stressed the need for continuous, close monitoring and regular evaluation of the operations of the regional technical assistance centers, and looked forward to the forthcoming mid-term evaluation of the Africa Regional Technical Assistance Centers. Most Directors welcomed the expansion of the IMF Institute's regional programs, which they saw as cost effective and well adapted to the needs of the regions they serve.

Board members commended the generous external funding provided by donors to complement the IMF's own technical assistance resources. They saw several challenges going forward. These included securing an adequate volume of external resources over the long term; ensuring that staff resources, instruments, and adequate systems are available to

manage external financing according to international best practice; and prioritizing externally financed technical assistance as rigorously as IMF-financed technical assistance.

To foster the wider sharing of lessons learned from technical assistance experience, Directors encouraged member countries to consent to the voluntary publication of technical assistance reports on the IMF's external website, with due consideration to ensuring the confidentiality of sensitive information.

In concluding their review, Directors stressed that efforts to strengthen technical assistance provision were an ongoing process that needed to be continually refined in light of progress with monitoring and evaluation of technical assistance. They looked forward to the forthcoming evaluation of IMF technical assistance by the IEO, which they hoped would provide additional guidance on enhancing technical assistance performance.

IMF Institute

The IMF Institute trains officials from member countries through courses and seminars focused on four core areas—macroeconomic policy management, and financial sector, fiscal, and external sector policies.

Training is delivered by Institute staff and by staff from other IMF departments, occasionally assisted by outside academics and experts, at IMF headquarters in Washington, D.C., and at various overseas locations. Some preference in acceptance of applications for training is given to officials from developing and transition countries.

In FY2004, the IMF Institute, with the assistance of other IMF departments, offered 120 courses, attended by 3,846 participants (see Table 5.5). About two-thirds of this training in terms of the number of courses, and about one-half in terms of participant-weeks, were provided through the IMF's six regional institutes and programs, which are located in Austria, Brazil, China, Singapore, Tunisia, and the United Arab Emirates (see Table 5.6). Training in Washington, with longer courses, continued to play an important role, accounting for about one-third of participant-weeks. The remainder of

Table 5.5 IMF Institute Training Programs for Officials, FY2000–04

	FY2000	FY2001	FY2002	FY2003	FY2004
Headquarters training					
Courses and seminars	22	22	21	23	20
Participants	778	808	813	808	687
Participant-weeks	3,608	3,672	2,952	3,225	2,908
Regional training institutes and programs¹					
Courses and seminars	52	64	73	73	82
Participants	1,493	1,998	2,292	2,301	2,608
Participant-weeks	3,021	3,691	4,273	3,967	4,455
Other overseas training					
Courses and seminars	24	18	16	17	18
Participants	775	534	439	496	551
Participant-weeks	1,367	980	828	899	949
Distance learning					
Courses ²	1	1	3	3	2
Participants ³	49	43	134	114	80
Participant-weeks ⁴	98	86	311	276	200
Total courses and seminars	98	104	110	113	120
Total participants	3,046	3,340	3,544	3,605	3,846
Total participant-weeks	8,094	8,429	8,364	8,367	8,512

Source: IMF Institute.

¹Includes Joint Vienna Institute (established in 1992); IMF-Singapore Regional Training Institute (1998); IMF-AMF (Arab Monetary Fund) Regional Training Program in the United Arab Emirates (1999); Joint Africa Institute (1999), currently located in Tunisia; Joint China-IMF Training Program (2000); and Joint Regional Training Center in Brazil for Latin America (2001). Data do not include courses delivered by other organizations at the IMF's regional training institutes and programs.

²These are not included in the total course count below as the residential segment is already reflected in the training activity at headquarters.

³Participants who were invited to the residential part of the courses are included both here and under headquarters training.

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

Table 5.6 IMF Institute Regional Training Programs

	Date Established	Location	Cosponsors	Intended Participant 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 Institute²	1999	Tunisia	African Development Bank, World Bank	African countries
Joint China-IMF Training Program	2000	China	People's Bank of China	China
Joint Regional Training Center for Latin America	2001	Brazil	Government of Brazil	Latin American countries

¹A number of other European countries and the European Union, although not formal sponsors of the Joint Vienna Institute, provide financial support.

²In 2003, the Joint Africa Institute shifted its operations temporarily from Côte d'Ivoire to Tunisia, owing to the security situation in Côte d'Ivoire.

the training was at overseas locations outside the IMF regional network, largely as part of collaboration between the IMF Institute and national or regional training programs but also in the form of distance learning.

The number of training courses and seminars rose by 6 percent in FY2004, and the number of participant-weeks rose by 2 percent. The smaller increase in the number of participant-weeks is a continuation of the trend of the past few years, reflecting a shift in the composition of IMF Institute courses toward shorter, more specialized courses delivered through the regional programs. The increase in training activity was achieved despite the effects in the early part of FY2004 of the war in Iraq and the outbreak of Severe Acute Respiratory Syndrome (SARS) in some Asian countries. Reflecting the security situation in Côte d'Ivoire, the location of the Joint Africa Institute was shifted to Tunis in June 2003. Given the logistical challenges of such a move, IMF training at the Joint Africa Institute was slightly

less than planned. It was nevertheless higher than in FY2003, and the Institute also offered more courses in Africa outside the Joint Africa Institute to compensate for the shortfall.

The IMF Institute has continued to pay close attention to curriculum development. In FY2004, the topics covered in new courses included debt management, financial market analysis, financial sector standards and stability, financial soundness indicators, and policies for monetary and financial stability. The Institute has also continued to provide, both in Washington and through the regional institutes and programs, short seminars on key issues. These seminars are tailored to the needs of high-level officials. In FY2004, topics covered in the seminars included the challenges of growth and globalization in the Middle East and North Africa, euro adoption in the EU accession countries, financial development and integration in Africa, and management of subnational finances and debt.



Governance, Cooperation, and Transparency

IMF Governance

The IMF is accountable to the governments of its member countries. At the apex of its organizational structure is its **Board of Governors**, which consists of one governor and one alternate governor appointed by each of the IMF's 184 member countries. The governor is usually the minister of finance or the head of the central bank. All governors normally meet once each year at the September/October IMF-World Bank Annual Meetings. The Annual Meetings are preceded by regional caucuses, constituency meetings, and meetings of groups of members, among which the meetings of the Group of 24 developing countries and the Group of Seven major industrial countries are particularly important. These groups promote the agendas of different constituencies within the membership, as do individual member countries in the pursuit of their national foreign policy objectives.

There are two committees of governors that represent the whole membership. The **International Monetary and Financial Committee** (IMFC) of the Board of Governors is an advisory body composed of 24 IMF governors (or their alternates)—ministers or other officials of comparable rank—representing the same countries or constituencies (group of countries) as the 24 Directors who make up the IMF's Executive Board. The IMFC normally meets twice a year, in April/May and at the time of the Annual Meetings in September/October. Its responsibilities include providing ministerial guidance to the Executive Board and advising and reporting 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 system. 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 a joint World Bank-IMF body also composed of 24 World Bank or IMF governors or their alternates—again, ministers or other officials of comparable rank. It usually meets the day after the IMFC. Both committees generally summarize their meetings in communiqués, which are published on the IMF's website.

The day-to-day work of the IMF is conducted at its Washington, D.C., headquarters by its **Executive Board**; this work is guided by the IMFC and supported by the IMF's staff. The Board consists of 24 Directors, who are appointed or elected by member countries or by groups of countries, and the IMF's Managing Director, who serves as its Chair. The Executive Board has a central role in policy formulation and in decision making in the IMF, and exercises all the powers for conducting the institution's business except those that the Articles of Agreement have reserved for the Board of Governors or the Managing Director.

The Board meets in "continuous session," that is, as often as the business at hand requires, usually for three full days each week. Total Board meeting time averages over 600 hours each year, which demonstrates the intense oversight exercised by the Board on the activities of the IMF. In calendar year 2003, the Board held 116 formal meetings (at which decisions are made), 32 informal seminars, and 8 other informal meetings, including committee meetings. In 2003, the Board spent 55 percent of its time on member country matters (mainly Article IV consultations and reviews and approvals of IMF financing arrangements); 19 percent of its time on global and regional surveillance and general policy issues (such as the world economic outlook, 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 the remaining time on administrative and other matters.

Consensus Decision Making in a Cooperative Institution

Decision making by consensus has always been a central feature of the Executive Board's work. In the view of the IMF's founding members, the jurisdiction and far-reaching mandate of the new institution, with its diverse membership and their differing interests, called for a cooperative framework in which policy would be set by all and for all. The IMF's Rules and Regulations prescribe that "The Chairman shall ordinarily ascertain the sense of the meeting, in lieu of a formal vote." Thus, from the outset, the Executive Board, management, and staff developed working methods to establish common ground among the members in setting policy (see Box 6.1). Consensus decision making maintains the cooperative character of the IMF; safeguards the interests of the developing and emerging market countries that are, de facto, the users of IMF resources; and—ultimately—protects the rights and interests of the minority shareholders.

The Board works as a college of officials who devote themselves full time to the tasks and purposes of the IMF. The "sense of the meeting," which the Chair must ascertain, is a position that is supported by Executive Directors having sufficient votes to carry the question if a vote were taken (see Appendix VII). "Consensus" denotes unanimity. While unanimity remains the objective, the Chair and the Board view the achievement of "a large majority" as sufficient for many decisions. Executive Directors are not subject to time constraints in expressing their positions, reservations, and questions, including often successive interventions in response to the questions and arguments of others. In this environment, the influence of individual Directors on IMF

Box 6.1 Policy Consensus Building in Practice

A Board review of any policy item is, typically, initiated on the basis of a staff paper setting out the principal objectives of the policy, reviewing recent practice, and indicating where management and staff believe that changes may need to be considered. In the initial discussion, all Executive Directors intervene extensively, a number of them on the basis of written statements that they have circulated beforehand. The opening discussion may reveal wide areas of disagreement among Directors regarding the future direction and objectives of the policy. In such a case, the Managing Director, as Chair of the Executive Board, may call for a follow-up discussion for which management or staff may circulate a memorandum suggesting possible avenues for reconciling conflicting approaches.

When sufficient progress has been made in follow-up discussions to reduce sharp differences on broad policy objectives, the Managing Director asks the staff to draft detailed proposals for changes in policies and practices, building on the emerging areas of consensus. When considering specific policy

proposals, the Chair is not satisfied with a narrow "sense of the meeting" (that is, a narrow majority if the matter were to be put to a vote) but urges the Board to consider matters until consensus is achieved or, at least, a very broad majority has emerged on the significant aspects of the policy under review. The "summing up" of the meeting by the Chair (which forms part of the Public Information Notice released after most Board discussions) indicates how views differed among Directors, as well as where they converged. In the end, the minutes of the meetings show not only the positions of each Director but also how the positions evolved and were adjusted in the light of the arguments of others and how a continuing give-and-take brought Board members to solutions that all, or almost all, found acceptable.

The subsection below on "Transparency of the IMF and its Members" illustrates how the consensus building process allows diverging views on an issue to be brought to common decisions.

policies and decisions can—and frequently does—reach well beyond their voting power. Technical expertise is important; persuasiveness counts a great deal; diplomacy, timing, and experience all have an impact on the influence that an Executive Director can exert. It is a well-established practice that, on policy issues, all Directors intervene in successive "tours de table." The minutes of Board meetings, which are released to the public after 10 years, record all interventions by Executive Directors, management, and staff. The system thus ensures that consensus decision making is fully compatible with accountability.

Debate and reflection take place not only at formal Board meetings but also at informal gatherings of Executive Directors and in exchanges of views with the Managing Director and staff. IMF staff stand ready to help the Board's search for ways forward and to prepare additional material to

ensure that all avenues are explored in the search for workable solutions. When members belonging to the same constituency hold differing views on a subject, the Executive Director can put the views on record but cannot split his or her vote. The resolution of such conflicts is for each Director to decide and any Director remains free to record an abstention or an objection to a particular decision. The system has a tempering impact and evidence shows that the decisions that finally result may well be the best that could be made in the circumstances. The stature of the Managing Director as Chair of the Board adds much weight to his interventions. Directors use informal contacts with the Managing Director to indicate where room for flexibility may be found. Directors also often turn to the Dean—the longest-serving Board member—or the IMF Secretary for guidance in the Board’s work and for assistance in formulating possible ways forward in a difficult debate or in finding areas for compromise and resolution.

In line with the policies pursued since the mid-1990s to improve transparency, public information on Board activities is now being made available on a daily basis (see “Transparency of the IMF and its Members” below). Moreover, a growing number of members have agreed to the publication of country papers and the Chair’s summing up of Article IV consultations in the Board (Public Information Notices, or PINs). However, while archival material generally becomes part of the public record after 5 years, there is a time lag of 10 years for minutes of Board meetings.

The Summing Up

In the Board’s work on surveillance and general policy formulation, decision making by consensus is complemented by the practice of concluding Board discussions with a “Chair’s Summing Up” or “Chair’s Concluding Remarks.” The summing-up procedure has become standard not only for Article IV country consultations but also to conclude Board consideration of policy and operational items.¹

The summing up aims to include all the main strands of a Board discussion and to reflect differences between the Board’s views and the positions of the IMF staff. The summing up also needs to indicate clearly the aspects of the debate on which Directors generally agreed as well as those on which views differed. Precise indications on whether, for example, “a majority” or “some Directors” held this or that view are important. Significant dissent by some Directors from the views of others or from the positions taken by the

¹Board consideration of operational matters, financial issues, requests for use of IMF resources, and other matters is concluded, as needed, with formal decisions for which drafts are provided by the Fund’s Legal Department. Extracts from selected policy decisions are published in the IMF’s *Annual Report* (see Appendix III) and are reprinted in *Selected Decisions*.

staff needs to be captured in order to round off a summing up. The parts of a summing up that reflect the sense of the meeting have the character and effect of a Board decision.

Safeguarding the Rights of Shareholders in the IMF

The cooperative nature of consensus decision making promotes the search for common ground through the active participation of all who share the responsibility for formulating and implementing institutional policy. It is an approach that promotes thorough reflection, leading to solutions that reconcile the differing interests of a large membership with a willingness to revisit and review decisions in light of changed circumstances. As a result, consensus decision making has been of considerable benefit to the institution and its members. It has been particularly valuable as a way of protecting the minority views held by IMF shareholders.

Members’ Representation and Voice in the Institution

In its September 2003 Communiqué, the International Monetary and Financial Committee stressed that the IMF’s effectiveness as a cooperative institution depends on all members having an appropriate voice and representation. The IMFC welcomed the measures being taken to improve the capacity of developing and transition countries to participate more effectively in IMF policy formulation and decision making. It also welcomed the Executive Board’s progress report on quotas, representation, and voice, and called on the Fund to examine these issues further.

The measures referred to by the IMFC that had been taken by the IMF to enhance the capacity of Executive Directors from developing and emerging market countries to participate effectively in decision making in the Fund, within the current framework of voting power, included addressing staffing and other constraints faced by Directors with large multicountry constituencies. Representation of members in the IMF depends critically on the distribution of quotas, which was last discussed by the Executive Board in July 2003 (see Section 7). Further progress on voice and representation, including through any changes in quotas, would have required a broader consensus on the issue among the IMF’s shareholders than then existed. After reviewing progress, and in light of the issue’s complexity, in its April 2004 Communiqué the IMFC called on the Board to continue its work on IMF quotas, voice, and representation, and looked forward to a report on progress at its next meeting.

As part of the effort to seek a consensus among shareholders, at the April 2004 meeting of the Development Com-

mittee, the Chair circulated a proposal for a road map on procedures and next steps in this area to the Committee members. The Executive Board of the Fund and the Board of Executive Directors of the World Bank were scheduled to produce reports on all aspects of the voice and participation issue for consideration by the Development Committee at the October 2004 Annual Meetings.

Transparency of the IMF and Its Members

The financial crises of the mid- and late 1990s underscored the importance of transparency as a key tool of crisis prevention in an environment of increased capital market integration. Greater openness on the part of IMF member countries encourages more widespread discussion and examination of members' policies by the public; it enhances the accountability of policymakers and the credibility of policies; and it facilitates efficient functioning of financial markets. Greater openness and clarity by the IMF about its own policies and the advice it provides to members contributes to a better understanding of the IMF's role and operations, and increases the Fund's accountability for its policy recommendations.

Formulated in January 2001, the IMF's transparency policy encourages the publication of country and IMF policy documents while fostering candor in policy discussions with members and preserving the Fund's role as a confidential advisor to members. In FY2004, the Fund continued to work to improve transparency, both of member countries' policies and of the IMF's assessments, within the current voluntary framework (see Box 6.2).

Transparency Policy Review

Background

In its January 2001 decision, the Executive Board adopted a policy on the voluntary publication of country documents and more systematic publication of policy papers and associated PINs. In its review of the transparency policy in June 2002 (see *Annual Report 2003*), the Board agreed to reconsider a possible move to a policy of presumed publication

Box 6.2 Key Elements of the IMF's Transparency Policy for Documents

Use of Fund resources documents

- Voluntary but presumed consent to publication of staff reports on the use of Fund resources.
- Publication of staff reports on the use of Fund resources for programs involving exceptional access will generally be required from July 1, 2004, for management to recommend approval or augmentation of a program or completion of a review. Programs in place as of July 1, 2004, would be grandfathered.
- Voluntary but presumed consent to publication of Letters of Intent and Memoranda of Economic and Financial Policies.
- Publication of Poverty Reduction Strategy Papers (PRSPs) is required for management to recommend endorsement by the Executive Board.

Surveillance documents

- Voluntary but presumed consent to publication of Article IV country reports, as well as of Public Information Notices (PINs), following Article IV consultations, from July 1, 2004.

- Voluntary publication of Reports on Observation of Standards and Codes (ROSCs), Financial System Stability Assessments (FSSAs), and Assessment of Financial Sector Supervision and Regulation (AFSSR) reports.

Other documents

- The Executive Board decides whether to publish reports on IMF policy issues.
- Weekly publication of the Executive Board's agenda on the IMF's website.

Correction and deletion policy

- Deletions for documents that pertain to members are limited to highly market-sensitive material, and corrections are limited to necessary factual changes.

Archives and Board Minutes

- Public access is given in the IMF's archives to Executive Board documents that are over 5 years old, to minutes of Executive Board meetings that are over 10 years old, and to other documentary materials that are over 20 years old, subject to certain restrictions.

for Article IV country reports and reports on the use of Fund resources in FY2004.

At the time of the FY2004 Board discussions, staff analysis showed that, since the previous review in 2002,

- Publication of *Article IV country reports* had continued to rise: from 59 percent to 66 percent for stand-alone reports, and from 63 percent to 71 percent for combined Article IV-use of Fund resources reports. But publication rates remained uneven across regions.
- Nearly three-fourths of member countries agreed to publish at least one *country report*; over 90 percent had published a *country PIN*.
- Publication of stand-alone reports on *use of Fund resources* rose slightly, from 56 percent to 57 percent. Although three-fourths of stand-alone staff reports on use of Fund resources for normal access cases were published, the rate for *exceptional access cases* declined from 36 percent to 21 percent.
- The share of *reports with deletions* declined from 12 percent to 8 percent, reflecting, in part, a much lower rate of deletions from stand-alone use of Fund resources reports. Reports with corrections rose from 53 to 57 percent.

- Nearly all *country policy intention documents* (Letters of Intent/Memoranda of Economic and Financial Policies and Poverty Reduction Strategy Papers) had been published.

Changes in Transparency Policy

In June and September 2003, the Executive Board reviewed the implementation of the IMF's transparency policy and discussed next steps. Directors considered the key issue to be whether to move to a policy of presumed publication of country staff reports. Directors acknowledged that progress had been made in publication rates for most types of documents and in most regions under the policy of voluntary publication, reflecting the broad acceptance by the membership of the benefits of transparency. Most Directors noted, however, that progress in publication rates had been slow and unevenly distributed across regions, and that further impetus would be provided by moving to a policy of presumed publication.

Publication of country reports, these Directors noted, would help strengthen surveillance and increase the accountability of the Fund. Extending the presumed publication policy to all documents related to the use of Fund resources would help put into context members' requests for use of Fund resources as set forth in their published Letters of Intent/Memoranda on Economic and Financial Policies, and help explain the basis for management's recommendations and Board actions.

Many other Directors, however, pointed out that the information provided by the staff showed that the present voluntary approach had been effective and that it was not clear that a policy of presumed publication would achieve significant additional gains in publication rates. These Directors suggested that a move to presumed publication could undermine the candor of discussions and documents and the advisory role of the Fund.

All Directors emphasized that candor in the Fund's dialogue with members and in reports to the Board would remain essential for effective surveillance. They looked forward to the opportunity to discuss the potential conflict between transparency and candor in the Biennial Review of Surveillance scheduled for mid-2004, in light of the increased coverage expected in staff reports of such topics as vulnerability, debt sustainability, currency mismatches, and other balance sheet and capital account developments.

Most Board members noted the significant declines from already low levels of publication rates (from 36 percent to 21 percent) of staff reports for requests for use of Fund resources by members with exceptionally high access (access to the Fund's general resources in excess of certain limits). They emphasized the critical importance of transparency

for strengthening confidence in these cases, since they typically involved capital account crises where a high premium was placed on increasing public understanding and market support of the program strategy. However, many other Directors were concerned that, given the high degree of market sensitivity in exceptional access cases, publication of these reports might conflict with the need for frank assessments of the risks involved.

The Board agreed on a set of measures to enhance transparency. It agreed to establish a policy of *voluntary but presumed publication* for all use of Fund resources and Post-Program Monitoring staff reports, to be effective as soon as the amendments to the Board's Transparency Policy Decision had been circulated to, and approved by, the Board (see Appendix III).

It was also agreed that, in exceptional access cases, the Managing Director would generally not recommend Board approval of a program or completion of a review unless the authorities consented to the publication of the associated staff report. This new publication policy for staff reports on use of Fund resources in exceptional access cases would apply to new arrangements approved on or after July 1, 2004, that contained exceptional access, and to existing arrangements that, by reason of augmentation after July 1, 2004, would result in exceptional access. Exceptional access arrangements (that is, those on the same terms and conditions and timing) in place as of July 1, 2004, would be grandfathered.

The Board also agreed to move to *voluntary but presumed publication* of all Article IV country reports, Article IV PINs, and related Article IV background papers (reports prepared, for example, as selected or statistical background material for Article IV consultations). If a member did not wish a PIN to be published, a brief press release would be issued promptly by the Fund to inform the public that the Board had concluded the consultation. These changes would be effective as of July 1, 2004; until that date, existing policies would continue to apply.

The possibility of moving to a policy of presumed publication for Reports on the Observance of Standards and Codes (ROSCs) and Financial System Stability Assessments (FSSAs) was considered. While a number of Directors stressed the value of better informing the public and markets through a policy of presumed publication of these documents, other Directors referred to the voluntary nature of standards and codes, and cautioned that presumed publication could affect participation in the Financial Sector Assessment Program (FSAP). Against this background, Directors decided to retain the existing policy of voluntary publication, while encouraging members to publish these reports.

Directors also discussed the modalities of voluntary but presumed publication for various documents. It was agreed that, under the policy of presumed publication, publication would be expected to occur within 30 calendar days of the Board's consideration of the relevant papers. In this context, Directors emphasized that presumption of publication required the explicit consent of the member, without which the document would not be published.

In addition, Directors reexamined the issue of allowing deletions of highly politically sensitive material and removal of material that would undermine the ability of the authorities to implement policies or that would render implementation more costly. While many Directors continued to favor the extension of the deletions policy to highly politically sensitive material, the majority of the Board did not support such a move, noting the practical difficulties of designing an objective test of "high political sensitivity" to implement such a policy and the risks of undermining the candor and comprehensiveness of Board documents. Directors urged the staff to continue to avoid language that would exacerbate domestic political challenges to implementing reforms.

Against this background, Directors generally agreed that the continued application of the current deletions policy was appropriate, with the scope of deletions covering highly market-sensitive information, including not only exchange and interest rate matters but also highly market-sensitive material in vulnerability assessments and the banking and fiscal areas. Directors also agreed that, when third-party analysis was presented in a staff report, the source should be indicated or a staff assessment of such analysis included in the paper.

In the context of increased publication, Directors expressed concern that pressures to delete significant elements of documents on grounds of high market sensitivity could intensify. They agreed that management could recommend to the Board that certain documents not be published if deletions of highly market-sensitive material would undermine the overall assessment of the Fund and its credibility.

Directors agreed to apply the broad principles for deletions and corrections now in place for country reports to policy papers prepared by the staff. Modifications to such policy papers before publication would be limited to factual corrections and deletions of highly market-sensitive material and country-specific references. If Directors considered that there was a danger of confusion when the summing up differed from the staff recommendations, the published version of the policy paper would indicate clearly in the text those staff positions that the Board had not endorsed.

On administrative papers, while a number of Directors favored a move to presumed publication, most agreed that

publication should continue to be considered on a case-by-case basis. In all cases, staff recommendations regarding the publication of these papers would be explained to Directors when the papers were circulated to the Board.

On other publication-related matters, Directors supported publication of the Board agenda at the same time as it is made available to Executive Directors, with the indication that the agenda is tentative and subject to change (see Box 6.3).

The next Board review of the Fund's transparency policy is expected to take place by June 2005.

External Audit Mechanism

A key governance issue concerns the IMF's practices for financial oversight, particularly the audit of its financial statements. The IMF's external audit arrangements consist of an External Audit Committee and an external audit firm. The External Audit Committee has general oversight of the external audit function and internal control processes. It consists of three members selected by the Executive Board and appointed by the Managing Director. The members serve for three years, on a staggered basis, and are independent. Committee members are nationals of different member countries of the IMF at the time of their appointment and must possess the qualifications required to carry out the oversight of the annual audit. The External Audit Committee generally meets twice a year in Washington and is available for consultation throughout the year.

The 2004 External Audit Committee members are Mr. Hazem Hassan (Chairperson), Chairman of KPMG Hazem Hassan, Egypt; Mr. Philippe Adhémar, Conseiller Maître à la

Box 6.3 Publication of the IMF Executive Board's Weekly Agenda

In February 2004, the IMF began regular publication of a weekly calendar giving the agenda of its Executive Board. The measure was approved by the Board to enhance public access to information about the IMF's operations. The Executive Board is responsible for overseeing the day-to-day activities of the Fund on behalf of its 184 member countries.

The weekly calendar, which will be updated on a rolling basis, contains the tentative schedule of formal meetings and Board seminars. The Board's agenda is typically finalized the day before each meeting, so the calendar is necessarily tentative. Nevertheless, the calendar provides the latest available information on the Executive Board's scheduled activities.

To view the calendar, visit the IMF's website at www.imf.org/external/np/sec/bc/eng/index.asp.

Cour des Comptes, France; and Mr. Pentti Hakkarainen, Board Member, Bank of Finland.

The responsibility for performing the external audit and issuing the audit opinion rests with the external audit firm. The external audit firm is selected by the Executive Board in consultation with the External Audit Committee and is appointed by the Managing Director. At the conclusion of the annual audit, the External Audit Committee transmits the report issued by the external audit firm,

through the Managing Director and the Executive Board, to the Board of Governors. In the process, the External Audit Committee briefs the Executive Board on the results of the audit. The external audit firm is normally appointed for a period of five years. PricewaterhouseCoopers (Washington) is the IMF's present external auditor.

The IMF's financial statements for FY2004 form Appendix IX of this Annual Report.

Financial Operations and Policies



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

Regular Financing Activities. The IMF provides loans to countries 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 external financing difficulties. These loans are extended under a variety of policies and facilities designed to address specific balance of payments problems (see Table 3.1). Interest is charged on the loans at market-related rates, and repayment periods vary depending on the lending facility.

Concessional Financing Activities. The IMF provides loans at a very low interest rate to low-income member countries to support programs to strengthen their balance of payments positions and to foster durable growth, which will lead to higher living standards and a reduction in poverty. The IMF also makes grants available to eligible heavily indebted poor countries (HIPC) to help them achieve sustainable external debt positions. The principal of concessional loans is funded by bilateral lenders that make resources available to the IMF at market-based rates, with the IMF acting as a trustee. The rate charged to borrowers and grants for HIPC debt relief are subsidized by separate contributions from some member countries and the IMF's own resources.

Special Drawing Rights. 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.

Among the key financial developments in FY2004 were the following:

- Outstanding IMF credit reached an all-time high in late 2003 but, by the end of FY2004, it had dropped below the level at the end of FY2003. This was because the demand for new lending was restrained in the second half of the financial year, owing partly to the improving world economic environment, and repayments exceeded disbursements.
- Credit outstanding continued to be concentrated in a small number of large, middle-income member countries, raising concerns about financial risks facing the IMF. The Executive Board reviewed the IMF's risk-management mechanisms and level of precautionary balances.
- The IMF continued its efforts to assist its poorest members in reducing their debt burdens, and initial steps were taken to ensure the continued ability of the IMF to provide adequate financial resources to low-income countries over the medium term.

Regular Financing Activities

The IMF's regular lending activity is conducted through the General Resources Account (GRA), in which the members' quota subscriptions are held (see Box 7.1). The bulk of IMF financing is provided under Stand-By Arrangements, which address members' short-term balance of payments difficulties, 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 depending on the type and duration of the loan and the amount of IMF credit outstanding. Repayment periods also vary by type of loan (see Table 3.1).

Box 7.1 The IMF's Financing Mechanism

The IMF's regular lending is financed from the capital (quotas) subscribed by member countries. Each country is assigned a quota—taking into account the country's economic size and external trade—which 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 country's own currency. The IMF extends financing by providing reserve assets to borrowers from the reserve asset subscriptions of members or by calling on countries that are considered financially strong to exchange their own currency subscriptions for reserve assets (see Box 7.4).

A loan is disbursed by the IMF when a borrower "purchases" the reserve assets from the IMF with its own currency. The loan is considered repaid when the borrower "repurchases" its currency from the IMF in exchange for reserve assets. The IMF levies a basic rate of interest (charge) on loans based on the SDR interest rate (see Box 7.8) and imposes surcharges depending on the amount and maturity 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) by borrowers with reserve assets, these funds are transferred to the creditor countries in exchange for their currencies and the creditors' claims on the IMF are extinguished.

The "purchase/repurchase" approach to IMF lending affects the composition of the IMF's resources but not the overall size. An increase in loans outstanding will reduce the IMF's holdings of reserve assets and the currencies of members that are financially strong and increase the IMF's holdings of the currencies of countries that are borrowing from the IMF. The amounts of the IMF's holdings of reserve assets and the currencies of financially strong countries determine the IMF's lending capacity (liquidity) (see Box 7.5).

Detailed information on various aspects of the IMF's financial structure and regular updates of its financial activities are available on the IMF's website at www.imf.org/external/fin.htm.

involving commitments totaling SDR 14.5 billion (Table 7.1). In addition, Burundi made a small purchase (SDR 9.6 million) under the IMF's policy of emergency assistance. No Extended Arrangements were approved and no commitments were made under the IMF's Compensatory Financing Facility (CFF) during the year.²

Two new large IMF commitments were made during the financial year. In September 2003, a three-year Stand-By Arrangement of SDR 9.0 billion was approved for Argentina in support of the government's economic program, succeeding the arrangement that expired in August 2003.³ In December 2003, the IMF approved a 15-month extension and SDR 4.6 billion augmentation of Brazil's existing Stand-By Arrangement, which was originally approved in September 2002.⁴ Together, these two cases accounted for more than 90 percent of the total new commitments in FY2004.

Thirteen Stand-By and Extended Arrangements were in effect as of end-FY2004, of which five are being treated as precautionary, with borrowers having indicated that they do not intend to draw on the funds committed to them by the IMF. These include Brazil's arrangement, on which the authorities have not drawn since September 2003 in light of improvements in the country's balance of payments position. Drawings were made under 15 of the 23 Stand-By and Extended Arrangements in place during the year, reflecting use of precautionary

Stand-By Arrangements as well as reviews that were not completed (see Appendix II, Table II.3). At the end of April 2004, undrawn balances under the arrangements still in effect amounted to SDR 19.8 billion.

Table 7.1 Regular Loans Approved in FY2004

Member	Type of Arrangement	Date of Approval	Amount Approved ¹ (In millions of SDRs)
Argentina	3-year Stand-By	September 20, 2003	8,981.0
Brazil	Augmentation of Stand-By	December 12, 2003	4,554.0
Dominican Republic	2-year Stand-By	August 29, 2003	437.8
Guatemala	9-month Stand-By	June 19, 2003	84.0
Paraguay	15-month Stand-By	December 15, 2003	50.0
Ukraine	1-year Stand-By	March 29, 2004	411.6
			14,518.4

¹For augmentations, only the amount of the increase is shown.

Lending

Improving global economic and financial conditions, combined with an accumulation of foreign exchange reserves by many emerging market economies, contributed to a decline in new IMF commitments, from SDR 29.4 billion in FY2003 to SDR 14.5 billion in FY2004.¹

The IMF approved five new Stand-By Arrangements and one augmentation of an existing Stand-By Arrangement

¹As of April 30, 2004, SDR 1 = US\$1.45183.

²Another facility, the Contingent Credit Lines facility, was allowed to expire on its scheduled sunset date of November 30, 2003.

³At the same time, the IMF extended repurchase expectations arising in FY2004 and FY2005 in the amount of SDR 1.9 billion.

⁴At the same time, the IMF extended repurchase expectations arising in FY2005, FY2006, and FY2007 in the amount of SDR 8.1 billion.

IMF credit outstanding reached an all-time high of SDR 70 billion in September 2003, with disbursements in the first months of the financial year to Argentina, Brazil, Indonesia, Turkey, and Uruguay, but declined rapidly in the second half of FY2004. During FY2004, total repayments reached SDR 21.6 billion—including large repayments by Argentina, Brazil, Russia, and Turkey and advance repayments by Thailand (SDR 0.1 billion), which eliminated its outstanding IMF credit—exceeding the SDR 17.8 billion disbursed by the IMF in loans from the GRA. As a result, IMF credit outstanding amounted to SDR 62.2 billion at the end of the financial year, SDR 3.5 billion less than a year earlier.

During the year, five members—Bosnia and Herzegovina, Brazil, Pakistan, Romania, and Turkey—made repayments on the expectations schedule (see Box 7.2) in the amount of SDR 10.8 billion, of which SDR 8.4 billion constituted SRF repayments by Brazil.⁵ Six members requested and were granted extensions of repurchase expectations (Table 7.2).⁶ As of April 30, 2004, IMF outstanding credit amounting to SDR 30.6 billion was subject to time-based repurchase expectations under the policies adopted in November 2000.

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.⁷ General reviews of IMF quotas, during which adjustments may be proposed in the overall size and distribution of quotas to reflect developments in the world economy, are conducted at five-year intervals. A member's quota can also be adjusted separately from a general review to take account of major developments. The IMF can borrow to supplement its quota resources and has in place two formal borrowing arrangements (Box 7.3).

Only a portion of the paid-in capital is readily available to finance new lending because of previous commitments made by the IMF and the IMF policy of lending only in the

Table 7.2 IMF Extension of Repurchase Expectations in FY2004

Member	Period Covered by Extension ¹	Date of Approval	Amount Extended (in millions of SDRs)
Argentina	September 03–September 04	September 20, 2003	1,940.7
Brazil	March 05–December 06	December 12, 2003	8,096.1
Papua New Guinea	July 03–June 04	June 4, 2003	26.0
Serbia and Montenegro	September 03–December 03	July 30, 2003	18.8
Turkey	May 04–November 05	August 1, 2003	8,273.4
Uruguay	June 04–December 04	February 20, 2004	226.6
			18,581.6

¹The period in which extended repurchases were originally due.

currencies of members that are financially strong. The IMF's base of usable resources increased during FY2004 because Thailand was considered sufficiently strong for its currency to be included in the IMF's financial transactions plan. (See Box 7.4.)

The IMF's liquidity position remained adequate to meet the needs of its members throughout the year. Following a strengthening in the first part of FY2004, the one-year forward commitment capacity of the IMF declined, primarily because of the IMF's large new commitments to Argentina and Brazil. (See Box 7.5.) It regained some ground toward the end of the financial year. (See Figure 7.1.) Overall, the one-year forward commitment capacity fell slightly in FY2004, to SDR 58 billion on April 30, 2004, compared with SDR 61 billion a year earlier.

Box 7.2 Expectations Versus Obligations

The IMF's Articles of Agreement (Article V, Section 7(b)) specify that members are expected to make "repurchases" (repayments of loans) as their balance of payments and reserve position improves. To encourage early repayment, the review of Fund facilities carried out in FY2001 introduced *time-based repurchase expectations* on "purchases" (loan disbursements) made after November 28, 2000, in the credit tranches, under the Extended Fund Facility, and under the Compensatory Financing Facility. Purchases under the Supplemental Reserve Facility have been subject to repurchase expectations since that facility's inception; in March 2003, the maturities of SRF expectations and obligations were extended by one year and six months, respectively. The expectations schedule entails earlier repayments than the original obligations schedule, as shown in the table.

The time-based repurchase expectations can be extended upon request by members.

Credit Facility	Obligations Schedule (Years)	Expectations Schedule (Years)
Stand-By Arrangements	3¼–5	2¼–4
Compensatory Financing Facility (CFF)	3¼–5	2¼–4
Extended Fund Facility (EFF)	4½–10	4½–7
Supplemental Reserve Facility (SRF)	2½–3	2–2½

⁵Repurchase expectations were introduced at the time of a review of IMF facilities completed in FY2001 (see Box 7.2).

⁶In FY2003, repurchase expectations falling due in FY2004 were extended for Argentina, Ecuador, Sri Lanka, and Uruguay.

⁷Quotas also determine a country's voting power in the IMF, its access to IMF financing, and its share in SDR allocations.

Box 7.3 IMF Borrowing Arrangements

The IMF can borrow to supplement its quota-based resources. It maintains two standing borrowing arrangements with official lenders: the General Arrangements to Borrow (GAB) and the New Arrangements to Borrow (NAB). The IMF can also borrow from private markets, although it has never done so. The GAB was established in 1962 to forestall or cope with an impairment of the international monetary system. The potential amount of credit available to the IMF under the GAB is SDR 17 billion to be provided by 11 industrial countries (or their central banks). An additional SDR 1.5 billion is available under an associated agreement with Saudi Arabia. The latest activation of the GAB took place in July 1998. The NAB, which took effect in November 1998, was established for a similar purpose. Under the NAB, 26 participants (member countries and official institutions) have agreed to provide up to SDR 34 billion to the IMF. The NAB has been activated once, in December 1998.

The NAB is the first and principal recourse in the event the IMF needs supplementary resources, but the GAB is also available if needed. The maximum amount of credit available to the IMF under the NAB and GAB combined is SDR 34 billion. In November 2002, both the NAB and the GAB were renewed for five years beginning November and December 2003, respectively. As of April 30, 2004, the IMF had no outstanding debt.

A more detailed description of the GAB and the NAB is available in *Annual Report 2003*, pages 70 and 71.

Concessional Financing Activities

The IMF provides concessional assistance—that is, financing with below-market interest rates and long maturities—under the Poverty Reduction and Growth Facility (PRGF) to help its poorest members boost economic growth and reduce poverty. It also makes grants to eligible members under the Initiative for Heavily Indebted Poor Countries (HIPC) to help alleviate excessive debt burdens. A total of 36 member countries received disbursements under the PRGF during FY2004, and, by end-April 2004, 27 countries

Table 7.3 PRGF Loans Approved in FY2004

Member	Type of Arrangement	Date of Approval	Amount Approved (In millions of SDRs)
Bangladesh	3-year PRGF	June 20, 2003	347.0
Burkina Faso	3-year PRGF	June 11, 2003	24.1
Burundi	3-year PRGF	January 23, 2004	69.3
Dominica	3-year PRGF	December 29, 2003	7.7
Ghana	3-year PRGF	May 9, 2003	184.5
Honduras	3-year PRGF	February 27, 2004	71.2
Kenya	3-year PRGF	November 21, 2003	175.0
Mauritania	3-year PRGF	July 18, 2003	6.4
Nepal	3-year PRGF	November 19, 2003	49.9
Tanzania	3-Year PRGF	August 16, 2003	19.6
			954.7
Madagascar	Augmentation	March 17, 2004	12.2

Box 7.4 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 a country's balance of payments and reserves, trends in exchange rates, and the size and duration of its external debt obligations.

The amounts transferred and received by these members are managed to ensure that their creditor positions in the IMF are broadly equal in relation to their quotas, the key measure of members' 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 each quarter three months after the quarter has ended. As of April 30, 2004, the 45 members listed below were participating in financing IMF transactions.

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

had received financial commitments under the enhanced HIPC Initiative.

Poverty Reduction and Growth Facility

In 1999, the IMF modified its objectives for concessional lending 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) prepared with the participation of civil society and other development partners. Reflecting its new objectives and procedures, the IMF replaced its Enhanced Structural Adjustment Facility (ESAF) with the PRGF to provide financing under arrangements developed in the context of PRSPs.

During FY2004, the Executive Board approved 10 new PRGF arrangements for Bangladesh, Burkina Faso, Burundi, Dominica, Ghana, Honduras, Kenya, Mauritania, Nepal, and Tanzania, with commitments totaling SDR 955 million (Table 7.3). In addition, the Board approved an augmentation of the existing arrangements for Madagascar in

the amount of SDR 12.2 million to help the country recover from the economic impact of a cyclone. Total PRGF disbursements to these countries and other countries with existing arrangements amounted to SDR 865 million during FY2004. As of April 30, 2004, 36 member countries' reform programs were supported by PRGF arrangements, with total commitments of SDR 4.4 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 and financed by contributions from a broad spectrum of the IMF's membership and the IMF itself.⁸ The PRGF Trust borrows funds at market or below-market interest rates from central banks, governments, and government institutions and lends these funds to PRGF-eligible member countries at an annual interest rate of 0.5 percent. The PRGF Trust receives contributions that subsidize the rate of interest on PRGF loans and maintains a Reserve Account as security for loans to the Trust. The PRGF-HIPC Trust was established to subsidize PRGF operations during 2002–05 and also provides resources for HIPC Initiative assistance.

As of April 30, 2004, SDR 15.8 billion had been made available for PRGF operations; of this amount, SDR 13 billion had been committed and SDR 11 billion had been disbursed. It is estimated that the remaining uncommitted SDR 2.7 billion should cover the projected annual commitments of about SDR 1.3 billion under new PRGF arrangements through 2005, slightly above the average annual historical commitments. During FY2004, the IMF's Executive Board held discussions on the IMF's future role in low-income member countries and explored various financing options to continue the IMF's concessional lending after 2005. Most Executive Directors supported an

⁸For a fuller account of the sources of funds for IMF concessional lending operations, see *Financial Organization and Operations of the IMF*, Pamphlet No. 45, 6th ed. (Washington: International Monetary Fund, 2001), available online at www.imf.org/external/pubs/ft/pam/pam45/contents.htm.

Box 7.5 Forward Commitment Capacity—A Measure of Lending Capacity

The main measure of the IMF's liquidity is its forward commitment capacity—a measure of its capacity to make new loans. The one-year forward commitment capacity, which indicates the amount of quota-based resources available for new lending over the following 12 months, has replaced the traditional liquidity ratio as the primary measure of the IMF's liquidity.

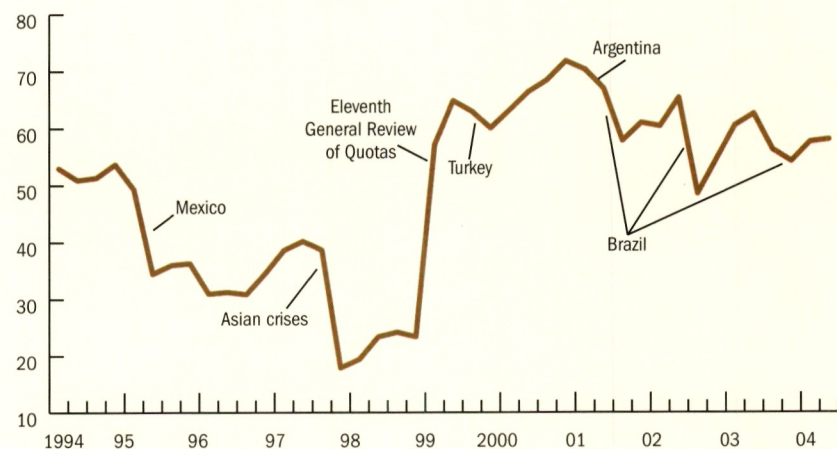
The one-year forward commitment capacity is defined as the IMF's stock of usable resources less undrawn balances under existing arrangements, plus projected repayments during the coming 12 months, less a prudential balance intended to safeguard the liquidity of creditors'

claims and to take account of any potential erosion of the IMF's resource base. The IMF's usable resources consist of its holdings of SDRs and of the currencies of financially strong members included in the financial transactions plan. The prudential balance is calculated as 20 percent of the quotas of members included in the financial transactions plan and of any amounts activated under borrowing arrangements.

Information on the one-year forward commitment capacity is published weekly (*Financial Activities: Week-at-a-Glance*) and monthly (*Financial Resources and Liquidity*) on the IMF's website at www.imf.org/external/fin.htm.

Figure 7.1 One-Year Forward Commitment Capacity, 1994–April 2004

(In billions of SDRs)



Source: IMF Finance Department.

Note: The IMF started publishing data for FCC in December 2002. For earlier periods, the chart shows estimates of the FCC. The FCC increases when quota payments are made and decreases when the IMF makes new financial commitments. The references to member countries and the Asian crises note selected large financial commitments by the IMF to members and groups of members.

option that would allow a self-sustained PRGF to begin in 2006, supplementing its lending capacity with new bilateral loans (see Box 7.6).

Enhanced HIPC Initiative

Originally launched by the IMF and World Bank in 1996, the HIPC Initiative was considerably strengthened in 1999 to provide deeper, faster, and broader debt relief for the world's heavily indebted poor countries. By April 30, 2004, 27 HIPC-eligible members had reached their decision points under the enhanced Initiative and one (Côte d'Ivoire) under the original Initiative only. Of these coun-

tries, 13 had reached their completion points under the enhanced Initiative (see also Section 4).

The IMF provides HIPC Initiative assistance in the form of grants that are used to service part of member countries'

Table 7.4 Status of Commitments of IMF HIPC Assistance

(In millions of SDRs; as of April 30, 2004)

Member	Decision Point	Completion Point	Amount Committed	Amount Disbursed ¹
Under the original HIPC Initiative				
Bolivia	Sep. 1997	Sep. 1998	21.2	21.2
Burkina Faso	Sep. 1997	Jul. 2000	16.3	16.3
Côte d'Ivoire	Mar. 1998	—	16.7 ²	—
Guyana	Dec. 1997	May 1999	25.6	25.6
Mali	Sep. 1998	Sep. 2000	10.8	10.8
Mozambique	Apr. 1998	Jun. 1999	93.2	93.2
Uganda	Apr. 1997	Apr. 1998	51.5	51.5
Total Original HIPC			235.3	218.6
Under the enhanced HIPC Initiative				
Benin	Jul. 2000	Mar. 2003	18.4	20.1
Bolivia	Feb. 2000	Jun. 2001	41.1	44.2
Burkina Faso	Jul. 2000	Apr. 2002	16.7 ³	18.1
Cameroon	Oct. 2000	Floating	28.5	5.5
Chad	May 2001	Floating	14.3	7.2
Congo, Dem. Rep. of	Jul. 2003	Floating	228.3 ⁴	1.1
Ethiopia	Nov. 2001	Apr. 2004	26.9 ⁵	26.9
Gambia, The	Dec. 2000	Floating	1.8	0.1
Ghana	Feb. 2002	Floating	90.1	25.1
Guinea	Dec. 2000	Floating	24.2	5.2
Guinea-Bissau	Dec. 2000	Floating	9.2	0.5
Guyana	Nov. 2000	Dec. 2003	31.1	34.0
Honduras	Jun. 2000	Floating	22.7	8.8
Madagascar	Dec. 2000	Floating	16.6	5.6
Malawi	Dec. 2000	Floating	23.1	6.9
Mali	Sep. 2000	Mar. 2003	34.7	38.5
Mauritania	Feb. 2000	Jun. 2002	34.8	38.4
Mozambique	Apr. 2000	Sep. 2001	13.7	14.8
Nicaragua	Dec. 2000	Jan. 2004	63.5	71.2
Niger	Dec. 2000	Apr. 2004	21.6 ⁶	21.6
Rwanda	Dec. 2000	Floating	33.8	10.0
São Tomé and Príncipe	Dec. 2000	Floating	—	—
Senegal	Jun. 2000	Apr. 2004	33.8	33.8
Sierra Leone	Mar. 2002	Floating	98.5	62.0
Tanzania	Apr. 2000	Nov. 2001	89.0	96.4
Uganda	Feb. 2000	May 2000	68.1	70.2
Zambia	Dec. 2000	Floating	468.8	351.6
Total enhanced HIPC			1,553.3	1,017.8
Grand total			1,788.6	1,236.4

¹Includes interest on amounts committed under the Enhanced HIPC Initiative.

²Equivalent to the committed amount of US\$22.5 million at decision point exchange rates (March 17, 1998).

³Excludes commitment of additional enhanced HIPC assistance of SDR 10.93 million subject to receipt of satisfactory financing assurances from other creditors.

⁴Amount committed is equivalent to the remaining balance of the total IMF HIPC assistance of SDR 337.9 million, after deducting SDR 109.6 million representing the concessional element associated with the disbursement of a PRGF loan following the DRC's clearance of arrears to the IMF on June 12, 2002.

⁵Excludes commitment of additional enhanced HIPC assistance of SDR 18.19 million subject to receipt of satisfactory financing assurances from other creditors.

⁶Excludes commitment of additional enhanced HIPC assistance of SDR 9.664 million subject to receipt of satisfactory financing assurances from other creditors.

debt to the institution. As of April 30, 2004, the IMF had committed SDR 1.8 billion in grants to the following countries: Benin, Bolivia, Burkina Faso, Cameroon, Chad, Côte d'Ivoire, the Democratic Republic of Congo, 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. Five members (Ethiopia, Guyana, Nicaragua, Niger, and Senegal) reached their completion points under the enhanced HIPC Initiative during FY2004. As of April 30, 2004, total disbursements of HIPC Initiative assistance by the IMF amounted to SDR 1.2 billion (Table 7.4).

During FY2004, the IMF also approved additional HIPC assistance ("topping up") to Ethiopia and Niger at their completion points on account of exogenous factors deemed to have fundamentally changed these members' economic circumstances and adversely affected their debt sustainability. With topping-up assistance for Burkina Faso (approved in FY2002) included, total additional HIPC assistance for the three members amounted to SDR 38.8 million, to be disbursed once satisfactory financing assurances from other creditors are in place.

Under the enhanced HIPC Initiative, a portion of the assistance committed at the decision point can be disbursed before the country reaches its completion point. Such assistance from the IMF may amount to up to 20 percent annually, with a cumulative maximum of 60 percent of the total committed amount of HIPC assistance. In exceptional circumstances, the annual and maximum amounts of assistance can be raised to 25 percent and 75 percent, respectively. During FY2004, SDR 63.8 million of interim assistance was disbursed to 13 countries.

Financing of PRGF Subsidies and the HIPC Initiative

The financing of the subsidy requirements of the PRGF and the IMF's participation in the enhanced HIPC Initiative is administered through the PRGF Trust and the PRGF-HIPC Trust. The total cost is estimated at SDR 7.1 billion on a cash basis through 2019: PRGF subsidies are estimated at SDR 4.9 billion, and the IMF's cost of HIPC assistance is estimated at SDR 2.2 billion. These costs are expected to be fully met by contributions from member countries and from the IMF itself.

Bilateral pledges for the PRGF Trust and the PRGF-HIPC Trust from member countries have come from a cross section of the IMF's membership (94 countries have pledged support), demonstrating broad support for the PRGF and the HIPC Initiative. Bilateral contributions are estimated at SDR 3.7 billion on a cash basis through 2019.

As of the end of April 2004, all pledged bilateral contributions to the PRGF Trust, as well as 98 percent of total contributions to the PRGF-HIPC Trust, had been made available. Pledged contributions by 10 countries, amounting to about SDR 32 million, remain pending.

The IMF's own contributions amount to SDR 2.6 billion, of which SDR 2.2 billion is for the PRGF-HIPC Trust. The bulk of the contributions comes from the investment income on the net proceeds of SDR 2.2 billion generated from off-market gold transactions in 1999–2000 (see *Annual Report 2000*, page 71). The investment income on the gold proceeds held in the Special Disbursement Account (SDA) may be used up to a maximum limit of SDR 1.76 billion to meet the IMF's share of HIPC Initiative assistance.

The IMF's other contributions include a one-time transfer of SDR 0.4 billion from the SDA to the PRGF Trust in 1994 and forgone reimbursement to the GRA from the PRGF Reserve Account for the administrative expenses related to PRGF operations during financial years 1998–2004, with the equivalent amount being transferred to the PRGF-HIPC Trust. In addition, part of the interest surcharges on financing provided in 1998 and 1999 under the Supplemental Reserve Facility, related to activation of the New Arrangements to Borrow, were transferred to the PRGF-HIPC Trust. Investment income on the balances in the two trusts is also applied toward financing PRGF loan subsidies and HIPC Initiative assistance.

Investment of PRGF, PRGF-HIPC, and SDA Resources

The IMF invests assets supporting the PRGF subsidies and the HIPC Initiative in a diversified portfolio of fixed-income securities issued by governments and international financial institutions. As of April 30, 2004, the value of these assets totaled SDR 9.7 billion.

In March 2000, the IMF's Executive Board endorsed investment objectives and risk-tolerance parameters designed to supplement returns over time while maintaining prudent

Box 7.6 Financing PRGF Operations over the Medium Term

In March 2004, the IMF's Executive Board concluded its discussions of the staff paper "The Fund's Support of Low-Income Member Countries: Considerations on Instruments and Financing."

The paper provided a preliminary assessment of the potential magnitude of the financial resources required to support the IMF's continued involvement in low-income member countries. The staff's analysis indicated that (1) for 2004–05, the remaining period of the interim PRGF, available PRGF resources are likely to be sufficient to cover projected requirements; (2) for 2006–10, the focus of the paper, the projected financing needs would require a PRGF lending capacity of SDR 0.8–1.2 billion (about \$1.2–1.8 billion) a year, which is in line with lending levels of the recent past; and (3) beyond 2010, financing requirements for PRGF operations may decline, but it would remain important for the IMF to maintain the financing capacity to address low-income members' balance of payments needs.

The paper considered the following options for continuing the IMF's concessional financing over the medium term:

- Three options—the self-sustained PRGF, sunsetting of the PRGF (allowing it to expire), and grants—that rely solely on the resources accumulating in the Reserve Account of the PRGF Trust were considered. These alternatives would not provide sufficient financing to meet the projected

annual requirements of SDR 0.8–1.2 billion in 2006–10.

- Options that involve using the Reserve Account resources to subsidize the rate of charge on General Resources Account credit under arrangements similar to those financed by the Extended Fund Facility could accommodate the projected level of financing requirements but would represent a break with the current funding structure of the IMF's concessional operations through trust arrangements.
- An option that allows a self-sustained PRGF to begin operations in 2006 while supplementing its lending capacity with new bilateral loan resources would provide sufficient flexibility to meet the projected financing requirements in 2006–10. This option would also provide for the continuation of self-sustained PRGF operations at a significant level beyond 2010.

Most Directors agreed that a financing capacity on the order of SDR 0.8–1.2 billion annually would provide a reasonable basis for PRGF lending operations during 2006–10. Nearly all Directors agreed that the three financing options that would rely solely on the resources in the Reserve Account of the PRGF Trust would be insufficient to meet the projected financing needs. Most instead supported the option that would allow a self-sustained PRGF to begin operations in 2006 while supplementing its lending capacity with new bilateral loans.

limits on risk.⁹ Under this revised investment strategy, about half the assets were invested in bond portfolios, for which a duration benchmark of 1–3 years was established. The remaining assets were invested in short-term deposits to serve as a liquidity tranche and to conform with the administrative arrangements agreed with certain contributors. Currency risk is minimized by limiting purchases to securities denominated in the four currencies of the SDR basket (euros, Japanese yen, pound sterling, and U.S. dollars), with regular rebalancing of the basket weights to reflect currency movements. The World Bank and two private external managers are currently charged with investing the bond portfolio assets, consistent with the investment mandate

⁹Prior to this shift in investment strategy, these assets had been invested in short-term SDR-denominated deposits with the Bank for International Settlements.

and benchmark indices, while the remaining assets are held in SDR-denominated deposits and medium-term instruments with the Bank for International Settlements (BIS).

A tactical decision to shorten the bond portfolio duration was made in early 2002, in the face of historically low yields in the markets of the SDR basket currencies. For the year ended April 30, 2004, the annual return on the portfolio was 1.7 percent, down from 2.4 percent a year earlier. In the four years that the investment strategy has been in place, the annual portfolio return has averaged 3.7 percent.

Post-Conflict Emergency Assistance

The IMF provides emergency assistance to post-conflict countries, in the form of loans subject to the IMF's basic rate of charge. An administered account was established on May 4, 2001, for contributions by bilateral donors that would enable the IMF to provide such assistance at a subsidized rate of charge of 0.5 percent a year for countries eligible for PRGF assistance. During FY2004, one country, Burundi, received SDR 9.6 million in emergency assistance. As of April 30, 2004, total pledged grant contributions from seven countries amounted to SDR 11.2 million, of which SDR 9.6 million had been received (Table 7.5). Thus far, disbursements have totaled SDR 1.9 million to subsidize the rate of charge on post-conflict emergency assistance for seven countries (Albania, Burundi, the Republic of Congo, Guinea-Bissau, Rwanda, Sierra Leone, and Tajikistan). Of these, only two countries—the Republic of Congo and Guinea-Bissau—still have outstanding balances on post-conflict emergency assistance.

In March 2004, the IMF's Executive Board broadly endorsed a proposal to subsidize the rate of charge for emergency assistance offered to PRGF-eligible countries hit by natural disasters, as is currently done for post-conflict PRGF-eligible countries, provided that resources are available. This proposal is expected to be finalized during FY2005.

Table 7.5 Contributions to Subsidize Post-Conflict Emergency Assistance

(In millions of SDRs, as of April 30, 2004)

Contributor	Contribution Pledged	Contribution Received	Subsidy Disbursed
Belgium	0.6	0.6	0.3
Canada	1.6	1.0	—
Netherlands	1.5	1.5	—
Norway	3.0	2.0	—
Sweden	0.8	0.8	0.8
Switzerland	0.8	0.8	—
United Kingdom	2.9	2.9	0.8
Total	11.2	9.6	1.9

Note: Dashes denote zero.

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, pay for administrative expenses, and build up precautionary balances. The IMF's reliance on quota subscriptions and internally generated resources provides 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.

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 (see the subsection on SDR developments below) 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 income and expense projections for the year and can be adjusted at midyear if actual net income to that point indicates that income for the year as a whole is likely to deviate significantly from the projections. At the end of the financial year, any income in excess of the target is refunded to the members that paid charges during the year; shortfalls are made up in the following year, in accordance with Board decisions currently in effect.

The IMF imposes surcharges based on the level of credit outstanding on loans extended after November 28, 2000, to discourage unduly large use of credit in the credit tranches and under Extended Arrangements. The IMF also imposes surcharges on shorter-term loans under the Supplemental Reserve Facility. These surcharges vary according to the length of time credit is outstanding. Income derived from surcharges is placed in the IMF's reserves, and the IMF does not take it into account in determining the net 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 on Stand-By Arrangements and Extended Fund Facility credits, payable at the beginning of each 12-month period, is charged on the amounts that may be drawn during that period, including amounts available under the SRF. 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 payments of overdue principal and on 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 100 percent of the SDR interest rate (the maximum permitted under the Articles of Agreement), but it may be set as low as 80 percent of that rate (the minimum).

Since 1986, the rates of charge and remuneration have been adjusted under 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 by increasing the rate of charge and reducing 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 arrears. In FY2004, 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 8 basis points and a reduction in the rate of remuneration of 9 basis points. The adjusted rates of charge and remuneration averaged 2.17 percent and 1.49 percent, respectively, for the financial year.

In April 2003, the basic rate of charge for FY2004 was set at 132.0 percent of the SDR interest rate to allow the IMF to achieve the agreed net income target of SDR 108 million (excluding income from surcharges). In the event, net income amounted to SDR 73 million, which fell short of the target by SDR 35 million, owing mainly to the decline in the SDR interest rate and lower-than-expected use of credit during the year, which were partly offset by lower administrative expenditures in SDR terms. In accordance with the decisions made by the Board at the beginning of FY2004, this shortfall is to be recovered by a corresponding increase in the net income target for FY2005, which is set at SDR 191 million. Income derived from SRF and level-based surcharges amounted to SDR 848 million in FY2004. Adjusted for expenses associated with administering the PRGF Trust (SDR 58 million)¹⁰ and the cost of pension and other post-retirement provisions (SDR 39 million), total net income for the year amounted to SDR 824 million. This amount was added to the IMF's reserves, of which SDR 790 million (equivalent to the surcharge income *minus* the cost of administering the PRGF Trust) went to the General Reserve and the remainder to the Special Reserve.

¹⁰As initially agreed in 1999, the IMF is not reimbursed for the expenses of administering the PRGF Trust; instead, an equivalent amount is transferred from the PRGF Trust, through the Special Disbursement Account, to the PRGF-HIPC Trust.

In April 2004, the Executive Board set the basic rate of charge for FY2005 at 154 percent of the SDR interest rate. The Executive Board has also decided to conduct a comprehensive review of the IMF's finances and financing mechanism before the end of 2004.

Financial Risk Management and Precautionary Balances

During FY2004, in view of continued high concentration of credit and adverse developments in a large borrower's economy, the Executive Board considered issues related to both the way the IMF manages financial risk and the level of the Fund's precautionary balances. The IMF mitigates financial risk by rigorously implementing the policies governing the use of its resources and carefully managing its liquidity, while accumulating adequate precautionary balances.¹¹

Financial Risk Management

The principal financial risks faced by the IMF stem from large arrangements with middle-income countries. As of end-April 2004, three countries (Argentina, Brazil, and Turkey) accounted for some 71 percent of all General Reserve Account credit outstanding, and these three plus Indonesia and the Russian Federation accounted for 86 percent. The IMF's Articles of Agreement charge the IMF with assisting a cooperating member—including in very difficult circumstances. As a result, the size of the IMF's loan portfolio can change dramatically in a short time, as can assessments of the riskiness of the IMF's loan portfolio. Sound risk management requires the IMF to be prepared for the possibility of payments disruptions, which could arise from the increase in, and concentration of, its outstanding credit. However, in view of the cooperative nature of the Fund and its role in promoting global stability as a public good, diversification of lending is not, and cannot be, an objective of the Fund.

While the specific features of the IMF's institutional framework and financing role suggest that high credit concentration is inevitable in an uncertain world, such concentration does not embody the same degree of risk for the IMF as for other financial institutions. Important for mitigating financial risk is the IMF's preferred creditor status—that is, members giving priority to repayment of their obligations to the IMF over those to other creditors—which is fundamental to the IMF's role in the international financial system and to the IMF's financing mechanism. Its preferred creditor status has allowed the IMF to take the necessary risk to provide financial assistance to members

¹¹For more details, see the IMF's website at www.imf.org/external/np/sec/pn/2004/pn0416.htm.

in exceptionally difficult balance of payments situations, in support of their efforts to implement strong adjustment policies without resorting to measures destructive of national and international prosperity.

On a different level, the IMF's policies on access to, and use of, IMF resources are, along with effective crisis prevention and conditionality in support of strong country-owned programs, the most important elements of the IMF's risk-management framework. An IMF member's commitment to adopt sound economic policies, the IMF's conditionality, and the safeguards in place (including an assessment of the member's ability to repay the IMF) reduce the risk to the IMF of lending and of credit concentration.

The profound changes in the IMF's lending policies in recent years in response to the changing global environment and the growing financial interdependence of members led to the adoption of the framework for exceptional access in 2003 as a key pillar of the IMF's enhanced risk-management framework. Firm application of the criteria governing exceptional access to IMF resources and rigorous assessments of the risks to the IMF arising from high access and of the member's capacity to repay are crucial for effective risk management. In addition, it is the responsibility of IMF members benefiting from financial assistance to pay the IMF back as soon as temporary balance of payments problems are resolved. Incentives to do so include the IMF's surcharges and the presumption that exceptional access will be on SRF terms.

Precautionary Balances

To safeguard its financial position, the IMF has a policy of accumulating precautionary financial balances in the Gen-

Box 7.7 Twelfth and Thirteenth General Reviews of Quotas

The IMF normally conducts general reviews of members' quotas every five years to assess the adequacy of its resource base and to adjust the quotas of individual members to reflect changes in their relative positions in the world economy. The Board completed the Twelfth General Review of Quotas on January 30, 2003, without proposing an increase (or adjustments), which leaves the maximum size of the quotas unchanged at SDR 213.7 billion.

During the Thirteenth General Review, which began with the completion of the Twelfth Review, the IMF's Executive Board will monitor closely and assess the adequacy of IMF resources, consider measures to achieve a distribution of quotas that reflects developments in the world economy, and explore ways to strengthen the governance of the IMF. The International Monetary and Financial Committee (IMFC) in April 2004 called on the Executive Board to continue its work on IMF quotas, voice, and representation, and report on progress at the IMFC's next meeting in the fall of 2004.

eral Resources Account. These precautionary balances consist of reserves and a Special Contingent Account (SCA-1, see previous subsection). Reserves provide the IMF with protection against financial risks, including income losses and losses of a capital nature. The SCA-1 was established as an additional layer of protection against the adverse financial consequences of protracted arrears.

Existing precautionary balances have been financed through the retention of income and the burden-sharing mechanism (see previous subsection). The net income and the income from surcharges to the Special and General Reserves are added to reserves. Under the Articles of Agreement, the resources in the General Reserve may be distributed by the IMF to members on the basis of their quota shares. The IMF may use the Special Reserve for any purpose for which it may use the General Reserve except distribution. Total reserves increased to SDR 5.1 billion as of April 30, 2004, from SDR 4.3 billion a year earlier. The balance in the SCA-1 amounted to SDR 1.5 billion, compared with overdue principal of SDR 0.7 billion. SCA-1 resources are to be refunded after all arrears have been cleared but can be refunded earlier by a decision of the Executive Board.

In February 2004, the Executive Board reconfirmed as broadly appropriate the decision taken in 2002 for a target level of precautionary financial balances of some SDR 10 billion. It was agreed that the adequacy of the level of precautionary balances and the pace of accumulation, as well as the application of the burden-sharing mechanism, will need to be kept under close review.

Quota Developments

Since the IMF's liquidity position was adequate during the year and the Thirteenth General Review of Quotas (see Box 7.7) is at an early stage, there were only a few noteworthy quota developments in FY2004.

In July 2003, Executive Directors discussed further a number of issues related to the distribution of quotas of IMF members.¹² The discussion confirmed broad support for a quota formula that is simpler and more transparent than the traditional formula. Directors noted that the preliminary results of calculating quotas using variables broadly endorsed for inclusion in a new quota formula would not lead to a significant change in calculated quota shares across country groups, but a new quota formula would make it easier to measure how out-of-line the quotas of individual countries are relative to the size of their economies. As they

¹²For more details, see the IMF's website at www.imf.org/external/np/sec/pn/2003/pn03106.htm.

discussed how best to move forward to achieve adjustments in quota shares, Directors observed that, historically, significant adjustments in quota shares tended to take place in the context of general quota increases. Therefore, most Directors saw merit in a package that would involve a general quota increase; ad hoc quota increases aimed at addressing the clearest cases of shares that are out of line; and an increase in basic votes specifically aimed at correcting the erosion of the voting power of the smallest members. Most Directors recognized that, in view of the IMF's satisfactory liquidity position, there was no immediate need for a quota increase.

As of April 30, 2004, 179 member countries accounting for 99.46 percent of total quotas proposed in 1998 under the Eleventh General Review of Quotas had consented to, and paid for, their proposed quota increases. All member countries eligible to consent had done so by the end of the financial year, and four member countries were ineligible to consent to their proposed increases because they were in arrears to the IMF. On January 28, 2004, the Executive Board approved an extension of the period for consent to, and payment of, quota increases under the Eleventh Review to July 31, 2004. At the close of the financial year, total quotas amounted to SDR 212.8 billion.

SDR Developments

The SDR is a reserve asset created by the IMF in 1969 to meet a long-term global need to supplement existing reserve assets. SDRs are allocated to members in proportion to their IMF quotas. 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 uses its allocated SDRs pays the SDR interest rate on the portion used, 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—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 a weighted average of interest rates on short-term instruments in the markets for the currencies in the valuation basket (see Box 7.8). 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. In addition, the SDR serves as the unit of account for the IMF and a number of other international organizations.

Box 7.8 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-year intervals. Following completion of the latest review, in FY2001, 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 are widely traded in the principal foreign exchange markets. Currencies selected for inclusion in the SDR basket for 2001–2005 are the U.S. dollar, the euro, the Japanese yen, and the pound sterling (see table).

Interest rate

Since the method for determining the SDR interest rate was reviewed in FY2001, the weekly interest rate has been determined on the basis of a weighted average of interest rates (expressed as equivalent annual bond yields) on short-term instruments in the markets for the currencies included in the SDR valuation basket, namely the three-month Euribor (Euro Interbank Offered Rate), Japanese Government thirteen-week financing bills, three-month U.K. Treasury bills, and three-month U.S. Treasury bills. During FY2004, the SDR interest rate evolved in line with developments in the major money markets, declining to as low as 1.49 percent in July 2003, its lowest level on record, before gradually increasing to 1.62 percent at the end of April 2004. Over the course of FY2004, the SDR interest rate averaged 1.58 percent (see figure).

SDR Valuation, as of April 30, 2004

	Amount of Currency	Exchange Rate ¹	U.S. Dollar Equivalent ²
Euro	0.4260	1.19680	0.509837
Japanese yen	21.0000	110.23000	0.190511
Pound sterling	0.0984	1.77320	0.174483
U.S. dollar	0.5770	1.00000	0.577000
			1.451831

Memorandum:

SDR 1 = US\$1.451831

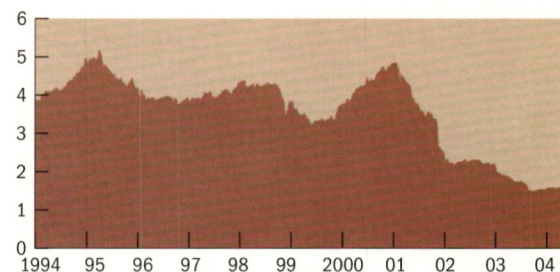
US\$1 = SDR 0.688785

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

²Rounded to six digits.

SDR Interest Rate, 1994–April 2004

(In percent)



There are two types of SDR allocations:

- *General allocations.* Decisions on general allocations of SDRs are made for successive basic periods of up to five years 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 members' total voting power. Two general allocations have been approved. The first was distributed in 1970–72, the second in 1979–81.
- *Special one-time allocations.* 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's membership, which joined after the last general allocation, 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 42.9 billion. The proposal will become effective when three-fifths of the IMF membership (111 members)

representing 85 percent of the total voting power have accepted the proposal. As of April 30, 2004, 131 members having 77.57 percent of the total voting power had agreed, and only acceptance by the United States was required to implement the proposal.

SDR Operations and Transactions

All SDR transactions are conducted through the SDR Department (which is a financial entity, not an organizational unit). SDRs are held largely by member countries and by official entities prescribed by the IMF to hold SDRs. The balance of allocated SDRs is held in the IMF's GRA. 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. 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 cer-

Table 7.6 Transfers of SDRs

(In millions of SDRs)

	Financial Years Ended April 30								
	1996	1997	1998	1999	2000	2001	2002	2003	2004 ¹
Transfers among participants and prescribed holders									
Transactions by agreement ²	8,931	7,411	8,567	13,817	6,639	5,046	3,669	2,858	1,140
Prescribed operations ³	1,951	88	86	4,577	293	544	290	1,186	228
IMF-related operations ⁴	704	606	901	756	684	922	866	1,794	925
Net interest on SDRs	319	268	284	289	214	302	228	162	117
Total	11,905	8,372	9,839	19,439	7,831	6,814	5,054	6,000	2,410
Transfers from participants to General Resources Account									
Repurchases	5,572	4,364	2,918	4,761	3,826	3,199	1,631	1,955	2,981
Charges	1,985	1,616	1,877	2,806	2,600	2,417	2,304	2,505	2,456
Quota payments	70	—	—	8,644	528	65	—	62	16
Interest received on General Resources Account holdings	53	51	44	35	138	118	56	31	18
Assessments	4	4	4	3	3	2	2	2	2
Total	7,683	6,035	4,844	16,249	7,094	5,801	3,993	4,555	5,472
Transfers from General Resources Account to participants and prescribed holders									
Purchases	6,460	4,060	4,243	9,522	3,592	3,166	2,361	2,215	3,500
Repayments of IMF borrowings	—	—	—	1,429	—	—	—	—	—
Interest on IMF borrowings	—	—	—	46	18	—	—	—	—
In exchange for other members' currencies									
Acquisitions to pay charges	49	224	20	545	1,577	1,107	1,130	1,598	1,398
Remuneration	1,092	1,055	1,220	1,826	1,747	1,783	1,361	1,175	947
Other	259	27	90	74	1,008	31	94	89	84
Total	7,859	5,366	5,574	13,442	7,942	6,087	4,945	5,077	5,929
Total transfers	27,448	19,773	20,256	49,130	22,867	18,702	13,991	15,632	13,811
General Resources Account holdings at end of period	825	1,494	764	3,572	2,724	2,437	1,485	963	506

Note: — denotes zero.

¹As of March 31, 2004, except GRA holdings, which are as of April 26, 2004.

²Transactions by agreement are transactions in which participants in the SDR Department (currently including 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.

³Operations 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.

⁴Operations 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.

tain limits.¹³ These arrangements have helped ensure the liquidity of the SDR system.¹⁴

Total transfers of SDRs decreased in FY2004 to SDR 13.8 billion, from SDR 15.6 billion in FY2003. The largest transfers of SDRs (SDR 49.1 billion) took place in FY1999, when the volume of SDR transactions increased significantly because of members' payments for quota increases (see Table 7.6).

By April 30, 2004, 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 0.5 billion from about SDR 1.0 billion a year earlier. SDRs held by prescribed holders amounted to SDR 0.4 billion. SDR holdings by participants increased to SDR 20.6 billion from SDR 19.9 billion in FY2003. SDR holdings of the industrial and net creditor countries relative to their net cumulative allocation increased from a year earlier. SDR holdings of nonindustrial members amounted to 76 percent of their net cumulative allocations, compared with 72 percent a year earlier.

Safeguards Assessments

In FY2004, the IMF continued its efforts to safeguard GRA, PRGF, and HIPC resources by conducting safeguards assessments of central banks of borrowing member countries. Safeguards assessments aim at providing reasonable assurance to the IMF that central banks have adequate frameworks of reporting, audit, and controls for managing their resources, including IMF disbursements (see Box 7.9). The IMF makes recommendations on how central banks can address the vulnerabilities identified in assessments, thereby permanently improving controls and operations. The safeguards policy focuses on central banks, since they are typically the recipients of IMF disbursements.

The safeguards assessment framework was adopted as a permanent IMF policy by the Executive Board in March 2002, after a two-year experimental period. 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.

¹³These include 12 IMF members and one prescribed holder. In addition, one member has established a one-way (selling only) arrangement with the IMF.

¹⁴Under 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. The designation mechanism has not been used since 1987, following the set up of the voluntary arrangements starting in 1986.

Box 7.9 Safeguards Assessment Policy: A Summary

Objective of Safeguards Assessments

- To provide reasonable assurance to the IMF that a central bank's control, accounting, reporting, and auditing systems and legal framework in place to manage resources, including IMF disbursements, are adequate to ensure the integrity of financial operations and reporting to the IMF.

Applicability of Safeguards Assessments

- Central banks with new arrangements for use of IMF resources approved after June 30, 2000; existing arrangements that are augmented; member countries following a Rights Accumulation Program (RAP) under which resources are being committed.
- Abbreviated assessments of only the external audit mechanism for member countries with arrangements in effect before June 30, 2000.
- Voluntary for members with staff-monitored programs.
- Not applicable to emergency assistance, first-credit-tranche purchases, and stand-alone CFFs.

Scope of Policy—ELRIC

- External Audit Mechanism;
- Legal Structure and Independence;
- Financial Reporting Framework;
- Internal Audit Mechanism; and
- Internal Controls System.

Publication References

The staff's papers and other background information concerning the safeguards policy are available at www.imf.org/external/fin.htm.

Safeguards assessments apply to all countries with arrangements for use of IMF resources approved after June 30, 2000, and are conducted whenever a new arrangement is presented to the IMF Executive Board for approval. Although safeguards assessments do not formally apply to countries with staff-monitored programs (SMPs), these countries are encouraged to undergo an assessment on a voluntary basis, since, in many cases, SMPs are followed by formal arrangements with the IMF. In FY2004, the Fund conducted 20 safeguards assessments of member countries' central banks, including one voluntary assessment, bringing the total number completed as of April 30, 2004, to 95. This total includes 27 abbreviated assessments that were conducted for arrangements in effect before June 30, 2000, and 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.

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, 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 previous safeguards assessments, 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 the central bank authorities on the steps needed to mitigate the identified risk. The authorities, who have the opportunity to comment on all safeguards assessment reports, are expected to implement the safeguards assessment recommendations; in some cases, implementation may become a condition for program support. The conclusions and agreed remedial measures are reported in summary form to the IMF Executive Board at the time of arrangement approval or, at the latest, by the time of the first review of the country's performance under the arrangement, but the safeguards report itself is not made available to the Board or the general public.

The implementation of safeguards recommendations is monitored periodically by IMF staff. Safeguards monitoring begins once the final assessment report is issued to the authorities and continues as long as credit is outstanding. The monitoring process primarily entails following up on the recommendations arising from safeguards assessments to ensure that (1) commitments made by the authorities have been fulfilled; and (2) the recommendations have been satisfactorily implemented. In general, commitments made by the authorities are monitored in conjunction with overall program conditionality, and the main focus of safeguards monitoring is therefore on the efficacy of implementation. To this end, IMF staff request periodic updates and may conduct an on-site monitoring review. Under monitoring, country authorities must provide their audited financial statements to the IMF annually, along with any recommendations or special reports prepared by the external auditors of the central bank.

The findings of safeguards assessments to date have indicated that significant, but avoidable, risks to IMF resources may have existed in certain cases, although, over time, identified vulnerabilities have declined in importance and frequency. Experience has shown that central banks are progressively implementing the measures recommended by the Fund. In FY2004, central banks continued to implement assessment recommendations at a high rate (over 92 percent for the most important measures). The main areas of

improvement in central bank operations and controls resulting from the implementation of safeguards measures have included (1) establishing independent external audit policies in accordance with international standards; (2) reconciling the economic data reported to the IMF for program-monitoring purposes with the underlying accounting records of the central bank; (3) improving the transparency and consistency of financial reporting, including publication of the audited financial statements; (4) improving controls over reserves management; and (5) implementing independent, high-quality internal audit functions. Central banks have generally embraced the findings of safeguards assessments, and this policy has enhanced the IMF's reputation and credibility as a prudent lender while helping to improve the operations and accounting procedures of central banks.

On a semiannual basis, IMF staff prepare summary reports covering the activities and results of the safeguards policy for the Executive Board. These reports are available on the IMF website at www.imf.org/external/fin.htm. A comprehensive review of the safeguards policy, with the involvement of external experts, is scheduled to take place in early 2005.

As in the previous year, in FY2004 IMF staff continued to enhance communication and dissemination of information on the safeguards policy to central bank officials, holding courses on safeguards assessments at the Joint Africa Institute (Tunis) in June 2003 and at the IMF Institute (Washington) in November 2003. As of April 30, 2004, 112 officials from 87 countries had attended courses on safeguards assessments.

Arrears to the IMF

The strengthened cooperative strategy on overdue financial obligations to the IMF consists of three essential elements: prevention, intensified collaboration, and remedial measures.¹⁵

Total overdue financial obligations to the IMF were SDR 2.05 billion at the end of April 2004, up slightly from SDR 2.01 billion at the beginning of the financial year (Table 7.7). Although Sudan's arrears to the IMF declined as a result of regular monthly payments in excess of obligations falling due, overdue financial obligations by the other four countries with protracted arrears—Iraq, Liberia, Somalia, and Zimbabwe—continued to increase. As of April 30, 2004, almost all arrears to the IMF were protracted (outstanding for more than six months), with 45 percent of them representing overdue principal and the remainder

¹⁵See *Annual Report 2001*, pages 72 and 73, for background on the IMF's strengthened cooperative strategy for dealing with arrears.

Table 7.7 Arrears to the IMF of Countries with Obligations Overdue by Six Months or More, by Type and Duration*(In millions of SDRs; as of April 30, 2004)*

	Total	By Type				By Duration	
		General Department (incl. SAF)	SDR Department	Trust Fund	PRGF	Less than 6 months	More than 6 months
Iraq	54.3	—	54.3	—	—	1.0	53.3
Liberia	504.4	450.0	24.2	30.2	—	2.6	501.8
Somalia	219.9	201.6	10.3	7.9	—	1.3	218.6
Sudan	1,070.2	991.2	0.1	78.9	—	3.9	1,066.3
Zimbabwe	196.7	118.3	—	—	78.4	18.1	178.7
Total	2,045.5	1,761.1	88.9	117.0	78.4	26.9	2,018.7

overdue charges and interest. More than four-fifths of arrears were to the GRA, with the remainder to the SDR Department and the PRGF Trust.

The two countries with the largest protracted arrears—Sudan and Liberia—account for 77 percent of the overdue financial obligations to the IMF—with Somalia and Zimbabwe accounting for most of the remainder.¹⁶ Under the IMF's strengthened cooperative strategy on arrears, remedial measures have been applied against the countries with protracted arrears to the IMF.¹⁷ No changes were made in the strengthened cooperative strategy on arrears during FY2004.

The IMF's Executive Board reviewed the overall arrears strategy and extended the rights approach¹⁸ for one more year. The Board also conducted several reviews of individual member countries' overdue financial obligations to the IMF during FY2004:

- In September 2003, the Board postponed the scheduled review of Liberia's overdue financial obligations to the IMF because of the highly unsettled political and security situation in the country and the lack of reliable data on economic developments, which precluded an assessment of the country's economic policy and performance. Subsequently, on March 1, 2004, the Board held its first review following the suspension of Liberia's voting and related rights in the IMF on March 5, 2003. At the March 2004 review, the Board welcomed the willingness of the National Transitional Government of Liberia to improve relations with the IMF and its initial steps in restoring a functioning economy and government. The Board also

¹⁶Iraq's overdue net SDR charges and assessments account for 3.1 percent.

¹⁷In two cases (Iraq and Somalia), the application of remedial measures has been postponed because of civil conflicts, the absence of a functioning government, and/or international sanctions.

¹⁸Established in 1990, the rights approach permits a member to establish a track record on policies and payments to the IMF under a rights accumulation program and to earn "rights" to obtain IMF resources under successor arrangements following the completion of the program and settlement of the arrears to the IMF.

welcomed the transitional government's resumption of monthly payments to the IMF of US\$50,000. It discussed the modalities of future IMF engagement with Liberia, stressing that a continued track record of cooperation and strong policies would be needed to lay the basis for normalizing relations with the institution and other creditors over time. In light of these first steps in improving cooperation with the IMF on both policies and payments and Liberia's limited technical capacity and overwhelming reconstruction needs,

the Board approved the resumption of technical assistance to Liberia.

- The Board twice reviewed Sudan's overdue financial obligations to the IMF—on June 6, 2003, and on February 20, 2004. During the June review, the Board noted the favorable policy performance achieved by the Sudanese authorities under the 2002 staff-monitored program (SMP) and Sudan's commitment to a modest increase in monthly payments to the IMF. It welcomed the agreement on a new SMP for 2003 and urged Sudan to fully implement the macroeconomic and structural policies specified in the program. At the February review, the Board noted the continued favorable policy performance achieved by the Sudanese authorities under the 2003 SMP.
- The Board on two occasions reviewed Zimbabwe's overdue obligations to the IMF. On June 6, 2003, the Board decided to suspend the voting and related rights of Zimbabwe against the background of the country's increasing arrears and little improvement in economic policy. In its December 3, 2003, review, the Board noted its intention to initiate promptly the procedure on compulsory withdrawal with respect to Zimbabwe. On February 6, 2004, the Managing Director issued a complaint to the Executive Board with respect to the compulsory withdrawal of Zimbabwe from the IMF. This complaint was placed on the Executive Board's agenda for substantive consideration on July 7, 2004.

As of end-April 2004, Liberia, Somalia, Sudan, and Zimbabwe were ineligible under Article XXVI, Section 2(a) to use the general resources of the IMF. In addition, Zimbabwe had been removed from the list of PRGF-eligible countries. Declarations of noncooperation—a further step under the strengthened cooperative arrears strategy—were in effect for Liberia and Zimbabwe, and the voting and related rights of Liberia and Zimbabwe in the IMF were suspended. In addition, a complaint with respect to the compulsory withdrawal of Zimbabwe from the IMF remained outstanding.



Budget, Human Resources, and Organization

Financial year 2004 saw continued budgetary constraint and reform; management and senior staff changes; and departmental reorganization to reflect evolving circumstances.

The IMF's administrative budget for FY2004, which authorized total expenditures of \$837.5 million, was underspent by \$31.4 million, as the Fund continued to modernize its internal budgetary procedures, prioritized the allocation of resources, and retained a cap on the number of staff positions. Total capital spending was within the approved budget of \$39.6 million. In October 2003, the Fund created a new internal committee to advise management on resource allocations for the FY2005 budget.

Management changes during the financial year included the resignation of Managing Director Horst Köhler in March 2004, following his acceptance of his nomination for the position of President of Germany. He was succeeded by Rodrigo de Rato in June 2004. Deputy Managing Director Eduardo Aninat left the Fund in June 2003 and Deputy Managing Director Shigemitsu Sugisaki retired in January 2004. They were succeeded by Agustín Carstens and Takatoshi Kato, respectively.

There were also a number of departmental changes. The European II Department, formed in 1992 to assist the Baltic countries, Russia, and other countries of the former Soviet Union with their transition to a market economy, was dissolved as the central and east European countries prepared to join the European Union. The countries formerly within the purview of this department were transferred to the European Department and the Middle East and Central Asia Department (formerly the Middle Eastern Department). In addition, the African Department was reorganized toward the end of the financial year to strengthen its capacity to support the low-income countries that fall under its responsibility.

Administrative and Capital Budgets

The IMF's Administrative Budget, which covers the period from May 1 through April 30, provides funds for personnel costs, travel, and other recurrent expenses. It is approved by the IMF Executive Board on both a gross and a net basis. The gross budget includes expenditures that are funded from "reimbursements"—mainly external donor contributions for capacity building (technical assistance and training of member country officials) and a small amount of revenue from publications. The net budget is funded from the net income of IMF operations. The Executive Board sets limits on gross and net expenditures and a ceiling on full-time (both open-ended and limited-term) staff positions. The Executive Board also sets a three-year ceiling on expenditures for capital projects—building facilities, including regulatory-mandated and security-related upgrades, and information technology projects—starting in the forthcoming fiscal year.

Budget Reforms

Following an external review in 2001, the IMF is in the process of modernizing its internal budgetary procedures and practices with a view to adopting, to the extent practical and appropriate for the institution, an output-focused budget system along the lines of those that have evolved in the public sector of many industrial countries.

Consistent with this objective, the IMF has shifted to dollar budgeting, while retaining a limit on the number of staff positions; created a top-down dollar limit on the size of the Administrative Budget; reintroduced a medium-term expenditure framework; required the preparation of departmental business plans for the delivery of services, both to member countries and to other departments; developed a

revised output and activity structure, to classify Fund departments' services; revised the internal accounts structure to facilitate budget management at the departmental level; provided to the Executive Board information on the full costs of new policy initiatives and financing proposals as appropriate; and revamped the capital budget procedures to bring them into line with standard practices.

In FY2004, along with the consolidation of the above reforms, additional changes focused on better prioritizing the allocation of resources, improving the costing of activities, and developing performance indicators. In October 2003, the internal Committee on Budget Priorities (CBP) was created to advise management on resource allocations for the FY2005 budget. In considering the broad allocation of resources to outputs, the CBP took into account the likely costs of new or expanded policies; anticipated pressures from program or other intensive country work; projected demands for other primary outputs, including work on technical assistance, research, standards and codes, and external training; existing pressures on IMF staff or other resources; and the scope for reducing or streamlining existing activities. Essential groundwork has also been done to improve cost allocation by developing better measures and apportionment of overheads. A task force on performance indicators recommended that the Fund develop a system of standards, emphasizing that, to be successful, the system should be developed with adequate time, ownership, and resources to support it.

In FY2005, the Fund will continue reform efforts already under way in three areas: a new time-reporting system (TRS), a new cost-allocation system to complement the TRS, and a pilot program of performance indicators for certain IMF activities. These reforms will be supported by a determined effort to improve computerized management information systems, under the guidance of the interdepartmental Information Technology Policy Committee. A large part of this work is being outsourced.

As part of its budget reforms, the IMF has also begun undertaking departmental reviews incorporating a zero-based approach. The reviews, led by the Office of Internal Audit and Inspection (OIA) with the participation of the Office of Budget and Planning (OBP), aim to identify activities that are of lower priority in meeting the goals of the

Fund and that may offer scope for resource reallocation to higher priority areas. In addition, like earlier OIA exercises, the reviews assess the effectiveness of departmental management in achieving the department's mission and goals. The goal is to undertake two such departmental reviews each year.

Budgets and Actual Expenditure in FY2004

The IMF's *Administrative Budget* for the financial year that ended April 30, 2004 (FY2004) authorized total expenditure of \$837.5 million (or \$785.5 million net of reimbursements). The FY2004 *Capital Budget* made provision for expenditure of \$39.6 million on projects commencing in FY2004, including \$13.2 million for building facilities projects and \$26.4 million for information technology projects.

The Administrative Budget outturn for FY2004 amounted to \$806.1 million on a gross basis, \$31.4 million (3.7 percent) less than estimated in the original budget. This underspending was composed of \$9.6 million in personnel expenses, \$9.1 million in travel, and \$12.7 million for other activities, including \$5.0 million of unused contingencies. Reimbursements were larger than budgeted because of a more active pursuit of rebates and discounts in negotiating airfares and increasing external donors' contributions for technical assistance and training activity. On a net basis, the FY2004 Administrative Budget was under by 4.8 percent.

The budget underrun reflected a combination of lower-than-planned outputs, efficiency gains, and lower-than-projected input costs.

Total measured outputs were below planned levels in bilateral and regional surveillance, use of Fund resources, and capacity building, while for the other two primary outputs—(1) policy development, research, and operation of the international monetary system, and (2) standard setting—output levels were closer to departments' aggregate business plans. This underdelivery of outputs was driven largely by higher-than-anticipated staff vacancies, in part the result of major organizational changes.

Significant efficiency gains were achieved on travel. The volume of travel fell relative to FY2003, in part because missions, particularly those for Article IV consultations and Financial Sector Assessment Program exercises, and those

Table 8.1 Administrative Budgets, Financial Years 2002–05¹*(In millions of U.S. dollars)*

	Financial Year Ended April 30, 2002: Actual Expenses	Financial Year Ended April 30, 2003: Actual Expenses	Financial Year Ending April 30, 2004: Budget	Financial Year Ended April 30, 2004: Actual Expenses	Financial Year Ending April 30, 2005: Budget
Administrative Budget					
Personnel expenses					
Salaries	320.7	337.1	359.7	355.9	373.8
Benefits and other expenses	161.0	191.3	206.1	200.3	259.9
Subtotal	481.7	528.4	565.8	556.2	633.7
Other expenses					
Travel	94.4	79.9	100.6	91.5	97.6
Other expenses	145.3	155.7	171.1	158.4	173.8
Subtotal	239.6	235.6	271.7²	249.9	271.4³
Total Administrative Budget (gross)	721.3	764.0	837.5	806.1	905.1
Reimbursements	(44.6)	(44.1)	(52.0)	(58.5)	(55.5)
Total Administrative Budget (net)	676.7	719.9	785.5	747.6	849.6

Note: Figures may not add due to rounding.

¹Administrative budgets as approved by the Board for the financial years ending April 30, 2004, and April 30, 2005, compared with actual expenses for the financial years ended April 30, 2002, April 30, 2003, and April 30, 2004.²Includes \$5 million in contingency reserves—\$1 million for travel, \$1 million for other expenditures, and \$3 million for central staff allocation.³Includes \$3 million in contingency reserves—\$1 million for travel, \$1 million for other expenditures, and \$1 million for central staff allocation.

of functional departments, were shorter and mission teams were smaller.

On the input side, in addition to an overall higher vacancy rate for staff positions, lower-than-budgeted personnel costs were mainly the result of lower expenditure on outside experts and changes to the U.S. tax code. The lower-than-planned expenditure on experts reflects a greater shift toward a more strategic (upstream) focus in technical assistance delivery, with a related move away from long-term resident experts to short-term assignments. The reduction in income tax rates under the U.S. Jobs and Growth Tax Relief Reconciliation Act of 2003, enacted after the Fund's FY2004 budget was approved, resulted in close to \$4 million less expenditure on tax allowances than projected in the budget.

Total *capital spending* in FY2004 was within the approved budget. The Headquarters 2 building project remains within the \$149.3 million budget approved by the Executive Board in April 2002 and on track with the revised project schedule (see Box 8.1). Information on the actual expenditures of the Administrative Budgets for FY2002 through FY2004 and budgeted expenditures for FY2004 and FY2005 is provided in Table 8.1.

Budgets for FY2005

On April 28, 2004, the Executive Board approved a gross Administrative Budget of \$905.1 million (\$849.6 million net of estimated reimbursements) for FY2005.¹ This

¹The budget document can be accessed electronically at www.imf.org/external/np/obp/budget/040104.htm.

amount includes a contribution to the Staff Retirement Plan equivalent to 14 percent of gross staff remuneration (\$74 million). It reflects a decision to normalize the annual budgetary contribution to the Staff Retirement Plan at this 14 percent rate, with drawings from or additions to reserves to be made depending on the actuarial assessment of the required contribution rate. Excluding this contribution to the Staff Retirement Plan, the FY2005 budget represents an increase of 2.4 percent in gross terms (2.1 percent in net terms) over the FY2004 approved budget.

In line with the overarching objective of maintaining the present size of the institution, the FY2005 administrative budget is designed to fund the IMF's principal strategic goals (as reflected in the April 19, 2004, Report of the Acting Managing Director to the International Monetary and Financial Committee on the IMF's Policy Agenda). These are strengthening the framework for surveillance and crisis prevention; devising more effective crisis resolution strategies; assisting low-income countries to achieve the high and sustainable growth needed to reduce poverty and make decisive progress toward the Millennium Development Goals; and enhancing member countries' institutional capacity.

To help the Fund achieve these goals, the FY2005 budget includes the following:

- Twelve additional staff positions in the African Department to strengthen the IMF's work in the region; a new unit will assist in integrating poverty and social impact analysis into the IMF's work on low-income countries.
- Establishment of a Middle East Technical Assistance Center to augment the Fund's capacity-building work in that region.

- Enhanced work on regional surveillance and, in line with the IMF's Independent Evaluation Office recommendations, regular ex post assessments of countries that benefit from the prolonged use of Fund resources.

The Fund will be able to implement these initiatives by redeploying positions and dollar resources freed up by efficiency gains in support activities, streamlining its work in Europe and Asia, and reducing or eliminating lower-priority activities. The FY2005 Administrative Budget also provides for an expanded anti-money-laundering and combating the financing of terrorism (AML/CFT) program. The Fund will meet the costs of this program by redeploying staff and resources and relying on external finance (for related technical assistance). Three staff positions will be added for the program, raising the total number of positions to 2,802.

In line with the above plans and priorities for FY2005, area departments, as a group, plan to increase the share of their resources devoted to surveillance by 0.5 percentage point, from 46 percent in FY2004; functional and support departments plan to devote a greater share of their resources to the support of the use of Fund resources in low-income countries. Overall, departments also plan a small increase of resources devoted to research on crisis prevention and the international financial architecture, and to capacity building, particularly for the regional technical assistance centers. The estimated share of each activity in the total output funded from the net Administrative Budget is shown in Figure 8.1.

In terms of input costs, the FY2005 Administrative Budget takes account of lower projected price increases for FY2005 and incorporates a squeeze on volumes. Contingency provisions for FY2005 have also been reduced from \$5 million in the FY2004 budget to \$3 million. Relative to the FY2004 budget, the FY2005 budget provides for an increase of 3.9 percent in personnel expenses, whereas the provision for nonstaff salaries (for consultants and contractual employees) is broadly constant in nominal terms. Taken together, the provision for all nonpersonnel (travel plus other) expenditures in FY2005 will fall slightly, in nominal terms, relative to the FY2004 budget.

The three-year Capital Plan for FY2005–FY2007, which covers all new capital projects scheduled to start in each of the next three years and underpins the FY2005 capital budget, is costed at \$123 million, compared with \$115 million for the FY2004–FY2006 plan approved in FY2003. The increase is accounted for by the cost of heightened security. With the completion of the new Headquarters 2 building, no additional major building works are planned over the medium term. Investment in information technology will decrease, following the recent spike in capital spending associated with the replacement of the Fund's main admin-

Box 8.1 New Headquarters Building

Construction is progressing well on a second IMF building adjacent to the existing headquarters. The new building will enable the IMF to accommodate its entire staff within a single headquarters complex and reduce overall costs by eliminating the need to lease commercial office space. Construction of the new building began in October 2002. Occupancy is currently scheduled to be completed in mid-2005, which is earlier than the original schedule of January 2006. The Fund expects to lease out retail space on the first floor of the building.

istrative and financial information systems over the past two fiscal years.

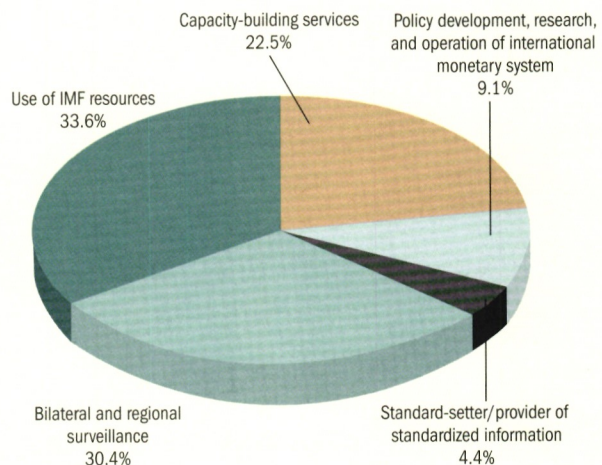
Against this background, the FY2005 Capital Budget amounts to \$31.8 million, consistent with the three-year ceiling on expenditures for capital projects. This year's capital budget includes the heightened-security projects mentioned above, further integration of economic databases, and the core network infrastructure for the new building.

The Medium-Term Expenditure Framework

Since FY2002, the IMF has prepared an annual, medium-term expenditure framework that reflects the cost, with the number of staff positions unchanged, of policies covering the current and each of the following two financial years. The framework allows for the same price increases for personnel, travel, and other expenditures as are assumed in the FY2005 budget. This year's expenditure framework takes

Figure 8.1 Projected Share of Resources by Output Category, FY2005

(As a percent of net Administrative Budget)



into account the location and the cost of the Annual Meetings (Washington, D.C., in FY2005 and FY2006 and Singapore in FY2007) and the opening of the Headquarters 2 building (including the move-in costs, the savings in lease and other rented-property costs, and the operating costs of the new building). Based on the above assumptions and adjustments, the Fund's net administrative expenditures are expected to increase by 3.6 percent in FY2006 and 3.8 percent in FY2007.

Human Resources

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, subject to "the paramount importance" of securing such standards, whose diversity by nationality should reflect its membership, with "due regard to the importance of recruiting personnel on as wide a geographical basis as possible."

The goals of the IMF require that all who work for the institution observe the highest standards of ethical conduct, consistent with the values of integrity, impartiality, and discretion, as set out in the IMF Code of Conduct and its Rules and Regulations. In accordance with these high standards, the IMF relies on a financial certification and disclosure process for staff and other internal controls to prevent actual or perceived conflicts of interest.

Table 8.2 Distribution of Professional and Managerial Staff by Nationality¹

(In percent)

Region ²	1980	1990	2003
Africa	3.8	5.8	5.4
Asia	12.3	12.7	15.5
Japan	1.4	1.9	1.5
Other Asia	10.9	10.8	14.0
Europe	39.5	35.1	34.5
France	6.9	5.5	4.4
Germany	3.7	4.3	5.0
Italy	1.7	1.4	2.8
United Kingdom	8.2	8.0	5.4
Transition economies	—	—	4.5
Other Europe	19.0	15.9	12.4
Middle East	5.4	5.5	4.6
Western Hemisphere	39.1	41.0	40.1
Canada	2.6	2.8	3.8
United States	25.9	25.9	24.6
Other Western Hemisphere	10.6	12.3	11.7
Total	100.0	100.0	100.0

¹Includes staff in Grades A9–B5.

²Regions are defined broadly on the basis of the country distribution of the IMF's area departments. The European region includes Russia and countries of the former Soviet Union. The Middle East region includes countries in North Africa.

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 mid-career professionals, given 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.

As of December 31, 2003, the IMF employed 1,954 professional and managerial staff (about two-thirds of whom were economists) and 739 staff at the assistant level. In addition to its staff, the IMF had 317 contractual employees on its payroll, including technical assistance experts, consultants, and other short-term employees not subject to the staff ceiling. Of the IMF's 184 member countries, 141 were represented on the staff. (See Table 8.2 for the evolution of the nationality distribution of IMF professional staff since 1980.)

Changes in Management and Senior Staff

Managing Director Horst Köhler resigned from the Fund on March 4, 2004, following his acceptance of his nomination for the position of President of Germany. In its April Communiqué, the IMFC paid tribute to Mr. Köhler for his leadership of the IMF during the past four years and his work to promote close international cooperation so that all can share in the benefits of globalization. On May 4, 2004, the Executive Board selected Rodrigo de Rato to serve as Managing Director for a five-year term, which began on June 7, 2004. A national of Spain, Mr. de Rato was Minister of Economy and Vice President for Economic Affairs during 2000–04, prior to which he served as Spain's Minister of Economy and Finance.

Deputy Managing Director Shigemitsu Sugisaki retired from the Fund on January 31, 2004, having served as Deputy Managing Director since February 1997, prior to which he had been Special Advisor to the Managing Director since August 1994. Takatoshi Kato took up his position as Deputy Managing Director on February 4, 2004, following a distinguished career in the Japanese government, international organizations, and academia, which included appointments as Japan's Vice Minister of Finance for International Affairs and more recently as Advisor to the President of Bank of Tokyo-Mitsubishi and Visiting Professor at Waseda University.

Agustín Carstens assumed office as Deputy Managing Director on August 1, 2003, succeeding Eduardo Aninat.

Prior to taking up his current position he was Mexico's Deputy Secretary of Finance, and from 1999–2000, after a career at the Banco de México, he served as an Executive Director at the IMF.

Raghuram G. Rajan took up his post as Economic Counsellor and Director of the Research Department in October 2003. Before his appointment, he taught at the Graduate School of Business at the University of Chicago, where he is the Joseph L. Gidwitz Professor of Finance.

Recruitment and Retention

In 2003, 175 people joined the IMF staff, compared with 216 in 2002. The new recruits included 74 economists, 51 professionals in other specialized career streams, and 50 assistants. Thirty-two of the recruits were mid-career economists, and 35 entered the two-year Economist Program, which is designed to familiarize entry-level economists with the work of the IMF. Participants in the program are placed in two different departments, for 12 months each. Those who perform well are offered regular staff appointments.

During 2003, 167 staff members, 112 of whom were in professional and managerial grades, separated from the organization. The separation rate for these staff was 6.0 percent.

Salary Structure

To recruit and retain the highly qualified staff it needs, the IMF has developed a compensation and benefits system designed to be internationally 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 by the Executive Board and, if warranted, adjusted on the basis of a comparison with salaries paid by selected private financial and industrial firms in the United States, France, and Germany, and in representative public sector agencies, mainly in the United States. After analyses of updated comparator salaries, the salary structure was increased by 4.0 percent for FY2004, and the Board approved an increase of 3.6 percent for FY2005 (Table 8.3).

Table 8.3 IMF Staff Salary Structure

(In U.S. dollars, effective May 1, 2004)

Grade	Range Minimum	Range Maximum	Illustrative Position Titles
A1	23,930	35,930	Not applicable (activities at this level have been outsourced)
A2	26,810	40,210	Driver
A3	30,000	45,020	Staff Assistant (Clerical)
A4	33,620	50,460	Staff Assistant (Beginning Secretarial)
A5	37,710	56,530	Staff Assistant (Experienced Secretarial)
A6	42,120	63,280	Senior Secretarial Assistant, Other Assistants (e.g., Editorial, Computer Systems, Human Resources)
A7	47,250	70,890	Research Assistant, Administrative Assistant
A8	52,920	79,420	Senior Administrative Assistants (e.g., Accounting, Human Resources)
A9	56,280	84,480	Librarian, Translator, Research Officer, Human Resources Officer
A10	64,730	97,130	Accountant, Research Officer, Administrative Officer
A11	74,350	111,570	Economist (Ph.D. entry level), Attorney, Specialist (e.g., Accounting, Computer Systems, Human Resources)
A12	83,250	124,930	Economist, Attorney, Specialist (e.g., Accounting, Computer Systems, Human Resources)
A13	93,280	139,900	Economist, Attorney, Specialist (e.g., Accounting, Computer Systems, Human Resources)
A14	104,460	156,720	Deputy Division Chief, Senior Economist
A15/B1	118,040	177,120	Division Chief, Deputy Division Chief
B2	136,090	197,470	Division Chief, Advisor
B3	161,720	210,430	Assistant Department Director, Advisor
B4	188,460	235,580	Deputy Department Director, Senior Advisor
B5	221,910	266,410	Department Director

Note: 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.

Management Remuneration

Reflecting the responsibilities of each management position and the relationship between the management and staff salary structures, the salary structure for management as of July 1, 2003 is as follows:

Managing Director	\$344,820 ²
First Deputy Managing Director	\$302,410
Deputy Managing Directors	\$288,010

Management remuneration is subject to 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 increases of 3.5 percent in the remuneration of Executive Directors and their Alternates

²In addition, a supplemental allowance of \$61,700 is paid to cover expenses.

Table 8.4 Distribution of Staff by Gender

	1980		1990		2003 ¹	
	Number	Percent	Number	Percent	Number	Percent
All staff	1,444	100.0	1,774	100.0	2,693	100.0
Women	676	46.8	827	46.6	1,239	46.0
Men	768	53.2	947	53.4	1,454	54.0
Total support staff²	613	100.0	642	100.0	739	100.0
Women	492	80.3	540	84.1	622	84.2
Men	121	19.7	102	15.9	117	15.8
Total professional staff³	646	100.0	897	100.0	1,597	100.0
Women	173	26.8	274	30.5	562	35.2
Men	473	73.2	623	69.5	1,035	64.8
Total economists	362	100.0	529	100.0	968	100.0
Women	42	11.6	70	13.2	235	24.3
Men	320	88.4	459	86.8	733	75.7
Total specialized career streams	284	100.0	368	100.0	629	100.0
Women	131	46.1	204	55.4	327	52.0
Men	153	53.9	164	44.6	302	48.0
Total managerial staff⁴	185	100.0	235	100.0	357	100.0
Women	11	5.9	13	5.5	55	15.4
Men	174	94.1	222	94.5	302	84.6
Total economists	99	100.0	184	100.0	286	100.0
Women	4	4.0	9	4.9	31	10.8
Men	95	96.0	175	95.1	255	89.2
Total specialized career streams	86	100.0	51	100.0	71	100.0
Women	7	8.1	4	7.8	24	33.8
Men	79	91.9	47	92.2	47	66.2

¹Includes only staff on duty; differs from the number of approved positions.

²Staff in Grades A1–A8.

³Staff in Grades A9–A15.

⁴Staff in Grades B1–B5.

effective July 1, 2003. The remuneration of Executive Directors is \$188,980.³ The remuneration of Alternate Executive Directors is \$163,470.⁴

Diversity

During 2003, the Executive Board continued to emphasize the importance of staff diversity in improving the IMF's effectiveness as an international institution. Notable progress was achieved in the recruitment and promotion of several underrepresented staff groups, but more still has to be done to reach a balanced regional representation in all grade groups. At the managerial level, the shares of women and of staff from developing countries rose slightly, to 15.4 percent and 31.1 percent, respectively. In both categories there is still room for improvement.

³In determining the salary adjustments for Executive Directors, the committee took into consideration the percentage change in the remuneration of the highest-level civil servant in the ministry of finance and central bank of selected member countries, and the change in the selected countries' consumer price index.

⁴These figures do not apply to the U.S. Executive Director and Alternate Executive Director, who are subject to U.S. congressional salary caps.

The IMF places strong emphasis on people management skills and diversity sensitivity in assessing the performance of supervisors and in recruitment and promotion decisions, which are of particular importance in an institution with a diverse workforce. Since 1995, the Senior Advisor on Diversity, who reports to the Managing Director, has advised and assisted management, the Human Resources Department (HRD), and other departments on ways to strengthen and monitor nationality and gender diversity (Tables 8.2, 8.4, and 8.5) and on diversity management. In line with the IMF's diversity strategy, HRD continues to focus on integrating diversity into its human resource management policies, procedures, and practices.

An Enhanced Diversity Action Plan was introduced in 2003. The plan includes quantitative and qualitative benchmarks for the most underrepresented staff groups—women and staff from developing countries, and nationals of African, Middle Eastern,

and emerging market countries. A Fundwide mentoring program was established for mid-career newcomers, and selection procedures and the special appointee program were revised to improve the Fund's response to diversity needs. Family-friendly work arrangements and benefits were reinforced. The IMF also strengthened its policy on discrimination and consolidated previous policies and statements related to discrimination in one document.

Achieving satisfactory diversity of staff in an institution that emphasizes career employment is a continuing challenge that requires concerted effort. Progress is monitored and problems are reported in a transparent manner in various formats—including the *Diversity Annual Report*—on the IMF website. The Fund's Senior Advisor on Diversity works closely with HRD and other departments to identify needs and opportunities for promoting diversity in each department's annual human resources plan, which provides a business-relevant and systematic framework for the IMF's diversity efforts. Typically, departmental and Fund-wide diversity actions include initiatives in recruitment and career planning, orientation and mentoring for newcomers, and measures to improve performance assessment and management selection and development. The Fund is making special efforts to increase the transparency of human resource policies, procedures, and statistics.

Table 8.5 Distribution of Staff by Developing and Industrial Countries

Staff	1990		2003 ¹	
	Number	Percent	Number	Percent
All staff	1,774	100.0	2,693	100.0
Developing countries	731	41.2	1,168	43.4
Industrial countries	1,043	58.8	1,525	56.6
Total support staff²	642	100.0	739	100.0
Developing countries	328	51.1	408	55.2
Industrial countries	314	48.9	331	44.8
Total professional staff³	897	100.0	1,597	100.0
Developing countries	343	38.2	649	40.6
Industrial countries	554	61.8	948	59.4
Total economists	529	100.0	968	100.0
Developing countries	220	41.6	419	43.3
Industrial countries	309	58.4	549	56.7
Total specialized career streams	368	100.0	629	100.0
Developing countries	123	33.4	230	36.6
Industrial countries	245	66.6	399	63.4
Total managerial staff⁴	235	100.0	357	100.0
Developing countries	60	25.5	111	31.1
Industrial countries	175	74.5	246	68.9
Total economists	184	100.0	286	100.0
Developing countries	54	29.3	93	32.5
Industrial countries	130	70.7	193	67.5
Total specialized career streams	51	100.0	71	100.0
Developing countries	6	11.8	18	25.4
Industrial countries	45	88.2	53	74.6

¹Includes only staff on duty; differs from the number of approved positions.

²Staff in Grades A1–A8.

³Staff in Grades A9–A15.

⁴Staff in Grades B1–B5.

Organization

The *Board of Governors*, the highest decision-making body of the IMF, consists of one governor and one alternate governor from each of the IMF's 184 member countries (Figure 8.2). All Governors meet once each year at the IMF-World Bank Annual Meetings; 24 of the Governors sit on the *International Monetary and Financial Committee* (IMFC) and meet twice each year. The day-to-day work of the IMF is conducted at its Washington, D.C., headquarters by its 24-member *Executive Board*; this work is guided by the IMFC and supported by the IMF's professional staff. The Managing Director is Chair of the Executive Board and head of IMF staff; he is assisted by three Deputy Managing Directors. (For more about IMF governance, see Section 6.)

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

Area Departments

In November 2003, given the progress of the transition process and the prospect of European Union accession for a

number of transition economies, the European II Department was dissolved, reducing the number of area departments from six to five. The transition countries were moved into two other, enlarged departments—the European Department and the Middle East and Central Asia Department (formerly, the Middle Eastern Department).

The five current area departments—*African, Asia and Pacific, European, Middle East and Central Asia*, and *Western Hemisphere*—advise management and the Executive Board on economic developments and policies in countries in their regions. Their staffs are also responsible for putting together financial arrangements to support members' economic reform programs and for reviewing 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, 90 area department staff are assigned to members as IMF resident representatives (see Box 8.2).

Functional and Special Services Departments

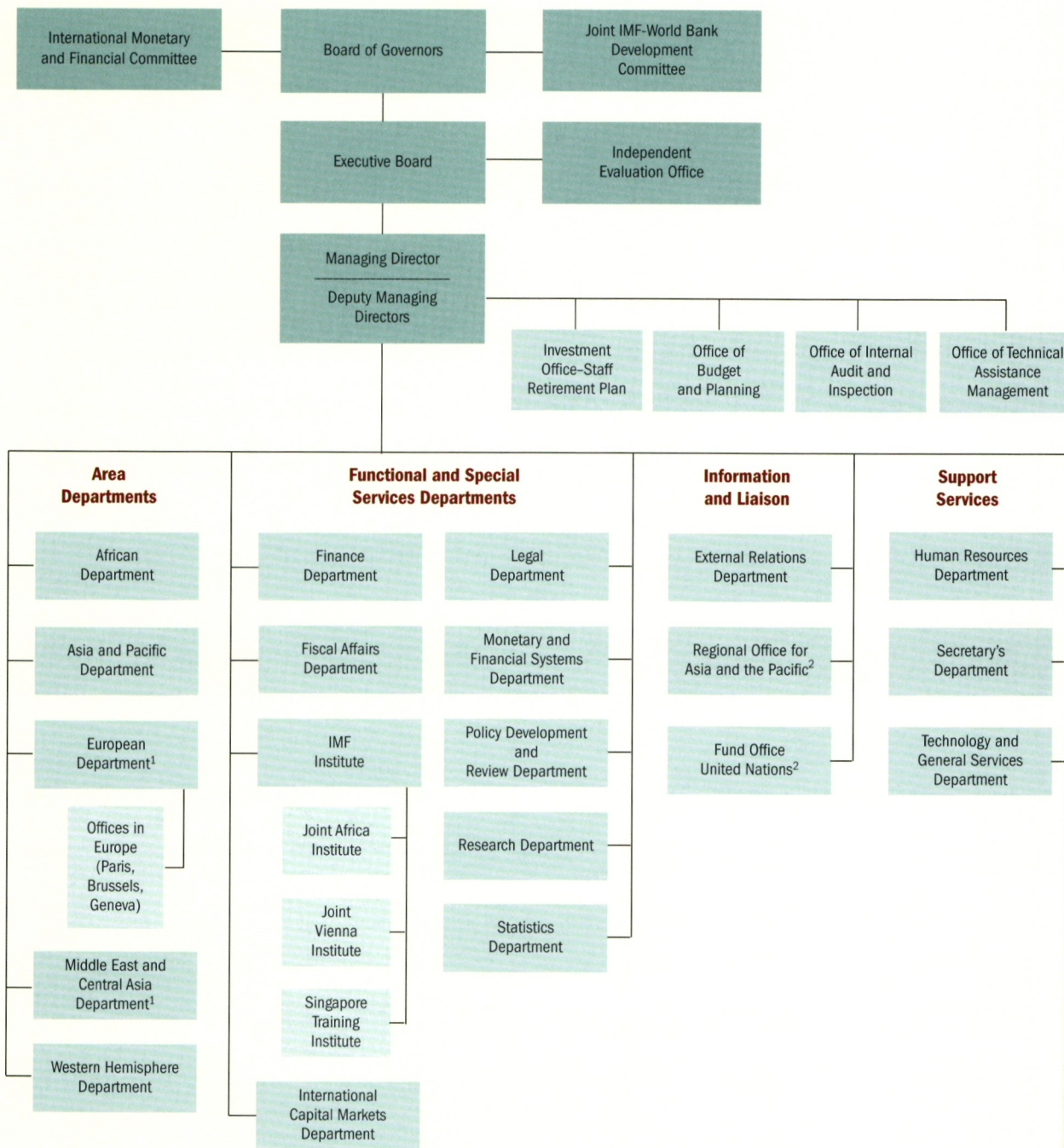
The *Finance Department* (formerly the Treasurer's Department) has a mission to mobilize, manage, and safeguard the IMF's financial resources to ensure that they are deployed in a manner consistent with the Fund's overall mandate. This entails major responsibilities for the institution's financial policies and for the conduct, accounting, and control of all financial transactions. In addition, the department safeguards the IMF's financial position by assessing the adequacy of the Fund's capital base (quotas), net income targets, precautionary balances, and the rates of charge and remuneration. Other responsibilities include investing funds in support of assistance to low-income countries and conducting assessments of borrowing members' central banks.

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 *IMF Institute* provides training for officials of member countries—particularly developing countries—in such areas as financial programming and policy, external sector

Figure 8.2 IMF Organization Chart

(As of April 30, 2004)



¹The European I Department, European II Department, and Middle Eastern Department were reconfigured on November 1, 2003, to form the European Department and the Middle East and Central Asia Department.

²Attached to the Office of the Managing Director.

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 Section 5.)

The *International Capital Markets Department* 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 department prepares a twice-yearly *Global Financial Stability Report* that assesses developments and systemic issues in international capital markets. Staff members also liaise 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 how to gain access to international markets and how to benefit from this access, as well as on strategies for external debt management.

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 Financial Systems Department* is organized around four operational areas—financial system surveillance, banking supervision and crisis resolution, monetary and exchange rate infrastructure and operations, and technical assistance. It provides analytical, operational, and technical support to member countries and area departments, including development and dissemination of good policies and best practices. An important role is coordinating with collaborating central banks, supervisory agencies, and other international organizations. The change of name from Monetary and Exchange Affairs Department on May 1, 2003, reflects the expanded responsibilities of the reorganized department, which now includes the Financial Sector Assessment Program and anti-money-laundering and combating the financing of terrorism assessments.

The *Policy Development and Review Department* 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, it ensures the consistent

application of IMF policies throughout the institution. In recent years, the department has spearheaded the IMF's work in strengthening the international financial system, streamlining and focusing conditionality, and developing the Poverty Reduction and Growth Facility (PRGF) and the HIPC Initiative. PDR economists participate in country missions with area department staff and assist member countries that are making use of IMF resources to mobilize other financial resources.

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. It cooperates with other departments in formulating IMF policy advice to member countries. It coordinates the twice-yearly *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

Box 8.2 Resident Representatives

At the end of April 2004, the IMF had 90 resident representative positions covering 84 member countries in Africa, Asia, Europe, the Middle East, and the Western Hemisphere. Planning is under way to open new offices in Jordan (in support of Iraq) and the Dominican Republic. These posts—usually filled by one IMF employee supported by local staff—help 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 (see Section 4) 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.

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.

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 and Europe and at the United Nations* maintain close contacts with other international and regional institutions. The UN Office also makes a substantive contribution to the Financing for Development process, while the offices in Asia and Europe contribute to bilateral and regional surveillance and are a major part of the IMF's outreach effort. (See Appendix IV.)

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, in cooperation with the World Bank, also manages the Annual Meetings.

The *Technology and General Services Department* manages and delivers a full range of services essential for the IMF's operation. These include information services (information technology, library services, multimedia services, records and archives management, and telecommunications); facilities services (building projects and facilities management); general administrative services (travel management, conference and catering services, and procurement services); language services (translation, interpretation, and preparation of publications in languages other than English); and a broad range of security and business continuity services (covering headquarters security, field security, and information technology security).

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.

Independent Evaluation Office

The IMF's *Independent Evaluation Office* (IEO) provides objective and independent evaluation on issues related to the Fund. 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 Board in its governance and oversight. (For more information on the IEO see Section 3.)



INTERNATIONAL MONETARY FUND

APPENDIXES
2004

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International Reserves

Total international reserves, including gold, increased by 14 percent during 2003 and stood at SDR 2.4 trillion at the end of the year (Table I.1). Foreign exchange reserves, which constitute the largest component of official reserve holdings, grew by 15 percent, to SDR 2.0 trillion. IMF-related assets, which make up the rest of nongold reserves, remained broadly unchanged at SDR 86 billion. The market value of gold held by monetary authorities increased by 9 percent to SDR 256 billion in 2003.¹

Foreign Exchange Reserves

Foreign exchange reserves accounted for 96 percent of nongold assets at the end of 2003. The developing countries, which held 63 percent of all foreign exchange reserves at the end of 2003, increased their holdings by 16 percent, to SDR 1.3 trillion, continuing the trend set in recent years. During 2003, the foreign exchange holdings of industrial countries rose by 14 percent, to SDR 743 billion.

In 2003, the oil-exporting developing countries' foreign exchange assets, which amount to nearly 10 percent of all developing countries' foreign exchange reserves, increased by 9 percent, to SDR 113 billion. The foreign exchange reserves of the net creditor developing country group rose by 11 percent, to SDR 246 billion, and those of net debtor countries grew by 17 percent, to SDR 1.0 trillion. Foreign exchange reserves of net debtors without debt-servicing problems increased by 18 percent, to SDR 884 billion, while those of countries with debt-servicing problems increased by 14 percent, to SDR 155 billion.

Holdings of IMF-Related Assets

During 2003, total IMF-related assets (that is, reserve positions in the IMF and SDRs) increased by less than 1 percent, following increases of more than 10 percent in the two preceding years. Industrial member countries hold a majority of IMF-related assets: 79 percent at the end of 2003. Members' reserve positions in the IMF—which consist of members' reserve tranche and creditor positions—remained broadly unchanged at SDR 67 billion, with the SDR holdings of IMF members remaining unchanged at SDR 20 billion.

Gold Reserves

The market value of gold reserves increased by 9 percent in 2003, to SDR 256 billion, reflecting an 11 percent increase in the SDR price of gold and a 2 percent decline in the physical stock of official gold. The share of gold in officially held reserves has declined gradually to 11 percent by the end of 2003, whereas, in the early 1980s, gold

made up about half of all officially held reserves. Most of the gold reserves (83 percent) are held by industrial countries: gold constituted 21 percent of these countries' total reserves at the end of 2003. Gold reserves accounted for 3 percent of the total reserves of the developing countries.

Developments During the First Quarter of 2004

Total reserve assets rose by SDR 183 billion during the first quarter of 2004, whereas foreign exchange reserves increased by SDR 181 billion over the same period. Reflecting an increase in the SDR price of gold since the end of 2003, the market value of gold reserves increased by nearly SDR 5 billion during the first quarter of 2004, while the physical stock of official gold declined by 2 million ounces. Holdings of IMF-related assets declined by SDR 3 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 53 percent in 1994 to 67 percent in 2001 (Table I.2).² In 2002 and 2003, however, the share of U.S. dollar holdings declined to 64 percent. Notwithstanding a substantial increase in official reserves held in U.S. dollars over these two years, the weakening of the U.S. dollar vis-à-vis other major currencies implied a decline in the share of U.S. dollar holdings (see the last paragraph for details). The euro, which replaced 11 European currencies and the European currency unit (ECU) on January 1, 1999, accounted for 20 percent of total foreign exchange reserves in 2003, higher than its average since 1999. Given that, at the introduction of the euro, the Eurosystem's reserves previously denominated in euro legacy currencies³ became domestic assets of the euro area, the share of the euro in 1999–2003 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 the euro area, their combined share in 1998 was virtually identical to the share of the euro in 1999.

²This table incorporates revisions to historical data that were first announced in a press release issued on November 19, 2003 (see www.imf.org/external/np/sec/pr/2003/pr03196.htm). The main revisions were to report as euro holdings certain reserves that were originally reported (including in the 2003 *Annual Report*) as being held in unspecified currencies.

³Those foreign exchange reserves that, up to December 31, 1998, were denominated in the former national currencies of countries in the euro area and private ECUs.

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

Table I.1 Official Holdings of Reserve Assets¹*(In billions of SDRs)*

	1998	1999	2000	2001	2002	2003	March 2004
All countries							
Total reserves excluding gold							
IMF-related assets							
Reserve positions in the IMF	60.6	54.8	47.4	56.9	66.1	66.5	63.5
SDRs	20.4	18.5	18.5	19.6	19.7	19.9	20.2
Subtotal, IMF-related assets	81.0	73.2	65.9	76.4	85.7	86.4	83.8
Foreign exchange	1,167.0	1,297.8	1,485.5	1,627.9	1,763.2	2,028.0	2,208.7
Total reserves excluding gold	1,248.0	1,371.0	1,551.3	1,704.3	1,848.9	2,114.4	2,292.5
Gold ²							
Quantity (millions of ounces)	968.4	967.1	952.1	942.8	930.6	913.1	911.3
Value at London market price	197.9	204.5	200.6	207.4	234.6	256.4	260.8
Total reserves including gold	1,446.0	1,575.6	1,751.9	1,911.7	2,083.5	2,370.8	2,553.3
Industrial countries							
Total reserves excluding gold							
IMF-related assets							
Reserve positions in the IMF	53.9	46.8	39.7	47.0	53.7	52.6	50.6
SDRs	15.8	14.7	14.4	16.0	15.8	15.3	15.4
Subtotal, IMF-related assets	69.8	61.5	54.1	62.9	69.5	67.9	66.0
Foreign exchange	475.8	526.1	596.2	620.5	653.0	742.7	845.1
Total reserves excluding gold	545.6	587.6	650.3	683.4	722.5	810.6	911.1
Gold ²							
Quantity (millions of ounces)	808.7	810.4	796.5	783.5	769.8	754.3	752.0
Value at London market price	165.3	171.4	167.8	172.4	194.1	211.8	215.2
Total reserves including gold	710.9	759.0	818.1	855.8	916.6	1,022.4	1,126.3
Developing countries							
Total reserves excluding gold							
IMF-related assets							
Reserve positions in the IMF	6.7	8.0	7.7	9.9	12.3	13.9	12.9
SDRs	4.5	3.7	4.1	3.6	3.9	4.6	4.8
Subtotal, IMF-related assets	11.2	11.7	11.8	13.5	16.2	18.5	17.8
Foreign exchange	691.2	771.7	889.2	1,007.4	1,110.1	1,285.3	1,363.6
Total reserves excluding gold	702.4	783.4	901.0	1,020.9	1,126.4	1,303.8	1,381.4
Gold ²							
Quantity (millions of ounces)	159.7	156.6	155.6	159.2	160.7	158.8	159.3
Value at London market price	32.7	33.1	32.8	35.0	40.5	44.6	45.6
Total reserves including gold	735.1	816.6	933.8	1,055.9	1,166.9	1,348.4	1,427.0
Net debtor developing countries							
Total reserves excluding gold							
IMF-related assets							
Reserve positions in the IMF	5.0	5.6	5.4	6.4	8.0	9.2	8.8
SDRs	3.3	3.1	3.3	2.7	2.9	3.6	3.8
Subtotal, IMF-related assets	8.4	8.7	8.7	9.1	11.0	12.7	12.5
Foreign exchange	550.1	609.4	705.8	806.7	889.0	1,039.6	1,100.9
Total reserves excluding gold	558.4	618.1	714.4	815.8	900.0	1,052.3	1,113.5
Gold ²							
Quantity (millions of ounces)	133.3	130.6	129.6	133.2	135.0	133.4	133.9
Value at London market price	27.2	27.6	27.3	29.3	34.0	37.5	38.3
Total reserves including gold	585.7	645.7	741.7	845.1	934.0	1,089.8	1,151.8
Net debtor developing countries without debt-servicing problems							
Total reserves excluding gold							
IMF-related assets							
Reserve positions in the IMF	4.6	4.8	4.6	5.7	7.3	8.3	7.9
SDRs	2.6	2.4	2.1	2.1	1.9	2.2	2.2
Subtotal, IMF-related assets	7.2	7.2	6.7	7.7	9.2	10.5	10.2
Foreign exchange	428.5	489.4	571.7	664.6	752.7	884.4	940.7
Total reserves excluding gold	435.7	496.7	578.3	672.3	761.9	894.9	950.9
Gold ²							
Quantity (millions of ounces)	87.6	85.4	84.6	88.3	89.9	88.2	88.3
Value at London market price	17.9	18.1	17.8	19.4	22.7	24.8	25.3
Total reserves including gold	453.6	514.7	596.2	691.8	784.6	919.7	976.2

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

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

¹End-of-year figures for all years except 2004. "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 countries or areas.²One 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 Year¹

(In percent)

	1994	1995	1996	1997	1998	1999	2000	2001	2002	2003
All countries										
U.S. dollar	53.1	53.4	56.8	59.1	62.6	64.9	66.6	66.9	63.5	63.8
Japanese yen	7.8	6.7	6.0	5.1	5.4	5.4	6.2	5.5	5.2	4.8
Pound sterling	2.8	2.8	3.0	3.3	3.5	3.6	3.8	4.0	4.4	4.4
Swiss franc	0.6	0.5	0.5	0.5	0.5	0.4	0.5	0.5	0.6	0.4
Euro ²	—	—	—	—	—	13.5	16.3	16.7	19.3	19.7
Deutsche mark	15.3	14.7	14.0	13.7	13.1	—	—	—	—	—
French franc	2.5	2.4	1.9	1.5	1.7	—	—	—	—	—
Netherlands guilder	0.7	0.5	0.4	0.5	0.5	—	—	—	—	—
ECU ³	7.7	6.8	5.9	5.0	0.8	—	—	—	—	—
Unspecified currencies ⁴	9.5	12.1	11.5	11.3	12.0	12.1	6.6	6.4	7.1	6.8
Industrial countries										
U.S. dollar	50.8	51.8	56.1	57.9	66.7	72.7	72.5	72.7	69.1	70.8
Japanese yen	8.2	6.6	5.6	5.8	6.6	6.5	6.3	5.6	4.6	4.0
Pound sterling	2.3	2.1	2.0	1.9	2.2	2.3	2.0	1.8	2.2	1.7
Swiss franc	0.2	0.1	0.1	0.1	0.2	0.1	0.2	0.3	0.6	0.2
Euro ²	—	—	—	—	—	10.8	17.2	17.5	21.3	20.9
Deutsche mark	16.3	16.4	15.6	15.9	13.4	—	—	—	—	—
French franc	2.4	2.3	1.7	0.9	1.3	—	—	—	—	—
Netherlands guilder	0.3	0.2	0.2	0.2	0.2	—	—	—	—	—
ECU ³	14.6	13.4	12.0	10.9	1.9	—	—	—	—	—
Unspecified currencies ⁴	5.0	7.0	6.7	6.4	7.4	7.6	1.8	2.1	2.2	2.3
Developing countries										
U.S. dollar	55.6	55.1	57.4	60.2	59.4	59.0	62.2	62.9	59.8	59.3
Japanese yen	7.5	6.8	6.4	4.6	4.4	4.6	6.1	5.4	5.5	5.2
Pound sterling	3.5	3.4	3.9	4.4	4.4	4.6	5.1	5.4	5.8	6.2
Swiss franc	1.2	0.9	0.9	0.7	0.7	0.7	0.7	0.6	0.6	0.6
Euro	—	—	—	—	—	15.6	15.6	16.2	17.9	18.9
Deutsche mark	14.1	13.0	12.6	11.9	12.9	—	—	—	—	—
French franc	2.6	2.4	2.2	1.9	2.0	—	—	—	—	—
Netherlands guilder	1.1	0.9	0.7	0.7	0.7	—	—	—	—	—
ECU ³	—	—	—	—	—	—	—	—	—	—
Unspecified currencies ⁵	14.6	17.3	16.0	15.5	15.5	15.5	10.2	9.4	10.4	9.8

Note: See text footnote 2 on page 101.

¹Only IMF member countries that report their official holdings of foreign exchange are included in this table. Data available as of end-February, 2004.²Not comparable with the combined share of euro legacy currencies in previous years because amounts exclude 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, 1999.³In 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 the 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.⁴The 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.⁵The calculations here rely to a greater extent on IMF staff estimates than do those provided for the group of industrial countries.

The share of the Japanese yen in total foreign exchange reserves declined from 8 percent at the end of 1994 to 5 percent at the end of 2003. During the past decade, the share of pound sterling rose above 4 percent, while that of the Swiss franc remained below 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, was 7 percent in 2003.

For industrial countries, the share of U.S. dollar holdings increased throughout the 1990s, peaking at 73 percent in 2001 and amounting to 71 percent at the end of 2003. In 2003, the shares of the euro and the yen in industrial countries' foreign exchange reserves declined slightly to 21 and 4 percent, respectively. Shares of pound sterling and the Swiss franc have remained broadly constant over the past ten years, but the share of unspecified currencies fell to 2 percent in recent years.

The share of the U.S. dollar in developing countries' foreign exchange reserves declined to 59 percent in 2003, close to the historical average over the last decade. Holdings of the euro rose to 19 percent of those countries'

foreign exchange reserves, one percentage point higher than in 2002. Over the past decade, the share of the yen has gradually decreased by about 2 percentage points, to 5 percent at the end of 2003, while the share of pound sterling has increased by about 2 percentage points, to 6 percent. The share of the Swiss franc has remained below 1 percent since 1997. Unspecified currencies accounted for 10 percent of developing countries' foreign exchange reserves in 2003.

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 161 billion in 2003, as an increase of SDR 263 billion in the quantity of U.S. dollar holdings was offset by a valuation decline of SDR 102 billion. Euro holdings increased by SDR 56 billion, reflecting a quantity increase of SDR 22 billion and a valuation increase of SDR 34 billion. Japanese yen holdings increased by SDR 5 billion as quantity and valuation each increased by more than SDR 2 billion. Driven by the quantity effect, in 2003, pound sterling holdings increased by SDR 12 billion, whereas Swiss franc holdings declined by more than SDR 1 billion.

Table 1.3 Currency Composition of Official Holdings of Foreign Exchange, End of Year¹

(In millions of SDRs)

	1994	1995	1996	1997	1998	1999	2000	2001	2002	2003
U.S. dollar										
Change in holdings	29,536	69,406	116,520	88,197	18,286	102,343	142,211	89,258	20,653	161,210
Quantity change	52,697	74,080	99,620	47,843	46,975	84,937	97,320	54,425	102,094	263,017
Price change	-23,161	-4,674	16,900	40,353	-28,689	17,406	44,891	34,833	-81,440	-101,807
Year-end value	397,403	466,809	583,328	671,525	689,812	792,154	934,365	1,023,623	1,044,276	1,205,486
Japanese yen										
Change in holdings	5,969	-24	2,636	-3,193	979	7,024	20,951	-2,901	931	4,693
Quantity change	3,055	3,016	7,982	-69	-3,465	-2,148	26,525	5,718	-284	2,507
Price change	2,914	-3,041	-5,346	-3,123	4,444	9,172	-5,574	-8,619	1,215	2,186
Year-end value	58,761	58,737	61,372	58,180	59,159	66,183	87,134	84,233	85,164	89,857
Pound sterling										
Change in holdings	3,603	2,714	6,753	6,235	1,103	6,165	9,204	7,270	11,262	12,008
Quantity change	3,719	3,214	3,194	4,856	2,581	6,313	10,575	6,791	9,442	10,899
Price change	-116	-501	3,560	1,379	-1,478	-148	-1,371	479	1,819	1,109
Year-end value	21,313	24,027	30,780	37,015	38,118	44,283	53,487	60,756	72,018	84,026
Swiss franc										
Change in holdings	-1,157	-94	534	-3	-69	78	2,053	437	1,535	-1,495
Quantity change	-1,494	-669	1,165	71	-112	721	1,825	350	559	-1,709
Price change	337	575	-631	-74	43	-643	228	87	976	215
Year-end value	4,783	4,689	5,223	5,220	5,151	5,229	7,282	7,719	9,253	7,759
Euro										
Change in holdings	-	-	-	-	-	5,649 ²	63,575	27,158	60,921	55,520
Quantity change	-	-	-	-	-	25,403	67,242	31,201	33,675	21,654
Price change	-	-	-	-	-	-19,754	-3,667	-4,042	27,246	33,866
Year-end value	-	-	-	-	-	165,018	228,594	255,752	316,672	372,193
Deutsche mark										
Change in holdings	12,782	14,542	15,472	11,766	-11,410	-	-	-	-	-
Quantity change	7,663	7,630	22,049	23,069	-15,570	-	-	-	-	-
Price change	5,119	6,912	-6,577	-11,304	4,160	-	-	-	-	-
Year-end value	114,230	128,772	144,244	156,010	144,599	-	-	-	-	-
French franc										
Change in holdings	1,981	2,069	-872	-3,398	2,229	-	-	-	-	-
Quantity change	1,306	734	-204	-1,987	1,849	-	-	-	-	-
Price change	676	1,335	-668	-1,411	380	-	-	-	-	-
Year-end value	18,677	20,746	19,874	16,476	18,705	-	-	-	-	-
Netherlands guilder										
Change in holdings	-417	-171	-182	1,125	-562	-	-	-	-	-
Quantity change	-675	-460	47	1,524	-727	-	-	-	-	-
Price change	258	289	-229	-399	165	-	-	-	-	-
Year-end value	4,884	4,713	4,531	5,655	5,093	-	-	-	-	-
European currency unit										
Change in holdings	960	1,665	985	-3,240	-47,848	-	-	-	-	-
Quantity change	-1,035	-1,157	1,833	515	-49,304	-	-	-	-	-
Price change	1,994	2,822	-849	-3,755	1,456	-	-	-	-	-
Year-end value	57,613	59,278	60,262	57,022	9,174	-	-	-	-	-
Sum of the above³										
Change in holdings	53,257	90,107	141,845	97,488	-37,292	121,259	237,993	121,222	95,301	231,936
Quantity change	65,237	86,389	135,686	75,821	-17,774	115,225	203,487	98,484	145,486	296,367
Price change	-11,980	3,718	6,159	21,667	-19,517	6,034	34,506	22,738	-50,185	-64,431
Year-end value	677,663	767,770	909,615	1,007,102	969,811	1,072,868	1,310,861	1,432,082	1,527,384	1,759,320
Total official holdings⁴										
Change in holdings	60,440	122,044	154,252	108,692	-30,649	130,779	187,663	142,444	135,262	264,818
Year-end value	812,676	934,719	1,088,971	1,197,663	1,167,014	1,297,794	1,485,456	1,627,900	1,763,162	2,027,980

Note: See text footnote 2 on page 101.

¹The 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. Data available as of end-February, 2004.

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

³Each item represents the sum of the currencies above.

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

Financial Operations and Transactions

The tables in this appendix supplement the information given in Section 7 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, 1953–2004

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
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	9	—	—	9	18	39,439	—	—	1,848	41,287
2003	10	2	—	10	22	28,597	794	—	1,180	30,571
2004	5	—	—	10	15	14,519	—	—	967	15,486

Table II.2 Arrangements in Effect as of April 30, 1995–2004

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
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	58,920
2001	17	8	–	37	62	34,906	8,697	–	3,298	46,901
2002	13	4	–	35	52	44,095	7,643	–	4,201	55,939
2003	15	3	–	36	54	42,807	4,432	–	4,450	51,689
2004	11	2	–	36	49	53,944	794	–	4,356	59,094

Table II.3 Stand-By and Extended Arrangements in Effect During Financial Year Ended April 30, 2004

(In millions of SDRs)

Member	Arrangement Dates		Amounts Approved		Undrawn Balance	
	Effective date	Expiration date	Prior to FY2004	In FY2004	At date of termination	As of April 30, 2004
Argentina	1/24/2003	8/31/2003	2,175	–	–	–
Argentina	9/20/2003	9/19/2006	–	8,981	–	4,810
Bolivia	4/2/2003	6/15/2004	86	–	–	21
Bosnia and Herzegovina	8/2/2002	2/29/2004	68	–	–	–
Brazil	9/6/2002	3/31/2005	22,821	4,554	–	10,175
Bulgaria	2/27/2002	3/15/2004	240	–	–	–
Colombia	1/15/2003	1/14/2005	1,548	–	–	1,548
Croatia	2/3/2003	4/2/2004	106	–	106	–
Dominica	8/28/2002	1/2/2004	3	–	–	–
Dominican Republic	8/29/2003	8/28/2005	–	438	–	306
Ecuador	3/21/2003	4/20/2004	151	–	91	–
Guatemala	6/18/2003	3/15/2004	–	84	84	–
Jordan	7/3/2002	7/2/2004	85	–	–	75
Macedonia, FYR	4/30/2003	6/15/2004	20	–	–	8
Paraguay	12/15/2003	3/31/2005	–	50	–	50
Peru	2/1/2002	2/29/2004	255	–	255	–
Romania	10/31/2001	10/15/2003	300	–	–	–
Turkey	2/4/2002	2/3/2005	12,821	–	–	1,361
Ukraine	3/29/2004	3/28/2005	–	412	–	412
Uruguay	4/1/2002	3/31/2005	2,128	–	–	559
Total Stand-By Arrangements			42,807	14,519	536	19,325
Indonesia	2/4/2000	12/31/2003	3,638	–	–	–
Serbia and Montenegro	5/14/2002	5/13/2005	650	–	–	350
Sri Lanka	4/18/2003	4/17/2006	144	–	–	124
Total Extended Arrangements			4,432	–	–	474
Total			47,239	14,519	536	19,799



Table II.4 Arrangements Under the Poverty Reduction and Growth Facility in Effect During Financial Year Ended April 30, 2004

(In millions of SDRs)

Member	Arrangement Dates		Amounts Approved		Undrawn Balance	
	Effective date	Expiration date	Prior to FY2004	In FY2004	At date of termination	As of April 30, 2004
Albania	6/21/2002	6/20/2005	28	—	—	12
Armenia	5/23/2001	5/22/2004	69	—	—	19
Azerbaijan ¹	7/6/2001	3/31/2005	80	—	—	39
Bangladesh	6/20/2003	6/19/2006	—	347	—	248
Benin ²	7/17/2000	3/31/2004	27	—	—	—
Burkina Faso	6/11/2003	6/10/2006	—	24	—	17
Burundi	1/23/2004	1/22/2007	—	69	—	43
Cameroon ³	12/21/2000	12/20/2004	111	—	—	32
Cape Verde	4/10/2002	4/9/2005	9	—	—	4
Chad ⁴	1/7/2000	1/6/2004	48	—	5	—
Congo, Dem. Rep. of	6/12/2002	6/11/2005	580	—	—	80
Côte d'Ivoire	3/29/2002	3/28/2005	293	—	—	234
Dominica	12/29/2003	12/28/2006	—	8	—	5
Ethiopia ⁵	3/22/2001	7/31/2004	100	—	—	10
Gambia, The	7/18/2002	7/17/2005	20	—	—	17
Georgia	1/12/2001	1/11/2004	108	—	59	—
Ghana	5/9/2003	5/8/2006	—	185	—	132
Guinea	5/2/2001	5/1/2004	64	—	—	39
Guinea-Bissau	12/15/2000	12/14/2003	14	—	9	—
Guyana ⁶	9/20/2002	3/19/2006	55	—	—	43
Honduras	2/27/2004	2/26/2007	—	71	—	61
Kenya ⁷	8/4/2000	8/3/2003	190	—	156	—
Kenya	11/21/2003	11/20/2006	—	175	—	150
Kyrgyz Republic	12/6/2001	12/5/2004	73	—	—	19
Lao P.D.R. ⁸	4/25/2001	4/24/2005	32	—	—	14
Lesotho ⁹	3/9/2001	6/30/2004	25	—	—	4
Madagascar ¹⁰	3/1/2001	3/1/2005	79	12	—	23
Malawi ¹¹	12/21/2000	12/20/2004	45	—	—	32
Mali ¹²	8/6/1999	8/5/2003	51	—	—	—
Mauritania	7/18/2003	7/17/2006	—	6	—	6
Moldova	12/21/2000	12/20/2003	111	—	83	—
Mongolia ¹³	9/28/2001	7/31/2005	28	—	—	16
Mozambique ¹⁴	6/28/1999	6/27/2003	87	—	8	—
Nepal	11/19/2003	11/18/2006	—	50	—	43
Nicaragua	12/13/2002	12/12/2005	98	—	—	56
Niger ¹⁵	12/22/2000	6/30/2004	59	—	—	8
Pakistan	12/6/2001	12/5/2004	1,034	—	—	345
Rwanda	8/12/2002	8/11/2005	4	—	—	3
Senegal	4/28/2003	4/27/2006	24	—	—	17
Sierra Leone ¹⁶	9/26/2001	3/25/2005	131	—	—	28
Sri Lanka	4/18/2003	4/17/2006	269	—	—	231
Tajikistan	12/11/2002	12/10/2005	65	—	—	39
Tanzania ¹⁷	4/4/2000	8/15/2003	135	—	—	—
Tanzania	8/16/2003	8/15/2006	—	20	—	14
Uganda	9/13/2002	9/12/2005	14	—	—	8
Vietnam	4/13/2001	4/12/2004	290	—	166	—
Total			4,450	967	487	2,089

¹Extended from 7/5/04.

²Extended from 7/16/03.

³Extended from 12/20/03.

⁴Augmented by SDR 5.6 million on 5/16/01, and by SDR 5.6 million on 1/16/02. Extended from 1/6/03, and from 12/6/03.

⁵Augmented by SDR 13.4 million on 3/18/02. Extended from 3/21/04.

⁶Extended from 9/19/05.

⁷Augmented by SDR 40 million on 10/18/00.

⁸Extended from 4/24/04.

⁹Extended from 3/8/04.

¹⁰Augmented by SDR 12.2 million on 3/17/04. Extended from 2/29/04, and from 11/30/04.

¹¹Extended from 12/20/03.

¹²Extended from 8/5/02.

¹³Extended from 9/27/04.

¹⁴Augmented by SDR 28.4 million on 3/27/00. Extended from 6/27/02.

¹⁵Extended from 12/21/03.

¹⁶Extended from 9/25/04.

¹⁷Extended from 4/3/03, and from 6/30/03.

Table II.5 Summary of Disbursements, Repurchases, and Repayments, Financial Years Ended April 30, 1948–2004

(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	48,691
2002	29,194	–	–	952	30,146	19,207	–	769	19,976	58,699
2003	21,784	–	–	1,218	23,002	7,784	–	928	8,712	72,879
2004	17,830	–	–	865	18,695	21,638	–	890	22,528	69,031

¹Includes reserve tranche purchases.²Excludes reserve tranche purchases; includes outstanding associated loans from the Saudi Fund for Development.

Table II.6 Purchases and Loans from the IMF, Financial Year Ended April 30, 2004*(In millions of SDRs)*

Member	Reserve Tranche	Emergency Assistance	Stand-By/ Credit Tranche	Extended Fund Facility	SRF	Total Purchases	PRGF Loans	Total Purchases and Loans
Afghanistan	11	—	—	—	—	11	—	11
Albania	—	—	—	—	—	—	8	8
Argentina	—	—	5,372	—	—	5,372	—	5,372
Armenia	—	—	—	—	—	—	10	10
Azerbaijan	—	—	—	—	—	—	26	26
Bangladesh	—	—	—	—	—	—	99	99
Benin	—	—	—	—	—	—	4	4
Bolivia	—	—	21	—	—	21	—	21
Bosnia and Herzegovina	—	—	36	—	—	36	—	36
Brazil	—	—	5,787	—	3,807	9,594	—	9,594
Bulgaria	—	—	104	—	—	104	—	104
Burkina Faso	—	—	—	—	—	—	7	7
Burundi	—	10	—	—	—	10	26	36
Cameroon	—	—	—	—	—	—	16	16
Cape Verde	—	—	—	—	—	—	2	2
Chad	—	—	—	—	—	—	5	5
Congo, Dem. Rep. of	—	—	—	—	—	—	53	53
Dominica	—	—	1	—	—	1	3	4
Dominican Republic	—	—	131	—	—	131	—	131
Ecuador	—	—	30	—	—	30	—	30
Ethiopia	—	—	—	—	—	—	21	21
Ghana	—	—	—	—	—	—	53	53
Guyana	—	—	—	—	—	—	6	6
Haiti	5	—	—	—	—	5	—	5
Honduras	—	—	—	—	—	—	10	10
Indonesia	—	—	—	1,032	—	1,032	—	1,032
Kenya	—	—	—	—	—	—	25	25
Kyrgyz Republic	—	—	—	—	—	—	19	19
Lao P.D.R.	—	—	—	—	—	—	5	5
Lesotho	—	—	—	—	—	—	7	7
Macedonia, FYR	—	—	12	—	—	12	—	12
Madagascar	—	—	—	—	—	—	35	35
Malawi	—	—	—	—	—	—	6	6
Mali	—	—	—	—	—	—	6	6
Mauritania	—	—	—	—	—	—	1	1
Mongolia	—	—	—	—	—	—	8	8
Mozambique	—	—	—	—	—	—	8	8
Nepal	—	—	—	—	—	—	7	7
Nicaragua	—	—	—	—	—	—	35	35
Niger	—	—	—	—	—	—	17	17
Pakistan	—	—	—	—	—	—	258	258
Romania	—	—	110	—	—	110	—	110
Rwanda	—	—	—	—	—	—	1	1
Senegal	—	—	—	—	—	—	7	7
Serbia and Montenegro	—	—	—	100	—	100	—	100
Sierra Leone	—	—	—	—	—	—	28	28
Tajikistan	—	—	—	—	—	—	18	18
Tanzania	—	—	—	—	—	—	21	21
Turkey	—	—	1,021	—	—	1,021	—	1,021
Uganda	—	—	—	—	—	—	4	4
Uruguay	—	—	239	—	—	239	—	239
Total	16	10	12,865	1,132	3,807	17,830	865	18,695

Table II.7 Repurchases and Repayments to the IMF, Financial Year Ended April 30, 2004*(In millions of SDRs)*

Member	Stand-By/ Credit Tranche	Extended Fund Facility	Others ¹	Total Repurchases	SAF/PRGF and Trust Fund Repayments ²	Total Repurchases and Repayments
Albania	—	—	—	—	6	6
Algeria	—	195	112	307	—	307
Argentina	5,428	256	—	5,684	—	5,684
Armenia	—	—	6	6	14	20
Azerbaijan	—	8	31	39	13	52
Bangladesh	25	—	—	25	—	25
Belarus	—	—	18	18	—	18
Benin	—	—	—	—	10	10
Bolivia	—	—	—	—	25	25
Bosnia and Herzegovina	36	—	—	36	—	36
Brazil	9,646	—	—	9,646	—	9,646
Bulgaria	16	35	19	70	—	70
Burkina Faso	—	—	—	—	12	12
Burundi	19	—	—	19	—	19
Cambodia	—	—	1	1	8	9
Cameroon	—	—	—	—	14	14
Central African Rep.	—	—	—	—	1	1
Chad	—	—	—	—	13	13
Comoros	—	—	—	—	—	—
Congo, Rep. of	2	—	—	2	3	5
Côte d'Ivoire	—	—	—	—	83	83
Djibouti	1	—	—	1	—	1
Dominican Republic	15	—	—	15	—	15
Ecuador	59	—	—	59	—	59
Equatorial Guinea	—	—	—	—	—	—
Ethiopia	—	—	—	—	9	9
Gabon	3	10	—	13	—	13
Gambia, The	—	—	—	—	2	2
Georgia	—	—	9	9	25	34
Ghana	—	—	—	—	19	19
Guinea	—	—	—	—	13	13
Guinea-Bissau	2	—	—	2	2	4
Guyana	—	—	—	—	13	13
Haiti	6	—	—	6	3	9
Honduras	18	—	—	18	5	23
Indonesia	183	577	—	760	—	760
Jamaica	—	11	—	11	—	11
Jordan	—	56	17	73	—	73
Kenya	—	—	—	—	14	14
Kyrgyz Republic	—	—	—	—	19	19
Lao P.D.R.	—	—	—	—	6	6
Latvia	—	—	8	8	—	8
Lesotho	—	—	—	—	1	1
Lithuania	—	11	7	18	—	18
Macedonia, FYR	—	—	11	11	5	16
Madagascar	—	—	—	—	5	5
Malawi	—	—	—	—	7	7
Mali	—	—	—	—	22	22
Mauritania	—	—	—	—	13	13
Moldova	—	12	6	18	—	18
Mongolia	—	—	—	—	6	6
Mozambique	—	—	—	—	16	16
Nepal	—	—	—	—	2	2
Nicaragua	—	—	—	—	7	7
Niger	—	—	—	—	9	9
Pakistan	193	37	132	362	86	448
Panama	—	7	—	7	—	7
Papua New Guinea	10	—	—	10	—	10
Peru	—	27	—	27	—	27
Philippines	325	132	—	457	—	457

Table II.7 (concluded)

Member	Stand-By/ Credit Tranche	Extended Fund Facility	Others ¹	Total Repurchases	SAF/PRGF and Trust Fund Repayments ²	Total Repurchases and Repayments
Romania	66	—	31	97	—	97
Russian Federation	236	851	269	1,356	—	1,356
Rwanda	—	—	—	—	1	1
Senegal	—	—	—	—	30	30
Serbia and Montenegro	33	—	—	33	—	33
Sierra Leone	—	—	—	—	25	25
Sri Lanka	—	—	—	—	17	17
St. Kitts and Nevis	1	—	—	1	—	1
Sudan	4	10	5	19	—	19
Tajikistan	—	—	—	—	2	2
Tanzania	—	—	—	—	21	21
Thailand	138	—	—	138	—	138
Togo	—	—	—	—	11	11
Turkey	2,018	—	—	2,018	—	2,018
Uganda	—	—	—	—	36	36
Ukraine	—	89	83	172	—	172
Uruguay	43	—	—	43	—	43
Uzbekistan	—	—	17	17	—	17
Vietnam	—	—	3	3	48	51
Yemen, Rep. of	—	7	—	7	13	20
Zambia	—	—	—	—	169	169
Zimbabwe	—	—	—	—	7	7
Total	18,523	2,330	785	21,638	890	22,528

¹Includes Compensatory and Contingency Financing Facility and Systemic Transformation Facility.

²Includes repayment for Saudi Fund for Development.

Table II.8 Outstanding IMF Credit by Facility and Policy, Financial Years Ended April 30, 1995–2004*(In millions of SDRs and percent of total)*

	1995	1996	1997	1998	1999	2000	2001	2002	2003	2004
	<i>(In millions of SDRs)</i>									
Stand-By Arrangements ¹	15,117	20,700	18,064	25,526	25,213	21,410	17,101	28,612	34,241	42,070
Extended Arrangements	10,155	9,982	11,155	12,521	16,574	16,808	16,108	15,538	14,981	13,783
Supplemental Reserve Facility	–	–	–	7,100	12,655	–	4,085	5,875	15,700	6,027
Compensatory Financing Facility	3,021	1,602	1,336	685	2,845	3,032	2,992	745	413	119
Systemic Transformation Facility	3,848	3,984	3,984	3,869	3,364	2,718	1,933	1,311	644	154
Subtotal (General Resources Account)	32,140	36,268	34,539	49,701	60,651	43,968	42,219	52,081	65,978	62,153
SAF Arrangements	1,277	1,208	954	730	565	456	432	341	137	86
PRGF Arrangements ²	3,318	4,469	4,904	5,505	5,870	5,857	5,951	6,188	6,676	6,703
Trust Fund	102	95	90	90	89	89	89	89	89	89
Total	36,837	42,040	40,488	56,026	67,175	50,370	48,691	58,699	72,879	69,031
	<i>(Percent of total)</i>									
Stand-By Arrangements ¹	41	49	45	46	38	43	35	49	47	61
Extended Arrangements	28	24	28	22	25	33	33	26	21	20
Supplemental Reserve Facility	–	–	–	13	19	–	9	10	21	9
Compensatory Financing Facility	8	4	3	1	4	6	6	1	1	– ³
Systemic Transformation Facility	10	9	10	7	5	5	4	2	1	– ³
Subtotal (General Resources Account)	87	86	85	89	90	87	87	88	91	90
SAF Arrangements	3	3	2	1	1	1	1	1	– ³	– ³
PRGF Arrangements ²	9	11	12	10	9	12	12	11	9	10
Trust Fund	– ³	– ³	– ³	– ³	– ³	– ³	– ³	– ³	– ³	– ³
Total	100	100	100	100	100	100	100	100	100	100

¹Includes outstanding credit tranche and emergency purchases.²Includes outstanding associated loans from the Saudi Fund for Development.³Less than one-half of 1 percent of total.

Table II.9 Summary of Bilateral Contributions to the PRGF and PRGF-HIPC Trusts*(In millions of SDRs; as of April 30, 2004)*

	PRGF Trust		PRGF-HIPC Trust
	Subsidy contributions "as needed" ¹	Loan commitments ²	Subsidies and HIPC grant contributions "as needed" ³
Total	3,490.7	15,722.7	1,561.6
Major industrial countries	2,299.9	12,864.8	880.5
Canada	204.5	700.0	48.8
France	470.6	2,900.0	82.2
Germany	198.1	2,750.0	127.2
Italy	154.3	1,380.0	63.6
Japan	724.1	5,134.8	144.0
United Kingdom	370.1	—	82.2
United States	178.1	—	332.6
Other advanced countries	977.8	2,452.8	299.7
Australia	16.5	—	24.8
Austria	62.2	—	14.3
Belgium	118.2	350.0	35.3
Denmark	67.0	100.0	18.5
Finland	42.1	—	8.0
Greece	39.4	—	6.3
Iceland	4.6	—	0.9
Ireland	8.4	—	5.9
Israel	—	—	1.8
Korea	60.0	92.7	15.9
Luxembourg	14.1	—	0.7
Netherlands	142.8	450.0	45.4
New Zealand	—	—	1.7
Norway	45.5	150.0	18.5
Portugal	5.1	—	6.6
San Marino	—	—	0.0 ⁴
Singapore	30.7	—	16.5
Spain	24.5	708.4	23.3
Sweden	186.6	—	18.3
Switzerland	109.9	601.7	37.0
Fuel-exporting countries	16.7	49.5	93.1
Algeria	—	—	5.5
Brunei Darussalam	—	—	0.1
Gabon ⁵	—	—	2.5
Iran, Islamic Republic of	1.9	—	2.2
Kuwait	—	—	3.1
Libya	—	—	7.3
Nigeria	—	—	13.9
Oman	—	—	0.8
Qatar	—	—	0.5
Saudi Arabia	14.8	49.5	53.5
United Arab Emirates	—	—	3.8
Other developing countries	182.9	355.6	221.3
Argentina ⁶	35.3	—	16.2
Bangladesh	0.9	—	1.7
Barbados	—	—	0.4
Belize	—	—	0.3
Botswana	1.9	—	5.7
Brazil	—	—	15.0
Cambodia	—	—	0.0 ⁴
Chile	4.0	—	4.4
China	15.1	200.0	19.7
Colombia	—	—	0.9
Cyprus	—	—	0.8
Egypt	13.4	155.6	1.3
Fiji	—	—	0.1
Ghana	—	—	0.5
India	13.1	—	22.9
Indonesia	6.5	—	8.2
Jamaica	—	—	2.7
Malaysia	43.9	—	12.7
Malta	2.1	—	1.1
Mauritius	—	—	0.1
Mexico	—	—	54.5
Micronesia, Federated States of	—	—	0.0 ⁴

Table II.9 (concluded)

	PRGF Trust		PRGF-HIPC Trust
	Subsidy contributions "as needed" ¹	Loan commitments ²	Subsidies and HIPC grant contributions "as needed" ³
Morocco	9.7	—	1.6
Pakistan	3.8	—	3.4
Paraguay	—	—	0.1
Peru	—	—	2.5
Philippines	—	—	6.7
Samoa	—	—	0.0 ⁴
South Africa	—	—	28.6
Sri Lanka	—	—	0.6
St. Lucia	—	—	0.1
St. Vincent and the Grenadines	—	—	0.1
Swaziland	—	—	0.0 ⁴
Thailand	17.3	—	4.5
Tonga	—	—	0.0 ⁴
Tunisia	1.7	—	1.5
Turkey	11.8	—	—
Uruguay	2.5	—	2.2
Vietnam	—	—	0.4
Countries in transition	13.4	—	42.9
Croatia	—	—	0.4
Czech Republic	13.4	—	4.1
Estonia	—	—	0.5
Hungary	—	—	6.0
Latvia	—	—	1.0
Poland	—	—	12.0
Russian Federation	—	—	14.6
Slovak Republic	—	—	4.0
Slovenia	—	—	0.4
Pending contributions to the PRGF-HIPC Trust ("as needed")³			24.0
Bahrain	—	—	0.9
Dominican Republic	—	—	0.5
Grenada	—	—	0.1
Lebanon	—	—	0.4
Maldives	—	—	0.0 ⁴
Trinidad and Tobago	—	—	1.6
Vanuatu	—	—	0.1
Venezuela	—	—	20.4

¹The calculations are based on actual interest rates through the end of January 2004 and an assumed SDR interest rate of 5 percent a year thereafter.

²Excludes a loan commitment from the OPEC Fund for International Development of \$50 million (equivalent to SDR 37 million).

³The term "as needed" refers to the nominal undiscounted sum of the projected delivery of HIPC assistance plus the profile of projected subsidy needs associated with PRGF lending during 2002–05.

⁴Less than SDR 100,000.

⁵Contribution to the PRGF-HIPC Trust includes a pending balance of SDR 1.9 million "as needed."

⁶Contribution to the PRGF-HIPC Trust includes a pending balance of SDR 6.4 million "as needed."

Table II.10 Holdings of SDRs by All Participants and by Groups of Countries as Percentage of Their Cumulative Allocations of SDRs, at End of Financial Years Ended April 30, 1995–2004

	Nonindustrial Countries ²					
	All Participants ¹	Industrial Countries ²	All nonindustrial countries	Net creditor countries ³	Net debtor countries	
					All net debtor countries ³	Heavily indebted poor countries
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
2003	93.0	102.4	72.0	173.7	57.7	17.1
2004	96.3	105.6	76.3	230.5	23.5	20.9

¹Member countries participating in the SDR Department. At the end of FY2004, of the total SDRs allocated to participants in the SDR Department (SDR 21.4 billion), SDR 0.8 billion was not held by participants but by the IMF and prescribed holders.

²Based on IFS classification (International Monetary Fund, *International Financial Statistics*, various years).

³Net creditor countries' holdings of SDRs are greater than their cumulative allocations of SDRs. Net debtor countries' holdings of SDRs are smaller than their cumulative allocations of SDRs.

Table II.11 Key IMF Rates, Financial Year Ended April 30, 2004

(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
2003					
May 1	1.75	2.31	November 3	1.59	2.10
May 5	1.72	2.27	November 10	1.59	2.10
May 12	1.72	2.27	November 17	1.58	2.09
May 19	1.68	2.22	November 24	1.58	2.09
May 26	1.67	2.20			
June 2	1.66	2.19	December 1	1.59	2.10
June 9	1.60	2.11	December 8	1.59	2.10
June 16	1.51	1.99	December 15	1.59	2.10
June 23	1.50	1.98	December 22	1.58	2.09
June 30	1.52	2.01	December 29	1.57	2.07
July 7	1.51	1.99	2004		
July 14	1.49	1.97	January 5	1.59	2.10
July 21	1.49	1.97	January 12	1.58	2.09
July 28	1.51	1.99	January 19	1.57	2.07
			January 26	1.57	2.07
August 4	1.52	2.01	February 2	1.59	2.10
August 11	1.53	2.02	February 9	1.60	2.11
August 18	1.52	2.01	February 16	1.60	2.11
August 25	1.53	2.02	February 23	1.61	2.13
September 1	1.55	2.05	March 1	1.62	2.14
September 8	1.54	2.03	March 8	1.61	2.13
September 15	1.55	2.05	March 15	1.61	2.13
September 22	1.55	2.05	March 22	1.60	2.11
September 29	1.54	2.03	March 29	1.58	2.09
October 6	1.54	2.03	April 5	1.61	2.13
October 13	1.54	2.03	April 12	1.61	2.13
October 20	1.55	2.05	April 19	1.60	2.11
October 27	1.58	2.09	April 26	1.62	2.14

¹Under the Executive Board's FY2004 decision on burden sharing, the rate of remuneration was adjusted downward, and the rate of charge was adjusted upward, to share the impacts 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 FY2004 are refundable when overdue charges are paid and when overdue obligations cease to be a problem. The basic rate of charge remained set at 132.0 percent of the SDR interest rate throughout FY2004.

Table II.12 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	Iceland	September 19, 1983
Antigua and Barbuda	November 22, 1983	India	August 20, 1994
Argentina	May 14, 1968	Indonesia	May 7, 1988
Armenia	May 29, 1997	Ireland	February 15, 1961
Australia	July 1, 1965	Israel	September 21, 1993
Austria	August 1, 1962	Italy	February 15, 1961
Bahamas, The	December 5, 1973	Jamaica	February 22, 1963
Bahrain	March 20, 1973	Japan	April 1, 1964
Bangladesh	April 11, 1994	Jordan	February 20, 1995
Barbados	November 3, 1993	Kazakhstan	July 16, 1996
Belarus	November 5, 2001	Kenya	June 30, 1994
Belgium	February 15, 1961	Kiribati	August 22, 1986
Belize	June 14, 1983	Korea	November 1, 1988
Benin	June 1, 1996	Kuwait	April 5, 1963
Bolivia	June 5, 1967	Kyrgyz Republic	March 29, 1995
Botswana	November 17, 1995	Latvia	June 10, 1994
Brazil	November 30, 1999	Lebanon	July 1, 1993
Brunei Darussalam	October 10, 1995	Lesotho	March 5, 1997
Bulgaria	September 24, 1998	Libya	June 21, 2003
Burkina Faso	June 1, 1996	Lithuania	May 3, 1994
Cambodia	January 1, 2002	Luxembourg	February 15, 1961
Cameroon	June 1, 1996	Macedonia, FYR	June 19, 1998
Canada	March 25, 1952	Madagascar	September 18, 1996
Central African Republic	June 1, 1996	Malawi	December 7, 1995
Chad	June 1, 1996	Malaysia	November 11, 1968
Chile	July 27, 1977	Mali	June 1, 1996
China	December 1, 1996	Malta	November 30, 1994
Comoros	June 1, 1996	Marshall Islands	May 21, 1992
Congo, Democratic Republic of	February 10, 2003	Mauritania	July 19, 1999
Congo, Republic of	June 1, 1996	Mauritius	September 29, 1993
Costa Rica	February 1, 1965	Mexico	November 12, 1946
Côte d'Ivoire	June 1, 1996	Micronesia, Federated States of	June 24, 1993
Croatia	May 29, 1995	Moldova	June 30, 1995
Cyprus	January 9, 1991	Mongolia	February 1, 1996
Czech Republic	October 1, 1995	Morocco	January 21, 1993
Denmark	May 1, 1967	Namibia	September 20, 1996
Djibouti	September 19, 1980	Nepal	May 30, 1994
Dominica	December 13, 1979	Netherlands	February 15, 1961
Dominican Republic	August 1, 1953	New Zealand	August 5, 1982
Ecuador	August 31, 1970	Nicaragua	July 20, 1964
El Salvador	November 6, 1946	Niger	June 1, 1996
Equatorial Guinea	June 1, 1996	Norway	May 11, 1967
Estonia	August 15, 1994	Oman	June 19, 1974
Fiji	August 4, 1972	Pakistan	July 1, 1994
Finland	September 25, 1979	Palau	December 16, 1997
France	February 15, 1961	Panama	November 26, 1946
Gabon	June 1, 1996	Papua New Guinea	December 4, 1975
Gambia, The	January 21, 1993	Paraguay	August 22, 1994
Georgia	December 20, 1996	Peru	February 15, 1961
Germany	February 15, 1961	Philippines	September 8, 1995
Ghana	February 21, 1994	Poland	June 1, 1995
Greece	July 7, 1992	Portugal	September 12, 1988
Grenada	January 24, 1994	Qatar	June 4, 1973
Guatemala	January 27, 1947	Romania	March 25, 1998
Guinea	November 17, 1995	Russian Federation	June 1, 1996
Guinea-Bissau	January 1, 1997	Rwanda	December 10, 1998
Guyana	December 27, 1966	St. Kitts and Nevis	December 3, 1984
Haiti	December 22, 1953	St. Lucia	May 30, 1980
Honduras	July 1, 1950	St. Vincent and the Grenadines	August 24, 1981
Hungary	January 1, 1996	Samoa	October 6, 1994

Table II.12 (concluded)

Member	Effective Date of Acceptance	Member	Effective Date of Acceptance
San Marino	September 23, 1992	Thailand	May 4, 1990
Saudi Arabia	March 22, 1961	Timor-Leste	July 23, 2002
Senegal	June 1, 1996	Togo	June 1, 1996
Serbia and Montenegro	May 15, 2002	Tonga	March 22, 1991
Seychelles	January 3, 1978	Trinidad and Tobago	December 13, 1993
Sierra Leone	December 14, 1995	Tunisia	January 6, 1993
Singapore	November 9, 1968	Turkey	March 22, 1990
Slovak Republic	October 1, 1995	Uganda	April 5, 1994
Slovenia	September 1, 1995	Ukraine	September 24, 1996
Solomon Islands	July 24, 1979	United Arab Emirates	February 13, 1974
South Africa	September 15, 1973	United Kingdom	February 15, 1961
Spain	July 15, 1986	United States	December 10, 1946
Sri Lanka	March 15, 1994	Uruguay	May 2, 1980
Sudan	October 29, 2003	Uzbekistan	October 15, 2003
Suriname	June 29, 1978	Vanuatu	December 1, 1982
Swaziland	December 11, 1989	Venezuela	July 1, 1976
Sweden	February 15, 1961	Yemen, Republic of	December 10, 1996
Switzerland	May 29, 1992	Zambia	April 19, 2002
Tanzania	July 15, 1996	Zimbabwe	February 3, 1995

Note: The IMF's Articles of Agreement can be found at www.imf.org/external/about.htm.

Table II.13 De Facto Exchange Rate Arrangements and Anchors of Monetary Policy at April 30, 2004¹

This classification system is based on members' actual, de facto arrangements as identified by IMF staff, which may differ from their officially announced arrangements. The scheme ranks exchange rate arrangements on the basis of their degree of flexibility and the existence of formal or informal commitments to exchange rate paths. It distinguishes among different forms of exchange rate regimes, in addition to arrangements with no separate legal tender, to help assess the implications of the choice of exchange rate arrangement for the degree of monetary policy independence. 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 exchange rate regimes can be consistent with similar monetary policy 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 (formal dollarization), 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 implies the complete surrender of 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 will be issued only against foreign exchange and that it will remain fully backed by foreign assets, eliminating traditional central bank functions, such as monetary control and lender of last resort, and leaving little scope for discretionary monetary policy. Some flexibility may still be afforded, depending on how strict the banking rules of the currency board arrangement are.

Other Conventional Fixed-Peg Arrangements

The country (formally or de facto) pegs its currency at a fixed rate to another currency or a basket of currencies, where the basket is formed from the currencies of major trading or financial partners and weights reflect the geographical distribution of trade, services, or capital flows. The currency composites can also be standardized, as in the case of the SDR. There is no commitment to keep the parity irrevocably. The exchange rate may fluctuate within narrow margins of less than ± 1 percent around a central rate—or the maximum and minimum value of the exchange rate may remain within a narrow margin of 2 percent—for at least three months. The monetary authority stands ready to maintain the fixed parity through direct intervention (i.e., via sale/purchase of foreign exchange in the market) or indirect intervention (e.g., via aggressive use of interest rate policy, imposition of foreign exchange regulations, exercise of moral suasion that constrains foreign exchange activity, or through intervention by other public institutions). Flexibility of monetary policy, though limited, is greater than in the case of exchange arrangements with no separate legal tender and currency boards because traditional central banking functions are still possible, and the monetary authority can adjust the level of the exchange rate, although relatively 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 fixed central rate or the margin between the maximum and minimum value of the exchange rate exceeds 2 percent. It also includes arrangements of countries in the exchange rate mechanism (ERM) of the European Monetary System (EMS) that was replaced with the ERM II on January 1, 1999. There is a limited degree of monetary policy 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, such as past inflation differentials vis-à-vis major trading partners, differentials between the inflation target and expected inflation in major trading partners, and so forth. The rate of crawl can be set to generate inflation-adjusted changes in the exchange rate (backward looking) or set at a preannounced fixed rate and/or below the projected inflation differentials

(forward looking). Maintaining a crawling peg imposes constraints on monetary policy in a manner similar to 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—or the margin between the maximum and minimum value of the exchange rate exceeds 2 percent—and the central rate or margins are adjusted periodically at a fixed rate or in response to changes in selective quantitative indicators. The degree of exchange rate flexibility is a function of the band width. Bands either are symmetric around a crawling central parity or widen gradually with an asymmetric choice of the crawl of upper and lower bands. (In the latter case, there may be no preannounced central rate.) The commitment to maintain the exchange rate within the band imposes constraints on monetary policy, with the degree of policy independence being a function of the band width.

Managed Floating with No Predetermined Path for the Exchange Rate

The monetary authority attempts to influence the exchange rate without having a specific exchange rate path or target. Indicators for managing the rate are broadly judgmental (e.g., balance of payments position, international reserves, parallel market developments), and adjustments may not be automatic. Intervention may be direct or indirect.

Independently Floating

The exchange rate is market determined, with any official foreign exchange market intervention aimed at moderating the rate of change and preventing undue fluctuations in the exchange rate, rather than establishing a level for it.

Monetary Policy Frameworks

The exchange rate regimes are presented alongside 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. This type of regime covers exchange rate regimes with no separate legal tender; currency board arrangements; fixed pegs with and without bands; and crawling pegs with and without bands.

Monetary Aggregate Anchor

The monetary authority uses its instruments to achieve a target growth rate for a monetary aggregate, such as reserve money, M1, or M2, and the targeted aggregate becomes the nominal anchor or intermediate target of monetary policy.

Inflation-Targeting Framework

This 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 attaining its inflation objectives. Monetary policy decisions are guided by the deviation of forecasts of future inflation from the announced target, with the inflation forecast acting (implicitly or explicitly) as the intermediate target of monetary policy.

Fund-Supported or Other Monetary Program

This involves implementation of monetary and exchange rate policies within the confines of a framework that establishes floors for international reserves and ceilings for net domestic assets of the central bank. 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.

Table II.13 (continued)

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 (41)	<i>Another currency as legal tender</i>	<i>ECCU²</i>	<i>CFA franc zone</i>				<i>Euro area³</i>
			<i>WAEMU</i>	<i>CAEMC</i>			Austria
	Ecuador	Antigua and Barbuda	Benin	Cameroon*			Belgium
	El Salvador ⁴	Dominica*	Burkina Faso*	Central African Rep.			Finland
	Kiribati	Grenada	Côte d'Ivoire*	Chad			France
	Marshall Islands	St. Kitts and Nevis	Guinea-Bissau	Congo, Rep. of			Germany
	Micronesia, Fed. States of	St. Lucia	Mali	Equatorial Guinea			Greece
	Palau	St. Vincent and the Grenadines	Niger*	Gabon			Ireland
	Panama		Senegal				Italy
	San Marino		Togo				Luxembourg
	Timor-Leste						Netherlands
							Portugal
							Spain
Currency board arrangements (7)	Bosnia and Herzegovina						
	Brunei Darussalam						
	Bulgaria						
	China—Hong Kong SAR						
	Djibouti						
	Estonia						
	Lithuania						
Other conventional fixed-peg arrangements (41)	<i>Against a single currency (32)</i>	<i>Against a composite (9)</i>		China† ⁶			
	Aruba	Botswana ⁵					
	Bahamas, The ⁵	Fiji					
	Bahrain	Latvia					
	Barbados	Libya					
	Belize	Malta					
	Bhutan	Morocco					
	Cape Verde*	Samoa					
	China† ⁶	Seychelles					
	Comoros ⁷	Vanuatu					
	Eritrea						
	Guinea* ⁶						
	Jordan* ⁶						
	Kuwait						
	Lebanon ⁶						
	Lesotho*						
	Macedonia, FYR* ⁶						
	Malaysia						
	Maldives ⁶						
	Namibia						
	Nepal*						
	Netherlands Antilles						
	Oman						
	Qatar						
	Saudi Arabia						
	Suriname ^{5,6}						
	Swaziland						
	Syrian Arab Rep. ⁵						
	Turkmenistan ⁶						
	Ukraine ⁶						
	United Arab Emirates						
	Venezuela						
	Zimbabwe ⁶						
Pegged exchange rates within horizontal bands (4)⁸	<i>Within a cooperative arrangement (1)</i>	<i>Other band arrangements (3)</i>			Hungary†		
	Denmark ⁹	Cyprus					
		Hungary†					
		Tonga					

Table II.13 (concluded)

Exchange Rate Regime (number of countries)	Exchange rate anchor	Monetary aggregate target	Inflation-targeting framework	IMF-supported or other monetary program	Other
Crawling pegs (5)	Bolivia Costa Rica Nicaragua* Solomon Islands ⁶ Tunisia	Tunisia			
Exchange rates within crawling bands (5)¹⁰	Belarus Honduras* Israel† Romania ⁶ Slovenia† ⁶		Israel†		
Managed floating with no preannounced path for the exchange rate (49)		Bangladesh* Cambodia ⁵ Egypt ⁵ Ghana* ⁶ Guyana* Indonesia Iran, I.R. of Jamaica ⁶ Mauritius Sudan Zambia	Czech Rep. Peru ⁶ Thailand	Argentina* Azerbaijan* Croatia Ethiopia* Georgia Haiti ^{3,6} Kenya* Kyrgyz Rep.* Lao P.D.R.* ⁵ Moldova ⁶ Mongolia* Mozambique ⁶ Pakistan* Rwanda* Serbia and Montenegro* ¹¹ Tajikistan* Vietnam	Afghanistan, I.S. of Algeria ³ Angola ³ Burundi* ³ Gambia, The ^{3,6} India ³ Iraq Kazakhstan ³ Mauritania* Myanmar ^{3,5,6} Nigeria ⁶ Paraguay* ³ Russian Federation ³ São Tomé and Príncipe Singapore ³ Slovak Rep. ³ Trinidad and Tobago Uzbekistan ^{3,5}
Independently floating (35)		Malawi* Sierra Leone* ⁶ Sri Lanka* Uruguay* Yemen, Rep. of	Australia Brazil* Canada Chile ⁵ Colombia* Guatemala† Iceland Korea Mexico New Zealand Norway Philippines Poland South Africa Sweden Turkey* United Kingdom	Albania* Armenia* Congo, Dem. Rep. of* Madagascar* Tanzania* Uganda*	Dominican Rep.* ³ Japan ³ Liberia ^{3,6} Papua New Guinea ³ Somalia ^{5,12} Switzerland ³ United States ³

Sources: International Monetary Fund, Country Reports and *International Financial Statistics*.

¹An asterisk (*) indicates that the country has an IMF-supported or other monetary program. A dagger (†) indicates that the country adopts more than one nominal anchor in conducting monetary policy. (It should be noted, however, that it would not be possible, for practical reasons, to infer from this table which nominal anchor plays the principal role in conducting monetary policy.)

²These member countries of the Eastern Caribbean Currency Union have a currency board arrangement.

³The country has no explicitly stated nominal anchor but, rather, monitors various indicators in conducting monetary policy.

⁴For 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 colón notes wear out physically.

⁵The member maintains an exchange arrangement involving more than one market. The arrangement shown is the one maintained in the major market.

⁶The regime operating de facto in the country is different from its de jure regime.

⁷Comoros has the same arrangement with the French Treasury as the CFA franc zone countries.

⁸The band widths for these countries are as follows: Cyprus (±15%), Denmark (±2.25%), Hungary (±15%), and Tonga (±5%).

⁹Participants in the ERM (exchange rate mechanism) II of the European Monetary System.

¹⁰The band widths for these countries are Belarus (adjusted frequently), Honduras (±7%), Israel (±26%), and Romania and Slovenia (unannounced).

¹¹The description of the exchange rate regime applies to the Republic of Serbia only, which accounts for about 93% of the economy of Serbia and Montenegro; in the Republic of Montenegro, the euro is legal tender. In the United Nations-administered province of Kosovo, the euro is the most widely used currency.

¹²Insufficient information on the country is available for classification.

Principal Policy Decisions of the Executive Board

Technical Assistance—Framework Administered Account—Establishment of China Technical Assistance Subaccount

In accordance with the terms and conditions of the Instrument establishing the Framework Administered Account for Technical Assistance Activities (Decision No. 10942-(95/33)),¹ as amended, the Fund hereby approves the establishment of the “China Technical Assistance Subaccount,” which shall be used by the Fund to administer resources to be contributed by the government of the People’s Republic of China, as described in EBS/03/61 (5/16/03).

Decision No. 13015-(03/49)
Adopted May 23, 2003

Technical Assistance—Framework Administered Account—Establishment of Iraq Technical Assistance Subaccount

In accordance with the terms and conditions of the Instrument establishing the Framework Administered Account for Technical Assistance Activities (Decision No. 10942-(95/33)),² as amended, the Fund hereby approves the establishment of the “Technical Assistance Subaccount for Iraq,” which shall be used by the Fund to administer resources to be contributed by the Governments of Australia, Canada, Italy, and the United Kingdom, and any subsequent Contributors, as described in EBS/03/105 (7/15/03).

Decision No. 13062-(03/72)
Adopted July 22, 2003

Overdue Financial Obligations—Strengthened Cooperative Strategy—Review

The Fund has reviewed progress under the strengthened cooperative strategy with respect to overdue financial obligations to the Fund as described in EBS/03/118 (8/14/03). The Fund reaffirms its support for the strengthened cooperative strategy and agrees to extend the availability of the rights approach until end-August 2004 (EBS/03/118, 8/14/03).

Decision No. 13080-(03/80)
Adopted August 21, 2003

General Data Dissemination System—Amendment

The Executive Directors approve the draft amendment to the General Data Dissemination System as set forth in SM/03/212, Sup. 4 (10/29/03).

Decision No. 13126-(03/102)
Adopted November 6, 2003

Income Position for FY2004—Review

The Fund has reviewed the income position for FY2004 in accordance with Rule I-6(4)(b) (EBS/03/163, 12/5/03).

Decision No. 13145-(03/114)
Adopted December 12, 2003

East African Development Bank—Termination of Status as Prescribed Holder of SDRs

The Fund notes that the status of the East African Development Bank as a prescribed holder of SDRs has been terminated as of December 10, 2003, and concurs in the arrangement made by the East African Development Bank to sell its SDR holdings in a transaction by agreement on February 5, 2004 (EBS/03/179, 12/30/03).

Decision No. 13167-(04/2)
Adopted January 8, 2004

Cooperation with Investigations on Fund Activities by Auditing Institutions of Members—Procedures

The Executive Board approves the procedures set forth in SM/04/7, 1/12/04.

Decision No. 13172-(04/6)
Adopted January 20, 2004

Eleventh General Review of Quotas—Period for Consent to Increases—Extension

Pursuant to Paragraph 4 of the Resolution of the Board of Governors No. 53-2,³ “Increase in Quotas of Fund Members—Eleventh General Review,” the Executive Board decides that notices of consent from

¹Selected Decisions and Selected Documents of the International Monetary Fund, Twenty-Eighth Issue (December 31, 2003), p. 157.

²Ibid., p. 157.

³Ibid., p. 752.

members to increases in their quotas must be received in the Fund by 6:00 p.m., Washington time, on July 31, 2004 (EBD/04/6, 1/21/04).

Decision No. 13181-(04/10)
Adopted January 28, 2004

Framework Administered Account for Technical Assistance Activities—Canadian Technical Assistance Subaccount

In accordance with the terms and conditions of the Instrument establishing the Framework Administered Account for Technical Assistance Activities (Decision No. 10942-(95/33)),⁴ as amended, the Fund hereby approves the establishment of the “Canadian Technical Assistance Subaccount,” which shall be used by the Fund to administer resources to be contributed by the Government of Canada, as described in EBS/04/7 (EBS/04/7, 1/21/04).

Decision No. 13182-(04/10)
Adopted January 28, 2004

Strengthening the Effectiveness of Article VIII, Section 5

1. Pursuant to Article VIII, Section 5, the Fund decides that all members shall provide the information listed in Annex A to this decision, which is necessary for the Fund to discharge its duties effectively. Members shall provide the data specified in Annex A for the periods commencing after December 31, 2004. Annex A shall be reviewed no later than December 31, 2007.

2. When a member fails to provide information to the Fund as specified in Article VIII, Section 5, or in a decision of the Fund adopted pursuant to that Article including information listed in Annex A (hereinafter “information required under Article VIII, Section 5”), the procedural framework set forth in paragraphs 5 through 17 below shall apply. Failure to provide information includes both the nonprovision of information and the provision of inaccurate information.

3. A member has an obligation to provide information required under Article VIII, Section 5, to the best of its ability. Therefore, there is no breach of obligation if the member is unable to provide information required under Article VIII, Section 5, or to provide more accurate information than the information it has provided. However, a member that is unable to provide final data is obligated to provide provisional data to the best of its ability until it is in a position to provide the Fund with final data. When assessing a member’s ability to provide information, the Fund will give the member the benefit of any doubt.

4. In the context of performance criteria associated with the use of the Fund’s general resources, a member may be found in breach of its obligation under Article VIII, Section 5, only if (i) it has reported that a performance criterion was met when in fact it was not, or that a performance criterion was not observed by a particular margin and it is subsequently discovered that the margin of non-observance was greater than originally reported; and (ii) a purchase was made on the basis of the information provided by the member, or the information was reported to the Executive Board in the context of a review that was subsequently completed or of a decision of the Executive Board to grant a waiver for non-observance of the relevant performance criterion.

⁴Ibid., p. 157.

Procedures Prior to Report by the Managing Director to the Executive Board

5. Whenever it appears to the Managing Director that a member is not providing information required under Article VIII, Section 5, the Managing Director shall call upon the member to provide the required information; before making a formal representation to the member, the Managing Director shall inform, and enlist the cooperation of, the Executive Director for the member. If the member persists in not providing such information and has not demonstrated to the satisfaction of the Managing Director that it is unable to provide such information, the Managing Director shall notify the member of his intention to make a report to the Executive Board under Rule K-I for breach of obligation unless, within a specified period of not less than a month, such information is provided or the member demonstrates to his satisfaction that it is unable to provide such information.

6. Whenever it appears to the Managing Director that a member has provided inaccurate data on information required under Article VIII, Section 5, the Managing Director shall consult with the member to assess whether the inaccuracy is due to a lack of capacity on the part of the member. If, after consulting with the member, the Managing Director finds no reason to believe that the inaccuracy is due to a lack of capacity on the part of the member, he shall notify the member of his intention to make a report to the Executive Board for breach of obligation under Rule K-I unless the member demonstrates to his satisfaction within a period of not less than one month that it was unable to provide more accurate information.

7. If the Managing Director concludes that the nonprovision of information or the provision of inaccurate information is due to the member’s inability to provide the required information in a timely and accurate fashion, he may so inform the Executive Board. In that case, the Executive Board may decide to apply the provisions of paragraph 10 below.

Report by the Managing Director

8. After the expiration of the period specified in the Managing Director’s notification to the member, the Managing Director shall make a report to the Executive Board under Rule K-I for breach of obligation, unless the Managing Director is satisfied that the member’s response meets the requirements specified in his notification. The report shall identify the nature of the breach and include the member’s response (if any) to the Managing Director’s notification, and may recommend the type of remedial actions to be taken by the member.

Consideration of the Report

9. Within 90 days of the issuance of the Managing Director’s report, the Executive Board will consider the report with a view to deciding whether the member has breached its obligations. Before reaching a decision, the Executive Board may request from the staff and the authorities additional clarification of the facts respecting the alleged breach of obligation; the Executive Board will specify a deadline for the provision of such clarification.

10. If the Executive Board finds that the member’s failure to provide information required under Article VIII, Section 5 is due to its inability to provide the information in a timely and accurate fashion, the Executive Board may call upon the member to strengthen its capacity to provide the required information and ask the Managing Director to report periodically on progress made by the member in that respect. The member may request technical assistance from the Fund.



11. (a) If the Executive Board finds that the member has breached its obligation, the Executive Board may call upon the member to prevent the recurrence of such a breach in the future and to take specific measures to that effect. Such measures may include the implementation of improvements in the member's statistical systems or any other measures deemed appropriate in view of the circumstances.

(b) In addition, if the Executive Board finds that the member is still not providing the required information, the Executive Board will call upon the member to provide such information.

(c) The Executive Board will specify a deadline for taking any remedial actions specified under (a) and (b); in principle, the deadline will not exceed 90 days for actions specified under (b). The decision may note the intention of the Managing Director to recommend the issuance of a declaration of censure if the specified actions are not implemented within the specified period. In order to assist the Executive Board in identifying the appropriate actions to address a breach of obligation under Article VIII, Section 5, the member may, before the Board meeting, provide the Executive Board with a statement specifying the remedial actions it intends to take and a proposed time frame. The member may also request technical assistance from the Fund.

(d) At the expiration of the period specified by the Executive Board, the Managing Director shall report to the Executive Board on the status of the specified actions. If the member has not taken the specified actions within the specified period, and depending on the circumstances of such failure, the Managing Director may recommend and the Executive Board may decide (i) to extend the period before further steps under the procedural framework are taken; (ii) to call upon the member to take additional remedial actions within a specified time frame; or (iii) to issue a declaration of censure against the member.

Declaration of Censure

12. If a member fails to implement the actions specified by the Executive Board before the established deadline, the Managing Director may recommend and the Executive Board may decide to issue a declaration of censure. Before the adoption of a declaration of censure, the Executive Board may issue a statement to the member setting out its concerns and giving the member a specified period to respond.

13. The declaration of censure will identify the breach of obligation under Article VIII, Section 5, and the specified remedial actions the member has failed to take within the specified time frame. The declaration may specify a new deadline for the implementation by the member of the specified remedial actions; in addition, the declaration may identify further remedial actions for the member to implement before the specified deadline. It will note that the member's failure to implement any of the actions called for in the declaration within the specified time frame may result in the issuance of a complaint for ineligibility under Article XXVI (a) and the imposition of this measure. At the expiration of the period specified by the Executive Board, the Managing Director shall report to the Executive Board on the status of the specified actions.

Sanctions Under Article XXVI

14. Following the adoption of a declaration of censure, if the Executive Board finds that the member has failed to implement any of the actions called for in the declaration within the specified time frame, the Managing Director may issue a complaint to the Executive Board and recommend that the Executive

Board declare the member ineligible to use the general resources of the Fund for its breach of obligation under Article VIII, Section 5. The Executive Board decision declaring the member ineligible to use the general resources of the Fund will note that the member's persistence in its failure to fulfill its obligations under Article VIII, Section 5, following the declaration of ineligibility may result in the issuance of a complaint for the suspension of the member's voting and related rights and in the imposition of this measure.

15. If the member persists in its failure to fulfill its obligations under Article VIII, Section 5, for six months after the declaration of ineligibility, the Managing Director may issue a complaint and recommend that the Fund suspend the member's voting and related rights. The Executive Board decision suspending the member's voting and related rights will note that the member's persistence in its failure to fulfill its obligations under Article VIII, Section 5, following the declaration of suspension of voting and related rights may result in the issuance of a complaint for compulsory withdrawal and in the initiation of the proceedings for the compulsory withdrawal of the member from the Fund.

16. If the member persists in its failure to fulfill its obligation under Article VIII, Section 5, for six months after the suspension of its voting rights, the Managing Director may initiate proceedings for the compulsory withdrawal of the member from the Fund.

17. All the Executive Board decisions arising from a breach of obligation taken under the procedures described above, including a decision to issue the statement of concern referred to in paragraph 12 above, will give rise to a public announcement with prior review of the text by the Executive Board.

Annex A

The data referred to in paragraph 1 of this decision are the national data on the following matters:

- (i) reserve, or base money;
- (ii) broad money;
- (iii) interest rates, both market-based and officially determined, including discount rates, money market rates, rates on treasury bills, notes and bonds;
- (iv) revenue, expenditure, balance and composition of financing (that is, foreign financing and domestic bank and nonbank financing) for the general and central governments respectively;⁵ the stocks of central government and central government-guaranteed debt, including currency and maturity composition and, if the debt data are amenable to classification on the basis of the residency or nonresidency of the holder, the extent to which the debt is held by residents or nonresidents;
- (v) balance sheet of the central bank;
- (vi) external current account balance;
- (vii) exports and imports of goods and services;
- (viii) the international reserve assets and reserves liabilities of the monetary authorities, specifying separately any reserve assets that are pledged or otherwise encumbered as well as net derivative positions;
- (ix) gross domestic product or gross national product;

⁵The general government consists of the central government (budgetary funds, extra-budgetary funds, and social security funds) and state and local governments

- (x) consumer price index;
- (xi) gross external debt;⁶ and
- (xii) consolidated balance sheet of the banking system.

Decision No. 13183-(04/10)
Adopted January 30, 2004

Transparency and Fund Policies—Issues and Next Steps—Amendments to Decision

Publication Policies of the Fund

Authorization and Consent

1. The Managing Director shall arrange for publication by the Fund of the documents on the attached list, subject to the consent of the member concerned in the case of Documents 1–11, 13, and 16–17, and to the authorization of the World Bank in the case of Documents 6 and 11. For purposes of this decision (i) Documents 1–4, 6, 9–10, 11, 13, and 17 will be referred to as “Country Documents”; (ii) Documents 5, 7–8, and 16 will be referred to as “Country Policy Intentions Documents”; and (iii) Documents 14 and 15 will be referred to as “Fund Policy Documents.”

2. The Executive Board encourages each member to consent, where required, to the publication by the Fund of a document under this decision. It is recognized that for some members such publication would be a longer-term objective.

3. (a) A member's consent to Fund publication of Documents 5–11 and 13 shall be voluntary but presumed. From July 1, 2004, onwards, a member's consent to Fund publication of Documents 1, 2, and 4 shall also be voluntary but presumed, until July 1, 2004, consent to the publication of these documents shall be voluntary. A member's consent to Fund publication of Documents 3 and 16–17 shall be voluntary.

(b) The presumption referred to in paragraph 3(a) means that Fund publication of an applicable document would be expected to occur within 30 calendar days of the Executive Board meeting at which that document was considered. If, by the time of the relevant Executive Board meeting, the member concerned has not decided whether it will consent to the publication of the document, the Secretary will remind the member to communicate its publication decision to the Fund within 30 calendar days following the Executive Board meeting. Unless the member's explicit consent is received by the Fund, Documents 1–11, 13, and 16–17 shall not be published.

4. (a) In the case of a member's Poverty Reduction Strategy Paper (PRSP), Interim PRSP, or PRSP progress report (Document 5), the Managing Director will not recommend its endorsement by the Executive Board if the member concerned does not consent to its publication.

(b) From July 1, 2004, onwards, the Managing Director will generally not recommend that the Executive Board approve a request to use Fund resources that would result in the relevant member obtaining exceptional access to the Fund's general resources, unless that member consents to

the publication of the associated staff report. The use of Fund resources under an arrangement that was approved before July 1, 2004, shall not be affected by this policy, unless there is a change in the terms, conditions, or timing of the arrangement. For purposes of this paragraph (i) approval of the use of Fund resources includes the completion of a review under an arrangement; and (ii) “exceptional access” means access by a member to the Fund's general resources, under any type of Fund financing, in excess of an annual limit of 100 percent of the member's quota, or a cumulative limit (net of scheduled repurchases) of 300 percent of the member's quota.

5. For the purposes of paragraph 1, a member's actual consent shall normally be communicated to the Secretary of the Fund. Such consent may be communicated by the Executive Director elected, appointed, or designated by the member.

6. In respect of documents circulated to the Executive Board for which publication requires a member's consent, the Secretary's cover note will indicate whether a communication has been received from the member in this regard and, if so, the member's intentions.

Member's Statement Regarding Fund Staff Reports

7. If a Fund staff report (Documents 1, 9, and 17) on a member is to be published under this decision, the member concerned shall be given the opportunity to provide a statement regarding the staff report and the Executive Board assessment. Such statement shall be communicated to the Fund and published together with the staff report.

Deletions to Documents which Pertain to Members

8. Prior to publication of a Country Document, or a certain Country Policy Intentions Document (Documents 7–8) that has been the basis of a Fund decision, or Document 16 the member concerned may propose deletions to the Managing Director. In the case of a serious disagreement between the Managing Director and the member, the Managing Director or the Executive Director elected, appointed, or designated by that member may refer the matter to the Executive Board for its consideration. Deletions, if any, should be limited to highly market-sensitive material, mainly on exchange rates and interest rates, in banking and fiscal areas, and in vulnerability assessments. In particular, deletions will not apply to information in the public domain or politically sensitive information that is not highly market sensitive. In the case of Documents 1, 7–9, and 16–17, information relating to any performance criterion or structural benchmark may not be deleted unless the information is of such character that would have enabled it to be communicated to the Fund in a side letter pursuant to Decision No. 12067, adopted September 22, 1999. If, in a particular case, the Managing Director is of the view that the deletions would result in a document that, if published, would undermine the overall assessment and credibility of the Fund, the Managing Director may recommend to the Executive Board that the document not be published.

9. Deletions will not generally apply to a PRSP, an Interim PRSP, or a PRSP progress report that has been the basis of a Fund decision.

Chairman's Statements in Respect of Use of Fund Resources

10. After the Executive Board adopts a decision regarding a member's use of Fund resources (including a decision completing a review under a Fund arrangement) or completes a discussion on a member's participation in

⁶Gross external debt is the outstanding amount of those actual current, and not contingent, liabilities that require payment(s) of principal and/or interest by the debtor at some point(s) in the future and that are owed to nonresidents by residents of an economy (SM/03/386, Sup 1, 1/23/04)



the HIPC Initiative, PRSP, Interim PRSP, or PRSP progress report, a Chairman's statement on the discussion, emphasizing the key points made by Executive Directors, will be released to the public. Where relevant, the Chairman's statement will contain a summary of HIPC Initiative decisions pertaining to the member and the Executive Board's views on the member's PRSP, Interim PRSP, or PRSP progress report. Waivers for non-observance or of applicability of performance criteria, if any, will be mentioned in the press release containing the Chairman's statement. Before the statement is released, it will be read by the Chairman to the Executive Board, and Executive Directors will have an opportunity to comment at that time. The Executive Director elected, appointed, or designated by the member concerned will have the opportunity to review the Chairman's statement, to propose very minor revisions, if any, and to consent to its publication immediately after the Executive Board meeting. Notwithstanding the above, no Chairman's Statement released under this paragraph shall contain any reference to a discussion or decision pertaining to (i) a member's overdue financial obligations to the Fund, where a press release following an Executive Board decision to limit the member's use of Fund resources because of the overdue financial obligations has not yet been issued; or (ii) a request to amend a repurchase expectation schedule pursuant to paragraph 1(b) of Decision No. 5703-(78/39)⁷ or paragraph 10(a) of Decision No. 4377-(74/114).⁸ In the case of an Executive Board meeting pertaining solely to a discussion or decision described in either (i) or (ii) above, no Chairman's statement will be released.

Non-Publication of PINs and Chairman's Statements in Selected Cases—Release by the Fund of Factual Statements in Lieu

11. (a) From July 1, 2004, onwards, if a member does not consent to the publication of a Public Information Notice (PIN) following the Executive Board's conclusion of an Article IV consultation with that member, or following a post-program monitoring or ex post assessment discussion pertaining to that member (Document 13), a brief factual statement informing that the Executive Board has concluded that consultation or discussion will be released instead.

(b) If a member does not consent to the publication of a Chairman's Statement (Document 10) under paragraph 10 where one would be applicable, a brief factual statement describing the Executive Board's decision relating to that member's use of Fund resources (including any information on waivers, HIPC initiative decisions, and endorsements of Documents 5) will be released instead.

Fund Policy Documents

12. After the Executive Board meets on policy issues, it shall be presumed, unless otherwise decided by the Executive Board, that the staff report considered at the meeting (Document 14) and/or a Public Information Notice (PIN, Document 15) on the discussion will be published. This presumption of publication shall not apply to Executive Board meetings on policy issues dealing with the administrative matters of the Fund, such as the Fund's operating budget, personnel policies, staff retirement plan and asset management, for which the Executive Board may decide to publish Documents 14 and/or 15 on a case-by-case basis. In deciding to publish or not to publish

Documents 14 and/or 15, the factors on which that decision shall be based shall include whether the discussions have reached completion or, if not completed, whether informing the public of the state of the discussions would be useful. The staff shall make a recommendation on the publication of a staff policy paper and/or a PIN on its cover. A PIN on policy discussions will be based on the decision that may have been adopted by the Executive Board or the Chairman's summing-up of the discussions. It will also include a short section setting out background information.

13. (a) Prior to the publication of a Fund policy staff report, the Managing Director may make necessary factual corrections and deletions to the report (including of highly market-sensitive material and country-specific references). However, staff's proposals in a report shall not be modified prior to its publication. In cases where confusion might arise from differences between staff's proposals in the report and the Executive Board's conclusions regarding those proposals as reflected in the PIN pertaining to the Executive Board discussion, it would be clearly indicated in the published version of the report which staff proposals the Executive Board did not endorse.

(b) Paragraph 13(a) shall not apply to the *World Economic Outlook* and *Global Financial Stability Report*. In accordance with established practice, staff may modify these documents prior to their publication in order to, inter alia, take into account views expressed at the relevant Executive Board meeting.

Timing and Means of Fund Publication

14. Documents may be published under this decision only after their consideration by the Executive Board, except for (i) PRSPs, Interim PRSPs, or PRSP progress reports; (ii) documents circulated to the Executive Board for information only; and (iii) Reports on Observance of Standards and Codes (ROSCs) and Assessment of Financial Sector Supervision and Regulation (AFSSR) reports. Documents under items (i)-(iii) may be published immediately after circulation to the Executive Board.

15. Publication by the Fund under this decision shall normally mean publication on its website but may include publication through other media.

Repeal of Superseded Decisions

16. The following decisions are repealed: (i) "Use of Fund Resources—Release of Chairman's Statement," Decision No. 11971-(99/58), adopted June 3, 1999; (ii) "Public Information Notices for Policy Matters," Decision No. 11972-(99/58), adopted June 3, 1999; (iii) "Publication of Letters of Intent, Memoranda of Economic and Financial Policies and Policy Framework Papers," Decision No. 11974-(99/58), adopted June 3, 1999; and (iv) "Release of Information—Reports on Recent Economic Developments and Statistical Appendices and Annexes," Decision No. 10138-(94/61), adopted July 11, 1994. The decision set forth in EBD/98/64 (6/19/98), which was approved on a lapse-of-time basis on June 24, 1998, is repealed to the extent that it relates to the publication of the final decision and completion point documents under the HIPC Initiative.

Article XII, Section 8

17. Nothing in this decision shall be construed to be inconsistent with the power of the Fund to decide under Article XII, Section 8, by a 70 percent majority of the total voting power, to publish a report made to a member regarding its monetary or economic conditions and developments which directly tend to produce a serious disequilibrium in the international balance of payments of members.

⁷Ibid, p 387.

⁸Ibid, p 269

Other Matters/Review

18. In the case of a document pertaining to a country that is not a member of the Fund (i) all references to "member" in this decision shall be taken to mean "country"; and (ii) all references to "Executive Director elected, appointed, or designated by that member" shall be taken to refer to the appropriate authorities of the country concerned.

19. This decision shall be reviewed in light of experience at regular intervals not to exceed 24 months.

List of Documents Covered by the Decision

I. Surveillance and Supporting Documents

1. Article IV and Combined Article IV/Use of Fund Resources Staff Reports
2. Selected Issues Papers and Statistical Appendices
3. Reports on Observance of Standards and Codes (ROSCs), Financial Sector Stability Assessment (FSSA) reports, and Assessment of Financial Sector Supervision and Regulation (AFSSR) reports
4. Public Information Notices (PINs) following Article IV consultations and regional surveillance discussions

II. Use of Fund Resources by a Member

5. Poverty Reduction Strategy Papers (PRSPs), Interim PRSPs, and PRSP Progress Reports
6. Joint Fund/World Bank Staff Assessments of PRSPs, Interim PRSPs, and PRSP Progress Reports
7. Letters of Intent and Memoranda of Economic and Financial Policies (LOIs/MEFPs)
8. Technical Memoranda of Understanding (TMUs) with policy content
9. Use of Fund Resources, Post-Program Monitoring and Ex Post Assessment Staff Reports (excluding staff reports dealing solely with a member's overdue financial obligations to the Fund)
10. Chairman's Statements
11. Preliminary, decision point, and completion point documents under the HIPC Initiative
12. Statements on Fund decisions on waivers of applicability, or for non-observance, of performance criteria
13. PINs following Executive Board discussions on post-program monitoring and ex post assessments

III. Fund Policy Documents

14. Fund policy issues papers
15. PINs following Executive Board discussions on policy issues

IV. Other Documents

16. LOIs/MEFPs for Staff Monitored Programs (SMPs)
17. Stand-alone Staff Reports on SMPs

Decision No. 13197-(04/16)
Adopted February 20, 2004

Trade-Related Balance of Payments Adjustments—Fund Support

1. The Fund is prepared to provide financial assistance to members that are experiencing balance of payment difficulties as a result of trade liberalization measures undertaken by other countries. Such assistance shall be made available (i) in the upper credit tranches under a Stand-By Arrangement, (ii) under the Extended Fund Facility, or (iii) under the Poverty Reduction and Growth Facility, and shall be subject to the general access limits established from time to time under such policies. Liberalization measures undertaken by other members would normally be limited to measures introduced either (i) under a WTO agreement or (ii) on a nondiscriminatory basis.

2. Financing under this decision may be provided to address the existing or anticipated balance of payments difficulties identified in paragraph 1 either at the time of the approval of an arrangement or completion of a program review under such an arrangement, upon the Fund's determination that the member is implementing economic adjustment policies that are designed to address the identified balance of payments problems.

3. When making a request for financing under paragraph 2 above, the member may also request that the Fund indicate its willingness to consider providing additional financing if the balance of payments difficulties identified in paragraph 1 above that may arise during the course of the arrangement are larger than anticipated at the time of the approval of the original request under paragraph 2 above. This additional financing, which shall not exceed 10 percent of quota, may be requested by the member and be provided at any time during the period of the arrangement upon a determination by the Fund, in the context of a special review under the arrangement, that (i) the member's adjustment program is broadly on track, and (ii) the additional financing is justified by unanticipated balance of payments difficulties of the type identified in paragraph 1.

4. Nothing in this decision shall be understood as preventing a member from requesting Fund financial assistance outside this decision to address the balance of payments problems identified in paragraph 1.

5. This decision shall be reviewed no later than April 30, 2007 (SM/04/63, Sup. 1, 4/1/04).

Decision No. 13229-(04/33)
Adopted April 2, 2004

PRGF-HIPC Trust Instrument—Amendment

The Executive Board approved the following decision, with one objection from Ms. Jacklin (US):

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),⁹ adopted February 4, 1997), as amended, shall be amended as follows:

The third sentence of Section III, Paragraph 3(e), shall be amended to read:

7. "The Trustee retains the right to commit additional assistance at the completion point, beyond that already committed, but only so as to bring the ratio of the net present value of debt-to-exports to 150 percent (or debt-to-fiscal revenue to 250 percent), if the deterioration in the member's debt sustainability is

⁹Ibid., p. 105.



primarily attributable to a fundamental change in the member's economic circumstances due to exogenous factors" (EBS/04/43, 3/18/04).

Decision No. 13224-(04/33)

Adopted April 1, 2004

PRGF Trust and PRGF-HIPC Trust—Reserve Account—Review

Pursuant to Decision No. 10286-(93/23) ESAF,¹⁰ adopted on February 22, 1993, as amended, the Fund has reviewed the adequacy of balances in the Reserve Account of the PRGF Trust and determines that they are sufficient to meet all obligations that could give rise to payments from the Account to lenders to the Loan Account of the PRGF Trust in the six months from April 1, 2004 to September 30, 2004.

Decision No. 13226-(04/34) PRGF

Adopted April 5, 2004

Income Position, Rate of Charge, and Burden Sharing for FY2004 and FY2005—Review—Disposition of Net Income for FY2004

1. The Fund's net income for FY2004 derived from the application of paragraph 2 of Decision No. 12988-(03/36),¹¹ adopted April 21, 2003, shall be placed in 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 FY2004 shall be charged against the Fund's Special Reserve and shall be recorded separately in the financial records of the Fund (EBS/04/55, 4/14/04).

Decision No. 13235-(04/42)

Adopted April 30, 2004

Income Position, Rate of Charge, and Burden Sharing for FY2004 and FY2005—Review—Rate of Charge on Use of Fund Resources for FY2005

1. Notwithstanding Rule I-6(4)(a), effective May 1, 2004, 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 154.0 percent.

2. The net income target for FY2005 shall be SDR 191 million. Any net income for financial year 2005 in excess of SDR 191 million shall be used to reduce retroactively the proportion of the rate of charge for financial year 2005. If net income for financial year 2005 is below SDR 191 million, the amount of projected net income for financial year 2006 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, 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 (EBS/04/55, 4/14/04).

Decision No. 13236-(04/42)

Adopted April 30, 2004

Income Position, Rate of Charge, and Burden Sharing for FY2004 and FY2005—Review—Burden Sharing Implementation in FY2005

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 (EBS/04/55, 4/14/04).

Section II. Determination of 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), adopted April 28, 2000 (EBS/04/55, 4/14/04).

Section III. Adjustment for Deferred Charges

Notwithstanding paragraph 1(a) of Section IV of Executive Board Decision No. 12189-(00/45),¹² adopted April 28, 2000, the rate of charge and the rate of remuneration determined under that Section shall be rounded to two decimal places (EBS/04/55, 4/14/04).

Section IV. Amount for Special Contingent Account-1

1. An amount of SDR 94 million shall be generated during financial year 2005 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),¹³ adopted June 20, 1990.

2. (a) In order to generate the amount to be placed to the Special Contingent Account-1 in 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 earned 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, 2004, August 1, 2004, November 1, 2004, and February 1, 2005; shortly after July 31 for the period from May 1 to July 31; shortly after October 31

¹⁰Ibid., p. 441

¹¹Ibid., p. 416.

¹²Ibid., p. 404.

¹³*Selected Decisions and Selected Documents of the International Monetary Fund*, Twenty-Seventh Issue (December 31, 2002), p. 390.

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),¹⁴ 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 not been received by each member because 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),¹⁵ adopted April 30, 1986, or any subsequent decision of the Fund.

(d) Subject to paragraph 4 of Decision No. 8780-(88/12), 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) (EBS/04/55, 4/14/04).

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 IV of this decision and Section IV of Executive Board Decision No. 12189-(00/45),¹⁶ adopted April 28, 2000 (EBS/04/55, 4/14/04).

Decision No. 13237-(04/42)
Adopted April 30, 2004

¹⁴*Selected Decisions and Selected Documents of the International Monetary Fund*, Twenty-Sixth Issue (December 31, 2001), p. 319.

¹⁵*Selected Decisions*, Twenty-Eighth Issue, December 2003, p. 398.

¹⁶*Ibid.*, p. 404.

Income Position, Rate of Charge, and Burden Sharing for FY2004 and FY2005—Review—Cost of Administering PRGF Trust

For financial year 2005, no reimbursement shall be made to the General Resources Account from the PRGF Trust Reserve Account for the cost of administering the PRGF Trust (EBS/04/55, 4/14/04).

Decision No. 13238-(04/42) PRGF
Adopted April 30, 2004

Income Position, Rate of Charge, and Burden Sharing for FY2004 and FY2005—Review—Surcharges on Purchases Under Supplemental Reserve Facility, and in Credit Tranches and Under Extended Fund Facility—Disposition of Net Operating Income

For financial year 2005, 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 surcharges on purchases in the credit tranches and under the Extended Fund Facility shall be placed after the end of that financial year to the General Reserve (EBS/04/55, 4/14/04).

Decision No. 13239-(04/42) SRF
Adopted April 30, 2004

Income Position, Rate of Charge, and Burden Sharing for FY2004 and FY2005—Review of System of Special Charges

The Fund has reviewed the system of special charges applicable to overdue obligations to the General Resources Account, the Structural Adjustment Facility, and the Trust Fund (EBS/04/55, 4/14/04).

Decision No. 13240-(04/42) G/SAF/TR
Adopted April 30, 2004

Relations with Other International Organizations

Amid signs of a strengthening global economic recovery, close cooperation between the IMF and other international organizations continued to be of critical importance in FY2004. In an increasingly integrated financial system, identifying risks and generating sustained and widespread momentum for economic growth requires a high level of collaboration between the Fund, the 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.

Regional Representation and Technical Assistance

The IMF's Offices in Europe and the Regional Office for Asia and the Pacific maintain close ties with other international organizations, while the Fund maintains technical assistance centers in Africa, Asia, and the Caribbean, and runs or contributes to regional training institutes in Europe, Africa, and Asia.

Following the reorganization of the Fund's permanent presence in Europe in FY2003, in which a Brussels Office was added to the existing Paris and Geneva Offices, the Paris Office remains the center of the Fund's European operations, with the Director of the Paris Office being also the Director of the Offices in Europe. The Paris Office liaises with regional and international institutions located in Europe and contributes to the Fund's European operations, focusing on multilateral and regional surveillance. Paris Office staff represent the Fund at donor and surveillance committees of the OECD, provide secretariat services to the Group of 10 (G-10), and keep close contact with the BIS in Basel. They also 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 primary purpose of the Brussels Office is to contribute to the surveillance of the European Union and the euro area and enhance cooperation with EU institutions. This involves the participation in Fund consultations with EU institutions in Brussels and Frankfurt, ongoing information gathering, and regular contacts with EU officials.

The Office in Geneva monitors, analyzes, and reports on the activities of Geneva-based socioeconomic agencies, with particular emphasis on the multilateral trading system and trade-related developments in the European Union. These agencies include the WTO, the International Labor Organization (ILO), the UN Conference on Trade and Development (UNCTAD), the UN High Commissioner for Refugees (UNHCR), the UN Office of the High Commissioner for Human Rights (OHCHR), the World Health Organization (WHO), the UN Economic Commission for Europe (UNECE), and the Inter-Parliamentary Union (IPU).

The IMF's Regional Office for Asia and the Pacific, located in Tokyo, is responsible for enhancing surveillance and promoting the IMF's initiatives in Asia. The Office works closely with regional groupings such as the Asia-Pacific Economic Cooperation (APEC), the Association of South East Asian Nations (ASEAN), the Pacific Islands Forum (Forum), the South Asian Association for Regional Cooperation (SAARC), the South East Asian Central Banks (SEACEN), and the Executives' Meeting of East Asia-Pacific Central Banks (EMEAP). In addition to providing the secretariat for the Manila Framework Group, the Office also maintains close contact with two regional organizations, the Asian Development Bank (AsDB) and the United Nations Economic and Social Commission for Asia and the Pacific (UNESCAP), and with the World Bank's Office in Japan. It also facilitates the IMF's participation in the Consultative Group meetings of donor nations held in the Asia and Pacific region.

The West African Regional Technical Assistance Center (West AFRITAC) opened in Bamako, Mali, on May 29, 2003, to strengthen locally based technical assistance and training in ten participating countries,¹ furthering efforts by the IMF and the World Bank, in cooperation with donors, to build country ownership of poverty reduction efforts. The East AFRITAC was established in Tanzania in October 2002, and three more AFRITACs are planned for sub-Saharan Africa. Through the Pacific Financial Technical Assistance Center (PFTAC) and the Caribbean Regional Technical Assistance Center (CARTAC), the Fund provides similar technical assistance to its members in the Asia-Pacific region and in the Caribbean, respectively, that are seeking to improve their economic and fiscal management practices. The IMF also 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 Training Institute. Each of these facilities offers courses and seminars on topics of relevance to regional capacity building.

Collaboration with the World Bank

The collegial relationship between the IMF and the World Bank has existed since their founding at the Bretton Woods Conference of 1944. As mandated in their respective Articles of Agreement and in the joint 1989 Concordat, they play important complementary roles in ensuring the world's economic growth and stability. Both institutions conduct regular consultations of senior staff members, participate in joint missions, attend joint meetings, and share documents. Collaboration by the staff, both on policy advice and on operational matters, is guided by the ongoing dialogue between IMF and Bank management.

¹Benin, Burkina Faso, Côte d'Ivoire, Guinea, Guinea-Bissau, Mali, Mauritania, Niger, Senegal, and Togo.

As the mandates of the IMF and the World Bank have evolved, it has been necessary periodically to redefine the rules of engagement and the division of labor between the two organizations, with a view to enhancing their overall effectiveness. Building upon the sustained momentum since 2001 to strengthen the framework for Bank-Fund collaboration, the two institutions continued in FY2004 to review experience to date in implementing the guidance note on Operationalizing Bank-Fund Collaboration in Country Programs and Conditionality, issued in 2002. The guidance note forms the basis for collaboration between the area departments of the Fund and the regional departments of the Bank on country programs and conditionality. A subsequent review in September 2003 indicated broad satisfaction with the framework for Bank-Fund collaboration but also highlighted a number of areas for further improvement, including a consistent application of the division of labor between the two institutions with regard to conditionality, coordination in interacting with authorities, and shared work at the country level, for example, during joint missions.

The Fund and the Bank also cooperate closely in monitoring financial system stability, especially through the Financial Sector Assessment Program (FSAP), which aims to increase the effectiveness of efforts to promote the soundness of financial systems in member countries. Detailed Financial System Stability Assessments (FSSAs) of observance of relevant financial sector standards and codes are a key component of the FSAP. Reports on Observance of Standards and Codes (ROSCs) are a by-product of FSSAs. Much of the value added by the FSAP derives from its collaborative nature.

As of end-February 2004, 106 countries had participated or were participating in the FSAP, including a significant number of systemically or regionally important countries. A joint Fund-Bank FSAP review, considered by the Boards of the two institutions in March 2003, identified several common challenges: streamlining assessments to maintain a realistic pace, improving prioritization and selectivity, and ensuring systematic follow-up. A further joint Fund-Bank review is planned by 2005, and a joint research program relating to measures of financial sector development and deepening is currently under way.

The Fund and the Bank are also collaborating closely on a program to assess progress in member countries' implementation and observance of standards and codes. The Fund has taken the lead on data and fiscal transparency; both institutions have assessed financial sector standards jointly as part of the FSAP; and the Bank has taken the lead in corporate governance, accounting and auditing, insolvency, and creditor rights. A joint Fund-Bank review is planned for 2005.

Given synergies with assessments of prudential supervisory standards, the FSAP provides a suitable context for undertaking assessments of countries' anti-money-laundering (AML) and combating the financing of terrorism (CFT) regimes. In 2002, the Financial Action Task Force (FATF) 40 + 8 Recommendations were added to the list of standards for which ROSCs are prepared, and a common AML/CFT methodology document developed by the Fund and the Bank was endorsed for use in both Fund-Bank-led ROSCs and those led by the FATF and FATF-style regional bodies. (See Section 2.) Since the Fund and the Bank initiated a twelve-month pilot program of AML/CFT assessments in October 2002 using the common methodology, 41 countries have been assessed, 33 by Fund and Bank experts. These assessments were conducted in all regions of the world and in both industrial and developing countries. In March 2004, the Executive Boards of the Fund and the Bank reviewed the pilot program and agreed to adopt a more comprehensive and integrated approach to conducting assessments of compliance with international standards for fighting money laundering and terrorist financing, building on the pilot program. Going forward, the Fund and the Bank both plan to

carry out 10 money-laundering and terrorist-financing assessments a year as part of the FSAP (and, for the Fund, also as part of its offshore financial center assessments).

The two institutions also work jointly on global development issues. Together, the IMF and the World Bank have sought to relaunch the Doha Round of multilateral trade negotiations following the failure of discussions at the last ministerial meeting of the WTO in Cancún, Mexico, in September 2003. Following the World Bank-IMF Annual Meetings in Dubai in September 2003, IMF Managing Director Horst Kohler and World Bank President James Wolfensohn wrote jointly to heads of government, calling on world leaders not to allow the impasse at Cancún to undermine the commitments made in the Doha Development Agenda. As part of efforts within both institutions to help members adjust to the effects of trade liberalization, the IMF is preparing an initiative to support countries that experience temporary balance of payments shortfalls as a result of multilateral trade liberalization, while the Bank will support programs to improve trade logistics and competitiveness.

In April 2004, the staffs of the Fund and the Bank prepared the first annual Global Monitoring Report. This report assesses progress on policies and actions needed to achieve the Millennium Development Goals (MDGs) and considers the contributions of developing countries, developed countries, and the international financial institutions to the development partnership agreed at Monterrey in 2002. To strengthen the monitoring of progress toward the MDGs, Bank and Fund staff are collaborating on enhancing the Fund's General Data Dissemination System (GDDS) to support the compilation of MDG indicators.

Finally, one of the most important areas of IMF-World Bank cooperation is their work toward the common objective of reducing poverty by stimulating economic growth and providing debt relief. Launched by the Bank and the Fund in 1996 and enhanced in 1999, the Heavily Indebted Poor Countries (HIPC) Initiative is a comprehensive approach to debt reduction for poor countries that entails coordinated action by the international financial community, including the multilateral institutions. Debt relief under the HIPC Initiative is approved and disbursed based on a recipient country's continued effort toward macroeconomic adjustment and structural and social reforms. Some of the resources freed up by debt relief are expected to be used to finance social programs—primarily basic health care and education. All countries requesting debt relief under the HIPC Initiative must prepare a Poverty Reduction Strategy Paper (PRSP) through a broad-based participatory process. Fund and Bank staff work together in evaluating PRSPs and Interim Poverty Reduction Strategy Papers (IPRSPs). The staffs of both institutions prepare Joint Staff Assessments (JSAs) of the PRSPs, which are referred to the Executive Boards of both institutions for decision. During FY2004, 28 JSAs were completed by Fund and Bank staff.

Relations with the United Nations

The IMF works closely with the United Nations through the Special Representative of the Fund to the UN and through other extensive institutional contacts. The mandate of the Special Representative, who operates out of the Fund Office at the United Nations in New York, is to foster communications and cooperation between the IMF and the UN. The most prominent functions of the UN Office include making the IMF's views known, providing input for the deliberations at the UN on IMF-related issues, keeping the IMF informed of major developments within the UN system, and facilitating cooperation between the two institutions.

During FY2004, collaboration between the IMF and the UN continued to focus on the challenges of financing development around the world and implementing the commitments of the Monterrey Consensus. In the follow-up to the International Conference on Financing for Development held in Monterrey, Mexico, in March 2002, the Fund participated in the first UN General Assembly High-Level Dialogue on Financing for Development, held in New York on October 29–30, 2003. In his remarks to the plenary, IMF Managing Director Horst Köhler reaffirmed that the Fund would continue to play its role in implementing the Monterrey Consensus—helping low-income countries establish a framework for sound macroeconomic policies and institutions—especially by streamlining conditionality; strengthening the alignment between the PRSP, national budget frameworks and the PRGF; and reinforcing technical assistance. Mr. Köhler also noted that the Monterrey Consensus extended beyond poverty alleviation to embrace building a stronger international financial system that helps all countries seize the benefits of globalization.

On March 23, 2004, a delegation of United Nations Economic and Social Council (ECOSOC) ambassadors met in a preparatory session with members of the Fund's Executive Board, management, and senior staff to discuss the themes of the upcoming seventh annual high-level meeting of ECOSOC with the Bretton Woods institutions. Participants at the preparatory session emphasized that cooperation between the IMF and ECOSOC—and the United Nations more broadly—should continue to be pragmatic and mutually supportive, with each institution focusing its energies on its own mandate and area of expertise. Deputy Managing Director Agustín Carstens subsequently attended the high-level meeting, held in New York on April 26, 2004, which also involved the World Bank, the WTO, and representatives from other agencies and civil society.

Liaison with Other Intergovernmental Groups

On October 27–28, 2003, the IMF's Statistics Department and the Bank for International Settlements (BIS) hosted a two-day conference—the first of its kind at the international level—for officials and analysts from central banks, statistical institutes, international institutions, academia, and the private sector. The conference was designed as a forum for exchanging ideas and building consensus on the development of reliable real estate indicators. The IMF's own work on financial soundness indicators has pointed to the need to improve real estate statistics, and the conference provided a useful forum for networking and collaboration between international and country institutions in taking this work forward.

As a member of the Financial Stability Forum (FSF), the IMF takes the lead on developing, organizing, and carrying out assessments of offshore financial centers' adherence to international standards. IMF staff attended the tenth and eleventh meetings of the FSF held, respectively, on September 10, 2003, in Paris, and March 29–30, 2004, in Rome. Fund staff also attended the FSF's third Latin American regional meeting in Santiago, Chile, on November 17–18, 2003. The Chairman of the FSF was an observer at the October 2003 and April 2004 meetings of the International Monetary and Financial Committee (IMFC).

Collaboration between the IMF and the WTO takes place formally as well as informally, as outlined in their Cooperation Agreement signed in December 1996. Under the agreement, the IMF has observer status at WTO meetings and regularly attends formal meetings of most WTO bodies. In particular, the IMF participates in the WTO-led Integrated Framework for Trade-Related Technical Assistance (a joint effort by six agencies, including the World Bank); contributes to the work of the WTO Working Group on Trade, Debt, and Finance; and is a regular member of the Committee on Balance of Payments

Restrictions. At the May 2003 meeting of the WTO General Council, the Fund's Managing Director and the President of the World Bank shared their views with WTO national delegations on trade issues and coherence in the work of the three organizations.

As part of the Fund's ongoing efforts to strengthen dialogue with national legislators, IMF staff also participated in a panel on the Bretton Woods institutions at the annual meeting of the Inter-Parliamentary Union in October 2003. Throughout FY2004, the IMF continued to participate actively in the meetings and activities of other major intergovernmental groups, including the Group of Seven (G-7), Group of Ten (G-10), Group of Twenty (G-20), and Group of Twenty-Four (G-24). The Managing Director attended the G-8 summit in Evian, France, on June 2–3, 2003, and the meetings of the G-7 ministers and central bank governors, in Deauville, France, on May 16–17, 2003, and in Boca Raton, Florida, on February 7, 2004. First Deputy Managing Director Anne O. Krueger attended the Annual Meeting of the G-20 finance ministers and central bank governors on October 25–26, 2003, in Morelia, Mexico.

Cooperation with Regional Development Banks

Whether working to prevent crisis, alleviate poverty, combat financial abuse, or strengthen the global economic system, the IMF works 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 staff visits. In conjunction with the Asian Development Bank (AsDB), the European Central Bank (ECB), the World Bank, and other donor organizations, the Fund cosponsored the conference for the Commonwealth of Independent States (CIS-7), held in Bishkek, Kyrgyz Republic, on May 10–13, 2003, to celebrate the tenth anniversary of the Kyrgyz Republic's national currency and to highlight economic progress in the CIS countries.

The IMF also worked with the AsDB to review and exchange experiences on the development of poverty reduction strategies in East Asian countries by cosponsoring, with the World Bank and the United Nations Development Program (UNDP), the forum of the Second East Asia and Pacific Regional Conference on Poverty Reduction Strategies, which was convened in Phnom Penh, Cambodia, on October 16–18, 2003. (See Section 4, Box 4.2.)

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 on the coordinated actions of many international institutions. This is especially true in times of economic uncertainty. IMF management plays an important role in promoting this multilateral collaboration in many international forums. (See Section 8 for a description of the changes that occurred in the Fund's senior management team during FY2004.)

In early July 2003, Managing Director Horst Köhler made his sixth visit to Africa since assuming office in May 2000. He met with senior government officials in Ethiopia, Kenya, Madagascar, and Mozambique. In a keynote address delivered at the Head of African States Meeting held in Maputo, Mozambique, on July 10, 2003, Mr. Köhler noted that achieving the ambitious Millennium Development Goal of halving poverty by 2015 required effort on all sides: creating domestic conditions for growth through sound national policies, and ensuring that the international community is support-

ive of Africa's integration in the global economy. Over the long term, the IMF will further tailor its assistance to the challenges that Africa faces, helping countries in the region build stronger, more diversified financial sectors that will enable them to mobilize domestic investment, attract foreign direct investment, and pave the way for greater access to foreign capital markets. Also in July 2003, Mr. Köhler attended the Central American Conference in San Salvador. In his remarks at a working luncheon of the APEC meetings in Phuket, Thailand, on September 4, 2003, he stressed the importance of strengthening growth through regional and global economic cooperation.

On October 24, 2003, the Managing Director attended the Madrid Donors' Conference on Reconstruction in Iraq. He reaffirmed the Fund's readiness to play its part in international efforts to rebuild that country, noting that the Fund had been engaged in the reconstruction effort from the outset, as well as in efforts to boost stability and prosperity in the Middle East as a whole. Later that month, he attended the "East-West Conference on the Economic Potential of a Larger Europe" in Vienna, Austria, expressing confidence that European enlargement held tremendous promise for both the established and the new members of the European Union, and noting that the IMF's role, especially in terms of its ongoing surveillance and its work on transparency and international codes, was evolving in tandem with Europe's further economic integration. On January 12, 2004, Mr. Köhler attended the Special Summit of the Americas in Monterrey, Mexico, where he reaffirmed the IMF's commitment to assisting countries in Latin America to build a better future for their people, noting that IMF financial support for the region had reached unprecedented levels and that the IMF was providing assistance to many emerging market members facing severe external difficulties.

The IMF's Deputy Managing Directors also attended many conferences, meetings, and seminars throughout the year. In May 2003, First Deputy Managing Director Anne O. Krueger attended a meeting of Turkey's Banking Regulation and Supervision Agency and participated in a forum, "Establishing a Future: Marching Towards 2023." Both events took place in Istanbul. In December 2003, she presented a speech at the African Economic Research Consortium and participated in several workshop discussions. In her keynote address at the Malaysia Institute of Economic Research's National Economic Outlook 2004 Conference, held in December 2003, the First Deputy Managing Director commented on some of the lessons learned from the financial crises of the 1990s in the context of the conference's theme of "Developing a Dynamic Capital Market." On January 21-25, 2004, Ms. Krueger attended the World Economic Forum's Annual Meeting in Davos, Switzerland.

In November 2003, Deputy Managing Director Shigemitsu Sugisaki participated in the Asian Development Bank's Second Ministerial Conference on Central Asia Economic Cooperation, which was held in Tashkent, Uzbekistan. Deputy Managing Director Eduardo Aninat delivered the keynote address at the opening of the West AFRITAC on May 29, 2003. In March 2004, Mr. Aninat's successor, Deputy Managing Director Agustín Carstens, spoke at the Sixth Annual Meeting of Latin American Bank Chief Executives, in Santiago, Chile. He also attended the Inter-American Development Bank's Annual Meeting in Lima, Peru, during which he presented a paper, "Banking Crises in Latin America and the Political Economy of Financial Sector Policy." Mr. Carstens also participated in the International Donors' Conference on Afghanistan held in Berlin on March 30-31, 2004.

External Communications

In FY2004, the IMF continued to carry out a coordinated external communications strategy, in line with the Executive Board's discussion in March 2003.¹ The strategy focuses on two-way communication with groups and individuals through nonofficial channels, ensuring that the IMF learned from its interlocutors as it continued to assess and reform its policies and operations. The strategy also encompasses work on improving the public's understanding of and support for the Fund and its activities. (For a description of the IMF's transparency policy, see Section 6.) The IMF's main external communications activities are described below.

Public Statements and Publications

In accordance with the IMF's transparency policy, a large number of *policy and country papers* and summaries of Board discussions were released during FY2004. The Fund's external website (www.imf.org) continued to be the primary vehicle for dissemination. During the year, an average of 120 items a month were added to the *What's New* section of the website.

The *external website* was redesigned during FY2004 to better meet user needs. Both the World Economic Outlook database and the e-mail notification system were enhanced. During the past financial year, over 8 million e-mails were sent to subscribers, who now have the option of receiving country-specific documents in addition to documents from a given series.

Following the Executive Board's March 2003 review of the IMF's external communications strategy, the Fund undertook a pilot project to increase the publication on the external website of selected types of Fund documents in *languages other than English*, when translations are available and a request for publication has been received. This pilot has been extended for further assessment.

The *Executive Board's weekly calendar* is now available on the website, as are *ex post assessments of country programs* (which are part of the IMF's country report series).

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, and on specific country and regional issues. The IMF posted most speeches on the website within hours of delivery.

Publication of economic and financial research and policy analysis papers included two issues of the *World Economic Out-*

look; two issues of the *Global Financial Stability Report*; the quarterly journal *IMF Staff Papers*; the quarterly magazine *Finance & Development*; the biweekly newsletter *IMF Survey*; and a wide array of books, manuals and guides, Occasional Papers, Working Papers, Policy Discussion Papers, pamphlets, and leaflets (see Table V.1).

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, readable summaries of policy-related findings of economic research carried out by Fund staff. *Issues Briefs* discuss key issues facing the IMF and the global economy, while the *Factsheets* explain in plain language how the IMF works.

The Media

Press briefings by the Director of the External Relations Department were held at headquarters for Washington-based journalists, usually at two-week intervals. Transcripts and videos of the briefings were posted on the IMF's website shortly afterwards.

Press releases on decisions taken by the Executive Board, and on activities and statements by management and senior staff, were distributed electronically directly to journalists worldwide and posted on the website. Over the course of the financial year, more than 300 press releases and other communications to the press were prepared and distributed.

A *web page for journalists* was created on the Fund's external website shortly before the end of the financial year, offering links to information of particular interest to the media. The page also serves as a gateway to the password-protected *Media Briefing Center*, an online service giving journalists access to embargoed documents, press briefings, and other useful information.

To reach wider audiences in member countries, IMF management and senior staff expressed their views on issues of importance to the Fund through a variety of other media channels. For instance, the Fund responded to interview requests with management or senior staff in the print and broadcast media, and Fund authors also offered *media articles*, often called op-eds, on country-specific or topical policy issues.

Press conferences with management and senior staff, held on such occasions as the Spring and Annual Meetings and on the 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.

¹The Board review of the external communications strategy is outlined at www.imf.org/external/np/sec/pn/2003/pn0333.htm.

Outreach to Civil Society

In October 2003, the Managing Director issued to all members of the IMF staff the *Guide for Staff Relations with Civil Society Organizations*, which was published on the IMF's website shortly afterwards. The preparation of the *Guide* followed a proposal, welcomed by IMF Executive Directors, to offer guidance for staff outreach that would focus specifically on issues arising in interactions with civil society that influence the Fund's operational work. Great care was taken to obtain a balanced spectrum of views. The *Guide* was drafted by an external expert and involved extensive consultation with civil society organizations (CSOs) and IMF staff.

The IMF continues to deepen its *outreach to CSOs*, including nongovernmental organizations, labor unions, faith-based organizations, business associations, and research institutes and other think tanks. IMF staff and management meet frequently with civil society representatives both at headquarters and in the Fund's member countries. The Fund interacts with CSOs (1) at Fund headquarters on global policy issues; (2) in the context of Article IV consultations and program design, particularly in low-income countries preparing poverty reduction strategies; and (3) in the normal course of work with member countries, especially the work conducted by resident representatives.

The IMF's quarterly *Civil Society Newsletter* is distributed electronically to subscribers and is posted on the IMF website. To ensure that it reaches as wide an audience as possible, including national organizations in member countries, it is translated into French, Spanish, and Russian.

Outreach to Legislators

FY2004 saw a substantial expansion in the IMF's *outreach to legislators*. IMF staff held various in-country seminars—for example, in Lao P.D.R., Vietnam, and Russia—as well as regional seminars with legislators in South Asia, the Middle East and North Africa, and Southeastern Europe. The seminars provided an opportunity for IMF staff to hear the views of legislators and to explain IMF policy advice. IMF management and Executive Directors met with legislators on their visits to member countries, and the IMF hosted several visiting parliamentary delegations at its headquarters. In FY2004, the Working Group of Executive Directors on Enhancing Communication with National Legislators was established. It recommended that outreach should be expanded to help build understanding of the Fund's work.

The IMF has expanded its collaboration with the *Parliamentary Network on the World Bank*. In February 2004, management participated in the group's annual meeting, which provided yet another occasion for legislators to have a dialogue with the IMF. Fund staff are also collaborating with other umbrella groups, such as the Global Organization of Parliamentarians Against Corruption.

Public Outreach

In September 2003, the IMF launched a new *Book Forum* series open to the public and designed to attract small, specialized groups interested in discussing books on topical economic issues. Book topics ranged from capitalism and globalization to IMF governance and the voice of developing countries in the IMF. The general public was also drawn to the *Economic Forum* series, which continued to provide an opportunity for informed discussion reflecting diverse points of view.

Outreach to *academics, students, and the policy research community* also continued to expand. In FY2004, some 180 briefings were given, along with the continuation of the biannual briefing to Washington-area think tanks to provide background on key issues surrounding the upcoming Spring and Annual Meetings. The IMF continues to be responsive to the general public, and in FY2004 the staff answered thousands of e-mails and written queries and commentaries on the work and policy advice of the IMF.

The *IMF Center* hosted nearly 17,000 visitors in FY2004. In addition to its web-based educational programs, such as "The IMF in Action" and "Trading Around the World," the Center offered curriculums for elementary and high school groups. In FY2004, 375 elementary school students visited the Center to participate in lesson plans aimed at teaching them about international cooperation, currency, and trade. In addition to the permanent exhibit "Money Matters" on the history of global cooperation, the Center featured a new exhibit, "Money and Sovereignty," developed in collaboration with the Smithsonian Institution, exploring the symbolic language of money from antiquity to the present. In conjunction with embassies, the Center organized and hosted cultural events that brought in new and large audiences.

The depth and variety of *volunteer and philanthropic activities* being pursued by the IMF reflects the commitment of the institution and its employees to "give back" to communities located both in the Washington, D.C., area and in member countries around the world. The IMF's *Civic Program* and staff volunteers reach out to low-income communities at home and abroad through civic grants; volunteerism; donations to humanitarian relief efforts; the provision of space in the IMF headquarters building for community meetings, cultural events and fundraisers; and the donation of goods such as computers, furniture, clothing, and school supplies. The ultimate objective of all of the IMF's outreach efforts is to help the recipients build a better future. In financial year 2004, direct IMF grants and staff donations to the IMF's annual "Helping Hands" campaign and humanitarian relief campaigns totaled about \$1 million. Since the inception of the Civic Program ten years ago, the IMF and its staff have contributed over \$7 million to charities in the Washington, D.C., area and in developing countries. Information on the Civic Program is available on the external website.

Table V.1 Publications Issued, Financial Year Ended April 30, 2004**Reports and Other Documents**

*Annual Report of the Executive Board for the Financial Year Ended April 30, 2003** (Chinese, English, French, German, and Spanish).

Annual Report on Exchange Arrangements and Exchange Restrictions, 2003 \$110; \$55 to full-time university faculty members and students.

*Summary Proceedings of the Fifty-Sixth Meeting of the Board of Governors (2002).**

*The IMF Committee on Balance of Payments Statistics, Annual Report, 2003.**

Selected Decisions and Selected Documents of the International Monetary Fund, 28th edition.

IMF Financial Statements, quarters ended April 30, 2003; October 31, 2003; January 31, 2004.

Periodic Publications

Balance of Payments Statistics Yearbook
Vol. 54, 2003. A two-part yearbook. \$98 a year.

Direction of Trade Statistics
Quarterly, with yearbook. \$155 a year; \$129 to full-time university faculty members and students. \$70 for yearbook only.

*Finance and Development**
Quarterly (Arabic, Chinese, English, French, and Spanish). Free by subscription. Airtel delivery, \$20. Individual copies, \$10.

Government Finance Statistics Yearbook
Vol. 27, 2003 (Introduction and titles of lines in English, French, and Spanish). \$80.

*IMF Research Bulletin**
Quarterly.

*IMF Staff Papers**
Three times a year. \$72 a year; \$46 to full-time university faculty members and students.

IMF Staff Papers: Special Issue of the Proceedings of the Third Annual Research Conference (Vol. 50, 2002). \$18.

*IMF Survey**
Twice monthly, once in December (English, French, and Spanish). Private firms and individuals are charged an annual rate of \$109. Vol. 33-2003 (English), Vol. 33-2003 (French), and Vol. 33-2003 (Spanish).

International Financial Statistics
Monthly, with yearbook. \$495 a year; \$247 to full-time university faculty members and students. \$95 for yearbook only; \$65 for monthly issues. *International Financial Statistics* is also available on CD-ROM and on the Internet at www.imf.statistics.org; price information is available on request.

Occasional Papers

No. 218. *Fiscal Vulnerability and Financial Crises in Emerging Market Economies*, by Richard Hemming, Michael S. Kell, and Axel Schimmelpfennig. 2003.

No. 219. *Economic Policy in a Highly Dollarized Economy: The Case of Cambodia*, by Mario de Zamaroczy and Sopanha Sa. 2003.

No. 220. *Effects of Financial Globalization on Developing Countries: Some Empirical Evidence*, by Eswar S. Prasad, Kenneth Rogoff, Shang-Jin Wei, and Ayhan Kose. 2003.

No. 221. *Deflation: Determinants, Risks, and Policy Options*, by Manmohan S. Kumar, Taimur Baig, Jörg Decressin, Chris Faulkner-MacDonagh, and Tarhan Feyizoglu. 2003.

No. 222. *Informal Funds Transfer Systems: An Analysis of the Informal Hawala System*, by Mohammed El Qorchi, Samuel Munzele Maimbo, and John F. Wilson. 2003.

No. 223. *Monetary Union Among Member Countries of the Gulf Cooperation Council*, by a staff team led by Ugo Fasano. 2003.

No. 224. *Managing Systemic Banking Crises*, by a staff team led by David S. Hoelscher and Marc Quintyn. 2003.

No. 225. *Rules-Based Fiscal Policy in France, Germany, Italy, and Spain*, by Teresa Dában, Enrica Detragiache, Gabriel di Bella, Gian Maria Milesi-Ferretti, and Steven Symansky. 2003.

No. 226. *Hong Kong SAR: Meeting the Challenges of Integration with the Mainland*, edited by Eswar Prasad, with contributions from Jorge Chan-Lau, Dora Iakova, William Lee, Hong Liang, Ida Liu, Papa N'Diaye, and Tao Wang. 2004.

No. 227. *U.S. Fiscal Policies and Priorities for Long-Run Sustainability*, edited by Martin Mühleisen and Christopher Towe. 2004.

No. 228. *Capital Markets and Financial Intermediation in The Baltics*, by Alfred Schipke, Christian Beddies, Susan M. George, and Niamh Sheridan. 2004.

Recent Occasional Papers are available for \$25 each, \$22 for full-time university faculty members and students.

World Economic and Financial Surveys

*World Economic Outlook**

A survey by the staff of the International Monetary Fund. Twice a year (April and September) (Arabic, English, French, and Spanish). \$49; \$46 for full-time university faculty members and students.

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Manuals and Guides

Balance of Payments Textbook (Arabic). \$25.

External Debt Statistics Guide for Compilers and Users (English, French, Spanish). \$60.

Foreign Direct Investment Statistics: How Countries Measure FDI (with OECD). \$25.

Government Finance Statistics Manual 2001, by the Statistics Department (French, Russian). \$40.

Guidelines for Public Debt Management: Accompanying Document and Selected Case Studies, by the staffs of the IMF and the World Bank. \$31.

Quarterly National Accounts Manual: Concepts, Data Sources, and Compilation, by Adriaan Bloem, Robert J. Dippelsman, Nils O. Maehle (Russian). \$40.

Suppressing the Financing of Terrorism: A Handbook for Legislative Drafting, by the IMF Legal Department (Arabic, English, French, Spanish, Russian*). \$21.

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Financial Development in the Middle East and North Africa, by Susan Creane, Rishi

Goyal, A. Mushfiq Mobarak, and Randa Sab (Arabic and English).

GCC Countries: From Oil Dependence to Diversification, by Ugo Fasano and Zubair Iqbal (Arabic and English).

IMF Macroeconomic Research on Low-Income Countries (English).

The Middle East and North Africa in a Changing Oil Market, by Bright E. Okogu (Arabic and English).

Per Jacobsson Pamphlets: *The Arab World: Performance and Prospects*; and *The Boom-Bust Capital Spending Cycle in the United States: Lessons Learned* (English).

Independent Evaluation Office Reports

Independent Evaluation Office, Annual Report 2003.

The IMF and Recent Capital Account Crises: Indonesia, Korea, Brazil. Full Report \$25. Abridged versions in English, Korean, and Portuguese.

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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

Eighth Meeting, Dubai, United Arab Emirates, September 21, 2003

1. The International Monetary and Financial Committee held its eighth meeting in Dubai on September 21, 2003, under the Chairmanship of Mr. Gordon Brown, Chancellor of the Exchequer of the United Kingdom. The Committee expresses its gratitude to the Dubai authorities and the government of the United Arab Emirates for the excellent arrangements.

The Global Economy and Financial Markets

2. The Committee welcomes the increasing signs that economic activity is strengthening in many economies, and the improved prospects for a steady and strengthening global recovery going forward. The major uncertainties have lessened since we met last April. Nevertheless, risks remain in many countries and it is important that policymakers stand ready to take the necessary policy actions. The Committee underscores the importance of close international cooperation and determined action across the membership to foster a strong, sustainable, and broad-based economic recovery.

3. The Committee emphasizes that, as the recovery proceeds, all countries have an interest in seeing more balanced growth with orderly adjustment. Sustained and vigorous structural reforms in many areas, and domestic sources of growth, are important in this respect. The Committee agrees on the need for continued focus by the IMF on exchange rate issues across the membership.

4. The international community must urgently make progress on trade and development. Ministers reaffirm their full political commitment to a multilateral rules-based approach to trade liberalization, and to making substantial and concrete progress. Ministers were disappointed at the breakdown of trade negotiations in Cancún. Ministers urge a speedy resumption of the Doha Round, which is vital for strong global growth and our development objectives. This should focus on the issues of importance to all countries of open markets and fair access and the reduction of trade-distorting subsidies in all areas, notably in agriculture. The Committee reiterates the crucial importance of removing the obstacles and moving forward without delay, and calls on all countries to play their part. It stresses the importance of the IMF's initiative to provide assistance to countries to help them address the transitional impact of trade reforms, which will contribute to the Doha Round.

5. In the advanced economies, monetary policy should continue to support demand in the context of low inflation, and the automatic fiscal stabilizers should be allowed to operate within credible medium-term frameworks to deliver fiscal consolidation. The vigorous pursuit of structural reforms and enhanced corporate governance and transparency are key to stronger, globally balanced growth. In the United States, where the fiscal stance has substantially supported activity, fiscal policy will need to focus on strengthening sustainability over the medium term. In Europe, progress in structural reforms should be accelerated and deepened both to strengthen work incentives, investment, and competition and to address the fiscal pressures of population aging. In Japan, continued efforts will be necessary to strengthen the banking and corporate sectors and end deflation, and to make a beginning toward fiscal consolidation over the medium term.

6. The improved financial market environment provides a valuable window of opportunity for emerging market economies to continue to pursue ambitious institutional and structural reforms which, together with sound macroeconomic policies, will enhance growth prospects and reduce vulnerabilities. While many countries have strengthened policies, key priorities remain to improve fiscal positions, strengthen banking and corporate sectors, reduce balance sheet vulnerabilities, and foster more broadly based growth. Growth in the Middle East and North Africa has picked up. However, the challenge facing the region will be to accelerate medium-term growth and absorb the rapidly growing labor force.

7. The Committee reaffirms its support for a multilateral effort to reconstruct and redevelop Iraq, and welcomes the constructive role being played by the IMF. It looks forward to the donors conference in Madrid next month based on a comprehensive needs assessment involving the World Bank and the IMF. The Committee supports the IMF providing, subject to its policies, financial and other assistance to Iraq.

8. Growth prospects in many low-income countries have strengthened, underpinned by improved macroeconomic policies and domestic reforms. However, significantly faster growth will be needed to reduce poverty and meet the Millennium Development Goals (MDGs) set out in the UN Millennium Declaration. This requires stronger policy frameworks and institutions, better governance, higher and more effective aid flows, and improved market access. African countries should continue to press forward with the region-wide implementation of the New Partnership for Africa's Development (NEPAD), particularly to strengthen the foundations for investment and private sector-led growth.

Strengthening IMF Surveillance and Promoting International Financial Stability

9. Strengthened and effective IMF surveillance is essential to enhancing crisis prevention and promoting stability and sustainable global growth. The Committee welcomes the ongoing reforms to strengthen the framework for IMF surveillance, and underlines the importance of enhancing and implementing surveillance consistently and evenhandedly across the membership. The Committee also welcomes the increased focus of surveillance on capital markets, and encourages the IMF and the Financial Stability Forum working together to identify gaps and further strengthen assessments of systemic weaknesses in financial markets.

10. The Committee stresses the need for the IMF to continue to improve the quality, effectiveness, and persuasiveness of its surveillance. This will involve: sharpening surveillance, especially in systemically and regionally important countries; working to enhance the impact of IMF policy advice; and continuing efforts to bring fresh perspectives to assessments. The Committee looks forward to discussing progress in these areas following the Executive Board's 2004 biennial review of surveillance.

11. The Committee emphasizes that it is particularly important that surveillance focus on identifying potential problems early and provide candid advice on policy reforms. In this respect, Committee members identified a number of key issues for the coming year, including making progress on structural reform and on medium-term sustainable fiscal frameworks; reducing balance sheet vulnerabilities, including currency mismatches, and improving debt sustainability; and encouraging policy measures to reduce global imbalances.

12. The Committee underscores the importance of increased transparency and candor of the IMF's advice to members. It notes the Executive Board's recent agreement on a policy of voluntary but presumed publication of IMF Article IV reports and program documents, and the enhanced provisions for exceptional access.

13. The Committee emphasizes its support for ways to achieve some of the objectives of the Contingent Credit Lines (CCL), intended to reduce vulnerabilities and provide precautionary support for members with strong policies in dealing with external financial developments. It looks forward to further work in this area.

14. The Committee welcomes the progress in strengthening the framework for crisis resolution, especially the inclusion by an increasing number of countries of collective action clauses (CACs) in their international sovereign bonds, and encourages their use on a voluntary basis by other countries. It also calls on the IMF to promote the voluntary inclusion of CACs. The Committee looks forward to the efforts led by sovereign debtors and private creditors to develop a voluntary Code of Conduct, and encourages the IMF to continue to contribute to this work. It looks forward to the ongoing work on issues of general relevance to the orderly resolution of financial crises, including transparency and disclosure, aggregation and intercreditor equity. The Committee looks forward to a report on progress at its next meeting.

Accelerating Poverty Reduction and Strengthening Sustainable Economic Growth in Low-Income Countries

15. The Committee stresses that the IMF has an important role to play in helping low-income countries achieve high and sustained growth and poverty reduction, in close cooperation with the World Bank. It agrees that

this support should be firmly aligned behind Poverty Reduction Strategy Papers and that the Fund should work in its core areas of competence alongside the Bank in support of the Millennium Development Goals. The IMF needs to remain engaged with low-income countries over the long term through well-targeted technical assistance, capacity building, surveillance, and, when warranted, temporary financial assistance. The Committee looks forward to reviewing Bank-Fund collaboration in that area at its next meeting.

16. The Committee emphasizes the importance of initiatives to enhance the IMF's support for low-income countries, including ensuring that macroeconomic policy frameworks support higher and sustained growth and poverty reduction; improving governance and strengthening institutions to support growth and private sector development; reducing vulnerability to shocks; and helping countries move beyond sustained reliance on IMF financial arrangements when ready. The Committee underscores the importance of technical assistance, and looks forward to work on adapting IMF instruments and reviewing PRGF financing. The Committee looks forward to a comprehensive review of progress at its next meeting.

17. The Committee emphasizes the urgent need to enhance market access and to increase the level and effectiveness of donor resources for low-income countries. In order to help achieve the Millennium Development Goals, the Committee calls upon the IMF to cooperate with the World Bank in work on aid effectiveness, absorptive capacity, and results-based measurement mechanisms, and in examining the merits of various policy options and financing mechanisms, such as an international financing facility, to mobilize the substantial additional resources that are needed over the medium term. Developing and emerging market countries should also be closely involved. The Committee looks forward to a report by the next Annual Meetings.

18. The Committee notes the progress in providing debt relief to the world's poorest countries under the enhanced HIPC Initiative. It calls on the IMF, in collaboration with the World Bank, to develop strategies to help countries implement the necessary policies and reforms to reach decision and completion points as quickly as possible, and achieve a lasting exit from unsustainable debt. The Committee urges all creditors that have not yet done so to deliver debt relief in full and invites the IMF to report on the compliance of countries. It recognizes the importance of providing topping up as appropriate, and of the ongoing discussions on the topping-up methodology and the financial implications.

Other Issues

19. The Committee stresses that the IMF's effectiveness as a cooperative institution depends on all members having an appropriate voice and representation. The Committee welcomes the measures being taken to improve the capacity of developing and transition countries to participate more effectively in IMF policy formulation and decision making. It welcomes the IMF Executive Board's progress report on quotas, representation, and voice and asks the IMF to examine these issues further, and will review progress at its next meeting. The Committee recommends completion of the ratification of the Fourth Amendment.

20. The Committee welcomes the further actions taken by the international community to combat money laundering and the financing of terrorism, and the progress with the 12-month pilot program of AML/CFT assessments. The Committee is encouraged by the continued close cooperation among the IMF, the World Bank, the FATF, and FATF-style regional bodies, and increased country involvement, and supports the enhanced delivery of critically

needed technical assistance. The Committee encourages all members to adopt AML/CFT laws and practices consistent with the agreed international standards, and looks forward to a full report at the conclusion of the pilot program.

21. The Committee welcomes the work of the Independent Evaluation Office, and its role in enhancing the learning culture, effectiveness, and accountability of the IMF. It emphasizes the importance of the IMF taking forward the work on prolonged use, capital account crises, and fiscal adjustment, in the light of the IEO's recommendations.

22. The Committee expresses its appreciation of the work of Shigemitsu Sugisaki as Deputy Managing Director and Kenneth Rogoff as Economic Counsellor.

23. The next meeting of the IMFC will be held in Washington, D.C. on April 24, 2004.

International Monetary and Financial Committee Attendance

September 21, 2003

Chairman

Gordon Brown

Managing Director

Horst Köhler

Members or Alternates

Ibrahim A. Al-Assaf, Minister of Finance, Saudi Arabia

Mervyn King, Governor, Bank of England, United Kingdom

(Alternate for Gordon Brown, Chancellor of the Exchequer, United Kingdom)

Peter Costello, Treasurer of the Commonwealth of Australia

Job Graça, Deputy Minister of Finance, Angola

(Alternate for José Pedro de Morais, Jr., Minister of Finance, Angola)

Rodrigo de Rato, First Vice President and Minister of Economy, Spain

Hans Eichel, Minister of Finance, Germany

Geir Hilmar Haarde, Minister of Finance, Iceland

Jamaludin Mohd Jarjis, Finance Minister II, Malaysia

Mohammed K. Khirbush, 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

Roberto Lavagna, Minister of Economy and Production, Argentina

John Manley, Minister of Finance, Canada

Jean-Claude Trichet, Governor, Banque de France

(Alternate for Francis Mer, Minister of Economy, Finance and Industry, France)

Antonio Palocci, Minister of Finance, Brazil

Didier Reynders, Minister of Finance, Belgium

Toshihiko Fukui, Governor, Bank of Japan

(Alternate for Masajuro Shiokawa, Minister of Finance, Japan)

Yaga V. Reddy, Governor, Reserve Bank of India

(Alternate for Jaswant Singh, Minister of Finance and Company Affairs, India)

John W. Snow, Secretary of the Treasury, United States

Paul Toungui, Minister of State, Minister of Finance, Economy, Budget, and Privatization, Gabon

Giulio Tremonti, Minister of Economy and Finance, Italy

Kaspar Villiger, Minister of Finance, Switzerland

Gernt Zalm, Minister of Finance, the Netherlands

Zhou Xiaochuan, Governor, People's Bank of China

Observers

Willem F. Duisenberg, President, European Central Bank (ECB)

Roger W. Ferguson, Jr., Chairman, Financial Stability Forum (FSF)

Heiner Flassbeck, Officer-in-Charge, Division on Globalization and Development Strategies, United Nations Conference on Trade and Development (UNCTAD)

Donald J. Johnston, Secretary-General, Organization for Economic Cooperation and Development (OECD)

Ian Kinniburgh, Director, Development Policy and Planning Office, Department of Economic and Social Affairs, United Nations (UN)

Malcolm D. Knight, General Manager, Bank for International Settlements (BIS)

Eddy Lee, Director, International Policy Group Department, International Labor Organization (ILO)

Trevor A. Manuel, Chairman, Joint Development Committee

Pedro Solbes, Commissioner for Economic and Monetary Affairs, European Commission

Francisco Thompson-Flores, Deputy Director-General, World Trade Organization (WTO)

James D. Wolfensohn, President, World Bank

Ninth Meeting, Washington D.C., April 24, 2004

1. The International Monetary and Financial Committee held its ninth meeting in Washington, D.C., on April 24, 2004, under the Chairmanship of Mr. Gordon Brown, Chancellor of the Exchequer of the United Kingdom.

The Global Economy and Financial Markets—Sustaining the Recovery

2. The Committee welcomes the strengthening of the global economic recovery since its meeting last September. Industrial production and global trade have picked up sharply, and improved prospects in most regions point to stronger global growth going forward. However, a number of risks remain. These arise from large global imbalances, medium-term fiscal challenges in many countries, and the implications of the eventual transition to a higher interest rate environment. Continuing geopolitical uncertainties and developments in oil markets also remain important concerns.

3. The priority now is to implement the macroeconomic and structural policy measures that will help achieve a robust, balanced, and sustainable recovery. Structural reforms are essential to improve growth potential. Priority should be given to medium-term fiscal consolidation; reforms of pension and health care systems; better functioning labor and product markets; and reduction of vulnerabilities in banking and corporate sectors. The Committee calls on all countries and regions to play their part and cooperate in addressing global imbalances.

4. The economy of the United States is expanding briskly, and Japan's economy continues to recover. The recovery in the euro area so far is more subdued. Monetary policy in advanced economies will need to remain consistent with price stability and support the recovery; in many countries where growth is strengthening, interest rates will over time need to rise to more neutral levels; and it will be important to communicate policy intentions clearly. The Committee encourages countries to take advantage of the current environment to strengthen the foundations for sustainable growth. Priorities for action include medium-term fiscal consolidation in the United States; acceleration of structural reforms in the euro area; and continued banking and

corporate reforms in Japan. Fiscal consolidation is also needed in the euro area and Japan.

5. The Committee is encouraged by the strong performance and recovery in many emerging market and developing countries, which has been aided by improved fundamentals and a rebound in private capital flows. Countries should continue to use the opportunity provided by the favorable financial market environment to strengthen growth prospects and reduce vulnerabilities. This will require steps to further strengthen fiscal positions and improve the structure and sustainability of debt, sustained and broad-ranging structural reforms, and, in some emerging market countries, a move toward more exchange rate flexibility as appropriate. The Committee welcomes the improvement in Argentina's macroeconomic performance, and calls on the government to continue to push ahead with full implementation of the policies and provisions of its economic recovery program aimed at strengthening growth, including negotiations aimed at reaching a sustainable debt restructuring through a collaborative agreement with creditors.

6. Economic performance in many low-income countries continues to improve. Nevertheless, the Millennium Development Goals (MDGs) set out in the UN Millennium Declaration remain at risk, particularly in sub-Saharan Africa, and much remains to be done by all partners in the global effort to deliver them. The Committee underscores that stronger domestic institutions, sound economic policies, trade integration, and less burdensome regulation will be needed to underpin faster growth and poverty reduction. It welcomes the recent steps taken through the New Partnership for Africa's Development (NEPAD) and the African Union to improve governance and eradicate corruption. It calls on the international community to provide additional and coordinated assistance—including technical assistance; policy advice; increased and more effective aid including grants and debt relief; and greater access to industrial country markets.

7. The Committee received the report of Dr. Supachai Panitchpakdi, Director-General of the World Trade Organization. It reiterates the critical importance of open markets for supporting broad-based global economic growth and prosperity. The Committee calls for constructive and determined efforts by all countries to achieve early progress with the Doha Round, focusing on the issues of importance to all countries of open markets and fair access, and the reduction of trade-distorting subsidies in all areas, notably in agriculture. A successful completion of the round is a shared responsibility, important for all countries, particularly developing countries. The Committee supports the IMF's role in advocating trade liberalization and helping members to take all the necessary actions to gain full advantage of the opportunities provided by more open trade. It welcomes the IMF's decision to establish a Trade Integration Mechanism, designed as a temporary policy to address concerns associated with the current round of multilateral trade negotiations.

Crisis Prevention and IMF Surveillance Across the Membership: Priorities, Tools, and Modalities

8. Effective and evenhanded IMF surveillance remains an essential element of the international community's efforts to enhance crisis prevention, promote financial stability, and foster high and sustainable growth. The Committee especially welcomes the increased focus of surveillance on financial sector and capital market issues—including the work from the Financial Sector Assessment Program, Reports on the Observance of Standards and Codes, and Offshore Financial Center assessments; economic developments and policies in countries of systemic or regional importance; early identification of potential vulnerabilities; and institutional foundations of growth. It

also welcomes the work already under way and the proposed pilots on the treatment of public investment in IMF advice and arrangements with a view to protecting infrastructure investment, consistent with macroeconomic stability and debt sustainability.

9. The Committee welcomes efforts to bring a fresh perspective to the surveillance of program countries, and the decisions taken to increase the transparency of surveillance. It calls for a strengthening of efforts to ensure the objectivity of surveillance (including through debt sustainability analysis), and requests the IMF to explore ways to support countries' own economic efforts when the IMF is not providing financial assistance. The Committee looks forward to the forthcoming biennial review of surveillance, which should provide a thorough assessment and candid review of surveillance, and propose ways to enhance its focus, quality, persuasiveness, impact, and overall effectiveness.

10. The Committee welcomes the greater focus on vulnerabilities and key issues for surveillance identified at its meeting in Dubai: improving debt sustainability; reducing balance sheet vulnerabilities; and making progress on structural reform and sustainable medium-term fiscal frameworks. It agrees that further progress in these areas, as well as with policies to facilitate the adjustment of global imbalances, remain key priorities for surveillance in the coming year. Surveillance will also need to pay due attention to relevant political risks and to vulnerabilities to exchange rate and interest rate movements.

11. The Committee looks forward to further work on ways to reduce vulnerabilities and provide support for members with strong policies in dealing with external financial developments. It looks forward to the upcoming discussion of precautionary arrangements and their potential to assist members' own efforts to prevent balance of payments crises and as a possible exit strategy from IMF financial support.

12. The Committee welcomes the inclusion by an increasing number of countries of collective action clauses (CACs) in their international sovereign bonds and the convergence toward a market standard. It calls on the IMF to continue to promote progress in this area. The Committee also encourages sovereign debtors and private creditors to continue their work on a voluntary Code of Conduct, and looks forward to reviewing further work on issues of general relevance to the orderly resolution of financial crises. The Committee takes note of the Executive Board's ongoing review of the framework, and application of procedures, for exceptional access to IMF resources. It calls on the IMF to continue reviewing implementation of its lending into arrears policy.

Enhancing IMF Support to Low-Income Members: Instruments and Financing; IMF-World Bank Collaboration; and Promoting Debt Sustainability

13. The Committee reiterates that the IMF—in partnership with multilateral development banks and donors—has an important role to play in assisting its low-income members with effective policy advice, financing, and technical assistance to achieve high and sustained growth and poverty reduction. It welcomes the progress on better tailoring the IMF's assistance to the differing financing and policy needs of low-income countries. The Committee looks forward to further work on a strengthened process of surveillance for those countries where the IMF is not providing financing, with a view toward enhancing the signaling role of surveillance and promoting country ownership. It underscores the importance of improving the macroeconomic design of PRGF-supported programs, including the social impact. The Committee underscores the importance of maintaining an adequate PRGF

financing capacity. In order to meet future needs, it calls for further discussions on the financing of a self-sustained PRGF. The Committee welcomes that some countries have indicated a willingness to provide additional resources.

14. The Committee reiterates that the Monterrey Consensus and Poverty Reduction Strategy Paper (PRSP) approach provide the appropriate framework for the IMF's engagement with low-income countries and its participation in global efforts toward achieving the MDGs. It encourages a further sharpening of the focus of PRSPs and PRGF-supported programs to enhance their linkage to the MDGs and their operational usefulness for policy choices and donor coordination. The first Global Monitoring Report on meeting the MDGs highlights the significant remaining challenges. The Committee expresses concern that, on current trends, most MDGs will not be met without an increase in the level and effectiveness of financial resources in support of strong policies. It looks forward to reviewing at its next meeting the ongoing joint work with the World Bank on aid effectiveness, absorptive capacity, results-based measurement mechanisms, and various policy options and financing mechanisms, such as an international financing facility and other options. In this regard, it welcomes the consultation with emerging markets and developing countries. The Committee welcomes the recent review of IMF-World Bank collaboration, and supports the plans for improved coordination.

15. The Committee welcomes the progress in providing debt relief under the enhanced HIPC Initiative, with a further five countries reaching their completion point since the Annual Meetings. It looks forward to continued further progress toward full implementation of the Initiative, and takes note of the work being undertaken on options for addressing the sunset clause. The Committee urges all creditors that have not yet done so to deliver debt relief in full. It welcomes the development by the IMF and the World Bank of a debt sustainability framework for low-income countries, and looks forward to further work to make it operational.

Other Issues

16. The Committee underscores the importance of IMF technical assistance in supporting members' efforts to build institutional capacities and implement sound economic policies and financial systems, which will lay the foundations for sustained growth and poverty reduction.

17. The Committee underscores the importance of further determined action by the international community to combat money laundering and the financing of terrorism. It welcomes the significant progress that has been made under the 12-month IMF/World Bank pilot program of AML/CFT assessments. The Committee endorses the recent decision by the Executive Board to make the scope of the IMF's involvement in AML/CFT assessments comprehensive and a regular part of the IMF's work. It encourages all international organizations and bodies to work together closely in conducting assessments and delivering critically needed technical assistance. The Committee urges all members to adopt and implement the revised FATF 40 + 8 Recommendations as the accepted international standard.

18. The IMF's effectiveness and enhanced credibility as a cooperative institution also depends on all members having appropriate voice and representation. Efforts should continue to be made to enhance the capacity of developing and transition countries to participate more effectively in IMF decision making. The Committee calls on the Executive Board to continue its work on IMF quotas, voice, and representation, and looks forward to a report on progress at its next meeting. The Committee recommends completion of the ratification of the Fourth Amendment.

19. The IMF's liquidity is adequate to meet the near-term projected needs of its members although continued monitoring will be important.

20. The Committee welcomes the high-quality work of the Independent Evaluation Office, and looks forward to its reports on PRSP/PRGF, technical assistance, and the role of the IMF in Argentina from 1991 to 2002.

21. The Committee pays tribute to Mr. Horst Köhler for his leadership of the International Monetary Fund as Managing Director during the past four years. In the face of a difficult world economic situation and unprecedented challenges for the international community, Mr. Köhler has worked tirelessly to promote close international cooperation so that all can share in the benefits of globalization. He has strengthened the IMF's role in working for the stability of the international financial system, has helped the IMF lead the international effort to assist low-income countries, and has instilled a listening and learning culture in the IMF that will change the way in which the IMF interacts with members and civil society.

22. The Committee also acknowledges the contribution of Mr. Jacques J. Polak through 57 years of service to the IMF.

23. The next meeting of the IMFC will be held in Washington, D.C., on October 2, 2004.

International Monetary and Financial Committee Attendance

April 24, 2004

Chairman

Gordon Brown

Acting Managing Director

Anne O. Krueger

Members or Alternates

Abraham A. Al-Assaf, Minister of Finance, Saudi Arabia
Mervyn King, Governor, Bank of England, United Kingdom
(Alternate for Gordon Brown, Chancellor of the Exchequer, United Kingdom)

Peter Costello, Treasurer of the Commonwealth of Australia
M.R. Pridiyathorn Devakula, Governor, Bank of Thailand
Hans Eichel, Minister of Finance, Germany
Per-Kristian Foss, Minister of Finance, Norway
Francisco Gil-Díaz, Secretary of Finance and Public Credit, Mexico
Ralph Goodale, Minister of Finance, Canada
Mohammed K. Khirbash, Minister of State for Finance and Industry, United Arab Emirates

Aleksei Kudrin, Minister of Finance, Russian Federation
Mohamed Laksaci, Governor, Banque d'Algérie
Roberto Lavagna, Minister of Economy and Production, Argentina
Lesetja Kganyago, Director General: Finance, National Treasury, South Africa
(Alternate for Trevor Manuel, Minister of Finance, South Africa)

Jean-Pierre Roth, Chairman of the Governing Board, Swiss National Bank
(Alternate for Hans-Rudolf Merz, Minister of Finance, Switzerland)

Antonio Palocci, Minister of Finance, Brazil
Didier Reynders, Minister of Finance, Belgium
Nicolas Sarkozy, Minister of State; Minister of Economy, Finance, and Industry, France

Yaga V. Reddy, Governor, Reserve Bank of India
(Alternate for Jaswant Singh, Minister of Finance, India)

Alan Greenspan, Chairman, Board of Governors of the Federal Reserve System
(Alternate for John W. Snow, Secretary of the Treasury, United States)

Sadakazu Tanigaki, Minister of Finance, Japan
Paul Toungui, Minister of State, Minister of Finance, Economy, Budget, and Privatization, Gabon
Giulio Tremonti, Minister of Economy and Finance, Italy
Gernt Zalm, Minister of Finance, the Netherlands
Zhou Xiaochuan, Governor, People's Bank of China

Observers

Roger W. Ferguson, Jr., Chairman, Financial Stability Forum (FSF)
Donald J. Johnston, Secretary-General, Organization for Economic Cooperation and Development (OECD)
Malcolm D. Knight, General Manager, Bank for International Settlements (BIS)
Jan Kregel, Interregional Adviser, Division on Globalization and Development Strategies, United Nations Conference on Trade and Development (UNCTAD)
Eddy Lee, Economic Adviser and Director, International Policy Group Department, International Labor Organization (ILO)
José Antonio Ocampo, Under Secretary-General, Department of Economic and Social Affairs, United Nations (UN)
Ngozi N. Okonjo-Iweala, Chairperson, a.i., Joint Development Committee
Klaus P. Regling, Director-General for Economic and Financial Affairs, European Commission
Supachai Panitchpakdi, Director-General, World Trade Organization (WTO)
Jean-Claude Trichet, President, European Central Bank (ECB)
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)

Sixty-Eighth Meeting, Dubai, United Arab Emirates, September 22, 2003

1. At our last meeting, we strongly reaffirmed our commitment to achieve the Millennium Development Goals (MDGs) set out in the UN Millennium Declaration endorsed by heads of state and governments in the UN General Assembly on September 8, 2000, and, in particular, our commitment to the global effort needed to reduce poverty. Today we renewed that commitment and continued our work on implementing the strategies, partnerships, and actions agreed in Doha, Monterrey, and Johannesburg.

2. We welcomed the paper on supporting sound policies with adequate and appropriate financing and its country-based approach. We agreed that there was an urgent need to scale up efforts if the MDGs are to be met and that this would require enhanced concerted actions on the part of both developing and developed countries and the international institutions. Developing countries will have to sustain their efforts to strengthen policies and governance so as to ensure that domestic resources, private inflows, and aid can be used effectively in spurring growth, improving service delivery, and reducing poverty. Developed countries will need to move vigorously in supporting these efforts with more and better aid, debt relief, and improved market access.

3. To implement this partnership to meet the MDGs, systematic efforts will be needed to achieve greater synergies between poverty reduction strategies and longer-term MDG targets, to specify and implement the actions needed to accelerate progress on the MDGs, and to identify the volumes and forms of financing needed to implement agreed strategies. We agreed

that ensuring adequate, timely, and more predictable financing and enhancing aid absorptive capacity through policy and institutional reforms would both be critical to the virtuous cycle of actions needed to meet the MDGs. We urge that countries, without delay, take specific steps to meet their commitments to provide additional aid resources by 2006. Furthermore, we call upon the Bank, working with the Fund, to examine the merits of various policy options, such as an international financing facility, to mobilize the substantial additional resources that are needed over the medium term and can be effectively used to achieve development results and in scaling up progress toward the MDGs. Developing and emerging market countries should also be consulted closely. We asked the Bank to report to us at our Spring 2004 meeting.

4. Changes are also needed in the way that aid is provided, as highlighted in the Declaration of the Rome High-Level Forum on Harmonization. In addition to streamlining procedures and lowering transaction costs, assistance will have to be better aligned to country need, to country priorities and processes, to countries that demonstrate the ability to achieve measurable development results; and to support the development of countries' capacity. Commitments should also be predictable and long term; provided in a form that can meet cash requirements to achieve the MDGs; and in appropriate country circumstances, especially in view of long-term debt sustainability, more of it should be provided in grants and, where conditions warrant, in ways that can finance recurrent costs.

5. We continue to believe that a successful conclusion to the Doha Development Agenda is vital to growth, poverty reduction, and progress in attaining the MDGs. We therefore regret the temporary setback to multilateral trade negotiations at WTO's Fifth Ministerial Conference and urge all participants to capitalize on progress to date and put the process back on track as soon as possible. We welcome the Bank and the Fund's recent pledge to support countries to benefit fully from a more liberalized trading system. We also urge continued efforts to tailor Bank lending activities to support country-owned trade initiatives, translating analysis and diagnostics into meaningful operations.

6. As called for at Monterrey, we have continued our consideration of innovative and pragmatic ways to enhance the voice and effective participation of developing and transition countries in the work and decision making of the Bank and the Fund. There is no single approach to accomplish this, but, rather, action is required over time across a range of issues. The development of the Poverty Reduction Strategy approach represents a step toward ensuring responsiveness by the Bretton Woods Institutions to country-owned strategies and priorities. In this context, we also welcome ongoing efforts to promote greater openness and transparency, decentralization and staff diversity in all its dimensions. We urge the Bank and the Fund to step up these efforts.

7. We welcomed the further progress by Directors on measures to enhance capacity in developing and transition country Executive Directors' offices and in capitals. We also welcomed the proposed Analytical Trust Fund for use by Executive Directors representing sub-Saharan African developing countries in undertaking independent research and analysis on development issues. We called for further work on additional capacity-enhancing measures, including secondments. We look forward to concrete action by our Spring meeting.

8. The IDA-13 Mid-Term Review and IDA-14 negotiations provide a timely opportunity to enhance borrower participation in the IDA replenishment process and its Board's decision making. We noted that by taking up their full IDA subscriptions, developing countries could significantly increase their

aggregate voting share and we encouraged these countries to take the necessary actions in this regard. We urged further consideration and progress on all these issues.

9. We note that the complexities involved in changing the voting structure and composition of the Boards will require time and effort to arrive at the necessary political consensus. However, we recognize the need to continue our efforts on these issues. We asked the Boards of Executive Directors to report back to us on all aspects of the voice issue at the 2004 Annual Meeting. A roadmap on procedures and next steps will be considered at our Spring meeting.

10. We reviewed the status of the HIPC Initiative and reconfirmed our commitment to its objectives, full financing, and implementation. We also recalled that within existing guidelines, additional relief can be provided at the completion point, on a case-by-case basis, and noted ongoing discussions about the topping-up methodology and requested further work on this issue. Some HIPCs face a continued challenge to reach the decision point and we encouraged ongoing efforts by staff in this area, including application of the approach contained in the World Bank Task Force Report on Low-Income Countries under Stress. We recalled the importance of full creditor participation and again urged all official and commercial creditors that have not yet done so to participate in the HIPC initiative and welcomed the recent decisions by some non-Paris Club creditors (India and Libya). We look forward to a report being prepared by the staffs of the Bank and the Fund on a forward-looking framework for debt sustainability in low-income countries and to reviewing the report at our next meeting. We also encouraged further work by the Bank and the Fund on ways to help reduce the vulnerability of these countries to exogenous shocks, including commodity market and weather-related shocks.

11. We are encouraged by the continuing progress under the PRSP approach. We welcome the increasing openness of policy dialogue with all stakeholders, improved focus on sources of growth and the investment climate and on policies needed to reduce poverty and achieve the MDGs, greater realism and better prioritization, increased pro-poor public spending, and efforts to strengthen public expenditure management and better integrate expenditure proposals into national budgets. At the same time, we recognized that PRSPs are charged with multiple and sometimes competing objectives, and the challenge now is to achieve successful implementation, including through much more effective donor alignment and harmonization around national strategies. We also asked the Bank and the Fund to respond to requests for assistance from countries undertaking Poverty and Social Impact Analyses (PSIAs) and developing alternative scenarios to meet the MDGs, where appropriate.

12. We stressed the need for accelerating progress and results on service-delivery MDGs, including through the Education for All Fast Track Initiative (FTI). We asked the Bank to report on progress on funding and lessons from the implementation of the FTI at our next meeting.

13. We supported the World Bank Group's renewed focus on infrastructure, in light of the important contribution infrastructure makes to sustainable economic growth and reaching the MDGs by improving the investment climate and supporting the development requirements of low- and middle-income countries. We welcomed the report on the infrastructure action plan, as well as the follow-up to the recommendations of the World Panel on Financing Water Infrastructure, and asked the Bank Group to work with member countries to secure its early implementation within their development strategies. In particular, we noted the importance of scaling up investments within a comprehensive development approach, and the catalytic role inter-

national financial institutions can play in this regard. We stressed that the right policy environment and institutional and maintenance capacity are crucial for ensuring sustainable infrastructure investments. We are pleased the Bank Group has intensified efforts to build on its international comparative advantage, expertise, and established policies, by investing in infrastructure projects, supported by country diagnostic work. We also urged the Bank Group to engage in cross-border investments, especially in light of the linkages to the trade agenda. We encouraged the Bank, the IFC, and MIGA to continue to work together on initiatives that facilitate and promote the use of joint instruments, and through work at the sub-sovereign level and via guarantees. Finally we noted that an implementation progress update would be provided to Bank Executive Directors before our next meeting, and we will return to this issue at a future meeting.

14. Progress in all areas we discussed and others is critical to achieving the MDGs and related development outcomes. We, therefore, welcomed the implementation report for the global monitoring of policies and actions for achieving the MDGs, which will allow the Committee to maintain a strategic overview on progress on key issues and priorities in the policy agenda and to reinforce accountabilities. We look forward to the first full report at our next meeting.

15. Finally, we noted the current difficulties in the region in which we met. We welcomed the active role of the World Bank in helping meet the urgent economic and social needs of the Palestinian people of the West Bank and Gaza. We also welcomed its role in promoting economic and infrastructure cooperation in the region. We noted the constructive role played by the Bretton Woods institutions, in cooperation with other international organizations, in positioning themselves to work closely with the people of Iraq in the task of reconstruction and development toward a future that will enable them to achieve their economic potential under their own leadership. We look forward to the forthcoming donors' conference on Iraq, which will play a critical role in mobilizing resources adequate to placing Iraq on the path of economic recovery. Success both in the West Bank and Gaza and in Iraq, while challenging, is nonetheless essential to stability and development in the region and beyond.

16. We wish to thank the authorities and people of the United Arab Emirates for their excellent hospitality and facilities.

17. We welcome confirmation of Mr. Trevor Manuel, Minister of Finance of South Africa, for an additional term as Chairman.

18. The next meeting of the Committee will be held in Washington, D.C., on April 25, 2004.

Sixty-Ninth Meeting, Washington D.C., April 25, 2004

1. The strategies and decisions agreed in Doha, Monterrey, and Johannesburg set out a framework for fighting poverty and achieving the internationally agreed goals of the UN Millennium Declaration, based on countries pursuing sound policies and good governance, combined with stronger international cooperation and support. We met today to assess progress based on the first *Global Monitoring Report*. We welcomed the report, which provides a good basis for our yearly review. Building on this work, future reports should focus on the agenda of monitorable actions in the identified priority areas in order to reinforce accountabilities and enhance cooperation among all development partners.

2. We recognize that there has been progress on many fronts, including significant reforms undertaken by developing countries and important gains in reducing income poverty. However, we are very concerned that, based on

current trends, most Millennium Development Goals (MDGs)¹ will not be met by most developing countries, particularly in sub-Saharan Africa. All parties, developing and developed countries and the international institutions, must urgently enhance concerted action to accelerate progress toward these goals.

3. Sustainable and inclusive growth needs to be accelerated in many developing countries, in particular through improving the enabling climate for private sector activity; strengthening reforms, capacity, and results focus in public institutions and improving the quality of governance; scaling up effective investment in infrastructure; and ensuring access to health care, education and other basic social services and fighting the HIV/AIDS epidemic.

4. Specific priorities must be determined at the country level in the context of country-owned and monitored development strategies, as reflected in the Poverty Reduction Strategy Papers (PRSPs) in the case of low-income countries and respective national strategy frameworks in middle-income countries (MICs). We look forward to reviewing progress on the Bank's efforts to enhance its support for development in MICs at a future meeting. Given the centrality of faster and more equitable economic growth for making greater progress on the MDGs, we welcomed the efforts of the Bank to support stronger investment climates in developing countries and we intend to discuss improving the climate for private sector activity at our next meeting. As we have noted previously, infrastructure investment within the right policy environment makes a fundamental contribution to economic growth and achievement of the MDGs. The implementation of the infrastructure action plan of the Bank has been reviewed by the Board of Directors and we look forward to a discussion on progress at our next meeting.

5. Developed countries must meet their commitments to help accelerate progress. Sustaining stable, balanced, and strong growth in the global economy is a prerequisite. Ensuring a successful, pro-development, and timely outcome to the Doha Development Agenda is critical to global growth and the economic prospects of developing countries. We stressed our commitment to a constructive and determined effort to move the multilateral trade agenda forward. We again stressed that it is essential for developed countries to do more to liberalize their markets and eliminate trade-distorting subsidies, including in the areas of agriculture, textiles, and clothing, which are of particular importance for developing countries. At the same time, we emphasized the importance of trade facilitation and liberalization efforts in developing countries. We welcomed the Bank's continuing efforts to promote trade facilitation and the Integrated Framework, as well as the IMF's recently adopted Trade Integration Mechanism, which will provide additional support and assurances to developing countries as they integrate further into the global trading system. We also urged continued efforts to tailor Bank lending activities to support capacity building and country-owned trade initiatives. We noted the growing importance of migration and, with it, workers' remittances and called for further work to improve understanding of their determinants and to create a supportive environment to enhance their development impact.

6. More aid is also required. It should be predictable, timely, long term and more effective. We urged developed countries that have not done so to make concrete efforts toward the target of 0.7 percent of GNP as ODA. A substantial and timely agreement on the funding of IDA-14 will be a critical affirmation of our commitment to mobilize the resources for our support for strong, results-oriented action by partners in the poorest countries.

7. We noted a progress report on financing modalities and we look forward to a report at our next meeting on aid effectiveness, absorptive capacity, results-based measurement mechanisms, and elaboration of policy options and financing mechanisms for mobilizing additional resources (including examining an international finance facility, global taxation, and other proposals). More aid can be sustained only by showing positive results. This requires a strengthened effort to implement the Declaration of the Rome High-Level Forum on Harmonization and the Core Principles of Marrakech, including strengthening country capacity to manage for results. We support the work by the OECD/DAC, jointly with development partners, to address the continuing divide between agreed global policies and detailed operational procedures and country-level practices.

8. We also recalled that the IFIs are accountable for their contribution to implementing the Monterrey consensus. Key areas for action include harmonization, managing for results, and responsiveness to clients. We urged them to increase their efforts to identify and meet needs of client countries. Taking into account fiscal constraints facing clients, we encouraged the Bank to consider new innovative products, improve internal efficiencies, and simplify the application of lending policies in order to reduce the costs of doing business while respecting fiduciary and safeguard standards.

9. In April 2002, we endorsed the plan to help make primary education a reality for all children by 2015 and achieve gender equality in primary and secondary education by 2005. The Fast Track Initiative (FTI) was designed to address the data, policy, capacity, and resource gaps that constrain progress in achieving education for all. Its implementation has highlighted the potential as well as the challenges associated with scaling up the MDG agenda more generally and, in particular, the need for credible, effective, and predictable financing in support of adequate policies and programs. The experience of FTI so far has demonstrated that it should be anchored in countries' Poverty Reduction Strategies if it is to be effective. We urged all countries, developed and developing, to take the additional steps required to make this initiative succeed and requested the Bank Board to continue to monitor progress.

10. We also reviewed implementation of the HIPC Initiative and recalled the importance of full creditor participation for its success. Thirteen countries have reached the completion point and another 14 are between decision and completion point. However, 11 countries, several of which are affected by conflict and some with protracted arrears, are either yet to reach the decision point or to begin establishing a track record under a Fund-supported program. We urged the Bank and the Fund to help facilitate these countries' rapid access to HIPC debt relief when their outstanding issues are addressed. We also urged that careful consideration be given to options to deal with the HIPC sunset clause which is scheduled to take effect end-2004.

11. We broadly supported the principles underlying the proposed framework for debt sustainability in low-income countries while acknowledging that the modalities and operational implications remained to be clarified. We stressed the need for a consistent and coordinated approach among borrowers, creditors, and donors, to ensure that resources to low-income countries are provided on appropriate terms, including the degree of concessionality and level of grant financing. This must build on full implementation of the

¹Eradicate extreme poverty and hunger; achieve universal primary education; promote gender equality and empower women; reduce child mortality; improve maternal health; combat HIV/AIDS, malaria, and other diseases; ensure environmental sustainability, and develop a global partnership for development.

HIPC initiative. We also welcomed work by the Fund and the Bank on measures and instruments to assist low-income countries to deal with exogenous shocks and urged them to accelerate their work, in close collaboration, for early consideration by the Boards.

12. Strengthening the voice and participation of developing and transition countries in the work and decision making of the Bretton Woods institutions remains a major challenge. We welcomed the further progress made,

particularly on capacity building, since our last meeting, including the establishment of an Analytical Trust Fund to support the African Chairs and a secondment program at the Bank. We look forward to receiving reports from our Boards on all aspects of this issue and to further discussion at the 2004 Annual Meeting.

13. The next meeting of the Committee will be held in Washington, D.C., on October 3, 2004.

Executive Directors and Voting Power on April 30, 2004

Director <i>Alternate</i>	Casting Votes of	Votes by Country	Total Votes ¹	Percent of IMF Total ²
Appointed				
Nancy P. Jacklin <i>Meg Lundsager</i>	United States	371,743	371,743	17.14
Ken Yagi <i>Michio Kitahara</i>	Japan	133,378	133,378	6.15
Karlheinz Bischofberger <i>Gert Meissner</i>	Germany	130,332	130,332	6.01
Pierre Duquesne <i>Sébastien Boitreaud</i>	France	107,635	107,635	4.96
Tom Scholar <i>Martin A. Brooke</i>	United Kingdom	107,635	107,635	4.96
Elected				
Willy Kiekens (Belgium) <i>Johann Prader</i> (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	5.15
Jeroen Kremers (Netherlands) <i>Yuriy G. Yakusha</i> (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	4.86
Luis Martí (Spain) <i>Moises Schwartz</i> (Mexico)	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) <i>Harilaos Vittas</i> (Greece)	Albania	737		
	Greece	8,480		
	Italy	70,805		
	Malta	1,270		
	Portugal	8,924		
	San Marino	420		
	Timor-Leste	332	90,968	4.19

Director <i>Alternate</i>	Casting Votes of	Votes by Country	Total Votes¹	Percent of IMF Total²
Elected (continued)				
Ian E. Bennett (Canada)	Antigua and Barbuda	385		
Charles X. O'Loghlin (Ireland)	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
Jon A. Solheim (Norway)	Denmark	16,678		
Benny Andersen (Denmark)	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)	Australia	32,614		
Michael H. Reddell (New Zealand)	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)	Saudi Arabia	70,105	70,105	3.23
Abdallah Alazzaz (Saudi Arabia)				
Sri Mulyani Indrawati (Indonesia)	Brunei Darussalam	2,402		
Ismail Alowi (Malaysia)	Cambodia	1,125		
	Fiji	953		
	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	69,019	3.18
Ismaila Usman (Nigeria)	Angola	3,113		
Peter J. Ngumbullu (Tanzania)	Botswana	880		
	Burundi	1,020		
	Eritrea	409		
	Ethiopia	1,587		
	Gambia, The	561		
	Kenya	2,964		
	Lesotho	599		
	Malawi	944		
	Mozambique	1,386		
	Namibia	1,615		
	Nigeria	17,782		
	Sierra Leone	1,287		

Director Alternate	Casting Votes of	Votes by Country	Total Votes ¹	Percent of IMF Total ²
Elected (continued)				
	South Africa	18,935		
	Sudan	1,947		
	Swaziland	757		
	Tanzania	2,239		
	Uganda	2,055		
	Zambia	5,141	65,221	3.01
A. Shakour Shaalan (Egypt)	Bahrain	1,600		
Oussama T. Kanaan (Jordan)	Egypt	9,687		
	Iraq	5,290		
	Jordan	1,955		
	Kuwait	14,061		
	Lebanon	2,280		
	Libyan Arab Jamahiriya	11,487		
	Maldives	332		
	Oman	2,190		
	Qatar	2,888		
	Syrian Arab Republic	3,186		
	United Arab Emirates	6,367		
	Yemen, Republic of	2,685	64,008	2.95
WANG Xiaoyi (China)	China	63,942	63,942	2.95
GE Huayong (China)				
Fritz Zurbrugg (Switzerland)	Azerbaijan	1,859		
Wieslaw Szczuka (Poland)	Kyrgyz Republic	1,138		
	Poland	13,940		
	Serbia and Montenegro	4,927		
	Switzerland	34,835		
	Tajikistan	1,120		
	Turkmenistan	1,002		
	Uzbekistan	3,006	61,827	2.85
Aleksei V. Mozhin (Russian Federation)	Russian Federation	59,704	59,704	2.75
Andrei Lushin (Russian Federation)				
Abbas Mirakhor (Islamic Republic of Iran)	Afghanistan, Islamic State of	1,869		
Mohammed Dairi (Morocco)	Algeria	12,797		
	Ghana	3,940		
	Iran, Islamic Republic of	15,222		
	Morocco	6,132		
	Pakistan	10,587		
	Tunisia	3,115	53,662	2.47
Murilo Portugal (Brazil)	Brazil	30,611		
Roberto Steiner (Colombia)	Colombia	7,990		
	Dominican Republic	2,439		
	Ecuador	3,273		
	Guyana	1,159		
	Haiti	1,069		
	Panama	2,316		
	Suriname	1,171		
	Trinidad and Tobago	3,606	53,634	2.47
B.P. Misra (India)	Bangladesh	5,583		
R.A. Jayatissa (Sri Lanka)	Bhutan	313		
	India	41,832		
	Sri Lanka	4,384	52,112	2.40
Guillermo Le Fort (Chile)	Argentina	21,421		
Héctor Torres (Argentina)	Bolivia	1,965		
	Chile	8,811		
	Paraguay	1,249		
	Peru	6,634		
	Uruguay	3,315	43,395	2.00

Director Alternate	Casting Votes of	Votes by Country	Total Votes ¹	Percent of IMF Total ²
Elected (continued)				
Damian Ondo Mañe (Equatorial Guinea)	Benin	869		
Laurean W. Rutayisire (Rwanda)	Burkina Faso	852		
	Cameroon	2,107		
	Cape Verde	346		
	Central African Republic	807		
	Chad	810		
	Comoros	339		
	Congo, Democratic Republic of the	5,580		
	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		
			30,749	1.42
			2,168,501 ^{3, 4, 5}	100.00 ⁶

¹Voting power varies on certain matters pertaining to the General Department with use of the IMF's resources in that Department.

²Percentages of total votes 2,173,940 in the General Department and the Special Drawing Rights Department.

³This total does not include the votes of Somalia, which did not participate in the 2002 Regular Election of Executive Directors. The total votes of this member are 692—0.03 percent of those in the General Department and Special Drawing Rights Department.

⁴Liberia's voting rights were suspended effective March 5, 2003, pursuant to Article XXVI, Section 2(b) of the Articles of Agreement. The total votes of this member are 963—0.04 percent in the General Department and Special Drawing Rights Department.

⁵Zimbabwe's voting rights were suspended effective June 6, 2003, pursuant to Article XXVI, Section 2(b) of the Articles of Agreement. The total votes of this member are 3,784—0.17 percent of those in the General Department and Special Drawing Rights Department.

⁶This figure may differ from the sum of the percentages shown for individual Directors because of rounding.

Changes in Membership of the Executive Board

Changes in the membership of the Executive Board between May 1, 2003, and April 30, 2004, were as follows:

Luis Martí (Spain) was elected Executive Director for Costa Rica, El Salvador, Guatemala, Honduras, Mexico, Nicaragua, Spain, and Venezuela, effective May 1, 2003.

Haryuki Toyama (Japan) relinquished his duties as Alternate Executive Director to Ken Yagi (Japan), effective May 3, 2003.

Michio Kitahara (Japan) was appointed Alternate Executive Director to Ken Yagi (Japan), effective May 4, 2003.

Nioclás O'Murchú (Ireland) relinquished his duties as Alternate Executive Director to Ian Bennett (Canada), effective May 18, 2003.

Charles X. O'Loughlin (Ireland) was appointed Alternate Executive Director to Ian Bennett (Canada), effective May 19, 2003.

Ismaila Usman (Nigeria) was reelected Executive Director for Angola, Botswana, Burundi, Eritrea, Ethiopia, The Gambia, Kenya, Lesotho, Malawi, Mozambique, Namibia, Nigeria, Sierra Leone, South Africa, Sudan, Swaziland, Tanzania, Uganda, and Zambia, effective June 23, 2003.

WEI Benhua (China) relinquished his duties as Executive Director for China, effective July 6, 2003.

WANG Xiaoyi (China) relinquished his duties as Alternate Executive Director to WEI Benhua, effective July 6, 2003.

WANG Xiaoyi (China) was elected Executive Director for China, effective July 7, 2003.

GE Huayong (China) was appointed Alternate Executive Director to WANG Xiaoyi (China), effective August 1, 2003.

Ruediger von Kleist (Germany) relinquished his duties as Alternate Executive Director to Karlheinz Bischofberger (Germany), effective August 17, 2003.

Gert Meissner (Germany) was appointed Alternate Executive Director to Karlheinz Bischofberger (Germany), effective August 28, 2003.

Yaga V. Reddy relinquished his duties as Executive Director for Bangladesh, Bhutan, India, and Sri Lanka, effective September 6, 2003.

B. P. Misra (India) was elected Executive Director for Bangladesh, Bhutan, India, and Sri Lanka, effective September 26, 2003.

Mario Beauregard (Mexico) relinquished his duties as Alternate Executive Director to Luis Martí (Spain), effective November 15, 2003.

A. Guillermo Zoccali (Argentina) relinquished his duties as Alternate Executive Director to Guillermo Le Fort (Chile), effective December 28, 2003.

Vilhjalmur Egilsson (Iceland) relinquished his duties as Executive Director for Denmark, Estonia, Finland, Iceland, Latvia, Lithuania, Norway, and Sweden, effective January 9, 2004.

Jon A. Solheim (Norway) was elected Executive Director by Denmark, Estonia, Finland, Iceland, Latvia, Lithuania, Norway, and Sweden, effective January 10, 2004.

Moises Schwartz (Mexico) was appointed Alternate Executive Director to Luis Martí (Spain), effective January 12, 2004.

Héctor Torres (Argentina) was appointed Alternate Executive Director to Guillermo Le Fort (Chile), effective March 1, 2004.

Financial Statements

April 30, 2004



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Report of Independent Auditors

**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 of the International Monetary Fund (the "IMF") as at April 30, 2004 and 2003, and its results of operations and cash flows for the years then ended in conformity with International Financial Reporting 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 audit 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 164 to 169 is presented for purposes of adding 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

June 7, 2004

General Department
Balance Sheets
as at April 30, 2004 and 2003
(In thousands of SDRs)

	2004	2003	2004	2003
Assets				
Credit outstanding		65,977,977		
Usable currencies	62,152,682	97,028,740	212,654	244,544
Other currencies	103,261,911	47,692,348	100,189	140,347
Total currencies (Notes 3 and 4)	46,671,529	210,699,065	1,495,019	1,401,019
SDR holdings	212,086,122		1,807,862	1,785,910
Gold holdings (Note 5)	506,029	962,641		
Receivables (Note 6)	5,851,771	5,851,771		
Other assets (Notes 7 and 14)	517,002	576,570		
Investments held in the Special Disbursement Account (Note 8)	751,655	714,092		
Structural Adjustment Facility loans (Note 3)	2,630,804	2,590,349		
Total Assets	85,908	136,816	2,716,712	2,727,165
	222,429,291	221,531,304	222,429,291	221,531,304
Liabilities and Resources				
Liabilities:				
Remuneration payable				
Other liabilities				
Special Contingent Account (Note 10)				
Total Liabilities				
Members' Resources				
Quotas, represented by:				
Reserve tranche positions (Notes 2 and 4)				
Subscription payments Usable				
Other				
Total quotas				
Reserves of the General Resources Account				
Accumulated resources of the Special Disbursement Account				
Total Liabilities and Resources				

The accompanying notes are an integral part of these financial statements

/s/ Eduard Brau
Director, Finance Department

/s/ Rodrigo de Rato
Managing Director

General Department
Income Statements
for the Years Ended April 30, 2004 and 2003

(In thousands of SDRs)

	2004	2003
Operational Income		
Interest and charges (Note 6)	2,231,678	2,295,250
Interest on SDR holdings	16,630	28,038
Investment income of the Special Disbursement Account	40,938	61,431
Other charges and income (Note 6)	90,676	131,629
	<u>2,379,922</u>	<u>2,516,348</u>
Operational Expenses		
Remuneration (Note 9)	966,404	1,201,347
Administrative Expenses (Note 13)	548,792	607,086
	<u>1,515,196</u>	<u>1,808,433</u>
Total Net Income	<u>864,726</u>	<u>707,915</u>
Net Income of the General Department comprises:		
Net income of the General Resources Account	823,788	646,484
Income of the Special Disbursement Account	40,938	61,431
	<u>864,726</u>	<u>707,915</u>

The accompanying notes are an integral part of these financial statements.

General Department
Statements of Changes in Resources
for the Years Ended April 30, 2004 and 2003

(In thousands of SDRs)

	General Resources Account				Special Disbursement Account Accumulated Resources
	Quotas	Special Reserve	General Reserve	Total Reserves	
Balance at April 30, 2002	212,415,900	2,391,224	1,249,221	3,640,445	2,878,993
Quota subscriptions	315,400	—	—	—	—
Net (loss)/income	—	(9,770)	656,254	646,484	61,431
Transfers to the PRGF Trust	—	—	—	—	(149,259)
Transfers to the PRGF-HIPC Trust	—	—	—	—	(64,000)
Balance at April 30, 2003	<u>212,731,300</u>	<u>2,381,454</u>	<u>1,905,475</u>	<u>4,286,929</u>	<u>2,727,165</u>
Quota subscriptions	62,700	—	—	—	—
Net income	—	33,981	789,807	823,788	40,938
Transfers from the Supplementary Financing					
Facility Subsidy Account	—	—	—	—	139
Transfers from the PRGF Trust	—	—	—	—	6,170
Transfers to the PRGF-HIPC Trust	—	—	—	—	(57,700)
Balance at April 30, 2004	<u>212,794,000</u>	<u>2,415,435</u>	<u>2,695,282</u>	<u>5,110,717</u>	<u>2,716,712</u>

The accompanying notes are an integral part of these financial statements.

General Department
Statements of Cash Flows
for the Years Ended April 30, 2004 and 2003

(In thousands of SDRs)

	2004	2003
Usable currencies and SDRs from operating activities		
Net income	864,726	707,915
Adjustments to reconcile net income to usable resources generated by operations:		
Changes in receivables and other assets	22,005	(37,005)
Changes in remuneration payable and other liabilities	(72,048)	(8,046)
Increase in the Special Contingent Account	94,000	94,000
Usable currencies and SDRs from credit to members:		
Purchases in currencies and SDRs, including reserve tranche purchases	(17,829,722)	(21,783,516)
Repurchases in currencies and SDRs	21,638,613	7,783,894
Repayments of Structural Adjustment Facility loans	50,908	204,876
Net usable currencies and SDRs provided by (used in) operating activities	4,768,482	(13,037,882)
Usable currencies and SDRs from investment activities		
Net acquisition of investments by the Special Disbursement Account	(40,455)	(53,048)
Net usable currencies and SDRs used by investment activities	(40,455)	(53,048)
Usable currencies and SDRs from financing activities		
Subscription payments in SDRs and usable currencies	15,675	78,850
Changes in composition of usable currencies	1,084,248	7,271,790
Transfers to the PRGF Trust, PRGF-HIPC Trust, and other accounts	(51,391)	(213,259)
Net usable currencies and SDRs provided by financing activities	1,048,532	7,137,381
Net increase (decrease) in usable currencies and SDRs	5,776,559	(5,953,549)
Usable currencies and SDRs, beginning of period	97,991,381	103,944,930
Usable currencies and SDRs, end of period	103,767,940	97,991,381

The accompanying notes are an integral part of these financial statements.

General Department

Notes to the Financial Statements as at April 30, 2004 and 2003

1. Purpose and Organization

The IMF is an international organization of 184 member countries. It was established to promote international monetary cooperation and exchange stability and to maintain orderly exchange arrangements among members; to facilitate the expansion and balanced growth of international trade, and contribute thereby to the promotion and maintenance of high levels of employment; and to provide temporary financial assistance to member 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 established. 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, a trust administered by the IMF as trustee (in liquidation), and part of the proceeds from the sales of the IMF's gold in the past. 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 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 Financial Reporting Standards (IFRS). Specific accounting principles and disclosure practices are explained further below. The preparation of financial statements in conformity with IFRS 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.

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 currencies in the basket as of April 30, 2004 and 2003 and their amounts were as follows:

Currency	Amount
Euro	0.4260
Japanese yen	21 0000
Pound sterling	0.0984
U.S. dollar	0 5770

As of April 30, 2004, one SDR was equal to 1.45183 U.S. dollars (one SDR was equal to 1.38391 U.S. dollars as of April 30, 2003).

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. IMF credit is subject to specific repayment schedules over periods which vary depending on the type of facility used. Members are entitled to repurchase, at any time, the IMF's holdings of their currencies on which charges are levied and are expected to make repurchases as and when their balance of payments and reserve position improve.

The repurchase policies of the IMF are intended to ensure the revolving character of its resources. Programs supported by the IMF are guided by the requirement that members should be able to make repurchases in accordance with the normal terms of borrowing referred to as the obligation schedule, for the respective facilities. In keeping with a long-standing principle of the IMF that its resources should be repaid as soon as the balance of payments and reserve position improve, borrowers in a position to do so are expected to make repurchases ahead of the original schedule under predetermined expectation schedules. However, if a member's external position is not sufficiently strong, it may request repayments on the expectation schedule be extended to the original obligation schedule by a period of up to one year for credit tranche and Supplemental Reserve Facility purchases (up to six months for purchases after February 21, 2003) or three years for Extended Fund Facility purchases. A member is considered overdue only after failure to make a payment on the repurchase obligation schedule.

Overdue Obligations and the Burden Sharing Mechanism

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. The IMF fully recovers this lost income from unpaid charges under the burden sharing mechanism, through adjustments, in the current period, to the rates of charge and remuneration. Members that have borne the financial consequences of overdue charges receive refunds to the extent that overdue charges that had given rise to burden sharing adjustments are settled.

An impairment loss is recognized only if there is objective evidence of impairment as a result of a past event that occurred after initial recognition, and is determined as the difference between the credit outstanding's carrying amount and the present value of the estimated future cash flows.

First Special Contingent Account

In view of the risk resulting from overdue credit, the IMF accumulates balances in the first Special Contingent Account (SCA-1). Losses arising from overdue principal, if realized, would be charged against the SCA-1. The IMF has not realized any losses on overdue financial obligations. However, the IMF considers it prudent to maintain the SCA-1 as added protection until all arrears are fully settled. 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.

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 payments 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. The IMF considers cash and cash equivalents to be usable currencies and SDR holdings. The changes in non-usable currency result from the IMF's transactions (purchases and repurchases) where a member's currency is exchanged for another member's currency, or from the inclusion/exclusion of a member's currency in the IMF's transaction plan.

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 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, 2004 and 2003.

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 adopted 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

Repayments of all SAF loans are transferred to the PRGF Trust Reserve Account when received. Allowances for loan losses would be established if and when there is objective evidence that an impairment loss on loans has been incurred.

Investments in the Special Disbursement Account

Investments are made in debt securities and fixed-term deposits, which are classified as available for sale securities. Debt securities comprise securities issued by international financial organizations and domestic government bonds in the euro area, Japan, the United Kingdom and the United States. Investments are marked to market on the last business day of the accounting period. The carrying amounts of investments approximate their fair value and the unrealized gains and losses are included in the income statements. 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, including 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 subject to repurchase obligations or charges.

Reserves

The IMF's reserves, consisting of the General Reserve and the Special Reserve, provide it with protection against financial risk of a general nature. 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 cost of administering the PRGF Trust, net operational income generated from the surcharges on purchases under the SRF, the credit tranches, and the EFF has 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 basic rate of charge is set as a proportion of the SDR interest rate, which is equivalent to the effective interest rate. For financial year 2004, the basic rate of charge was 132 percent of the SDR interest rate. The basic rate of charge is increased to offset the effect on the IMF's income of the nonpayment of charges and to finance the additions to the SCA-1. The average adjusted rate of charge before applicable surcharges for financial year 2004 was 2.17 per-

cent (for financial year 2003 the average rate was 2.74 percent). A surcharge progressing from 300 to 500 basis points above the rate of charge applies to use of credit under the SRF. 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), 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, which is equivalent to the effective interest rate, 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, 2004 was 1.48 percent (1.96 percent for the financial year ended 2003). 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, 2004 and 2003, 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.

The pensions and other post-retirement benefits expense recognized include the actuarial gains and losses in excess of a 10 percent corridor which is amortized over the estimated service life remaining of IMF staff. The 10 percent corridor is the higher of 10 percent of the defined benefit obligation or the fair value of assets.

Comparatives

When necessary, comparative figures have been reclassified to conform with changes in the presentation of the current year.

Accounting and Reporting Developments

In December 2003, the International Accounting Standards Board issued International Accounting Standard 32 "Financial Instruments: Disclosure and Presentation," (IAS 32 revised). This standard clarifies, among other things, the definition of a financial liability, particularly as it relates to shareholder interests that have redemption features. The Fund will consider the implications of this revision for presentation of the balance sheet of the General Department. IAS 32 revised is effective for annual periods beginning on or after January 1, 2005, and will thus be effective for the Fund's Financial Year 2006.

3. Credit Outstanding

Credit outstanding in the General Resources Account and SAF loans in the SDA are carried at amortized cost which is historical cost.

Changes in the outstanding use of IMF credit under the various facilities of the GRA during the years ended April 30, were as follows:

	April 30, 2002	Purchases	Repur- chases	April 30, 2003	Purchases	Repur- chases	April 30, 2004
<i>In millions of SDRs</i>							
Credit tranches	28,227	9,664	(3,993)	33,898	12,874	(5,042)	41,730
Extended Fund Facility	15,491	1,451	(2,000)	14,942	1,132	(2,323)	13,751
Supplemental Reserve Facility	5,875	10,566	(741)	15,700	3,807	(13,479)	6,028
Systemic Transformation Facility	1,311	—	(667)	644	—	(490)	154
Enlarged Access	321	—	(42)	279	—	(3)	276
Compensatory and Contingency Financing Facility	746	—	(332)	414	—	(294)	120
Supplementary Financing Facility	110	—	(9)	101	—	(7)	94
Total credit outstanding	<u>52,081</u>	<u>21,681</u>	<u>(7,784)</u>	<u>65,978</u>	<u>17,813</u>	<u>(21,638)</u>	<u>62,153</u>

The IMF approved the following requests to extend the repurchase expectations by one year during financial years ended April 30:

	Total Repurchase Expectations Extended	
	2004	2003
<i>In millions of SDRs</i>		
Argentina	1,941	5,818
Brazil	8,096	—
Ecuador	—	14
Papua New Guinea	26	—
Serbia and Montenegro	19	—
Sri Lanka	—	52
Turkey	8,273	—
Uruguay	227	129

During financial year 2004, the IMF also approved, under its exceptional access policy, a three-year Stand-By Arrangement with Argentina for SDR 9 billion and augmented Brazil's Stand-By Arrangement by SDR 4.5 billion.

As of April 30, 2004 and 2003, SDA loans amounted to SDR 86 million and SDR 137 million, respectively, and interest due from members in arrears, computed at 0.5 percent a year, amounted to SDR 1 million.

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
<i>In millions of SDRs</i>		
2005	12,478	40
2006	19,312	37
2007	17,706	—
2008	8,583	—
2009	2,057	—
2009 and beyond	1,274	—
Overdue	743	9
Total	<u>62,153</u>	<u>86</u>

The use of credit in the GRA by the largest users at April 30, was as follows:

	2004		2003	
<i>In millions of SDRs and as a percent of total GRA credit outstanding</i>				
Largest user of credit	18,139	29.2%	18,192	27.6%
Three largest users of credit	44,020	70.8%	45,382	68.8%
Five largest users of credit	53,680	86.4%	56,127	85.1%

The five largest users of credit as of April 30, 2004 were Brazil, Turkey, Argentina, Indonesia, and the Russian Federation. Outstanding credit, by member, is provided in Schedule 1. The concentration of GRA outstanding credit by regional geographical area as of April 30, was as follows:

	2004		2003	
<i>In millions of SDRs and as a percent of total GRA credit outstanding</i>				
Africa	1,397	2.3%	1,751	2.6%
Asia and Pacific	8,019	12.9%	8,742	13.3%
Europe	6,160	9.9%	7,704	11.7%
Latin America and the Caribbean	30,697	49.4%	30,824	46.7%
Middle East and Turkey	15,880	25.5%	16,957	25.7%
Total	<u>62,153</u>	<u>100%</u>	<u>65,978</u>	<u>100%</u>

Overdue Obligations

At April 30, 2004 and 2003, four members were six months or more overdue in settling their financial obligations to the General Department.

GRA repurchases, GRA charges, SAF loan repayments, and SAF interest that are six or more months overdue to the General Department were as follows:

	Repurchases and SAF Loans		Charges and SAF Interest	
	2004	2003	2004	2003
<i>In millions of SDRs</i>				
Total overdue	752	746	1,009	993
Overdue for six months or more	743	726	1,001	982
Overdue for three years or more	650	663	939	900

The type and duration of the overdue amounts in the General Department as of April 30, 2004, were as follows:

	Repurchases and SAF Loans	Charges and SAF Interest	Total Obligation	Longest Overdue Obligation
<i>In millions of SDRs</i>				
Libena	201	249	450	May 1985
Somalia	105	96	201	July 1987
Sudan	338	654	992	July 1985
Zimbabwe	108	10	118	February 2001
Total	<u>752</u>	<u>1,009</u>	<u>1,761</u>	

4. Currencies

Changes in the IMF's holdings of members' currencies for the years ended April 30, 2004 and 2003 were as follows:

	April 30, 2002	Net Change	April 30, 2003	Net Change	April 30, 2004
<i>In millions of SDRs</i>					
Members' quotas	212,416	315	212,731	63	212,794
Members' outstanding use of IMF credit in the GRA	52,081	13,897	65,978	(3,825)	62,153
Members' reserve tranche positions in the GRA	(55,327)	(12,682)	(68,009)	5,153	(62,856)
Administrative currency balances	(4)	3	(1)	(4)	(5)
Total currencies	<u>209,166</u>	<u>1,533</u>	<u>210,699</u>	<u>1,387</u>	<u>212,086</u>

Receivables and payables arising from valuation adjustments at April 30, 2004, when all holdings of currencies of members were last revalued, amounted to SDR 9,311 million and SDR 3,139 million, respectively (SDR 20,947 million and SDR 4,985 million, respectively, at April 30, 2003). 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 46,672 million (SDR 47,692 million as of April 30, 2003).

5. Gold Holdings

At April 30, 2004 and April 30, 2003, 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, 2004, the value of the IMF's holdings of gold calculated at the market price was SDR 27.7 billion (SDR 25.2 billion at April 30, 2003).

6. Interest and Charges

As of April 30, 2004, the total holdings on which the IMF levies charges amounted to SDR 62,153 million (SDR 65,978 million as of April 30, 2003). Charges and other receivables due to the IMF as of April 30 were as follows:

	2004	2003
<i>In millions of SDRs</i>		
Periodic charges	1,526	1,568
Amount paid through burden sharing	(825)	(808)
Other unpaid charges	(188)	(188)
	513	572
Other receivables	4	5
Receivables	<u>517</u>	<u>577</u>

Periodic interest and charges for the years ended April 30 consisted of the following:

	2004	2003
<i>In millions of SDRs</i>		
Periodic charges	2,224	2,323
Amounts paid through burden sharing adjustments, net of refunds	8	(28)
Total interest and charges	<u>2,232</u>	<u>2,295</u>

Interest earned on SAF loans for the years ended April 30, 2004 and 2003 amounted to SDR 0.5 million and SDR 8.4 million, respectively.

Special charges, service charges, and the unrefunded commitment fees are included in *Other Charges and Income*, which amounted to SDR 91 million (SDR 132 million for the year ended April 30, 2003).

7. Fixed Assets

Other assets include fixed assets, which at April 30, 2004 and 2003 amounted to SDR 267 million and SDR 238 million, respectively, and consisted of:

	2004	2003
<i>In millions of SDRs</i>		
Land and buildings	363	326
Equipment	44	39
Total fixed assets	407	365
Less: accumulated depreciation	(140)	(127)
Net fixed assets	<u>267</u>	<u>238</u>

8. Investments

As at April 30, 2004 the investments in the SDA consisted of fixed-term deposits with maturity of less than one year and amounted to SDR 2,631 million (SDR 2,590 million as at April 30, 2003). Fixed-term deposits include cash equivalents amounting to SDR 37 million (SDR 21 million as at April 30, 2003) comprising short-term deposits with maturities of less than ninety days.

Income of the SDA for the years ended April 30, 2004 and 2003, comprised of interest and special charges, was SDR 41 million and SDR 61 million, respectively.

9. Remuneration

At April 30, 2004, total creditor positions on which the IMF paid remuneration amounted to SDR 56,241 million (SDR 61,428 million at April 30, 2003). Remuneration for the years ended April 30, 2004 and 2003 consisted of the following:

	2004	2003
<i>In millions of SDRs</i>		
Remuneration	974	1,173
Amount paid through burden sharing adjustment, net of refunds	(8)	28
	<u>966</u>	<u>1,201</u>

10. Burden Sharing and Special Contingent Account

Cumulative charges, net of settlements, that have resulted in adjustments to charges and remuneration since May 1, 1986, amounted to SDR 825 million at April 30, 2004 (SDR 810 million at April 30, 2003). The cumulative refunds for the same period, resulting from the settlements of overdue charges for which burden sharing adjustments have been made, amounted to SDR 1,073 million (SDR 1,072 million at April 30, 2003).

The SCA-1 is financed by 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. Losses arising from overdue obligations, if realized, would be shared by members in proportion to their cumulative contributions to the SCA-1. If the

loss exceeded the balance in the SCA-1, the remainder would be charged to current income. At April 30, 2004, the balances held in the SCA-1 amounted to SDR 1,495 million (SDR 1,401 million at April 30, 2003).

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 renewed through December 25, 2008. Interest on borrowings under the GAB is set 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 has been renewed through November 16, 2008. 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 arrangements.

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, 2004, the undrawn balances under the 13 arrangements that were in effect in the GRA amounted to SDR 19,799 million (SDR 23,620 million under 18 arrangements at April 30, 2003).

The IMF has committed to lease commercial office space through 2005. Expenditures totaling SDR 18.1 million will be incurred over this period.

13. Administrative Expenses

The administrative expenses for the years ended April 30, were as follows:

	2004	2003
	<i>In millions of SDRs</i>	
Personnel	337	370
Pension and other related expenses	39	79
Travel	70	72
Other	104	88
Less: reimbursement for the administration of the SDR Department	(1)	(2)
Total administrative expenses, net of reimbursements	<u>549</u>	<u>607</u>

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 2004 and 2003 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 57.7 million for financial year 2004 (SDR 64.0 million for financial year 2003).

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 7 percent of their pensionable remuneration and 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, life insurance, and other long-term 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 the post retirement benefits.

A plan amendment was adopted in December 2002, and implemented in financial year 2004, to allow certain periods of past employment to qualify for determination of participants' benefits in the SRP and the SRBP. The estimated liability resulting from the amendment was included in the actuarial valuation (SDR 32 million) for financial year 2003.

The obligations of the SRP, SRBP, and RSBIA are valued annually by independent actuaries. The latest actuarial valuations were carried out as at April 30, 2004 using The Projected Unit Credit Method. The key assumptions used are as shown below.

The amounts recognized in the balance sheet are determined as follows:

	2004			2003	
	SRP	SRBP	Other	Total	Total
	<i>In millions of SDRs</i>				
Fair value of plan assets	2,939	2	323	3,264	2,747
Present value of the defined benefit obligation	(2,848)	(201)	(520)	(3,569)	(2,454)
Unrecognized actuarial losses/(gains)	716	52	(34)	734	99
Unrecognized prior service cost	—	—	14	14	43
Net balance sheet asset/(liability)	<u>807</u>	<u>(147)</u>	<u>(217)</u>	<u>443</u>	<u>435</u>

The movement in the net balance sheet asset is reconciled as follows:

	2004			2003	
	SRP	SRBP	Other	Total	Total
	<i>In millions of SDRs</i>				
Beginning of year	774	(122)	(217)	435	470
Income/(expense) recognized in income statement	15	(28)	(38)	(51)	(79)
Contributions paid	18	3	38	59	44
End of year	<u>807</u>	<u>(147)</u>	<u>(217)</u>	<u>443</u>	<u>435</u>

The expense recognized in the income statement for the year ended April 30, 2003 included SDR 40 million which represents the effect of a change in the actuarial cost resulting from a revision in some participants' data. This expense related for the most part to the present value of the defined benefit obligation as originally estimated when International Accounting Standard (IAS) 19 was introduced in financial year 2000. The amounts recognized in the income statements are as follows:

	2004			2003
	SRP	SRBP	Other	Total
	<i>In millions of SDRs</i>			
Current service cost	51	5	39	95
Interest cost	124	7	26	157
Expected loss on assets	(204)	—	(22)	(226)
Amortization of actuarial (gain)/loss	—	(2)	(6)	(8)
Prior service cost	14	18	1	33
Total (income)/expense recognized in income statement	(15)	28	38	51
Actual return on assets/(loss)	609	—	59	668

The principal actuarial assumptions used were as follows:

	2004	2003
	<i>In percent</i>	
Discount rate	5.7	6.5
Expected return on plan assets	7.5	8.3
Future salary increases	6.4-10.8	4.0-6.75
Ultimate health care costs growth rates	4.0	4.0

Schedule 1

General Department
Quotas, IMF's Holdings of Currencies, Reserve Tranche Positions,
and Members' Use of Resources
as at April 30, 2004

(In thousands of SDRs)

Member	General Resources Account				Credit Outstanding					
	Quota	IMF's holdings of currencies ¹		Reserve tranche position	GRA		SDA ³	PRGF Trust ⁴	Total ⁵	
		Total	Percent of quota		Amount (A)	Percent ² +				+ (B)
Afghanistan, Islamic State of	161,900	161,916	100.0	—	—	—	—	—	—	
Albania	48,700	45,350	93.1	3,355	—	—	—	63,276	63,276	
Algeria	1,254,700	1,750,150	139.5	85,082	580,531	0.93	—	—	580,531	
Angola	286,300	286,445	100.1	—	—	—	—	—	—	
Antigua and Barbuda	13,500	13,499	100.0	6	—	—	—	—	—	
Argentina	2,117,100	12,412,772	586.3	74	10,295,744	16.57	—	—	10,295,744	
Armenia, Republic of	92,000	99,036	107.6	—	7,031	0.01	—	132,350	139,381	
Australia	3,236,400	2,064,217	63.8	1,172,241	—	—	—	—	—	
Austria	1,872,300	1,119,531	59.8	752,787	—	—	—	—	—	
Azerbaijan	160,900	211,948	131.7	10	51,048	0.08	—	105,018	156,066	
Bahamas, The	130,300	124,051	95.2	6,253	—	—	—	—	—	
Bahrain, Kingdom of	135,000	65,075	48.2	69,955	—	—	—	—	—	
Bangladesh	533,300	533,119	100.0	186	—	—	—	99,000	99,000	
Barbados	67,500	62,461	92.5	5,040	—	—	—	—	—	
Belarus, Republic of	386,400	398,083	103.0	20	11,683	0.02	—	—	11,683	
Belgium	4,605,200	2,753,359	59.8	1,851,851	—	—	—	—	—	
Belize	18,800	14,562	77.5	4,239	—	—	—	—	—	
Benin	61,900	59,721	96.5	2,188	—	—	—	47,838	47,838	
Bhutan	6,300	5,280	83.8	1,020	—	—	—	—	—	
Bolivia	171,500	226,958	132.3	8,875	64,320	0.10	—	115,704	180,024	
Bosnia and Herzegovina	169,100	260,637	154.1	—	91,533	0.15	—	—	91,533	
Botswana	63,000	38,417	61.0	24,586	—	—	—	—	—	
Brazil	3,036,100	21,175,822	697.5	—	18,139,167	29.18	—	—	18,139,167	
Brunei Darussalam	215,200	157,127	73.0	58,288	—	—	—	—	—	
Bulgaria	640,200	1,435,837	224.3	32,778	828,395	1.33	—	—	828,395	
Burkina Faso	60,200	52,911	87.9	7,294	—	—	1,264	82,306	83,570	
Burundi	77,000	76,641	99.5	360	—	—	—	26,400	26,400	
Cambodia	87,500	87,500	100.0	—	—	—	—	66,900	66,900	
Cameroon	185,700	185,087	99.7	644	—	—	—	225,455	225,455	
Canada	6,369,200	4,020,571	63.1	2,348,635	—	—	—	—	—	
Cape Verde	9,600	9,596	100.0	5	—	—	—	4,920	4,920	
Central African Republic	55,700	55,547	99.7	159	—	—	—	23,656	23,656	
Chad	56,000	55,719	99.5	282	—	—	—	69,883	69,883	
Chile	856,100	562,854	65.7	293,247	—	—	—	—	—	
China	6,369,200	4,013,672	63.0	2,355,575	—	—	—	—	—	
Colombia	774,000	488,202	63.1	285,803	—	—	—	—	—	
Comoros	8,900	8,358	93.9	544	—	—	—	—	—	
Congo, Democratic Republic of	533,000	533,000	100.0	—	—	—	—	500,067	500,067	
Congo, Republic of	84,600	93,332	110.3	536	9,253	0.01	—	6,948	16,201	
Costa Rica	164,100	144,113	87.8	20,000	—	—	—	—	—	
Côte d'Ivoire	325,200	324,639	99.8	572	—	—	—	271,729	271,729	
Croatia, Republic of	365,100	364,943	100.0	159	—	—	—	—	—	
Cyprus	139,600	84,292	60.4	55,315	—	—	—	—	—	
Czech Republic	819,300	506,908	61.9	312,397	—	—	—	—	—	
Denmark	1,642,800	1,008,080	61.4	634,726	—	—	—	—	—	
Djibouti	15,900	14,800	93.1	1,100	—	—	—	13,630	13,630	
Dominica	8,200	11,165	136.2	9	2,973	—	—	2,666	5,639	
Dominican Republic	218,900	350,239	160.0	3	131,340	0.21	—	—	131,340	
Ecuador	302,300	513,245	169.8	17,153	228,096	0.37	—	—	228,096	
Egypt	943,700	943,715	100.0	—	—	—	—	—	—	

Schedule 1 (continued)

Member	General Resources Account				Credit Outstanding					
	Quota	IMF's holdings of currencies ¹		Reserve tranche position	GRA		SDA ³ (B)	PRGF Trust ⁴ (C)	=	Total ⁵ (D)
		Total	Percent of quota		Amount (A)	Percent ² +				
El Salvador	171,300	171,303	100.0	—	—	—	—	—	—	—
Equatorial Guinea	32,600	32,609	100.0	—	—	—	148	37	—	185
Eritrea	15,900	15,900	100.0	5	—	—	—	—	—	—
Estonia, Republic of	65,200	65,195	100.0	6	—	—	—	—	—	—
Ethiopia	133,700	126,520	94.6	7,188	—	—	2,824	110,491	—	113,315
Fiji	70,300	55,125	78.4	15,189	—	—	—	—	—	—
Finland	1,263,800	739,346	58.5	524,539	—	—	—	—	—	—
France	10,738,500	6,614,021	61.6	4,124,429	—	—	—	—	—	—
Gabon	154,300	190,241	123.3	179	36,114	0.06	—	—	—	36,114
Gambia, The	31,100	29,618	95.2	1,485	—	—	—	21,439	—	21,439
Georgia	150,300	161,863	107.7	10	11,563	0.02	—	168,825	—	180,388
Germany	13,008,200	7,850,102	60.3	5,158,155	—	—	—	—	—	—
Ghana	369,000	369,004	100.0	— ⁶	—	—	—	298,065	—	298,065
Greece	823,000	528,592	64.2	294,411	—	—	—	—	—	—
Grenada	11,700	14,631	125.1	—	2,930	—	—	—	—	2,930
Guatemala	210,200	210,206	100.0	—	—	—	—	—	—	—
Guinea	107,100	107,026	99.9	75	—	—	—	86,114	—	86,114
Guinea-Bissau	14,200	15,265	107.5	— ⁶	1,065	—	—	11,249	—	12,314
Guyana	90,900	90,902	100.0	—	—	—	—	59,696	—	59,696
Haiti	81,900	81,833	99.9	68	—	—	—	9,105	—	9,105
Honduras	129,500	120,874	93.3	8,627	—	—	—	124,573	—	124,573
Hungary	1,038,400	673,023	64.8	365,378	—	—	—	—	—	—
Iceland	117,600	99,016	84.2	18,585	—	—	—	—	—	—
India	4,158,200	3,271,225	78.7	887,011	—	—	—	—	—	—
Indonesia	2,079,300	8,674,546	417.2	145,500	6,740,742	10.85	—	—	—	6,740,742
Iran, Islamic Republic of	1,497,200	1,497,204	100.0	—	—	—	—	—	—	—
Iraq	504,000	504,013	100.0	—	—	—	—	—	—	—
Ireland	838,400	506,112	60.4	332,309	—	—	—	—	—	—
Israel	928,200	583,547	62.9	344,660	—	—	—	—	—	—
Italy	7,055,500	4,307,660	61.1	2,747,847	—	—	—	—	—	—
Jamaica	273,500	277,415	101.4	—	3,865	0.01	—	—	—	3,865
Japan	13,312,800	8,312,970	62.4	5,000,584	—	—	—	—	—	—
Jordan	170,500	427,520	250.7	69	257,081	0.41	—	—	—	257,081
Kazakhstan, Republic of	365,700	365,700	100.0	5	—	—	—	—	—	—
Kenya	271,400	258,720	95.3	12,680	—	—	—	75,586	—	75,586
Kiribati	5,600	5,596	99.9	9	—	—	—	—	—	—
Korea	1,633,600	1,125,953	68.9	507,657	—	—	—	—	—	—
Kuwait	1,381,100	859,184	62.2	521,923	—	—	—	—	—	—
Kyrgyz Republic	88,800	88,800	100.0	5	—	—	—	138,767	—	138,767
Lao People's Democratic Republic	52,900	52,900	100.0	—	—	—	—	28,091	—	28,091
Latvia, Republic of	126,800	128,668	101.5	55	1,906	—	—	—	—	1,906
Lebanon	203,000	184,168	90.7	18,833	—	—	—	—	—	—
Lesotho	34,900	31,359	89.9	3,543	—	—	—	21,000	—	21,000
Liberia	71,300	272,062	381.6	28	200,781	0.32	—	—	—	223,671
Libya	1,123,700	728,206	64.8	395,505	—	—	—	—	—	—
Lithuania, Republic of	144,200	168,337	116.7	16	24,150	0.04	—	—	—	24,150
Luxembourg	279,100	170,695	61.2	108,419	—	—	—	—	—	—
Macedonia, former Yugoslav Republic of	68,900	88,595	128.6	— ⁶	19,693	0.03	—	22,638	—	42,331
Madagascar	122,200	122,174	100.0	27	—	—	—	138,143	—	138,143
Malawi	69,400	84,462	121.7	2,290	17,350	0.03	—	49,334	—	66,684
Malaysia	1,486,600	925,274	62.2	561,331	—	—	—	—	—	—
Maldives	8,200	6,646	81.0	1,554	—	—	—	—	—	—
Mali	93,300	84,387	90.4	8,924	—	—	—	105,626	—	105,626
Malta	102,000	61,741	60.5	40,261	—	—	—	—	—	—
Marshall Islands	3,500	3,500	100.0	1	—	—	—	—	—	—

Schedule 1 (continued)

Member	General Resources Account				Credit Outstanding				
	Quota	IMF's holdings of currencies ¹		Reserve tranche position	GRA		SDA ³ (B)	PRGF Trust ⁴ (C)	Total ⁵ (D)
		Total	Percent of quota		Amount (A)	Percent ² +			
Mauntania	64,400	64,404	100.0	–	–	–	–	65,633	65,633
Mauntius	101,600	79,722	78.5	21,879	–	–	–	–	–
Mexico	2,585,800	2,032,539	78.6	553,309	–	–	–	–	–
Micronesia, Federated States of	5,100	5,100	100.0	1	–	–	–	–	–
Moldova, Republic of	123,200	185,075	150.2	5	61,875	0.10	–	27,720	89,595
Mongolia	51,100	50,996	99.8	107	–	–	–	31,317	31,317
Morocco	588,200	517,758	88.0	70,443	–	–	–	–	–
Mozambique	113,600	113,600	100.0	7	–	–	–	136,970	136,970
Myanmar	258,400	258,402	100.0	–	–	–	–	–	–
Namibia	136,500	136,447	100.0	55	–	–	–	–	–
Nepal	71,300	65,536	91.9	5,774	–	–	–	7,130	7,130
Netherlands	5,162,400	3,150,904	61.0	2,011,528	–	–	–	–	–
New Zealand	894,600	547,026	61.1	347,595	–	–	–	–	–
Nicaragua	130,000	130,010	100.0	–	–	–	–	155,749	155,749
Niger	65,800	57,239	87.0	8,563	–	–	–	84,570	84,570
Nigeria	1,753,200	1,753,121	100.0	143	–	–	–	–	–
Norway	1,671,700	1,038,544	62.1	633,166	–	–	–	–	–
Oman	194,000	129,874	66.9	64,181	–	–	–	–	–
Pakistan	1,033,700	1,382,677	133.8	118	349,094	0.56	–	916,128	1,265,222
Palau	3,100	3,100	100.0	1	–	–	–	–	–
Panama	206,600	223,918	108.4	11,860	29,167	0.05	–	–	29,167
Papua New Guinea	131,600	207,027	157.3	398	75,819	0.12	–	–	75,819
Paraguay	99,900	78,428	78.5	21,475	–	–	–	–	–
Peru	638,400	718,683	112.6	–	80,250	0.13	–	–	80,250
Philippines	879,900	1,424,592	161.9	87,358	632,044	1.02	–	–	632,044
Poland, Republic of	1,369,000	850,151	62.1	518,851	–	–	–	–	–
Portugal	867,400	521,062	60.1	346,369	–	–	–	–	–
Qatar	263,800	163,442	62.0	100,359	–	–	–	–	–
Romania	1,030,200	1,406,884	136.6	–	376,679	0.61	–	–	376,679
Russian Federation	5,945,400	8,863,793	149.1	1,546	2,919,830	4.70	–	–	2,919,830
Rwanda	80,100	80,113	100.0	–	–	–	–	61,835	61,835
St. Kitts and Nevis	8,900	8,819	99.1	82	–	–	–	–	–
St. Lucia	15,300	15,295	100.0	7	–	–	–	–	–
St. Vincent and the Grenadines	8,300	7,800	94.0	500	–	–	–	–	–
Samoa	11,600	10,918	94.1	693	–	–	–	–	–
San Marino, Republic of	17,000	12,900	75.9	4,101	–	–	–	–	–
São Tomé and Príncipe	7,400	7,403	100.0	– ⁶	–	–	–	1,902	1,902
Saudi Arabia	6,985,500	4,440,699	63.6	2,544,804	–	–	–	–	–
Senegal	161,800	160,296	99.1	1,512	–	–	–	155,373	155,373
Serbia and Montenegro	467,700	1,051,273	224.8	–	583,559	0.94	–	–	583,559
Seychelles	8,800	8,798	100.0	2	–	–	–	–	–
Sierra Leone	103,700	103,685	100.0	24	–	–	–	117,700	117,700
Singapore	862,500	574,306	66.6	288,255	–	–	–	–	–
Slovak Republic	357,500	357,505	100.0	–	–	–	–	–	–
Slovenia, Republic of	231,700	142,006	61.3	89,700	–	–	–	–	–
Solomon Islands	10,400	9,852	94.7	550	–	–	–	–	–
Somalia	44,200	140,907	318.8	–	96,701	0.16	8,840	–	112,004
South Africa	1,868,500	1,867,998	100.0	504	–	–	–	–	–
Spain	3,048,900	1,783,762	58.5	1,265,163	–	–	–	–	–
Sri Lanka	413,400	586,250	141.8	47,855	220,670	0.37	–	38,390	259,060
Sudan	169,700	507,342	299.0	11	337,622	0.54	–	–	396,850
Suriname	92,100	85,976	93.4	6,125	–	–	–	–	–
Swaziland	50,700	44,152	87.1	6,552	–	–	–	–	–
Sweden	2,395,500	1,483,758	61.9	911,749	–	–	–	–	–
Switzerland	3,458,500	2,145,706	62.0	1,312,765	–	–	–	–	–
Syrian Arab Republic	293,600	293,603	100.0	5	–	–	–	–	–
Tajikistan, Republic of	87,000	87,000	100.0	2	–	–	–	76,960	76,960
Tanzania	198,900	188,903	95.0	9,999	–	–	–	293,483	293,483
Thailand	1,081,900	995,883	92.0	86,020	–	–	–	–	–
Timor-Leste, The Democratic Republic of	8,200	8,200	100.0	1	–	–	–	–	–

Schedule 1 (concluded)

Member	General Resources Account				Credit Outstanding					
	Quota	IMF's holdings of currencies ¹		Reserve tranche position	GRA		SDA ³	PRGF Trust ⁴	Total ⁵	
		Total	Percent of quota		Amount (A)	Percent ² +				+ (B)
Togo	73,400	73,069	99.5	332	—	—	—	24,978	24,978	
Tonga	6,900	5,195	75.3	1,712	—	—	—	—	—	
Trinidad and Tobago	335,600	209,732	62.5	125,873	—	—	—	—	—	
Tunisia	286,500	266,311	93.0	20,195	—	—	—	—	—	
Turkey	964,000	16,436,148	1,705.0	112,775	15,584,920	25.08	—	—	15,584,920	
Turkmenistan, Republic of	75,200	75,200	100.0	5	—	—	—	—	—	
Uganda	180,500	180,506	100.0	— ⁶	—	—	—	151,451	151,451	
Ukraine	1,372,000	2,517,802	183.5	3	1,145,802	1.84	—	—	1,145,802	
United Arab Emirates	611,700	395,011	64.6	217,301	—	—	—	—	—	
United Kingdom	10,738,500	6,637,393	61.8	4,101,181	—	—	—	—	—	
United States	37,149,300	23,143,656	62.3	13,997,168	—	—	—	—	—	
Uruguay	306,500	2,025,607	660.9	—	1,719,100	2.77	—	—	1,719,100	
Uzbekistan, Republic of	275,600	300,538	109.0	5	24,938	0.04	—	—	24,938	
Vanuatu	17,000	14,506	85.3	2,496	—	—	—	—	—	
Venezuela, República Bolivariana de	2,659,100	2,337,199	87.9	321,902	—	—	—	—	—	
Vietnam	329,100	330,107	100.3	5	1,007	—	—	214,800	215,807	
Yemen, Republic of	243,500	281,238	115.5	13	37,750	0.06	—	225,550	263,300	
Zambia	489,100	489,101	100.0	18	—	—	72,700	504,193	576,893	
Zimbabwe	353,400	470,579	133.2	328	117,505	0.19	—	81,378	198,883	
Total	212,794,000	212,086,122		62,856,110	62,152,682	100.00	85,776	6,699,728	69,026,767	

¹Includes nonnegotiable, non-interest-bearing notes that members are entitled to issue in substitution for currencies, and outstanding currency valuation adjustments

²Represents the percentage used by each member of total use of GRA resources (column A)

³The Special Disbursement Account (SDA) of the General Department had financed loans under Structural Adjustment Facility (SAF) and Poverty Reduction Growth Facility (PRGF) arrangements

⁴For information purposes only The PRGF Trust provides financing under PRGF arrangements and is not a part of the General Department

⁵Includes outstanding Trust Fund loans to Liberia (SDR 23 million), Somalia (SDR 6 million), and Sudan (SDR 59 million)

⁶Less than SDR 500

Schedule 2

General Department
Financial Resources and Liquidity Position
in the General Resources Account
as at April 30, 2004 and 2003

(In thousands of SDRs)

	2004	2003
Total Resources		
Currencies	212,086,122	210,699,065
SDR holdings	506,029	962,641
Gold holdings	5,851,771	5,851,771
Other assets ¹	955,814	905,771
Total resources	<u>219,399,736</u>	<u>218,419,248</u>
Less: Non-Usable Resources²	115,631,796	120,427,867
of which: Credit Outstanding	62,152,682	65,977,977
Equals: Usable Resources³	<u>103,767,940</u>	<u>97,991,381</u>
Less: Undrawn balances under GRA arrangements⁴	19,799,322	23,620,403
Equals: Uncommitted usable resources	83,968,618	74,370,978
Plus: Repurchases one year forward⁵	6,940,396	19,066,175
Less: Prudential balance⁶	32,828,720	32,612,340
Equals: One year forward commitment capacity (FCC)⁷	<u>58,080,294</u>	<u>60,824,813</u>
Memorandum Items:		
Resources available under borrowing arrangements	34,000,000	34,000,000
Quotas of members that finance IMF transactions	164,143,600	163,061,700
Net uncommitted usable resources ⁸	75,051,056	60,589,269
Liquid Liabilities ⁹	62,856,110	68,008,951
Liquidity ratio ¹⁰	119.4%	89.1%

¹Other assets reflect current assets (charges, interest, and other receivables) and other assets (which include capital assets such as land, buildings, and equipment), net of other liabilities including remuneration payable

²Resources 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) other assets.

³Usable 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

⁴Amounts committed under arrangements but not yet disbursed This includes arrangements considered precautionary.

⁵Repurchases by member countries during the coming one-year period It is assumed that repurchases would be made on an expectation basis for SRF, and on an obligation basis under all other facilities.

⁶Prudential balance is set at 20 percent of quotas of members that issue the currencies that are used in the financing of IMF transactions and any amounts activated under borrowing arrangements

⁷FCC is a measure of the resources available for new financial commitments in the coming year It is equal to uncommitted usable resources plus repurchases one-year forward minus the prudential balance.

⁸Net uncommitted usable resources are defined as usable resources less resources committed under arrangements (adjusted to exclude inoperative arrangements, one-half of the amounts committed under precautionary arrangements) and minimum working balances (set at 10 percent of the quotas of members' deemed sufficiently strong for their currencies to be used in operations and transactions).

⁹Liquid liabilities consist of (1) members' reserve tranche positions, and (2) the amount of any outstanding borrowing by the IMF 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.

¹⁰The 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

**General Department
Status of Arrangements
as at April 30, 2004**

(In thousands of SDRs)

Member	Date of Arrangement	Expiration	Total Amount Agreed	Undrawn Balance
General Resources Account				
Stand-By Arrangements				
Argentina	September 20, 2003	September 19, 2006	8,981,000	4,810,000
Bolivia	April 2, 2003	June 15, 2004	85,750	21,430
Brazil	September 6, 2002	March 31, 2005	27,375,120 ¹	10,175,482
Colombia	January 15, 2003	January 14, 2005	1,548,000	1,548,000
Dominican Republic	August 29, 2003	August 28, 2005	437,800	306,460
Jordan	July 3, 2002	July 2, 2004	85,280	74,620
Macedonia, former Yugoslav Republic of	April 30, 2003	June 15, 2004	20,000	8,000
Paraguay	December 15, 2003	March 31, 2005	50,000	50,000
Turkey	February 4, 2002	February 3, 2005	12,821,200	1,360,800
Ukraine	March 29, 2004	March 28, 2005	411,600	411,600
Uruguay	April 1, 2002	March 31, 2005	2,128,300 ²	559,200
Total Stand-By Arrangements			<u>53,944,050</u>	<u>19,325,592</u>
Extended Arrangements				
Serbia and Montenegro	May 14, 2002	May 13, 2005	650,000	350,000
Sri Lanka	April 18, 2003	April 17, 2006	144,400	123,730
Total Extended Arrangements			<u>794,400</u>	<u>473,730</u>
Total General Resources Account			<u>54,738,450</u>	<u>19,799,322</u>

¹Includes SDR 7.61 billion available until September 5, 2003 under the Supplemental Reserve Facility, of which SDR 3.8 billion was drawn

²Includes SDR 129 million available under the Supplemental Reserve Facility which has been fully drawn.



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Report of Independent Auditors

**To the Board of Governors
of the International Monetary Fund:**

In our opinion, the accompanying balance sheets and the related statements of income and cash flows give a true and fair view of the financial condition of the SDR Department of the International Monetary Fund (the "IMF") as at April 30, 2004 and 2003, and its results of operations and cash flows for the years then ended in conformity with International Financial Reporting 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 audit 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 176 to 181 is presented for purposes of adding 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

June 7, 2004

SDR Department
Balance Sheets
as at April 30, 2004 and 2003
(In thousands of SDRs)

	2004	2003	2004	2003
Assets				
Charges receivable	84,882	93,221	85,229	93,562
Overdue assessments and charges (Note 3)	88,933	85,849	16,767,772	15,971,257
Participants with holdings below allocations (Note 2)			9,594,484	9,465,384
Allocations	11,838,846	11,967,946	7,173,288	6,505,873
Less: SDR holdings	3,865,861	3,953,068	506,029	962,641
Allocations in excess of holdings	7,972,985	8,014,878	382,254	631,872
Total Assets	<u>8,146,800</u>	<u>8,193,948</u>	<u>8,146,800</u>	<u>8,193,948</u>
Liabilities				
Interest payable			85,229	93,562
Participants with holdings above allocations (Note 2)			16,767,772	15,971,257
SDR holdings			9,594,484	9,465,384
Less: allocations			7,173,288	6,505,873
Holdings in excess of allocations			506,029	962,641
Holdings by the General Resources Account			382,254	631,872
Holdings of SDRs by prescribed holders			8,146,800	8,193,948
Total Liabilities			<u>8,146,800</u>	<u>8,193,948</u>

The accompanying notes are an integral part of these financial statements.

/s/ Eduard Brau
 Director, Finance Department

/s/ Rodrigo de Rato
 Managing Director

SDR Department
Income Statements
for the Years Ended April 30, 2004 and 2003

(In thousands of SDRs)

	2004	2003
Revenue		
Net charges from participants with holdings below allocations	131,593	173,884
Assessments on SDR allocations	1,400	1,600
	<u>132,993</u>	<u>175,484</u>
Expenses		
Interest on SDR holdings		
Net interest to participants with holdings above allocations	106,570	134,405
General Resources Account	16,630	28,038
Prescribed holders	8,393	11,441
	<u>131,593</u>	<u>173,884</u>
Administrative expenses	1,400	1,600
	<u>132,993</u>	<u>175,484</u>
Net Income	—	—
	<u>—</u>	<u>—</u>

The accompanying notes are an integral part of these financial statements

SDR Department
Statements of Cash Flows
for the Years Ended April 30, 2004 and 2003

(In thousands of SDRs)

	2004	2003
Cash flows from operating activities		
Receipts of SDRs		
Transfers among participants and prescribed holders	2,409,745	6,000,803
Transfers from participants to the General Resources Account	5,472,301	4,554,703
Transfers from the General Resources Account to participants and prescribed holders	5,928,914	5,076,989
Total Receipts of SDRs	<u>13,810,960</u>	<u>15,632,495</u>
Uses of SDRs		
Transfers among participants and prescribed holders	2,293,009	5,838,527
Transfers from participants to the General Resources Account	5,454,029	4,524,125
Transfers from the General Resources Account to participants and prescribed holders	5,928,914	5,076,989
Charges paid in the SDR Department	131,931	215,704
Other	3,077	(22,850)
Total Uses of SDRs	<u>13,810,960</u>	<u>15,632,495</u>

The accompanying notes are an integral part of these financial statements

SDR Department

Notes to the Financial Statements as at April 30, 2004 and 2003

1. Nature of Operations

The Special Drawing Right (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 may be allocated by the IMF, as a supplement to existing reserve assets, 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.

The resources of the SDR Department are held separately from the assets of all the other accounts of, or administered by, the IMF. They may not be used to meet the liability, obligations or losses of the Fund, incurred in the operations of the General Department or other accounts, except that the SDR Department reimburses the General Department for expenses incurred in conducting the business of the SDR Department.

At April 30, 2004, 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 Board of Governors 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, 2004, 15 institutions were prescribed as holders (16 institutions at April 30, 2003). 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 provide 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 SDR Department are prepared in accordance with International Financial Reporting Standards (IFRS). Specific accounting principles and disclosure practices are explained further below. The preparation of financial statements in conformity with IFRS 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.

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 currencies in the basket as of April 30, 2004 and 2003 and their amounts were as follows:

Currency	Amount
Euro	0 4260
Japanese yen	21.0000
Pound sterling	0 0984
U.S. dollar	0.5770

As of April 30, 2004, one SDR was equal to 1.45183 U.S. dollars (one SDR was equal to 1.38391 U.S. dollars as of April 30, 2003).

Allocations and Holdings

At April 30, 2004 and 2003, 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, 2004 and 2003 were as follows:

	2004			2003		
	Total	Below Allocations	Above Allocations	Total	Below Allocations	Above Allocations
	<i>In millions of SDRs</i>					
Cumulative allocations	21,433.3	11,838.8	9,594.5	21,433.3	11,967.9	9,465.4
Holdings of SDRs by participants	20,633.6	3,865.8	16,767.8	19,924.4	3,953.1	15,971.3
Net SDR positions	799.7	7,973.0	(7,173.3)	1,508.9	8,014.8	(6,505.9)

A summary of SDR holdings is provided below:

	2004	2003
	<i>In millions of SDRs</i>	
Participants	20,633.6	19,924.4
General Resources Account	506.0	962.6
Prescribed holders	382.3	631.8
	<u>21,521.9</u>	<u>21,518.8</u>
Less: Overdue charges receivable	88.6	85.5
Total holdings	<u>21,433.3</u>	<u>21,433.3</u>

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 1.58 percent for the year ended April 30, 2004 (2.07 percent for the year ended April 30, 2003).

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.

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 to date.

3. Overdue Assessments and Charges

At April 30, 2004, assessments and charges amounting to SDR 88.9 million were overdue to the SDR Department (SDR 85.8 million at April 30, 2003). At April 30, 2004 and 2003, four 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 as of April 30:

	2004	2003
	<i>In millions of SDRs</i>	
Total	88.9	85.8
Overdue for six months or more	87.4	83.9
Overdue for three years or more	75.9	68.1

The amount and duration of arrears as of April 30, 2004 were as follows:

	Total	Longest Overdue Obligation
	<i>In millions of SDRs</i>	
Iraq	54.3	November 1990
Libena	24.2	April 1986
Somalia	10.3	February 1991
Sudan	0.1	April 1991
Total	<u>88.9</u>	

Schedule 1

SDR Department
Statements of Changes in SDR Holdings
for the Years Ended April 30, 2004 and 2003

(In thousands of SDRs)

	Participants	General Resources Account	Prescribed Holders	Total	
				2004	2003
Total holdings, beginning of the year	19,924,326	962,641	631,872	21,518,839	21,541,689
Receipts of SDRs					
Transfers among participants and prescribed holders					
Transactions by agreement	1,078,923		61,048	1,139,971	2,858,416
Operations					
Loans	15,675			15,675	464,746
Settlement of financial obligations	113,561		98,881	212,442	721,619
IMF-related operations					
SAF/PRGF loan	296,530			296,530	771,606
SAF repayments and interest			6,453	6,453	159,282
Special charges on SAF, PRGF, Trust Fund					95
PRGF contributions and payments	221,262		62,754	284,016	498,838
PRGF repayments and interest			332,338	332,338	334,263
HIPC payments					2,830
PRGF-HIPC contributions	937		4,153	5,090	26,174
Post-Conflict Subsidy payment	494			494	658
Net interest on SDRs	107,482		9,254	116,736	162,276
Transfers from participants to the General Resources Account					
Repurchases		2,981,392		2,981,392	1,954,711
Charges		2,455,568		2,455,568	2,505,183
Quota payment		15,675		15,675	62,468
Assessment on SDR allocation (Note 2)		1,394		1,394	1,763
Interest on SDRs		18,272		18,272	30,578
Transfers from the General Resources Account to participants and prescribed holders					
Purchases	3,500,261			3,500,261	2,215,089
In exchange for currencies of other members acquisitions to pay charges	1,398,238			1,398,238	1,597,594
Remuneration	946,840			946,840	1,175,248
Other					
Refunds and adjustments	83,575			83,575	89,058
Total receipts	7,763,778	5,472,301	574,881	13,810,960	15,632,495

Schedule 1 (concluded)

SDR Department
Statements of Changes in SDR Holdings
for the Years Ended April 30, 2004 and 2003

(In thousands of SDRs)

	Participants	General Resources Account	Prescribed Holders	Total	
				2004	2003
Uses of SDRs					
Transfers among participants and prescribed holders					
Transactions by agreement	932,718		207,253	1,139,971	2,858,416
Operations					
Loans	15,675			15,675	464,746
Settlement of financial obligations	114,556		97,886	212,442	721,619
IMF-related operations					
SAF/PRGF Loan			296,530	296,530	771,606
SAF repayments and interest	6,453			6,453	159,282
Special charges on SAF, PRGF, Trust Fund					95
PRGF contributions and payments	91,538		221,401	312,939	498,838
PRGF repayments and interest	303,415			303,415	334,263
HIPC payments					2,830
PRGF-HIPC contributions	4,153		937	5,090	26,174
Post-Conflict Subsidy payment			494	494	658
Transfers from participants to the General Resources Account					
Repurchases	2,981,392			2,981,392	1,954,711
Charges	2,455,568			2,455,568	2,505,183
Quota payment	15,675			15,675	62,468
Assessment on SDR allocation (Note 2)	1,394			1,394	1,763
Transfers from the General Resources Account to participants and prescribed holders					
Purchases		3,500,261		3,500,261	2,215,089
In exchange for currencies of other members					
Acquisitions to pay charges		1,398,238		1,398,238	1,597,594
Remuneration		946,840		946,840	1,175,248
Other					
Refunds and adjustments		83,575		83,575	89,058
Charges paid in the SDR department					
Net charges due	135,008			135,008	192,854
Total uses					
	7,057,545	5,928,914	824,501	13,810,960	15,632,495
Charges not paid when due	3,240			3,240	5,873
Settlement of unpaid charges	(163)			(163)	(28,723)
Total holdings, end of the year					
	<u>20,633,633</u>	<u>506,029</u>	<u>382,254</u>	<u>21,521,916</u>	<u>21,518,839</u>

The ending balances contain rounding

Schedule 2

SDR Department
Allocations and Holdings of Participants
as at April 30, 2004

(In thousands of SDRs)

Participant	Net Cumulative Allocations	Holdings		
		Total	Percent of Cumulative Allocations	(+) Above (-) Below Allocations
Afghanistan, Islamic State of	26,703	291	1.1	(26,412)
Albania	—	63,673	—	63,673
Algeria	128,640	9,547	7.4	(119,093)
Angola	—	145	—	145
Antigua and Barbuda	—	6	—	6
Argentina	318,370	843,583	265.0	525,213
Armenia, Republic of	—	17,598	—	17,598
Australia	470,545	117,508	25.0	(353,037)
Austria	179,045	118,805	66.4	(60,240)
Azerbaijan	—	4,630	—	4,630
Bahamas, The	10,230	70	0.7	(10,160)
Bahrain, Kingdom of	6,200	658	10.6	(5,542)
Bangladesh	47,120	1,982	4.2	(45,138)
Barbados	8,039	71	0.9	(7,968)
Belarus, Republic of	—	128	—	128
Belgium	485,246	520,390	107.2	35,144
Belize	—	1,577	—	1,577
Benin	9,409	90	1.0	(9,319)
Bhutan	—	256	—	256
Bolivia	26,703	26,763	100.2	60
Bosnia and Herzegovina	20,481	1,100	5.4	(19,381)
Botswana	4,359	33,745	774.2	29,386
Brazil	358,670	185,471	51.7	(173,199)
Brunei Darussalam	—	8,073	—	8,073
Bulgaria	—	70,513	—	70,513
Burkina Faso	9,409	186	2.0	(9,223)
Burundi	13,697	211	1.5	(13,486)
Cambodia	15,417	1,776	11.5	(13,641)
Cameroon	24,463	985	4.0	(23,478)
Canada	779,290	572,059	73.4	(207,231)
Cape Verde	620	4	0.6	(616)
Central African Republic	9,325	60	0.6	(9,265)
Chad	9,409	49	0.5	(9,360)
Chile	121,924	31,725	26.0	(90,199)
China	236,800	757,407	319.9	520,607
Colombia	114,271	113,404	99.2	(867)
Comoros	716	4	0.6	(712)
Congo, Democratic Republic of	86,309	5,027	5.8	(81,282)
Congo, Republic of	9,719	103	1.1	(9,616)
Costa Rica	23,726	170	0.7	(23,556)
Côte d'Ivoire	37,828	281	0.7	(37,547)
Croatia, Republic of	44,205	461	1.0	(43,744)
Cyprus	19,438	2,146	11.0	(17,292)
Czech Republic	—	—	—	—
Denmark	178,864	38,993	21.8	(139,871)
Djibouti	1,178	87	7.4	(1,091)
Dominica	592	61	10.4	(531)
Dominican Republic	31,585	1,120	3.5	(30,465)
Ecuador	32,929	11,888	36.1	(21,041)
Egypt	135,924	48,587	35.7	(87,337)
El Salvador	24,985	24,981	100.0	(4)
Equatorial Guinea	5,812	25	0.4	(5,787)
Ertria	—	—	—	—
Estonia, Republic of	—	53	—	53
Ethiopia	11,160	1,633	14.6	(9,527)

Schedule 2 (continued)

SDR Department
Allocations and Holdings of Participants
as at April 30, 2004

(In thousands of SDRs)

Participant	Net Cumulative Allocations	Total	Holdings	
			Percent of Cumulative Allocations	(+) Above (-) Below Allocations
Fiji	6,958	5,222	75.0	(1,736)
Finland	142,690	113,585	79.6	(29,105)
France	1,079,870	525,263	48.6	(554,607)
Gabon	14,091	341	2.4	(13,750)
Gambia, The	5,121	25	0.5	(5,096)
Georgia	—	1,364	—	1,364
Germany	1,210,760	1,326,256	109.5	115,496
Ghana	62,983	28,716	45.6	(34,267)
Greece	103,544	15,327	14.8	(88,217)
Grenada	930	55	5.9	(875)
Guatemala	27,678	5,437	19.6	(22,241)
Guinea	17,604	—	—	(17,604)
Guinea-Bissau	1,212	662	54.6	(550)
Guyana	14,530	2,655	18.3	(11,875)
Haiti	13,697	2,170	15.8	(11,527)
Honduras	19,057	179	0.9	(18,878)
Hungary	—	32,951	—	32,951
Iceland	16,409	87	0.5	(16,322)
India	681,170	1,518	0.2	(679,652)
Indonesia	238,956	44,897	18.8	(194,059)
Iran, Islamic Republic of	244,056	268,488	110.0	24,432
Iraq	68,464	—	—	(68,464)
Ireland	87,263	54,174	62.1	(33,089)
Israel	106,360	7,227	6.8	(99,133)
Italy	702,400	138,569	19.7	(563,831)
Jamaica	40,613	459	1.1	(40,154)
Japan	891,690	1,842,560	206.6	950,870
Jordan	16,887	3,068	18.2	(13,819)
Kazakhstan, Republic of	—	778	—	778
Kenya	36,990	1,228	3.3	(35,762)
Kiribati	—	10	—	10
Korea	72,911	15,743	21.6	(57,168)
Kuwait	26,744	109,744	410.3	83,000
Kyrgyz Republic	—	9,866	—	9,866
Lao People's Democratic Republic	9,409	11,128	118.3	1,719
Latvia, Republic of	—	23	—	23
Lebanon	4,393	20,765	472.7	16,372
Lesotho	3,739	417	11.1	(3,322)
Liberia	21,007	—	—	(21,007)
Libya	58,771	465,033	791.3	406,262
Lithuania, Republic of	—	192	—	192
Luxembourg	16,955	8,684	51.2	(8,271)
Macedonia, former Yugoslav Republic of	8,379	4,383	52.3	(3,996)
Madagascar	19,270	124	0.6	(19,146)
Malawi	10,975	1,150	10.5	(9,825)
Malaysia	139,048	121,932	87.7	(17,116)
Maldives	282	307	108.6	25
Mali	15,912	558	3.5	(15,354)
Malta	11,288	30,048	266.2	18,760
Marshall Islands	—	—	—	—
Mauntania	9,719	48	0.5	(9,671)
Mauntus	15,744	17,301	109.9	1,557
Mexico	290,020	293,258	101.1	3,238
Micronesia, Federated States of	—	1,201	—	1,201
Moldova, Republic of	—	421	—	421

Schedule 2 (continued)

SDR Department
Allocations and Holdings of Participants
as at April 30, 2004

(In thousands of SDRs)

Participant	Net Cumulative Allocations	Holdings		
		Total	Percent of Cumulative Allocations	(+) Above (-) Below Allocations
Mongolia	—	26	—	26
Morocco	85,689	70,219	81.9	(15,470)
Mozambique	—	53	—	53
Myanmar	43,474	211	0.5	(43,263)
Namibia	—	17	—	17
Nepal	8,105	519	6.4	(7,586)
Netherlands	530,340	506,136	95.4	(24,204)
New Zealand	141,322	19,905	14.1	(121,417)
Nicaragua	19,483	713	3.7	(18,770)
Niger	9,409	161	1.7	(9,248)
Nigeria	157,155	1,065	0.7	(156,090)
Norway	167,770	217,918	129.9	50,148
Oman	6,262	8,128	129.8	1,866
Pakistan	169,989	164,209	96.6	(5,780)
Palau	—	—	—	—
Panama	26,322	966	3.7	(25,356)
Papua New Guinea	9,300	2,002	21.5	(7,298)
Paraguay	13,697	84,971	620.4	71,274
Peru	91,319	1,143	1.3	(90,176)
Philippines	116,595	4,973	4.3	(111,622)
Poland, Republic of	—	38,865	—	38,865
Portugal	53,320	62,380	117.0	9,060
Qatar	12,822	22,159	172.8	9,337
Romania	75,950	2,749	3.6	(73,201)
Russian Federation	—	17,371	—	17,371
Rwanda	13,697	20,061	146.5	6,364
St. Kitts and Nevis	—	1	—	1
St. Lucia	742	1,494	201.4	752
St. Vincent and the Grenadines	354	4	1.0	(350)
Samoa	1,142	2,406	210.7	1,264
San Marino, Republic of	—	506	—	506
São Tomé and Príncipe	620	15	2.4	(605)
Saudi Arabia	195,527	301,365	154.1	105,838
Senegal	24,462	1,720	7.0	(22,742)
Serbia and Montenegro	56,665	6,946	12.3	(49,719)
Seychelles	406	4	1.0	(402)
Sierra Leone	17,455	19,718	113.0	2,263
Singapore	16,475	182,183	1,105.8	165,708
Slovak Republic	—	867	—	867
Slovenia, Republic of	25,431	6,428	25.3	(19,003)
Solomon Islands	654	4	0.6	(650)
Somalia	13,697	—	—	(13,697)
South Africa	220,360	222,790	101.1	2,430
Spain	298,805	282,521	94.6	(16,284)
Sri Lanka	70,868	1,407	2.0	(69,461)
Sudan	52,192	217	0.4	(51,975)
Sunname	7,750	1,296	16.7	(6,454)
Swaziland	6,432	2,468	38.4	(3,964)
Sweden	246,525	117,141	47.5	(129,384)
Switzerland	—	22,695	—	22,695
Syrian Arab Republic	36,564	190	0.5	(36,374)
Tajikistan, Republic of	—	574	—	574
Tanzania	31,372	213	0.7	(31,159)
Thailand	84,652	1,052	1.2	(83,600)
Timor-Leste, The Democratic Republic of	—	—	—	—

Schedule 2 (concluded)

SDR Department
Allocations and Holdings of Participants
as at April 30, 2004

(In thousands of SDRs)

Participant	Net Cumulative Allocations	Total	Holdings	
			Percent of Cumulative Allocations	(+) Above (-) Below Allocations
Togo	10,975	57	0.5	(10,918)
Tonga	—	222	—	222
Trinidad and Tobago	46,231	985	2.1	(45,246)
Tunisia	34,243	17,000	49.6	(17,243)
Turkey	112,307	148,035	131.8	35,728
Turkmenistan, Republic of	—	—	—	—
Uganda	29,396	5,016	17.1	(24,380)
Ukraine	—	7,027	—	7,027
United Arab Emirates	38,737	1,261	3.3	(37,476)
United Kingdom	1,913,070	222,721	11.6	(1,690,349)
United States	4,899,530	8,571,679	174.9	3,672,149
Uruguay	49,977	17,293	34.6	(32,684)
Uzbekistan, Republic of	—	200	—	200
Vanuatu	—	897	—	897
Venezuela	316,890	6,619	2.1	(310,271)
Vietnam	47,658	690	1.4	(46,968)
Yemen, Republic of	28,743	32,935	114.6	4,192
Zambia	68,298	2,088	3.1	(66,210)
Zimbabwe	10,200	9	0.1	(10,191)
Above Allocations	9,594,484	16,767,772	174.8	7,173,288
Below Allocations	11,838,846	3,865,861	32.7	(7,972,985)
Total Participants	21,433,330	20,633,633		
General Resources Account		506,029		
Prescribed Holders		382,254		
Overdue Charges	88,586			
	<u>21,521,916</u>	<u>21,521,916</u>		



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Report of Independent Auditors

**To the Board of Governors
of the International Monetary Fund:**

We have audited the accompanying combined balance sheets as at April 30, 2004 and 2003, and the related combined statements of income, changes in resources, and cash flows for the years then ended of the Poverty Reduction and Growth Facility Trust.

We have audited the accompanying combined balance sheets as at April 30, 2004 and 2003, and the related combined statements of income and changes in resources for the years then ended of the Poverty Reduction and Growth Facility–Heavily Indebted Poor Countries Trust and Related Accounts.

We have also audited the accompanying balance sheets as at April 30, 2004 and 2003, 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
- Supplementary Financing Facility Subsidy Account
- Post-Conflict Emergency Assistance Subsidy Account

These financial statements are the responsibility of management of the International Monetary Fund, as trustee or administrator of the trusts and accounts listed above. 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 audit 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.

In our opinion, the financial statements referred to above give a true and fair view of the financial position of the trusts and accounts listed above as at April 30, 2004 and 2003, and the results of their operations for the years then ended in conformity with International Financial Reporting 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 189 to 192 and 203 to 207 is presented for purposes of adding 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.

June 7, 2004

Poverty Reduction and Growth Facility Trust
Combined Balance Sheets
as at April 30, 2004 and 2003

(In thousands of SDRs)

	2004	2003
Assets		
Cash and cash equivalents	2,721,670	2,481,040
Investments (Note 3)	3,035,128	3,205,052
Loans receivable (Note 4)	6,699,728	6,667,296
Interest receivable	20,915	18,979
Total Assets	<u>12,477,441</u>	<u>12,372,367</u>
Liabilities and Resources		
Borrowings (Note 5)	7,512,656	7,431,854
Interest payable	34,518	39,333
Other liabilities	4,483	2,930
Total Liabilities	<u>7,551,657</u>	<u>7,474,117</u>
Resources	4,925,784	4,898,250
Total Liabilities and Resources	<u>12,477,441</u>	<u>12,372,367</u>

The accompanying notes are an integral part of these financial statements.

/s/ Eduard Brau
 Director, Finance Department

/s/ Rodrigo de Rato
 Managing Director

Poverty Reduction and Growth Facility Trust
Combined Statements of Income and Changes in Resources
for the Years Ended April 30, 2004 and 2003

(In thousands of SDRs)

	2004	2003
Balance, beginning of the year	4,898,250	4,695,845
Investment income (Note 3)	75,377	119,657
Interest on loans	33,587	31,058
Interest expense	(106,300)	(137,618)
Other expenses	(3,286)	(3,238)
Operational (loss)/income	(622)	9,859
Contributions (Note 6)	34,326	43,287
	33,704	53,146
Transfers from the Special Disbursement Account (Note 8)	51,530	213,259
Transfers through the Special Disbursement Account to the PRGF-HIPC Trust (Note 8)	(57,700)	(64,000)
Net changes in resources	27,534	202,405
Balance, end of the year	<u>4,925,784</u>	<u>4,898,250</u>

The accompanying notes are an integral part of these financial statements.

Poverty Reduction and Growth Facility Trust
Combined Statements of Cash Flows
for the Years Ended April 30, 2004 and 2003

(In thousands of SDRs)

	2004	2003
Cash flows from operating activities		
Net (loss)/income	(622)	9,859
Adjustments to reconcile net income to cash generated by operations		
Changes in interest payable and other liabilities	(3,262)	(225)
Changes in interest receivable	(1,936)	(2,986)
Cash from credit to members		
Loan disbursements	(865,215)	(1,217,527)
Loan repayments	832,783	723,079
Net cash used in operating activities	(38,252)	(487,800)
Cash flows from investment activities		
Net acquisition of investments	169,924	(575,767)
Net cash provided (used) by investment activities	169,924	(575,767)
Cash flows from financing activities		
Borrowings	864,978	1,192,875
Repayment of borrowings	(784,176)	(525,455)
Contributions	34,326	43,287
Transfers from the Special Disbursement Account	51,530	213,259
Transfers through the Special Disbursement Account to the PRGF-HIPC Trust	(57,700)	(64,000)
Net cash provided by financing activities	108,958	859,966
Cash and cash equivalents, beginning of year	2,481,040	2,684,641
Cash and cash equivalents, end of year	<u>2,721,670</u>	<u>2,481,040</u>

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, 2004 and 2003

1. Nature of Operations

The Poverty Reduction and Growth Facility Trust (PRGF Trust or the 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 statements of income and 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, 2004, loans totaling SDR 6,699.7 million were outstanding (SDR 6,667.3 million at April 30, 2003). At April 30, 2004, the resources of the Loan Account included cumulative advances from the Reserve Account of SDR 74.7 million resulting from the non-payment of principal by Zimbabwe (SDR 65.5 million at April 30, 2003).

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 borrowers' principal repayments and interest payments, 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 contributions 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 Financial Reporting Standards (IFRS). Specific accounting principles and disclosure practices are explained further below. The preparation of financial statements in conformity with IFRS 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.

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 currencies in the basket as of April 30, 2004 and 2003 and their amounts were as follows:

Currency	Amount
Euro	0.4260
Japanese yen	21.0000
Pound sterling	0.0984
U.S. dollar	0.5770

As of April 30, 2004, one SDR was equal to 1.45183 U.S. dollars (one SDR was equal to 1.38391 dollars as of April 30, 2003).

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, which approximates fair value. Interest on these instruments varies and is based on prevailing market rates.

Investments

The Trust invests in debt securities and fixed-term deposits, which are classified as available for sale securities. Investments are marked to market on the last business day of the accounting period. The carrying amounts of investments approximate their fair value and the unrealized gains and losses are included in the income statements. Purchases are valued and reflected on the trade date basis and sales are based on the actual settlement date valuations. Investment income comprises interest income, realized and unrealized gains and losses on investments, including 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.

Loans

Loans in the Trust are initially recorded at the amount disbursed provided that the present value of the cash flows from stated interest due and the Subsidy Account is equal to or exceeds the disbursed amount. Thereafter, the carrying value of the loans is amortized cost.

Overdue Obligations

It is the Trust's policy to exclude from income interest on loans that are six months or more overdue. An impairment loss is recognized only if there is objective evidence of impairment as a result of a past event that occurred after initial recognition and is determined as the difference between the outstanding loan's carrying amount and the present value of estimated future cash flows.

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 from 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.

Comparatives

When necessary, comparative figures have been reclassified to conform with changes in the presentation of the current year.

3. Investments

The maturities of the investments are as follows:

Maturity as at April 30	2004	2003
	<i>In thousands of SDRs</i>	
Less than 1 year	2,831,390	2,612,829
1-3 years	168,542	566,905
3-5 years	-	4,982
Over 5 years	35,196	20,336
Total	<u>3,035,128</u>	<u>3,205,052</u>

At April 30, the investments consisted of the following:

	2004	2003
	<i>In thousands of SDRs</i>	
Debt securities	2,800,283	2,923,255
Fixed-term deposits	234,845	281,797
Total	<u>3,035,128</u>	<u>3,205,052</u>

At April 30, investment income comprised:

	2004	2003
	<i>In thousands of SDRs</i>	
Interest income	119,077	144,544
Realized losses, net	(70,151)	(52,803)
Unrealized gains, net	26,647	29,686
Exchange rate losses, net	(196)	(1,770)
Total	<u>75,377</u>	<u>119,657</u>

4. Loans Receivable

Resources of the Loan Account are committed to qualifying members for a three-year period, upon approval by the Trustee of three-year arrangements in support of the members' macroeconomic and structural adjustment programs. Interest on the outstanding loan balances is set at the rate of ½ of 1 percent per annum. Scheduled repayments of loans by borrowers are summarized below:

Period of Repayment, Financial Year Ending April 30	
	<i>In thousands of SDRs</i>
2005	881,952
2006	854,789
2007	726,142
2008	815,876
2009	820,734
2010 and beyond	2,525,537
Overdue	74,698
Total	<u>6,699,728</u>

The above includes one member that is overdue at the end of financial year 2004 for more than six months in the amount of SDR 74.7 million (SDR 65.5 million as at April 30, 2003).

As of April 30, use of credit in the Trust by the largest users was as follows:

	2004		2003
	<i>In millions of SDRs and percent of total PRGF credit</i>		
Largest user of credit	916.1	13.7%	737.6 11.1%
Three largest users of credit	1,920.4	28.7%	1,820.8 27.3%
Five largest users of credit	2,512.0	37.5%	2,469.9 37.0%

5. Borrowings

The following summarizes the borrowing agreements concluded as of April 30:

	Amount Undrawn	
	2004	2003
	<i>In thousands of SDRs</i>	
Loan Account	4,856,812	5,718,318
Subsidy Account	65,167	3,330

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 Trustee and the lenders. Interest rates on borrowings as at April 30, 2004 varied between 0.5 percent and 6.5 percent a year (0.5 percent and 6.9 percent a year as at April 30, 2003). The principal amounts of the borrowings are repayable between 5½ and 16 years after the first drawing.

Scheduled repayments of borrowings are summarized below:

Period of Repayment, Financial Year Ending April 30	In thousands of SDRs
2005	953,566
2006	1,504,589
2007	982,706
2008	822,951
2009	822,916
2010 and beyond	<u>2,425,928</u>
Total	<u>7,512,656</u>

Borrowings and repayments during the financial year ended April 30, 2004 amounted to SDR 865 million and SDR 784 million, respectively (SDR 1,194 million and SDR 526 million, respectively, for the financial year ended April 30, 2003).

6. Contributions

The Trustee accepts contributions for the Subsidy Account on such terms and conditions as agreed between the Trustee and the contributors. At April 30, 2004, cumulative contributions received, including transfers from the Special Disbursement Account, amounted to SDR 2,430.0 million (SDR 2,395.8 million at April 30, 2003).

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, 2004, undrawn balances under 36 loan arrangements amounted to SDR 2,088.9 million (SDR 2,473.8 million under 36 arrangements at April 30, 2003).

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 2004 and 2003, the Executive Board of the IMF decided to forgo such reimbursement to the General Resources Account 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 2004 and 2003 were SDR 57.7 million and SDR 64.0 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 grants or loans to eligible members under the HIPC initiative. At April 30, 2004 and 2003, SDR 43.5 million had been transferred for this purpose.

9. Combining Balance Sheets, Statements of Income, and Changes in Resources

The balance sheets, statements of income 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, 2004 and 2003

(In thousands of SDRs)

	Loan Account		Reserve Account		Subsidy Account		Combined	
	2004	2003	2004	2003	2004	2003	2004	2003
Assets								
Cash and cash equivalents	627,730	453,718	1,050,119	1,102,840	1,043,821	924,482	2,721,670	2,481,040
Investments (Note 3)	234,846	281,797	1,999,165	1,959,143	801,117	964,112	3,035,128	3,205,052
Loans receivable (Note 4)	6,699,728	6,667,296	—	—	—	—	6,699,728	6,667,296
Accrued account transfers	20,202	19,270	48,095	3,208	(68,297)	(22,478)	—	—
Interest receivable	19,866	17,338	961	1,329	88	312	20,915	18,979
Total Assets	<u>7,602,372</u>	<u>7,439,419</u>	<u>3,098,340</u>	<u>3,066,520</u>	<u>1,776,729</u>	<u>1,866,428</u>	<u>12,477,441</u>	<u>12,372,367</u>
Liabilities and Resources								
Borrowings (Note 5)	7,488,707	7,333,068	—	—	23,949	98,786	7,512,656	7,431,854
Interest payable	34,484	37,878	—	—	34	1,455	34,518	39,333
Other liabilities	4,483	2,930	—	—	—	—	4,483	2,930
Total Liabilities	<u>7,527,674</u>	<u>7,373,876</u>	—	—	<u>23,983</u>	<u>100,241</u>	<u>7,551,657</u>	<u>7,474,117</u>
Resources	74,698	65,543	3,098,340	3,066,520	1,752,746	1,766,187	4,925,784	4,898,250
Total Liabilities and Resources	<u>7,602,372</u>	<u>7,439,419</u>	<u>3,098,340</u>	<u>3,066,520</u>	<u>1,776,729</u>	<u>1,866,428</u>	<u>12,477,441</u>	<u>12,372,367</u>

Note 9 (concluded)

**Combining Statements of Income and Changes in Resources
for the Years Ended April 30, 2004 and 2003**

(In thousands of SDRs)

	Loan Account		Reserve Account		Subsidy Account		Combined	
	2004	2003	2004	2003	2004	2003	2004	2003
Balance, beginning of the year	65,543	41,494	3,066,520	2,869,791	1,766,187	1,784,560	4,898,250	4,695,845
Investment income (Note 3)	—	—	48,856	74,918	26,521	44,739	75,377	119,657
Interest on loans	33,587	31,058	—	—	—	—	33,587	31,058
Interest expense	(104,912)	(135,951)	—	—	(1,388)	(1,667)	(106,300)	(137,618)
Other expenses	—	—	(1,711)	(1,575)	(1,575)	(1,663)	(3,286)	(3,238)
Operational (loss) income	(71,325)	(104,893)	47,145	73,343	23,558	41,409	(622)	9,859
Contributions (Note 6)	—	—	—	—	34,326	43,287	34,326	43,287
	(71,325)	(104,893)	47,145	73,343	57,884	84,696	33,704	53,146
Transfers from the Special Disbursement Account (Note 8)	—	—	51,530	213,259	—	—	51,530	213,259
Transfers through the Special Disbursement Account to the PRGF-HIPC Trust (Note 8)	—	—	(57,700)	(64,000)	—	—	(57,700)	(64,000)
Transfers between:								
Loan and Reserve Accounts	9,155	25,873	(9,155)	(25,873)	—	—	—	—
Loan and Subsidy Accounts	71,325	103,069	—	—	(71,325)	(103,069)	—	—
Net changes in resources	9,155	24,049	31,820	196,729	(13,441)	(18,373)	27,534	202,405
Balance, end of the year	74,698	65,543	3,098,340	3,066,520	1,752,746	1,766,187	4,925,784	4,898,250

Poverty Reduction and Growth Facility Trust
Schedule of Outstanding Loans
as at April 30, 2004

(In thousands of SDRs)

Member	PRGF Loan Account		Structural Adjustment Facility ¹	
	Balance	Percent	Balance	Percent
Albania	63,275	0.94	—	—
Armenia, Republic of	132,350	1.98	—	—
Azerbaijan	105,018	1.57	—	—
Bangladesh	99,000	1.48	—	—
Benin	47,838	0.71	—	—
Bolivia	115,704	1.73	—	—
Burkina Faso	82,306	1.23	1,264	1.47
Burundi	26,400	0.39	—	—
Cambodia	66,900	1.00	—	—
Cameroon	225,455	3.37	—	—
Cape Verde	4,920	0.07	—	—
Central African Republic	23,656	0.35	—	—
Chad	69,883	1.04	—	—
Congo, Democratic Republic of	500,067	7.46	—	—
Congo, Republic of	6,948	0.10	—	—
Côte d'Ivoire	271,729	4.06	—	—
Djibouti	13,630	0.20	—	—
Dominica	2,666	0.04	—	—
Equatorial Guinea	37	—	148	0.17
Ethiopia	110,491	1.65	2,824	3.29
Gambia, The	21,439	0.32	—	—
Georgia	168,825	2.52	—	—
Ghana	298,065	4.45	—	—
Guinea	86,114	1.29	—	—
Guinea-Bissau	11,249	0.17	—	—
Guyana	59,696	0.89	—	—
Haiti	9,105	0.14	—	—
Honduras	124,573	1.86	—	—
Kenya	75,585	1.13	—	—
Kyrgyz Republic	138,766	2.07	—	—
Lao People's Democratic Republic	28,091	0.42	—	—
Lesotho	21,000	0.31	—	—
Macedonia, former Yugoslav Republic of	22,638	0.34	—	—
Madagascar	138,143	2.06	—	—
Malawi	49,333	0.74	—	—
Mali	105,626	1.58	—	—
Mauritania	65,633	0.98	—	—
Moldova, Republic of	27,720	0.41	—	—
Mongolia	31,317	0.47	—	—
Mozambique	136,970	2.04	—	—
Nepal	7,130	0.11	—	—
Nicaragua	155,748	2.32	—	—
Niger	84,570	1.26	—	—
Pakistan	916,128	13.67	—	—
Rwanda	61,835	0.92	—	—
São Tomé and Príncipe	1,902	0.03	—	—
Senegal	155,372	2.32	—	—
Sierra Leone	117,700	1.76	—	—
Somalia	—	—	8,840	10.31
Sri Lanka	38,390	0.57	—	—
Tajikistan, Republic of	76,960	1.15	—	—
Tanzania	293,482	4.38	—	—
Togo	24,978	0.37	—	—
Uganda	151,451	2.26	—	—
Vietnam	214,800	3.21	—	—
Yemen, Republic of	225,550	3.37	—	—
Zambia	504,193	7.53	72,700	84.76
Zimbabwe	81,378	1.21	—	—
Total loans outstanding	6,699,728	100.00	85,776	100.00

¹Since 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, 2004

(In thousands of SDRs)

Contributor ¹	Amount
Direct contributions to the Subsidy Account	
Argentina	20,400
Australia	6,770
Bangladesh	486
Canada	182,198
China	8,500
Czech Republic	10,004
Denmark	38,299
Egypt	10,002
Finland	22,684
Germany	132,832
Iceland	3,200
India	7,204
Ireland	4,740
Italy	150,261
Japan	506,997
Korea	32,191
Luxembourg	8,945
Morocco	7,284
Netherlands	94,372
Norway	28,074
Sweden	110,887
Switzerland	37,075
Turkey	6,000
United Kingdom	316,564
United States	126,079
Total direct contributions to the Subsidy Account	1,872,048
Net income transferred from PRGF Administered Accounts	
Austria	40,341
Belgium	77,953
Botswana	1,352
Chile	2,910
Greece	25,941
Indonesia	4,936
Iran, Islamic Republic of	1,364
Portugal	3,239
Total net income transferred from Administered Accounts	158,036
Total contributions received	2,030,084
Transfers from Special Disbursement Account	400,000
Total contributions received and transfers from Special Disbursement Account	2,430,084
Cumulative net income of the Subsidy Account	861,439
Resources disbursed to subsidize Trust lending	(1,538,777)
Total resources of the Subsidy Account	1,752,746

¹In addition to direct contributions, a number of members also make loans available to the Loan Account on concessional terms. See Schedule 3.

Poverty Reduction and Growth Facility Trust
Schedule of Borrowing Agreements
as at April 30, 2004

(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	70,671
France	0.5 ²	800,000	800,000	114,286
Germany	Variable ³	700,000	700,000	152,802
Italy	Variable ³	370,000	370,000	73,438
Japan	Variable ³	2,200,000	2,200,000	540,630
Korea	Variable ³	65,000	65,000	4,195
Norway	Variable ³	90,000	90,000	13,000
Total prior to enlargement of PRGF		<u>4,525,000</u>	<u>4,525,000</u>	<u>969,022</u>
For enlargement of PRGF				
Belgium	Variable ³	350,000	242,331	242,331
Canada	Variable ³	400,000	338,713	317,330
China	Variable ³	200,000	153,492	140,610
Denmark	Variable ³	100,000	100,000	100,000
Egypt	Variable ³	155,600	100,000	87,362
France	Variable ²	2,100,000	935,571	880,155
Germany	Variable ³	2,050,000	909,834	866,852
Italy	Variable ³	1,010,000	575,392	570,413
Japan	Variable ³	2,934,800	1,992,778	1,931,423
Korea	Variable ³	27,700	27,700	25,881
Netherlands	Variable ³	450,000	140,355	140,355
Norway	Variable ³	60,000	60,000	53,280
OPEC Fund for International Development	Variable ³	34,439 ⁴	36,990	36,990
Spain—Bank of Spain	Variable ³	425,000	41,410	41,410
Spain—Government of Spain (ICO)	Fixed	67,000	67,000	62,504
Switzerland	Variable ³	401,700	187,861	160,213
Total for enlargement of PRGF		<u>10,766,239</u>	<u>5,909,427</u>	<u>5,657,109</u>
Resources held pending repayment	⁵	—	—	862,576 ⁵
Total—Loan Account		<u>15,291,239</u>	<u>10,434,427</u>	<u>7,488,707</u>
Subsidy Account				
Malta	0.50	1,365	1,365	1,365
Pakistan	0.50	10,000	7,337	7,337
Spain—Government of Spain (ICO)	0.50	67,000	4,496	4,496
Tunisia	0.50	3,551	3,551	3,551
Uruguay	Variable ⁶	7,200	7,200	7,200
Total—Subsidy Account		<u>89,116</u>	<u>23,949</u>	<u>23,949</u>

¹The loans under this agreement are made at market-related rates of interest fixed at the time the loan was disbursed.

²The 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 at 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.

³The loans under these agreements are made at variable, market-related rates of interest.

⁴The agreement with the OPEC Fund for International Development is for an amount of \$50 million, or SDR 34.4 million based on the exchange rate of 0.688785 SDR per US dollar as at April 30, 2004.

⁵This amount represents principal repayments held and invested on behalf of a lender.

⁶The 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 Arrangements¹
as at April 30, 2004

(In thousands of SDRs)

Member	Date of Arrangement	Expiration Date	Amount Agreed	Undrawn Balance
Albania	Jun. 21, 2002	Jun. 20, 2005	28,000	12,000
Armenia, Republic of	May 23, 2001	May 22, 2004	69,000	19,000
Azerbaijan	Jul 6, 2001	Mar 31, 2005	80,450	38,610
Bangladesh	Jun. 20, 2003	Jun. 19, 2006	347,000	248,000
Burkina Faso	Jun 11, 2003	Jun 10, 2006	24,080	17,200
Burundi	Jan 23, 2004	Jan 22, 2007	69,300	42,900
Cameroon	Dec. 21, 2000	Dec. 20, 2004	111,420	31,830
Cape Verde	Apr 10, 2002	Apr 9, 2005	8,640	3,720
Congo, Democratic Republic of	Jun. 12, 2002	Jun. 11, 2005	580,000	79,933
Côte d'Ivoire	Mar. 29, 2002	Mar 28, 2005	292,680	234,140
Dominica	Dec 29, 2003	Dec. 28, 2006	7,688	5,022
Ethiopia	Mar 22, 2001	Jul 31, 2004	100,277	10,429
Gambia, The	Jul. 18, 2002	Jul. 17, 2005	20,220	17,330
Ghana	May 9, 2003	May 8, 2006	184,500	131,800
Guinea	May 2, 2001	May 1, 2004	64,260	38,556
Guyana	Sep. 20, 2002	Mar. 19, 2006	54,550	43,030
Honduras	Feb. 27, 2004	Feb. 26, 2007	71,200	61,029
Kenya	Nov. 21, 2003	Nov. 20, 2006	175,000	150,000
Kyrgyz Republic	Dec 6, 2001	Dec 5, 2004	73,400	19,120
Lao People's Democratic Republic	Apr. 25, 2001	Apr. 24, 2005	31,700	13,580
Lesotho	Mar. 9, 2001	Jun. 30, 2004	24,500	3,500
Madagascar	Mar. 1, 2001	Mar. 1, 2005	91,650	22,695
Malawi	Dec 21, 2000	Dec. 20, 2004	45,110	32,230
Mauntania	Jul. 18, 2003	Jul. 17, 2006	6,440	5,520
Mongolia	Sep 28, 2001	Jul. 31, 2005	28,490	16,280
Nepal	Nov. 19, 2003	Nov. 18, 2006	49,910	42,780
Nicaragua	Dec 13, 2002	Dec. 12, 2005	97,500	55,710
Niger	Dec. 22, 2000	Jun. 30, 2004	59,200	8,440
Pakistan	Dec 6, 2001	Dec 5, 2004	1,033,700	344,560
Rwanda	Aug 12, 2002	Aug 11, 2005	4,000	2,855
Senegal	Apr 28, 2003	Apr 27, 2006	24,270	17,330
Sierra Leone	Sep. 26, 2001	Mar. 25, 2005	130,840	28,003
Sn Lanka	Apr. 18, 2003	Apr. 17, 2006	269,000	230,610
Tajikistan, Republic of	Dec 11, 2002	Dec 10, 2005	65,000	39,200
Tanzania	Aug. 16, 2003	Aug. 15, 2006	19,600	14,000
Uganda	Sep. 13, 2002	Sep. 12, 2005	13,500	8,000
			<u>4,356,075</u>	<u>2,088,942</u>

¹The Saudi Fund for Development may also provide resources to support arrangements under the PRGF through loans to qualifying members in association with loans under the PRGF. As at April 30, 2004, SDR 49.5 million of such associated loans had been disbursed.

Poverty Reduction and Growth Facility Administered Accounts

Balance Sheets as at April 30, 2004 and 2003

(In thousands of SDRs)

	Austria		Belgium		Botswana				
	2004	2003	2004	2003	2004	2003			
Assets									
Cash and cash equivalents	–	–	–	80,000	–	–			
Investments (Note 3)	15,000	25,000	–	–	–	6,894			
Advance payments to the PRGF Trust Subsidy Account	67	102	–	–	–	116			
Interest receivable	–	–	–	225	–	–			
Total Assets	<u>15,067</u>	<u>25,102</u>	<u>–</u>	<u>80,225</u>	<u>–</u>	<u>7,010</u>			
Liabilities and Resources									
Deposits (Note 4)	15,000	25,000	–	80,000	–	6,894			
Interest payable	67	102	–	2	–	116			
Total Liabilities	<u>15,067</u>	<u>25,102</u>	<u>–</u>	<u>80,002</u>	<u>–</u>	<u>7,010</u>			
Resources	–	–	–	223	–	–			
Total Liabilities and Resources	<u>15,067</u>	<u>25,102</u>	<u>–</u>	<u>80,225</u>	<u>–</u>	<u>7,010</u>			
Greece									
Indonesia									
Iran, I. R. of									
Portugal									
	2004	2003	2004	2003	2004	2003	2004	2003	
Assets									
Cash and cash equivalents	–	–	25,000	25,000	–	–	–	–	
Investments (Note 3)	–	7,000	–	–	5,000	5,000	8,764	10,517	
Advance payments to the PRGF Trust Subsidy Account	–	15	–	–	23	23	42	50	
Interest receivable	–	–	1	70	–	–	–	–	
Total Assets	<u>–</u>	<u>7,015</u>	<u>25,001</u>	<u>25,070</u>	<u>5,023</u>	<u>5,023</u>	<u>8,806</u>	<u>10,567</u>	
Liabilities and Resources									
Deposits (Note 4)	–	7,000	25,000	25,000	5,000	5,000	8,764	10,517	
Interest payable	–	15	–	17	23	23	42	50	
Total Liabilities	<u>–</u>	<u>7,015</u>	<u>25,000</u>	<u>25,017</u>	<u>5,023</u>	<u>5,023</u>	<u>8,806</u>	<u>10,567</u>	
Resources	–	–	1	53	–	–	–	–	
Total Liabilities and Resources	<u>–</u>	<u>7,015</u>	<u>25,001</u>	<u>25,070</u>	<u>5,023</u>	<u>5,023</u>	<u>8,806</u>	<u>10,567</u>	

The accompanying notes are an integral part of these financial statements.

/s/ Eduard Brau
Director, Finance Department

/s/ Rodrigo de Rato
Managing Director

Poverty Reduction and Growth Facility Administered Accounts
Statements of Income and Changes in Resources
for the Years Ended April 30, 2004 and 2003

(In thousands of SDRs)

	Austria		Belgium		Botswana			
	2004	2003	2004	2003	2004	2003		
Balance, beginning of the year	—	—	223	18	—	—		
Investment income	335	801	1,227	1,630	104	178		
Other expenses	(13)	(20)	—	—	(4)	(4)		
Interest expense on deposits	(102)	(130)	(399)	(400)	(115)	(138)		
Net income	220	651	828	1,230	(15)	36		
Transfers (to)/from the:								
PRGF Trust Subsidy Account	(220)	(651)	(1,051)	(1,025)	15	(36)		
Net changes in resources	—	—	(223)	205	—	—		
Balance, end of the year	—	—	—	223	—	—		
	Greece		Indonesia		Iran, I. R. of		Portugal	
	2004	2003	2004	2003	2004	2003	2004	2003
Balance, beginning of the year	—	—	53	96	—	—	—	—
Investment income	84	325	402	508	81	130	143	274
Other expenses	(3)	(8)	—	—	(4)	(3)	(6)	(7)
Interest expense on deposits	(26)	(61)	—	(62)	(25)	(25)	(44)	(53)
Net Income	55	256	402	446	52	102	93	214
Transfers (to)/from the:								
PRGF Trust Subsidy Account	(55)	(256)	(454)	(489)	(52)	(102)	(93)	(214)
Net changes in resources	—	—	(52)	(43)	—	—	—	—
Balance, end of the year	—	—	1	53	—	—	—	—

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, 2004 and 2003

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 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). IMF acts as the 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 Administered Accounts are prepared in accordance with International Financial Reporting Standards (IFRS). Specific accounting principles and disclosure practices are explained further below. The preparation of financial statements in conformity with IFRS 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. The financial statements do not include a cash flow statement because the statement of income and changes in resources includes the Administered Accounts' main cash flows.

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 currencies in the basket as of April 30, 2004 and 2003 and their amounts were as follows:

Currency	Amount
Euro	0 4260
Japanese yen	21 0000
Pound sterling	0 0984
U S dollar	0.5770

As of April 30, 2004, one SDR was equal to 1.45183 U.S. dollars (1.38391 U.S. dollars as of April 30, 2003).

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, which approximates fair value. Interest received on these instruments varies and is based on prevailing market rates.

Investments

Investments are made in debt securities which are classified as available for sale securities. Investments are marked to market value on the last business day of the accounting period. The carrying amounts of investments approximate their fair value and the unrealized gains and losses are included in the income statements. Purchases are valued and reflected on the trade date basis and sales are based on the actual settlement date valuations. Investment income comprises interest income, realized and unrealized gains and losses, including 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.

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 from 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 income earned by the 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, consisting of debt securities, are as follows:

Maturity as at April 30	2004	2003
	<i>In thousands of SDRs</i>	
Less than 1 year	28,433	50,374
1-3 years	331	3,950
3-5 years	—	87
Total	<u>28,764</u>	<u>54,411</u>

At April 30, investment income comprised:

	2004	2003
	<i>In thousands of SDRs</i>	
Interest income	2,928	4,313
Realized losses, net	(696)	(560)
Unrealized gains, net	144	93
Total	<u>2,376</u>	<u>3,846</u>

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 as administrator, and the IMF as administrator 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. All deposits have been repaid in full.

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. The deposit was repaid in full on March 1, 2004.

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 two deposits from Greece have 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 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 made 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 a 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 $\frac{1}{2}$ of 1 percent a year.

The receipts and uses of resources for the Saudi Fund for Development Special Account as of April 30 were as follows:

	2004	2003
	<i>In thousands of SDRs</i>	
Receipts of Resources		
Cumulative transfers from the Saudi Fund for Development	49,500	49,500
Cumulative repayments of associated loans	46,500	40,500
Cumulative receipts of interest on associated loans	1,893	1,858
Accrued interest on associated loans	8	18
	<u>97,901</u>	<u>91,876</u>
Uses of Resources		
Associated loans	49,500	49,500
Cumulative repayments to the Saudi Fund for Development	46,500	40,500
Cumulative payments of interest on transfers	1,893	1,858
Accrued interest on transfers	8	18
	<u>97,901</u>	<u>91,876</u>

PRGF-HIPC Trust and Related Accounts

Combined Balance Sheets as at April 30, 2004 and 2003

(In thousands of SDRs)

	2004	2003
Assets		
Cash and cash equivalents	590,613	999,948
Investments (Note 3)	569,013	316,929
Interest receivable	1,311	4,180
Total Assets	1,160,937	1,321,057
Liabilities and Resources		
Borrowings (Note 5)	612,918	601,125
Interest payable	1,319	1,298
Total Liabilities	614,237	602,423
Resources	546,700	718,634
Total Liabilities and Resources	1,160,937	1,321,057

The accompanying notes are an integral part of these financial statements

/s/ Eduard Brau
Director, Finance Department

/s/ Rodrigo de Rato
Managing Director

PRGF-HIPC Trust and Related Accounts

Combined Statements of Income and Changes in Resources for the Years Ended April 30, 2004 and 2003

(In thousands of SDRs)

	2004	2003
Balance, beginning of the year	718,634	863,755
Investment income (Note 3)	20,879	31,821
Interest expense	(2,075)	(1,938)
Other expenses	(339)	(265)
Operational income	18,465	29,618
Contributions received	27,287	35,425
Disbursements	(275,141)	(263,130)
Net changes in resources	(229,389)	(198,087)
Transfers	57,455	52,966
Net changes in resources	(171,934)	(145,121)
Balance, end of the year	546,700	718,634

The accompanying notes are an integral part of these financial statements.

PRGF-HIPC Trust and Related Accounts

Notes to the Financial Statements

as at April 30, 2004 and 2003

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 or the 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 and Related Accounts

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 estab-

lishment 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) in the General Department of the IMF, 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 PRGF-HIPC Trust and Related Accounts are prepared in accordance with International Financial Reporting Standards (IFRS). Specific accounting principles and disclosure practices are explained further below. The preparation of financial statements in conformity with IFRS 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. The financial statements do not include a cash flow statement because the statement of income and changes in resources includes the PRGF-HIPC Trust and Related Accounts' main cash flows.

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 valua-

tion 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 currencies in the basket as of April 30, 2004 and 2003 and their amounts were as follows:

Currency	Amount
Euro	0.4260
Japanese yen	21.0000
Pound sterling	0.0984
U.S. dollar	0.5770

As of April 30, 2004, one SDR was equal to 1.45183 U.S. dollars (one SDR was equal to 1.38391 U.S. dollars as of April 30, 2003).

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 which approximates fair value. Interest received on these instruments varies and is based on prevailing market rates.

Investments

The Trust invests in debt securities and fixed-term deposits, which are classified as available for sale securities. Investments are marked to market on the last business day of the accounting period. The carrying amounts of investments approximate their fair value and the unrealized gains and losses are included in the income statements. Purchases are valued and reflected on the trade date basis and sales are based on the actual settlement date valuations.

Investment income comprises interest income on investments, realized and unrealized gains and losses on investments, including 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 currency composition of the investment portfolio matches as closely as possible, the currency composition of the SDR valuation basket.

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 from 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 are as follows:

Maturity as at April 30	2004	2003
	<i>In thousands of SDRs</i>	
Less than 1 year	564,272	287,084
1-3 years	4,741	29,205
3-5 years	—	640
Total	<u>569,013</u>	<u>316,929</u>

At April 30, investments consisted of the following:

	2004	2003
	<i>In thousands of SDRs</i>	
Debt securities	314,206	316,929
Fixed-term deposits	<u>254,807</u>	—
Total	<u>569,013</u>	<u>316,929</u>

At April 30, investment income was comprised of:

	2004	2003
	<i>In thousands of SDRs</i>	
Interest income	25,978	34,682
Realized losses, net	(7,722)	(2,711)
Unrealized gains/(losses), net	2,619	(130)
Exchange rate gains/(losses), net	4	(20)
Total	<u>20,879</u>	<u>31,821</u>

4. Transfers Receivable and Payable

At April 30, 2004, 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 1,012.0 million, including interest (SDR 797.0 million at April 30, 2003). Interest payable between subaccounts is eliminated on combination.

5. Borrowings

The Trust borrows on such terms and conditions as agreed between the Trust and the lenders. Interest rates on borrowings at April 30, 2004 and 2003 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	
	<i>In thousands of SDRs</i>
2005	15,000
2006	—
2007	310
2008	20,066
2009	25,000
2010 and beyond	<u>552,542</u>
Total	<u>612,918</u>

Borrowings, net of the effect of foreign currency fluctuations, during the financial year ended April 30, 2004 amounted to SDR 6 million (SDR 31 million for the financial year ended April 30, 2003). There were no repayments in the years ended April 30, 2004 and 2003.

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:

PRGF-HIPC Trust and Related Accounts Combining Balance Sheets as at April 30, 2004 and 2003

(In thousands of SDRs)

	2004					2003				
	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 Trust Account	Post-SCA-2 Administered Account			
Assets										
Cash and cash equivalents	189,060	—	197,165	—	353,017	40,431	590,613	420,606	40,023	999,948
Investments	554,864	—	569,013	—	—	—	569,013	—	—	316,929
Transfers to and from subaccounts	1,011,958	(1,011,958)	—	—	—	—	—	—	—	—
Interest receivable	682	—	682	—	470	159	1,311	703	174	4,180
Total Assets	<u>1,756,564</u>	<u>(1,011,958)</u>	<u>766,860</u>	<u>(1,011,958)</u>	<u>353,487</u>	<u>40,590</u>	<u>1,160,937</u>	<u>421,309</u>	<u>40,197</u>	<u>1,321,057</u>
Liabilities and Resources										
Borrowings	612,918	—	612,918	—	—	—	612,918	—	—	601,125
Interest payable	1,319	—	1,319	—	—	—	1,319	—	—	1,298
Total Liabilities	<u>614,237</u>	<u>—</u>	<u>614,237</u>	<u>—</u>	<u>—</u>	<u>—</u>	<u>614,237</u>	<u>—</u>	<u>—</u>	<u>602,423</u>
Accumulated resources	1,142,327	(1,011,958)	152,623	(1,011,958)	353,487	40,590	546,700	421,309	40,197	718,634
Total Liabilities and Resources	<u>1,756,564</u>	<u>(1,011,958)</u>	<u>766,860</u>	<u>(1,011,958)</u>	<u>353,487</u>	<u>40,590</u>	<u>1,160,937</u>	<u>421,309</u>	<u>40,197</u>	<u>1,321,057</u>

Note 6 (concluded)

PRGF-HIPC Trust and Related Accounts
Combining Statements of Income and Changes in Resources
for the Years Ended April 30, 2004 and 2003

(In thousands of SDRs)

	2004				2003				
	PRGF-HIPC Trust Account Subaccount		Umbrella Account for HIPC Operations		PRGF-HIPC Trust Account		Umbrella Account for HIPC Operations		
	PRGF	HIPC	Combined	Post-SCA-2 Administered Account	Combined Total	PRGF-HIPC Trust Account	Umbrella Account for HIPC Operations	Post-SCA-2 Administered Account	Combined Total
Balance, beginning of the year	1,035,891	(797,010)	257,128	421,309	718,634	482,352	331,128	50,275	863,755
Investment income	27,534	—	15,015 ¹	5,226	20,879	23,107	7,758	956	31,821
Interest expense	(2,075)	(12,855)	(2,075) ¹	—	(2,075)	(1,938)	—	—	(1,938)
Other expenses	(327)	—	(339)	—	(339)	(265)	—	—	(265)
Operational income/(loss)	25,132	(12,855)	12,601	5,226	18,465	20,904	7,758	956	29,618
Contributions received	23,604	—	27,287	—	27,287	35,425	—	—	35,425
Grants	—	(202,093)	(202,093)	202,093	—	(345,553)	345,553	—	—
Disbursements	—	—	—	(275,141)	(275,141)	—	(263,130)	—	(263,130)
Transfers	48,736	(214,948)	(162,205)	(67,822)	(229,389)	(289,224)	90,181	956	(198,087)
	57,700	—	57,700	—	57,455	64,000	—	(11,034)	52,966
Net changes in resources	106,436	(214,948)	(104,505)	(67,822)	(171,934)	(225,224)	90,181	(10,078)	(145,121)
Balance, end of the year	1,142,327	(1,011,958)	152,623	353,487	546,700	257,128	421,309	40,197	718,634

¹Interest payable between subaccounts amounting to SDR 12.9 million (SDR 14.5 million at April 30, 2003) has been eliminated in the combined totals

Post-SCA-2 Administered Account
Holdings, Interest, and Transfers
for the Year Ended April 30, 2004

(In thousands of SDRs)

Member	Balance Beginning of Year	Interest Earned	Transfers to PRGF-HIPC Trust	Balance End of Period
Argentina	5,427	87	—	5,514
Dominican Republic	1,004	16	—	1,020
Fiji	216	—	(216)	—
Jordan	1,141	18	—	1,159
Tonga	29	—	(29)	—
Trinidad and Tobago	2,450	40	—	2,490
Vanuatu	49	—	—	49
Venezuela	29,881	477	—	30,358
Total at April 30, 2004	<u>40,197</u>	<u>638</u>	<u>(245)</u>	<u>40,590</u>

Schedule 2

PRGF-HIPC Trust Account
Contributions and Transfers
for the Years Ended April 30, 2004 and 2003

(In thousands of SDRs)

	Subaccount			Combined
	PRGF-HIPC	PRGF	HIPC	
Period ended April 30, 2003				
Belgium	3,625	—	—	3,625
Belize	20	—	—	20
Brazil	11,033	—	—	11,033
Denmark	2,188	—	—	2,188
Estonia, Republic of	1	—	—	1
Latvia, Republic of	142	—	—	142
Mexico	7,961	—	—	7,961
Netherlands	—	3,244	—	3,244
South Africa	4,000	—	—	4,000
St. Vincent and the Grenadines	11	—	—	11
Switzerland	3,200	—	—	3,200
	<u>32,181</u>	<u>3,244</u>	—	<u>35,425</u>
Transfers from SDA	64,000	—	—	64,000
	<u>96,181</u>	<u>3,244</u>	—	<u>99,425</u>
Period ended April 30, 2004				
Belgium	3,745	—	—	3,745
Belize	20	—	—	20
Fiji	21	—	—	21
Latvia, Republic of	142	—	—	142
Mexico	7,914	—	—	7,914
Netherlands	—	3,683	—	3,683
Nigeria	734	—	—	734
Norway	1,156	—	—	1,156
Poland, Republic of	2,630	—	—	2,630
South Africa	4,000	—	—	4,000
St. Vincent and the Grenadines	11	—	—	11
Switzerland	3,228	—	—	3,228
Tonga	3	—	—	3
	<u>23,604</u>	<u>3,683</u>	—	<u>27,287</u>
Transfers from SDA	57,700	—	—	57,700
	<u>81,304</u>	<u>3,683</u>	—	<u>84,987</u>

Umbrella Account for HIPC Operations
Grants, Interest, Disbursements and Changes in Resources
for the Years Ended April 30, 2004 and 2003

(In thousands of SDRs)

Member	Opening Balance	Grants from PRGF-HIPC Trust Account	Interest Earned	Disbursements	Ending Balance
Period ended April 30, 2003					
Benin	693	12,680	49	3,735	9,687
Bolivia	39,057	—	735	7,746	32,046
Burkina Faso	25,748	1,342	513	6,967	20,636
Cameroon	736	—	11	325	422
Chad	840	1,475	29	2,327	17
Ethiopia	1,857	4,129	34	3,904	2,116
Gambia, The	65	—	1	26	40
Ghana	9,949	—	95	9,874	170
Guinea	27	2,746	31	1,888	916
Guinea-Bissau	5	—	—	—	5
Guyana	12,248	4,133	253	6,728	9,906
Honduras	2,296	—	13	2,278	31
Madagascar	1,465	2,887	28	2,182	2,198
Malawi	23	—	1	—	24
Mali	9,343	32,038	239	7,645	33,975
Mauntania	4,446	21,545	366	9,474	16,883
Mozambique	60,776	—	1,087	14,352	47,511
Nicaragua	—	1,888	9	665	1,232
Niger	1,101	1,812	9	1,098	1,824
Rwanda	309	838	8	1,068	87
Senegal	3,414	—	26	3,413	27
Sierra Leone	13,859	23,640	156	23,560	14,095
Tanzania	70,612	—	1,235	16,159	55,688
Uganda	68,639	—	1,224	16,917	52,946
Zambia	3,620	234,400 ¹	1,606	120,799	118,827
	<u>331,128</u>	<u>345,553</u>	<u>7,758</u>	<u>263,130</u>	<u>421,309</u>
Period ended April 30, 2004					
Benin	9,687	—	122	4,553	5,256
Bolivia	32,046	—	459	8,858	23,647
Burkina Faso	20,636	—	266	10,019	10,883
Cameroon	422	3,019	22	1,474	1,989
Chad	17	2,850	15	2,390	492
Congo, Democratic Republic of	—	1,131	9	567	573
Ethiopia	2,116	18,765	33	3,662	17,252
Gambia, The	40	—	—	39	1
Ghana	170	15,150	114	15,253	181
Guinea	916	—	6	894	28
Guinea-Bissau	5	—	—	—	5
Guyana	9,906	23,741	255	8,093	25,809
Honduras	31	4,300	11	1	4,341
Madagascar	2,198	609	16	2,195	628
Malawi	24	4,628	23	2,847	1,828
Mali	33,975	—	291	8,881	25,385
Mauntania	16,883	—	221	6,949	10,155
Mozambique	47,511	—	693	9,178	39,026
Nicaragua	1,232	69,275	264	3,571	67,200
Niger	1,824	18,239	33	4,753	15,343
Rwanda	87	—	1	8	80
Senegal	27	25,636	39	6,174	19,528
Sierra Leone	14,095	14,750	125	23,601	5,369
Tanzania	55,688	—	729	15,775	40,642
Uganda	52,946	—	696	17,273	36,369
Zambia	118,827 ¹	—	783	118,133	1,477
	<u>421,309</u>	<u>202,093</u>	<u>5,226</u>	<u>275,141</u>	<u>353,487</u>

¹Includes 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, 2004

(In thousands of SDRs)

Member	Subaccount			Combined
	PRGF-HIPC	PRGF	HIPC	
Algeria	412	—	—	412
Australia	—	—	17,019	17,019
Austria	—	—	9,981	9,981
Bangladesh	1,163	—	—	1,163
Barbados	250	—	—	250
Belgium	22,199	—	—	22,199
Belize	120	—	—	120
Brazil	11,033	—	—	11,033
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	13,068	—	—	13,068
Egypt	37	—	—	37
Estonia, Republic of	372	—	—	372
Fiji	21	—	—	21
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	710	—	—	710
Luxembourg	488	—	—	488
Malaysia	478	—	—	478
Malta	706	—	—	706
Maldives	40	—	—	40
Mexico	31,857	—	—	31,857
Morocco	49	—	—	49
Netherlands	—	20,019	16,347 ¹	36,366
New Zealand	1,158	—	—	1,158
Nigeria	6,150	—	—	6,150
Norway	11,854	—	—	11,854
Oman	73	—	—	73
Pakistan	105	—	—	105
Philippines	4,500	—	—	4,500
Poland, Republic of	4,742	—	—	4,742
Portugal	4,430	—	—	4,430
Russian Federation	10,200	—	—	10,200
Samoa	3	—	—	3
San Marino, Republic of	32	—	—	32
Saudi Arabia	978	—	—	978
Singapore	249	—	—	249
Slovak Republic	2,669	—	—	2,669

Schedule 4 (concluded)

PRGF-HIPC Trust Account
Cumulative Contributions and Transfers
as at April 30, 2004

(In thousands of SDRs)

Member	Subaccount			Combined
	PRGF-HIPC	PRGF	HIPC	
Slovenia, Republic of	311	—	—	311
South Africa	16,895	—	—	16,895
Spain	16,550	—	—	16,550
Sri Lanka	12	—	—	12
St. Vincent and the Grenadines	44	—	—	44
Swaziland	20	—	—	20
Sweden	5,322	—	—	5,322
Switzerland	12,828	—	—	12,828
Thailand	350	—	—	350
Tonga	3	—	—	3
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
	<u>474,824</u>	<u>20,019</u>	<u>299,116</u>	<u>793,959</u>
Transfers from SDA	409,697	—	—	409,697
Transfers from GRA	72,456	—	—	72,456
	<u>482,153</u>	<u>—</u>	<u>—</u>	<u>482,153</u>
	<u>956,977</u>	<u>20,019</u>	<u>299,116</u>	<u>1,276,112</u>

¹Includes 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, 2004 and 2003

	Administered Account Japan		Administered Account for Selected Fund Activities—Japan		Framework Administered Account for Technical Assistance Activities		Administered Account—Spain		Supplementary Financing Facility Subsidy Account		The Post-Conflict Emergency Assistance Subsidy Account	
	2004	2003	2004	2003	2004	2003	2004	2003	2004	2003	2004	2003
Assets	← (in thousands of U.S. dollars) →											
Cash and cash equivalents	120,235	119,037	22,699	25,031	18,912	14,659	—	—	2,240	2,341	7,850	5,441
Interest receivable	—	—	—	—	—	—	—	—	9	10	—	—
Total Assets	<u>120,235</u>	<u>119,037</u>	<u>22,699</u>	<u>25,031</u>	<u>18,912</u>	<u>14,659</u>	<u>—</u>	<u>—</u>	<u>2,249</u>	<u>2,351</u>	<u>7,850</u>	<u>5,441</u>
Resources	← (in thousands of SDRs) →											
Total Resources	<u>120,235</u>	<u>119,037</u>	<u>22,699</u>	<u>25,031</u>	<u>18,912</u>	<u>14,659</u>	<u>—</u>	<u>—</u>	<u>2,249</u>	<u>2,351</u>	<u>7,850</u>	<u>5,441</u>

The accompanying notes are an integral part of these financial statements

/s/ Eduard Brau
 Director, Finance Department

/s/ Rodrigo de Rato
 Managing Director

Other Administered Accounts
Statements of Income and Changes in Resources
for the Years Ended April 30, 2004 and 2003

	Administered Account Japan		Administered Account for Selected Fund Activities—Japan		Administered Account for Technical Assistance Activities		Administered Account—Spain		Supplementary Financing Facility Subsidy Account		The Post-Conflict Emergency Assistance Subsidy Account	
	2004	2003	2004	2003	2004	2003	2004	2003	2004	2003	2004	2003
Balance, beginning of the year	119,036	117,277	25,031	20,459	14,660	8,484	—	—	2,351	2,303	5,441	587
Interest income	1,199	1,760	290	227	148	142	—	—	37	48	101	103
Contributions received	—	—	20,374	25,508	16,156	14,834	40	40	—	—	2,801	5,409
Payments to and on behalf of beneficiaries	—	—	(22,996)	(21,163)	(12,052)	(8,801)	(40)	(40)	—	—	(493)	(658)
Net income	1,199	1,760	(2,332)	4,572	4,252	6,175	—	—	37	48	2,409	4,854
Transfers to the Special Disbursement Account (Note 4)	—	—	—	—	—	—	—	—	(139)	—	—	—
Net changes in resources	1,199	1,760	(2,332)	4,572	4,252	6,175	—	—	(102)	48	2,409	4,854
Balance, end of the year	120,235	119,037	22,699	25,031	18,912	14,659	—	—	2,249	2,351	7,850	5,441

The accompanying notes are an integral part of these financial statements

Other Administered Accounts

Notes to the Financial Statements

as at April 30, 2004 and 2003

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 institu-

tions. 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 programs 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.

Pacific Financial Technical Assistance Centre Subaccount

At the request of Australia and New Zealand, this subaccount was established on May 22, 2002 to finance activities of the Pacific Financial Technical Assistance Centre that seek to enhance the capacity of Pacific island countries and territories to formulate and implement policies related to macroeconomic, fiscal, monetary, financial, and statistical fields, including training and activities that strengthen the legal and administrative framework in these core areas.

Africa Regional Technical Assistance Centers Subaccount

At the request of France, the Federal Republic of Germany, Italy, the Netherlands, Norway, Sweden, and the United Kingdom, this subaccount was established on August 9, 2002 to finance activities of the Africa Regional Technical Assistance Centers that seek to support the Poverty Reduction Strategy Paper process in sub-Saharan African countries through fostering the capacity for sound macroeconomic management, strong fiscal institutions and financial systems, and timely and accurate collection and dissemination of economic data, including training and activities that strengthen the legal and administrative framework in these core areas. The resources of this subaccount are contributed by the above governments and other governments or official agencies, including the Russian Federation, Luxembourg, and China, that reached an understanding with the IMF subsequent to the establishment.

Sweden Technical Assistance Subaccount

At the request of Sweden, this subaccount was established on November 25, 2002 to finance projects that seek to enhance the capacity of 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.

China Technical Assistance Subaccount

At the request of the People's Republic of China, this subaccount was established on May 23, 2003 to finance projects that seek to enhance the capacity of 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.

Technical Assistance Subaccount for Iraq

At the request of Australia, Canada, Italy and the United Kingdom, this subaccount was established on July 22, 2003 to finance technical assistance activities that seek to enhance the capacity of Iraq to formulate and implement policies in the macroeconomic, fiscal, monetary, financial, and related

statistical fields, including training programs and activities that strengthen the legal and administrative framework in these core areas.

Canada Technical Assistance Subaccount

At the request of Canada, this subaccount was established on January 28, 2004 to finance projects that seek to enhance the capacity of 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.

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.

Supplementary Financing Facility Subsidy Account

The Supplementary Financing Facility Subsidy Account administered by the IMF was established in December 1980 to assist low-income developing country members to meet the costs 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 of SDR 2.2 million 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, 2004 and 2003, the Trust Fund had no assets other than loans receivable of SDR 88.6 million. 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, 2004 were as follows:

Member	Loans	Interest and Special Charges	Longest Overdue Obligation
<i>In millions of SDRs</i>			
Libena	22.9	7.4	June 1985
Somalia	6.5	1.5	July 1987
Sudan	59.2	19.7	June 1985
Total	<u>88.6</u>	<u>28.6</u>	

2. Summary of Significant Accounting Policies

Basis of Presentation

The financial statements of the Other Administered Accounts are prepared in accordance with International Financial Reporting Standards (IFRS). Specific accounting principles and disclosure practices are explained further below. The preparation of financial statements in conformity with IFRS 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. The financial statements do not include a cash flow statement because the statement of income and changes in resources includes the Other Administered Accounts' main cash flows.

Unit of Account

Administered Account Japan, Administered Account for Selected Fund Activities—Japan, and 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, Trust Fund, and the 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 currencies in the basket as of April 30, 2004 and 2003 and their amounts were as follows:

Currency	Amount
Euro	0.4260
Japanese yen	21.0000
Pound sterling	0.0984
U.S. dollar	0.5770

As of April 30, 2004, one SDR was equal to 1.45183 U.S. dollars (one SDR was equal to 1.38391 U.S. dollars as of April 30, 2003).

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 carried at cost which approximates fair 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 from 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 IMF 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 General Department from these accounts. The Administered Account—Spain pays the General Department an annual fee of \$40,000 for administrative costs incurred. As at April 30, 2004 the administrative costs for the Administered Account for Selected Fund Activities—Japan amounted to \$2.8 million (\$2.1 million at April 30, 2003), and for the Framework Administered Account for Technical Assistance Activities \$1.6 million (\$1.0 million at April 30, 2003). These amounts are included in payments to and on behalf of beneficiaries on the income statements and changes in resources.

Comparatives

When necessary, comparative figures have been reclassified to conform with changes in the presentation of the current year.

3. Cumulative Contributions and Disbursements

The cumulative contributions to and disbursements from these administered accounts are as follows:

Account	April 30, 2004		April 30, 2003	
	Cumulative Contributions	Cumulative Disbursements ¹	Cumulative Contributions	Cumulative Disbursements ¹
	<i>(In millions of U.S. dollars)</i>			
Administered Account Japan	135.2	72.5	135.2	72.5
Administered Account for Selected Fund Activities—Japan				
Technical Assistance	224.4	209.3	204.1	186.3
Scholarships	200.6	188.3	184.4	169.8
Office of Asia and Pacific	15.7	13.4	13.0	11.2
	8.1	7.6	6.7	5.3
Framework Administered Account for Technical Assistance Activities				
Subaccount for Japan Advanced Scholarship Program	58.3	40.8	42.1	28.7
Rwanda—Macroeconomic Management Capacity Subaccount	11.7	10.5	10.2	8.8
Australia—IMF Scholarship Program for Asia Subaccount	1.5	1.6	1.5	1.6
Switzerland Technical Assistance Subaccount	2.6	2.6	2.2	2.2
French Technical Assistance Subaccount	11.4	10.0	9.5	8.1
Denmark Technical Assistance Subaccount	0.8	0.5	0.8	0.5
Australia Technical Assistance Subaccount	3.8	1.6	2.7	1.1
The Netherlands Technical Assistance Subaccount	0.3	—	0.3	—
The United Kingdom DFID Technical Assistance Subaccount	3.2	2.6	2.6	2.0
Italy Technical Assistance Subaccount	4.4	4.2	3.4	2.9
Pacific Financial Technical Assistance Centre Subaccount	2.8	0.5	1.8	0.1
Africa Regional Technical Assistance Centers Subaccount	2.3	1.5	1.1	0.8
Sweden Technical Assistance Subaccount	8.7	4.8	4.9	0.6
China Technical Assistance Subaccount	1.1	0.1	1.1	—
Canada Technical Assistance Subaccount	0.2	—	—	—
Technical Assistance Subaccount for Iraq	1.5	—	—	—
Administered Account—Spain	835.5	835.6	835.5	835.6
	<i>(In millions of SDRs)</i>			
The Post-Conflict Emergency Assistance Subsidy Account	9.6	1.9	6.8	1.4

¹Disbursements 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, 2004 and 2003, 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 disbursed from the account to Argentina, or at an earlier time as agreed between Spain and the IMF, following consultations between Spain and Argentina. 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 in proportion to their contributions.

Acronyms and Abbreviations

AFRITAC	Africa Regional Technical Assistance Center	ILO	International Labor Organization
AFSSR	Assessment of Financial Sector Supervision and Regulation	IFRS	International Financial Reporting Standards
AMF	Arab Monetary Fund	IMFC	International Monetary and Financial Committee
AML/CFI	Anti-money-laundering/combating the financing of terrorism	I-PRSP	Interim Poverty Reduction Strategy Paper
APEC	Asia-Pacific Economic Cooperation	IPU	Inter-Parliamentary Union
AsDB	Asian Development Bank	JSA	Joint staff assessment
ASEAN	Association of South East Asian Nations	LOI	Letter of Intent
BCEAO	Central Bank of West African States	MDG	Millennium Development Goal
BEAC	Bank of Central African States	MEFP	Memorandum of Economic and Financial Policies
BDEAC	Central African States Development Bank	MIC	Middle-income country
BIS	Bank for International Settlements	MIGA	Multilateral Investment Guarantee Agency
CAC	Collective action clause	NAB	New Arrangements to Borrow
CAEMC	Central African Economic and Monetary Community	NEPAD	New Partnership for Africa's Development
CARTAC	Caribbean Regional Technical Assistance Center	NPV	Net present value
CBP	Committee on Budget Priorities	OAP	IMF's Regional Office for Asia and the Pacific
CCL	Contingent Credit Lines	ODA	Official development assistance
CET	Common external tariff	OECD	Organization for Economic Cooperation and Development
CFF	Compensatory Financing Facility	OFC	Offshore financial center
CIS	Commonwealth of Independent States	OIA	Office of Internal Audit and Inspection
COBAC	Banking Commission of Central Africa	OBP	Office of Budget and Planning
DAC	Development Assistance Committee	OHCHR	UN Office of the High Commissioner for Human Rights
DFID	U.K. Department for International Development	OPEC	Organization of Petroleum Exporting Countries
DQAF	Data Quality Assessment Framework	PIN	Public Information Notice
DSBB	Dissemination Standards Bulletin Board	PFTAC	Pacific Financial Technical Assistance Center
ECB	European Central Bank	PRGF	Poverty Reduction and Growth Facility
ECCU	Eastern Caribbean Currency Union	PRSP	Poverty Reduction Strategy Paper
ECOSOC	UN Economic and Social Council	PSIA	Poverty and social impact analysis
ECU	European currency unit	ROSC	Report on the Observance of Standards and Codes
EFF	Extended Fund Facility	RSBIA	Retired Staff Benefits Investment Account
EMEAP	Executives' Meeting of East Asia-Pacific Central Banks	SAARC	South Asian Association for Regional Cooperation
EMI	European Monetary Institute	SAF	Structural Adjustment Facility
EMS	European Monetary System	SARS	Severe acute respiratory syndrome
EMU	European Economic and Monetary Union	SCA-1	First Special Contingent Account
ERM, ERM2	European Monetary System's exchange rate mechanism	SDA	Special Disbursement Account
ESAF	Enhanced Structural Adjustment Facility	SDDS	Special Data Dissemination Standard
EU	European Union	SDR	Special drawing right
FATF	Financial Action Task Force	SEACEN	South East Asian Central Banks
FCC	Forward commitment capacity	SFD	Saudi Fund for Development
FDI	Foreign direct investment	SFF	Supplementary Financing Facility
FSAP	Financial Sector Assessment Program	SGP	European Union's Stability and Growth Pact
FSF	Financial Stability Forum	SMP	Staff-monitored program
FSI	Financial soundness indicator	S&P	Standard and Poor's
FSSA	Financial System Stability Assessment	SRBP	Supplemental Retirement Benefits Plan
FTI	Fast Track Initiative	SRF	Supplemental Reserve Facility
FY	Financial year	SRP	Staff Retirement Plan
GAB	General Arrangements to Borrow	TA	Technical assistance
GDDS	General Data Dissemination System	TIM	Trade Integration Mechanism
GDP	Gross domestic product	TMU	Technical Memorandum of Understanding
GFSR	Global Financial Stability Report	TRS	Time-reporting system
GMR	Global Monitoring Report	UN	United Nations
GNP	Gross national product	UNCTAD	UN Conference on Trade and Development
GRA	General Resources Account	UNDP	United Nations Development Program
HIPC	Heavily Indebted Poor Countries	UNECE	UN Economic Commission for Europe
HIV/AIDS	Human immunodeficiency virus/acquired immunodeficiency syndrome	UNESCAP	UN Economic and Social Commission for Asia and the Pacific
IAS	International Accounting Standard	UNHCR	UN High Commissioner for Refugees
IDA	International Development Association	WAEMU	West African Economic and Monetary Union
IEO	Independent Evaluation Office	WHO	World Health Organization
IFC	International Finance Corporation	WTO	World Trade Organization
IFI	International financial institution		

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