ANNUAL REPORT 1980

INTERNATIONAL MONETARY FUND

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INTERNATIONAL MONETARY FUND

ANNUAL REPORT

OF THE
EXECUTIVE BOARD FOR THE
FINANCIAL YEAR ENDED APRIL 30, 1980

WASHINGTON, D.C.

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The following symbols have been used throughout this Report:

(. . .) indicate that data are not available;

(—) indicates a figure too small to record in the table or that the item does not exist;

(–) is used between years or months (e.g., 1972–80 or January–June) to indicate the years or months covered, including the beginning and ending years or months;

(/) is used between years (e.g., 1979/80) to indicate a financial year.

"Billion" means a thousand million.

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

The classification of countries employed in the Report is indicated in Tables 1 and 2 on pages 8 and 12.

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*Alphabetical listing.

August 14, 1980

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LETTER OF TRANSMITTAL
TO THE BOARD OF GOVERNORS

August 14, 1980

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, 1980, in accordance with Article XII, Section 7(*a*) of the Articles of Agreement of the International Monetary Fund and Section 10 of the Fund's By-Laws. In accordance with Section 20 of the By-Laws, the administrative budget of the Fund approved by the Executive Board for the financial year ending April 30, 1981 is presented in Appendix VI and the audited financial statements of the General Resources Account, the Special Drawing Rights Department, the Subsidy Account, the Trust Fund, and the Staff Retirement Fund for the year ended April 30, 1980, together with the reports of the External Audit Committee thereon, are presented in Appendix VIII.

Yours sincerely,

/s/

J. DE LAROSIÈRE

Chairman of the Executive Board

Chairman of the Board of Governors

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Chapter 1
Developments in the World Economy

Introduction

During the period from the beginning of 1979 to the middle of 1980, the world economic situation was marked by three disturbing features. Rates of inflation in most countries remained very high and, indeed, accelerated; growth of real output in the industrial countries began to slow down markedly, threatening to halt the expansion of world trade and to turn into another international recession; and large surpluses and deficits reemerged in the external balances on current account for major groups of countries, giving rise to widespread concern about the ability of some countries, particularly in the non-oil developing group, to sustain the financing of current account deficits on the scale projected. In varying degrees, the more than doubling of oil prices after the end of 1978 was a major factor in all three of these disturbing elements in the global economic picture.

However, not all aspects of the international economic situation at mid-1980 were disturbing. Rates of inflation in the industrial countries as measured by gross national product (GNP) deflators remained lower than those evidenced by consumer price indices or domestic expenditure deflators, signifying that secondary effects of higher import prices had not yet, at least, permeated the basic structures of domestic costs and incomes. The slowdown in economic activity, while in itself far from welcome, was undoubtedly tending to relieve some of the upward pressures on prices. Furthermore, the distribution of current account balances among the major industrial countries was less troublesome from the standpoint of international adjustment than in the previous sharp swing of the industrial group's combined current account balance from surplus to deficit in 1974. At mid-1980, accordingly, the recycling of surplus funds from the oil exporting countries to the countries with large current account deficits appeared, by comparison with the earlier experience, to have proceeded with less intensive competition on the part of industrial countries for funds urgently needed by many non-oil developing countries. Also, exchange rate relationships among major currencies presented fewer difficulties in the past year or so than in the period 1974–75, even though changes in exchange rates for a few of the principal currencies were substantial.

Among the features of the world economic scene that have a disturbing character, the first and foremost is the prevailing rate of inflation in the industrial countries. The general level of prices has been rising much faster in most of those countries since 1970–72 than during the previous decade, despite the recession in 1975 and the moderate character of the economic recovery since then. As measured by GNP deflators, the average annual increases of domestic prices in industrial countries since 1972 have all been in the 7–12 per cent range, compared with an average of only about 4 per cent in the preceding decade. Moreover, there has been a widespread acceleration of inflation among industrial countries during the past year. As already noted (and discussed more fully below), the acceleration was considerably more pronounced in terms of final product prices entering into domestic expenditures than in terms of overall GNP prices, which do not reflect direct effects of price increases for imported goods. Import prices paid by the industrial countries rose faster in 1979 and the first half of 1980, mainly because of the oil price rise, than did domestic prices in those countries.

The prevailing high rate of inflation in the industrial world, as distinguished from the recent acceleration of inflation, is attributable to a variety of factors operative over a period of many years. In retrospect, a principal factor was the application of unduly expansionary fiscal and monetary policies, whose effects were compounded by structural rigidities of an economic and social character, as well as by periodic external shocks, in an economic environment that was a very difficult one for policymakers. The present stress on demand management policies aimed at containment of inflation and inflationary expectations attests to a conviction that reduction of the present high inflation is a precondition

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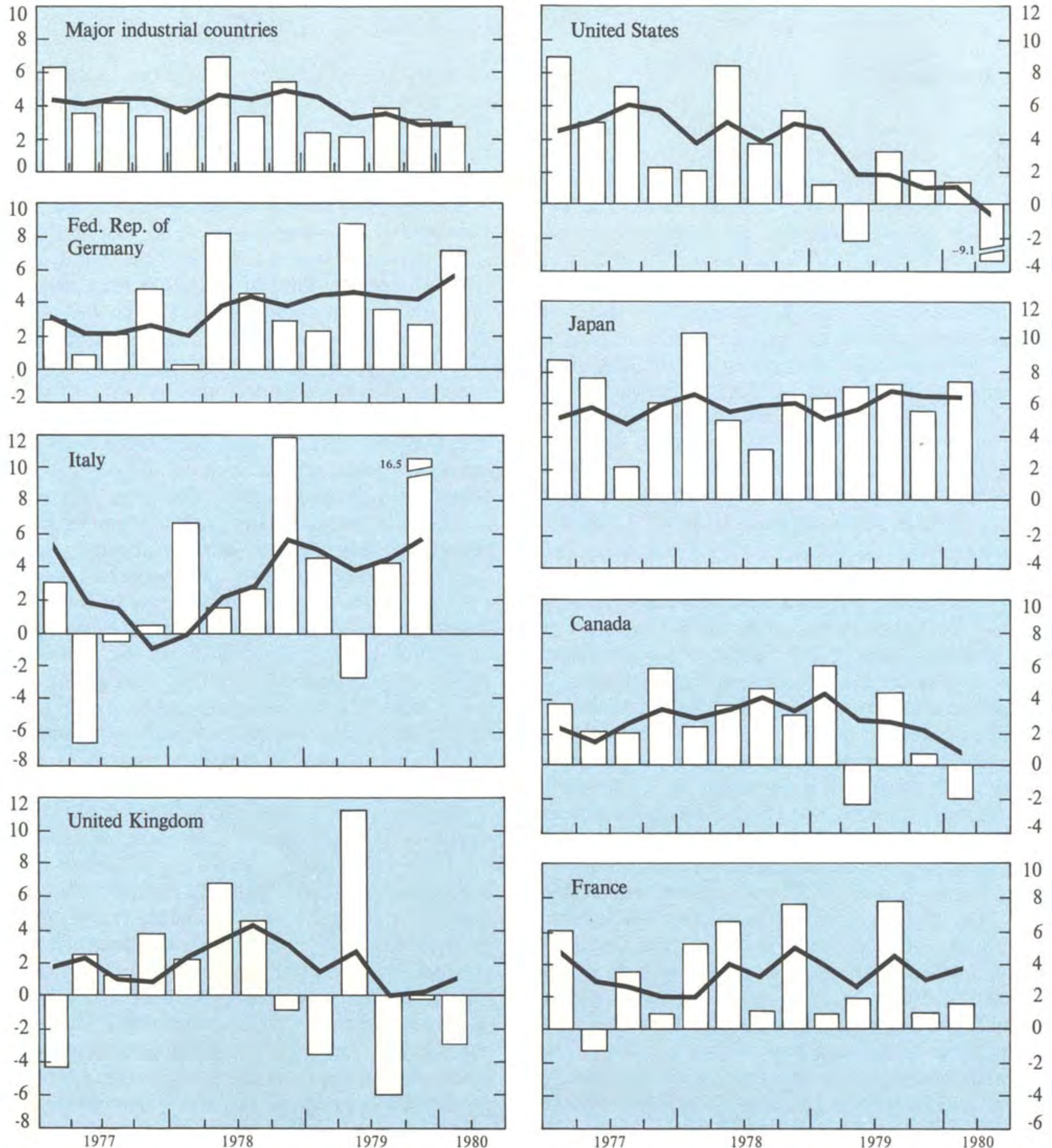
for renewal of domestic growth and achievement of international equilibrium.

Even before the onset of the present slowdown, the average rate of expansion of economic activity in the industrial countries since 1976 had remained fairly moderate. After the 1975 recession, it did not exceed 4 per cent in any of the past three years. Indeed, it dropped appreciably below that figure in 1979, reflecting the initial weakening of the U.S., U.K., and Canadian economies. (See Chart 1.) Given the recent signs

Chart 1. Major Industrial Countries: Growth of Real GNP/GDP, 1977–Second Quarter 1980
(In per cent)

Over preceding quarter, seasonally adjusted at annual rates — *Over corresponding quarter in preceding year*



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of a cyclical downturn of economic activity in the United States, it is now expected that the average increase in output of the industrial countries in 1980 may be only about 1 per cent, encompassing outright declines for the United States and the United Kingdom, along with generally lower rates of expansion in the other industrial countries.

For 1981 as a whole, a similarly low average rate of expansion would seem to be in prospect. Such factors as the absence of a boom in fixed investment preceding the current slowdown and an apparently satisfactory balance in the inventory positions of business enterprises should limit the degree and duration of the cyclical slowdown now under way, especially if rates of increase in consumer prices taper off as expected during the second half of 1980. However, it is extremely difficult to gauge the balance of expansionary and contractionary forces in the period ahead, and the possibility of international recession cannot be ruled out.

The most obvious aspect of the unbalanced pattern of external balances on current account that has emerged among major groups of countries is the rise in the current account surplus of the oil exporting countries. With the escalation of oil prices during 1979 and the first half of 1980, that surplus has again been building up rapidly, more or less as it did in 1974. As a group, the oil exporting countries are expected to have a current account surplus of some $115 billion in 1980, compared with $68 billion in 1979 and only $5 billion in 1978.[1]

Meanwhile, the combined current account balance of the industrial countries, having already shifted from a surplus of $33 billion in 1978 to a deficit of $10 billion in 1979, continues to move more deeply into deficit. For 1980, the deficit may well exceed $50 billion. Of the projected negative shift of more than $80 billion from 1978 to 1980, the bulk—more than $60 billion—will probably be concentrated in the accounts of the major industrial countries and, indeed, almost entirely in the three (the Federal Republic of Germany, Italy, and Japan) whose current account positions were strongest in 1978. However, the projected increase of the current account deficit of the smaller industrial countries to more than $20 billion may present more serious problems for some of them than are posed for the major countries by the larger swing in their accounts.

The non-oil developing countries, whose capital-importing economic structure was reflected in a current account deficit of $36 billion in 1978, incurred a $53 billion deficit in 1979 and will probably have one approaching $70 billion in 1980. Moreover, the deficit of this group will tend to rise considerably higher in 1981.

The ability of the non-oil developing countries to finance such deficits, while following appropriate adjustment policies, is one of the major issues confronting the Fund, as well as the countries themselves. In terms of magnitude, the surplus funds accruing to the oil exporting countries can be said to afford a source of sufficient financing, provided that the "recycling" process can be made to work smoothly enough. To do so, it will have to reconcile wide differences between the distribution of deficits among oil importing countries—especially the non-oil developing countries and the smaller industrial countries—and the distribution of initial placements of surplus funds by the oil exporters, mainly in financial institutions and capital markets of a relatively few industrial countries where such placements are feasible.

The debts and debt service obligations of many non-oil developing countries are already large, and the capacity and willingness of some countries to withstand the costs of still larger debts are widely questioned. At the same time, prudential considerations may inhibit continued expansion of lending to developing countries by some of the private financial institutions that comprise major outlets for funds placed abroad by the oil exporting countries. Such lending appears to be taking on a more selective character, and this tendency may become stronger in 1981. Unless satisfactory movements of loanable funds to the oil importing developing countries take place, curtailment of import growth by such countries is all too likely. Such curtailment would be a depressive influence on world trade, as well as a hindrance to domestic investment and growth in many of the developing countries.

For these reasons, the Fund has been giving active consideration to means that it might use to facilitate the movement of funds to countries that may not have sufficient access to funds from private sources. Many countries may require considerable time to carry out necessary structural adjustments, and may need both financial assistance from the Fund and the Fund's help in devising realistic programs of structural adjustment. A considerable number of developing countries will also need larger concessional assistance of types provided by international institutions and national governments. Close cooperation among these various agencies is required at the present juncture in order to secure adequate coordination between the specialized assistance of development lending institutions or aid granting agencies and the general macroeconomic approach of the Fund's operations.

As indicated in the foregoing summary, a pervasive factor in the present situation of the world economy is the influence of the oil price increases of 1979 and

[1] These and other current account balances in this section are measured in terms of goods, services, and private transfers, as shown in Table 5. For the industrial countries, balances inclusive of official transfers are provided through 1979 in Table 8 and for 1980 in Table 5, footnote 1.

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1980. Fund staff estimates of the economic impact of these increases on current account balances, on prices, and on real economic activity have been presented, and the methodology has been described, in a recent publication.[2] Highlights of those estimates are as follows: (i) The estimated increase in the average price of oil from 1978 to 1980 (about $18.50 a barrel, from a little under $13 a barrel to $31.25 a barrel) implies a rise of about $170 billion in the export earnings of the group of oil exporting countries, plus another $20-odd billion in such earnings of non-Fund members and of non-oil developing countries that are net exporters of oil; the estimated additions to oil bills total something like $155 billion for the industrial countries as a group and about $35 billion for developing countries that are net importers of oil. These large flows are the principal generator of the estimated 1978–80 changes, noted above, in current account balances of major groups of countries. (ii) The direct impact of the estimated 1978–80 oil price change on prices (broadly, on the general level of domestic demand deflators) in the industrial and non-oil developing countries might be of the order of 4½ per cent, implying an addition to the annual rate of inflation averaging some 2¼ per cent for this two-year period—the timing of actual effects on inflation rates being uncertain. The estimate does not cover any indirect effects on final-product prices or on non-oil energy prices. (iii) The direct deflationary impact on aggregate demand outside the oil exporting countries that may be expected to result from a diversion into oil import payments of expenditures that would otherwise be directed toward other goods and services can be estimated at something like 2 per cent of GNP in the major groups of countries that are net importers of oil. This estimate relates to the short run and does not include any allowance for indirect or "multiplier" effects that might be associated with the expenditure diversion. With respect to both the price impact and the deflationary impact, effects will be larger or smaller depending on the nature of any policy response to the oil price increases on the part of the oil importing countries.

The recurrence of pressure on energy supplies and of substantial oil price increases during the past year and a half has underlined the need for vigorous pursuit of more effective energy policies in oil consuming countries. Efforts to conserve energy—especially oil—and to accelerate investment in both existing and potential energy resources and technologies will need to be intensified. Progress in energy conservation since 1974, although significant, has been impeded in many countries by policies with respect to taxation, regulatory issues, and related matters that, by blunting the impact of higher oil prices on oil consumers, have failed to provide appropriate price incentives for needed shifts in spending and resource allocations.

Diversification of energy production, so as to reduce dependence on oil, is still in a very early stage, partly because of inadequate incentives for substitution and environmental problems associated with some of the alternative sources of energy. Large-scale investments, involving long lead times, are likely to be required. Thus, long-run solutions for current energy problems should be based on careful appraisal of costs and risks, aimed at development of new energy supplies in both developed and developing countries, and at reorientation toward products and productive techniques that are less energy intensive. In the meantime, however, there is considerable evidence that reductions in energy demand obtained through appropriate pricing policies and other conservation measures can play an important role.

The remainder of this chapter provides a more detailed review of world economic developments, beginning with the evolution of domestic production, demand, prices, and policies and then dealing with international trade and payments. In both the domestic and the international sections of the discussion, separate treatment is given to major groups of countries. In this connection, it should be noted that the classification of countries utilized here differs from the one employed in previous Annual Reports,[3] so that many of the key figures are not directly comparable with seemingly similar figures in earlier Reports. The last part of the chapter discusses some of the major economic policy problems now faced by member countries and then touches on issues raised by these problems for the Fund itself, focusing primarily on the intertwined role in payments adjustment and financing that the Fund must play in the period ahead.

Domestic Economic Developments and Policies

Industrial Countries

Inflation. The widespread worsening of inflation in the industrial countries during 1979 and the first half

[2] *World Economic Outlook: A Survey by the Staff of the International Monetary Fund* (Washington, May 1980), Appendix B, Section 2.

[3] In essence, the framework of classification has been shifted from four to three major groups of countries: an enlarged group of 21 industrial countries and two main groups of developing countries, comprising the oil exporting countries (an unchanged grouping) and the non-oil developing countries (a grouping enlarged to include 7 countries formerly classified as "more developed primary producing countries"). Members of the former category of "more developed primary producing countries" have been regrouped partly with the industrial countries as well as partly with the non-oil developing countries. (See Tables 1 and 2 for specifics of the present classification.)

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of 1980 exerted a generally unsettling influence on economic activity and policy formulation. Upward movements of prices in the industrial countries began to accelerate early in 1979, even before the main impact of that year's increases in oil prices was felt. Following the decision of the Organization of Petroleum Exporting Countries (OPEC) at the end of June to introduce oil export prices substantially higher than those previously announced, further momentum was added to the upward trend as the higher oil prices were passed through to final-product prices in the oil importing countries during the second half of the year. The trend was also strengthened somewhat by a similar pass-through of price increases for a number of foodstuffs and other primary commodities whose prices were buoyant in the early or middle part of 1979. The rate of inflation of consumer prices in the industrial countries, which had averaged some 7–8 per cent per annum from 1976 through 1978, despite a decline in the real price of oil during that period, rose to an annual rate of about 13 per cent in the first half of 1980 (by comparison with the immediately preceding half year). Only in the first half of 1974 has a higher semiannual increase in consumer prices been recorded in the industrial countries during the past quarter century.

The acceleration in the first half of 1980 was not only unusually pronounced but also widespread. Almost every industrial country had a higher rate of inflation of consumer prices in the early months of 1980 than in 1978. Degrees of acceleration, however, were far from uniform from country to country. In Canada and some of the smaller European countries, the step-up in the pace of price advances was rather moderate. But unusually rapid increases in consumer prices—ranging up to 15 per cent or more at annual rates in the first half of 1980, although tapering off somewhat toward midyear—occurred in a number of countries, including the United States, the United Kingdom, and Italy. The dispersion of consumer price inflation rates among industrial countries, and particularly among the seven largest ones, has thus widened over the past year.

The generally high and uneven rates of inflation among the major industrial countries have been a source of difficulty in the conduct of policies relating to external payments positions and to the maintenance of stability in exchange markets. This situation complicates the task of achieving a general containment of worldwide inflation.

The consumer price indices reflect, of course, not only price changes of domestic origin but also changes in prices of imported goods and services. Although such indices are useful in the measurement of changes in real incomes of workers or households, they do not furnish a satisfactory basis for gauging underlying inflationary pressures within the industrial countries. For that purpose, requiring a focus on indigenous costs and incomes earned in domestic production of goods and services, attention is better directed toward GNP deflators.

Measured in terms of such deflators, which may be viewed as comprehensive indices of total domestic unit costs, the acceleration of inflation since 1978 has been much less pronounced, except in the United Kingdom, where prices of domestically produced oil affect the deflator, as well as the consumer price index. For the industrial countries as a group, the weighted average of increases in GNP deflators in 1979 exceeded the corresponding average for 1978 by only ¼ of 1 per cent (7¾ per cent versus 7½ per cent, as shown in Table 1), and was virtually identical with the 1976 and 1977 figures. The slight acceleration from 1978 to 1979 (on a year-to-year basis) stemmed from a combination of continued deterioration of the price performance of the United States and an arrest or partial reversal of the previous trend toward lower rates of inflation in the other industrial countries.

The tendencies evident during 1979 extended into 1980. For the first half of 1980, the GNP deflators for Canada, France, and the United States are estimated to have risen at annual rates of roughly 10 per cent, those for Italy and the United Kingdom at rates in the neighborhood of 20 per cent, and those for the Federal Republic of Germany and Japan at rates of less than 5 per cent. The weighted average increase for the seven major industrial countries was 9 per cent, compared with a 7½ per cent rate 12–18 months earlier. Although the individual rates in the first half of 1980 differed widely, most of them were significantly above the corresponding rates in the earlier period.

The limited movement of GNP deflators in the industrial countries during the current surge of inflation can be attributed primarily to the absence of any marked acceleration of wage advances. As of mid-1980, increases in compensation of employees remained moderate, relative to the experience of the period 1972–74, in both nominal and real terms. (See Chart 2.) Indeed, increases in hourly earnings in the manufacturing sectors of the industrial countries over the period since 1978 have not, on average, accelerated nearly as much as those in consumer prices. This experience contrasts with that of the period 1972–74, when rates of increase in wages accelerated markedly and almost concurrently with increases in consumer prices, especially in major industrial countries other than the United States.

At least since the early 1970s, wage movements in U.S. manufacturing industries, as shown in Chart 2, have demonstrated greater independence of short-term changes in consumer prices than have those in the other industrial countries. During the 1972–74 bulge in consumer prices, increases in U.S. industrial wages lagged considerably behind, so that real wages were eroded;

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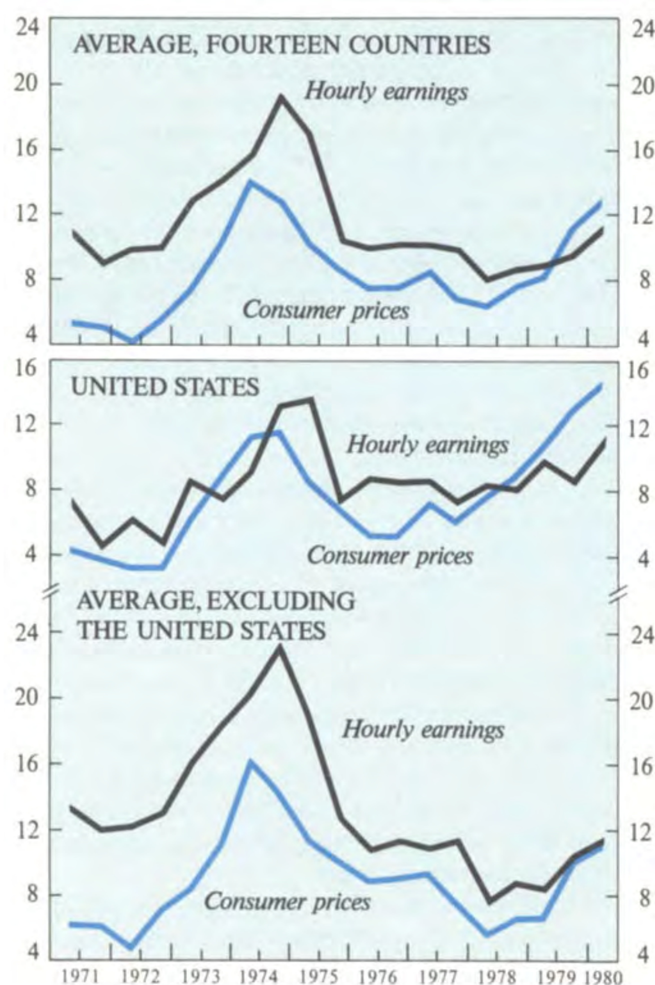
Chart 2. Fourteen Industrial Countries: Hourly Remuneration in Manufacturing and Consumer Prices, First Half 1971–First Half 1980

(Changes in per cent) [1]



[1] Over preceding half year, seasonally adjusted annual rates.

but they subsequently "caught up" by continuing to accelerate for several quarters after the acceleration of consumer price increases had tapered off. A perhaps even more pronounced lag in responsiveness of U.S. wages to the changes in consumer prices since 1978 is again resulting in a cumulative shrinkage of real wages, building up the potential for another surge in wage demands and a period of unduly large wage increases. Averting such a development, however, has been one of the primary objects of public policy over the past year, not only in the United States but also in the other industrial countries. If such policy succeeds in containing the response of hourly earnings until the current bulge in consumer price increases has receded, subsequent moderation of wage demands should become easier.

For the industrial countries other than the United States, the average rate of increase in hourly earnings, in contrast to that in U.S. industry, has remained consistently above the average rate of increase in consumer prices, as generally warranted by the continuance of substantial productivity gains. However, the margin has been much narrower since 1976 than in the early 1970s (lower panel of Chart 2). Particularly in the European countries, *de jure* or *de facto* indexation has tended to preserve the increased labor share of real national income that resulted from the large wage gains of the early 1970s and the impact of the deep recession of 1974–75 on profits of enterprises. From the standpoint of investment incentives in the European industrial countries, avoidance of a renewed spurt in wages is essential to avert a further squeeze on profits.

A striking contrast between the United States and the other major industrial countries with respect to interrelationships of prices, wages, productivity, and profits over the past decade is suggested by the data shown in Chart 3. In the lower panel are plotted composite increases in unit labor costs (reflecting changes in both wages and productivity) and in deflators for value added in manufacturing for the six largest industrial countries other than the United States, along with the cumulative difference between these two sets of increases. It may be inferred from this difference that the labor share of value added rose sharply in the first half of the 1970s. Since 1975, it has tended to decline, but only gradually. It would appear that indexation (whether implicit or explicit) has limited the scope for adjustment to what was provided by a relatively small erosion of earlier real wage gains. In the United States, on the other hand, the implied labor share of value added in manufacturing has remained virtually stable since 1976 at about the pre–1974 level.

Several features of the recent inflationary surge suggest that it may have reached a crest in the first half of 1980, provided that there are no further exogenous shocks and that the present stance of demand management policies is maintained. The increase in the real price of oil after the end of 1978 was perhaps the most important single factor in the late 1979 and early-1980 price acceleration. In the United States, for example, energy prices (dominated by oil) accounted for more than three fifths of the entire acceleration (amounting to about 4½ percentage points) in the consumer price index from the four-quarter period ended in March 1979 to the corresponding period a year later. Part of the acceleration in this case stemmed from a phased decontrol of domestic crude oil prices beginning in mid-1979. If increases in energy prices should taper off during the remainder of 1980, an important element in re-

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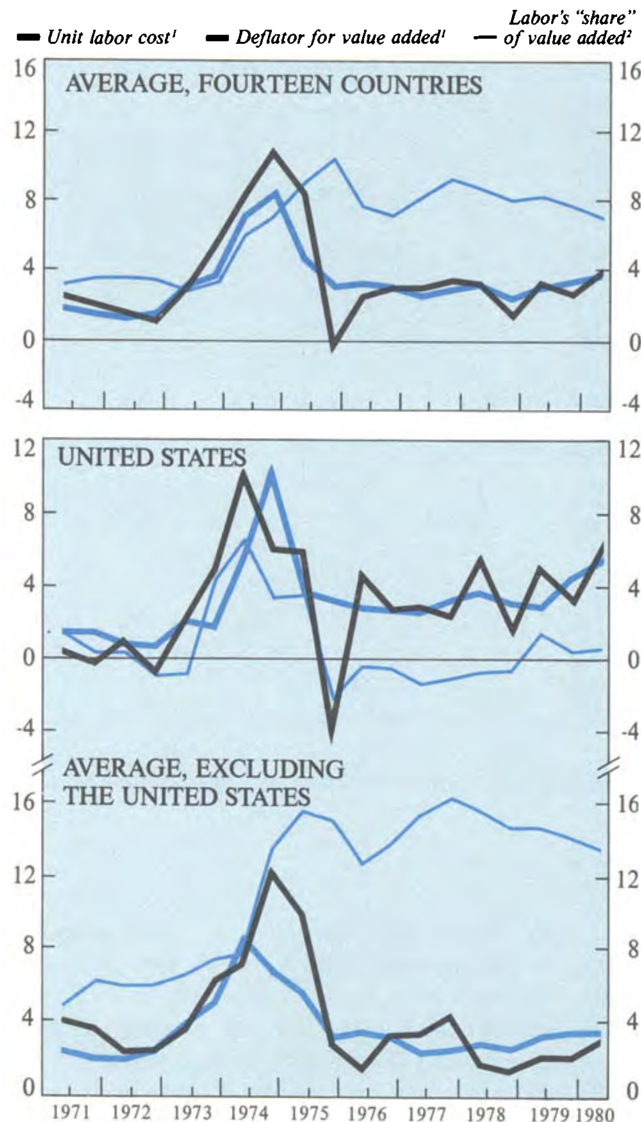
Chart 3. Fourteen Industrial Countries: Labor Costs in Manufacturing, First Half 1971–First Half 1980
(Changes in per cent)



[1] Change from preceding half year, seasonally adjusted annual rate.
[2] Cumulative change from average share for 1968–70.

cent rates of inflation in the industrial countries would be removed. Temporary influences exerted by certain more specific factors, such as the increase in U.K. value-added taxation and the emergence of very high U.S. mortgage interest rates, also appear to be fading. If feedbacks of the spurt in consumer prices on wages and other incomes can be contained, there will be a good chance of significant abatement of the inflation of consumer prices. The fact that producer prices in the industrial countries rose less rapidly in the second quarter of 1980 than in the first quarter lends credence to this possibility.

Output and employment. Economic expansion in the industrial countries, which proceeded at a relatively modest pace under conditions of continuing high inflation after the 1975 recession, became somewhat more hesitant, on average, in 1979. That year's increase in the real GNP of the industrial group as a whole slipped to 3½ per cent, compared with about 4 per cent in each of the preceding two years (Table 1).

During the first half of 1980, a more pronounced slowing of growth in total output of the industrial countries set in, and the short-term prospect at midyear was clearly one of marked deceleration, reflecting particularly the recession under way in the United States. A decline in national output of the United Kingdom is also in process, reflecting strong actions of the authorities in an effort to halt inflation and reorient economic priorities. In the other major industrial countries, and also in the smaller ones as a group, aggregate demand remained relatively buoyant through the latter part of 1979 and the first quarter of 1980, but is expected to weaken noticeably during the remainder of the year and to show a substantial deceleration for 1980 as a whole. In combination with the U.S. and U.K. downturns, decelerations elsewhere may well result in an overall increase in GNP of about 1 per cent from 1979 to 1980.

This worsening of growth performance and prospects reflects the increasing drag exerted by the negative impact of accelerated inflation on real incomes of large segments of the population, by the tightening of financial policies to choke off the inflation, and by the growing diversion of domestic expenditures into payments for imported oil.[4] The roles of these and other factors have differed from country to country, as have the circumstances in which such influences have operated. Consequently, the strength and timing of responses evident in the various national economies have displayed considerable differences.

In particular, the course followed by the U.S. economy over the past year and a half has been dissimilar to the evolution of economic activity in most of the other industrial countries. Such an absence of parallel tendencies in the major industrial economies has helped to prevent the emergence of another boom during the recovery from the 1975 recession; and it may serve to limit the degree of the slowdown now in process.

[4] Over a long period of time, and under conditions of sufficient flexibility of wages, prices, investment schedules, and public policies, economic activity financed through recycling of surplus funds accruing to the oil exporting countries might be expected to compensate for the "drag" exerted by the diversion noted here. In the short run, however, and under actual conditions considerably more rigid than those just hypothesized, funds "recycled" to the industrial countries cannot fully replace the productive activities aborted by the diversion of expenditures.

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Table 1. Industrial Countries: Changes in Output and Prices, 1963–79
(Percentage changes)

	Average 1963–72[1]	Change from Preceding Year						
		1973	1974	1975	1976	1977	1978	1979
Real GNP								
Canada	5.5	7.6	3.6	1.2	5.5	2.2	3.4	2.7
United States	3.9	5.5	–1.4	–1.3	5.9	5.3	4.4	2.3
Japan	10.5	10.0	–0.6	1.5	6.5	5.4	6.0	6.0
France[2]	5.5	5.4	2.8	0.3	4.6	3.0	3.6	3.3
Germany, Fed. Rep. of	4.5	4.9	0.4	–1.8	5.3	2.6	3.5	4.4
Italy[2]	4.8	6.9	4.2	–3.5	5.9	1.9	2.6	5.0
United Kingdom[2]	2.9	7.8	–1.2	–0.7	3.7	1.0	3.5	0.9
Other countries[3]	4.9	5.5	3.5	–0.3	3.6	1.6	2.2	2.8
All industrial countries	4.7	6.2	0.3	–0.6	5.3	3.8	4.0	3.4
Of which,								
Seven larger countries[4]	4.7	6.3	–0.2	–0.7	5.6	4.2	4.3	3.5
European countries	4.5	5.7	1.9	–1.1	4.4	2.3	3.0	3.4
GNP deflator								
Canada	3.6	9.2	15.2	10.8	9.5	7.0	6.3	10.3
United States	3.6	5.7	9.4	9.6	5.2	6.0	7.3	8.9
Japan	4.9	10.8	20.0	8.6	5.7	5.5	4.1	2.0
France[5]	4.8	7.7	11.2	13.1	9.7	9.1	9.7	9.6
Germany, Fed. Rep. of	4.1	6.0	6.8	6.7	3.2	3.8	3.9	3.9
Italy[5]	5.0	11.7	18.3	17.4	18.0	18.9	14.1	15.1
United Kingdom[5]	5.1	6.7	14.9	27.2	14.3	13.8	10.6	14.4
Other countries[3]	5.6	9.5	12.4	13.1	10.6	10.1	9.1	8.0
All industrial countries	4.3	7.4	12.1	11.3	7.6	7.6	7.4	7.7
Of which,								
Seven larger countries[4]	4.1	7.1	12.0	11.0	7.0	7.1	7.1	7.7
European countries	5.0	8.0	11.6	13.6	9.7	9.7	8.6	8.7

[1] Compound annual rates of change.
[2] GDP at market prices.
[3] Include Australia, Austria, Belgium, Denmark, Finland, Iceland, Ireland, Luxembourg, the Netherlands, New Zealand, Norway, Spain, Sweden, and Switzerland.
[4] As listed separately above.
[5] GDP deflator.

In the United States, the past year and a half was a period of hesitation and eventual downturn. Growth of real GNP over the four quarters ended with the first quarter of 1980 amounted to ¾ of 1 per cent, reflecting substantial declines in expenditures on residential structures and motor vehicles. Aggregate outlays for all other types of goods and services (accounting for nearly nine tenths of GNP) increased by about 3 per cent over the same four quarters. It was the buoyancy of these latter components of aggregate demand that staved off a U.S. recession for almost a year. The strong performance of U.S. exports and continued buoyancy of fixed business investment contributed to the maintenance of aggregate demand, but the critical factor (without which it is doubtful that business investment would have been so well sustained) appears to have been the willingness of consumers to reduce their rate of saving in order to maintain the bulk of their consumption expenditures despite the inroads of consumer price inflation on their real incomes. The ratio of personal saving to disposable personal income in the United States dropped to 3½ per cent (an extraordinarily low rate in the perspective of recent decades) during the last quarter of 1979 and the first quarter of 1980, compared with about 5 per cent in 1977 and 1978, and with rates in the 6–8 per cent range during other years of the 1970s. A partial reversal of this dip in the personal saving rate appears to have occurred in the second quarter of 1980, when consumer demand weakened.

In contrast to the weakening of growth in real domestic demand and output in the United States during 1979 and early 1980, growth of output in most of the other industrial countries remained moderately buoyant—and growth of real domestic demand more so—through the early months of 1980. The principal exceptions were Canada (closely affected by U.S. developments) and the United Kingdom, where strong counterinflationary policies were implemented in the spring of 1979. Elsewhere in the industrial world, and particularly in the Federal Republic of Germany, Italy, and Japan, the quickening of economic activity observed in 1979 generally persisted through the first quarter of 1980. Only in the months just before midyear did signs of

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softening of demand in some of these countries appear in statistics for orders and stock building and in surveys of business investment intentions.

The buoyancy of economic activity in most industrial countries during 1979 led many firms to hire additional employees on a scale reminiscent of the early 1970s. In the Federal Republic of Germany, for instance, employment increased by 2 per cent in 1979, on top of a 1½ per cent rise in 1978, after having stagnated in 1976 and 1977. Even in the United States, where the slackening of output growth did result in somewhat slower hiring, employment rose sufficiently to absorb a sizable increase (2½ per cent) in the labor force. In general, unemployment rates thus tended during 1979 either to remain fairly stable or to decline slightly, as in the Federal Republic of Germany and Canada. In France and Italy, however, unemployment rates rose somewhat, partly because of demographic factors. For the entire group of industrial countries, the average unemployment rate was about 5 per cent in 1979, marginally lower than in 1978 and about ½ of 1 percentage point below the average of the preceding three years.

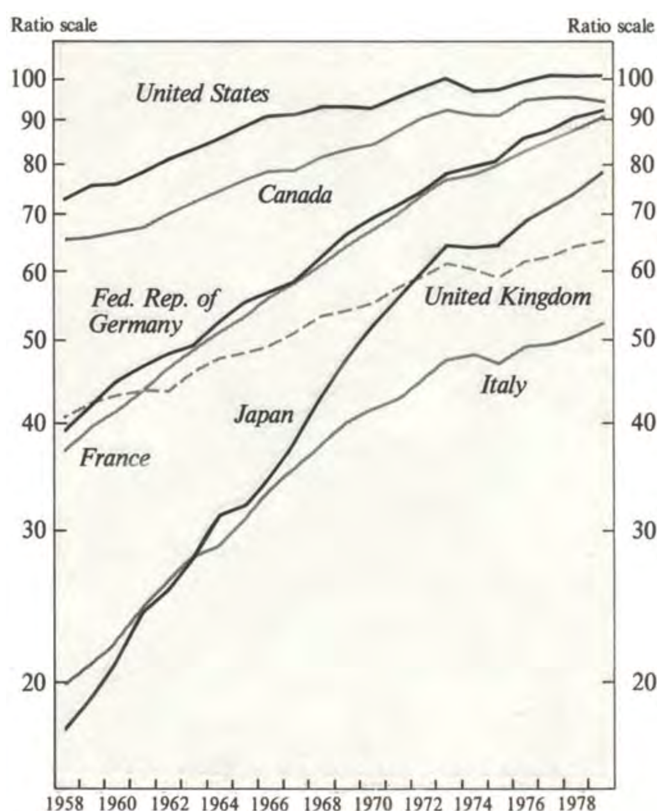
During the second quarter of 1980, the steady or improving trends in employment that were evident during 1979 took a turn for the worse. The U.S. unemployment rate jumped from about 6¼ per cent in March, after being relatively stable throughout 1978 and 1979, to 7¾ per cent in May and June. Increases in unemployment were also reported during the second quarter in a number of other industrial countries, although these were of modest size.

Associated with the generally modest pace of growth in output in the industrial countries over the past several years has been a shortfall of productivity gains below past trend rates. Developments on this score have been especially disappointing in the United States and Canada, where large increases in employment during the period 1977–79 were roughly proportionate to concurrent increases in output, signifying no overall advance in output per worker. This lack of improvement in productivity, by limiting performance on the supply side of the economy, has been one of the factors making containment of inflation difficult. (See Chart 4.)

Developments outside North America have been more encouraging on this score, productivity gains having generally rebounded in step with expansion of total output since the middle 1970s. For the major industrial countries other than the United States and Canada, real GNP per employee increased at an average rate of close to 3½ per cent in 1978 and 1979, compared with an average annual rate of a little under 2½ per cent over the preceding four years. Current rates of advance in productivity, however, remain considerably below the average increase of 5 per cent per annum recorded for the same countries during the 15-year period from 1958 to 1973. Although unemployment rates are relatively high in some of the countries, it is doubtful that the shortfall of productivity gains below previous average rates can be attributed to cyclical considerations. The strength of employment trends in several of the countries concerned would seem to cast doubt on any hypothesis that there is substantial scope for fuller utilization of workers already employed. In the Federal Republic of Germany, for instance, the 3½ per cent rise in employment from 1977 to 1979 suggests that the accompanying 2¼ per cent per annum growth of real GNP per employee was probably at least as closely reflective of underlying productivity trends as the country's rate of 4½ per cent per annum over the period 1958–73. A similar interpretation would seem plausible for most other industrial countries as well, although the evidence is less clear for countries where slack in resource utilization is substantial, as in France and Italy. The implication of these observations is that normative

Chart 4. Major Industrial Countries: Real GNP Per Employee, 1958–79 [1]

(Indices, United States in 1973 = 100)



[1] Intercountry differences (for 1973) are based on a study by the United Nations and the World Bank. Irving B. Kravis and others, *International Comparisons of Real Product and Purchasing Power* (Johns Hopkins University Press, 1978).

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standards of productivity growth in industrial countries during the period ahead will probably be much closer to the recent average rate (slightly less than 2 per cent per annum for the whole group of industrial countries) than to the average of 3¼ per cent per annum over the past two decades.

It appears that the productivity slowdown has been rather pervasive not only internationally but also among broad economic sectors of each of the major industrial countries. Averages computed for each of five sectors (industry, agriculture, commerce, government services, and other services) in those countries indicate that rates of increase in productivity in every sector except government services[5] were lower by 1–2 percentage points in the period 1976–78 than in the period 1960–73. The overall difference was not especially concentrated in particular sectors, nor did it reflect significant shifts in the relative importance of sectors with different rates of gain in output per unit of labor. Explanation of the productivity slowdown, therefore, would seem to depend primarily on such generalized factors as lower rates of capital accumulation, shifts in the composition of the labor force, changed work attitudes and habits, higher energy costs, and inflation.

Stance of policies. In an economic environment featuring strong upward momentum of prices, extensive indexation of nominal incomes, unsettled expectations, and the latest increases in the price of oil and other energy products, the authorities of virtually all the industrial countries accorded top priority in 1979 and the first half of 1980 to the containment of inflation. This priority was reaffirmed in the communiqué issued at the conclusion of the April 25, 1980 meeting of the Interim Committee of the Fund's Board of Governors in Hamburg, which—after expressing "great concern at the dramatic and widespread rise in rates of inflation since its meeting in Belgrade"—went on to state that "the Committee agreed that the top priority being given in many countries to the fight against inflation must not be relaxed" and that ". . . success in reducing inflation was considered a condition for better investment performance and resumption of satisfactory growth over the longer term."

The views embodied in the foregoing quotation stemmed from a widespread conviction that inflation must be brought under better control as soon as possible and reduced substantially over the medium term and longer term, despite the short-run costs, in terms of forgone output and employment, that might be incurred through the necessary actions. Most national authorities in the industrial countries have come to believe that the risks involved in this approach are less threatening than the danger, otherwise posed, that economic developments in the 1980s might be marred by periodic interruptions of growth such as those engendered by the inflationary spurts of the 1970s.

In most of the industrial countries, the priority assigned to combating inflation found its principal expression in the monetary sphere, where policies were tightened appreciably during 1979 and the first part of 1980, rather than in fiscal measures. Nominal interest rates rose progressively throughout most of 1979 and escalated sharply further in early 1980. The increases were especially sharp in the United States in the aftermath of actions taken by the monetary authorities on two occasions, first in October 1979 and then in March 1980. By March, short-term interest rates in the United States averaged some 17½ per cent, compared with 10 per cent a year earlier.

During the middle part of 1979, increases in yields on financial assets denominated in deutsche mark and in sterling were rising faster than U.S. rates. Although these increases stemmed from anti-inflationary monetary policies, they had the incidental effect of putting upward pressures on interest rates in other countries. In late 1979 and early 1980, it was the escalation of U.S. rates that constituted the main source of such pressures—again as a by-product of the effort to check domestic inflation. The cumulative result was a rapid further upward spiraling of yields on financial claims throughout the industrial world. By Match 1980, short-term rates in each of the major industrial countries were some 5–8 percentage points above corresponding levels a year earlier. (See Chart 13.) While long-term government bond yields were also generally higher, these showed somewhat lesser increases (2½–5 percentage points).

Although inflation was also accelerating during the period indicated (and generating expectations that doubtless contributed to the upward movements of interest rates), it was considerably outpaced in most countries by the increases in nominal interest rates. The rise in real interest rates thus implied represented a pervasive new restraining influence on borrowing and spending.

The rise in interest rates reflected, in addition to the acceleration of inflation, the generally declining path traced—under restrictive monetary policies—by rates of expansion of the principal monetary aggregates in nearly all the industrial countries since 1978. On a year-over-year basis, the average growth of broadly defined stocks of money in the major industrial countries, after having risen from 11 per cent in 1977 to 12 per cent in 1978, receded to a little less than 11 per cent in 1979. Moreover, the rise during the course of

[5] Where conventional measurement of output in the national accounts prevents meaningful estimation of productivity changes.

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1979 was still slower, dropping back to less than 10 per cent for the first time since the late 1960s.

The deceleration of growth in narrowly defined money stocks (Chart 13) was even more pronounced, as holdings of these tended to be discouraged by the escalation of interest rates, which favored shifts into higher-yielding financial assets. During the course of 1979, the average rate of expansion of narrow money holdings in the major industrial countries was only 6 per cent, compared with 11 per cent during the preceding year.

Official targets for expansion of monetary aggregates in 1980 imply a continuing shift toward greater restraint. In no case have announced targets been adjusted upward to reflect or accommodate the unexpected price shocks of the past year. Rather, targets established earlier have been reaffirmed or even lowered. In some countries, moreover, actual rates of expansion of key monetary aggregates in the early part of 1980 dropped below targeted ranges or toward the lower ends of those ranges. Given the additional increases in nominal values of economic transactions likely to result from the unexpectedly high rates of inflation in the period under discussion, the degrees of monetary expansion now contemplated are likely to exert even more significant restraint than originally envisaged.

On the other hand, the marked slowing of real economic activity that became apparent in the second quarter of 1980 is bringing new forces to bear on financial markets. Easing of demands for credit and declines of interest rates from recent peaks may well alter the setting for growth of monetary aggregates as the year progresses. Indeed, striking developments of this type have already occurred in the United States, where the sudden drop in demands for bank credit occasioned by the onset of the current U.S. recession led both to a rapid fall in interest rates—by some 8 percentage points for short-term assets—and to an outright decline in the stock of money. This decline occurred without any shift in the basic stance of policy as enunciated in official statements and embodied (essentially through actions of the monetary authorities) in growth of bank reserves.

The extraordinarily sharp movements in U.S. interest rates over the past year stem in part from a shift in the operating techniques of the Federal Reserve System from primary emphasis on interest rate objectives to primary emphasis on bank reserves. As a result of this change, random or unexpected financial disturbances now tend to be absorbed more extensively, in the first instance, by changes in interest rates, and less fully than heretofore by changes in monetary aggregates. Such tendencies make for noticeably more variability of U.S. interest rates than has usually been observed in the past, and may pose some new difficulties, at least transitionally, with respect to international capital flows and foreign exchange markets.

Shifts toward restraint in the design and application of fiscal policy during 1979 and early 1980, as noted above, were generally less marked than those with respect to management of money and credit. On the whole, fiscal positions in the industrial countries in 1979 differed relatively little from those in 1978. Such changes as were introduced, however, were mostly in the direction of less expansionary policies.

A somewhat more general swing toward restrictive policies is evident in the central government budgets of the industrial countries for 1980, but such shifts have remained cautious. Most of the budgets (translated into calendar 1980 terms) have called for reductions in deficits of the central governments, typically by amounts equivalent to something like ¼–½ of 1 per cent of GNP. However, given the projected slowdown in growth of real GNP in most of these countries from 1979 to 1980, the relatively modest changes contemplated in the fiscal balances as ordinarily projected may translate into contractionary impulses of some consequence on a cyclically adjusted basis.

Despite the shifts away from fiscal stimulus, most of the 1980 budgets still involve sizable deficits. For ten of the larger industrial countries, including all seven of the largest, fiscal information available on a relatively uniform basis indicates a weighted average deficit on the order of 3½ per cent of GNP in 1980. Although that average is below the peak recorded in 1975 (5½ per cent of GNP), each of the national figures encompassed is about twice as high (in proportion to GNP) as the largest corresponding deficit incurred in any of the three years immediately preceding 1975.

Except notably for the United States, where the central government deficit has declined markedly in relation to GNP since 1976, the deficits of most industrial countries have either remained near the levels of that year (as percentages of GNP) or tended to increase—in some cases rather substantially. This circumstance makes it difficult for the countries concerned, even if abatement of inflation should soon begin, to contemplate fiscal countermeasures against deflationary tendencies. The threat of rekindling price pressures will remain imminent for some time and maintenance of control over monetary aggregates will generally continue to call for restraint of public sector deficits, especially where private saving has declined noticeably. For the near term, these constraints may mean that fiscal policy can prudently go no further in a number of countries than to permit the working of the so-called automatic stabilizer mechanisms and to strengthen "supply" policies, such as those providing fiscal incentives or support for restructuring of energy use and production.

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Developing Countries

From 1978 to 1979, average rates of expansion of real output in most of the developing countries were relatively modest in historical perspective. (See Table 2.) Available evidence suggests that the results to be expected for 1980 may be no better, on average, although important exceptions among individual countries or particular groups of countries will doubtless be apparent again. The moderately weak growth record of 1979 was widely accompanied by accelerated rates of inflation (Table 2), and data for the first part of 1980 imply another year of exceptionally rapid average increases in consumer prices among developing countries.

Almost all developing countries have been affected during the past year or so by both the intensification of inflation in the industrial countries and the recent slackening of growth in those countries. But external factors, notably the higher cost of energy, have affected individual developing countries in different ways and to different degrees. Since these countries also face a wide range of problems of domestic origin, great variety is evident in their policies and programs.

In recognition of this diversity, emphasis is placed below on selected groups and subgroups of developing

Table 2. Developing Countries: Changes in Output and Prices, 1967–79
(Percentage changes)

	Average 1967–72 [1]	Change from Preceding Year						
		1973	1974	1975	1976	1977	1978	1979
Real GDP								
Oil exporting countries [2]	9.0	10.7	8.0	−0.3	12.1	6.2	2.7	2.9
Oil sector	. . .	13.2	−1.0	−11.1	13.3	2.1	−4.2	3.0
Non oil sectors	. . .	9.7	12.3	12.4	11.1	9.3	7.3	2.8
Non-oil developing countries [3]	5.9	6.7	5.5	4.4	5.5	5.1	5.0	4.7
By area								
Africa	5.0	3.8	6.9	2.9	4.9	1.7	2.7	2.6
Asia	4.9	6.2	3.9	6.5	6.2	6.8	6.9	3.5
Europe [4]	6.8	5.8	4.0	4.4	7.5	5.7	4.0	3.5
Middle East	6.4	4.8	—	8.8	1.8	6.8	6.3	7.9
Western Hemisphere	6.8	8.4	7.3	3.0	4.7	4.4	4.7	6.3
By analytical group								
Net oil exporters [5]	5.9	7.4	6.2	5.1	4.8	3.6	5.8	7.2
Net oil importers	5.9	6.5	5.3	4.3	5.6	5.3	4.9	4.2
Major exporters of manufactures [6]	7.7	9.6	6.9	3.5	6.4	5.1	5.4	6.3
Low-income countries [7]	4.0	3.5	2.9	6.1	3.2	5.3	4.3	−0.1
Other net oil importers	5.5	4.5	4.9	4.2	6.3	5.8	4.6	3.9
Consumer Prices								
Oil exporting countries [2]	8.0	11.3	17.0	18.8	16.6	15.4	9.7	11.0
Non-oil developing countries [3]	9.3	20.3	27.2	27.9	24.0	27.0	23.4	29.1
Africa	4.5	9.7	15.4	15.1	13.2	16.9	14.8	20.3
Asia	5.5	15.1	27.3	10.6	0.1	7.8	5.9	10.3
Europe [4]	7.9	13.1	18.4	14.9	12.4	16.1	22.3	28.7
Middle East	3.9	12.7	22.1	23.4	20.7	18.7	21.0	26.6
Western Hemisphere	13.3	32.2	35.3	52.0	55.1	51.1	41.7	48.7
Non-oil developing countries excluding six high-inflation countries [8]	7.8	13.3	23.3	16.2	13.5	19.3	16.2	21.1
Africa	4.0	9.5	14.9	14.5	11.0	14.3	12.5	15.6
Europe	8.0	12.5	18.8	13.5	10.9	12.2	12.3	16.3
Middle East	2.7	8.9	13.4	14.4	16.0	12.1	10.6	12.5
Western Hemisphere	12.5	13.8	25.4	23.2	27.6	34.5	29.0	36.6

[1] Compound annual rates of change.
[2] Comprise Algeria, Indonesia, Iran, Iraq, Kuwait, Libyan Arab Jamahiriya, Nigeria, Oman, Qatar, Saudi Arabia, the United Arab Emirates, and Venezuela. This group includes only those countries whose oil exports (net of any imports of crude oil) both account for at least two thirds of the country's total exports and are at least 100 million barrels a year (roughly equivalent to 1 per cent of annual world oil exports). These criteria are at present applied to averages for 1976–78.
[3] Include all Fund members not mentioned in footnote 2 or in Table 1 (except the People's Republic of China), plus certain essentially autonomous territories for which adequate statistics are available. The regional subgroups conform to the classification in *International Financial Statistics.*
[4] Comprises Greece, Malta, Portugal, Turkey, Yugoslavia, Cyprus, and Romania.
[5] Comprise Bahrain, Bolivia, Congo, Ecuador, Egypt, Gabon, Malaysia, Mexico, Peru, the Syrian Arab Republic, Trinidad and Tobago, and Tunisia.
[6] Include Argentina, Brazil, Greece, Hong Kong, Israel, Korea, Portugal, Singapore, South Africa, and Yugoslavia.
[7] Thirty-nine countries whose per capita GDP, as estimated by the World Bank, did not exceed the equivalent of US$300 in 1977.
[8] Excluded here are six relatively large developing countries (Argentina, Chile, Ghana, Israel, Turkey, and Zaïre) for which rates of inflation are estimated to have been at least twice as high as the respective averages for the areas in which they are located for any of the years covered in this table.

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countries, rather than on any averages or aggregates covering the entire group. The discussion begins with the oil exporting countries, whose present position in the world economy is unique, and then deals with the much larger group of non-oil developing countries, stressing key distinctions among several analytical or regional subdivisions within that group.

Oil Exporting Countries

During 1979 and the first part of 1980, after several years of adjustment following the oil price increases in 1973–74, the financial resources of the oil exporting countries were again greatly enlarged as a result of increases in oil prices. Use of these resources to promote the long-run development of their economies is, of course, a major objective of these countries. However, the pace at which many of them can usefully reinvest oil export earnings in domestic development is constrained by both economic and other considerations. Particular constraints against unduly rapid further absorption have developed in countries where high rates of domestic expansion in recent years have been made possible by rapid growth of the expatriate labor force. In some cases, the resulting high proportions of foreign workers in the labor force have made continuation of this process undesirable in the view of the national authorities.

The authorities of several oil exporting countries have been relatively successful over the past few years in implementing policies aimed at eliminating the excess demand conditions that existed in the mid-1970s. They are now concerned with avoiding a renewed buildup of inflationary pressures or re-emergence of supply bottlenecks such as those experienced a few years ago. Moreover, some of the countries that had current account deficits in 1978 have been utilizing part of their recently increased financial resources to build up foreign exchange reserves or to reduce reliance on external debt.

For these reasons, most of the oil exporting countries have been pursuing considerably more restrained demand management policies in 1979 and early 1980 than those implemented following the oil price increases in 1973–74. Some relaxation of financial policies, however, became evident in several countries as the expansion of financial resources available to them proceeded. Among the actions taken were additions to previously strict budgetary appropriations, easing of import restrictions imposed earlier by a few countries, and steps to foster the expansion of credit to the private sector by bolstering the liquidity of commercial banks.

These policy responses had little impact on economic activity in 1979, both because the shift toward somewhat more expansionary policies took place mostly in the latter part of the year and because of lags in implementation or in reactions of the private sectors. For most of the oil exporting countries, accordingly, rates of expansion in their non-oil sectors remained similar to those in 1978. A major exception, however, was Iran, where economic activity was severely impaired. As a result, the average rate of growth in real non-oil gross domestic product (GDP) for the whole group of oil exporting countries (in which Iran has a large weight) declined from more than 7 per cent in 1978 to about 3 per cent in 1979.

Present indications are that the recent shift toward somewhat more expansionary policies will be maintained throughout 1980. Thus a recovery of growth in aggregate non-oil GDP of the oil exporting countries to at least the 1978 rate would seem probable, particularly if economic activity in Iran does not weaken further. Since the absorptive capacity of several countries in the group has been greatly increased during the past half-dozen years, no emergence of significant excess demand conditions is likely to result from this development. In combination with another sizable increase in import prices, however, the firming of domestic demand in the oil exporting countries is expected to bring a moderate rise in the average rate of inflation (as measured by changes in consumer price indices) in 1980. That rate had already risen slightly in 1979, following three years of appreciable decline (Table 2).

Except in 1979, non-oil GDP of the oil exporting countries has risen much faster in real terms in every year since the early 1970s than the average for total GDPs of other developing countries. However, because of the relative stability in the volume of oil production, this has not been true of the overall average rate of economic growth in the oil exporting countries. In 1978 and 1979, that rate has been on the order of 2½–3 per cent, and the 1980 figure seems likely to be even lower, reflecting an expected decline in output of oil and the heavy weight of the oil sector in total GDP of these countries. However, in terms of a measure such as real national income, which takes account of changes in the terms of trade, the economic gains of the oil exporting countries since 1978 have been quite large.

Non-Oil Developing Countries

This section undertakes to summarize domestic economic developments, as reflected in rates of growth and inflation, in developing countries other than those included in the oil exporting group. In view of the great

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diversity of the 110 countries covered here,[6] generalizations regarding their economic problems and policies are difficult. Comments on these issues are based largely on various analytical or geographic subdivisions of the main non-oil group.

For the group as a whole, the average rate of economic growth in the past several years—while holding up better than that of the industrial world—was lower than during the late 1960s and early 1970s. Since 1976, this average rate has hovered around 5 per cent per annum, compared with about 6 per cent in the period 1967–72. The difference, although seemingly moderate, must be viewed with concern in the light of two related considerations—the rapid population growth characteristic of this group of countries (averaging some 2½ per cent per annum) and their urgent need for accelerated improvement of real incomes. The shortfall of recent growth rates below the average of the late 1960s and early 1970s is proportionately larger on a per capita basis than in the aggregate, and therefore correspondingly more disturbing. Available information for the first half of 1980 does not suggest any real improvement, apart from gains in agricultural output that might be expected to result from a return to normal weather conditions in southern Asia, where the conditions were particularly adverse in 1979.

Two common denominators are now tending to limit growth prospects for many non-oil developing countries. Increased costs of oil and other essential imports are eroding the real value of both export earnings and borrowed funds; and the slowdown in the industrial world, where the principal export markets of the developing countries are found, is constraining the scope for expansion of export volume. With prices for most types of export also sensitive to demand conditions and rates of inflation in major trading partners, a generalized slowdown of the kind now in process must be expected to exert an inhibiting influence of some importance on productive activity in many developing countries. Such activity, it must be emphasized, also responds to many influences originating within the developing countries themselves, imparting great diversity to the paths followed by their economies.

The disappointing overall growth rate of the non-oil developing countries over the past several years comprises an uneven distribution of gains among various subgroups of those countries. In 1979, the average for the whole group was bolstered by strong advances in a small number of countries that are net exporters of oil (although they do not meet the criteria used in this Report for inclusion in the main oil exporting group[7]). Aided by the financial resources accruing from their oil exports, the dozen countries in the oil exporting subgroup achieved in 1979 an average increase of 7 per cent in real GDP, in contrast to an average of only 4 per cent for the great majority of developing countries that are net importers of oil.

Within the oil importing group, moreover, a disproportionate share of the increase in output in 1978–79 was attributable to a subgroup of 11 middle-income countries whose exports of manufactures have become relatively large. Output of this group, stimulated in part by continuing gains in its exports of manufactured goods, showed a percentage increase half again as large as the average for all oil importing developing countries. (See Table 2.)

By far the weakest growth performance among the subgroups of non-oil developing countries listed in Table 2 was that of the low-income countries, which together appear to have achieved no growth at all in 1979. Reflected in this stagnation of the subgroup's aggregate output, however, was a negative change in India, which accounts for 45 per cent of the total for the subgroup (and for 58 per cent of its population). India's output was depressed in 1979 by the impact of exceptionally bad weather on agricultural production.

For the 38 low-income countries other than India, most of which are relatively small, real growth remained positive in 1979, averaging a little more than 2 per cent, but left no margin for per capita income gains. This relative weakness of the low-income countries was by no means new, as their growth rates have lagged appreciably behind those in other major groups of non-oil developing countries throughout the period since the mid-1960s.

This record provides, of course, part of the explanation why the countries in question are in the low-income category. A more basic explanation, however, is to be found in the low rates of investment characterizing most countries in this group. Apart from India, the low-income countries as a group have used resources equivalent to only about 14 per cent of their relatively small output for investment purposes. Such a ratio stands in marked contrast to an average of 20–23 per cent for all non-oil developing countries and compares even more unfavorably with an investment ratio of 23–25 per cent for the major exporters of manufactures in the group.

Very low rates of domestic saving have been associated with the low average investment ratio of 14 per cent. Indeed, they represent in many cases one of the crucial limiting factors with respect to investment.

[6] As noted earlier, the present classification of "non-oil developing countries" has wider coverage than the one used in previous Annual Reports, reflecting the addition of seven countries formerly classified as "more developed primary producing countries." Because of the relatively large size of some of these countries, their addition to the group has had a significant effect on a number of the statistical averages or aggregates presented in this Report, most of which are not closely comparable with similar figures appearing in earlier Annual Reports.

[7] See Table 2, footnote 2.

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Largely because it is difficult to raise domestic saving ratios where per capita incomes are very low in relation to basic consumption requirements, the low-income countries are extraordinarily dependent on resources from foreign governments and international agencies for any increase in their capacity to raise investment outlays and growth rates. The importance of additional concessionary financing for these purposes is clear. Under existing circumstances, indeed, a number of low-income countries may need additional external assistance even to maintain present rates of investment and growth.

Regionally, the concentration of low-income countries in Africa is reflected in a particularly weak average growth record for that area in recent years. Even with the improvement that accompanied the return to more favorable weather conditions in 1979, particularly in the Sahel region of West Africa, the average growth rate for the African area remained below 3 per cent. Below-average expansion was also registered in the European developing countries, and a further slowdown for them appeared to be under way in the first part of 1980. Restraint of domestic demand is urgently needed in some of these countries, for both internal and external reasons; and most of them will be strongly affected by the deceleration of economic activity now in process in the European industrial countries. Another area in which aggregate output of non-oil developing countries rose less than the average in 1979 was Asia. This result, however, reflected the temporary depression of India's output by unfavorable agricultural conditions, as noted earlier. Growth in other Asian developing countries remained fairly strong in 1979, although not so strong as during the three preceding years. In general, mainly because of policies, Asia has had the best record on growth and prices among the regions over the past several years.

The regions of strongest growth in 1979 were the Middle East and the Western Hemisphere. In the Middle East, this result reflected the continuing impact of rapid expansion in the non-oil sectors of most neighboring oil exporting countries during recent years. For the Western Hemisphere group, a sharp cyclical recovery in Argentina and maintenance of growth rates in the other large countries of the area, including Brazil, outweighed weaker performances in some of the smaller Latin American and Caribbean countries.

In the non-oil developing countries, as in the industrial countries, a clear tendency toward higher rates of inflation emerged in 1979. For the entire group, the average rise in consumer prices in 1979 approached 30 per cent, compared with about 24 per cent in 1978. For both years, the average was markedly affected by a few extremely high national rates of inflation in relatively sizable countries. When these are excluded (as in lines 8–11 of Table 2), the averages for 1978 and 1979 are appreciably lower (16 per cent and 21 per cent, respectively), but the degree of acceleration is virtually the same.

Much of this recent acceleration can be attributed to higher import prices stemming from faster inflation in industrial countries and from the rise in oil prices since the end of 1978. However, domestic factors also exerted a significant influence in the same direction. In many of the non-oil developing countries, fiscal conditions have remained expansionary in the face of widespread supply shortages; and for the group as a whole, the weighted average rate of increase in stocks of money in 1979 continued to exceed by a wide margin the corresponding average for earlier years of the 1970s. It is clear that financial policies in many of these countries have been more expansionary than might be considered desirable from the standpoint of combating inflation, thus reinforcing, rather than offsetting, the inflationary pressures of external origin. At the present time, there is little basis for expecting any slackening of price increases in this group of countries for 1980.

As in the past, rates of inflation in 1979 varied widely among individual non-oil developing countries and regional groups. Exclusive of the high-inflation cases mentioned above (and in Table 2), regional averages of consumer price advances from 1978 to 1979 ranged from about 10 per cent in Asia and 12 per cent in the Middle East to more than 35 per cent in the Western Hemisphere. The acceleration of price increases in 1979, however, was pervasive. In none of the regional or analytical subgroups shown in Table 2 was the consumer price increase lower than the one recorded for 1978. The prevalence of such high rates of inflation represents a serious deterrent to the expanded domestic saving needed to maintain investment and growth in the current adverse circumstances.

International Trade and Payments

Overview

World trade developments since 1978 have featured large changes in prices and terms of trade, coupled with moderate expansion in volume through 1979 but with signs of a marked slowing during 1980. The average increase in foreign trade prices (unit values) from 1978 to 1979 was about 18½ per cent in terms of U.S. dollars (15 per cent in terms of SDRs), and even larger increases appear to be in process for 1980. (See Tables 3 and 4.)

Mainly because of the large price increases, the total value of world trade rose more sharply in 1979 than in any other year since 1974 (when an even more explo-

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Table 3. World Trade Summary, 1962–79 [1]
(Percentage changes in volume and in unit value of foreign trade)

		Average 1962–72 [2]	Change from Preceding Year						
			1973	1974	1975	1976	1977	1978	1979
World trade [3]									
	Volume	9	13	5½	−5	12	5	5½	6½
	Unit value *(U.S. dollar terms)*	2½	23½	40½	9	2	9	10	18½
	(SDR terms) [4]	2	12½	39½	8	7	8	2½	15
Volume of trade									
Imports	Industrial countries	9½	12½	2	−8½	14	4	5½	8½
	Developing countries								
	Oil exporting countries	9	21½	37½	42	19	14	6½	−11½
	Non-oil developing countries	6	12½	8	−4	3½	5	8	8
Exports	Industrial countries	9	13½	7½	−4½	11	5	6	6½
	Developing countries								
	Oil exporting countries	9	12½	−1	−11	14½	—	−3½	2
	Non-oil developing countries	7	8½	3	½	14	6½	10½	8½
Unit value of trade in SDR terms [4]									
Imports	Industrial countries	2	11½	38½	8	6½	8	2½	15
	Developing countries								
	Oil exporting countries	2	11	27½	9½	6½	7½	5	11
	Non-oil developing countries	2	14	45½	7½	7	8	1	15½
Exports	Industrial countries	2	10	22½	10½	5½	7	5½	12
	Developing countries								
	Oil exporting countries	3	27½	202½	3½	11½	8½	−6½	42½
	Non-oil developing countries	1½	22	33½	−3	10½	11	−3	12½

[1] Figures are rounded to the nearest ½ of 1 percentage point.
[2] Compound annual rates of change.
[3] Sum of the groupings shown separately, based on approximate averages of growth rates for world exports and world imports.
[4] For years prior to 1970, an imputed value of US$1.00 has been assigned to the SDR.

sive upsurge of foreign trade prices took place). Because manufactured goods constitute the dominant component of trade flows, the price component of the increase in world trade from 1978 to 1979 stemmed mainly from the accelerated general inflation of prices for exports of such goods; but the year's large percentage change in oil prices also contributed importantly to the total rise in value. Prices of primary commodities other than oil rose slightly faster than those of manufactured goods in 1979, but not by a wide enough margin to prevent a 2½ per cent deterioration of the terms of trade of the non-oil developing countries.

Although price movements dominated the 1978–79 rise in world trade values, the growth of volume in that year was the strongest since 1976—6½ per cent, compared with 5–5½ per cent in the two intervening years (Table 3). All of these recent yearly gains, however, were relatively modest by past standards. Over the decade ended in 1972, for example, the volume of world trade expanded at an average annual rate of 9 per cent.

The expansion of trade volume from 1978 to 1979 was rather strong in relation to the concurrent moderate and somewhat faltering growth of aggregate demand in the industrial countries, which are the principal markets for internationally traded goods. A major factor in the relatively high elasticity relationship thus implied was the strength of investment demand and the achievement of comparatively good domestic growth records during the past year by the European industrial countries, whose imports are relatively large in relation to domestic output. Japan's import demand was also quite strong in 1979. The slowdown in the United States dampened U.S. import growth substantially, but the United States has a much lower weight in the trade of the industrial countries than in their total output.

The outlook for growth of world trade volume in 1980 and 1981 is poor. Developments during the first half of 1980 seem to presage a year-to-year gain no more than half the size of the increase in 1979, and real growth of world trade during the course of the current year may well prove virtually flat, if not declining. These discouraging prospects stem, of course, from the influence of the U.S. recession and the probable slowdown in other major industrial countries on global import demands. The only import demands expected to remain buoyant throughout 1980 are those of the oil exporting countries.

As of mid-1980, two factors seemed likely to limit the severity of the current setback to world trade growth. First, the difference between the cyclical position of the U.S. economy and the positions of most of the other major industrial economies has already cushioned the impact of the initial phase of the U.S. slowdown; and nonsynchronization of the respective positions in subsequent phases of adjustment to cyclical influences may help to prevent a sharp decline in the volume of world trade. Second, the onset of the current slowdown was not preceded by a massive buildup of

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Table 4. Terms of Trade Developments, 1962–79 [1]
(Percentage changes)

	Average 1962–72 [2]	Change from Preceding Year						
		1973	1974	1975	1976	1977	1978	1979
Industrial countries	—	–1	–11	2½	–1	–1	3	–2½
Developing countries								
Oil exporting countries	1	15	137	–5	4½	1	–10½	28
Non-oil developing countries	–1	7½	–8	–9½	3½	3	–4	–2½
Reference: World trade prices *(in U.S. dollar terms)* for major commodity groups [3]								
(a) Manufactures	3	17½	22	12½	—	9	14½	14½
(b) Oil	4	40½	226	5½	6	9½	—	49
(c) Non-oil primary commodities *(market prices)*	2½	55	28	–18	12	20	–5	16

[1] Based on foreign trade unit values.
[2] Compound annual rates of change.
[3] As represented, respectively, by: (a) the United Nations' export unit value index for the manufactures of the developed countries; (b) the oil export unit values of the oil exporting countries; and (c) the *International Financial Statistics* index of market quotations for non-oil primary commodities.

inventories in the industrial countries, as was the 1974–75 recession, and this circumstance should militate against any sharp swing to inventory liquidation.

The sharp alterations of current account balances of major groups of countries from 1978 to 1980, summarized in the introductory section of this chapter and delineated more fully in Tables 5 and 7, are manifestations, in the main, of the foreign trade price movements and terms of trade shifts just described. Differential rates of growth in domestic economic activity have also played a part, and may have a larger role in the near future. In particular, the main impact of the current cyclical slowdown on non-oil developing countries may not be felt until 1981. However, the principal influence of differential cyclical phasing to date has been its impact upon the distribution of the combined current account balance of the industrial group among individual countries within that group (discussed in the next section of this chapter), rather than upon the balances of the respective major groups.

The main counterpart of the rise in the current account surplus of the oil exporting countries from 1978 to 1979 was a large swing from surplus to deficit in the current account balance of the industrial countries, which are the principal importers of oil, and a further substantial deterioration is in prospect for 1980. Although there was also a sizable adverse swing in the combined balance of the non-oil developing countries in 1979, the bulk of the current account deficit of that group, as in previous years, reflected the basic capital importing structure of their balance of payments relationships with the rest of the world. These countries are

Table 5. Payments Balances on Current Account, 1973–80 [1]
(In billions of U.S. dollars)

	1973	1974	1975	1976	1977	1978	1979	1980 [2]
Industrial countries	19.3	–11.6	17.9	–0.5	–4.1	33.4	–9.8	–50
Seven larger countries	14.1	–3.8	23.0	9.0	9.3	36.1	2.9	–29
Other countries	5.2	–7.8	–5.1	–9.6	–13.4	–2.7	–12.7	–21
Developing countries								
Oil exporting countries	6.6	67.8	35.0	40.0	31.9	5.0	68.4	115
Non-oil developing countries	–11.5	–36.9	–45.9	–32.9	–28.6	–35.8	–52.9	–70
By area								
Africa	–2.1	–4.8	–9.1	–8.2	–6.2	–7.0	–4.9	...
Asia	–2.6	–9.9	–8.8	–3.4	–1.5	–5.6	–13.5	...
Europe	0.3	–4.4	–4.8	–4.2	–7.5	–5.1	–9.3	...
Middle East	–2.3	–4.4	–6.6	–5.3	–4.9	–5.7	–7.9	...
Western Hemisphere	–4.8	–13.3	–16.5	–11.8	–8.5	–12.4	–17.4	...
Total [3]	14.4	19.3	7.0	6.6	–0.8	2.6	5.7	–5

[1] On goods, services, and private transfers. For the industrial countries, alternative current account balances including official transfers are given for the years 1976–79 in Table 8. Projected 1980 balances including official transfers are –$75 billion for the industrial countries as a group, –$51 billion for the seven larger countries, and –$24 billion for the other industrial countries. For classification of countries in groups shown here, see Tables 1 and 2.
[2] Fund staff projections.
[3] Reflects errors, omissions, and asymmetries in reported balance of payments statistics, plus balance of listed groups with other countries.

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deficient in national saving—in relation to their domestic investment outlays—and have long depended on substantial inflows of capital and aid to cover this gap. Partly because many of them have always tended to stretch their borrowing capabilities to supplement meager domestic resources, the incurrence of current account deficits in 1979 and 1980 that exceed the normal structural levels is creating problems of a difficult and painful nature. Since the additional borrowing entailed is not, generally speaking, bringing a significantly larger inflow of real resources, the developmental capabilities of many non-oil developing countries are being seriously constrained. (The situation of these countries is reviewed in a later section of this chapter.)

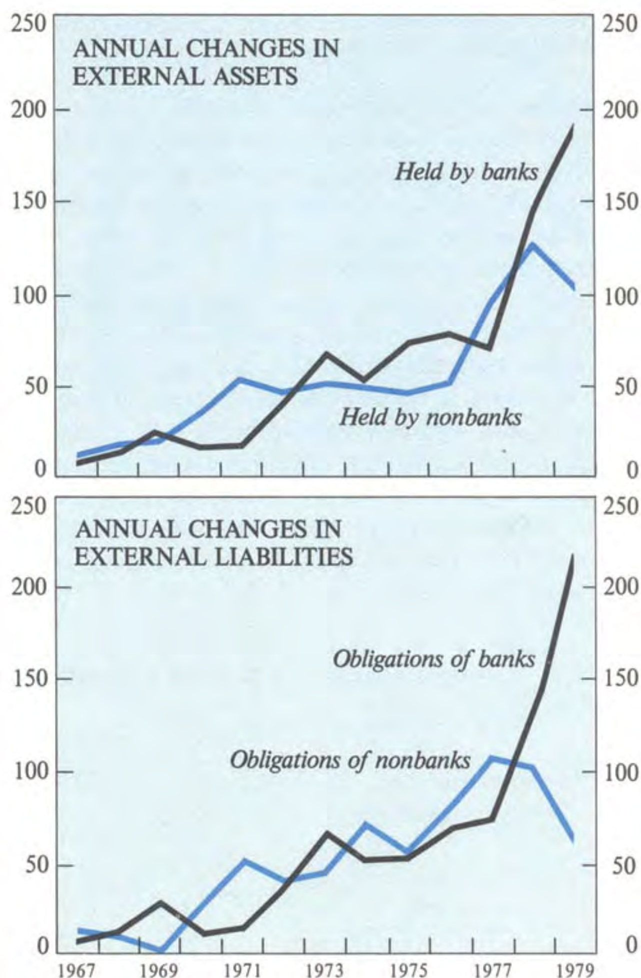
Although the industrial countries are absorbing the bulk of the current account shift engendered by the rising surplus of the 12 oil exporting countries, their capacity to withstand the deterioration of their external positions is far greater than that of most non-oil developing countries for two obvious reasons. First, their greater wealth and higher real incomes mitigate the hardship entailed in any reduction of growth in real income; and second, the initial placement of the bulk of the surplus funds accrued by the oil exporting countries in financial institutions and markets in the industrial countries means that the latter, as a group, encounter no particular difficulty in financing their collective current account deficit. However, the inflow of capital and reserve funds from the oil exporting countries tends to be concentrated in a few of the main financial centers, or in affiliated banking enterprises, so that flows to individual industrial countries are not necessarily well matched with the shifts in their respective current account positions. These individual shifts are being affected, of course, by differing cyclical conditions and domestic energy positions.

If the international trade and payments mechanism is to function smoothly in dealing with the major structural adjustments now in process, the financial inflows received in various forms from the oil exporting countries—in the first instance chiefly by financial institutions in a few large industrial countries—must be redistributed in such fashion as to bring a satisfactory matching of net capital movements with current account balances. Such redistribution, both within the industrial group and toward non-oil developing countries, was accomplished predominantly by private financial institutions and markets in the period 1974–75, and the bulk of the rechanneling of funds now needed will doubtless be handled in similar fashion. Indeed, a very large shift in the pattern of balances from 1978 through mid-1980 has already been accommodated, for the most part, through private financial intermediation. This has not occurred, however, without strains; and these may intensify as the imbalances on current account continue and the claims of investing institutions on borrowers in heavily indebted countries build up. Under these conditions, a clear need for public and international financial institutions to assume a larger role in the intermediation may well emerge.

Various aspects of the role of private financial institutions in the process of global financial intermediation are brought out in Chart 5 and (on a somewhat different statistical basis) in Table 6. The chart, based on aggregations of national balance of payments records, points up the great expansion from the early 1970s to the middle 1970s in the proportion of total outflows of capital from the industrial countries that took the form of banking claims (including claims of one industrial country on another). After a pause in 1977, the growth in relative importance of banking transactions among

Chart 5. Industrial Countries: Changes in External Assets and Liabilities, Bank and Nonbank Components, 1967–79

(In billions of U.S. dollars)



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capital outflows from the industrial countries accelerated again in 1978 and 1979.

Largely because of the scale of intercountry movements of both banking funds and other capital within the industrial group itself, the scale of gross inflows recorded by the industrial countries (lower panel of Chart 5) has increased broadly in parallel with the rise in outflows. The liability side of the international banking accounts of the industrial countries was somewhat less expansive than the asset side in the middle 1970s, but more so in 1979 as bank deposits of oil exporting countries were routed partly to residents of the industrial countries whose banks received the deposits.

Table 6, based directly on banking statistics (as compiled from national sources by the Bank for International Settlements) rather than on balance of payments records, undertakes to separate interbank deposits from the gross changes in claims and liabilities of banks in the industrial countries and in certain so-called offshore banking centers. The changes in net claims and net liabilities, thus measured, are more revealing than the gross flow data as regards sources and uses of funds channeled internationally through private banks. The table shows a geographical breakdown of the funds obtained by reporting banks from sources other than banks in the reporting areas, along with a similar distribution of net lending (excluding deposits with other banks inside the reporting areas).

The fact that every group of countries listed in the table has both substantial placements with the reporting banks and substantial loans from them attests to the size, scope, and flexibility of the intermediary facilities provided. Here, it is noteworthy that the only group with a consistent record of either net placements in or net borrowing from the reporting banks over the past four years is the group comprising non-oil developing countries. In combination, these countries were net borrowers in each of the years 1976–79, even though various countries in the same group were also an important source of funds for the reporting banks, mainly through placements of official reserves. The particularly heavy net use of international banking funds by non-oil developing countries in 1979, it may be noted, comprised some reduction in the gross placement of deposits, as

Table 6. International Banking: Global Sources and Uses of Funds, 1976–79 [1]
(In billions of U.S. dollars)

	1976	1977	1978	1979
Sources				
Changes in				
Gross liabilities	96	114	194	264
Interbank deposits	36	34	105	88
Net liabilities	60	80	89	176
Of which, to residents of				
Industrial countries [2]	30	51	58	113
Oil exporting countries	12	13	7	36
Non-oil developing countries	14	11	20	16
Other countries, including n.e.o. [3]	4	5	4	11
Uses				
Changes in				
Gross claims	106	110	215	218
Interbank deposits [4]	36	34	105	88
Net claims	70	75	110	130
Of which, on residents of				
Industrial countries [2]	31	43	45	70
Oil exporting countries	9	10	18	7
Non-oil developing countries	24	13	32	43
Other countries, including n.e.o. [3]	6	9	15	10
Memorandum item: Net sources (+)/uses (−) of international banking funds				
Industrial countries [2]	9	3	34	−3
On account of				
Residents	10	−5	21	−46
Nonresidents	−1	8	13	43
Oil exporting countries	3	3	−11	29
Non-oil developing countries	−10	−2	−12	−27
Other countries, including n.e.o. [3]	−2	−4	−11	1

[1] The figures in this table, being taken from records of banks as reported to their respective national authorities, are not necessarily fully consistent with the balance of payments statistics summarized in Tables 7 and 8. In principle, however, changes in banking claims on, and liabilities to, nonresidents, as shown above, are components of the capital flows shown in the other two tables. For classification of countries in groups shown here, see Tables 1 and 2.
[2] Including branches of U.S. banks in the main offshore banking centers.
[3] In addition to countries not specified above, or amounts unallocated, this item includes any mismatching of assets and liabilities ensuing from the assumption noted in footnote 4.
[4] Assumed equal to the BIS measure of such interbank deposits from the liability side.

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Table 7. Global Balance of Payments Summary, 1976–79
(In billions of U.S. dollars)

		Balance on					
		Trade	Services and private transfers	Current account excluding official transfers	Capital Account Balance [1]	Change in Liabilities to Foreign Official Agencies [2]	Balance Financed by Changes in Reserve Assets
Industrial countries [3]	1976	−13.0	12.5	−0.5	−4.6 [4]	15.4	10.2
	1977	−17.6	13.5	−4.1	3.3 [4]	38.7	38.0
	1978	8.7	24.8	33.4	−21.6 [4]	29.2	41.1
	1979	−36.1	26.3	−9.8	13.8 [4]	−12.2	−8.1
Oil exporting countries [3]	1976	65.3	−25.3	40.0	−31.3	—	8.8 [5]
	1977	61.6	−29.7	31.9	−21.6	—	10.3 [5]
	1978	41.1	−36.1	5.0	−11.6	—	−6.6 [5]
	1979	110.4	−42.0	68.4	−46.9	—	21.5 [5]
Non-oil developing countries [3]	1976	−26.9	−6.0	−32.9	41.4	4.3	12.8
	1977	−22.3	−6.2	−28.6	40.1	0.4	11.9
	1978	−29.7	−6.1	−35.8	53.3	0.7	18.2
	1979	−42.6	−10.3	−52.9	63.9	0.2	11.0
By analytical group [3]							
Net oil exporters	1976	−4.3	−2.8	−7.1	6.6	1.3	0.8
	1977	−3.2	−3.4	−6.5	8.5	—	2.0
	1978	−3.5	−3.7	−7.2	8.3	—	1.1
	1979	−1.0	−6.0	−7.0	10.1	—	3.1
Net oil importers	1976	−22.7	−3.2	−25.9	34.9	3.0	12.0
	1977	−19.1	−2.9	−22.0	31.5	0.5	9.9
	1978	−26.2	−2.3	−28.6	45.1	0.7	17.1
	1979	−41.6	−4.4	−45.9	53.8	0.1	8.0
Major exporters of manufactures	1976	−12.6	−0.2	−12.9	17.8	1.9	6.8
	1977	−7.6	−0.4	−8.0	11.8	0.5	4.3
	1978	−9.3	−0.1	−9.4	20.4	0.2	11.2
	1979	−19.1	−1.8	−20.9	23.9	−0.8	2.2
Low-income countries	1976	−2.9	−1.3	−4.1	6.7	−0.1	2.5
	1977	−2.7	−0.5	−3.2	6.4	−0.3	2.9
	1978	−6.1	−0.4	−6.5	8.0	−0.1	1.4
	1979	−8.4	−0.9	−9.4	11.1	0.2	1.9
Other net oil importers	1976	−7.2	−1.7	−8.9	10.4	1.2	2.7
	1977	−8.8	−2.0	−10.8	13.3	0.2	2.7
	1978	−10.9	−1.8	−12.7	16.7	0.6	4.6
	1979	−14.0	−1.7	−15.6	18.8	0.7	3.9
Total, all countries [6]	1976	25.4	−18.8	6.6	5.4	19.7	31.7
	1977	21.7	−22.4	−0.8	21.8	39.1	60.2
	1978	20.1	−17.4	2.6	20.1	29.9	52.7
	1979	31.7	−26.0	5.7	30.8	−12.0	24.4

[1] This balance is computed residually as the difference between the balance financed by changes in reserve assets and the sum of the current account balance and the change in liabilities to foreign official agencies; it includes net errors and omissions, as well as reported capital movements, government transfers, SDR allocations, valuation adjustments, and gold monetization. (See also footnote 2.)

[2] The concept of "liabilities to foreign official agencies" used in this table encompasses use of Fund credit and short-term balance of payments financing transactions in which the liabilities of the borrowing country are presumably treated as reserve assets by the creditor country.

[3] For classification of countries in groups shown here, see Tables 1 and 2.

[4] See footnote 6.

[5] The changes in reserve assets of the oil exporting countries as reported here are based on reserve asset holdings as reported in *International Financial Statistics.* Large additional changes in holdings of external financial claims by official agencies of the oil exporting countries are included in the column "Capital Account Balance" of this table. The dividing line between capital movements and reserve asset changes remains uncertain for some oil exporting countries.

[6] Global balance of payments aggregations inevitably contain many asymmetries arising from discrepancies of coverage or classification, timing, and valuation in the recording of individual transactions by the countries involved. A major area of asymmetrical classification during recent years concerns the recording of official claims placed in Eurocurrency markets. Some of these transactions, although treated as changes in reserve assets by the investing countries, are recorded as capital inflows by the recipient countries (mainly, the industrial countries). Had such transactions been recorded symmetrically, the global summations would show both a larger net capital outflow and a larger aggregate change in liabilities to foreign official agencies. If identified Eurocurrency reserve placements (shown in terms of SDRs in Table 18 of this Report) were assumed to have been placed in industrial countries, then the adjusted net capital outflows from those countries would amount to $12.8 billion, $13.6 billion, $24.4 billion, and —$11.2 billion over the years 1976, 1977, 1978, and 1979, respectively.

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well as a major expansion of borrowing from the reporting banks.

Each of the other three groups of countries listed in Table 6 has a recent history of being, on a net basis, sometimes on the depositing side of the international banking accounts and sometimes on the borrowing side. Contrasts in the direction of net international movements of banking funds from year to year illustrate the flexibility of the channels thus provided. In 1976, for instance, the net movement was mainly from residents of the industrial countries (through banks in their own respective countries), and secondarily from oil exporting countries, to non-oil developing countries. In 1978, however, the oil exporting countries as well as the non-oil developing countries drew on funds raised entirely in the industrial countries. In 1979, the industrial countries as a group joined the non-oil developing countries in drawing on funds originating in the oil exporting countries. The 1979 data also show a notable movement of funds to residents of some industrial countries, through banks in their own countries, from residents of other industrial countries. All the corresponding movements are likely to be larger in 1980, reflecting a larger cash surplus to be placed by the oil exporting countries and increased demand for credit by deficit countries. Even if those countries find nonbank outlets for a higher proportion of their investible funds, placements with international banking institutions are likely to show a considerable increase, with attendant potential for strains on the banks' capacity to reroute such funds in a fashion mutually satisfactory to themselves and their customers.

Industrial Countries

Swings in Current Account Balances

Apart from the large swings in the current account balance of the industrial countries as a group, discussed earlier in this chapter, a number of shifts in the distribution of individual balances within the group have occurred in recent years. The shifts since 1978 have been conditioned mainly by the sharp rise in oil import payments (against the background of differing positions with respect to the role of imported oil in total use of energy), by contrasting cyclical positions, and, in several cases, by effects of major changes in demand policies and in exchange rates.

Since 1975, the dominant swings within the group of industrial countries have been those in the U.S. current account balance, first from a large surplus to a large deficit while the combined balance of the other industrial countries was moving into substantial surplus, and then—since 1978—back toward balance or surplus over a period in which current account balances of other industrial countries were again, in the aggregate, shifting into deficit. The amounts involved in these partly reciprocating swings were quite large, even in terms of the calendar-year statistics shown in Table 8; and they were considerably larger in terms of annual rates for the extreme quarters of each phase. In the second phase of these swings, the combined current account balance of industrial countries other than the United States deteriorated by some $90 billion, from a surplus of about $40 billion in 1978 to a deficit equivalent to roughly $50 billion at an annual rate in the first half of 1980.

The countries sharing most heavily in this shift were Japan, with a deterioration of well over $30 billion (in terms of annual rates) and the Federal Republic of Germany, with a deterioration of more than $20 billion. (See Chart 6.) For the remaining industrial countries (still apart from the United States), the combined adverse movement in the recent period (on the order of $35 billion) was only slightly larger in nominal terms than the one from 1973 to 1974, despite the escalation of world trade values in the interim.

Certain features of recent changes in the current accounts of industrial countries stand in noteworthy contrast to those in 1974. On the earlier occasion, the largest adverse changes among major industrial countries occurred in the accounts of countries (especially Italy and the United Kingdom) whose external positions at that time were already relatively weak, while the current account balance of the Federal Republic of Germany, already in substantial surplus in 1973, rose considerably further in 1974, notwithstanding the increase in that country's oil import payments. The result was an intensification of pre-existing pressures on external payments positions within the group of industrial countries, resulting in protracted instability in exchange markets. Since 1978, on the other hand, the largest adverse changes in current accounts have occurred in those that were most strongly in surplus in 1978, while the U.S. position—one of the weakest among major industrial countries in that year—has improved substantially despite a greatly increased oil import bill. These results have conformed broadly to the strategy enunciated by the Interim Committee of the Fund's Board of Governors at its April 1978 meeting and by the governmental leaders' meeting at the Bonn "summit" in July of that year.

Differences in the pace and timing of economic expansion since the 1975 recession have accounted in large part for the foregoing developments. Cumulative growth of real domestic demand in the United States from 1975 to 1978 exceeded that in the other six large industrial countries by some 5½ percentage points, but the difference was more than reversed from 1978 to the

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first half of 1980. The main elements in the reversal were brisk increases in real domestic demand in Japan and the Federal Republic of Germany at a time of very little increase in the United States.

Particularly for Japan and the United States, lagged effects of sizable changes in exchange rates (discussed below) appear to have contributed significantly to the current account changes since 1978. Largely because of the sharp appreciation of the effective rate for the yen in 1978, Japan's share of world export markets for manufactured goods declined substantially in both 1978 and 1979. Although effects of the weak export performance on Japan's current account balance were masked in 1978 by a large improvement in the terms of trade, they were reinforced in 1979 by reversal of that terms-of-trade gain as the exchange rate for the yen dropped rapidly from its 1978 peak. Growth in the volume of U.S. exports, in contrast, was strong throughout 1978 and 1979, outpacing market growth by wide margins in both years and recouping the export market losses of the two years preceding the 1977–78 depreciation of the dollar. The dollar depreciation also played a part in the virtual arrest of growth in the volume of U.S. imports in 1979, as well as in certain elements of the rapid rise in the U.S. surplus on external service transactions (notably those involving tourism).

Table 8. Industrial Countries: Balance of Payments Summaries, 1976–79
(In billions of U.S. dollars)

		Balance on			Capital Account Balance					
		Trade	Services and private transfers	Current account excluding official transfers	Total[1]	Long-Term capital and official transfers	Other[2]	Changes in Liabilities to Foreign Official Agencies[3]	Balance Financed by Changes in Reserve Assets	Memo: Current Account Including Official Transfers
United States	1976	−9.3	18.2	8.9	−19.5	−19.7	0.3	13.1	2.5	4.5
	1977	−30.9	21.0	−9.9	−24.9	−17.8	−7.2	35.4	0.6	−14.1
	1978	−33.8	24.2	−9.6	−22.9	−14.6	−8.3	31.1	−1.4	−14.3
	1979	−29.4	34.0	4.5	6.6	−19.7	26.3	−13.6	−2.5	−0.6
United Kingdom	1976	−6.4	5.7	−0.7	−0.1	−0.5	0.4	−0.6	−1.4	−2.1
	1977	−3.5	5.0	1.6	13.2	3.5	9.7	1.9	16.7	−0.3
	1978	−2.3	7.0	4.7	−6.9	−8.4	1.5	−2.1	−4.3	1.5
	1979	−6.3	5.9	−0.4	2.2	−10.1	12.3	0.4	2.2	−4.8
Canada	1976	1.7	−5.7	−4.0	4.5	8.0	−3.5	—	0.5	−3.9
	1977	2.9	−7.1	−4.1	2.9	3.7	−0.9	—	−1.3	−4.1
	1978	3.4	−7.8	−4.4	4.3	2.6	1.7	—	−0.1	−4.6
	1979	3.8	−8.3	−4.4	3.7	3.7	—	—	−0.7	−4.3
France	1976	−4.6	−0.2	−4.8	1.8	−2.8	4.6	0.2	−2.8	−5.9
	1977	−2.7	1.1	−1.6	2.3	−0.7	3.0	−0.6	0.2	−3.0
	1978	0.7	4.5	5.2	−2.1	−4.5	2.4	0.3	3.4	3.8
	1979	−1.6	4.8	3.2	0.7	−7.1	7.8	0.1	4.0	1.5
Germany, Fed. Rep. of	1976	15.2	−7.9	7.2	−3.5	−4.3	0.7	0.2	3.9	3.6
	1977	18.4	−10.5	7.9	−4.7	−9.4	4.8	1.6	4.8	4.0
	1978	23.2	−10.3	13.0	−2.8	−5.7	3.0	3.2	13.5	8.6
	1979	14.7	−15.1	−0.4	−1.9	−0.2	−1.6	−0.3	−2.6	−6.3
Italy	1976	−4.2	2.7	−1.6	2.8	−1.0	3.7	0.7	1.9	−2.8
	1977	−0.1	4.3	4.2	1.6	−0.7	2.4	−0.6	5.2	2.5
	1978	2.9	6.3	9.2	−2.3	−1.5	−0.8	−3.6	3.3	6.4
	1979	−1.0	9.3	8.3	−5.5	−2.5	−3.0	−1.1	1.6	5.1
Japan	1976	9.8	−5.8	4.0	−0.2	−1.0	0.8	—	3.8	3.7
	1977	17.1	−5.9	11.2	−4.6	−3.6	−1.0	—	6.6	10.9
	1978	25.3	−7.3	18.0	−7.8	−13.9	6.1	—	10.2	17.6
	1979	1.8	−9.6	−7.9	−5.0	−13.5	8.5	—	−12.9	−8.7
Other industrial countries[4]	1976	−15.2	5.6	−9.6	9.6	−0.8	10.4	1.7	1.8	−10.8
	1977	−18.9	5.5	−13.4	17.4	7.5	9.9	1.1	5.2	−15.0
	1978	−10.8	8.1	−2.7	18.9	−2.5	21.5	0.4	16.6	−4.7
	1979	−18.0	5.4	−12.7	13.0	−3.0	16.0	2.3	2.7	−14.7
Total industrial countries	1976	−13.0	12.5	−0.5	−4.6	−22.1[5]	17.4	15.4	10.2	−13.7
	1977	−17.6	13.5	−4.1	3.3	−17.4[5]	20.7	38.7	38.0	−19.1
	1978	8.7	24.8	33.4	−21.6	−48.6[5]	27.1	29.2	41.1	14.2
	1979	−36.1	26.3	−9.8	13.8	−52.5[5]	66.3	12.2	−8.1	−32.8

[1] See Table 7, footnote 1.
[2] Includes SDR allocations, recorded net movements of short-term capital, net errors and omissions, and gold monetization.
[3] See Table 7, footnote 2.
[4] Australia, Austria, Belgium-Luxembourg, Denmark, Finland, Iceland, the Netherlands, New Zealand, Norway, Spain, Sweden, and Switzerland.
[5] See Table 7, footnote 6.

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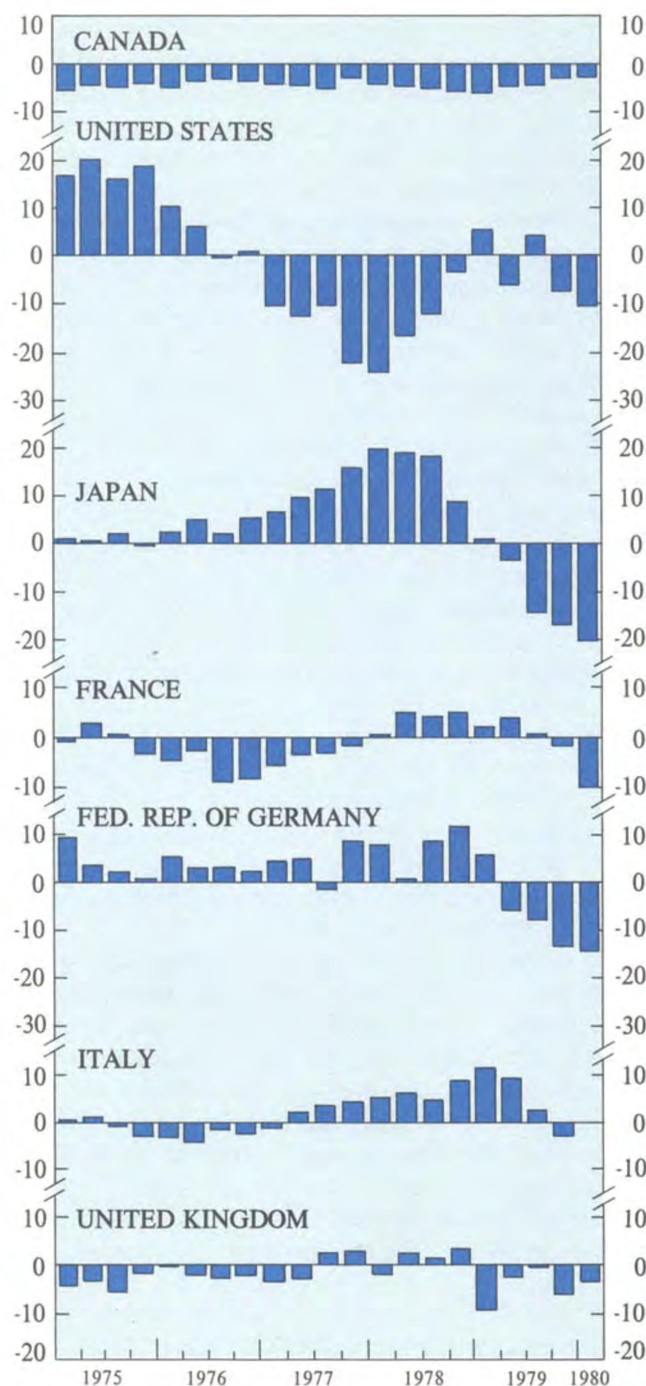
Chart 6. Major Industrial Countries: Payments Balances on Current Account, Including Official Transfers, 1975–First Quarter 1980 [1]
(In billions of U.S. dollars)



[1] Seasonally adjusted, annual rates.

With respect to recent changes in current account balances of major industrial countries other than Japan and the United States, the influence of exchange rate changes is much less apparent. The country most affected by that factor since 1978 is the United Kingdom, where the substantial effective appreciation of sterling has contributed to a sharp deterioration of international price competitiveness and a marked weakening of the U.K. trade performance in manufactured goods. Rising production of North Sea oil has offset this weakness, although it has also contributed to the appreciation of sterling; and the impact of declining domestic demand on the volume of imports should provide a further offset in 1980. Canada's terms of trade and current account position are also benefiting, relative to most of the other industrial countries, from virtual self-sufficiency with respect to oil.

The current account balances of France and Italy continued to show fairly sizable surpluses in 1979, although their terms of trade and trade balances began to weaken in the latter part of the year, largely in reflection of rising oil import prices. In both cases, substantial further movements in the same direction appeared to be in process in the first half of 1980. The terms of trade and trade balance of the Federal Republic of Germany are being similarly affected, and that country's current account, unlike that of either France or Italy, includes a large and growing deficit on services and private transfers, as well as the largest net outflow of official transfers of any industrial country. Inclusive of all transfers, its current account showed a deficit of \$5.7 billion in 1979, contrasting markedly with the surpluses of previous years; and a larger deficit is in prospect for 1980.

When account is taken of the adverse movement in the terms of trade for the major industrial countries as a group during 1979, of the size and variability of each country's current account balance in relation to its own economy, and of the medium-term history and typical structure of its external accounts, the main shifts from 1978 to the first half of 1980 can be characterized as follows. Clearly, the largest favorable shift has been that in the U.S. current account, which was weak in 1978 but is now relatively strong (partly for cyclical reasons), notwithstanding the dimensions of U.S. oil imports. Canada's position has also improved, although less dramatically, in the comparative sense of being relatively well sustained over a period of markedly adverse change for most of the industrial countries. In a similar relative sense, the external current account positions of the United Kingdom and France, both moderately strong in 1978, can be considered to have been fairly well sustained to date. The positions of the three other major industrial countries have been substantially modified since 1978. The Federal Republic of Germany, Japan, and Italy, which had the largest surpluses in the major industrial group at that time, have shifted to the opposite end of the spectrum. For

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these three countries, even the estimated balances of transactions with countries other than the oil exporters deteriorated from 1978 to the first half of 1980. The unfavorable cyclical situations (from the standpoint of external balances) and the comparatively low rates of inflation in the Federal Republic of Germany and Japan, however, provide considerable assurance against undue weakening of the external current accounts of those two countries.

The large increase since 1978 in the combined current account deficit of the smaller industrial countries, to which brief reference has been made, has been somewhat less uneven than the pattern of changes among the major industrial countries. With few exceptions, the 14 smaller countries in the group had sizable current account deficits in 1979, and most of these will doubtless be larger in 1980. Norway, whose current account is moving into surplus because of North Sea oil production, and Switzerland, which apparently remains in surplus, are exceptions. In addition, Australia and the Netherlands, because of their energy endowments, are not sharing in the adverse movement. Among the other smaller industrial countries, the magnitude of adverse shifts from 1978 to 1979 generally reflected the extent of each country's reliance on imported oil. Most of these countries are likely to undergo further marked deterioration in their external payments accounts in 1980, partly for the same reason and partly because the expected slowdown of economic activity in the larger industrial countries will tend to stifle growth in demand for exports of the smaller ones.

Financing of current account deficits was not a serious problem for the smaller industrial countries in 1979, nor did it become particularly difficult for any of them in the first half of 1980. Given the strong reserve positions of many countries in this group, their favored credit status in international financial markets, and the current liquidity of those markets, the smaller industrial countries appear better equipped to deal with the emerging situation than most developing countries. Nevertheless, a number of the smaller industrial countries may face a need for substantial adjustments of their external positions over the medium term.

Exchange Rate Developments

The period since the exchange crisis of October 1978 has been one of broad—although by no means uninterrupted—stability of effective exchange rates for most of the major currencies.[8] Exceptions are the pound sterling, which appreciated by some 19 per cent from November 1978 through mid-July 1980, and the Japanese yen, which depreciated even more rapidly through early April 1980 but recovered appreciably during the next three months.

In retrospect, October 1978 can be viewed as a significant turning point in the trends of exchange rates for most of the major currencies, and in the general tenor of the foreign exchange markets. For the currencies of the United States, Canada, and Italy, it marked the transition from an extended period of depreciation (in terms of effective exchange rates) to a period of relatively little net change in either direction. In mid-July 1980, each of these three currencies was within 2 percentage points of its average value (on an effective-rate basis) in November 1978. This leveling off contrasted with depreciations in the range of 10–18 per cent for the same currencies over a preceding period of roughly similar length, from January 1977 to November 1978.

For the pound sterling, the sequence of trends before and after October 1978 was the reverse. Nearly two years of relative stability preceded that date, while the appreciation noted above followed it. With respect to the Japanese yen, the contrast between the two periods was even sharper, the depreciation of the 17 months ended in April 1980 having been preceded by an effective appreciation of nearly 50 per cent during 1977 and the first 10 months of 1978.

Only the French franc and the deutsche mark, among major currencies, can be said to have continued since October 1978 to display roughly the same tendencies evident in the previous two years. Gradual appreciation of the deutsche mark and a virtually unchanging effective rate for the French franc remained features of the exchange markets. (See Chart 11.)

On the whole, the tone of those markets was appreciably less discordant during 1979 and the first half of 1980 than in the two years prior to the October 1978 watershed, although since that date substantial intervention has at times been necessary to prevent wider fluctuations. Except for the pound sterling, no major currency showed a larger change in external value during the recent period than during the earlier one, and the virtual absence of cumulative change in effective rates for several key currencies signifies an improved climate for foreign exchange transactions. In this respect, the stability of the U.S. dollar—except for a brief period of temporary appreciation while U.S. interest rates were rising to their recent peaks in the early months of 1980—was particularly important.

In considerable part, the improved climate in foreign exchange markets stemmed from the extensive realignment of current account balances of the three largest industrial countries, discussed above. Capital flows, however, also continued to play an important—and

[8] The indices of effective exchange rates discussed in this section are the indices from the Fund's multilateral exchange rate model, reported in *International Financial Statistics*.

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sometimes dominant—role in foreign exchange markets, and such flows were geared, during much of the past 18–20 months, to nominal interest differentials that were generally stabilizing. In the main, such differentials tended most of the time to neutralize differences in rates of inflation and in market expectations regarding future exchange rate movements. In many cases, particularly among the smaller industrial countries, this neutralization was a reflection of monetary policies aimed, inter alia, at precisely that result. A broad pattern of correspondence between interest rates and degrees of inflation was thus apparent.

In recent months, the foregoing relationships between differentials in interest rates and those in rates of inflation have again broken down as far as relationships involving the U.S. dollar are concerned. The precipitous drop in U.S. interest rates accompanying the onset of the U.S. recession, while understandable in terms of the Federal Reserve System's emphasis on monetary aggregates, has left U.S. rates noticeably below those of other major industrial countries at a time when inflation differentials, in themselves, would still seem to call for an opposite relationship. The drop in U.S. interest rates, however, appears to be part of a cyclical evolution that will probably add substantial strength to the U.S. current account, at least for the time being. Market recognition of this linkage may prevent exchange market disturbances of the type that the inverted interest differentials might otherwise tend to induce.

A feature of exchange market developments during the past year and a half was the introduction of the European Monetary System (EMS) in March 1979. The EMS arrangements, described in last year's Annual Report, appear to have functioned without undue strains on the participating countries to date. Tensions have arisen from time to time among the currencies involved in these arrangements, particularly during the second half of 1979, when the deutsche mark was rising substantially against the U.S. dollar and a number of other currencies. Under such circumstances, it became difficult for some of the weaker currencies in the group to be kept within the agreed band. In the latter part of 1979, however, adjustments were made in exchange rate relationships among the participating currencies, and tensions eased during the next several months.

When developments of the past 18 months with respect to exchange rates of the major industrial countries are viewed in combination with changes in the most closely relevant price relationships, as in Chart 7, it is clear that the principal changes in international price competitiveness (i.e., in "real" effective exchange rates) have been those for Japan, whose international competitive position has markedly improved, and for the United Kingdom, whose competitive position has considerably worsened since 1978. In the longer-term perspective of the past decade, these recent changes in price competitiveness for Japan and the United Kingdom are seen to be essentially reversals of earlier swings in the competitive positions of both countries. By far the most noticeable cumulative movements over the longer period, as shown in the chart, are the marked improvements in the competitive positions of the United States and Canada, along with the opposite shift in the position of the Federal Republic of Germany. France and Italy, like Japan and the United Kingdom (although with much less pronounced swings in the intervening years), have finished the decade with real effective exchange rates not very different from those at the beginning.

Oil Exporting Countries

Since the early 1970s, the current account balance of the oil exporting countries has displayed much wider variations than the corresponding balances of the other groups of developing countries discussed below. The current account surplus of the oil exporting group rose from about $7 billion in 1973 to $68 billion in 1974, declined irregularly to $5 billion in 1978, and then surged up again, to $68 billion in 1979. It is expected to rise further in 1980, to about $115 billion, and to remain large for some time. The difference between the projected 1980 figure and the previous peak in 1974 corresponds roughly to the general increase in world trade prices over the intervening period. In real terms, therefore, the 1980 surplus would be broadly similar in magnitude to the one recorded in 1974.

The degree of adjustment apparent in the balance of payments record of the oil exporting countries from 1974 to 1978 was notable both for its size and for its contradiction of expectations held at the beginning of the period. The most important single factor in this adjustment was a sharp rise in imports, which more than doubled in volume. Net payments for services and remittances by expatriate workers also became very large. The capacity of the oil exporting countries to absorb real resources from the rest of the world thus proved much stronger than had been anticipated. In addition, two other factors contributed to the shrinkage of the current account surplus. The terms of trade of the oil exporting countries declined by some 11 per cent over the period 1974–78 (mainly in the last of those years); and the volume of their oil exports stagnated because of expanding oil production in other areas and weak demand in major importing countries.

Another aspect of the change in the combined current account surplus of the oil exporting countries from

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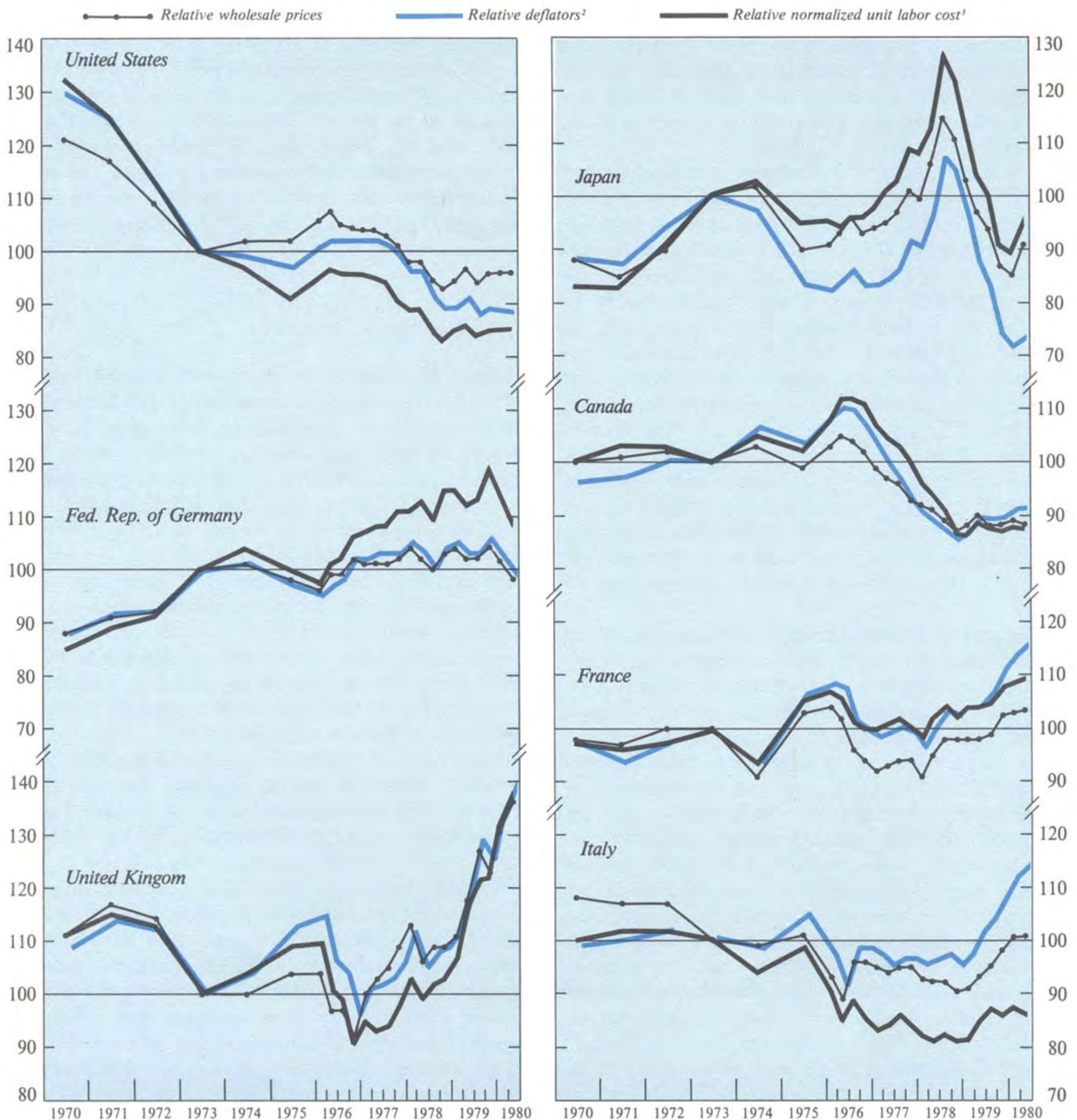
Chart 7. Major Industrial Countries: Relative Costs and Prices of Manufactures, Adjusted for Exchange Rate Changes, 1971–Second Quarter 1980 [1]

(Indices, 1973 = 100)



[1] Indices of the type shown here are frequently referred to as indicators of real effective exchange rates.

[2] Annual deflators for gross domestic product originating in manufacturing with quarterly interpolations and extrapolations (beyond the latest available annual data) based on wholesale price data for raw materials and manufactures.

[3] Hourly compensation divided by potential "output per man-hour."

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1974 to 1978 was that it became more unevenly distributed. By 1978, 6 of the 12 countries in the group, after accounting for more than one third of the 1974 surplus, had moved into deficit and were borrowing substantial sums in international capital markets. In contrast, the other 6 countries still had surpluses (aggregating about $20 billion) in 1978.

In 1979, the sharp rise in oil export prices—averaging nearly 50 per cent on a year-to-year basis—restored surpluses in the external current accounts of all except 2 of the countries that had been in deficit in 1978. However, more than half of the 1979 increase in the combined surplus of the 12 countries accrued to the ones that had remained consistently in surplus, as their share of the whole group's oil exports rose with the fall in Iranian oil production. Some of these countries, because of international considerations, are producing oil at rates higher than their authorities consider desirable over the longer run from the standpoint of their own economic interests. Another important factor in the resurgence of the oil exporters' current account surplus in 1979 was the interruption of growth in the volume of their imports, which had already tapered off considerably during the preceding three years in reflection of policy shifts toward restraint of domestic demand in a number of countries. Mainly because of the sharp drop in Iran's imports, the aggregate volume of the group's imports declined by about 11 per cent in 1979.

Oil export prices at the end of 1979 were much higher than the average for that year, since they had increased in a succession of changes beginning on January 1 and recurring intermittently throughout the year. In addition, all the oil exporting countries increased their prices further during the first two months of 1980 (in most cases, retroactively to the beginning of the year), and again in April or May. Large price increases introduced by countries that are not included in the oil exporting group have also contributed to the rise in the average world oil export price since 1978. By mid-1980, after additional adjustments of prices following the June OPEC meeting, the average price of oil exported by the oil exporting countries had reached roughly $32 per barrel. In the absence of further major changes,[9] the full-year average would exceed that of 1979 by some 65 per cent and would be about 2½ times the corresponding average for 1978.

In terms of aggregate oil export values, part of the increase in oil prices from 1979 to 1980 is expected to be offset by a decline of about 11 per cent in the volume of oil exports from the oil exporting countries. The expectation of such a decline reflects the prospect of a substantial fall in world oil consumption coupled with a further rise in oil production outside the oil exporting group. Other expected offsets to the 1980 increase in oil prices include a marked upturn in the volume of merchandise imports of the oil exporting countries and a significant rise in net payments for services and private transfers, notwithstanding the prospective enlargement of inflows of investment income earned on external financial assets.

The prospect of an upturn in imports stems partly from the general shift toward more expansionary policies by most of the oil exporting countries since the latter part of 1979 and from an easing of import restrictions by some of them. The absence of certain exceptional factors that held down the aggregate imports of the group in 1979 will also be a major factor.

Current account surpluses seem likely to accrue to all the oil exporting countries in 1980. However, the major share of the projected overall increase is again expected to be recorded in the accounts of the six countries that have remained consistently in surplus throughout the 1970s. Although there are no grounds for expecting that imports and other current account payments by these six countries will rise at significantly different rates from those of the other countries in the oil exporting group, such payments are likely to remain smaller in proportion to the value of oil exports in the case of the "surplus" countries, reflecting the fact that they now account for more than two thirds of the total volume of exports supplied by the whole group.

Beyond 1980, the present outlook suggests a stronger persistence of large current account surpluses for the oil exporting countries than in the years immediately following the oil price rise in 1973–74. As noted earlier, financial policies and domestic economic expansion in the oil exporting countries seem likely to remain more moderate than in the previous period. Also, the tighter balance of oil supply and demand now in prospect is expected to militate against decline in the terms of trade.

In 1979, the net cash inflows available for disposition by the oil exporting countries rose substantially less than their current account surplus, primarily because of a shift in oil sector capital transactions and secondarily because of a decline in external borrowing. The latter development reflected the improvement of current account positions, particularly of the countries in the group that had recorded deficits in 1978, while the main element of the shift in oil-sector capital transactions was an increase in accounts receivable for oil exported but not yet paid for. This increase, stemming from the prevalence of much higher oil prices toward the end of 1979 than a year earlier, would have been considerably larger if credit terms on oil exports had not been reduced from 60 days to 30 days

[9] I.e., on the assumption of an unchanged average oil price in real terms during the remainder of the year.

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by most of the oil exporting countries during 1979. In 1980, a different relationship of the net cash inflow to the current account balance of the oil exporting group seems likely, the cash surplus being expected to show a somewhat larger increase than the current account surplus.

Although available information regarding the disposition of the net cash surplus in 1979 remains incomplete, it suggests that a high proportion of the funds involved was placed in bank deposits and short-term government securities in the industrial countries. This pattern of disposition resembles that observed in 1974, but will probably be followed (as in the years after 1974) by gradual reinvestment of some of the funds initially held in liquid forms and a general trend toward diversification of asset holdings. The likelihood of shifts into longer-term and less liquid forms of assets stems partly from the concentration of the combined current account surplus of the oil exporting group in countries with already strong liquidity positions and partly from the increasing share of private capital in financial outflows from several oil exporting countries. In general, the propensity of private investors to acquire such assets as real estate and corporate equities or bonds is higher than that of official agencies.

The net flow of funds from oil exporting countries directly to other developing countries, mostly in the form of official foreign aid provided on concessional terms, is estimated to have amounted to about $8 billion in 1979, although lack of adequate information on actual disbursements of aid makes these estimates somewhat uncertain. It is expected that such disbursements will increase in 1980. Activities of both bilateral and multilateral aid institutions sponsored by the oil exporting countries are expanding, and announced or anticipated government contributions to them should facilitate this expansion. In addition, concessional financing of oil sales to developing countries, some of which are receiving interest-free long-term loans, is increasing.

In 1979, as in 1978, holdings by the oil exporters of claims on the Fund and the World Bank declined. Investments in World Bank bonds and loans under the supplementary financing facility were more than offset by repayments of oil facility loans.

Non-Oil Developing Countries

A number of adverse external influences are currently operative on the foreign trade and payments positions of the non-oil developing countries. Their oil import bills rose substantially during 1979 and the first half of 1980, and the accelerated inflation of prices for imports of manufactures added even more substantial sums to the total cost of their imports. Although rising prices have also contributed substantially to their aggregate receipts for exports, their overall terms of trade have deteriorated by several percentage points since 1978. Even at unchanged terms of trade, foreign trade price increases as steep as those witnessed since 1978 would have led to a considerable rise in the current account deficit of the non-oil developing countries because of the difference in magnitude between their imports and their exports.

Another adverse factor at the present time is the emerging weakness of growth in import demands of the industrial countries, coupled with protectionist actions by some of them. Export earning prospects for the non-oil developing countries are dimmed by these developments, and high costs of borrowing in international financial markets exacerbate the difficulty of acquiring the goods and services needed to maintain adequate progress in development.

The combined current account deficit of this entire group of countries rose from $36 billion in 1978 to $53 billion in 1979, and the projections shown in Table 5 indicate another large increase, to $70 billion, in 1980. On present prospects, a further substantial rise can be expected for 1981 unless lack of appropriate financing forces the adoption of measures to curb imports severely.

Adverse factors contributing to the projected deterioration of $34 billion in the aggregate current account balance of non-oil developing countries from 1978 to 1980 have differed substantially in relative importance among individual countries in the group. For all of them taken together, roughly two thirds of the 1978–80 deterioration might be attributed to the merchandise trade accounts and a little less than one third to larger net payments for services and private transfers, among which enlarged payments of interest on external debt are a significant element. The projected deterioration of the trade balance of this group of countries reflects only a slight difference between the respective percentage increases in imports and exports in real terms. In the main, it stems from the decline in the terms of trade and the unequal effects of a given percentage change in foreign trade prices on the two sides of the trade account.

The estimated change in the terms of trade index is a composite result of many changes in prices of both exports and imports. Disaggregation of such an index to identify separate contributions of the relevant price changes is not a fully meaningful exercise. Nevertheless, several observations based on available foreign trade price or unit value series may help to explain the recent deterioration in terms of trade of the non-oil developing countries.

The estimated increase in unit values of exports of these countries from 1978 to 1980 is slightly larger, in

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percentage terms, than the corresponding increase in unit values of exports of the industrial countries. To the extent that an index of the latter can be taken as a proxy for an index of import unit values of the non-oil developing countries in bilateral trade with the industrial countries, it can be inferred that the 1978–80 change in terms of trade vis-à-vis the latter group was very small (and, indeed, slightly positive). The overall deterioration in the terms of trade, therefore, must be ascribed entirely to bilateral trading relationships with the oil exporting countries and the centrally planned economies and other nonmembers of the Fund. Data on bilateral terms of trade between the non-oil developing countries and these other countries do not exist. However, inasmuch as the rise in oil prices far exceeded that in any other important category of trade, the general significance of the oil price increases in the change in the terms of trade during this period is clear.

An important issue relating to oil import bills is their distribution among countries. A relatively few of the oil importing developing countries, because of their size and degree of industrial development, account for a very large proportion of the group's oil import bill. The predominant share of those few countries, in turn, is mainly a reflection of their economic size, and only secondarily a manifestation of above-average use of oil in relation to national output. For example, the 12 largest importers of oil among the non-oil developing countries account for about three fourths of the value of net oil imports by that whole group and for nearly two thirds of its aggregate GDP, as well as roughly half of its total imports. For a majority of these 12 countries, ratios of net oil imports to total imports are in the 20–30 per cent range. For the other oil importing developing countries, the corresponding ratios are somewhat lower but not of a greatly different order of magnitude. Included here are a great many countries whose own oil bills, while not representing an impressive percentage of the aggregate for the whole oil importing group, are nevertheless large in relation to their own economies.[10]

Table 7 subdivides the data on current account balances of non-oil developing countries to show separate estimates for both the net oil exporters and the net oil importers within the larger group. In addition, a further subdivision of the oil importers among three subgroups is shown. Each of the subgroups has displayed certain characteristics with respect to its external payments accounts.

The *net exporters of oil* that are here classified as non-oil developing countries comprise 12 countries whose oil exports are either not such a dominant share of their total exports or not so large in absolute terms as those of countries in the main oil exporting group discussed in another section of this chapter. Like most of the other non-oil developing countries, these 12 differ from the main group of oil exporting countries in that their current account balances have tended to show sizable deficits even in recent years of sharp increase in oil prices. At the same time, the terms of trade and external payments position of the subgroup under discussion have been subject, at least since 1973, to influences rather different from those operating on most non-oil developing countries. Within the latter category, the subgroup of net oil exporters is the only one likely to have a lower current account deficit in 1980 than in either 1978 or 1979. Current account deficits of each of the three oil importing subgroups of developing countries rose substantially from 1978 to 1979, and they appear to be rising further in 1980.

Countries in the oil exporting subgroup have maintained considerably higher rates of import growth than the other subgroups of non-oil developing countries, making use not only of the export earnings resulting from higher oil prices but also of favorable access to international credit markets. Heavier borrowing in such markets made it possible for accumulation of reserves by the oil exporting subgroup to increase in 1979, in contrast to sharply reduced rates of reserve accumulation by the oil importing subgroups.

Another subgroup whose balance of payments positions and recent experience differ substantially from those of the majority of non-oil developing countries comprises 11 middle-income countries that have become relatively important *exporters of manufactures.* Although few in number, they include some of the economically largest developing countries, so that they account for major shares of most economic or financial aggregates relating to the non-oil developing group. They are also countries whose domestic output and foreign trade have grown considerably faster during the 1970s than the average for oil importing developing countries, although their ability to sustain this performance is now being jeopardized by tendencies toward increased protectionism in some of their important markets. Other threats to the performance of these countries are posed by the slowdown in the industrial countries and by a high degree of vulnerability to any constriction of international capital markets.

The major exporters of manufactures, because of their relative wealth and rapid growth, have achieved preferential status in international credit markets, and thus greater flexibility of external financing than seems to be available to most developing countries. This characteristic, along with the comparative flexibility for adjustment of external trade transactions that stems

[10] More specific comments on these distributional aspects of the oil imports of non-oil developing countries were made in *World Economic Outlook: A Survey by the Staff of the International Monetary Fund* (Washington, May 1980), page 32.

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from relatively high incomes and diversified domestic production structures, has engendered a record of high variability in the combined current account balance of the manufacturing subgroup. Frequently, but not consistently, its members have accounted for a high proportion of the current account deficit of all non-oil developing countries. Their share was well over one half in 1975, for example, but dropped to the 25–30 per cent range in 1977 and 1978. It rebounded to almost 45 per cent in 1979 and may go higher in 1980.

Although the current account deficit of the major exporters of manufactures now represents a large proportion of the combined deficit of all oil importing developing countries, it is not particularly large in comparison with relevant magnitudes in their own economies. Even in 1979, a year of relatively large deficit on current account for the manufacturing subgroup, its deficit represented only 3½ per cent of GDP and 15 per cent of imports, compared with ratios ranging up to 6½ per cent of GDP and 32 per cent of imports for other subgroups of non-oil developing countries shown in Table 9.

The manufacturing exporters, while utilizing by far the largest net capital inflows of any subgroup, have depended least on official financing. Funds have flowed to the manufacturing countries chiefly in the form of long-term private capital, including substantial amounts of direct investment capital. However, these countries have covered past upturns in their current account deficit to a considerable extent through swings in their short-term capital and reserve accounts, and such swings again played an important role in the upsurge of the current account deficit from 1978 to 1979. Most of the major exporters of manufactures were relatively well positioned to accommodate an adverse current account swing in this fashion, as they had accumulated both official reserves and other short-term foreign claims on an unusually large scale in 1978. It was this flexibility of external financing that enabled the manufacturing exporters to maintain a substantially higher rate of import growth than other oil importing developing countries in 1979; and a similar difference is likely to be observable for 1980, although with weaker import trends for all the oil importing subgroups.

An extreme contrast to the two subgroups discussed above is presented by the *low-income countries.* These countries, defined in Table 9 to encompass 39 non-oil developing countries whose 1977 per capita GDP is estimated to have been equivalent to no more than US$300 (averaging only about one tenth of the average for the manufacturing subgroup), are characterized by low rates of national saving, of domestic investment, and of overall economic growth. Rates of expansion of both exports and imports of these countries have been relatively weak during the entire period since the middle 1960s.

Current account deficits of most low-income countries (with the notable exception of India, which bulks large in the statistics for this subgroup) have long been exceptionally high, by comparison with other non-oil developing countries, in relation to either domestic output or imports. Despite such heavy external deficits, however, the aggregate volume of imports obtained by the low-income countries in 1979 was only about 5 per cent larger than in 1973. Since India's import growth record was better than the average, the real import gains of other low-income countries over this period were negligible. Lack of satisfactory growth in the real purchasing power of export earnings was the principal reason for this disappointing record. Real export earnings (i.e., current export receipts deflated by an index of import prices) declined appreciably in 1978 and slightly further in 1979; and they do not appear likely to recover in 1980.

Table 9. Non-Oil Developing Countries: Current Account Deficits as Percentage of GDP and of Merchandise Imports, 1973–79 [1]

	1973	1974	1975	1976	1977	1978	1979
	As percentage of GDP						
Non-oil developing countries	2.0	5.2	6.0	3.9	3.0	3.2	4.0
Net oil exporters	2.9	4.4	7.1	4.9	4.4	4.2	3.3
Net oil importers	1.9	5.4	5.7	3.7	2.8	3.1	4.0
Major exporters of manufactures	1.5	6.2	6.0	3.4	2.0	1.9	3.5
Low-income countries	3.1	5.0	4.5	2.5	1.6	3.0	3.7
Other net oil importers	1.2	4.0	6.5	5.4	5.5	5.7	5.8
	As percentage of merchandise imports						
Non-oil developing countries	12.4	25.3	30.2	20.6	15.6	16.8	19.1
Net oil exporters	22.5	25.6	42.8	29.8	25.1	24.0	17.3
Net oil importers	10.8	25.2	27.9	19.1	13.9	15.5	19.3
Major exporters of manufactures	7.5	26.4	27.0	16.7	9.3	9.1	15.3
Low-income countries	35.4	44.2	41.5	24.8	15.8	27.3	32.8
Other net oil importers	5.5	14.3	23.7	20.9	21.2	22.1	21.8

[1] For country classifications, see Table 2.

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This rigidity of import purchasing power is compounded by limitations inherent in the nature of the external financing available to the low-income countries. These countries are extraordinarily dependent on foreign official and international agency sources of financing, which in recent years have covered close to one third of their imports. In 1979, that proportion was more than twice as high as the average for all non-oil developing countries. Conversely, the role of private long-term capital has been relatively small.

Moreover, many of the low-income countries (particularly those in Africa) entered the current period of intensified balance of payments pressures with already weakened international liquidity positions. With allowance for their use of reserve-related credit facilities, their reserve positions were deteriorating in nominal terms—and much more substantially, of course, in real terms—during both 1978 and 1979. Little scope for reduction of reserves is now available to them, and they may have to make considerable use of short-term and/or official compensatory financing to cover the current account deficits now in prospect for 1980 and beyond.

Nearly 50 oil importing developing countries remain outside any of the subgroups discussed above. These can be characterized, generally speaking, as *middle-income exporters of (non-oil) primary products.* They include a number of sizable developing countries (as well as many small ones), but very few at the upper end of the per capita income scale. Although some manufactures are included in their exports, primary products predominate. Total export earnings of countries in this subgroup have tended to run ahead of the average for other developing countries in years of unusually strong commodity prices, but behind it in other years, broadly paralleling the average over time.

During the period since the early 1970s, the current account deficit of the middle-income primary product exporters has risen more steadily and consistently, in relation to GDP or to imports, than that for any of the other subgroups of non-oil developing countries. This rise, continuing rather strongly through 1979 and into 1980, was accompanied and underpinned by a progressive increase in the net inflow of externally borrowed funds. These have been obtained from both private and official sources, with private capital, especially in short-term forms, tending to become a more prominent element in the past year or so. The middle-income subgroup reduced its accumulation of reserves from 1978 to 1979, and is likely to cease accumulating reserves in 1980.

The foregoing discussion of current account developments has focused on analytical subgroups of non-oil developing countries, rather than on the regional groupings utilized in previous Annual Reports. However, a summary breakdown of current account balances for five regional groupings is included in Table 5. The most recent regional differences—those with respect to increases in current account deficits since 1978—reflect mainly the concentration of low-income countries in Africa and the location in Asia and the Western Hemisphere of a number of the rapidly growing exporters of manufactures that have had strong access to international capital markets in support of continuing import expansion. Several of the European developing countries, which in the past had also relied to a substantial extent on capital inflows from private foreign sources, have more recently made active efforts to restrain increases in borrowing from abroad.

Financing Patterns and External Debt

With reference again to the entire group of non-oil developing countries, the financing of the increase in their combined current account deficit from 1978 to 1979 involved three main elements. Their net external borrowing rose by $7 billion, from about $38 billion to $45 billion; the inflow of funds that do not generate debt (chiefly official transfers and foreign direct investment, but including SDR allocations) was enlarged by about $3 billion, to nearly $19 billion; and additions to reserves were lowered by $7 billion, from $18 billion in 1978 to some $11 billion in 1979. As shown in Table 10, these changes matched the rise of $17 billion in the group's combined current account deficit from 1978 to 1979.

For 1980, the current account projection included in Table 5 would suggest another increase of similar size in net borrowing and a further cutback in the accumulation of reserves, without much further expansion of nondebt-generating inflows. In all probability, outright reductions of reserves will be necessary for a number of individual countries whose external borrowing capacity is limited and whose international payments positions come under severe pressure as they attempt to maintain the flow of needed imports at rising costs.

The 1979 and 1980 increases in net foreign borrowing do not appear to be following the pattern of the 1977 and 1978 flows. The net flow of long-term capital from private financial institutions was actually a little smaller in 1979 than in 1978, and the current concern with prudential considerations on the part of commercial banks engaged in international financial operations suggests a further slight decline in 1980. On the other hand, there has been a sharp rise in short-term credits, including those resulting from longer lags in payments on current obligations; and a relatively moderate rise in flows of long-term capital from official sources, including the oil exporting countries, seems to be in pros-

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Table 10. Non-Oil Developing Countries: Current Account Financing, 1973–79
(In billions of U.S. dollars)

	1973	1974	1975	1976	1977	1978	1979
Current account deficit [1]	11.5	36.9	45.9	32.9	28.6	35.8	52.9
Financing through transactions that do not affect net debt positions	9.8	13.2 [2]	11.7	12.1	14.4	16.2	19.4
Net unrequited transfers received by governments of non-oil developing countries	4.9	6.9 [2]	7.4	7.6	8.3	8.0	10.7
SDR allocations, gold monetization, and valuation adjustments	0.6	0.8	−1.0	−0.2	1.0	2.0	0.8
Direct investment flows, net	4.3	5.5	5.3	4.7	5.1	6.2	7.9
Net borrowing and use of reserves [3]	1.7	23.7 [2]	34.2	20.8	14.2	19.6	33.5
Reduction of reserve assets (accumulation, —)	−9.3	−1.2	2.0	−12.7	−11.9	−18.2	−11.0
Net external borrowing [4]	11.0	24.9 [2]	32.2	33.5	26.1	37.8	44.5
Long-term from official sources, net [5]	5.5	9.6 [2]	11.4	10.2	12.4	13.3	15.9
On concessionary terms [6]	*3.7*	*6.5* [2]	*7.1*	*6.6*	*8.1*	*8.7*	*10.7*
On nonconcessionary terms [6]	*1.8*	*3.1*	*4.3*	*3.6*	*4.3*	*4.6*	*5.2*
Other long-term borrowing from nonresidents, net	6.6	10.2	14.7	17.6	15.8	25.1	23.4
From financial institutions [5]	*4.0*	*8.6*	*9.2*	*10.9*	*15.6*	*19.3*	*17.3*
Through bond issues [5]	*0.5*	*0.3*	*0.2*	*1.1*	*2.6*	*3.0*	*2.0*
Other sources [7]	*2.1*	*1.3*	*5.3*	*5.6*	*−2.4*	*2.8*	*4.1*
Use of reserve-related credit facilities, net [8]	0.3	1.6	2.4	4.3	0.4	0.7	0.2
Other short-term borrowing, net	—	5.1	6.5	3.9	−0.8	1.1	5.0 (combined)
Residual errors and omissions [9]	−1.4	−1.6	−2.8	−2.5	−1.7	−2.4	

[1] Net total of balances on goods, services, and private transfers, as defined for *Balance of Payments Yearbook* (with sign reversed).
[2] Excludes the effect of a revision of the terms of the disposition of economic assistance loans made by the United States to India and repayable in rupees, and of rupees already acquired by the U.S. Government in repayment of such loans. The revision has the effect of increasing government transfers by about US$2 billion, with an offset in net official loans.
[3] I.e., financing through changes in net debt positions (net borrowing, less net accumulation—or plus net liquidation—of official reserve assets).
[4] Includes any net use of nonreserve claims on nonresidents, errors and omissions in reported balance of payments statements for individual countries, and minor deficiencies in coverage.
[5] Public and publicly guaranteed borrowing only.
[6] Loans on "concessionary terms" are defined to include all loans containing a grant element greater than 25 per cent.
[7] Including suppliers' credits, acquisition of long-term external assets, and errors and residuals arising from mismatching of data taken from creditor and debtor records.
[8] Comprises use of Fund credit and short-term borrowing by monetary authorities from other monetary authorities.
[9] Errors and omissions in reported balance of payments statements for individual countries, plus minor omissions in coverage.

pect. The bulge in net short-term inflows since 1978 is broadly reminiscent of the one that occurred in 1974 and 1975, when the last previous major upsurge in the current account deficit of the non-oil developing countries was in process. The shock-absorbing role implicit in this variability of short-term capital movements, like that associated with changes in official reserves, is helping to keep demands for long-term credit considerably steadier than the aggregate current account deficit and total financing requirements of these countries.

The steadier course of long-term borrowing has been reflected in progressive additions to the outstanding public and publicly guaranteed long-term debt of the non-oil developing countries. Such debt approached $250 billion at the end of 1979, and will doubtless be higher by several tens of billions of dollars at the end of 1980. Even the end-1979 figure was twice the amount outstanding at the end of 1975 and well over three times the corresponding end-1973 total. Much of the increase, of course, reflects the effects of both real growth and the inflation of the 1970s on values of international transactions. However, the ratio of the outstanding debt to exports of goods and services (taken as a rough scale factor in discounting the impact of inflation and growth on the size of the debt) has also risen; it was about 80 per cent in 1979, compared with 76 per cent in 1975 and 70 per cent in 1973. Ratios of the same year-end debt totals to the estimated GDP of the non-oil developing countries are estimated, respectively, at 18½ per cent, 15 per cent, and 14 per cent. (See Chart 8.)

All of the foregoing ratios—and especially the debt/export ratio—are generally higher for the low-income countries than for the majority of other non-oil developing countries. In 1978 and 1979, for example, the average debt/export ratio for the low-income subgroup was close to 200 per cent. To a much less striking degree, relatively high debt/export and debt/GNP ratios also prevail in the net oil exporting subgroup. In that case, however, they give rise to little concern at the present time. The corresponding ratios are relatively low for the major exporters of manufactures among the non-oil developing countries, chiefly because comparatively high rates of domestic saving in the manufacturing subgroup have permitted larger shares of investment to be financed from internal sources of funds.

Changes in the composition of the external debt of the non-oil developing countries during the 1970s have

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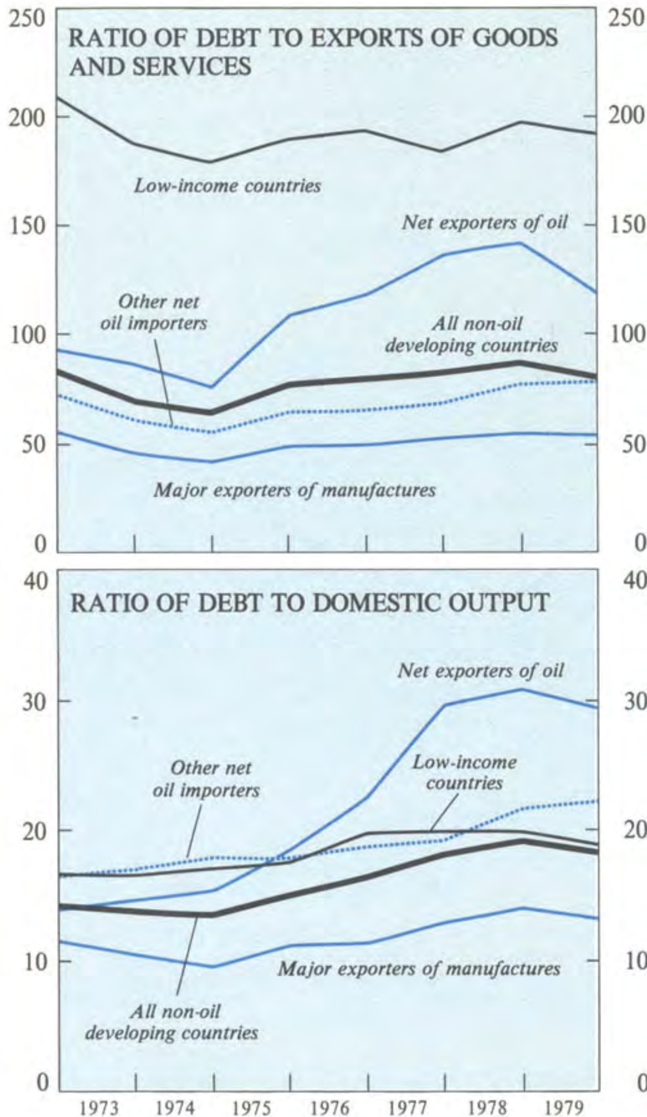
Chart 8. Non-Oil Developing Countries: Ratios of Debt to Exports of Goods and Services and to Domestic Output, 1972–79 [1]
(In per cent)



Sources: World Bank Debtor Reporting System and Fund staff estimates.
[1] The debt ratios plotted in this chart relate only to external public or publicly guaranteed debt with an original or extended maturity of more than one year.

been no less important than the change in its magnitude. The principal compositional shifts have been those toward a higher proportion of debt to private creditors, with a correspondingly lower proportion to official creditors, and toward a more prominent role of private financial institutions (mainly commercial banks) among the private creditors. By the end of 1979, four fifths of the privately held debt was owed to financial institutions, compared with about half in 1973, and the share of all private creditors in the total was close to half, compared with just over one third in 1973.[11] Although concern of the private financial institutions regarding "exposure" in developing countries may slow or halt these trends during 1980, these institutions are expected to continue playing a leading role.

Between three fifths and two thirds of the total public and publicly guaranteed debt of non-oil developing countries is owed by countries in the Western Hemisphere and in the Asian region. Such a concentration is essentially a reflection of the location in those areas of a number of the economically largest developing countries that have leaned heavily on external financing to accelerate their development. Shares of the various major regions have not changed very notably during the past half-dozen years.

Within each region, of course, individual countries have differed greatly in their propensity and ability to rely on external financing. The debt, accordingly, is unevenly distributed, partly as a manifestation of differences in size among the economies of the non-oil developing countries, but also partly for a variety of other reasons. For example, about two dozen countries in two of the analytical subgroups discussed above—the major exporters of manufactures and the net exporters of oil—have issued well over half of all the public and publicly guaranteed long-term debt outstanding at the end of 1979. In contrast, the 39 low-income countries account for only about one fifth of the debt.

Differences among countries and groups of countries with respect to the structure of external debt are also striking. Official creditors account for more than five sixths of the debt of the low-income subgroup, for example, but for well under half of the indebtedness of the manufacturing and oil exporting subgroups. One class of private creditors—financial institutions—holds more than half of the outstanding external debt of the net oil exporters but less than 10 per cent of the debt of the low-income countries, whose shares of all credit extended by private institutions to non-oil developing countries is only about 3 per cent.

For non-oil developing countries as a group, the shift from official to private sources of credit over the past decade has involved an appreciable increase in both interest and amortization payments, over and above the increase associated with the general rise in interest rates. Private credits usually call for higher interest rates and shorter average maturities than those typical of loans—many of them on highly concessional terms—from foreign government agencies and international

[11] These figures relate only to public and publicly guaranteed long-term debt; the proportions indicated would be higher for both 1973 and 1979 if comparable data on nonguaranteed private debt could be included.

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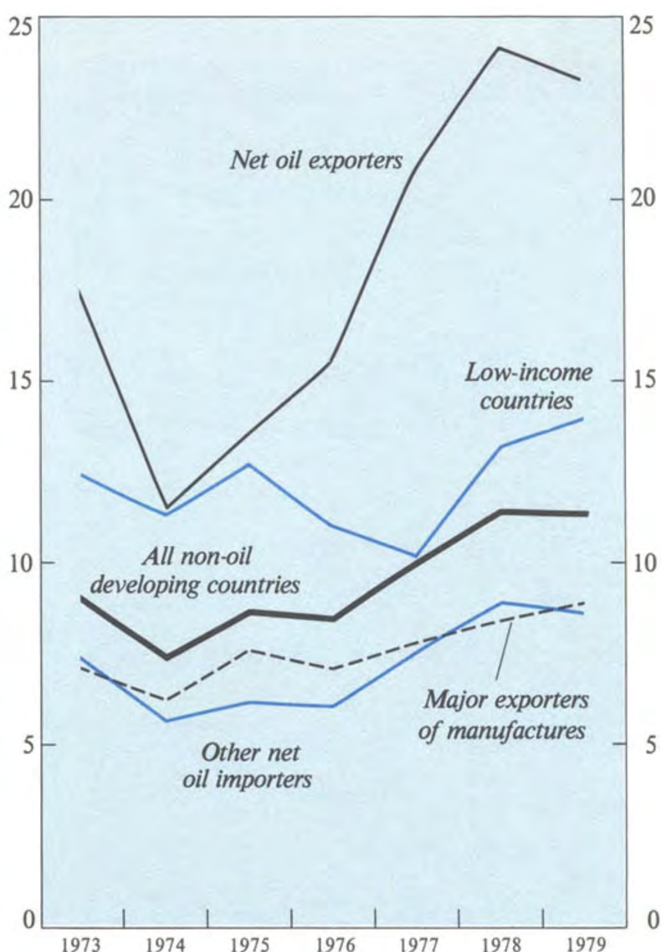
lending institutions. These factors, while tending in the circumstances of recent years to raise debt service payments in relation to outstanding indebtedness, have caused only moderate average increases in relation to export earnings of the debtor countries as a group.[12] In the average debt service ratio for the whole group, however, very heavy weight is given to the major exporters of manufactures, whose own debt service ratios are comparatively very low and have not risen very much in recent years, partly because of the buoyancy of their export earnings. Both interest and amortization payments of the low-income countries have risen quite sharply as percentages of export earnings since 1977, and their overall debt service ratio, so expressed, is now very substantially higher than the corresponding ratios for the other subgroups of oil importing developing countries. (See Chart 9.)

Under the international conditions likely to prevail over the next year or so, an increasing number of countries may thus be confronted with problems inherent in the shortening of maturities and higher interest charges (even with some subsidence from early-1980 levels) that have pushed the debt service ratios upward. Such difficulties seem likely to emerge on a selective basis, rather than as a general problem, since most countries whose creditworthiness is maintained can expect to "roll over" maturing loans, taking advantage of the propensity of lending institutions to use receipts from such loans to make new loans to broadly similar categories of borrowers. The low-income countries, however, are poorly positioned to absorb any further rise in their debt service burdens, and it is with respect to these countries that the debt service issue is most worrisome.

Chart 9. Non-Oil Developing Countries: Debt Service Ratios, 1973–79 [1]

(As a percentage of exports of goods and services)



Sources: World Bank Debtor Reporting System and Fund staff estimates.

[1] The debt service ratios plotted in this chart relate only to external public or publicly guaranteed debt with an original or extended maturity of more than one year.

Policy Considerations

The 1970s witnessed profound changes in commonly accepted views regarding the role that central authorities should play in the economy. Policymakers and economists alike have been obliged to re-examine postulates that they had come to take for granted during the 1950s and 1960s.

One basic postulate concerned the "fine-tuning" view of economic policy, the failure of which became obvious in the course of the 1970s. During the 1950s and 1960s, the relatively stable growth rates prevailing in most of the industrial world—coupled with good price performance—had led to a certain belief that national economies could be managed effectively through short-term adjustments of fiscal and monetary policies; and in many countries this belief, in turn, led to a short-term emphasis on growth and employment objectives. In retrospect, it seems clear that it was not primarily management of the economy, but the existence of exceptionally favorable conditions for growth, that was responsible for the generally good economic record of the 1950s and 1960s. When these conditions changed during the 1970s, it was not possible to prevent the recurrence of major fluctuations in activity levels. Further, the general approach to national economic policy proved overly ambitious as it often had destabilizing effects because discretionary measures were put into effect too late, the measures were based on faulty economic forecasts, or consumers and enterprises had learned to anticipate policy changes. Recognition of the limits of anticyclical policies had become wide-

[12] See footnote 11; ratios of debt service payments to export earnings would be appreciably higher if fully comprehensive data were available.

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spread by the time of initial recovery from the 1974–75 recession, and many national authorities were fully conscious of the need for reorienting economic policies toward the medium term. Nevertheless, in the new and difficult setting of high inflation and high unemployment, attempts to bring about a gradual reduction in the rates of growth of nominal demand during the next few years were often tempered or reversed by strictly short-term considerations. Most recently, the top priority that has been accorded anti-inflation policy appears to signal a definitive change in this regard; a basic challenge is to sustain it.

The changes in economic conditions that developed during the 1970s, it should be emphasized, were of major significance. For one thing, it became clear that direction of fiscal and monetary policies toward the achievement and maintenance of unduly low unemployment rates can be very costly in terms of inflation. In the late 1960s and particularly during the 1970s, a number of economic, social, and political factors brought about an increase in unemployment and a decrease in productivity growth throughout the industrial world. The change in the real price of energy played a role in those broad developments, but other factors such as changes in the composition of the labor force and governmental regulations intended to achieve qualitative improvements in output or working conditions were probably even more important. In many cases, national authorities sought to offset the impact of these factors on productivity and unemployment by having recourse to expansionary monetary and fiscal measures. At least in part, such efforts reflected a lag in recognition that the slowing of growth in potential output had become a new limiting factor. Since increases in nominal demand could not change the effective labor supply or the rate of technical progress, their effects were ultimately felt on the price level. These repeated experiences were gradually, but firmly, translated into higher inflationary expectations on the part of the public, making the problem of inflation more intractable.

The importance of an efficient system of economic incentives to the process of economic growth was also highlighted by economic developments of the 1970s. Countries with such a system of incentives were able to achieve relatively high growth rates despite a lack of comparative advantage in natural resources, while others better endowed with resources were stagnating, or even regressing, under the weight of price and trade restrictions and of unrealistic exchange rates. The 1970s also revealed more clearly the types of economic incentive that are conducive to growth, and in this regard pointed up the need to minimize the negative effects of governmental redistributive income programs on productivity and economic growth, notwithstanding the laudable intent of such programs. Increased attention is also being focused on the harmful effects of some fiscal and financial practices—including unduly high rates of income taxation—on the incentives to save and invest by the community at large.

Further, the 1970s showed a continued increase in the degree of interdependence among countries and demonstrated the importance of international cooperation. In the field of exchange rate policies, a clear message from the latter 1960s and early 1970s was that balance of payments disequilibria should not be allowed to persist for too long; once disequilibria are embedded in the economic structure, adjustment becomes a difficult and costly process even with exchange rate flexibility. Developments since 1973, on the other hand, have also shown that an exchange rate that is allowed to be freely determined by market forces can at times become excessively variable or go too far in one direction. These developments have led to renewed attempts by the authorities to exercise some degree of influence over their exchange rates through market intervention or other instruments, notably monetary policy.

In the prevailing mixed system, however, possibilities for inconsistencies or conflicts among nations in the conduct of their economic policies are abundant, and international surveillance over exchange rate policies is of clear-cut importance. A further lesson of the 1970s was that no international monetary system can function well when underlying domestic economic and financial conditions are unstable in a number of the major industrial countries. Surveillance must, therefore, focus to a large extent on the achievement of more stable domestic conditions. (Fund surveillance is discussed further in Chapter 2.)

The issue of interdependence involves more than the question of the exchange rate system. No matter what that system may be, the various national economies are strongly related, both in the short run and in the long run, through income effects of international trade and service transactions. Interdependence is clear not only among industrial countries but also among the various groups of countries—industrial, non-oil developing, and oil exporting. They are all also bound together through the functioning of an integrated world capital market. Thus, any significant economic decision by a major country or group of countries cannot fail to have effects, positive or negative, throughout the rest of the world. A fundamental principle of international cooperation, therefore, is that countries should always be mindful of others in their economic policies and actions.

Several examples of policy requirements arising from the interdependence of countries may be cited. First, there is urgent need for a strong flow of grants and

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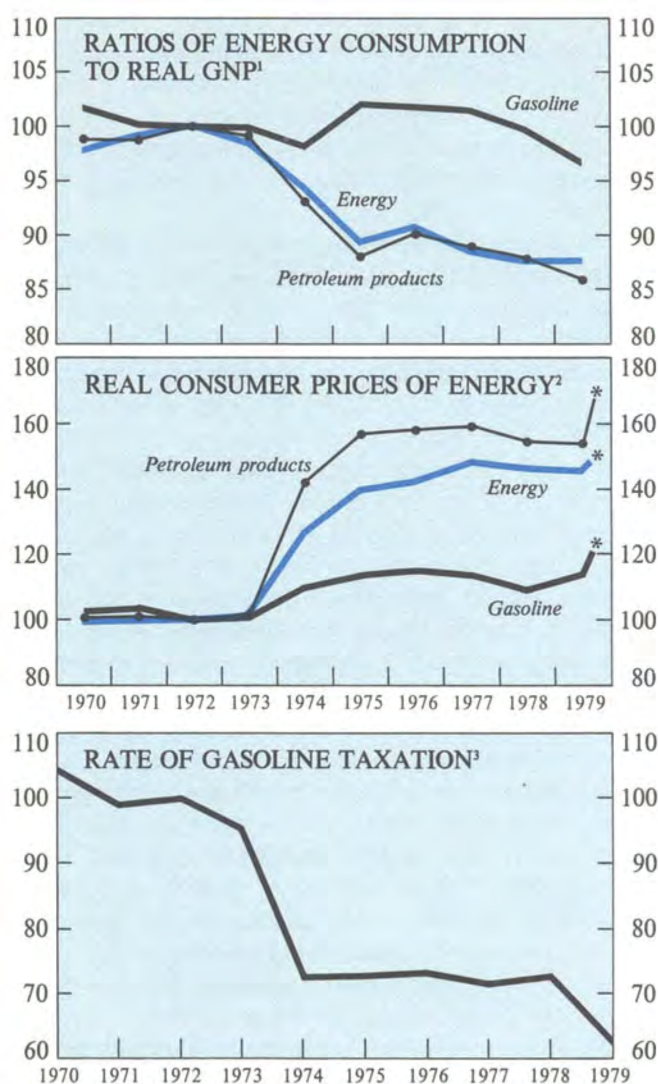
concessional loans from the industrial and oil exporting countries to the non-oil developing countries, particularly those in the low-income category. Second, because of their heavy weight in the world economy, the major industrial countries have an international responsibility extending beyond the provision of official development assistance. This includes maintenance of open markets and avoidance of protectionism; it also includes, more broadly, both coordinated efforts in exchange market intervention and appropriate conduct of national economic policies in accordance with the principles of the international adjustment process established in the Fund (as summarized in the 1977 Annual Report, page 12). Adherence to such principles would (a) ensure provision of all feasible support to the general level of economic activity and (b) counter forces making for disequilibrium in the distribution of current account balances—a disequilibrium that, as experience of the past few years has shown, can have very disturbing effects on foreign exchange markets.

Another example of the importance of international cooperation concerns the energy problem. Clearly, there is need for cooperation among energy importing and exporting countries for the purpose of developing a basis for more stable conditions in the world oil market. Such cooperation calls for the group of oil exporting countries—given their importance on the supply side of the world oil market—to pay due regard to international considerations in the pursuit of their oil policies consistent with their own national interests. Among the other countries, those that produce substantial amounts of oil have an international responsibility similar to that of the oil exporting group. All the oil importing countries, including the ones that also produce oil, have the particular responsibility of strengthening present efforts to use energy more efficiently, to constrain the demand for oil, and to increase the supply of alternative sources of energy in order to contribute to the achievement of orderly oil market conditions. More reliance on the price system and on direct governmental measures to reduce the ratio of energy consumption to GNP and to help in the development of new energy sources is required. Without such efforts, the economic impact of energy problems could intensify during the 1980s and place a severe constraint on economic growth in both industrial and developing countries.

In sum, the various developments that have been touched on tend to show that—with full awareness of the interdependence of countries and the importance of international cooperation—the proper central focus of national economic policy is the establishment and maintenance of an environment conducive to economic growth with price stability. A basic element of such an environment is a price and incomes system that is not distorted by misguided controls. Another element is a level of public expenditure that does not put undue constraint on the conduct of monetary policy or limit work and investment incentives in the private sector. A third element is the avoidance of frequent discretionary changes in policies that tend to decrease the credibility of the authorities.

Chart 10. Industrial Countries: Energy Consumption and Prices, and Gasoline Taxes, 1970–79
(Indices, 1972 = 100)



[1] For "energy" (in all forms) and for "gasoline," the energy data relate to final consumption; for "petroleum products," they include amounts used in production of electricity, scaled to final consumption of electricity. The data for 1979 are for the second quarter.

[2] Typical consumer prices (including taxes), as of January 1 in each year, for 21 products in 15 industrial countries, deflated by overall consumer price indices, and weighted by 1977 final consumption weights (1979 estimated).

[3] Weighted average of ad valorem rates of taxation (value of the gasoline tax divided by the tax-inclusive price).

* Second quarter 1979.

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Because of inadequate policy management and the external shocks of the 1970s, national authorities are now faced with the major problems of high inflation, low productivity growth, unemployment, rising energy costs, and international payments imbalances inherited from that period. To deal with these problems will require firmness and steadfastness—indeed, courage—on the part of the authorities. Policy prescriptions will of course differ among countries, but they must nevertheless be built on certain general principles.

Reducing inflation has to be the first priority, if only because the achievement of targets concerning growth and employment, as well as viability of the external position, is dependent on it. On the basis of harsh experience, it is now generally agreed that restoration of adequate saving and investment incentives, renewal of satisfactory productivity gains, and efficient allocation of resources require a marked lowering of inflation rates and of inflationary expectations. For that purpose, the central authorities should design their monetary and fiscal policies so as to obtain a gradual decrease in the rate of growth of nominal domestic demand—aiming at a rate consistent with the growth of potential output and a feasible adjustment path for inflation. As mentioned above, this need for gradual adjustment has been recognized for a number of years but, at least up to 1979, when the stance of policies in the industrial countries stiffened noticeably, the degree of adjustment was so gradual as to be almost imperceptible. It now seems to be recognized that, while gradualism is the only feasible course from the standpoint of economic, social, and political considerations, adjustment measures should be decisive so as to bring about a reduction of inflationary expectations. Further, such a policy of adjustment should not be interrupted as soon as the level of economic activity tends to weaken. Any attempt to offset that development through fiscal or monetary expansion would only impair the credibility of the anti-inflation policy stance of the authorities and ratchet the economy to an even higher rate of inflation that would ultimately call for a still more costly process of adjustment. While restoration of satisfactory and sustained economic growth is the target, it is a target that in most countries can be reached only through a reduction in inflation brought about by a difficult period of adjustment—with the extent and duration of the difficulty dependent primarily on the speed with which inflationary expectations can be curtailed.

An actively "stimulative" monetary policy should be avoided because, in addition to the impairment of credibility, its practical effect would be to provide liquidity to banks or corporations that are already highly liquid. The record of the 1960s and 1970s seems to show that aggressive monetary expansion during recession periods contributes very little to revival of real demand and output at the time when such revival is most needed, but leaves a legacy of bank liquidity that will tend to frustrate efforts to moderate credit expansion at a later stage. However, the kind of restraint being suggested does not imply passivity of monetary or credit policy from a countercyclical point of view. With the slackening of demands for credit by business enterprises that is typical of a cyclical easing, interest rates are bound to fall (as has been demonstrated again in the past few months), and the availability of credit to nonbusiness borrowers is bound to rise—in an automatically stabilizing way, even without accelerated provision of reserves to the banking system by the central bank. Likewise with respect to fiscal policy, reliance in countering recessionary tendencies should be placed—with due regard for differences in national fiscal systems—on the well-known stabilizing effects that automatically emerge with the decline in tax revenues and the rise in certain categories of expenditure.

The policy of reducing the rate of growth of nominal domestic demand over the medium term should be accompanied by a policy that aims at achieving a consistent reduction in the growth of nominal incomes. Most attempts during the 1970s to establish formal incomes policies encountered failure because they lacked adequate support of either the private sectors or public policies in the fiscal and monetary fields. Also, this is a controversial area—strongly affected by political, social, and institutional considerations—in which few generalizations are applicable to individual countries. In some countries, nevertheless, measures to restrain the growth of incomes can serve as useful adjuncts to fiscal and monetary policies, and they would seem to be especially appropriate at the present time in view of increased cost pressures of external origin. Measures that would exclude oil prices from the mechanism of wage indexation, and thus serve to limit self-defeating wage-price spirals, are of particular importance in this regard. In a less formal way, further steps by national authorities to increase public understanding of the inflationary mechanism, and to counter the influence of short-sighted pressure groups, could be helpful by impressing upon the general public the limitations of real income gains that are implied by the weak behavior of productivity growth in many countries during recent years and by the rapid escalation of energy prices.

The fight against inflation should be accompanied by further measures that aim at establishing an economic environment more conducive to economic growth. A more stable overall price level is a major part of that environment, but only a part. A change in the fiscal system of many countries to remove existing disincentives against saving and investment seems to be called for, and selective tax adjustments could make a positive contribution to the supply side of the economy through

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the provision of actual incentives for productive investment. A reconsideration of the overall levels of public taxation and expenditure may be needed in a number of cases. More attention should also be given to the mass of controls and restrictions of various kinds that have accumulated over the years in developing as well as industrial countries. While some may be needed on social or other grounds, many are likely to be found detrimental to the interests of the community at large.

One special factor that will have a predominant influence on the environment for economic growth during the 1980s—as discussed above—is the supply and cost of energy. The seriousness of the situation in that area is now widely recognized.

A further factor that will condition the growth environment is the external payments constraint faced by many non-oil developing countries. Structural adjustments are needed in these countries, where (as in the industrial countries) policy decisions made under the pressure of harsh developments have often led to harmful restrictions and controls and an excessive level of public expenditure. Correcting this situation and adjusting to higher energy prices are bound to take time, and means will have to be found to finance large payments imbalances during the adjustment period. Failure to do so not only would seriously impair the long-term economic development of non-oil developing countries but also could have a significant impact on growth in the industrial countries.

* * * *

In the foregoing review of developments in the world economy, a feature of particular interest and importance to the Fund is the prevalence of large and still growing imbalances in current external payments of member countries. It is evident that many members will need unprecedented amounts of external financing during the prospective period of adjustment.

In the provision of such financing, much will clearly depend on the manner in which surplus funds accruing to the oil exporting countries are redistributed, through various international channels, to ultimate borrowers in other countries. In the main, this channeling of funds can be expected to operate through market mechanisms, with private commercial banks and international capital markets continuing to play a predominant role. It is to be hoped that expanded flows through established international development institutions and official agencies of national governments will also make a significant contribution. However, the shifts in external balances now in progress are so large, and have occurred so suddenly, that the possibility of deficiencies in flows through the existing commercial and official channels cannot be disregarded. Such flows are expected to prove generally adequate through 1980, notwithstanding the problems of some individual countries, but their prospective adequacy in relation to the needs probably emerging in 1981–82 is uncertain. Both in size and in duration, the imbalances now in prospect seem likely to exceed those witnessed in the past.

In this situation, the Fund is prepared to play a larger role in the financing of members' imbalances. This larger role has been endorsed by the Interim Committee, at its meeting in Hamburg during April 1980. It would involve both the lending of greater amounts in relation to quotas than have usually been authorized in the past and a stretching of adjustment and assistance over longer periods. Implementation of such enlarged financing by the Fund is being elaborated. Furthermore, it is to be noted that the Interim Committee at its Hamburg meeting, while recognizing that the Fund is presently in a relatively liquid position, has approved the proposal put forward by the Managing Director to start discussions with potential lenders on the terms and conditions under which the Fund could borrow to increase its resources, if and when the need arose.

There is a strong belief in the Fund that financing and adjustment must go hand in hand. While there may be cases where a country's external imbalance can be expected to be corrected on the basis of existing policies, and all that is required is temporary financing, in most instances financing will need to be accompanied by a strong effort on the part of the borrowing member to adjust its unbalanced external position. In these circumstances, there must be a prospect of correcting the external imbalance over a reasonable period, although this may, under present and evolving circumstances, take longer than in the past. Maintenance of these principles is essential both for preservation of the Fund's revolving resources and for promotion of optimal adjustment. At the same time, flexibility with respect to the choice and implementation of particular adjustment policies, addressed to the specific problems of the concerned countries, must be preserved. There is general agreement that appropriate adjustment policies should emphasize the fostering of improved supply and growth capabilities, as well as fiscal and monetary programs designed to keep aggregate demand realistically aligned with the actual evolution of supply.

While the Fund is not directly involved in the specifics of investment planning, it will intensify its collaboration with the World Bank and, as appropriate, with other developmental-financing institutions in order to assist countries to adjust their payments imbalances in ways that contribute to long-term growth. Cooperation is particularly important in the area of energy de-

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velopment, where the Fund is stressing price and tax policies that would create appropriate incentives to complement the efforts of other institutions to promote and finance adequate investment in productive facilities. More generally, the Fund's emphasis on the broad economic and financial framework of adjustment programs is necessary to ensure that supply policies are coordinated with demand policies for the purpose of dealing with structural inadequacies that are often at the root of current problems.

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Chapter 2
Developments in the International Monetary System

Certain trends that have characterized the evolution of the international monetary system in recent years, particularly in the period since 1978, persisted during the period under review. In the determination of exchange rates, the monetary authorities of a number of industrial countries maintained or increased efforts to influence the course of exchange rate movements. This tendency has manifested itself, inter alia, in some increase since 1978, compared with earlier years of the period of floating exchange rates, in the level of official intervention in foreign exchange markets and in the pursuit of monetary policies tending to stabilize exchange rates. The variability of exchange rates among major currencies in 1979 appears to have declined somewhat from that observed on average in the first several years of the period of floating. The question arises whether measures by the industrial countries to influence exchange markets, as well as the greater stability of exchange rates, can on balance be expected to assist or hamper the pursuit of their macroeconomic objectives.

Surveillance over members' exchange rate policies exercised by the Fund under Article IV of the Articles of Agreement is designed to assist members in avoiding both excessive variability of exchange rates, which can be disruptive without serving an economic purpose, and undue rigidity of rates, which can cause distortions in the economy and hinder the international adjustment process without improving economic stability. Procedures for conducting this surveillance have evolved further during the year under review, especially with respect to discussion of developments in the pattern of exchange rates between major currencies in the context of the world economic outlook. These topics are treated in the first part of this chapter.

Developments in the area of international liquidity are closely linked to countries' exchange rate policies and, in particular, to intervention in the exchange markets. More generally, these developments are affected by the nature and severity of influences disturbing balance of payments equilibrium in the world economy, the modalities of financing external imbalances, and the functioning of the adjustment process. Preferences of central monetary institutions with respect to the form in which their reserves are held can influence not only the asset composition of global reserves but also their aggregate amount. These matters and related developments are discussed in the second part of this chapter, which also treats the Fund's role in providing conditional liquidity and in supplementing the global supply of international reserve assets.

Exchange Rate Arrangements and Policies

Previous Annual Reports have described both the contribution made by floating exchange rates to the adjustment process and the problem of excessive exchange rate variability. As noted in the 1979 Annual Report, efforts were intensified, beginning late in 1978, to deal with excessive exchange rate movements between the major currencies. These efforts, which were in some countries related to endeavors to stem inflationary pressures, have continued through 1979 and the first quarter of 1980; they are discussed below, with special attention paid to the experience of the European Monetary System (EMS) in its initial year and to the implications of the more active efforts to prevent excessive exchange rate fluctuations for the successful pursuit of domestic economic objectives and external adjustment. A further section treats the role of exchange rate adjustments in dealing with the large payments imbalances presently prevailing. These questions are of special significance to the Fund because of its responsibilities for surveillance over exchange rate policies. The first part of the chapter concludes with a review of the Fund's experience with surveillance.

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Policies Influencing Exchange Rates Between Major Currencies

Since the onset of widespread floating of exchange rates, the industrial countries have been faced with the difficult question of the degree to which the determination of exchange rates should be left to the free play of market forces. Periods of relative stability of rates alternated with phases of instability, during which exchange rate fluctuations were perceived as excessive in relation to the adjustments required to offset divergences in underlying price and current account developments. The desire to deal effectively with occasional disorderly market conditions was strengthened by concern about the impact of apparently unjustified exchange rate movements on domestic inflation and external competitiveness. This section summarizes recent policy developments influencing exchange rates, the effect of those developments on exchange rate variability, and their implications for overall economic conditions in the countries affected.

Policy Developments

A number of developments in the world economy since 1978 have contributed to underlying strains in exchange markets. Among these developments have been continued substantial divergences among the major industrial countries in rates of inflation and economic growth, the differential impact of oil price increases on their economies, and uncertainties as to the future of monetary and fiscal policies.[1] Nevertheless, the variability of exchange rates was on the whole lower in 1979 and the first quarter of 1980 than it had been in 1978. The shift in current account positions of the Federal Republic of Germany, Japan, and the United States that occurred in 1979 (see Chapter 1) was one factor calming foreign exchange markets. The reduction in exchange rate variability may also have been related to the tendency on the part of some industrial countries to intensify efforts to influence exchange rates. These efforts were perhaps a reaction to the instability in foreign exchange markets in the latter half of 1978 and also a consequence of growing concern about the impact of foreign exchange movements on the domestic economy. They were manifested by more active intervention policies by the industrial countries and, among certain countries, a greater coordination of monetary policies in the light of developments in exchange markets.

As a result of the interplay of these developments, there were fewer sharp changes in exchange rates in 1979 than in 1978, when major exchange rate realignments took place (Chart 11). With the important exceptions of Japan and the United Kingdom, and, to a lesser extent, Switzerland, effective exchange rates tended to remain close to levels prevailing at the end of 1978 (as for Canada, France, Italy, and the United States) or to proceed along their respective historical trends (as for the Federal Republic of Germany until the latter part of 1979).

In the aftermath of the monetary measures announced on November 1, 1978, the United States pursued a policy of monetary restraint designed to deal with inflationary pressures, accompanied by active exchange market intervention to correct excessive exchange rate movements, which had contributed to these pressures. This policy, in combination with a greatly improved current account balance, led to a shift in market sentiment regarding the dollar. This sentiment, fortified by the strong impact that the oil price increases were expected to have on some of the other major industrial countries, accounted for the relative strength of the dollar in the first half of 1979.

On March 13, 1979, the EMS was formally implemented. With regard to exchange rates, its principal effect was to include France, Ireland, and Italy in a common margins arrangement with EEC members of the former "snake."[2] On the whole, exchange markets were reasonably stable until the third quarter, and there were few notable policy shifts during this period. By mid-June, the dollar came under heavy selling pressure and depreciated despite a large-scale intervention program coordinated by the authorities of the United States, the Federal Republic of Germany, and Switzerland. In July, all three of these countries increased their discount rates, maintaining restrictive monetary policies. The decline of the dollar slowed. Meanwhile, strains among the currencies of countries participating in the EMS had appeared. These strains were dissipated in September by the revaluation of the deutsche mark and the devaluation of the Danish krone.[3]

Several important policy changes were announced in October. Most industrial countries raised their discount rates, and the United States initiated a policy package designed to ensure better control over the expansion of credit and money, to help curb speculation in the financial, foreign exchange, and commodity markets, and to dampen inflationary pressures. The U.S. measures included an increase of 1 percentage point in the discount rate, the imposition of a marginal reserve requirement

[1] For a description of these developments, see Chapter 1.

[2] The members of the EMS are Belgium, Denmark, France, the Federal Republic of Germany, Ireland, Italy, Luxembourg, the Netherlands, and the United Kingdom. The United Kingdom does not participate in the common margins arrangement. Italy's margins are 6 per cent on either side of its bilateral central rates, compared with 2¼ per cent for the other participants.

[3] Developments within the EMS are discussed in greater detail in the following subsection.

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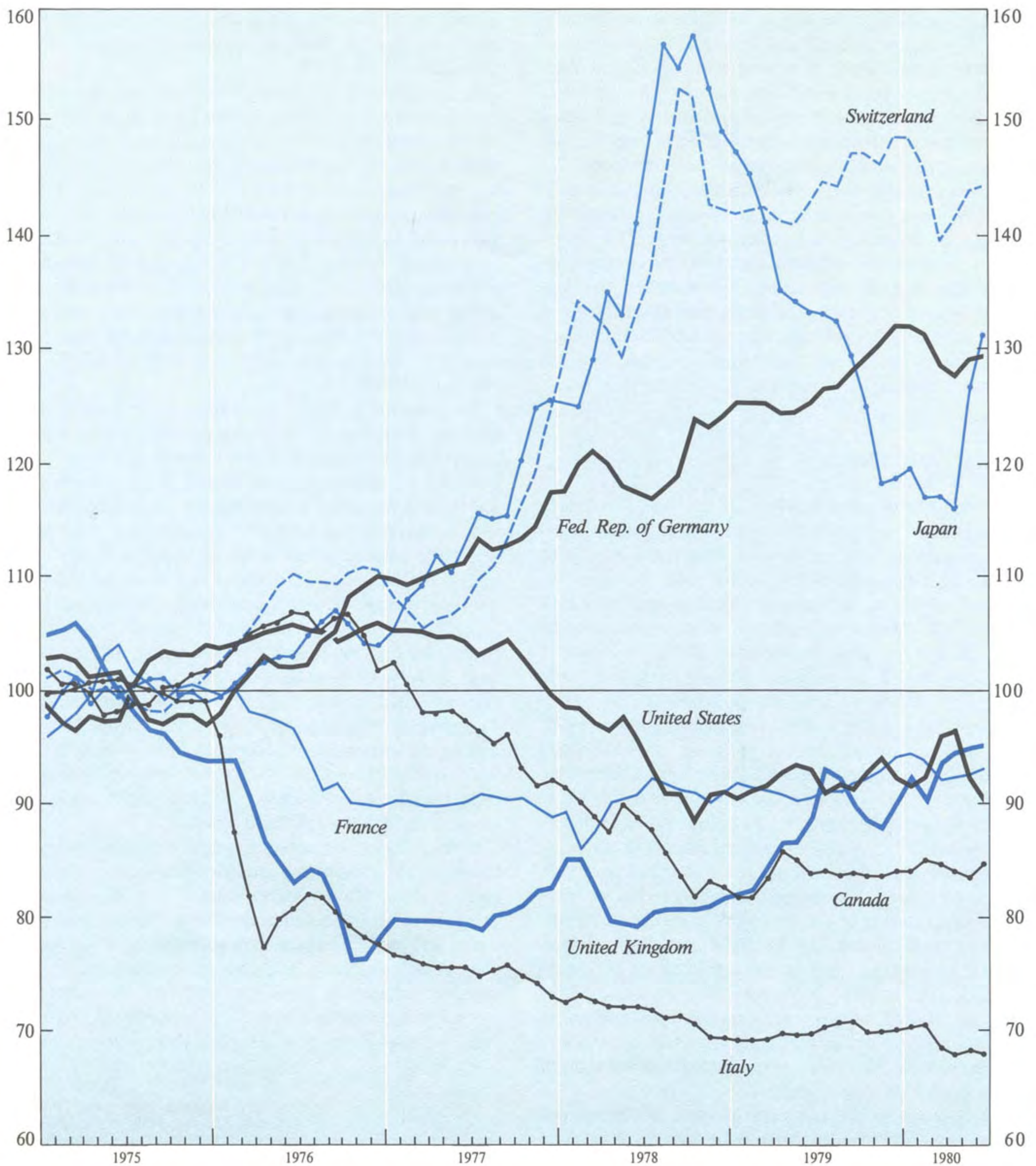
Chart 11. Eight Industrial Countries: Indices of Effective Exchange Rates, January 1975–June 1980
(Monthly average of daily rates, 1975 = 100) [1]



[1] The weights for calculating effective exchange rates are derived from the Fund's multilateral exchange rate model.

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of 8 per cent on managed liabilities (including borrowings from the Eurocurrency markets), and a shift in emphasis from the federal funds rate to the growth of bank reserves as the operating target of monetary policy. The U.S. measures elicited strong expressions of support by central banks in other industrial countries.

The first half of 1980 saw a quick rise and a subsequent decline in the exchange rate of the U.S. dollar vis-à-vis most of the other major currencies. The sharp increases in U.S. interest rates and the decline in many commodity prices, as well as the anti-inflation program announced on March 14, 1980, combined to strengthen the dollar substantially by the end of the first quarter. When U.S. interest rates turned down, while those of other industrial countries remained at higher levels or declined to a lesser extent, the dollar adjusted in an orderly manner.

The two major currencies that experienced large movements in their exchange rates were the pound sterling, which appreciated during 1979, and the Japanese yen, which depreciated. The rise in sterling can be attributed to the sharp increases in oil prices, given the United Kingdom's near self-sufficiency in oil, as well as to the strong anti-inflationary measures adopted by the newly elected government. The Bank of England intervened fairly heavily at times in the first half of 1979 to moderate the appreciation of the pound and raised its discount rate substantially in order to contain the growth in the money supply within the official target range.

The Japanese yen experienced strong downward pressure throughout 1979. The authorities intervened very strongly to moderate the yen's decline during the first half of 1979, over which period Japan's foreign exchange reserves fell by $8 billion, and at the same time raised the discount rate and encouraged capital inflows into Japan. As the pressure on the yen continued, the authorities followed monetary policies that discouraged capital outflows and continued heavy intervention in exchange markets, as a result of which, foreign exchange reserves fell further by $4.5 billion in the latter half of 1979 and by $1.8 billion in the first quarter of 1980. The yen stabilized in March 1980, in part because of a new program designed to attract capital, and since mid-April has substantially appreciated. In April and May, foreign exchange reserves rose by $2.7 billion.

Except for an initial weakness early in 1979, the Canadian dollar remained stable with respect to the U.S. dollar. To some extent this stability can be ascribed to Canada's current and anticipated future position as a net energy exporter in a period of increasing oil prices, as well as to a view that external competitiveness had been restored over the previous two years. It was, however, in part a result of actions by the authorities to prevent Canadian short-term interest rates from diverging too far from those in the United States. These actions were also in line with Canadian domestic policy objectives.

To obtain an overall view of how the authorities responded to exchange rate pressures over the last year, it is useful to examine some measures of official intervention and monetary policy. The changes in international reserves excluding gold, used as a rough measure of official intervention,[4] suggest that the authorities have stepped up their activity in the foreign exchange markets since the latter part of 1978. As measured by the sum of the absolute values of monthly net changes in non-gold reserves, expressed as a percentage of current exports, total official activity in the foreign exchange market of eight industrial countries has been increasing steadily since the mid-1970s (Table 11). The increase from 1977 to 1979 was most pronounced for Canada, France, the Federal Republic of Germany, Japan, and the United States. For these countries, with the exception of France, intervention appears to have risen sharply from the earlier years of the floating period. For the three other countries, there was a decline in intervention between 1977 and 1979, which was especially marked for the United Kingdom. Nonetheless, the sharp increase in intervention by the three largest industrial countries has no doubt had a particularly significant effect on exchange markets in general.

A comparison of changes in total non-gold reserves with changes in exchange rates for these eight countries indicates that intervention during 1978 and 1979 moved, in general, counter to the direction of market pressures (Chart 12). The extent to which this was the case was probably greater than indicated by Chart 12, which shows only net intervention for the month as a whole.

The proxy for intervention used in Table 11 has serious limitations as an indicator of the volume of official activity in exchange markets: for example, it takes account neither of intervention activity in different directions within the same month nor of official compensatory borrowing. Where figures measuring such activity are available, they indicate that the reserve changes shown in Table 11 on the whole underestimate both the volume of intervention and its recent increase. For example, gross intervention by the U.S. authorities, measured by total sales and purchases of foreign exchange, rose from approximately $19 billion in 1978 to $23 billion in 1979. These amounts were in sharp contrast to gross intervention prior to 1978, when the cumulative total from March 1973 to December 1977 was only half of the 1978 figure. By comparison, the sum of monthly changes in official reserves without regard to

[4] The change in the value of reserves can be no more than a rough measure of intervention in the foreign exchange market, since it does not take into account valuation changes owing to exchange rate variations, swap operations between the monetary authority and commercial banks, and other indirect forms of intervention.

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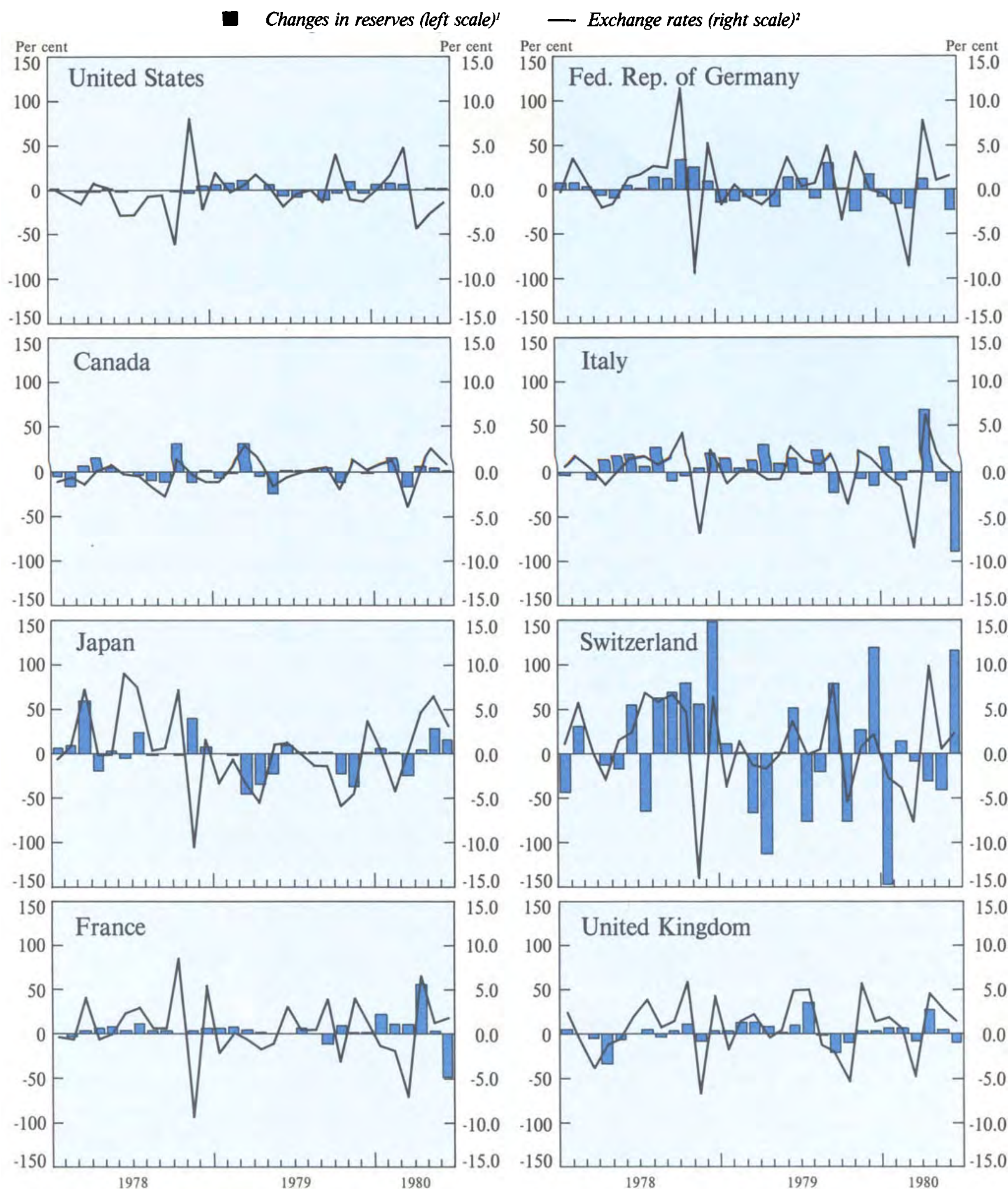
Chart 12. Eight Industrial Countries: Monthly Changes in Official Reserves Relative to Exports and in Exchange Rates, January 1978–June 1980

(In per cent)



[1] For each country, the change in reserves is expressed as a percentage of average monthly exports for the period 1978–79. The change in reserves is defined in Table 11, footnote 1.

[2] The exchange rate at the end of each month is measured in U.S. dollars per unit of domestic currency for all countries except the United States, for which the effective exchange rate derived from the Fund's multilateral exchange rate model is used.

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Table 11. Eight Industrial Countries: Sum of Monthly Changes in Official Reserves Excluding Gold Relative to Exports, March 1973–April 1980[1]

(In per cent)

	Mar. 1973–Dec. 1976[2]	1977	1978	1979	Jan.–Apr. 1980[2]
Canada	4.38	5.36	10.39	7.01	9.46
France	6.94	1.49	4.89	3.88	19.66
Germany, Fed. Rep. of	9.06	6.38	12.40	13.28	11.91
Italy	15.34	15.73	11.93	11.38	29.55
Japan	8.22	8.01	15.06	14.90	7.82
Switzerland	63.55	72.50	56.55	50.54	42.83
United Kingdom	8.89	27.49	8.16	8.80	11.54
United States[3]	2.09	1.48	1.92	5.66	4.58
Eight industrial countries	8.74	10.00	10.55	10.69	12.60

[1] Monthly changes are summed without regard to sign for the periods shown. Changes in reserves are here defined as the total of changes in foreign exchange holdings, reserve positions in the Fund, and holdings of SDRs, *minus* changes in use of Fund credit and cumulative SDR allocations. In calculating these changes, foreign exchange holdings are valued in U.S. dollars (except for the United States, as explained in footnote 3), and all changes in the SDR-denominated reserve components are converted into U.S. dollars at average monthly exchange rates. The figures for 1979 and 1980 have been adjusted by excluding the value of ECUs issued against gold holdings of EMS members.

[2] Annual rate.

[3] For the United States, foreign exchange holdings were valued in SDRs for the purpose of calculating changes, which were then converted into U.S. dollars at current exchange rates.

sign was about $3 billion in 1978 and $10 billion in 1979. Intervention statistics published by the Federal Republic of Germany indicate that total intervention by the Bundesbank was larger in 1978 and 1979, and increased by greater amounts after 1977, than reserve changes alone would indicate. Against this, U.K. data show that when compensatory official borrowing is included in the definition of intervention, total intervention was somewhat greater before 1978, and somewhat less in 1978 and thereafter, than indicated by reserve figures alone.

In addition to official intervention, monetary policies appear to have played a part in the dampening of excessive exchange fluctuations since late in 1978. There have been episodes of coordination of monetary policies since 1978, but the degree of coordination is difficult to assess, in part because coordination does not necessarily imply that monetary policies of participating countries move in the same direction, nor does a parallel movement necessarily imply intentional coordination. It is nevertheless noteworthy that there were several instances when monetary policies moved in tandem—for example, discount rate increases in most industrial countries in the latter half of 1979—and that these parallel movements tended to prevent excessive exchange rate fluctuations by limiting the size of, and changes in, interest rate differentials. Movements in the latter are indicated in Chart 13. The growth in money supply (also shown in Chart 13), which provides another measure of monetary policy, indicates similar parallel movements during the second and last quarters of 1979, when the authorities of France, the Federal Republic of Germany, Japan, Switzerland, and the United Kingdom pursued a more restrictive monetary policy. In large part, these episodes reflected a congruence of objectives, particularly with respect to the common effort to reduce inflation, and the effects of these policies on exchange markets were in considerable part a fortuitous by-product. Among the EMS participants, however, efforts to coordinate monetary policies were more explicit. For this and other reasons the experience of the EMS in its first year is worthy of special attention.

Developments Within the EMS

The EMS, which was established to create a greater measure of monetary stability within the European Community, represents a major modification of exchange arrangements and international policy coordination. It differs from the snake not only through the inclusion of France, Ireland, and Italy in a common margins arrangement but also through the introduction of innovative features, such as the establishment of the European Currency Unit (ECU), plans for the establishment of a European Monetary Fund, and the divergence indicator.[5] The fact that participating countries in the EMS conduct 44 per cent of their external trade with each other (compared with 30 per cent for the

[5] The divergence indicator is a measure of the divergence of the market rate expressed in ECUs for each EMS currency from its ECU central rate. When the indicator reaches one of the thresholds established for each member, the authorities at their option may respond by undertaking official intervention, central rate changes, monetary policy measures, or other domestic policy measures.

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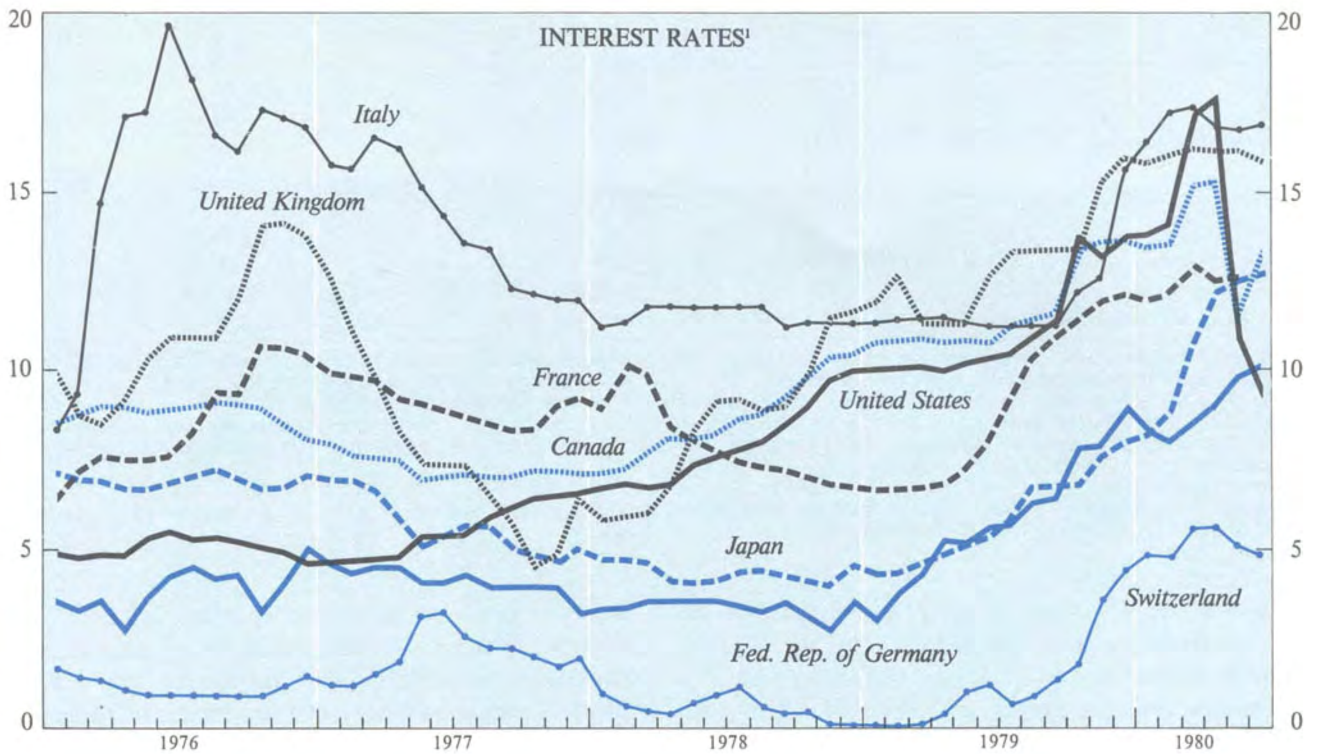
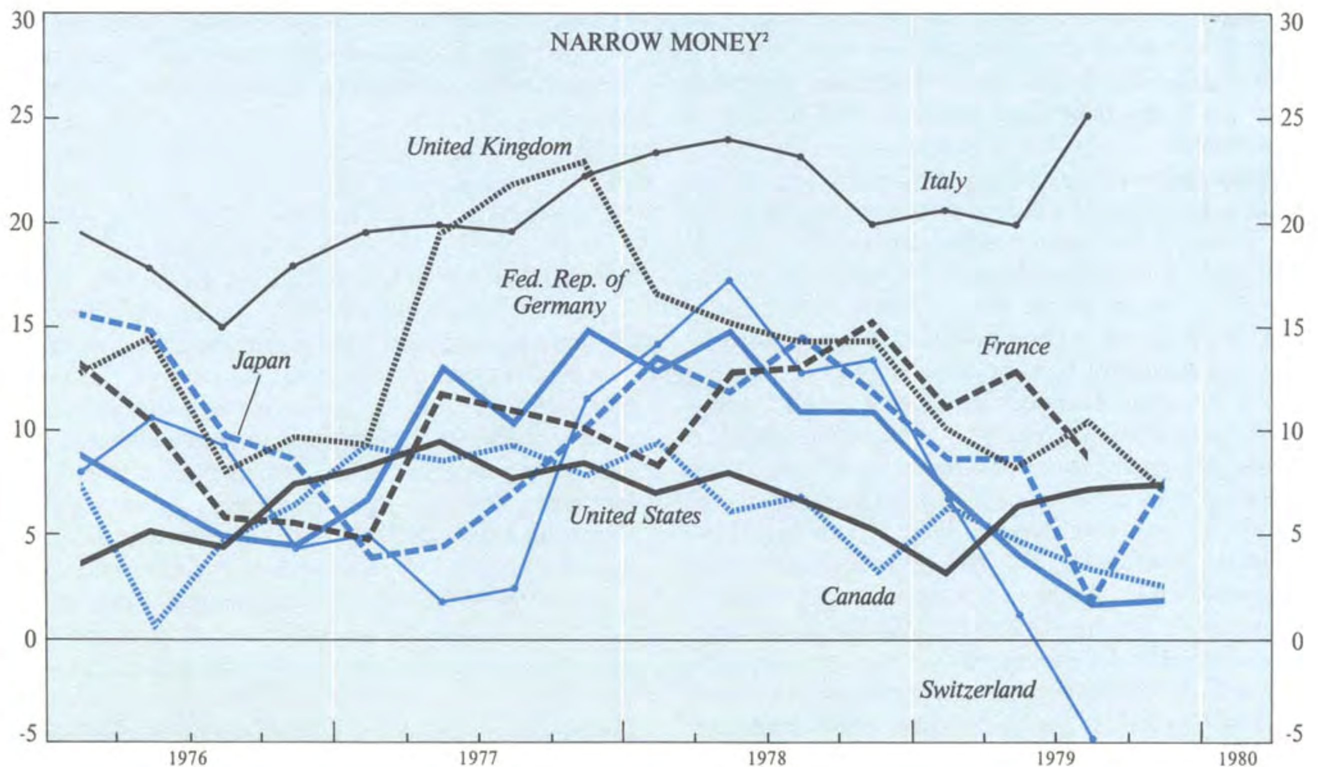
Chart 13. Eight Industrial Countries: Short-Term Interest Rates and Changes in Narrow Money, January 1978–June 1980





[1] The interest rates for France, the Federal Republic of Germany, Italy, and Japan are the call money rates; for the United States, the federal funds rate; for Canada and the United Kingdom, the three-month treasury bill rates; and for Switzerland, the three-month interbank deposit rate.

[2] Three-quarter moving average of quarterly percentage changes (at annual rates) in narrow money, defined as currency *plus* demand deposits.

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members of the previous snake arrangement) implies that stable exchange rates among the participants would go far toward stabilizing their effective exchange rates.

The relative calm of exchange markets in the first half of 1979 facilitated the successful functioning of the EMS in its early months. Within the EMS, interest rate differentials seem to have been important in determining exchange rate movements. The French franc was a beneficiary of capital inflows, largely from the Federal Republic of Germany and partly in response to higher interest rates in France. The lira remained at the top of the band around its central rate, partly because of relatively high interest rates in Italy. When the authorities in the Federal Republic of Germany tightened monetary policy, the authorities of the other EMS currencies quickly raised their interest rates to maintain the differentials against the deutsche mark. At the same time, the authorities of all EMS countries engaged in heavy intervention in order to dampen the depreciation of their currencies against the U.S. dollar.

The technical features of the EMS were reviewed in mid-September and no changes were made, although tensions had arisen within the EMS as a result of disparities in current account positions and inflation rates among the participating countries. On September 23, 1979 the deutsche mark was revalued by 5 per cent against the Danish krone and by 2 per cent against the other participating currencies. The strains within the EMS subsided following this realignment, but on November 30, 1979, the Danish authorities announced a further devaluation of 4.76 per cent of the krone against all other participating currencies. The U.S. dollar strengthened against the deutsche mark and other currencies in the first quarter of 1980, and intervention was necessary on most days to support the Belgian franc and the Danish krone. In March 1980, the authorities of the Federal Republic of Germany intervened heavily to moderate the depreciation of the deutsche mark against the dollar in order to avoid excessive changes in the rate, in view of the expectation that the tendency for the deutsche mark to depreciate would soon be reversed, as it was, in fact, in April.

A coordinated policy vis-à-vis the U.S. dollar has broadly been followed by the EMS participants. Thus, while there has been an increase in intervention by participants using European currencies to support bilateral rates—which was relatively rare under the "snake"—intervention in U.S. dollars has continued on a large scale, mainly to reduce fluctuations of EMS currencies vis-à-vis the U.S. dollar or to carry out necessary adjustments. For example, the ECU appreciated by about 7 per cent against the U.S. dollar between mid-March 1979 and the end of the year.

As a guide to intervention policy and occasional realignments of bilateral central rates among EMS participants, the divergence indicator has to date signaled the need for adjustment only for the weaker currencies. Intervention limits were frequently reached before the divergence thresholds of the currencies concerned were breached. The realignments of EMS currencies that have taken place so far have been carried out in a smooth and orderly manner.

Variability of Exchange Rates Among Major Currencies

In assessing the impact of more active official intervention and of increased orientation of monetary policies toward exchange rate objectives, it is worthwhile to compare recent exchange rate movements with those in previous years. These movements result from closely related developments in underlying economic factors, official policies designed to influence exchange markets, and shifts in expectations in those markets. In some respects, exchange markets tend to behave like other financial markets: at times, they go through periods of unusual volatility, and it is not always evident, even with the benefit of hindsight, which economic forces have induced the increased volatility. For these reasons, shorter-term fluctuations—i.e., movements that reverse themselves within a day, a week, or a month—cannot always be distinguished, at the time of their occurrence, from the longer-term movements of exchange rates spanning several quarters or perhaps years. A large irreversible shift in the exchange rate may occur within a short period of time, and long-term readjustments are often accompanied by large short-term fluctuations.

A useful measure of short-term variability of exchange rates is the average divergence of the monthly percentage change in the effective exchange rate from the average of monthly changes during the period examined. This measure of variability suggests that for the industrial countries exchange rates were substantially more stable during 1979 than during 1978 and the average of the years 1973–77 (Table 12). For developing countries, the reduction in the variability of the effective exchange rate in 1979 paralleled that in the industrial countries, but was less marked.

The experience of individual industrial countries confirms the general increase in exchange rate stability already noted (Table 12). France, the Federal Republic of Germany, Japan, Switzerland, and the United States, as well as the group of "other industrial countries," all show a sharp reduction in the variability of exchange rates in 1979 compared with both 1978 and the earlier years of floating. The reduction from 1978 to 1979 was more moderate for Canada and Italy than it was for the other countries. Italy has maintained a remarkably steady and low level of effective exchange rate vari-

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Table 12. Average Monthly Variability of Effective Exchange Rates, April 1973–December 1979[1]
(In per cent)

	1973–76[2]	1977	1978	1979
Industrial countries	1.41	1.13	1.44	0.96
Canada	0.87	1.14	1.40	1.21
France	1.62	0.50	1.61	0.64
Germany, Fed. Rep. of	1.82	0.98	1.33	0.64
Italy	1.98	0.60	0.73	0.68
Japan	1.36	1.68	3.13	2.03
Switzerland	1.42	1.73	3.38	0.91
United Kingdom	1.45	0.97	1.61	2.16
United States	0.74	0.42	0.94	0.60
Other industrial countries	1.41	1.21	1.22	0.87
Developing countries[3]	1.60	0.98	1.67	1.48
Pegged to U.S. dollar	1.47	0.56	1.57	1.53
Pegged to SDR	1.93	0.63	1.99	2.58
Pegged to French franc	0.81	0.25	0.70	0.37
Other developing countries	1.87	1.63	1.99	1.53

[1] Monthly import-weighted effective exchange rates are used in these calculations. Variability is defined here as the standard deviation of monthly percentage changes in the effective exchange rate about the average percentage change during each year. Figures for groups of countries are unweighted averages of those for the countries in each group.
[2] Annual average, with the period April–December used for 1973.
[3] Countries are classified according to their exchange arrangements as of June 30, 1980.

ability for the lira for the past three years, in contrast to the earlier years of floating. The variability of the effective exchange rate of the pound sterling declined during 1978, but increased again in 1979 to a level above the average for the floating period as a whole.

While the authorities in industrial countries have taken measures to limit excessive exchange rate fluctuations, the private sector has increasingly sought to reduce the impact of exchange rate variability by diversifying exchange risk in the forward exchange markets, which have become wider and more differentiated in recent years, and also in the financial markets, e.g., by hedging through trade credits in the invoice currency. In addition, there seemed at times to have been large portfolio shifts between financial and commodity markets. For example, there were occasions when sharp exchange rate movements were reflected in gold prices, as funds shifted out of one currency were placed not only in other currencies but also in nonfinancial assets, including gold.

Implications of Greater Efforts to Influence Exchange Rates

The foregoing discussion has outlined the recent tendency toward increased official efforts to influence developments in exchange markets. These efforts have been intensified since the last quarter of 1978 because of the large and disruptive exchange rate movements occurring at that time, the growing realization that the market cannot always be relied upon to perform the function of dampening fluctuations in exchange rates, and perceptions regarding the harmful effects of excessive fluctuations. The policy of smoothing such fluctuations involves measures aimed at both maintaining orderly conditions in exchange markets and counteracting the tendency for exchange rates to overshoot the mark in moving to new equilibrium levels. Such measures are complicated by the need for the authorities to judge whether market-determined movement in the exchange rate signals a longer-run change justified by underlying economic conditions rather than a temporary fluctuation based on ephemeral causes. Hence, while official intervention can assist the process of adjustment by preventing exchange rate movements unjustified by underlying factors, it may also at times prevent movements in rates that would have fostered adjustment.

Moreover, the adverse effects of excessive exchange rate fluctuations must be seen in proper perspective. In particular, they need to be compared with the harmful consequences of protracted deviations of exchange rates from their medium-term equilibrium levels. The policies pursued by different countries reflect their perceptions regarding the balance between the economic costs of excessive exchange rate fluctuations, on the one hand, and those of protracted deviations from equilibrium rates, on the other. While the consequences of such deviations are well known, the effects of excessive fluctuations are less clear and bear some discussion.

A principal reason for taking measures to stabilize exchange rates is the fear that exchange rate variations apparently unrelated to underlying economic conditions would have perverse effects on patterns of trade and production, thereby impeding desired adjustments in current accounts. After some years of experience with floating rates, the private sector might be expected to be more aware of the often temporary nature of changes in price competitiveness induced by exchange rate fluctuations and accordingly respond only to those changes in relative wages and employment opportunities that are regarded as permanent. There may nevertheless be good reason for concern that overshooting of exchange rates could lead to unnecessarily large fluctuations in prices, wages, and employment, because the initial changes in exchange rates may induce reactions in prices and wages that are subsequently not easily reversed.

Another reason for official actions to dampen exchange rate fluctuations has been the belief that such fluctuations in exchange rates have been damaging to the growth of foreign trade and investment. Although statistical studies and business surveys have yet to show clear evidence on this point, it is admittedly difficult to come to a judgment on this question. Such a judgment implies a comparison with more stable exchange rates,

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but greater stability might not have been achievable during this period without at times suppressing rate movements that were justified by underlying economic developments, and this in turn could have discouraged foreign trade and investment. Moreover, in view of the various contemporaneous developments that have had adverse effects on both economic growth and price stability since 1973, there is some question whether the occasional tendency toward excessive fluctuations of exchange rates has been one of the symptoms of these developments or an additional cause of slow growth and inflation.

A further reason for official actions to influence exchange markets is that market-determined movements in exchange rates may, at times, hamper anti-inflationary policies. It has, moreover, been argued that the more freely floating are exchange rates, the weaker is the political support for anti-inflationary policies. There is indeed some evidence that under the par value system the contractionary demand-management measures taken by countries with balance of payments deficits tended to be stronger than the expansionary measures taken by countries with surpluses of comparable magnitude. While this tendency alone would have produced a marked deflationary bias in the world economy, there were also many instances during that period when countries with higher than average inflation rates resorted to an increased use of exchange restrictions or exchange rate action rather than to anti-inflationary monetary and fiscal policies. The effect of floating exchange rates in this respect would appear to be a neutral one. To be sure, floating rates permit countries to maintain inflation rates above the world average without changes in the price competitiveness of their traded-goods sectors. Equally, however, market-determined exchange rates assist countries with relatively low rates of inflation in insulating their economies from the impact of higher rates of inflation in the rest of the world. Whether, under market-determined exchange rates, there is any systematic tendency for low-inflation or high-inflation countries to adjust to the average is uncertain: while low-inflation countries may at times resist appreciation of their currencies in order to avoid harming their export sectors, there is also pressure on the authorities of high-inflation countries to avoid inflation, since the depreciation of their currencies tends to reinforce domestic price increases by raising import prices. On balance, the resistance of a government to inflationary pressures appears to have much less to do with the extent of exchange rate management than with the country's past history of inflation and unemployment, its industrial and labor union structure, and the effectiveness with which policies can be implemented through its monetary and fiscal institutions.

A related concern is that some countries might be drawn into a vicious circle of inflation and currency depreciation, based on the feedback effects of movements in exchange rates on import prices, money wages, domestic prices, and export prices, and the fact that the effects on prices and wages are more rapid than the corrective effects on the current account. The extent to which exchange rate changes lead to a vicious or virtuous circle depends on the characteristics of an economy, such as its size and openness as well as the degree of wage and price indexation that is present. There is evidence for the industrial countries suggesting that the smaller and more open is a country, the greater is the extent to which domestic price effects of a depreciation are apt eventually to offset much, if not all, of the competitive advantage gained by the depreciation. The authorities of these economies face especially great difficulties in resisting the inflationary pressures generated by a depreciation of their currencies. Nevertheless, exchange rate depreciation and domestic inflation both typically reflect an excessive rate of money expansion, and the domestic currency cannot depreciate indefinitely unless accompanied by an accommodating monetary policy that is excessively expansionary relative to that of other countries.

A further reason why large, frequent fluctuations in exchange rates may raise rates of inflation above what they would otherwise be has to do with the supposition that effective depreciation of a country's currency tends to accelerate the domestic rate of inflation while an appreciation does not have a corresponding dampening effect on inflation because of the downward inflexibility of wages and prices. Empirical evidence shows that import prices do fall after exchange rate appreciations and that domestic prices do not seem to react in a significantly different manner to positive and negative changes in import prices. Nevertheless, money wages tend in general to be highly rigid in a downward direction. There is thus some basis for concluding that wage and price effects of depreciations and appreciations are somewhat asymmetrical. There is also an additional worry for the authorities in countries with deeply embedded inflationary expectations that those expectations would be immediately exacerbated by a depreciation of the domestic currency while they may respond more sluggishly to an appreciation.

While there are often good reasons for active official intervention in exchange markets and other policy measures to influence exchange rates, such actions can at times be at the expense of attaining domestic monetary targets. This is true both of intervention, to the extent that its monetary impact cannot readily be offset by other monetary measures, and of monetary policies employed to influence exchange rates. The benefits of measures to stabilize exchange rates must be weighed against their domestic monetary impact.

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The balance between fostering orderly market conditions and allowing appropriate exchange rates to be established in the market is important, not only for the industrial countries involved but also for the rest of the world. Large exchange rate fluctuations for the major currencies unfavorably affect the conditions under which most of world trade is transacted. It is, however, in the interest of all members to allow those exchange rate movements to take place that foster international adjustment, and this concern must continue to be a prime consideration in framing exchange rate policies.

Exchange Rates and the Adjustment Mechanism

Over the last decade, exchange rate movements have contributed to required adjustments in the current account, but this contribution was subject to a number of limitations. For the industrial countries, short-run fluctuations in exchange rates have not always reflected underlying economic conditions, and this has led to fears that rate changes may often fail to transmit to the market the signals required to stimulate the desired adjustments. Moreover, when exchange rates have moved in the required direction, the impact on the current account has typically been slow in taking hold and, in the short run, even perverse, because of low short-run price elasticities of import demand and export supply.

The appropriate use of exchange rate policies to help in correcting excessive payments imbalances differs according to the prevailing world economic situation and the circumstances of the country concerned. While the aggregate current account surplus of oil exporting countries, and the corresponding deficit of the rest of the world, is not likely, for reasons discussed below, to be amenable to adjustment through changes in exchange rates, such changes may nevertheless be justified for certain individual countries. In formulating and assessing exchange rate policies, the widely varying circumstances of each country must be carefully considered. In doing so, there are somewhat different sets of factors to take into account for industrial, non-oil developing, and oil exporting countries.

Industrial Countries

Major progress was achieved in 1979 in reducing or eliminating excessive current account imbalances among the major industrial countries, and exchange rate changes appear to have played a significant role in accomplishing this change. The appreciation of the effective exchange rates, relative to inflation rate differentials, that occurred in 1977 and 1978 in the Federal Republic of Germany, Japan, and the United Kingdom seems to have been in part responsible for the subsequent decline in their current account balances. For the Federal Republic of Germany and Japan, the oil price increases also played a major role in this decline, and for all three countries current account balances were affected as well by cyclical and structural factors. The improvement in the current account of the United States appears related to the effective depreciation of the U.S. dollar in 1977 and 1978. The relative current account performance of individual industrial countries in 1979 thus appears to have been influenced by movements in exchange rates and relative prices, even though the relative cyclical evolution of domestic demand has also been a significant factor.[6]

While exchange rates have played an important role in reducing current account imbalances, the question arises of whether, and to what extent, measures should be taken to influence exchange rates so as to facilitate correction of prospective imbalances of industrial countries created in large part by the oil price increases in 1979. Industrial countries as a group can reduce their current account deficit, consistent with an orderly international adjustment process, only by reducing their oil imports or increasing their exports to the oil exporting countries. An important consideration in this regard is the expectation that the rate of increase of imports of oil exporting countries is likely to be smaller than it was after the 1973–74 oil price increases and that the import expansion of these countries will in large part be independent of exchange rate policies in the industrial countries. The depreciation of the currency of an individual industrial country could, nevertheless, be a helpful contribution to international adjustment if its balance of payments position were judged to be weak relative to that of other industrial countries. Such a judgment would depend, inter alia, upon the impact of relative cyclical positions on both the capital and current accounts, as well as upon the effects on domestic saving and investment of the changes in trade and capital flows induced by the new level of oil prices. In view of the importance of oil imports, judgments as to the usefulness of exchange rate movements would also have to take into account differences among the industrial countries in their capacity to exploit domestic energy resources, in the available scope for additional energy conservation, and in the ease with which funds can be attracted from oil exporting countries to finance productive investment. Such judgments would also have to be made in the light of the feasibility and desirability of reducing divergences in growth and inflation trends among countries by means of cooperative policy action.

[6] See Chapter 1.

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Non-Oil Developing Countries

Difficult choices are faced by the non-oil developing countries in determining how to adjust to the increased oil prices. This adjustment effort is hampered by the slowing in the pace of industrial activity in the rest of the world, as well as by protectionist barriers to certain types of their exports to the industrial countries. As explained elsewhere in this Report, financing of payments imbalances will be required on a large scale. Nevertheless, the aim of the non-oil developing countries will be to achieve structural adjustments in their economies that permit the eventual attainment of sustainable current account deficits—by export expansion to oil exporting and industrial countries and by avoiding too rapid a rate of growth of imports from those countries. They will attempt to pursue this aim without sacrificing their fundamental objective of a satisfactory pace of economic development. For some of these countries with large external disequilibria, exchange rate policies can play an essential complementary role in this adjustment effort.

In the short run, significant expansion in the value of exports is often difficult for developing countries to achieve because, in many cases, supply elasticities at home and demand elasticities abroad are low. In the longer run, supply elasticities are larger and there is greater scope for export expansion, especially for exporters of manufactured goods. For the latter, in particular, active exchange rate policies have often proved helpful in maintaining their price competitiveness. While for individual countries that export primary products such policies may prove useful, for exporters of a particular primary product as a group, attempts to achieve rapid increases in such exports will, in most cases, simply lead to lower overall export revenues, because the price and income elasticities of demand for many primary goods tend to be low. For most non-oil developing countries, however, as for others, export expansion could be facilitated by the removal of existing trade barriers in the industrial countries.

While more rapid growth of the developing countries normally requires larger imports of investment goods, there is considerable scope for eventually reducing dependence on certain types of imports. Import substitution in the manufacturing sector can be achieved on a significant scale in a number of countries but is often limited by the dependence on essential imports of capital equipment and raw materials, as well as by the character of resource endowments. The capacity for efficient import substitution can also be hindered by price distortions arising from government policies. For countries importing foodstuffs, a gradual movement toward import substitution is often possible, since most developing countries have possibilities for substantially raising the productivity of agricultural resources. Another type of import substitution, which is of special interest in present circumstances, is the development over the long run of domestic energy resources, for which there is considerable scope in many countries. To be sure, the investment requirements for both agricultural and energy development are large and will normally entail substantial foreign assistance. Some scope may also exist for import substitution for the group of developing countries as a whole through the expansion of trade within the group, which can be facilitated by regional trade and payments arrangements.

In programs designed to achieve the types of structural adjustments just described, exchange rate action plays an important role where such adjustments require changes in relative prices facing producers and consumers or involve the elimination of exchange and trade restrictions. Exchange rate action, to be effective, needs to be accompanied by supporting policies that encourage efficient resource allocation and investment and prevent an excess of aggregate demand over supply from offsetting, through general inflation, the initial changes in the relative prices of traded and nontraded goods. Additional measures are often required to accompany exchange rate action, for instance, the removal of controls and restrictions, public investment in certain areas, or changes in the structure of taxes and subsidies.

Oil Exporting Countries

In many oil exporting countries, the process of adjustment initiated by the rise in oil revenues has been accompanied by a deterioration in their non-oil current accounts, domestic inflation, a rise in the prices of nontraded goods relative to those of traded goods, and a tendency toward corresponding changes in the structure of domestic production. These developments have been very important in bringing about balance of payments adjustment on current account. At the same time, however, they have also been regarded as interfering with the efforts of these countries to create a more diversified base of non-oil production.

The question of what is the correct exchange rate policy for the oil exporting countries to follow under these circumstances does not have a simple answer. Normally, a country with a persistent balance of payments surplus would be expected to consider an appreciation of its currency as an appropriate element in a mix of corrective policies. In the special conditions in which the oil exporting countries presently find themselves, however, such a step would have little relevance for the major decisions to be made by these countries in the coming years with respect to the rate of petroleum production, the pace of import expansion and domestic economic

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development, and the allocation of their foreign investments. These decisions are largely independent of exchange rate policies, since they are affected mainly by the rates of return on investment abroad, the real terms of trade between petroleum and the goods imported by oil exporting countries, and the absorptive capacity of their economies. Moreover, in some oil exporting countries, the dominance of government involvement ensures that the structure of domestic production is determined largely by government decisions without regard to market incentives. In these instances, the effects of exchange rate changes are likely to be much smaller than in most non-oil developing countries.

Nevertheless, in a number of oil exporting countries the market plays a significant role; and in these countries another objection is raised against a policy that results in an appreciation of the national currency, namely, that it discourages diversification of the economy by reducing the competitiveness of the non-oil traded goods sector. The desirability of encouraging the growth of this sector, and the correct timing of such encouragement, varies considerably among economies, depending on the projected time span and size of oil earnings, as well as on the immediate development needs of each country.

Where encouragement of the non-oil traded goods sector is desired, suitable incentives may include special government assistance to certain activities and changes in the structure of taxes and subsidies. The use of exchange rate policy to foster a more diversified non-oil sector—as has sometimes been suggested—would in general be a less effective way of encouraging this development than would policies aimed directly at reducing the growth of consumption expenditure or at augmenting the share of expenditure devoted to investment. This is especially so in countries that already have large balance of payments surpluses, since in these circumstances exchange rate depreciation tends to result in increases in wages, prices, and money supplies that offset the initial effect of the depreciation on relative prices and domestic expenditure.

Surveillance

This section provides a general review and analysis of the Fund's first two years of experience with the principles and procedures for surveillance over the exchange rates of its member countries. The Second Amendment of the Articles of Agreement gives Fund members freedom to choose their exchange arrangements, except for a prohibition against maintenance of the value of a currency in terms of gold. At the same time, each country undertakes, under Article IV, "to collaborate with the Fund and other members to assure orderly exchange arrangements and to promote a stable system of exchange rates," and the Fund is required to engage in firm surveillance over members' exchange rate policies to ensure that they are consistent with this broad objective. In order to perform this function, the Fund adopted, in April 1977, a set of principles for the guidance of members' exchange rate policies, as well as principles and procedures for Fund surveillance over these policies, which became the basis for surveillance as soon as the Second Amendment entered into force on April 1, 1978.

Principles and Procedures of Surveillance

Three principles for the guidance of members' exchange rate policies were devised as a means of ensuring that each member country follows exchange rate policies compatible with its general obligations under Article IV:

> A. A member shall avoid manipulating exchange rates or the international monetary system in order to prevent effective balance of payments adjustment or to gain an unfair competitive advantage over other members.
>
> B. A member should intervene in the exchange market if necessary to counter disorderly conditions which may be characterized inter alia by disruptive short-term movements in the exchange value of its currency.
>
> C. Members should take into account in their intervention policies the interests of other members, including those of the countries in whose currencies they intervene.[7]

The principles of Fund surveillance over exchange rate policies provide a list, which is not exhaustive, of developments that might indicate the need for discussions between the Fund and a member country. These developments include protracted large-scale intervention in one direction in the exchange market; an unsustainable level of official or quasi-official borrowing or lending for balance of payments purposes; various kinds of restrictions or incentives affecting current transactions or capital flows; abnormal encouragement or discouragement to capital flows through financial policies for balance of payments purposes; and exchange rate behavior that appears to be unrelated to underlying economic and financial conditions.

The procedures for surveillance oblige each member to notify the Fund promptly of any changes in its exchange arrangements and to hold regular consultations under Article IV. They require the Executive Board to engage in periodic reviews of broad developments in exchange markets and to undertake an annual review of the general implementation of surveillance. They also provide that the Managing Director is to keep in close contact with members concerning their exchange arrangements and stand ready to discuss, at the member's initiative, any contemplated changes in these policies. If the Managing Director considers that a member's ex-

[7] Executive Board Decision No. 5392-(77/63), adopted April 29, 1977. See *Annual Report, 1977,* pages 107–109.

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change rate policies may not be in accord with the exchange rate principles, he is to initiate special discussions with the member and, if necessary, report the matter to the Executive Board.

Experience with Surveillance Procedures

In practice, the Fund's surveillance over exchange rate policies is conducted on two distinct but complementary levels. The first, surveillance at the global level, is concerned with ascertaining whether or not there is a broad international consistency in members' balance of payments and exchange rate policies. This concern is grounded in the Fund's role of assistance to members in achieving international economic and financial stability. Global surveillance is carried out in the context of the regular discussions of the world economic situation and outlook that take place both in the Executive Board and at the meetings of the Interim Committee. These discussions are the primary means by which the Fund reviews major exchange rate developments affecting the world economy, as well as the consequences that arise from the policy stances of those countries that are important for the international adjustment process.

The assessments reached in these discussions are taken into account by the Fund in implementing the second aspect of surveillance, which is that of identifying, and encouraging the correction of, inappropriate exchange rates and exchange rate policies of individual member countries. This task is carried out largely within the framework of the regular Article IV consultations with members. These consultations take place annually, whenever possible, and include consideration of the observance by a member of the principles of surveillance and of its general obligations under Article IV. These consultations are completed by conclusions reached in the Executive Board, which take the form of a summing-up by the Managing Director of the views expressed by Executive Directors during the discussion of the staff report on the Article IV consultation.

In the interval between Article IV consultations, the Managing Director may initiate special discussions with a member if he considers that the member's exchange rate policies may not be in accord with the exchange rate principles. In January 1979, in response to concern that these standard procedures might give rise to uneven treatment of members according to the type of exchange arrangement being maintained, the Executive Board decided to institute a supplemental surveillance procedure. Under the supplemental procedure, the Managing Director would initiate informally and confidentially a discussion with a member before the next regular consultation under Article IV whenever he considered that a modification of a member's exchange arrangements or of its exchange rate policies, or the behavior of its exchange rate, may be important or may have important effects on other members. This supplemental procedure permits the Fund to look into exchange rate developments or situations of importance without the presumption that the member in question has not complied with its obligations under Article IV.

Changes in Exchange Arrangements

When the Second Amendment of the Articles of Agreement entered into force, all countries were required to notify the Fund of the exchange arrangements that they intended to apply after April 1, 1978. They were also required to notify the Fund promptly of any changes in their exchange arrangements. Since April 1978, many countries have revised their views about what constitutes an appropriate exchange rate regime. As has already been noted, several industrial countries have altered their intervention policies in a significant way, and another group has recently formed the currency area of the European Monetary System. Some adjustments in exchange arrangements and policies have also taken place in many developing countries over the past two years as their circumstances have changed. These adjustments are shown in Table 13, in which the exchange rate regime that each country adhered to on June 30, 1980 is compared with the one that was first notified to the Fund in April 1978. Since some countries have notified the Fund of adjustments on more than one occasion, column 2 of Table 13 indicates the number of times that the Fund's classification of a country's exchange arrangements has changed during this period. During the period under review in this Report, from the beginning of 1979 to the end of June 1980, 24 members notified the Fund of changes in their exchange arrangements resulting in a reclassification under the categories shown in Table 13. To a considerable extent, the changes in exchange arrangements that occurred during this period, as well as earlier, were motivated by the desire to prevent excessive fluctuations in members' effective exchange rates.

Current Issues Relating to Surveillance

A basic precept of the exchange rate system set forth in the amended Articles of Agreement is that exchange market stability should be achieved through the pursuit by member countries of stable underlying domestic economic and financial conditions. To the extent that members' policies and performance regarding growth and inflation differ, they should allow their exchange rates to adjust in an orderly manner, rather than attempting to maintain inappropriate exchange rates through such measures as extensive official intervention, large accom-

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Table 13. Exchange Arrangements of Member Countries on April 1, 1978 and June 30, 1980 [1]

Arrangements on April 1, 1978	Number of Changes	Arrangements on June 30, 1980: Currency pegged to: U.S. dollar	Pound sterling	French franc	Other currency	SDR	Other currency composite	Cooperative exchange arrangements	Exchange rate adjusted according to a set of indicators	Other arrangements
Industrial countries										
Currency pegged to										
Pound sterling										
Ireland	1							✓		
Other currency composite										
Austria	—						✓			
Finland	—						✓			
New Zealand	1									✓
Sweden	—						✓			
Cooperative arrangements										
Belgium [2]	—							✓		
Denmark [2]	—							✓		
Germany, Fed. Rep. of [2]	—							✓		
Luxembourg [2]	—							✓		
Netherlands [2]	—							✓		
Norway	1						✓			
Other arrangements										
Australia	—									✓
Canada	—									✓
France	1							✓		
Iceland	—									✓
Italy	1							✓		
Japan	—									✓
Spain	—									✓
United Kingdom	—									✓
United States	—									✓
Developing countries										
Currency pegged to										
U.S. dollar										
Bahamas	—	✓								
Barbados	—	✓								
Bolivia	1									✓
Botswana	1						✓			
Burundi	—	✓								
Costa Rica	—	✓								
Djibouti [3]	—	✓								
Dominica [3]	—	✓								
Dominican Republic	—	✓								
Ecuador	—	✓								
Egypt	—	✓								
El Salvador	—	✓								
Ethiopia	—	✓								
Ghana	1									✓
Grenada	—	✓								
Guatemala	—	✓								
Guyana	—	✓								
Haiti	—	✓								
Honduras	—	✓								
Indonesia	1									✓
Iraq	—	✓								
Jamaica	2	✓								
Korea	1									✓
Lao People's Democratic Republic	—	✓								
Liberia	—	✓								
Libyan Arab Jamahiriya	—	✓								
Maldives	1									✓
Nepal	—	✓								
Nicaragua	—	✓								
Oman	—	✓								
Pakistan	—	✓								
Panama	—	✓								
Paraguay	—	✓								
Romania	—	✓								
Rwanda	—	✓								

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Table 13 *(continued)*. Exchange Arrangements of Member Countries on April 1, 1978 and June 30, 1980 [1]

Arrangements on April 1, 1978	Number of Changes	Arrangements on June 30, 1980								
		Currency pegged to								
		U.S. dollar	Pound sterling	French franc	Other currency	SDR	Other currency composite	Cooperative exchange arrangements	Exchange rate adjusted according to a set of indicators	Other arrangements
Somalia	—	✓								
South Africa	1									✓
St. Lucia [3]	—	✓								
St. Vincent [3]	—	✓								
Sudan	—	✓								
Suriname	—	✓								
Syrian Arab Republic	—	✓								
Trinidad and Tobago	—	✓								
Venezuela	—	✓								
Yemen Arab Republic	—	✓								
Yemen, People's Democratic Republic of	—	✓								
Pound sterling										
Bangladesh	1						✓			
Gambia, The	—		✓							
Seychelles	1					✓				
Sierra Leone	2					✓				
French franc										
Benin	—			✓						
Cameroon	—			✓						
Central African Republic	—			✓						
Chad	—			✓						
Comoros	—			✓						
Congo	—			✓						
Gabon	—			✓						
Ivory Coast	—			✓						
Madagascar	—			✓						
Mali	—			✓						
Niger	—			✓						
Senegal	—			✓						
Togo	—			✓						
Upper Volta	—			✓						
Other currency										
Equatorial Guinea	2				✓					
Guinea-Bissau	1					✓				
Lesotho	—				✓					
Solomon Islands [3]	1						✓			
Swaziland	—				✓					
SDR										
Bahrain	1									✓
Burma	—					✓				
Guinea	—					✓				
Jordan	—					✓				
Kenya	—					✓				
Malawi	—					✓				
Mauritius	—					✓				
São Tomé and Principe	—					✓				
Tanzania	1						✓			
Uganda	—					✓				
United Arab Emirates	1									✓
Zaïre	2					✓				
Zambia	—					✓				
Other currency composite										
Algeria	—						✓			
Cape Verde [3]	—						✓			
Cyprus	—						✓			
Fiji	—						✓			
India	1									✓
Kuwait	—						✓			
Malaysia	—						✓			
Malta	—						✓			
Mauritania	—						✓			
Morocco	—						✓			
Singapore	—						✓			
Thailand	—						✓			
Tunisia	—						✓			
Western Samoa	1									✓

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Table 13 *(concluded)*. Exchange Arrangements of Member Countries on April 1, 1978 and June 30, 1980 [1]

		Arrangements on June 30, 1980								
		Currency pegged to								
Arrangements on April 1, 1978	Number of Changes	U.S. dollar	Pound sterling	French franc	Other currency	SDR	Other currency composite	Cooperative exchange arrangements	Exchange rate adjusted according to a set of indicators	Other arrangements
Exchange rate adjusted according to a set of indicators										
Argentina	1									✓
Brazil	—								✓	
Colombia	—								✓	
Portugal	—								✓	
Uruguay	1									✓
Other arrangements										
Afghanistan	—									✓
Chile	1	✓								
Greece	—									✓
Iran	1					✓				
Israel	—									✓
Lebanon	—									✓
Mexico	—									✓
Nigeria	—									✓
Papua New Guinea	1						✓			
Peru	2									✓
Philippines	—									✓
Qatar	—									✓
Saudi Arabia	—									✓
Sri Lanka	—									✓
Turkey	—									✓
Viet Nam	1					✓				
Yugoslavia	—									✓

[1] No current information on the exchange rate system of Democratic Kampuchea is available. The table also excludes the currency of the People's Republic of China, since notification of exchange arrangements has not yet been received from the Chinese authorities.

[2] Prior to March 13, 1979, the category "cooperative exchange arrangements" refers to the European common margins arrangement; since that date it refers to the European Monetary System.

[3] The following countries joined the Fund after April 1, 1978: Cape Verde (November 20, 1978); Djibouti (December 29, 1978); Dominica (December 12, 1978); St. Lucia (November 15, 1979); St. Vincent (December 28, 1979); and Solomon Islands (September 23, 1978).

modating official capital movements, or restrictions on trade or payments.

Within this general framework, the Fund's approach to surveillance over members' exchange rate policies is flexible and permits an evolution of principles and procedures in accordance with the accumulation of experience regarding various exchange arrangements and policies, and in response to relevant developments in the international monetary system. The experience of the last few years suggests that it is far from easy to attain a smooth and steady evolution of exchange rates when economic objectives and policies differ markedly among countries. Over this period, broad trend movements in exchange rates have generally been in the right direction in the sense that the currencies of low-inflation countries have tended, on balance, to appreciate while those of high-inflation countries have depreciated. Nevertheless, the evidence indicates that, especially during periods of high domestic instability, market forces sometimes tend to result in exchange rate movements that do not reflect underlying economic and financial developments. This has led to policy initiatives in two areas. First, there has been an increasing tendency to intervene more extensively in exchange markets and to form wider currency blocs. Second, national authorities have made a greater effort, in part through discussions within the Executive Board and the Interim Committee, to formulate the broad outlines of economic policy in the light of developments in the world economy.

A number of members have also called for the Fund to exercise firmer surveillance over the exchange rate policies of both surplus and deficit countries. The concern about rising worldwide inflationary pressures, the large fluctuations in the values of major currencies, and the existence of serious external adjustment difficulties in many countries have given rise to a widespread feeling that progress would be desirable in improving the international adjustment process and in strengthening confidence in the present exchange rate system. These concerns have led to a wide-ranging discussion by the Executive Board of the Fund's evolving practices in this area, with the objective of enhancing the contribution of surveillance to international monetary stability. In this discussion, a number of general aspects of recent practice were noted.

In the first place, Fund surveillance activities have in many cases been concerned with situations in which unstable domestic economic conditions and policies of

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excessive rigidity of exchange rates led to overvalued currencies, rather than with situations in which balance of payments surpluses called for the revaluation of a pegged exchange rate. This asymmetry may be exacerbated by the current world economic situation. In the immediate future there is only limited scope for the large current account surpluses of certain oil exporting countries to be adjusted through exchange rate changes. While some part of the aggregate current account deficit of oil importing countries is borne by countries in a reasonably strong overall external position, another portion may be borne by countries with exchange rates that are out of line with underlying conditions and are maintained only through unsustainable levels of compensatory borrowing or use of trade and exchange controls, all of which have harmful economic effects both on the countries themselves and on others. For such countries, in view of the increasing urgency of adopting corrective policies as time passes, the Fund has encouraged timely adjustment through exchange rate action and supporting measures. In order to soften the deflationary impact of measures taken to restore equilibrium in deficit countries, however, the Fund must also direct surveillance at countries that are in an overall surplus position, while recognizing the limitations, already noted, of exchange rate policy in adjusting the current surpluses of some oil exporting countries.

It is also important to avoid limiting surveillance to extreme cases, since its main purpose is to prevent the emergence of severe external imbalances that would eventually make disruptive adjustment measures unavoidable. The Fund has, therefore, also focused its attention on cases of incipient imbalances that could become severe at a later stage if no corrective measures were taken. The main difficulty with this procedure is the differentiation between countries in which an overall stabilization strategy has a good prospect for success even without a change in the exchange rate and countries in which a stabilization program could not be expected to succeed without depreciation of the currency.

The Fund has also made use of its wider authority to oversee the compliance of members with their obligations to pursue domestic economic policies that will promote a stable system of exchange rates. This became necessary in many instances where the behavior of the exchange rates for a number of currencies was a source of concern as a result of domestic economic policies. The causes of "excessive variability" of exchange rates have often been wide divergences in inflation rates and the difficulties encountered by monetary authorities in controlling the growth of monetary aggregates. It is only by dealing directly with these factors that exchange rate variability can be checked.

The Fund strives for greater international coordination of domestic policies among its members to limit excessive exchange rate volatility in order to promote the steady expansion of trade and output. Coordination does not, however, mean that countries with a lower than average rate of domestic price increase should have to compromise domestic stability for the sake of limiting exchange rate movements. Furthermore, it is not always feasible or desirable to harmonize cyclical movements in activity levels in major industrial countries. In many cases, it is not so much coordination as an improvement in demand management policies that is required. In particular, it has become more crucial for member countries to abide by the obligations undertaken by them to seek stable underlying domestic economic conditions, not only for their own sake but also because unstable domestic conditions are disruptive to the exchange and trade system as a whole.

When the principles and procedures of surveillance were adopted in April 1977, it was recognized that it would not be possible to produce a comprehensive set of rules applicable to all situations that might arise in the future. Instead, the Fund chose to take a pragmatic approach that would allow the practices of surveillance gradually to emerge from the experience accumulated in dealing with individual cases. In line with these considerations, the decision establishing the principles of surveillance also specified that they should be reviewed at two-year intervals, or more frequently if the need arose. April 1, 1980 marked the end of the first period, and this review has just been completed by the Fund.

In their review, Executive Directors reiterated that because of the considerable freedom of exchange arrangements permitted under the present system, firm surveillance under Article IV is an essential element in ensuring orderly and stable international monetary relations. Furthermore, they expressed the view that surveillance must continue to be directed not solely toward the exchange rate policies of members but also toward their general economic policies and the overall consistency of these policies across countries. As regards the implementation of procedures for surveillance, Executive Directors stressed that the effectiveness of the Fund's role depends not so much on formal or rigid procedures as on the quality and candor of the dialogue between the Fund and each of its member countries. In implementing surveillance, the Fund should therefore rely as much as possible on persuasion, rather than on prescription. The importance of confidentiality and flexibility was also emphasized.

In general, Executive Directors felt that the procedures that were established by the original decision on surveillance were adequate to the task. This decision provides a basis for the evolution of practices to deal with the kinds of exchange rate problems that have been encountered over the past two years. It recognizes that

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market forces alone cannot always ensure that exchange rates reflect underlying economic conditions while acknowledging the dangers of excessive exchange rate rigidity. It also reflects the view that, since exchange rate problems are too complex to justify sole reliance on statistical indicators for judging the appropriateness of countries' exchange rate policies, the Fund should continue to adhere to a judgmental approach.

For the time being, Executive Directors concluded, effective implementation of existing procedures is more important than the introduction of additional procedures. They considered, moreover, that it is important to achieve uniform implementation of surveillance with respect to all countries—whether surplus or deficit, large or small, developed or developing. To this end the Fund should continue to monitor closely the policies of countries where exceptionally large payments imbalances occur or appear likely to occur. The Fund should also expand its efforts to monitor the policies pursued by major industrial countries and their international consistency in the context of its regular analysis and discussion of the world economic outlook. Finally, the Managing Director of the Fund should initiate supplemental surveillance procedures in a discreet and confidential manner whenever he considers it appropriate to do so.

International Reserves and Liquidity

Developments in international liquidity are intimately linked with exchange rate movements and with the monetary and exchange rate policies that countries pursue in view of their macroeconomic objectives. A country can use its reserves, together with official borrowing or lending, to finance temporary payments imbalances —deficits or surpluses—and thereby modify the exchange rate movements that would otherwise take place. The global stock of reserves is influenced in a number of ways by developments in the exchange markets and by the response of monetary authorities to temporary imbalances. First, the authorities of many countries may at times intervene in the same direction, thereby increasing or reducing aggregate holdings of the principal reserve currency. Second, the SDR prices of reserve currencies may change and cause a change in the value of foreign exchange reserves measured in SDRs. Third, movements in the rates at which interest can be earned on short-term investments in reserve currencies affect the growth of these currency holdings.

The following sections deal with the growth of international reserves and with changes in their composition. After a description of the most recent developments, factors contributing to the change in the SDR values of foreign exchange reserves and Fund-related assets are analyzed for the past seven years of floating among major currencies. This review of international reserves is extended in a later section to conditional and unconditional liquidity provided by the Fund and in Eurocurrency markets to furnish a broad basis for assessing the adequacy of international reserves. The role of the SDR is discussed in the final section of this chapter.

Recent Developments in International Reserves

Total reserves excluding gold, as reported in *International Financial Statistics,* increased by 11 per cent (SDR 26 billion) in 1979, compared with annual growth rates of 8 per cent in 1978 and about 19 per cent in 1977 and 1976 (Table 14). As in past years, the growth of foreign exchange reserves in 1979 accounted for most of the rise in non-gold reserves. However, in contrast to earlier years, official holdings of national currencies rose little (SDR 5 billion). Rather, the 1979 increase in foreign exchange reserves resulted in large part from the issuance, by the European Monetary Cooperation Fund, of European Currency Units (ECUs) equivalent to some SDR 20 billion against deposits of a portion of EMS members' gold holdings. Since March 1979 the members of the EMS have deposited 20 per cent of their official holdings of gold and U.S. dollars with that Fund. The ECUs issued against gold add to the total of recorded foreign exchange reserves, while the ECUs issued against dollars change only the composition, and not the size, of such reserves. Changes in the currency composition of official foreign exchange holdings will be discussed in greater detail below. The total of Fund-related assets increased by SDR 1.3 billion. This change resulted from an increase of SDR 4.4 billion in holdings of special drawing rights (somewhat more than the annual allocation of SDR 4 billion), which was partly offset by a decline of SDR 3.1 billion in reserve positions in the Fund resulting from the reduction by SDR 2.2 billion in the Fund's net borrowing under the oil facilities and from the repayment of an outstanding credit tranche drawing by the United Kingdom of SDR 0.8 billion. The volume of gold held in countries' official reserves declined by almost 10 per cent, mainly as a result of the deposits of gold by members of the EMS in the European Monetary Cooperation Fund. The market value of official gold holdings nevertheless doubled between the end of 1978 and the end of 1979, since the decline in volume was much more than offset by a rise of 124 per cent in the market price (measured in SDRs).

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Total reserves excluding gold increased for all three major country groups. For the industrial countries, this total rose proportionately less (by 7 per cent) than the average for all countries, and it would have declined if a part of the gold stock of EMS member countries had not been converted into ECUs; for the major oil exporting countries, it increased at a rate twice (22 per cent) the average rate of increase; and for the non-oil developing countries it grew by little more than average (12 per cent). However, developments differed greatly among countries, particularly those in the last group, with a single country (Argentina) accounting for more than half of the SDR 6.3 billion growth in non-gold reserves for the entire group of non-oil developing

Table 14. Official Holdings of Reserve Assets, End of Years 1973–79 and End of May 1980 [1]
(In billions of SDRs)

	1973	1974	1975	1976	1977	1978	1979	May 1980
All countries								
Total reserves minus gold								
Fund-related assets								
Reserve position in the Fund	6.2	8.8	12.6	17.7	18.1	14.8	11.8	12.1
Special drawing rights	8.8	8.9	8.8	8.7	8.1	8.1	12.5	16.2
Subtotal, Fund-related assets	15.0	17.7	21.4	26.4	26.2	22.9	24.2	28.3
Foreign exchange	101.6	126.5	137.3	160.3	200.3	221.1 [2]	246.0	258.7
Total reserves excluding gold	116.6	144.2	158.7	186.7	226.5	244.1 [2]	270.2	287.0
Gold [3]								
Quantity *(millions of ounces)*	1,020	1,018	1,017	1,013	1,015	1,022	930 [4]	934
Value at London market price	94.9	155.1	121.9	117.4	137.8	177.3	361.4	381.5
Industrial countries								
Total reserves minus gold								
Fund-related assets								
Reserve positions in the Fund	4.9	6.2	7.7	11.8	12.2	9.6	7.7	7.8
Special drawing rights	7.1	7.2	7.2	7.2	6.7	6.4	9.3	11.9
Subtotal, Fund-related assets	12.0	13.3	14.9	19.1	18.9	16.0	17.1	19.6
Foreign exchange	65.7	64.9	68.7	73.7	100.0	127.2	135.9	143.3
Total reserves excluding gold	77.7	78.3	83.7	92.7	118.9	143.1	153.0	162.9
Gold [3]								
Quantity *(millions of ounces)*	874	874	872	872	881	884	789 [4]	789
Value at London market price	81.3	133.1	104.5	101.2	119.6	153.4	306.7	322.1
Oil exporting countries								
Total reserves minus gold								
Fund-related assets								
Reserve positions in the Fund	0.3	1.9	4.3	5.4	5.4	4.4	3.0	3.1
Special drawing rights	0.3	0.3	0.3	0.3	0.4	0.5	1.0	1.5
Subtotal, Fund-related assets	0.6	2.2	4.6	5.8	5.7	4.9	4.0	4.6
Foreign exchange	10.2	35.0	42.4	49.1	55.2	40.1 [2]	51.0	57.6
Total reserves excluding gold	10.8	37.2	47.1	54.9	61.0	45.0 [2]	55.0	62.2
Gold [3]								
Quantity *(millions of ounces)*	34	34	35	37	34	36	37	39
Value at London market price	3.1	5.2	4.2	4.3	4.7	6.3	14.2	15.8
Non-oil developing countries								
Total reserves minus gold								
Fund-related assets								
Reserve positions in the Fund	0.9	0.7	0.6	0.5	0.5	0.9	1.0	1.2
Special drawing rights	1.4	1.4	1.2	1.1	1.1	1.2	2.1	2.8
Subtotal, Fund-related assets	2.3	2.1	1.8	1.6	1.6	2.1	3.1	4.0
Foreign exchange	24.9	25.7	25.3	36.2	44.0	52.8	58.1	56.8
Total reserves excluding gold	27.2	27.8	27.1	37.8	45.6	54.9	61.2	60.8
Gold [3]								
Quantity *(millions of ounces)*	110	108	108	101	98	99	102	104
Value at London market price	10.2	16.5	12.9	11.7	13.2	17.2	39.6	42.6

Source: *International Financial Statistics.*

[1] "Fund-related assets" comprise reserve positions in the Fund and SDR holdings of all Fund members. Claims by Switzerland on the Fund are included in the line showing reserve positions in the Fund. The entries under "Foreign exchange" and "Gold" comprise official holdings of the Netherlands Antilles, Switzerland, and Fund members except the People's Republic of China, for which data are not published. Figures for 1973 include official French claims on the European Monetary Cooperation Fund.

[2] Beginning with April 1978, Saudi Arabian holdings of foreign exchange exclude the cover against the note issue, which amounted to SDR 4.3 billion at the end of March 1978.

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

[4] The decrease recorded in the quantity of countries' official gold holdings from the end of 1978 to the end of 1979 reflects mainly the deposit by the nine member countries of the European Monetary System of 20 per cent of their gold holdings with the European Monetary Cooperation Fund. The European Currency Units (ECUs) issued in return for these deposits are shown as part of the countries' official foreign exchange holdings.

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countries combined. The reversal in 1979 of the sharp decline in the reserves of oil exporting countries that had occurred during the previous year resulted chiefly from the increase in petroleum prices, which strengthened the external payments position of these countries. This development, together with the relatively strong external payments position of the United States, may also explain the slower growth of reserves excluding gold in the two other country groups in 1979 compared with the preceding year. The market value of gold holdings of industrial countries rose by SDR 153 billion during 1979. The corresponding increases for oil exporting countries and non-oil developing countries were SDR 8 billion and SDR 22 billion, respectively. However, the significance of such changes is limited on account of the instability of gold prices and other factors discussed later.

The London market price of gold, which had risen steeply during the first few weeks of 1980, was little higher at the end of May than it had been at the end of 1979. While the market value of official gold holdings thus rose only moderately in the first five months of 1980, gold valuation adjustments continued to play a major role in raising official holdings of ECUs. The European Monetary Cooperation Fund values the gold deposited by member countries (20 per cent of their holdings) at the lower of (1) the average market price over the six preceding months and (2) the average market price on the penultimate working day preceding the swap period for which the ECU price of gold holdings is to be established.[8] According to this formula, the price of gold used by the EMS rose from ECU 165 per ounce for the first swap period started March 13, 1979 to ECU 211 for the third swap period ended January 8, 1980. During 1979, the resulting revaluation of the stock of gold deposited, whose volume remained essentially unchanged at 85 million ounces after July 1979, amounted to almost SDR 5 billion. Further gold revaluations, to ECU 371 per ounce, added almost SDR 15 billion to foreign exchange reserves during the first five months of 1980. A small depreciation of the ECU relative to the SDR prevented that figure from being even larger.

The depreciation of the ECU against the SDR coincided with appreciation of the U.S. dollar against the ECU from the start of the fourth (January 8, 1980) to the start of the fifth (April 9, 1980) swap period. By itself this would have caused more ECUs to be issued against dollars. However, the sales of U.S. dollars by foreign official holders in the face of upward pressures on the dollar were so large during the fourth swap period as to lower the ECUs issued against 20 per cent of the dollar holdings of EMS members at the start of the fifth swap period. On balance, the SDR value of ECUs issued against U.S. dollars thus declined from a peak of SDR 14 billion at the end of the third quarter of 1979 to SDR 11 billion at the end of May 1980, with changes in the SDR value of U.S. dollars contributing very little to this outcome. Since the SDR value of ECUs issued against gold doubled from SDR 17 billion to SDR 34 billion over the same period, ECUs issued against gold accounted for three fourths of all ECUs outstanding at the end of May 1980. At that time, ECUs valued at almost SDR 46 billion were available for the settlement of multilateral balances that may arise from intervention operations between members of the EMS.[9]

Gold price changes and the ensuing valuation adjustments have therefore dominated changes in non-gold reserves via the ECU in recent months, just as they did during much of 1979. The additional ECUs issued, some SDR 13 billion, exceeded the increase of SDR 11 billion in official holdings of foreign exchange for all countries over the first five months of 1980, and the foreign exchange holdings of industrial countries (including ECUs) grew by only SDR 7 billion. Fund-related assets increased by about SDR 4 billion. SDR holdings rose by SDR 3.7 billion on account of the second allocation of SDR 4 billion in the third basic period being made at the beginning of 1980. Reserve positions in the Fund increased by SDR 0.3 billion from a five-year low point reached toward the end of 1979, mainly because repurchases of sterling in January and April 1980 had raised the reserve position of the United Kingdom to SDR 0.4 billion at the end of May 1980. On the other hand, continued reductions in the Fund's net borrowing under the oil facilities were not quite matched by increased net borrowing under the supplementary financing facility. Altogether, non-gold reserves rose at an annual rate of 15 per cent in the first five months of this year, but this rate of increase is expected to decline as the year progresses.

As explained in more detail later in this chapter, the demand for non-gold reserves may be affected by the rise in the market value of official gold holdings. Even though that market value is subject to large fluctuations and its future evolution is therefore subject to considerable uncertainty, its present high level may have some depressing effects on the demand for non-gold reserves.

[8] The dual approach to gold valuation reflects concern about distortions arising from the instability of gold prices. By contrast, only the second method is used to value the dollar holdings of the members of the EMS, i.e., current rather than average exchange rates are applied for that purpose exclusively. Neither the gold nor the dollars against which ECUs are issued are transferred permanently to the European Monetary Cooperation Fund, and both remain under the administration of the countries making these "deposits," with the interest on dollar balances accruing to the depositors.

[9] The United Kingdom, which holds about 8 per cent of all ECUs issued, does not participate in the exchange rate mechanism.

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However, national authorities appear to treat gold more often as a permanent store of wealth than as a source of funds for conducting transactions and market intervention. For this reason it remains appropriate to concentrate on the demand for non-gold reserves.

To relate developments in reserves excluding gold to the growth of international transactions—taken as a proxy for payments imbalances—it is useful to take a long-term approach. During the first seven years of the floating exchange rate regime, from the end of March 1973 to the corresponding date in 1980, official holdings of foreign exchange increased by a factor of 2.5, from SDR 98 billion to SDR 248 billion while world exports of merchandise, measured in SDRs, almost quadrupled, rising by a factor of 3.6 over the same period. If world export prices (the export unit value index converted to SDRs), which rose by a factor of 2.7 over the same period, were applied to deflate the SDR value of the foreign exchange component of international reserves, the purchasing power of these reserves over world exports would be found to be about 4 per cent lower in March 1980 than it had been seven years earlier. On this same basis, the "real" value of SDRs and reserve positions in the Fund would each have fallen by over one fourth. Although non-gold reserves need not grow at the same rate as the value of trade, and changes in the availability of borrowed reserves also matter as explained later, the reduction in the "real" value of non-gold reserves over the past seven years is remarkable in view of the 35 per cent growth in the volume of world exports. During a period marked by cyclical and price instability, supply shocks, and other factors contributing to payments imbalances, the world as a whole thus appears to have reduced its reserve cushion against further imbalances.

Foreign Exchange Reserves

This section describes the sources and characteristics of the growth in official holdings of foreign exchange, valued in SDRs, over the past seven years of floating among the currencies of the major industrial countries. It shows how the composition of official foreign exchange reserves has changed as a result of changes both in the quantities of holdings of national currencies and in their SDR prices. It analyzes how official holdings of currencies would have grown if they had earned the corresponding national short-term market rates of interest. Rates of return in a common unit of account on short-term investments in various currencies are calculated, and the hypothetical growth of the SDR value of these currency holdings is compared with the notional growth of the SDR itself that would have occurred if it had earned interest at the "combined market rate," i.e., at the weighted average of the five national money market rates that enter into the calculation of the SDR rate of interest.

Currency Composition

The currency composition of the increase in foreign exchange reserves in 1979 differed from that of previous annual increments (Table 15). In the years 1973–77, the largest part—on average, three fourths—of the increase in foreign exchange holdings consisted of U.S. dollars. A change in this pattern was already observable in 1978. In that year, the U.S. dollar component of SDR 10 billion was less than one half of the total increment, with much of the remainder taking the form of additions to holdings of deutsche mark (SDR 5 billion) and Japanese yen (SDR 3 billion). In 1979, the principal non-dollar currencies held in official reserves—the deutsche mark, the Japanese yen, the Swiss franc, and the pound sterling—again accounted for an appreciable portion (SDR 9 billion) of the total rise in foreign exchange holdings of SDR 25 billion. Official holdings of U.S. dollars, however, declined by SDR 17 billion. Because the SDR price of the U.S. dollar, which had fallen by 7 per cent during 1978, declined by only 1 per cent in the course of 1979, almost the entire reduction in the SDR value of U.S. dollar holdings resulted from quantity changes, rather than from price changes. The largest part of this reduction was the result of deposits of U.S. dollars equivalent to SDR 13 billion by EMS member countries in the European Monetary Cooperation Fund against an equal amount of ECUs issued to the depositors. These ECUs, as well as those issued against gold deposits, are counted as part of countries' foreign exchange reserves, while the U.S. dollars (and the gold) deposited with the European Monetary Cooperation Fund are not counted as part of countries' reserves. Even if the effects of this substitution and of the decline in the SDR value of the U.S. dollar on official holdings of U.S. dollars were left out of account, these holdings would have decreased somewhat during 1979, with sales of U.S. dollars in support of the Japanese yen not fully compensated by net acquisitions by the authorities of other countries. As already mentioned, this leaves only a small net increase (SDR 5 billion) of national currencies held in foreign exchange reserves, with four fifths of the total increase of SDR 25 billion in these reserves stemming from ECUs issued against gold. If one identified the ECUs issued against U.S. dollars as dollars and excluded the ECUs issued against gold from foreign exchange reserves, only a small decline in official holdings of U.S. dollars and a small increase in foreign exchange reserves would remain. In the official statistics, how-

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Table 15. Quantity and Price Changes Affecting the SDR Value of Official Holdings of Foreign Exchange, by Currency and in Total, over Contiguous Periods, End of First Quarter 1973–End of 1979[1]

(In millions of SDRs)

	1973:I to 1974:II	1974:II to 1975:IV	1975:IV to 1976:IV	1976:IV to 1977:IV	1977:IV to 1978:IV	1978:IV to 1979:IV	1973:I to 1979:IV
U.S. dollar							
Starting value	75,151	86,007	105,144	122,145	151,885	161,437	75,151
Quantity change	10,856	15,976	16,323	36,328	20,137	−16,034	83,586
Price change	0	3,161	678	−6,588	−10,585	−1,325	−14,659
Total change	10,856	19,137	17,001	29,740	9,552	−17,359	68,927
Pound sterling							
Starting value	6,236	6,233	5,052	3,011	3,267	3,174	6,236
Quantity change	199	−243	−1,296	41	−69	675	−693
Price change	−202	−938	−745	216	−24	294	−1,399
Total change	−3	−1,181	−2,041	257	−93	969	−2,092
Deutsche mark							
Starting value	5,192	6,748	8,208	10,391	15,185	20,203	5,192
Quantity change	1,054	1,472	1,162	3,806	3,790	2,453	13,737
Price change	502	−11	1,021	988	1,228	944	4,672
Total change	1,556	1,461	2,183	4,794	5,018	3,397	18,409
French franc							
Starting value	909	1,052	1,626	1,421	1,484	1,973	909
Quantity change	232	479	−66	48	401	75	1,169
Price change	−89	95	−139	15	88	52	22
Total change	143	574	−205	63	489	127	1,191
Swiss franc							
Starting value	1,075	1,625	2,067	2,229	3,862	4,041	1,075
Quantity change	457	147	1	1,093	−363	2,035	3,370
Price change	93	295	161	540	542	79	1,710
Total change	550	442	162	1,633	179	2,114	5,080
Netherlands guilder							
Starting value	287	413	743	758	809	988	287
Quantity change	94	336	−58	27	107	483	989
Price change	32	−6	73	24	72	30	225
Total change	126	330	15	51	179	513	1,214
Japanese yen							
Starting value	...	...	715	1,114	2,062	4,903	...
Quantity change	...	709	363	722	2,532	3,650	7,976
Price change	...	6	36	226	309	−1,255	−678
Total change	—	715	399	948	2,841	2,395	7,298
ECU							
Starting value	—	—	—	—	—	0	0
Quantity change[2]	—	—	—	—	—	27,691	27,691
Price change	—	—	—	—	—	4,818	4,818
Total change	—	—	—	—	—	32,509	32,509
Sum of above							
Starting value	88,850	102,078	123,555	141,069	178,554	196,719	88,850
Quantity change	12,892	18,876	16,429	42,065	26,535	21,028	137,825
Price change	336	2,602	1,085	−4,579	−8,370	3,637	−5,289
Total change	13,228	21,478	17,514	37,486	18,165	24,665	132,536
Total official holdings[3]							
Starting value	98,285	114,400	137,347	160,330	200,294	221,134	98,285
Total change	16,115	22,947	22,983	39,964	20,840	24,891	147,740
Ending value	114,400	137,347	160,330	200,294	221,134	246,025	246,025

Source: Fund staff estimates.

[1] The currency composition of foreign exchange is based on the IMF currency survey (see Table 18, footnote 4) 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 change 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 (except that the average of daily rates is used to obtain the average quarterly SDR price of the U.S. dollar). This procedure converts the change in the quantity of national currencies 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 then yields the SDR value of the quarterly price change for each currency. All changes are summed over several quarters to yield cumulative changes over the periods shown.

[2] Quantity changes in European Currency Units (ECUs) issued against dollars are evaluated by applying the SDR price of the U.S. dollar on the swap date to the estimated change in dollar holdings. Similarly, quantity changes in ECUs issued against gold are determined by applying the SDR price of the ECU on the swap date to the ECU price of gold used by the European Monetary System and multiplying by the change in the number of ounces.

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

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ever, the total amount of ECUs outstanding at the end of 1979, almost SDR 33 billion, accounts for 13 per cent of aggregate foreign exchange reserves and 12 per cent of total reserves excluding gold (compared with a share of 9 per cent for total Fund-related assets).

The nominal SDR value of official foreign exchange holdings is affected by changes both in the quantity held and in the SDR price of each component currency (Table 15).[10] During the first four years of the period of floating exchange rates, the value of the U.S. dollar in terms of SDRs either remained constant (as during the 15 months preceding the introduction of the first SDR basket in mid-1974) or increased. The SDR value of official holdings of U.S. dollars thus rose not only as a result of the growth in the volume of these holdings but also, although to a much smaller extent, as a consequence of the appreciation of the U.S. dollar against the SDR. In the following three years, 1977–79, the U.S. dollar depreciated against the SDR, and the SDR value of official U.S. dollar holdings decreased as a consequence of these exchange rate effects by a total of SDR 18 billion, which offset almost one half of the increase in the volume of U.S. dollar reserves of SDR 40 billion over this three-year span. As already mentioned, in 1979 a small reduction in the SDR value of official U.S. dollar holdings stemming from a depreciation of the dollar against the SDR by about 1 per cent was reinforcing a decline in the volume of these holdings by SDR 16 billion, which was in large part the result of a substitution of ECUs for U.S. dollars in the reserve accounts of countries that are members of the EMS.

The only other substantial reduction in the volume of official holdings of any currency during the period under review was that of sterling in 1975 and 1976. This decline in volume was reinforced by the depreciation of sterling against the SDR in those years. For the deutsche mark, the Swiss franc, and the Japanese yen, appreciation of the currency against the SDR tended to reinforce the growth in the volume of official holdings, with the decline in the SDR price of the yen by almost 20 per cent in 1979 constituting the only major departure from this pattern.

Measured over the entire period characterized by floating exchange rates of major currencies, the growth in the volume of holdings of separately identified currencies (excluding ECUs) of SDR 110 billion was offset by a decline in the SDR value of currency holdings resulting from exchange rate changes by SDR 10 billion, or 9 per cent of the volume growth. If ECU holdings are included, about half of the decline in the SDR value of foreign exchange reserves stemming from exchange rate movements is offset by the issue of additional ECUs of almost SDR 5 billion induced by the rise in the market price of gold, so that the net decline in holdings resulting from exchange rate and other price changes is about SDR 5 billion.

These observations indicate that, while the SDR value of a particular currency held in international reserves can rise or decline significantly as a result of exchange rate movements even in the absence of changes in the volume of the currency being held, exchange rate effects are not nearly as important in the evolution of foreign exchange reserves as a whole. The determination of the value of the SDR by the value of a bundle of specified amounts of 16 currencies ensures that the average change in the SDR price of these currencies, weighted by the respective currency amounts in the SDR basket, must always be zero. Hence, exchange rate changes can affect the total of foreign exchange holdings measured in SDRs only to the extent that the composition of these holdings differs from that of the SDR itself.

These differences in composition have, in fact, been considerable (Table 16). The share of the U.S. dollar in the SDR value of foreign exchange reserves identified by currency declined from a peak of 87 per cent at the end of 1976 to 82 per cent at the end of 1978. It then fell further to 65 per cent at the end of 1979, with a third of this decline resulting from the substitution of ECUs for U.S. dollars, as already described. If ECUs issued against U.S. dollars were added to dollar holdings and ECUs issued against gold eliminated from the total in the denominator, the share of U.S. dollars in total foreign exchange reserves identified by currency would be 78 per cent, rather than 65 per cent, at the end of 1979—a decline of 4 percentage points from the end of 1978. Official intervention designed to slow the appreciation of the U.S. dollar against some currencies, particularly the Japanese yen, contributed to this outcome. Even at 65 per cent, the recorded share of the U.S. dollar in foreign exchange reserves was about twice as large as its initial weight of 33 per cent in both the first and second SDR baskets, which went into effect on July 1, 1974 and July 1, 1978, respectively. The shares of other identified currencies that are also included in the SDR basket are less than their shares in the value of the SDR, although for the deutsche mark the difference in the two shares is small. Hence, whenever the SDR price of the U.S. dollar declines and the SDR prices of these other currencies rise, the net effect on the SDR

[10] Since only about 90 per cent of all holdings of foreign exchange reserves are identifiable by currency for the period under review, the cumulative change during this period of almost seven years in total foreign exchange reserves of SDR 148 billion exceeds the change in holdings identified by currency of SDR 133 billion by about 11 per cent.

The periods examined in Table 15 are annual, except for the first two periods, which are somewhat longer to accommodate both a starting point at the beginning of the period of floating exchange rates and a break at the date, in the middle of 1974, when the value of the SDR first came to be determined on the basis of a currency basket.

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Table 16. Share of National Currencies in SDR Value of Total Official Holdings of Foreign Exchange, Compared with Shares in SDR Valuation and Interest Rate Baskets, End of Selected Quarters, 1973–79 [1]
(In per cent)

	1973:I	1974:II	1975:IV	1976:IV	1977:IV	1978:IV	1979:IV	1979:IV Excluding ECU [2]	SDR Basket [3] Valuation [4]	SDR Basket [3] Interest rate [5]
U.S. dollar	84.6	84.3	85.1	86.6	85.1	82.1	65.1 [6]	77.8	33.0	49.0
Pound sterling	7.0	6.1	4.1	2.1	1.8	1.6	1.9	2.1	7.5	11.0
Deutsche mark	5.8	6.6	6.6	7.4	8.5	10.3	10.7	11.7	12.5	18.0
French franc	1.0	1.0	1.3	1.0	0.8	1.0	0.9	1.0	7.5	11.0
Swiss franc	1.2	1.6	1.7	1.6	2.2	2.0	2.8	3.1	—	—
Netherlands guilder	0.3	0.4	0.6	0.5	0.4	0.5	0.7	0.7	5.0	—
Japanese yen	...	...	0.6	0.8	1.2	2.5	3.3	3.6	7.5	11.0
ECU	—	—	—	—	—	—	14.7 [6]	—	—	—
Total	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0	73.0	100.0

Sources: Various Fund publications and Fund staff estimates.
[1] The detail in each of the first eight columns may not add to 100 because of rounding.
[2] In this alternative calculation, the SDR value of European Currency Units (ECUs) issued against U.S. dollars (SDR 12,784 million at the end of 1979) is added to the SDR value of U.S. dollars, but the SDR value of ECUs issued against gold (SDR 19,725 million) is excluded from the total distributed here. This lowers the total identified by currency to SDR 201,659 million at the end of 1979 and reduces the total change therein during that year from SDR 24,665 million (Table 15) to SDR 4,940 million.
[3] The shares shown for the SDR valuation basket apply precisely only on the date of its inception (July 1, 1978), while the shares in the SDR interest rate basket have been held fixed since that date. The weights of particular currencies in the SDR valuation basket change with the SDR prices of these currencies.
[4] Apart from the six currencies included in this column, specified amounts of ten other currencies are included in the second SDR basket, which accounted for the remaining 27 per cent of the value of the SDR on July 1, 1978. Currency weights in the SDR valuation basket are determined by the shares of issuing countries in total exports of goods and services, except for the weight of the U.S. dollar, which was set at a higher level (33 per cent) to take account of its financial importance.
[5] The weights of the five currencies in the interest rate basket are approximately equal to the initial weights of the five currencies in the second SDR valuation basket adjusted so as to sum to 100. The weight of the U.S. dollar was 2 percentage points lower and that of the pound sterling 2 percentage points higher during the period of the first basket (July 1, 1974 to June 30, 1978).
[6] The share of U.S. dollars would rise by 5.8 percentage points and that of the ECU would fall by the same amount if ECUs issued against U.S. dollars were treated as U.S. dollars in foreign exchange reserves.

value of foreign exchange reserves is negative. The reason why exchange rate changes had very little net effect on the evolution of the SDR value of the total of official holdings identified by currency is therefore to be found in the behavior of the SDR value of the U.S. dollar, which fell only moderately, by about 8 per cent, from the end of March 1973 to the end of 1979, although there were wide swings within this period.

Rates of Return on Major Currencies

To analyze one of the factors involved in currency diversification that may help to explain pressures that are at times exerted on exchange markets as adjustments of currency portfolios are undertaken or attempted, it is useful to compare the rates of return, expressed in a common unit of account, that would have been earned on short-term investments in major currencies. International investors, public and private, arrange their portfolios in the light of a number of criteria, including liquidity, risk, and the expected use of resources denominated in various currencies in the future, in addition to expected rates of return. Although the returns that are expected to prevail in the future are not observable, these expectations are formed partly on the basis of past experience. A review of *ex post* rates of return on short-term investments in major currencies and in the SDR can thus shed light on important factors affecting the portfolio decisions of international investors, particularly private investors. If such investors attempt to alter the currency composition of their portfolios rapidly, the authorities of major industrial countries may feel obliged to intervene in the other direction to smooth exchange rate changes because for official holders yield considerations may be less important than stabilization objectives.

SDR rates of return on investments in each of five major currencies over a given time span are calculated by converting SDR 1 into one of these currencies at the exchange rate prevailing at the beginning of the period, investing the proceeds in a suitable short-term instrument denominated in that currency, and converting both principal and interest back into SDRs at the exchange rate prevailing at the end of the period. The own rate of return on the SDR that is used for compari-

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Table 17. National and SDR Rates of Return Realized on Money Market Investments in Specified National Currencies,[1] Annually from End of First Quarter, 1973–80, and Period Averages
(In per cent)

	1973:I to 1974:I	1974:I to 1975:I	1975:I to 1976:I	1976:I to 1977:I	1977:I to 1978:I	1978:I to 1979:I	1979:I to 1980:I	Average[2] 1973:I to 1980:I	Average[2] 1975:I to 1980:I
	← National Rates of Return →								
Short-term assets denominated in									
U.S. dollar	7.21	8.08	5.84	5.07	5.38	7.39	10.45	7.05	6.81
Deutsche mark	12.70	10.27	5.10	4.32	4.44	3.75	6.85	6.73	4.89
Pound sterling	9.67	12.10	10.99	12.13	8.29	9.03	14.29	10.91	10.93
French franc	9.19	13.78	8.16	9.01	9.58	8.42	9.81	9.69	9.00
Japanese yen	7.35	13.14	11.09	7.14	5.80	4.38	5.99	7.80	6.86
Weighted average[3]	8.74	10.17	7.19	6.49	6.09	6.68	9.65	7.85	7.21
	← SDR Rates of Return →								
U.S. dollar	7.21	4.52	14.18	4.82	−1.22	3.20	13.60	6.49	6.75
Deutsche mark	25.31	15.98	4.42	10.58	15.59	8.00	5.69	12.02	8.79
Pound sterling	5.96	9.08	−4.78	0.43	9.54	16.78	23.11	8.24	8.53
French franc	4.08	24.35	5.35	2.18	11.43	11.07	8.36	9.34	7.62
Japanese yen	3.40	2.78	17.49	15.43	23.74	6.59	−8.63	8.21	10.32
Weighted average[4]	9.66	9.10	9.35	6.19	7.14	6.90	10.13	8.34	7.93

Source: Fund staff estimates.
[1] The yields on these investments are assumed to be the same as the interest rates in the SDR interest rate basket. Three-month treasury bill rates are used for the United States and the United Kingdom, three-month interbank deposit rates for the Federal Republic of Germany and France, and the call money market rate (unconditional) for Japan.
[2] The fixed annual rate is shown that would have yielded the same growth from the beginning to the end of the period indicated, with annual compounding at the variable rates actually available.
[3] Since the weights applied are the same as those in the SDR interest rate basket, the resulting series is approximately equal to the interest rate officially earned on SDR holdings in excess of allocation if such interest were paid at 100 per cent of the weighted average of the five national rates in the SDR interest rate basket.
[4] While the weights are the same as those in the SDR interest rate basket, they are applied to SDR rates of return and not to the corresponding national rates in the basket. Since the SDR price of the 5 currencies in the interest rate basket has changed relative to that of the 11 additional currencies in the SDR valuation basket, the two weighted averages are not the same. The discrepancy arises from the lack of correspondence of the two baskets.

son is equal to the weighted average of the yields on money market investments in the U.S. dollar, deutsche mark, sterling, French franc, and Japanese yen.[11]

Realized yields on these short-term investments in terms of the currency in which the investment is denominated ("national yields") differ systematically among currencies primarily because of differences in expected rates of inflation. Rates of return on instruments with equal liquidity, terms to maturity, and default risk calculated in any common unit of account, such as SDRs, should in principle be equalized through a matching of expected exchange rate changes and expected differences in inflation rates. International interest parity, with full forward cover of the exchange risk, does in fact tend to hold *ex ante* on such instruments when they are traded in free markets. When viewed *ex post,* however, this matching tends to be incomplete, at any rate in the short run and in some instances also in the long run (Table 17). For instance, the rate of return on the deutsche mark in terms of SDRs was higher than the return on the dollar in five of the past seven years. The average annual SDR rate of return over the first seven years of floating, starting at the end of the first quarter of 1973, was 12.0 per cent for the deutsche mark, compared with 6.5 per cent for the U.S. dollar. Returns on the three other major currencies also exceeded those on U.S. dollar investments, but by margins (1¾ per cent to 3 per cent) that were considerably smaller than the margin for the deutsche mark.

These calculations are very sensitive to the choice of time period: average annual rates of return calculated over the last five of the seven years covered in Table 17 are highest for the yen, in spite of the fact that its dollar price declined at a rate that exceeded the level of Japanese interest rates during the past year. Investments in instruments denominated in deutsche mark showed average annual rates of return that were only 2 percent-

[11] The national yield series employed in all calculations are the same as those contained in the SDR interest rate basket: the market yields for three-month U.S. Treasury bills and for three-month U.K. Treasury bills, the three-month interbank deposits rate in the Federal Republic of Germany, the three-month interbank money rate against private paper in France, and the call money market rate (unconditional) in Japan. For a description of this SDR interest rate basket and the 16-currency SDR valuation basket, see Table 16. Not all of these instruments have always been available for investment by foreigners, but comparable, although generally somewhat higher, yields have been available on Eurocurrency investments in all five currencies in the most recent years. Problems arising from the lack of correspondence between the SDR interest rate and valuation baskets are mentioned in the last section of this chapter.

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age points higher than the rate of return on the dollar over this more recent period, and returns on investments in other major currencies exceeded the return on U.S. investments by 1 to 2 percentage points per annum.

That rates of return, measured in SDRs, on short-term investments denominated in major currencies diverge substantially over shorter periods is illustrated in Chart 14. An investor who placed one SDR's worth of dollars at the end of March 1973 (US$1.20635) in U.S. Treasury bills would have dollars worth SDR 1.55 seven years later, at the end of March 1980. If he had instead invested the same amount in instruments denominated in deutsche mark, he would have SDR 2.21 at the end of the seven-year period, or almost 43 per cent more than for the U.S. dollar investment. Since the deutsche mark appreciated by almost 46 per cent against the U.S. dollar over this period, only a small fraction of the exchange rate change was offset by lower interest rates in the Federal Republic of Germany than in the United States. Returns on sterling were low, and at times negative, during the first three years of the period examined but have risen sharply during the most recent period of 3½ years. Returns on investments in other major currencies have also varied substantially over time, but the cumulative return on each of them exceeds that on the U.S. dollar over the seven-year span examined.

Large and persistent differences in the rates of return realized on particular currencies may be a factor bearing on changes in international currency portfolios. They may also by themselves bring about shifts in the composition of foreign exchange holdings measured in SDRs, if interest receipts on national currency balances are simply reinvested. SDR rates of return have tended to be highest on currencies whose relative importance in both official and private holdings of foreign exchange has been increasing. Furthermore, in 1979, when rising rates of domestic inflation caused rates of return, weighted by the importance of reserve currencies in foreign exchange reserves, to approach double digits, simple accumulation of interest receipts would have caused foreign exchange reserves to grow by about 10 per cent. Official foreign exchange holdings, excluding ECUs issued against gold, actually grew by only 2 per cent in 1979. This indicates that countries were content to allow their foreign exchange reserves to grow by less than the interest receipts on these holdings.

Fund-Related Assets

From the end of March 1973 to the end of March 1980, the share of Fund-related assets in international reserves excluding gold fell from 13.2 per cent to 10.2 per cent. The relative importance of Fund-related assets has thus declined by almost one fourth in spite of renewed SDR allocations at the beginning of 1979 and 1980 and of increases in the drawing facilities of member countries. Even after the last of the three consecutive annual allocations of SDR 4 billion in the third basic period takes place on January 1, 1981, the share of SDRs in total international reserves excluding gold will remain lower than it was at the end of March 1973, and far lower than the peak share of over 10 per cent registered after the last allocation in the first basic period early in 1972. In addition, reserve positions in the Fund equaled only 4.3 per cent of non-gold reserves at the end of March 1980, compared with 5.5 per cent seven years earlier. The four-year program (1976–80) under which the Fund disposed of one third of its gold holdings subtracted about SDR 2 billion from reserve positions in the Fund but increased the liquidity of members both through distribution and through the establishment of the Trust Fund, financed through the profits from gold sales by the Fund and designed for low-interest loans to eligible members.

Official holdings of SDRs by all member countries largely reflect past allocations of SDRs. At the end of March 1980, only about 6 per cent of allocated SDRs were held outside of the group of initial recipients, chiefly by the Fund's General Resources Account. There have, however, been shifts in SDR holdings between major country groups. For instance, SDRs have been transferred from the non-oil developing countries to the oil exporting countries. At the end of March 1980, the amount of SDRs held by industrial countries was almost exactly equal to their cumulative allocations and that held by oil exporting countries equaled 132 per cent of their allocations. Non-oil developing countries had meanwhile reduced their holdings to 68 per cent of their allocations. Not all developing countries were net users of SDRs, however; notably Brazil and Argentina, among the larger countries, held SDRs in excess of allocations. This contributed to SDR holdings for the non-oil developing countries in the Western Hemisphere remaining much closer to allocations (90 per cent) than those for non-oil developing countries in other regions—Middle East, 31 per cent; Europe, 32 per cent; Africa, 46 per cent; and Asia, 78 per cent. There were also striking differences among industrial countries. At the end of March 1980, both the Federal Republic of Germany and Japan held about twice the amount of SDRs originally allocated to them, while the United Kingdom and the United States had both made use of more than one fourth of their allocations. The amount of net use of SDRs by these two countries exceeded the shortfall of holdings from allocations for the entire group of non-oil developing countries combined.

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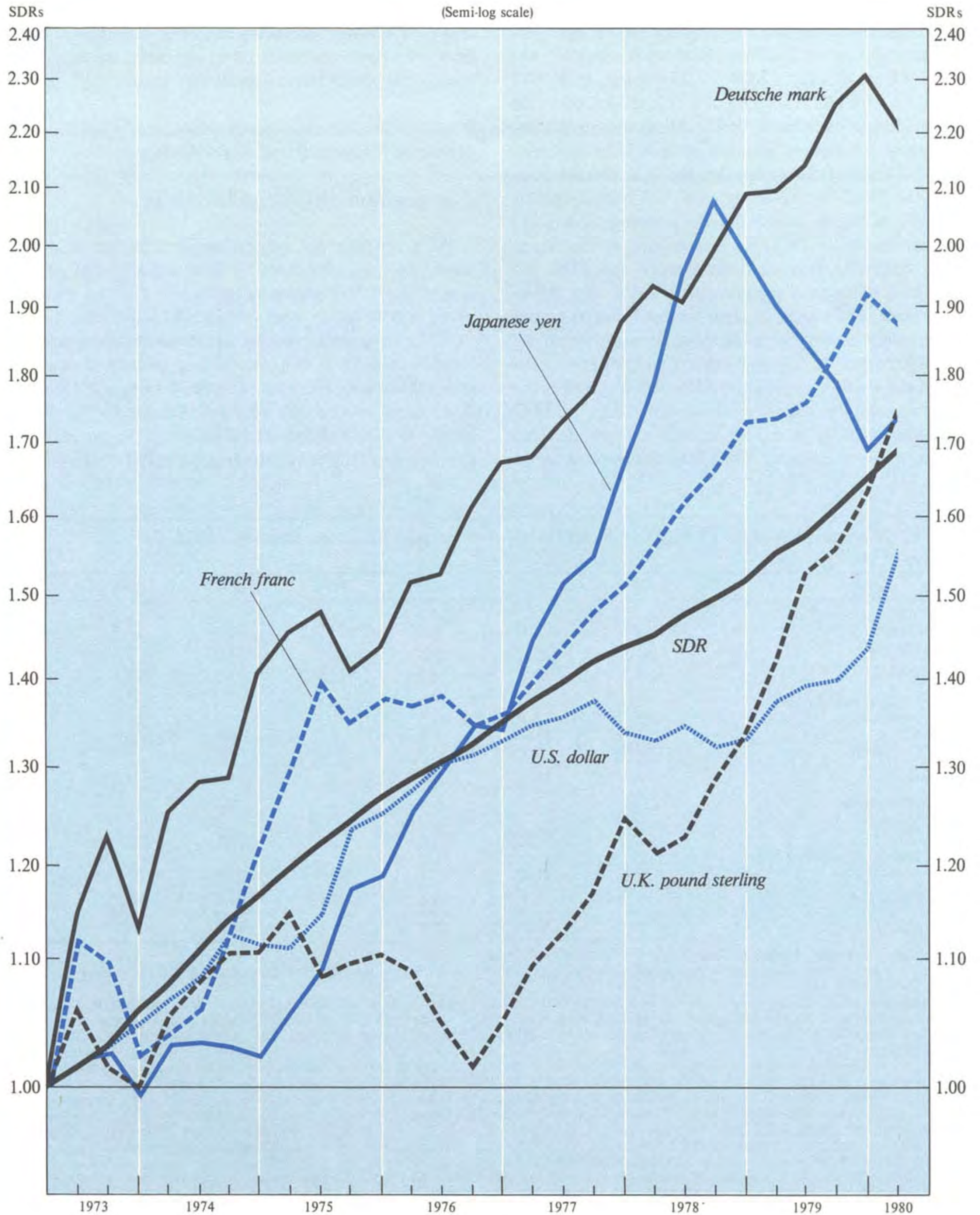
Chart 14. Growth of One SDR Invested in a Specified National Currency or in SDRs with Interest Compounded Quarterly, End of First Quarter, 1973–80



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Changes in aggregate reserve positions in the Fund stem from one of three sources: quota subscription payments in assets other than members' own currencies, drawings other than those in member's reserve tranches, and net borrowing by the Fund under the oil and supplementary financing facilities. Reserve positions in the Fund fell from a peak of SDR 19.0 billion in mid-1977 to SDR 11.8 billion at the end of 1979, the lowest value since the third quarter of 1975. Most of the decline occurred in the reserve position of industrial countries (SDR 5.3 billion). In particular, the U.S. reserve position in the Fund decreased by SDR 3.3 billion, mainly as a result of heavy reserve tranche drawings conducted in November 1978. The reserve positions of the oil exporting countries also declined steeply—by SDR 2.5 billion—on account of repayments of oil facility drawings by members, which, in turn, led the Fund to reduce its borrowing under these facilities, mainly from oil exporting countries. On the other hand, reserve positions in the Fund increased by SDR 0.6 billion for the non-oil developing countries from the middle of 1977 to the end of 1979, with little further change recorded in the first few months of 1980. The increase in members' quotas by 50 per cent, which has been decided but has not yet become effective, will raise the reserve positions of most countries, since 25 per cent of the increase is to be paid in SDRs. However, Fund-related assets as a whole, including the SDR holdings of members, can rise as a result of quota increases only when additional credit tranche drawings ensue.

Reserve Transactions with Banks

Composition of Official Holdings

As in recent years, central banks and other official institutions have continued to hold a significant proportion of their foreign exchange reserves in the Eurocurrency markets. In the period 1973–77, the rise of SDR 113 billion in foreign exchange reserves resulting from transactions (i.e., excluding valuation changes) encompassed an increase of SDR 47 billion in identified Eurocurrency deposits (Table 18). In 1978, the increase in direct claims of SDR 28 billion far exceeded that of Eurocurrency holdings of SDR 2 billion; in

Table 18. Composition of the Change in Official Holdings of Foreign Exchange Reserves, 1973–79 [1]
(In billions of SDRs)

	1973	1974	1975	1976	1977	1978	1979
Official claims on countries							
United States	4.7	8.5	4.2	11.3	30.2	24.5	−11.4
Other countries	1.8	3.6	—	0.3	1.4	3.3	5.0
Subtotal	6.5	12.1	4.2	11.6	31.6	27.8	−6.4
Identified official holdings of Eurocurrencies							
Eurodollars	3.7	13.5	4.6	7.3	10.3	—	—
Other currencies	2.0	0.1	1.7	−0.2	4.2	2.2	2.0
Subtotal	5.7	13.6	6.3	7.1	14.5	2.2	2.0
European Currency Units	—	—	—	—	—	—	32.5
Residual [2, 3]	1.9	−0.4	−3.2	3.2	−1.3	3.8	−3.4
Total change arising from transactions [4]	14.1	25.3	7.3	21.9	44.8	33.8	24.7
Valuation change [4]	−8.4	−0.5	3.6	1.1	−4.8	−8.7	0.2
Total [3]	5.7	24.8	10.9	23.0	40.0	25.1 [5]	24.9

Sources: *International Financial Statistics* and Fund staff estimates.

[1] More detailed information on changes in official holdings of foreign exchange reserves can be found in the *IMF Survey,* Vol. 9 (June 3, 1980), page 167.

[2] Includes identified official claims on the International Bank for Reconstruction and Development, on the International Development Association, and on the European Monetary Cooperation Fund, except ECUs, and the statistical discrepancy.

[3] Small differences between the changes in the *IMF Survey* and those shown here are due to the inclusion of Romania in the present table.

[4] In the corresponding table published in the *IMF Survey,* monthly changes in national currencies held in foreign exchange reserves are converted into SDRs through use of the average monthly SDR price of the currency involved, while the average of two adjoining end-of-quarter SDR prices was applied to quarterly quantity changes in Table 15. (See footnote 1 to that table.) As a result of this refinement and because the entire change in the residual and in the ECUs issued in 1979 is attributed to quantity change in the present table, there are small differences between this table and Table 15 in the way in which the total change in foreign exchange reserves is decomposed into changes arising from transactions (quantity changes) and valuation changes owing to price effects. More important differences in the changes in holdings identified by currency, particularly the U.S. dollar, arise from a difference in data sources. This table uses U.S. balance of payments statistics on official claims on the United States to identify such holdings, while Table 15 is based on the survey on the composition of monetary authorities' gross claims on foreigners conducted by the Fund.

[5] The decrease of SDR 4.3 billion in coverage of Saudi Arabia's foreign exchange holdings in 1978 is not reflected in this total or in any of its components.

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1979, by contrast, direct claims fell by SDR 6 billion, while Eurocurrency holdings again showed a small increase of SDR 2 billion. The significant increase in direct claims during 1978 was the result of large U.S. deficits on both current and capital account. The small rise in identified official holdings of Eurocurrencies in part reflected the fact that much of the increase in reserves in 1978 was concentrated among members of the Group of Ten, which have generally refrained, for most of the period since 1971, from redepositing reserve accruals in the Eurocurrency markets. In addition, oil exporting countries, some of which hold a substantial proportion of their official non-gold reserves in Eurocurrency assets, experienced a substantial decline in total reserves excluding gold—by SDR 12 billion (adjusted). In 1979, declining exchange market pressures on the dollar accompanied the reduction in the U.S. current account deficit. The sharp fall in the capital account deficit reinforced the swing from accumulation to decumulation of direct claims on the United States, even though the exchange of dollar claims for ECUs accounted for about one third of the difference in accumulation.

There are a number of reasons, however, for interpreting these reserve changes with caution. First, since central banks or other designated authorities can borrow from the Eurocurrency markets and from each other, the reported figures do not reveal the potential access to international liquidity of an individual country. Second, it is possible for monetary authorities to sell a portion of their foreign exchange holdings to their commercial banks under repurchase agreements; as a result, these holdings would not be included in the reported reserve figures.[12] Finally, some central banks have utilized foreign exchange market intervention techniques (especially in the forward markets) and swaps that have altered the time path for their reserves. During periods of domestic liquidity shortages caused by capital outflows, the central banks have used these swaps to encourage foreign borrowing; and, as a result, the stock of official international reserves has been temporarily enlarged. Such transactions can be quite large and can have a major impact on the monetary base of the domestic economy as well as on the stock of reported international reserves. For instance, central bank money is temporarily reduced if the monetary authorities sell foreign exchange to domestic banks under a repurchase contract. Conversely, central bank money is increased if they buy foreign exchange in the spot market and sell it forward, even though this will not produce a lasting effect on international reserves.

[12] In this situation, the central bank would have a domestic claim on the commercial banks; and the commercial banks would have a claim on a foreign financial institution.

Regulation and Supervision of the Eurocurrency Markets

The growing importance of the Eurocurrency markets has led to some further discussions about the level of official regulation and supervision of these markets that would be appropriate in light of the aim of maintaining the soundness and stability of the international banking system. Last year's renewal of the 1971 agreement, under which central banks of the Group of Ten refrained from depositing reserve accruals in the Eurocurrency market for a period of several years, meant that central banks will not contribute further to the growth of that market. A more ambitious proposal, that the central banks of the major industrial countries jointly impose a reserve requirement against Eurocurrency deposits of their domestic commercial banks and their Eurocurrency branches, has received little support. Such reserve requirements would reduce the cost advantage of offshore banking relative to domestic banking operations, but successful implementation would require broad participation among the world's central banks. The central bank Governors of the Group of Ten countries reaffirmed in April of this year the cardinal importance that they attached to the maintenance of sound banking standards—particularly with regard to capital adequacy, liquidity, and concentration of risks. Such wide agreement has led the authorities of many countries to focus on more active supervision of commercial banking activity in the Eurocurrency markets. To this end they place high priority on bringing into full effect the initiatives already taken by the Committee on Banking Regulations and Supervisory Practices with regard to the supervision of banks' international business on a consolidated basis, improved assessment of country risk exposure, and the development of more comprehensive and consistent data for monitoring the extent of banks' maturity transformation. All the steps taken or contemplated so far recognize the important role played by banks in recycling large surpluses that have arisen during the last few years and are likely to persist in coming years.

International Liquidity and Adjustment

Recycling

A major issue confronting the world economy in 1980 and beyond is whether international capital markets will be able to play the same role in recycling the surpluses of the oil exporting countries as they did in 1974–76. The increase in crude oil prices from an average of approximately US$13 a barrel in December 1978 to more than US$30 in 1980 is expected to lead to an

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increase of about US$160 billion in the revenue from oil exports this year compared with 1978, thereby contributing to an estimated current account surplus of oil exporting countries of US$115 billion in 1980. For comparison, the current account of the oil exporting countries was nearly in balance in 1978. The modalities of recycling these surpluses will be especially important for the non-oil developing countries, whose current account deficit is expected to increase from US$53 billion in 1979 to US$70 billion this year and to rise even further in 1981.

There have been suggestions to the effect that the solution of the recycling problem is virtually automatic. Since the oil exporting countries will tend to invest their additional reserves in liquid form, at least initially, the resulting deposits will provide the international banking system with a matching amount of funds to lend to oil importing countries. While this recycling process might work once again as smoothly as it has in the past, there are certain factors that could create difficulties.

In the period 1974–76, much of the recycling took the form of Eurodollar deposits by the oil exporting countries being used to finance U.S. dollar loans arranged through large U.S. and European banks. Since that time, however, the currency composition of official deposits and bank loans has become more diversified, with almost half of the increase in official holdings of Eurocurrencies identified in Table 18 invested in currencies other than the U.S. dollar. Furthermore, risk-averse surplus countries may continue to diversify their reserve holdings by both currency and location to reduce political and economic risks on investments placed abroad. For banks, greater concern about loan quality may be stimulated by the possibility of a worldwide recession and by the need to protect their increasingly slim capitalization base. If international banks, as a group, should attempt to "upgrade" their portfolios by reducing foreign exposure and directing more of their net lending toward domestic markets and low-risk instruments in major industrial countries, some of the non-oil developing countries with the most pressing current account imbalances might find it difficult to obtain funds from private sources. This could happen even though, in the aggregate, the supply of funds from earned surpluses matched the requirements for financing corresponding deficits. The margins between loan and deposit rates may thus widen appreciably for some non-oil developing countries.

Margins may widen to some extent for all countries if banks regard strengthening their capitalization base as imperative and falling interest rates and growing risk aversion facilitate the widening of spreads as they did from 1974 to 1975. While this spread is the net cost relevant for the holding of borrowed reserves, declining lending rates reduce the nominal cost of foreign exchange borrowed for other purposes. Whether this also implies a fall in real interest costs, for example, on U.S. dollar loans to non-oil developing countries, must be assessed by referring to the expected increase in the dollar price of the exports of these countries and not just to inflation prospects in the United States. If the terms of trade of non-oil developing countries should decline, their real borrowing costs may rise and this, combined with a cyclical decline in the demand for their exports and with non-gold reserves that have already fallen from 29 to 24 per cent of merchandise imports (c.i.f., at an annual rate) from the first to the last quarter of 1979, could lead to growing difficulties in financing the large current account deficits projected for this group of countries.

The Provision of Liquidity by the Fund

During recent years, the Fund has taken initiatives to increase the accessibility of its existing resources and to expand the availability of balance of payments financing. In providing such financing, the Fund plays a role complementary to that of private international financial institutions by seeking to reach understandings that members will follow macroeconomic policies aiding their balance of payments adjustment. As adjustment programs are devised by its members, the Fund applies the same basic criteria in consultations with all its members while paying due regard to the domestic social and political objectives, the economic priorities, and the circumstances of the member. Although the normal period for stand-by arrangements is one year, the period may be extended to up to three years. The Fund encourages members to adopt corrective measures, which can be supported by the use of the Fund's facilities, at an early stage of the development of balance of payments difficulties or, indeed, as a precaution against the emergence of such difficulties.

The Fund has augmented its resources through increases of members' quotas and through borrowing for the establishment of temporary facilities, such as the oil facilities of 1974 and 1975 and the supplementary financing facility.[13] Although Fund liquidity is currently adequate, the size of the projected recycling problem could lead to heavy utilization of existing resources for a longer period than has been usual in the past, since the increase in quotas under the Seventh General Review of Quotas (from SDR 39 billion to SDR 59 billion) has not yet come into effect. This may be especially true if the Fund is to be able to support appropriate medium-term programs, particularly for non-oil

[13] See *Annual Report, 1979,* pages 54–55, for a detailed discussion of these facilities.

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developing countries that are attempting to adjust to a substantial change in the relative price of oil.

To enable members to utilize existing liquidity more effectively in support of long-range programs of stabilization and structural change, the Fund has increased the maximum repurchase period under the extended Fund facility from eight years to ten and reduced the number and frequency of repurchase installments associated with this facility. The combined effect of these measures will increase the average life of a drawing under the extended Fund facility by almost one fifth. There have also been discussions of closer coordination between the Fund and the World Bank in designing adjustment and development programs for member countries. While such adjustment programs will necessarily continue to include demand management policies to avoid overconsumption in relation to available resources, they will also place greater emphasis on the supply side of the economy. This will require, inter alia, increased importance being attached to long-term energy programs providing for the development of alternative sources of energy and energy conservation. Such structural programs can be put in place only over a longer period than has been typical in past Fund stand-by programs. At its meeting in Hamburg in April 1980, the Interim Committee recommended that the Managing Director begin discussions with possible lenders to the Fund on the terms and conditions under which the Fund could borrow to increase its resources, if and when the need arose.

The Adequacy of International Reserves

The preceding discussion of recent developments in international reserves and liquidity provides a broad background for assessing the adequacy of international reserves. Such an appraisal can begin by examining the ratio of international reserves (excluding gold) to annual merchandise imports. For all countries combined, this ratio has fallen from about 26 per cent in 1973 to about 22 per cent in 1979. If the United States were excluded—on account of the special status of the dollar as principal reserve currency—the corresponding figures would be 31 per cent and 25 per cent. This decline does not necessarily mean that reserves have become less adequate. The real value of international reserves demanded appears to grow proportionally less than the volume of trade. The growing diversification of production and trade of many economies tends to reduce payments imbalances, and thus reserve needs, relative to the value of external trade. Indeed, the fall in the ratio of reserves to imports over the years 1973–79 follows a period of almost two decades in which this ratio showed a declining trend interrupted only briefly during the period 1970–72.[14] More recently, the sharp rise in the price of primary commodities relative to the price of manufactures in international trade has also contributed to lowering reserves-to-trade ratios in the importing countries, since the price elasticity of demand for such commodities tends to be low. Until recently, however, high rates of inflation that were accompanied by rapid expansions of money and credit and low real costs of borrowing provided persuasive evidence against a global inadequacy in the supply of reserves. Rather, ample borrowing opportunities and lines of credit made it less pressing to bring actual reserve holdings up to the level that would provide a satisfactory cushion against contingencies even in the absence of new loan commitments. Finally, although loans backed by gold are the exception rather than the rule, the ability of countries to borrow by pledging gold as collateral at a moderate discount from the market price has been greatly enhanced by the more than tenfold increase in the SDR price of gold over the past decade. The dramatic increase in the market value of gold reserves may have had some depressing effect on the demand for international reserves excluding gold.

National and international liquidity and credit are now rather closely linked. In recent years, high rates of domestic credit expansion in the major financial centers were accompanied by high rates of expansion of credit to a large number of developing countries. Although this situation may change, the elasticity of supply of international reserves has remained sufficiently high to make global reserve holdings determined largely by the effective demand for reserves. Apart from the facilities of Eurocurrency markets, a number of arrangements made in an atmosphere of international cooperation—notably the increased opening of national markets to foreign issues, negotiated investments by the authorities of some surplus countries in the official obligations of deficit countries, and the broadening of swap arrangements and lines of credit between central banks—have contributed to maintaining a high elasticity of supply of international liquidity.

This picture of global reserve adequacy should not obscure the fact that both the distribution of reserves and the terms at which reserves can be acquired are less satisfactory for many non-oil developing countries than they appear for the world as a whole. Even though the ratio of reserves to imports for this group of countries was close to the average for all countries excluding the United States at the end of 1979, current and prospective payments imbalances and the variability of export proceeds are proportionally greater for non-oil developing countries than for industrial countries, im-

[14] The historical pattern is shown in *Annual Report, 1975*, page 40.

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plying greater reserve needs. Furthermore, non-oil developing countries are frequently unable, under current conditions, to increase their reserves in any way other than through official foreign borrowing at interest rates that are generally higher than those charged to other countries.

The SDR and Its Uses

In recent years, concern about disturbances that may arise through attempts by private and some official holders of foreign exchange to alter the currency composition of the assets and liabilities in their portfolios has intensified. Under present conditions of floating exchange rates among major currencies, relatively unrestricted international banking transactions and capital flows, and large payments imbalances in the world economy, disturbances resulting from changing views on desirable portfolio compositions are potentially disruptive. For this reason, there has been a growing recognition that a more central role of the SDR—as the principal reserve asset in the international monetary system, as an investment vehicle, and as a contract unit of account—would reduce the incentive to seek exchange risk diversification by other, more costly and potentially destabilizing, means.

The Fund has recently taken a number of decisions to make the SDR more useful in serving these purposes, including the prescription of a number of official entities as "other holders" of SDRs and the prescription of additional ways in which SDRs can be used. These decisions are described in detail in Chapter 3. An important step in the direction of making the SDR a more useful asset was the decision, discussed in last year's Report, to raise the interest rate on the SDR from 60 per cent of the combined market rate to 80 per cent. Strengthening the role of the SDR in the international monetary system requires, among other things, the maintenance of a sound financial basis as reflected in the overall yield of the asset—composed of nominal return and changes in the capital value resulting from exchange rate changes—in relation to the yields of other important assets in the system.

Further attention was drawn to these matters by exploratory work conducted by the Executive Board in connection with the possible establishment of a substitution account, administered by the Fund, that would accept deposits of U.S. dollars in exchange for an equivalent amount of SDR claims. In the period between the Annual Meetings in Belgrade in September 1979 and the meeting of the Interim Committee in Hamburg, the Executive Board studied possible features of such an account to design a plan for its establishment along the lines requested by the Interim Committee in its communiqué issued in Belgrade. The Committee had concluded that such an account, if properly designed, could contribute to an improvement of the international monetary system and could constitute a step toward making the SDR the principal reserve asset in the system. As the Committee had noted, in order for such an account to achieve widespread participation on a voluntary basis and on a large scale, it should fulfill certain requirements: inter alia, it should satisfy the needs of depositing members, both developed and developing; its costs and benefits should be fairly shared among all parties concerned, and it should contain satisfactory provisions with respect to the liquidity of the claims, their rate of interest, and the preservation of their capital value.

In the course of the work of the Executive Board between the two meetings of the Interim Committee, provisional agreement was reached on a large number of features that a substitution account might possess in order to conform to the requirements set forth by the Committee. A number of important issues, however, still remain to be solved, including arrangements for the maintenance of financial balance in the account, the maximum initial target size of the account, the determination of the rate at which the United States would pay interest on the account's U.S. dollar holdings, the sharing of any profits or losses between the United States and depositors, and the relative voting power of the United States and other participants. The Interim Committee expressed its intention to continue work on this subject.

On a related issue already mentioned, the Interim Committee endorsed the intention of the Executive Board to continue its examination of the SDR valuation and interest rate baskets with a view to simplifying and enhancing further the attractiveness of the SDR. The Committee expressed the view that it would be desirable for the interest and valuation baskets to be identical. This proposed change, which is further discussed in Chapter 3, would substantially facilitate the wider use of SDR-denominated assets and liabilities in financial markets, and in international transactions generally, and would thus remove a severe obstacle to the establishment of a central role for the SDR in the international monetary system.

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Chapter 3
Activities of the Fund

The financial year ended April 30, 1980 was again an active one for the Fund, in terms of its financial and other activities and the evolution of its policies.

The most notable development was the substantial increase in the total volume of financial activity, which in the financial year 1979/80 reached a record level of SDR 9.7 billion. This figure takes into account gross drawings on the General Resources Account, Trust Fund loans, gold distribution, distribution to the developing member countries of profits from gold sales, and allocation of SDRs. (See Table 19.) Of this total volume of financial activity in 1979/80, about SDR 5.6 billion was on account of developing countries. During 1979/80 stand-by arrangements were approved for 24 member countries, the highest number of such arrangements approved in any one year since 1970. Together with the four extended arrangements approved during the year, the total number of adjustment programs approved was 28, a level previously exceeded only in 1968. At the end of 1979/80, member countries had substantial undrawn balances under stand-by and extended arrangements, which amounted to about SDR 2.7 billion.

As discussed in Chapter 2, during the year consultations with member countries under Article IV continued to be central to the Fund's work and to be the principal means of carrying out the Fund's surveillance over the exchange rate policies of individual member countries. Regular consultations were completed for 94 countries during 1979/80. In addition, there were special consultations with member countries in connection with the periodic review of the World Economic Outlook by the Executive Board, as well as ad hoc consultations in accordance with the procedures relating to the Fund's surveillance over members' exchange rate policies.

During the past several years, the Fund has shaped its policies to meet the balance of payments needs of its members in the light of changing world economic conditions. Innovations during this period have included the 1974 and 1975 oil facilities, the Subsidy Account for the 1975 oil facility, the liberalization of the compensatory financing facility, the extended facility, gold sales, the Trust Fund, and the supplementary financing facility. In connection with the Second Amendment of the Articles of Agreement, which became effective in April 1978, the Fund undertook a wide-ranging review and revision of its procedures and policies.

The establishment of new facilities and the evolution of its policies on the use of its resources have enabled the Fund to make a considerable contribution to its members' balance of payments needs over the period. Thus, in the difficult circumstances confronting members since 1973/74, gross drawings on the Fund and loans from the Trust Fund amounted to about SDR 22 billion. In addition, other activities of the Fund (gold sales, distribution of profits from gold sales, and SDR allocations) added about SDR 13 billion to the total volume of financial activity, amounting to about SDR 35 billion, of which over one half went to developing countries.

Since the assistance provided by the Fund (i.e., drawings on the General Resources Account and Trust Fund loans) is of a short-term to medium-term character and is related to the balance of payments needs of its individual members, use of the Fund's resources in one period is followed by repurchases in subsequent periods. The charges payable by members on the Fund's balance of payments assistance are lower than would otherwise be payable by them on credits from private international markets.

In March 1979, the Executive Board carried out a comprehensive review—the first for over a decade—of the guidelines governing the conditionality attached to the use of the Fund's resources in the credit tranches.[1] The review confirmed and clarified the main elements of the guidelines that had been operative since 1968, and also introduced several modifications to provide for greater flexibility in exceptional cases and to take account of individual circumstances of members. The results of programs under stand-by arrangements are re-

[1]Executive Board Decision No. 6056-(79/38), adopted March 2, 1979. (See *Annual Report, 1979,* pages 136–38.)

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Table 19. Selected Financial Activities by Type and Country, 1974–80
(In millions of SDRs)

	Financial Years Ended April 30							
	1974	1975	1976	1977	1978	1979	1980	1974–80
				By Type				
Gross drawings [1]	450.2	4,121.3	5,267.4	4,749.7	2,367.3	1,239.2	2,211.1	20,406.2
Trust Fund loans	—	—	—	31.7	268.2	670.0	961.7	1,931.6
Gold distribution [2]	—	—	—	209.7	212.6	220.4	230.8	873.5
Profits of gold sales distributed to developing countries [3]	—	—	—	—	222.6	70.6	292.7	585.8
SDR allocations	—	—	—	—	—	4,032.6	4,033.2	8,065.8
Total	450.2	4,121.3	5,267.4	4,991.1	3,070.7	6,232.8	7,729.4	31,862.9
Total adjusted for market value of gold [4]	450.2	4,121.3	5,267.4	5,448.5	3,672.7	7,067.4	9,675.8	35,703.2
Memorandum: Undrawn balances under stand-by and extended arrangements as of April 30, 1974–80	1,231.8	156.0	1,085.8	3,581.1	3,638.8	1,377.5	2,718.0	
				By Country [5]				
Industrial countries	**—**	**2,103.6**	**2,391.3**	**2,674.2**	**2,011.5**	**3,309.1**	**4,027.6**	**16,517.3**
United States	—	—	—	159.6	192.2	1,114.2	1,347.4	2,813.5
United Kingdom	—	—	1,000.0	1,766.7	1,330.3	404.6	501.9	5,003.6
Italy	—	1,675.1	780.2	23.8	118.7	164.8	199.6	2,962.3
Others	—	428.5	611.1	724.0	370.2	1,625.5	1,978.7	5,738.0
Developing countries	**450.2**	**2,017.7**	**2,876.1**	**2,774.3**	**1,661.2**	**3,758.3**	**5,648.3**	**19,185.9**
Oil exporting	—	—	—	33.9	75.6	436.6	514.4	1,060.5
Other developing	450.2	2,017.7	2,876.1	2,740.4	1,585.6	3,321.6	5,133.9	18,125.4
Africa	*44.0*	*243.6*	*578.1*	*655.5*	*404.3*	*934.7*	*1,403.3*	*4,263.4*
Asia	*207.8*	*926.5*	*871.0*	*633.4*	*534.6*	*1,114.3*	*1,572.4*	*5,860.0*
Europe	*47.5*	*380.0*	*611.5*	*360.2*	*312.7*	*288.0*	*851.1*	*2,851.0*
Middle East	*47.0*	*158.8*	*133.3*	*207.7*	*164.1*	*305.1*	*193.9*	*1,209.9*
Western Hemisphere	*103.9*	*308.8*	*682.3*	*883.6*	*169.9*	*679.6*	*1,113.1*	*3,941.1*
All countries	450.2	4,121.3	5,267.4	5,448.5	3,672.7	7,067.4	9,675.8	35,703.2

[1] Excluding drawings in the reserve tranche.
[2] Valued at SDR 35 per fine ounce.
[3] Distribution in U.S. dollars converted into SDRs at prevailing rate.
[4] Annual average London price of gold.
[5] Breakdown of total financial actions adjusted for market value of gold.

viewed periodically by the Executive Board, but it is too early for programs under the new guidelines to have been evaluated. Such reviews will enable the Executive Board to determine when it may be appropriate to carry out the next comprehensive review of conditionality.

Adaptation of the Fund's policies continued in the year under review. In December 1979, the Fund adopted a decision extending the maximum repurchase period under the extended Fund facility from eight years to ten years.[2] Also, members' access to the compensatory financing facility was further liberalized by abolishing the limit of 50 per cent of quota on purchases in a single 12-month period, by raising the limit of outstanding purchases from 75 per cent to 100 per cent of a member's quota, and by changes in calculation of export shortfalls.[3]

At its meeting in Belgrade in September 1979, the Development Committee asked the Executive Board to examine in depth the Program of Immediate Action of the Ministers of the Group of 24, and to report its findings to the Committee at the time of the next Annual Meeting.[4] The Program covers, inter alia, proposals relating to the Fund facilities, quotas, SDRs, conditionality, appropriate measures for recycling, the substitution account, and adjustment policies with due regard to structural and supply-side aspects of programs.

[2] Executive Board Decision No. 6339-(79/179), adopted December 3, 1979 and reproduced in Appendix II.

[3] Executive Board Decision No. 6224-(79/135), adopted August 2, 1979 and reproduced in Appendix II.

[4] The texts of the communiqués issued by the Interim Committee and the Development Committee at the time of the 1979 Annual Meetings and in Hamburg in April 1980, as well as the Outline for a Program of Action, are reproduced in Appendix III.

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At its meeting in Hamburg in April 1980, the Interim Committee recognized that, although, in present circumstances, the Fund is in a relatively liquid position, it should stand ready to play a growing role in the adjustment and financing of payments imbalances and the recycling process. The Committee encouraged the Managing Director to start discussions with potential lenders on the terms and conditions under which the Fund could borrow to supplement its resources, if and when the need arose. Meanwhile, supplementary financing facility borrowing arrangements are being utilized increasingly, and the General Arrangements to Borrow and the associated borrowing agreement with Switzerland have been renewed for another period of five years until October 23, 1985.

Although the Resolution of the Board of Governors on the Seventh General Review of Quotas was approved nearly one and a half years ago, the quota increases of SDR 19.6 billion approved under it have not yet come into effect. The minimum participation requirement for the quota increases to be effective will be met when members having not less than three fourths (SDR 29.3 billion) of the total of quotas on November 1, 1978 have consented to increases in their quotas. By June 30, 1980, 62 members accounting for about 34 per cent of the total quotas in the Fund as of November 1, 1978 had consented to increases in their quotas under the Seventh General Review. In the longer run, the Fund's liquidity needs have to be met primarily through increases in quotas, which, relative to international trade and payments, have been markedly reduced since the early days of the Fund. However, the Fund's policies in regard to the relationship between utilization of Fund resources and quotas have been flexible. The use of Fund resources may extend beyond existing quota ceilings on members' use of Fund resources, if and when special circumstances arise, and depending upon the type and combination of facilities used.

The Fund's gold sales program that was agreed by the Interim Committee in August 1975, in accordance with the objective of the gradual reduction of the role of gold in the international monetary system, was completed in May 1980. Under this provision, the Fund completed the fourth sale of gold (at the former official price of SDR 35 per ounce) to countries that were members of the Fund on August 31, 1975. This brought the total amount sold to members under this program to approximately 25 million ounces. The four-year program of gold auctions (25 million ounces), which was also completed with the final auction taking place on May 7, 1980, yielded sales proceeds of US$4.6 billion, of which US$1.3 billion has been distributed directly to 104 developing member countries, and the balance, together with the income from investments, is available for concessionary loans by the Trust Fund to 62 eligible countries.

The Executive Board discussed in July 1980 the future of the Trust Fund and reached a broad consensus on a number of issues. These discussions are continuing.

Special drawing rights amounting to about SDR 4 billion were allocated to 139 members that were participants in the Special Drawing Rights Department on December 31, 1979. This allocation was the second of three consecutive annual allocations, each of SDR 4 billion, that the Fund's Board of Governors decided should be made as of January 1, 1979–81. The allocations totaling SDR 8 billion at the beginning of 1979 and 1980 supplemented the reserve assets of member countries and raised the total amount of SDRs in existence to SDR 17.3 billion. Since April 1980, all the Fund's 140 member countries have been participants in the Special Drawing Rights Department.

In accordance with one of the major objectives of the Second Amendment, the Fund took further decisions designed to enhance the role of the special drawing right as an international reserve asset by permitting its use in swap arrangements, forward operations, and donations (grants), and by increasing the number of official institutions that may hold, acquire, and use SDRs, by prescribing five additional institutions as "other holders" of SDRs. The Executive Board, and subsequently the Interim Committee, examined the SDR valuation and interest rate baskets, and the Committee reached a general understanding that, in principle, it would be desirable for the two baskets to be identical. The Executive Board is to consider how and when this objective should be implemented.

Prior to the meeting of the Interim Committee in Hamburg in April 1980, the Executive Board reached provisional agreement on a wide range of features of a plan for a substitution account to be administered by the Fund that would accept deposits of foreign exchange for an equivalent amount of SDR-denominated claims. However, some basic issues remained to be solved, such as the maintenance of financial balance in the account. In its communiqué following the Hamburg meeting, the Interim Committee expressed its intention to continue its work on this subject.

The Fund's training facilities and technical assistance programs have continued to be made available to members in the monetary, banking, fiscal, and balance of payments fields, as well as in other areas of special interest to the Fund, in response to requests from members. This assistance has taken the form of training at headquarters through the IMF Institute, the stationing of staff members and outside experts in member countries, visits by technical assistance missions, and

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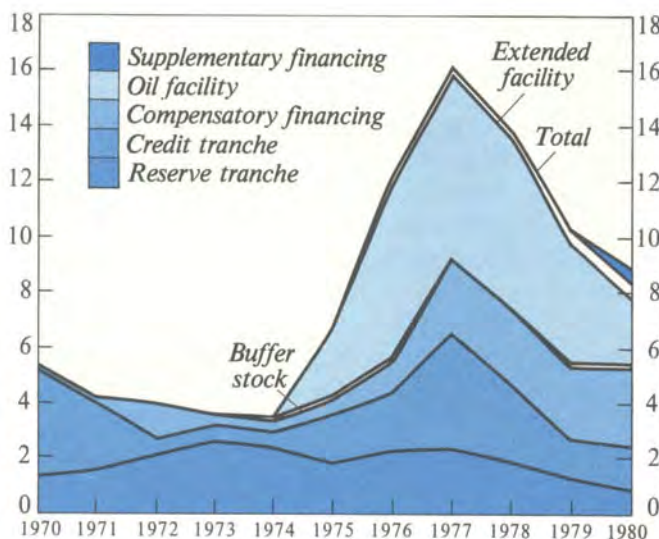
the Fund's regular consultation procedures. Directed primarily, but not exclusively, to developing countries, these services have again covered a broad spectrum of countries at all stages of development.

Transactions and Operations in the General Resources Account

Purchases in the financial year 1979/80 totaled SDR 2.4 billion, about a third less than the total of the preceding year, and were made almost exclusively by developing countries. (See Table 20.) The largest amount of purchases was in the credit tranches (SDR 1,106 million) followed by purchases under the compensatory financing facility (SDR 863 million), in the reserve tranche (SDR 222 million), and under the extended Fund facility (SDR 216 million). The increase in compensatory financing purchases to about double the amount of the previous year reflected a fall in export earnings of developing countries and the liberalization in the use of the facility up to the maximum of 100 per cent of quota. Repurchases totaled the equivalent of SDR 3.8 billion, compared with SDR 4.9 billion in 1978/79. About 50 per cent of total repurchases related to purchases made in 1973/74 and 1974/75 under the oil facility. The total use of the Fund's resources as represented by outstanding purchases at the end of the financial year has declined steadily from the peak of about SDR 16 billion in 1976/77 to about SDR 10 billion in 1978/79 and to SDR 8.8 billion in 1979/80. (See Chart 15.)

Chart 15. Use of Fund's Resources as at April 30, 1970–80
(In billions of SDRs)



During the year, 24 stand-by arrangements were approved for a total equivalent to SDR 2,479 million, compared with 14 arrangements totaling SDR 508 million in the previous year. All the arrangements approved during 1979/80 were for developing countries; amounts equivalent to SDR 1,448 million were to be financed from resources available to the Fund under the supplementary financing facility.

Four extended arrangements—all with developing countries—were approved for a total of SDR 570 million (of which SDR 362 million was to be financed from borrowings under the supplementary financing facility), about one half of the amount approved for the same number of arrangements during 1978/79. One arrangement (with Jamaica) was for an amount in excess of the normal limit of 140 per cent of quota, in view of the member's special circumstances, as provided for in the supplementary financing decision.

Purchases under the buffer stock financing facility by four members amounted to a total of SDR 26 million, compared with SDR 47.6 million purchased by two members in the previous year.

As mentioned earlier, the Fund completed the last of the four sales of gold in distribution to those countries that were members of the Fund on August 31, 1975. A total of 6,593,368 fine ounces of gold amounting to the equivalent of SDR 231 million was sold for members' own currencies at SDR 35 per fine ounce. Total sales of gold in the four distributions amounted to 24,977,769 fine ounces, or SDR 874.2 million.

Purchases

Reserve Tranche Purchases

Purchases in the reserve tranche (the gold tranche prior to the Second Amendment of the Fund's Articles of Agreement), which increased from SDR 136 million in 1977/78 to SDR 2,480 million in 1978/79 as a result of the SDR 2,275 million purchased by the United States, declined to SDR 222 million in 1979/80. All purchases during the year, except one by New Zealand for SDR 49 million, were made by 14 developing countries, 9 of which made subsequent use of Fund resources under various facilities. The purchases ranged from SDR 0.36 million (Dominica) to SDR 60.5 million (Yugoslavia).

Credit Tranche Purchases and Stand-By Arrangements

There was a sharp increase in credit tranche purchases during the financial year, mostly under stand-by

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Table 20. Flow of Transactions in the General Resources Account and Resulting Stocks, Financial Years Ended April 30, 1974–80
(In millions of SDRs)

Type of Transaction	Financial Year Ended April 30						
	1974	1975	1976	1977	1978	1979	1980
Total purchases	1,058	5,102	6,591	4,910	2,503	3,720	2,433
Reserve tranche	607	981	1,324	161	136	2,480	222
Credit tranche	239	1,604	461	2,370	1,937	485	1,106
Buffer stock	—	—	5	—	—	48	26
Compensatory financing	212	18	828	1,753[1]	322	465	863
Extended facility	—	—	8	190	109	242	216
Oil facility	—	2,499	3,966	437	—	—	—
Total repurchases	672	518	960	868	4,485	4,859	3,776
Gold sales	—	—	—	411	452	453	419
Replenishment up to May 31, 1978	—	—	—	201	239	—	—
Competitive bids	—	—	—	—	—	181	187
Noncompetitive bids	—	—	—	—	—	51	1
In distributions	—	—	—	210	213	220	231
Outstanding borrowings							
In connection with oil facility	—	2,499	6,465	6,702	6,329	4,257	2,474
Under the General Arrangements to Borrow	—	—	—	911	1,576	777	777
From Swiss National Bank	—	—	—	89	154	—	—
Supplementary financing facility	—	—	—	—	—	—	502
Holdings of the General Resources Account at end of year							
Usable currencies[2]	6,500	10,100	7,800	5,300	11,200	8,800	10,600
SDRs	499	510	461	771	1,371	1,290	1,407
Gold[3]	5,370	5,370	5,370	4,959	4,507	4,055	3,636

[1] In addition, credit tranche purchases equivalent to SDR 39.56 million in the financial year ended April 30, 1976 were reclassified as having been made under the compensatory financing decision.
[2] "Usable currencies" are those that are available to the Fund for net sales through the operational budget, except for those currencies held by the Fund in excess of quota. Since the Second Amendment became effective on April 1, 1978, the criterion for including currencies for net sales is that the members concerned have a balance of payments and reserve position that is considered "sufficiently strong" for that purpose.
[3] Valued at SDR 35 per fine ounce.

arrangements, from SDR 485 million in 1978/79 to SDR 1.1 billion. This reflects larger purchases under ordinary resources (SDR 643 million) compared with the previous year (SDR 437 million), as well as the use of resources for the first time under the supplementary financing facility (SDR 383 million). The largest credit tranche purchases during the financial year were made by Turkey (SDR 230 million), Peru (SDR 194 million), and the Philippines (SDR 111.25 million).

The 24 stand-by arrangements approved during 1979/80 included 6 in the first credit tranche and 18 in the second and upper credit tranches. The two-year stand-by arrangement with Korea for an amount of SDR 640 million was the largest. Three other stand-by arrangements were also for two years—Costa Rica (SDR 60 million), Kenya (SDR 123 million), and Mauritius (SDR 73 million)—and one, Malawi (SDR 26 million), was for a little more than two years. Of the other 19 arrangements approved, 7 were for periods ranging between 13 and 23 months, 10 for one year, and 2 for less than one year. Among the 9 stand-by arrangements that included supplementary financing, 4 (with Korea, Mauritius, Peru, and the Philippines) were approved under the special circumstances clause for amounts in excess of the normal maximum entitlements. The total use of Fund resources under stand-by arrangements by 23 members during 1979/80 amounted to SDR 1,026 million, of which 8 members drew SDR 383 million under the supplementary financing facility, and the balance was purchased from ordinary resources.

Extended Fund Facility

Four extended arrangements were approved by the Executive Board during 1979/80 in support of programs presented by Guyana, Honduras, Jamaica, and Sudan. These arrangements represent an aggregate commitment of SDR 570 million, of which SDR 362 million would be provided with supplementary financing. Of this latter amount, SDR 124 million would be provided to Jamaica under the special circumstances clause of the decision on the supplementary financing facility. A total of SDR 216 million was purchased under the seven arrangements outstanding (including those approved in earlier financial years). Egypt and Haiti made no purchases under their arrangements, and the extended arrangement with Mexico expired during the financial year. The undrawn balances under the ex-

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tended Fund facility decision amounted to SDR 1,132 million on April 30, 1980.

In its review of the facility in June 1979, the Executive Board decided that the facility should be reviewed again when the possibility of access to the supplementary financing facility comes to an end. The maximum repurchase period under the facility was extended in December 1979 from eight years to ten years from the date of purchase; and the number and frequency of repurchase installments under the facility were also reduced. These changes are intended to afford greater leeway to members for implementing corrective adjustments to take effect in the light of their particular circumstances. Recent developments in the international economy, such as the rising costs of energy, and the protectionist measures by some countries have not only caused a sharp deterioration in the external payments position of many countries but have also added to the complexity of adjustments in member countries.

Compensatory Financing Facility

In 1979/80, 19 members purchased a total of SDR 863 million under the compensatory financing facility, compared with purchases amounting to SDR 465 million in 1978/79 by the same number of countries. The total amount purchased under the facility during the four years ended April 30, 1980 was equivalent to SDR 3.4 billion, representing about a third of the total purchases other than those made in the reserve tranche or under the oil facility. Total outstanding purchases under the facility on April 30, 1980, at SDR 2.9 billion, were unchanged from the level a year earlier. Of the SDR 863 million purchased under the compensatory financing facility during 1979/80, SDR 615 million was purchased by 18 members under the amended decision adopted by the Executive Board on August 2, 1979.[5]

The amended decision, the adoption of which was preceded by a comprehensive review of the facility by the Executive Board, resulted in the following principal changes: (i) the quota limit on outstanding purchases was raised from 75 per cent to 100 per cent of a member's quota; (ii) the limit of 50 per cent of quota on purchases in a single 12-month period was eliminated; (iii) receipts from travel and from workers' remittances could be included with merchandise exports in the calculation of the shortfall if adequate statistical data were available—the option, once exercised by the member, is to be irreversible for five years; and (iv) the five-year trend in export earnings (and travel and workers' remittances) was to be calculated as a geometric instead of as an arithmetic average.

[5] Executive Board Decision No. 6224-(79/135), adopted August 2, 1979 and reproduced in Appendix II.

Buffer Stock Facility

Four purchases (by Australia, Guyana, Jamaica, and Nicaragua) totaling SDR 26 million were made in 1979/80 in connection with special stocks of sugar constituted under the terms of the 1977 International Sugar Agreement. This brought the total amount purchased in connection with that Agreement to SDR 74 million, all of which was repurchased by May 21, 1980, following the release in February 1980 of all the special stocks from the control of the International Sugar Organization.

With the repurchase of the outstanding amounts in connection with special stocks of sugar, no purchases are presently outstanding under the buffer stock facility. Financing assistance under the buffer stock facility has also been provided since July 1971 in connection with members' contributions to the buffer stock established under the Fifth International Tin Agreement, but no contributions to the tin buffer stock were called up in 1979/80. Although Fund financing of loans extended by members in connection with the cocoa buffer stock had been envisaged when the International Cocoa Agreement came into force in 1973, no loans were necessary throughout the lifetime of that Agreement. The Cocoa Agreement lapsed in March 1980.

Supplementary Financing Facility

This facility, which was established on August 29, 1977 to provide supplementary financing in conjunction with the use of the Fund's ordinary resources to members facing serious payments imbalances that are large in relation to their Fund quotas, became operational on February 23, 1979. Its main features are as follows:

1. Members can use the facility only under a stand-by arrangement (normally of more than one year and up to three years) reaching into the upper credit tranches, or under an extended arrangement (usually up to three years), subject to the usual policy conditions, phasing, and performance criteria.

2. The amounts available to a member will be apportioned between ordinary resources and supplementary financing in prescribed proportions as follows:

(a) Under a stand-by arrangement, the equivalent of 12.5 per cent of its quota along with its first credit tranche, and 30 per cent of its quota along with each

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Table 21. Supplementary Financing Facility Commitments and Purchases Under Stand-By and Extended Arrangements, April 30, 1980
(In millions of SDRs)

Country	Quota	Arrangement	Amount	Supplementary Financing		
				Commitment	Purchase	Undrawn balance
Bolivia	45	SBA[1]	66.375	32.63	10.807	21.818
Costa Rica	41	SBA[2]	60.500	29.70	5.125	24.575
Guyana	25	EFF[3]	62.750	35.00	8.625	26.375
Jamaica	74	EFF[4]	260.000	227.10	31.000	—
					31.000	—
					15.850	149.250
Kenya	69	SBA[5]	122.475	70.73	—	70.725
Korea	160	SBA[6]	640.000	480.00	30.909	449.091
Malawi	19	SBA[7]	26.344	13.78	2.375	11.405
Mauritius	27	SBA[8]	73.025	54.00	6.611	—
					6.500	40.889
Panama	45	SBA[9]	66.375	32.63	—	32.625
Peru	164	SBA[10]	285.000	232.09	100.000	—
					22.273	—
					20.182	89.635
Philippines	210	SBA[11]	410.000	333.00	20.000	313.000
Sudan	88	EFF[12]	200.000	100.00	7.500	—
					7.500	—
					17.500	67.500
Turkey	200	SBA[13]	250.000	169.55	70.000	
					55.909	
					32.727	10.914
Subtotal		EFF	522.750	362.10	118.975	243.125
		SBA	2,000.094	1,448.11	383.418	1,064.677
Total			2,522.844	1,810.21	502.393	1,307.802

[1] One-year stand-by arrangement (SBA) approved February 1, 1980.
[2] Two-year SBA approved March 12, 1980.
[3] Three-year extended Fund facility (EFF) arrangement approved June 25, 1979.
[4] Two-year EFF arrangement approved June 11, 1979.
[5] Two-year SBA approved August 20, 1979.
[6] Two-year SBA approved March 3, 1980.
[7] Twenty-six month SBA approved October 31, 1979.
[8] Two-year SBA approved October 31, 1979.
[9] SBA approved April 18, 1980 for the period April 18, 1980 to December 31, 1980.
[10] SBA approved July 23, 1979 for the period August 10, 1979 to December 31, 1980.
[11] SBA approved February 27, 1980 for the period February 27, 1980 to December 31, 1981.
[12] Three-year EFF arrangement approved May 4, 1979.
[13] One-year SBA approved July 19, 1979.

of its three upper credit tranches, totaling 102.5 per cent of quota.

(b) Under an extended arrangement, which permits drawings up to 140 per cent of quota, in an equivalent amount of supplementary finance.

(c) If a member has already used part or all of its credit tranches, the stand-by or extended arrangement will include the amount of supplementary financing that would have been available under the supplementary financing decision if the earlier use had been made under that decision.

(d) Purchases may be made beyond the upper credit tranches wholly with supplementary financing in special circumstances.

3. Holdings resulting from these purchases will be subject to repurchase in equal semiannual installments that begin not later than three and one-half years, and are to be completed not later than seven years, after the purchase. As of April 30, 1980, 13 members had obtained total commitments of SDR 2,523 million under stand-by and extended arrangements in connection with the supplementary financing facility (Table 21). Out of that total, SDR 1,810 million is available in supplementary resources and the balance, amounting to 28 per cent of the total commitment, is available in ordinary resources. Out of the supplementary resources, SDR 1,448 million is available under stand-by arrangements and SDR 362 million under extended arrangements.

Of the total supplementary financing resources committed as of April 30, 1980, about SDR 744 million has been made available under the special circumstances clause[6] to five members—Jamaica, Korea, Mauritius, Peru, and the Philippines—(Table 22).

All purchases under the facility, amounting to SDR 502 million on April 30, 1980, have been made

[6] Executive Board Decision No. 5508-(77/127), Section 5(f), adopted August 29, 1977. See *Annual Report, 1978,* page 113.

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Table 22. Use of Supplementary Financing Facility Under Special Circumstances Clause, April 30, 1980

Member	Quota[1] (1)	Total Supplementary Financing Facility (2)[1]	Total Supplementary Financing Facility: Per cent of quota (3)	Of Which, Special Use[1] (4)	Special Use as Per Cent of: Quota (5)	Special Use as Per Cent of: Total supplementary financing facility (6)
Jamaica	74	227.10	306.9	123.50	166.9	54.4
Korea	160	480.00	300.0	316.00	197.5	65.8
Mauritius	27	54.00	200.0	26.33	97.5	48.4
Peru	164	232.09	141.5	63.99	39.0	27.6
Philippines	210	333.00	158.6	214.35	102.1	64.4
Total		1,326.19		744.17		56.1

[1] In millions of SDRs.

by non-oil developing countries. (See Table 21.) The use of resources available under the facility has been relatively small up to the present but is expected to expand appreciably in coming months. The Executive Board is also considering possible mechanisms to lower the cost of using the facility. The facility will be reviewed by the Executive Board not later than two years after its effective date, or earlier if the Seventh General Review of Quotas becomes effective before the end of the two-year period.

Repurchases

In 1979/80, aggregate repurchases amounted to the equivalent of SDR 3,776 million, which was about 22 per cent below the peak of SDR 4,859 million in 1978/79. Repurchases by industrial countries (SDR 1,757 million) represented 47 per cent of the total, including SDR 1,293 million by Italy and the United Kingdom. The largest amount, 46 per cent of the total, represented repurchases in respect of purchases made under the oil facility for 1974 and 1975. About 25 per cent of total repurchases related to purchases made under the compensatory financing facility and about 23 per cent were with respect to purchases in the credit tranches, including those made under stand-by arrangements or extended arrangements. The remaining 5 per cent, SDR 202 million, represented repurchases of members' currencies held by the Fund in excess of 75 per cent of quota on the date of the Second Amendment (SDR 178 million), which did not result from purchases, and repurchases in connection with the gold distributions (SDR 24 million).

Following the release, completed on February 21, 1980, of special stocks accumulated under the 1977 International Sugar Agreement, the six members that had used the Fund's resources in connection with their holdings of special stocks were required to repurchase all outstanding amounts within 90 days from that date.[7] Thus, a total amount equivalent to SDR 74 million was repurchased by May 21, 1980. In addition, two members (the Dominican Republic and Western Samoa) were requested to repurchase the amount by which the drawing made in 1979 under the compensatory financing facility, based on partly estimated export data, exceeded the actual shortfall. While the Dominican Republic completed the repurchase, Western Samoa requested postponement for balance of payments reasons, which was agreed to by the Executive Board. The equivalent of SDR 559 million was repurchased by 13 members in partial and full discharge of obligations incurred under Article V, Section 7(*b*) in effect before the Second Amendment. The Executive Board agreed to the requests of 37 members to schedule their repurchases, totaling SDR 1,654 million, over periods up to five years from the date of purchases under facilities for which the repurchase period is three to five years.

The guidelines adopted by the Executive Board for early repurchases apply to the Fund's holdings of members' currencies acquired under a stand-by or extended arrangement approved after October 1, 1977 and to all holdings acquired after April 1, 1978.[8] No early repurchase expectations arose during the year, since members that had made purchases subject to the guidelines for early repurchases were not considered to be in sufficiently strong balance of payments and reserve positions.

[7] Executive Board Decision No. 5597-(77/171), adopted December 16, 1977 (*Annual Report, 1978,* pages 128–29) and Executive Board Decision No. 5900-(78/138), adopted September 8, 1978.

[8] See Executive Board Decisions No. 5704-(78/39), adopted March 22, 1978, and No. 6172-(79/101), adopted June 28, 1979. See *Annual Report, 1978,* pages 125–26, and *Annual Report, 1979,* pages 138–39.

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Fund Liquidity

The Fund's overall liquidity position—that is, the relationship between its liquid liabilities and its readily usable assets comprising usable currencies and SDRs in the General Resources Account—was under some strain when liquid liabilities were at their peak in mid-1977, but improved considerably thereafter.[9] The Fund's liquid liabilities (as measured by outstanding reserve positions, including loan claims on the Fund encashable in the event of need by the lender, and undrawn balances under stand-by and extended arrangements) increased from SDR 7.4 billion at the end of April 1974 to a peak of SDR 22.5 billion in the middle of 1977 as the counterpart of the very large expansion of Fund credit that took place over that period, including purchases under the oil facility, the compensatory financing facility, and stand-by arrangements by the United Kingdom and Italy. Subsequently, the total declined to SDR 14.9 billion at the end of April 1980. This improvement in the Fund's liquidity reflected partly the decline in liabilities, but also stemmed from increases in the Fund's holdings of usable currencies as a result of the payment of quota increases under the Sixth Review of Quotas. During 1979/80 the Fund's holdings of usable currencies increased from SDR 8.8 billion at the end of 1978/79 to SDR 10.6 billion at the end of April 1980.

The Fund's policies and procedures under Article V, Section 3(*d*) for inclusion in the operational budgets of currencies to be sold take into account, in consultation with members, their balance of payments and reserve positions and developments in the exchange markets, as well as the desirability of promoting, over time, balanced positions in the Fund. The Executive Board's review of these policies and procedures in August 1979 endorsed general guidelines for allocating currencies to be used, so as to harmonize to the extent possible members' positions in the Fund through the equalization of the ratios of members' Fund positions to their gold and foreign exchange holdings.[10] Subsequently, the Fund adopted decisions setting forth guidelines for: (a) the assessment of the strength of a member's balance of payments and gross reserve position for the purposes of designation plans, operational budgets, and repurchases under Article V, Section 7(*b*);[11] and (b) the selection and use of currencies and SDRs in the General Resources Account.[12] The general approach is to use in transfers by the Fund the currencies of members whose Fund positions represent relatively low proportions of their gold and foreign exchange holdings, and in receipts by the Fund the currencies of members with relatively high proportions. This has yielded a fairly long list of currencies for use in transfers, and has placed some emphasis on the use of the currencies of those members whose ratios are furthest from the average ratio, that is to say, those who have made available resources through the Fund in amounts that are small in relation to their reserves. The guidelines also aim at moderating the use of a currency as the Fund's holdings reach low levels in relation to the member's quota. In practice, a large part of the Fund's usable currency holdings usually tends to be represented by a small number of currencies. Thus, at the end of the financial year 1979/80, the Fund's holdings of just five creditor currencies represented about one half of the total usable currency holdings.

The Fund's liquidity is currently not under pressure, and the quota increases under the Seventh General Review will, at least initially, improve the liquidity position as a result of increases in the Fund's holdings of usable currencies and SDRs. But the quota increases will also expand members' drawing rights commensurately. At the same time, in view of the prospects of larger and more widespread balance of payments deficits with surpluses concentrated on relatively few members, there is likely to be a reduction in the number, and therefore in the amounts available, of currencies that can be considered usable. Moreover, existing creditors may draw on their Fund positions. For these reasons, and also because of the magnitude of the recycling problem, the Fund is keeping its liquidity under close review and is exploring the possibility of augmenting its resources by borrowing. As mentioned above, the Interim Committee, at its meeting in Hamburg on April 25, 1980, encouraged the Managing Director to initiate discussions with potential lenders on the terms and conditions under which the Fund could borrow funds to increase its resources, if and when the need arose.

Borrowing

Over the past six years, the Fund has supplemented its resources by borrowing a total of SDR 9.9 billion

[9] Usable currencies are currencies of those members that are considered by the Executive Board to be sufficiently strong, in the light of their balance of payments and gross reserve positions, to be subject to designation and for inclusion for net sales in the operational budget.

[10] For all operational purposes, such as the designation plan, the operational budget, and early repurchases, the Fund continues to value gold held in members' reserves at SDR 35 per fine ounce. Members' Fund positions for this purpose are defined as their reserve tranche positions *plus* loans to the Fund that provide it with usable resources on a continuing basis on terms comparable to those applicable to the use of its currency holdings.

[11] Executive Board Decision No. 6273-(79/158) G/S, adopted September 14, 1979 and reproduced in Appendix II.

[12] Executive Board Decision No. 6274-(79/158), adopted September 14, 1979 and reproduced in Appendix II.

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from some of its members and Switzerland under the General Arrangements to Borrow, the oil facility, and the supplementary financing facility. During 1979/80 there was a net reduction of about SDR 1.3 billion in the Fund's total outstanding borrowing, from about SDR 5 billion to about SDR 3.8 billion (equivalent to 9.6 per cent of total quotas at the end of April 1980).

General Arrangements to Borrow

The General Arrangements to Borrow (GAB), originally concluded in 1962 for four years between the Fund and ten industrial member countries, have been extended a number of times, and, during the year under review, all GAB participants formally agreed to renew the arrangement for another period of five years from October 24, 1980.[13] Switzerland's association with the GAB, under a separate agreement of June 11, 1964 with the Fund, has also been extended until October 23, 1985 in parallel with the latest GAB renewal. The maximum credit available to the Fund through the GAB in lenders' currencies is equivalent to about SDR 6.5 billion, and the balance available on April 30, 1980 was SDR 5.7 billion. The last use of the GAB was in connection with a reserve tranche purchase, equivalent to SDR 777 million, made in November 1978 by the United States, which was financed entirely by borrowings from the Deutsche Bundesbank (SDR 583 million) and Japan (SDR 194 million). During the last five years, borrowings by the Fund under the GAB totaled the equivalent of SDR 2,353 million to finance purchases by Italy, the United Kingdom, and the United States. In connection with the purchases by the United Kingdom and Italy, the Fund also concluded borrowing agreements with the Swiss National Bank, and a total amount equivalent to SDR 154 million was called up under these agreements during the financial years 1976/77 and 1977/78.

Oil Facility

The borrowing arrangements under this facility were originally entered into by the Fund with 17 lender countries, including Switzerland, in 1974 and 1975 for a total amount of SDR 6.9 billion. During the financial year 1979/80, the Fund repaid the equivalent of about SDR 1.8 billion to these lenders. Several of these repayments were in advance of the original repayment schedules, as members made advance repurchases that they attributed to the oil facility purchases. By April 30, 1980, the Fund had repaid the equivalent of SDR 4.43 billion of indebtedness incurred in connection with the oil facility; the balance of indebtedness on that date amounted to SDR 2.47 billion.

[13] Executive Board Decision No. 6241-(79/144), adopted August 24, 1979 and reproduced in Appendix II.

Supplementary Financing Facility

The Fund has borrowing agreements with 13 members and the Swiss National Bank to provide, in different currencies, the equivalent of SDR 7.8 billion as supplementary financing. The individual lenders, amounts, and currencies to be made available under the agreements are as follows:

Lender	Amount *(millions of SDRs)*	*Currency*[14]
Abu Dhabi	150	U.S. dollars
Austrian National Bank	50	U.S. dollars
National Bank of Belgium	150	Belgian francs
Canada	200	U.S. dollars
Deutsche Bundesbank	1,050	U.S. dollars
Banco de Guatemala	30	U.S. dollars
Japan	900	Japanese yen
Central Bank of Kuwait	400	Kuwaiti dinars
Netherlands Bank	100	U.S. dollars
Central Bank of Nigeria	220	U.S. dollars
Saudi Arabian Monetary Agency	1,934	Saudi Arabian riyals
Swiss National Bank	650	U.S. dollars
United States	1,450	U.S. dollars
Central Bank of Venezuela	500	Venezuelan bolívares
Total	7,784	

Participation in the financing of the facility remains open to other lenders whose external positions are strong, on the same terms as applicable to existing lenders, if the Fund finds it necessary to enter into further agreements. A creditor's loan claims on the Fund are encashable on demand by the Fund if the creditor represents that it has a balance of payments need, and lenders can, without prior reference to the Fund, transfer their claims to any other lender, any Fund member, or certain other official entities at prices agreed between the transferor and transferee. Additional lenders may also include institutions that perform the functions of a central bank for more than one member.

The first borrowing by the Fund under the facility was made in May 1979, and by the end of April 1980 the Fund had borrowed a total of SDR 502.4 million from 11 lenders.

The interest payable by the Fund on its borrowings is at a rate equal to the average yield for each six-month period starting July 1, 1978 for U.S. Government securities with a maturity of five years, rounded upward to the nearest ⅛ of 1 per cent. For the six-month period

[14] The lending of U.S. dollars by lenders other than the United States is subject to the concurrence of the United States, which has been given.

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ended June 30, 1980, this rate was 11.375 per cent a year.

Membership and Quotas

Membership and Participation in the Special Drawing Rights Department

Two countries joined the Fund in 1979/80, raising the total membership on April 30, 1980 from 138 to 140: St. Lucia on November 15, 1979, with a quota of SDR 3.6 million, and St. Vincent and the Grenadines on December 28, 1979, with a quota of SDR 1.7 million.

The Executive Board of the Fund decided, with effect from April 17, 1980, that the Government of the People's Republic of China represents China in the Fund and shall exercise all the rights and obligations of China as the member of the Fund and the participant in the Special Drawing Rights Department. China's quota in the Fund is currently SDR 550 million, and its allocations of special drawing rights amount to SDR 114.4 million. On May 25, 1980, the Executive Board considered the application for membership by Zimbabwe and agreed with the recommendation of the Committee on Membership of a quota of SDR 100 million for Zimbabwe, and a proposed maximum quota of SDR 150 million under the Seventh General Review.

Both St. Lucia and St. Vincent and the Grenadines elected to participate in the Special Drawing Rights Department. In addition, Kuwait became a participant as of April 7, 1980. At the end of the financial year 1979/80, all 140 members of the Fund were participants in the Special Drawing Rights Department.

Seventh General Review of Quotas

The Seventh General Review of Quotas was approved by the Board of Governors, with effect from December 11, 1978.[15] The proposed increases in quotas will become effective for an individual member on the latest of the following three dates: (a) the date of the member's consent to the increase; (b) the date of payment of its increased subscription; and (c) the date on which the Fund determines that members having not less than three fourths of the total of quotas on November 1, 1978 have consented to increases in their quotas. However, if the Fund's determination is in the period between July 1, 1980 and October 5, 1980, no increase in quota will become effective until after October 5, 1980. This provision was designed to ensure that there would be no changes in quotas during, or shortly before, the 1980 Annual Meeting, when the next election of Executive Directors will take place. Total quotas on November 1, 1978 were equivalent to SDR 39.0 billion, so that the minimum participation requirement will be met when members accounting for at least SDR 29.3 billion of total quotas have consented to an increase in their quotas.

A member may consent to an increase in its quota on or before November 1, 1980. The Executive Board may extend this period as it may determine. A member can consent to an increase smaller than the amount proposed for it in the Annex to the Resolution, and later could consent to an additional amount, up to the proposed maximum, at any time prior to the expiration of the period for consent. As of June 30, 1980, 62 members accounting for 34.20 per cent of total quotas in the Fund on November 1, 1978 had consented to increases in their quotas to the respective proposed maximum amounts. In addition, Dominica and St. Lucia, which joined the Fund after November 1, 1978, have consented to the corresponding quota increases provided for under their membership resolutions. Cape Verde, which was not included in the Resolution, was granted the opportunity by a Resolution of the Board of Governors to increase its quota by 50 per cent, to SDR 3 million, in accordance with the Board of Governors Resolution on the Seventh General Review.

If all members accept increases in their quotas to the maximum amounts proposed, total quotas in the Fund would rise as a result of the Seventh General Review from the current SDR 39,016.5 million to SDR 58,625.6 million.

Charges and Remuneration

The rates of charges levied by the Fund on its holdings of currency subject to charges were unchanged during the year except for charges on use of the supplementary financing facility and, for one member, charges on balances of currency in excess of 200 per cent of the member's quota that resulted from purchases made under a stand-by arrangement that took effect prior to February 23, 1979, the date on which the supplementary financing facility became operational. For the year as a whole, the average rate of charge received by the Fund on balances that arise from use of the Fund's regular and compensatory financing facilities was 5.25 per cent, appreciably less than the average rate of remuneration—7.06 per cent—paid by the Fund on creditor positions in the Fund. Charges for the use of the supplementary financing facility are based

[15] Board of Governors Resolution No. 34-2, adopted December 11, 1978. See *Annual Report, 1979,* pages 121–23.

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on the rate of interest paid by the Fund on amounts borrowed from lenders under the facility and are adjusted half-yearly. For the six-month periods ended June 30 and December 31, 1979, and June 30, 1980, the applicable rates of charge for use of the supplementary financing facility were 9.45, 10.075, and 11.575 per cent per annum, respectively.

The rate of remuneration during the year was maintained at 90 per cent of the SDR rate of interest, which was set at 80 per cent of the combined interest rate on short-term instruments in the United States, the Federal Republic of Germany, the United Kingdom, France, and Japan, rounded to the nearest ¼ of 1 per cent. The SDR rates of interest and the rates of remuneration (Chart 16) applicable over the six quarters beginning April 1, 1979 were as follows:

Calendar quarter beginning	SDR interest rate	Rate of remuneration
April 1, 1979	6.50	5.85
July 1, 1979	6.75	6.075
October 1, 1979	7.75	6.975
January 1, 1980	9.25	8.325
April 1, 1980	10.25	9.225
July 1, 1980	8.25	7.425

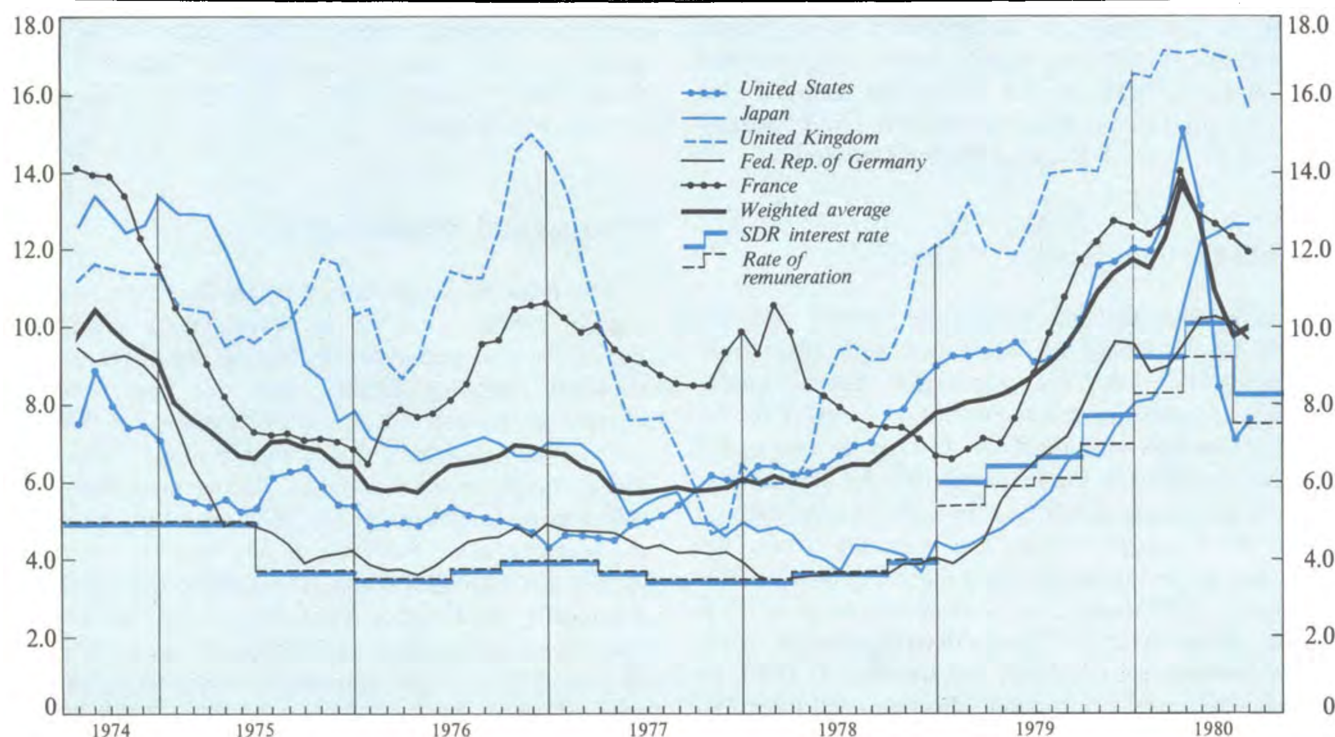
Shortly before the end of each financial year, the Fund considers whether the net income of the Fund for the year is sufficient to allow the rate of remuneration to be raised above 90 per cent but not above 100 per cent of the SDR average rate of interest for the year. In considering whether to establish a higher rate of remuneration for a particular year, the Fund is required also to consider the possibility of reducing its rates of charges for use of its regular facilities from the beginning of the subsequent financial year. For the financial year ended April 30, 1980, it was decided not to raise the rate of remuneration above 90 per cent and it was also decided not to reduce the Fund's charges with effect from May 1, 1980. These decisions were taken in the light of the estimated net income for the year and the outlook for income for the financial year ending April 30, 1981.

Gold

Gold Sales

The Fund's gold sales program that was agreed by the Interim Committee in August 1975, as part of the program for gradually reducing the role of gold in the international monetary system, was completed in May 1980. Under that program, 50 million ounces of gold, or about one third of the Fund's gold holdings as at August 31, 1975, were sold. One half of the amount,

Chart 16. SDR Interest Rate, Rate of Remuneration, and Short-Term Interest Rates, July 1974–September 1980



[1] For the United Kingdom and the United States, the yield on three-month treasury bills; for France and the Federal Republic of Germany, the rate for three-month interbank deposits; and for Japan, the call money market rate (unconditional).

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25 million ounces, was sold to countries that were members of the Fund on August 31, 1975 at the former official price of SDR 35 an ounce. These sales were carried out in four annual installments, the last of which took place in December 1979 and January 1980. The other 25 million ounces were sold in public auctions over a period of four years, and the profits from these sales—i.e., the sales proceeds in excess of SDR 35 an ounce—were transferred to the Trust Fund for the benefit of developing countries.

Under the Second Amendment of the Articles of Agreement, the Fund is given a range of powers with respect to sales of gold on the basis of which it could dispose of its remaining gold holdings of about 104 million ounces after completion of the agreed sales program. An 85 per cent majority of the voting power would be required for a decision to exercise any of these powers. Possible further uses of the Fund's remaining gold holdings were considered by the Executive Board in April 1980, but no decisions were taken.

Gold Auctions

During the year, the Fund held 12 auctions in which it sold 5.3 million ounces (165.7 tons) of gold to the market; the sales program was completed with the monthly auction of 444,000 ounces in May 1980. As mentioned in the 1979 Annual Report, the amount of gold auctioned each month was reduced in June 1979 from 470,000 ounces (14.6 tons) a month to 444,000 ounces (13.8 tons) in view of the gold acquired by monetary authorities entitled to submit noncompetitive bids.[16] The auctions continued to attract substantial interest, mainly from the major private international gold traders. Bidding in the last 13 auctions of the sales program ranged from 665,000 ounces (20.7 tons), or 1½ times the amount on offer, to 1.94 million ounces (60.3 tons), or almost 4½ times the amount to be sold. As in the past, auction prices were close to the prevailing market prices and, over the year, increased dramatically with them; the highest average price in the auctions (US$712.12 an ounce in February 1980) was 6½ times as much as the lowest average auction price recorded in September 1976. (See Table 23.)

In all, the Fund held 45 public auctions in which it awarded 23.52 million ounces (731.6 tons) to 51 bidders on competitive bids, and 1.48 million ounces (46.0 tons) to 13 monetary authorities on noncompetitive bids. As discussed further below, the proceeds of these gold sales amounted to US$5.7 billion, of which US$1.1 billion represented the capital value equivalent to SDR 35 an ounce that was added to the Fund's general resources, and US$4.6 billion represented profits that were channeled to the Trust Fund for the benefit of developing member countries.

[16] See *Annual Report, 1979,* page 80.

Gold Distribution

Under the agreement reached in the Interim Committee in August 1975 to distribute one sixth (25 million ounces) of the Fund's gold to members, the Fund completed during the financial year the last of four annual sales to countries that were members on August 31, 1975 and to Papua New Guinea. Sales of gold to members in the fourth distribution were made to 127 members and amounted to 6,593,368 ounces of fine gold (205.1 tons), sold at a price equivalent to SDR 35 per fine ounce. The sale proceeds amounting to SDR 230.8 million were added to the holdings of currencies of the Fund's General Resources Account. Details of the total amounts of gold sold to individual members over the period are shown in Table 24. Each member's share was calculated in proportion to its quota on August 31, 1975, and the gold was sold to participating members under the provisions of the Second Amendment of the Fund's Articles of Agreement.

The major portion of the gold sold in the fourth distribution, 5,410,459 fine ounces (168.3 tons), was purchased by 110 members in December 1979. An amount of 711,142 fine ounces (22.1 tons) was purchased by 15 members in January 1980, and an amount of 1,062 fine ounces (0.03 ton) was purchased by one member in February 1980. With the completion of this fourth distribution, total sales of gold to the 127 members over the four-year period amounted to 24,977,769 fine ounces (776.9 tons), which added the equivalent of SDR 874.2 million to the currency holdings of the General Resources Account.[17]

Trust Fund

The Trust Fund, established by the Executive Board in May 1976 and administered by the Fund, provides additional balance of payments assistance on concessionary terms to eligible developing member countries that qualify for assistance by carrying out programs of balance of payments adjustment.[18] Its resources are

[17] Arrangements have not yet been completed with regard to the distribution to Democratic Kampuchea.

[18] The establishment and operation of the Trust Fund were discussed in *Annual Report, 1979,* pages 86–87, *Annual Report, 1978,* pages 76–78, *Annual Report, 1977,* pages 66–67, and *Annual Report, 1976,* pages 60 and 111–17. The Trust Fund and Subsidy Account constitute arrangements that are separate from the Fund's own resources and accounts. The report of the Audit Committee for the year ended April 30, 1980 is reproduced in Appendix VIII.

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Table 23. Fund Gold Auctions: Summary Statistics, June 2, 1976–May 7, 1980

						Competitive Bids							
						Number of Bidders		Number of Bids					
Date (1)	Place of Delivery (2)	Ounces Bid (thousands) (3)	Ounces Awarded (thousands) (4)	Subscription Ratio [1] (5)	Ounces Awarded to Noncompetitive Bidders (thousands) (6)	Total (7)	Successful (8)	Total (9)	Successful (10)	No. of Noncompetitive Bids (11)	Price Range of Successful Bids (US$ per fine ounce) (12)	Average Award Price (13)	Profits (In millions of U.S. dollars) (14)
1976													
June 2	New York	2,320.0	780.0	2.97	—	30	20	220	59	—	126.00–134.00	126.00	67.10
July 14	New York	2,114.0	780.0	2.71	—	23	17	196	56	—	122.05–126.50	122.05	64.00
Sept. 15	New York	3,662.4	780.0	4.70	—	23	14	380	41	—	108.76–114.00	109.40	53.82
Oct. 27	New York	4,214.4	779.6	5.40	—	24	16	383	37	—	116.77–119.05	117.71	60.25
Dec. 8	London	4,307.2	780.0	5.52	—	25	13	265	33	—	137.00–150.00	137.00	75.35
1977													
Jan. 26	New York	2,003.2	780.0	2.57	—	21	15	192	49	—	133.26–142.00	133.26	72.50
Mar. 2	New York	1,632.8	524.8	3.11	—	21	7	187	14	—	145.55–148.00	146.51	55.60
Apr. 6	New York	1,278.0	524.8	2.43	—	18	11	136	22	—	148.55–151.00	149.18	57.02
May 4	New York	1,316.4	524.8	2.51	—	17	14	107	38	—	147.33–150.26	148.02	56.37
June 1	New York	1,014.0	524.8	1.93	—	14	13	75	35	—	143.32–150.00	143.32	53.87
July 6	Paris	1,358.4	524.8	2.59	—	15	15	83	35	—	140.26–145.00	140.26	52.16
Aug. 3	London	1,439.2	524.8	2.74	—	18	16	136	44	—	146.26–150.00	146.26	55.31
Sept. 7	New York	1,084.4	524.8	2.07	—	15	11	115	21	—	147.61–149.65	147.78	56.24
Oct. 5	New York	971.2	524.8	1.85	—	17	12	103	32	—	154.99–157.05	155.14	59.97
Nov. 2	London	1,356.4	524.8	2.58	—	18	7	90	21	—	161.76–163.27	161.86	63.29
Dec. 7	New York	1,133.6	524.8	2.16	—	19	19	108	58	—	160.03–165.00	160.03	62.13
1978													
Jan. 4	New York	984.8	524.8	1.88	—	19	19	103	64	—	171.26–180.00	171.26	67.68
Feb. 1	Paris	598.4	524.8	1.14	—	17	17	76	62	—	175.00–181.25	175.00	69.65
Mar. 1	New York	1,418.0	524.8	2.70	—	19	16	127	76	—	181.13–185.76	181.95	72.92
Apr. 5	New York	1,367.6	524.8	2.60	—	21	15	122	30	—	177.61–180.26	177.92	70.78
May 3	London	3,104.0	524.8	5.91	—	24	17	192	36	—	170.11–171.50	170.40	66.83
June 7	New York	1,072.4	470.0	2.28	925.2	21	15	137	28	5	182.86–183.92	183.09	195.64
July 5	New York	797.2	470.0	1.70	20.8	22	19	101	44	2	183.97–185.01	184.14	68.96
Aug. 2	New York	1,467.6	470.0	3.12	70.0	21	20	117	42	2	203.03–205.11	203.28	85.84
Sept. 6	New York	773.2	470.0	1.65	133.6	20	10	89	25	2	212.39–213.51	212.50	101.42
Oct. 4	London	805.6	470.0	1.71	134.4	18	12	76	25	1	223.57–224.62	223.68	107.74
Nov. 1	New York	689.6	470.0	1.47	80.0	14	7	50	24	1	223.03–230.00	224.02	98.37
Dec. 6	Paris	1,965.2	470.0	4.18	20.0	16	13	102	31	1	195.51–196.75	196.06	74.23
1979													
Jan. 3	New York	1,479.6	470.0	3.15	16.4	17	9	159	23	1	219.13–221.00	219.34	84.73
Feb. 7	New York	1,489.6	470.0	3.17	59.2	19	5	123	11	1	252.47–252.77	252.53	109.60
Mar. 7	London	1,534.4	470.0	3.26	—	18	17	127	50	—	241.28–243.26	241.68	92.62
Apr. 4	New York	1,186.8	470.0	2.53	—	17	14	107	44	—	238.71–240.27	239.21	91.37
May 2	New York	1,514.8	470.0	3.22	20.0	20	17	155	56	1	245.86–247.01	246.18	98.79
June 6	New York	1,452.4	444.0	3.27	—	19	5	109	19	—	280.22–281.37	280.39	104.73
July 3	New York	1,518.8	444.0	3.42	—	20	13	113	23	—	281.06–281.87	281.52	104.84
Aug. 1	New York	1,138.8	444.0	2.56	—	20	16	133	63	—	288.95–291.07	289.59	107.84
Sept. 5	Paris	1,646.0	444.0	3.71	—	21	4	81	6	—	332.01–333.50	333.24	127.73
Oct. 10	New York	665.6	444.0	1.50	—	16	9	52	15	—	412.51–420.80	412.78	163.20
Nov. 7	New York	1,798.4	444.0	4.05	—	16	13	189	53	—	391.77–398.01	393.55	154.26
Dec. 5	London	1,746.0	444.0	3.93	—	18	15	97	38	—	425.40–429.31	426.37	169.27
1980													
Jan. 2	New York	1,342.4	444.0	3.02	—	10	5	52	10	—	561.00–564.01	562.85	229.17
Feb. 6	New York	1,939.6	444.0	4.37	—	17	5	80	8	—	711.99–718.01	712.12	295.24
Mar. 5	New York	1,412.4	444.0	3.18	—	16	14	84	54	—	636.16–649.07	641.23	263.52
Apr. 2	New York	802.8	444.0	1.81	—	16	16	69	66	—	460.00–503.51	484.01	194.97
May 7	New York	1,822.0	443.2	4.10	—	21	21	225	67	—	500.20–511.15	504.90	203.51
Total [2]			23,517.5		1,480.3								4,640.44

[1] The ratio of total bids to the amount on auction.
[2] Ounces awarded do not add up exactly to the total representing the amount sold owing to variations in the weight of standard gold bars.

derived mainly from the profits realized on the sale of 25 million ounces of the Fund's gold for the benefit of developing member countries. A part of these profits has been paid directly to 104 developing countries, while the remainder—together with income from investments, income from loans already made to members, and other transfers to the Trust, less expenses—is available for concessionary lending.

Total profits from the sale of 25 million ounces of gold over the four-year sales program amounted to US$4.6 billion, of which US$1.3 billion was distributed directly to the 104 developing members. The amount

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Table 24. Sales of Gold to Members in Four Distributions

Member	Fine Ounces	Member	Fine Ounces
Afghanistan	31,665.860	Liberia	24,818.989
Algeria	111,258.000	Libyan Arab Jamahiriya	20,505.334
Argentina	376,564.794	Luxembourg	17,116.999
Australia	569,126.658	Madagascar	22,252.000
Austria	231,072.187	Malawi	12,836.998
Bahamas	17,116.997	Malaysia	159,165.213
Bahrain	8,557.999	Mali	18,826.368
Bangladesh	106,978.879	Malta	13,692.991
Barbados	11,125.930	Mauritania	11,124.698
Belgium	556,289.958	Mauritius	18,827.858
Benin	11,123.669	Mexico	316,656.950
Bolivia	31,665.985	Morocco	96,625.279
Botswana	4,278.867	Nepal	10,611.998
Brazil	376,564.569	Netherlands	599,080.944
Burma	51,349.512	New Zealand	172,877.650
Burundi	16,260.984	Nicaragua	23,105.366
Cameroon	29,953.907	Niger	11,124.483
Canada	941,394.291	Nigeria	115,536.844
Central African Republic	11,125.995	Norway	205,398.687
Chad	11,125.762	Oman	5,990.856
Chile	135,220.043	Pakistan	201,097.447
China[1]	470,705.277	Panama	30,807.853
Colombia	134,364.514	Papua New Guinea	17,116.813
Congo	11,126.000	Paraguay	16,260.994
Costa Rica	27,386.995	Peru	105,266.981
Cyprus	22,251.563	Philippines	132,653.664
Denmark	222,515.702	Portugal	100,131.991
Dominican Republic	36,800.979	Qatar	17,116.942
Ecuador	28,241.989	Romania	162,589.303
Egypt	160,894.508	Rwanda	16,260.959
El Salvador	29,953.988	Saudi Arabia	114,680.688
Equatorial Guinea	6,691.724	Senegal	29,024.482
Ethiopia	23,106.991	Sierra Leone	21,395.847
Fiji	11,125.708	Singapore	31,665.603
Finland	162,607.999	Somalia	16,260.991
France	1,283,718.053	South Africa	273,865.222
Gabon	12,836.997	Spain	338,052.863
Gambia, The	5,819.577	Sri Lanka	83,870.981
Germany, Fed. Rep. of	1,369,327.945	Sudan	61,619.962
Ghana	74,456.884	Swaziland	6,846.993
Greece	118,104.738	Sweden	278,144.648
Grenada	1,711.539	Syrian Arab Republic	42,791.963
Guatemala	30,810.000	Tanzania	35,944.820
Guinea	20,497.774	Thailand	114,680.978
Guyana	17,116.904	Togo	12,834.765
Haiti	16,260.997	Trinidad and Tobago	53,916.983
Honduras	21,395.994	Tunisia	41,066.775
Iceland	19,683.995	Turkey	129,229.953
India	804,429.402	Uganda	34,232.819
Indonesia	222,515.983	United Arab Emirates	12,836.804
Iran	164,311.978	United Kingdom	2,396,322.177
Iraq	93,273.618	United States	5,734,062.882
Ireland	103,554.980	Upper Volta	11,124.368
Israel	111,257.225	Uruguay	59,051.913
Italy	855,829.551	Venezuela	282,422.976
Ivory Coast	44,483.056	Viet Nam	53,044.523
Jamaica	45,358.961	Western Samoa	1,711.788
Japan	1,026,995.292	Yemen Arab Republic	8,557.999
Jordan	19,683.976	Yemen, People's Democratic Republic of	24,819.000
Kenya	41,079.961	Yugoslavia	177,144.008
Korea	68,465.912	Zaïre	96,708.971
Kuwait	55,628.986	Zambia	65,042.532
Lao People's Democratic Republic	11,125.533		
Lebanon	7,701.998	Total[2]	24,977,768.637
Lesotho	4,278.316		

[1] Distribution was effected before April 17, 1980, when the Fund decided that the Government of the People's Republic of China represents China in the Fund.
[2] As noted in the text, arrangements have not yet been completed for sale of gold to Democratic Kampuchea. The notional share of this member in 25 million ounces is 21,396 fine ounces.

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of profit distributed to each member was calculated on the basis of its share of Fund quotas at August 31, 1975; the quotas of the eligible members were equivalent to 27.771 per cent of total Fund quotas. The remainder of the profits, together with interest income and other transfers to the Trust, amounted to SDR 2.9 billion at the end of July 1980. A total of over SDR 2.1 billion has already been used to make loan disbursements to eligible low-income members that qualified for balance of payments assistance; a further amount of about SDR 800 million remains available. The final disbursement of loans is to be made in January 1981.

While 104 developing member countries were eligible to participate in the direct distributions of profits from gold sales, the Ministers of Finance of 8 members of the Organization of Petroleum Exporting Countries (OPEC) had decided in 1976 to recommend to their governments that they contribute to the Trust Fund their shares in the direct distributions of profits. Of these 8 members, 6—Iraq, Kuwait, Qatar, Saudi Arabia, the United Arab Emirates, and Venezuela—have made irrevocable transfers of the full amounts of their profit shares to the Trust Fund to add to the resources available for loan assistance.[19] In addition, Yugoslavia has transferred one third of its share of profits and Romania is lending 10 per cent of its share to the Trust Fund. As of July 31, 1980 the total value of the amounts transferred to the Trust by all these members was US$122 million.

The profits and loans actually disbursed by the Trust Fund so far, including the profit and loan disbursements in July 1980, totaled about SDR 3.1 billion, of which over half was disbursed during 1979/80 (Table 25). About three fourths of this total was disbursed among members in Africa and Asia, and the remainder to developing members in Europe, the Middle East, and the Western Hemisphere. For members that qualified for loans in both periods of the Trust Fund, total disbursements of loans and profits represented about 85 per cent of their present quotas, or the equivalent of more than three tranches.

Profits from the sale of gold are available for loan disbursements in each of the two periods of the Trust Fund. The first period was for two years and ended on June 30, 1978, while the second period covers the subsequent years through December 31, 1980. Balance of payments assistance for a total of SDR 841 million was provided to 43 of the 61 eligible members that had qualified for the first period.[20] This represented nearly one third of these members' present quotas and one half or more of the assessed need for almost three fourths of the qualified members.

Table 25. Trust Fund: Loan Disbursements and Distributions of Profits from Gold Sales, by Region, 1977–80
(In millions of SDRs)[1]

	Financial Years Ended April 30				
	1977	1978	1979	1980[2]	Total
Africa	20.0	130.0	286.5	660.5	1,097.0
Asia	9.1	199.0	322.0	635.3	1,165.4
Europe	—	16.7	8.6	61.3	86.6
Middle East	1.6	61.5	87.4	185.1	335.6
Western Hemisphere	1.0	83.6	36.1	288.7	409.4
Total	31.7	490.8	740.6	1,830.9	3,094.0

[1] Amounts distributed as profits converted to SDRs at exchange rates prevailing on dates of payment.
[2] Includes profit and loan disbursements in July 1980.

As regards the second period, because of the more difficult economic conditions during 1979 and 1980 and because higher gold prices resulted in much larger amounts being available for loans (over SDR 2 billion) than had been anticipated, the Executive Board took several decisions during 1979/80 to permit a greater number of eligible members to qualify for assistance and to accelerate the rate of loan disbursements. In July 1979 the Board decided that subsequent interim loan disbursements would be made on a quarterly, instead of a half-yearly, basis. In April 1980 the Board decided to extend the second period by six months (to December 31, 1980) and to extend to November 1, 1980 the final date by which a program had to begin for a member to qualify for a loan. It was also agreed at that time that an interim loan disbursement would be made at the end of July 1980 and that the seventh loan disbursement in respect of the Trust's second period would be made in January 1981.[21]

At the end of July 1980 the total amount available for disbursement as loans in the Trust Fund's second period was SDR 2.1 billion, taking account of investment income and the annual reimbursement of expenses to the General Resources Account for conducting the business of the Trust Fund, which amounted to SDR 700,000 in 1979/80. By July 31, 1980, a total of SDR 1.3 billion had been transferred as interim loan disbursements in the Trust Fund's second period to 49

[19] The seventh of these members—the Socialist People's Libyan Arab Jamahiriya—has so far transferred about one fourth of its profit share. As to the eighth member—Iran—the Fund was advised in June 1980 that Iran wished instead to receive its profit share in full. As of July 31, 1980, Iran's profit share was held by the Trust pending action by the Executive Board.

[20] These 61 members were countries that were Fund members on August 31, 1975 and had per capita incomes of less than SDR 300 in 1973. For the Trust's second period, the cutoff point was a per capita income of less than US$520 in 1975; a total of 59 members are eligible on that basis for Trust Fund loans in the second period.

[21] Executive Board Decisions No. 6201-(79/121) TR and No. 6202-(79/121) TR, adopted July 3, 1979, and No. 6466-(80/68) TR, adopted April 9, 1980 and reproduced in Appendix II.

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of the 59 eligible members that had qualified for assistance. This represents over two fifths of the qualified members' present quotas. All interim disbursements have been made on the assumption that all 59 eligible members will qualify for loans in the second period.

Trust Fund loans are made on the basis of 12-month balance of payments programs of at least first-credit-tranche conditionality; however, programs in the second period must be separate from those used as the basis for loans in the first period. Trust Fund loans must be made to each qualified member in amounts representing the same percentage of members' quotas on December 31, 1975, subject to any limitation of need as decided by the Fund as Trustee after a re-examination if necessary.

Trust Fund loans are disbursed in U.S. dollars, but the amounts are denominated in SDRs. They bear interest at a rate of ½ of 1 per cent per annum, payable half-yearly in a currency specified by the Fund (U.S. dollars, thus far), and, unless otherwise decided, are to be repaid in ten semiannual installments between six years and ten years from the dates of the loan disbursements. The terms of repayment will be reviewed, on the basis of uniform criteria, toward the end of five years after the first interim disbursement.

As mentioned in the 1979 Annual Report, the Executive Board decided in June 1978 that, in principle, the assets of the Trust, pending disbursements as loans, should be held in SDR-denominated assets with the Bank for International Settlements (BIS), unless the Managing Director found the interest rate offered on such proposed deposits not to be sufficiently attractive. In December 1978 the Executive Board broadened the Trustee's authority to make investments, allowing it, under certain conditions, to make deposits with other institutions including commercial banks. All SDR-denominated deposits in the period July 1978–July 1980 were in fact made with the BIS, and on July 31, 1980 totaled SDR 815 million with an average interest rate of 11 per cent per annum. Some deposits matured and were either used for loan assistance or reinvested with the BIS. The remainder of the Trust's assets, held for the direct distribution of profits, continued to be invested in U.S. Government obligations. The Trust's resources are invested, as soon as they are available, in investments with maturities matching the expected timing and amounts of Trust disbursements.

The Subsidy Account

The Subsidy Account, which is administered by the Fund, was established by the Executive Board on August 1, 1975 to assist members most seriously affected by oil price increases by reducing the cost of using the 1975 oil facility. The subsidy has been 5 percentage points per annum, so that the cost to the beneficiaries of using the 1975 oil facility has been reduced to an average of 2.7 per cent per annum.

The 18 original beneficiaries, which had purchased a total of SDR 551 million under the 1975 oil facility, received payments from the Subsidy Account that amounted to SDR 99 million by June 1980. Members that were added to the list of beneficiaries in November 1978 received subsidy payments for the first time in June 1980 in amounts totaling SDR 14 million. These members had purchased a total of SDR 222 million under the 1975 oil facility (Table 26).

Table 26. Subsidy Account: Total Use of 1975 Oil Facility by Beneficiaries, and Subsidy Payments in the Financial Year Ended April 30, 1980 [1]
(In millions of SDRs)

	Total Use of 1975 Oil Facility	Subsidy at 5 Per Cent	
		Amount	Cumulative to date
Original Beneficiaries: Subsidy for financial year ended April 30, 1980			
Bangladesh	40.47	1.68	8.36
Cameroon	11.79	0.50	2.40
Central African Republic	2.66	0.11	0.56
Egypt	31.68	1.40	6.30
Haiti	4.14	0.17	0.86
India	201.34	—	26.95
Ivory Coast	10.35	—	1.42
Kenya	27.93	1.10	5.93
Mali	3.99	0.18	0.79
Mauritania	5.32	0.23	1.08
Pakistan	111.01	4.38	23.48
Senegal	9.91	0.38	2.15
Sierra Leone	4.97	0.22	0.99
Sri Lanka	34.13	1.43	7.01
Sudan	18.30	0.75	3.85
Tanzania	20.61	0.76	4.50
Western Samoa	0.42	0.02	0.09
Yemen, People's Democratic Republic of	12.02	0.50	2.47
Total	551.03	13.79	99.17
Additional Beneficiaries: Subsidy for financial years ended April 30, 1975/76 and 1976/77			
Grenada	0.49	0.03	0.03
Malawi	3.73	0.24	0.24
Morocco	18.00	0.89	0.89
Papua New Guinea	14.80	0.80	0.80
Philippines	152.03	10.44	10.44
Zaïre	32.53	1.59	1.59
Total	221.58	13.98	13.98

[1] Purchases began in July 1975 and continued until May 1976. The subsidy amounts shown are calculated as a percentage per annum of the average daily balances, subject to charges, of the Fund's holdings of each eligible member's currency outstanding under the 1975 oil facility during the year. Since the average cost of using the facility is about 7.7 per cent per annum, a rate of subsidy of 5 per cent would reduce the effective cost of using the facility to 2.7 per cent.

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The Subsidy Account is funded by contributions from 24 members of the Fund and Switzerland (Table 27).

Table 27. Subsidy Account: Contributions
(In millions of SDRs)

Contributors	Anticipated Total Contributions[1]	Contributions Received as of April 30, 1980
Australia	5.700	5.700
Austria	2.300	2.300
Belgium	5.600	4.200
Brazil	1.850	1.850
Canada	9.500	9.500
Denmark	2.200	1.270
Finland	1.600	1.200
France	12.900	9.773
Germany, Fed Rep. of	13.700	13.720
Greece	0.600	0.597
Iran	6.000	6.000
Italy	8.600	8.600
Japan	10.300	8.054
Luxembourg	0.110	0.108
Netherlands	6.000	6.000
New Zealand	1.700	1.187
Norway	2.100	2.100
Saudi Arabia	40.000	40.000
South Africa	1.350	1.350
Spain	3.400	2.450
Sweden	2.800	2.800
Switzerland	3.285	3.285
United Kingdom	12.050	10.573
Venezuela	6.000	6.000
Yugoslavia	0.900	0.900
Total	160.545	149.517

[1] In some cases where contributions are being made in installments, budgetary approval will be required in each year that a contribution is to be made. SDR amounts may be subject to small adjustments owing to exchange rate changes.

The funds received are invested in U.S. Government obligations pending payment of subsidies to the beneficiaries. Promised contributions over the life of the Account total SDR 160 million; actual contributions to April 30, 1980 amounted to SDR 150 million.

The decision establishing the Subsidy Account was amended in November 1978 to permit the use of any surplus, after providing for payments to the original beneficiaries at the rate of 5 per cent per annum, to make payments at a rate not exceeding 5 per cent per annum to 7 additional beneficiaries, namely, Grenada, Malawi, Morocco, Papua New Guinea, the Philippines, Zaïre, and Zambia. With the addition of these members, the list of beneficiaries included all members eligible to receive assistance from the Trust Fund that had also used the 1975 oil facility. The Executive Board also decided that subsidy payments to Zambia should be made in respect of 1975 oil facility purchases subject to charges from July 1, 1978, since that member was not eligible for Trust Fund loans before that date.

At the end of the financial year 1979/80, the Subsidy Account held a surplus (of about SDR 44 million) that was available to be disbursed for the first time to the 7 members that became beneficiaries in November 1978. However, as the surplus together with anticipated contributions was insufficient to pay the additional beneficiaries at the full 5 per cent rate over the life of the Subsidy Account (1976–83), the Executive Board decided to retain the bulk of the surplus in the Account to earn investment income, and to begin payments to the additional beneficiaries by subsidizing the cost to those members of using the 1975 oil facility for the financial years 1975/76 and 1976/77.

Subsidy payments totaling SDR 13.8 million were made to 16 original beneficiaries for the financial year 1979/80, and a total of SDR 14 million was paid to 6 of the 7 (excluding Zambia) additional beneficiaries for the financial years 1975/76 and 1976/77. All these payments were made in June 1980. Of the 18 original beneficiaries, India and Ivory Coast did not receive a subsidy in 1980 as they no longer had any 1975 oil facility purchases outstanding.

Special Drawing Rights

The Fund has acted in a number of ways, over the past two years or so, to enhance the yield and liquidity characteristics of the SDR and thereby to make the asset more comparable with reserve currencies. The improvements have been made in the light of the intention of all members, as expressed in the Second Amendment of the Articles of Agreement that became effective in April 1978, to make the SDR "the principal reserve asset in the international monetary system." The main developments are as follows:

- Allocations—that is, the mechanism by which SDRs are created by the Fund—have been resumed from January 1, 1979 for a period of three years during which about SDR 12 billion will be allocated to Fund members that are participants in the Special Drawing Rights Department. These allocations follow a period of six years when no allocations were made.
- With the participation of Kuwait in April 1980, all 140 Fund members are now participants in the Special Drawing Rights Department.
- The valuation of the SDR and its interest rate are determined by reference to baskets of currencies and are thus related directly to developments in the foreign exchange and financial markets. The valuation basket, on the basis of which the value of the SDR is computed daily, is composed of the currencies of the 16 Fund member countries with the largest shares of world exports of goods and services.[22] The interest rate on the

[22] The Australian dollar, Austrian schilling, Belgian franc, Canadian dollar, deutsche mark, French franc, Iranian rial, Italian lira, Japanese yen, Netherlands guilder, Norwegian krone, pound sterling, Saudi Arabian riyal, Spanish peseta, Swedish krona, and U.S. dollar.

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SDR is fixed each quarter at 80 per cent (60 per cent until January 1, 1979) of a weighted average of short-term domestic interest rates in the five member countries with the largest Fund quotas.[23] (See Chart 16.) The Executive Board is considering the simplification of the method of valuation, in particular, by reducing the number of currencies in the basket, and by making the SDR valuation and interest rate baskets identical in accordance with the views expressed by the Interim Committee at its meeting in Hamburg in April 1980.

- SDRs may now be freely transferred, by agreement between participants, in transactions and operations that include purchases and sales of SDRs, both spot and forward, loans, donations (grants), swaps, and pledges of SDRs. The terms and conditions of individual operations can be set by agreement between the parties concerned, although the official (spot) valuation of the SDR must be observed in most cases (see below). Participants having a balance of payments need continue to be guaranteed that they can use SDRs to obtain foreign exchange from other participants designated by the Fund, and SDRs may be used for payments to the Fund, such as repurchases or the payment of charges on indebtedness to the Fund.
- The "reconstitution" obligation, which requires participants to maintain a minimum level of average holdings of SDRs over time, has been reduced from 30 per cent to 15 per cent of average allocations with effect from January 1, 1979.
- The Fund has widened the circle of authorized holders of SDRs beyond participants and the Fund's General Resources Account by prescribing certain official financial institutions as "other holders" of SDRs. These institutions have been authorized to deal in SDRs, by agreement with participants or other prescribed holders, with the same freedom as participants among themselves.
- The SDR has been adopted as a unit of account (or as the basis for a unit of account) for a number of private contracts and international treaties, and by international and regional organizations. SDR-denominated currency deposits are being accepted in growing amounts by the Bank for International Settlements and more than 30 commercial banks based in European centers, North America, and Japan. In addition, there have been eight SDR-denominated bond issues on the Eurobond market for a total value of about SDR 263 million over the period 1974–80, and recently the first certificates of deposit denominated in SDRs were issued in London and Tokyo. One of the objectives of the Fund's present review of the SDR valuation basket is to enhance the attractiveness of the SDR as a unit of account for all such purposes, as well as to promote the SDR as a reserve asset for official holders.

A summary of transfers of SDRs over the ten-year period May 1, 1970–April 30, 1980 is presented in Table 28, which also contains memorandum items showing the evolution in the numbers of Fund members and participants in the Special Drawing Rights Department, the total of SDR allocations, and the Fund's holdings of SDRs in the General Resources Account. Allocations and transfers of SDRs during the financial year ended April 30, 1980 are discussed below.

Allocations

On January 1, 1980, the Fund made an allocation of SDR 4,033 million to the 139 members that were participants in the Fund's Special Drawing Rights Department on December 31, 1979, including two new participants—St. Lucia, and St. Vincent and the Grenadines—that received allocations for the first time. The amount allocated to each participant was equal to 10.4 per cent of the participant's quota in the Fund on December 31, 1979. (See Appendix I, Table I.15.)

The allocation in 1980 was made in accordance with a Board of Governors Resolution that provides for allocations of SDR 4 billion on January 1 each year in 1979, 1980, and 1981.[24] Taking into account the allocation of SDR 9.3 billion during the first three years (1970–72) and the subsequent allocations of SDR 8 billion in 1979 and 1980, total allocations amount to SDR 17.3 billion at present and will exceed SDR 21 billion after the allocation on January 1, 1981. As regards subsequent allocations, the Managing Director is required to make a proposal by June 30, 1981 (i.e., six months before the end of the present period for allocations), or report to the Board of Governors and the Executive Board that there is no proposal for allocations that he considers to be consistent with the Articles of Agreement that has broad support among participants.

Transactions and Operations in the Special Drawing Rights Department

Between Participants

Important changes have been made in recent years that have progressively enlarged the scope for participants to acquire and to use SDRs in voluntary, bilateral transactions and operations by agreement with other participants. Following the Second Amendment, with

[23] France, the Federal Republic of Germany, Japan, the United Kingdom, and the United States.

[24] Board of Governors Resolution No. 34-3, adopted December 11, 1978. See *Annual Report, 1979,* pages 127–28.

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Table 28. Summary of Transfers of SDRs, May 1, 1970–April 30, 1980
(In millions of SDRs)

	Annual Average May 1, 1970–April 30, 1975	Financial Years Ended April 30				
		1976	1977	1978	1979	1980
Transfers by participants						
To other participants						
By agreement	443	176	317	927	1,533	362
With designation						
From holdings	246	292	116	54	74	346
From purchases of SDRs from Fund	—	—	3	344	1,006	1,025
	689	468	436	1,325	2,613	1,733
To the Fund						
Repurchases	196	440	73	844	502	994
Charges (net)	49	354	709	801	715	553
Quota payments	—	—	—	201	19	1
Assessment and interest on Fund's SDR holdings	11	23	24	41	59	83
	256	817	806	1,887	1,295	1,631
Transfers by the Fund						
To participants						
Purchases	61	443	25	662	1,106	1,283
Reconstitution	85	404	445	474	75	5
Remuneration	12	10	24	122	136	140
Fund borrowings						
Interest and transfer charges	—	8	—	29	12	21
Repayments	—	—	—	—	38	64
Other	38	—	—	1	8	—
	196	865	495	1,287	1,375	1,513
Total transfers	1,142	2,150	1,736	4,499	5,283	4,877
Memoranda[1]						
SDR participants		120	122	128	137	140
Fund members		128	130	134	138	140
Total allocations of SDRs		9,315	9,315	9,315	13,347	17,381
Fund holdings of SDRs		461	771	1,371	1,290	1,407

[1] Position at April 30 each year.

effect from April 1, 1978, SDRs can be freely transferred by agreement in exchange for an equivalent amount of currency. Furthermore, under the amended Articles, the Fund adopted a series of decisions[25] during the period December 1978–March 1980 to permit additional uses of SDRs, as follows:

(i) In swap arrangements, in which a participant would transfer SDRs to another participant in exchange for an equivalent amount of currency or another monetary asset, other than gold, with an agreement to reverse the exchange at a specified future date and at an exchange rate agreed between the participants.

(ii) In forward operations, in which participants can buy or sell SDRs for delivery at a future date against a currency or another monetary asset, other than gold, at an exchange rate agreed by the participants.

(iii) In loans of SDRs at interest rates and maturities agreed between the parties. Repayment of loans and payment of interest may be made with SDRs.

(iv) In the settlement of financial obligations.

(v) As security for the performance of financial obligations, in either of two ways: (a) participants may pledge SDRs, which can be earmarked for the duration of the pledge by being recorded in a special register kept by the Fund; or (b) participants may agree that SDRs will be transferred as security for the performance of an obligation and that the SDRs will be returned to the transferor when its obligations under the agreement have been fulfilled.[26]

(vi) In donations (grants).

The amounts used in these operations are left for the parties to agree. However, in certain operations—the first part of a swap agreement, the use of SDRs for repayment of a currency loan, or the settlement of a

[25] Executive Board Decisions No. 6000-(79/1) S and No. 6001-(79/1) S, adopted December 28, 1978, and No. 6053-(79/34) S and No. 6054-(79/34) S, adopted February 26, 1979. See *Annual Report, 1979*, pages 130–34. Executive Board Decision No. 6336-(79/178) S and No. 6337-(79/178) S, adopted November 28, 1979, and No. 6437-(80/37) S, adopted March 5, 1980 and reproduced in Appendix II.

[26] SDRs pledged or transferred as security for the performance of a financial obligation must be used to fulfill obligations in SDRs to the Fund, if the pledgor's SDR holdings would otherwise be insufficient.

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financial obligation—the equal value principle must be observed; that is, the exchange rates to be used must be the same as the exchange rates that are calculated by the Fund for spot transactions in SDRs.

All the decisions permitting additional uses of SDRs are to be reviewed by the Fund once each year. To date, there have been no transfers of SDRs in any of the operations authorized by these decisions.

Transactions by Agreement

The amount of SDRs transferred by participants in transactions by agreement with other participants amounted to SDR 362 million in the year ended April 30, 1980. In the previous year such transfers totaled SDR 1,533 million, mainly as a result of the transfer by the United States of SDR 1,100 million to the Federal Republic of Germany and Japan in two transactions to obtain deutsche mark and Japanese yen as part of a package of measures announced on November 1, 1978 to strengthen the U.S. dollar.

Belgium transferred SDR 42.5 million to the Federal Republic of Germany in May 1979 in exchange for Belgian francs, in a transaction to settle an obligation arising from intervention under the European Monetary System. The remaining transfers in 1979/80 were made by Canada and the Federal Republic of Germany under arrangements with the Fund for sales of SDRs in bilateral transactions to other participants that wished to acquire them. In all cases, these transactions were arranged at the initiative of the recipient, usually because SDRs were needed to make payments to the Fund, for example, in repurchases or charges, or because SDRs needed to be acquired for reconstitution. Details of transactions by agreement in 1979/80 are shown in Table 29. Information concerning the currencies transferred in exchange for SDRs in transactions by agreement is presented in Appendix I, Table I.18.

Transactions with Designation

Transactions with designation, in which participants with a balance of payments need use SDRs to obtain currency from other participants designated by the Fund, amounted to SDR 1,372 million in 1979/80, the largest amount in any financial year to date.

A total of 47 participants were designated to provide currency; the largest amounts were provided by the United Kingdom (equivalent to SDR 355 million), Italy (SDR 154 million), France (SDR 144 million), Saudi Arabia (SDR 102 million), and India (SDR 101 million). Details of transactions with designation in 1979/80 are shown in Table 30.

Table 29. Use and Receipt of SDRs in Transactions by Agreement, Financial Year Ended April 30, 1980
(In millions of SDRs)

Participant	Use	Receipt
Belgium	42.5	—
Burma	—	16.1
Cameroon	—	2.6
Canada	80.9	—
Egypt	—	4.3
El Salvador	—	0.8
Fiji	—	0.5
Germany, Fed. Rep. of	238.4	42.5
Greece	—	14.8
Grenada	—	0.4
Guyana	—	0.6
Iceland	—	5.0
Israel	—	88.0
Jamaica	—	3.1
Madagascar	—	1.1
Nicaragua	—	1.9
Panama	—	2.0
Papua New Guinea	—	5.0
Peru	—	124.6
Portugal	—	3.0
Sierra Leone	—	0.2
Sudan	—	14.5
Turkey	—	28.0
Western Samoa	—	0.3
Zaïre	—	2.6
Total	361.8	361.8

As a participant designated by the Fund to provide currency in such a transaction may also choose which of the five freely usable currencies (the deutsche mark, French franc, Japanese yen, pound sterling, and U.S. dollar) it will provide, arrangements are in place for the exchange of freely usable currencies when the currency requested by the user of SDRs differs from that provided by the designated participant. Details of the currencies transferred against SDRs are presented in Appendix I, Table I.18.

Transactions and Operations Between Participants and the General Resources Account

There are now several avenues by which SDRs flow into the Fund's General Resources Account. Participants may use SDRs freely to make repurchases; they are required to use SDRs to pay charges on the use of the Fund's resources and may be required to do so in making subscription payments in connection with initial quotas or quota increases. The Fund itself may use SDRs it receives to pay remuneration on creditor positions, to make repayments of Fund borrowings, subject to the lender's agreement, or in transfers to members making purchases (see below).

The SDR holdings of the General Resources Account have tended to increase over the past five years

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Table 30. Use and Receipt of SDRs in Transactions with Designation, Financial Year Ended April 30, 1980
(In millions of SDRs)

Participant	Use	Receipt
Afghanistan	—	2.7
Algeria	—	2.0
Argentina	—	36.0
Australia	130.0	—
Austria	—	7.0
Bangladesh	47.0	—
Benin	4.0	—
Bolivia	26.8	—
Brazil	—	31.7
Burma	11.0	—
Canada	—	28.6
Central African Republic	5.9	—
Chile	—	41.0
Colombia	—	20.1
Congo	2.0	—
Costa Rica	7.5	—
Denmark	—	7.5
Dominica	1.9	—
Dominican Republic	23.3	—
Ecuador	—	1.3
El Salvador	17.7	0.5
Equatorial Guinea	1.8	—
Ethiopia	36.0	—
Finland	—	9.5
France	—	143.8
Gabon	7.5	—
Gambia, The	1.6	—
Germany, Fed. Rep. of	—	8.5
Grenada	0.6	—
Guatemala	—	1.3
Guinea	3.0	—
Guyana	6.1	—
Honduras	—	0.5
India	—	100.8
Indonesia	—	23.5
Iraq	—	22.7
Ireland	—	2.0
Israel	31.5	3.0
Italy	—	154.0
Ivory Coast	13.0	3.0
Jamaica	20.4	—
Jordan	—	1.6
Korea	35.0	2.0
Liberia	19.5	—
Libyan Arab Jamahiriya	—	18.0
Luxembourg	—	0.6
Madagascar	11.3	—
Malawi	19.0	—
Malaysia	—	22.0
Malta	—	2.1
Mauritius	1.0	—
Mexico	—	30.5
Netherlands	—	29.0
New Zealand	25.1	—
Nicaragua	48.5	—
Nigeria	—	4.0
Norway	—	7.3
Pakistan	10.0	—
Papua New Guinea	—	1.8
Paraguay	—	0.3
Peru	68.0	—
Philippines	149.0	—
Qatar	—	0.3
Saudi Arabia	—	101.9
Senegal	18.3	—
Sierra Leone	6.5	—
Singapore	—	7.5
Spain	—	97.0
Sri Lanka	17.0	—
Sudan	60.5	—
Sweden	—	14.0
Tanzania	34.0	—
Trinidad and Tobago	—	7.5
Tunisia	—	1.0
Turkey	51.6	—
Uganda	11.0	—
United Arab Emirates	—	3.5
United Kingdom	—	354.6
Uruguay	—	7.0
Venezuela	—	2.2
Western Samoa	0.2	—
Yemen Arab Republic	—	5.2
Yugoslavia	313.3	—
Zaïre	4.9	—
Zambia	69.5	—
Total	1,371.5	1,371.5

because inflows, mainly from repurchases and charges, have exceeded outflows, even in those years when there were substantial sales to members needing to acquire SDRs for reconstitution. (See Table 28.) As of April 30, 1980 these holdings amounted to SDR 1,407 million, about 8 per cent of the total amount allocated. While it is necessary for the Fund to maintain adequate holdings of SDRs to be able to assist members to fulfill their obligations to the Fund and for certain other purposes, the need to hold SDRs for these purposes is not unlimited, and it has been considered preferable to channel SDRs back to participants rather than to retain them in the General Resources Account. Since March 1977, the Fund has transferred SDRs instead of currencies to members using the Fund's resources, with the agreement of the transferees. Members receiving SDRs in this way may retain them if they wish, but in most cases purchasing members use the SDRs immediately to obtain foreign exchange in a transaction with designation.

Transfers of SDRs by the Fund in purchases have risen in recent financial years to SDR 1,283 million in the financial year just ended. (See Table 28.) The amount of SDRs included in the quarterly operational budgets for use in purchases by members has varied up to 100 per cent of the total. Following a review of the role of SDRs in the General Resources Account during the financial year, it was agreed that the Fund's hold-

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ings of SDRs should be maintained, if possible, within the range of SDR 750–1,000 million during the period prior to the coming into effect of new quotas under the Seventh General Review.[27] As 25 per cent of the increases in quota under the Seventh General Review of Quotas is payable in SDRs, about SDR 5 billion is expected to be received by the Fund when the quota increases become effective. At that time, the question of the use of SDRs by the General Resources Account will need to be re-examined.

Flows of SDRs through the General Resources Account during the financial year 1979/80 are discussed below.

Inflows

Transfers to the General Resources Account totaled SDR 1,630 million in 1979/80, against SDR 1,295 million in 1978/79. Repurchases, discharged at the member's option with SDRs rather than currencies specified by the Fund, amounted to SDR 994 million, including SDR 400 million used by the United Kingdom. Other members using SDRs for repurchases included Peru (SDR 75 million), Mexico (SDR 71 million), Israel (SDR 69 million), Australia (SDR 62 million), and India (SDR 60 million). More than 70 per cent of the repurchases with SDRs were made during the last four months of the financial year after the allocation of SDRs on January 1, 1980.

Charges levied by the Fund on the use of its resources must be paid in SDRs, unless the member's SDR holdings are insufficient. During 1979/80, all charges that were due the Fund were paid in SDRs, although in a number of cases members found it necessary to acquire SDRs for this purpose because of the low level of their holdings. The largest amounts of charges were paid by the United Kingdom (SDR 79 million), Turkey (SDR 32 million), and Italy (SDR 27 million).

In other payments to the Fund, Cape Verde, Djibouti, and Dominica used a total of SDR 0.7 million to pay the reserve asset portion of their initial subscriptions as new members of the Fund. Interest received on the Fund's holdings of SDRs in the General Resources Account amounted to SDR 82 million, which was substantially more than in previous years because of a higher average rate of interest on SDR holdings. The assessment, by which participants reimburse the Fund's General Resources Account for the expenses of conducting the Special Drawing Rights Department, was SDR 1 million.

[27] Executive Board Decision No. 6275-(79/158) G/S, adopted September 14, 1979 and reproduced in Appendix II.

Outflows

As in the previous two years, the main avenue for outflows of SDRs from the General Resources Account was in transfers to members making purchases. These transfers amounted to SDR 1,283 million and accounted for 52.7 per cent of total purchases during the year that were financed through the Fund's operational budgets.

In May 1979, the Fund paid remuneration on members' net creditor positions for the year 1978/79, including amounts in SDRs totaling SDR 140 million to 50 members. The largest payments in SDRs were to the Federal Republic of Germany (SDR 50 million), Japan (SDR 31 million), and the United States (SDR 23 million). Remuneration payments have been higher in the past three years because of greater net use of the Fund's resources and higher rates of remuneration.

The Fund used a total of SDR 65 million to pay interest and transfer charges on, or to discharge, its indebtedness to lenders under the General Arrangements to Borrow, the oil facility, and the supplementary financing facility. These payments, which are made in SDRs subject to the lender's agreement, have increased in recent years as lenders have shown greater readiness to accept SDRs, as repurchasing members have used more SDRs (following the allocations in 1979 and 1980), and as the Fund has sought to match those receipts by asking lenders if they will accept repayment in SDRs.

Other Holders of SDRs

In April 1980, the Fund prescribed five institutions as "other holders" of SDRs authorizing them to acquire, hold, and use SDRs on uniform terms and conditions. The five new holders are as follows: the Andean Reserve Fund, Bogotá; the East Caribbean Currency Authority, St. Kitts; the International Fund for Agricultural Development, Rome; the Nordic Investment Bank, Helsinki; and the Swiss National Bank, Zurich. The Bank for International Settlements, Basle, had earlier been prescribed as a holder.

The transactions and operations in which other holders may deal in SDRs are regulated by a decision of the Fund taken in April 1980.[28] "Other holders" are not obligated to acquire or use SDRs, but the decision permits them to do so in bilateral transactions and operations by agreement with any participant or other prescribed holder, with the same degree of freedom as

[28] Executive Board Decision No. 6467-(80/71) S, adopted April 14, 1980 and reproduced in Appendix II.

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participants have in such dealings among themselves. No general provision has been made for other holders to deal in SDRs with the Fund's General Resources Account, but the Swiss National Bank, which has borrowing agreements with the Fund, has been authorized to accept SDRs in payment of interest on, or repayment of, the Fund's indebtedness to the Bank, in accordance with the terms of the borrowing agreements.

Other holders do not receive allocations of SDRs, as the Fund can make allocations only to particpants, and they are not required to assume those obligations of participants that are based on allocations, such as the reconstitution requirement. Assured use of SDRs through the designation process is also unavailable to other holders; by the same token, they are not required to provide currency to participants using SDRs in this way. During the year 1979/80, there were no transfers of SDRs involving other holders.

Income, Expenses, and Reserves

For the year ended April 30, 1980 the Fund recorded net income of SDR 3.1 million, compared with SDR 46.1 million in 1979. The income for the year was placed to the Special Reserve. On April 30, 1980 the total of the General and Special Reserves of the Fund was SDR 763.2 million.

The comparative details of the Fund's operational income and expenses are presented in Appendix VII and administrative expenses in Appendix VI. A number of factors affect the Fund's income position in any year, including the amounts and timing of purchases and repurchases, the availability to the Fund of resources that do not entail the payment of either interest or remuneration, the amounts of its currency holdings on which the Fund receives income from charges or pays interest and remuneration, and the relationship between the Fund's average cost of funds and its average rate of charge actually received.

During the year, the Fund's schedules of charges remained unchanged. The average rate of charges (including charges for use of the oil facility and the supplementary financing facility) rose slightly, from 6.24 per cent in the previous year to 6.34 per cent, mainly as a result of the progression in the rates of charges with the time during which the balances on which they are levied remained outstanding; it also partially reflected the charges for use of the supplementary financing facility, which are linked to market interest rates. The average rate of interest on the Fund's indebtedness increased slightly in 1979/80 reflecting the higher cost of borrowing under the supplementary financing facility. (See Table 31.) In contrast, the average SDR rate of interest and the average rate of remuneration rose significantly in 1979/80, the former from 4.42 per cent to 7.92 per cent and the latter, which was equal to 90 per cent of the SDR interest rate, from 4.40 per cent to 7.06 per cent. These increases were a result of higher market rates of interest on which the SDR interest rate is based.

The relative movements in the rates of charges and in interest rates were a major factor affecting the financial outcome for the financial year ended April 30, 1980. The negative influence of the higher average rate of remuneration on the Fund's income position was, however, moderated by a significantly larger reduction in the amount of the average daily balances on which the Fund calculated remuneration and interest than in the average daily balances of currency holdings and SDRs on which the Fund earned income. Another positive factor was the increased interest received on the Fund's holdings of SDRs.

Consultations with Member Countries

Regular consultations with member countries have continued as a central part of the Fund's work. As discussed in Chapter 2, regular Article IV consultations are required for all members and constitute, inter alia, the centerpiece of the Fund's surveillance over the exchange rate policies of individual member countries. In addition, these consultations enable the Fund to deal promptly with requests for use of Fund resources and with proposed changes in exchange practices subject to Fund approval. There was no change, in the year under review, in the basic procedure followed for regular consultations. On the basis of the discussions with the representatives of the member country, the Fund staff prepares a report for consideration and discussion by the Executive Board. Not later than three months after the termination of discussions between the member and the staff, the Executive Board is to reach conclusions and thereby complete the consultation under Article IV. In addition to any formal decision rendered by the Board on any matters subject to Fund jurisdiction, an Article IV consultation concludes with an informal summation by the Managing Director expressing the sense of the meeting and indicating the conclusions reached. These views are transmitted promptly to the authorities of the member country by the Fund.

Article IV consultations are required, in principle, to take place annually. Similarly, members availing themselves of the transitional arrangements under Article XIV are required to consult the Fund annually. As in previous years, there was, in practice, some shortfall from the objective of annual consultations, owing partly

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Table 31. Summary of Average Rates of Periodic Charges, Interest on SDR Holdings, Remuneration, and Interest on Borrowing, Financial Years Ended April 30, 1979 and 1980
(Amounts in millions of SDRs)

	1980	1979	1980	1979
	Including the oil facility and supplementary financing facility		Excluding the oil facility and supplementary financing facility	
Income from periodic charges				
Average daily balances	8,192	10,868	4,804	5,474
Total charges for the period	519.4	678.1	252.0	275.9
Average annual rate	*6.34*	*6.24*	*5.25*	*5.04*
Interest on SDR holdings				
Average daily balances	1,033	1,293	1,033	1,293
Total interest for the period	81.8	57.1	81.8	57.1
Average annual rate	*7.92*	*4.42*	*7.92*	*4.42*
Combined income				
Average daily balances	9,225	12,161	5,837	6,767
Total income for the period	601.2	735.2	333.8	333.0
Average annual rate	*6.52*	*6.05*	*5.72*	*4.92*
Remuneration expense				
Average daily balances	3,414	3,903	3,414	3,903
Total interest for the period	241.0	171.7	241.0	171.7
Average annual rate	*7.06*	*4.40*	*7.06*	*4.40*
Interest on borrowing				
Average daily balances	4,163	6,953	777	1,539
Total interest for the period	284.0	458.1	31.1	70.7
Average annual rate	*6.82*	*6.59*	*4.00*	*4.59*
Combined expense				
Average daily balances	7,577	10,856	4,191	5,442
Total expense for the period	525.0	629.8	272.1	242.4
Average annual rate	*6.93*	*5.80*	*6.49*	*4.45*
Excess of average daily income-earning balances over average daily interest-costing balances	+1,648	+1,305	+1,646	+1,325
Margin between the combined average annual rate of income and the combined average rate of expense	*−0.41*	*+0.25*	*−0.77*	*+0.47*
Excess of periodic charges and interest on SDR holdings over remuneration and interest	+76.2	+105.4	+61.7	+90.6

to the constraints of staff resources and partly to the wish of some members to modify the scheduling of the consultation. Thus, in 1979/80, the Fund completed 94 regular Article IV consultations, of which 61 were with countries availing themselves of the transitional arrangements of Article XIV, and 33 with countries that had formally accepted the obligations of Article VIII. Of those consultations completed in 1979/80, 33 had been initiated in the previous financial year, whereas 25 of those initiated in 1979/80 remained outstanding at the end of the year. During the financial year, three member countries (Dominica, Finland, and Solomon Islands) formally accepted the obligations of Article VIII, Sections 2, 3, and 4. On April 30, 1980, the Fund had a total membership of 140 countries, of which 50 had Article VIII status as listed in Appendix I, Table I.14.

Regular consultations as described are supplemented by special consultations held in connection with the periodic review of the World Economic Outlook by the Executive Board. These special consultations are intended to provide up-to-date information on the economic situation of countries whose external policies are regarded as being of major importance to the world economy. In addition to regular consultations and special consultations, the Fund's practices include ad hoc consultations that the Managing Director may initiate in the circumstances set forth in the decision on procedures relating to the Fund's surveillance over members' exchange rate policies.[29]

Training and Technical Assistance

The training and technical assistance provided by the Fund during 1979/80 again took the form of training at headquarters, staff missions, and the stationing of staff members and outside experts in member countries—all complementary to the assistance made available to members through the Fund's regular consultation procedures under Article IV. In addition, the Fund's area and functional departments have continued

[29] Executive Board Decision No. 6026-(79/13), adopted January 22, 1979. See *Annual Report, 1979,* page 136.

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to provide, on request, technical assistance on a wide range of specific economic and financial problems confronting member countries. This assistance has continued to be made available to member countries mainly in the fields of fiscal, monetary, and balance of payments policies, banking, exchange and trade systems, government finance, and statistics.

During the financial year, the IMF Institute conducted eight training courses, which were attended by 233 officials of governments and central banks of member countries. Since its inception in 1964, Institute courses have been attended by 2,613 officials from 134 member countries.

The Institute's main course, on Financial Analysis and Policy, was conducted twice in English and once each in French and Spanish. The course, which runs for 19 weeks in English and 21 weeks in French and Spanish, presents an exposition of the Fund's procedures and policies, examines the modern tools of economic analysis and forecasting, and provides a thorough study of the instruments of monetary, fiscal, and balance of payments policies that are used to achieve economic objectives under changing national and international conditions.

The eight-week course on Balance of Payments Methodology was presented twice (in French and Spanish) in the financial year in collaboration with the Bureau of Statistics. It concentrates on the balance of payments concepts and definitions used in the Fund and serves as a medium for assisting member countries in their efforts to improve their balance of payments statistics. The ten-week course on Public Finance was offered twice (in English) in cooperation with the Fiscal Affairs Department. It covers the objectives, instruments, and procedures of public finance with special emphasis on the fiscal problems of developing countries.

The IMF Institute also participated in the organization of three area department seminars for senior officials from member countries, and continued to provide teaching assistance to national and regional training institutions.

The Central Banking Department continued to provide, in response to requests by appropriate authorities, technical assistance related to the establishment, organization, and operation of central banks and similar monetary institutions both in the field—through the assignment of resident experts and staff missions—and from headquarters through advisory studies and recommendations.

Experts, recruited mainly from outside the Fund, served in executive or advisory positions in 55 central monetary institutions and provided about 74 man-years of technical assistance during the year. As in earlier years, most of these assignments were in specialized fields—research and statistics, bank supervision, banking and exchange operations and controls—but a few were at the top management level. In addition to their specific duties, experts are generally required to give high priority to the training of their counterpart officers and local staff.

Advisory assistance in the central banking field was also provided from headquarters through correspondence and through staff missions to requesting institutions. In addition to carrying out 27 advisory missions during the year, departmental staff participated in missions by other Fund departments and other institutions, particularly the World Bank. Topics on which advice was given during the past year include central banking and financial system legislation (in cooperation with the Legal Department), the organization and functioning of central monetary institutions, foreign exchange policy and management, the structure of interest rates, and applications of computer technology to central banking operations.

The Fiscal Affairs Department has again provided technical assistance through staff missions, staff assignments in the field, and use of the services of members of the panel of fiscal experts. The principal fields in which assistance was given were tax policy, tax and customs administration, budget systems and procedures, accounting, auditing and financial reporting, and general financial management. The number of countries utilizing all forms of technical assistance was 40, compared with 35 in the previous financial year; 10 countries received assistance for the first time. Of the 58 individual field assignments carried out in the financial year, 34 were long-term assignments and 27 short-term assignments, while 292 man-months were spent in the field. Technical assistance work for the year was divided among 42 panel members and 21 staff members. As part of the ongoing review, members of the staff visited a number of countries to inspect progress and to advise on requests for further assistance. Another important element of technical assistance provided by the Fiscal Affairs Department is the work of staff members at headquarters in supporting and controlling the work of field experts.

Technical assistance in the statistical field has continued to be provided by staff members of the Bureau of Statistics. Such assistance has included the improvement of existing central bank statistical bulletins, with an emphasis on financial and general statistics, and the establishment of new bulletins, as well as assistance to members in the compilation of balance of payments and government finance statistics in accordance with the methodologies of Fund manuals. The program of assistance has taken the form of lectures, discussions, and work on data with national officials and technicians,

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using concepts and classification standards for the assembly of data relevant to the analysis of monetary and payments problems. The Bureau's assistance in the fields of balance of payments and government finance statistics has focused on applying to national source materials the conceptual framework and classification standards given in the Fund's *Balance of Payments Manual* and the *Draft Manual on Government Finance Statistics*. This assistance has been supported by courses in these areas of statistics given by the IMF Institute in Washington.

During the financial year, the Bureau's overall technical assistance activities resulted in 40 visits to 34 countries. In addition to cooperating in the presentation of the IMF Institute courses on the balance of payments, the Bureau responded to requests from 14 national and multinational institutions for ad hoc training of officials of central banks, ministries of finance, and other government agencies.

Relations with Other International Organizations

Cooperation with other international and regional organizations having related responsibilities or interests is an essential part of the Fund's work. In addition to the World Bank, with which it has a special relationship, the Fund has close ties with the United Nations (UN) and its relevant organs, the Organization for Economic Cooperation and Development (OECD), the General Agreement on Tariffs and Trade (GATT), the Commission of the European Communities (CEC), the Bank for International Settlements (BIS), the Organization of American States (OAS), especially its Inter-American Economic and Social Council and its Permanent Executive Committee (CEPCIES), and regional financial institutions in Africa, Asia, Latin America and the Caribbean, and the Middle East.

Continuous liaison with these organizations is provided by exchange of information and pertinent documents, direct contact by headquarters staff including attendance at meetings, and the Fund's offices in Paris and Geneva. Most of the organizations were represented at the Annual Meeting of the Fund's Board of Governors, held jointly with that of the World Bank and its affiliates, in Belgrade, Yugoslavia, in October 1979. Several of them also were represented at meetings of the Interim Committee and of the Development Committee, held in Belgrade just prior to the Annual Meeting and in Hamburg, Germany, in April 1980.

The Managing Director made his annual address to the UN Economic and Social Council (ECOSOC) on July 6, 1979 in Geneva. He also addressed the Fifth Session of the UN Conference on Trade and Development (UNCTAD) held in Manila, Philippines. At the invitation of the Chairman of the Preparatory Committee of the UN General Assembly on the New International Development Strategy, the Managing Director delivered remarks to that body reviewing the status of the international economic environment and commenting on the dynamics of development relevant to the 1980s. In addition, he spoke at the UN Administrative Committee on Coordination (ACC) meeting on development strategy in the 1980s held in Vienna in April 1980, and took part in other ACC meetings. During the period under review the Managing Director also participated in the OECD Ministerial Meeting in Paris on June 14, 1979, attended the monthly meeting of the BIS in July 1979, and addressed a Symposium on Monetary Theory and Policy in the African Context organized by the African Centre for Monetary Studies on January 21, 1980. He attended meetings of the Ministers of the UNCTAD Intergovernmental Group of Twenty-Four on International Monetary Affairs and meetings of the Group of Ten ministers and governors of central banks occurring at the time of the Interim and Development Committee meetings, and was an observer at the meeting of the UNCTAD Group of 77 at the level of Ministers held in Belgrade on September 29, 1979.

The Fund's standing arrangements for collaboration with the GATT with respect to its consultations with common members on trade restrictions imposed for balance of payments reasons involved staff participation in those consultations and the provision of pertinent documents. Fund representatives also attended the 35th session of the CONTRACTING PARTIES and meetings of the Council of Representatives and subsidiary bodies.

Commodity problems are of particular interest to the Fund in connection with its compensatory financing and buffer stock facilities. Staff representatives participated in meetings of the UNCTAD's Integrated Program for Commodities, including sessions of the Interim Committee of the UN Negotiating Conference on a Common Fund and an interagency meeting for an informal exchange of views on draft Articles of Agreement of the Common Fund; meetings of the Food and Agriculture Organization of the United Nations (FAO) Intergovernmental Groups on Meat and Grains, as well as a preparatory meeting for the Sixth Ministerial Meeting of the World Food Council; the UN Tin Conference to negotiate a Sixth International Tin Agreement; the Ninth (Special) Session of the Council of the International Sugar Organization; and an International Wheat Council meeting in preparation for the negotiating conference for a new Wheat Agreement.

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At the regional level the Fund was called upon during the year to provide technical assistance to the South-East Asian Central Bank's (SEACEN) Research and Training Centre in the organization of a Financial Analysis and Policy Course and in the formulation and implementation of a research project entitled "The Relationship of Money and Credit to Economic Activity." In addition, the assignment of an expert to the Central American Monetary Council as Advisor to the Special Program on National Accounts was extended.

Aid coordination and debt renegotiation are of vital concern to the Fund, as reflected in its continuing participation in meetings of consortia and consultative and aid groups sponsored by the World Bank, the OECD, and others. Fund staff participated in World Bank-sponsored meetings of the India and Pakistan Consortia, the Bangladesh, Nepal, and Sri Lanka Aid Groups, and the Consultative Groups for Colombia, Egypt, Kenya, Korea, the Philippines, Sudan, and Uganda, as well as the OECD-sponsored Turkey Consortium and the Netherlands-sponsored Inter-Governmental Group on Indonesia. Representatives of the Fund also took part in meetings relating to the Caribbean Group for Cooperation in Economic Development, an aid group organized by the World Bank; the Fifth Meeting of the OAS Joint Commission for the Implementation of External Cooperation with Haiti; and meetings on debt rescheduling for Sierra Leone, Sudan, Togo, and Zaïre held under the aegis of the Paris Club.

Executive Directors and Staff

A list of Executive Directors and their voting power on April 30, 1980 is given in Appendix IV. The changes in membership of the Executive Board during 1979/80 are shown in Appendix V.

In the year ended April 30, 1980, there were 122 appointments to the Fund's regular staff and 84 separations. At the end of the financial year, the staff numbered 1,416 and was drawn from 90 countries.

Publications

The list of publications issued by the Fund during 1979/80 is shown in Appendix I, Table I.19.

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Appendix I
The Fund in 1979/80

The tables in this appendix supplement the information given in Chapter 3 on the activities of the Fund during the financial year ended April 30, 1980. In some tables in this appendix, however, data covering longer periods are included, viz., Table I.1 on exchange rates and exchange arrangements, Table I.11 setting out the charges on the use of the Fund's resources, Table I.12 on the distribution of profits from gold sales, and Table I.13 on Trust Fund loan disbursements.

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Table I.1. Exchange Rates and Exchange Arrangements, June 30, 1980
(Currency units per unit listed)

		Exchange Rate Maintained Against							
Member	Currency	U.S. dollar [1]	Pound sterling [1]	French franc [1]	Other single currency [1]	Special drawing right [1]	Currency composite other than SDR [2]	Other currencies in a cooperative arrangement [2, 3]	Exchange Rates Otherwise Determined [2, 4]
Afghanistan	Afghani	—	—	—	—	—	—	—	44.50
Algeria [5]	dinar	—	—	—	—	—	3.7775	—	—
Argentina	peso	—	—	—	—	—	—	—	1,854.50
Australia	dollar	—	—	—	—	—	—	—	0.863856
Austria	schilling	—	—	—	—	—	12.493	—	—
Bahamas [5]	dollar	1.00	—	—	—	—	—	—	—
Bahrain	dinar	—	—	—	—	—	—	—	0.377
Bangladesh [5]	taka	—	—	—	—	—	14.6959	—	—
Barbados	dollar	2.00	—	—	—	—	—	—	—
Belgium [5]	franc	—	—	—	—	—	—	28.12	—
Benin	franc	—	—	50.00	—	—	—	—	—
Bolivia	peso	—	—	—	—	—	—	—	24.51
Botswana	pula	—	—	—	—	—	0.762887	—	—
Brazil [5]	cruzeiro	—	—	—	—	—	—	—	52.115 [6]
Burma	kyat	—	—	—	—	8.50847	—	—	6.42449
Burundi	franc	90.00	—	—	—	—	—	—	—
Cameroon	franc	—	—	50.00	—	—	—	—	—
Canada	dollar	—	—	—	—	—	—	—	1.151
Cape Verde	escudo	—	—	—	—	—	39.5257	—	—
Central African Republic	franc	—	—	50.00	—	—	—	—	—
Chad	franc	—	—	50.00	—	—	—	—	—
Chile	peso	39.00	—	—	—	—	—	—	—
Colombia [5]	peso	—	—	—	—	—	—	—	47.32 [6]
Comoros	franc	—	—	50.00	—	—	—	—	—
Congo	franc	—	—	50.00	—	—	—	—	—
Costa Rica	colón	8.57	—	—	—	—	—	—	—
Cyprus	pound	—	—	—	—	—	0.346681	—	—
Denmark	krone	—	—	—	—	—	—	5.455	—
Djibouti	franc	178.16	—	—	—	—	—	—	—
Dominica	East Caribbean dollar	2.70	—	—	—	—	—	—	—
Dominican Republic [5]	peso	1.00	—	—	—	—	—	—	—
Ecuador [5]	sucre	25.00	—	—	—	—	—	—	—
Egypt [5]	pound	0.70	—	—	—	—	—	—	—
El Salvador	colón	2.50	—	—	—	—	—	—	—
Equatorial Guinea [5]	ekuele	—	—	—	2.00 [7]	—	—	—	—
Ethiopia [5]	birr	2.07	—	—	—	—	—	—	—
Fiji	dollar	—	—	—	—	—	0.806452	—	—
Finland	markka	—	—	—	—	—	3.63	—	—
France	franc	—	—	—	—	—	—	4.087	—
Gabon	franc	—	—	50.00	—	—	—	—	—
Gambia, The	dalasi	—	4.00	—	—	—	—	—	—
Germany, Federal Republic of	deutsche mark	—	—	—	—	—	—	1.7582	—
Ghana [5]	cedi	—	—	—	—	—	—	—	2.75

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Greece[5]	drachma	—	—	—	—	—	—	—	43.21
Grenada[5]	East Caribbean dollar	2.70	—	—	—	—	—	—	—
Guatemala	quetzal	1.00	—	—	—	—	—	—	—
Guinea	syli	—	—	—	—	24.6853	—	—	18.6391
Guinea-Bissau	peso	—	—	—	—	44.00	—	—	33.2231
Guyana	dollar	2.55	—	—	—	—	—	—	—
Haiti	gourde	5.00	—	—	—	—	—	—	—
Honduras	lempira	2.00	—	—	—	—	—	—	—
Iceland[5]	króna	—	—	—	—	—	—	—	476.55
India	rupee	—	—	—	—	—	—	—	7.76884
Indonesia	rupiah	—	—	—	—	—	—	—	625.25
Iran[5]	rial	—	—	—	—	92.3	—	—	69.693
Iraq	dinar	0.295314	—	—	—	—	—	—	—
Ireland	pound	—	—	—	—	—	—	0.469814	—
Israel	shekel	—	—	—	—	—	—	—	49.68
Italy[5]	lira	—	—	—	—	—	—	838.70	—
Ivory Coast	franc	—	—	50.00	—	—	—	—	—
Jamaica	dollar	1.78142	—	—	—	—	—	—	—
Japan	yen	—	—	—	—	—	—	—	217.60
Jordan	dinar	—	—	—	—	0.387	—	—	0.292212
Kampuchea, Democratic[8]		—	—	—	—	—	—	—	—
Kenya[5]	shilling	—	—	—	—	9.66	—	—	7.29398
Korea	won	—	—	—	—	—	—	—	603.00
Kuwait	dinar	—	—	—	—	—	0.26701	—	—
Lao People's Democratic Republic[5]	new kip	10.00	—	—	—	—	—	—	—
Lebanon	pound	—	—	—	—	—	—	—	3.408
Lesotho[5]	maloti	—	—	—	1.00[9]	—	—	—	—
Liberia	dollar	1.00	—	—	—	—	—	—	—
Libyan Arab Jamahiriya	dinar	0.29605	—	—	—	—	—	—	—
Luxembourg[5]	franc	—	—	—	—	—	—	28.12	—
Madagascar	franc	—	—	50.00	—	—	—	—	—
Malawi	kwacha	—	—	—	—	1.05407	—	—	0.795897
Malaysia	ringgit	—	—	—	—	—	2.1438	—	—
Maldives[5]	rupee	—	—	—	—	—	—	—	7.55
Mali	franc	—	—	100.00	—	—	—	—	—
Malta	pound	—	—	—	—	—	0.339547	—	—
Mauritania	ouguiya	—	—	—	—	—	45.87	—	—
Mauritius[5]	rupee	—	—	—	—	10.00	—	—	7.5507
Mexico	peso	—	—	—	—	—	—	—	22.9303
Morocco[5]	dirham	—	—	—	—	—	3.7985	—	—
Nepal[5]	rupee	12.00	—	—	—	—	—	—	—
Netherlands	guilder	—	—	—	—	—	—	1.9275	—
New Zealand	dollar	—	—	—	—	—	—	—	1.01122
Nicaragua[5]	córdoba	10.00	—	—	—	—	—	—	—
Niger	franc	—	—	50.00	—	—	—	—	—
Nigeria	naira	—	—	—	—	—	—	—	0.569217
Norway	krone	—	—	—	—	—	4.8415	—	—
Oman	rial Omani	0.3454	—	—	—	—	—	—	—
Pakistan[5]	rupee	9.90	—	—	—	—	—	—	—
Panama	balboa	1.00	—	—	—	—	—	—	—
Papua New Guinea	kina	—	—	—	—	—	0.658848	—	—
Paraguay[5]	guaraní	126.00	—	—	—	—	—	—	—

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Table I.1 *(concluded)*. Exchange Rates and Exchange Arrangements, June 30, 1980
(Currency units per unit listed)

Member	Currency	Exchange Rate Maintained Against: U.S. dollar[1]	Pound sterling[1]	French franc[1]	Other single currency[1]	Special drawing right[1]	Currency composite other than SDR[2]	Other currencies in a cooperative arrangement[2, 3]	Exchange Rates Otherwise Determined[2, 4]
Peru[5]	sol	—	—	—	—	—	—	—	284.97
Philippines	peso	—	—	—	—	—	—	—	7.528
Portugal	escudo	—	—	—	—	—	—	—	48.904[6]
Qatar	riyal	—	—	—	—	—	—	—	3.64
Romania[5]	leu	12.00	—	—	—	—	—	—	—
Rwanda	franc	92.84	—	—	—	—	—	—	—
St. Lucia	East Caribbean dollar	2.70	—	—	—	—	—	—	—
St. Vincent	East Caribbean dollar	2.70	—	—	—	—	—	—	—
São Tomé and Principe	dobra	—	—	—	—	45.25	—	—	34.1669
Saudi Arabia	riyal	—	—	—	—	—	—	—	3.325
Senegal	franc	—	—	50.00	—	—	—	—	—
Seychelles	rupee	—	—	—	—	8.3197	—	—	6.28196
Sierra Leone	leone	—	—	—	—	1.36693	—	—	1.00948
Singapore	dollar	—	—	—	—	—	2.117	—	—
Solomon Islands	dollar	—	—	—	—	—	0.813424	—	—
Somalia[5]	shilling	6.2950	—	—	—	—	—	—	—
South Africa[5]	rand	—	—	—	—	—	—	—	0.769231
Spain	peseta	—	—	—	—	—	—	—	70.064
Sri Lanka	rupee	—	—	—	—	—	—	—	16.09
Sudan[5]	pound	0.50	—	—	—	—	—	—	—
Suriname	guilder	1.785	—	—	—	—	—	—	—
Swaziland[5]	lilangeni	—	—	—	1.00[9]	—	—	—	—
Sweden	krona	—	—	—	—	—	4.1503	—	—
Syrian Arab Republic[5]	pound	3.925	—	—	—	—	—	—	—
Tanzania	shilling	—	—	—	—	—	8.18983	—	—
Thailand	baht	—	—	—	—	—	20.405	—	—
Togo	franc	—	—	50.00	—	—	—	—	—
Trinidad and Tobago	dollar	2.40	—	—	—	—	—	—	—
Tunisia	dinar	—	—	—	—	—	0.39838	—	—
Turkey[5]	lira	—	—	—	—	—	—	—	78.78
Uganda	shilling	—	—	—	—	9.66	—	—	7.29398
United Arab Emirates	dirham	—	—	—	—	—	—	—	3.701
United Kingdom	pound	—	—	—	—	—	—	—	0.42337
United States	dollar	—	—	—	—	—	—	—	1.00
Upper Volta	franc	—	—	50.00	—	—	—	—	—
Uruguay	new peso	—	—	—	—	—	—	—	9.003
Venezuela[5]	bolívar	4.2925	—	—	—	—	—	—	—
Viet Nam[5]	dong	—	—	—	—	2.66358	—	—	2.01119
Western Samoa	tala	—	—	—	—	—	—	—	0.9042
Yemen Arab Republic	rial	4.5625	—	—	—	—	—	—	—
Yemen, People's Democratic Republic of	dinar	0.345395	—	—	—	—	—	—	—
Yugoslavia	dinar	—	—	—	—	—	—	—	27.4

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Zaïre[5]	zaïre	—	—	—	—	3.80952	—	—	2.87646
Zambia	kwacha	—	—	—	—	1.02426	—	—	0.773391

[1] Rates as notified to the Fund and in terms of currency units per unit listed.

[2] Market rates in currency units per U.S. dollar.

[3] Belgium, Denmark, France, the Federal Republic of Germany, Ireland, Italy, Luxembourg, and the Netherlands are participating in the European Monetary System and maintain maximum margins of 2.25 per cent (in the case of the Italian lira, 6 per cent) for exchange rates in transactions in the official markets between their currencies and those of the other countries in this group. No announced margins are observed for other countries.

[4] Under this heading are listed those members that describe their exchange rate arrangements variously as floating independently, adjusting according to a set of indicators (see footnote 6), and certain other members whose exchange arrangements are not otherwise described in this table. In addition, U.S. dollar quotations are given for the currencies that are pegged to the SDR. In this table, the data exclude the currency of the People's Republic of China. No notification of exchange arrangements has yet been received from the Chinese authorities.

[5] Member maintains multiple currency practices and/or dual exchange market. A description of the member's exchange system as of December 31, 1979 is given in the *Annual Report on Exchange Arrangements and Exchange Restrictions, 1980.*

[6] Exchange rates adjusted according to a set of indicators.

[7] Per Spanish peseta.

[8] Information not available.

[9] Per South African rand.

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Table I.2. Fund Stand-By Arrangements for Members, Financial Year Ended April 30, 1980
(In millions of SDRs)

Member	Total Number of Stand-Bys Approved for Member	Date of Inception	Date of Expiration	Amount Approved 1978/79	Amount Not Purchased at Expiration	Amount Approved 1979/80	Amount Not Purchased April 30, 1980
Bangladesh	3	July 30, 1979	July 29, 1980			85.00	28.00
Bolivia	12	Feb. 1, 1980	Jan. 31, 1981			66.38 [1]	40.00
Burma	5	July 28, 1978	July 27, 1979	30.00	—		
Central African Republic	1	Feb. 15, 1980	Feb. 14, 1981			4.00	—
Congo	2	Apr. 25, 1979	Apr. 24, 1980	4.00	2.00		
Costa Rica	7	Mar. 12, 1980	Mar. 11, 1982			60.50 [1]	45.12
Gabon	1	May 31, 1978	May 30, 1979	15.00	7.50		
Gambia, The	2	Nov. 2, 1979	Nov. 1, 1980			1.60	—
Ghana	5	Jan. 10, 1979	Jan. 9, 1980	53.00	21.00		
Grenada	3	Nov. 6, 1979	Dec. 31, 1980			0.65	—
Guyana	11	Aug. 15, 1978	Aug. 14, 1979 [2]	6.25	6.25		
Kenya	2	Nov. 13, 1978	Nov. 12, 1979 [3]	17.25	—		
		Aug. 20, 1979	Aug. 19, 1981			122.48 [1]	122.48
Korea	13	Mar. 3, 1980	Mar. 2, 1982			640.00 [1]	560.00
Liberia	13	Mar. 21, 1979	Mar. 20, 1980	9.25	—		
Malawi	1	Oct. 31, 1979	Dec. 31, 1981			26.34 [1]	20.90
Mauritius	2	Oct. 31, 1979	Oct. 30, 1981			73.03 [1]	53.03
Nicaragua	11	May 14, 1979	Dec. 31, 1980 [4]		25.50	34.00	
Panama	13	June 9, 1978	June 8, 1979 [5]	25.00	25.00		
		Mar. 23, 1979	Mar. 22, 1980	30.00	30.00		
		Apr. 18, 1980	Dec. 31, 1981			66.38 [1]	66.38
Peru	19	Nov. 18, 1977	Dec. 31, 1979 [6]	(90.00) [7]	80.00		
		Sept. 15, 1978	Dec. 31, 1980 [8]	184.00	120.00		
		Aug. 10, 1979	Dec. 31, 1980			285.00 [1]	111.00
Philippines	15	June 11, 1979	Dec. 31, 1979		13.75	105.00	
		Feb. 27, 1980	Dec. 31, 1981			410.00 [1]	390.00
Portugal	1	June 5, 1978	June 4, 1979	57.35	57.35		
Rwanda	5	Oct. 31, 1979	Oct. 30, 1980			5.00	5.00
Senegal	1	Mar. 30, 1979	Mar. 29, 1980	10.50	—		
Sierra Leone	5	Nov. 2, 1979	Nov. 1, 1980			17.00	5.00
Somalia	8	Feb. 27, 1980	Feb. 26, 1981			11.50	5.50
Thailand	1	July 1, 1978	June 30, 1979	45.25	—		
Togo	1	June 11, 1979	Dec. 31, 1980			15.00	15.00
Turkey	12	Apr. 24, 1978	Apr. 23, 1980 [9]	(300.00) [7]	210.00		
		July 19, 1979	July 18, 1980			250.00 [1]	20.00
Uganda	2	Jan. 4, 1980	Dec. 31, 1980			12.50	—
Uruguay	10	Mar. 16, 1979	Mar. 15, 1980	21.00	21.00		
Western Samoa	4	Aug. 17, 1979	Aug. 16, 1980			0.75	0.75
Yugoslavia	6	May 23, 1979	May 22, 1980			69.25	—
Zaïre	4	Aug. 27, 1979	Feb. 26, 1981			118.00	98.00
Zambia	3	Apr. 26, 1978	Apr. 25, 1980	(250.00) [7]	—		
Total				507.85	619.35	2,479.36	1,586.15

[1] Amounts available under the supplementary financing facility are as follows: Bolivia, SDR 32.63 million; Costa Rica, SDR 29.70 million; Kenya, SDR 70.73 million; Korea, SDR 480.00 million; Malawi, SDR 13.78 million; Mauritius, SDR 54.00 million; Panama, SDR 32.63 million; Peru, SDR 232.09 million; the Philippines, SDR 333.00 million; and Turkey, SDR 169.55 million.
[2] Canceled as of June 24, 1979.
[3] Canceled as of August 19, 1979.
[4] Canceled as of August 20, 1979.
[5] Canceled as of March 22, 1979.
[6] Canceled as of September 14, 1978.
[7] Amounts approved in 1977/78; not included in total.
[8] Canceled as of August 9, 1979.
[9] Canceled as of July 18, 1979.

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Table I.3. Summary of Members' Purchases and Repurchases, Financial Years Ended April 30, 1948–80

(In millions of SDRs)

Year	Total Purchases by Members	Total Repurchases by Members
1948	606.04	—
1949	119.44	—
1950	51.80	24.21
1951	28.00	19.09
1952	46.25	36.58
1953	66.12	184.96
1954	231.29	145.11
1955	48.75	276.28
1956	38.75	271.66
1957	1,114.05	75.04
1958	665.73	86.81
1959	263.52	537.32
1960	165.53	522.41
1961	577.00	658.60
1962	2,243.20	1,260.00
1963	579.97	807.25
1964	625.90	380.41
1965	1,897.44	516.97
1966	2,817.29	406.00
1967	1,061.28	340.12
1968	1,348.25	1,115.51
1969	2,838.85	1,542.33
1970	2,995.65	1,670.69
1971	1,167.41	1,656.86
1972	2,028.49	3,122.33
1973	1,175.43	540.30
1974	1,057.72	672.49
1975	5,102.45	518.08
1976	6,591.42	960.10
1977	4,910.33	868.19
1978	2,503.01	4,485.01
1979	3,719.58	4,859.18
1980	2,433.26	3,775.83
Total	51,119.20[1]	32,335.71[2]

[1] Includes purchases that are not subject to repurchase.
[2] Excludes sales of currency and adjustments that have the effect of repurchase.

Table I.4. Summary of Stand-By Arrangements That Became Effective During the Financial Years Ended April 30, 1953–80[1]

(In millions of SDRs)

Year	Number	Amount
1953	2	55.00
1954	2	62.50
1955	2	40.00
1956	2	47.50
1957	9	1,162.28
1958	11	1,043.78
1959	15	1,056.63
1960	14	363.88
1961	15	459.88
1962	24	1,633.13
1963	19	1,531.10
1964	19	2,159.85
1965	24	2,159.05
1966	24	575.35
1967	25	591.15
1968	32	2,352.36
1969	26	541.15
1970	23	2,381.28
1971	18	501.70
1972	13	313.75
1973	13	321.85
1974	15	1,394.00
1975	14	389.75
1976	18	1,188.02
1977	19	4,679.64
1978	18	1,285.09
1979	14	507.85
1980	24	2,479.36
Total	454	31,276.82

[1] Includes renewals and extensions for one year or less, except the renewals each six months of the stand-by arrangement for Belgium granted in June 1952 until that member purchased the full amount of the equivalent of SDR 50 million in April 1957.

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Table I.5. Purchases of Currencies and Special Drawing Rights from the Fund, Financial Year Ended April 30, 1980

(In millions of SDRs)

		Within Credit Tranches			Under Decision on					Purchases Financed with		
		Under stand-by arrangements			Extended Fund facility					Ordinary resources		
Member Purchasing	Within Reserve Tranche	Ordinary resources	Supple-mentary financing facility	Other[1]	Ordinary resources	Supple-mentary financing facility	Com-pensatory financing	Buffer stock	Total Pur-chases	Curren-cies	Special drawing rights	Supple-mentary financing facility
Australia	—	—	—	—	—	—	—	23.76	23.76	23.76	—	—
Bangladesh	—	57.00	—	—	—	—	—	—	57.00	6.00	51.00	—
Benin	1.94	—	—	—	—	—	—	—	1.94	1.94	—	—
Bolivia	8.69	15.57	10.81	—	—	—	—	—	35.07	15.57	8.69	10.81
Burma	—	7.50	—	—	—	—	—	—	7.50	—	7.50	—
Burundi	—	—	—	—	—	—	9.50	—	9.50	9.50	—	—
Central African Republic	1.85	4.00	—	—	—	—	—	—	5.85	—	5.85	—
Congo	—	2.00	—	—	—	—	—	—	2.00	—	2.00	—
Costa Rica	7.54	10.25	5.13	—	—	—	20.50	—	43.42	30.75	7.54	5.13
Dominica	0.36	—	—	0.95	—	—	0.95	—	2.26	0.36	1.90	—
Dominican Republic	—	—	—	23.25	—	—	27.50	—	50.75	27.50	23.25	—
El Salvador	8.23	—	—	—	—	—	—	—	8.23	8.23	—	—
Ethiopia	—	—	—	—	—	—	36.00	—	36.00	3.00	33.00	—
Gabon	—	7.50	—	—	—	—	—	—	7.50	—	7.50	—
Gambia, The	—	1.60	—	—	—	—	—	—	1.60	—	1.60	—
Grenada	—	0.65	—	—	—	—	—	—	0.65	—	0.65	—
Guinea	—	—	—	2.97	—	—	—	—	2.97	—	2.97	—
Guyana	—	—	—	—	1.38	8.63	6.25	0.73	16.98	2.25	6.10	8.63
Honduras	5.88	—	—	—	16.00	—	—	—	21.88	21.88	—	—
Israel	31.55	—	—	—	—	—	—	—	31.55	—	31.55	—
Ivory Coast	12.22	—	—	—	—	—	—	—	12.22	12.22	—	—
Jamaica	—	—	—	—	7.15	77.85	31.75	1.07	117.82	17.15	22.82	77.85
Kenya	—	—	—	—	—	—	69.00	—	69.00	—	69.00	—
Korea	18.80	49.09	30.91	—	—	—	—	—	98.80	32.89	35.00	30.91
Liberia	—	—	—	—	—	—	20.50	—	20.50	8.00	12.50	—
Malawi	—	3.07	2.38	—	—	—	19.00	—	24.44	4.57	17.50	2.38
Mali	—	—	—	—	—	—	5.10	—	5.10	5.10	—	—
Mauritania	—	—	—	—	—	—	10.50	—	10.50	10.50	—	—
Mauritius	—	6.89	13.11	—	—	—	—	—	20.00	6.89	—	13.11
New Zealand	49.06	—	—	—	—	—	—	—	49.06	24.00	25.06	—
Nicaragua	—	8.50	—	—	—	—	34.00	0.58	43.08	—	43.08	—
Pakistan	—	—	—	21.22	—	—	—	—	21.22	11.22	10.00	—
Panama	6.00	—	—	—	—	—	—	—	6.00	—	6.00	—
Peru	—	51.55	142.45	—	—	—	—	—	194.00	16.15	35.40	142.45
Philippines	—	91.25	20.00	—	—	—	137.50	—	248.75	59.75	169.00	20.00
Senegal	4.25	10.50	—	—	—	—	—	—	14.75	4.50	10.25	—
Sierra Leone	—	12.00	—	—	—	—	—	—	12.00	4.10	7.90	—
Somalia	—	6.00	—	—	—	—	—	—	6.00	6.00	—	—
Sri Lanka	—	—	—	—	40.00	—	—	—	40.00	27.00	13.00	—
Sudan	—	—	—	17.15	32.50	32.50	36.00	—	118.15	17.00	68.66	32.50
Tanzania	—	—	—	13.75	—	—	20.25	—	34.00	—	34.00	—
Turkey	—	71.36	158.64	—	—	—	71.63	—	301.63	77.36	65.63	158.64
Uganda	5.58	12.50	—	—	—	—	30.00	—	48.08	32.10	15.98	—

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Yugoslavia	60.50	69.25	—	—	—	—	277.00	—	406.75	68.50	338.25	—
Zaïre	—	20.00	—	—	—	—	—	—	20.00	12.00	8.00	—
Zambia	—	125.00	—	—	—	—	—	—	125.00	40.50	84.50	—
Total	222.46	643.04	383.42	79.29	97.03	118.98	862.93	26.14	2,433.26	648.23	1,282.63	502.39

[1] In accordance with Executive Board Decision No. 102-(52/11), adopted February 13, 1952. (See *Selected Decisions of the International Monetary Fund and Selected Documents,* Eighth Issue (Washington, 1976), pages 37–40.)

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Table I.6. Repurchases of Currencies from the Fund, Financial Year Ended April 30, 1980

(In millions of SDRs)

Member Repurchasing	Repurchases in Respect of: Purchases under oil facility	Purchases in the tranches	Other	Total	Of Which: Advance repurchases	Repurchases in accordance with guidelines for early repurchases
Australia	—	—	61.7	61.7	—	—
Bangladesh	22.1	47.0	13.0	82.1	—	—
Barbados	—	—	3.5	3.5	—	—
Burma	—	16.8	—	16.8	—	—
Cameroon	3.8	1.7	8.8	14.3	—	—
Central African Republic	1.5	0.1	0.9	2.5	—	—
Chad	0.6	—	1.6	2.2	—	—
Chile	29.6	—	79.0	108.6	—	—
China [1]	—	30.0	94.1	124.1	—	—
Congo	—	2.0	1.0	3.0	—	—
Costa Rica	2.8	—	—	2.8	—	—
Cyprus	3.9	—	4.7	8.6	—	—
Dominican Republic	—	—	32.9	32.9	—	—
Egypt	7.2	16.0	34.0	57.2	—	—
Finland	62.2	—	—	62.2	—	62.2
Gambia, The	—	1.7	— [2]	1.8	—	—
Ghana	9.7	—	—	9.7	—	—
Greece	38.2	—	15.0	53.2	—	—
Grenada	0.1	0.6	—	0.7	—	—
Guinea	0.9	1.8	—	2.6	—	—
Guyana	—	5.6	—	5.6	—	—
Haiti	2.2	—	—	2.2	—	—
Iceland	9.8	4.6	4.6	19.0	—	—
India	—	—	78.7	78.7	—	78.7
Israel	35.8	20.1	25.0	80.9	—	—
Italy	642.7	—	—	642.7	41.0	559.5
Ivory Coast	—	—	2.3	2.3	—	—
Jamaica	7.3	7.0	—	14.3	—	—
Kenya	6.8	—	24.0	30.8	—	—
Korea	6.9	9.0	40.0	55.9	—	—
Lao People's Dem. Rep.	—	—	2.4	2.4	—	—
Liberia	—	1.2	—	1.2	—	—
Madagascar	0.8	1.6	—	2.4	—	—
Malawi	0.9	—	—	0.9	—	—
Mali	2.2	—	2.2	4.5	—	—
Mauritania	1.4	—	—	1.4	—	—
Mexico	—	71.9	123.7	195.6	—	—
Morocco	3.4	21.0	0.8	25.2	—	—
Nepal	—	0.5	—	0.5	—	—
New Zealand	59.7	13.0	50.5	123.2	—	—
Nicaragua	—	2.0	—	2.0	—	—
Pakistan	59.0	26.0	—	85.0	—	—
Panama	6.2	3.0	3.6	12.7	—	—
Papua New Guinea	—	2.5	5.1	7.6	—	—
Peru	13.2	37.2	31.7	82.1	—	—
Philippines	34.6	—	40.0	74.6	—	—
Portugal	26.1	—	26.0	52.1	—	—
Romania	—	20.0	60.0	80.0	—	—
Rwanda	—	—	1.5	1.5	—	—
Senegal	6.4	2.4	0.9	9.7	—	—
Seychelles	—	—	0.1	0.1	—	—
Sierra Leone	2.5	1.7	4.0	8.2	—	—
Solomon Islands	—	—	1.1	1.1	—	—
South Africa	—	69.0	160.0	229.0	—	—
Spain	198.5	—	—	198.5	—	198.5
Sri Lanka	19.4	4.1	9.0	32.4	—	—
Sudan	11.8	3.5	18.5	33.7	—	—
Tanzania	13.0	—	—	13.0	—	—
Togo	—	—	1.5	1.5	—	—
Turkey	59.6	—	26.5	86.1	—	—
Uganda	4.0	—	10.0	14.0	—	—
United Kingdom	250.0	400.0	—	650.0	400.0	—
Viet Nam	—	2.5	—	2.5	—	—
Western Samoa	0.1	—	—	0.1	—	—
Yemen, People's Dem. Rep. of	5.5	6.8	2.4	14.7	—	—

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Table I.6 *(concluded).* Repurchases of Currencies from the Fund, Financial Year Ended April 30, 1980

(In millions of SDRs)

	Repurchases in Respect of				Of Which	
Member Repurchasing	Purchases under oil facility	Purchases in the tranches	Other	Total	Advance repurchases	Repurchases in accordance with guidelines for early repurchases
Yugoslavia	50.2	—	—	50.2	—	—
Zaïre	17.3	30.2	13.9	61.4	—	—
Zambia	6.8	7.6	17.6	32.0	—	—
Total	1,746.5	891.7	1,137.6	3,775.8	441.0	898.9

[1] Transactions were effected before April 17, 1980, when the Fund decided that the Government of the People's Republic of China represents China in the Fund.
[2] Less than SDR 50,000.

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Table I.7. Extended Fund Facility Arrangements for Members, July 7, 1975–April 30, 1980

(In millions of SDRs)

Member	Date of Inception	Date of Expiration	Total Amount of Arrangement	Amount Not Purchased at Expiration	Amount Not Purchased as of April 30, 1980: Subject to phasing	Amount Not Purchased as of April 30, 1980: Of total amount approved
Approved in Previous Financial Years						
Egypt	7/28/78	7/27/81	600.00		350.00	525.00
Haiti	10/25/78	10/24/81	32.20		21.40	32.20
Jamaica	6/9/78	6/8/81[1]	200.00	130.00[1]		
Kenya	7/7/75	7/6/78	67.20	59.50		
Philippines	4/2/76	4/1/79	217.00	—		
Mexico	1/1/77	12/31/79	518.00	518.00[2]		
Sri Lanka	1/1/79	12/31/82	260.30		90.00	180.30
Subtotal			1,894.70	707.50	461.40	737.50
Approved During Financial Year 1979/80						
Guyana	6/25/79	6/24/82	62.75[3]		15.00	52.75
Honduras	6/28/79	6/27/81	47.60		—	31.60
Jamaica	6/11/79	6/10/81	260.00[4]		45.00	175.00
Sudan	5/4/79	5/3/82	200.00[5]		—	135.00
Subtotal			570.35		60.00	394.35
Total			2,465.05	707.50	521.40	1,131.85

[1] Canceled as of June 10, 1979.
[2] Includes augmentation by repurchases equivalent to SDR 100 million.
[3] Of which, SDR 35 million is available under the supplementary financing facility.
[4] Of which, SDR 227.1 million is available under the supplementary financing facility.
[5] Of which, SDR 100.00 million is available under the supplementary financing facility.

Table I.8. Status of General Arrangements to Borrow (GAB)[1] on April 30, 1980

(In millions of SDR equivalents)

Participants	Maximum Amounts of Credit Arrangements	Fund Indebtedness
Belgium	199.3	—
Canada	140.6	—
Deutsche Bundesbank	1,714.9	582.9
France	498.9	—
Italy	313.3	—
Japan	1,098.7	194.3
Netherlands	281.1	—
Sveriges Riksbank	94.7	—
United Kingdom	625.1	—
United States	1,544.7	—
Total	6,511.3	777.3

[1] See the Balance Sheet of the General Department—General Resources Account as at April 30, 1980, Note 5, reproduced in Appendix VIII.

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Table I.9. Borrowing in Connection with Purchases Under the Oil Facility and Repayments to Lenders, September 4, 1974–April 30, 1980

(In millions of SDRs)

Lender	Amount Borrowed	Amount Repaid up to April 30, 1979	Amount Repaid May 1, 1979–April 30, 1980	Balance Outstanding on April 30, 1980
Abu Dhabi	100.00	46.68	18.77	34.57
Austrian National Bank	100.00	28.54	8.45	63.01
National Bank of Belgium	200.00	18.70	49.56	131.74
Canada	246.93	151.59	88.69	6.64
Deutsche Bundesbank	600.00	223.16	103.23	273.60
Central Bank of Iran	990.00	465.93	298.20	225.87
Central Bank of Kuwait	685.00	203.79	202.73	278.49
Netherlands	350.00	151.98	85.44	112.59
Nigeria	300.00	50.45	75.05	174.50
Bank of Norway	100.00	25.29	13.07	61.64
Central Bank of Oman	20.50	10.24	3.00	7.26
Saudi Arabian Monetary Agency	2,250.00	878.40	615.54	756.06
Sveriges Riksbank	50.00	0.85	9.83	39.31
Swiss National Bank	100.00	9.78	23.21	67.01
Switzerland	150.00	30.57	32.40	87.03
Central Bank of Trinidad and Tobago	10.00	0.20	2.71	7.09
Central Bank of Venezuela	650.00	349.60	152.99	147.42
Total	6,902.43	2,645.75	1,782.86	2,473.82

Table I.10. Borrowing in Connection with Purchases Under the Supplementary Financing Facility, May 29, 1979–April 30, 1980

(In millions of SDRs)

Lender	Total Amount of Agreement	Amount Borrowed	Balance Available on April 30, 1980
Abu Dhabi	150.00	12.41	137.59
Austrian National Bank	50.00	—	50.00
National Bank of Belgium	150.00	12.34	137.66
Canada	200.00	12.68	187.32
Deutsche Bundesbank	1,050.00	89.35	960.65
Central Bank of Guatemala	30.00	—	30.00
Japan	900.00	79.63	820.38
Central Bank of Kuwait	400.00	23.13	376.88
Netherlands Bank	100.00	5.81	94.19
Central Bank of Nigeria	220.00	13.28	206.72
Saudi Arabian Monetary Agency	1,934.00	163.77	1,770.23
Swiss National Bank	650.00	45.00	605.00
United States	1,450.00	—	1,450.00
Central Bank of Venezuela	500.00	45.00	455.00
Total	7,784.00	502.39[1]	7,281.61

[1] Out of total of SDR 1,810.21 million committed under stand-by (SDR 1,448.11 million) and extended (SDR 362.10 million) arrangements in effect on April 30, 1980.

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Table I.11. Schedules of Fund Charges

CHARGES ON TRANSACTIONS EFFECTED FROM JULY 1, 1974

Charges in per cent per annum[1] payable on holdings in excess of quota and holdings representing transactions effected under compensatory financing and buffer stock financing, for period stated:

Service charge	0.5
Up to 1 year	4.375
1 to 2 years	4.875
2 to 3 years	5.375
3 to 4 years	5.875
4 to 5 years	6.375

CHARGES ON TRANSACTIONS EFFECTED UNDER THE EXTENDED FUND FACILITY

Charges in per cent per annum[1] payable on holdings in excess of quota, for period stated:

Service charge	0.5
Up to 1 year	4.375
1 to 2 years	4.875
2 to 3 years	5.375
3 to 4 years	5.875
4 to 5 years	6.375
5 to 10 years	6.875

CHARGES ON TRANSACTIONS EFFECTED UNDER THE OIL FACILITY FOR 1974

Charges in per cent per annum[1] payable on holdings for period stated:

Service charge	0.5
Up to 1 year	6.875
1 to 2 years	6.875
2 to 3 years	6.875
3 to 4 years	7.000
4 to 5 years	7.125
5 to 6 years	7.125
6 to 7 years	7.125

CHARGES ON TRANSACTIONS EFFECTED UNDER THE OIL FACILITY FOR 1975

Charges in per cent per annum[1] payable on holdings for period stated:

Service charge	0.5
Up to 1 year	7.625
1 to 2 years	7.625
2 to 3 years	7.625
3 to 4 years	7.750
4 to 5 years	7.875
5 to 6 years	7.875
6 to 7 years	7.875

CHARGES ON TRANSACTIONS EFFECTED FROM MAY 1, 1963 AND UP TO JUNE 30, 1974

Charges in per cent per annum[1] for period stated and for portion of holdings in excess of quota by (per cent)

More than	0	50	100
But not more than	50	100	
Service charge	0.5	0.5	0.5
0 to 3 months	0.0	0.0	0.0
3 to 6 months	2.0	2.0	2.0
½ to 1 year	2.0	2.0	2.5
1 to 1½ years	2.0	2.5	3.0
1½ to 2 years	2.5	3.0	3.5
2 to 2½ years	3.0	3.5	4.0
2½ to 3 years	3.5	4.0	4.5
3 to 3½ years	4.0	4.5	5.0
3½ to 4 years	4.5	5.0	
4 to 4½ years	5.0		

CHARGES ON TRANSACTIONS FINANCED WITH FUND BORROWING UNDER THE SUPPLEMENTARY FINANCING FACILITY

Charges in per cent per annum[1] payable on holdings for period stated:

Service charge	0.5
Up to 3½ years	Rate of interest paid by the Fund plus 0.20 per cent
3½ to 7 years	Rate of interest paid by the Fund plus 0.325 per cent

CHARGES ON TRANSACTIONS EFFECTD IN EXCESS OF 200 PER CENT OF MEMBERS' QUOTAS UNDER STAND-BY ARRANGEMENTS OR IN EXCESS OF 140 PER CENT OF QUOTAS UNDER THE EXTENDED FUND FACILITY

Charges in per cent per annum[1] payable on holdings for period stated:

Service charge	0.5
Each six months	Average yield to constant five-year maturity of U.S. Government securities, rounded to next 0.25 per cent, plus 0.25 per cent

[1] Except for service charge, which is payable once per transaction and is stated as a per cent of the amount of the transaction.

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Table I.12. Direct Distribution of Profits from Gold Sales, July 1, 1976–July 31, 1980

(In U.S. dollars)

Member	July 1, 1976– April 30, 1980	July 31, 1980	Total
Afghanistan	3,469,405	2,423,950	5,893,355
Algeria	12,156,575	8,493,371	20,649,946
Argentina	41,141,129	28,743,857	69,884,986
Bahamas	1,857,634	1,297,863	3,155,497
Bahrain	928,817	648,932	1,577,749
Bangladesh	11,692,167	8,168,905	19,861,072
Barbados	1,229,317	858,880	2,088,197
Benin	1,229,317	858,880	2,088,197
Bolivia	3,469,405	2,423,950	5,893,355
Botswana	464,409	324,465	788,874
Brazil	41,141,129	28,743,857	69,884,986
Burma	5,600,220	3,912,676	9,512,896
Burundi	1,775,680	1,240,604	3,016,284
Cameroon	3,278,178	2,290,347	5,568,525
Central African Republic	1,229,317	858,880	2,088,197
Chad	1,229,317	858,880	2,088,197
Chile	14,779,118	10,325,648	25,104,766
Colombia	14,669,845	10,249,303	24,919,148
Congo	1,229,317	858,880	2,088,197
Costa Rica	3,004,996	2,099,485	5,104,481
Cyprus	2,431,315	1,698,674	4,129,989
Dominican Republic	4,015,768	2,805,675	6,821,443
Ecuador	3,086,951	2,156,743	5,243,694
Egypt	17,592,887	12,291,529	29,884,416
El Salvador	3,278,178	2,290,347	5,568,525
Equatorial Guinea	737,590	515,328	1,252,918
Ethiopia	2,513,270	1,755,932	4,269,202
Fiji	1,229,317	858,880	2,088,197
Gabon	1,393,226	973,397	2,366,623
Gambia, The	655,636	458,069	1,113,705
Ghana	8,140,808	5,687,695	13,828,503
Grenada	191,227	133,604	324,831
Guatemala	3,360,132	2,347,606	5,707,738
Guinea	2,240,088	1,565,071	3,805,159
Guyana	1,857,634	1,297,863	3,155,497
Haiti	1,775,680	1,240,604	3,016,284
Honduras	2,349,361	1,641,415	3,990,776
India	87,909,797	61,419,475	149,329,272
Indonesia	24,313,151	16,986,741	41,299,892
Iran	17,948,023	12,539,650	30,487,673
Iraq	10,189,669	7,119,162	17,308,831
Ivory Coast	4,862,630	3,397,348	8,259,978
Jamaica	4,944,585	3,454,607	8,399,192
Jordan	2,158,134	1,507,811	3,665,945
Kampuchea, Democratic	2,349,361	1,641,415	3,990,776
Kenya	4,480,176	3,130,141	7,610,317
Korea	7,485,172	5,229,626	12,714,798
Kuwait	6,091,947	4,256,228	10,348,175
Lao People's Democratic Republic	1,229,317	858,880	2,088,197
Lebanon	846,863	591,673	1,438,536
Lesotho	464,409	324,465	788,874
Liberia	2,704,497	1,889,536	4,594,033
Libyan Arab Jamahiriya	2,240,088	1,565,071	3,805,159
Madagascar	2,431,315	1,698,674	4,129,989
Malawi	1,393,226	973,397	2,366,623
Malaysia	17,401,660	12,157,926	29,559,586
Mali	2,048,861	1,431,467	3,480,328
Malta	1,502,498	1,049,743	2,552,241
Mauritania	1,229,317	858,880	2,088,197
Mauritius	2,048,861	1,431,467	3,480,328
Mexico	34,612,092	24,182,249	58,794,341
Morocco	10,572,123	7,386,369	17,958,492
Nepal	1,147,362	801,622	1,948,984
Nicaragua	2,513,270	1,755,932	4,269,202
Niger	1,229,317	858,880	2,088,197

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Table I.12 *(concluded)*. Direct Distribution of Profits from Gold Sales, July 1, 1976–July 31, 1980

(In U.S. dollars)

Member	July 1, 1976– April 30, 1980	July 31, 1980	Total
Nigeria	12,620,984	8,817,836	21,438,820
Oman	655,636	458,069	1,113,705
Pakistan	21,963,790	15,345,326	37,309,116
Panama	3,360,132	2,347,606	5,707,738
Papua New Guinea	1,857,634	1,297,863	3,155,497
Paraguay	1,775,680	1,240,604	3,016,284
Peru	11,500,940	8,035,301	19,536,241
Philippines	14,505,936	10,134,786	24,640,722
Portugal	10,954,577	7,653,577	18,608,154
Qatar	1,857,634	1,297,863	3,155,497
Romania	17,756,796	12,406,046	30,162,842
Rwanda	1,775,680	1,240,604	3,016,284
Saudi Arabia	12,539,030	8,760,577	21,299,607
Senegal	3,168,905	2,214,002	5,382,907
Sierra Leone	2,349,361	1,641,415	3,990,776
Singapore	3,469,405	2,423,950	5,893,355
Somalia	1,775,680	1,240,604	3,016,284
Sri Lanka	9,151,579	6,393,886	15,545,465
Sudan	6,720,264	4,695,212	11,415,476
Swaziland	737,590	515,328	1,252,918
Syrian Arab Republic	4,671,403	3,263,745	7,935,148
Tanzania	3,933,813	2,748,417	6,682,230
Thailand	12,539,030	8,760,577	21,299,607
Togo	1,393,226	973,397	2,366,623
Trinidad and Tobago	5,900,720	4,122,625	10,023,345
Tunisia	4,480,176	3,130,141	7,610,317
Turkey	14,123,482	9,867,579	23,991,061
Uganda	3,742,586	2,614,813	6,357,399
United Arab Emirates	1,393,226	973,397	2,366,623
Upper Volta	1,229,317	858,880	2,088,197
Uruguay	6,447,083	4,504,349	10,951,432
Venezuela	30,869,506	21,567,435	52,436,941
Viet Nam	5,791,447	4,046,280	9,837,727
Western Samoa	191,227	133,604	324,831
Yeman Arab Republic	928,817	648,932	1,577,749
Yemen, People's Dem. Rep. of	2,704,497	1,889,536	4,594,033
Yugoslavia	19,368,566	13,532,134	32,900,700
Zaïre	10,572,123	7,386,369	17,958,492
Zambia	7,102,718	4,962,419	12,065,137
Total	**758,652,277**	**530,043,564**	**1,288,695,841**

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Table I.13. Trust Fund Loan Disbursements, July 1, 1976–July 31, 1980
(In millions of SDRs)

Member	First Period [1]	Second Period [2]	Total
Bangladesh	51.809	69.875	121.684
Benin	5.388	7.267	12.655
Bolivia	15.336	20.683	36.019
Burma	24.868	33.540	58.408
Burundi	7.875	10.621	18.496
Cameroon	14.507	19.565	34.072
Central African Republic	5.388	7.267	12.655
Chad	5.388	—	5.388
Congo	5.388	7.267	12.655
Egypt	77.921	105.092	183.013
El Salvador	—	19.565	19.565
Equatorial Guinea	—	4.472	4.472
Ethiopia	11.191	15.093	26.284
Gambia, The	2.901	3.913	6.814
Ghana	—	48.633	48.633
Grenada	0.829	1.118	1.947
Guinea	9.947	13.416	23.363
Haiti	7.875	10.621	18.496
Honduras	—	13.975	13.975
Ivory Coast	21.553	29.068	50.621
Kenya	19.895	26.832	46.727
Lao People's Democratic Republic	5.388	7.267	12.655
Lesotho	2.072	2.795	4.867
Liberia	12.020	16.211	28.231
Madagascar	10.776	14.534	25.310
Malawi	6.217	8.385	14.602
Mali	9.118	12.298	21.416
Mauritania	5.388	7.267	12.655
Mauritius	9.118	—	9.118
Morocco	46.836	63.167	110.003
Nepal	5.803	7.826	13.629
Niger	5.388	7.267	12.655
Pakistan	97.401	131.365	228.766
Papua New Guinea	8.289	11.180	19.469
Philippines	64.244	86.645	150.889
Rwanda	—	10.621	10.621
Senegal	14.092	19.006	33.098
Sierra Leone	10.362	13.975	24.337
Somalia	—	10.621	10.621
Sri Lanka	40.618	54.782	95.400
Sudan	29.842	40.248	70.090
Swaziland	—	4.472	4.472
Tanzania	17.408	23.478	40.886
Thailand	55.540	74.906	130.446
Togo	6.217	8.385	14.602
Uganda	—	22.360	22.360
Upper Volta	5.388	7.267	12.655
Viet Nam	25.697	—	25.697
Western Samoa	0.829	1.118	1.947
Yemen, People's Democratic Republic of	12.020	16.211	28.231
Zaïre	46.836	63.167	110.003
Zambia	—	42.484	42.484
Total	840.968	1,257.191	2,098.159

[1] Ended June 30, 1978.
[2] Ending December 31, 1980.

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Table I.14. Members That Have Accepted the Obligations of Article VIII, April 30, 1980

Member	Effective Date of Acceptance
Argentina	May 14, 1968
Australia	July 1, 1965
Austria	August 1, 1962
Bahamas	December 5, 1973
Bahrain	March 20, 1973
Belgium	February 15, 1961
Bolivia	June 5, 1967
Canada	March 25, 1952
Chile	July 27, 1977
Costa Rica	February 1, 1965
Denmark	May 1, 1967
Dominica	December 13, 1979
Dominican Republic	August 1, 1953
Ecuador	August 31, 1970
El Salvador	November 6, 1946
Fiji	August 4, 1972
Finland	September 25, 1979
France	February 15, 1961
Germany, Fed. Rep. of	February 15, 1961
Guatemala	January 27, 1947
Guyana	December 27, 1966
Haiti	December 22, 1953
Honduras	July 1, 1950
Ireland	February 15, 1961
Italy	February 15, 1961
Jamaica	February 22, 1963
Japan	April 1, 1964
Kuwait	April 5, 1963
Luxembourg	February 15, 1961
Malaysia	November 11, 1968
Mexico	November 12, 1946
Netherlands	February 15, 1961
Nicaragua	July 20, 1964
Norway	May 11, 1967
Oman	June 19, 1974
Panama	November 26, 1946
Papua New Guinea	December 4, 1975
Peru	February 15, 1961
Qatar	June 4, 1973
Saudi Arabia	March 22, 1961
Seychelles	January 3, 1978
Singapore	November 9, 1968
Solomon Islands	July 24, 1979
South Africa	September 15, 1973
Suriname	June 29, 1978
Sweden	February 15, 1961
United Arab Emirates	February 13, 1974
United Kingdom	February 15, 1961
United States	December 10, 1946
Venezuela	July 1, 1976

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Table I.15. Allocation of Special Drawing Rights, January 1, 1980

Participant	SDRs	Participant	SDRs
Afghanistan	4,680,000	Liberia	3,848,000
Algeria	29,640,000	Libyan Arab Jamahiriya	19,240,000
Argentina	55,640,000	Luxembourg	3,224,000
Australia	82,160,000	Madagascar	3,536,000
Austria	34,320,000	Malawi	1,976,000
Bahamas	3,432,000	Malaysia	26,312,000
Bahrain	2,080,000	Maldives	93,600
Bangladesh	15,808,000	Mali	2,808,000
Barbados	1,768,000	Malta	2,080,000
Belgium	92,560,000	Mauritania	1,768,000
Benin	1,664,000	Mauritius	2,808,000
Bolivia	4,680,000	Mexico	55,640,000
Botswana	936,000	Morocco	15,600,000
Brazil	69,160,000	Nepal	1,976,000
Burma	7,592,000	Netherlands	98,592,000
Burundi	2,392,000	New Zealand	24,128,000
Cameroon	4,680,000	Nicaragua	3,536,000
Canada	141,128,000	Niger	1,664,000
Cape Verde	208,000	Nigeria	37,440,000
Central African Republic	1,664,000	Norway	30,680,000
Chad	1,664,000	Oman	2,080,000
Chile	22,568,000	Pakistan	29,640,000
China, People's Republic of	57,200,000	Panama	4,680,000
Colombia	20,072,000	Papua New Guinea	3,120,000
Comoros	239,200	Paraguay	2,392,000
Congo	1,768,000	Peru	17,056,000
Costa Rica	4,264,000	Philippines	21,840,000
Cyprus	3,536,000	Portugal	17,888,000
Denmark	32,240,000	Qatar	4,160,000
Djibouti	395,200	Romania	25,480,000
Dominica	197,600	Rwanda	2,392,000
Dominican Republic	5,720,000	St. Lucia	374,400
Ecuador	7,280,000	St. Vincent	176,800
Egypt	23,712,000	São Tomé and Principe	208,000
El Salvador	4,472,000	Saudi Arabia	62,400,000
Equatorial Guinea	1,040,000	Senegal	4,368,000
Ethiopia	3,744,000	Seychelles	135,200
Fiji	1,872,000	Sierra Leone	3,224,000
Finland	27,248,000	Singapore	5,096,000
France	199,576,000	Solomon Islands	218,400
Gabon	3,120,000	Somalia	2,392,000
Gambia, The	936,000	South Africa	44,096,000
Germany, Fed. Rep. of	224,224,000	Spain	57,928,000
Ghana	11,024,000	Sri Lanka	12,376,000
Greece	19,240,000	Sudan	9,152,000
Grenada	312,000	Suriname	2,600,000
Guatemala	5,304,000	Swaziland	1,248,000
Guinea	3,120,000	Sweden	46,800,000
Guinea-Bissau	405,600	Syrian Arab Republic	6,552,000
Guyana	2,600,000	Tanzania	5,720,000
Haiti	2,392,000	Thailand	18,824,000
Honduras	3,536,000	Togo	1,976,000
Iceland	3,016,000	Trinidad and Tobago	8,528,000
India	119,080,000	Tunisia	6,552,000
Indonesia	49,920,000	Turkey	20,800,000
Iran	68,640,000	Uganda	5,200,000
Iraq	14,664,000	United Arab Emirates	12,480,000
Ireland	16,120,000	United Kingdom	304,200,000
Israel	21,320,000	United States	874,120,000
Italy	128,960,000	Upper Volta	1,664,000
Ivory Coast	7,904,000	Uruguay	8,736,000
Jamaica	7,696,000	Venezuela	68,640,000
Japan	172,536,000	Viet Nam	9,360,000
Jordan	3,120,000	Western Samoa	312,000
Kampuchea, Democratic	2,600,000	Yemen Arab Republic	1,352,000
Kenya	7,176,000	Yemen, People's Democratic Republic of	4,264,000
Korea	16,640,000	Yugoslavia	28,808,000
Lao People's Democratic Republic	1,664,000	Zaïre	15,808,000
Lebanon	1,248,000	Zambia	14,664,000
Lesotho	728,000	Total	4,033,276,000

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Table I.16. Transfers of Special Drawing Rights, January 1, 1970–April 30, 1980

(In millions of SDRs)

	Jan. 1, 1970–Apr. 30, 1970	Financial Years Ended April 30										Total Jan. 1, 1970–Apr. 30, 1980
		1971	1972	1973	1974	1975	1976	1977	1978	1979	1980	
Transfers between participants												
Transactions by agreement	20	286	380	303	996	249	176	317	927	1,533	362	5,549
Transactions with designation												
From holdings	155	348	267	117	60	440	292	116	54	74	346	2,283
From purchases of SDRs from Fund	—	—	—	—	—	—	—	3	344	1,006	1,025	2,364
	175	633	647	420	1,056	688	468	436	1,325	2,613	1,733	10,196
General Resources Account												
Transfers from participants												
Repurchases (net)	183	357	501	68	29	24	440	73	844	502	994	4,015
Charges (net)	29	66	30	30	29	92	354	709	801	715	553	3,407
Quota payments	—	—	—	—	—	—	—	—	201	19	1	221
Assessments	1	1	1	1	1	1	2	1	1	2	1	12
Interest received on General Resources Account holdings	—	4	7	10	8	21	21	23	40	57	82	274
	213	429	540	108	67	138	817	805	1,887	1,295	1,630	7,928
Transfers to participants												
Purchases	—	—	—	292	7	4	443	25	662	1,106	1,283	3,822
Reconstitution [1]	—	—	46	107	157	117	404	445	474	75	5	1,832
Replenishment of Fund's holdings of currencies	—	123	21	—	—	—	—	—	—	—	—	145
Remuneration	—	18	15	2	20	6	10	24	122	136	140	494
Distribution of net income	—	9	8	—	—	—	—	—	—	—	—	17
Restoration of participants' holdings of SDRs [2]	—	—	29	—	—	—	—	—	—	—	—	29
Interest, transfer charges on Fund borrowings	—	—	—	—	—	—	8	—	29	12	21	71
Repayments of Fund borrowings	—	—	—	—	—	—	—	—	—	38	64	102
Other	—	1 [3]	—	—	—	—	—	—	—	8 [4]	—	9
	—	151	120	401	185	127	865	495	1,287	1,375	1,513	6,521
Total transfers	388	1,213	1,307	929	1,308	953	2,150	1,736	4,499	5,283	4,877	24,644
General Resources Account holdings at end of period	213	490	910	617	499	510	461	771	1,371	1,290	1,407	1,407

[1] Including amounts acquired as part of purchases.

[2] To offset the effect of failure to fulfill the requirement of balance of payments need when using SDRs in transactions with designation.

[3] To enable participants to pay assessments and net charges in the Special Drawing Rights Department.

[4] Transfers to enable participants to pay charges in the General Resources Account.

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Table I.17. Summary of Transactions and Operations in Special Drawing Rights, Financial Year Ended April 30, 1980

(In thousands of SDRs)

Holders [1]	Holdings on April 30, 1979	Allocation as of Jan. 1, 1980	Transactions and Operations: With other participants: Received: Through designation	Transactions and Operations: With other participants: Received: By agreement	Transactions and Operations: With other participants: Used	Transactions and Operations: With the General Resources Account: Received	Transactions and Operations: With the General Resources Account: Used	Interest, Charges, and Assessment (Net)	Positions at April 30, 1980: Holdings	Positions at April 30, 1980: Net cumulative allocations	Positions at April 30, 1980: Holdings as per cent of net cumulative allocations
PARTICIPANTS [2]											
Afghanistan	10,725	4,680	2,695	—	—	—	—	−363	17,737	22,113	80.2
Algeria	76,265	29,640	2,000	—	—	1	—	530	108,436	99,570	108.9
Argentina	224,199	55,640	36,000	—	—	731	—	2,685	319,255	263,800	121.0
Australia	171,867	82,160	—	—	130,000	2	75,071	−19,697	29,261	389,965	7.5
Austria	145,229	34,320	7,000	—	—	7,516	—	3,554	197,620	145,385	135.9
Bahamas	3,432	3,432	—	—	—	—	—	—	6,863	6,864	100.0
Bahrain	2,165	2,080	—	—	—	—	—	6	4,252	4,160	102.2
Bangladesh	13,127	15,808	—	—	47,000	51,143	10,623	−466	21,989	31,616	69.5
Barbados	4,173	1,768	—	—	—	—	1,308	−76	4,557	6,305	72.3
Belgium	516,065	92,560	—	—	42,494	5,875	—	13,879	585,885	394,466	148.5
Benin	6,107	1,664	—	—	4,000	—	—	−63	3,708	7,777	47.7
Bolivia	18,635	4,680	—	—	26,813	8,759	997	−1,055	3,209	22,113	14.5
Botswana	2,503	936	—	—	—	—	—	—	3,439	3,441	99.9
Brazil	271,715	69,160	31,650	—	—	1,455	—	5,516	379,496	290,840	130.5
Burma	7,237	7,592	—	16,100	11,000	7,519	19,921	−1,994	5,533	36,028	15.4
Burundi	5,370	2,392	—	—	—	—	151	−287	7,324	11,351	64.5
Cameroon	5,302	4,680	—	2,560	—	—	10,770	−1,277	495	19,873	2.5
Canada	504,606	141,128	28,557	—	80,866	—	—	−2,492	590,933	640,876	92.2
Cape Verde	208	208	—	—	—	—	200	−15	201	416	48.3
Central African Republic	2,370	1,664	—	—	5,854	5,864	1,877	−367	1,800	7,693	23.4
Chad	2,098	1,664	—	—	—	—	2,498	−393	871	7,777	11.2
Chile	16,830	22,568	40,950	—	—	—	35,190	−4,391	40,768	99,790	40.9
China, People's Rep. of	57,193	57,200	—	—	—	—	—	−7	114,386	114,400	100.0
Colombia	61,968	20,072	20,050	—	—	1,412	—	−180	103,322	94,585	109.2
Comoros	239	239	—	—	—	—	—	—	478	478	100.0
Congo	1,643	1,768	—	—	2,000	2,005	603	−391	2,422	7,985	30.3
Costa Rica	5,908	4,264	—	—	7,540	7,603	3,830	−864	5,540	19,544	28.3
Cyprus	14,342	3,536	—	—	—	—	8,840	−190	8,848	15,970	55.4
Denmark	133,870	32,240	7,500	—	—	196	—	1,833	175,639	147,244	119.3
Djibouti	395	395	—	—	—	—	315	−22	454	790	57.4
Dominica	198	198	—	—	1,890	1,900	215	−13	177	395	44.7
Dominican Republic	9,402	5,720	—	—	23,250	23,250	8,692	−1,083	5,347	25,975	20.6
Ecuador	17,857	7,280	1,300	—	—	1	—	34	26,472	25,789	102.6
Egypt	17,343	23,712	—	4,300	—	—	24,808	−6,961	13,586	112,668	12.1
El Salvador	12,706	4,472	500	800	17,678	—	—	−736	64	20,599	0.3
Equatorial Guinea	2,455	1,040	—	—	1,800	—	—	−241	1,453	4,792	30.3
Ethiopia	3,765	3,744	—	—	36,000	33,012	661	−230	3,630	7,488	48.5
Fiji	3,088	1,872	—	500	—	—	323	−10	5,127	5,122	100.1
Finland	88,748	27,248	9,467	—	—	—	7,430	−41	117,994	115,966	101.7
France	540,402	199,576	143,785	—	—	4,268	—	−4,356	883,674	884,132	99.9
Gabon	7,608	3,120	—	—	7,500	7,519	592	−52	10,103	11,031	91.6
Gambia, The	927	936	—	—	1,600	1,604	315	−201	1,352	4,203	32.2
Germany, Fed. Rep. of	1,640,953	224,224	8,500	42,494	238,428	53,944	—	66,149	1,797,836	990,848	181.4

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Table I.17 *(continued)*. Summary of Transactions and Operations in Special Drawing Rights, Financial Year Ended April 30, 1980

(In thousands of SDRs)

			Transactions and Operations						Positions at April 30, 1980		
			With other participants			With the General Resources Account					
			Received								
Holders [1]	Holdings on April 30, 1979	Allocation as of Jan. 1, 1980	Through designation	By agreement	Used	Received	Used	Interest, Charges, and Assessment (Net)	Holdings	Net cumulative allocations	Holdings as per cent of net cumulative allocations
PARTICIPANTS [2]											
Ghana	18,721	11,024	—	—	—	—	5,859	−2,033	21,853	52,171	41.9
Greece	22,133	19,240	—	14,764	—	—	48,474	−5,199	2,464	84,674	2.9
Grenada	71	312	—	392	600	653	585	−24	218	624	34.9
Guatemala	16,892	5,304	1,300	—	—	169	—	75	23,739	22,476	105.6
Guinea	1,109	3,120	—	—	2,967	2,967	1,232	−889	2,109	14,544	14.5
Guinea-Bissau	118	406	—	—	—	—	37	−24	463	811	57.0
Guyana	6,927	2,600	—	550	6,100	6,125	7,817	−456	1,829	11,980	15.3
Haiti	5,922	2,392	—	—	—	—	541	−268	7,505	11,351	66.1
Honduras	7,224	3,536	500	—	—	40	120	−349	10,831	15,589	69.5
Iceland	1,414	3,016	—	5,000	—	—	5,727	−805	2,899	13,451	21.6
India	369,124	119,080	100,750	—	—	—	59,900	−6,031	523,023	564,380	92.7
Indonesia	112,483	49,920	23,500	—	—	202	—	−990	185,115	189,996	97.4
Iran	166,193	68,640	—	—	—	1,071	—	2,878	238,782	199,176	119.9
Iraq	68,142	14,664	22,652	—	—	38	—	3,544	109,040	52,545	207.5
Ireland	67,620	16,120	2,000	—	—	1,313	—	1,213	88,265	71,453	123.5
Israel	16,278	21,320	3,000	88,000	31,553	31,553	96,099	−4,990	27,508	85,450	32.2
Italy	361,909	128,960	154,002	—	—	—	26,619	−1,057	617,196	575,920	107.2
Ivory Coast	14,926	7,904	3,000	—	13,000	—	—	−606	12,224	30,076	40.6
Jamaica	1,959	7,696	—	3,123	20,350	23,033	13,121	−2,101	239	33,065	0.7
Japan	1,245,888	172,536	—	—	—	39,044	—	57,499	1,514,966	722,472	209.7
Jordan	10,458	3,120	1,625	—	—	—	—	20	15,224	13,827	110.1
Kampuchea, Democratic	1,904	2,600	—	—	—	—	—	−726	3,778	13,717	27.5
Kenya	16,987	7,176	—	—	—	69,000	8,668	3,231	87,726	29,952	292.9
Korea	32,797	16,640	2,000	—	35,000	35,320	19,882	−1,456	30,419	55,510	54.8
Lao People's Democratic Republic	1,985	1,664	—	—	—	—	2,546	−434	669	7,777	8.6
Lebanon	1,248	1,248	—	—	—	—	—	—	2,496	2,496	100.0
Lesotho	1,089	728	—	—	—	—	—	−95	1,722	3,025	56.9
Liberia	6,851	3,848	—	—	19,500	12,500	544	−552	2,603	17,233	15.1
Libyan Arab Jamahiriya	19,238	19,240	18,000	—	—	1	—	921	57,400	38,480	149.2
Luxembourg	10,816	3,224	579	—	—	191	—	75	14,886	13,793	107.9
Madagascar	10,550	3,536	—	1,080	11,250	—	3,064	−691	161	15,802	1.0
Malawi	5,082	1,976	—	—	19,000	17,519	1,083	−259	4,234	9,037	46.9
Malaysia	71,014	26,312	22,000	—	—	325	—	−107	119,544	113,242	105.6
Maldives	94	94	—	—	—	—	—	—	187	187	100.0
Mali	1,723	2,808	—	—	—	—	587	−710	3,234	13,158	24.6
Malta	7,934	2,080	2,100	—	—	389	—	181	12,685	9,248	137.2
Mauritania	2,030	1,768	—	—	—	—	1,093	−384	2,321	7,985	29.1
Mauritius	1,462	2,808	—	—	1,000	91	1,307	−765	1,289	12,990	9.9
Mexico	139,722	55,640	30,500	—	—	—	77,986	−2,501	145,375	235,450	61.7
Morocco	24,619	15,600	—	—	—	—	13,586	−3,005	23,628	70,389	33.6
Nepal	2,017	1,976	—	—	—	—	900	−192	2,900	6,167	47.0
Netherlands	357,206	98,592	29,000	—	—	26,213	—	4,458	515,469	433,644	118.9

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New Zealand	38,134	24,128	—	—	25,057	25,057	33,978	−6,290	21,994	117,658	18.7
Nicaragua	7,627	3,536	—	1,942	48,500	43,153	3,498	−970	3,290	16,015	20.5
Niger	6,041	1,664	—	—	—	—	—	−6	7,699	7,777	99.0
Nigeria	105,204	37,440	4,000	—	—	7,584	—	2,098	156,326	120,435	129.8
Norway	130,003	30,680	7,250	—	—	9,290	—	2,605	179,828	137,680	130.6
Oman	2,821	2,080	—	—	—	—	—	—	4,901	4,902	100.0
Pakistan	51,121	29,640	—	—	10,000	10,000	29,144	−5,943	45,674	140,919	32.4
Panama	5,506	4,680	—	2,000	—	6,000	12,267	−1,117	4,801	21,732	22.1
Papua New Guinea	3,305	3,120	1,800	5,000	—	—	8,487	−171	4,566	6,240	73.2
Paraguay	9,034	2,392	300	—	—	74	—	23	11,823	11,351	104.2
Peru	8,262	17,056	—	124,580	68,000	36,108	96,277	−391	21,338	74,591	28.6
Philippines	26,601	21,840	—	—	149,000	169,206	36,293	−4,227	28,128	95,175	29.6
Portugal	7,226	17,888	—	3,000	—	—	12,516	−1,361	14,238	35,776	39.8
Qatar	4,159	4,160	300	—	—	—	—	6	8,625	8,320	103.7
Romania	11,786	25,480	—	—	—	—	14,792	−1,837	20,638	50,960	40.5
Rwanda	4,590	2,392	—	—	—	—	13	−345	6,625	11,351	58.4
São Tomé and Principe	208	208	—	—	—	—	—	—	416	416	100.0
Saudi Arabia	62,392	62,400	101,943	—	—	22,984	—	5,830	255,549	124,800	204.8
Senegal	13,226	4,368	—	—	18,253	10,279	2,399	−462	6,760	20,178	33.5
Seychelles	135	135	—	—	—	—	50	−3	217	270	80.2
Sierra Leone	890	3,224	—	223	6,485	7,930	4,156	−887	739	14,293	5.2
Singapore	5,095	5,096	7,500	—	—	145	—	430	18,266	10,192	179.2
Solomon Islands	66	218	—	—	—	—	30	−14	241	437	55.2
Somalia	6,373	2,392	—	—	—	15	65	−205	8,511	11,351	75.0
South Africa	36,144	44,096	—	—	—	—	12,229	−8,330	59,680	177,112	33.7
Spain	158,754	57,928	97,000	—	—	1,298	18,230	1,385	298,135	241,991	123.2
Sri Lanka	32,330	12,376	—	—	17,000	13,100	13,345	−1,847	25,614	58,730	43.6
St. Lucia	—	374	—	—	—	—	—	—	374	374	100.0
St. Vincent	—	177	—	—	—	—	—	—	177	177	100.0
Sudan	70	9,152	—	14,510	60,517	68,776	10,351	−2,251	19,389	43,216	44.9
Suriname	2,600	2,600	—	—	—	—	—	—	5,199	5,200	100.0
Swaziland	2,125	1,248	—	—	—	34	—	−142	3,265	5,208	62.7
Sweden	164,016	46,800	14,000	—	—	1,331	—	1,526	227,674	200,625	113.5
Syrian Arab Republic	12,032	6,552	—	—	—	—	18	−912	17,654	30,138	58.6
Tanzania	6,961	5,720	—	—	34,000	34,000	8,460	−1,358	2,863	25,762	11.1
Thailand	43,499	18,824	—	—	—	—	8,695	−748	52,881	66,190	79.9
Togo	6,334	1,976	—	—	—	—	38	−60	8,212	9,037	90.9
Trinidad and Tobago	28,184	8,528	7,500	—	—	—	—	155	44,367	37,867	117.2
Tunisia	14,514	6,552	1,000	—	—	1	1,188	−516	20,364	27,817	73.2
Turkey	86	20,800	—	27,970	51,625	66,819	33,577	−5,836	24,637	91,907	26.8
Uganda	8,521	5,200	—	—	10,979	16,010	15,785	−983	1,983	24,296	8.2
United Arab Emirates	12,478	12,480	3,485	—	—	428	—	169	29,041	24,960	116.4
United Kingdom	753,433	304,200	354,603	—	—	—	479,144	−37,444	895,649	1,614,720	55.5
United States	2,044,813	874,120	—	—	—	23,275	—	−86,783	2,855,425	4,042,220	70.6
Upper Volta	6,085	1,664	—	—	—	—	—	−3	7,746	7,777	99.6
Uruguay	20,465	8,736	6,970	—	—	—	—	−642	35,529	41,409	85.8
Venezuela	254,981	68,640	2,200	—	—	13,914	—	6,579	346,314	249,570	138.8
Viet Nam	14,279	9,360	—	—	—	—	2,744	−1,309	19,586	38,478	50.9
Western Samoa	52	312	—	253	200	—	195	−45	177	836	21.2
Yemen Arab Republic	4,610	1,352	5,200	—	—	159	—	304	11,625	4,834	240.5
Yemen, People's Dem. Rep. of	6,344	4,264	—	—	—	—	3,161	−816	6,631	18,401	36.0
Yugoslavia	37,909	28,808	—	—	313,252	338,837	32,982	−4,221	55,099	126,907	43.4

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Table I.17 *(concluded)*. Summary of Transactions and Operations in Special Drawing Rights, Financial Year Ended April 30, 1980

(In thousands of SDRs)

PARTICIPANTS											
Zaïre	3,471	15,808	—	2,647	4,900	13,226	21,145	−4,532	4,575	70,805	6.5
Zambia	9,638	14,664	—	—	69,500	84,813	23,599	−2,987	13,028	53,916	24.2
Total Participants	12,057,651	4,033,276	1,371,515	361,788	1,733,303	1,517,184	1,551,459	−82,813	15,973,839	17,380,836	
GENERAL RESOURCES ACCOUNT	1,289,909	—	—	—	—	1,551,459	1,517,184	82,813	1,406,997	—	
Total	13,347,560	4,033,276	1,371,515	361,788	1,733,303	3,068,643	3,068,643	—	17,380,836	17,380,836	

[1] Six official financial institutions have been prescribed by the Fund as "other holders" of SDRs, viz., the Andean Reserve Fund, the Bank for International Settlements, the East Caribbean Currency Authority, the International Fund for Agricultural Development, the Nordic Investment Bank, and the Swiss National Bank. At April 30, 1980 none of these institutions held SDRs.

[2] Kuwait became a participant on April 7, 1980, but held no SDRs at April 30, 1980.

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Table I.18. Currencies Transferred for Special Drawing Rights, January 1, 1970–April 30, 1980
(In millions of SDRs)

	Jan. 1, 1970– Apr. 30, 1970	Financial Years Ended April 30										Total Jan. 1, 1970– Apr. 30, 1980
		1971	1972	1973	1974	1975	1976	1977	1978	1979	1980	
Transactions with designation												
Belgian francs												
Provided directly to participants	1.0	—	—	—	—	—	—	—	—	—	—	1.0
Deutsche mark												
Exchanged for U.S. dollars	—	—	—	—	3.0	2.0	—	2.0	10.0	—	—	17.0
French francs												
Provided directly to participants	—	3.5	22.3	—	—	—	—	19.0	—	25.5	25.6	96.0
Exchanged for deutche mark	—	—	—	—	—	—	—	—	—	12.6	—	12.6
Exchanged for pounds sterling	—	8.0	—	—	—	—	—	—	—	—	—	8.0
Exchanged for U.S. dollars	—	14.0	21.0	—	—	104.0	80.5	16.0	5.0	75.0	121.1	436.5
	—	25.5	43.3	—	—	104.0	80.5	35.0	5.0	113.2	146.8	553.1
Italian lire												
Provided directly to participants	—	4.0	—	—	—	—	—	—	—	—	—	4.0
Mexican pesos												
Exchanged for U.S. dollars	—	—	—	—	—	1.0	—	—	—	—	—	1.0
Pounds sterling												
Provided directly to participants	—	27.4	56.3	59.9	—	—	—	1.5	—	41.2	2.6	188.9
Exchanged for French francs	—	6.7	1.3	—	—	—	—	—	—	—	—	8.0
Exchanged for U.S. dollars	—	45.8	53.4	5.4	3.0	1.0	4.0	19.3	—	—	—	131.9
	—	79.9	111.0	65.3	3.0	1.0	4.0	20.8	—	41.2	2.6	328.8
U.S. dollars												
Provided directly to participants	148.9	227.1	112.5	51.2	54.1	321.1	207.2	61.0	383.1	881.8	1,042.1	3,490.1
Exchanged for deutsche mark	—	—	—	—	—	—	—	—	—	37.5	155.0	192.5
Exchanged for French francs	5.1	3.6	—	—	—	—	—	—	—	—	25.0	33.7
Exchanged for Japanese yen	—	—	—	—	—	—	—	—	—	6.3	—	6.3
Exchanged for pounds sterling	—	7.5	—	—	—	11.5	—	—	—	—	—	19.0
	154.0	238.2	112.5	51.2	54.1	332.6	207.2	61.0	383.1	925.6	1,222.1	3,741.6
Total	155.0	347.6	266.8	116.6	60.1	440.6	291.7	118.8	398.1	1,079.9	1,371.5	4,646.6
Transactions by agreement												
Australian dollars	—	—	—	—	—	—	—	—	1.0	—	—	1.0
Belgian francs	—	—	—	—	37.0	56.5	67.9	165.9	—	—	42.5	369.9
Danish kroner	—	—	—	—	5.0	63.3	—	—	—	—	—	68.2
Deutsche mark	—	—	—	—	100.5	123.5	30.4	29.4	110.5	740.5	55.1	1,189.8
French francs	—	—	—	—	588.5	—	78.3	2.7	—	—	—	669.6
Japanese yen	—	—	—	—	—	—	—	—	—	500.0	—	500.0
Netherlands guilders	—	—	—	11.7	264.9	5.2	—	—	—	—	—	281.8
Pounds sterling	20.0	—	25.0	291.8	—	—	—	—	—	—	—	336.8
U.S. dollars	—	285.5	355.0	—	—	—	—	119.0	815.9	292.5	264.2	2,132.1
Total	20.0	285.5	380.0	303.5	995.9	248.5	176.6	317.1	927.4	1,533.0	361.8	5,549.3

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Table I.19. Publications Issued, Financial Year Ended April 30, 1980

Reports and Other Documents

Annual Report of the Executive Board for the Financial Year Ended April 30, 1979
(English, French, German, and Spanish). Free

Annual Report on Exchange Arrangements and Exchange Restrictions, 1979
One copy free; additional copies US$5.00 each (US$7.00 with effect from June 1, 1980).

By-Laws, Rules and Regulations
Thirty-Sixth Issue (English, French, and Spanish). Free

Summary Proceedings of the Thirty-Fourth Annual Meeting of the Board of Governors Free

Subscription Publications

Balance of Payments Yearbook
Vol. 31. Annual, 11 monthly booklets, and supplement. US$20.00 a year (US$26.00 with effect from June 1, 1980). US$8.00 (US$10.00) to university libraries, faculty members, and students.

Direction of Trade
Monthly, with *Yearbook.*
US$16.00 a year (US$21.00 with effect from June 1, 1980). US$6.00 (US$8.00) to university libraries, faculty members, and students.

International Financial Statistics
Monthly, with *Yearbook* (English, French, and Spanish).
U.S.$40.00 a year (US$52.00 with effect from June 1, 1980). US$16.00 (US$21.00) to university libraries, faculty members, and students.

Staff Papers
Four times a year. US$7.00 a year (US$9.00 with effect from June 1, 1980). US$3.00 (US$4.00) to university libraries, faculty members, and students.

University libraries, faculty members, and students may obtain the four publications listed above at the reduced rate of US$26.00 for all four publications (US$40.00 with effect from June 1, 1980).

Government Finance Statistics Yearbook
Vol. III, 1979. (Introduction and titles of lines in English, French, and Spanish). US$10.00 a year (US$13.00 with effect from June 1, 1980). US$4.00 (US$5.00) to university libraries, faculty members, and students.

For users of Fund publications that have access to a computer, tape subscriptions to the *Balance of Payments Yearbook, Direction of Trade, Government Finance Statistics Yearbook,* and *International Financial Statistics* are available at US$1,000.00 a year each. This price includes the book version. The price to universities is US$400.00 a year for each publication.

Pamphlet Series

No. 21 *International Capital Movements Under the Law of the International Monetary Fund*
By Joseph Gold (Spanish). Free

No. 22 *Floating Currencies, SDRs, and Gold: Further Legal Developments*
By Joseph Gold (French). Free

No. 23 *Use, Conversion, and Exchange of Currency Under the Second Amendment of the Fund's Articles*
By Joseph Gold (French and Spanish). Free

No. 24 *The Rise in Protectionism*
By Trade and Payments Division (French and Spanish). Free

No. 25 *The Second Amendment of the Fund's Articles of Agreement*
By Joseph Gold (French and Spanish). Free

No. 26 *SDRs, Gold, and Currencies: Third Survey of New Legal Developments*
By Joseph Gold (French). Free

No. 27 *Financial Assistance by the International Monetary Fund: Law and Practice* (Second Edition)
By Joseph Gold (English). Free

No. 28 *Thoughts on an International Monetary Fund Based Fully on the SDR*
By J. J. Polak (French and Spanish). Free

No. 29 *Macroeconomic Accounts: An Overview*
By Poul Høst-Madsen (English). Free

No. 30 *Technical Assistance Services of the International Monetary Fund*
(English, French, and Spanish). Free

No. 31 *Conditionality*
By Joseph Gold (English). Free

Other

Finance and Development
Issued jointly with IBRD; quarterly (English, Arabic, French, German, and Spanish. A selection of articles is published annually in Portuguese). Free

IMF Survey
Twice monthly but only once in December (English, French, and Spanish). Private firms and individuals are charged for delivery at the annual rate of US$10.00 (US$15.00 with effect from January 1, 1981).

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Appendix II
Principal Policy Decisions of the Executive Board

A. Borrowing Arrangements in Connection with Supplementary Financing Facility: Payment of Interest

The Managing Director shall make arrangements for consultations with lenders in order to agree with them on the means of payment of interest under the borrowing agreements concluded in accordance with Executive Board Decision No. 5509-(77/127),[1] adopted August 29, 1977. Payments of interest shall be made in accordance with the procedure set forth [below]. Executive Directors shall be informed promptly of the interest paid and the assets used.

Decision No. 6163-(79/96)
June 21, 1979

Procedure

Paragraph 6 of each of the borrowing agreements in connection with the supplementary financing facility provides that the Fund shall consult the lender in order to agree on the means with which interest will be paid. If agreement is not reached the Fund has the option to pay with the means indicated in the individual borrowing agreements. Interest payments shall be made promptly after June 30 and December 31 of each year on the average daily balances which were outstanding during the preceding six months and which the Fund is obliged to repay; the first payments will be made at the beginning of July 1979.

This paper deals with the procedure that is to be followed when consulting with lenders regarding the means that would be offered by the Fund for the payment of interest.

The rate of interest on amounts of outstanding claims under the supplementary financing facility for a period of six months is the average of the daily yields during these six months on actively traded U.S. Government securities, determined on the basis of a constant maturity of five years, as published by the Federal Reserve Board, Washington, D.C. This average rate is rounded up to the nearest ⅛ of 1 per cent.

In accordance with the policy guiding the selection of means for the payment of interest on borrowings for the financing of transactions under the oil facility, which was approved by the Executive Board, the lender has been offered its own currency, if the Fund's holdings of this currency were sufficient for this purpose, one or more currencies from the operational budget or SDRs, or a combination of these means.[2] . . . the means most generally used in the payment of interest on borrowing by the Fund has been the U.S. dollar. Although U.S. dollars were not included for use in payments by the Fund in the last three operational budgets, the Executive Directors agreed, for the convenience of lenders, to the use of this currency in the payment of

[1] See *Annual Report, 1978*, page 115.
[2] Executive Board Decision No. 4490-(74/140), adopted November 6, 1974. See *Annual Report, 1975*, page 92.

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interest on borrowings. It seems reasonable to follow the same procedures regarding the payment of interest under the supplementary financing facility.

It is proposed that the Managing Director be instructed to make arrangements, as necessary, for consultations with lenders in order to agree on the means for the payment of interest and to effect these payments in accordance with this procedure. Executive Directors would be informed promptly of the interest payments made and the means used.

B. Trust Fund: Second Period

(a) Timing of Loan Disbursements

The timing of the loan disbursements in the remainder of the Trust's second two-year period (July 1, 1978–June 30, 1980) shall be in accordance with the schedule [below].

Decision No. 6201-(79/121) TR
July 23, 1979

[. . . the interim disbursements be made hereafter at quarterly intervals instead of half-yearly . . . The more frequent disbursements would add to the existing half-yearly schedule two other interim disbursements, one at the end of October 1979 and the other at the end of April 1980.]

(b) Extension of Period for Qualification

In Section II, Paragraph 3(c)(ii), of the Trust Fund Instrument, the word "predominantly" is changed to "partly" and ". . . November 30, 1979" is changed to ". . . May 1, 1980."

Decision No. 6202-(79/121) TR
July 23, 1979

(c) Extension of Second Period

1. The date "December 31, 1980" shall be substituted for the date "June 30, 1980" in
   (i) Decision No. 5069-(76/72),[3] paragraph 2, May 5, 1976, and
   (ii) the Instrument to Establish the Trust Fund, annexed to Decision No. 5069-(76/72), Section II, paragraph 1.
2. The date "November 1, 1980" shall be substituted for the date "May 1, 1980" in paragraph 3(c)(ii) of the Instrument referred to in 1(ii) above, as amended by Decision No. 6202-(79/121) TR,[4] July 23, 1979.
3. Loan disbursements in the remainder of the Trust's second period shall be made as follows: interim disbursements at end-April and end-July 1980, and the final disbursement in January 1981.

Decision No. 6466-(80/68) TR
April 9, 1980

C. Review of Rules for Designation and Method of Calculating Designation Amounts

The Executive Directors approve the summary and conclusions set out [below] on the understanding that if during the first year after a participant receives an allocation for the first time, designation would bring the participant close to the

[3] *Selected Decisions of the International Monetary Fund and Selected Documents,* Eighth Issue (Washington, 1976), pages 185–86.
[4] See above.

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acceptance limit, the staff will take steps to moderate the rate at which the limit is approached.

Decision No. 6209-(79/124) S
July 24, 1979

Summary and Conclusions

1. The designation system has a key role in guaranteeing the usability of the SDR. However, provided that the SDR is regarded as an attractive reserve asset, participants may make less use of their SDR holdings in transactions with designation and may rely more on transactions and operations by agreement between participants, as well as payments to the Fund. The volume of transactions with designation would then depend mainly on the extent to which the Fund transfers SDRs to purchasing members that use the SDRs to obtain foreign exchange in transactions with designation.

2. The general structure of the more important provisions relating to designation is as follows:

(a) The major principles of designation are contained in Article XIX, Section 5. A participant whose balance of payments and gross reserve position is sufficiently strong shall be subject to designation; and the Fund shall designate these participants "in such manner as will promote over time a balanced distribution of holdings of special drawing rights among them." These principles can be supplemented by other principles that the Fund may adopt at any time.

(b) To promote a balanced distribution of SDR holdings, the Fund implements the rules for designation in Schedule F. These rules embody the so-called "excess holdings" principle, which aims to promote over time equality in participants' "excess holdings ratios", i.e., their holdings of SDRs in excess of their net cumulative allocations as a proportion of their gold and foreign exchange holdings. The rules for designation can be reviewed at any time and changed, if necessary, by a decision of the Executive Board taken by a majority of votes cast.

3. The following conclusions are suggested as regards the principles on which the calculation of the designation amounts is based.

(a) The choice of "excess holdings" rather than total holdings of SDRs tends to concentrate designation on net users of SDRs to restore their holdings to the level of their allocations. The alternative "holdings" principle would tend to shift the incidence of designation away from participants that have used SDRs to those that have relatively large holdings of gold and foreign exchange. The latter approach may become more suitable as the attractiveness of the SDR increases, but it is not recommended at this time.

(b) Participants' gold and foreign exchange holdings are used as a basis for harmonizing excess holdings of SDRs, consistent with the approach that the staff has suggested for preparing the operational budgets. An alternative technique would be to distribute amounts of designation on the basis of participants' unused acceptance obligations in relation to their allocations. It would seem preferable, however, not to divorce the designation amounts from participants' reserve holdings as these are considered to be the best available measure of the ability of participants to provide currency when designated by the Fund.

(c) The speed at which the harmonization of ratios proceeds depends importantly on the particular method adopted for calculating designation amounts for individual participants. The present method has promoted harmonization at a moderate pace, striking a balance between the objective of restoring the holdings of net users of SDRs and the desire to maintain a fairly broad list of participants for designation. The method has the advantage of flexibility and has been adjusted successfully from time to time to meet changing circumstances.

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4. Under the Articles of Agreement, the amount of SDRs a participant can be required to accept in designation is restricted to the point where its excess holdings are twice its allocation, i.e., the acceptance limit. For certain participants, this limit is reached rather more rapidly than for others because their reserves are very large in relation to their SDR allocations. While it would be possible to conceive of arrangements that would slow down the approach to the acceptance limit, the staff's view is that such action is neither necessary nor desirable.

5. The method of executing designation plans is established for each quarterly period at the time the plan is adopted by the Executive Board. It is proposed that this procedure be continued. The approach generally followed in the execution of designation plans has been to designate participants in broad proportion to the maximum amounts for which they are included in the plan, while avoiding undue fragmentation of individual transactions. From time to time exceptions may be proposed, such as have been agreed by the Executive Board in the past when circumstances warranted. If during the quarterly period covered by a designation plan a proposal is pending with the Executive Board for the exclusion of a participant from designation, further designation of the participant concerned would be avoided to the extent practicable.

6. Over more than nine years of actual experience, the designation mechanism has functioned satisfactorily. Actual designations have borne out the general emphasis that was expected to result from the "excess holdings" principle. About four fifths of total designation has been directed to participants whose holdings of SDRs were below their allocations as a result of prior uses. At the same time, a wide range of both developed and less developed countries has been called upon to provide currency in the designation process.

7. The major volume of transactions with designation over the last two and a half years has resulted from transfers of SDRs to participants making purchases from the General Resources Account; these participants have generally used the SDRs in transactions with designation, although a not insignificant proportion has been retained by the recipients, mainly to meet the reconstitution obligation or to make payments to the Fund.

8. In the future, the attractiveness of the SDR, and the increasing scope for transactions and operations by agreement, may reduce the use of SDRs from participants' own holdings in transactions with designation. However, with the Fund receiving approximately SDR 5 billion as a result of quota increases under the Seventh Review, there is likely to be a continuing volume of transactions with designation as a result of transfers of SDRs by the Fund to members making purchases, as a way of channeling SDRs back into participants' reserves.

9. In the light of the generally satisfactory experience with the designation system, the staff does not feel it necessary to propose any changes in the present principles and procedures for designation.

D. Use of Currencies and SDRs in the General Resources Account and Principles and Procedures for Designation

(a) Assessment of Strength of Member's Balance of Payments and Gross Reserve Position for the Purposes of Designation Plans, Operational Budgets and Repurchases Under Article V, Section 7(b)

This decision sets forth guidelines for the assessment of the strength of the balance of payments and gross reserve position of a participant under Article XIX, Section 5(*a*)(i) (designation plans), and of the balance of payments and reserve position of a member under Article V, Section 3(*d*) (operational budgets) and, in accordance with Executive Board Decisions No. 5704-(78/39)[5] and No. 6172-(79/101),[6] under Article V, Section 7(*b*) (early repurchases).

[5] See *Annual Report, 1978*, pages 125–26.
[6] See *Annual Report, 1979*, pages 138–39.

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1. Assessments of strength for the purposes of Article V, Sections 3(*d*) and 7(*b*) will be based on a member's balance of payments and gross reserve position, and shall take into account developments in the exchange markets.

2. A member's "balance of payments and gross reserve position" is a combined concept, under which strength in one element may compensate for moderate weakness in the other.

3. In the Fund's assessment whether a member's balance of payments and gross reserve position is sufficiently strong for the purposes of the designation plans, operational budgets, and early repurchases, all relevant factors and data on the member's position shall be considered, including the following: recent and prospective movements in gross reserves, balance of payments developments, the relationship of gross reserves to a member's imports and Fund quota, and developments in exchange markets. To the extent that recent data on changes in a member's net reserves are available, these shall be taken into account as an indicator of the member's balance of payments position.

4. If a member has outstanding purchases in the General Resources Account, the assessment of its balance of payments and gross reserve position will include judgments on whether the member's position shows an improvement in comparison with the position at the time it made its last purchase from the Fund, on the extent of the improvement, and on whether it is likely to be sustained in the foreseeable future. Special attention will be given to the recent and prospective evolution in the various components of the member's balance of payments, including developments in the member's net reserves to the extent that data are available.

Decision No. 6273-(79/158) G/S
September 14, 1979

(b) Specification of Currencies by the Fund

This decision sets forth guidelines for the selection of currencies in purchases under Article V, Section 3(*d*), in repurchases under Article V, Section 7(*i*), and in transfers of SDRs by the Fund under Article V, Section 6(*b*) pursuant to decisions adopted prior to the date of this decision.

1. Normally, the Fund will select a member's currency for use in the operations and transactions of the General Resources Account in amounts that result in a net reduction of the Fund's holdings of the currency only if the member's balance of payments and gross reserve position is judged to be sufficiently strong. Accordingly this will not preclude the possibility that the Fund will make net reductions in its holdings of the currency of a member with a strong reserve position even though it has a moderate balance of payments deficit.

2. Under procedures to be adopted, the currency of a member with outstanding purchases subject to repurchase, whose balance of payments and gross reserve position is judged sufficiently strong for the purposes of operational budgets and designation plans, normally will be sold by the Fund under Article V, Section 3(*d*) only if the member and the Fund agree.

3. The desirability of promoting over time balanced positions in the Fund ("harmonization") will be taken into account in the following way:

a. A member's "position in the Fund" shall be defined as its reserve tranche position plus any outstanding loans to the Fund by the member or an institution of a member under credit arrangements that are judged by the Fund to provide it, on a continuing basis, with the ability to finance uses of its resources by members on terms comparable to those applicable to the Fund's use of its currency holdings for this purpose.

b. Subject to (c) and (d) below, currencies shall be selected for use in purchases and repurchases, and in transfers of SDRs by the Fund under decisions adopted

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prior to the date of this decision, in such a way as to promote, over time, the equalization of the ratios of members' positions in the Fund, as defined under (a) above, to their gold and foreign exchange holdings.

c. The application of the principle in (b) above will not be carried beyond the point where the Fund's holdings of a member's currency are substantially below the average level, expressed as a percentage of quota, at which the Fund holds the currencies of members that do not have purchases outstanding and whose balance of payments and gross reserve position is sufficiently strong in accordance with paragraph 1 above. In addition, the Fund will seek to maintain adequate working balances of a currency.

d. If the currency of a member whose balance of payments and gross reserve position is not judged sufficiently strong in accordance with paragraph 1 above can be accepted in repurchase under Article V, Section 7(*i*), the Fund, at the request of the member, will give special emphasis to the use of that currency for repurchases.

4. The guidelines in this decision will be applied in a manner that will allow the Fund to retain the flexibility necessary to ensure that (i) the use of currencies can be adapted to the needs and circumstances of members and of the Fund, and (ii) the transactions and operations of the Fund can be executed expeditiously and in a manner that pays due regard to the convenience of members. Considerations that are relevant under (i) may include the need for members to purchase certain currencies in order to stabilize exchange markets, the effects of the use or receipt of currencies on the Fund's financial position, the Fund's liquidity, and the fact that in respect of the issuer of a reserve currency the ratio of its Fund position to its gold and foreign exchange holdings may not provide an appropriate measure of the amounts of the currency that might be used by the Fund. Considerations under (ii) may include the need to avoid the use of an excessive number of currencies in single transactions and operations.

Decision No. 6274-(79/158)
September 14, 1979

(c) Transfers of SDRs Under Article V, Section 3(f)

Pursuant to Article V, Section 3(*f*), the Fund shall provide SDRs instead of the currencies of other members to a participant making a purchase in accordance with decisions on the operational budgets taken under Rule O-10. For this purpose, the Executive Board shall keep under review the amount of the Fund's holdings of SDRs in the General Resources Account in the light of all relevant considerations, including the relationship of SDR holdings to its other assets, and will determine from time to time the approximate range within which the Fund will aim to maintain these holdings.

Decision No. 6275-(79/158) G/S
September 14, 1979

E. Compensatory Financing of Export Fluctuations: Revised Decision

Decision No. 4912-(75/207), adopted December 24, 1975, as amended by Decision No. 5348-(77/33),[7] adopted March 11, 1977, is amended to read as follows:

1. The financing of deficits arising out of export shortfalls, notably those of primary exporting member countries, has always been regarded as a legitimate reason for the use of Fund resources, which have been drawn on frequently for this purpose. The Fund believes that such financing helps these members to continue their efforts to adopt adequate measures toward the solution of their financial prob-

[7] *Selected Decisions of the International Monetary Fund and Selected Documents*, Supplement to Eighth Issue (Washington, 1978), pages 18–19.

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lems and to avoid the use of trade and exchange restrictions to deal with balance of payments problems, and that this enables these members to pursue their programs of economic development with greater effectiveness.

2. The Fund has reviewed its policies to determine how it could more readily assist members, particularly primary exporters, encountering payments difficulties produced by temporary export shortfalls, and has decided that such members can continue to expect that their requests for drawings will be met where the Fund is satisfied that

(a) the shortfall is of a short-term character and is largely attributable to circumstances beyond the control of the member; and

(b) the member will cooperate with the Fund in an effort to find, where required, appropriate solutions for its balance of payments difficulties.

3. Drawings outstanding under this decision may amount to 100 per cent of the member's quota, provided that requests for drawings which would increase the drawings outstanding under this decision beyond 50 per cent of the member's quota will be met only if the Fund is satisfied that the member has been cooperating with the Fund in an effort to find, where required, appropriate solutions for its balance of payments difficulties.

4. When a member makes a request under this decision and if, in the opinion of the Fund, adequate data on receipts from travel and workers' remittances are available, the member shall specify whether the receipts shall be included or excluded in the calculation of the shortfall. The choice by a member shall continue to apply for a period of five years, except in the case of a member that makes a request under this decision prior to January 1, 1980 and elects to exclude these services at the time of the request.

5. The existence and amount of an export shortfall for the purpose of any drawing under this decision shall be determined with respect to the latest 12-month period preceding the drawing request for which the Fund has sufficient statistical data, provided that a member may request a drawing in respect of a shortfall year for which not more than 6 months of the data on merchandise exports, and 12 months of the data on travel and workers' remittances, are estimated.

6. In order to identify more clearly what are to be regarded as export shortfalls of a short-term character, the Fund, in conjunction with the member concerned, will seek to establish reasonable estimates regarding the medium-term trend of the member's exports based partly on statistical calculation and partly on appraisal of exports prospects. For the purposes of this decision, the shortfall shall be the amount by which the member's export earnings in the shortfall year are less than the geometric average of the member's export earnings for the five-year period centered on the shortfall year. In computing the five-year geometric average, the Fund, in conjunction with the member, will use an estimate based on a judgmental forecast for the two post-shortfall years. When the Fund allows a member to draw under the proviso in paragraph 5 above, the Fund may use such methods of estimating exports during the period for which sufficient statistical data are not available as it considers reasonable.

7. A member requesting a drawing under the proviso in paragraph 5 above will be expected to represent that, if the amount drawn on the basis of estimated data exceeds the amount that could have been drawn on the basis of actual data for the full 12-month period under paragraph 6 above, the member will make a prompt repurchase in respect of the outstanding drawing, in an amount equivalent to the excess.

8. Whenever the Fund's holdings of member's currency resulting from a drawing under this decision are reduced by the member's repurchase or otherwise, the member's access to this facility, in accordance with its terms, will be restored *pro tanto*.

9. In order to implement the Fund's policies in connection with compensatory financing of export shortfalls, the Fund will be prepared to waive the limit on the

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Fund's holdings of 200 per cent of quota, where appropriate. In particular, the Fund will be prepared to waive this limit (i) where a waiver is necessary to permit compensatory drawings to be made under this decision or (ii) to the extent that drawings in accordance with this decision are still outstanding.

Moreover, the Fund will apply its tranche policies to drawing requests by a member as if the Fund's holdings of the member's currency were less than its actual holdings of that currency by the amount of any drawings outstanding under this decision. When drawings are made under this decision, the Fund will so indicate in an appropriate manner.

Decision No. 6224-(79/135)
August 2, 1979

F. Guidelines on Performance Criteria with Respect to Foreign Borrowing

The Executive Board approves the Chairman's summing up on external debt management policies as set forth [below].

Decision No. 6230-(79/140)
August 3, 1979

The Chairman's Summing up on External Debt Management Policies

In the context of a general discussion of the issues relating to external debt management policies, the Executive Board considered the following guideline on the performance criteria with respect to foreign borrowing:

> When the size and the rate of growth of external indebtedness is a relevant factor in the design of an adjustment program, a performance criterion relating to official and officially guaranteed foreign borrowing will be included in upper credit tranche arrangements. The criterion will include foreign loans with maturities of over one year, with the upper limit being determined by conditions in world capital markets; in present conditions, the upper limit will include loans with maturities in the range of 10 to 12 years. The criterion will usually be formulated in terms of loans contracted or authorized. However, in appropriate cases, it may be formulated in terms of net disbursements or net changes in the stock of external official and officially guaranteed debt. Normally, the performance criterion will also include a sub-ceiling on foreign loans with maturities of over one year and up to five years. Flexibility will be exercised to ensure that the use of the performance criterion will not discourage capital flows of a concessional nature by excluding from the coverage of performance criteria loans defined as concessional under DAC criteria, where sufficient data are available.

Adoption of this guideline will be subject to the understanding that the staff will be guided also by the following points:

1. The above guideline will be applied with a reasonable degree of flexibility while safeguarding the principle of uniformity of treatment among members. The external debt guideline should be interpreted in the light of the general guidelines on conditionality (Decision No. 6056-(79/38)),[8] especially guideline No. 4, which states:

> In helping members to devise adjustment programs, the Fund will pay due regard to the domestic social and political objectives, the economic priorities, and the circumstances of members, including the causes of their balance of payments problems.

Also, guideline No. 9 includes the following:

> The number and content of performance criteria may vary because of the diversity of problems and institutional arrangements of members. Performance criteria will be limited to those that are necessary to evaluate implementation of the program with a view to ensuring the achievement of its objectives.

[8] See *Annual Report, 1979,* pages 136–38.

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Furthermore, guideline No. 8 states:

> The Managing Director will ensure adequate coordination in the application of policies relating to the use of the Fund's general resources with a view to maintaining the nondiscriminatory treatment of members.

2. While uniformity of treatment indicates a need for a common upper-maturity limit, this limit will be reviewed annually by the Executive Board at the time of its consideration of staff papers on conditions in international capital markets. In analyzing the amount and terms of new borrowing that would be appropriate—in the member's circumstances—over the medium term, the staff will take into account prospective developments in the member's external payments situation and the profile of its external indebtedness.

3. In formulating external debt criteria, the staff will be mindful of the need to ensure consistency between external debt management policies and domestic financial policies. Where external debt per se is not a matter for concern, but adjustment programs have as a main objective to reduce excess demand pressures and restore overall balance to the public sector finances, the credit ceiling for the public sector would cover both domestic and foreign financing of the overall public sector deficit.

4. Normally the performance criterion will relate to official and officially guaranteed foreign borrowing. The coverage will include official entities for which the government is financially responsible as well as private borrowing for which official guarantees have been extended and which, therefore, constitute a contingent liability of the government.

5. In cases where the member's external debt management policy covers private sector borrowing without official guarantee and there is an established regulatory machinery to control such borrowing, it will be proposed that the performance criterion on foreign borrowing should be adapted accordingly.

6. Normally, loans of less than one-year maturity will be excluded from the borrowing limitations. In exceptional circumstances where nontrade-related loans of less than one year of maturity become a source of difficulty, such loans will be included in the limitations. The Managing Director will inform Executive Directors in an appropriate manner of the reasons for including such loans in the limitation.

7. The last sentence of the guideline provides for excluding from the coverage of performance criteria those loans defined as concessional under DAC criteria. Available information on loans by multilateral development institutions indicates that all of the recent loans of the IBRD and the Inter-American Development Bank have been outside the 10 to 12-year limit and that most of the loans by the Asian and African regional development banks have also been outside the upper limit. In discussing with member countries the total amounts of permissible borrowing of less than 10 to 12 years' maturity, the staff would take into account possible lending of less than this maturity range by multilateral development institutions. In some cases, member countries utilize credits associated with concessional loans. The staff will take into account these developments in discussing the appropriate amount of borrowing.

G. General Arrangements to Borrow: Renewal and Modifications

A. Executive Board Decision No. 1289-(62/1),[9] as amended, on the General Arrangements to Borrow, is hereby renewed for a period of five years from October 24, 1980 subject to the following modification:

Paragraph 11(b) shall be made to read as follows:

> Before the date prescribed in Paragraph 11(a), the Fund, after consultation with a participant, may make repayment to the participant in part or in full. The Fund shall have the option to make repayment under this Paragraph 11(b) in the participant's currency, or in

[9] *Selected Decisions of the International Monetary Fund and Selected Documents,* Eighth Issue (Washington, 1976), pages 98–113.

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special drawing rights in an amount that does not increase the participant's holdings of special drawing rights above the limit under Article XIX, Section 4, of the Articles of Agreement unless the participant agrees to accept special drawing rights above that limit in such repayment, or, with the agreement of the participant, in other currencies that are actually convertible.

B. Reference in Executive Board Decision No. 1289-(62/1), as amended, to "the period prescribed in Paragraph 19(a)" shall be understood to include the period of the renewal under this decision.

Decision No. 6241-(79/144)
August 24, 1979

H. Guidelines on Payment of Reserve Assets in Connection with Subscriptions

The Executive Board approves the draft "Guidelines for Determining the Amount of Reserve Assets to Be Paid in Connection with Subscriptions" set forth [below].

Decision No. 6266-(79/156)
September 10, 1979

Guidelines for Determining the Amount of Reserve Assets to Be Paid in Connection with Subscriptions

The following are proposed for adoption by the Executive Board as guidelines for Committees of the Executive Board when considering the amount of a subscription that should be paid in reserve assets:

1. These guidelines shall be taken into account by a Committee of the Executive Board established to consider an application for membership in the Fund or to consider a request for an increase in quota that is made outside the framework of a general review of quotas. In applying the guidelines, a Committee shall pay due regard to present and prospective economic and financial circumstances of the country concerned.
2. In view of the requirement of Article II, Section 2, that the terms for membership, including the terms for subscriptions, shall be based on principles consistent with those applied to other countries that are already members, new members will be expected to pay a part of their initial subscription in reserve assets. The payment of reserve assets in connection with the initial subscription of a new member is largely a matter of exchanging one form of reserves for another.
3. The amount of the subscription to be paid in reserve assets shall be determined in the light of all the payments of reserve assets made by existing members and the country's external reserve position at the time of membership.
4. A reasonable approximation of the amount of the subscription that has been paid in reserve assets in the past is the average of all reserve assets actually paid in terms of the quotas of all members, rather than the proportions paid in the past by individual members. In making the calculation of the reserve assets to be paid, account will be taken of the repurchases made in the past by members, including those made in accordance with Schedule B of the amended Articles, and of sales of the currencies of members made to reduce to that level the amounts of the member's currency paid in excess of 75 per cent of quota by a member that had joined the Fund before the date of the Second Amendment.

Taking into account the asset payments made by all members in connection with the Sixth General Review of Quotas and adding them to the sum of asset payments taken as the equivalent of 25 per cent of total quotas as of the date of the Second Amendment, the reserve asset payments made by all members average 20 per cent of present quotas. In the event that all eligible members consent to the full increases

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in their quotas approved under the Seventh General Review of Quotas and taking into account that 25 per cent of any increase in quotas is to be paid in SDRs (or acceptable currency for nonparticipants), the reserve asset payment made by eligible members will average 21.7 per cent of total quotas.

Consequently, for the period prior to the coming into effect of the quotas approved under the Seventh General Review of Quotas, the reserve asset payment for a country applying for membership can normally be expected to be of the order of 20 per cent of its initial quota; after the Seventh General Review is completed, the reserve asset payment for a country applying for membership would rise to the order of 21.7 per cent of its initial quota.

5. Normally, countries joining the Fund would be expected to make a payment of reserve assets in the amount, in terms of quota, calculated along the lines outlined in paragraph 3 above. However, consideration may be given, at the request of a prospective new member, for a payment of reserve assets smaller than the average size of such payments in terms of all quotas. In exceptional circumstances, and in light of the actual and prospective balance of payments and gross reserve position of the prospective member (including its ability to acquire or mobilize external financial assets and also any allocations of SDRs that might be in prospect) at the time its application is being considered, the size of the reserve asset payment may be reduced, provided that it is not less than the equivalent of 10 per cent of the member's gross reserves or 10 per cent of initial quota, whichever was the higher.

6. In determining the amount of the reserve asset payment, account should also be taken of the effect the size of such payment would have on the remuneration that might be payable to the new member. This factor would ameliorate a higher reserve asset payment in terms of quota because the acquisition of a remunerated reserve tranche position would tend to ease the loss of interest income involved in the payment of a reserve asset. However, there may be circumstances where the new member has a reserve level somewhat below the average level of all members or when other features of its external financial position would seem to call for some mitigation of the payment. In such circumstances, the norm for remuneration could be applied for the new member rather than the average of reserve asset payments made in the past noted in paragraph 3 above. As the norm for remuneration is likely to rise over time, the applicability of this approach would need to be kept under review and would be subject to the minimum payment in paragraph 5 above.

7. As regards the amount of reserve asset payments to be made in connection with ad hoc increases in quotas which occur outside a general review of quotas, and to the extent that such increases are effectively a "catching up" of the quota increases already granted to other members in past general reviews, the amount of the reserve assets to be paid shall be based on the amount of reserve assets required as a result of such past general reviews. For other ad hoc increases, if any, the amount of the reserve asset payment shall be equivalent to 25 per cent of the increase in quota.

8. As regards the media of payment, payments of reserve assets shall be made in SDRs to the maximum extent practicable or in a currency that is acceptable to the Fund and which is included in the operational budget as a currency that could be sold on a net basis for the foreseeable future.

I. Special Drawing Rights: Additional Uses

(a) Use in Swap Operations

In accordance with Article XIX, Section 2(*c*) the Fund prescribes that:

1. A participant, by agreement with another participant, may engage in an operation by which (a) one of the parties transfers to the other party SDRs in

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exchange for an equivalent amount of currency or another monetary asset, other than gold, in respect of which arrangements have been completed for determination by the Fund of equal value in terms of the SDR on the basis of Article XIX, Section 7(*a*) and Rule O-2, and (b) the parties undertake to reverse the exchange within a period and at an exchange rate agreed by them.

2. Calculations for the purpose of 1(a) above shall be made at the exchange rate of the third business day preceding the date of the transfer or of the second business day preceding the date of the transfer if agreed by the parties.

3. The parties may agree on the terms of the operation, and may modify those terms, provided that the terms and any modification of them would be consistent with this prescription.

4. The parties may agree on the payment of compensation in the event that, for any reason, the reversal of the transfer in accordance with 1(b) above is not carried out.

5. Participants intending to use or receive SDRs pursuant to this prescription shall inform the Fund of

(a) the amount of SDRs and the period of the operation;
(b) the monetary asset, the exchange rate and the value date for the exchange under 1(a) above;
(c) the monetary asset, the exchange rate and the value date for the reversal of the exchange;
(d) any agreement for the payment of interest, or compensation in accordance with 4 above; and
(e) any modification of these terms.

6. As required by Rule P-7 the parties to an operation pursuant to this prescription shall declare that the intended use of SDRs will be in accordance with this prescription.

7. Transfers of SDRs pursuant to this prescription shall be made only upon the receipt by the Fund of instructions from the transferor and the transferee.

8. If the Fund decides to change any of the terms and conditions of this prescription, any outstanding operation that is inconsistent with the new terms and conditions shall be completed within 12 months from the date of the Fund's decision.

9. The Fund shall record operations pursuant to this prescription in accordance with Rule P-9.

Decision No. 6336-(79/178) S
November 28, 1979

(b) Use in Forward Operations

In accordance with Article XIX, Section 2(*c*) the Fund prescribes that:

1. A participant, in agreement with another participant, may engage in an operation by which the participant undertakes to transfer to the other participant SDRs at a specified future date more than three business days after the date of the agreement, in exchange for an agreed amount of currency or another monetary asset, other than gold.

2. The parties may agree on the terms of the operation, and may modify those terms, provided that the terms and any modification of them would be consistent with this prescription.

3. Participants intending to use or receive SDRs pursuant to this prescription shall inform the Fund of

(a) the amount of SDRs and the period of the operation;
(b) the monetary asset, the exchange rate and the value date for the exchange; and
(c) any modification of these terms.

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4. As required by Rule P-7 the parties to an operation pursuant to this prescription shall declare that the intended use of SDRs will be in accordance with this prescription.

5. Transfers of SDRs pursuant to this prescription shall be made only upon the receipt by the Fund of instructions from the transferor and the transferee.

6. If the Fund decides to change any of the terms and conditions of this prescription, any outstanding operation that is inconsistent with the new terms and conditions shall be completed within 12 months from the date of the Fund's decision.

7. The Fund shall record operations pursuant to this prescription in accordance with Rule P-9.

Decision No. 6337-(79/178) S
November 28, 1979

(c) Use in Donations

In accordance with Article XIX, Section 2(*c*) the Fund prescribes that:

1. A participant, by agreement with another participant, may donate SDRs to the other participant.

2. Participants intending to donate or receive SDRs pursuant to this prescription shall inform the Fund of the amount of SDRs and the value date for the transfer.

3. As required by Rule P-7 the parties to an operation pursuant to this prescription shall declare that the intended use of SDRs will be in accordance with this prescription.

4. Transfers of SDRs pursuant to this prescription shall be made only upon the receipt by the Fund of instructions from the transferor and the transferee.

5. The Fund shall record operations pursuant to this prescription in accordance with Rule P-9.

Decision No. 6437-(80/37) S
March 5, 1980

J. Special Drawing Rights: Allocations to New Participants

Pursuant to Article XVIII, Section 2(*d*) members that have, or will, become participants in the Special Drawing Rights Department by December 31, 1979 and have informed the Fund that they are willing to receive allocations of special drawing rights during the third basic period shall receive allocations in accordance with Board of Governors Resolution No. 34-3,[10] adopted December 11, 1978.

Decision No. 6368-(79/191) S
December 26, 1979

K. Special Drawing Rights: Other Holders

The terms and conditions on which other holders prescribed by the Fund may accept, hold or use SDRs are as follows:

1. Acceptance, Holding, and Use by Prescribed Holders

(a) Acceptance and use

A prescribed holder may accept or use special drawing rights (i) in exchange for an equivalent amount of a monetary asset other than gold in a transaction

[10] See *Annual Report, 1979,* pages 127–28.

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entered into by agreement with a participant, or another prescribed holder, or (ii) in an operation entered into by agreement with a participant or another prescribed holder in accordance with and on the same terms and conditions established at that time for participants by decisions of the Fund under Article XIX, Section 2(*c*).

(b) Holding

A prescribed holder may hold special drawing rights, subject to the provisions of this decision, accepted in accordance with (a) above or received as interest paid on its holdings of special drawing rights in accordance with Article XX, Section 1.

2. Acceptance and Use by Participants in Transactions and Operations with Prescribed Holders

Participants may enter into transactions and operations by agreement with a prescribed holder in accordance with the prescriptions in paragraph 1(a) of this decision.

3. Application of General Provisions

The holding of special drawing rights and the acceptance and use of them in transactions and operations by a prescribed holder shall be governed by the provisions of the Articles, By-Laws, Rules and Regulations, and decisions of the Fund that apply from time to time to all holders of special drawing rights.

4. Exchange Rates

The Rules and Regulations and decisions of the Fund that determine the exchange rates applicable at the time of each use or acceptance of special drawing rights by a participant shall apply to each use or acceptance of them by a prescribed holder. A prescribed holder shall not levy any charge or commission in respect of a transaction involving special drawing rights.

5. Information and Recording

The Fund shall inform prescribed holders of matters relevant to the acceptance, holding, and use of special drawing rights by them. A prescribed holder shall inform the Fund promptly of the facts necessary to record any transactions or operations in which a prescribed holder accepts or uses special drawing rights.

6. Consultation and Review

(a) Consultation between the Fund and a prescribed holder shall be held at the request of the Fund or the prescribed holder with respect to the application of this decision or the decision prescribing the holder or with respect to transactions or operations entered into involving special drawing rights.

(b) The Executive Board shall review periodically this decision and decisions prescribing holders.

7. General Undertaking

Each prescribed holder shall collaborate with the Fund, participants, and other prescribed holders with respect to its acceptance, holding, and use of special drawing rights in order to facilitate the effective functioning of the Special Drawing Rights Department and the proper use of special drawing rights in accordance with the Articles and the terms and conditions prescribed by the Fund now or in the future for the acceptance, holding, and use of special drawing rights by prescribed holders.

8. Suspension

During any period in which a suspension is in effect under Article XXIII, Section 1 with respect to participants, the suspension shall apply to the same extent to prescribed holders.

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9. Termination

(a) The prescription of a holder of special drawing rights may be terminated by the Fund by a decision of the Executive Board or by a notice from the prescribed holder in writing to the Fund at its principal office. Termination shall become effective on the date specified in the decision of the Executive Board but not earlier than the date of the decision, or when notice from the prescribed holder is received by the Fund at its principal office.

(b) A prescribed holder whose status as such has been terminated may continue to hold the special drawing rights it held on termination and to receive special drawing rights as interest on its holdings and may continue to use special drawing rights to dispose of them in transactions or operations in accordance with paragraph 1(a) above. A prescribed holder whose status has been terminated shall make arrangements, with the concurrence of the Fund, to dispose of its holdings of special drawing rights as expeditiously as possible, and shall exchange special drawing rights for a freely usable currency selected by the prescribed holder when requested by the Fund.

Decision No. 6467-(80/71) S
April 14, 1980

L. Extended Fund Facility: Extension of Maximum Repurchase Period

1. Paragraph 5 of Decision No. 4377-(74/114),[11] adopted September 13, 1974, is amended to read:

> A member that has obtained an extended arrangement under this decision will make repurchases corresponding to purchases under the extended arrangement to the extent that such purchases are still outstanding, as soon as its balance of payments problems have been overcome and, in any event, within an outside range of four to ten years after each purchase. Not later than four years after the first purchase under the extended arrangement the member will propose to the Fund a schedule of repurchases for all purchases outstanding under the extended arrangement. Normally, schedules under this paragraph will provide for repurchases in respect of each purchase in 12 equal six-monthly installments.

2. Paragraph 5 as amended above shall apply also to repurchases to be made in respect of purchases under extended arrangements approved prior to the date of this decision.

Decision No. 6339-(79/179)
December 3, 1979

M. Procedures for the Sale of Currencies at the Request of Members with Outstanding Purchases

Pursuant to paragraph 2 of Executive Board Decision No. 6274-(79/158),[12] the Executive Board approves the procedures set out [below].

Decision No. 6352-(79/183)
December 12, 1979

Procedures

1. Executive Board Decision No. 6274-(79/158) on the selection of currencies by the Fund contains the following paragraph:

[11] *Selected Decisions of the International Monetary Fund and Selected Documents,* Eighth Issue (Washington, 1976), pages 50–54.
[12] See pages 135–36.

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2. Under procedures to be adopted, the currency of a member with outstanding purchases subject to repurchase, whose balance of payments and gross reserve position is judged sufficiently strong for the purposes of operational budgets and designation plans, normally will be sold by the Fund under Article V, Section 3(*d*) only if the member and the Fund agree.

This present memorandum discusses the circumstances in which the Fund could be expected to agree to the sales of currencies pursuant to this decision and proposes the adoption of certain procedures in connection with such sales.

2. It is envisaged that repurchases in accordance with the Fund's policy on early repurchases under Article V, Section 7(*b*) would be the principal means by which reductions are made in the Fund's holdings of the currency of a member with outstanding purchases whose balance of payments and gross reserve position is judged sufficiently strong. Thus, the Fund would not normally take the initiative to sell the currency of such a member; a proposal for sales of the currency would be expected to come from the member. Of course, a member has the right to make a repurchase at any time, and—in the staff's view—a repurchase would normally be the most expeditious and convenient way for a member to reduce its indebtedness to the Fund. This is because the timing and the amount of any repurchase undertaken at the initiative of the member concerned can be chosen by the member making the repurchase. By contrast, the timing and the amounts of sales of a currency are not certain; they depend on the decisions of other members and the Fund itself. For this reason, it can be generally expected that few members will prefer sales of their currency to repurchases as a means of reducing their outstanding purchases.

3. There are four main aspects of the sale of the currencies of members with outstanding purchases:

a. *Effects on "harmonization."* If the Fund sells the currency of a member with outstanding purchases as an alternative to the member making a repurchase, the Fund's ability to "harmonize" the Fund positions of creditor members is diminished in two ways.[13] First, it will sell less of the currencies of those creditor members whose positions the Fund is aiming to increase. Second, because the volume of repurchases will be less, the Fund will receive in repurchases less of the currencies of those members whose positions it is aiming to reduce. Thus, the larger the amounts of sales of currencies of members with outstanding purchases, the more the harmonization of members' positions is likely to be slowed down. Particularly if such sales constituted a large proportion of the operational budget, they would run counter to the aim of harmonization, which was incorporated in the recent decision on the selection of currencies by the Fund.

b. *Use of SDRs in purchases.* The Fund is likely to be selling SDRs under the operational budgets, and in some future budgets it may sell SDRs exclusively, especially after the substantial rise in the Fund's SDR holdings that will occur following the payments for quota increases under the Seventh Review. Sales of the currencies of members with outstanding purchases may make it more difficult to maintain the SDR holdings in the General Resources Account within a particular range.[14] This suggests that any sales of the currencies of members with outstanding purchases should take into account the aim that is being pursued at the time as regards the Fund's holdings of SDRs.

c. *Repayment of borrowing.* In connection with the oil facility and the supplementary financing facility, the Fund has adopted decisions under which it is required to make "best efforts" to achieve a so-called "pass through" of repurchases by members and repayments of borrowing under these facilities. The aim is—and it has been achieved in the overwhelming majority of repurchases under the oil facility—for the repurchase and the repayment to be made on the same day and in the same medium. The purpose of this procedure was to leave undisturbed the reserve tranche positions in the Fund of the members whose currencies were used or the Fund's SDR holdings if SDRs were used.[15]

[13] Under Executive Board Decision No. 6274-(79/158), the Fund aims to promote over time the equalization of the ratios of members' positions in the Fund to their gold and foreign exchange holdings.

[14] Under Executive Board Decision No. 6275-(79/158) G/S, adopted September 14, 1979 [page 136], "the Executive Board . . . will determine from time to time the approximate range within which the Fund will aim to maintain these [SDR] holdings."

[15] There are certain circumstances in which the principle of the "pass through" cannot be maintained: for example, if a member repurchases with SDRs and the lender does not wish to receive SDRs in repayment.

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If a debtor member's currency is sold as an alternative to the member making a repurchase, and if the member decides to attribute the sale to a purchase under the oil facility or the supplementary financing facility, as it is entitled to do, the Fund is required under the decisions mentioned above to repay the lenders that made resources available to finance the purchase.[16] In these circumstances, as there would be no actual repurchase, the principle of the "pass through" could not be maintained.

In addition to the question of principle, there may also be a problem as regards the convenience of the lenders under the oil facility. It may be less convenient for the lenders to receive repayments in a series of smaller amounts on dates that cannot readily be predicted rather than in a single repayment on a date that could be set in advance.

Thus, both as a question of principle and on grounds of operational convenience, these considerations suggest that the Fund should not normally sell the currency of a member with outstanding purchases if such sales would involve the repayment of borrowing.

d. *Settlement of obligations.* There seems to be very little advantage to the Fund in selling the currency of a member if the sale will be attributed to the settlement of a repurchase obligation falling due during the quarterly period covered by the operational budget. While such sales of currency would advance the repurchase, it would not be advanced by a particularly significant period as the obligation would have to be met anyway in the course of the quarter. In the staff's view, it would probably be preferable if such obligations were met by repurchases, but this is an aspect of the sales of the currencies of members with outstanding purchases on which the Fund can be flexible.[17]

4. The procedural guidelines proposed for the sale by the Fund of the currencies of members with outstanding purchases are set out in paragraph 5, below. Two points should be stressed as regards their applicability. First, Executive Board Decision No. 6274-(79/158) on the selection of currencies by the Fund makes it clear that the Fund will normally sell the currency of a member under Article V, Section 3(*d*) only if its balance of payments and reserve position is judged sufficiently strong. Second, as a consequence of this, the members concerned are likely to be those to which the guidelines for early repurchases apply.[18] However, if there is is an expectation of an early repurchase, and the proposed procedures do not result in sales of the currency of the member concerned, or result in sales of less than the amount of repurchase expected under the guidelines, the member will be expected to make a repurchase, either for the full amount or for any balance. . . .

5. In order to take account of the considerations discussed in paragraph 3, the following procedural guidelines are suggested. They place stress on consultations between the Managing Director and the member concerned prior to the submission by the Managing Director to the Executive Board of a proposal agreed with the member on a maximum amount of sales of its currency and on the way in which these sales would be integrated in the operational budget. The guidelines are intended to provide a reasonable degree of flexibility for the Managing Director to make proposals that would be acceptable both to the member that wished its currency to be sold and to the Executive Board.

a. As far as practicable, a member with outstanding purchases that wishes its currency to be sold by the Fund would be expected to consult with the Managing Director before the end of the second month of the quarterly period prior to the beginning of the period in which the currency would be sold. This will enable a proposal for the sale of the currency to be incorporated in the next operational budget. However, the Managing Director might also propose an amendment to an existing budget. The qualification "as far as practicable" is included in order to provide some flexibility; one reason for this is that a member may not know that its balance of payments and reserve position is judged "sufficiently strong" for the

[16] If the Fund did not repay the lender, it would continue to have to pay interest on the outstanding borrowing while it would no longer receive charges at the rates payable under the oil facility or the supplementary financing facility; this would normally involve a financial loss for the Fund.

[17] It will be noted that paragraph 6 of the guidelines on early repurchases does not envisage sales of a currency as a means of settling obligations falling due during a quarterly period. . . .

[18] It will be recalled that, under the guidelines, the basic condition for an expectation of a repurchase under Article V, Section 7(*b*) is that the member's balance of payments and reserve position is judged sufficiently strong. It is, however, possible that the calculations under the guidelines would not yield an amount that the member was expected to repurchase; for example, the member may have "credit" for voluntary early repurchases. Nevertheless, it should be stressed that it is not the intention of the procedures proposed in paragraph 5 to limit sales of the currency of a member with outstanding purchases to the amount calculated under the guidelines for early repurchases. On the contrary, if a member whose position is judged sufficiently strong is willing to reduce its outstanding purchases at a faster rate than under the guidelines, the Fund should normally welcome the willingness of the member to do so.

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purposes of the next designation plan and operational budget until the relevant documents are circulated to the Executive Board.

b. Following the consultation, and with the agreement of the member concerned, the Managing Director will make a proposal to the Executive Board in accordance with paragraph (c) below that the currency be included in the operational budget. The Managing Director's proposal will cover the way in which the sales of the currency will be integrated with the sales of other currencies and SDRs in the execution of the operational budget. While in each case the decision on sales of a currency would rest with the Executive Board, there would be a reasonable presumption that a proposal made in accordance with these guidelines would be accepted.

c. Proposals by the Managing Director for sales of a currency of a member with purchases outstanding would be guided by the following considerations:

(i) Proposals would not normally be made for sales of currencies if such sales would give rise to repayments of borrowing by the Fund, or if they would be attributed by the member to repurchase obligations falling due within the quarterly period of the budget.

(ii) The amounts of currency involved should not be such as to detract significantly from the promotion of balanced positions in the Fund or the aim of maintaining the SDR holdings of the General Resources Account within a particular range.

N. Format of Stand-By and Extended Arrangements

Stand-by arrangements and extended arrangements shall normally follow the forms in Annexes B and C [below].

Decision No. 6506-(80/82)
May 20, 1980

Annex B

Typical Stand-By Arrangement

Attached hereto is a letter [, with annexed memorandum,] dated ____________ ____________________ from (Minister of Finance and/or Governor of Central Bank) requesting a stand-by arrangement and setting forth the objectives and policies which the (government) (authorities) of (member) intend to pursue. To support these objectives and policies the International Monetary Fund grants this stand-by arrangement in accordance with the following provisions:

1. For a period [of one year] [from __________ to __________] (member) will have the right, after making full use of any reserve tranche that it may have at the time of making a request for a purchase under this arrangement, to make purchases from the Fund in an amount equivalent to SDR ________, subject to paragraphs 2, 3, and 4 below, without further review by the Fund.

2. Purchases under this arrangement shall not, without the consent of the Fund, exceed the equivalent of SDR ____________ until ____________ and the equivalent of SDR ____________ until ____________, but none of these limits shall apply to a purchase under the stand-by arrangement that would not increase the Fund's holdings of (member's) currency beyond the first credit tranche.[19, 20]

3. (Member) will not make purchases under this arrangement that would increase the Fund's holdings of its currency beyond the first credit tranche:[19]

(a) during any period in which [the data at the end of the preceding period incates that] [21]

[19] In arrangements providing for supplementary financing, the phrase "plus 12.5 per cent of quota" will be added.

[20] In arrangements providing for supplementary financing an additional paragraph would be added for the apportionment of purchases between ordinary and supplementary resources: "Purchases under this arrangement shall be made from . . ." The text to be added will depend on the situation of the member at the time. . . .

[21] The performance criteria enumerated here are indicative only; there may be more, or fewer, performance criteria according to the requirements of the particular situation.

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(i) [the limits on domestic credit described in paragraph ________ of the attached letter], or

(ii) [the limits on credit to the public sector described in paragraph _____ of the attached letter], or

(iii) . . . [These provisions would incorporate other quantitative performance criteria of the program]

are not observed; or

(b) if (member)

(i) imposes or intensifies restrictions on payments and transfers for current international transactions, or

(ii) introduces or modifies multiple currency practices, or

(iii) concludes bilateral payments agreements which are inconsistent with Article VIII, or

(iv) imposes or intensifies import restrictions for balance of payments reasons, or

[(v) fails to observe the limits on authorizations of new public and publicly guaranteed foreign indebtedness described in paragraph __________ of the attached letter].

When (member) is prevented from purchasing under this arrangement because of this paragraph 3, purchases will be resumed only after consultation has taken place between the Fund and (member) and understandings have been reached regarding the circumstances in which such purchases can be resumed.

4. (Member's) right to engage in the transactions covered by this arrangement can be suspended only with respect to requests received by the Fund after (a) a formal ineligibility, or (b) a decision of the Executive Board to suspend transactions, either generally or in order to consider a proposal, made by an Executive Director or the Managing Director, formally to suppress or to limit the eligibility of (member). When notice of a decision of formal ineligibility or of a decision to consider a proposal is given pursuant to this paragraph 4, purchases under this arrangement will be resumed only after consultation has taken place between the Fund and (member) and understandings have been reached regarding the circumstances in which such purchases can be resumed.

5. Purchases under this arrangement shall be made in the currencies of other members selected in accordance with the policies and procedures of the Fund, and may be made in SDRs if, on the request of (member), the Fund agrees to provide them at the time of the purchase.

6. (Member) shall pay a charge for this arrangement in accordance with the decisions of the Fund.

7. (a) (Member) shall repurchase the outstanding amount of its currency that results from a purchase under this arrangement, and is subject to charges under Article V, Section 8(*b*), in accordance with the provisions of the Articles of Agreement and decisions of the Fund, including those relating to repurchase as (member's) balance of payments and reserve position improves.

(b) Any reductions in (member's) currency held by the Fund shall reduce the amounts subject to repurchase under (a) above in accordance with the principles applied by the Fund for this purpose at the time of the reduction.

8. During the period of the arrangement (member) shall remain in close consultation with the Fund. These consultations may include correspondence and visits of officials of the Fund to (member) or of representatives of (member) to the Fund. (Member) shall provide the Fund, through reports at intervals or dates requested by the Fund, with such information as the Fund requests in connection with the progress of (member) in achieving the objectives and policies set forth in the attached letter [and annexed memorandum].

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9. In accordance with paragraph __ of the attached letter (member) will consult the Fund on the adoption of any measures that may be appropriate at the initiative of the government or whenever the Managing Director requests consultation

Version A

[because any of the criteria in paragraph 3 above have not been observed or because he considers that consultation on the program is desirable. In addition, after the period of the arrangement and while (member) has outstanding purchases in the upper credit tranches, the government will consult with the Fund from time to time, at the initiative of the government or at the request of the Managing Director, concerning (member's) balance of payments policies.]

Version B

[because he considers that consultation on the program is desirable.]

Annex C

Typical Extended Arrangement

Attached hereto is a letter [, with annexed memorandum,] dated ____________ ______________ from (Minister of Finance and/or Governor of Central Bank) requesting an extended arrangement and setting forth:

(a) the objectives and policies that the authorities of (member) intend to pursue for the period of the extended arrangement;

(b) the policies and measures that the authorities of (member) intend to pursue for the first year of the extended arrangement; and

(c) understandings of (member) with the Fund regarding reviews that will be made of progress in realizing the objectives of the program and of the policies and measures that the authorities of (member) will pursue for the second and third years of the extended arrangement.

To support these objectives and policies the International Monetary Fund grants this extended arrangement in accordance with the following provisions:

1. For a period of [three years] from ______________________ (member) will have the right, after making full use of any reserve tranche that it may have at the time of making a request for a purchase under this arrangement, to make purchases from the Fund in an amount equivalent to SDR __________, subject to paragraphs 2, 3, and 4 below, without further review by the Fund.

2. (a) Until (end of first year) purchases under this arrangement shall not, without the consent of the Fund, exceed the equivalent of SDR __________, provided that purchases shall not exceed the equivalent of SDR ______________ until ____________, and the equivalent of SDR __________ until _________.

(b) Until (end of second year) purchases under this arrangement shall not, without the consent of the Fund, exceed the equivalent of SDR ______________.

(c) The right of (member) to make purchases during the second and third years shall be subject to such phasing as shall be determined.[22]

3. (Member) will not make purchases under this arrangement:

(a) throughout the first year, during any period in which [the data at the end of the preceding period indicates that]

(i) the limits on ...., or

(ii) ...., or

(iii) ....

are not observed; or

(b) throughout the second and third years, if before the beginning of the second year and the beginning of the third year of the arrangement suitable performance clauses have not been established in consultation with the Fund as contem-

[22] In arrangements providing for supplementary financing an additional paragraph would be added for the apportionment of purchases between ordinary and supplementary resources:

"(d) Purchases under this arrangement shall be made from . . ."

The text to be added will depend on the situation of the member at the time. . . .

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plated in paragraph ____________ of the attached letter or such clauses, having been established, are not being observed; or

(c) throughout the duration of the arrangement, if (member)

(i) imposes or intensifies restrictions on payments and transfers for current international transactions, or

(ii) introduces or modifies multiple currency practices, or

(iii) concludes bilateral payments agreements which are inconsistent with Article VIII, or

(iv) imposes or intensifies import restrictions for balance of payments reasons.

When (member) is prevented from purchasing under this arrangement because of this paragraph 3, purchases will be resumed only after consultation has taken place between the Fund and (member) and understandings have been reached regarding the circumstances in which such purchases can be resumed.

4. (Member's) right to engage in the transactions covered by this arrangement can be suspended only with respect to requests received by the Fund after (a) a formal ineligibility, or (b) a decision of the Executive Board to suspend transactions, either generally or in order to consider a proposal, made by an Executive Director or the Managing Director, formally to suppress or to limit the eligibility of (member). When notice of a decision of formal ineligibility or of a decision to consider a proposal is given pursuant to this paragraph 4, purchases under this arrangement will be resumed only after consultation has taken place between the Fund and (member) and understandings have been reached regarding the circumstances in which such purchases can be resumed.

5. Purchases under this arrangement shall be made in the currencies of other members selected in accordance with the policies and procedures of the Fund, and may be made in SDRs if, on the request of (member), the Fund agrees to provide them at the time of the purchase.

6. (Member) shall pay a charge for this arrangement in accordance with the decisions of the Fund.

7. (a) (Member) shall repurchase the amount of its currency that results from a purchase under this arrangement, and is subject to charges under Article V, Section 8(*b*), in accordance with the provisions of the Articles of Agreement and decisions of the Fund including those relating to repurchase as (member's) balance of payments and reserve position improves.

(b) Any reductions in (member's) currency held by the Fund shall reduce the amounts subject to repurchase under (a) above in accordance with the principles applied by the Fund for this purpose at the time of the reduction.

8. During the period of the arrangement (member) shall remain in close consultation with the Fund. These consultations may include correspondence and visits of officials of the Fund to (member) or of representatives of (member) to the Fund. (Member) shall provide the Fund, through reports at intervals or dates requested by the Fund, with such information as the Fund requests in connection with the progress of (member) in achieving the objectives and policies set forth in the attached letter [and annexed memorandum].

9. In accordance with paragraph ______ of the attached letter (member) will consult the Fund on the adoption of any measures that may be appropriate at the initiative of the government or whenever the Managing Director requests consultation because any of the criteria under paragraph 3 above have not been observed or because he considers that consultation on the program is desirable. In addition, after the period of the arrangement and while (member) has outstanding purchases in the upper credit tranches, the government will consult with the Fund from time to time, at the initiative of the government or at the request of the Managing Director, concerning (member's) balance of payments policies.

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Appendix III
Press Communiqués of the Interim Committee and the Development Committee

Interim Committee of the Board of Governors on the International Monetary System

PRESS COMMUNIQUÉS

Thirteenth Meeting, Belgrade, October 1, 1979

1. The Interim Committee of the Board of Governors of the International Monetary Fund held its thirteenth meeting in Belgrade, Yugoslavia, on October 1, 1979 under the chairmanship of Mr. Filippo Maria Pandolfi, Minister of the Treasury of Italy, who was selected by the Committee to succeed Mr. Denis Healey, formerly Chancellor of the Exchequer of the United Kingdom. Mr. Jacques de Larosière, Managing Director of the International Monetary Fund, participated in the meeting. The following observers attended during the Committee's discussions: Mr. Gamani Corea, Secretary-General, UNCTAD; Mr. René Larre, General Manager, BIS; Mr. Emile van Lennep, Secretary-General, OECD; Mr. Fritz Leutwiler, President, Swiss National Bank; Mr. Olivier Long, Director-General, GATT; Mr. Robert S. McNamara, President, IBRD; Mr. René G. Ortiz, Secretary-General, OPEC; Mr. Tommaso Padoa-Schioppa, Director General for Economic and Financial Affairs, CEC; Mr. Jean Ripert, Under-Secretary-General for International Economic and Social Affairs, UN; Mr. Cesar E.A. Virata, Chairman, Development Committee.

2. The Committee discussed the world economic outlook and the policies appropriate in the current situation.

The Committee noted that events in recent months pointed to a period of reduced economic growth in the industrial countries. Signs of a recession in the United States had become stronger, and some slowing of economic expansion in other industrial countries was in prospect. However, the continuation of a positive growth rate in these other countries should serve to limit the degree of the expected international slowdown.

The Committee observed with great concern that inflation throughout the industrial world had intensified. In view of this grave threat to economic and financial stability, the Committee emphasized that the main task of economic policy was to contain inflationary pressures and to reduce inflationary expectations. One of the immediate problems was to prevent the recent surge of price increases for oil and other primary products from adding to the strength of inflationary expectations and thus being built into underlying rates of increase in wages and prices. Accordingly, the Committee noted with satisfaction that reduction of inflation was being given priority in the economic policies of industrial countries, and it reiterated its view that in many countries progress in reducing inflation was an essential precondition for the resumption of vigorous economic growth.

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On the external side, the Committee noted the very large shifts in current account balances that were occurring both among and within groups of countries. With the current account surplus of the major oil exporting countries expected to rise sharply, a corresponding deterioration in the combined current account balance of the oil importing countries as a group was obviously in prospect.

Although the industrial countries were expected to account for most of this deterioration in 1979, the problem of the distribution of current account surpluses and deficits among the major industrial countries—a matter of concern over the past few years—now appeared to be receding. This improvement in the pattern of payments imbalances was attributable in large part to offsetting changes in demand conditions in the largest countries and to effects of past exchange rate changes, and was seen by the Committee as important evidence of a better working of the international adjustment process. In this connection, the Committee welcomed the closer cooperation in intervention policies in the exchange markets.

Noting that the combined current account deficit of the non-oil developing countries was expected to increase from about $32 billion in 1978 to $45 billion in 1979 and to well over $50 billion in 1980, the Committee expressed concern that this development would lead to an increase in external financial difficulties among these countries. Particularly disturbing was the prospect of a further rise in debt service charges, which in a number of developing countries were already rising faster than the rate of increase in the debt itself.

The Committee also noted with concern the fact that the worsening of the external position of the non-oil developing countries was occurring at a time of growing internal strains. While economic growth in the developing world was in general being fairly well maintained, it remained modest in relation to population growth and developmental needs. Moreover, the problem of inflation, already quite serious in many developing countries, had intensified in 1979.

The situation of the non-oil developing countries, the Committee observed, called in many cases for an improvement in domestic financial policies. It also underlined the need for a larger flow of external resources. It was especially important, in the Committee's view, that the industrial countries, in the design of their economic policies, pay particular attention to the economic needs of developing countries. In this connection, a wide range of policies was seen to be relevant, including the reduction of protectionist measures; the opening of import markets to exports of manufactures and commodities from developing countries and of capital markets to outflows of funds to such countries; and measures to give new impetus to the flow of official development assistance, which had stagnated in recent years.

3. The Committee reiterated its view on the necessity of an active exercise by the Fund of its surveillance authority as a means of strengthening the adjustment process.

4. The Committee noted with satisfaction that since its last meeting there had been a number of developments that enhanced the Fund's ability to provide balance of payments assistance to its members. It welcomed the adoption by the Executive Board of a new set of guidelines on the conditionality applicable to the use of the Fund's general resources in the upper credit tranches and the improvements in the Fund's compensatory financing facility, including the increase in the maximum amount of compensation that could be obtained under that facility.

The Committee also noted with satisfaction that, since the supplementary financing facility became operational in February, the Fund has begun to use the additional financial resources which have been put at its disposal to provide members experiencing difficult adjustment problems with assistance in larger amounts and for a longer period than could be made available under the regular credit tranches. In this connection, the Committee, like the Development Committee, asked the Executive Board to give attention to developing ways and means of lowering the interest costs of the supplementary financing facility.

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The Committee also agreed with the request of the Development Committee to the Executive Board to give further consideration to increasing the maximum repurchase period in respect of purchases under the extended Fund facility from eight to ten years.

The Committee agreed to keep the adequacy of these measures under review.

5. The Committee recognized that there was a clear need for broad multilateral efforts to assist member countries in coping with the very difficult situation ahead. In this context the Program of Immediate Action outlined by the Group of 24 and endorsed by the Group of 77 would be kept in view.

6. The Committee noted the slow progress in the implementation of the increases in quotas approved under the Resolution of the Fund's Board of Governors on the Seventh General Review of Quotas. In view of the importance of an early implementation of these increases in quotas, the Committee urged those members, especially those with the larger quotas, that have not yet taken action that would enable them to consent to the increases in their quotas, to do so as promptly as possible.

7. The Committee considered the report submitted by the Executive Board on the question of a substitution account in accordance with Paragraph 6 of the Committee's communiqué of March 7, 1979. Such an account, administered by the Fund, would accept deposits of U.S. dollars from members of the Fund and certain other official holders in exchange for an equivalent amount of SDR-denominated claims. In the light of the report submitted by the Executive Board, the Committee concluded that such an account, if properly designed, could contribute to an improvement of the international monetary system and could constitute a step toward making the SDR the principal reserve asset in the system.

In order for the account to achieve widespread participation on a voluntary basis and on a large scale, among other things, it should satisfy the needs of depositing members, both developed and developing, its costs and benefits should be fairly shared among all parties concerned, and it should contain satisfactory provisions with respect to the liquidity of the claims, their rate of interest, and the preservation of their capital value.

The Committee, noting the progress that has been made and recognizing that a number of issues remain to be resolved, asked the Executive Board to continue to direct priority attention to designing a substitution account plan in accordance with the preceding paragraphs and in light of the views expressed by the members of the Committee, and to report progress to the next meeting of the Interim Committee.

8. The Committee agreed to hold its next meeting in Hamburg, Germany, on April 25, 1980.

9. The Committee expressed their warm appreciation for the hospitality of the Government of Yugoslavia and for the excellent arrangements provided for the meeting.

Fourteenth Meeting, Hamburg, April 25, 1980

1. The Interim Committee of the Board of Governors of the International Monetary Fund held its fourteenth meeting in Hamburg, Germany, on April 25, 1980 under the chairmanship of Mr. Filippo Maria Pandolfi, Minister of the Treasury of Italy. Mr. Jacques de Larosière, Managing Director of the International Monetary Fund, participated in the meeting. The following observers attended during the Committee's discussions: Mr. G.D. Arsenis, Director of Money, Finance and Development Division, UNCTAD; Mr. Alexandre Lamfalussy, Economic Adviser and Head of the Monetary and Economic Department, BIS; Mr. Pierre Languetin, Member of the Governing Board, Swiss National Bank; Mr. Emile van Lennep, Secretary-General, OECD; Mr. Olivier Long, Director-General, GATT; Mr. René G. Ortiz, Secretary-General, OPEC; Mr. François-Xavier Ortoli, Vice-President, CEC; Mr. Jean Ripert, Under-Secretary-General for International Economic and

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Social Affairs, UN; Mr. Ernest Stern, Vice President, Operational Staff, IBRD; Mr. Cesar E.A. Virata, Chairman, Development Committee.

2. The Committee discussed the world economic outlook and the policies appropriate in the current situation. Two aspects particularly concerned the Committee: worldwide inflation and the payments imbalances of the non-oil developing countries.

Expressing great concern at the dramatic and widespread rise in rates of inflation since its meeting in Belgrade, the Committee agreed that the top priority being given in many countries to the fight against inflation must not be relaxed.

The Committee recognized that short-term prospects for growth of the world economy, and particularly of economic activity in the industrial countries, are not good. Success in reducing inflation was considered a condition for better investment performance and resumption of satisfactory growth over the longer term.

It was recognized that efforts to contain inflation require an appropriate balance between monetary and fiscal policies. In that light the Committee stressed that more effective use of fiscal policy, with better control of government spending, is essential.

The Committee continued to attach great importance to avoiding secondary repercussions of the recent oil price increases on wages, other incomes, and prices of non-oil goods and services. The Committee noted the desirability of doing everything feasible to ensure that incomes grow at a rate which is consistent with anti-inflationary policies.

The Committee also emphasized the need to supplement fiscal and monetary policies with measures designed to improve supply conditions and promote higher levels of saving and investment. In this general context, the Committee recognized the pervasive impact of the energy situation on all aspects of economic performance and stressed the importance of measures to conserve energy and to develop new sources of energy.

With respect to the international payments situation, the Committee noted that shifts in current account balances among major groups of countries are proving even larger than was visualized at its previous meeting last October. According to the estimates of the IMF staff, the current account surplus of the oil exporting countries is now expected to reach $115 billion in 1980 and to remain very large in 1981, while the combined current account deficit of the non-oil developing countries is likely to approach $70 billion in 1980—compared with $55 billion in 1979—and to rise still further in 1981, and the deficit of the industrial countries on current account (excluding official transfers) will probably rise from $10 billion in 1979 to the range of $45–50 billion in 1980 before subsiding in 1981.

What the Committee found most disturbing about the payments imbalances now in prospect was the sharp increase in the current account deficit of the non-oil developing countries. It was feared that this adverse swing would generate external financial difficulties for many of these countries, and that a number of low-income countries in the group would face severe problems in maintaining an adequate flow of imports. To avert hardships for these latter countries, the Committee urged provision of sufficiently large amounts of aid and concessional loans.

The Committee noted that a number of developing countries, and especially those whose own manufacturing industry is most advanced, have relatively good access to international financial markets, and may be expected to cope with the sharp rise in their import bills partly through expanded international borrowing. While recognizing the need for prudential supervision, the Committee expressed concern that such supervision should not impede recycling. The Committee was concerned, nevertheless, about the medium-term implications of such heavier borrowing. With the escalation of outstanding debt, amortization payments and interest costs—especially those incurred on fixed terms involving high rates of interest—will make sizable claims on debtors' export earnings and other available funds over the next few years. To minimize these burdens, the Committee urged that developing countries seek a

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judicious blend of adjustment and financing to meet the payments problems immediately ahead.

Recognizing that the ability of non-oil developing countries to achieve the desired objectives would depend importantly on their access to foreign markets, the Committee urged the industrial countries to keep their markets open to exports from developing countries. Avoidance of protectionist trading policies was considered of vital importance at a time of sluggish growth in world economic activity.

3. In view of the outlook for the world economy and, in particular, the prospect of large and widespread payments imbalances, the Committee agreed that the Fund should stand ready to play a growing role in the adjustment and financing of these imbalances. In this connection, the Committee endorsed the views set forth in the Managing Director's statement on the subject and agreed with him that any such financing by the Fund should be made available in conjunction with adjustment policies appropriate to the needs and problems of members in the present economic situation.

The Committee recognized that, in view of the availability of funds under the supplementary financing facility and the expected increase in quotas under the Seventh General Review, the Fund is, under present circumstances, in a relatively liquid position. Nevertheless, in the light of the size and the distribution of payments imbalances, the necessity to phase adjustment over a reasonable period of time, and the time needed for the completion of any borrowing arrangements, the Committee encouraged the Managing Director to start discussions with potential lenders on the terms and conditions under which the Fund could borrow funds to increase its resources, if and when the need arises.

The Committee believed that, in addition to any action by the Fund, additional development assistance would need to be provided to the low-income countries that are most severely affected by the present situation and, in this connection, it endorsed the view expressed by the Development Committee on the need for such assistance. The Committee requested the Managing Director and the Executive Board to start examining in depth the relevant recommendations of the program of immediate action of the Group of 24, in light of the press communiqué of the Ministers of the Group of 24, with a view toward a substantive discussion next September.

4. The Committee expressed concern at the fact that, although the Resolution of the Board of Governors on the Seventh General Review of Quotas had been approved nearly one and a half years ago, the quota increases of SDR 19.6 billion approved under it had not yet come into effect. The implementation of these increases would enhance the ability of the Fund to serve the needs of its members in the difficult payments situation ahead. The Committee stressed again the importance of an early implementation of these increases and urged those members that had not yet consented to the increases in their quotas to do so as soon as possible, so that the increases could become effective in the course of 1980.

5. The Committee noted that the present gold sales program, which is nearing completion, has yielded a very large amount of resources for the benefit of the developing countries—about SDR 3.9 billion—the greater part of which was used for balance of payments assistance on concessionary terms to the low-income developing countries. The Committee asked the Executive Board to study the future of the Trust Fund. This study should encompass, inter alia, the possibility of using a part of the Trust Fund repayments for ameliorating the conditions of loans to low-income developing countries.

The Fund should also explore the possibility of obtaining other resources to subsidize its lending to low-income developing countries.

6. The Committee commended the Executive Board for the progress it had made in designing a plan for a substitution account along the lines requested by the Committee in its communiqué issued in Belgrade. The Committee noted that the Board had reached, in Part II of its report, provisional agreement on a wide range of

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features of such an account. The Committee also noted that some issues remained to be solved, including arrangements for the maintenance of financial balance in the account. The Committee, after a discussion of these issues, expressed its intention to continue its work on this subject.

7. The Committee noted with satisfaction the steps taken to widen the uses of SDRs and welcomed the decisions taken by the Executive Board under which SDRs can now also be used in swaps, forward operations, and in making donations. The Committee also welcomed the recent decisions under which an increased number of official institutions can hold and deal in SDRs.

The Committee noted that the Executive Board had conducted an examination of the SDR valuation and interest rate baskets with a view to simplifying and enhancing further the attractiveness of the SDR. The Committee endorsed these objectives and generally expressed the view that it would be desirable for the interest and valuation baskets to be identical. The Committee asked the Executive Board to examine the matter further and to take the necessary action.

8. The Committee agreed to hold its next meeting in Washington, D.C. on Sunday, September 28, 1980. The Committee also agreed to hold a meeting in Libreville, Gabon, in the spring of 1981.

9. The Committee expressed its warm appreciation to the Government of the Federal Republic of Germany and to the Free and Hanseatic City and the people of Hamburg for their hospitality and for the excellent arrangements provided for the meeting.

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Joint Ministerial Committee of the Boards of Governors of the Bank and the Fund on the Transfer of Real Resources to Developing Countries (Development Committee)

PRESS COMMUNIQUÉS

Twelfth Meeting, Belgrade, September 30, 1979

1. The Development Committee held its twelfth meeting in Belgrade, Yugoslavia, on September 30, 1979 under the chairmanship of Mr. Cesar E.A. Virata, Minister of Finance of the Philippines, and with the participation of Mr. Robert S. McNamara, President of the World Bank, and Mr. J. de Larosière, Managing Director of the International Monetary Fund. Sir Richard King, Executive Secretary, took part in the meeting which was also attended by representatives from a number of international and regional organizations and Switzerland as observers.

2. The Committee considered papers prepared by the World Bank and IMF on the flow of financial resources to developing countries and the stabilization of export earnings. They also took note of the proposals contained in the Outline for a Program of Action approved by the Group of 24 and unanimously endorsed by the Group of 77.[1]

3. The Committee discussed current economic trends and agreed that many developing countries will face a particularly difficult situation over the next few years. The non-oil primary producers are likely to experience a slowdown in the growth of demand for their exports and adverse shifts in their terms of trade. The Committee expressed serious concern that in the context of high rates of inflation this would lead to relatively slow rates of economic growth, a further substantial deterioration in their aggregate current account deficit, and an increase in the number of developing countries encountering debt servicing problems.

4. Recognizing the increased interdependence of national economies and in particular the impact on developing countries of developments in industrialized countries, the Committee emphasized the importance of sound economic and financial policies in all countries; it reiterated the need to avoid protectionist trade measures that would adversely affect the exports of developing countries. The Committee also stressed the urgency of implementing effective policies for energy conservation and development.

5. The Committee recognized that there was a clear need for broad multilateral efforts, including an increasing role for the Bank and the Fund, to assist member countries in coping with the very difficult situation ahead. In this context the Program of Immediate Action outlined by the Group of 24 and endorsed by the Group of 77 would be kept in view. The Committee noted with satisfaction a number of recent developments that had enhanced the Fund's capacity to assist its members, including: the Resolution of the Fund's Board of Governors on the Seventh General Review of Quotas under which quotas in the Fund could be increased to SDR 58.6 billion; the coming into force of the supplementary financing facility; the adoption of new guidelines on conditionality; and the improvements in the compensatory financing facility, including the increase from 75 per cent to 100 per cent of quotas in the maximum amount that could be purchased under that facility. The Committee stressed the importance of an early implementation of the quota increases under the Resolution on the Seventh General Review of Quotas.

6. The Committee noted with satisfaction that over the past year agreement had been reached in the Executive Board of the World Bank to recommend to its Governors a $40 billion General Capital Increase; the Committee urged that all necessary steps be taken to make this increase effective as early as possible. The Committee welcomed the Fifth Replenishment of the Resources of the Inter-American

[1] See Attachment, pages 160–65.

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Development Bank, the decision by the Governors of the African Development Bank for a substantial increase in the capital of that institution, and the decision of OPEC's Ministerial Committee on Financial and Monetary Matters to approve the second replenishment of the resources of the OPEC Special Fund.

7. In considering the longer-term economic outlook, the Committee noted that low-income developing countries will continue to depend on official development assistance (ODA) for the bulk of their net capital inflows; in view of this, the Committee regretted that only a modest growth in total ODA flows is projected over the next few years. For many middle-income countries, which depend mostly on private sources for capital flows, as well as certain low-income countries, the anticipated increase in total debt and debt service over the medium term were matters for careful attention.

8. The Committee, while recognizing the difficulties facing some donor countries, stressed the importance of increasing the quantity of ODA flows, particularly from those countries which are now at relatively low levels in relation to gross national product. The Committee also called for improvements in the quality of ODA such as quick disbursing assistance, untying of aid, finance for local costs, and for greater concentration of ODA on the countries most in need. The Committee stressed the urgency of bringing the Sixth Replenishment of IDA to a prompt conclusion at a level which would enable a significant increase in commitments in real terms to continue.

9. In discussing longer-term structural adjustment problems, the Committee welcomed the willingness of the Bank to consider increasing substantially the relative importance of program lending in its overall operations. The Committee requested the Executive Directors of the Bank to explore the criteria which could govern program and sector loans in situations where external disequilibria had not yet become severe, and to consider whether in individual cases such lending should be additional to that now planned. The regional institutions were invited to review their policies and practices in light of the current prospects for developing countries. The Committee endorsed expanded collaboration between the Fund and the Bank in support of economic programs of developing countries facing severe balance of payments problems.

10. The Committee discussed the problem of medium-term financing for balance of payments adjustment. In this connection, the Committee noted that the Fund's extended facility had proved a useful mechanism and that it had considerable potential in the future. Recognizing the difficult situation facing member countries, the Committee requested that the Executive Board of the Fund give further consideration to increasing the maximum repurchase period under the extended facility from eight to ten years.

11. In view of the heavy needs for balance of payments financing facing many countries in the years ahead, the Committee requested the Executive Board of the Fund to give attention to developing ways and means of lowering the interest costs of the supplementary financing facility.

12. The Committee recognized that in the difficult years ahead there would be a major need for recycling of funds to assist developing countries facing large balance of payments deficits and recognized that this need could not be met by official financial flows only. In this connection, the Committee stressed the important role of additional private capital flows in financing the increasing capital requirements of developing countries; such flows would be facilitated by the promotion of policies in these countries conducive to sustaining their creditworthiness. The Committee welcomed the expansion in cofinancing with the private banking sector that had been achieved by the World Bank and regional institutions to date, and suggested that capital-exporting countries should explore what actions could be taken to encourage greater use of this mechanism by their banks. The Committee also

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requested the World Bank and the regional institutions to explore steps that could be taken further to expand cofinancing.

13. In discussing possible new approaches relating to capital flows, the Committee reaffirmed that priority should be given to exploiting the full capacity of existing institutions, including possible acceleration in the use of their resources, to meet the urgent problems of the developing countries over the next few years. The Committee considered however that the matter should be kept actively under review.

14. The Committee reviewed the question of stabilization of export earnings on the basis of a staff study. The Committee emphasized the importance of appropriate mechanisms to mitigate the effects of fluctuations in export earnings of developing countries, in particular those countries heavily dependent upon primary commodity exports, and to assist them in diversifying their exports. It recognized that, through coordinated action, the Fund and Bank had developed the capacity to meet the needs of countries suffering from shortfalls and noted in particular the progress that the two institutions had made in providing finance for medium-term commodity shortfalls and in reducing dependence on primary commodities. It requested the Executive Boards of the two institutions to keep this matter under review.

15. The Committee welcomed the recent decision of the Executive Board of the Fund to liberalize the Fund's compensatory financing facility, in particular the increase in the limit on the amount of drawings outstanding under the facility. The changes constitute a substantial improvement in the Fund's compensatory financing facility, making it a more effective mechanism to assist members in dealing with problems of fluctuations of export earnings. The Committee noted that in the longer run vulnerability to fluctuating export earnings would be reduced by diversifying exports, for which purpose Bank and IDA resources should continue to be made available. The Committee also welcomed the new convention replacing the Lomé Convention and the new features of the STABEX incorporated in the new convention. They also noted with satisfaction the progress made in negotiations for the setting up of a Common Fund for commodities.

16. It was agreed that the subject of export earnings stabilization would be reviewed by the Committee in a year's time in the light of experience in operation of the recently improved compensatory financing facility, the ongoing negotiations on the Common Fund, and the further study of the matter being undertaken in UNCTAD in cooperation with Fund staff.

17. The Committee will meet again on April 24 in Hamburg.

18. The Committee expressed their sincere appreciation to the Government of Yugoslavia for their hospitality and for the excellent arrangements provided for their meeting.

Attachment: Outline for a Program of Action on International Monetary Reform

Prepared by the Group of Twenty-Four and endorsed by the Group of Seventy-Seven. Belgrade, Yugoslavia, September 29, 1979.

I. Assessment of Initial Objectives and Developments in International Monetary Reform

Following the monetary crisis that began during the 1960s and became acute in 1971, the international community was confronted with the urgent need to reform the international monetary system. In this connection, the Group of 77 emphasized that unless there were an effective participation of the developing countries in designing the new system, particularly in view of the preponderant influence hitherto exercised by the developed countries, common objectives could not be achieved. Consequently, the Intergovernmental Group of Twenty-Four on International Monetary Affairs (Group of 24) was established for the purpose of coordinating and unifying the position of the developing countries in international monetary and financial matters. In particular, it was agreed that the Group of 24 was to:

(a) keep the international monetary situation under review;

(b) evaluate events in the monetary field, as well as any decisions which might be taken by a single country or group of countries within the framework of the International Monetary Fund, relating to the interests of the developing countries;

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(c) recommend to the governments of the Group of 77 coordinated positions for use in various fora, and to consider any other action that might be necessary, including the convening of a world monetary conference within the framework of the United Nations.

The initial basic discussions and negotiations with the developed countries on the reform of the monetary system were undertaken in the forum of the Committee of the Board of Governors on Reform of the International Monetary System and Related Issues (Committee of Twenty). It was agreed that this reform had to be of a tripartite nature requiring mutually supporting arrangements in the fields of money, trade and the transfer of resources to developing countries.

Major structural changes in the world economy towards the end of 1973 and the absence of political will on the part of developed countries made it impossible to agree on an overall package of monetary reform. Agreement was, however, reached by the Committee of Twenty on the need to alter some aspects of the monetary system, particularly the exchange rate regime. Measures were proposed to deal with the most urgent aspects of monetary relations among developed countries. However, they did not deal with those aspects of the system that were of particular interest to developing countries.

Although overall reform was not considered possible, it was felt that an evolutionary process of reform, with a gradual adaptation of the legal structure, was called for. Towards this objective, two bodies were established. These were: the Interim Committee of the Board of Governors on the International Monetary System; and the Joint Ministerial Committee of the Boards of Governors of the Bank and the Fund on the Transfer of Real Resources to Developing Countries.

The Interim Committee was to advise on the adaptation of the system, while the Development Committee was to pursue the means for promoting and improving the transfer of real resources to developing countries. Work within these two bodies along with the ongoing negotiations in UNCTAD and the multilateral trade negotiations under the auspices of GATT were expected to bring about the desired changes in the fields of money, finance and trade. However, the results so far have not met the requirements of developing countries.

In practice, no comprehensive and coherent program was agreed for bringing about a deliberate process of evolution in the system. The Jamaica Agreement and the subsequent amendment of the Articles of Agreement eliminated some features of the Bretton Woods system, and left open a future range of options, but failed to convey a sense of direction and did not incorporate certain features of basic interest to developing countries, such as: measures to control, in an effective manner, the creation of international liquidity; dispositions on asset settlement; rules to ensure symmetry in the adjustment process and promote a stable system of exchange rates; the financing by the IMF of short-term capital movements; and, particularly, arrangements to promote the transfer of real resources.

In the absence of a firm collective commitment to comprehensive reform, reliance was placed in the new Articles of Agreement on the collaboration of members with the International Monetary Fund and on IMF surveillance in the effort to ensure the proper functioning of the system, with particular emphasis on achieving orderly exchange arrangements and promoting a stable system of exchange rates. The nature of the collaboration with the Fund to be undertaken by members was, however, not precisely defined. So far as exchange rates were concerned, the Fund was not in a position to exercise significant influence except where members sought access to its resources. The effectiveness of exchange rate policies was overestimated, and it was in any case undermined by the excessive volatility of rates which itself became a powerful force adding to instability and uncertainty.

The creation of international liquidity continued to be determined largely by national policies, and inadequate progress was made towards collective management of international reserve creation or towards establishing the SDR as the principal international reserve asset, despite previous agreement on the desirability of both these objectives.

Failure to establish a new basis for the international monetary system was accompanied by a deterioration in the climate of world trade. Expectations that the introduction of flexibility into the exchange rate system would make it possible to move towards more open trading relationships failed to materialize. Indeed, in the face of business recession and inadequate industrial adjustment in the developed countries, international trade was further impaired by increasing recourse to protectionist measures.

The discussions in the Committee of Twenty resulted in a wide measure of agreement that a properly functioning international monetary system would require a considerable expansion in the transfer of resources to developing countries. However, the subsequent shelving of comprehensive reform efforts was accompanied by a decline in such transfers in real terms.

Thus the international community has failed to achieve its goals in the fields of money, trade and transfer of real resources to developing countries.

II. The Changing World Economic Environment and the Reform Process

Expectations for improvements in the world economy and in the working of the international monetary system following the Jamaica Agreement seem to have rested in the main on the following assumptions:

—the low growth rates and inflation in developed countries, as well as the payments imbalances among them, would be temporary and of a cyclical nature;

—flexibility in exchange rates would ensure that they reflect underlying economic conditions and would enable countries to manage with smaller reserves, thus providing greater freedom to countries in the pursuit of their own objectives, while at the same time permitting the achievement of equilibrium;

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—deficits would be financed largely from capital markets and through the IMF oil facility, although the temporarily expanded credit tranches in the regular IMF facilities, the new extended facility and the liberalization of the compensatory financing facility, would be expected to play a complementary role;

—concessional flows to the countries with limited access to capital markets would increase substantially;

—repayments would be effected through the expansion of export earnings that would accompany the recovery of the world economy and further liberalization of international trade.

The above-mentioned assumptions were invalidated by events. In the first place, the problem of stagflation in developed countries proved to be much more intractable than anticipated. The policy responses of major industrial countries to stagflation varied widely. Some of them persisted in following growth policies below their potential and experienced low inflation rates and sizable current account surpluses, while others continued expansionary domestic policies that resulted in significant deficits on current account and higher inflation rates. In particular, the main reserve center followed expansionary policies and achieved higher growth rates than most other industrial countries, but this was accompanied by increasing inflation and widening deficits on current account.

The above-mentioned differential economic performance of industrial countries and the lack of economic policy coordination among them gave rise to serious problems in several areas and limited the effectiveness of exchange rate changes. Firstly, sizable speculative capital movements, as well as violent swings in exchange rates, created worldwide conditions of uncertainty, discouraged investment, and complicated the implementation of economic policies. Secondly, pressures upon the main reserve currency center to defend the value of the dollar eventually induced the U.S. Government to pursue more restrictive economic policies. Furthermore, the reluctance of the surplus developed countries to reflate their economies sufficiently may well have deepened the deflationary trends in the world economy, fostered protectionism, and inhibited more basic adjustment.

Continuation of recession and inflation in developed countries resulted in a slower growth of exports of developing countries and a further deterioration in the terms of trade. In addition, the rising wave of protectionism in developed countries severely affected the export volume of developing countries and denied them a more efficient use of resources.

The effective functioning of the financial system requires the maintenance of an open and dynamic trading system. Developing countries, however, cannot—and should not—continue to bear the costs of inadequate adjustments in developed countries. Continuation of the development process requires that full employment and growth conditions be restored in the world economy; that world markets be open to the exports of developing countries; and that, in the long run, a greater proportion of the import requirements of these countries be financed through export earnings.

The current account deficits that developing countries have been experiencing and are likely to face in future are not sustainable in the light of the existing trade framework or of the terms and conditions of current financial flows.

In the case of some developing countries private capital markets did provide the necessary volume of finance to sustain activity while effecting the required structural adjustments. However, inadequacy of the terms relating to maturities and interest rates would give rise to later problems.

Contrary to expectations and, indeed, accepted objectives, the volume of ODA declined in real terms in the period 1975–78. Flows from multilateral sources through the soft loan windows of the development finance institutions, the IMF compensatory financing facility, the oil facility and the Trust Fund, made valuable contributions to the financing of deficits of the poorer developing countries, but fell far short of requirements. In the face of inadequate external financing, these countries had no choice but to cut back their development process.

Recent analyses carried out by multilateral institutions regarding the economic outlook for the coming years suggest that the international environment has deteriorated substantially for developing countries and that in many respects they will face more critical situations than after the 1974/75 crisis. The reduced growth prospects of industrialized countries will exert a further deflationary impact on economic activity in developing countries; there are prospects for an even slower growth of world trade and deteriorating terms of trade, as well as a substantial widening of current account deficits for most developing countries. The external debt situation will become more strained, and the debt service payments from accumulating debt will significantly reduce the transfer of real resources.

For developing countries that have access to private capital markets, notwithstanding certain trends in the direction of larger resources within the international commercial banking system, there is the possibility that commercial bank financing may not be forthcoming in the needed quantities or on suitable terms, so that the recycling mechanism will not operate as efficiently as in the past. For those countries that do not have effective access to capital markets, the highly inadequate flows of ODA, which have been well below the internationally agreed targets, have already meant that there is not sufficient finance to cover essential import requirements.

Consequently, developing countries are faced by a further reduction of the already highly unsatisfactory growth rates, with serious social and political effects.

It is clear from the above that, unless policies change, the world economy will continue to find itself trapped in a vicious circle of slow growth, unemployment, protectionism and instability in monetary and financial fields. In order to break this vicious circle, the international community must address itself to the question of structural adjustments in order to accommodate the grow-

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ing productive potential of developing countries in the context of a growing world economy. Such adjustments are, however, difficult to implement under conditions of stagnation in developed countries and of inadequate resources for developing countries. The resumption of vigorous economic activity, investment, and trade would therefore contribute significantly towards achieving such adjustments.

The foregoing analysis underlines the vital need to take fully into account the interrelationship that exists between trade, development finance, and monetary arrangements, and the need to establish a mutually supporting action program in these three areas.

III. Towards a Fundamental International Monetary Reform

1. It will be apparent from the foregoing considerations that the basic tasks of international monetary reform have yet to be accomplished. Developing and developed countries alike have a common interest in a viable international monetary system. Such a system should foster development, employment and trade, and, in particular, support the development of developing countries in the overall context of the establishment of the New International Economic Order.

2. The principal features of a viable system should include:

(a) An effective, symmetrical and equitable adjustment process that would be consistent with the maintenance of high levels of employment and rates of growth and the dynamic expansion of world trade. This would require access to official credit facilities on terms and conditions responsive to the nature of balance of payments problems, as well as to the level of development of the countries concerned. It would also require the maintenance of free and secure access for developing countries to the goods and financial markets of developed nations.

(b) An exchange rate regime which, while flexible, is capable of promoting adequate stability.

(c) In exercising its surveillance over exchange rate and balance of payments policies, the IMF should give equitable and symmetrical treatment to surplus and deficit countries with a view to ensuring that surplus developed countries and reserve currency countries accept an equitable share of the burden of adjustment at high levels of economic growth.

(d) Arrangements should be made for the creation of international liquidity through truly collective international action in line with the requirements of an expanding world economy, and the special needs of developing countries, and with such safeguards as would ensure that the total supply and distribution of international liquidity is not unduly influenced by the balance of payments position of any country or group of countries. The SDR should become the principal reserve asset of the system.

(e) The promotion of the net flow of real resources to developing countries should be viewed as an integral element of an effectively functioning system. In this context, a link should be established between the allocation of SDRs and development assistance.

(f) Developing countries should have a greater role than presently in the decision-making process, including all phases of the studies, consultations and negotiations linked to decisions on the international monetary system.

3. Specific or interim proposals for improvements in current international monetary arrangements should be carefully examined from the standpoint of their consistency with the framework for a reformed system set forth above.

4. The Intergovernmental Group on International Monetary Affairs will continue to study and initiate the measures required in moving towards a fundamental reform of the international monetary and financial system.

5. The Group of 24 should continuously develop and strengthen its work in order to be of maximum assistance to developing countries, coordinating their positions on international monetary and financial matters in all relevant fora.

IV. The Program of Immediate Action

The developing countries require the formulation of a program of action with specific items in which solutions may be found within the framework of a general program of reform. The Ministers of the Group of 77 at the meeting in Arusha, Tanzania, decided upon a substantial number of proposals. These give a sense of direction to our efforts to achieve a New International Economic Order.

The Group of 24 has reassessed and elaborated upon these proposals within the context of the reform of the international monetary and financial system, and considers that the following should be given priority for immediate action.

A. Measures Related to the Transfer of Real Resources

1. There is an urgent need to accelerate the flow of concessional aid to developing countries. Each developed donor country, particularly those falling behind in meeting the internationally agreed target, should establish its program and make binding commitments for the annual growth rate of ODA disbursement for each of the next three years. This should result in a general increase in real terms and an improvement in the quality of ODA flows to the developing countries; in the context of this general increase, the quantum in real terms of ODA flows to least developed countries, most seriously affected countries, and landlocked and island developing countries, should double.

2. The Group of 24 urges the early establishment of a link between SDR allocation and additional development assistance. The creation of such a link is long overdue and a positive decision to establish it should be arrived at without further delay.

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3. The Group of 24 calls for an increase in program lending of the multilateral financial institutions to make it equal to at least 25 per cent of total loans, and stresses in this context that the lending programs of the multilateral financial institutions should become increasingly responsive to the overall priorities, and in particular to sectoral priorities, of the recipient developing countries. It also calls for the provision of adequate local cost financing.

4. There is a need for an effective strategy to deal with the official external indebtedness of some developing countries, designed to avert debt servicing difficulties and sustain the development process of these countries. The Group urges early conclusion of the negotiations regarding internationally agreed guidelines for debt reorganization of interested developing countries, in the light of the general principles adopted in UNCTAD Resolution 165 (S-IX). The Group also stresses the need for immediate and full implementation of part A of the same resolution regarding the retroactive adjustment of terms on past ODA in favor of the low-income countries, particularly of the least developed and the most seriously affected countries.

5. The Sixth Replenishment of IDA should be effected without delay so as to result in a significant increase in real terms. The contributions to IDA should come from a wider group of countries, provided that the additional contributions from new donors do not prejudice the increase in real terms of the contributions of the traditional donors.

6. All member countries should provide a substantial and effective increase in the capital base of the multilateral financial institutions so as to ensure that their commitments in favor of developing countries increase in real terms at a satisfactory rate consistent with the needs of these countries. In this connection, the Group of 24 urges early approval and acceptance by all member countries of the capital increase of the World Bank of the equivalent of $40 billion and the prompt payment of subscriptions when due.

B. Measures Related to the Increase in Total Resources

7. Taking into account the long-term global liquidity needs, the Group supports:

(a) an increase in the present agreed SDR allocations to meet the current difficult economic conditions;

(b) regular annual allocations of SDRs, in amounts adequate to members' needs for reserve increases.

8. The Group urges early completion of legislative action by the member countries concerned, to make effective the Seventh General Review of Quotas. It also urges the revision of the criteria, both in terms of the variables used and the weights attached to them, for determining the quotas of the membership in the International Monetary Fund, and the advancement of the date for the Eighth General Review of Quotas. In this review, the quota share of no developing country should be reduced. Due regard should be paid to increasing the representation of developing countries in the Executive Boards of both the Fund and the World Bank. In any event, the present geographical representation by developing country regions should be preserved.

C. Measures Related to Balance of Payments Support

9. The Group of 24 attaches importance to the establishment of a medium-term balance of payments facility to respond to the adjustment needs of the developing countries. The new balance of payments financing facility should add a substantial level of additional resources and must be able to provide support that is significant in relation to present levels of deficits, should carry minimum conditionality, since it is responding to an externally induced balance of payments deficit, and should provide support on longer-term maturity. This facility should have as one of its basic characteristics an interest subsidy account for the low-income developing countries.

10. The existing IMF facilities should be reviewed to enable them to cope more adequately with the deteriorating world economic environment.

In particular, it is necessary to consider:

(a) lengthening repayment periods;

(b) modifying the quantitative restrictions on the availability of such facilities;

(c) setting conditionality with due regard to causes of deficits;

(d) reviewing the Fund's compensatory financing facility, including a significant increase and the liberalization of access in order to compensate adequately for shortfalls in export earnings, import fluctuations and deterioration in the terms of trade of developing countries.

11. The support of the developing countries for the proposed substitution account will be considered in the light of the studies that are being carried out to analyze fully its impact and effect on the developing countries, as well as of the discussions in the IMF Board. Furthermore, the implementation of a substitution account would have to be seen within the framework of a balanced package for immediate action.

D. Measures Related to Trade

12. The establishment in the World Bank of a long-term facility to finance purchases of capital goods should be considered as quickly as possible with a view to taking a positive decision at the earliest possible date, provided it ensures additionality of resources for all developing countries and incorporates provision for a Subsidy Account to ensure broadest access by low-income developing countries. All relevant aspects of the proposal would be studied with the support of multilateral institutions.

13. The Group of 24 calls for full and strict adherence to the standstill provisions pledged by developed countries, in particular concerning imports from developing countries. Moreover, the

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developed countries should facilitate the development of new policies and strengthen existing policies that would encourage domestic factors of production to move progressively from the lines of production that are less competitive internationally, especially where the long-term comparative advantage favors the developing countries. Additionally, there is a need for full implementation of the commitment of developed countries undertaken in the Tokyo Declaration, which provides for special, differential and more favorable treatment for developing countries in removing protectionist barriers against the exports of these countries.

The developing countries regard the adoption of these proposals as an important step towards the reform of international monetary and financial relations. All other initiatives for changes in the system will be assessed in the light of progress towards the achievement of the above-mentioned objectives and the implementation of facilities of special interest to developing countries.

V. Some Elements of the Future Work Program of the Group of Twenty-Four

1. The Group of 24 will at its subsequent meetings review the progress made in the implementation of the action program adopted by the Ministers of the Group of 24.
2. The Group of 24 will elaborate a plan of analytical work to be requested from the IMF, IBRD, UNDP/UNCTAD, and other international organizations on fundamental reform of the international monetary system and on various alternatives open for action by developing countries. The Group of 24 will also undertake, with the support of independent or governmental experts, analytical research on problems identified as timely and relevant.
3. The Group of 24 will recommend that the representatives of developing countries in the IMF/IBRD, as well as in the executive organs of GATT, ECOSOC, UNCTAD and other international fora, shall support the agreed views adopted in this document and promote the adoption of the necessary measures in accordance with the objectives underlying these views.
4. The Group of 24 reaffirms the importance of monetary and financial cooperation among developing countries as an integral part of the process of changes in the world monetary and financial order, and will seek ways and means to contribute to the elaboration of specific mechanisms through which monetary and financial cooperation among developing countries could be implemented in the light of the ECDC programs adopted by developing countries and on the basis of its own initiatives.

Thirteenth Meeting, Hamburg, April 24, 1980

1. The Development Committee held its thirteenth meeting in Hamburg, Federal Republic of Germany, on April 24, 1980 under the chairmanship of Mr. Cesar E.A. Virata, Minister of Finance of the Philippines, and with the participation of Mr. J. de Larosière, Managing Director of the International Monetary Fund, and Mr. Ernest Stern, Vice President, Operations, of the World Bank. Sir Richard King, Executive Secretary, took part in the meeting which was also attended by representatives from a number of international and regional organizations and Switzerland as observers.
2. The Committee considered papers submitted by the World Bank on lending for structural adjustment and on cofinancing, and a progress report by the IMF on recent developments relating to IMF facilities. They also received preliminary reports from the chairmen of the two Task Forces on Nonconcessional Flows and on Private Foreign Investment. On the basis of a staff study by the Bank and the Fund, the Committee reviewed recent developments relating to the proposals of the Group of 24 for a Program of Immediate Action, which the Committee at its meeting in Belgrade had agreed to keep in view. The Committee had a preliminary discussion on the report of the Brandt Commission.
3. The Committee noted with concern that the general impact of the high level of world inflation, including the increase in energy and other prices, and the weakening of demand for LDC exports due to the slowdown of economic activity in the industrial countries, are leading to large current account deficits and placing an increasing burden of adjustment on many non-oil developing countries. Recent developments in international financial markets have made it more difficult and expensive for developing countries to secure appropriate long-term financing for their development programs. Their debt service burden could only be expected to grow further given the large dependence of the middle-income countries on nonconcessional public and private financial flows. The Committee also noted that the present flows of conces-

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sional official development assistance were inadequate to meet the essential requirements of the poorer developing countries and unless urgent action is taken their condition will further deteriorate. The Committee therefore emphasized the pressing need for an increase in ODA directed toward achieving the target of 0.7 per cent of GNP. It reaffirmed its intention to consider at its next meeting the issue of ODA flows, both present and prospective, on the basis of a staff paper. Against the background of a generally deteriorating international economic environment, the Committee re-emphasized its earlier call for a reduction of protectionist trade measures which adversely affect the exports of developing countries, and stressed the need to avoid restrictions on access to capital markets.

4. The Committee welcomed the initiative taken by the Bank to provide assistance through structural adjustment lending on appropriate terms and conditions for developing countries which face difficult medium-term prospects in their balance of payments. Members recognized the contribution that could be made through this type of nonproject and program lending both to the rapid transfer of adequate resources and to the active pursuit of appropriate structural policies in the developing countries. Governments and the Bank were urged to give prompt attention to this subject, and members agreed to review progress in this respect at their September meeting.

5. The Committee recognized that it was important to expand net private capital flows in the period ahead. It noted that while there had been substantial growth in recent years in cofinancing by the Bank with official aid agencies, export credit institutions and private lenders, the volume was still insufficient compared with the needs. Noting that the Bank was already exploring several new approaches to attract funds for cofinancing from a wider range of private sources, members urged that efforts be continued to improve the effectiveness and the volume of these financial flows in ways that would meet the objectives of the borrowing countries.

6. The Committee welcomed the recent decision by the Executive Board of the Fund to increase the maximum repurchase period under the extended facility from eight to ten years, and to reduce the number and frequency of repurchase installments; the combined effect of these measures will increase the average life of a drawing outstanding under the extended facility by almost one fifth. This action will spread the adjustment effort over a longer period and lessen the financial burden of using the extended facility. The Committee recognized that the Fund should continue to follow a flexible approach as regards the volume of drawings under the supplementary financing facility in cases where additional amounts are justified by the magnitude and nature of a member's need for financing. The Committee expressed the hope that at an early date measures would be taken to reduce the cost of using the supplementary financing facility and in this way ease access to the facility.

7. The Committee welcomed the steps being taken by both the Bank and the Fund to adapt and expand their activities to meet the needs of countries affected by the increasingly difficult economic situation. While recognizing that each institution has its own character and function which should remain distinct, they emphasized the importance of close collaboration between the two institutions.

8. The Committee welcomed the progress that had been made toward providing additional capital resources for the World Bank and the regional development banks, and the agreements reached on the replenishment of IDA under the Sixth Replenishment. However, Committee members expressed concern that legislative difficulties now threatened a hiatus in the commitment authority of the multilateral development institutions, and urged that member governments take all necessary actions to ensure continuity in their operations. Action was particularly urgent in regard to IDA-VI, since resources available from IDA-V will be exhausted by June 30. Equally urgent are actions concerning the replenishment of the Inter-American Development Bank and the increase of the concessional funds of the Asian Development Bank. The Committee further noted that additional resources

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had been pledged to the OPEC Fund, and that aid commitments under the Lomé II convention had been increased.

9. The Committee noted that at the time of its next meeting there would be available a final report of the Task Force on Private Foreign Investment, and a progress report of the Task Force on Nonconcessional Flows. Members stressed the extreme importance of the review of private financial flows to determine what measures could be taken to facilitate additional flows on appropriate terms and to improve access of a wider range of developing countries to private capital markets.

10. The Committee welcomed the publication of the Brandt Commission Report and viewed its recommendations as a useful basis for consideration by the international community. The Committee noted that a number of the recommendations related to the Bank, the Fund, and the regional banks and that these institutions are currently examining these recommendations. They requested that specific papers should be prepared on those recommendations of the Commission's report that were of particular relevance to the Committee's work.

11. The Committee reviewed the current state of discussions relating to the Group of 24 Program of Immediate Action for International Monetary Reform. While recognizing that international agreement had been reached on some of these proposals and that some others were under discussion, they nevertheless stressed the importance of reaching early agreement on other items of a developmental character, an increase in the volume of official development assistance, completion of the processes for the Sixth Replenishment of the IDA and a significant increase in the amount of program lending.

12. The next meeting of the Committee will be held in Washington, D.C. at the time of the Annual Meetings of the Boards of Governors of the Bank and Fund in September 1980.

13. The Committee expressed their warm appreciation to the Government of the Federal Republic of Germany for their hospitality and for the excellent arrangements provided for their meeting.

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Appendix IV
Executive Directors and Voting Power on April 30, 1980

Director *Alternate*	Casting Votes of	Votes by Country	General Department: Total votes [1]	General Department: Per cent of Fund total [2]	Special Drawing Rights Department: Total votes [1]	Special Drawing Rights Department: Per cent of Fund total [3]
APPOINTED						
Sam Y. Cross *Donald E. Syvrud*	United States	84,300	84,300	19.83	84,300	19.83
John Anson *Lionel D.D. Price*	United Kingdom	29,500	29,500	6.94	29,500	6.94
Gerhard Laske *Guenter Winkelmann*	Germany, Fed. Rep. of	21,810	21,810	5.13	21,810	5.13
Paul Mentré de Loye *Thierry Aulagnon*	France	19,440	19,440	4.57	19,440	4.57
Teruo Hirao *Akira Nagashima*	Japan	16,840	16,840	3.96	16,840	3.96
Mahsoun B. Jalal *Yusuf A. Nimatallah*	Saudi Arabia	6,250	6,250	1.47	6,250	1.47
ELECTED						
Joaquín Muns (Spain) *Ariel Buira (Mexico)*	Costa Rica	660				
	El Salvador	680				
	Guatemala	760				
	Honduras	590				
	Mexico	5,600				
	Nicaragua	590				
	Spain	5,820				
	Venezuela	6,850	21,550	5.07	21,550	5.07
H.O. Ruding (Netherlands) *Tom de Vries (Netherlands)*	Cyprus	590				
	Israel	2,300				
	Netherlands	9,730				
	Romania	2,700				
	Yugoslavia	3,020	18,340	4.31	18,340	4.31
Bernard J. Drabble (Canada) *Michael Casey (Ireland)*	Bahamas	580				
	Barbados	420				
	Canada	13,820				
	Grenada	280				
	Ireland	1,800				
	Jamaica	990	17,890	4.21	17,890	4.21
Lamberto Dini (Italy) *Costa P. Caranicas (Greece)*	Greece	2,100				
	Italy	12,650				
	Malta	450				
	Portugal	1,970	17,170	4.04	17,170	4.04

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Director *Alternate*	Casting Votes of	Votes by Country	General Department: Total votes [1]	General Department: Per cent of Fund total [2]	Special Drawing Rights Department: Total votes [1]	Special Drawing Rights Department: Per cent of Fund total [2]
ELECTED (continued)						
Robert J. Whitelaw (Australia)	Australia	8,150				
Richard J. Lang (New Zealand)	Korea	1,850				
	New Zealand	2,570				
	Papua New Guinea	550				
	Philippines	2,350				
	Seychelles	263				
	Solomon Islands	271				
	Western Samoa	280	16,284	3.83	16,284	3.83
Mohamed Finaish (Libya)	Bahrain	450				
Kadhim A. Al-Eyd (Iraq)	Iraq	1,660				
	Jordan	550				
	Kuwait	2,600				
	Lebanon	370				
	Libya	2,100				
	Maldives	259				
	Pakistan	3,100				
	Qatar	650				
	Somalia	480				
	Syrian Arab Republic	880				
	United Arab Emirates	1,450				
	Yemen Arab Republic	380				
	Yemen, People's Dem. Rep. of	660	15,589	3.67	15,589	3.67
Jacques de Groote (Belgium)	Austria	3,550				
Heinrich G. Schneider (Austria)	Belgium	9,150				
	Luxembourg	560				
	Turkey	2,250	15,510	3.65	15,510	3.65
Jahangir Amuzegar (Iran)	Afghanistan	700				
Mohammed Yeganeh (Iran)	Algeria	3,100				
	Ghana	1,310				
	Iran	6,850				
	Morocco	1,750				
	Oman	450				
	Tunisia	880	15,040	3.54	15,040	3.54
Alexandre Kafka (Brazil)	Brazil	6,900				
José Gabriel-Peña (Dominican Republic)	Colombia	2,180				
	Dominican Republic	800				
	Guyana	500				
	Haiti	480				
	Panama	700				
	Peru	1,890				
	Suriname	500				
	Trinidad and Tobago	1,070	15,020	3.53	15,020	3.53
S.D. Deshmukh (India)	Bangladesh	1,770				
Edmund Eramudugolla (Sri Lanka)	India	11,700				
	Sri Lanka	1,440	14,910	3.51	14,910	3.51
Matti Vanhala (Finland)	Denmark	3,350				
Gísli Blöndal (Iceland)	Finland	2,870				
	Iceland	540				
	Norway	3,200				
	Sweden	4,750	14,710	3.46	14,710	3.46
Byanti Kharmawan (Indonesia)	Burma	980				
Savenaca Siwatibau (Fiji)	Fiji	430				
	Indonesia	5,050				
	Lao People's Dem. Rep.	410				
	Malaysia	2,780				
	Nepal	440				
	Singapore	740				
	Thailand	2,060				
	Viet Nam	1,150	14,040	3.30	14,040	3.30

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Director *Alternate*	Casting Votes of	Votes by Country	General Department		Special Drawing Rights Department	
			Total votes [1]	Per cent of Fund total [2]	Total votes [1]	Per cent of Fund total [2]
ELECTED (concluded)						
Festus G. Mogae (Botswana)	Botswana	340				
Semyano Kiingi (Uganda)	Burundi	480				
	Ethiopia	610				
	Gambia, The	340				
	Guinea	550				
	Kenya	940				
	Lesotho	320				
	Liberia	620				
	Malawi	440				
	Nigeria	3,850				
	Sierra Leone	560				
	Sudan	1,130				
	Swaziland	370				
	Tanzania	800				
	Uganda	750				
	Zambia	1,660	13,760	3.24	13,760	3.24
Samuel Nana-Sinkam (Cameroon)	Benin	410				
Abderrahmane Alfidja (Niger)	Cameroon	700				
	Central African Republic	410				
	Chad	410				
	Comoros	273				
	Congo	420				
	Equatorial Guinea	350				
	Gabon	550				
	Guinea-Bissau	289				
	Ivory Coast	1,010				
	Madagascar	590				
	Mali	520				
	Mauritania	420				
	Mauritius	520				
	Niger	410				
	Rwanda	480				
	São Tomé and Principe	270				
	Senegal	670				
	Togo	440				
	Upper Volta	410				
	Zaïre	1,770	11,322	2.66	11,322	2.66
Francisco Garcés (Chile)	Argentina	5,600				
Julio C. Gutiérrez (Paraguay)	Bolivia	700				
	Chile	2,420				
	Ecuador	950				
	Paraguay	480				
	Uruguay	1,090	11,240	2.64	11,240	2.64
			410,515 [3]	96.55 [2]	410,515 [3]	96.55 [2]

[1] Voting power varies on certain matters pertaining to the General Department with use of the Fund's resources in that Department. In voting on matters relating exclusively to the Special Drawing Rights Department, only the number of votes allotted to members which are participants may be cast.

[2] The sum of the individual percentages may differ from the percentages of the totals because of rounding.

[3] This total does not include the votes of China, Egypt, Democratic Kampuchea, and South Africa, which did not participate in the 1978 Regular Election of Executive Directors, and of Cape Verde, Djibouti, Dominica, St. Lucia, and St. Vincent, which became members after that election. The combined votes of those members total 14,650—3.45 per cent of the total voting power.

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Appendix V
Changes in Membership of Executive Board

Changes in membership of the Executive Board between May 1, 1979 and April 30, 1980 were as follows:

Edmund Eramudugolla (Sri Lanka) was appointed Alternate Executive Director to S.D. Deshmukh (India), effective May 1, 1979.

Donald E. Syvrud (United States) was appointed Alternate Executive Director to Sam Y. Cross (United States), effective May 1, 1979.

Rei Masunaga (Japan) resigned as Alternate Executive Director to Masanao Matsunaga (Japan), effective June 11, 1979.

Akira Nagashima (Japan) was appointed Alternate Executive Director to Masanao Matsunaga (Japan), effective June 12, 1979.

Pendarell Kent (United Kingdom) resigned as Alternate Executive Director to William S. Ryrie (United Kingdom), effective June 22, 1979.

Lionel D.D. Price (United Kingdom) was appointed Alternate Executive Director to William S. Ryrie (United Kingdom), effective June 23, 1979.

Eckard Pieske (Germany, Fed. Rep. of) resigned as Executive Director for the Federal Republic of Germany, effective June 30, 1979.

Gerhard Laske (Germany, Fed. Rep. of), formerly Alternate Executive Director to Eckard Pieske (Germany, Fed. Rep. of), was appointed Executive Director by the Federal Republic of Germany, effective July 1, 1979.

Guenter Winkelmann (Germany, Fed. Rep. of) was appointed Alternate Executive Director to Gerhard Laske (Germany, Fed. Rep. of), effective August 1, 1979.

Denis Samuel-Lajeunesse (France) resigned as Alternate Executive Director to Paul Mentré de Loye (France), effective August 31, 1979.

Thierry Aulagnon (France) was appointed Alternate Executive Director to Paul Mentré de Loye (France), effective September 1, 1979.

Masanao Matsunaga (Japan) resigned as Executive Director for Japan, effective November 9, 1979.

Teruo Hirao (Japan) was appointed Executive Director by Japan, effective November 10, 1979.

Akira Nagashima (Japan), formerly Alternate Executive Director to Masanao Matsunaga (Japan), was appointed Alternate Executive Director to Teruo Hirao (Japan), effective November 10, 1979.

William S. Ryrie (United Kingdom) resigned as Executive Director for the United Kingdom, effective January 2, 1980.

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John Anson (United Kingdom) was appointed Executive Director by the United Kingdom, effective January 3, 1980.

Lionel D.D. Price (United Kingdom), formerly Alternate Executive Director to William S. Ryrie (United Kingdom), was appointed Alternate Executive Director to John Anson (United Kingdom), effective January 3, 1980.

Thomas Ainsworth Harewood (Trinidad and Tobago) resigned as Alternate Executive Director to Alexandre Kafka (Brazil), effective March 14, 1980.

José Gabriel-Peña (Dominican Republic) was appointed Alternate Executive Director to Alexandre Kafka (Brazil), effective March 15, 1980.

Donal Lynch (Ireland) resigned as Alternate Executive Director to Bernard J. Drabble (Canada), effective March 31, 1980.

Michael Casey (Ireland) was appointed Alternate Executive Director to Bernard J. Drabble (Canada), effective April 1, 1980.

Edmund Eramudugolla (Sri Lanka) resigned as Alternate Executive Director to S.D. Deshmukh (India), effective April 30, 1980.

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The following served at certain times during 1979/80 as Temporary Alternate Executive Directors to the Executive Directors indicated:

Temporary Alternate Executive Director	**Executive Director for whom Temporary Alternate Served**
Samir Ramez Abiad (Lebanon)	Mohamed Finaish (Libya)
Tengku Khatijah Ahmad (Malaysia)	Byanti Kharmawan (Indonesia)
José Roberto Novaes de Almeida (Brazil)	Alexandre Kafka (Brazil)
Hossein G. Askari (United States)	Mahsoun B. Jalal (Saudi Arabia)
Christopher J. Bailey (United Kingdom)	John Anson (United Kingdom)
Chandi J. Batliwalla (India)	S.D. Deshmukh (India)
Christian Bouchard (Gabon)	Samuel Nana-Sinkam (Cameroon)
Chinyamata Chipeta (Malawi)	Festus G. Mogae (Botswana)
Luc Coene (Belgium)	Jacques de Groote (Belgium)
Silvio E. Conrado (Nicaragua)	Joaquín Muns (Spain)
Roger De Beckker (Belgium)	Jacques de Groote (Belgium)
Aliou B. Diao (Senegal)	Samuel Nana-Sinkam (Cameroon)
Luis Eduardo Escobar (Chile)	Francisco Garcés (Chile)
Ömer Esener (Turkey)	Jacques de Groote (Belgium)
José Fajgenbaum (Argentina)	Francisco Garcés (Chile)
Miguel A. Fernández-Ordóñez (Spain)	Joaquín Muns (Spain)
Edward P. Fine (Canada)	Bernard J. Drabble (Canada)
Hans Flinch (Denmark)	Matti Vanhala (Finland)
John A. Fraser (Australia)	Robert J. Whitelaw (Australia)
Jean Guill (Luxembourg)	Jacques de Groote (Belgium)
Bruno Guiot (Belgium)	Jacques de Groote (Belgium)
Juergen Holst (Germany, Fed. Rep. of)	Gerhard Laske (Germany, Fed. Rep. of)
Ashraf Janjua (Pakistan)	Mohamed Finaish (Libya)
Joseph Mills Jones (Liberia)	Festus G. Mogae (Botswana)
Wadea A. Kabli (Saudi Arabia)	Mahsoun B. Jalal (Saudi Arabia)
Ahmad Karimi (Iran)	Jahangir Amuzegar (Iran)
Robin D. Kibuka (Uganda)	Festus G. Mogae (Botswana)
Tomoko Kitamura (Japan)	Teruo Hirao (Japan)
Motoo Kusakabe (Japan)	Teruo Hirao (Japan)
Seung-Woo Kwon (Korea)	Robert J. Whitelaw (Australia)
Bengt Göran Lind (Sweden)	Matti Vanhala (Finland)
Eduardo Mayobre (Venezuela)	Joaquín Muns (Spain)
Stefano Micossi (Italy)	Lamberto Dini (Italy)
Alain L. Morales (Venezuela)	Joaquín Muns (Spain)
Andrew K. Mullei (Kenya)	Festus G. Mogae (Botswana)
V.K.S. Nair (India)	S.D. Deshmukh (India)
Saleh Mounir Nsouli (United States)	Mohamed Finaish (Libya)
Patrick Peroz (France)	Paul Mentré de Loye (France)
Peter Edward Ramell (United Kingdom)	John Anson (United Kingdom)
Antonio V. Romualdez (Philippines)	Robert J. Whitelaw (Australia)
Mohammad Shadman (Iran)	Jahangir Amuzegar (Iran)
Germán Suárez (Peru)	Alexandre Kafka (Brazil)
Okan Üçer (Turkey)	Jacques de Groote (Belgium)
Avraham van der Hal (Israel)	H.O. Ruding (Netherlands)
Anne van 't Veer (Netherlands)	H.O. Ruding (Netherlands)
Kenny Kay Kee Wee (Singapore)	Byanti Kharmawan (Indonesia)
Peter Wichert (Germany, Fed. Rep. of)	Gerhard Laske (Germany, Fed. Rep. of)

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Appendix VI
Administrative Budget

Administrative Budget as Approved by the Executive Board for the Financial Year Ending April 30, 1981 Compared with Actual Expenses for the Financial Years Ended April 30, 1979 and 1980

(Values expressed in special drawing rights)[1]

	Financial Year Ended April 30, 1979	Financial Year Ended April 30, 1980		Financial Year Ending April 30, 1981
Object of Expense	Actual Expenses	Revised Budget	Actual Expenses	Budget
I. Personnel Expenses				
Salaries	33,414,852	38,330,476	38,319,917	42,363,617
Other personnel expenses	20,439,734	23,592,408	23,573,576	29,905,547
Total	53,854,586	61,922,884	61,893,493	72,269,164
II. Travel Expenses				
Business travel	4,247,586	6,200,591	6,199,543	6,464,603
Other travel	3,523,774	4,464,437	4,464,055	5,151,601
Total	7,771,360	10,665,028	10,663,598	11,616,204
III. Other Administrative Expenses				
Communications	1,988,681	2,315,222	2,314,449	2,270,721
Building occupancy	2,587,661	2,446,899	2,442,092	3,699,576
Books and printing	971,250	1,096,950	1,096,335	1,316,864
Supplies and equipment	1,273,305	1,287,006	1,282,584	1,760,967
Data processing services	1,189,485	1,736,584	1,735,463	1,888,405
Miscellaneous	1,580,928	1,535,348	1,533,490	1,876,820
Total	9,591,310	10,418,009	10,404,413	12,813,353
Total[2]	71,217,256	83,005,921	82,961,504	96,698,721

[1] The administrative budget is expressed in terms of U.S. dollars and converted to SDR equivalents.

[2] Net administrative expenses for the financial year ended April 30, 1979 totaled SDR 68,616,776 after deduction of the amounts reimbursed to the General Resources Account by assessments levied on the net cumulative allocations of participants in the Special Drawing Rights Department (SDR 1,700,480) and for the estimated expenses of conducting the business of the Trust Fund (SDR 900,000). For the year ended April 30, 1980, net administrative expenses amounted to SDR 81,261,500 after similar deductions of SDR 1,000,004 and SDR 700,000, respectively.

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Appendix VII

Comparative Statement of Income and Expense
(Values expressed in special drawing rights)

	Financial Year Ended April 30		
	1978	1979	1980
OPERATIONAL INCOME			
Periodic charges			
Received in special drawing rights	782,196,060	670,718,180	501,191,132
Received in members' currencies	3,709,728	7,383,406	—
Amounts receivable	703,745	—	18,159,439
Total	786,609,533	678,101,586	519,350,571
Interest on holdings of special drawing rights	39,800,980	57,121,423	81,813,361
Other operational charges			
Received in special drawing rights	12,568,098	16,064,683	13,000,853
Received in members' currencies	596,213	2,004,567	—
Total	13,164,311	18,069,250	13,000,853
Total Operational Income	839,574,824	753,292,259	614,164,785
Deduct: Operational expense			
Remuneration			
Paid in special drawing rights	136,279,725	139,726,705	219,497,371
Paid in members' currencies	64,579,373	32,016,137	21,488,295
Total	200,859,098	171,742,842	240,985,666
Transfer charges and interest on borrowing			
Paid in special drawing rights	35,484,744	6,877,979	24,739,526
Paid in members' currencies	505,241,877	455,080,416	244,086,919
Amounts payable	—	—	15,183,502
Total	540,726,621	461,958,395	284,009,947
Other	1,215	5,556	7,705
Total Operational Expense	741,586,934	633,706,793	525,003,318
NET OPERATIONAL INCOME	97,987,890	119,585,466	89,161,467
EXPENSE [1]			
Administrative budget expense	65,898,262 [2]	68,616,776 [2]	81,261,500 [2]
Fixed property expense	12,822	21,468	349,532
Amortization of past service liabilities	4,392,696	4,711,155	4,392,708
Net valuation adjustment loss	207,436	87,699	65,159
TOTAL EXPENSE [1]	70,511,216	73,437,098	86,068,899
NET INCOME	27,476,674	46,148,368	3,092,568

[1] Excludes operational expense which has been deducted from operational income.
[2] After deduction of SDR 900,003 for financial year 1978, SDR 1,700,480 for financial year 1979, and SDR 1,000,004 for financial year 1980 reimbursed to the General Resources Account by assessments levied on the net cumulative allocations of participants in the Special Drawing Rights Department; and SDR 800,000 for financial year 1978, SDR 900,000 for financial year 1979, and SDR 700,000 for financial year 1980 reimbursed to the General Resources Account for the estimated expenses of conducting the business of the Trust Fund.

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Appendix VIII

Financial Statements of the General Resources Account, Special Drawing Rights Department, Subsidy Account, Trust Fund, and Staff Retirement Fund

REPORT OF THE EXTERNAL AUDIT COMMITTEE

GENERAL DEPARTMENT

GENERAL RESOURCES ACCOUNT

Washington, D.C.
June 27, 1980

AUTHORITY FOR THE AUDIT

The audit for the year ended April 30, 1980 was carried out pursuant to Section 20(b) of the By-Laws of the International Monetary Fund.

SCOPE OF THE AUDIT

We have examined the balance sheet of the International Monetary Fund, General Department—General Resources Account, as at April 30, 1980, and the related statements of income and expense, reserves and changes in financial position for the year then ended.

Our examination was made in accordance with generally accepted auditing standards and accordingly included such tests of the accounting records, after evaluating the extent and results of the tests which we observed to have been carried out by the Internal Auditor, and such other auditing procedures as we deemed necessary in the circumstances.

AUDIT OPINION

In our opinion, the financial statements referred to above give a true and fair view of the financial position of the International Monetary Fund, General Department—General Resources Account, as at April 30, 1980, and the results of its operations and transactions and changes in reserves and financial position for the year then ended, in conformity with generally accepted accounting principles applied on a basis consistent with that of the preceding year.

EXTERNAL AUDIT COMMITTEE:

/s/ Robert Toulemon, Chairman (France)
/s/ Pedro Osvaldo Montórfano (Paraguay)
/s/ Gamini C.B. Wijeyesinghe (Sri Lanka)

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INTERNATIONAL MONETARY FUND

GENERAL DEPARTMENT
(Note 1)
GENERAL RESOURCES ACCOUNT
BALANCE SHEET
as at April 30, 1980

Amounts expressed in special drawing rights
(Note 2)

	1980	1979
ASSETS		
CURRENCIES AND SECURITIES (Notes 3 and 4)	38,670,821,737	39,566,726,681
SPECIAL DRAWING RIGHTS	1,406,997,417	1,289,908,976
GOLD WITH DEPOSITORIES (Note 2)	3,635,906,915	4,054,521,924
SUBSCRIPTIONS TO CAPITAL—RECEIVABLE	2,370,053	7,700,000
CHARGES RECEIVABLE (Note 4)	116,251,529	152,298,213
ACCRUED CHARGES (Note 4)	18,159,439	—
OTHER ASSETS (Note 2)	6,748,324	9,917,387
TOTAL ASSETS	43,857,255,414	45,081,073,181
CAPITAL, RESERVES, AND LIABILITIES		
CAPITAL		
Subscriptions of Members	39,016,500,000	39,011,200,000
RESERVES (Note 6)	763,202,027	760,109,459
LIABILITIES		
Borrowing (Note 5)	3,753,464,712	5,033,930,805
Remuneration Payable to Members (Note 4)	240,985,666	171,742,842
Interest Payable	53,636,544	93,745,621
Accrued Interest	15,183,502	—
Other Liabilities	14,282,963	10,344,454
TOTAL CAPITAL, RESERVES, AND LIABILITIES	43,857,255,414	45,081,073,181

The accompanying notes are an integral part of the financial statements.

/s/ W.O. HABERMEIER
Treasurer

/s/ J. DE LAROSIÈRE
Managing Director

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INTERNATIONAL MONETARY FUND

GENERAL DEPARTMENT
(Note 1)
GENERAL RESOURCES ACCOUNT
STATEMENT OF INCOME AND EXPENSE
for the year ended April 30, 1980

Amounts expressed in special drawing rights
(Note 2)

	1980	1979
OPERATIONAL INCOME		
Periodic charges (Note 4)	519,350,571	678,101,586
Interest on holdings of special drawing rights	81,813,361	57,121,423
Service charges	11,054,011	6,195,930
Other	1,946,842	11,873,320
	614,164,785	753,292,259
OPERATIONAL EXPENSE		
Remuneration (Note 4)	240,985,666	171,742,842
Interest on borrowing	284,009,947	458,072,124
Other	7,705	3,891,827
	525,003,318	633,706,793
NET OPERATIONAL INCOME	89,161,467	119,585,466
ADMINISTRATIVE EXPENSE		
Administrative budget		
Personnel (Note 7)	61,893,493	53,854,586
Travel	10,663,598	7,771,360
Other (Note 2)	10,404,413	9,591,310
Total administrative budget	82,961,504	71,217,256
Less recovery of expenses of conducting the business of the Special Drawing Rights Department and the Trust Fund	1,700,004	2,600,480
Net administrative budget	81,261,500	68,616,776
Fixed property (Note 2)	349,532	21,468
Amortization of past service liabilities (Note 7)	4,392,708	4,711,155
Net valuation adjustment	65,159	87,699
TOTAL ADMINISTRATIVE EXPENSE	86,068,899	73,437,098
NET INCOME	3,092,568	46,148,368

The accompanying notes are an integral part of the financial statements.

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INTERNATIONAL MONETARY FUND

GENERAL DEPARTMENT
(Note 1)
GENERAL RESOURCES ACCOUNT
STATEMENT OF RESERVES
for the year ended April 30, 1980
(Note 6)

Amounts expressed in special drawing rights
(Note 2)

	1980	1979
SPECIAL RESERVE		
Balance at beginning of year	394,529,756	348,381,388
Add net income for year	3,092,568	46,148,368
Balance at end of year	397,622,324	394,529,756
GENERAL RESERVE		
Balance at beginning and end of year	365,579,703	365,579,703
TOTAL RESERVES	763,202,027	760,109,459

The accompanying notes are an integral part of the financial statements.

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INTERNATIONAL MONETARY FUND

GENERAL DEPARTMENT
(Note 1)
GENERAL RESOURCES ACCOUNT
STATEMENT OF CHANGES IN FINANCIAL POSITION
for the year ended April 30, 1980

Amounts expressed in special drawing rights
(Note 2)

	1980	1979
Resources were applied to:		
Repayments of borrowing:		
Oil facility	1,782,859,156	2,072,049,579
General Arrangements to Borrow and Swiss National Bank	—	1,730,000,000
	1,782,859,156	3,802,049,579
Increase in holdings of special drawing rights	117,088,441	(81,171,160)
	1,899,947,597	3,720,878,419
Resources were provided by:		
Decrease in currency holdings:		
Changes in holdings which did not affect amounts on which the Fund levies charges or pays remuneration	438,428,909	(7,160,793,064)
Changes in holdings which reduced creditor positions on which the Fund pays remuneration	(379,892,087)	(243,247,148)
Changes in holdings which decreased amounts on which the Fund levies charges	837,368,122	3,192,822,309
	895,904,944	(4,211,217,903)
Subscriptions:		
Increases in quotas	—	6,655,000,000
Subscriptions of new members	5,300,000	9,800,000
	5,300,000	6,664,800,000
Borrowing:		
General Arrangements to Borrow	—	777,254,000
Supplementary financing facility	502,393,063	—
Sales of gold	418,615,009	452,534,536
Increase in the excess of other liabilities over other assets	74,642,013	(8,640,582)
Net income	3,092,568	46,148,368
	1,899,947,597	3,720,878,419

The accompanying notes are an integral part of the financial statements.

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International Monetary Fund

General Department
Notes to the Financial Statements

1. General Department

Under the Articles of Agreement, the General Department consists of the General Resources Account, the Special Disbursement Account, and the Investment Account. The Special Disbursement Account and the Investment Account are not operative. All operations and transactions on the account of the Fund are conducted through the General Resources Account.

General Resources Account

Assets held in the General Resources Account comprise gold, currencies of the Fund's member countries, and special drawing rights (SDRs). The Fund's resources in the General Resources Account are made available to members in accordance with the Fund's policies either in the form of currencies or SDRs which members purchase against the payment of their own currencies. The amount of such use is related to a member's quota in the Fund.

In addition to purchases under the Fund's regular facilities, members may use the Fund's resources under decisions on compensatory financing (to assist members, particularly primary exporters, encountering payments difficulties produced by temporary shortfalls attributable to circumstances beyond their control) and buffer stock financing (to assist members in connection with the financing of international buffer stocks of primary products), the extended Fund facility (to provide medium-term assistance to members to make structural adjustments in their economies), and the supplementary financing facility (to assist members facing serious payments imbalances that are large in relation to their quotas). Members were also able to use the oil facility (for balance of payments problems caused by increases in the cost of petroleum and petroleum products). Use of the Fund's resources is dependent on members having a balance of payments need.

Gold transactions, receipt of SDRs in payment of charges and repurchases by members, and use of SDRs by the Fund, take place through the General Resources Account.

2. Accounting Practices

Unit of Account

The accounts of the General Resources Account are expressed in terms of the SDR, the currency value of which is determined by a standard basket of the currencies of sixteen members. Members' currencies and securities are converted into equivalent amounts of SDRs on the basis of representative rates of exchange determined in accordance with decisions of the Executive Board. Gold with depositories is valued on the basis that one unit of special drawing rights is equivalent to 0.888671 gram of fine gold.

Property, Furniture, and Equipment

The established policy of the Fund is to charge as an expense of each accounting period the total costs incurred for fixed property, furniture, and equipment. For the year ended April 30, 1980, the cost of property, furniture, and equipment charged as an expense amounted to SDR 952,633 (SDR 300,095 in 1979).

Income and Expense

The Fund maintains its books of accounts on an accrual basis and accordingly follows a policy of recognizing income as it is earned and of recording expenses as they are incurred. It is the practice of the Fund to make all calculations on the basis of the exact number of days in the accounting period.

3. Currencies and Securities

Each member has the option to substitute nonnegotiable and noninterest-bearing securities for that amount of the member's currency held by the Fund which is in excess of ¼ of 1 per cent of the member's quota.

On April 17, 1980, the Fund decided that the Government of the People's Republic of China shall represent China in the Fund and shall exercise all the rights and meet all of the obligations of China as the member in the Fund. On that date the Fund's accounts maintained in new Taiwan dollars totaling SDR 442,364,513 were closed. Currency equivalent to this amount, reported as a part of the Fund's currency holdings, is to be paid to the Fund by the People's Republic of China following the designation of an agreed depository and the determination of a representative rate of exchange.

A currency held by the Fund is revalued whenever that currency is used by the Fund in a transaction with another member, or for such other purposes as the Fund may decide. All currency holdings are revalued as at April 30 each year. Whenever the Fund revalues its holdings of a member's currency, an account receivable or an account payable is established for the amount of currency payable by or to the member in order to maintain the value of the currency in terms of the SDR. The balances of the accounts receivable or payable are reflected in the Fund's currency holdings. At April 30, 1980, accounts receivable amounted to SDR 1,981,984,272 and accounts payable amounted to SDR 429,168,363.

4. Operational Transactions

During the year ended April 30, 1980, members' purchases amounted to SDR 2,433 million of which SDR 222 million was in the reserve tranche, SDR 1,106 million was under the Fund's regular policies, SDR 863 million was under compensatory financing, SDR 26 million was under buffer stock financing, and SDR 216 million was under the extended Fund facility. Of the total purchases, SDR 502 million was financed under the supplementary financing facility. Over the same period, repurchases by members totaled SDR 3,776 million. Purchases in the reserve tranche made after April 1, 1978 are not subject to repurchase.

Outstanding purchases of members were as follows (in millions of SDRs):

	April 30	
	1980	1979
Reserve tranche	144	314
Regular facilities	2,293	2,316
Compensatory financing	2,873	2,945
Buffer stock financing	74	48
Extended Fund facility	504	407
Oil facility	2,494	4,240
Supplementary financing facility		
Under stand-by arrangements	383	—
Under extended arrangements	119	—
Total	8,884	10,270

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The Fund levies charges on its holdings of a member's currency to the extent that the holdings (i) have been acquired under a policy that has been the subject of an exclusion, or (ii) exceed the member's quota after deducting holdings that are the subject of an exclusion. Remuneration is paid on the amounts by which 75 per cent of a member's quota on April 1, 1978, adjusted for increases or decreases in the member's quota after that date, exceeds the Fund's holdings of the member's currency after deducting amounts that are the subject of an exclusion. At April 30, 1980, the total holdings on which the Fund levies charges amounted to SDR 8,035 million and total creditor positions on which the Fund pays remuneration amounted to SDR 3,393 million.

Members incur certain obligations to the Fund with the use of Fund resources from the General Resources Account. One member, Democratic Kampuchea, has not fulfilled its financial obligations to repurchase a part of the Fund's holdings of the member's currency, to pay charges on currency balances held by the Fund, and to submit information on monetary reserves. At April 30, 1980, unpaid charges receivable from Democratic Kampuchea amounted to SDR 3,383,707 and are included in the balance sheet as charges receivable and as a deferred credit. On December 19, 1978 the Executive Board decided that Democratic Kampuchea may not make use of the general resources of the Fund until such time as Democratic Kampuchea is fulfilling its obligations under the Articles of Agreement to which Article XXVI, Section 2(*a*) applies.

5. Borrowing

Outstanding borrowing by the Fund at April 30, 1980 and 1979 was as follows:

	1980	1979
Oil facility	SDR 2,473,817,649	SDR 4,256,676,805
Supplementary financing facility	502,393,063	—
General Arrangements to Borrow	777,254,000	777,254,000
	SDR 3,753,464,712	SDR 5,033,930,805

Oil Facility

The Fund has entered into borrowing agreements with various members and Switzerland, or institutions within their territories, under which these lenders agreed to provide the Fund with specified currencies to finance purchases of currencies from the Fund by other members under the oil facility. The outstanding borrowings carry interest rates of 7 per cent for amounts called under the 1974 borrowing agreements and 7¼ per cent for amounts called under the 1975 borrowing agreements. Any calls made by the Fund under these agreements are repayable in installments beginning not later than 3½ years, to be completed not later than 7 years, after the date of the calls, except that the calls under the borrowing agreements with Canada and the Deutsche Bundesbank are repayable at the end of five years.

Supplementary Financing Facility (SFF)

The supplementary financing facility entered into force on February 23, 1979. The Fund has entered into borrowing agreements with 14 members, or institutions within their territories, and with the Swiss National Bank under which the lenders have agreed to make resources available to the Fund, at call, up to SDR 7.784 billion over the next four years to finance purchases by members under this facility. Interest paid by the Fund on amounts borrowed under the borrowing agreements is based on the average yield on U.S. Government securities with a constant maturity of five years. The first calls were made under the SFF borrowing agreements during the year ended April 30, 1980.

General Arrangements to Borrow (GAB)

Ten members, or institutions within their territories, have adhered to the General Arrangements to Borrow under which the Fund may borrow their currencies up to specified amounts when supplementary resources are needed to forestall or cope with an impairment of the international monetary system. These arrangements first became effective from October 24, 1962 and were renewed until October 23, 1985. The Swiss Confederation has been associated with the GAB since June 1964. The present arrangement with the Swiss Confederation expires on October 23, 1980. The Fund pays a transfer charge of one-half of one per cent on amounts borrowed under these arrangements and, in addition, pays interest at the rates at which the Fund levies charges on the holdings of currencies resulting from purchases for which it incurred the indebtedness, provided that the rate of interest shall be not less than 4 per cent per annum on any part of the indebtedness. Any calls made by the Fund under the GAB are repayable within five years.

At April 30, 1980, the interest rate being paid by the Fund on indebtedness under the General Arrangements to Borrow was 4 per cent per annum.

6. Reserves

The Fund determines annually what part of its net income shall be placed to the General Reserve or to the Special Reserve, and what part, if any, shall be distributed. The Fund may use the Special Reserve for any purpose for which it may use the General Reserve, except distribution.

Income from investments in U.S. Government securities was placed to the Special Reserve from November 1, 1957 until February 15, 1972 when the investment program was terminated. A decision by the Executive Board provides that any administrative deficit for any financial year must be written off first against this Reserve.

Net income for the year ended April 30, 1980 was placed to the Special Reserve by decision of the Executive Board.

7. Other Compensations and Benefits

The Fund pays various allowances to or on behalf of Executive Directors and staff including the employer's contribution to the Staff Retirement Plan. All contributions to the Plan and all other assets, liabilities, and income of the Plan are held separately and can be used or incurred only for the benefit of the participants in the Plan and their beneficiaries. The funding of the Plan is based upon a percentage of a notional gross salary, and the employer contributes that part of the costs and expenses of the Plan not provided by the contributions of the participants.

A past service liability amounting to SDR 17,570,796, resulting from certain improvements in the benefits provisions of the Plan and changes in the rates of contribution and funding arrangements which were approved in August 1976, was discharged on September 1, 1976 by a payment from the General Resources Account to the Staff Retirement Plan. This amount was charged against the income of the General Resources Account over a period of four years. Accordingly, SDR 4,392,696 was charged against income in 1977, 1978, and 1979, and the remaining balance amounting to SDR 4,392,708 was charged against income in 1980. A past service liability amounting to SDR 318,459 resulting from plan amendments approved in June 1978 was paid and charged against income in the year ended April 30, 1979.

Experience gains and losses of the Plan, as determined by the actuary engaged by the Pension Committee, are amortized over a period of 15 years. The unamortized experience losses at

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April 30, 1980 amounted to SDR 39.6 million (calculated at the SDR value of the U.S. dollar on that date). Payments over the next 15 years to amortize the actuarial experience losses are estimated to be approximately SDR 55.2 million (at the April 30, 1980 SDR/US$ rate), of which SDR 4.2 million was paid after April 30, 1980.

Contributions by the employer to the Staff Retirement Fund for the year ended April 30, 1980 amounted to SDR 11,964,939, including SDR 2,845,570 for the amortization of actuarial experience losses (SDR 2,609,567 in 1979) and SDR 1,778,217 to fund cost of living supplements to beneficiaries (SDR 1,515,758 in 1979).

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REPORT OF THE EXTERNAL AUDIT COMMITTEE SPECIAL DRAWING RIGHTS DEPARTMENT

Washington, D.C.
June 27, 1980

AUTHORITY FOR THE AUDIT

The audit for the year ended April 30, 1980 was carried out pursuant to Section 20(b) of the By-Laws of the International Monetary Fund.

SCOPE OF THE AUDIT

We have examined the balance sheet of the International Monetary Fund, Special Drawing Rights Department as at April 30, 1980, and the related statement of source and use of special drawing rights for the year then ended.

Our examination was made in accordance with generally accepted auditing standards and accordingly included such tests of the accounting records, after evaluating the extent and results of the tests which we observed to have been carried out by the Internal Auditor, and such other auditing procedures as we deemed necessary in the circumstances.

AUDIT OPINION

In our opinion, the financial statements referred to above give a true and fair view of the allocations and holdings of special drawing rights of the International Monetary Fund, Special Drawing Rights Department as at April 30, 1980 and the source and use of special drawing rights for the year then ended on a basis consistent with that of the preceding year.

EXTERNAL AUDIT COMMITTEE:

/s/ Robert Toulemon, Chairman (France)
/s/ Pedro Osvaldo Montórfano (Paraguay)
/s/ Gamini C.B. Wijeyesinghe (Sri Lanka)

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International Monetary Fund

Special Drawing Rights Department
(Note 1)

Balance Sheet
as at April 30, 1980

Amounts expressed in special drawing rights

	1980	1979
Allocations		
Net cumulative allocations of special drawing rights to participants	17,380,836,200	13,347,560,200
Holdings		
Participants		
Holdings above allocations, comprising		
Allocations	6,047,044,000	4,085,312,000
Net receipt of SDRs	2,777,200,395	2,150,197,637
	8,824,244,395	6,235,509,637
Holdings below allocations, comprising		
Allocations	11,333,792,200	9,262,248,200
Net use of SDRs	4,184,197,812	3,440,106,613
	7,149,594,388	5,822,141,587
Total holdings by participants	15,973,838,783	12,057,651,224
General Resources Account	1,406,997,417	1,289,908,976
	17,380,836,200	13,347,560,200

The accompanying notes are an integral part of the financial statements.

/s/ W.O. Habermeier
Treasurer

/s/ J. de Larosière
Managing Director

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INTERNATIONAL MONETARY FUND

SPECIAL DRAWING RIGHTS DEPARTMENT

(Note 1)

STATEMENT OF SOURCE AND USE OF SPECIAL DRAWING RIGHTS

for the year ended April 30, 1980

Amounts expressed in special drawing rights

	Participants	General Resources Account	Total 1980	Total 1979
Total Holdings at beginning of year	12,057,651,224	1,289,908,976	13,347,560,200	9,315,125,544
Source of Special Drawing Rights				
Allocations	4,033,276,000		4,033,276,000	4,032,724,800
Transactions with Designation	1,371,514,932		1,371,514,932	1,079,948,611
Transactions by Agreement	361,787,753		361,787,753	1,533,025,735
Net Interest	189,688,531	81,813,361	271,501,892	128,172,711
Transfers Between Participants and the General Resources Account				
Purchases	1,282,629,970		1,282,629,970	1,105,921,875
Repurchases	—	993,915,153	993,915,153	501,870,191
Charges	4,101,499	556,831,459	560,932,958	719,605,758
Reimbursement of Special Drawing Rights Department Expenses (Assessment)		1,000,004	1,000,004	1,700,480
Remuneration	139,726,705		139,726,705	136,279,725
Reconstitution	5,054,091		5,054,091	75,145,184
Interest on Fund Borrowing				
Under Oil Facility	13,435,429		13,435,429	—
Under General Arrangements to Borrow	6,050,803		6,050,803	8,954,109
Under Supplementary Financing Facility	1,695,724		1,695,724	—
Quota Payments		712,575	712,575	18,715,000
Other				
Repayments of Fund Borrowing	64,392,375		64,392,375	37,662,714
Acquisitions to Pay Charges	97,515		97,515	8,379,620
Transfer Charges	—		—	2,914,703
	7,473,451,327	1,634,272,552	9,107,723,879	9,391,021,216
Use of Special Drawing Rights				
Transactions with Designation	1,371,514,932		1,371,514,932	1,079,948,611
Transactions by Agreement	361,787,753		361,787,753	1,533,025,735
Net Charges	271,501,892		271,501,892	128,172,711
Transfers Between Participants and the General Resources Account				
Purchases		1,282,629,970	1,282,629,970	1,105,921,875
Repurchases	993,915,153	—	993,915,153	501,870,191
Charges	556,831,459	4,101,499	560,932,958	719,605,758
Reimbursement of Special Drawing Rights Department Expenses (Assessment)	1,000,004		1,000,004	1,700,480
Remuneration		139,726,705	139,726,705	136,279,725
Reconstitution		5,054,091	5,054,091	75,145,184
Interest on Fund Borrowing				
Under Oil Facility		13,435,429	13,435,429	—
Under General Arrangements to Borrow		6,050,803	6,050,803	8,954,109
Under Supplementary Financing Facility		1,695,724	1,695,724	—
Quota Payments	712,575		712,575	18,715,000
Other				
Repayments of Fund Borrowing		64,392,375	64,392,375	37,662,714
Acquisitions to Pay Charges		97,515	97,515	8,379,620
Transfer Charges		—	—	2,914,703
Settlement of Unpaid Charges		—	—	290,144
	3,557,263,768	1,517,184,111	5,074,447,879	5,358,586,560
Total Holdings at end of year	15,973,838,783	1,406,997,417	17,380,836,200	13,347,560,200

The accompanying notes are an integral part of the financial statements.

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International Monetary Fund

Special Drawing Rights Department
Notes to the Financial Statements

1. Special Drawing Rights Department

All transactions and operations involving special drawing rights are conducted through the Special Drawing Rights Department. Special drawing rights are allocated by the Fund to members that are participants in the Special Drawing Rights Department in proportion to their quotas in the Fund. Three allocations were made, in 1970, 1971, and 1972, aggregating SDR 9.3 billion. In accordance with Board of Governors Resolution No. 34-3, SDR 4 billion each were allocated to participants as of January 1, 1979 and 1980; a further allocation of SDR 4 billion is to be made as of January 1, 1981. Special drawing rights do not constitute claims by holders against the Fund to provide currency, except in connection with the termination of participation or liquidation.

2. Uses of Special Drawing Rights

A participant can use its special drawing rights in transactions and certain operations by agreement with another participant, and in certain operations involving the General Resources Account, such as the payment of charges and the discharge of repurchase obligations. In addition, the Fund ensures, by designating participants to provide freely usable currency in exchange for special drawing rights, that a participant can use its special drawing rights to obtain such currency if it has a need because of its balance of payments or its reserve position or developments in its reserves. A participant is not obliged to provide currency for special drawing rights beyond the point at which its holdings of special drawing rights in excess of its net cumulative allocation are equal to twice its net cumulative allocation or such higher limit as may be agreed between a participant and the Fund. A participant may, however, provide currency in excess of the obligatory limit or any agreed higher limit.

3. Reconstitution Requirement

A participant is required to maintain, over five-year periods ending in successive calendar quarters, a minimum level of average daily holdings of special drawing rights of 15 per cent of its average daily net cumulative allocation.

4. Interest, Charges, and Assessment

Interest is paid to each holder on its holdings of special drawing rights and charges are levied at the same rate by the Fund on each participant's net cumulative allocation plus any negative balance of the participant or unpaid charges. Interest and charges are settled by crediting and debiting individual holdings accounts on April 30 each year. The Fund is required to pay interest to each holder, whether or not sufficient charges are received. The expenses of conducting the business of the Special Drawing Rights Department are paid by the Fund from the General Resources Account which is reimbursed in special drawing rights at the end of each financial year. For this purpose, the Fund levies an assessment, at the same rate for all participants, on their net cumulative allocations.

5. Suspension of Right to Use Special Drawing Rights

On December 19, 1978 the Executive Board decided to suspend the right of Democratic Kampuchea to use special drawing rights acquired after the date of the suspension because the Fund found that Democratic Kampuchea had failed to meet certain obligations in the Special Drawing Rights Department.

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REPORT OF THE EXTERNAL AUDIT COMMITTEE

SUBSIDY ACCOUNT

Washington, D.C.
June 27, 1980

AUTHORITY FOR THE AUDIT

The audit for the year ended April 30, 1980 was carried out pursuant to Section 20(b) of the By-Laws of the International Monetary Fund.

SCOPE OF THE AUDIT

We have examined the statement of financial position of the Subsidy Account administered by the International Monetary Fund, showing the changes in the Account for the year ended April 30, 1980, and the financial position as at that date.

Our examination was made in accordance with generally accepted auditing standards and accordingly included such tests of the accounting records, after evaluating the extent and results of the tests which we observed to have been carried out by the Internal Auditor, and such other auditing procedures as we deemed necessary in the circumstances.

AUDIT OPINION

In our opinion, the financial statement referred to above gives a true and fair view of the operations of the Subsidy Account for the year ended April 30, 1980, and its financial position as at that date, in conformity with generally accepted accounting principles applied on a basis consistent with that of the preceding year.

EXTERNAL AUDIT COMMITTEE:

/s/ Robert Toulemon, Chairman (France)
/s/ Pedro Osvaldo Montórfano (Paraguay)
/s/ Gamini C.B. Wijeyesinghe (Sri Lanka)

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INTERNATIONAL MONETARY FUND

SUBSIDY ACCOUNT
(Note 1)
STATEMENT OF FINANCIAL POSITION
Changes during year and Position as at April 30, 1980

Amounts expressed in special drawing rights
(Note 2)

	1980	1979
Balance at beginning of year	59,735,399	58,746,352
Contributions received (Note 2)	28,597,963	23,668,092
Interest earned on investments	5,621,859	3,259,513
	34,219,822	26,927,605
Valuation loss	(921,021)	(988,127)
	33,298,801	25,939,478
	93,034,200	84,685,830
Less: Subsidy payments (Note 3)	19,099,585	24,950,431
Balance at end of year	73,934,615	59,735,399
Balance represented by:		
Currency on deposit	72,300	2,297,338
Investments in United States Government obligations, at cost *(market value SDR 70,936,491—1980, SDR 55,473,545—1979)*	71,246,204	55,829,893
Accrued interest receivable	2,616,111	1,608,168
Total assets	73,934,615	59,735,399

The accompanying notes are an integral part of the financial statement.

/s/ W.O. HABERMEIER
Treasurer

/s/ J. DE LAROSIÈRE
Managing Director

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International Monetary Fund

Subsidy Account
Notes to the Financial Statement

1. Purpose

The Subsidy Account, which is administered by the Fund, was established to assist the most seriously affected members to meet the interest cost of using resources made available through the Fund's oil facility for 1975. The assets of the Subsidy Account are separate from the assets of all other accounts of the Fund and are not used to discharge liabilities or to meet losses incurred in the administration of other accounts.

2. Accounting Practices

The accounts of the Subsidy Account are expressed in terms of the SDR, the currency value of which is determined by a standard basket of currencies of sixteen members.

Currency contributions to the Subsidy Account are converted to equivalent amounts of SDRs on the basis of exchange rates against the SDR at the time of receipt. Cumulative contributions to the Subsidy Account at April 30, 1980 amounted to SDR 149,536,274.

It is the practice of the Fund to make all calculations on the basis of the exact number of days in the financial year.

3. Subsidy Payments

The rate of subsidy for the financial years ended April 30, 1976 through 1980 was set by the Fund at five per cent per annum of the average daily balances in each year of the Fund's holdings of recipient members' currencies subject to the schedule of charges applicable to the 1975 oil facility. Subsidy payments are made after the end of each financial year in U.S. dollars at the SDR/US$ rate determined for the date of payment. Subsidy payments for the financial year ended April 30, 1980 amounted to SDR 27.8 million and were made on June 2, 1980.

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Report of the External Audit Committee

Trust Fund

Washington, D.C.
June 27, 1980

Authority for the Audit

The audit for the year ended April 30, 1980 was carried out pursuant to Section 20(b) of the By-Laws of the International Monetary Fund.

Scope of the Audit

We have examined the balance sheet of the Trust Fund administered by the International Monetary Fund as at April 30, 1980, and the related statements of income and expense and trust resources for the year then ended.

Our examination was made in accordance with generally accepted auditing standards and accordingly included such tests of the accounting records, after evaluating the extent and results of the tests which we observed to have been carried out by the Internal Auditor, and such other auditing procedures as we deemed necessary in the circumstances.

Audit Opinion

In our opinion, the financial statements referred to above give a true and fair view of the financial position of the Trust Fund as at April 30, 1980, and of the results of its operations for the year then ended, in conformity with generally accepted accounting principles applied on a basis consistent with that of the preceding year.

External Audit Committee:

/s/ Robert Toulemon, Chairman (France)
/s/ Pedro Osvaldo Montórfano (Paraguay)
/s/ Gamini C.B. Wijeyesinghe (Sri Lanka)

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INTERNATIONAL MONETARY FUND

TRUST FUND
(Note 1)
BALANCE SHEET
as at April 30, 1980

Amounts expressed in special drawing rights

(Note 2)

	1980	1979
ASSETS		
Sight deposits	23,702	40,561
Term deposits	824,286,202	534,534,618
Investments, at cost *(market value SDR 348,419,267—1980, SDR 235,576,501—1979)*	347,840,818	232,464,576
Loans (Note 3)	1,931,442,424	969,864,424
Accrued interest on investments and term deposits	36,600,937	21,449,855
Accrued interest on loans	2,600,669	1,536,003
Total	3,142,794,752	1,759,890,037
TRUST RESOURCES AND LIABILITIES		
Trust resources (Note 4)	3,124,497,410	1,751,394,949
Liabilities—		
Undistributed profits from sale of gold	18,297,342	8,495,088
Total	3,142,794,752	1,759,890,037

The accompanying notes are an integral part of the financial statements.

/s/ W.O. HABERMEIER
Treasurer

/s/ J. DE LAROSIÈRE
Managing Director

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INTERNATIONAL MONETARY FUND

TRUST FUND
(Note 1)
STATEMENT OF INCOME AND EXPENSE
for the year ended April 30, 1980

Amounts expressed in special drawing rights
(Note 2)

	1980	1979
Income:		
Net proceeds realized from the sale of gold	1,552,631,381	928,701,768
Investment income	95,809,509	43,458,376
Interest income on loans	6,467,855	3,704,818
	1,654,908,745	975,864,962
Expense:		
Administrative expense (Note 2):		
Staff salaries and benefits, and other services	635,131	834,746
Gold weighing and handling charges	58,730	58,570
Data processing services	5,972	5,682
Other	167	1,002
Total administrative expense	700,000	900,000
Exchange valuation loss	6,281,593	20,634,242
	6,981,593	21,534,242
Net income	1,647,927,152	954,330,720

The accompanying notes are an integral part of the financial statements.

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INTERNATIONAL MONETARY FUND

TRUST FUND
(Note 1)

STATEMENT OF TRUST RESOURCES
for the year ended April 30, 1980

Amounts expressed in special drawing rights
(Note 2)

	1980	1979
Balance at beginning of year	1,751,394,949	864,216,576
Net income for year	1,647,927,152	954,330,720
Total resources before distribution of profits to developing countries	3,399,322,101	1,818,547,296
Distribution of profits to developing countries (Note 4)		
Amount disbursed	292,681,719	62,057,738
Amount pending disbursement	9,802,254	8,495,088
	302,483,973	70,552,826
Contributions received	27,659,282	3,400,479
Balance at end of year	3,124,497,410	1,751,394,949

The accompanying notes are an integral part of the financial statements.

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INTERNATIONAL MONETARY FUND

TRUST FUND
NOTES TO THE FINANCIAL STATEMENTS

1. Purpose

The Trust, which is administered by the Fund as Trustee, was established in 1976 to provide balance of payments assistance on concessional terms to eligible members that qualify for assistance. The resources of the Trust are separate from the assets of all other accounts of the Fund and are not used to discharge liabilities or to meet losses incurred in the administration of other accounts.

2. Accounting Practices

Unit of Account

The accounts of the Trust Fund are expressed in terms of the special drawing right (SDR), the currency value of which is determined by a standard basket of currencies of sixteen members.

Calculations

It is the practice of the Fund to make all calculations on the basis of the exact number of days in the accounting year.

Administrative Expense

The expenses of conducting the business of the Trust Fund that are paid from the General Resources Account of the IMF are reimbursed by the Trust on the basis of a reasonable estimate of these expenses by the IMF.

3. Loans

Loans are made from the Trust Fund to those eligible members that qualify for assistance in accordance with the provisions of the Trust Instrument. Each loan disbursement is repayable in ten semiannual installments which shall begin not later than the end of the first six months of the sixth year, and be completed at the end of the tenth year, after the date of disbursement. Interest on the outstanding loan balances is charged at the rate of one-half of one per cent per annum.

4. Trust Resources

The International Monetary Fund decided that the Trustee make, through the Trust Fund, the direct distribution of part of the profits from the sale of gold for the benefit of developing members. The share of each developing member in this direct distribution of profits is calculated on the basis of its share in total IMF quotas as of August 31, 1975 and on the basis of the actual profits realized in the gold auctions. At April 30, 1980 the Trust resources include the equivalent of SDR 365.7 million for direct distribution of profits to certain developing members, subject to decisions by the Fund as Trustee.

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Report of the External Audit Committee

Staff Retirement Fund

Washington, D.C.
June 27, 1980

Authority for the Audit

The audit for the year ended April 30, 1980 was carried out pursuant to Section 20(b) of the By-Laws of the International Monetary Fund.

Scope of the Audit

We have examined the balance sheet of the Staff Retirement Fund administered by the International Monetary Fund as at April 30, 1980, and the related statement of changes in reserves for the year then ended.

Our examination was made in accordance with generally accepted auditing standards and accordingly included such tests of the accounting records, after evaluating the extent and results of the tests which we observed to have been carried out by the Internal Auditor, and such other auditing procedures as we deemed necessary in the circumstances.

Audit Opinion

In our opinion, the financial statements referred to above give a true and fair view of the financial position of the Staff Retirement Fund as at April 30, 1980, and of the changes in reserves for the year then ended, in conformity with generally accepted accounting principles applied on a basis consistent with that of the preceding year.

External Audit Committee:

/s/ Robert Toulemon, Chairman (France)
/s/ Pedro Osvaldo Montórfano (Paraguay)
/s/ Gamini C.B. Wijeyesinghe (Sri Lanka)

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INTERNATIONAL MONETARY FUND

STAFF RETIREMENT FUND

(Note 1)

BALANCE SHEET

as at April 30, 1980

Amounts expressed in U.S. dollars

	1980	1979 (Note 2)
ASSETS		
Cash at banks	177,994	63,628
Investments (Note 3)		
Bonds *(market value $72,520,971—1980, $53,674,073—1979)*	80,406,015	58,120,307
Stocks *(market value $81,563,954—1980, $74,703,015—1979)*	76,127,302	74,916,076
Total	156,533,317	133,036,383
Accrued interest on bonds, accrued contributions receivable, and miscellaneous accounts receivable	1,131,363	759,280
Total Assets	157,842,674	133,859,291
RESERVES AND LIABILITIES		
Reserves		
Participants' Account	29,402,778	25,616,368
Accumulation Account	69,329,128	61,799,018
Retirement Reserve Account	59,107,045	46,441,420
Total Reserves	157,838,951	133,856,806
Accounts Payable	3,723	2,485
Total Reserves and Liabilities	157,842,674	133,859,291

The accompanying notes are an integral part of the financial statements.

/s/ W.O. HABERMEIER
Treasurer

/s/ J. DE LAROSIÈRE
Managing Director

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INTERNATIONAL MONETARY FUND

STAFF RETIREMENT FUND
(Note 1)
STATEMENT OF CHANGES IN RESERVES
for the year ended April 30, 1980

Amounts expressed in U.S. dollars

	1980	1979 (Note 2)
Contributions:		
Participants	4,681,022	3,950,821
International Monetary Fund	15,264,162	13,406,295
Participants restored to service	15,850	105,698
Transfers (net) from retirement plans of other international organizations	15,684	(113,125)
Total Contributions	19,976,718	17,349,689
Investment Income:		
Interest and dividends	10,496,279	7,197,272
Amortization of accumulated discounts	40,419	38,738
Amortization of net realized losses on bonds	(242,057)	(239,721)
Recognized market depreciation on equity investments	(662,000)	(1,483,100)
Net Investment Income	9,632,641	5,513,189
Payments:		
Pensions and other benefits	4,781,594	3,801,233
Contributions, benefits, and interest paid to participants upon withdrawal	687,218	606,617
Commuted benefits	158,402	
Death benefits		223,813
Total Payments	5,627,214	4,631,663
Increase in Reserves during year	23,982,145	18,231,215
Reserves at beginning of year	133,856,806	115,625,591
Reserves at end of year	157,838,951	133,856,806

The accompanying notes are an integral part of the financial statements.

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INTERNATIONAL MONETARY FUND

STAFF RETIREMENT FUND
NOTES TO THE FINANCIAL STATEMENTS

1. Purpose

In accordance with the provisions of the Staff Retirement Plan, all assets and income of the Staff Retirement Fund are the property of the International Monetary Fund and are held and administered by it separately from all its other property and assets and are to be used solely for the benefit of participants and retired participants or their beneficiaries. The International Monetary Fund, as employer, meets the administrative costs of the Plan, such as actuarial, management, and custodial fees, and is to contribute any additional amounts not provided by the contributions of participants required to pay costs and expenses of the Plan not otherwise covered.

2. Prior Period Adjustment

The financial statements of the Staff Retirement Fund for the year ended April 30, 1979 included an amount of recognized appreciation on stocks of $229,700. This amount was incorrect because of an error in computations and a recognized depreciation of $1,483,100 should have been recorded. The comparative financial statements for the year ended April 30, 1979 have been restated, with the effect that the adjusted book value of stocks and the increase in reserves through the Accumulation Account are $1,712,800 less than originally reported.

In consequence, the payment by the International Monetary Fund to the Staff Retirement Fund on May 1, 1980 to amortize accumulated experience losses was $176,355 less than it otherwise would have been. This amount, plus interest at the assumed actuarial rate of 6 per cent per annum, was paid on June 3, 1980.

3. Investments

Valuation

All investments are recorded in the accounts at cost or amortized cost. The basis of valuation of the investment portfolio is intended to focus on the prospective long-run average yield of the existing portfolio. Therefore, not only interest and dividends, but also realized gains and losses on bonds and the effect of unrealized changes in the value of equity investments, are taken into account. The realized net loss (or gain) on bonds is amortized through the Accumulation Account over a ten-year period; unrealized market appreciation or depreciation on bonds is ignored. The amount of appreciation (or depreciation) on stocks to be recognized through the Accumulation Account each year is based on a ten-year moving average of the annual rate of changes in the market value of the equity portfolio. "Funds originally invested," as referred to below, is the cumulative amount of contributions from the employer and from the participants made available for investment plus investment income. The investment base for determining the yield on investments is the "adjusted book value" in the balance sheet.

Investment Portfolio

The investments at April 30, 1980 and 1979 were as follows (in U.S. dollars):

	1980	1979 (Note 2)
Bonds		
Amortized cost:		
Notes insured by U.S. Government	8,787,479	2,495,457
International development banks	5,083,983	5,063,185
Corporate	21,606,082	13,943,731
Commercial paper	14,429,396	5,745,000
Certificates of deposit	29,140,000	28,700,000
Repurchase agreement	773,000	1,368,000
Total amortized cost	79,819,940	57,315,373
Add: Net realized losses	2,420,529	2,397,330
Funds originally invested	82,240,469	59,712,703
Deduct: Amortized net realized losses	1,834,454	1,592,396
Adjusted book value of bonds	80,406,015	58,120,307
Stocks		
Cost:		
Common	84,495,545	77,477,922
Deduct: Net realized gains	5,759,143	614,746
Funds originally invested	78,736,402	76,863,176
Recognized depreciation	(2,609,100)	(1,947,100)
Adjusted book value of stocks	76,127,302	74,916,076
Total investments at adjusted book value	156,533,317	133,036,383

Funds originally invested and market value

The changes in funds originally invested are summarized as follows:

	Bonds	Stocks	Total
Funds originally invested:			
April 30, 1979	59,712,703	76,863,176	136,575,879
Net new investment	22,527,766	1,873,226	24,400,992
April 30, 1980	82,240,469	78,736,402	160,976,871
Market value of portfolio April 30, 1980	72,520,971	81,563,954	154,084,925

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4. Actuarial Valuation

The most recent valuation of the Plan by the actuary engaged by the Pension Committee was made as at April 30, 1979. Actuarial assumptions used in the valuation were (a) life expectancy of participants as based on the 1960 United Nations Service Tables, (b) certain percentages of staff, differing by sex, would retire at each age between 55 and 65, and (c) an assumed average rate of return on investments of six per cent per annum. The actuarial assumptions were based on the presumption that the Plan will continue.

The valuation made at April 30, 1979 showed an experience loss for the year then ended of $18.1 million. Experience losses are amortized by contributions from the employer over fifteen-year periods. At April 30, 1980 the unamortized experience losses amounted to $51.3 million (SDR 39.6 million).

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An asterisk (*) denotes a table; a dagger (†) denotes a chart; fn. denotes a footnote.

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