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International Monetary Fund

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INTERNATIONAL MONETARY FUND

ANNUAL REPORT

of the

Executive Board for the

Financial Year Ended April 30, 1985

WASHINGTON, D.C.

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The following symbols have been used throughout this Report:

... to indicate that data are not available;

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

– between years or months (e.g., 1979–81 or January–June) to indicate the years or months covered, including the beginning and ending years or months:

/ between years (e.g., 1980/81) to indicate a crop or fiscal (financial) year.

"Billion" means a thousand million.

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

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International Monetary Fund

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* Alphabetical listing.

August 19, 1985

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Letter of Transmittal to the Board of Governors

August 19, 1985

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, 1985, 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, 1986 is presented in Appendix VI and the audited financial statements of the General Department, the SDR Department, the Supplementary Financing Facility Subsidy Account, the Trust Fund, and the Staff Retirement Plan for the year ended April 30, 1985, 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
International Monetary Fund

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Chapter 1

Developments in the World Economy

INTRODUCTION

By mid-1985, economic recovery in the industrial countries[1] had been under way, although unevenly, for some two and a half years. Output growth in 1984 was the strongest in almost a decade, and inflation continued to recede. There were encouraging signs that the benefits of this recovery were spreading to the developing world. Aided by the improved external environment and the increased firmness with which adjustment policies were pursued, domestic growth rates in developing countries accelerated, while current account deficits generally declined further.

Despite this progress, however, important problems remain to be dealt with. Unemployment is high and in many countries has risen further. Protectionist pressures continue to increase. Fiscal imbalances are a major source of uncertainty and concern in several major industrial countries and, together with other factors, have contributed to a pattern of current account positions that may be unsustainable over the longer term. In the developing world, economic growth, despite recent improvements, remains significantly below its longer-run average and is uneven across regions. Moreover, heavy external indebtedness makes the financial position of many countries still quite fragile.

Economic growth in 1984, as in 1983, was led by the rapid expansion of demand in the United States. By late 1984 and the early part of 1985, however, economic activity in the United States had reverted to a more moderate pace, while demand growth in other countries was tending to pick up. As a result, although the overall rate of expansion was less rapid, the geographical basis of the recovery appeared to have become more even. Despite the spreading of recovery, though, output growth in Europe had still not reached a pace at which unemployment could begin to fall.

[1] For classification of groups of countries, see Appendix IX.

The continuation of expansion in industrial countries was not marked by any significant acceleration of price pressures. Indeed, the weighted average rate of inflation in these countries in 1984 fell by a further ¾ of 1 percent, less than the average declines of almost 2 percent per annum in the previous two years, but still an encouraging performance given the strength of output growth. Interest rates on U.S. dollar-denominated assets rose in the early and middle part of 1984, before a downtrend was resumed later in the year that by mid-1985 had brought short-term interest rates to their lowest levels since the late 1970s. Nevertheless, in real terms interest rates remained at levels that were high in historical perspective.

The shifts that occurred in U.S. dollar interest rates do not appear to be very closely related to developments in exchange markets. A key feature of exchange rates for most of 1984 and the opening weeks of 1985 was the further strengthening of the U.S. dollar. This was partially reversed in the months after February, when the dollar depreciated substantially. Nonetheless, the dollar in June 1985 was 9.3 percent above its year-earlier level, in real effective terms. Partly reflecting the dollar's strength, as well as changes in the relative cyclical position of the United States, the current account deficit of the United States (including official transfers) widened to some \$102 billion in 1984, while the surplus of Japan rose to \$35 billion.

The rapid growth of industrial country imports in 1984 had a favorable effect on both the external position and domestic economic growth of many developing countries. The current account deficit of those countries whose exports are not dominated by oil (the "non-fuel exporters") fell to only 9 percent of exports, two-fifths the level of three years earlier, and the lowest ratio since comparable statistics began to be assembled in the mid-1960s. Stimulated by strong export increases, domestic economic growth in these countries also strengthened, reaching almost 4½ percent, the best performance in five years. Among fuel exporting countries, economic performance continued to be adversely affected by weakness in the international oil market, but, here too, output growth improved significantly in 1984.

The better outturn is, of course, modest in relation to the adverse developments of earlier years. Per capita absorption fell significantly in developing countries in 1981–83, reflecting both the weakness of overall output and the continuation of a high rate of population growth. Even in the 1984 recovery, many countries (especially among the low-income countries in Africa) did not share in the improvements reflected in the aggregate statistics.

The improving current account of developing countries has led to an easing of their external financial position but it has not removed the need for concerted approaches to the debt difficulties of a number of countries. During 1984 and the first four months of 1985, debt rescheduling agreements between Fund members and their creditors, including multiyear agreements, covered some $112 billion of debt. These agreements postponed about $25½ billion of debt service payments that had been due in 1984 (equivalent to 4½ percent of exports of goods and services).

A further strengthening of domestic investment and output in developing countries, together with a consolidation of their payments position, and a reduction in the relative size of their external debt must be regarded as central objectives of economic policy over the coming period. Their attainment will require both the determined pursuit of appropriate adjustment policies and success on the part of industrial countries in reducing real interest rates and achieving sustainable noninflationary expansion in a liberal trading environment.

Economic recovery in the industrial countries has benefited from an improved climate of confidence and an environment of greater price stability that has owed much to the medium-term framework within which economic policies have been formulated. To consolidate and extend the progress that has been made, it is important that those elements of the strategy that have not yet been implemented satisfactorily be brought into line. In this context, the three most important areas in which policy adaptations are called for are the correction of fiscal imbalances in those countries where the government's absorption of a large share of resources has undesirable effects or pre-empts a disproportionate share of global savings; the elimination of structural rigidities that impede the efficient allocation of resources and hamper the growth of employment; and determined resistance to protectionist pressures.

While effective action in these areas would improve the external environment for adjustment among developing countries, the principal responsibility for such adjustment must lie with the developing countries themselves. Recent improvements in their external position can best be consolidated through prudent demand management and exchange rate policies, together with structural reforms aimed at improving price and other incentives for investment and production in the traded goods sector. Particularly worrisome in this context is the surge in inflation in a number of developing countries. This development points to the presence of real and financial imbalances in these economies which must be addressed if satisfactory growth is to be restored and improvements on current account are to be sustained.

Attention also needs to be paid to certain specific areas in which economic policies and conditions interact across countries. The preservation of an open trading regime is of key importance to the developing countries and lies at the heart of efforts aimed at combining development with financial stability. Continued cooperation among debtors, creditors, and international institutions will be necessary if the debt situation is to be satisfactorily managed. At the same time, official development assistance remains essential for many of the poorest developing countries; the climate for such assistance, which has tended to stabilize in recent years, will benefit both from improved economic performance in the donor countries and from a demonstrated effectiveness in the use of aid on the part of the recipients. Lastly, an enlarged role for direct investment would be helpful and requires from all parties concerned a willingness to remove obstacles to such flows.

DOMESTIC ACTIVITY AND POLICIES

INDUSTRIAL COUNTRIES

Stance of Policies. Since the beginning of the 1980s governments in the industrial countries have accorded the highest priority to establishing the basis for sustainable noninflationary economic growth over the medium term. To that end authorities have attempted to follow sound financial policies while introducing specific measures to improve the structural functioning of their economies. For a number of the major industrial countries this has meant a gradual reduction in targeted growth rates for specified monetary aggregates and the adoption of policies having the objective of limiting the share of financial and real resources absorbed by the public sector.

Monetary policy continued to have an anti-inflationary orientation in 1984. In those countries with specified monetary targets, monetary growth was either within or relatively close to the target range. However, the short-run implementation of monetary policy varied in individual countries according to the prevailing circumstances. Some countries, for example, endeavored to limit the growth rate for their monetary aggregates to the lower end of their target ranges, often in order to stem the inflationary pressures arising from movements of their currency in exchange markets. In other countries, the implementation of monetary policy was influenced by the state of economic activity, but only to the extent possible without endangering hard-won progress in reducing inflation and inflationary expectations.

The monetary environment was more stable in 1984 than it had been for several years. The targeted monetary aggregates returned to a more normal relationship with the nominal growth of gross national product (GNP), and this facilitated the task of the authorities in bringing about a gradual deceleration in monetary growth. From increases of about 9–10 percent per annum during 1982 and 1983, the growth of narrow and broad money for the seven major industrial countries as a group declined to 6.5 percent and 7.9 percent, respectively, in 1984. This monetary deceleration was accompanied by a resumption of the underlying trend increase in the income velocity of the monetary aggregates, which was sufficient to accommodate some acceleration in GNP growth.

Interest rates remained high but, outside the United States and the United Kingdom, they tended to fluctuate less than in earlier years. In Japan and most of the major European countries short-term interest rates generally held steady through 1984 and the first half of 1985 while long-term interest rates followed a modest downward trend (Chart 1). In the United Kingdom, however, there was a fairly pronounced rise in interest rates in the early months of 1985 in response to a temporary weakening of the pound sterling. In the United States, interest rates rose from the second half of 1983 to mid-1984 in response to the needs to finance the federal government deficit and a growing level of economic activity. As growth in the U.S. economy decelerated in the latter half of 1984 and in the early part of 1985, interest rates fell back to, and then below, the low point that had been reached in 1983.

It is not possible to measure real interest rates precisely, since they depend on expectations of inflation that are not observable directly, and are more uncertain, the longer the holding period considered. Nevertheless, using current inflation rates as a guide to expectations, it appears that apart from the temporary rise in U.S. rates discussed above, both short-term and long-term real interest rates remained close to their 1983 levels for most of 1984, before declining somewhat late in the year and in early 1985 (Chart 1). In the first quarter of 1985, inflation-adjusted short-term rates averaged about 5 percent in the major industrial countries while the corresponding long-term rate was some 6½ percent. These yields are well above the average level of real interest rates during the preceding two decades.

Since the late 1970s a central aim of governments in most industrial countries has been to limit the share of government expenditure in GNP, and to reduce fiscal deficits in order to lower interest rates and increase the share of saving available to finance investment by the private sector. In many cases, however, these intentions have proved difficult to put fully into practice. As a share of GNP, the combined central government deficit of the seven major industrial countries increased in each year from 1979 to 1983, under the influence of weakness in economic activity, rising interest payments on public debt, and slippages in the implementation of expenditure reduction measures.

The combined deficit declined somewhat in 1984, but the decline was entirely attributable to improvements in the level of economic activity. After making allowance for cyclical factors, there was little change in the aggregate deficit in the major industrial countries, the net result of a continuing significant injection of stimulus on the part of North American countries and an offsetting withdrawal of stimulus by the large European countries (Table 1). Similar differences in the thrust of fiscal policy between the United States and most of the other major industrial countries have been noted in previous Annual Reports. From 1979 to 1984, the expansionary impulse imparted by fiscal policy in the United States is estimated to have amounted to 3 percent of GNP. In contrast, the fiscal position of the central government in the other major industrial countries as a group has resulted in a composite withdrawal of stimulus of approximately 1½ percent of GNP. The most pronounced changes in underlying fiscal policy have occurred in the United Kingdom and the Federal Republic of Germany where the reduction in stimulus has amounted to 5¾ percent of GNP and 3½ percent of GNP, respectively. When fiscal policy is assessed at the broader general government level, the picture is generally similar, although in some countries, notably Japan and the Federal Republic of Germany, the measured withdrawal of stimulus is greater.

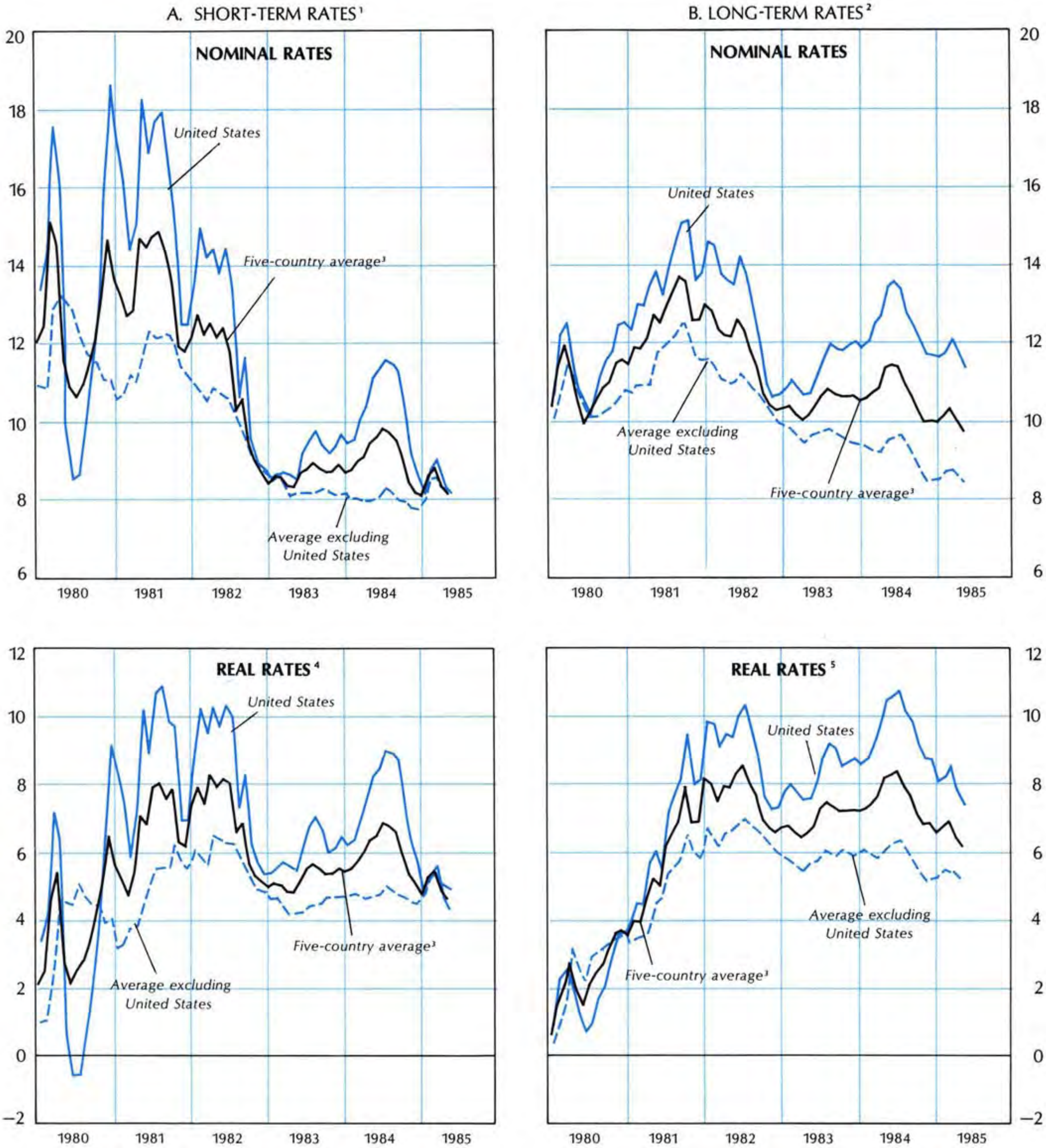
As just noted, significant slippages have been encountered in the objective of reducing the share of government expenditure in GNP. Between 1979 and 1983, total government expenditure (including transfer payments and interest costs) in the seven largest industrial countries rose in relation to total output by 4½ percentage points on average. Spending on goods and services generally grew only slightly faster than GNP in this period (and in Japan and the Federal Republic of Germany actually grew more slowly), but transfer and interest payments increased dramatically. In 1984, there was a slight decline in the average share of government expenditure in GNP, amounting to about ¾ of a percentage point. The reduction was most significant in Japan and the United States, both of which benefited from above-trend growth. The Federal Republic of Germany also achieved a decline, with the other four large countries all experiencing further increases in the ratios of government spending to GNP.

Previous Annual Reports have stressed the complex origins of the economic problems of the industrial countries and the corresponding need for a multifaceted approach that goes beyond conventional financial policies. In this vein, a number of governments, particularly in Europe, have undertaken to support their monetary and fiscal policy strategy by modifying or reforming many of the institutional arrangements that impede adjustments in real wages, raise the costs to firms of hiring and releasing workers, and reduce the incentive to work. Common modifications have been to reduce the extent to which incomes are automatically adjusted for price increases, to exclude items such as energy and indirect taxes from wage-regulating price indices, and to lengthen the period between cost of living adjustments. Other developments have included the lowering of minimum wages, the limitation of unemployment

Chart 1.

Five Major Industrial Countries: Interest Rates, 1980–May 1985

(In percent)



[1] Monthly averages of daily rates on money market instruments of about 90 days' maturity.

[2] Monthly averages of daily or weekly yields on government bonds, with maturities ranging from 7 years for Japan to 20 years for the United States and the United Kingdom.

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

[4] Short-term interest rates deflated by a weighted average of the increase in the private final domestic demand deflator in the current and the following two quarters; for the most recent periods, staff projections of the deflator are used.

[5] Long-term interest rates deflated as indicated in footnote 4.

Table 1.

Major Industrial Countries: Central Government Fiscal Balances and Impulses, 1977–84[1]

(In percent of GNP)

	1977	1978	1979	1980	1981	1982	1983	1984
Fiscal balance[2] (+ surplus, − deficit)								
Canada[3]	−3.5	−4.6	−3.5	−3.5	−2.2	−5.3	−6.2	−7.0
United States	−2.7	−2.0	−1.2	−2.4	−2.5	−4.3	−5.8	−5.0
Japan[4]	−5.1	−5.3	−6.2	−6.3	−6.0	−6.0	−5.8	−5.7
France[5]	−1.0	−1.6	−1.5	−1.1	−2.6	−2.8	−3.3	−3.4
Germany, Fed. Rep. of	−2.2	−2.1	−1.8	−1.7	−2.2	−1.9	−2.0	−1.6
Italy[6]	−9.0	−13.1	−10.8	−10.8	−12.8	−15.1	−16.4	−15.6
United Kingdom	−3.0	−5.0	−5.3	−4.7	−4.1	−2.8	−4.8	−3.3
Seven major countries above	−3.2	−3.4	−3.0	−3.5	−3.8	−4.7	−5.7	−5.2
Seven major countries except the United States	−3.7	−4.6	−4.5	−4.4	−4.7	−5.0	−5.6	−5.3
Fiscal impulse[2] (+ expansionary, − contractionary)								
Canada[3]	1.5	1.2	−0.5	−0.1	−1.1	0.8	0.7	1.4
United States	0.2	—	−0.8	0.4	0.1	0.4	1.7	0.5
Japan[4]	0.2	0.2	1.0	0.2	−0.3	−0.2	−0.5	0.2
France[5]	−0.3	0.9	0.1	−0.7	0.9	0.1	0.1	−0.1
Germany, Fed. Rep. of	−0.5	0.1	0.1	−0.4	−0.8	−1.8	−0.3	−0.3
Italy[6]	−0.8	3.8	−1.7	0.1	0.6	0.6	−0.2	−1.1
United Kingdom	−2.0	2.8	0.9	−2.6	−2.4	−1.4	2.2	−1.6
Seven major countries above	−0.1	0.6	−0.2	−0.1	−0.2	−0.1	0.9	0.1
Seven major countries except the United States	−0.3	1.1	0.3	−0.4	−0.5	−0.5	0.2	−0.2

[1] For the definition of the fiscal impulse measure, see *World Economic Outlook: A Survey by the Staff of the International Monetary Fund* (Washington: International Monetary Fund, April 1985), pp. 108–10. Composites for the country groups are weighted averages of the individual national ratios for each year, with weights proportionate to the U.S. dollar value of the respective GNPs in the preceding three years.
[2] Cash basis, unless otherwise specified.
[3] Data for Canada are on a national income accounts basis.
[4] Data for Japan cover the consolidated operations of the general account, certain special accounts, social security transactions, and disbursements of the fiscal investment and loan program (FILP) except those to financial institutions. Japanese data other than FILP transactions are based on national income accounts.
[5] Data for France are on an administrative basis and do not include social security transactions.
[6] Data for Italy refer to the state sector and cover the transactions of the state budget as well as those of several autonomous entities operating at the state level. They also include the deficit, but not the gross transactions, of social security institutions, and part of that of local authorities.

benefits, the extension of occupational training schemes, reductions in subsidies, deregulation, and the "privatization" of some public enterprises.

Output and Demand. Economic expansion in the industrial world strengthened significantly in 1984, with output recording the largest increase since 1976. As may be seen from Chart 2, expansion in 1983 and the early part of 1984 was led by the strong performance of the United States. Beginning in the latter half of 1984, however, there has been some shift in the distribution of growth; output in the United States has decelerated significantly while the rate of growth in the larger European economies seems to have been consolidated at some 2½ percent.

Output growth in the United States was significantly stronger than in any other industrial country in the first two years of the recovery (Table 2). Real GNP increased by 6.8 percent in the United States in 1984, led by substantial increases in business fixed investment and in spending on residential construction. A significant proportion of this growth took place in the first half of the year; all major components of demand decelerated in the second half of the year and into 1985. While the deceleration in domestic demand was partly in response to the increases in interest rates from mid-1983 to mid-1984, the most important factor behind the moderation of overall output growth has been the deterioration of the foreign balance.

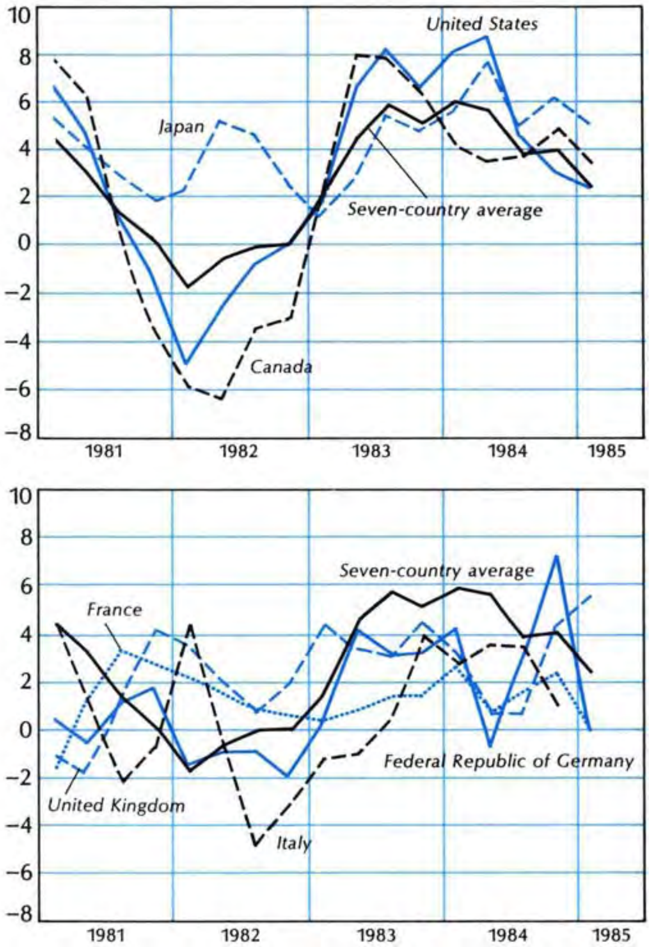
Among the other major industrial countries, increases in output in 1984 were strongest in Japan and Canada. The growth of output accelerated significantly in Japan in 1984, as stronger domestic demand arising from rapid growth in private fixed investment and a turnaround in stockbuilding combined with a further strengthening of the net foreign balance. Output increased by 5 percent in Canada in 1984, led by a strong improvement in the net foreign balance, but supported by a notable recovery in final domestic demand resulting from rising government spending and a stabilization of business investment after a period of substantial declines.

In the large European economies, output increases in 1984 remained below those of Japan and North America,

Chart 2.

Major Industrial Countries: Real GNP, 1981–First Quarter 1985

(Percentage changes)[1]



[1] Current quarter relative to two quarters previously; seasonally adjusted annual rates.

but nevertheless showed improvement over the previous year. Exports to the United States were an important source of growth in these countries in 1984 and early 1985. In addition, there was an acceleration in domestic demand, mainly as a result of changes in stockbuilding. Total fixed investment also increased significantly in the United Kingdom and Italy. Nevertheless, the pace of recovery in the major European countries has not yet been sufficient to produce a reduction in the level of unemployment.

The economic situation of the smaller industrial countries as a group also improved in 1984, the weighted average growth rate of output rising from 1½ percent in 1983 to 3¼ percent in 1984. The acceleration in growth in the smaller industrial countries was partly attributable to a turnaround in fixed investment. Such spending increased by almost 3½ percent in these countries in 1984, following a decline of over 2 percent in 1983. However, the foreign balance remained an important source of growth in many of the smaller industrial countries. Several countries in the group, including Australia, New Zealand, Denmark, Ireland, and Norway, recorded quite high growth rates in 1984, but in most others little progress was made in absorbing underutilized resources.

A key feature of the current recovery has been the strength of fixed investment in industrial countries. Investment began to increase in early 1983 and it has been the fastest growing component of demand since that time. Moreover, as shown in Table 3, the increase in investment in the major countries has been widespread, with capital formation in 1984 increasing rapidly not only in the faster growing economies such as the United States and Japan but also in several countries where the recovery has been relatively weak. Major fiscal incentives, buoyant demand, wage moderation, and an improved profit outlook underlie the increases in investment in the United States. In Europe, the increase in investment has also been associated with an improvement in profits, but it may also reflect capital/labor substitution in response to earlier increases in labor costs. New technological opportunities and lower interest rates also appear to have played a role in stimulating business investment spending.

Increases in investment spending, together with a broadly similar expansion of consumer expenditures, have led to growth rates of final domestic demand comparable to those recorded in the recovery period following the 1974–75 recession. However, the geographic distribution of demand growth has been decidedly more uneven in this recovery. In the United States, domestic demand has grown particularly rapidly, while most other countries have had only modest increases in the domestic components of demand. Balance of payments developments have helped spread recovery and thus moderate the unevenness in demand growth. Nevertheless, despite the substantial widening of current account imbalances that has occurred, wide disparities in overall GNP growth have remained.

Employment and Unemployment. Although total employment in the industrial countries has increased significantly since the beginning of the recovery, the unemployment rate has declined in only a few countries. More than half the industrial countries recorded gains in employment in 1984, and total employment increased by almost 2 percent over 1983. With demographic factors acting to increase the labor force, however, the decline in the unemployment rate averaged only ½ of 1 percentage point and was more than accounted for by a drop of 2 percentage points in the United States. Many countries, including most of those in Europe, experienced further increases in joblessness throughout 1984 (Chart 3). In the first quarter of 1985 the unemployment rate exceeded 10 percent in France, Italy, the United Kingdom, and the smaller European economies taken as a group.

While a portion of the unemployment in virtually all of the industrial countries is due to the cyclical weakness

Table 2.

Industrial Countries: Changes in Output and Prices, 1967–84[1]

(In percent)

	Average 1967–76[2]	From Preceding Year 1977	1978	1979	1980	1981	1982	1983	1984
Real GNP									
Canada	4.8	2.0	3.6	3.2	1.1	3.3	−4.4	3.3	5.0
United States	2.8	5.5	5.0	2.8	−0.3	2.5	−2.1	3.7	6.8
Japan	7.4	5.3	5.1	5.2	4.8	4.0	3.3	3.4	5.8
France[3]	4.7	3.1	3.8	3.3	1.1	0.2	2.0	0.7	1.8
Germany, Fed. Rep. of	3.5	2.8	3.4	4.0	1.9	−0.2	−1.1	1.3	2.6
Italy[3]	4.3	1.9	2.7	4.9	3.9	0.2	−0.5	−0.4	2.6
United Kingdom[3]	2.2	3.0	4.0	3.2	−2.6	−1.4	2.4	3.2	2.4
Other industrial countries[4]	4.2	1.7	2.0	3.2	2.1	0.6	0.6	1.6	3.2
All industrial countries	3.7	4.0	4.1	3.5	1.3	1.6	−0.2	2.6	4.9
Of which,									
Seven major countries above	3.6	4.4	4.5	3.6	1.2	1.8	−0.3	2.8	5.1
European countries	*3.8*	*2.5*	*3.1*	*3.5*	*1.5*	*−0.2*	*0.5*	*1.5*	*2.4*
GNP deflator									
Canada	6.9	7.4	6.7	10.3	11.4	10.6	10.3	5.3	2.8
United States	5.6	5.8	7.4	8.7	9.2	9.6	6.0	3.8	3.8
Japan	7.9	5.7	4.6	2.6	2.8	2.7	1.7	0.7	0.5
France[3]	7.3	9.0	9.4	10.4	12.2	12.3	12.4	9.5	7.0
Germany, Fed. Rep. of	5.1	3.7	4.2	4.0	4.5	4.2	4.7	3.2	1.9
Italy[3]	9.3	19.1	13.9	15.9	20.7	18.4	17.9	15.1	10.7
United Kingdom[3]	9.9	13.9	11.1	14.4	19.9	11.6	7.1	5.1	4.2
Other industrial countries[4]	8.0	9.7	9.6	7.7	9.2	9.4	9.8	7.1	6.7
All industrial countries	6.7	7.5	7.6	8.0	9.2	8.7	7.2	4.9	4.1
Of which,									
Seven major countries above	6.5	*7.2*	*7.3*	*8.0*	9.2	*8.6*	6.7	4.6	3.6
European countries	*7.5*	9.7	*8.9*	*8.9*	*11.0*	9.9	9.4	*7.2*	5.7

[1] Composites for the country groups are averages of percentage changes for individual countries weighted by the average U.S. dollar value of their respective GNPs over the preceding three years.
[2] Compound annual rates of change.
[3] GDP at market prices.
[4] Comprise Australia, Austria, Belgium, Denmark, Finland, Iceland, Ireland, Luxembourg, the Netherlands, New Zealand, Norway, Spain, Sweden, and Switzerland.

Table 3.

Major Industrial Countries: Real Gross Fixed Investment, 1981–84

(In percent)

	Change from Preceding Year 1981	1982	1983	1984
Canada	6.4	−9.7	−5.7	0.7
United States	3.1	−6.8	9.7	18.0
Japan	3.6	1.9	0.7	5.7
France	−1.8	−0.6	−1.9	−1.9
Germany, Fed. Rep. of	−4.3	−4.6	3.0	1.2
Italy	0.6	−5.2	−3.8	4.1
United Kingdom	−8.4	6.6	4.2	6.6
All seven countries[1]	0.9	−3.3	4.5	10.2

[1] Averages of percentage changes for individual countries weighted by the average U.S. dollar value of their respective GNPs over the preceding three years.

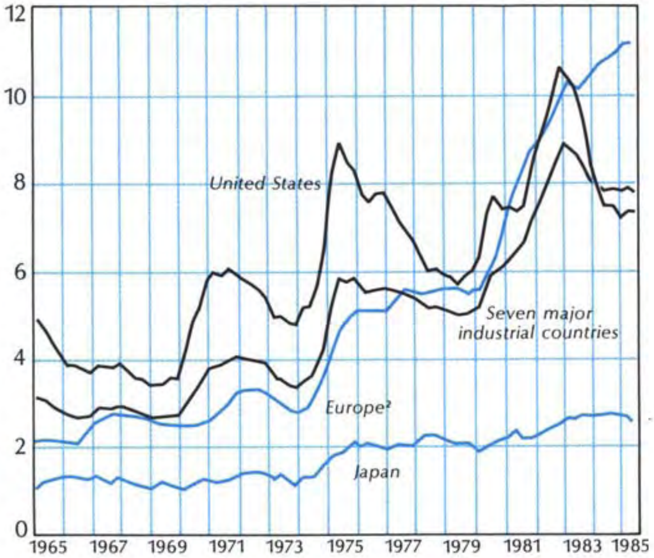
of their economies, the presence of severe labor market rigidities, especially in many of the European countries, has contributed to the unemployment problem. In recent years, the economies of most industrial countries have had to adapt to profound employment dislocations as industrial structures have shifted. These adjustments have been hindered in many countries by the rigidity of wage patterns, government-mandated job security provisions, and a lack of labor mobility.

Labor shedding either stopped or slowed perceptibly in most European countries in 1984. However, employment in Europe appeared to be responding more slowly than usual to the recovery in output, suggesting that European firms may still be rationalizing their use of labor. In the major European countries, as well as in the smaller industrial countries as a group, the growth of labor productivity has decelerated less than that of output in recent years, which may be the result of firms' adjusting their labor input to be consistent with relative factor costs.

Chart 3.

Major Industrial Countries: Unemployment, 1965–Second Quarter 1985

(In percent of labor force)[1]

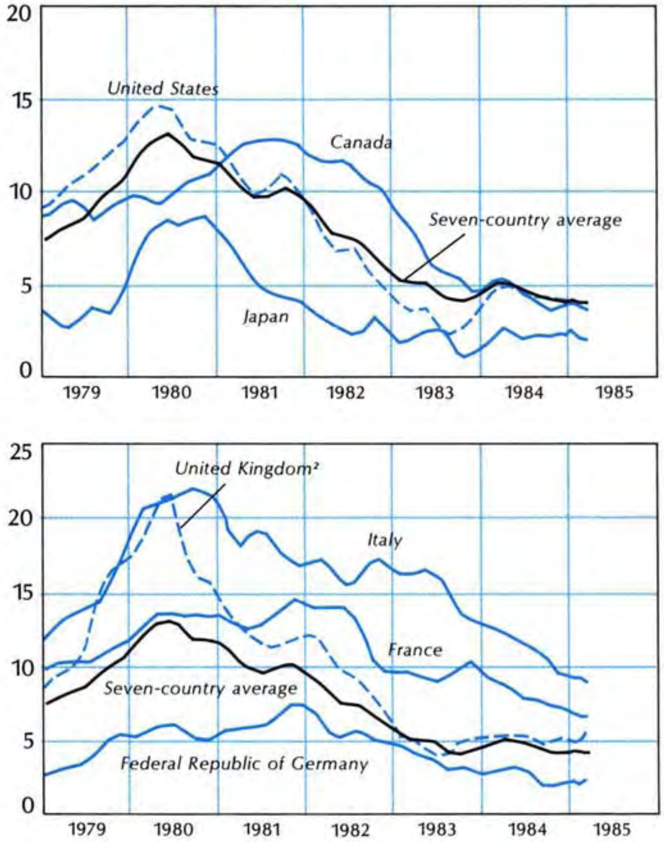


[1] National unemployment rates weighted by labor force in the respective countries.
[2] France, the Federal Republic of Germany, Italy, and the United Kingdom.

Chart 4.

Major Industrial Countries: Consumer Price Inflation, 1979–March 1985

(In percent)[1]



[1] Average of consumer price index for three months ended in month indicated over corresponding three months a year earlier.
[2] The figures for the second half of 1979 and the first half of 1980 were affected by the approximately 3¾ percent increase in value-added tax rates, with effect from June 18, 1979.

The unemployment rate in the United States declined sharply in 1983 and the first half of 1984, but thereafter it stabilized at a level slightly above 7 percent. This relative stability of the unemployment rate in the United States since mid-1984 has been the combined result of a deceleration in the rate of job creation and a pickup in the growth of the labor force. Nevertheless, employment has continued to increase rapidly, growing by some 1.7 percent in the 12 months to May 1985. Employment also increased rapidly in Canada, by 4 percent in the 12-month period ended in May 1985. However, Canada's unemployment rate remains at some 10½ percent. Japan's unemployment rate remained little changed at about 2¾ percent from the beginning of the recovery to late 1984 because of the unwinding of labor hoarded during the recession. More recently, however, this unwinding has come to an end and rising output has been translated into employment gains and declining unemployment.

Inflation. The strengthening of the economic expansion in 1984 did not lead to any significant resurgence of inflationary presssures in the industrial countries. Inflation continued to decelerate in these countries in 1984 and the first half of 1985. As measured by consumer prices, the weighted average inflation rate was 3.5 percent in the year ended in the first quarter of 1985 (Chart 4). The rate of increase in the weighted implicit GNP deflator has followed a similar moderating trend during the course of the recovery, falling from an average of 9 percent in 1980–81 to under 5 percent in 1983, and to just over 4 percent in 1984. Moreover, the improvement in inflation has been pervasive—some countries that previously had encountered difficulty in reducing inflation having made notable progress toward better price stability during 1984 and the early part of 1985 (Table 2).

Among the major countries, Italy had the largest absolute reduction in its inflation rate in this period, though its price level continued to increase more rapidly than in the other large countries. France also had a notable fall in inflation. Canada's inflation rate fell to under 3 percent in 1984, while the United States and the United Kingdom consolidated the considerable gains they have made in reducing inflation since 1980. As has been the case for a number of years, the Federal Republic of Germany and Japan maintained inflation rates appreciably below those prevailing in the other major industrial countries. Taken as a whole, however, these developments have led to a significant narrowing of inflation differentials among the major industrial countries.

Inflation in the smaller industrial countries continued to run 2½–3 percent above the rate recorded by the larger countries. Only the Netherlands and Switzerland had inflation rates lower than the average for the major industrial countries. Nonetheless, inflation in the smaller countries has been on a generally downward path, with most countries in the group recording a deceleration in price increases in 1984.

Monetary policy has been instrumental in establishing the less inflationary environment. By consistently directing their efforts to controlling and reducing the rate of expansion of monetary aggregates, authorities have achieved declines in expected inflation, at least for the near term. This reduction in inflationary expectations, together with the continuation of a significant margin of economic slack, greater flexibility in wage-setting processes, and the demonstration effect of modest wage settlements in the public sector, induced further moderation in wage and salary increases in other sectors of the economy.

There was another substantial fall in the rate of increase in unit labor costs in 1984 as the moderation in wage increases was reinforced by a significant increase in labor productivity. In fact, unit labor costs in manufacturing were virtually unchanged in 1984. Labor productivity has increased rapidly during the recovery, partly for cyclical reasons. There are also reasons for thinking that a part of the improvement in productivity may be more lasting. For example, the electronics industry has spawned a number of important technological innovations, demographic factors are tending to increase the average work experience of the labor force, inflation has been reduced, and relative factor prices have stabilized.

The relatively modest increases in the costs of imported raw materials have been another important factor in the improved inflation picture in the industrial countries. Basic commodity prices have been depressed by the high level of international real interest rates and by the relatively ample supply conditions in the markets for a number of key commodities. In addition, the introduction of new technologies may have made the demand structure of the present recovery less resource-intensive than earlier ones. Prices expressed in U.S. dollars have also been affected by the rise of the dollar over the past few years. In any event, raw material costs have risen less during this recovery than might have been expected on the basis of past experience. Expressed in U.S. dollar terms (changes in SDR prices in parentheses) oil prices declined by over 12 percent (−9 percent) in 1983 and by 2 percent (+2 percent) in 1984. The index of other commodity prices increased by slightly less than 8 percent (+11 percent) in 1983 and by only 2½ percent (+6½ percent) in 1984. With the slackening in the pace of expansion in industrial countries in the second half of 1984 and early 1985, commodity prices began to weaken more significantly, and for the first six months of 1985, the index of non-oil commodity prices was 13 percent (−7 percent) below year-earlier levels.

DEVELOPING COUNTRIES

General Developments. The recovery of demand in the industrial countries, together with the further implementation of policies of adjustment in the developing countries, led to a substantial quickening in the pace of output expansion in the developing countries in 1984. After two years of very low growth (1½ percent per annum), real gross domestic product (GDP) in the developing countries increased by 3¾ percent in 1984. Growth among those countries whose exports are not dominated by oil (the non-fuel exporters) was even stronger—close to 4½ percent. Among the fuel exporting countries, which account for roughly a third of developing country output, growth was more sluggish (2 percent) because of the continuing weakness in world demand for their principal export. Nevertheless, even in these countries, the 1984 outturn represented a considerable improvement over the declines in real GDP of the preceding two years (Table 4).

The improvement in the performance of the developing countries is also evident when these are grouped on the basis of financial criteria. The major borrowers posted a 3 percent gain in real GDP, more than reversing the decline in output experienced in 1983. Countries that had previously experienced debt-servicing difficulties, some of which are also included in the group of major borrowers, registered a rate of growth of 2 percent in 1984, restoring the level of real GDP to its 1981 level.

The recovery of activity in the developing countries was led by a strong rebound in the growth of exports. Exports were particularly strong among the non-fuel exporters, increasing by 6 percent in volume terms in 1983 and by a further 12 percent in 1984. These large increases in exports were attributable mainly to the rapid growth in the imports of industrial country trading partners, especially the United States. However, market growth does not account for all of the buoyancy of non-fuel developing country exports in 1983–84; these countries also achieved an increase in market share over the period. Thus, a significant fraction of the growth of exports can be ascribed to the adjustment measures, including exchange rate changes, taken by developing countries themselves over the past several years.

The recovery set in train by exports spread gradually to the domestic economy. Domestic demand growth among the non-fuel exporters, which had progressively decelerated from over 6 percent in 1978 to less than 1 percent in 1982, firmed over the following two years to reach almost 3 percent in 1984 (Chart 5). Although this recovery in domestic demand owed much to the rise in real incomes that stemmed from an increasing volume of exports, it was also spurred by more favorable (or, at least, much less unfavorable) terms of trade developments. The terms of trade of the non-fuel exporters improved by some 1½ percent per annum in 1983–84, a marked change from the terms of trade losses averaging 4 percent per annum of the 1978–82 period. As a result of this change, what had been a source of significant leakage from the domestic spending stream became a

Table 4.

Developing Countries: Growth of Real GDP, 1967–84[1]

(In percent)

	Weights[2]	Average 1967–76[3]	From Preceding Year							
			1977	1978	1979	1980	1981	1982	1983	1984
Developing countries	**100**	**6.0**	**5.8**	**5.3**	**4.5**	**3.4**	**2.4**	**1.6**	**1.5**	**3.7**
Memorandum										
Median growth rate		5.1	5.1	6.0	4.9	3.7	3.3	1.5	1.4	2.8
By region										
Africa	12	5.0	4.3	1.4	4.2	3.7	0.9	0.1	−0.2	2.2
Asia	33	5.2	7.2	9.4	4.8	4.7	5.8	5.1	7.1	6.4
Europe	9	6.0	5.4	5.4	3.8	1.6	2.5	2.2	1.3	2.5
Middle East	17	9.3	6.9	1.9	1.8	−1.8	−0.7	0.3	0.6	2.3
Western Hemisphere	29	5.9	5.3	4.1	6.1	5.3	1.0	−1.0	−3.1	2.4
By predominant export										
Fuel exporters	32	8.1	5.7	2.9	3.7	1.0	1.2	−0.2	−0.8	2.0
Non-fuel exporters	68	5.3	5.9	6.3	4.8	4.3	3.0	2.5	2.7	4.4
Primary product exporters	49	5.5	5.1	3.6	4.7	4.6	1.0	0.2	−0.5	3.1
Exporters of manufactures	42	5.3	6.9	9.6	4.6	3.8	5.2	5.1	6.6	6.2
Service and remittance countries	9	4.0	7.8	6.0	5.7	5.3	3.0	3.1	2.0	3.3
Memorandum										
Major borrowers	30	6.8	6.0	4.8	6.4	4.7	1.8	0.4	−1.2	3.0
Countries with recent debt-servicing difficulties	41	5.5	5.4	3.7	5.3	3.9	1.1	−0.1	−1.9	2.0

[1] Except where otherwise indicated, arithmetic averages of country growth rates weighted by the average U.S. dollar value of GDPs over the preceding three years. China is excluded prior to 1978. For classification of countries in groups shown here, see Appendix IX.
[2] Weights are calculated on the basis of the average U.S. dollar value of GDPs for 1982–84.
[3] Compound annual rates of change.

source of modest support. Another favorable development has been the stabilization since 1982 of the proportion of domestic income required for interest payments on foreign debt. Because of the rise in international interest rates, as well as rapid rates of external borrowing, the proportion of national income required to service that debt had more than doubled from 1978 to 1982—an important contractionary impulse to the income generation process. With the easing of international interest rates that has taken place since 1982, this source of contraction has abated.

Further evidence of improvement, or at least of reduced strain, in the developing countries in 1984 is provided by developments in imports and investment. Both of these (overlapping) forms of spending were severely reduced in the early phase of the adjustment process. For the non-fuel exporters as a group, imports fell by 5½ percent in volume terms in 1982 and grew by only 1½ percent on a year-over-year basis in 1983. Similarly, investment spending in volume terms declined in each year from 1981 to 1983. With the establishment in 1984 of a reasonably sustainable external position for the group as a whole (see below), export growth could begin to be matched by an increased absorption of imports, and imports rose by some 6 percent in volume. Investment spending was less buoyant, but the downward trend in capital formation appears to have been halted in 1984.

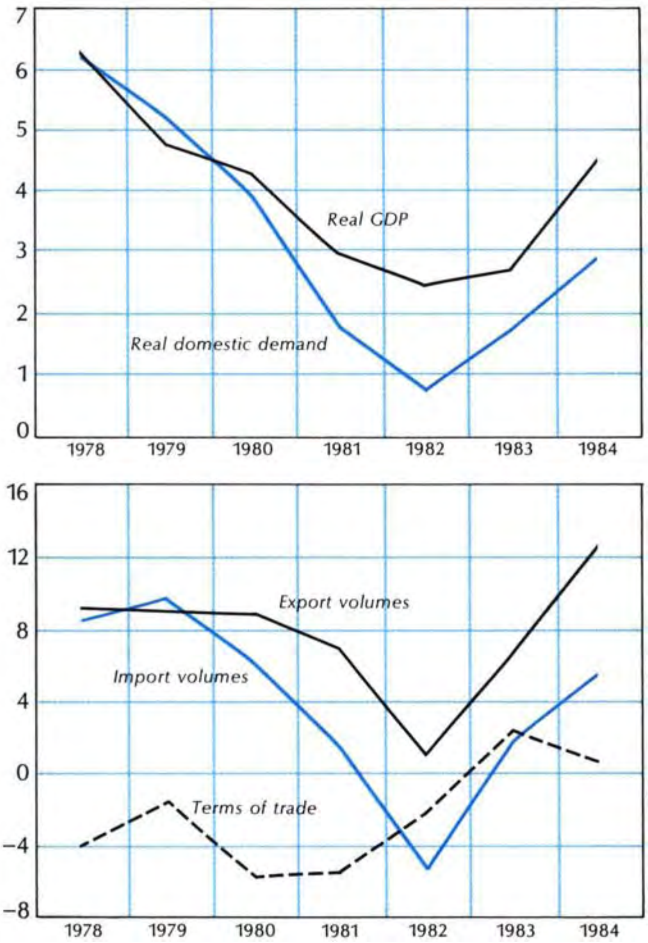
Although output and demand have thus strengthened in the developing countries in 1984, two important qualifications must be made. First, the firming of activity that is apparent in the aggregate statistics masks a quite uneven distribution in the pattern of improvement. Some large countries (notably China and India) once again had above-average growth, but output increases in the more numerous group of smaller countries have tended to be below the average. Thus, the median growth rate among developing countries was only 2.8 percent in 1984, against 3.7 percent for the corresponding weighted average. Moreover, the acceleration in growth from 1983 to 1984 was considerably less marked on a median basis. These general indications of the uneven distribution of growth among countries are confirmed by an analysis (see below) of developments among the various regional groupings of developing countries.

Second, the improvement in economic performance in 1984 was modest in historical perspective and does little to recoup the declines in living standards of the

Chart 5.

Non-Fuel Exporting Developing Countries: Selected Demand and Output Indicators, 1978–84[1]

(Changes, in percent)



[1] For classification of countries, see Appendix IX.

past several years. Growth in 1984 fell well short of the average for 1967–76, a period that included a major recession. Moreover, even with the recovery of activity in 1984, per capita output last year was no higher than it had been in 1980. Also, a larger share of output than in 1980 had to be directed abroad to compensate for adverse terms of trade shifts and higher interest costs and to bring about an underlying improvement in the current account of the balance of payments needed to improve creditworthiness. On average, therefore, per capita absorption declined sharply over the four-year period. The decline in living standards was especially marked among the heavily indebted countries of the Western Hemisphere where, overall, per capita absorption in 1984 was some 20 percent below what it had been in 1980. The African region was also hard hit, for although the decline in per capita absorption was somewhat less than in the Western Hemisphere, it was superimposed on standards of living that were already well below the average in the rest of the developing world.

The modest firming of activity in 1984 coincided with a notable shift in the thrust of fiscal policies in the developing countries. The most significant development was the turnaround in the aggregate fiscal deficit of central governments[2] which, after rising from 1¼ percent of GDP in 1980 to 5½ percent in 1983, declined to 4½ percent in 1984. The shift in fiscal policy appears to have been quite widespread, with the median central government deficit declining from 6¾ percent of GDP in 1983 to 5¼ percent in 1984. Not surprisingly, the largest improvements in fiscal positions were among countries that had earlier encountered debt-servicing difficulties. Many of these countries had received financial assistance from the Fund in support of programs aimed at a major strengthening in public sector finances. Nevertheless, reductions in deficits were also prevalent among countries that had avoided debt-servicing difficulties.

In part because of these reductions in net public sector dissaving, there was also some improvement in the overall savings ratio of developing countries in 1984. This ratio had tended to fall over the preceding years as many countries had encountered difficulties in curbing consumption, despite the need to curtail current account deficits. Indeed, whereas per capita absorption declined from 1981 to 1984, per capita consumption changed little (in the developing countries as a group although not in all subgroups and regions). Overall, therefore, external adjustment appears to have been effected, in the first instance, through sharp curtailments in investment spending. As a proportion of GDP, investment fell from 26 percent in 1981 to 23 percent in 1984—a development which clouds longer-term growth prospects. Fortunately, the resumption of growth and the reductions in dissaving by central governments in 1984 have had a positive effect on aggregate savings, thus reducing the pressure to cut investment spending, which appears to have stabilized in real terms.

The improvement in real output in developing countries in 1984 was not matched by a comparable improvement in price performance. For the group as a whole, the weighted average rate of inflation, which had risen from 25–27 percent in 1980–82 to 33 percent in 1983, accelerated further to almost 38 percent in 1984 (Table 5). However, this trend is largely attributable to some atypical developments in a few countries. The median rate of inflation has stabilized at about 10 percent since 1982, after having declined from 14½ percent in 1980. It is disquieting to note, however, how little progress has been made in further reducing inflation over the past two to three years, a period during which the corresponding rate of price increases in industrial countries was cut by more than a third.

The countries which have had the most difficulty in bringing inflation under control are, for the most part,

[2] Deficits for the public sector remain considerably greater than those for the central government sector cited in the text. The estimates also do not include the "monetary corrections" that are part of some high-inflation countries' accounts.

Table 5.

Developing Countries: Changes in Consumer Prices, 1967–84[1]

(In percent)

	Average 1967–76	From Preceding Year 1977	1978	1979	1980	1981	1982	1983	1984
Weighted averages[2]									
Developing countries	**13.8**	**24.8**	**18.8**	**21.5**	**27.3**	**26.1**	**24.7**	**33.0**	**37.7**
By region									
Africa	8.5	18.8	16.9	16.7	16.6	21.4	13.4	19.0	17.8
Sub-Saharan Africa[3]	9.7	28.0	22.2	26.7	26.1	30.9	19.6	30.2	18.3
Asia	9.4	7.8	4.0	8.0	13.1	10.6	6.2	6.6	6.9
Europe	9.0	15.1	19.8	25.9	37.9	24.0	23.8	23.2	28.0
Middle East	8.7	18.0	12.8	11.1	17.4	15.6	12.7	12.7	16.5
Western Hemisphere	24.5	49.9	41.9	46.5	54.0	58.6	65.5	100.5	119.8
By predominant export									
Fuel exporters	9.7	18.1	12.5	11.8	15.9	16.4	18.0	25.5	20.1
Non-fuel exporters	16.2	28.0	21.4	25.7	32.2	30.6	28.0	36.9	47.1
Medians									
Developing countries	7.8	11.3	9.8	11.5	14.5	13.3	10.7	9.8	10.0
By region									
Africa	7.5	12.0	10.3	11.6	13.5	13.7	12.7	12.0	11.7
Sub-Saharan Africa[3]	7.6	11.9	10.5	12.4	13.8	13.6	12.9	12.5	12.5
Asia	7.1	6.2	5.9	7.5	13.0	12.5	7.6	8.1	8.1
Europe	7.2	11.1	9.9	14.3	16.2	15.7	19.0	13.9	13.5
Middle East	8.2	13.2	10.7	10.3	11.0	8.8	8.2	5.1	5.6
Western Hemisphere	9.0	11.6	10.2	14.9	18.1	14.6	9.4	8.9	11.9
By predominant export									
Fuel exporters	7.9	12.0	10.5	10.0	11.8	13.3	9.7	7.7	8.0
Non-fuel exporters	7.7	10.9	9.4	12.1	15.1	13.3	10.9	9.9	10.0

[1] For classification of countries in groups shown here, see Appendix IX.
[2] Geometric averages of country indices weighted by the average U.S. dollar value of GDPs over the preceding three years.
[3] Excluding Nigeria and South Africa.

those that have had severe adjustment problems and that have encountered debt-servicing difficulties. External adjustment typically requires changes in the relative price structure of the economy, changes that are effected in part through depreciation of the exchange rate and the reduction or elimination of subsidies. Such changes are a source of upward pressure on the domestic price level, which, if not counteracted through suitably restrictive financial policies and/or changes in indexation mechanisms, can generate an inflationary spiral. More generally, the accommodative financial policies that permit these very high inflation rates to become established may be symptomatic of more deep-seated maladjustments that need to be addressed if the adjustments already effected are to be sustainable.

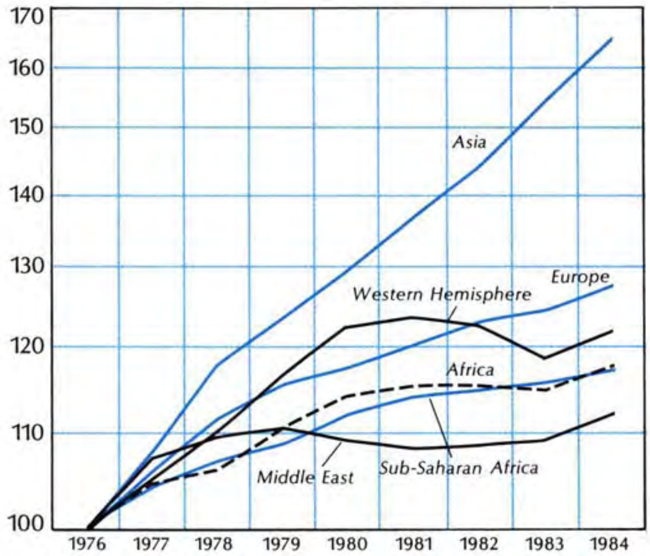
Regional Developments. Perhaps because the recovery of output in developing countries was largely external in origin, it was quite widespread, encompassing all major geographic regions and all categories of exporters (Table 4). Only in the Asian region, however, could the rate of output growth be termed satisfactory in historical perspective. GDP in Asian countries grew by 6½ percent in 1984, after having increased by over 7 percent the previous year. In each of the other major geographical regions, GDP rose at between 2 and 2½ percent in 1984, a notable improvement from the previous year, but little if at all above the rate of population growth.

The disparity in economic performance between Asian countries and the rest of the developing world is even more marked when output trends are viewed in a slightly longer perspective (Chart 6). While the growth rate of Asian countries has averaged over 6 percent per annum for the past four years, output in the Western Hemisphere is estimated to have fallen in absolute terms, and thus to have declined even more sharply in per capita terms. A broadly similar picture prevails in Africa and the Middle East, where marginal gains in output have fallen well short of the rate of population growth. In developing countries in the European region, output

Chart 6.

Developing Countries: Real GDP by Region, 1976–84

(Indices, 1976 = 100)[1]



[1] Logarithmic scale. For classification of countries, see Appendix IX.

growth has generally kept pace with population, but, given the need to bring about an improvement in balance of payments positions, per capita absorption has probably been declining or stagnant.

This dispersion in growth performance reflects several factors, including differences in external positions, creditworthiness, and access to external finance, in the degree of price stability, and in the ability to capitalize on the recovery in world trade. The Asian countries, many of which have a high proportion of manufactures in their exports, were most successful in shifting relative prices and curbing inflation at an early stage in the adjustment process and in restoring export expansion. This was true not only among the export-led economies of East and Southeast Asia but also in the larger countries. In particular, China experienced two consecutive years of rapid economic growth accompanied by stable domestic prices, as both agricultural and industrial output responded to policy reforms. The Chinese economy also became more open to foreign trade and investment. Relatively few Asian countries had severe debt service or external adjustment problems. As a result, the national authorities were able to pursue neutral or only mildly restrictive financial policies in 1984. Fiscal deficits, for instance, which were already lower than the average of other regions, changed little from 1983 to 1984. In combination with a 14 percent increase in exports, these policies resulted in continued strong growth in 1984.

The European developing countries, which are also highly dependent on exports of manufactures, experienced an equally strong recovery of exports in 1983 and 1984. However, several of these countries, handicapped by higher debt ratios and weaker external positions than many Asian countries, experienced difficulties in controlling inflation. Their composite inflation rate accelerated from an already unsatisfactory 23 percent in 1983 to 28 percent in 1984. At the same time, and despite strong exports, growth picked up only modestly to 2½ percent, a rate no better than that achieved in 1981–82.

The region where developments contrast most with those in Asia is the Western Hemisphere. Many countries in this region began the 1980s with very high debt and debt service ratios and large external imbalances. In 1981, current account deficits in the Western Hemisphere region averaged 32 percent of exports of goods and services, compared with only 11 percent for Asia. The ensuing payments difficulties led to sharply contractionary policies, including significant cutbacks in government expenditure and investment programs, and domestic absorption fell sharply. By 1984, the favorable effects of exchange rate shifts, as well as of improvements in the domestic price structure, were becoming apparent, and with demand reviving in industrial countries, exports grew rapidly. However, since a significant part of the growth in foreign receipts had to be devoted to a further strengthening of the external financial position, domestic demand remained relatively subdued. As a result, real GDP growth was limited to an average of 2½ percent—not enough to increase per capita incomes, but a significant improvement on the output declines (averaging 3 percent) that had been recorded in 1983. More disappointing was the deterioration in inflation performance in a number of major countries in the Western Hemisphere. Because of the interaction between accommodative financial policies, exchange rate depreciation, and built-in wage and cost adjustment mechanisms, inflation accelerated sharply in several countries. For the region as a whole, the median rate of inflation rose from 9 percent in 1983 to about 12 percent in 1984, but the weighted average rate jumped from 100 percent to 120 percent.

Countries in the Middle East have, generally, also experienced sluggish economic growth over the past several years, in part because of declining oil prices and export volumes and the hostilities that have continued in several countries in the region. The region's combined export earnings declined by some 43 percent from 1980 to 1984, after having increased by nearly 100 percent from 1978 to 1980. Although the oil exporting countries sustained their spending and imports at a high level during 1981–82, the continued decline in export earnings necessitated a scaling down of their spending and imports from 1983 onward. Largely reflecting weakness in the oil sector, the combined real output of the region had declined from 1979 to 1983 before rising by 2¼ percent in 1984. However, output in the non-oil countries, as well as in the non-oil sectors of oil exporting countries, has been rather better sustained. As for inflation, it is relatively well contained in most countries in the region. In Israel, however, price increases accelerated sharply in a situation of worsening fiscal imbalance against a background of widespread indexation.

Perhaps the most distressing aspect of output trends in developing countries in 1984 was the continued weakness of economic activity in Africa. Growth in sub-Saharan Africa was especially weak—1½ percent, or well below the region's population growth rate. Moreover, this development follows three years of very weak growth (1 percent per annum), so that the already low real per capita incomes of this region in 1980 had fallen by a further 5–10 percent by 1984. The decline in real per capita absorption was probably even larger, since much of the region's increased output over the period had to be exported in order to contain the drain on the external position stemming from terms of trade losses, higher debt service payments, and increased food imports because of the drought that has affected much of the continent. While the reduction in external financing was less in Africa than elsewhere (because of the region's reliance on official grants and credits), the strains on the external position of African countries were nevertheless substantial, as may be seen from the contraction in imports from 1980 to 1984.

The origins of these difficulties are complex, and partly reflect factors beyond the control of the countries concerned, such as the prolonged drought of recent years. However, adjustment to such adverse developments has been complicated by the region's poor record on exports, which, in volume terms, increased by only 1½ percent per annum over the entire period 1967–84. This extremely low growth of exports was again apparent in 1984, despite the relatively strong growth of world trade. The low growth of exports results in part from the commodity composition of Africa's trade, a composition which is to a large extent dictated by the region's resource endowment and stage of development. Moreover, commodity prices have been weak and the recovery has been slow in Africa's traditional markets in Europe. Nevertheless, there is an increasing realization that the financial, exchange rate, and structural policies of governments have also played a role, particularly in terms of distorting incentives in the agricultural sector. Significant improvement in the region's growth prospects would seem to hinge on shifting development strategies toward fostering agricultural production and exports as well as persevering with the improvements in financial policies that have taken place since 1983. Sustained and strong economic growth will also depend on better terms of trade and access to foreign markets.

INTERNATIONAL TRADE AND PAYMENTS

World trade growth rebounded strongly in 1984 under the impetus of the recovery of economic activity in industrial countries. Imports into these countries rose by 12 percent, with growth being concentrated in, but not limited to, the United States. As a result of the surge in industrial country demand, the exports of non-fuel exporting developing countries increased by some 12 percent in volume terms. The fuel exporting countries were less favored. Because of energy conservation, interfuel substitution, and increases in domestic energy production in the aftermath of the oil price increases of the 1970s and early 1980s, oil imports of industrial and oil importing developing countries remained sluggish. Nevertheless, the fuel exporters recorded a small rise in the volume of their exports after four years of substantial declines (Table 6).

Despite the buoyancy of trade, world trade prices remained little changed in 1984. In SDR terms, the average price of traded goods rose by 2¼ percent, after having declined by 1¼ percent the previous year. In dollar terms, however, prices fell for the fourth successive year, reflecting the continued strong appreciation of the U.S. dollar. Export prices for both manufactures and petroleum continued to decline in dollar terms, while other primary commodity prices were up by about 2½ percent on a year-over-year basis. As a result, the terms of trade of non-fuel exporting developing countries improved for the second year in a row. Added to the strong growth in export volumes, this development permitted a significant increase in these countries' imports for the first time since 1980. Nevertheless, it should be recognized that the terms of trade improvement for these countries in 1983–84 was modest in relation to the preceding deterioration. Moreover, non-oil primary commodity prices reached a peak in mid-1984 and fell sharply in dollar terms thereafter. While part of this subsequent decline was due to the further appreciation of the U.S. dollar, prices also fell in SDR terms.

The rebound of economic activity in the industrial countries led to a partly cyclical shift in the global pattern of current account balances in 1984. The industrial countries, taken as a group, moved from a position of rough balance to a deficit of $34 billion, excluding official transfers (Table 7). This deterioration was more than accounted for by a $58 billion deterioration in the U.S. balance. The other industrial countries generally experienced a strengthening in their current account position, which was quite marked for Japan and the smaller industrial countries taken as a group.

The continuation of recovery in the industrial countries, together with sustained adjustment efforts by developing countries, led to a further improvement in the external position of the latter group of countries. These countries' combined deficit declined from $71 billion in 1983 to $44 billion in 1984. Excluding the Middle Eastern oil exporters, the current account deficit of developing countries, which had been $113 billion in 1981, fell to $38 billion in 1984—the lowest deficit in relation to exports of goods and services in the past twenty years. By 1984 this narrowing in current account deficits, together with greater stability in the availability of external financing, permitted the resumption of import growth as well as a large accumulation of reserves. Nevertheless, adjustment efforts among developing countries were uneven and many countries' external positions remained precarious.

The recorded improvement in developing country balances did not compensate fully for the recorded deterioration in industrial country balances. As a result,

Table 6.

World Trade, 1967–84[1]

(Changes, in percent)

	Average 1967–76[2]	From Preceding Year 1977	1978	1979	1980	1981	1982	1983	1984
World trade[3]									
Volume	7.7	4.7	5.4	6.6	1.5	0.7	−2.3	2.1	8.8
Unit value (in U.S. dollar terms)	8.7	9.2	10.0	18.5	19.8	−1.2	−4.1	−4.4	−1.8
(in SDR terms)[4]	7.1	8.0	2.6	14.8	18.9	9.1	2.4	−1.3	2.3
Volume of trade									
Exports									
Industrial countries	8.0	5.1	5.7	7.1	3.7	3.4	−2.2	2.4	9.9
Developing countries	6.0	2.5	3.9	5.4	−2.6	−4.0	−7.2	0.9	8.0
Fuel exporters	5.3	1.0	−1.9	2.0	−10.9	−12.6	−15.1	−5.7	2.5
Non-fuel exporters	6.8	4.0	9.4	9.0	9.0	7.0	1.0	6.2	12.0
Imports									
Industrial countries	7.5	4.1	4.9	8.6	−1.7	−2.5	−0.8	4.2	12.2
Developing countries	8.4	9.5	7.0	4.9	8.3	7.3	−3.9	−3.6	2.5
Fuel exporters	15.1	13.3	4.2	−4.3	13.0	20.5	−0.7	−12.9	−4.9
Non-fuel exporters	6.3	7.5	8.5	9.6	6.4	1.6	−5.5	1.5	5.9
Terms of trade									
Industrial countries	−0.9	−1.4	3.0	−3.0	−6.8	−2.1	1.8	2.0	−0.2
Developing countries	4.1	3.7	−6.7	10.8	15.2	1.2	−1.7	−2.1	0.3
Fuel exporters	11.4	1.0	−9.7	26.9	40.4	8.5	−1.1	−7.5	0.1
Non-fuel exporters	−0.6	6.2	−4.1	−1.6	−5.7	−5.5	−2.2	2.4	0.6
Memorandum									
World trade prices (in U.S. dollar terms) for major commodity groups[5]									
Manufactures	7.5	8.0	14.5	13.9	11.1	−6.0	−2.0	−3.5	−3.5
Oil	21.7	9.6	0.4	45.9	63.5	9.9	−4.0	−12.2	−2.0
Non-oil primary commodities	7.4	21.2	−4.1	16.3	8.3	−15.2	−12.4	7.8	2.5
World trade prices (in SDR terms)[4]									
Manufactures	6.0	6.8	6.8	10.4	10.3	3.8	4.7	−0.3	0.6
Oil	20.0	8.4	−6.4	41.4	62.3	21.3	2.5	−9.3	2.2
Non-oil primary commodities	5.8	19.8	−10.6	12.7	7.5	−6.4	−6.4	11.4	6.9

[1] For classification of countries in groups shown here, see Appendix IX. Excludes data for China prior to 1978.
[2] Compound annual rates of change.
[3] Averages based on data for the two groups of countries shown separately below and on partly estimated data for other countries (mainly the U.S.S.R. and other nonmember countries of Eastern Europe and, for years prior to 1978, China).
[4] For years prior to 1970, an imputed value of US$1.00 has been assigned to the SDR.
[5] As represented, respectively, by (1) the United Nations export unit value index for the manufactures of the developed countries; (2) the oil export unit values of the oil exporting countries; and (3) the Fund's *International Financial Statistics* index of market quotations for non-oil primary commodities.

the global discrepancy on current account, after having declined from $96 billion in 1982 to $64 billion in 1983, rose once again to some $70 billion in 1984. An international working party has been established by the Fund to attempt to identify the principal sources of the discrepancy and to make recommendations concerning improvements in statistical techniques.

Exchange market developments during 1984 and the early part of 1985 were dominated by the continued strength of the U.S. dollar, although by mid-1985 the dollar had reversed about half of the appreciation that occurred in 1984. From December 1983 to April 1985, the nominal effective rate of the U.S. dollar appreciated by 17 percent (Chart 7). Over that same period, the deutsche mark depreciated by 2 percent in nominal effective terms, and the pound sterling by 5½ percent; the Japanese yen was little changed, on balance. The U.S. dollar, therefore, continued to be the focus of international attention as its value in real effective terms reached levels some 30 to 45 percent above its value for the first decade of generalized floating, despite the rapid deterioration in the U.S. current account. These developments, and the factors contributing to them, are discussed in Chapter 2.

Table 7.

Summary of Payments Balances on Current Account, 1977–84[1]

(In billions of U.S. dollars)

	1977	1978	1979	1980	1981	1982	1983	1984
Industrial countries	**−2.4**	**31.9**	**−5.6**	**−38.8**	**3.1**	**1.2**	**2.2**	**−34.2**
Canada	−4.1	−4.0	−4.2	−1.2	−5.4	1.9	1.3	1.7
United States	−11.7	−12.3	2.6	6.6	10.7	−3.8	−35.5	−93.4
Japan	11.3	17.0	−7.9	−9.5	6.2	8.1	22.2	36.4
France	1.0	8.5	6.9	−2.5	−2.8	−9.5	−2.3	1.8
Germany, Fed. Rep. of	8.5	13.4	0.1	−8.3	0.8	10.2	10.0	13.1
Italy	3.1	7.9	6.4	−9.5	−7.5	−4.9	1.0	−3.0
United Kingdom	2.0	5.5	3.3	12.3	17.5	11.8	6.9	3.2
Other industrial countries	−12.5	−4.0	−12.8	−26.7	−16.4	−12.7	−1.3	5.9
Developing countries	**−0.1**	**−36.2**	**0.2**	**22.6**	**−56.3**	**−99.6**	**−70.5**	**−43.9**
By region								
Africa	−10.4	−15.4	−6.6	−5.3	−25.2	−24.4	−15.5	−10.9
Asia	−0.9	−8.9	−15.2	−21.8	−23.4	−19.8	−16.3	−7.9
Europe	−9.0	−7.1	−9.9	−12.5	−10.5	−6.7	−5.3	−3.3
Middle East	31.8	14.5	53.7	91.6	45.8	−6.5	−21.7	−16.3
Western Hemisphere	−11.6	−19.4	−21.7	−29.3	−43.1	−42.1	−11.7	−5.5
By analytical criteria								
Fuel exporters	25.0	−0.7	54.0	100.1	34.7	−23.4	−17.0	−5.7
Non-fuel exporters	−25.1	−35.5	−53.8	−77.5	−91.0	−76.2	−53.6	−38.2
Market borrowers	−19.5	−32.8	−30.3	−35.6	−72.2	−73.6	−29.8	−8.4
Official borrowers	−8.4	−11.5	−12.9	−16.9	−19.3	−18.0	−15.4	−16.8
Other countries[2]	**−6.9**	**−3.5**	**−2.1**	**−3.0**	**−2.8**	**2.6**	**4.9**	**6.7**
Total[3]	**−9.5**	**−7.8**	**−7.6**	**−19.1**	**−56.0**	**−95.8**	**−63.5**	**−71.4**

[1] On goods, services, and private transfers. For classification of countries in groups shown here, see Appendix IX.
[2] Covers estimated balances on current account transactions only in convertible currencies of the U.S.S.R. and other nonmember countries of Eastern Europe.
[3] Reflects errors, omissions, and asymmetries in reported balance of payments statistics on current account, plus balance of listed groups with countries not included.

INDUSTRIAL COUNTRIES

The major balance of payments developments in industrial countries during 1984 and the first part of 1985 were the increases in the current account deficit of the United States and in the surplus of Japan (Chart 8). The U.S. current account had been in approximate balance or a small surplus from 1979 through 1981, before shifting into deficit in 1982; the deficit then increased to more than $100 billion (about 2¾ percent of GNP) in 1984.[3] Data on merchandise trade for the first quarter of 1985 suggest that the deficit may have widened still further in that period. In Japan, the current account surplus rose from $7 billion in 1982 to $21 billion in 1983 and to $35 billion in 1984.

The emergence of a large deficit in the U.S. current account has been associated with the relatively rapid growth of demand in the United States. Growth of real domestic demand from 1982 to 1984 was almost twice as rapid (at 14 percent) in the United States as in any other major industrial country. However, and at least equally important, the United States has also suffered a sharp loss of export market shares in recent years (about a fourth from 1980 to 1984) and a significant increase in import penetration in domestic markets (about a fifth over these four years, measured as the ratio of import volume to real GNP). These developments are attributable primarily to the effects on U.S. competitiveness of the very large appreciation of the U.S. dollar since 1980.

The sharp increase in the Japanese surplus is attributable in large measure to the responsiveness of Japanese exports to the growth in demand abroad, especially in the United States, and, to a lesser extent, developments in primary commodity prices, including oil, over the past few years. Japanese imports actually increased by 11 percent in volume in 1984, but exports rose by even more (16 percent). Because Japanese industry has been substantially restructured toward high-technology products, Japan was particularly well placed to expand its

[3] The current account figures discussed in this section include official transfers; the general pattern of developments is quite similar for balances excluding these transfers.

Chart 7.
Major Industrial Countries: Indices of Monthly Average U.S. Dollar and Effective Exchange Rates, 1980–April 1985
(Average value for 1974–83 = 100)

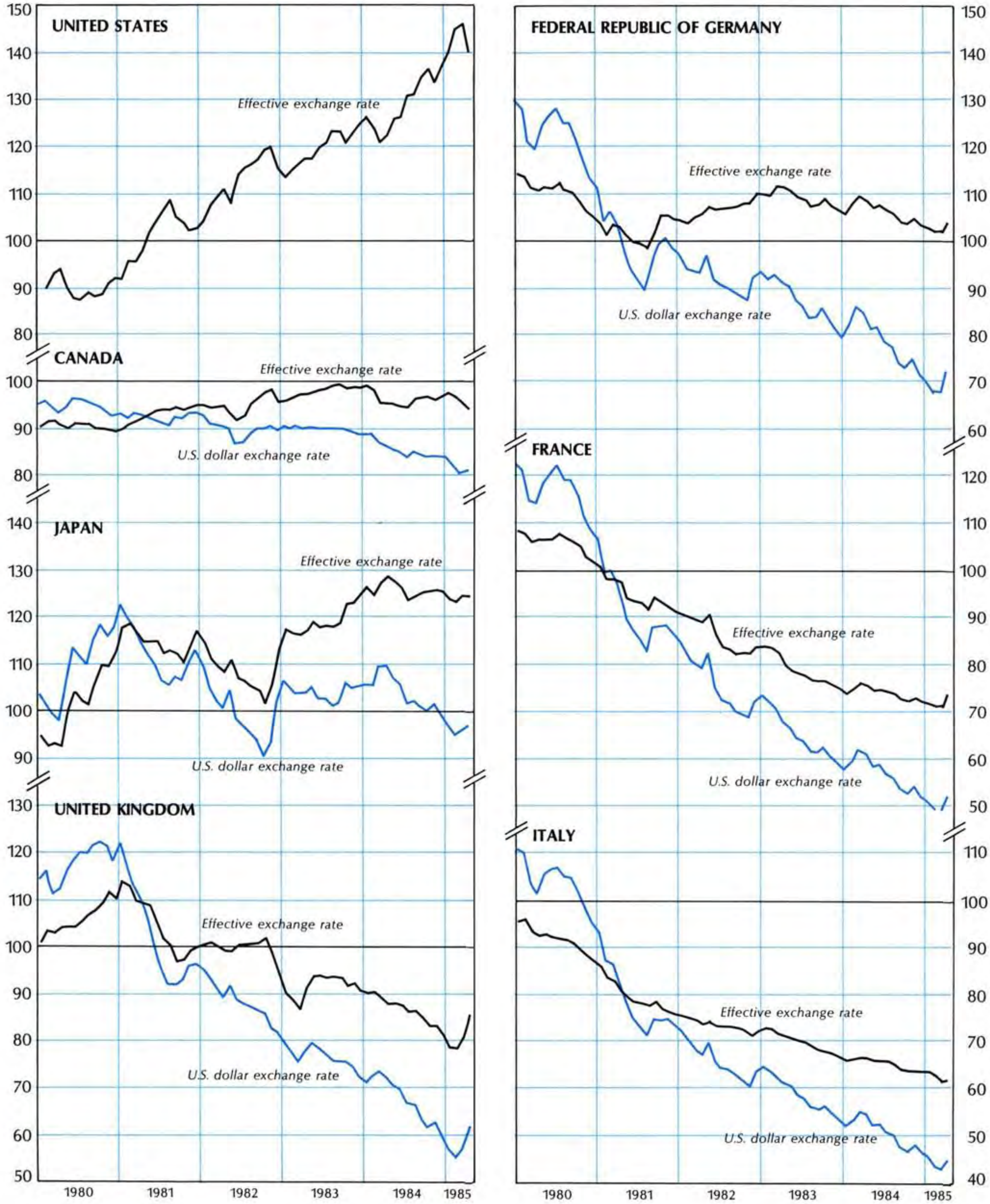
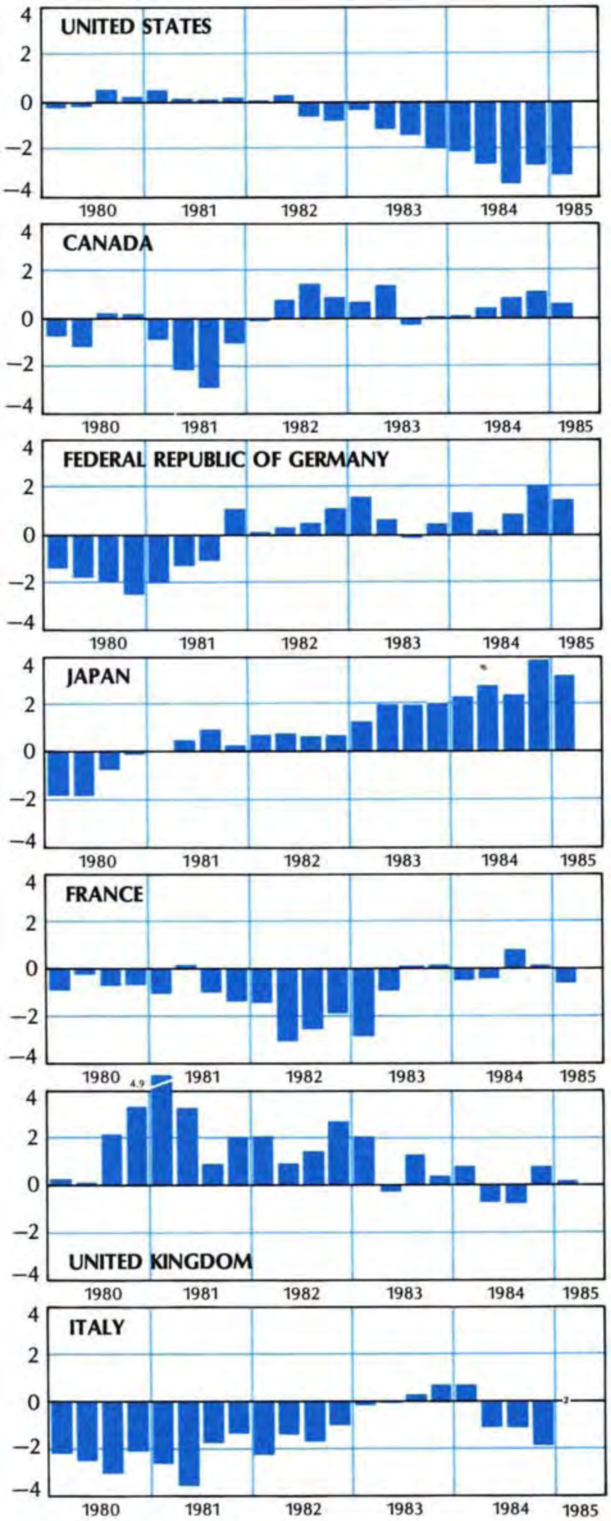


Chart 8.
Major Industrial Countries: Payments Balances on Current Account, Including Official Transfers, 1980–First Quarter 1985
(In percent of GNP)[1]



[1]Based on seasonally adjusted data.
[2]Data not available at time of publication.

exports in spite of growing pressure from some other industrial countries to limit voluntarily shipments of some products.

With very limited recourse to exchange market intervention, the large shifts in current account balances for Japan and the United States were associated with opposing movements of similar magnitude in private capital flows. For Japan, the shift was primarily in terms of long-term instruments, as Japanese residents bought larger quantities of foreign securities while nonresidents' net purchases of Japanese securities declined. The major shift in the U.S. accounts was a reduction in the rate of net acquisition of foreign assets by U.S. residents, from an outflow of $108 billion in 1982 to one of $12½ billion in 1984.

The Federal Republic of Germany recorded only a small increase in its current account surplus in 1984, in spite of a number of favorable developments. Export volumes increased strongly, reflecting rapid growth in export markets, gains in competitiveness, and a favorable commodity composition of German exports. At the same time, imports were restrained by the continued slow growth of demand in Germany relative to the average of industrial countries. On the other hand, the continued depreciation of the deutsche mark during 1984 resulted in a deterioration in the terms of trade that limited the increase in the current account surplus. Also, export growth was held back during the first half of 1984 by the strike of metalworkers.

The deficit in the French current account balance fell from $12 billion in 1982 to $4½ billion in 1983 and then to nearly zero in 1984. The major source of this reduction was the implementation of policies restraining the growth of domestic demand in France at a time when demand growth was accelerating abroad. Real total domestic demand in France declined slightly from 1982 to 1984, compared with aggregate growth of more than 8 percent for the other industrial countries. France also has gained competitiveness over the past four years, especially vis-à-vis the United States and Canada; the real bilateral exchange rates against Germany and the other member countries of the European Monetary System have been broadly stable.

Italy's current account slipped back into deficit in 1984, reversing a substantial portion of the gain achieved in the previous year. The major source of this reversal was the resumption of growth in domestic demand, which was considerably more rapid than in the other large countries of continental Europe. In addition, although Italy has gained competitiveness relative to the North American countries during the past few years, inflation differentials have led to an erosion of competitiveness in relation to its major European trading partners.

The United Kingdom also experienced a deterioration in its current external position, as the $3½ billion current account surplus of 1983 largely disappeared in 1984. A large part of this shift could be attributed to the effects of the year-long strike by coal miners. At the same time, while the trend toward declining market shares in non-oil exports appears to have been arrested, non-oil imports were stimulated by a relatively buoyant growth in domestic demand. It would appear that, despite substantial competitiveness gains in the past four years, the external position of the United Kingdom is continuing to suffer from the earlier (and even larger) decline in external competitiveness.

Canada has experienced a weakening of competitiveness vis-à-vis European countries and Japan on a scale similar to that of the United States during the past four years. However, because of the large share of Canadian trade with the United States, the real effective appreciation of the Canadian dollar has been fairly modest. Furthermore, growth of domestic demand in Canada has been below the average for its major trading partners for the past three years, reflecting the relatively severe recession in Canada. Consequently, Canada's trade performance has been strong, and the current account balance has shown a small surplus in each of the past three years.

The combined current account balance of the smaller industrial countries strengthened by $7 billion in 1984 and showed a surplus for the first time since 1973. The largest improvement in this group was recorded by Spain, where the current account balance shifted from a $2¼ billion deficit in 1983 to a $2 billion surplus in 1984. This improvement reflected a decline in real domestic demand, at a time when foreign demand was accelerating, as well as a lagged response to the 20 percent depreciation in the real effective exchange rate (measured on the basis of consumer prices) over the previous four years. Finland, Norway, and Sweden also showed significant improvements, ranging from 1½ percent to over 2 percent of GNP, reflecting partly the earlier depreciation of their real effective exchange rates. Sweden shifted from a deficit in 1983 to a surplus in 1984, while Finland moved into balance; the Norwegian surplus rose from 3½ percent to about 6 percent of GNP. The largest deterioration in the current balance was that of New Zealand, where the deficit increased from 4¼ percent to nearly 7 percent of GNP.

DEVELOPING COUNTRIES

Developing countries made further progress in 1984 in their efforts to reduce imbalances in their external accounts. Export growth was the driving force behind the adjustment in 1984, as many developing countries took advantage of the opportunities afforded by the strong growth of demand in the United States. Export expansion was sufficient to reduce the current account deficit and to finance a modest growth of imports, the first time the latter had shown an increase since 1981.

For the group of developing countries excluding those for which comprehensive statistics of external debt are either not available or whose debt is small in relation to external assets (i.e., all developing countries except the eight major oil exporters in the Middle East), the reduction in the current account deficit was approximately matched by lower borrowing from market sources. This led to a considerable deceleration in the rate of growth of debt. The debt/export ratio fell for the first time in several years, and the maturity structure of the debt was improved, mainly through continuing large rescheduling operations. Other encouraging financial developments included a reduction in capital flight, the rebuilding of official reserves (by a record $22 billion), and reductions in payments arrears.

Current Account Developments. Strenuous adjustment efforts, together with an improved external environment, resulted in a further substantial narrowing in the combined current account deficit of developing countries. This deficit, which had been approximately $100 billion in 1982, fell to $44 billion in 1984, approximately 6¼ percent of exports of goods and services (Table 7).

The aggregate picture, however, masks divergent trends in different groups of developing countries, particularly between those that are and are not heavily dependent on exports of oil (Chart 9). Fuel exporting countries were in surplus on their current account during 1979–81, but slipped into deficit thereafter. Initially, the accumulated surpluses of earlier years enabled them to adopt a more gradual approach to adjustment, but continued declines in export volumes and prices eventually prompted a sharp cutback in imports which arrested the decline in their current account position. Among the non-fuel exporting countries, 1984 represents the third year in which the need for adjustment dominated economic management of many countries in the group. These countries did not have the cushion of several years of sustained current account surpluses and had been obliged to adjust at an earlier stage than the fuel exporters. Their aggregate deficit declined from $91 billion in 1981 (equivalent to 23 percent of exports of goods and services) to only $38 billion in 1984 (9 percent of exports of goods and services).

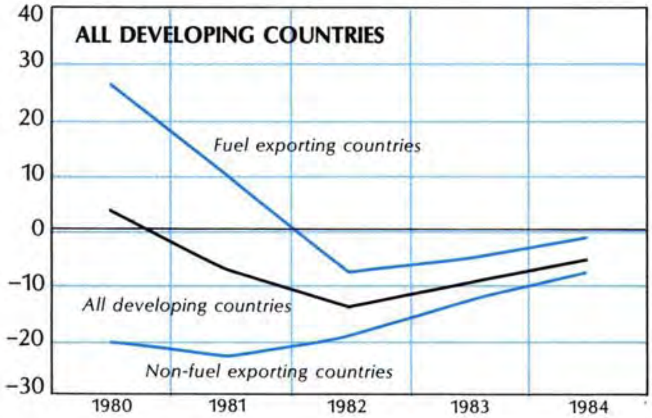
The nature of the current account improvement taking place in developing countries has changed over time as export growth has replaced import cuts as the driving force behind adjustment. In the period 1981–83, adjustment took the form of import compression rather than export growth in four of the five geographical regions. However, the relative contributions were reversed in 1984. Export expansion was the dominant force in adjustment in 1984 in Asia, Europe, and the Western Hemisphere; in Africa, export growth also picked up, although by a lesser amount and from a lower base; and only in the Middle East did import compression continue to lead adjustment. The Middle East is exceptional because most of the major oil exporters in the region had to rely on import compression, given the limited scope for alternative means of adjustment; excluding these major oil producers, the Middle East followed a similar pattern to other regions.

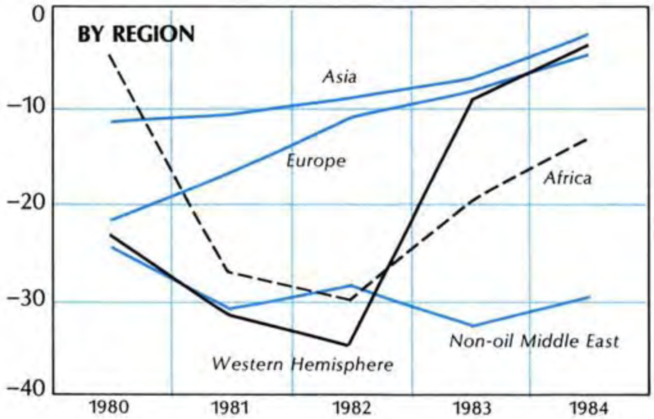
The recovery in industrial countries helped developing countries in a number of respects. Increased

Chart 9.

Developing Countries: Current Account Balances, 1980–84[1]

(In percent of exports of goods and services)





[1] For classification of countries, see Appendix IX.

demand boosted export opportunities for developing countries. The growth of export volumes among the non-fuel exporting countries, after dropping to near stagnation in 1982, accelerated rapidly thereafter and reached 12 percent in 1984, almost double the long-run average. Recovery also assisted the fuel exporting countries: the rate of decline of the latter's export volume diminished in 1983, and a modest increase in export volume was achieved in 1984, the first growth since 1979.

Strengthening economic activity also had a significant impact on the prices of non-oil primary commodities. After having declined by some 25 percent in U.S. dollars in 1981–82, the index of these prices increased by a cumulative 10½ percent in 1983–84. Price increases were unevenly distributed across commodities, however (Chart 10). Prices for tropical beverage crops, agricultural raw materials, and food grew strongly during 1983, then leveled off in the first half of 1984 and declined significantly thereafter. The index of metals prices experienced only a brief and limited recovery in early 1983, then resumed its earlier decline; by the end of 1984 metals prices were 5 percent lower than at the trough of the recession. Producers of copper, iron ore, and tin were most affected. Their prices weakened for a number of reasons, including excess capacity and high levels of stocks at the end of 1982, substitution of other materials for metals by consumers, and a shift in supply toward low-cost producers.

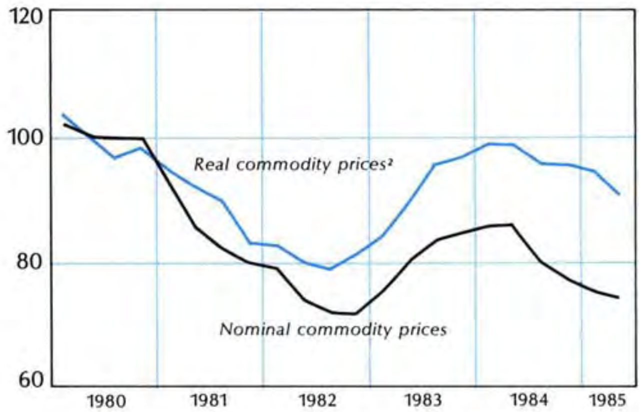
Shifts in commodity prices were an important contributory factor in terms of trade movements during 1983–84. On a year-over-year basis, the terms of trade of the non-fuel exporting countries improved by 2½ percent in 1983 and by ½ of 1 percent in 1984, the first improvements since 1977. Nevertheless, these countries' terms of trade in 1984 were 15 percent worse than they had been in 1977. The terms of trade of fuel exporting countries were stable in 1984, after having deteriorated in 1982–83; the cumulative improvement from 1977 to 1984 was about 60 percent.

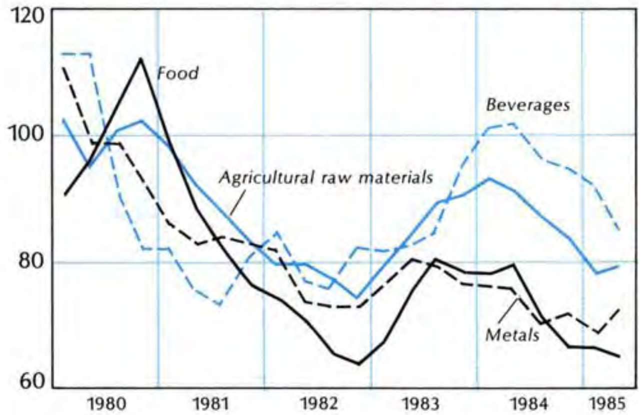
Falling nominal interest rates also provided a more favorable environment for the developing countries' adjustment efforts. While the London interbank offered rate (LIBOR) firmed somewhat in 1984, it was nevertheless over 4 percentage points below the average for 1981–82.

Chart 10.

Developing Countries: Non-Oil Primary Commodity Prices, 1980–Second Quarter 1985[1]

(Indices, expressed in terms of U.S. dollars, 1980 = 100)





[1] For classification of countries, see Appendix IX.
[2] Nominal commodity prices deflated by the UN index of prices of manufactured exports of developed countries.

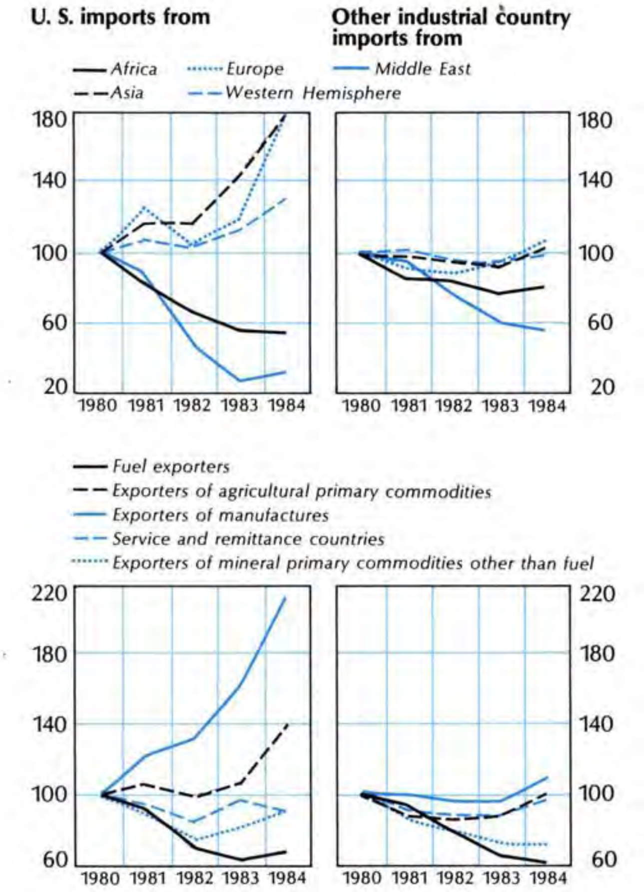
The U.S. recovery was of fundamental importance to countries seeking export-led adjustment, as can be seen from Chart 11. U.S. imports from Asian and European developing countries increased by some 80 percent between 1980 and 1984, with the growth being concentrated in 1983–84. In contrast, other industrial countries' imports from these regions were comparatively flat. The pattern was the same, though growth was more muted, for the Western Hemisphere. The opposite pattern of falling and relatively weaker exports to the United States applied to Africa and the Middle East. These developments were, however, due wholly to the weak exports to the United States of the fuel exporting countries in these two regions.

While the U.S. economic recovery offered the opportunity for export-led adjustment in many developing countries, it did so in an uneven manner (Chart 11), largely reflecting the commodity composition of U.S. import growth. Exporters of manufactures achieved remarkable success, as U.S. imports from them doubled between 1980 and 1984; exporters of agricultural primary commodities also benefited substantially from a 40 percent rise in U.S. imports. However, U.S. imports from fuel exporters fell by one third between 1980 and 1984, and by one tenth from both mineral exporters and from countries that rely mainly on service exports or on remittances. The groups that did not benefit directly from the U.S. recovery had to continue to rely on import cuts to bring about their adjustment. Some fuel exporting countries, in particular, continued to be in this position.

Chart 11.

Industrial Countries: Imports from Developing Countries, 1980–84[1]

(Indices, in terms of U.S. dollars, 1980 = 100)



[1] For classification of countries, see Appendix IX.

The domestic aspects of adjustment were also important. Developing countries laid the basis for external adjustment by adopting measures to curb domestic demand, to boost savings, and to improve resource allocation (including the adoption of more market-oriented policies on interest rates and exchange rates). Measures of demand restraint tend to take effect more quickly than those that enhance supply; hence the initial phase of adjustment was characterized more by import cuts than by export growth. However, supply-side adjustment policies have improved the developing countries' ability to take advantage of the recovery in world demand, and this too has contributed to the growing relative importance of export expansion in current account adjustment.

One measure of the success of the supply-side policies was the change in the developing countries' share in the imports of industrial countries: Asia's share increased by 2.6 percentage points between 1980 and 1984, Western Hemisphere's share by 1 percentage point, and Europe's by ¼ of 1 percentage point; the Middle East (excluding the major oil exporters) retained its market share, but Africa's share (excluding Algeria and Nigeria) dropped back by ½ of 1 percentage point.

Finance and Debt. The developing countries' borrowing from market sources, net of amortization, had reached a peak of some $84 billion in 1981 before declining sharply from mid-1982 onward (Table 8). Although long-term borrowing from official creditors and non-debt-creating capital flows continued at a relatively stable level (about $50 billion annually), the initial decline in commercial lending precipitated, for countries which were suffering from fundamental balance of payments weaknesses, a severe financial crisis, leading to arrears, debt rescheduling, heavy use of Fund credit, and a substantial drawdown of reserves. As the current account position of indebted countries strengthened, however, the financing situation became less acute. While rescheduling continued to be necessary on a large scale in 1984, recourse to Fund credit diminished, outstanding arrears declined, and developing countries added a record $22 billion to their reserve holdings.

The decline in the developing countries' net borrowing from market sources was the most dramatic financial development in 1981–84. It was initiated by a perception on the part of creditors that borrowing countries would experience extreme difficulty in servicing their external obligations if the current account deficits that had emerged in 1980–81 remained at existing levels. As a result, the supply of new com-

Table 8.

Developing Countries: Current Account Financing, 1978–84[1]

(In billions of U.S. dollars)

	1978	1979	1980	1981	1982	1983	1984
Current account deficit	57	62	77	113	103	59	38
Use of reserves	−14	−22	−18	2	14	−10	−22
Capital outflows	−10	−11	−27	−37	−38	−20	−9
Asset transactions, net	−5	−8	−8	−17	−13	−8	−6
Errors and omissions[2]	−5	−3	−19	−20	−25	−11	−4
Non-debt-creating flows[3]	18	25	24	28	29	23	23
Net external borrowing	63	70	98	120	98	66	47
Long-term borrowing from official creditors[4]	16	18	24	27	30	29	30
Other financing flows, net	46	52	74	93	67	36	17
Reserve-related transactions	2	−1	4	9	19	17	4
Liabilities constituting foreign authorities' reserves	1	−1	2	1	1	−1	—
Use of Fund credit	—	—	2	6	7	11	5
Arrears	1	—	1	2	11	8	−1
Other net external borrowing[5]	45	52	70	84	48	19	14
Long-term	35	43	39	61	35	36	25
Short-term	10	10	30	23	13	−17	−11

[1] Excluding the eight major oil exporters in the Middle East. See Appendix IX.
[2] Positioned here on the presumption that this reflects primarily unrecorded capital outflows.
[3] Official transfers, direct investment, SDR allocations, gold monetization, and valuation adjustments.
[4] Publicly guaranteed by the recipient.
[5] Mainly from banks and other private creditors.

mitments to borrowing countries from commercial sources virtually dried up. Countries that relied predominantly on market sources for financing their external position (the market borrowers) borrowed $125 billion (net) from banks and other private creditors in 1981–82, but only $20 billion in 1983–84. Indeed, the market borrowers' financing situation was even tighter than these figures suggest. They secured net inflows from private creditors in 1983–84 only as a result of obtaining some $23–24 billion in concerted lending packages related to debt restructuring.

The sharp contraction in new lending to the market borrowers, as well as the capital flight that occurred in many of these countries, led to widespread debt-servicing difficulties. Where such difficulties were encountered, they often reflected more fundamental problems than merely the reduced availability of new lending. Inadequate adjustment policies in response to adverse shifts in the external environment had led to growing price distortions and fiscal imbalances in the years before 1982. These distortions had hampered the process of payments adjustment and had permitted growing current account deficits and a rapid buildup of external debt. Countries which had to interrupt normal debt servicing at some time during 1981–84 had current account deficits averaging one third of export earnings in 1981, despite their already high debt and debt service ratios (Table 9). In contrast, the market borrowers that avoided debt-servicing problems had considerably lower current account deficits and debt service ratios.

There is a marked contrast between the instability in recent developments in the external financing of market borrowers and the relative stability of the external financing of the countries that borrow mainly from official creditors (the official borrowers). The capital inflows of the latter group are less vulnerable to changing perceptions of creditworthiness, based as they are predominantly on long-term borrowing from official creditors and non-debt-creating flows (mainly official transfers and direct investment). These financing considerations largely explain why the official

Table 9.

Developing Countries: Debt, Debt Service, and Current Account Deficits of Market Borrowers, 1981–84[1]

(In percent of exports of goods and services)

	Market Borrowers with Recent Debt-Servicing Problems			Other Market Borrowers		
	1981	1984	Change 1981–84	1981	1984	Change 1981–84
Debt	194	264	70	65	78	13
Debt service	38	40	2	12	14	2
Current account deficit	30	2	−28	10	2	−8

[1] For classification of countries, see Appendix IX.

borrowers' current account adjustment could be less than that of the market borrowers. For the official borrowers as a group, current account deficits declined only from 50 percent of exports of goods and services in 1981 to 46 percent in 1984 (Table 10).

The adjustment efforts of developing countries encompassed improvements in the capital as well as in the current account. Indeed, capital outflows—mostly capital flight—fell by a proportionally greater amount than the current account deficit between 1981 and 1984. The stemming of capital outflows, from $37 billion in 1981 to $9 billion in 1984 (Table 8), was largely attributable to improvements in financial and exchange rate policies in indebted countries.

By 1984, the reduced level of capital outflows, together with improvements in the current account and a stabilization in capital inflows, created the opportunity for reduced reliance on exceptional financing and for a rebuilding of official reserves. The use of Fund credit fell by half in 1984, arrears declined slightly, and a further $22 billion was added to reserves (Table 8).

Increases in reserves had become a matter of priority in many countries by 1983–84. The median reserve level of developing countries (other than the eight major oil exporting countries in the Middle East) had been run down to only five weeks' imports at the end of 1982, against a median level of over two months' imports in the late 1970s. Despite the recent record increase in reserves, the median stock of these countries' reserves was still equivalent to only six weeks' imports at the end of 1984. The situation was particularly precarious for countries in sub-Saharan Africa: their total stock of reserves was only $3 billion at the end of 1984, with a median level at only three weeks' imports. This is an extremely low level, and helps to explain why these countries are vulnerable to liquidity problems as a result of any adverse change in their circumstances.

Table 10 also illustrates regional diversities in the change in developing countries' financing patterns. The deepest cut in financing requirements was made by the Western Hemisphere, reflecting both the large number of market borrowers with recent debt-servicing problems in the region and the capital flight to which many countries in the region had been subject. Reductions in the financing requirements of Asia, Africa, and Europe also reflect the policies of market borrowers in those regions. In the context of policies designed to restore creditworthiness, it is notable that Western Hemisphere and African countries tempered the reduction in their financing requirements by borrowing to increase their reserves.

The rate of growth of developing countries' external debt, expressed in U.S. dollars, slowed dramatically in the early 1980s, from 18½ percent annually in 1980–81 to 5¼ percent annually in 1983–84. The deceleration was the result of the reduction in the developing countries' overall external financing requirement, of the effect of exchange rate changes on the dollar value of outstanding debt denominated in other currencies, and of the increasing importance of the non-debt-creating flows

Table 10.
Developing Countries: Changes in Current Account Financing, from 1981 to 1984[1]
(In billions of U.S. dollars, except where otherwise noted)

	Changes in Financing Requirement				Changes in Financing Flow				Memorandum Item
		Of which				Of which			
	Total	Current account deficit	Capital outflow[2]	Accumulation of reserves	Total	Non-debt-creating flows[3]	Long-term borrowing from official creditors[4]	Other borrowing[5]	Change in current account deficit[6]
Developing countries	**−79**	**−75**	**−28**	**24**	**−79**	**−5**	**2**	**−76**	**−14.1**
Of which,									
Market borrowers	−71	−64	−28	21	−71	−4	3	−70	−16.5
Official borrowers[7]	−4	−3	—	−1	−4	−2	—	−2	−3.8
By region									
Africa	−8	−14	−1	7	−8	1	−1	−8	−13.5
Asia	−13	−16	−1	4	−13	−2	—	−10	−7.8
Europe	−4	−7	—	3	−4	1	—	−4	−11.8
Non-oil Middle East[1]	−3	—	−1	−2	−3	−1	1	−2	−0.3
Western Hemisphere	−52	−38	−26	12	−52	−3	3	−51	−27.5

[1] Excluding the eight major oil exporters in the Middle East. See Appendix IX.
[2] Asset transactions, net, plus recorded errors and omissions (on the presumption that the latter reflects primarily unrecorded capital outflows).
[3] Official transfers, net direct investment, SDR allocations, valuation adjustments, and gold monetization.
[4] Publicly guaranteed by the recipient.
[5] Mainly borrowing from market sources but also includes use of reserve-related assets.
[6] As percent of exports of goods and services.
[7] Excludes China and India.

relative to the current account deficit. Although non-debt-creating flows fell by some $5 billion from 1981 to 1984, their contribution to financing the current account deficit rose from about one fourth to almost two thirds.

While the appreciation of the U.S. dollar tended to retard the growth of debt expressed in dollars, on balance it seems likely that the appreciation of the dollar adversely affected the debt-servicing capacity of the indebted countries. The dollar's appreciation reduced the dollar value of debt by about 11 percent between 1980 and 1984, but it probably affected export prices in terms of dollars to an even greater extent. Thus, the exchange rate movement of 1980–84 would have tended, other things being equal, to increase the debt/export ratio of most developing countries.

Developing countries' debt/export ratios fell from 158 percent in 1983 to 151 percent in 1984, despite the adverse impact of the dollar's appreciation. This was the first reduction in the debt ratio since 1980. However, the overall debt ratio remains very high in historical perspective. Moreover, debt ratios are highly unequal across regions: the Western Hemisphere's ratio was extraordinarily high at 280 percent in 1984; the non-oil Middle East and Africa also recorded high ratios, 176 percent and 162 percent, respectively, both of which increased in 1984; however, Europe (127 percent) and Asia (86 percent) achieved reductions in 1984 in their already relatively low ratios.

Adjustment policies in 1982–84 were combined with efforts to improve the maturity structure of debt. Indebted countries reduced their short-term debt from $155 billion at the end of 1982 to $126 billion at the end of 1984. At 15¼ percent of total debt in 1984, short-term debt was considerably below the 20½ percent average during 1980–82. The reduction in short-term debt was more than accounted for by countries in the Western Hemisphere, whose short-term debt fell by $31 billion during 1982–84.

The refinancing of long-term debt falling due also presented problems of debt management. The greater part of maturing long-term debt, over $90 billion, was refinanced on a voluntary basis. However, the enormous liquidity pressures on some countries resulted in an unprecedented amount of amortization payments falling due in 1983–84, about $40 billion, being restructured in formal multilateral arrangements. In this connection, a potentially stabilizing influence was the introduction of multiyear debt rescheduling arrangements. In 1984 such multiyear arrangements were agreed in principle for the bank debt of a limited number of countries, while in early 1985, a similar arrangement covering debt to official creditors was negotiated in the case of one country.

Debt service ratios fell as a result of a combination of rescheduling agreements, lower nominal interest rates on variable interest rate debt, and strong export growth in 1984. The developing countries' debt service ratio fell from 24½ percent in 1982 to about 22½ percent in 1983–84. In judging the ongoing costs of servicing a given volume of debt, it is also of significance to consider the ratio of interest payments to exports. This ratio fell from 14¼ percent in 1982 to 13 percent in 1984, but remained high in comparison with the immediate past. The interest payments ratio was less than 6 percent in 1977.

The overall decline in the debt service ratio over the past two years masks disparate regional trends. Africa's debt service ratio increased by 7½ percentage points between 1982 and 1984, to reach 28¼ percent. The ratio would have been even higher were it not for rescheduling arrangements involving a number of African countries. European and non-oil Middle Eastern debt service ratios also increased, albeit by lesser amounts, and are now slightly above the indebted countries' average, at 26¼ percent and 24¾ percent, respectively. Asia's ratio fell back to under 11 percent in 1984, the lowest ratio for any region. The major change was in the Western Hemisphere: the average debt service ratio of countries in the region declined from 51½ percent in 1982 to 39½ percent in 1984. This was mainly attributable to a near halving of the amortization/export ratio owing to reschedulings, but falling interest rates and increasing exports also brought some relief. Nevertheless, the region's debt service ratio remained almost twice the indebted country average, and will rise over the short-term as current rescheduling arrangements expire and previously rescheduled debt falls due for repayment.

It is also a cause for concern that many low-income countries, and other countries unable to attract commercial loans, are encountering debt-servicing problems. Countries that borrow mainly from official creditors generally obtain their finance more cheaply than market borrowers. But their debts are now so large that their debt service ratios are at high levels, despite the below-market-rate payment terms. Official borrowers in Asia (excluding China and India) recorded a debt/export ratio of 382 percent in 1984, and African official borrowers a ratio of 333 percent. These resulted in debt service ratios of 21 percent and 26 percent for the Asian and African official borrowers, respectively. Some countries were unable to service these debts and, as a result of rescheduling, jeopardized their access to new trade credits. These countries, just as much as the market borrowers who have attracted the world's attention during 1982–84, face severe financial constraints.

POLICY ISSUES

Although the overall pace of economic recovery accelerated in the industrial countries during 1984 and its benefits spread increasingly to developing countries, the problems faced by the authorities of both groups remained difficult and complex. Largely because of the uneven progress of the recovery and the divergent positions in which individual countries emerged from the economic and financial disturbances of earlier years, a feature of the economic situation in 1984 was an exceptional diversity in the policy issues confronting individual countries.

In the industrial countries, this diversity reflected problems of policy implementation, rather than differences in basic strategy. Virtually all countries in the industrial group have espoused a medium-term strategy of restoring price stability and sustainable growth. However, differences in emphasis and in structural characteristics have resulted in continuing divergences in rates of inflation, widely contrasting balances on external current account, divergent fiscal developments, and sharply differing labor market trends.

Among developing countries, the current diversity of policy issues reflects, first and foremost, substantial differences in the timing and effectiveness of adjustment programs adopted to deal with the global recession and their external debt burden. Generally speaking, countries whose authorities reacted early and firmly to the weakening in their external position in 1980–82 were in a better position to take advantage of the upswing in world markets that began in 1983. On the other hand, countries that were late in implementing corrective policies have experienced sharper and more disruptive adjustments. Other major differentiating influences on the nature of policy problems faced by individual developing countries have arisen from the commodity composition of their trade and the source of their external financing, as well as from large differences in prevailing rates of inflation and in degrees of indebtedness.

Maintenance of Growth in the Industrial Countries. The key elements of the medium-term strategy supported by most of the industrial countries have been the restoration of financial stability and the improvement of incentives for investment and productive activity. It has been agreed that these objectives could best be pursued through gradual slowing of growth in monetary aggregates, curbing government expenditures and deficits, and modification of regulations or taxes that act as deterrents to investment or expansion of employment. The area in which policy implementation has come closest to meeting the authorities' goals has been that of monetary policy. The pace of inflation has subsided throughout the industrial world, although considerable further progress is still needed in some countries. In other respects, however, much remains to be done to improve the implementation of the overall policy strategy. Government expenditures and fiscal deficits have exceeded targets and thus need to be curbed in a number of countries. In some countries, structural rigidities need to be corrected in order to bring policy into conformity with the medium-term design.

In the United States, where by far the greatest gains in domestic investment and employment were achieved during 1983 and 1984, the main problem has been to accomplish a smooth transition from the rapid cyclical rebound of the early recovery period to steady growth with a sustainable balance in the composition of demand. During 1984 and early 1985, this transition appeared to be jeopardized by two major and related imbalances in the U.S. economy: the fiscal deficit of the Federal Government and the deficit in the current account of the balance of payments. The former, while stimulating demand and output in the short run, threatened, if not corrected, to crowd out the productive investment in the private sector that is needed to underpin longer-term growth. Meanwhile, its impact on the savings-investment balance in the U.S. economy was an element, among other factors, in the deterioration of the U.S. current account balance. The growing shift of U.S. demand from domestic to foreign sources of supply, in turn, further dampened the expansion of domestic investment and tended to stimulate protectionist pressures.

Firm action to deal with the deficit of the U.S. Federal Government, for example through implementation of the expenditure cuts envisaged by the authorities, would make a crucial contribution to sustaining the expansion of U.S. output and employment over the medium term. Lower government borrowing requirements could pave the way for a sustained reduction in interest rates, and contribute to an orderly reduction in the exchange rate of the U.S. dollar. For the longer term, a more productive use of national saving and a better competitive position in world trade would greatly enhance the prospect of durable expansion of U.S. economic activity, and at the same time diminish pressures for protectionist trade policies.

In most of the European industrial countries, current policy problems are rather different from those in the United States. Generally speaking, the European countries have made greater progress in redressing fiscal imbalances, but much less progress toward recovery from the recession of the early 1980s. Although unemployment is a major problem in most countries of the area, the medium-term viability of attempting to reduce it by expansionary demand-management policies is in doubt. The reluctance of private sector employers to increase their demand for labor on a long-term basis appears to derive from more fundamental factors than a shortage of final demand. The best prospect for a substantial reduction of unemployment in these countries thus lies in structural adjustments and institutional reforms designed to introduce greater flexibility into factor and product markets. These means of encouraging investment and expansion of employment opportunities do not offer the likelihood of dramatic advances in the immediate future, but should facilitate solid and lasting gains over the medium term. The reduction of structural weaknesses in European economies would enhance incentives for capital formation in these countries and thus contribute to bringing about a more sustainable pattern of international capital flows and exchange rates.

A particular requirement to enhance prospects for durable improvement in labor market conditions is the removal of rigidities that enable wage costs to be maintained at an unduly high level. Meeting this requirement calls not only for alteration of unrealistic indexation arrangements and general moderation of wage demands by organized employees (as well as resistance by employers to excessive demands) but also for the limitation of a variety of incidental costs of employment not necessarily reflected in wages received by workers. It appears that a number of practices or regulatory requirements initially adopted (in an economic environment radically different from the current one) to provide security for employed persons are now operating, perversely, to deny jobs to the unemployed. Critical re-examination of existing minimum wage regulations and employment-based taxes may also be in order where high wage costs are giving undue encouragement to economies in the use of labor.

The economic recovery in Japan, although appreciably stronger than that in Europe, was even more dependent on external demand in its early stages. The substantial increase in the current account surplus of Japan since 1982 is a symptom of strains in the international economy. The increase in this surplus was associated with excess savings relative to investment in Japan. While the factors resulting in this particular savings and investment balance are complex, both external and internal developments have been important. One such development has been the unusually rapid growth of domestic demand in the United States, and the associated strong appreciation of the U.S. dollar. Another has been the very high level of international interest rates, which have spurred substantial long-term private capital outflows from Japan, and, in combination with exchange rate considerations, placed serious constraints on the management of monetary policy. With respect to internal developments, demographic factors have helped sustain savings in Japan at a high level, while fiscal consolidation has led to significant reductions in public sector dissaving. Meanwhile, the pace of domestic demand growth, although firming, has not generated a sufficient growth of investment to match fully the additional savings. It will be important that the recent strengthening of domestic demand in Japan be sustained at a satisfactory pace.

An important element making for stronger recovery in Japan than in Europe has been the greater flexibility of the Japanese economy in reallocating resources among industries. This experience, along with that of the United States, appears to demonstrate the merits of flexibility when major structural adjustments are forced by circumstances.

In one respect, however, the Japanese market itself may suffer from rigidity. Traditional trading practices and regulations in Japan are sometimes perceived to present obstacles to the distribution of imports of manufactured goods. While some of the difficulties encountered by foreign companies attempting to enter the market are created by deficiencies in their own modes of operation, initiatives that have been taken on the part of the Japanese authorities on this issue are welcome, and further efforts in this regard could both benefit Japanese consumers and help fend off some of the proposals now pending in other countries for restrictions against Japanese exports.

Most of the key issues noted above, although viewed in different perspectives by various industrial countries, are clearly of concern to all of them—and indeed, to a considerable extent, to developing countries as well. The high exchange rate of the U.S. dollar and the large U.S. balance of payments deficit on current account are widely regarded as undesirable and unsustainable. Yet they have helped support other countries' exports during the recovery period, and their decline would carry opposite implications for trading partners. That is one reason why adjustments in exchange rates and payments patterns should take place in as orderly a fashion as possible. As the stimulus imparted by the U.S. economy to the rest of the world tapers off, it thus becomes important that domestic economic performance in other countries, particularly those that have succeeded in bringing about significant adjustment in their economies, should continue to strengthen at a satisfactory pace.

A marked reduction in the flow of external capital to the United States could help to make funds more readily available to other potential borrowers, and especially to developing countries, if it occurred under conditions of continued adjustment by the developing countries, as well as better balance between U.S. domestic demands for credit and its supply, permitting an easing of interest rates. However, if U.S. dollar-denominated investments should become less attractive to foreigners while U.S. credit demands, including those of the Federal Government, continued far in excess of private saving in the United States, upward pressures on interest rates in U.S. and international financial markets would compound debt-servicing difficulties for many developing countries and foreclose access to external credit for others. Higher interest rates would also tend to dampen private investment expenditures almost everywhere. These international considerations reinforce the domestic considerations in support of the efforts of the U.S. authorities to achieve a lower fiscal deficit.

Growth-Oriented Adjustment in Developing Countries. The developing countries best placed to benefit from the recovery in the industrial world during 1984 and the first half of 1985 were generally those that had undertaken early adjustments during the preceding recession. These countries, mostly in the Asian region, did not have to contend with sudden and massive interruptions in the flow of available resources. Although they were by no means immune to the effects of the global recession, healthy rates of growth in output and exports were rather quickly restored even during 1983. With relatively moderate debt service obligations, these countries have been able to use most of their growing export earnings to acquire larger volumes of immediately usable resources. Their authorities, although facing the continuing need to keep growth of nominal demand from outpacing that of productive potential, are confronted by fewer short-term conflicts of objectives than the majority of developing countries at the present time. In general, the domestic policy problems of the authorities in these countries are those of maintaining the financial discipline that has served them well to date. Vigilance against short-sighted pressures for loosening of fiscal or monetary policy remains necessary, but its maintenance is clearly less difficult than the imposition of major new adjustment programs.

A more dangerous threat, from the standpoint of these countries, is the spread of protectionist trade measures in their external markets. A number of developing countries that have been most successful in combining rapid domestic growth with external financial stability have relied heavily on increasing exports of manufactures to underpin their economic development. This underlines the importance, for all countries, of trade policy decisions being made with due regard for the health of world trade and long-term efficiency in resource allocation.

Other developing countries are in less favorable and more severely constrained positions than the countries just discussed. Although balance of payments deficits on current account have generally been substantially reduced during the past several years, the reorientation in the use of domestic resources that is needed to permit a return to satisfactory output levels has not yet been completed. External adjustment has too often been associated with reduced investment and unchanged rates of domestic savings.

In many cases, the initial phase of adjustment to reduced availability of external resources has already been carried out. The international cyclical recovery is generating renewed expansion of export earnings, and some scope for a more closely parallel growth of imports is opening up. For most of these countries, the overriding economic policy issue is how best to accelerate development under the constraints imposed by the external environment and the need to achieve or maintain a stable domestic financial position. Given the prevalence of still overextended fiscal positions, and the tendency of these to induce excessive monetary expansion and inflation, direct application of fiscal stimulus would not generally be an effective means of promoting growth.

Revival of investment without external capital inflows on the scale prevailing before the downturn will require expansion of domestic saving. The most feasible means of raising the share of saving in national income in developing countries is generally through budgetary restraint, particularly if achieved through curtailment of public consumption. The exercise of such restraint, if coupled with prudent monetary policies and realistic interest rates, can restore or create a domestic environment conducive to orderly economic planning and growth, especially if supported by realistic exchange rates and avoidance of domestic pricing mechanisms that distort market relationships. Creation of such a domestic environment, in turn, would contribute more than any other single factor to renewed expansion and access to external resources, both financial and real.

For a number of developing countries, such a prospect has been seriously compromised by their inability to control inflation. The rapidly accelerating and/or triple-digit inflation rates observed in several developing countries are undermining the viability of the adjustments made so far and bringing into question medium-term growth prospects. Inflation rates of this magnitude can only be injurious to the developmental effort. They distort relative prices, obscure the significance of economic information, discourage savings, encourage speculative activities at the expense of productive ones, promote capital flight, and induce shifts in portfolio preferences from domestic to foreign-currency-denominated assets—shifts which in turn reduce the effectiveness of monetary policy. The countries thus affected simply cannot afford the resulting misallocation and waste of resources. It is therefore essential that their economies be restored to a sound financial footing. Although circumstances differ, the high inflation rates observed in these countries are typically traceable, in the first instance, to inadequate control over the monetary aggregates whose developments have paralleled those of prices. In most such cases, adequate control by the monetary authorities over the expansion of money and credit would seem to require greater realism in fiscal policies, especially given the constraints created by high levels of interest payments on public debt. Even then, progress in some cases may require marked changes in the practices by which nominal incomes are determined. Unless wages and other incomes are set in a way that does not perpetuate inflationary pressures, the scope for successful application of monetary restraint will remain severely limited.

Among the countries that delayed making appropriate adjustments to the changes in international economic conditions that accompanied the recession of the early 1980s, a considerable number were countries that had relied heavily on market borrowing to expedite their development during the previous decade. Some of them, after the onset of the recession, sustained the momentum of domestic demand through even larger recourse to external credit at market rates of interest. One of the costs of doing so proved to be sharp expenditure restraint and the particularly severe compression of imports that was required when adjustment was finally made inevitable by the reluctance of creditors to continue lending. These countries now face an extended period during which their access to external real resources will be limited by the need to service outstanding debt. This limitation, although painful, is essential for the ultimate restoration of normal access to foreign credit.

Meanwhile, the authorities of such countries must contend with delicate problems of debt renegotiation and domestic demand management. Although the prospects for a matching expansion of both exports and imports have improved now that the import-compression phase of adjustment has been generally completed, restraint over the growth of domestic absorption will remain necessary for a considerable time. As there will undoubtedly be strong pressures to speed up the recovery of consumption spending, the authorities may find it hard to maintain the necessary discipline in their financial programs. However, given the magnitude of the imbalances that have to be corrected, there is no realistic alternative to the exercise of firmness and patience during the process of economic rehabilitation.

Another large group of developing countries is characterized by relatively slight reliance on external borrowing at market terms. The external credit used by these countries has come predominantly from official sources, bilateral and multilateral, and the inflow, unlike the flow of credit from market sources, has been relatively well maintained. However, in relation to the needs of these countries—many of which are small, low-income countries in sub-Saharan Africa—the inflow has fallen short. A large majority of these countries are exporters of primary products whose export prices and terms of trade deteriorated badly during the recession and whose economies were not sufficiently resilient to withstand a marked compression of imports. Such a result was avoided or minimized in a good many cases only through drawings on the Fund.

The authorities in a number of these countries have had difficulty in implementing programs that would allow them to continue to avail themselves of Fund credit. Many governments have often found it hard to develop the necessary consensus and the administrative resources to achieve durable restraint in fiscal and monetary policies. However, the unquestionably urgent needs of their populations cannot be met through inflationary financial policies that impede real growth domestically and undermine the external position. In some cases, the combination of inflationary conditions with domestic price controls and unrealistic exchange rates has impaired the effectiveness of the price mechanism in the allocation of resources. The restructuring of price relationships to facilitate, rather than hinder, effective use of potentially available resources must be a major preoccupation of the authorities. Without the adjustment to which such restructuring contributes, the effective utilization of both domestic resources and official development assistance will be compromised and badly needed increases in the latter may not be forthcoming. The need for such assistance is especially pronounced among the low-income countries of sub-Saharan Africa. Debt and debt service burdens in these countries are very high, especially in relation to per capita incomes. Moreover, the prolonged drought suffered by most countries in that region has further exacerbated these countries' positions by undercutting export capacity and by boosting import requirements. Nevertheless, while the dire straits of these countries need to be recognized and addressed by the international community, it is at least equally important that these countries implement policies that would improve the allocation of their scarce resources.

International Cooperation. The foregoing commentary has repeatedly stressed, explicitly or implicitly, the high and rising degree of interdependence among countries. Close and complex interrelationships among the various policy issues just discussed are equally evident. In these circumstances, it has become more important than ever for the Fund to exercise surveillance and to provide a forum for international consultation on a wide range of economic policy issues. Due respect for the legitimate interests of other countries must pervade the national decision-making process if the potential benefits of mutual support in an interdependent system are to be realized.

The Fund itself is an agent or intermediary for some of the most important forms of international financial cooperation, and collaborates closely with the World Bank in this endeavor. It has provided substantial amounts of financial assistance directly to countries undertaking adjustment programs and has played a catalytic role in the provision of large additional amounts from private and official lenders, in a wide variety of country circumstances. In this context, the Fund can be particularly helpful in describing to creditors the nature and implications of the economic adjustments being undertaken by member countries, and the overall financial requirements for an adjustment program to be viable.

In recent years, the Fund has experienced a period of unprecedented net use of its resources. Net of repurchases, members obtained more than SDR 26 billion during the past four calendar years, with the peak annual flow, amounting to about SDR 10½ billion, occurring in 1983. In terms of net purchases, this activity was already subsiding somewhat in 1984, reflecting in large part the general improvement in the payments positions of the developing countries, as well as the commencement of sizable repurchases under arrangements instituted during the recent years of large drawings. Net drawings are subsiding further in 1985 as repurchase obligations continue to mount, while fewer countries have both need and eligibility for large new drawings. However, the Fund is likely to remain involved in the maintenance and monitoring of programs undertaken by members with credit tranche drawings outstanding for a long time. These activities, many of them connected with the 29 stand-by and extended arrangements in effect at mid-1985, are described in Chapters 2 and 3.

Another aspect of the Fund's operations that is requiring intensified attention is the conduct of surveillance under Article IV. The discharge of this responsibility—discussed in some detail in Chapter 2—requires the Fund to focus particularly on the international economic and financial implications of policies and conditions in member countries. The increasing interdependence of both financial markets and markets for goods and services has made it increasingly constructive, in assessing the policies of the large countries, to consider the impact on—and reactions of—the other countries affected. The Fund can be helpful in assuring attention to such considerations, through its analyses and through the opportunities it is able to provide for discussions with the members individually and for more general discussions in the Executive Board and the Interim Committee.

Although the Fund cannot itself dispense official development assistance, it recognizes the dire need of a number of members, particularly in sub-Saharan Africa at the present time, for a larger volume of such assistance. Without it, they are unlikely to accomplish the basic structural reforms needed for full participation in growth of world production and markets. Recognizing the interest of the whole international community in helping these countries to make such a transition, the Fund has strongly encouraged the industrial countries to enlarge their official development assistance contributions.

The field in which international cooperation is perhaps most seriously threatened, despite an urgent need for its strengthening, is that of external trade policy. Almost throughout the industrial world, protectionist pressures were greatly intensified during the international recession of the early 1980s. They have continued to flourish under the conditions of slack demand, relatively low capacity utilization, and high unemployment that still prevail in major sectors of most of the industrial economies. Progress of the cyclical recovery, while it has already weakened the rationale for protectionist actions in several key countries, has not yet arrested the proliferation of narrowly based demands by particular producers and groups of workers for government intervention to defend them from external competition. As a result of these pressures, many new barriers to trade have been introduced to protect specific sectors or industries, and the use of quotas and "voluntary" export restraints has expanded. A regrettable feature of these arrangements has been an increasing degree of bilateralism. Moreover, subsidies to ailing industries have become progressively more widespread.

The selective support for domestic production and employment that can be provided by such measures is typically limited and temporary, while the damage done through distortion of resource allocation tends to be lasting. A continuation of the recent drift in that direction, in contradiction of the basic principle of comparative advantage that has formed the basis for the healthy expansion of international trade since World War II, could pose a serious threat to the whole fabric of the multilateral trading system that has served the world so well over the past forty years.

Halting the spread of protectionism and rolling back existing trade barriers would facilitate the smooth functioning of the international adjustment process. In particular, it could help to assure for developing countries the adequate access to expanding markets that is essential to their achievement of sustained medium-term growth and satisfactory resolution of their debt-servicing problems. In present circumstances, the industrial countries have a special responsibility to lead the way toward trade liberalization. Such action, apart from its obvious direct merits, would encourage adoption of trade liberalization measures also by developing countries, which would improve the efficiency and resilience of their economies. Moreover, these developments, in turn, would help the industrial countries to resist protectionist pressures at home and would thus facilitate renewed expansion of trade, productivity, and living standards on a worldwide basis.

Action to strengthen the trading system is clearly needed. Current proposals for the launching of a new round of trade negotiations within the framework of the General Agreement on Tariffs and Trade offer hope that constructive multilateral action will be forthcoming. However, it will take considerable time for any such negotiations to bear fruit. The rebuilding of confidence in the preservation of an open trading system will depend crucially on steps taken by individual countries—and especially by the major industrial countries to honor their commitments to spurn new protectionist measures and roll back existing trade barriers.

Chapter 2

Developments in the International Monetary System

The growing importance of international capital movements continued to dominate developments in exchange markets and in world liquidity. In the face of rapid changes in asset preferences caused by actual and expected divergences in economic policies and performance among industrial countries, exchange rates moved sharply at times in 1984 and 1985. In the process, competitive relations among important countries were altered so as to increase, rather than diminish, existing imbalances in trade flows. As a result, protectionist pressures increased, the task of economic policymaking was made more difficult, and a greater burden was placed on international surveillance over these policies. Creditworthy countries continued to have adequate access to cross-border credit and could thus finance their balance of payments and adjust their reserve holdings in accordance with their needs. All the same, world reserves have not increased since the end of 1982, as a decline in the value of gold reserves offset a rise in non-gold reserves. Countries with balance of payments deficits whose lack of creditworthiness limited their access to international capital markets had some difficulty, and faced relatively high costs, in maintaining reserves at levels they considered adequate. These issues will be discussed in this chapter, beginning with exchange rate matters and then proceeding to questions of international liquidity.

Exchange Rates and Surveillance

For the major industrial countries, exchange rate movements during most of the period since the beginning of 1984 tended to increase existing current account imbalances. These movements occurred in spite of the marked tendency toward convergence of inflation rates that has been evident among these countries over the past several years. Despite a partial reversal since February 1985, appreciation of the U.S. dollar over the last five years has caused a loss of international competitiveness by the United States, and the U.S. current account balance has gone increasingly into deficit. In contrast, during 1984 Japan and, to a much lesser degree, the Federal Republic of Germany increased their already substantial current account surpluses.

The recent evolution of exchange rates and external payments positions among major industrial countries has given rise to substantial concern about strains on the international monetary system, leading to renewed interest in discussions regarding possible improvement in its functioning. These concerns relate to a number of features, including a pattern of real exchange rates for the major currencies that may not be conducive to an orderly evolution of trade and payments positions, debt-servicing difficulties in developing countries, and increased pressures for protectionism in industrial countries. This part of the chapter discusses these issues and their implications for Fund surveillance.

EXCHANGE RATE ISSUES IN INDUSTRIAL COUNTRIES

The appreciation of the U.S. dollar relative to other major currencies, which had been a feature of the international monetary scene since the third quarter of 1980, continued during 1984 and the first two months of 1985. Indeed, the dollar experienced a sharp upward movement during the month of February 1985 that brought its effective exchange rate to a level 50 percent higher than its average over the decade 1974 to 1983, and more than 20 percent above its level at the end of 1983. During February, the dollar rose briefly above 3.45 deutsche mark and 260 Japanese yen. The sharp appreciation in February was reversed in March, and in the subsequent four months nominal exchange rates of the dollar declined further, to below 2.9 deutsche mark and 240 yen, bringing them back to levels prevailing during July and August of 1984.

Movements in competitiveness were often in directions opposite to those needed to re-establish a stable pattern of current account positions among the major industrial countries. Normalized unit labor costs in U.S. manufacturing rose by 11 percent relative to the dollar value of labor costs in other industrial countries from the fourth quarter of 1983 to the fourth quarter of 1984. Over this same period, the U.S. current account deficit, including official transfers, widened from $40 billion in 1983 to about $100 billion in 1984. The counterpart of these developments for the United States was exchange rate depreciation and increased current account surpluses for several major industrial countries. The deutsche mark depreciated by 13 percent against the U.S. dollar during 1984, while the current account surplus of the Federal Republic of Germany increased from $4 billion in 1983 to $6 billion in 1984. Similarly, despite favorable movements in prices and costs in Japan relative to the United States, the Japanese yen was 7 percent lower against the U.S. dollar at the end of 1984 than a year earlier; Japan's current account surplus increased from $21 billion in 1983 to $35 billion in 1984. When scaled by output, the current account imbalance of Japan is comparable in magnitude to that of the United States, though in the opposite direction: both are close to 3 percent of gross domestic product (GDP).

FACTORS INFLUENCING FLOATING EXCHANGE RATES

A number of separate factors may have contributed to the exchange rate movements that occurred in 1984 and the first half of 1985. First, the continued attractiveness of acquiring claims on the United States has been enhanced by the vigor of the U.S. economy, especially relative to that of the European economies. Direct investment flows to the United States increased and, with the sharp decline in new bank lending to developing countries, the United States also experienced substantial net banking inflows. Both of these developments acted to strengthen the U.S. dollar. In contrast, most European countries exhibited only moderate economic growth during 1984, and confidence may also have been adversely affected by industrial disputes in the United Kingdom and the Federal Republic of Germany.

Second, the stance of monetary policy in major industrial countries has had a determining effect on movements in nominal exchange rates and in real exchange rates, that is, exchange rates adjusted for differences in rates of change of prices and costs among countries. A policy based on control of the monetary aggregates by the authorities in the United States has meant that, when economic activity has expanded at a rapid pace, as was the case during the first half of 1984, U.S. domestic interest rates adjusted for inflation have tended to rise relative to rates abroad, contributing to some strengthening of the dollar in real terms. Conversely, the slower pace of economic activity since mid-1984 has led to a steady decline of real interest rates in the United States. Furthermore, the evident success of U.S. Federal Reserve policy in containing inflationary pressures has helped to make dollar assets attractive as a store of value. While other industrial countries also have had marked success in reducing rates of inflation—inflation rates in the Federal Republic of Germany, the Netherlands, and Japan are currently lower than those in the United States—interest rates in those countries have not generally matched U.S. interest rates. Interest differentials have therefore frequently favored investment in assets denominated in U.S. dollars. However, since August 1984, interest rate spreads in favor of the dollar have declined substantially.

Third, fiscal policy settings in major countries have continued to be quite divergent, and discretionary shifts in fiscal policy accentuated that divergence in 1984. When government fiscal deficits, defined broadly to include the position of both central and local governments, are adjusted to remove purely cyclical movements owing to the functioning of automatic stabilizers, such as benefits to the unemployed, it is apparent that fiscal policy in France, the Federal Republic of Germany, and Japan has become more restrictive, while that in the United States has become more expansionary. Large U.S. federal deficits, while stimulating economic activity both domestically and in other countries, have added to the already substantial demand for credit to finance private investment spending in the United States; and relatively high real interest rates have helped to bring about a large and growing transfer of savings from the rest of the world.

These factors have exercised a strong influence on exchange rates, particularly through their effects on capital movements. Removal of restrictions on financial transactions as well as financial innovations have promoted integration of international capital markets. As a result, asset market transactions have become increasingly important, relative to trade, in influencing exchange rate movements.

In recent years, major industrial countries have taken measures that facilitate shifts in asset holdings, both by making it easier to acquire claims on foreign residents and by allowing nationals to take positions in foreign currencies. Among these measures have been a series of changes since 1980 that have liberalized capital flows into and out of Japan. These measures have allowed portfolio diversification by large Japanese institutional investors and, to a lesser extent, have favored the increased international use of yen-denominated instruments. During 1984 several countries, led by the United States, abolished the withholding of taxes on interest paid to foreign holders of bonds, thus furthering the integration of international capital markets. The arbitraging of expected rates of return on assets denominated in different currencies has also been facilitated by the development of new financial instruments, such as interest rate swaps, currency swaps, and note issuance facilities. Finally, domestic financial deregulation and innovation may tend to promote integration of world asset markets by expanding the range of instruments yielding competitive rates of return available to both domestic and foreign investors. In the United States, for instance, abandonment of ceilings on interest rates on bank deposits and the introduction of money market accounts have provided attractive alternatives to marketable securities. In some other industrial countries, for instance Australia and New Zealand, increasing competition and regulatory changes have lowered barriers separating financial institutions, with the result that interest rates came to be more strongly influenced by market forces. Some domestic financial liberalization has also taken place in Japan.

Innovations in financial markets have to some extent been the result of technological advances that have lowered transaction costs, making movement of funds and automatic transfer of balances into interest-bearing accounts less costly. Information about foreign financial markets is being made more widely available via computerized information services. Some innovations have no doubt been spurred by the period of very high nominal interest rates in the early 1980s. Furthermore, in several major countries there has been a change in philosophy concerning the proper role of government that has favored moves toward less regulation in a number of fields, including financial matters.

EXCHANGE RATES AND FINANCIAL INTEGRATION

The international integration of financial asset markets has several implications for interpreting recent events and for considering the functioning of the international monetary system. First, international capital mobility, by giving a country access to foreign saving, allows it more flexibility in its macroeconomic policies; recent experience of major industrial countries suggests that the associated current account deficits and surpluses can persist for extended periods of time. Second, exchange rates may at times respond suddenly to changes in expected returns and perceptions of risk associated with assets denominated in different currencies. Finally, the importance of financial asset markets in the determination of exchange rates has implications for the conduct of domestic monetary and fiscal policies. These issues are further considered below.

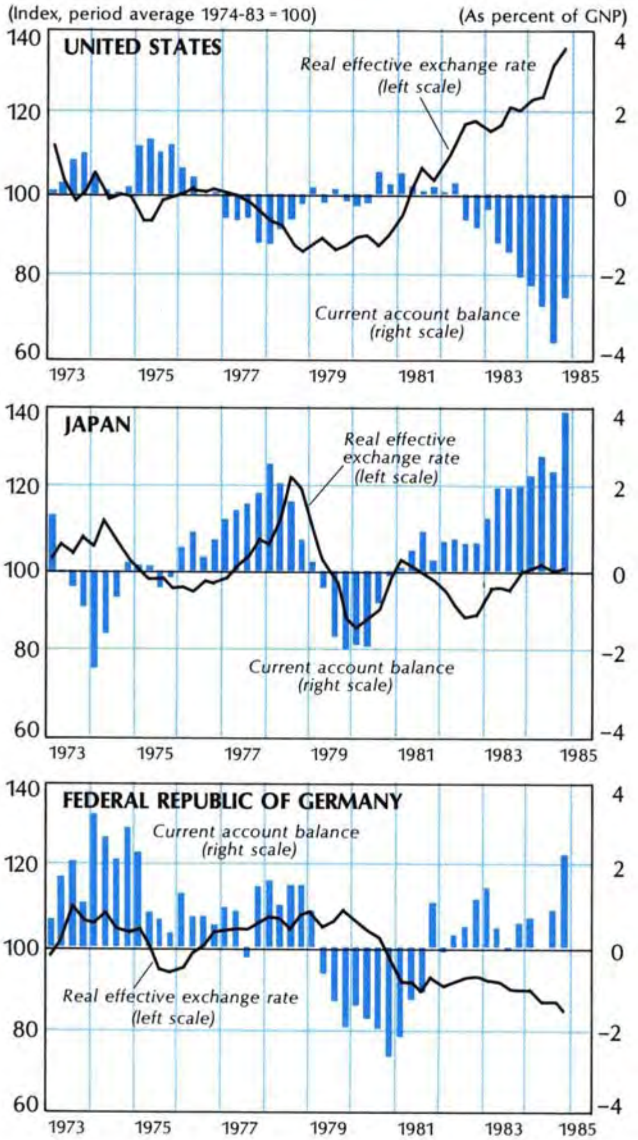
Since widespread floating began in 1973, but particularly during the 1980s, financial integration has been associated with substantial and persistent deviations of real exchange rates from levels that would be consistent with sustainable current account positions. The real effective exchange rate of the U.S. dollar at the end of 1984 was some 35 percent above its average over the period 1974 through 1983, and its appreciation from the beginning of 1980 amounted to more than 50 percent (Chart 12). The United States has had current account deficits for the last two years totaling some $140 billion and is likely to have annual deficits exceeding $100 billion for the next few years. Since the beginning of 1981 Japan has persistently run current account surpluses, totaling some $70 billion over the past four years. The Federal Republic of Germany was in a position of current account surplus from 1973 to the end of 1978; a series of substantial deficits in the period 1979–81 has been followed by small but growing current account surpluses.

As a result of recent current account deficits, the United States has moved from a large net creditor position vis-à-vis the rest of the world, estimated by the U.S. Department of Commerce to have been $150 billion at the end of 1982, to a net debtor position. Prospective current account developments imply that it will soon be a substantial net debtor, although the data are subject to considerable measurement problems. Japan's net asset position vis-à-vis nonresidents of Japan was $25 billion at the end of 1982, as estimated by the Ministry of Finance, and current account surpluses and valuation adjustments in 1983 and 1984 have added some $49 billion to that figure. These current account surpluses had as their main counterpart substantial long-term capital outflows, taking the form both of acquisition of foreign securities by large institutional investors in Japan and foreign loans by Japanese financial institutions and, to a much lesser extent, of direct investment abroad by Japanese companies. Continuing current account surpluses in coming years would reinforce Japan's position as a large net creditor.

Another implication of the importance of asset transactions in the determination of exchange rates is that, like other asset prices, exchange rates may exhibit a high degree of volatility. This volatility has been evident over the past year, as on numerous occasions day-to-day movements of the U.S. dollar against currencies of the European Monetary System (EMS) have been very large. On September 21, 1984, the range of movement of the dollar-deutsche mark rate in the course of the day even attained 4 percent. An investor considering the purchase of foreign currency must take into account any eventualities that may affect the value of the currency in the future. For instance, volatility in the value of the pound

Chart 12.

Three Major Industrial Countries: Payments Balances on Current Account, Including Official Transfers, as Percent of GNP, and Real Effective Exchange Rates, 1973–84[1]



[1] Real effective exchange rates are measured by relative normalized unit labor costs.

sterling against other major currencies during 1984 stemmed in part from rapid changes in prospects in world oil markets.

To some extent, volatility of exchange rates may simply reflect rapid adjustment to new information, and the increasing integration of world financial markets favors that process by allowing positions in different currencies to be taken quickly and cheaply. On the other hand, as with other asset prices, it is possible that investors may on occasion ignore fundamental determinants and concentrate on their perceptions of other investors' preferences, leading to "speculative bubbles." Sudden shifts in sentiment are possible in such a situation as investors realize that the bubble will eventually burst, and exchange rates may appreciate or depreciate substantially as a result.

The degree of risk that investors perceive to be associated with an asset is also important, and changes in the perception of the underlying risks can bring about sharp exchange rate changes. In recent years, substantial movements both into and out of dollar assets have been motivated by risk considerations. The United States has benefited from a safe-haven demand for dollar assets by investors in both industrial and developing countries, but there have also been occasions when concern about the solvency of financial institutions in the United States has led to sudden exchange rate changes. The announcement of loan losses by the Continental Illinois Bank in May 1984 triggered downward pressures on the dollar, and the failure of several dealers in government securities and the troubles of non-federally-insured savings and loan associations are certainly part of the explanation for the depreciation of the dollar in March of this year.

In recent years, day-to-day movements in the U.S. dollar exchange rates of other major currencies, except the Canadian dollar, have on numerous occasions approached, and sometimes exceeded, 1 percent (Chart 13). Contrary to the expectations of some observers, there has been little tendency for the variability of exchange rates to decrease through time, despite the experience of more than a decade with the widespread floating of exchange rates and a substantial convergence of inflation rates. Industrial countries have made considerable progress in dampening inflation, and the reduction in the rate of price increase has been greatest in the countries that initially had relatively high inflation. As a result, nominal interest rate differentials have also generally declined. However, because of the speculative element in exchange rate determination, underlying determinants may not entirely explain exchange rate movements. For instance, exchange rate variability may not correspond closely to the variability of interest rate differentials (Chart 14).

During 1984 and early in 1985, on several occasions the central banks of major industrial countries intervened substantially, either alone or in a concerted effort, in order to limit exchange rate variability. On one occasion in May 1984, the dollar was subject to sharp downward pressure and the U.S. authorities intervened to calm disorderly exchange market conditions. In the summer of 1984, and early in 1985, the Bank of Canada intervened substantially to moderate the depreciation of the Canadian dollar against the U.S. currency. At times, in September and October of 1984 and early in 1985, there was concerted intervention by the Deutsche Bundesbank and other central banks during episodes of persistent strength of the dollar. Intervention seems to have had the

Chart 13.

Exchange Rates for Six Major Currencies: Daily Percentage Changes Against the U.S. Dollar, January 1, 1981–April 29, 1985

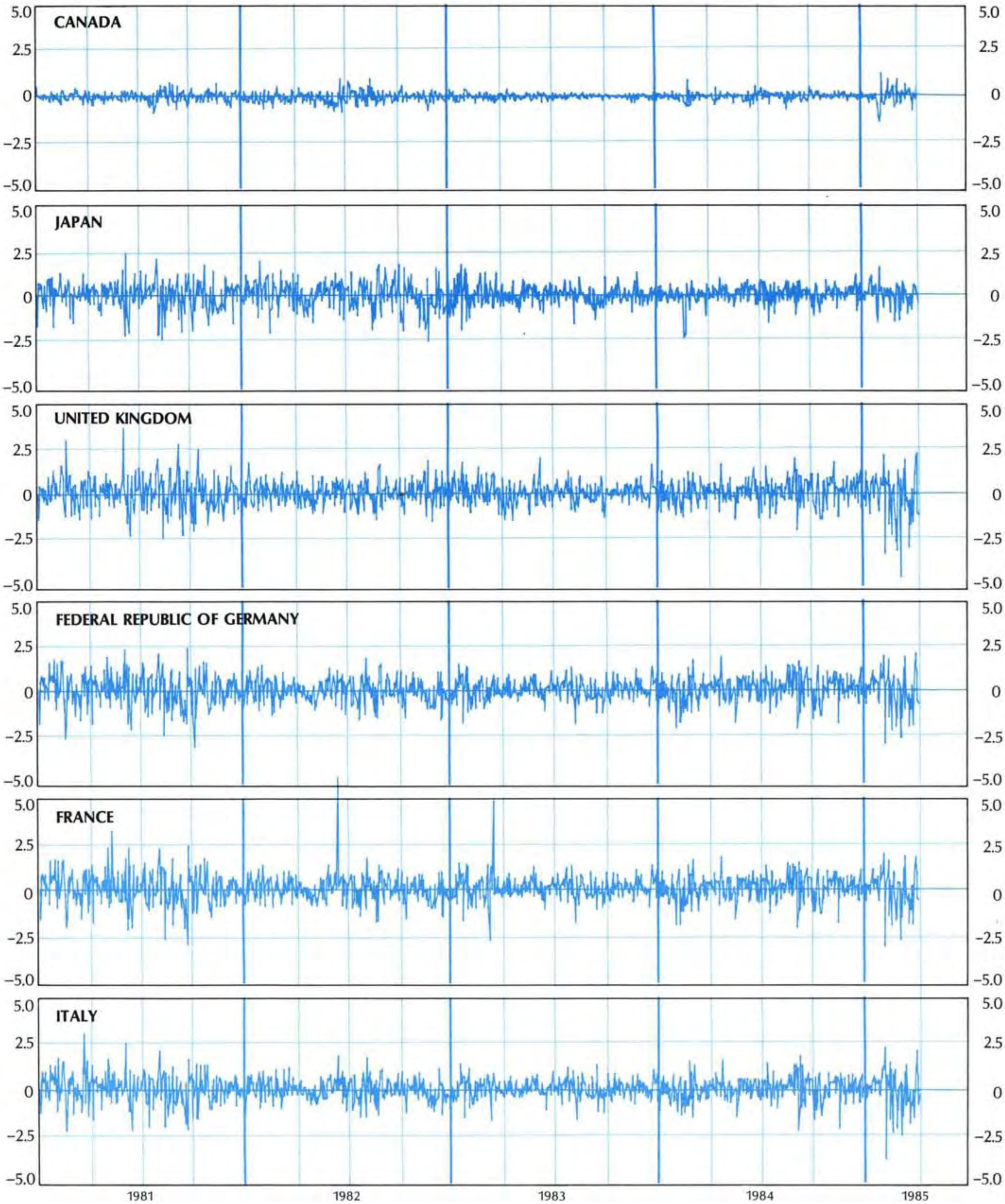
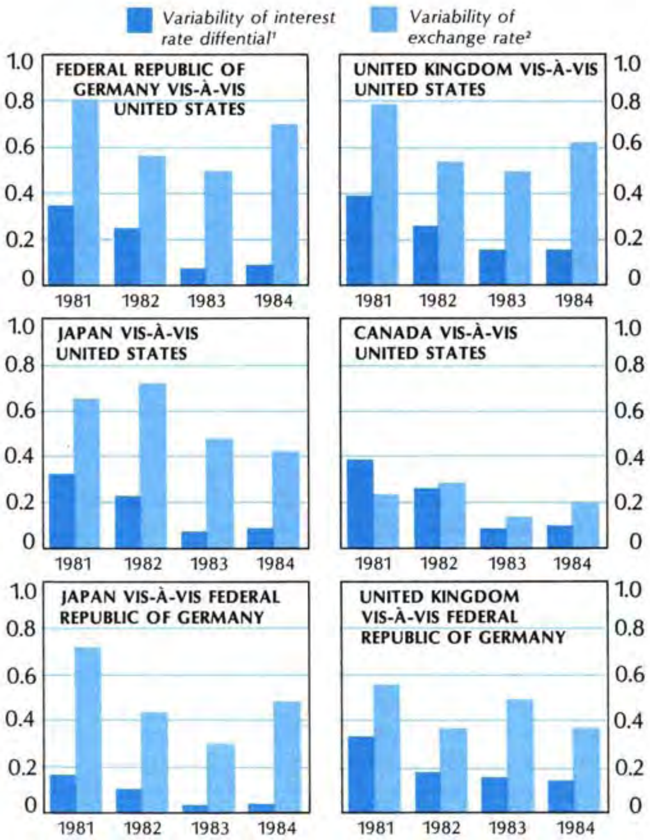


Chart 14.

Five Major Industrial Countries: Variability of Interest Rate Differentials and Bilateral Exchange Rates, 1981–84



[1] The variability of interest rate differentials is measured as the standard deviation of the daily series of day-to-day changes in the interest rate differential on assets of three months' maturity.

[2] Exchange rate variability is measured as the standard deviation of the daily series of day-to-day percentage changes in the currency of the first country expressed in terms of the currency of the second.

desired effect in these latter cases of halting a series of sharp moves in the same direction in currency values—in this case in the direction of U.S. dollar appreciation. Nevertheless, the size of day-to-day movements in the days following a period of substantial intervention remained high and, although the dollar broadly declined late in September 1984, it attained new peaks later in the year and early in 1985.

More generally, the integration of international capital markets and its effect on the functioning of the international monetary system has implications for the conduct of monetary and fiscal policies. Although recent experience suggests that sterilized exchange market intervention (i.e., intervention transactions that are not allowed to affect the money supply) seems to have some effect in calming disorderly markets, the effectiveness of this policy measure is limited. A durable official influence over exchange rates can result only from the use of policy tools that change underlying macroeconomic conditions.

As has been discussed above, monetary and fiscal policies can have persistent effects on real exchange rates. For instance, appreciation of real exchange rates may result from a sustained anti-inflationary monetary policy; fiscal expansion may lead to an appreciation when it is accompanied by strong business investment and is not accommodated through central bank credit, particularly if there is a high degree of capital mobility. A combination of these two factors, as recently experienced in the United States, is thus especially likely to impart a tendency toward exchange rate appreciation. Appreciation may help to achieve anti-inflationary objectives by lowering the prices of imported goods, but it worsens the competitive position of industries producing traded goods.

The international integration of markets for both financial instruments and goods implies that policy changes in one country may have substantial effects on neighboring countries, and one channel for such effects is exchange rate movements. Contrary to expectations, floating exchange rates among the currencies of major industrial countries have not in practice granted governments an extra degree of autonomy to pursue their own policy objectives. Instead, the experience of industrial countries over the past decade has emphasized their interdependence. Consequently, particular attention has been given to ways of strengthening Fund surveillance to achieve a greater degree of international compatibility and convergence of economic conditions and policies in a medium-term framework.

Exchange rate volatility may result from uncertainty about the stance of policy at home and abroad, given the integration of international asset markets. It is therefore important for members to reduce this uncertainty as much as possible by avoiding sudden shifts in announced policy measures and in the implementation of those policies.

THE EMS AND SMALLER INDUSTRIAL ECONOMIES

The EMS has been successful in achieving considerable stability among the exchange rates of the currencies of participants in the exchange rate mechanism. Exchange rate movements among these currencies have generally been smaller than those among other major currencies. Although realignments of central parities have been necessary at times, they have taken place less frequently in recent years than previously. A realignment occurred in July 1985, the first since March 1983; in contrast, there were seven realignments between the formation of the EMS in March 1979 and March 1983. The strength of the U.S. dollar has probably helped in recent years to prevent pressures on central parities from developing. Among the EMS currencies, the deutsche mark provides the principal investment alternative to assets denominated in U.S. dollars, in part because the Federal Republic of Germany (like the Netherlands) imposes virtually no restrictions on capital movements. Strong demand for dollar assets has therefore tended to reduce the demand for deutsche mark assets and has thus attenuated upward pressures on the deutsche mark relative to other EMS currencies.

A more important factor supporting the relative stability of the EMS in recent years has been the introduction of restrictive monetary and fiscal policies in the countries with higher inflation rates. Since 1983, the French Government has taken vigorous measures to restrain domestic expenditures, leading to a fall in the rate of inflation and an improvement of the trade balance. In Belgium, a reduction of the large government deficit has been a precondition both for re-establishing internal equilibrium and for easing pressures on the franc, and some progress has been made in that direction. In Italy, moves to limit the government deficit, together with a reduction in the degree of automatic indexation of wages, have led to a marked deceleration of inflation. However, the rate of inflation is still higher than in other major EMS countries. This inflation differential, and a deteriorating external position, made necessary the realignment within the EMS in July 1985, which involved a downward shift in the central rate of the lira against other member currencies of about 8 percent.

Several other industrial countries have recently reduced restrictions on capital movements and promoted integration with international financial markets. Where a particular country has followed the practice of pegging its currency either to another currency or to a basket of currencies, liberalization may bring out the problem of reconciling domestic monetary targets and a fixed exchange rate. There may therefore be pressures on the authorities to float the exchange rate.

Australia and New Zealand have recently moved to floating exchange rates during a period of major domestic financial innovation and deregulation. Since 1980, measures have been taken in Australia to remove lending guidelines and controls on interest rates, and the Australian dollar moved from an administered to a market float starting in December 1983. Since the change in government in July 1984, New Zealand has taken a series of liberalization measures relating to domestic financial arrangements and external payments. Wide-ranging moves in the direction of deregulation highlighted the difficulty in reconciling domestic monetary goals with a pegged exchange rate, and, for this reason, among others, on March 4, 1985, the New Zealand dollar was allowed to float.

Finland, Norway, and Sweden have continued to peg their exchange rates to trade-weighted baskets of currencies and to subordinate monetary policies, to a greater or lesser extent, to exchange rate objectives. During 1984, interest rates in Sweden were kept somewhat above levels prevailing abroad in order to limit capital outflows. In Norway, despite moves since 1980 toward liberalization of the banking system, interest rates are still tightly controlled. Finland has significantly liberalized the domestic financial system, but has retained exchange controls.

IMPLICATIONS FOR EXCHANGE RATE POLICIES

Concern about exchange rate volatility and persistent shifts in competitiveness among both major and other industrial countries that seem to result from the importance of asset market transactions in exchange rate determination has led to discussion of ways to limit exchange rate movements. The success of the EMS is sometimes cited as a model for a return to a system of adjustable pegs for major currencies. Though it is true that the intervention mechanisms have served to limit exchange rate fluctuations within the EMS, it is also the case that the countries of the EMS are very closely linked by trade and, as members of the European Community, share some supranational institutions. As discussed above, member countries of the EMS have been willing to coordinate policies in such a way that divergences in inflation and payments imbalances are reduced.

Some observers have suggested that countries should restrict capital movements to insulate themselves from financial developments abroad, for instance, by imposing an interest equalization tax. As a result, it is argued, speculative forces would have less play, and exchange rates would diverge less from those consistent with a normal level of competitiveness. Restrictions on capital flows would, however, be contrary to the secular trend in favor of liberalization, which stems from concern to promote economic efficiency. It would in any case be difficult to restrict international capital flows in the face of a wide range of competitively priced instruments associated with domestic financial deregulation. Furthermore, restrictions on capital mobility would reduce countries' access to foreign savings and prevent some profitable investment opportunities from being exploited.

Unfortunately, asset market deregulation does not seem to have been accompanied, in recent years, by any decline in the incidence of trade barriers. On the contrary, there has been a revival of protectionist sentiment. Liberalization of capital movements, if not accompanied by appropriate policies for internal and external balance, may result in large real exchange rate changes that bring forth demands for protection of industries producing traded goods. It is therefore important in choosing economic policies that their international consequences be taken into account, in order to avoid disruption to the international trading system, from which all countries benefit.

EXCHANGE RATE POLICIES IN DEVELOPING COUNTRIES

For many developing countries, exchange rate policies in recent years were an essential element of adjustment in the face of unsustainable current account deficits and external indebtedness, as well as high and rising rates of inflation. The need to improve the current account was made more urgent by the increased difficulty of attracting foreign loans and the limited supply of direct foreign investment capital. The difficulty of attracting capital to developing countries was aggravated by high interest rates in international financial markets, a safe haven for loanable funds in a few industrial countries, an adverse investment climate including uncertainty about profit prospects in many of the developing countries, and a perception among some suppliers of funds of severe restrictions on foreign direct investment in some of the developing countries. In light of these constraints on capital inflows and the heavy burden of debt service payments foreseen for the medium term, exchange rate policies during the period 1982–84 reflected a need for reducing current account deficits from the historically high levels of 1981 and 1982.

RECENT EXCHANGE RATE EXPERIENCE

The discussion of exchange rate policies in this section focuses on developments in real effective exchange rates, which can serve as an indicator of changes in external price competitiveness. Changes in the real effective exchange rate ensue from a combination of changes in the nominal effective exchange rate, domestic price developments, and price movements in trading-partner countries.[1] The real effective exchange rate thus reflects the effects of economic policies both in a particular country and in its trading partners, as well as other developments. This rate is, therefore, not entirely under the control of the authorities and should be thought of as an intermediate target variable rather than a direct instrument of economic policy.

For some developing countries, the movements in real effective exchange rates in 1984 reflected the policy intentions of the authorities, acting in response to the need for external adjustment. For other countries, these exchange rate movements resulted from policies taken mainly for domestic reasons, usually to reduce inflation and foster real output growth. In still other countries, they were the outcome of pegging arrangements in conjunction with the reluctance of the authorities to move the nominal rate in line with the difference between domestic and foreign inflation; thus, movements of exchange rates among the major currencies often played a role in determining the real effective exchange rates of the developing countries concerned.

The real effective exchange rates of about 45 percent of the 104 developing countries for which data are available depreciated in 1984; the remaining exchange rates appreciated. Of the total number of countries in the sample, 13 percent had a real depreciation of over 10 percent and about 17 percent a real appreciation of over 10 percent. Taking all the 104 developing countries together, the unweighted average real effective exchange rate remained approximately constant. A similar constancy of real effective exchange rates of the developing countries can be observed over the period 1982–84 as a whole.

For about 70 percent of the developing countries, the change in the real effective exchange rate during 1984 was less than 10 percent. A relatively large depreciation (at least 10 percent) was often associated with undertaking a comprehensive adjustment program which was sometimes supported by the use of Fund resources (Ghana, Uganda, and Zaïre). For some countries, depreciation was part of the continuing adjustment effort made necessary by high current account deficits in relation to exports of goods and services (Paraguay, Uganda, and Zambia) or high ratios of external debt and debt service to export earnings (Chile, Zambia, and Zaïre). For other countries, the real effective depreciation reflected, to some extent, the low rate of inflation relative to that of trading partners (China and Togo).

A relatively large appreciation of the real effective exchange rate (at least 10 percent) resulted from a variety of factors. For some countries it reflected a lag of nominal exchange rate adjustments behind bursts of domestic inflation (Bolivia and Guyana). Permitting the real exchange rate to appreciate substantially was also an indication that the authorities preferred other measures to adjust their current account balances, including the tightening of exchange and trade restrictions (Nigeria and Trinidad and Tobago). In some countries, the authorities delayed exchange rate adjustment because they were concerned, inter alia, with the effect of nominal exchange rate depreciation on inflation and income distribution (Egypt, Nigeria, and Tanzania); this was so, even where beneficial effects on external adjustment may have been expected. It may be noted that in a few countries the real appreciation in 1984 partially offset the depreciation of 1982–83, but still did not prevent substantial depreciation over the whole period 1982–84 (Cyprus, Malawi, and Mexico).

Differences among the exchange rate policies of individual developing countries can be explained in part by the structure of their foreign trade. Expectations regarding the effectiveness of a change in the exchange rate in influencing exports differ with respect to commodity groups. Most developing coun-

[1] Indices of real effective exchange rates measure the evolution of a country's prices relative to those of its trading partners, adjusted for exchange rate changes. In this section of the Report, prices are measured by the average annual consumer price index, with indices of partner countries averaged by using import weights, and exchange rates are measured by an import-weighted index of average annual effective exchange rates.

tries exporting primarily fuel products did not feel an acute need for exchange rate change in the face of declining export earnings. Foreign exchange earnings are not perceptibly influenced by the nominal exchange rate, the latter being important principally for determining the domestic currency counterpart (which has budgetary significance) and for influencing the non-fuel sector. Imports of raw materials and capital goods have varied mainly with public sector investment; at the same time, with the cushion of accumulated international reserves, there has not been pressure to reduce the importation of consumer goods. But among fuel exporters with a strong potential for non-fuel exports, whose supply is apt to be influenced by relative prices, active use of the exchange rate has been felt desirable, especially when accumulated foreign reserves were small in relation to imports and to debt service obligations. Among the latter group of fuel exporters, some (Indonesia, Mexico, and Venezuela) permitted their real effective exchange rates to depreciate substantially (15–28 percent) during 1982–84. Taken as a whole, however, the real effective exchange rate of fuel exporters appreciated during 1984 by a weighted average of 8½ percent (4¾ percent on an unweighted basis), as many of these countries continued to maintain relatively fixed nominal exchange rates with the U.S. dollar; this brought the cumulative appreciation of the weighted-average exchange rate over the period 1982–84 to 10 percent (11¾ percent, if unweighted).

For developing countries exporting mainly manufactured products, changes in the real effective exchange rate can have important effects on overall competitiveness. Since wages are an important part of production cost, variations in the foreign currency equivalent of domestic wage rates greatly affect profitability in the export and import-substituting manufacturing sectors relative to that in sectors producing nontraded goods, especially when prices of exports and import substitutes are set in international commodity markets without the individual country involved having a perceptible influence. In that case, a decline in the nominal exchange rate is often necessary to offset the effect of an excessive rise in wage rates on competitiveness in the export and import-competing sectors. The willingness of countries exporting manufactures to make active use of exchange rate policies is based not only on the perceived effects of such policies on domestic supply but is also related to the relatively high income elasticities of demand for their products in international markets. In 1984, countries exporting mainly manufactures experienced a real exchange rate depreciation of 5¾ percent (weighted average); seven of the ten countries in this relatively small group allowed their real effective exchange rates to depreciate.

The authorities in countries exporting primary products are traditionally less optimistic about the role of exchange rates in their export performance and see other factors as playing much more crucial roles in determining the volume of their exports. Among such other factors are international commodity agreements (e.g., for coffee, sugar, tin); regulated domestic producer prices (as in many sub-Saharan African countries where there are state marketing boards); economic conditions and agricultural protectionism in the industrial countries; and the level and efficiency of domestic investment in export industries and in infrastructure. While there is some basis for this view, it can sometimes be exaggerated because the exchange rate imposes constraints on the use of other instruments for influencing domestic supply. For instance, in the absence of adjustment of nominal exchange rates, the authorities are often reluctant, for budgetary reasons, to raise regulated domestic producer prices for export crops so as to keep pace with domestic inflation or to induce an expansion in production. Similarly, the efficiency of investment in export industries can be seriously compromised if foreign inputs are underpriced relative to domestic inputs as a result of an overvalued domestic currency. Moreover, in countries that are exporters of mineral products, wages are important in production cost, and movements in the exchange rate play an important role in profitability, output, and investment in the mineral subsector. Finally, many exporters of primary products have rapidly expanding manufacturing export sectors. For such countries, the role of the exchange rate is no less important than for countries now classified as exporters of manufactures. In any event, during the period 1982–84 countries exporting mainly primary products permitted their real effective exchange rates to depreciate less than did countries exporting mainly manufactures (see Chart 15) despite the greater relative deterioration of the current account ratio of primary product exporters during 1978–81. In 1984, exporters of primary products showed a depreciation of the weighted-average real effective exchange rate of only ¾ of 1 percent; fewer than half (45 percent) of the primary product exporters (57 countries in the sample) showed real effective exchange rate depreciation.

The group of countries for which services and remittances constitute relatively important sources of foreign exchange earnings was about evenly divided between those with depreciating and appreciating real effective exchange rates in 1984; but, overall, the group experienced significant appreciation (by a weighted average of 6¾ percent).

There have been wide differences in the exchange rate experience of the developing countries in different regions in recent years, which to some extent mirror differences found among country groups classified by structure of foreign trade (Chart 16). For instance, exporters of manufactures are found chiefly in Asia and Europe; the bulk of the African countries are primary product exporters; 10 of the 16 Middle Eastern countries in the sample (of 104 countries) are fuel exporters. Since 1981, the real effective exchange rates of developing countries in Asia, Europe, and the Western Hemisphere have on average tended to depreciate, while those of Africa and the Middle East have appreciated. In 1984, the weighted average of real effective exchange rate indices in Africa and the Middle East rose by 5¾ and 10 percent, respectively, while the rates in Asia and Europe on average depreciated in real effective terms by 3½ and 6 percent, respectively; those in the Western Hemisphere showed a real effective appreciation of 1¼ percent in 1984.

EXCHANGE ARRANGEMENTS

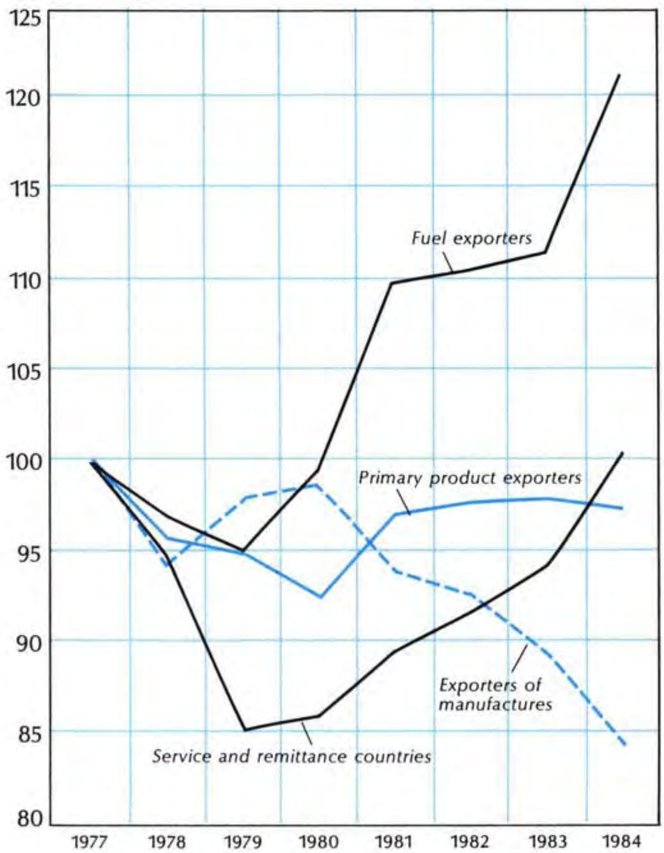
The exchange rate regimes chosen by the developing countries have affected the way in which exchange rate fluctuations among major currencies have impinged upon their economies. In fact, movements in real effective exchange rates have differed markedly among countries according to the type of exchange arrangement. The nominal exchange rates of currencies that are pegged, especially those pegged to a single currency, have not, for the most part, been adjusted enough to offset the influence of the effective depreciation or appreciation of the currencies or composite to which they are pegged. Hence, between 1979 and 1984 the currencies pegged to the U.S. dollar appreciated substantially in real effective terms (Chart 17). The currencies pegged to the SDR have also tended to appreciate significantly in real effective terms during this period, except for 1981.

Since 1973, when the major currencies began to float against each other, developing countries have paid increasingly close attention to the choice of their exchange rate regime. The evolution of exchange arrangements over the past six to ten years has been affected mainly by the desire for more frequent adjustment of nominal effective exchange rates or for greater control over the evolution of the real effective exchange rate. Over the last five to six years the evolution has been away from single-currency pegs toward flexible arrangements and, somewhat less so,

Chart 15.

Developing Countries: Real Effective Exchange Rates by Predominant Export, 1977–84[1]

(Indices, 1977 = 100)

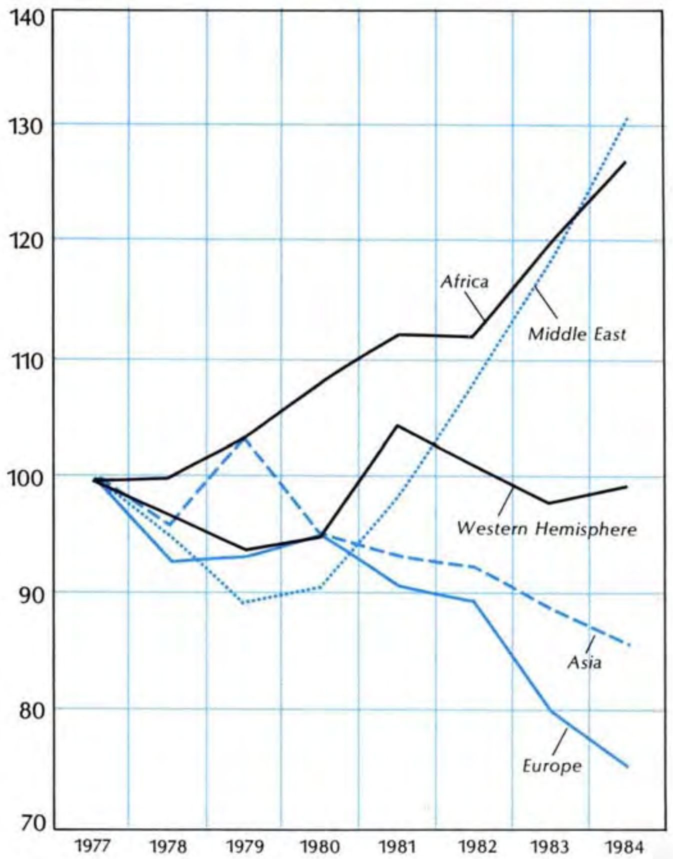


[1] These indices measure the evolution of a country's prices relative to those of its trading partners, adjusted for exchange rate changes. Prices are measured by the average annual consumer price index, with indices of partner countries averaged by using import weights, and exchange rates are measured by an import-weighted index of average annual exchange rates. Group indices are GDP-weighted averages of country indices. For classification of countries in groups shown here, see Appendix IX.

Chart 16.

Developing Countries: Real Effective Exchange Rates by Region, 1977–84[1]

(Indices, 1977 = 100)

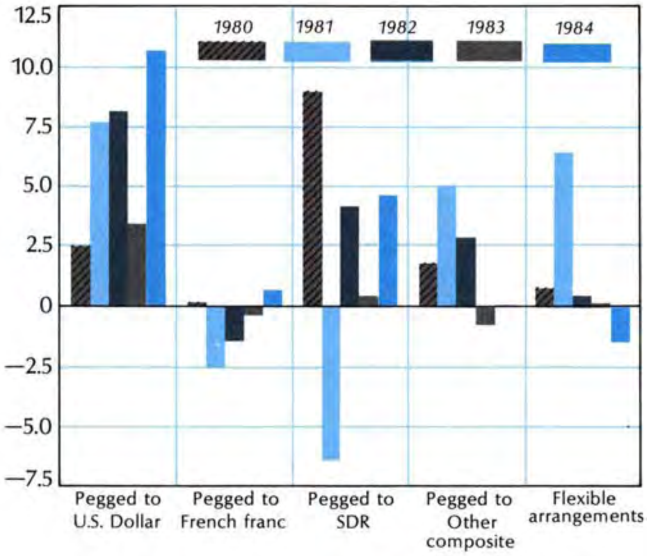


[1] These indices measure the evolution of a country's prices relative to those of its trading partners, adjusted for exchange rate changes. Prices are measured by the average annual consumer price index, with indices of partner countries averaged by using import weights, and exchange rates are measured by an import-weighted index of average annual exchange rates. Group indices are GDP-weighted averages of country indices. For classification of countries in groups shown here, see Appendix IX.

Chart 17.

Developing Countries: Real Effective Exchange Rates by Exchange Arrangements, 1980–84[1]

(Change from preceding year, in percent)



[1] Percentage changes for groups are unweighted averages of percentage changes in country indices. The indices measure the evolution of a country's prices relative to those of its trading partners, adjusted for exchange rate changes. Prices are measured by the average annual consumer price index, with indices of partner countries averaged by using import weights, and exchange rates are measured by an import-weighted index of average annual exchange rates. Changes from each year to the following year are calculated for a constant sample of countries that observed the exchange arrangement in question in both years. For classification of countries, see Appendix IX.

toward pegging to currency composites, especially those reflecting individual countries' trade weights (Table 11). Consistently with this desire for increased flexibility, the nominal effective exchange rate has depreciated markedly for currencies with flexible arrangements (Chart 18). The need for flexibility has been felt especially by countries with relatively high inflation rates, which have generally maintained exchange arrangements that permit frequent adjustment of nominal rates. In 1984, among 29 high-inflation countries[2] only 5 were pegged to a single currency, compared with 28 for 50 medium-inflation countries and 18 for 46 low-inflation countries. In contrast, 20 of the high-inflation countries had flexible arrangements compared with 10 for medium-inflation and 9 for low-inflation countries.

The decision to permit greater flexibility of exchange rates was, in some countries, taken after a prolonged period of generally rigid pegging with only minor and infrequent adjustments of the nominal rate, despite high and rising domestic inflation (Ghana, Uganda, and Zaïre). For these countries, the exchange rates became seriously overvalued and sizable parallel markets developed outside of the official exchange systems. While it was clear, in each case, that the required adjustment of the rate would have to be large, it was not obvious what the correct level of the rate should be. Hence, it was decided to allow market forces to play a role in the determination of the rate. At the same time, there was a fear of substantial overshooting, given the narrowness of the exchange markets in these countries and the virtual absence of foreign assets of the monetary authority to be assigned to exchange market intervention. The concern with overshooting was increased by the fear of its adverse distributional effects on certain income groups. For these reasons, a modified floating system, usually involving multiple rates, was generally preferred to one of free floating for finding the new "equilibrium" rate. The two (or more) rates were generally unified at the free market rate once effective policies of demand management were put in place.

ROLE OF EXCHANGE RATE IN EXTERNAL ADJUSTMENT

The basic aim of external adjustment is to bring the current account balance to a level that is deemed sustainable over the medium term. For most developing countries, external adjustment over the period 1982–84 required improving the current account balance in relation to exports of goods and services (the current account ratio). A number of countries used direct controls and exchange restrictions to curtail imports of goods and services. The latter policies, especially when they are combined with domestic price controls, can limit the appreciation of the real effective exchange rate, and the deterioration of the current account, while failing to address the financial disequilibrium and the structural distortions of which weak current account performance is a symptom. To the extent, however, that current account improvements were brought about by adjustment policies rather than by trade and payments restrictions, the current account ratio can be taken as an indicator of the effectiveness of these policies.

Of 104 developing countries for which the requisite data are available, 36 experienced a worsening and 68 an improvement in the current account ratio between 1981 and 1984. Of the 36 countries whose current account ratio deteriorated, 25 experienced appreciation of their real effective exchange rates. Twenty-four of the 36 countries experienced a worsening in their fiscal balances (in relation to GDP) while, in all, 31 showed either an appreciation of the exchange rate or worsened fiscal balance, or both. This demonstrates the importance of the association between current account performance, the real effective rate, and the fiscal balance. But it should be underscored that other factors also had significant

[2] For this grouping, "high-inflation" was defined as an average of 20 percent or more over the period 1979–83; "medium-inflation" as an average of between 10 and 20 percent; and "low-inflation" as an average of less than 10 percent.

Table 11.

Developing Countries: Exchange Rate Arrangements, End of June 1979–85[1]

(Number of countries)

	1979	1980	1981	1982	1983	1984	1985
Pegged to a single currency	61	58	56	56	54	51	49
U.S. dollar	41	40	38	38	36	33	31
French franc	14	14	14	13	13	13	14
Other currency	6	4	4	5	5	5	4
Pegged to composite	27	32	32	34	35	35	40
SDR	13	15	14	15	14	11	12
Other composite	14	17	18	19	21	24	28
Flexible arrangements	29	28	32	35	36	39	38
Adjusted according to a set of indicators	4	3	4	4	5	6	6
Other[2]	25	25	28	31	31	33	32
Total	117	118	120	125	125	125	127

[1] Based on mid-year classifications; excludes Democratic Kampuchea, for which no current information is available. For classification of countries, see Appendix IX.
[2] This category comprises the following categories used in Table 12: "Flexibility limited vis-à-vis single currency," "Managed floating," and "Independently floating."

direct effects on the current account balance that did not operate through the real effective exchange rate or the fiscal balance. Among these were external factors such as worsening terms of trade or fall in foreign demand for exports. Also important were domestic factors such as faulty domestic producer pricing policies, disturbances and disruptions to normal productive activities, and unfavorable weather for agricultural export crops.

The importance of other factors in current account performance can be seen from the fact that 36 of 61 countries whose real effective exchange rate appreciated between 1981 and 1984 experienced an improvement in their current account ratios between the two dates, and among 35 countries with real effective exchange rate appreciation of at least 10 percent, 17 countries (including Bolivia, the Congo, Egypt, Haiti, the Libyan Arab Jamahiriya, Malaysia, Nigeria, and Sierra Leone) improved their current account ratios. Various factors appear to have contributed to such favorable current account developments in the face of real effective exchange appreciation, including increased exchange and trade restrictions in a number of these countries, as well as substantial improvements in fiscal balances and increased efficiency in the supply of exports in some of them.

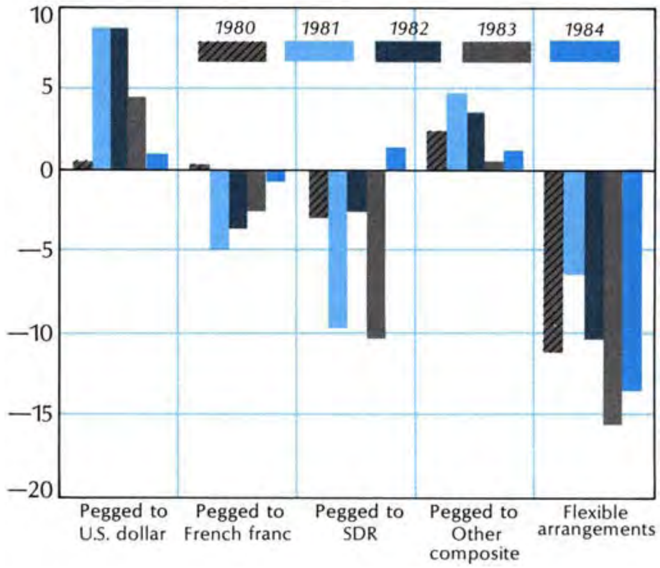
Of the 68 countries (in the sample of 104 developing countries) that improved their current account balances in relation to exports between 1981 and 1984, 32 experienced real effective exchange rate depreciation during this period. Forty-five countries of the 68 improved their fiscal balances (in relation to GDP) and, in all, 54 countries had either a depreciation of the real effective exchange rate or improved fiscal balance or both.

Between 1981 and 1984, there were 43 countries with depreciating real effective exchange rates. For 32 of these countries, the current account ratio improved between the two dates. There were, therefore, 11 countries that realized deteriorating current account ratios despite real effective exchange rate de-

Chart 18.

Developing Countries: Nominal Effective Exchange Rates by Exchange Arrangements, 1980–84[1]

(Change from preceding year, in percent)



[1] The nominal effective exchange rate of a country is an import-weighted index of average annual exchange rates of the trading partner currencies in units of the domestic currencies. Changes in group nominal exchange rates are unweighted averages of changes in country indices. Changes from each year to the following year are calculated for a constant sample of countries that observed the exchange arrangement in question in both years. For classification of countries, see Appendix IX.

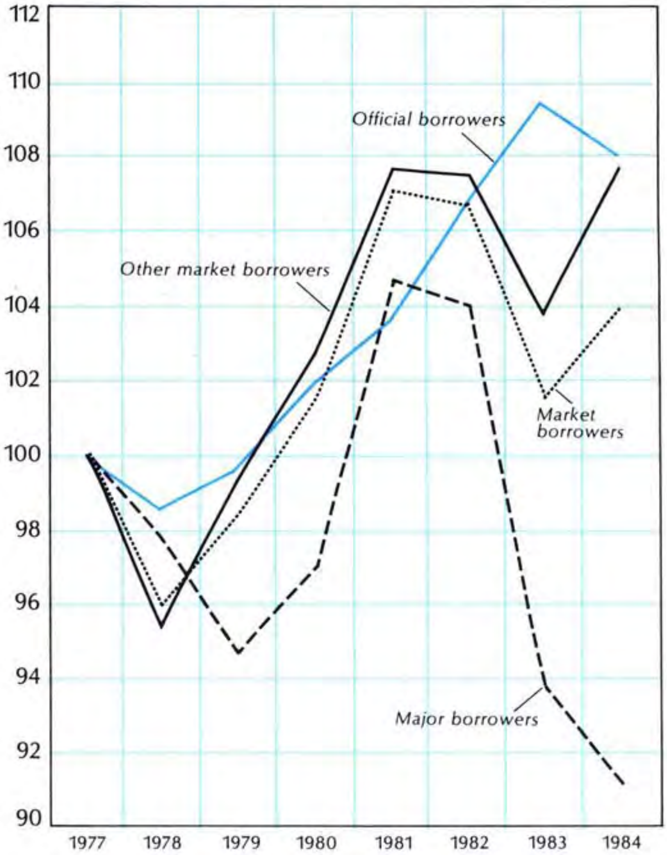
preciation. The reasons for this varied among countries. For some countries the authorities were reluctant to take measures to realize a real effective exchange rate depreciation large enough to counteract other factors, especially those emanating from the international economy, that were having an unfavorable impact on the current account. In some of these countries the authorities may not have felt a strong need for adjustment, owing to such factors as a reasonably strong foreign reserve position, the availability of capital inflows from abroad, and the expectation of an early reversal of the adverse developments that had caused the current account deterioration in the first place. In a few countries the real effective exchange rate depreciated sharply only in 1984, after appreciating in 1982 and 1983, while other adjustment measures had also been inadequate; given the lag between exchange rate changes and their effect on the current account, the real depreciation appears to have come too late in these countries to prevent the worsening of the current account ratio over the whole period.

In recent years, the need for adjustment has been particularly acute among the major borrowers. These countries, like some others, have diversified economies that respond in a fairly elastic way to relative prices. In these circumstances, more active use of the exchange rate for external adjustment was generally considered appropriate. From 1981 to 1984, the unweighted average of the real effective exchange rates of these countries dropped markedly—on average by over 13 percent (Chart 19). For other market borrowers and for official borrowers, real effective exchange rates appreciated after 1981. For the official borrowers (excluding China and India), the appreciation accumulated to 4½ percent during the period 1982–84. For the other market borrowers, the real effective exchange rate appreciated by somewhat less than 4 percent in 1984, thereby just wiping out depreciations in 1982 and 1983. Between 1981 and 1984 the current account ratio improved for 6 of the 7 major borrowers, compared with 19 of the 26 other market borrowers and 24 of the 42 official borrowers, in the sample of 104 countries; 29 countries in the sample were not classified as borrowers.

Chart 19.

Developing Countries: Real Effective Exchange Rates by Financial Criteria, 1977–84[1]

(Indices, 1977 = 100)



[1] The indices measure the evolution of a country's prices relative to those of its trading partners, adjusted for exchange rate changes. Prices are measured by the average annual consumer price index, with indices of partner countries averaged by using import weights, and exchange rates are measured by an import-weighted index of average annual exchange rates. Group indices are unweighted averages of country indices. For classification of countries in groups shown here, see Appendix IX.

SURVEILLANCE

As exchange rate developments in recent years show, discordance in policy strategies and performance among countries can lead to misalignment in the pattern of exchange rates. Through the exercise of surveillance over its members' policies, the Fund aims at reducing such discordance in a manner that is consonant with the achievement of sustained noninflationary growth. The Fund also encourages members that manage their exchange rates to follow a flexible exchange rate policy consistent with the need for balance of payments adjustment. These surveillance activities are conducted according to the principles and procedures for surveillance set forth in the document entitled "Surveillance over Exchange Rate Policies."[3]

In its annual review of the general implementation of surveillance over members' exchange rate policies conducted in March 1985, the Executive Board once again emphasized the great importance that it attaches to the surveillance function of the Fund.[4] Much of the discussion was focused on the effectiveness of surveillance in the current international economic environment. The Board noted the important role

[3] Executive Board Decision No. 5392-(77/63), adopted April 29, 1977, *Selected Decisions of the International Monetary Fund and Selected Documents*, Tenth Issue (Washington, April 30, 1983).

[4] See Executive Board Decision No. 7939-(85/49), adopted March 25, 1985 (reproduced in Appendix II).

that surveillance had played in bringing key policy issues to the attention of the relevant authorities and keeping them under active discussion. In many instances, policy decisions in member countries clearly had taken account of the views expressed by the international community through the Fund's surveillance process. More generally, however, the Board stressed that there remained substantial divergences between the policies actually pursued by some member countries and those advocated by the Fund membership collectively. It also stressed that, while the Fund should continuously endeavor to sharpen its analysis and to improve its procedures, the basic problem was neither analytical nor procedural; rather, it had to do with a lack of determination in implementing policy strategies that were framed in the light of their international compatibility.

A related point discussed by the Executive Board during the 1985 review concerned the evenhandedness of surveillance, which was considered essential for its effectiveness. While Directors noted the view that the Fund was much stricter in its surveillance over the policies of developing countries that were in deficit than over those of other countries, they ascribed it largely to an insufficient distinction between the function of surveillance and other functions of the Fund, such as the implementation of conditionality and the Fund's jurisdiction over exchange restrictions. These other functions do imply special responsibilities for the Fund. For example, the Fund has the responsibility to see that its resources are used in support of effective adjustment, and member countries that seek the Fund's financial support have therefore to arrange their policies so as to qualify for such support according to the criteria used by the Fund. It is thus inevitable that the Fund has a stronger direct influence on the policies of countries that undertake Fund-supported adjustment programs than on the policies of other countries. This asymmetry can, however, be greatly attenuated by strengthening the effectiveness of surveillance over the policies of all member countries. Because of the strong effects of developments in major industrial countries on the rest of the world, more effective surveillance for those countries would improve the international monetary system as a whole.

In the course of the review, the Board considered various possible avenues for improving the effectiveness of surveillance. The Interim Committee, too, discussed these matters at its meeting in April 1985. In its conclusions, the Committee urged that steps be taken to strengthen surveillance over the policies of all Fund members. It also urged that consideration be given, within the context of the policy of uniform treatment of members, to means of increasing the effectiveness of surveillance over the policies of those industrial and developing countries that have a significant effect on the functioning of the world economy.

Through its Article IV consultations, bilateral meetings, and the participation of the Managing Director in international meetings, the Fund has communicated its views to the authorities concerned and highlighted the unfavorable effects of existing policy weaknesses on the international community. In addition, the Fund has taken a strong public stance in this context, especially through its publications and the speeches of the Managing Director. In particular, the Fund has stressed that the unfavorable consequences of policy weaknesses in major industrial countries are felt with severity by developing countries. While developing countries should continue their adjustment efforts, the major industrial countries need to improve their policies and thereby contribute to the global adjustment process.

THE SUBSTANCE OF SURVEILLANCE

An assessment of the effectiveness of surveillance, of possible areas of weakness, and of feasible improvements must be based on an analysis of the factors and policies that have led to the emergence and persistence of the severe problems that plague the world economy. Such analysis has been a major aspect of each annual review of Fund surveillance since the first review in 1979, as well as of each Board discussion of the world economic outlook since that time. The main conclusions reached during these reviews and discussions have been presented in previous Annual Reports. Nonetheless, at this time of renewed search for ways of improving the effectiveness of surveillance, it is useful to pull together these various conclusions and reassess them in the light of recent developments.

It is clear from the above discussion of the factors behind the pronounced movements in exchange rates among major industrial countries that these movements cannot be viewed as prima facie evidence of a lack of effectiveness of surveillance. In particular, some of these exchange rate movements may be the normal consequence of economic developments and policies—magnified perhaps by increased integration of national financial markets, which per se is a welcome evolution—rather than the result of faulty economic policies or of capricious behavior of private market participants. Changes in perceptions of a currency as a "safe haven" and in prospects for returns on investments in particular currencies may also cause substantial movements in exchange rates. Reactions to new developments take place rapidly in financial markets so that, with the rising volume of financial transactions, exchange rates tend to be volatile. Even more important, since reactions to price changes in markets for goods and labor, which are important determinants of long-run exchange rate trends, are much less rapid than those in financial markets, exchange rates at times deviate for lengthy periods and in substantial degree from their long-run trend values. The task of surveillance begins when there are reasons to believe that unwelcome economic developments, including exchange rate changes, are the result of inappropriate policies. In this context, the Fund has for some time stressed the need for each country to follow a policy strategy that is both stable and balanced. It should be stable because frequent changes in policies will inevitably lead to frequent changes in the exchange rate. Moreover, in the absence of predictable policies, views regarding the longer-run trend value of the exchange rate may be so weakly held that the rate may become subject to self-sustaining speculative effects. From a domestic standpoint, frequent changes in policies may destabilize output and prices, and may ultimately hinder rational decision making by private economic agents. The policy strategy should, moreover, be balanced because a lack of harmonious coordination of various policy instruments results in economic tensions that are apt to manifest themselves in a waste of domestic resources and in external imbalances. In any case, an unbalanced combination of policies is unlikely to be stable, because the pressure for a change in policies is bound to grow as their unfavorable effects become more obvious.

In principle, the desirability of a policy strategy that is stable and balanced is not contested. The problem is that in practice the authorities often find it difficult to pursue such a strategy. For instance, removal of rigidities in markets for goods and labor is often unpopular, if only because the benefits and costs resulting from the removal may fall unevenly on social groups of different political strength. Again, the reduction of fiscal deficits, which generally entails unpopular measures, requires difficult budgetary decisions—whether to raise taxes or to lower government spending, and which components of these revenues or expenditures to alter. Such questions clearly go beyond the realm of economic efficiency and have important political dimensions.

Furthermore, it is often difficult to know what the appropriate policy measures are. For instance, a number of observers have focused attention on the effects of shifts in international currency preferences on exchange rates. It can be argued that the monetary authorities should accommodate these shifts when they are unrelated to the fundamental determinants of exchange rates rather than accept large temporary exchange rate movements that would disturb resource allocation in the markets for goods and labor. At the limit, a stable monetary strategy could be interpreted as one that allows the monetary aggregates to change in order to reflect shifts in external demand for the currency. In practice, however, it is not always clear whether an exchange rate movement is the consequence of a shift in currency preferences or of more fundamental developments. Moreover, even when such a shift can be identified, a policy of accommodation may not be without danger: for example, an expansion of the monetary aggregates undertaken to meet a rise in foreign demand may be misinterpreted by domestic residents and lead to a rise in inflationary expectations. It could thus be inappropriate for national authorities to attempt systematic accommodation of international currency shifts. At the same time, the exchange rate movements, apart from signaling shifts in external demand for a currency, may at times also provide a presumptive indication that previously undetected domestic developments, possibly resulting from structural changes in the financial system, warrant a reassessment of the monetary targets.

Foreign exchange market intervention, although sometimes itself a source of volatility, may at times play a useful role in dampening, or even stopping, speculative exchange rate movements, especially if the intervention is decisive, concerted among the major countries, and properly timed. For example, the concerted intervention by a number of major industrial countries in February 1985 seems to have been instrumental in arresting the rise of the U.S. dollar. However, as stated in the report of the working group on exchange market intervention,[5] there is much evidence that sterilized intervention does not generally have a lasting effect. Ultimately, any serious attempt to achieve greater exchange rate stability has to rest on the implementation of more appropriate and internationally compatible economic policies.

In this context, it is noteworthy that the countries participating in the exchange rate arrangements of the EMS have been largely successful in stabilizing exchange rates among their currencies. This success has been achieved mainly through a convergence of their domestic policies and performance, with the countries suffering from relatively high inflation making a major adjustment effort in order to reduce their inflation rates to the level prevailing in the relatively low-inflation countries. Nonetheless, there is little doubt that the commitment of the authorities to the defense of the central rates and the agreed intervention mechanisms have contributed to the success of the system. While the EMS system could not easily be extended or reproduced elsewhere, its success under the circumstances in which it operates may offer encouragement to those searching for greater stability of exchange rates in the world economy.

Timely adjustment is as important for developing countries as for developed countries. Delay in taking appropriate measures results in unnecessary loss of foreign reserves, in a worsening of the structure of the country's debt, and often in large accumulation of external arrears. Stop-gap borrowing is normally possible only on rather unfavorable terms with respect to both interest payments and repayment periods. Postponing adjustment also aggravates distortions in the structure of domestic production caused by inef-

[5] Working Group on Exchange Market Intervention, established at the Versailles Summit of the Heads of State and Government, June 4, 5, and 6, 1982, *Report of the Working Group on Exchange Market Intervention*, March 1983.

ficient pricing and the use of direct controls. In addition, an unwelcome consequence of the continuation of inappropriate policies is often a decline in private capital inflows and in domestic investment. When the delayed adjustment is finally undertaken, it may have to be large and rapid, and therefore more costly to output and employment in the short term and less beneficial over the medium term than if more timely and resolute policies had been put in place.

Achievement of timely adjustment in developing countries depends very much on the appropriate combination and phasing of the various policy instruments used in the adjustment program. Adjustment problems typically arise in circumstances in which a country has come to use more resources than are available within its own borders. The need to curtail public and private demand for goods and services is therefore usually the centerpiece of an adjustment program. Demand-management policies must, of course, reflect the particular social and political, as well as economic, circumstances of the country. Moreover, they should be used in such a way as to avoid or minimize any adverse influence on the overall supply of goods and services, for instance, through a negative impact on the level and efficiency of private investment, lest they undo the effect of any supply-enhancing policies contained in the program. In turn, policies to increase domestic output should be, as far as possible, designed so as to avoid raising overall domestic demand in order not to conflict with the aims of the demand-management policies included in the policy package. To the extent that these tasks—constraining demand and augmenting production—are to be accomplished simultaneously through a rearrangement of market incentives, a shift of relative prices will often be required.

In the short run, an adjustment of the exchange rate, when needed, can improve the allocation of scarce foreign exchange resources in the economy. In the longer run, the effects of exchange rate adjustment on relative prices can improve the allocation of economic resources in general in line with the true scarcity value of foreign resources. When nominal wages are inflexible and cannot easily be lowered, exchange depreciation supported by restrictive monetary policies can reduce the budgetary contraction required to achieve a given improvement in the current account balance. In this way, exchange rate adjustment can contribute to a more favorable situation with respect to output growth and employment than could have been reached if the same external adjustment had been attained through larger budgetary contraction with an unchanged exchange rate.

The choice of adjustment policies must be guided by the effectiveness of different measures in improving the current account balance and promoting long-term capital inflows. Since various measures affect these elements of external adjustment at different speed and in different degree, the size and timing of the required adjustment plays a role in determining the optimal combination of policies at any given time. Indeed, an important reason for timely adjustment is that it permits a much broader range of instruments to be applied, compared with a situation in which the adjustment need has become a matter of emergency. Timely adjustment can, in consequence, permit a better policy design, fostering a more even growth of economic welfare over time, than could be achieved if adjustments were initially delayed.

Flexible management of exchange rate policy can increase the effectiveness and efficiency of other supply policies, including producer pricing policies and the structure of government investment. As stressed before in this Report, the exchange rate often imposes constraints on the efficient use of certain other supply policy instruments. For example, producer prices can affect the domestic supply of export crops; needed increases in these prices are often resisted unless the nominal exchange rate is allowed to depreciate at the same time, because at a given exchange rate the profitability of marketing boards would tend to be impaired, at least in the short term. The relative use of domestic and foreign inputs also tends to be distorted when the exchange rate is kept at an inappropriate level.

Flexibility of the nominal exchange rate is of particular relevance when the external disequilibrium to be corrected has been caused mainly by domestic financial developments. This tends to be true, for example, in countries with substantial inflation, where fiscal disequilibrium and rapid domestic credit expansion result in serious pressure on the balance of payments. In the absence of continuous revision of the nominal exchange rate, the real effective exchange rate in such countries soon becomes inappropriate and harmful to economic development prospects.

Adjustments in the real exchange rate can be especially effective in correcting payments imbalances for countries that are producing exportables with relatively high supply elasticities or countries that are in the process of promoting export diversification and a shift toward the supply of goods benefiting from longer-run favorable demand prospects in the world market. Whether disturbances requiring external adjustment come from international or domestic factors, adjustment of the real exchange rate recognizes the changed economic opportunities confronting the country. The ability to alter the real effective exchange rate in such circumstances is a crucial element in adjustment.

The implication is that the typical developing country should aim at keeping its real effective exchange rate at a level that facilitates attainment of its potential output growth and a sustainable current account balance. The nominal exchange rate should then be changed as frequently as needed to maintain the desired real effective rate, taking into account the circumstances of the country, particularly its ability to use monetary and fiscal instruments to keep domestic prices in check. The choice of exchange arrangements should be made with a view to providing the needed exchange rate flexibility.

External adjustment by the developing countries needs to be supported by an adequate flow of appropriate financial resources. Beyond exercising surveillance over the policies of these member countries, the Fund has continued to encourage commercial banks to provide financing in support of Fund-assisted adjustment programs. In particular, the Fund has welcomed recent examples of multiyear debt rescheduling arrangements for countries that have already achieved solid progress in their adjustment efforts. The Fund has also stressed the primary need, particularly for the low-income developing countries, for an increase in the volume of foreign aid and its effective utilization. This is especially true for sub-Saharan African countries that are severely affected by the current drought. Many low-income developing countries face debt-servicing problems even though much of their debt is owed to official creditors. The Fund has often assisted in the process of official debt rescheduling within the framework of the Paris Club in support of adjustment programs involving the use of Fund resources. So far, most of these reschedulings have been made one year at a time. The Paris Club has, however, recently started to conduct multiyear reschedulings, in close cooperation with the Fund, when debtor countries have a proven record and continuing prospects of sound adjustment.

Ultimately, an open multilateral trading system remains the most important requirement for a gradual improvement of the international economic situation. Although there have recently been some favorable developments in this respect, the overall trend toward protectionism can hardly be considered as having been checked, let alone reversed. The Fund is extremely concerned with this evolution and has focused in its recent work on the issue of protectionism and how it relates to problems in the areas of fiscal policy and structural adjustment. It has also highlighted the importance of this issue in all its surveillance activities and has continued its close collaboration with the CONTRACTING PARTIES to the General Agreement on Tariffs and Trade.

PROCEDURES

The basic vehicle for the Fund's surveillance continues to be the Article IV consultation. In recent years, the Fund has been successful in its efforts to ensure that consultations with all members are held regularly. Article IV consultations normally take place annually but there could be a longer interval—up to two years—for some members, and shorter cycles may be requested in some circumstances. The annual cycle is, however, required for countries whose developments have a substantial effect on other members, for countries with Fund-supported programs, and for countries for which there are questions about balance of payments viability. At the time of the 1985 review of surveillance, the Executive Board stated that at least the 25 Fund members with the largest quotas should be regarded as countries whose developments have a substantial effect on other members. In the new system of advance specification of consultation cycles instituted in 1983, the length of the consultation cycle or the date for the next consultation is specified at the conclusion of each consultation. As a result of the new system, the consultation frequency has risen sharply in the past two years, with 80 percent of the membership covered both in 1983 and in 1984. At the end of 1984, there were only 4 members without consultation for two years or more, compared with 6 at the end of 1983 and 19 at the end of 1982.

The analytical content of Article IV reports has been considerably broadened and adapted to the requirements of surveillance in recent years. In particular, international economic linkages and issues related to trade and protectionism have been increasingly emphasized. Moreover, Article IV consultations have stressed the need to discuss with member countries the medium-term implications of their policies. Since 1983, consultation reports for almost all countries in which external indebtedness is a significant issue have included a description of the medium-term external debt outlook. More recently, the medium-term analysis has been expanded to include the sensitivity of the debt projections to alternative assumptions and to examine the evolution of important components of the balance of payments. Even for countries in which external indebtedness is not a major issue, including many industrial countries, the need to analyze the internal coherence and chance of success of the whole medium-term policy strategy of the authorities has led to the introduction of medium-term scenarios in consultation reports.

Another major surveillance issue is the need for structural adjustment. This need has, of course, always been recognized in the Fund's work with developing countries. There is, however, a new emphasis on these issues in industrial countries. This emphasis reflects mainly the earlier experience with inflation at times of economic slack and, most recently, the persistence of fiscal deficits and unemployment in many industrial countries. These latter problems are often intimately related through the effects of low economic activity on tax receipts and on government financial support for ailing industries and unemployed workers.

Among the innovations in the content of staff reports made in 1984, two can be singled out. The first was the inclusion in most staff reports on developing countries of material describing the country's relations with the World Bank, in many cases including the Bank's assessment of the investment or development program and other policy issues studied by the Bank. The second was a review of recent developments and policies against the background of the conclusions of the previous consultation. In particular, care was taken to explore whether the country had implemented the Executive Board's recommendations and whether further developments supported the case for these recommendations.

The continuous efforts by the Fund to adapt its surveillance procedures has also led to a new procedure, usually referred to as enhanced surveillance. This procedure is still evolving and has been adopted for only a few countries in the context of multiyear rescheduling arrangements. In those cases in which it has been adopted, the country concerned has taken the initiative of requesting the Fund to monitor its policies through more frequent Article IV consultations. The new procedure has facilitated negotiation of multiyear rescheduling arrangements for several members, which have been aimed at helping members make the transition to normal access to bank lending. While enhanced surveillance can support banks' risk assessment, it is in no way a substitute for independent economic evaluations by commercial banks, which retain full responsibility for their credit decisions based on their own assessments.

Fund participation in multilateral meetings with governments and with other international organizations remains another major channel for Fund surveillance. The Managing Director has participated in meetings between the finance ministers of the five major industrial countries, which provide an important opportunity for discussion of world economic developments and international policy coordination. The Group of Ten has also played an important role over the past year in serving as a forum for discussion of new approaches to surveillance. The report of the deputies of the Group of Ten on the functioning of the international monetary system, which was released in June 1985, contains findings with respect to strengthening surveillance, as well as the functioning of floating exchange rates, the management of international liquidity, and the role of the Fund. The Group of Twenty-Four is reviewing issues relating to the conduct of surveillance, especially those concerned with the relations between industrial and developing countries. The Interim Committee will give preliminary consideration to these matters at its next meeting in October 1985.

Fund surveillance activities rest on a large amount of supporting work. In particular, the Fund continuously monitors its members' exchange rates and exchange rate policies. Since 1983, the Executive Board has been notified regularly of all sizable changes in real effective exchange rates. Information notices generally include appraisals of the exchange rate developments reported. So far, information notices have not led to Board discussions, though they have often served to sharpen the focus of discussion of exchange rate policy when a Board meeting concluding an Article IV consultation or discussing the use of Fund resources was scheduled shortly after the issuance of an information notice.These new monitoring procedures supplement the existing system, implemented in 1977, according to which any change in a member's exchange arrangements must be communicated to the Fund within three days.

Even more importantly, the Fund's surveillance activities benefit from the comprehensive analyses of the world economy provided in the world economic outlook exercise. Besides serving as the focus of the Fund's consideration of questions of international policy interactions and economic linkages, the papers prepared for this exercise provide short-term forecasts and a medium-term perspective that serve as reference points for the Fund's work on issues involving individual countries. In 1984 and the first half of 1985, a major topic of the discussion on the world economic outlook was the medium-term prospects for growth in industrial countries and the likely consequences for developing countries. The aim of the analysis was to delineate the adjustment policies that are needed in each group of countries.

RECENT CHANGES IN REPORTED EXCHANGE ARRANGEMENTS

The trend toward the adoption of more flexible exchange arrangements continued in 1984 and the first half of 1985. A major new development in this period has been the adoption of independently floating exchange rates by a number of developing countries. Another feature of the movement toward increased flexibility of exchange arrangements has been the shift away from arrangements of "limited flexibility"—quasi-pegs to a single currency, which in all instances was the U.S. dollar—toward pegging to currency composites, including the SDR. Of the 15 members that changed their exchange arrangements in 1984 and the first half of 1985, 6 adopted arrangements of independent floating. El Salvador, which had maintained its currency pegged to the U.S. dollar, was reclassified as operating managed floating arrangements. Peru moved from a managed float to an arrangement under which the currency is adjusted according to a set of indicators. Guyana, Maldives, and Thailand, which had previously maintained their currencies with limited flexibility against the U.S. dollar, and Malawi, whose currency had been pegged to the SDR, adopted as pegs currency composites tailored to reflect the relative importance of their trading partners. Sierra Leone changed its pegging arrangement from the U.S. dollar to the SDR, while Equatorial Guinea changed its currency from the Spanish peseta to the French franc. In addition, 2 new members informed the Fund of their exchange arrangements: St. Christopher and Nevis has been classified within the group of countries whose currencies are pegged to the U.S. dollar and Mozambique within the group of countries whose currencies are pegged to a currency composite other than the SDR. As a result of these changes, the number of Fund members with "more flexible" exchange arrangements increased from 38 at the end of 1983 to 40 at the

Table 12
Exchange Arrangements as of June 30, 1985[1]

Pegged to					Flexibility Limited vis-à-vis a Single Currency or Group of Currencies		More Flexible		
Single currency			Currency composite						
U.S. dollar	French franc	Other	SDR	Other	Single currency[2]	Cooperative arrangements	Adjusted according to a set of indicators	Managed floating	Independently floating
Antigua and Barbuda	Benin	Bhutan (Indian rupee)	Burma	Algeria[3]	Afghanistan[3]	Belgium[3]	Brazil[4]	Argentina	Australia
Bahamas[3]	Burkina Faso	The Gambia (pound sterling)	Burundi	Austria	Bahrain[4]	Denmark	Chile[3,4]	Costa Rica[3]	Canada
Barbados	Cameroon	Lesotho (South African rand)	Guinea[3]	Bangladesh[3]	Qatar[4]	France	Colombia	Ecuador[3]	Dominican Republic
Belize	Central African Republic	Swaziland (South African rand)	Iran, Islamic Republic of	Botswana	Saudi Arabia[5]	Germany, Federal Republic of	Peru[3]	El Salvador[3]	Jamaica
Bolivia	Chad		Jordan	Cape Verde	United Arab Emirates[5]	Ireland	Portugal	Greece	Japan
Djibouti	Comoros		Kenya[8]	China		Italy[6]	Somalia[3,7]	GuineaBissau	Lebanon
Dominica	Congo		Rwanda	Cyprus		Luxembourg[3]		Iceland	New Zealand
Egypt[3]	Equatorial Guinea		São Tomé and Principe	Fiji		Netherlands		India[9]	Philippines
Ethiopia	Gabon		Seychelles	Finland[8]				Indonesia	South Africa
Ghana	Ivory Coast		Sierra Leone[3]	Guyana				Israel	Uganda
Grenada	Mali		Vanuatu	Hungary				Korea	United Kingdom
Guatemala[3]	Niger		Viet Nam	Kuwait				Mexico[3]	United States
Haiti	Senegal			Madagascar				Morocco	Uruguay
Honduras[3]	Togo			Malawi				Nigeria	Zaïre
Iraq				Malaysia				Pakistan	
Lao People's Democratic Republic[3]				Maldives				Spain	
Liberia				Malta				Sri Lanka	
Libyan Arab Jamahiriya				Mauritania				Turkey	
Nicaragua[3]				Mauritius				Western Samoa	
Oman				Mozambique[3]				Yugoslavia	
Panama				Nepal					
Paraguay[3]				Norway					
St. Christopher and Nevis				Papua New Guinea					
St. Lucia				Romania					
St. Vincent and the Grenadines				Singapore					
Sudan[3]				Solomon Islands					
Suriname				Sweden					
Syrian Arab Republic[3]				Tanzania					
Trinidad and Tobago				Thailand					
Venezuela[3]				Tunisia					
Yemen Arab Republic				Zambia					
Yemen, People's Democratic Republic				Zimbabwe					

[1] No current information is available relating to Democratic Kampuchea.
[2] All exchange rates have shown limited flexibility vis-à-vis the U.S. dollar.
[3] Member maintains dual exchange markets involving multiple exchange arrangements. The arrangement shown is that maintained in the major market.
[4] Member maintains a system of advance announcement of exchange rates.
[5] Exchange rates are determined on the basis of a fixed relationship to the SDR, within margins of up to ±7.25 percent. However, because of the maintenance of a relatively stable relationship with the U.S. dollar, these margins are not always observed.
[6] Margins of ±6 percent are maintained with respect to the currencies of other countries participating in the exchange rate mechanism of the European Monetary System.
[7] The exchange rate is maintained within overall margins of ±7.5 percent about the fixed shilling/SDR relationship; the exchange rate is re-evaluated when indicative margins of ±2.25 percent are exceeded.
[8] The exchange rate is maintained within margins of ±2.25 percent.
[9] The exchange rate is maintained within margins of ±5 percent on either side of a weighted composite of the currencies of the main trading partners.

end of June 1985, and members whose arrangements are labeled as "independently floating" increased from 8 to 14 over this 18-month period. One industrial country (New Zealand) and 5 developing countries (the Dominican Republic, Jamaica, the Philippines, Uganda, and Zaïre) formally adopted floating rate arrangements in unitary exchange markets. The number of countries with currencies pegged to a single foreign currency decreased from 51 to 50, while the number of those pegging to a composite of currencies increased from 39 to 44. Arrangements in the "limited flexibility" category declined from 17 to 13.

From the inception of the present classification system in December 1981 to June 1985, the proportion of Fund members with "more flexible" arrangements, including members maintaining a cooperative arrangement under the EMS, has risen from 28 percent to 33 percent, while that of members with single-currency pegs (including arrangements under which there is limited flexibility vis-à-vis a single currency) declined from 47 percent to 37 percent. The proportion of members pegging to currency composites increased from 25 percent to 30 percent in this period (with the proportion of arrangements classified within the "other currency composite" subcategory increasing from 16 percent to 22 percent).[6]

At the end of June 1985, 50 member currencies were pegged to a single currency, 12 to the SDR, and 32 to other currency composites; 40 members maintained exchange arrangements in the "more flexible" category; and 13 members maintained arrangements of limited flexibility (Table 12).

International Liquidity, Reserves, and Financial Markets

During 1983 and 1984, reserve movements were strongly affected by the efforts of many countries to rebuild their reserve holdings following the losses of foreign exchange reserves in 1982. For many developing countries, this reserve accumulation has occurred during a period of sharply reduced access to international financial markets. The expansion of reserve holdings entailed changes in the types of assets held as reserves, in the currency composition of foreign exchange holdings, and in the sources of reserve growth.

This section examines a number of recent developments in international liquidity and reserves. First, there is consideration of the changes in international monetary arrangements that may have made the stock of international reserves more a reflection of the economic policies and reserve preferences of individual countries than an exogenous constraint on countries' policies. Second, there is a review of the recent evolution of holdings of official reserve assets. Third, the currency composition and distribution of international reserves and liquidity are examined. Fourth, the sources of reserve growth are reviewed, with special emphasis on the role of private international financial markets in the provision of international liquidity and the financing of the adjustment process, and on the importance of current account imbalances as sources of reserves. Finally, there is a discussion of the adequacy of international reserves and the role of the Fund in the provision of international liquidity through conditional credit and SDR allocation.

THE ROLE OF RESERVES IN THE INTERNATIONAL MONETARY SYSTEM

The role of reserves in the international monetary system has gradually evolved in response to a number of developments fostering the perception that reserves are no longer determined primarily by forces or policies external to the operations of the monetary system but rather reflect the economic policies and reserve preferences of individual countries, including those of reserve currency countries. Under the gold standard, the relatively fixed stock of gold and the commitment of many countries to making their currencies convertible into gold imposed a constraint on the issuance of domestic money and thereby on the levels of prices and economic activity in individual countries. In contrast, the link between the stock of gold on the one hand and prices and output on the other hand was less direct under the gold exchange standard, in part owing to the more active use of credit arrangements as a source of reserves and restrictions on gold convertibility. Since countries could increase their reserve holdings by acquiring claims on reserve-currency countries, an important component of total reserves could respond to the policies of countries. Nonetheless, the possibility of gold conversion at times influenced the policies of even the reserve-currency countries.

The current multicurrency reserve system represents the cumulation of an evolutionary trend in which the importance of the level of reserves as a constraint upon policy has progressively declined for countries having access to international financial markets and, in particular, for the reserve-currency countries. The suspension of convertibility of the U.S. dollar and the collapse of the system of fixed exchange rates were further—and definitive—steps in that evolution because the collective demand for reserves no

[6] Excluding the arrangements for Democratic Kampuchea, for which no information is available.

longer reflected the need to meet conversion and intervention obligations. Of course, these developments did not imply that national authorities no longer wished to hold gold and other reserve assets.

With the weakening of the reserve constraint, countries sought other ways to guide their economic performance, individually and collectively. In the major industrial countries, for example, the post-1971 system relied heavily on targets for monetary and credit aggregates. Such control techniques did not, of course, appear *de novo*; they were increasingly experimented with as the system evolved toward the climactic events of the early 1970s. Moreover, the widespread adoption of floating in no way implied that a country's policy choices had no effects beyond its own borders. On the contrary, experience since 1971 reinforces the view that countries have common interests in setting their economic policies; these interests manifest themselves in a number of ways, for instance, in growing support for international surveillance over these policies.

Under the current system, the total stock of reserves can to some extent adjust to changes in the demand. This supply response is not constrained by forces outside the international monetary system even though supplies of specific reserve assets may be fixed. Countries with access to international capital markets have often found borrowing from private financial institutions an efficient means of obtaining additional foreign exchange reserves. An individual country can acquire reserves at a net cost equal to the rate at which it can borrow (inclusive of the risk premium) less the deposit rate paid on reserves (or the yield on securities).[7] However, a significant number of developing countries do not have access to the international credit markets and such countries can acquire reserve additions only through a surplus in their current accounts or through intergovernmental borrowing.

The supply of foreign exchange reserves for countries with access to credit markets is not necessarily tied to the structure of current account balances of any group of countries (including the reserve-currency countries). The counterpart of a given country's current account deficit is the accumulation of domestic assets by foreign entities or the sale of foreign assets by domestic residents. This exchange of assets could be undertaken either by the private sector (which would not directly lead to reserve accumulation) or by the authorities (which can reflect intervention activity in the foreign exchange market and can thereby result in reserve accumulation).

For countries that do not have access to international capital markets, the process of reserve acquisition is different from that described above. These countries often face a high real cost of accumulating reserves associated with the adjustments of domestic macroeconomic and exchange rate policies needed to achieve a balance of payments surplus. For these countries, reserve holdings can at times correspond to minimal working balances.

The remainder of this chapter examines a number of recent aspects of the continuing evolution of the multicurrency reserve system. In addition to a discussion of movements in holdings of reserves, there is also consideration of the changes in the composition of foreign exchange reserves, the sources of reserve growth, including current account balances and international financial markets, and the adequacy of reserves and international liquidity.

RECENT EVOLUTION OF OFFICIAL RESERVE ASSETS

In 1984, total international reserves measured in terms of the SDR declined by about 1 percent, as a fall in the market value of official holdings of gold was almost completely offset by an increase in holdings of non-gold reserves. The growth of non-gold reserves reflected larger holdings of both Fund-related reserve assets and foreign exchange reserves by both of the major country groups, industrial countries and developing countries. The fall in the value of official holdings of gold reflected both a small reduction in the quantity of official gold holdings and a 14 percent decline in the market price of gold in terms of the SDR. Out of the SDR 701 billion of total reserves at the end of 1984, two thirds was held by industrial countries and one third by developing countries.

NON-GOLD RESERVES

Non-gold reserves increased by 12 percent in 1984, to SDR 403 billion at the end of the year (Table 13). Following a 1 percent decline in non-gold reserves in 1982, these reserves have grown at an annual rate of 11 percent in the period 1983–84, slightly less than than the annual growth rate of 13 percent in the period 1973–81.

The expansion of non-gold reserves by SDR 42 billion in 1984 reflected an increase of SDR 4.5 billion (8 percent) in the holdings of Fund-related reserve assets and an increase of SDR 38 billion (12 percent) in foreign exchange reserves. Both major country groups increased their holdings of non-gold reserves in 1984: industrial countries by SDR 20 billion (10 percent), and developing countries by SDR 23 billion (14 percent).

FOREIGN EXCHANGE RESERVES

Foreign exchange reserves increased by 12 percent (SDR 38 billion) in 1984 to SDR 345 billion at the end of the year (Table 13). Although this expansion of foreign exchange reserves was somewhat slower than the average rate of growth for the period 1973–

[7] In addition to the acquisition of reserves through actual borrowing from private markets and intervention in the foreign exchange markets, countries can arrange for lines of credit from either private financial institutions, central banks, or other official institutions.

Table 13.

Official Holdings of Reserve Assets, End of Selected Years 1979–84 and End of March 1985[1]

(In billions of SDRs)

	1979	1980	1981	1982	1983	1984	March 1985
All countries							
Total reserves excluding gold							
Fund-related assets							
Reserve positions in the Fund	11.8	16.8	21.3	25.5	39.1	41.6	40.9
SDRs	12.5	11.8	16.4	17.7	14.4	16.5	16.7
Subtotal, Fund-related assets	24.2	28.6	37.7	43.2	53.5	58.0	57.6
Foreign exchange	249.7	292.9	292.7	284.2	307.0	345.0	328.8
Total reserves excluding gold	274.0	321.6	330.4	327.4	360.6	403.1	386.5
Gold[2]							
Quantity (*millions of ounces*)	944.4	953.0	953.3	948.7	947.4	946.3	947.3
Value at London market price	367.1	440.5	325.5	392.9	345.2	297.6	314.6
Industrial countries							
Total reserves excluding gold							
Fund-related assets							
Reserve positions in the Fund	7.7	10.7	13.5	17.1	25.6	27.2	26.6
SDRs	9.3	8.9	11.9	14.1	11.5	13.4	13.9
Subtotal, Fund-related assets	17.1	19.6	25.5	31.1	37.1	40.6	40.5
Foreign exchange	136.1	164.7	159.6	153.2	167.5	183.9	176.3
Total reserves excluding gold	153.2	184.3	185.1	184.4	204.6	224.5	216.8
Gold[2]							
Quantity (*millions of ounces*)	789.1	787.9	787.6	787.3	786.6	786.0	786.3
Value at London market price	306.7	364.2	269.0	326.1	286.6	247.2	261.2
Developing countries[3]							
Total reserves excluding gold							
Fund-related assets							
Reserve positions in the Fund	4.0	6.1	7.8	8.4	13.6	14.3	14.3
SDRs	3.2	2.9	4.5	3.7	2.9	3.1	2.8
Subtotal, Fund-related assets	7.2	9.0	12.3	12.1	16.5	17.4	17.2
Foreign exchange	113.6	128.2	133.1	131.0	139.5	161.1	152.5
Total reserves excluding gold	120.8	137.2	145.3	143.1	155.9	178.5	169.7
Gold[2]							
Quantity (*millions of ounces*)	155.4	165.1	165.6	161.4	160.8	160.3	161.1
Value at London market price	60.4	76.3	56.6	66.8	58.6	50.4	53.5

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

[1] "Fund-related assets" comprise reserve positions in the Fund and SDR holdings of all Fund members and Switzerland. 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 those Fund members for which data are available and certain other countries or areas, including Switzerland. For classification of countries in groups shown here, see Appendix IX.

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

[3] In previous Annual Reports, data on the reserve holdings of oil exporting and non-oil developing countries were reported separately. The corresponding figures for 1983 and 1984 are as follows:

	Oil Exporting Countries		Non-Oil Developing Countries	
	1983	1984	1983	1984
	(In billions of SDRs)			
Total reserves				
Fund-related assets				
Reserve positions in the Fund	11.3	12.6	2.3	1.7
SDRs	1.5	1.7	1.4	1.4
Subtotal, Fund-related assets	12.8	14.3	3.6	3.1
Foreign exchange	52.9	53.6	86.6	107.5
Total reserves excluding gold	65.7	67.9	90.3	110.6
Gold				
Quantity (*in millions of ounces*)	43.8	44.0	117.0	116.3
Value at London market prices	16.0	13.8	42.6	36.6

81 (14 percent), it represented a further acceleration in the growth of foreign exchange reserves following a decline of 3 percent in 1982 and an increase of 8 percent in 1983. While total holdings of foreign exchange reserves grew by SDR 38 billion, the industrial countries accounted for nearly half of this increase as their holdings rose by SDR 16 billion. Among the countries in this group, Spain experienced the largest increase in foreign exchange reserves (SDR 5.0 billion), following an exchange rate depreciation and implementation of restrictive demand-management policies. Other industrial countries with significant accumulations of foreign exchange reserves were Norway (SDR 3.2 billion) and Japan (SDR 3.3 billion).

Developing countries' holdings of foreign exchange reserves increased by SDR 22 billion in 1984, after declining in 1982 and increasing by a modest amount in 1983. This relatively large expansion in foreign exchange reserves (15 percent) was associated with improvements in their current account positions and continued, though often quite limited, access to international financial markets. The experiences of the various regions in the group, however, were not uniform. Western Hemisphere countries, which reduced their current account deficit from SDR 11.7 billion in 1983 to SDR 5.5 billion in 1984, received net capital inflows that permitted an accumulation of foreign exchange reserves of SDR 14 billion in 1984. Within this region, the largest individual accumulations took place in Brazil (SDR 7.6 billion), Mexico (SDR 3.8 billion), and Venezuela (SDR 1.8 billion). Similarly, Asian countries reduced their aggregate current account deficits from SDR 15 billion in 1983 to SDR 7.7 billion in 1984, and increased their holdings of foreign exchange reserves by SDR 10 billion in 1984. Singapore experienced the largest individual accumulation (SDR 1.7 billion) within this region, followed by Indonesia (SDR 1.3 billion). In contrast, Middle Eastern countries, despite a decline in their current account deficit from SDR 20 billion in 1983 to SDR 16 billion in 1984, reduced their holdings of foreign exchange reserves by SDR 4.2 billion in 1984. Changes in holdings of foreign exchange reserves in the other regions were significantly smaller. European countries increased their holdings of foreign exchange reserves by SDR 1.5 billion in 1984, while the foreign exchange reserves of African countries remained virtually unchanged from 1983 to 1984.

The share of industrial countries in total foreign exchange reserves has declined substantially during the past decade, from 64 percent to 53 percent, while the share of developing countries thus increased from 36 percent to 47 percent. This redistribution of foreign exchange reserves did not occur at a uniform pace throughout the decade. The share of developing countries in total foreign exchange reserves rose substantially during the first years of this period, partly as a result of increases in the current account surpluses in the oil exporting countries, to reach 54 percent at the end of 1976. This process was reversed in the next two years, and the share of developing countries in total foreign exchange reserves reached 43 percent at the end of 1978. Since then, changes in the distribution of foreign exchange reserves have been more modest.

HOLDINGS OF FUND-RELATED RESERVE ASSETS

In 1984, Fund-related reserve assets increased by 8 percent to SDR 58 billion at the end of the year, reflecting expansions of holdings of both reserve positions in the Fund and SDRs (Table 13). Reserve positions in the Fund grew by SDR 2.5 billion, maintaining the upward trend evident since 1980. Holdings of SDRs increased by SDR 2.1 billion in 1984, in contrast to a decline of SDR 3.3 billion in 1983. This decline was largely associated with the increase in quotas under the Eighth General Review of Quotas. Since member countries in the aggregate paid 22 percent of the 1983 quota increase in SDRs, their holdings of SDRs declined, with an accompanying increase in their reserve positions in the Fund. These SDR payments, made in December 1983, amounted to SDR 6.0 billion. In 1984, payments for quota increases were relatively minor, with only SDR 0.2 billion paid in SDRs. Since the cumulative total stock of SDRs has remained constant since the last allocation in 1981, the expansion in SDR holdings of member countries (SDR 2.1 billion) in 1984 was reflected in a roughly corresponding decline of Fund holdings of SDRs.

In 1984, holdings of Fund-related reserve assets increased for both industrial and developing countries. Industrial countries increased their holdings by SDR 3.5 billion, with the United States experiencing the largest individual accumulation, of SDR 1.9 billion. Developing countries increased their holdings by SDR 0.9 billion. This expansion largely reflected an increase in Saudi Arabia's reserve position in the Fund resulting from additional Fund borrowing from that country. As a result of these changes, industrial countries held 70 percent of total Fund-related reserve assets at the end of 1984, while developing countries held the remaining 30 percent.

GOLD

Gold valued at current market prices (in terms of the SDR) declined by 14 percent in 1984, reflecting a small reduction in the physical amount of official holdings of gold accompanied by a fall in its market price. The physical stock of gold reserves has remained fairly constant since 1972, with the exception of a 9 percent decline in 1979. The reduction in 1979 was largely the result of members of the EMS depositing 20 percent of their gold holdings with the European Monetary Cooperation Fund (EMCF) in exchange for European Currency Units (ECUs). Since

1979, changes in physical holdings have been small, and at the end of 1984 such holdings were nearly equal to those at the end of 1979. The distribution of gold holdings between both major country groups has also remained virtually constant. Of a total physical stock of gold reserves of 946 million ounces at the end of 1984, industrial countries held 83 percent and developing countries 17 percent.

The market price of gold has shown large changes during the last 12 years, ranging from an equivalent of SDR 90 an ounce at one point in August 1976 to one of SDR 639 an ounce at one point in January 1980. During 1984, a decline in the market price of gold (from SDR 364 an ounce to SDR 315 an ounce) reduced official gold holdings valued at current market prices to SDR 298 billion. As a result of the decline in gold prices during the last two years, as well as the accumulation of non-gold reserves, the share of gold in total reserves declined from 55 percent at the end of 1982 to 42 percent at year-end 1984.

DEVELOPMENTS IN FIRST QUARTER OF 1985

In a reversal of the growth experienced in 1984, non-gold reserves fell by SDR 17 billion in the first quarter of 1985. This decline was due almost entirely to a reduction in foreign exchange reserves (SDR 16 billion). The small decline in Fund-related reserve assets (SDR 0.5 billion) reflected a fall in reserve positions in the Fund (SDR 0.7 billion) that was only partially offset by an increase in SDR holdings (SDR 0.2 billion). Both major country groups reduced their holdings of non-gold reserves, industrial countries by SDR 7.7 billion and developing countries by SDR 10 billion.

The market price of gold measured in terms of the SDR increased by 6 percent in the first quarter of 1985. The resulting increase in official gold holdings valued at current market prices (SDR 17 billion) offset almost exactly the decline in non-gold reserves. As a result, total international reserves (including gold valued at market prices) remained virtually unchanged in the first quarter of 1985.

CURRENCY COMPOSITION AND PLACEMENT OF FOREIGN EXCHANGE RESERVES

This section examines the currency composition of foreign exchange reserves, the effects of market transactions and exchange rate movements on official holdings of major currencies, and the placement of foreign exchange reserves.

CURRENCY COMPOSITION OF RESERVES

During the last decade, there has been a continuing diversification of the currency composition of foreign exchange reserves. While that composition had remained relatively stable during the period 1975–77, the attempts of authorities to reduce the risk of significant capital losses due to a depreciation of the U.S. dollar led to some diversification of foreign exchange reserves in the years 1977–80. The share of the U.S. dollar in total foreign exchange reserves declined from 78 percent in 1977 to 67 percent in 1980 (Table 14). This diversification away from the U.S. dollar was partly reversed in the early 1980s, when the sharp appreciation of the U.S. dollar and high real interest rates on U.S. dollar assets increased the attractiveness of U.S. dollar instruments. As a result, the share of U.S. dollars in foreign exchange reserves rose to 69 percent by end-1983. In 1984, however, the share of the U.S. dollar in foreign exchange reserves declined to 65 percent, as monetary authorities shifted the composition of their portfolio toward the deutsche mark, the Japanese yen, and, to a lesser extent, the pound sterling. In the calculation of these shares, the SDR value of ECUs issued against gold is not counted as part of foreign exchange reserves, but the SDR value of ECUs issued against U.S. dollars is counted as part of the holdings of U.S. dollars. The overall picture regarding trend changes in the currency composition of foreign exchange reserves is similar if ECUs, which were introduced in 1979 and accounted for 11 percent of total foreign exchange reserves at the end of 1984, are treated separately. Under this alternative treatment of ECUs, the share of the U.S. dollar declined from 77 percent in 1977 to 55 percent in 1980; it then increased to 58 percent in 1981 and stayed at that level through 1983, before declining to 57 percent in 1984.

The changes in the SDR value of foreign exchange reserves can also be decomposed into price and quantity changes for each of the major currencies (including ECUs) and for the total of the identified foreign exchange reserves (Table 15). In 1984, total identified foreign exchange reserves increased by SDR 27 billion as a result of a positive quantity change of SDR 24 billion and a positive price change of SDR 3.3 billion. This overall change in the SDR value of foreign exchange reserves encompassed increases in the quantity of each major currency with the exception of the ECU, and negative price changes for all the currencies with the exception of the U.S. dollar. The change in holdings (resulting from the combination of price and quantity changes) was positive for all the national currencies. The currencies with the largest expansions were the U.S. dollar (SDR 18 billion), the deutsche mark (SDR 7.1 billion), and the Japanese yen (SDR 3.4 billion). Holdings of pounds sterling increased by SDR 2.0 billion, while holdings of the French franc, Swiss franc, and Netherlands guilder increased by smaller amounts. The relatively small overall price change reflected the offsetting effects of an increase in the SDR price of the U.S. dollar and declines in the SDR prices of the other currencies. While price changes accounted for nearly two thirds (SDR 12 billion) of the increase in the holdings of U.S. dollars, the declining SDR values of the other currencies reduced holdings of those currencies by SDR 8.9 billion.

Table 14.

Share of National Currencies in Total Identified Official Holdings of Foreign Exchange, End of Selected Years 1977–84[1]

(In percent)

	1977	1978	1979	1980	1981	1982	1983	1984	Memorandum: ECUs Treated Separately[2] 1984
All countries									
U.S. dollar	78.0	75.6	72.9	66.8	69.8	68.7	68.5	65.1	57.0
Pound sterling	1.8	1.7	2.0	3.0	2.1	2.4	2.6	2.9	2.6
Deutsche mark	9.1	10.9	12.5	15.0	12.9	12.3	11.2	12.0	11.0
French franc	1.2	1.2	1.3	1.7	1.4	1.3	1.1	1.1	1.0
Swiss franc	2.2	2.1	2.5	3.2	2.7	2.7	2.3	2.0	1.9
Netherlands guilder	0.8	0.9	1.0	1.3	1.1	1.1	0.8	0.8	0.7
Japanese yen	2.4	3.3	3.6	4.4	4.1	4.5	4.7	5.2	4.8
Unspecified currencies	4.4	4.3	4.2	4.6	5.8	7.0	8.7	11.0	21.1
Industrial countries									
U.S. dollar	89.0	86.2	83.5	77.6	78.7	77.0	77.6	73.6	57.0
Pound sterling	0.9	0.7	0.8	0.8	0.7	0.8	0.9	1.6	1.4
Deutsche mark	5.4	7.9	9.7	14.4	13.0	12.5	13.1	15.2	12.9
French franc	0.3	0.4	0.6	0.5	0.5	0.4	0.3	0.4	0.4
Swiss franc	0.8	1.2	1.5	1.8	1.8	1.8	1.5	1.4	1.2
Netherlands guilder	0.6	0.5	0.6	0.7	0.8	0.7	0.5	0.7	0.6
Japanese yen	1.8	2.3	2.6	3.5	3.7	4.5	5.2	6.3	5.3
Unspecified currencies	1.2	0.8	0.6	0.6	0.7	2.3	0.9	0.8	21.3
Developing countries[3]									
U.S. dollar	67.2	61.7	62.3	56.2	61.1	60.6	59.7	57.0	57.0
Pound sterling	2.7	3.0	3.2	5.0	3.5	4.0	4.3	4.1	4.1
Deutsche mark	12.6	14.8	15.2	15.7	12.8	12.1	9.4	8.8	8.8
French franc	2.1	2.2	2.1	2.9	2.3	2.1	1.8	1.7	1.7
Swiss franc	3.7	3.4	3.5	4.6	3.6	3.6	3.1	2.6	2.6
Netherlands guilder	1.1	1.4	1.5	1.9	1.4	1.5	1.2	0.9	0.9
Japanese yen	3.0	4.6	4.5	5.2	4.5	4.6	4.3	4.1	4.1
Unspecified currencies	7.6	9.0	7.8	8.5	10.8	11.4	16.2	20.8	20.8

Sources: Various Fund publications and Fund staff estimates.

[1] Starting with 1979, the SDR value of European currency units (ECUs) issued against U.S. dollars is added to the SDR value of U.S. dollars, but the SDR value of ECUs issued against gold is excluded from the total distributed here. For classification of countries in groups shown here, see Appendix IX.

[2] This column is for comparison and indicates the currency composition of reserves when holdings of ECUs are treated as a separate reserve asset, unlike the earlier columns starting with 1979 as is explained in the preceding footnote. The share of ECUs in total foreign exchange holdings was 11.0 percent for all countries and 20.6 percent for the industrial countries.

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

In contrast to the expansion in the holdings of national currencies, holdings of ECUs declined by SDR 4.1 billion in 1984. ECUs are issued by the EMCF to the central banks of the members in exchange for the deposit of 20 percent of the gold holdings and 20 percent of the gross U.S. dollar holdings of these institutions. These swaps are renewed every three months, and changes in the members' holdings of U.S. dollars and gold, as well as in the market price of gold and in the value of the U.S. dollar, affect the amount of ECUs outstanding.[8]

Quantity and price changes in the SDR value of ECU holdings, therefore, depend on the evolution of its two components, gold and U.S. dollars. In 1984, the decline in the holdings of ECUs resulted from both a negative quantity change and a negative price change. The negative quantity change, SDR 0.8 billion, was due mostly to a decline in the quantity of dollars deposited at the EMCF, since the quantity of gold deposited remained virtually unchanged at 85.7 million ounces during the year. The negative price change, SDR 3.3 billion, was the net result of two opposite effects: an increase in the SDR value of ECUs issued against U.S. dollars (owing to the appreciation of the U.S. dollar with respect to the SDR), and a decline in the SDR value of ECUs issued against gold (owing to the decline in the price of gold in terms of SDRs). Since the ECUs issued against gold constitute a large

[8] In calculating the value of the gold holdings of the EMCF in terms of ECUs, the ECU swap price is equal to the lower of two values: the average of the prices recorded daily at the two London fixings during the previous six calendar months and the average price of the two fixings on the penultimate working day of the period.

Table 15.

Currency Composition of Official Holdings of Foreign Exchange, End of 1979–End of 1984[1]

(In millions of SDRs)

	1979	1980	1981	1982	1983	1984
U.S. dollar						
Change in holdings	−14,057	5,889	9,113	−4,530	12,655	18,169
Quantity change	−12,591[2]	642	−6,516	−13,288	3,848	5,999
Price change	−1,466	5,247	15,629	8,758	8,807	12,170
Year-end value	155,410	161,299	170,412	165,882	178,536	196,705
Pound sterling						
Change in holdings	754	2,921	−1,847	626	878	1,960
Quantity change	430	2,311	−966	1,289	1,230	3,362
Price change	324	610	−881	−663	−352	−1,403
Year-end value	4,551	7,472	5,625	6,250	7,129	9,088
Deutsche mark						
Change in holdings	3,914	9,770	−4,123	−2,266	−827	7,083
Quantity change	2,840	12,795	−2,288	−2,262	1,673	9,977
Price change	1,074	−3,025	−1,836	−3	−2,500	−2,895
Year-end value	28,272	38,043	33,919	31,654	30,826	37,909
French franc						
Change in holdings	435	1,265	−656	−372	−315	388
Quantity change	356	1,588	−35	−5	161	618
Price change	79	−323	−622	−367	−476	−230
Year-end value	3,027	4,292	3,636	3,264	2,949	3,337
Swiss franc						
Change in holdings	1,000	2,357	−1,032	−187	−503	17
Quantity change	916	2,881	−1,470	162	−271	681
Price change	84	−524	439	−350	−231	−664
Year-end value	5,760	8,117	7,085	6,898	6,395	6,412
Netherlands guilder						
Change in holdings	374	959	−387	−64	−533	179
Quantity change	325	1,193	−219	−41	−276	374
Price change	49	−234	−168	−23	−257	−195
Year-end value	2,357	3,316	2,928	2,864	2,331	2,510
Japanese yen						
Change in holdings	714	2,901	−110	752	1,357	3,401
Quantity change	2,408	1,021	−242	856	569	3,597
Price change	−1,694	1,880	132	−104	789	−196
Year-end value	8,100	11,001	10,890	11,642	13,000	16,401
European currency unit						
Change in holdings	32,706	14,952	−4,727	−5,007	4,074	−4,071
Quantity change[3]	27,295	−1,545	−2,143	−1,460	−297	−774
Price change	5,411	16,497	−2,584	−3,547	4,371	−3,297
Year-end value	32,706	47,658	42,931	37,925	41,999	37,928
Sum of the above						
Change in holdings	25,840	41,015	−3,770	−11,049	16,787	27,126
Quantity change	21,979	20,886	−13,879	−14,750	6,636	23,835
Price change	3,861	20,129	10,108	3,701	10,151	3,291
Year-end value	240,183	281,197	277,427	266,378	283,165	310,290
Total official holdings[4]						
Change in holdings	25,663	43,190	−321	−8,348	22,772	37,989
Year-end value	249,731	292,921	292,600	284,252	307,024	345,012

Source: Fund staff estimates.

[1] The currency composition of foreign exchange is based on the Fund's currency survey and on estimates derived mainly, but not solely, from official national reports. The numbers in this table should be regarded as estimates that are subject to adjustment as more information is received. Quantity changes are derived by multiplying the 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 and cumulating these differences yields the effect of price changes over the years shown.

[2] Reflects mainly deposits of U.S. dollars by members of the European Monetary System (EMS) in the European Monetary Cooperation Fund.

[3] 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 EMS and multiplying by the change in the number of ounces.

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

fraction of the total amount of ECUs, 77 percent at the end of 1983, the net price change in 1984 was negative.

There are significant differences in the pattern of currency diversification between industrial and developing countries (Table 14). In the period since 1975, reserve portfolios of the industrial countries have been more concentrated than those of the developing countries. Although the share of U.S. dollars in the foreign exchange reserves of the industrial countries declined from 89 percent in 1977 to 74 percent in 1984, it remained considerably above the corresponding share of 57 percent for developing countries in 1984. In addition, the combined shares of the two currencies with the largest shares have remained more stable for the industrial countries. For these countries, the combined shares of the U.S. dollar and the deutsche mark remained within the range of 88 to 94 percent; while for the developing countries, this combined share has been between 66 and 80 percent. Developing countries have also held much larger shares of their foreign exchange reserves in pounds sterling, French francs, Swiss francs, and Netherlands guilders. During 1984, the decline in the share of the U.S. dollar in total foreign exchange reserves for all countries represented a decline in the U.S. dollar share for both groups of countries. In part, the fall in the share of the U.S. dollar in the reserve portfolios of the industrial countries reflected the concerted exchange market intervention undertaken by a number of countries to limit the depreciations of their currencies against the U.S. dollar.

PLACEMENT OF FOREIGN EXCHANGE RESERVES

The growth of foreign exchange reserves in 1984 was accounted for largely by increased official U.S. dollar claims on residents of the United States and increased official holdings of Eurocurrency deposits (Table 16). While foreign exchange reserves grew by SDR 38 billion, official claims on residents of the United States increased by SDR 21 billion, and official holdings of Eurocurrency deposits increased by SDR 14 billion. The growth of Eurocurrency deposits reflected additional holdings of both Eurodollar deposits (SDR 9 billion) and deposits in other currencies (SDR 5 billion). Official claims on residents of other countries denominated in the debtor's own currency increased by SDR 6 billion, while holdings of ECUs declined by SDR 4 billion.

Table 16.

Placement of Official Holdings of Foreign Exchange Reserves, End of Year 1977–84[1]

(In billions of SDRs)

	1977	1978	1979	1980	1981	1982	1983	1984
Liabilities of residents of the United States to foreign official institutions	104	120	109	123	139	149	163	178
Items not included in reported official U.S. dollar holdings[2]	−10	−7	−13	−22	−36	−50	−52	−46
Reported official U.S. dollar claims on residents of the United States	94	113	96	101	103	99	111	132
Reported official claims on residents of other countries denominated in the debtor's own currency	19	27	30	41	39	38	40	46
Subtotal	113	140	126	142	142	137	151	178
Identified official holdings of Eurocurrencies								
Eurodollars	54	47	49	54	58	56	57	66
Other currencies	19	21	25	34	32	30	33	38
Subtotal	73	68	74	88	90	86	90	104
European currency units	—	—	33	48	43	38	42	38
Residual[3]	18	16	17	15	18	23	24	25
Total official holdings of foreign exchange	204	224	250	293	293	284	307	345

Sources: International Monetary Fund, *International Financial Statistics*; U.S. Treasury Department, *Bulletin*; and Fund staff estimates.

[1] Official foreign exchange reserves of Fund members and certain other countries and areas, including Switzerland. Beginning in April 1978, Saudi Arabian holdings exclude the foreign exchange cover against a note issue, which amounted to SDR 4.3 billion at the end of March 1978.

[2] Mainly U.S. dollars deposited with the European Monetary Cooperation Fund in connection with the issuance of European currency units, U.S. obligations to official institutions in countries not reporting to the Fund, and U.S. obligations that are not classified as foreign exchange reserves in the reports provided to the Fund by the holders.

[3] Part of this residual occurs because some member countries do not classify all the foreign exchange claims that they report to the Fund. Includes identified official claims on the International Bank for Reconstruction and Development, on the International Development Association, and the statistical discrepancy.

The composition of the holdings of foreign exchange reserves changed somewhat in 1984, after remaining relatively constant during the previous three years. The share of foreign exchange reserves accounted for by official claims on residents of the United States increased to 38 percent, while the share of ECUs declined to 11 per cent. The other components did not change significantly. At the end of 1984, official claims on residents of other countries accounted for 13 percent of foreign exchange reserves, while official Eurocurrency deposits accounted for 30 percent. Official Eurodollar deposits accounted for 63 percent of total official Eurocurrency deposits.

SOURCES OF RESERVE GROWTH

This section considers the roles of private international financial markets and the current account imbalances of reserve-currency countries as sources of international reserves and liquidity. It also examines the role of international capital markets in the current adjustment process.

INTERNATIONAL FINANCIAL MARKETS, THE ADJUSTMENT PROCESS, AND PROVISION OF INTERNATIONAL LIQUIDITY

An important aspect of developments in the international monetary system over the past twenty years has been the greatly increased role of the international financial markets as a source of international liquidity and reserves. The widespread use of private international credit markets by the authorities suggests that international reserves and liquidity are no longer constrained by the structure of current account balances of the reserve-currency countries or by the supply of reserve assets from official sources. International reserves and liquidity have been made available to most countries through the international financial markets on terms reflecting to some degree the borrowing country's ability and willingness to make the real transfers required to service its debt. In contrast, countries with limited access to the international financial markets could acquire international reserves mainly through net sales of goods and services to nonresidents or through intergovernmental transfers and borrowing.

Since 1982, the flow of funds through international financial markets and the ability of these markets to provide reserves and liquidity have been strongly influenced by the external payments difficulties of a number of developing countries that threaten to curtail the availability of international credit to these countries. The availability of international credit was sustained as a result of a high degree of cooperation between the Fund, international banks, the developing country debtors, and national and other international agencies. This cooperation promoted an orderly balance of payments adjustment process based on a case-by-case approach involving Fund stand-by or extended arrangements, the restructuring of external debt payments, and, for certain countries, the provision of new credits from international banks.

The adjustment efforts of many developing countries and their more limited access to international financial markets resulted in significant changes in their current account positions and their accumulation of international reserves. The financing requirements (current account deficit plus private capital outflows exclusive of principal repayments on foreign debt) of developing countries (except eight fuel exporting countries of the Middle East[9]) fell from $150 billion in 1981 to $47 billion in 1984. This reduced requirement was largely financed by grants and direct investment flows and by long-term borrowing from official creditors. Hence, these developing countries did not increase their liabilities, net of deposits, to the international financial markets in 1984. Furthermore, their improved financial situation allowed them to increase their foreign exchange reserves by about $21 billion in 1984. This overall experience encompassed divergent behavior for different groups of these countries. In particular, the 34 market borrowers, which account for 70 percent of the developing countries' total external debt, experienced significantly greater fluctuations in the availability of financing than the remaining 59 official borrowers, which account for 11 percent of the developing countries' external debt. While market borrowers obtained net private credit of $125 billion in 1981–82, their net borrowing in 1983–84 would have been negative in the absence of $24 billion of concerted lending. Private borrowing of the group of market borrowers experiencing debt service difficulties fell from $59 billion in 1981 to $3 billion in 1984, while those market borrowers that avoided such difficulties experienced a smaller reduction in private lending, from $27 billion to $13 billion. The reduced access of market borrowers to external credit sharply changed the relative importance of the various sources of finance. By 1984, this group's combined current account deficit was financed entirely by grants and direct investment flows. New external borrowings for this group from private sources was more than matched by an increase in reserves. In contrast, the official borrowers experienced greater stability in their sources of external finance. These countries financed their current account deficits through grants, direct investment, and long-term concessional borrowing from official creditors. The remaining indebted developing countries, whose external borrowing in 1978–82 was more evenly divided among official and commercial creditors, were able to increase their net borrowing from private creditors from $10 billion in 1981–82 to $13 billion in 1983–84.

[9] The Islamic Republic of Iran, Iraq, Kuwait, the Libyan Arab Jamahiriya, Oman, Qatar, Saudi Arabia, and the United Arab Emirates.

The limitations on access to international financial markets experienced by market borrowers since the end of 1982 has shown that the availability of international liquidity and borrowed reserves can be subject to abrupt changes. Thus, even though the total reserves of developing countries increased in 1984, the continued limitations on access to private financial markets for some countries may have prevented a corresponding increase in the overall international liquidity available to this group. In part, the rapid accumulation of reserves by these countries reflects attempts to offset the decline in the availability of borrowed reserves through increased holdings of owned reserves.

RECENT DEVELOPMENTS IN THE INTERNATIONAL BANKING AND BOND MARKETS

Since the emergence of external payments difficulties for a number of developing countries in the second half of 1982, net international bank lending to developing countries has continued to decline. This decline in net claims reflects both a decline in bank lending and an increase in deposits held by these countries with international banks (Table 17). The developing countries increased their deposits with the international banking markets by $56 billion and $45 billion during 1983 and 1984, respectively, compared with an increase of $30 billion in 1982. In 1984, this increase in deposits primarily reflected a rise of $21 billion in the holdings of international reserves by all developing countries. Despite the reduction in net bank lending to the developing countries, the overall net lending activity of international banks increased to $174 billion in 1984, well above the $148 billion level of 1983. Lending to industrial countries and offshore banking centers accounted for this increased lending activity.

The cost of borrowing continued to vary widely by type of borrower. In 1984, the average spread above the London interbank offered rate (LIBOR) paid by borrowers from industrial countries for new commitments decreased from 65 basis points in 1983 to 57 basis points. However, the reported bank lending rates to some extent overstated the true borrowing costs of many borrowers in industrial countries who met their financing needs in international security markets by relying on the use of note issuance facilities[10] and the issuance of bonds and floating rate notes[11] in the Eurobond markets, both of which offered lower borrowing costs than the conventional bank credit. The average spread on commitments to developing

Table 17.

Total Cross-Border Bank Lending and Deposit-Taking, 1982–84[1]

(In billions of U.S. dollars; changes in period)

	1982	1983	1984
Lending to[2]	185	148	174
Industrial countries	122	92	122
Developing countries[3]	75	54	41
Other transactors[4]	−1	5	2
Unidentified borrowers[5]	−11	−4	9
Deposit-taking from[6]	182	164	188
Industrial countries	144	93	136
Developing countries[3]	30	56	45
Other transactors[4]	4	10	3
Unidentified depositors[5]	4	6	5
Net flow of funds to (+) and from (−)[7]			
Industrial countries	−22	−1	−14
Developing countries[3]	45	−1	−4
Other transactors[4]	−5	−5	−1
Unidentified (net)[5]	−15	−10	4
Net errors and omissions[8]	14	2	9

Sources: International Monetary Fund, *International Financial Statistics (IFS)*; and Fund staff estimates.

[1] Data on lending and deposit-taking are derived from stock data on the reporting countries' liabilities and assets after allowing for exchange rate movements. For classification of countries in groups shown here, see Appendix IX.

[2] As measured by differences in the outstanding liabilities of borrowing countries, defined as cross-border interbank accounts by residence of borrowing bank plus international bank credits to nonbanks by residence of borrower.

[3] Excluding offshore centers.

[4] Transactors included in *IFS* measures for the world, to enhance global symmetry, but excluding from *IFS* measures for "All Countries." Comprises changes in identified cross-border bank accounts of centrally planned economies (excluding Fund members), and/or international organizations.

[5] Calculated as the differences between the amounts that countries report as their banks' positions with nonresident nonbanks in their monetary statistics and the amounts that banks in major financial centers report as their positions with nonbanks in each country.

[6] As measured by differences in the outstanding assets of depositing countries, defined as cross-border interbank accounts by residence of lending bank plus international bank deposits by nonbanks by residence of depositor.

[7] Lending to minus deposit-taking from.

[8] Calculated as the difference between global measures of cross-border interbank lending and deposit-taking.

[10] The note issuance facility consists of an arrangement whereby an underwriting syndicate commits itself for several years (sometimes as long as ten years) to purchase from an international borrower notes of various maturities up to 12 months with a fixed spread (the cap rate) above a benchmark interest rate. When the borrower activates the facility, notes are sold through bidding by tender or through negotiation to banks that then place the notes with investors. The cost to the borrower of such sales is usually below the "cap rate." The underwriting banks are required to take up only those notes that cannot be sold below the "cap rate," although the underwriters may also be among the banks that acquire notes voluntarily.

[11] Floating rate notes are medium-term bonds (five to seven years) whose interest rate is reset at short-term intervals. They have been viewed as a substitute for both fixed rate bonds and syndicated loans. Since 1980 the share of the conventional instruments—straight bonds, syndicated credits, and convertibles—has declined from 85 percent to 58 percent. The greatest decline occurred in the syndicated loan market, whose share fell from 57 percent in 1981–82 to 22 percent of total financing in 1984. Note issuance facilities and floating rate notes have correspondingly increased their share from 6 percent in 1981–82 to 15 percent in 1984 and from 7 percent in 1981–82 to 28 percent in 1984, respectively. Both types of instruments—note issuance facilities and floating rate notes—have been used mainly by borrowers from the industrial countries, but several developing countries, most notably Korea, have begun to explore their use.

Table 18.

International Bond Issues and Placements, 1979–84[1]

(In millions of U.S. dollars)

	1979	1980	1981	1982	1983	1984
Foreign bonds						
Industrial countries	13,421	11,339	14,129	16,854	18,693	18,299
Developing countries	1,431	746	1,212	726	893	1,618
Centrally planned economies[2]	43	—	—	—	—	—
International organizations	5,259	5,714	5,030	7,461	7,269	7,580
Other	154	125	143	158	195	304
Total foreign bonds	**20,308**	**17,924**	**20,514**	**25,199**	**27,050**	**27,801**
Eurobonds						
Industrial countries	14,212	17,206	25,210	42,816	41,015	73,145
Developing countries	1,885	1,403	3,215	3,970	2,382	3,646
Centrally planned economies[2]	30	—	55	—	—	—
International organizations	2,220	1,710	2,486	3,280	6,074	4,218
Other	344	75	358	263	627	808
Total Eurobonds	**18,691**	**20,394**	**31,324**	**50,329**	**50,098**	**81,817**
International bonds						
Industrial countries	27,633	28,545	39,339	59,670	59,708	91,444
Developing countries	3,316	2,149	4,427	4,696	3,275	5,264
Centrally planned economies[2]	73	—	55	—	—	—
International organizations	7,479	7,424	7,516	10,741	13,343	11,798
Other	498	200	501	421	822	1,112
Total international bonds	**38,999**	**38,318**	**51,838**	**75,528**	**77,148**	**109,618**

Source: Organization for Economic Cooperation and Development, *Financial Market Trends.*

[1] International bonds consist of foreign and Eurocurrency bonds. Foreign bonds are issued by a borrower who is of a nationality different from the country in which the bonds are issued. Such issues are usually underwritten and sold by a group of banks of the market country and are denominated in that country's currency. In contrast, Eurocurrency bonds are those underwritten and sold in various national markets simultaneously, usually through international syndicates of banks. For classification of countries in groups shown here, see Appendix IX.

[2] Excluding Fund member countries.

countries decreased from a peak of 170 basis points in 1983 to 144 basis points in 1984. Despite this narrowing of spreads, the average cost of borrowing continued to be high in real terms, reflecting the increase in the level of real interest rates in most major industrial economies. For example, the average real short-term interest rates in the United States rose from 5.8 percent in 1983 to 6.9 percent in 1984, from 2.8 percent to 3.6 percent in the Federal Republic of Germany, from 4.0 percent to 5.2 percent in France, and from 4.6 percent to 6.4 percent in Italy.[12]

At the same time, the position of the developing countries improved as a result of a substantial lengthening of the maturity structure of outstanding bank debt. The average maturities of bank loans for developing countries was extended from seven years in 1983 to eight years and eleven months in 1984. This lengthening of maturities reflected to an important degree the restructuring of debts for the Western Hemisphere countries.

The international bond market continued to expand rapidly during 1984 as borrowing by many high-quality corporate and sovereign borrowers was stimulated by falling interest rates. New gross international bond offerings grew by 42 percent, more than at any time during the past two decades, to reach about $110 billion in 1984 (Table 18). The issue of floating rate notes advanced most rapidly, by 95 percent in 1984, equity-related issues grew by 36 percent, and the issue of straight bonds grew by 18 percent. Most of the new issues were accounted for by industrial country borrowers, whose share of total issues increased from 87 percent in 1983 to 89 percent in 1984. The currency distribution in 1984 remains heavily skewed toward U.S. dollar issues (62 percent of the total).

As the growth in bank lending slowed in the period since 1981, the international bond market gained in relative importance as a source of financing. From 1982 to 1984, international bank lending declined from $185 billion to $174 billion, while international bond lending grew from $76 billion to $110 billion. Developing countries issued $5.3 billion of bonds in 1984, more than at any time since the peak in 1978, but these issues were made by only a few of these countries. The increase in importance of the interna-

[12] Real interest rates are defined as the excess of nominal rates over expected inflation. Expected inflation rates are proxied by a weighted average of the rate of inflation in the current quarter and the next two quarters, with the deflator of private financial domestic demand being used as the price variable.

tional bond market is largely the result of innovations in this market that have made the underlying debt instruments more versatile.

DEVELOPMENTS IN DEBT RESCHEDULINGS

The restructuring of bank debt within the context of a Fund-assisted stabilization program has been widely used to alleviate debt service difficulties. During 1983 and 1984, 33 agreements were negotiated, involving 25 countries; a number of further agreements were being negotiated in the first months of 1985. In addition, 23 Fund members obtained 29 official debt reschedulings, mostly through the Paris Club mechanism, compared with 15 countries and 21 debt reschedulings during the period 1975–82. In 1983 and 1984, 32 countries rescheduled a total of \$168 billion of their external debt owed to commercial banks and official agencies. The volume of bank debt formally rescheduled, excluding short-term debt rolled over, is estimated at \$35 billion in 1983 and \$117 billion in 1984, or about 6 percent and 21 percent of the total stock of bank debt of developing countries in 1983 and 1984, respectively. In 1983, 8 countries reached an agreement with banks on concerted lending packages in the context of restructuring agreements, involving lending commitments of \$14 billion or 40 percent of new external commitments to developing countries. In 1984, 3 countries reached firm agreements on the concerted lending of \$11 billion (40 percent of total new commitments), and 3 additional countries reached agreements in principle on concerted loans of \$5 billion. Moreover, the first successful multiyear restructuring agreements were agreed to in principle with Mexico and Venezuela and a preliminary agreement was reached on a multiyear restructuring agreement with Ecuador. Multiyear restructuring agreements are designed to help restore voluntary debtor/creditor relationships for debtor countries that have made substantial progress in their adjustment efforts.

The terms on newly rescheduled debt eased during 1984. The spreads of borrowing rates over LIBOR on rescheduled debt had ranged from 1⅞ to 2½ percentage points in 1982 and 1983, and they fell to 1½ to 2 percentage points in 1984. Rescheduling fees declined as well, in part because of a new rule requiring U.S. banks to amortize most fees over the life of a loan. In addition, maturities and grace periods lengthened. Within the context of the multiyear restructuring agreement with Mexico, banks agreed to lengthen the period of repayment from 8 years to 14 years with margins over LIBOR at ⅞ percentage point during 1985–86, 1⅛ percentage points for 1987–91 and 1¼ percentage points for 1992–98. For the multiyear restructuring agreement with Venezuela, the period of repayment was 12 years at 1⅛ percentage points above LIBOR. Rescheduling fees were waived for both countries.

CURRENT ACCOUNT IMBALANCES AND RESERVE GROWTH

It has been suggested that a current account deficit of a reserve-currency country would lead to an increase in that country's indebtedness vis-à-vis the monetary authorities in other countries, which would imply a corresponding increase in the reserves of the rest of the world. Such a direct link would have been most likely in an international monetary system with relatively limited private international financial markets. The access of many countries to international financial markets implies, however, that holdings of a particular reserve currency can expand even if the country that issues that currency has a current account surplus. A creditworthy country can readily obtain additional reserves by borrowing in international financial markets and hold these funds as reserve assets at a relatively small net cost equal to the difference between the loan rate and the return earned on reserve assets. Holdings of a particular currency could therefore expand as a result of international financial transactions even if the reserve-currency country has a current account surplus.

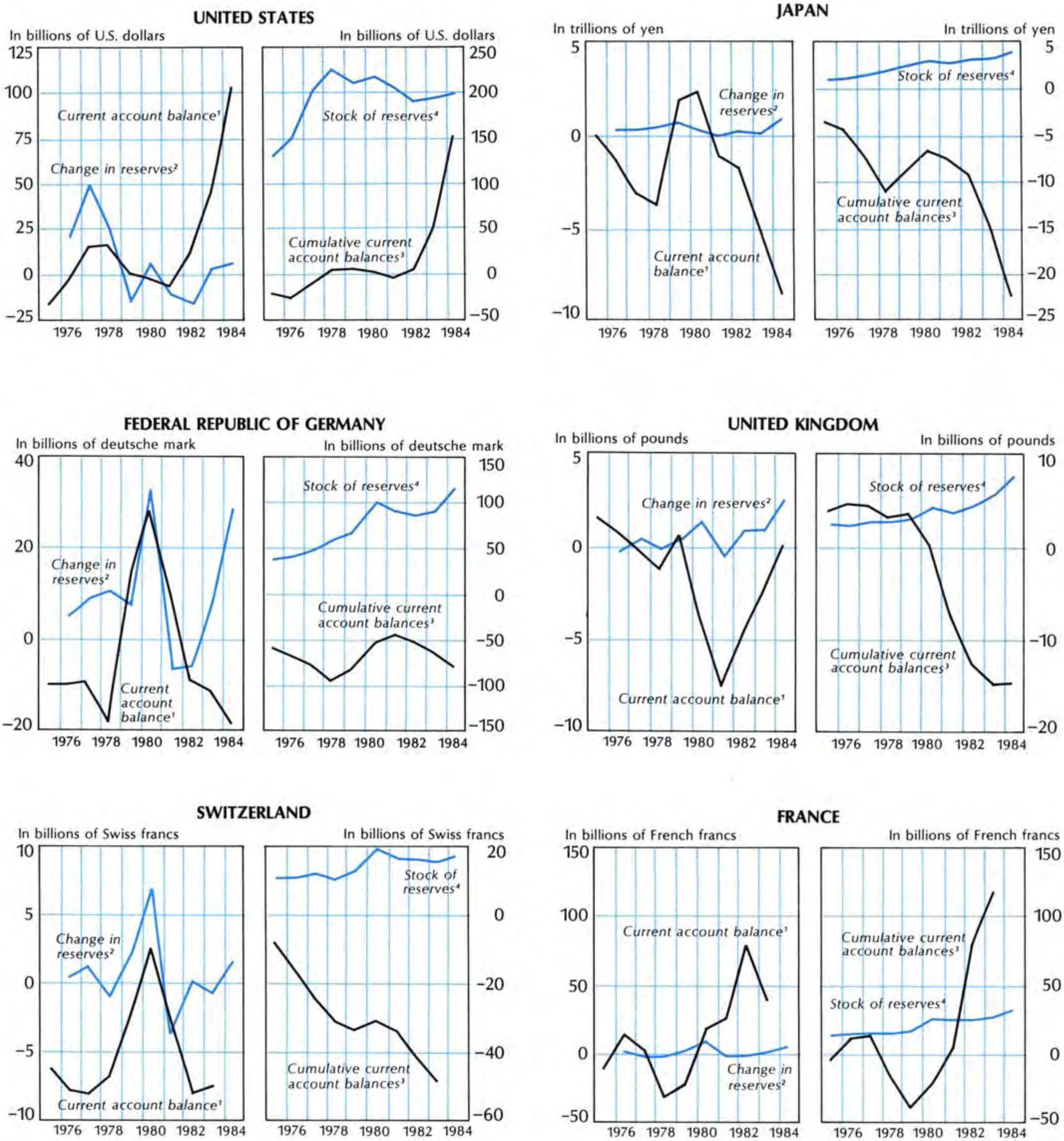
Given the current structure of the international monetary system, the nature of the relationships between the current account imbalances of the reserve-currency countries and stocks of reserves denominated in their currencies is basically an empirical issue. During the past decade,[13] it has been difficult to find a consistent relationship between the current account imbalances of the major reserve-currency countries and the foreign exchange reserves denominated in their currencies. In Chart 20, this relationship is examined first in terms of linkages between the current account balances of each reserve-currency country and the change in the stock of reserves denominated in that country's currency, and then in terms of the connection between the cumulative current account balances for each reserve-currency country (starting in 1970) and the stock of reserves.[14] A current account deficit is measured as a positive value in Chart 20 since it has been argued that a current account deficit (surplus) would lead to an expansion (contraction) of reserve holdings. The comparison of the current account imbalance and changes in reserve holdings year by year examines the short-run linkages between these variables, whereas the relationship between the cumulative current account balances and the level of reserve holdings considers longer-term linkages. Although for certain countries there is a positive relationship between current account deficits

[13] Consistent data on the currency composition of reserves are available only for the period since 1975.

[14] To the extent that current account imbalances prior to 1970 contributed to the growth of reserve holdings, the estimate of the stock of reserves generated by the cumulative current account balances reported in Chart 20 would be an underestimate. However, this difference would remain constant over time.

Chart 20.

Six Industrial Countries: Current Account Imbalances and Reserves, 1975–84



¹ A positive value indicates that the country had a current account deficit.
² Change in holdings of official reserves denominated in the national currency of the country considererd.
³ Sum of the current account balances starting in 1970. A positive value indicates a cumulative current account deficit.
⁴ Stock of official reserve denominated in the national currency of the country considered.

of the reserve-currency countries and increases in reserves denominated in their currencies during portions of the period 1976–84, there was no significant linkage for the period as a whole. The relationships between the cumulative current account balances and the stocks of reserves varies within the period but, once again, there is no consistent evidence of a direct linkage.

ADEQUACY OF RESERVES AND THE ROLE OF THE FUND

The recent changes in access to international finance markets for many countries and the movements in reserves described in previous sections have had important effects on the adequacy of international reserves and liquidity. This section considers the factors influencing the adequacy of reserves and the role of the Fund in the provision of liquidity.

ADEQUACY OF INTERNATIONAL RESERVES

An adequate stock of international reserves and liquidity is an important element in attaining a smoothly functioning international monetary system and a continuing expansion of world trade, while avoiding persistent inflation or deflation. An assessment of the adequacy of the existing stock of reserves requires an evaluation of the factors influencing the need for reserves, the terms and conditions under which reserves are supplied, and the sources of supply. The effective demand for reserves is affected by such factors as the levels and variability of trade and capital flows, the speed with which external payments imbalances respond to stabilization programs, the terms and conditions under which reserves can be obtained, and the types of domestic and external shocks that affect a country. Over time, the reserve holdings of all countries together have tended to grow as the value of world trade increased. In the period 1974–84, the ratio of non-gold reserves to imports for all countries had an average value of 21 percent and remained within the range of 20 to 25 percent. For the industrial countries, this ratio has moved in the range of 15 to 19 percent; and for the developing countries, it has fluctuated between 27 and 41 percent. Apart from periods surrounding large exchange rate adjustments or disturbances in financial markets, those reserve ratios have been relatively stable. For example, the average value of the ratio of reserves to imports for all countries of 17 percent in the period 1959–63 is only slightly lower than the average value of 20 percent for the period 1979–84. Although the effective demand for reserves is affected by a number of other factors, trade flows therefore provide an indication of likely movements in this demand.

The adequacy of reserves can also be evaluated by considering the terms and conditions under which individual countries acquire reserves. For countries with access to international credit markets, the terms on which reserves can be acquired and held reflect the net cost of borrowing funds and investing the proceeds in liquid foreign exchange assets. This net carrying cost of reserves can be quite small for countries with good credit ratings, especially relative to the costs of changing other policies in order to generate an overall balance of payments surplus. Borrowing rates differ among countries, since they reflect market evaluations of creditworthiness; the major industrial countries generally have the lowest borrowing costs. Even reserve-currency countries face a cost of acquiring foreign exchange reserves through borrowing, namely, the difference between the cost of servicing their own obligations and the return they obtain from holding assets denominated in foreign currencies.

The terms and conditions on which international reserves can be acquired are also importantly affected by policies of reserve-currency countries. Since most countries have a range of choices as to type of instrument and currency composition in which they hold their foreign exchange reserves, these portfolio decisions are often affected by the return on and stability of the value of different types of reserve assets. Stable economic policies in reserve-currency countries will help stabilize the composition of reserve portfolios.

The adequacy of reserves for countries without access to international financial markets requires further considerations. First, the stock of reserves deemed optimal for these countries is probably greater than that of countries with access to international credit markets. At the same time, the cost of acquiring and holding reserves is related to the necessity of generating net exports of goods and services to the rest of the world or of acquiring additional credits from official or multilateral sources. Such countries face a close linkage between their adjustment policies and their ability to accumulate reserves. The adjustments in absorption and production required to generate payments surpluses imply that the cost of reserve accumulation for these countries is much higher than for countries with access to international capital markets. For this reason, the supply of reserves generated by international agreements takes on special importance. The terms on which such countries acquire reserves, for example, through SDR allocations or government-to-government credit arrangements, may have implications for their adjustment efforts.

THE ROLE OF THE FUND IN THE PROVISION OF LIQUIDITY

The Fund provides reserves and liquidity through the allocation of SDRs and the generation of reserve positions in the Fund. At the end of 1984, Fund-related reserve assets totaled SDR 58 billion, which comprised SDR 16.5 billion of SDRs and SDR 41.6

billion of reserve positions. Reserve positions consist of members' subscriptions paid in reserve assets, credit extended by the Fund to its members through the sale of other members' currencies, and the credit extended to the Fund by members under various borrowing arrangements. Fund borrowings from members at the end of 1984 equaled SDR 12.8 billion, with the remainder of members' reserve positions, amounting to SDR 28.8 billion, accounted for by reserve asset subscriptions and claims arising from the use of members' currencies in the extension of Fund credit.

The resources made available to the Fund are used to provide temporary financial support to members undertaking programs of economic adjustment agreed between them and the Fund, with certain specified features of the programs being considered conditions for the continuation of the phased financial support. Access by Fund members to this type of international credit constitutes an extension of international liquidity beyond that provided by reserve holdings and access to private international credit markets. In comparison with these other sources of liquidity, the Fund's credit is characterized by its conditionality, which gives it an important role among the assets and availabilities that constitute international liquidity.

The role of the SDR and the possibility of a new SDR allocation have been discussed extensively since the last decision to allocate in 1978. SDR allocations are made on the basis of proposals by the Managing Director, concurred in by the Executive Board, and approved by the Board of Governors by an 85 percent majority of the total voting power. The question of further SDR allocations has been kept under continuous review by the Executive Board since the last decision to allocate, but it has not been possible to make a proposal for a new allocation that commands the required support of members with 85 percent of the total voting power in the Fund.

Although most Executive Directors believe that there is a strong case for resuming allocations of SDRs, some other Directors, who hold a substantial share of total voting power, do not. The matter remains under review by the Executive Directors and will be considered by the Interim Committee at its meeting in October. The Fund staff also is currently undertaking a study of the role of the SDR in light of the recent structural changes in the international financial system.

Chapter 3

Activities of the Fund

INTRODUCTION

The developments in the world economy and in the international monetary system reviewed in the two preceding chapters were reflected in the financial activities of the Fund and in its liquidity position. The recovery in world economic activity, successful adjustment policies, and the consequent improvement in the current account and reserve positions of many member countries led to a slowing down in the expansion of Fund credit from the peak levels of the recent past. Consequently, there was a marked decline in the Fund's financial activities in 1984/85 in terms of gross purchases as well as in the number and amount of arrangements and commitments. Gross purchases from the Fund fell from about SDR 10 billion in 1982/83 and 1983/84 to about SDR 6 billion in 1984/85. The number of arrangements fell from 35 in effect in 1983/84 to 30 in 1984/85 and the amount of commitments from SDR 19 billion to SDR 12 billion (see Table 19). Nevertheless, outstanding Fund credit continued to expand, amounting to about SDR 35 billion (or about 39 percent of Fund quotas) and extending to 83 countries at the end of the financial year. As in the recent past, the bulk of the Fund's financial assistance in 1984/85 was in the form of purchases involving upper credit tranche conditionality, which includes purchases under the extended Fund facility, reflecting the continuing adjustment problems facing several member countries (see Tables 20 and 21).

The Fund's liquidity position was influenced favorably by the improvement in the external positions of several member countries and by higher reflows of usable resources through repurchases. This in turn led to an increase in the number and amount of currencies that could be used by the Fund to finance purchases. The improvement in the Fund's liquidity position has, however, to be viewed in the context of the prospective demand for Fund resources. Thus, in spite of the improvement in the world economic situation, many member countries continue to face difficult payments problems, as well as serious uncertainties about the medium-term prospects.

In these circumstances, the Interim Committee, at its meeting in September 1984, agreed that, although the policy on enlarged access to Fund resources was of a temporary character, there was a need for its continuation, with some modification of the access limits for 1985. The Committee concluded that the limits of access to the Fund's general resources, as well as the enlarged access policy, should be reviewed by the Executive Board again before the end of 1985 and yearly thereafter in the light of all relevant factors, including the Fund's liquidity position and the magnitude of members' payments problems.

The Interim Committee, at its meeting in April 1985, requested the Executive Board also to consider in 1985 the use of resources that will be available following the repayment of loans made by the Trust Fund, to help forward the adjustment process by providing balance of payments assistance to low-income developing member countries of the Fund. The Managing Director will report to the Interim Committee on this matter at the time of its next meeting in Seoul, Korea, on October 6, 1985.

The Fund's financial and income position for 1984/85 was adversely affected by difficulties that several members experienced in settling their financial obligations to the Fund on time. While the amounts of overdue financial obligations of members remain small in relation to the Fund's overall financial position and activity, the increased incidence of overdue financial obligations to the Fund has led to the establishment of policies and procedures with respect to members in arrears and to a change in the accounting treatment of charges receivable from members with protracted arrears to the Fund. Reflecting this change in accounting procedures, the Fund reported for the first time since 1976/77 a net deficit of SDR 30 million in 1984/85 compared with a net income of SDR 73 million in 1983/84. This deficit

Table 19.

Selected Financial Activities by Type and Country Group, 1979–85

(In millions of SDRs)

	Financial Year Ended April 30						
	1979	1980	1981	1982	1983	1984	1985
				By Type			
I. General Resources Account							
Gross purchases[1]	1,239.2	2,210.8	4,385.9	6,960.2	10,258.2	10,164.1	6,059.8
Net purchases[2]	(−3,588.0)	(−1,362.9)	(1,575.3)	(5,066.0)	(8,711.5)	(8,148.9)	(3,214.8)
II. Administered Accounts							
Trust Fund loans	670.0	961.7	1,059.8	—	—	—	—
Oil facility subsidy account payments (grants)	19.1	27.8	50.0	9.3	2.5	11.7	—
Supplementary financing facility subsidy account payments (grants)	—	—	—	22.9	44.3	68.5	89.9
III. SDR allocations	4,032.6	4,033.2	4,052.6	—	—	—	—
Total	5,960.9	7,233.5	9,548.3	6,992.4	10,305.0	10,244.3	6,149.7
				By Country Group (I + II + III)			
Industrial countries	2,593.7	2,617.6	2,543.9	—	54.0	—	—
Developing countries	3,367.2	4,615.9	7,004.4	6,992.4	10,251.0	10,244.3	6,149.7
Africa	*928.8*	*1,329.7*	*1,538.7*	*1,999.9*	*2,072.1*	*1,665.3*	*1,038.8*
Asia	*1,061.4*	*1,247.3*	*3,497.3*	*3,163.5*	*3,171.2*	*2,639.5*	*807.5*
Europe	*249.0*	*765.8*	*981.2*	*1,326.0*	*1,188.1*	*1,658.3*	*837.5*
Middle East	*473.4*	*336.1*	*273.9*	*0.8*	*25.2*	*0.7*	*57.4*
Western Hemisphere	*654.6*	*937.0*	*713.3*	*502.2*	*3,794.4*	*4,280.5*	*3,408.5*
All countries	5,960.9	7,233.5	9,548.3	6,992.4	10,305.0	10,244.3	6,149.7
IV. Memorandum							
Number of stand-by and extended arrangements as of April 30	20	29	37	35	39	35	30
Of which, extended arrangements	*5*	*7*	*15*	*12*	9	*5*	*3*
Commitments	1,600.4	3,049.7	9,475.1	16,206.3	25,025.5	18,569.4	11,675.3
As percent of total quotas	4.1	7.8	15.9	26.7	41.0	20.9	13.1
Undrawn balances	1,377.5	2,718.0	8,076.4	11,154.6	16,405.1	9,269.5	5,543.1
As percent of commitments	86.1	89.1	85.2	68.8	65.6	49.9	47.5
V. Outstanding Fund Credit	8,873	8,038	9,545	14,802	23,590	31,742	34,973
As percent of total quotas	22.7	20.6	16.0	24.4	38.6	35.6	39.2
Number of Countries	73	74	78	79	85	84	83

[1] Excluding purchases in the reserve tranche.
[2] Purchases minus repurchases; net repurchases (−).

was charged to the Fund's Special Reserve, reducing the Fund's total reserves from SDR 1,074 million on April 30, 1984 to SDR 1,044 million on April 30, 1985. In the light of the income and financial position of the Fund, the net income target was raised, effective May 1, 1985, from 3 percent to 5 percent of reserves at the beginning of a financial year.

No allocations of SDRs have been made since 1981, which was the last year of the third basic period. The question of an SDR allocation in the current—that

Table 20.

Purchases Under Tranche Policies and Special Facilities, 1979–85

(In billions of SDRs)

	Financial Year Ended April 30						
	1979	1980	1981	1982	1983	1984	1985
Purchases under tranche policies	0.72	1.31	3.60	5.33	6.17	8.88	4.81
First credit tranche	0.13	0.16	0.78	0.02	0.03	—	[1]
Upper credit tranches	0.35	0.93	1.90	2.73	3.68	4.16	2.77
Extended Fund facility	0.24	0.22	0.92	2.58	2.46	4.72	2.04
Purchases under special facilities	0.51	0.89	0.78	1.63	4.09	1.28	1.25
Compensatory financing facility	0.46	0.86	0.78	1.63	3.74	1.18	1.25
Buffer stock financing facility	0.05	0.03	—	—	0.35	0.10	—
Total	1.23	2.20	4.38	6.96	10.26	10.16	6.06

[1] Less than SDR 50 million.

is, the fourth—basic period was discussed by the Interim Committee at its meeting of April 17–19, 1985 in Washington, but the degree of support required for an allocation was not forthcoming. The Committee agreed to consider the matter again at its next meeting in Seoul, Korea, on October 6, 1985.

The continuing evolution of the Fund's role in exercising surveillance over members' exchange rate policies, including the new procedure of enhanced surveillance in the context of multiyear rescheduling arrangements, is reviewed in Chapter 2. During the year the Fund participated in meetings on external debt reschedulings, as well as in meetings convened by aid and aid coordination groups.

As regards its nonfinancial activities, the Fund continued to provide training programs through the IMF Institute, and technical assistance was provided in the areas of central banking, fiscal affairs, and statistics. In many cases, these activities have helped member countries to design and carry out effective adjustment policies.

MEMBERSHIP OF THE FUND AND PARTICIPATION IN THE SDR DEPARTMENT

During the year, the membership of the Fund increased from 146 to 148; all members are participants in the SDR Department. St. Christopher and Nevis became a member on August 15, 1984 with a quota of SDR 4.5 million, and the People's Republic of Mozambique became a member on September 24, 1984 with a quota of SDR 61 million, raising the total of Fund quotas to SDR 89,301.8 million. Applications for membership were received from two countries in the financial year: one from Kiribati was received on July 18, 1984 and is under review, and the other received from Tonga on January 16, 1985 was approved by the Board of Governors on August 13, 1985. Early in 1985, Fund staff also resumed contacts with Poland regarding its application for membership, which was received on November 10, 1981.

Table 21.

Outstanding Fund Credit by Facility and Policy, 1979–85

(In millions of SDRs)

	Financial Year Ended April 30													
	1979		1980		1981		1982		1983		1984		1985	
	Amount	As percent of total	Amount	As percent of total	Amount	As percent of total	Amount	As percent of total	Amount	As percent of total	Amount	As percent of total	Amount	As percent of total
Regular facilities	1,233	13.9	1,606	20.0	2,349	24.6	3,206	21.7	4,721	20.0	5,197	16.4	5,511	15.8
Compensatory financing facility	2,945	33.2	2,875	35.8	2,617	27.4	3,643	24.6	6,837	29.0	7,304	23.0	7,490	21.4
Buffer stock financing facility	48	0.5	74	0.9	—	—	—	—	307	1.3	375	1.2	237	0.7
Oil facility	4,240	47.8	2,494	31.0	1,581	16.6	565	3.8	27	0.1	—	—	—	—
Extended Fund facility	407	4.6	487	6.1	980	10.3	2,115	14.3	3,317	14.1	5,568	17.5	6,529	18.7
Supplementary financing facility	—	—	502	6.2	2,018	21.1	4,112	27.8	6,039	25.6	6,920	21.8	6,310	18.0
Enlarged access policy	—	—	—	—	—	—	1,160	7.8	2,342	9.9	6,378	20.1	8,896	25.4
Total	8,873	100.0	8,038	100.0	9,545	100.0	14,802	100.0	23,590	100.0	31,742	100.0	34,973	100.0

Table 22.

Flow of Transactions in the General Resources Account and Resulting Stocks, 1979–85

(In millions of SDRs)

Type of Transaction	Financial Year Ended April 30 1979	1980	1981	1982	1983	1984	1985
Total purchases	3,720	2,433	4,860	8,041	11,392	11,518	6,289
Reserve tranche	2,480	222	474	1,080	1,134	1,354	229
Credit tranches	485	1,106	2,682	2,748	3,703	4,164	2,768
Buffer stock financing facility	48	26	—	—	352	102	—
Compensatory financing facility	465	863	784	1,635	3,740	1,180	1,248
Extended Fund facility	242	216	920	2,578	2,463	4,718	2,044
Total repurchases	4,859	3,776	2,853	2,010	1,555	2,018	2,730
Outstanding Fund credit	8,873	8,038	9,545	14,802	23,590	31,742	34,973
Outstanding borrowings							
In connection with oil facility	4,257	2,474	1,528	526	18	—	—
Under General Arrangements to Borrow	777	777	777	777	777	—	—
Supplementary financing facility	—	502	2,018	4,112	6,037	6,915	6,239
Under policy on enlarged access	—	—	—	1,358	4,120	6,876	7,964
Holdings of the General Resources Account at end of year							
Usable currencies[1]	8,800	10,600	23,000	17,000	14,400	32,900	37,300
SDRs	1,290	1,407	5,445	5,456	4,335	6,437	4,616
Gold[2]	4,055	3,636	3,620	3,620	3,620	3,620	3,620
Reserve tranche positions of members at end of year	8,310	8,380	13,125	15,621	20,592	27,415	28,290

[1] "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 the Fund considers "sufficiently strong" for that purpose.

[2] Valued at SDR 35 a fine ounce (0.888671 gram of fine gold per SDR).

TRANSACTIONS AND OPERATIONS IN THE GENERAL RESOURCES ACCOUNT

The rate of increase of Fund credit declined during 1984/85, after rising steadily since 1978/79. Purchases (excluding those in the reserve tranche[1]) totaled SDR 6.1 billion in 1984/85, a decline of just over 41 percent from their peaks of about SDR 10 billion in each of the two preceding years (see Table 22). All purchases were made by developing countries. The largest amount was in the credit tranches (SDR 2,768 million), followed by purchases under the extended Fund facility (SDR 2,044 million) and under the compensatory financing facility (SDR 1,248 million). While the last of the three amounts was slightly higher than in the previous year, credit tranche purchases declined by one third and those under the extended Fund facility by more than half. However, at the end of the financial year 1984/85, outstanding purchases were substantially higher at SDR 35 billion compared with SDR 31.7 billion at April 30, 1984 (see Chart 21).

[1] A member has a reserve tranche position in the Fund to the extent that the Fund's holdings of the member's currency in the General Resources Account, after deducting holdings of the member's currency resulting from all other purchases (i.e., in the credit tranches, under the extended Fund facility, and under the special facilities) are less than its quota. Reserve tranche purchases represent a use of members' own reserves held in the form of reserve positions in the Fund and therefore do not constitute use of Fund credit.

Total repurchases rose from SDR 2.0 billion in 1983/84 to SDR 2.7 billion in 1984/85. The bulk of these—SDR 2.0 billion—related to purchases financed with ordinary resources, while SDR 0.7 billion was in respect of purchases financed with borrowed resources under the supplementary financing and enlarged access facilities. One third each of total repurchases related to purchases in the credit tranches and under the compensatory financing facility.

On April 30, 1985, 27 stand-by arrangements and 3 extended arrangements were in effect for a total commitment of SDR 11.7 billion (with an undrawn balance of SDR 5.5 billion); this compares with 30 stand-by and 5 extended arrangements for a total commitment of SDR 18.6 billion on April 30, 1984.

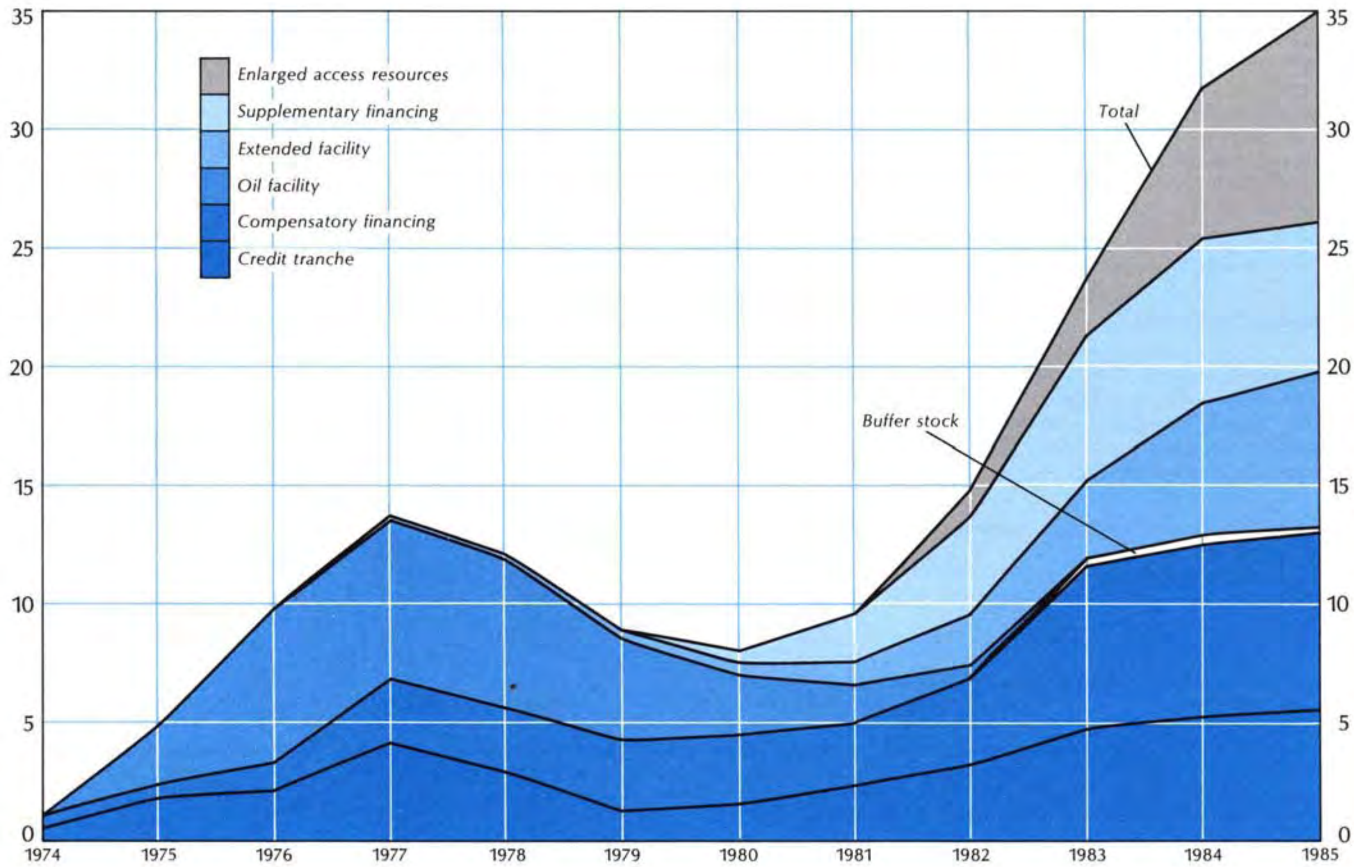
RESERVE TRANCHE PURCHASES

Reserve tranche purchases by 17 members in 1984/85 amounted to SDR 229.1 million, the lowest amount of such purchases since 1979/80, as against

Chart 21.

Use of Fund Resources as at April 30, 1974–85

(In billions of SDRs)



purchases of SDR 1.4 billion by 75 members during the previous year. The large amount in 1983/84 reflected, among other factors, the purchases made by members to repay loans of SDRs from other members to pay the reserve asset portion of their quota increases under the Eighth General Review. With the exception of New Zealand, all members that drew on their reserve tranche positions were developing countries. Four countries—Mexico (SDR 65.0 million), Hungary (SDR 38.9 million), New Zealand (SDR 28.5 million), and Peru (SDR 21.2 million)—accounted for more than two thirds of these purchases.

CREDIT TRANCHE PURCHASES

Purchases under credit tranche policies declined to SDR 2.8 billion in 1984/85 from a peak of SDR 4.2 billion in the previous year (see Table 22). All of these purchases were made by 36 developing countries, compared with 43 developing countries in the previous year. Almost all of these purchases were made under stand-by arrangements and were financed in part (SDR 1.2 billion) from the Fund's ordinary resources, and the balance from borrowed resources under the enlarged access policy. The largest amounts purchased were by Korea (SDR 319.8 million), Hungary (SDR 297.5 million), Yugoslavia (SDR 280 million), Argentina (SDR 236.5 million), and Chile (SDR 216 million).

New commitments under stand-by arrangements for 24 members totaled SDR 3.5 billion in 1984/85, compared with new commitments under 25 arrangements for a total of SDR 4.3 billion in 1983/84. Of the approved arrangements, 14 were for a period of one year and involved amounts ranging from SDR 1.4 million (Dominica) to SDR 162 million (Zaïre), while 9 other arrangements were for periods of 13 months to 21 months and ranged in amounts from SDR 54.0 million (Costa Rica) to SDR 1,419 million (Argentina). The stand-by arrangement for Argentina was the largest arrangement approved during the year, followed by those for the Philippines (SDR 615 million), Zambia (SDR 225 million), Ghana (SDR 180 million), and Zaïre (SDR 162 million).

Stand-by or extended arrangements with 27 members either expired or were canceled during the year. As a result, SDR 0.5 billion each of ordinary and borrowed resources were released from committed resources. Only one such arrangement (Zaïre), which expired in March 1985 with an undrawn balance of SDR 30 million, was followed by a new one, for SDR 162 million. As of April 30, 1985, the undrawn balances under stand-by arrangements in effect on that date amounted to SDR 2.8 billion, including SDR 1.3 billion under three arrangements that were inoperative because of members' failure to observe relevant performance criteria.[2]

EXTENDED FUND FACILITY

The Executive Board reviewed on December 5, 1984[3] the decision on the extended Fund facility, which was established in 1974[4] to provide medium-term assistance to members to overcome serious structural balance of payments maladjustments. It was agreed that its provisions remained suitable for dealing with balance of payments problems of a structural character. The Board decided to review further the appropriateness of the facility not later than December 31, 1985. No new extended arrangements were approved during 1984/85.

Total purchases under extended arrangements during 1984/85 amounted to SDR 2 billion, compared with SDR 4.7 billion in 1983/84 and SDR 2.5 billion in 1982/83. These purchases were financed in equal proportions from ordinary and borrowed resources under the enlarged access policy and were made by three members: Brazil (SDR 1.1 billion), Malawi (SDR 19 million), and Mexico (SDR 0.9 billion). Two arrangements, with India and the Dominican Republic, were canceled on May 1, 1984 and January 17, 1985 with undrawn amounts of SDR 1.1 billion and SDR 247.5 million, respectively. As of April 30, 1985, undrawn balances under the three extended arrangements in effect on that date amounted to SDR 2.8 billion.

POLICY ON ENLARGED ACCESS

As requested by the Interim Committee, the Executive Board reviewed the enlarged access policy[5] on November 16, 1984 and decided to continue it with modified access limits as follows.[6] It was decided that access in 1985 would be subject to annual limits of 95 or 115 percent of quota (previously 102 or 125 percent), three-year limits of 280 or 345 percent of quota (previously 306 or 375 percent), and cumulative limits of 408 or 450 percent of quota (previously 408 or 500 percent), depending on the seriousness of a member's balance of payments need and the strength of its adjustment effort. As in the past, the Fund may approve arrangements for amounts above these access limits in exceptional circumstances. The enlarged access policy and the revised access limits will be reviewed before the end of 1985.

COMPENSATORY FINANCING FACILITY

Under this special facility, established in 1963, the Fund provides financial assistance to members experiencing balance of payments difficulties arising from temporary shortfalls in export earnings due to factors largely beyond their control. The scope of the facility was extended, effective May 13, 1981, to provide for compensation to members to meet the excess in the cost of cereal imports. The Interim Committee, at its meeting in September 1984, concluded that the limits of access operative in 1984 for the compensatory and the buffer stock financing facilities should be retained. Accordingly, the Executive Board reviewed access limits to this facility and in November 1984 decided to leave unchanged the levels fixed in January 1984, namely, the separate limits of 83 percent of quota on outstanding purchases relating to export shortfalls or cereal import excesses and the joint limit of 105 percent on outstanding purchases relating to both export shortfalls and cereal import excesses. These limits are subject to review by end-1985. In May 1985 the Executive Board reviewed the 1981 decision relating to the compensation of the cost of cereal imports, and decided to extend it for a further period of four years, until May 1989, with provision for a review of the decision by the Executive Board not later than May 13, 1987.[7]

Purchases Under Decision Relating to Export Fluctuations

A total of SDR 784 million was purchased by 9 members during 1984/85, a decline from purchases

[2] The Executive Board reviewed the guidelines governing the relationship between performance criteria and phasing of purchases under Fund arrangements and enunciated certain operational guidelines. See Executive Board Decision No. 7925-(85/38), adopted March 8, 1985 (reproduced in Appendix II).

[3] Executive Board Decision No. 7857-(84/175), adopted December 5, 1984 (reproduced in Appendix II).

[4] Executive Board Decision No. 4377-(74/114), adopted September 13, 1974, as amended by Decisions Nos. 6339-(79/179), adopted December 3, 1979, and 6830-(81/65), adopted April 22, 1981, effective May 1, 1981 (*Selected Decisions of the International Monetary Fund and Selected Documents*, Tenth Issue (Washington, April 30, 1983), pages 27–31).

[5] The policy on enlarged access to Fund resources, adopted by the Executive Board on March 11, 1981, enables the Fund to provide assistance to members whose balance of payments deficits are large in relation to their quotas and which need resources in larger amounts and for longer periods than are available under the regular credit tranches.—Executive Board Decision No. 6783-(81/40), adopted March 11, 1981, *Selected Decisions*, Tenth Issue, pages 40–45, and Executive Board Decisions Nos. 7599-(84/3) and 7600-(84/3), adopted January 6, 1984, *Selected Decisions*, Supplement to Tenth Issue (Washington, March 31, 1984), pages 7–8. See also Executive Board Decision No. 7710-(84/84), adopted May 30, 1984 (reproduced in Appendix II).

[6] Executive Board Decision No. 7841-(84/165), adopted November 16, 1984 (reproduced in Appendix II).

[7] Executive Board Decision No. 7967-(85/69), adopted May 3, 1985 (reproduced in Appendix II).

of SDR 1.2 billion by 13 members in the previous year and from a peak of SDR 3.7 billion in 1982/83, which was associated with the world recession in 1981–82. Argentina purchased the largest amount (SDR 275 million), followed by Brazil (SDR 247.9 million). Other purchases ranged from SDR 74.7 million by Peru to SDR 4.8 million by Fiji.

Purchases Under Decision Relating to Cereal Import Costs

In 1984/85, 5 members purchased a total of SDR 464 million under this decision,[8] the largest amount purchased in any year since the decision was adopted in 1981. Of these 5 members, Ghana and Jordan purchased under the decision for the first time, Bangladesh and Korea for the second time, and Malawi for the third time. Korea's purchase of SDR 279.7 million was the largest amount, followed by Ghana (SDR 58.2 million), Jordan (SDR 57.4 million), Bangladesh (SDR 55.0 million), and Malawi (SDR 13.8 million). The purchases by Korea and by Malawi were entirely in respect of export shortfalls, whereas the purchase by Bangladesh was entirely related to an excess in cereal import costs. The purchases by Ghana and Jordan were related to both export shortfalls and excess costs of cereal imports. The total purchases for excess cereal costs in 1984/85 were SDR 87 million, while those for the export shortfalls amounted to SDR 377 million.

BUFFER STOCK FINANCING FACILITY

Assistance under this special facility, established in 1969, is available to members with a balance of payments need, for financing of their contributions to approved buffer stock operations of international commodity agreements that meet the criteria for Fund support. As of April 30, 1985, only two of these agreements were in effect—the Sixth International Tin Agreement (1981) and the 1979 International Natural Rubber Agreement—but no purchases were made in connection with either of them during 1984/85. The total outstanding purchases of six Fund members—Bolivia, Indonesia, Ivory Coast, Malaysia, Sri Lanka, and Thailand—under the buffer stock financing facility amounted to SDR 236.9 million (0.7 percent of outstanding Fund credit). With the expiration of the 1977 International Sugar Agreement on December 31, 1984, the special stocks accumulated by exporting members of the Agreement were released from the control of the International Sugar Organization. Consequently, purchases outstanding under this facility in respect of this Agreement, totaling SDR 128 million by six Fund members—Brazil, the Dominican Republic, Malawi, Mauritius, Swaziland, and Zimbabwe—became subject to an expectation of early repurchase. With the completion of these repurchases by the end of March 1985, the Fund's operations under the facility with respect to the 1977 International Sugar Agreement were concluded.

The Executive Board reviewed the access limits under the buffer stock financing facility on November 16, 1984 and decided to retain the access limit of 45 percent of quota fixed in January 1984. This limit will be reviewed before the end of 1985.

REPURCHASES

During 1984/85 repurchases totaled SDR 2,730 million, compared with SDR 2,018 million in 1983/84 (see Appendix I, Table I.6). The bulk of total repurchases (76 percent), as in the preceding year (89 percent), was in respect of purchases financed from ordinary resources, and the remainder (24 percent) related to purchases financed with borrowed resources. Of total repurchases, about 66 percent was evenly divided between purchases in the credit tranches, mostly under stand-by arrangements, and under the compensatory financing facility. Repurchases in respect of purchases under the supplementary financing facility[9] amounted to about 23 percent of the total, while the remainder (77 percent) was mostly in respect of purchases under the buffer stock financing facility and under the extended Fund facility. Two members, Malaysia and Papua New Guinea, repurchased a total of SDR 79 million (3 percent) in accordance with the guidelines for early repurchase, under which members are expected to repurchase calculated amounts in advance of the normal schedule if their balance of payments and reserve positions have improved.[10] One member, Indonesia, opted, in accordance with Executive Board Decision No. 6172-(79/101), to reduce the Fund's holdings of its currency through the sale of Indonesian rupiah by the Fund during January 1985 rather than through early repurchase.

FUND LIQUIDITY

The Fund's liquidity position is reviewed regularly by the Executive Board taking into account all relevant factors, particularly the need to maintain the

[8] For a period of three years from the date of a member's first request for a purchase under this Decision (No. 6860-(81/81), adopted May 13, 1981, any purchases by the member in respect of its export shortfalls should be made under this decision instead of under Executive Board Decision No. 6224-(79/135), adopted August 2, 1979, relating to compensatory financing of export fluctuations, *Selected Decisions*, Tenth Issue, pages 65–70 and 61–64, respectively.

[9] The supplementary financing facility was established in August 1977 to provide additional financing arrangements, in conjunction with the use of the Fund's ordinary resources, requested before February 22, 1982. For details, see *Annual Report of the Executive Board for the Financial Year Ended April 30, 1984* (Washington: International Monetary Fund, 1984), pages 77–78.

[10] Executive Board Decisions Nos. 5704-(78/39), adopted March 22, 1978, effective April 1, 1978, and 6172-(79/101), adopted June 28, 1979, *Selected Decisions*, Tenth Issue, pages 101–105.

liquidity of members' reserve positions and loan claims on the Fund, and the Fund's ability to provide financing in support of its members' adjustment policies. The Fund needs to have adequate ordinary and borrowed resources both to meet possible demands for encashment of reserve tranche positions or creditors' claims (all of which are encashable on representation of balance of payments need) and to cover existing and foreseeable demands for the use of its resources.

The Fund's ordinary resources that are available for use consist of usable currencies and SDRs held in the General Resources Account.[11] Ordinary resources are supplemented as and when necessary by borrowed resources. Usable currencies are those issued by members whose balance of payments and gross reserve positions are considered by the Executive Board to be sufficiently strong for their currencies to be sold by the Fund through its operational budget to finance other members' purchases in a particular financial quarter. The usability of a currency in a particular quarter depends on whether the issuing member's external position is sufficiently strong during that period. The list of usable currencies can and does change every quarter with changes in members' external payments and reserve positions. The SDRs held by the Fund in the General Resources Account can be readily used to finance members' purchases.

The Executive Board in its latest review in April 1985 noted that the Fund's liquidity position had improved owing to a variety of factors, including the recovery in world economic activity, the improvement in the current account and reserve positions of several member countries, and the inflow of usable resources through repurchases. The number of usable currencies also increased during the financial year from 23 at the end of May 1984 to 28 at the end of May 1985, reflecting an improvement in the external positions of members and the consequent addition of their currencies to the operational budgets. The list of usable currencies as of April 30, 1985 included those of all but three—smaller—industrial members, as well as those of several developing members. Nearly half of the total amount of usable currencies during the financial year was accounted for by the five currencies making up the SDR basket (deutsche mark, French franc, Japanese yen, pound sterling, and U.S. dollar).

The Fund's total holdings of usable currencies and SDRs on April 30, 1985, at SDR 41.9 billion, were above the level of a year earlier (SDR 39.3 billion). Liquid claims on the Fund as of April 30, 1985 amounted to SDR 42.5 billion, consisting of outstanding borrowing of SDR 14.2 billion and reserve tranche positions of SDR 28.3 billion. The bulk of these liquid claims were held by members in strong balance of payments and reserve positions with no immediate need to encash claims. In addition to these claims, undrawn balances under arrangements amounted to SDR 5.5 billion.

The Executive Board has reviewed the policy on sales of SDRs through the operational budgets in each of the last five years: in March 1981, May 1982, May 1983, February 1984, and March 1985. The following factors have been taken into account in determining the target range of the Fund's SDR holdings: (i) the Fund's actual and prospective holdings of SDRs in relation to total allocations of SDRs; (ii) the Fund's liquidity; (iii) the Fund's operational need to hold SDRs; and (iv) the Fund's financial position. As a result of the first three reviews, sales of SDRs following the coming into effect of the Seventh General Review of Quotas in November 1980 were guided by the aim of progressively reducing the Fund's SDR holdings in the General Resources Account from SDR 5.6 billion in early 1981 to approximately SDR 1.5 billion by the end of 1983.

Following the coming into effect of the Eighth General Review of Quotas, the Fund's holdings of SDRs rose to SDR 6.4 billion by April 30, 1984, largely as a consequence of SDR payments by members for the reserve asset portion of their quota increases. In February 1984 the Executive Board decided that the Fund should be guided by the aim of reducing the Fund's SDR holdings to a level of approximately SDR 4 billion by May 31, 1985.[12] Accordingly, the Fund made more use of SDRs relative to currencies available in the operational budget for transfers. As a result, the Fund's SDR holdings declined to SDR 4.6 billion as of April 30, 1985, or 22 percent of the net cumulative allocation (SDR 21 billion), compared with 30 percent a year earlier. In March 1985, the Executive Board decided to reduce the Fund's holdings of SDRs further to a level of approximately SDR 2.5 billion by May 31, 1986, consistent with the Fund's liquidity and operational requirements.[13] The Executive Board will determine, prior to April 30, 1986, whether and to what extent the Fund's SDR holdings should be further reduced.

BORROWING

Borrowing provides an important temporary supplement to the Fund's ordinary resources. Under the current guidelines for the Fund's borrowing, its outstanding borrowing plus unused credit lines cannot exceed the range of 50 to 60 percent of the total of Fund quotas.[14] During the financial year 1984/85 the

[11] The Fund's holdings of gold (103.440 million ounces) are not included in the category of readily usable resources. The sale of this gold for any purpose requires an 85 percent majority of the total voting power of the Fund.

[12] Executive Board Decision No. 7626-(84/23) S, adopted February 13, 1984, *Selected Decisions*, Supplement to Tenth Issue, page 19.

[13] Executive Board Decision No. 7941-(85/50) S, adopted March 29, 1985 (reproduced in Appendix II).

[14] Executive Board Decision No. 7589-(83/181), adopted December 23, 1983, *Selected Decisions*, Supplement to Tenth Issue, pages 29–30.

Fund borrowed a total of SDR 2,152 million (34.2 percent of all purchases in the same period), raising the total outstanding borrowing of the Fund from SDR 13,791 million to SDR 14,203 million, after taking account of repayments of earlier borrowings. As of April 30, 1985, the Fund's total outstanding borrowing (SDR 14.2 billion) and unused lines of credit (SDR 18.5 billion) were well below the limits under the guidelines. Together, they amounted to 37 percent of quotas, compared with 38.7 percent of quotas on April 30, 1984. The guidelines for borrowing will be reviewed in the event of major developments, including any significant change in the General Arrangements to Borrow or associated arrangements and, in any event, when the Board of Governors has completed the Ninth General Review of Quotas. To date, all borrowing by the Fund has been from official sources, which include its members, Switzerland, and central banks and other official institutions in these countries. The Fund's current borrowing arrangements are described below.

GENERAL ARRANGEMENTS TO BORROW AND ASSOCIATED ARRANGEMENTS

The General Arrangements to Borrow (GAB) were originally established between the Fund and ten of its main industrial member countries (the Group of Ten) in 1962 for four years. They were designed to provide supplementary resources to the Fund, if needed, to forestall or cope with an impairment of the international monetary system. Switzerland became associated with the GAB in 1964. Since their inception the Arrangements have been activated on nine occasions. No calls have been made on the GAB and associated arrangements since the last borrowing by the Fund in 1978 to help finance a reserve tranche purchase of SDR 2,275 million by the United States. This borrowing was fully repaid in November 1983.

Table 23.

Lenders and Amounts of Credit Arrangements Under the General Arrangements to Borrow and Associated Arrangements

Lender	Amount
	(In SDRs)
United States	4,250,000,000
Deutsche Bundesbank	2,380,000,000
Japan	2,125,000,000
France	1,700,000,000
United Kingdom	1,700,000,000
Italy	1,105,000,000
Canada	892,500,000
Netherlands	850,000,000
Belgium	595,000,000
Sveriges Riksbank	382,500,000
Swiss National Bank	1,020,000,000
Total	17,000,000,000
Credit arrangements associated with the General Arrangements to Borrow:	
Saudi Arabia	1,500,000,000
Total General Arrangements to Borrow and associated lines of credit	18,500,000,000

The Arrangements have been periodically reviewed and renewed with some modifications. On January 18, 1983 the ministers and governors of the Group of Ten agreed on major revisions and a substantial enlargement of the GAB from SDR 6.4 billion to SDR 17.0 billion which were approved by the Executive Board on February 24, 1983 and came into effect on December 26, 1983.[15] The Swiss National Bank became a participant in the GAB on April 10, 1984. Under the revised GAB the Fund can enter into associated borrowing agreements. One such agreement was concluded with Saudi Arabia, for SDR 1.5 billion, which came into effect at the same time as the revised GAB (see Table 23).

The revised GAB decision will be in effect for five years from December 26, 1983 subject to further review and renewal. The Fund and the participants in the GAB will review the functioning of the decision when considering renewal of the Arrangements.

SUPPLEMENTARY FINANCING FACILITY

Under the borrowing arrangements concluded with 13 member countries and the Swiss National Bank[16] in order to finance this facility, none of the funds were to be committed after February 22, 1982, or to be disbursed after February 22, 1984. The Fund borrowed a total of SDR 7.2 billion under these arrangements over the period of five years following the activation of the facility (see Appendix I, Table I.8). An amount of SDR 0.6 billion remained undrawn at the expiration of the agreements, of which SDR 0.3 billion had not been called because the balance of payments and reserve positions of some lenders were not sufficiently strong. The repayment of borrowing under this facility, which began in November 1982, amounted to SDR 675.5 million during 1984/85, bringing total repayments to SDR 992.9 million by April 30, 1985. The outstanding borrowings between now and the final maturity date of April 30, 1991 amount to SDR 6.2 billion.

BORROWING TO FINANCE ENLARGED ACCESS

Medium-Term Borrowing

The Fund's policy on enlarged access became operational with the signing of a medium-term borrow-

[15] Executive Board Decision No. 7337-(83/37), adopted February 24, 1983, *Selected Decisions*, Tenth Issue, pages 131–45.

[16] Executive Board Decision No. 5508-(77/127), adopted August 29, 1977, *Selected Decisions*, Tenth Issue, pages 33–38.

ing agreement for SDR 8.0 billion with the Saudi Arabian Monetary Agency (SAMA) in May 1981. The Fund had borrowed SDR 6.3 billion under the agreement through April 30, 1984, and borrowed a further SDR 300 million in 1984/85. The outstanding balance as of April 30, 1985 was therefore SDR 6.6 billion. The commitment period under the agreement with SAMA expires on May 6, 1987.

Short-Term Borrowing

Under agreements concluded in 1981, the central banks or official agencies of 18 countries agreed to make available to the Fund the equivalent of SDR 1.3 billion over a commitment period of two years. Of that amount, SDR 675 million was provided under a borrowing agreement with the Bank for International Settlements. At the end of the financial year 1983/84, the amount of SDR 1.3 billion had been fully utilized, except for a very small amount that was not drawn before an agreement expired.

At the end of April 1984 the Fund concluded four new short-term borrowing agreements for a total of SDR 6 billion with SAMA, the Bank for International Settlements (BIS), Japan, and the National Bank of Belgium. The agreement with SAMA is in the form of a supplement to its 1981 borrowing agreement with the Fund. The four new borrowing agreements are broadly parallel with respect to their principal terms and conditions, with variations reflecting the lenders' preferences and the Fund's projected requirements for utilizing the resources available under the respective agreements. The drawdown period under three of the agreements was for one year, beginning on April 30, 1984 for the BIS and Japan and on June 30, 1984 for Belgium. These periods were extended by a further eight months effective April 26, 1985, in the light of delays in purchases under several major Fund arrangements. The amount borrowed under these agreements in 1984/85 was SDR 1,251.6 million. Drawings on the agreement with SAMA may be made by the Fund beginning in 1985 and extending through May 6, 1987. The final maturity of each drawing under the borrowing arrangements will be two and one-half years after the date of the drawing.

BORROWED RESOURCES SUSPENSE ACCOUNTS

The borrowed resources suspense accounts hold funds borrowed under the policy on enlarged access, pending their use in purchases, and funds received in repurchases pending repayments to lenders. The amounts are invested in SDR-denominated assets at prevailing short-term SDR interest rates in order to protect their capital value in terms of the SDR, and to generate income to offset the borrowing cost. During 1984/85 the assets in the accounts consisted entirely of deposits with the Bank for International Settlements, amounting to SDR 203.4 million as of April 30, 1985.

NET INCOME POSITION, CHARGES, AND REMUNERATION

The Fund aims at achieving positive income each year, both to cover its expenses and to add to its reserves, while at the same time retaining a concessional rate of charge on the use of its ordinary resources and paying appropriate remuneration on the use of members' currencies. To this end, the Fund reviews its income position at mid-year and at the end of the financial year and determines the rate of charge in the light of projected developments in the cost and use of Fund resources.

INCOME, EXPENSE, AND RESERVES

Notwithstanding these general policy objectives, the Fund experienced a net deficit, amounting to SDR 30 million, in the financial year that ended on April 30, 1985. The deficit compares with a net surplus of SDR 73 million in 1983/84 and was the first excess of expenditures over income since 1976/77. The deficit was the consequence of a decision taken by the Executive Board in March 1985 not to include in current income the charges receivable from members that are overdue by six months or more in meeting any financial obligation to the Fund unless the member has remained current in paying charges as they fall due.[17]

This change in accounting practice was adopted in view of the increase in payments delays during the year which resulted in an amount of overdue charges that exceeded the Fund's net income target. Since the accounting change was made only toward the end of the financial year, the resulting reduction in income was not offset by other measures, such as an increase in the rate of charge. Thus, the Fund recorded the deficit referred to earlier. Charges from members with protracted overdue obligations to the Fund, which are now treated as deferred income and will be considered current income only when actually received, amounted to SDR 56.4 million in 1984/85; without their exclusion from accrued income, a net income of SDR 26.4 million would have been recorded. The possible effect on the Fund's income of the failure of members to pay charges on time is taken into account in the projection of the Fund's income position so as to reduce the risk that payments delays will in the future lead to additional deficits in the Fund's net income position.

The overall position in regard to overdue financial obligations to the Fund was as follows. On April 30, 1985 four members were overdue for six months or more on their financial obligations to the Fund in the

[17] Executive Board Decisions Nos. 7930-(85/41) and 7931-(85/41), adopted March 13, 1985 (reproduced in Appendix II).

General Department and one in the SDR Department. Two members were also overdue for six months or more in repayments of interest and principal on Trust Fund loans. The total overdue obligations (inclusive of those overdue for six months or more) of these members (i.e., those with obligations overdue for six months or more) amounted to SDR 176.3 million on April 30, 1985, compared with SDR 43.6 million due from three members to the General Department at the end of April 1984.[18]

Besides the change in the accounting treatment of charges receivable from members with protracted arrears, the increase in overdue financial obligations led the Executive Board to take a number of related decisions as part of the overall policy and procedures with respect to members in protracted arrears to the Fund. One element in this policy is the suspension of a member's right to purchase under stand-by and extended agreements when it has overdue financial obligations to the Fund.[19] Another element relates to the issue of a member's eligibility to use the Fund's general resources when in arrears and of related publicity. Thus, pursuant to Article XXVI, Section 2(*a*), two members were declared ineligible to use the Fund's general resources—Viet Nam on January 15, 1985 and Guyana on May 15, 1985. On the dates of those declarations, the total overdue financial obligations of Viet Nam and Guyana to the Fund amounted to SDR 25.2 million and SDR 18.7 million, respectively. The Executive Board also enunciated in June 1985 the policy governing publicity upon the declaration of a member's ineligibility to use the Fund's general resources.[20]

In view of the uncertain impact of overdue financial obligations on the Fund's financial position and taking account of the income position for 1984/85, the Executive Board decided in May 1985 to raise the net income target from 3 percent to 5 percent of reserves at the beginning of a financial year. The disposition of any income in excess of the new target—to augment reserves, to increase the rate of remuneration or to reduce the rate of charge—would be based upon further reviews of the Fund's income position.

The deficit of SDR 30 million for 1984/85 was charged to the Fund's Special Reserve, which was established in 1957. This reduced the Fund's total reserves (i.e., Special Reserve and General Reserve) from SDR 1,074 million on April 30, 1984 to SDR 1,044 million as of April 30, 1985. This represented the first decline (amounting to 2.8 percent) in the Fund's total reserves since the end of 1976/77. Between the end of 1976/77 and 1983/84 reserves had grown at a compound annual average rate of 6.6 percent.

Income from periodic charges increased by SDR 605.4 million from SDR 2,363.8 million in 1983/84 to SDR 2,969.2 million in 1984/85. This reflected not only an increase in the rate of charge from 6.6 percent per annum to 7 percent per annum from May 1, 1984 but also an increase in average balances subject to charge (SDR 34,046 million in 1984/85, compared with SDR 27,962 million in 1983/84). The weighted average rate of charge on members' use of Fund resources in 1984/85, including the use of ordinary and borrowed resources but after taking account of subsidy payments (on use of borrowed resources) made to eligible members, was 8.62 percent.

Income from service charges decreased by SDR 20.5 million, from SDR 50.8 million in 1983/84 to SDR 30.3 million in 1984/85, because the expansion in the use of the Fund's resources was less than that of the preceding years.

The Fund's average holdings of SDRs were higher in 1984/85 than in 1983/84. Consequently, the interest earned by the Fund in 1984/85 on its SDR holdings (SDR 478.3 million) was SDR 106.7 million higher than in the previous year (SDR 371.6 million).

The operational expense of the Fund, related to remuneration on the use of creditor currencies and interest on borrowing, increased by SDR 761.5 million from SDR 2,526.3 million in the previous year to SDR 3,287.7 million in 1984/85. This reflected an increase in remuneration payments (SDR 434.9 million) and in interest costs (SDR 326.6 million) over the previous year. The remuneration payments reflected the higher average rate of remuneration (7.77 percent in 1984/85, compared with 7.39 percent in 1983/84). This in turn reflected the rise in the average SDR interest rate (8.81 percent in 1984/85, compared with 8.70 percent in 1983/84) and the increases in the remuneration coefficient that became effective during the year (explained below). The rise in remuneration payments also reflected the expansion of remunerated positions resulting from the larger financing provided to members from the Fund's ordinary resources. Remuneration payments totaling SDR 1,721.2 million were made to 62 member countries, compared with payments of SDR 1,286.3 million to 70 member countries in 1983/84.

The Fund's interest costs, net of income from temporary investments, increased in 1984/85 to SDR 1,566.5 million from SDR 1,239.8 million in 1983/84. The Fund's total outstanding borrowing amounted to SDR 14,203 million on April 30, 1985 (SDR 13,791 on April 30, 1984). Over the year

[18] The size and composition of overdue obligations of members to the Fund are given in the notes to the Financial Statements relating to the General Department, the SDR Department, and the Trust Fund, respectively (Appendix VIII).

[19] Executive Board Decision No. 7908-(85/26), adopted February 20, 1985; and amendment of Rule G-4, Decision No. 7909-(85/26), adopted February 20, 1985 (reproduced in Appendix II).

[20] Executive Board Decision No. 7999-(85/90), adopted June 5, 1985 (reproduced in Appendix II). Effective following the publication of the Annual Report for 1985, the Fund will issue a press release upon declaration of ineligibility and thereafter upon restoration of the member's eligibility. The information contained in such press releases will be published, where pertinent, in the Annual Report for the year concerned.

1984/85 the rate of interest paid by the Fund on its borrowing averaged 11.14 percent per annum, compared with the average of 10.87 percent per annum in 1983/84, when temporary investments were higher and there was also, up to November 1983, a balance of GAB borrowing at less than a market-related rate of interest.

Net administrative expenses of the Fund amounted to SDR 224.2 million in 1984/85, compared with SDR 192.8 million in 1983/84. A comparative statement of the Fund's income and expense is shown in Appendix VII and details of administrative expenses are shown in Appendix VI.

CHARGES

Since May 1, 1981, the Executive Board has determined a single rate of charge at the beginning of each financial year to be applied to members' use of the Fund's ordinary resources, whereas previously the charges were differentiated by category and maturity of transactions under different facilities. The determination of the rate of charge is made on the basis of estimated income and expense for the coming year and the target amount of net income. The Executive Board determined that the rate of charge, effective May 1, 1985, would remain at 7 percent per annum as in the previous financial year.[21] The revised net income target was regarded as being compatible with the maintenance of the prevailing rate of charge.

Members also make use of Fund resources that are financed through Fund borrowing under the supplementary financing facility and the policy on enlarged access. Charges applicable to holdings financed with these resources reflect the Fund's borrowing costs plus a margin, which continued to be determined in 1984/85 on the same basis as in previous financial years. For purchases financed with borrowing under the supplementary financing facility, the rate of charge is equal to the rate of interest paid by the Fund, plus 0.2 percent for the first three and one-half years a purchase is outstanding and plus 0.325 percent after three and one-half years. The rate of charge for purchases under the enlarged access policy is the net cost of borrowing by the Fund plus 0.2 percent per annum. The average rates of interest per annum on outstanding Fund borrowing for the year ended April 30, 1985 were 11.85 percent (supplementary financing facility) and 10.48 percent (enlarged access policy).

REMUNERATION

A remunerated reserve tranche position exists whenever the Fund has used a member's currency to an extent that reduces the holdings of that member's currency to a level which is less than the "norm" for the member. The norm varies from member to member; for those that were members of the Fund at the time the Second Amendment of the Articles of Agreement entered into effect (April 1, 1978) it is equal to the sum of 75 percent of their quota at April 1, 1978 plus any increases in their quota after that date. For a member admitted to membership after April 1, 1978, the norm is calculated as the weighted average of the norms of all the other members on the date of membership plus all increases in the member's quota paid subsequent to the date on which the member joined the Fund. At the end of April 1985, the average norm for all members was 91.73 percent; the norms for individual members ranged between 88.49 percent and 98.95 percent.[22]

In January 1984 the Executive Board decided that the remuneration coefficient (i.e., the ratio of the rate of remuneration to the SDR interest rate) was to be raised on May 1 in each of the years 1984, 1985, and 1986 to specified levels,[23] with provision for additional adjustments depending on developments in the SDR interest rate. Beginning on May 1, 1984, the remuneration coefficient was raised from 85 percent to 88.33 percent of the SDR interest rate. On February 1, 1985, this ratio was increased to 90 percent of the SDR interest rate as called for by the agreed formula in the light of developments in the SDR interest rate. The coefficient was raised again on May 1, 1985 to 91.66 percent of the SDR interest rate as provided for in the decision. This coefficient will rise on May 1, 1986 to 94.99 percent of the SDR interest rate. The rate of remuneration will be reviewed further between May 1, 1986 and April 30, 1987, taking account of all relevant factors, including the SDR interest rate and the rate of charge.

The rate of remuneration averaged 7.77 percent per annum during the financial year 1984/85. The SDR rates of interest and the rates of remuneration applicable in 1984/85 are given in Table 24. (See also Chart 22.)

SDR DEPARTMENT

The total amount of SDRs remained at SDR 21.4 billion, as there have been no allocations since January 1, 1981. The volume of activity in the SDR Department declined in 1984/85 to SDR 15.7 billion (2,361 transfers) from the record level of SDR 22.7 billion (2,301 transfers) in 1983/84 (see Table 25). However, the figures for 1983/84 largely reflected the use of SDRs by a large number of participants to pay the reserve asset component of their quota increase subscriptions, pursuant to the Eighth General Review of Quotas, and associated transfers. If the transfers

[21] Executive Board Decision No. 7998-(85/90), adopted June 5, 1985 (reproduced in Appendix II).

[22] Except for Democratic Kampuchea, whose norm is 75 percent of quota because there has been no change in its quota since April 1, 1978.

[23] Executive Board Decision No. 7603-(84/2), adopted January 6, 1984. For details see *Annual Report, 1984,* pages 83, 129–30.

Table 24.
SDR Interest Rate and Rate of Remuneration

Period Beginning	SDR Interest Rate	Rate of Remuneration
1984		
May 1[1]	8.91	7.87
May 7	9.03	7.98
May 14	9.20	8.13
May 21	9.07	8.01
May 28	8.99	7.94
June 4	9.08	8.02
June 11	9.10	8.04
June 18	9.11	8.05
June 25	9.09	8.03
July 2	9.14	8.07
July 9	9.24	8.16
July 16	9.35	8.26
July 23	9.48	8.37
July 30	9.56	8.44
August 6	9.67	8.54
August 13	9.50	8.39
August 20	9.39	8.29
August 27	9.47	8.36
September 3	9.56	8.44
September 10	9.54	8.43
September 17	9.41	8.31
September 24	9.36	8.27
October 1	9.33	8.24
October 8	9.30	8.21
October 15	9.16	8.09
October 22	8.97	7.92
October 29	8.78	7.76
November 5	8.55	7.55
November 12	8.34	7.37
November 19	8.30	7.33
November 26	8.21	7.25
December 3	8.21	7.25
December 10	8.15	7.20
December 17	8.02	7.08
December 24	7.81	6.90
December 31	7.79	6.88
1985		
January 7	7.82	6.91
January 14	7.83	6.92
January 21	7.96	7.03
January 28	7.92	7.00
February 1[2]	7.92	7.13
February 4	8.30	7.47
February 11	8.43	7.59
February 18	8.45	7.61
February 25	8.60	7.74
March 4	8.78	7.90
March 11	8.77	7.89
March 18	8.65	7.79
March 25	8.64	7.78
April 1	8.41	7.57
April 8	8.38	7.54
April 15	8.27	7.44
April 22	8.07	7.26
April 29	8.09	7.28

[1] The week began April 30, 1984. However, the first day of the financial year was May 1, 1984, at which time the remuneration coefficient increased from 85 percent to 88.33 percent of the SDR interest rate.

[2] The remuneration coefficient increased from 88.33 percent to 90 percent of the SDR interest rate as from the first day of the last financial quarter of the financial year 1985.

of SDRs associated with quota payments are deducted from the totals, the amount and number of transfers in 1984/85 represented increases over the previous year of 28 percent and 17 percent, respectively. Consequent upon the decline of SDR 1.8 billion in the General Resources Account's holdings of SDRs in 1984/85 (explained earlier), the holdings of participants and prescribed holders increased correspondingly. The pattern of holdings among industrial and developing countries at the end of April 1985 remained broadly similar to that of end-April 1984.

As in 1983/84, the volume of transactions by agreement exceeded that of transactions with designation. In transactions by agreement, participants and/or prescribed holders transfer SDRs by mutual agreement in exchange for any currency for which the Fund has established a representative exchange rate, without any requirement of balance of payments need.

Since May 1, 1981 the SDR rate of interest has been maintained at 100 percent of the combined market rate of interest.[24] Since August 1983 it has been determined weekly, instead of quarterly (as previously), to reflect movements in the combined market interest rate more closely.

PRESCRIBED HOLDERS OF SDRs

There was no addition during the year to the list of 14 institutions that, to date, have been prescribed by the Fund as holders of SDRS.[25] Prescribed holders cannot receive allocations of SDRs nor use SDRs in transactions with designation, but they can acquire and use SDRs in transactions and operations with participants in the SDR Department (all Fund members) and other prescribed holders under the same terms and conditions as participants. During the year, transfers involving prescribed holders amounted to SDR 235 million, compared with SDR 206 million in the preceding year. These transfers comprised SDR 103 million in transactions by agreement, SDR 52 million in loans, SDR 77 million in settlement

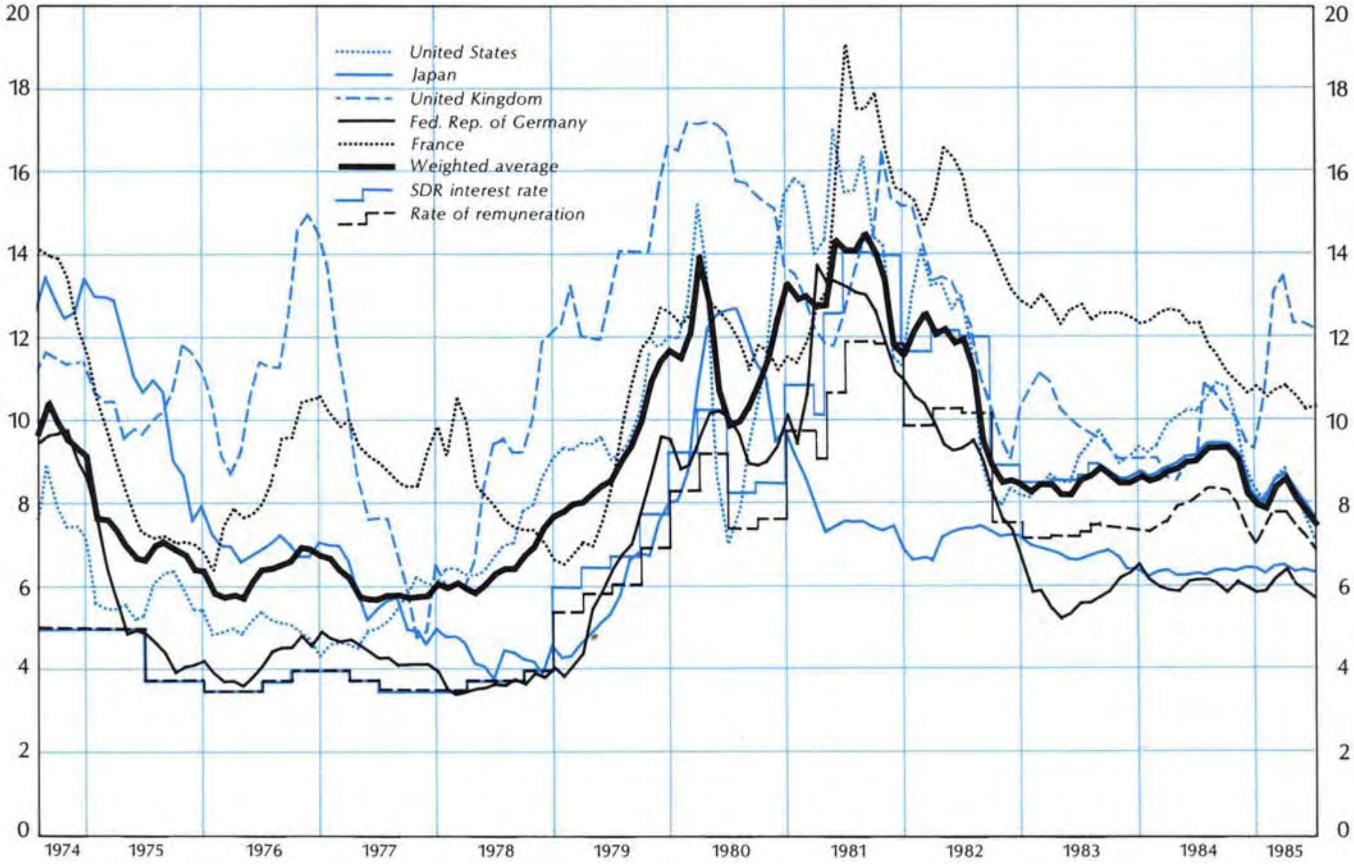
[24] The combined market interest rate is the weighted average of the market yields on the following short-term money market instruments: three-month U.S. Treasury bills; three-month interbank deposits in the Federal Republic of Germany; three-month interbank money against private paper in France; three-month U.K. Treasury bills; and the discount on two-month (private) bills in Japan.

[25] The prescribed holders comprise four central banks; three intergovernmental monetary institutions; and seven development institutions: the Andean Reserve Fund, Bogotá; the Arab Monetary Fund, Abu Dhabi; the Asian Development Bank, Manila; the Bank for Central African States, Yaoundé; the Bank for International Settlements, Basle; the Central Bank for West African States, Dakar; the East African Development Bank, Kampala; the Eastern Caribbean Central Bank, Basseterre, St. Christopher and Nevis; the International Bank for Reconstruction and Development, Washington, D.C.; the International Development Association, Washington, D.C.; the International Fund for Agricultural Development, Rome; the Islamic Development Bank, Jeddah; the Nordic Investment Bank, Helsinki; and the Swiss National Bank, Zürich.

Chart 22.

SDR Interest Rate, Rate of Remuneration, and Short-Term Interest Rates, July 1974–June 1985[1]

(In percent per annum)



[1] Data are monthly averages. Up to December 1980, short-term domestic interest rates are the yield on three-month treasury bills for the United Kingdom and the United States, the rate on three-month interbank deposits for France and the Federal Republic of Germany, and the call money market rate (unconditional) for Japan. From January 1981, the yield on U.S. Treasury bills was converted to a coupon equivalent basis, and the discount rate on two-month (private) bills was used for Japan. From March 1981, the basis for the interbank rates for France and the Federal Republic of Germany was converted from a 360-day year to a 365-day year. Since August 1, 1983, the SDR interest rate and the rate of remuneration have been fixed weekly.

of financial obligations, and SDR 3 million in interest receipts on their SDR holdings. At the end of April 1985, seven institutions held SDR 18 million, compared with holdings of SDR 37 million at the end of April 1984. The highest level of their end-of-month holdings was SDR 35 million in January 1985, and the lowest was SDR 17 million in February 1985.

TRANSACTIONS AND OPERATIONS IN SDRs

Transactions with Designation

The designation mechanism ensures that participants can obtain currency against SDRs if they have a balance of payments need. In 1984/85, 34 participants used SDR 2,152 million in transactions with designation to obtain currencies from 26 participants designated by the Fund. Of this total, SDR 2,055 million represented the immediate use of SDRs acquired from the Fund's General Resources Account in purchases, and the remainder represented the use of participants' own SDR holdings. About 79 percent of SDRs received in purchases from the Fund was used in transactions with designation. Of the 26 countries designated to provide currency in exchange for SDRs, 16 industrial countries received SDR 2,064 million and 10 developing countries received SDR 88 million. The largest amounts of currency were provided by the United Kingdom, Canada, France, the Federal Republic of Germany, Italy, Australia, and Spain, reflecting the strength of their respective balance of payments and reserve positions during the year.

Table 25.

Transfers of SDRs, January 1, 1970–April 30,1985

(In millions of SDRs)

	Annual Average January 1, 1970–April 30, 1979	Financial Year Ended April 30 1980	1981	1982	1983	1984	1985	Total January 1, 1970–April 30, 1985
Transfers among participants and prescribed holders								
Transactions with designation								
From own holdings	206	298	503	661	968	89	98	4,540
From purchases of SDRs from the Fund	145	1,074	1,379	1,213	1,745	2,313	2,055	11,132
Transactions by agreement	556	362	418	1,242	1,281	3,175	2,706	14,372
Prescribed operations	—	—	—	158	396	1,194	161	1,909
Net interest on SDRs	45	190	223	245	273	188	326	1,862
Total	951	1,923	2,525	3,520	4,664	6,959	5,345	33,816
Transfers from participants to General Resources Account								
Repurchases	327	994	930	838	566	392	717	7,489
Charges	308	557	587	968	1,497	2,168	2,927	11,579
Quota payments	24	1	5,091	266	83	6,195	14	11,870
Interest received on General Resources Account holdings	21	82	266	657	444	147	606	2,394
Assessment	1	1	2	2	2	3	4	25
Total	680	1,634	6,875	2,732	2,593	8,905	4,268	33,356
Transfers from General Resources Account to participants and prescribed holders								
Purchases	272	1,283	2,033	2,035	2,419	3,876	2,595	16,779
Repayments of Fund borrowings	4	64	161	144	28	787	129	1,352
Interest on Fund borrowings	5	21	50	143	224	202	446	1,131
In exchange for other member's currencies								
Acquisitions to pay charges	1	—	—	27	162	330	953	1,482
Acquisitions to make quota payments	—	—	341	—	—	—	—	341
Remuneration	38	140	219	348	861	1,573	1,952	5,448
Reconstitution	196	5	20	—	—	—	—	1,851
Other	26	4	13	23	20	35	14	355
Total	542	1,517	2,837	2,721	3,714	6,803	6,089	28,740
Total transfers	2,174	5,074	12,237	8,972	10,970	22,667	15,703	95,911
General Resources Account holdings at end of period	1,290	1,407	5,445	5,456	4,335	6,437	4,616	4,616

Transactions by Agreement

The volume of transactions by agreement (SDR 2,706 million) in 1984/85 was slightly below the level of the previous year, which was influenced by the acquisition of SDRs by member countries in order to make the reserve asset component of their quota subscriptions to the Fund in December 1983 pursuant to the Eighth General Review of Quotas. A feature of 1984/85 was the increase in the number of countries that entered into standing arrangements to provide SDRs in transactions by agreement arranged by the Fund. Under these arrangements countries specify the maximum amount of SDRs they wish to sell, or the minimum level to which they are prepared to allow their SDR holdings to fall, in transactions by agreement. In some cases they also specify the time period over which the arrangement is to be in effect. Within these guidelines, the Fund arranges transactions by agreement between these sellers and other participants and prescribed holders who wish to acquire SDRs. Twelve countries provided SDR 1,832 million under these arrangements in 1984/85, compared with five countries which provided SDR 1,151 million in 1983/84.

The main source of demand for SDRs in transactions by agreement was from countries needing to acquire SDRs in order to pay net charges in the SDR Department or charges on the use of Fund resources. A number of countries also acquired SDRs in order to make repurchases of Fund drawings or to increase their holdings of SDR-denominated assets in anticipation of prospective repurchase and charge obligations. Eight of these countries entered into special arrangements with the Fund for the acquisition of SDRs in 1984/85. In each case, the member authorized the Fund to arrange acquisitions between stipulated dates up to a certain amount. Those providing SDRs were generally participants that did not have a balance of payments need and who are hence not entitled to use SDRs in designation, or prescribed holders, who could not resort to the designation process. In other cases the Fund arranged for sales to holders wishing to acquire SDRs by directing to them participants who would otherwise have transferred SDRs in a transaction with designation. These transactions by agreement in lieu of designation amounted to SDR 237 million in 1984/85.

Additional Uses of SDRs

The Fund permits additional uses of SDRs among participants and prescribed holders.[26] There were 40 such transfers in 1984/85 for a total amount of SDR 161 million. All of these transfers took place under two prescriptions; namely, those allowing the use of SDRs in loans and in settlement of financial obligations. Prescribed holders were particularly active in these types of SDR transfers. They were the recipients of SDRs in 22 of these transfers in an amount of SDR 70 million, or 44 percent of the total value of transfers. They were the users in 11 transfers totaling SDR 59 million, or 36 percent of the total value of transfers. Twenty-one operations, totaling SDR 69 million, represented loan repayments and interest payments by participants to a regional organization that is a prescribed holder of SDRs and also uses the SDR as a basis of its unit of account. This same prescribed holder made five loans in SDRs for a total of SDR 51 million to three different participants. Other uses included loans to new members to provide them with the SDRs necessary to make the reserve asset portion of their quota payment (one from a participant and one from a prescribed holder that functions as a regional central bank) and the repayment of those loans. Five transfers, for a total amount of SDR 7 million, represented loan repayments and interest payments by a prescribed holder that also uses the SDR as its unit of account to participants in its area. Three transfers totaling SDR 1.4 million, which represented settlements of financial obligations arising out of an earlier currency loan, took place between two participants who do not otherwise maintain banking relationships.

[26] These are currently as follows: to use SDRs in the settlement of financial obligations; to engage in forward operations; to borrow, lend, or pledge SDRs; to use SDRs in swaps; to make donations (grants) of SDRs; and to use SDRs as security for performance of financial obligations. See *Selected Decisions*, Tenth Issue, pages 278–88.

Inflows of SDRs

The bulk of the inflows of SDRs to the General Resources Account in 1984/85 represented payments of charges on the use of Fund resources amounting to SDR 2,927 million. Repurchases that were discharged at the member's option in SDRs rather than in currency amounted to SDR 717 million, compared with SDR 392 million in 1983/84. Repurchases discharged in SDRs amounted to 25 percent of total repurchases, compared with 18 percent in 1983/84.

Outflows of SDRs

SDRs transferred from the General Resources Account to members amounted to SDR 6,089 million, compared with SDR 6,803 million in 1983/84. The major outflow was the use of SDR 2,595 million in purchases, which accounted for 70 percent of total purchases financed from the Fund's ordinary resources. The substantial transfers of SDRs in purchases reflected the objectives, explained earlier, of reducing the Fund's SDR holdings to approximately SDR 4 billion by the end of May 1985 and to approximately SDR 2.5 billion by the end of May 1986. The Fund made interest payments in SDRs to five lenders in 1984/85, in a total amount of SDR 446 million, of which SDR 296 million represented interest on outstanding loans under the supplementary financing facility and SDR 150 million interest on borrowing to finance enlarged access. The Fund also made loan repayments in SDRs to seven countries amounting to SDR 129 million, of which SDR 99 million represented repayments of supplementary financing facility loans.

PATTERN OF HOLDINGS

There was a further increase in the concentration of SDRs with the industrial countries. On April 30, 1985, these countries held 82.5 percent of total SDR holdings by participants, compared with 78.3 percent on April 30, 1984. The shares of the two main groups of countries in cumulative allocations of SDRs are 67 percent for industrial countries, and 33 percent for developing countries.

SDR AS A UNIT OF ACCOUNT OUTSIDE THE FUND AND AS A CURRENCY PEG

In addition to its uses as a medium of exchange and for settlements among participants and prescribed holders, the SDR is the unit of account for Fund transactions and operations and for its administered accounts. The SDR is also used as a unit of account (or as the basis for the unit of account, i.e., is equivalent in value to one SDR) by a number of international and regional organizations and in capital markets.[27] A number of international conventions use the SDR to express monetary magnitudes, notably those expressing liability limits in the international transport of goods and services. Since August 1984, members of the International Air Transport Association use movements in the exchange rate of a currency against the SDR as a trigger for a review and possible revision of cargo tariffs, which are specified in local currency.

At the end of June 1985, the currencies of 12 member countries were pegged to the SDR. When a member pegs its currency to the SDR, the value of its currency is fixed in terms of the SDR and is set in terms of currencies by reference to the SDR value of these currencies, as calculated and published daily by the Fund.

ACCOUNTS ADMINISTERED BY THE FUND

The Fund administers as a Trustee, in addition to its Staff Retirement Plan, two accounts which are separate from the Fund's General and SDR Departments, namely, the Trust Fund and the supplementary financing facility subsidy account.

TRUST FUND

The Trust Fund was established in May 1976 to provide additional concessionary balance of payments assistance to eligible member countries. Part of the proceeds of gold auctioned by the Fund was used to make loans on concessional terms to low-income member countries. The Trust Fund was terminated as of April 30, 1981.[28] Thereafter, the responsibilities of the Fund are confined to the receipt and disposition of interest and loan repayments through the special disbursement account of the General Department of the Fund and the completion of any related business. Two installments of semiannual interest payments totaling SDR 14.3 million were received in June and December 1984. Repayments of Trust Fund loans, which began in July 1982, were made by 43 countries in 1984/85 and amounted to SDR 212.3 million. As of April 30, 1985, Trust Fund loans outstanding amounted to SDR 2,649.6 million.

SUPPLEMENTARY FINANCING FACILITY SUBSIDY ACCOUNT

The supplementary financing facility subsidy account was established in December 1980 to reduce the cost of using the supplementary financing facility for low-income developing members. The primary sources of funds for the account were up to SDR 750 million from repayments of, and interest on, Trust Fund loans which are transferred to the account via the special disbursement account. By April 30, 1985 the account had received SDR 404.4 million from this source. In addition, the account has been financed through donations and loans and the income on the investment of resources held pending disbursement. The only loans received by the account, from Belgium and Luxembourg in a total amount of SDR 4.6 million, were repaid in December 1984. Details of the donations received by April 30, 1985 are shown in Table 26.

Subsidy payments are calculated as a percentage per annum of the average daily balance of the Fund's holdings of an eligible member's currency that result from purchases outstanding under the supplementary financing facility. Eligible countries are divided into two groups: those with per capita incomes in 1979 equal to or below the per capita income used to determine eligibility for assistance from the International Development Association (IDA) who receive the full rate of subsidy, which does not exceed 3 percent per annum; and those with a per capita income in 1979 above the IDA level, but not more than that of the member that had the highest per capita income of those countries that were eligible to receive assistance from the Trust Fund, who receive subsidies at one half the full rate. All payments to date have been made at the maximum rates of 3 percent and 1.5 percent, respectively.

Payments by the account to eligible members in 1984/85 amounted to SDR 89.9 million and have

Table 26.

Supplementary Financing Facility Subsidy Account: Donations Received to April 30, 1985

(In millions of SDRs)

Donor	Amount of Donation
Australia	2.0
Austria	1.2
Denmark	1.5
Finland	1.3
France	9.3
Netherlands	4.1
Norway	1.4
Saudi Arabia	27.2
Sweden	2.2
Switzerland	2.4
Total	52.6

[27] The international and regional organizations using the SDR as a unit of account, or as basis for a unit of account, include the African Development Bank, African Development Fund, Arab Monetary Fund, Asian Clearing Union, Asian Development Bank, Great Lakes States Development Bank, East African Development Bank, Economic Community of West African States, European Conference of Postal and Telecommunications Administrations, International Center for Settlement of Investment Disputes, International Development Association, International Fund for Agricultural Development, International Telecommunications Union, Islamic Development Bank, Nordic Investment Bank, and Universal Postal Union.

[28] Executive Board Decision No. 6704-(80/185) TR, adopted December 17, 1980, *Selected Decisions*, Tenth Issue, pages 318–20.

totaled SDR 224.79 million since the inception of the account (see Table 27). Pending further subsidy payments, the investments of the account are held in SDR-denominated deposits with the Bank for International Settlements (BIS).[29] As of April 30, 1985, the interest-earning deposits of the subsidy account amounted to SDR 241.9 million, plus accrued income of SDR 10.0 million.

On May 28, 1985, the Executive Board decided to suspend further transfers to the supplementary financing facility subsidy account of the interest on and repayment of Trust Fund loans paid into the special disbursement account.[30] This decision was taken because the assets in hand or pledged to the subsidy account were estimated to be sufficient for the account to make all expected remaining subsidy payments at the maximum permissible rates of subsidy and to discharge the known liabilities of the subsidy account. Following the suspension of transfers to this account, repayments of and interest on Trust Fund loans are retained in the special disbursement account. An investment policy for the special disbursement account similar to that of the supplementary financing facility subsidy account was also adopted on May 28, 1985. Under this policy, the assets of the account are to be invested in SDR-denominated deposits with the BIS pending their use. The future use of the resources received by the special disbursement account pursuant to the decision terminating the Trust Fund will be discussed by the Executive Board in 1985.

ARTICLE IV CONSULTATIONS AND NOTIFICATIONS OF CHANGES IN EXCHANGE RATES

As explained in Chapter 2, consultations with members under Article IV of the Fund's Articles of Agreement are the principal vehicle for the exercise of Fund surveillance over the exchange rate policies of member countries. In principle, Article IV consultations take place annually and are completed not later than three months after the termination of the discussions between the member and the staff. In practice, however, it has not been possible to attain the objective of annual consultations for all members. In order to improve the frequency and regularity of consultations, the practice has been adopted of specifying at the conclusion of a consultation the date by which the next consultation is expected to be concluded. This practice has contributed to an increase in the frequency of consultations. In 1984/85 the Fund completed 125 consultations covering 84 percent of membership (compared with 117 in 1983/84, 98 in 1982/83 and 79 in 1981/82), of which 72 were with countries availing themselves of the transitional arrangements under Article XIV and 53 with countries that had accepted the obligations of Article VIII.[31] With more frequent, regular consultations there are now only three countries, all affected by security problems, outside the cycle of regular, periodic consultations.

In addition to regular Article IV consultations, special consultations were held with major industrial

Table 27.

Purchases Under Supplementary Financing Facility by Eligible Members, and Subsidy Payments

(In millions of SDRs)

	Purchases	Payments
Recipients of subsidy at 3 percent		
Bangladesh	110.0	11.17
Bolivia	25.5	3.09
Dominica	4.5	0.25
Gambia, The	4.8	0.23
Guyana	30.9	2.60
India	1,200.0	46.84
Kenya	94.8	8.36
Liberia	42.9	3.75
Madagascar	22.2	2.22
Malawi	28.1	2.87
Mauritania	16.0	1.39
Pakistan	537.1	38.18
Philippines	333.0	32.53
Senegal	54.2	4.35
Sierra Leone	17.2	1.65
Sri Lanka	—	0.59[1]
Sudan	171.4	16.79
Tanzania	16.3	1.81
Togo	7.3	0.72
Zambia	—	3.52[2]
Subtotal	2,716.2	182.91
Recipients of subsidy at 1.5 percent		
Ivory Cost	286.4	7.56
Jamaica	227.1	11.07
Mauritius	69.2	3.46
Morocco	137.5	7.07
Peru	195.1	12.62
Subtotal	915.3	41.78
Total	3,631.5	224.69

[1] Subsidy paid in respect of Fund holdings in excess of 140 percent of quota under the Fund's policy on exceptional use.

[2] Subsidy paid in respect of Fund holdings in excess of 200 percent of quota under the Fund's policy on exceptional use.

[29] Executive Board Decision No. 7990-(85/81), adopted May 28, 1985 (reproduced in Appendix II).

[30] Executive Board Decision No. 7989-(85/81) SBS, adopted May 28, 1985 (reproduced in Appendix II).

[31] In accepting the obligations of Article VIII, Sections 2, 3, and 4, a member undertakes not to impose, without the approval of the Fund, restrictions on the making of payments and transfers for current international transactions, not to engage in discriminatory currency arrangements or multiple currency practices, and to maintain the convertibility of foreign-held balances of its currency. A member availing itself of a transitional arrangement under Article XIV can maintain and adapt to changing circumstances the restrictions that were in effect on the date on which it became a member.

countries in connection with the world economic outlook reviews by the Executive Board. Moreover, Fund management and staff are informed of important developments through frequent, informal contacts with members.

During 1984/85, one country, St. Christopher and Nevis (December 3, 1984), accepted the obligations of Article VIII, Sections 2, 3, and 4 of the Articles of Agreement, raising to 60 the number of members that have formally accepted these obligations. Eighty-eight members were availing themselves of the transitional arrangements under Article XIV, Section 2 at the end of the financial year.

Chapter 2 also refers to the Fund's monitoring of changes in members' exchange arrangements, and in their real effective exchange rates. During the financial year there were 43 notifications of changes in exchange arrangements, 28 information notices on large changes in members' real effective exchange rates (i.e., 10 percent or more since the Board's last discussion of the member's exchange rate policy), and 22 notifications of changes in restrictive exchange practices. These measures are reported in detail in the Fund's *Annual Report on Exchange Arrangements and Exchange Restrictions, 1985.* Quarterly reports on exchange arrangements maintained by members and on developments in members' nominal and real effective exchange rates over the medium term were also issued to the Executive Board.

DEBT RESTRUCTURING

The Fund has continued to assist member countries in resolving debt-servicing difficulties with international banks and with official creditors and in arranging new medium-term financial lending packages.

From January 1984 to April 1985, 21 Fund member countries—all developing countries—reached restructuring agreements or agreements in principle with international banks. Amounts restructured under these agreements totaled some $105 billion, equivalent to 20 percent of the bank debt of developing countries. In 1984, restructuring of medium-term and long-term bank debt postponed the debt service of developing countries by an estimated $21 billion, or the equivalent of 4 percent of their exports of goods and services. In addition, the amount of short-term debt rolled over or converted into medium-term debt under restructuring agreements is estimated at $36 billion over the period January 1984 to April 1985. During this period, six member countries also reached agreements or agreements in principle with commercial banks on new lending packages in the context of restructuring agreements.

An important development in 1984 was the negotiation of multiyear rescheduling agreements by commercial banks with certain member countries. Such agreements or agreements in principle were reached with Mexico, Venezuela, and Ecuador for a total amount of $74 billion, and negotiations on similar agreements were proceeding for other countries.

The extent of official multilateral debt reschedulings has also risen sharply in recent years. In 1983–84, 23 debtor countries that are Fund members obtained 29 official debt reschedulings, sharply above the average of 4 reschedulings a year during the eight-year period since 1975. The amount of debt relief provided was unparalleled. In 1983–84, 5 reschedulings were for amounts in excess of $1 billion, and half of them involved amounts over $300 million; in 1975–82 only a minority of agreements (7 of 28) rescheduled amounts over $300 million. Of the 29 recent reschedulings, 19 were for African countries, but reschedulings covered countries in all major geographic areas. With the exception of Mexico and Yugoslavia (where the reschedulings were concluded at meetings of official creditor groups), the official debt rescheduling negotiations were conducted under the auspices of the Paris Club.

All but one rescheduling agreement was concluded only after the Fund's Executive Board had approved a stand-by or extended arrangement involving upper credit tranche conditionality with the debtor country concerned; the exception was the People's Republic of Mozambique, which became a Fund member immediately prior to the date of the rescheduling agreement. Fund staff representatives participated as observers in all of the Paris Club and official creditor group meetings. In 1984/85, staff attended such meetings convened with the Governments of Argentina, Costa Rica, Ecuador, Jamaica, Liberia, Mauritania, the People's Republic of Mozambique, Niger, Peru, the Philippines, Senegal, Somalia, Sudan, Togo, and Zambia. The Fund was also invited by the chairman of the participating countries to attend a meeting in Paris on April 25–26, 1985, to discuss Poland's official external debt service obligations. The Fund was also represented at a meeting of Poland's official creditors convened by the Paris Club on May 17, 1985.

TECHNICAL ASSISTANCE AND TRAINING

The technical assistance and advice provided by the Fund to its members are an integral part of the Fund's activities. This assistance and advice may take many forms and cover a wide array of topics, from broad policy issues to narrower technical problems. Much of the general technical assistance provided by the Fund arises from its annual Article IV consultations with members. Similarly, when the Fund and a member country develop a financial stabilization program, the Fund not only helps the member to draw up the program but often assists the member to implement and monitor the program, at times through the services of a staff member assigned as the Fund's resident representative in the country.

The Fund also responds to requests for technical assistance and training in specific economic and financial areas, which may be provided at Fund headquarters or by staff missions to member countries. In recent years requests have encompassed aspects of general economic policy, problems arising from inflation, exchange and trade systems, balance of payments programs, debt-management systems, accounting and valuation problems, macroeconomic modeling, computer programming for economic analysis, statistical issues, and data processing. These diverse requests have been met by staff from virtually every department in the Fund.

During 1984/85, the IMF Institute continued to offer training to officials from member countries in the form of regular courses and seminars. The ten regular courses conducted in the past year comprised three 18–week courses in financial analysis and policy, one 12–week course in financial programming and policy, three 10–week courses in public finance, and three 8–week courses in techniques of economic analysis, balance of payments methodology, and government finance statistics, respectively. The courses were given in English, French, or Spanish, or in all three languages, and, for the main financial analysis and policy course, special arrangements were made to allow Arabic-speaking participants to follow the course in their own language. The courses in public finance were conducted in collaboration with the Fiscal Affairs Department and those on balance of payments methodology and government finance statistics in collaboration with the Bureau of Statistsics. In 1984/85 there were two seminars on general topics—one on the role of the Fund in the international monetary system and the other, held in collaboration with the Central Banking Department, on external debt management. The number of participants attending the Institute's training courses during the financial year totaled 322, and participants in the two seminars totaled 55. Altogether, about 4,500 officials from 145 member countries have participated in the programs of the IMF Institute since its inception in 1964.

The Institute's external training activities in 1984/85 included country seminars conducted in Bolivia, Hungary, Panama, and Uganda. They focused on financial programming and the economic problems and policy issues facing these countries and were attended by a total of 175 participants. External activities also included providing lecturers to three regional organizations and briefings on the Fund's policies and operations to official visitors from member countries.

A major activity of the Fiscal Affairs Department continues to be the provision of technical assistance on fiscal matters. Adjustments in fiscal policy have been important elements in many of the stabilization programs of Fund members, with measures taken to improve revenue effort, strengthen tax administration, rationalize expenditure policies, and increase the efficiency of budgetary operations. Implementation of such measures often requires detailed technical analysis, and an important function of the Fiscal Affairs Department, with assistance from Area Departments and the Legal Department, is to serve as a source of fiscal expertise to Fund members. Advice has covered a wide range of topics, including the reform of countries' tax structures, formulation and implementation of specific types of taxation or investment incentive codes, reorganization of tax departments, and improvement of assessment and collection procedures, budget preparation procedures, accounting and auditing practices, fiscal reporting systems, mechanisms for expenditure control, and public enterprise policies. This assistance has continued to be given through a combination of staff missions and the use of fiscal experts, most often in field assignments. Support and guidance to experts in the field continued to be provided from headquarters. In 1984/85 technical assistance was given to 46 countries, about the same as in the previous two years. During 1984/85 there were 32 long-term and 39 short-term assignments in the field, for a total of 342 man-months; 49 panel members and 20 staff members undertook this technical assistance work.

The Central Banking Department has continued to provide technical assistance through the assignment of resident experts to member countries, through advisory services, and through the organization of lectures and seminars. In 1984/85, experts and consultants served in assignments in executive or advisory positions with central monetary institutions and provided about 96 staff-years of assistance, most of which was in the fields of research and statistics, bank supervision, banking and foreign exchange operations, and external debt management. Under the program of technical assistance in external debt management instituted in the Department two years ago, 13 experts and consultants have been assisting member countries in the establishment of a permanent national machinery for the reporting, control, and management of external debt operations and in the collection of debt statistics. Departmental staff carried out 12 advisory and assessment missions and participated in 10 missions led by Area Departments. Topics on which advice was given included central banking and financial system legislation (in cooperation with the Legal Department), formulation of financial reform in centrally planned economies, development of money markets, structure and development of financial systems, the design of monetary policy instruments, and interest rate policy. During the year further progress was made in instituting new research programs in support of the advisory work of the Department and in expanding the Department's computerized data base of central banking legislation.

The provision of technical assistance in statistics constitutes a major part of the work of the Bureau of Statistics, which makes such assistance available through missions to member countries and visits by national technicians to Fund headquarters. The primary focus of the technical assistance program of the Bureau has been in assisting member countries to improve the currentness and scope of the data base needed for monitoring economic and financial developments in the country, especially in the context of Fund-supported adjustment programs and in the framework of the regular Article IV consultations with member countries. For the most part, the technical assistance is provided through missions undertaken in response to requests from member countries. Such assistance is concentrated in five principal fields of economic statistics that are of particular analytical and operational significance to the Fund, viz., money and banking, balance of payments, government finance, international banking and external debt, and general economic data. During 1984/85, staff of the Bureau of Statistics participated in 87 technical assistance missions to 58 countries and the Andean Reserve Fund. In addition, staff of the Bureau assisted the Arab Monetary Fund and the Eastern Caribbean Central Bank in conducting two regional seminars on balance of payments statistics and government finance statistics, respectively. Seven officials from member countries visited the Bureau for training in the various fields of statistics.

The Bureau of Computing Services, in addition to providing technical advice and briefing on the Fund's computer applications and facilities to visiting officials from member countries, participated in electronic data processing technical assistance missions to Jordan and Saudi Arabia. The technical assistance to Jordan involved the review and evaluation of the automation program in the Central Bank. In Saudi Arabia, the Bureau assisted the Ministry of Finance in formulating a plan for the design and implementation of a financial and accounting management information system which would be derived from the Ministry's own general accounting system. The Fund has also agreed to assist the Ministry in locating qualified independent consultant staff to implement the system and to review the status of the project periodically.

RELATIONS WITH OTHER INTERNATIONAL ORGANIZATIONS

The Fund maintained its cooperation with other regional and international organizations in the economic and financial fields during 1984/85. This cooperation took the form of attendance by staff members at meetings and seminars, exchanges of documentation and information, and the sharing of the Fund's accumulated experience through technical assistance.

The Fund's participation in the meetings and activities of other organizations is coordinated partly by offices and staff away from headquarters. The Special Representative to the United Nations, stationed in New York, attends meetings and participates in other activities of the United Nations and its agencies and organs dealing with work related to that of the Fund. The European Office in Paris provides liaison with the Bank for International Settlements, the Commission of the European Communities, and the Organization for Economic Cooperation and Development. The Office in Geneva reports on meetings of the United Nations Conference on Trade and Development (UNCTAD) and its committees and groups on trade matters, and on the meetings of the General Agreement on Tariffs and Trade (GATT) and certain of its Committees. Information and documentation on common members is also provided to the GATT's Committee on Balance of Payments Restrictions for its periodic consultations. The Fund participates in the meetings of many regional organizations as well, in Africa, Asia and the Pacific area, Latin America and the Caribbean, and the Middle East, through staff representatives or observers.

Close collaboration with the World Bank continued to be a matter of active interest to the Fund, and both its general and practical aspects were explored intensively during the year. Traditional channels of close working relationship between the staff of the two institutions were strengthened, including the exchange of information and technical data, joint staff seminars, and participation of staff of one of the institutions in missions fielded by the other. New modalities for intensive collaboration were adopted, including attendance by appropriate World Bank staff at Executive Board meetings of the Fund when matters of close mutual interest are under discussion, and the strengthening of channels for regular contacts between counterpart staff of the two institutions at all levels.

The Managing Director participated in meetings of international bodies to discuss world economic problems. As in past years, he addressed the Second Regular Session of the United Nations Economic and Social Council in Geneva, on July 5, 1984, at the beginning of its General Debate on the international economic situation. He spoke before the UN Administrative Committee on Coordination in New York City on October 22, 1984, and before the group's meeting in Geneva on April 22, 1985. The Managing Director presented a statement to the ministerial meeting of the Organization for Economic Cooperation and Development in Paris on May 17, 1984, and participated in the monthly meeting of the Bank for International Settlements on July 9, 1984, in Basle. He attended the thirtieth and thirty-first meetings of the ministers of the UNCTAD Intergovernmental Group of Twenty-Four on International Monetary Affairs, which took place in Washington on September 21, 1984 and on April 16, 1985, respectively, at the time of the Interim and Development Committee meetings. In addition, he took part in the ministerial meetings of the Group of Ten, held in Rome on May 19, 1984, in Washington on September 21, 1984, and before the meeting of the Interim Committee in Washington on April 17, 1985. On January 17, 1985, he participated in a meeting of the ministers and governors of the five major industrial countries.

The Fund also attended meetings concerning aid and aid coordination. During the financial year, the World Bank invited the Fund to take part in the meetings of the Sri Lanka Aid Group and the India Consortium, and in the Consultative Group meetings for Ghana, Korea, Madagascar, Morocco, the Philippines, Senegal, and Zambia. Fund staff attended a special meeting of Maldives development partners and a special meeting for Somalia, both held in Paris, and an observer from the Fund participated in a special meeting of donors on sub-Saharan Africa, also held in Paris. Relevant documentation was provided by the Fund to the meeting of the Intergovernmental Group on Indonesia.

EXTERNAL RELATIONS

During the financial year, the Managing Director and senior staff participated in several other national and international forums where they delivered speeches on international economic issues. Members of the Fund staff also delivered papers at a number of conferences. The Fund continued its program of seminars for nonofficials, with the ninth seminar conducted in Portuguese on January 16–19, 1985 in Estoril, Portugal, and the tenth seminar conducted in English on March 29–31 in Windsor, England. The proceedings of these seminars will be published in the language in which they were conducted. The Fund also organized a symposium for Governors of African central banks on May 13–15, 1985 in Nairobi, Kenya.

Under the Visitor's Program, representatives of academic, business, labor, political, and financial institutions visited Fund headquarters, where they attended presentations by Fund staff. During the financial year, the Fund expanded its working contacts with the media in Africa and Latin America, in a continuing effort to improve public understanding of the institution. The Fund also expanded its publications program in 1984/85. The publications issued in the financial year are listed in Appendix I, Table I.12.

EXECUTIVE DIRECTORS AND STAFF

A list of Executive Directors and their voting power on April 30, 1985 is given in Appendix IV. The changes in membership of the Executive Board during 1984/85 are shown in Appendix V.

In the financial year ended April 30, 1985, there were 104 appointments to the Fund's regular staff and 62 separations. At the end of the financial year, the staff numbered 1,661 and was drawn from 97 countries.

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Appendix I

Fund Activities in 1984/85

This appendix supplements the information on the Fund given in Chapter 3. Table I.1 provides data on exchange rates and exchange arrangements as of June 28, 1985.

Table I.1.
Exchange Rates and Exchange Arrangements, June 28, 1985[1]

		Pegged to					Limited Flexibility		More Flexibility [3]		
Member	Currency	U.S. dollar [2]	French franc [2]	Other single currency [2]	SDR [2]	Currency composite other than SDR [3]	Vis-à-vis single currency [3, 4]	Under cooperative arrangements [3, 5]	Adjusted according to a set of indicators	Other managed floating	Floating independently
Afghanistan	Afghani	—	—	—	—	—	50.60	—	—	—	—
Algeria	dinar	—	—	—	—	5.0855	—	—	—	—	—
Antigua and Barbuda	Eastern Caribbean dollar	2.70	—	—	—	—	—	—	—	—	—
Argentina	austral	—	—	—	—	—	—	—	—	0.8005	—
Australia	dollar	—	—	—	—	—	—	—	—	—	1.50263
Austria	schilling	—	—	—	—	21.467	—	—	—	—	—
Bahamas	dollar	1.00	—	—	—	—	—	—	—	—	—
Bahrain	dinar	—	—	—	—	—	0.376	—	—	—	—
Bangladesh	taka	—	—	—	—	27.50	—	—	—	—	—
Barbados	dollar	2.0113	—	—	—	—	—	—	—	—	—
Belgium	franc	—	—	—	—	—	—	61.5475	—	—	—
Belize	dollar	2.00	—	—	—	—	—	—	—	—	—
Benin	franc	—	50.00	—	—	—	—	—	—	—	—
Bhutan	ngultrum	—	—	1.00 [6]	—	—	—	—	—	—	—
Bolivia	peso	67,000.00	—	—	—	—	—	—	—	—	—
Botswana	pula	—	—	—	—	1.77066	—	—	—	—	—
Brazil	cruzeiro	—	—	—	—	—	—	—	5,960.00	—	—
Burkina Faso	franc	—	50.00	—	—	—	—	—	—	—	—
Burma	kyat	—	—	—	8.5085	—	—	—	—	—	—
Burundi	franc	—	—	—	122.7	—	—	—	—	—	—
Cameroon	franc	—	50.00	—	—	—	—	—	—	—	—
Canada	dollar	—	—	—	—	—	—	—	—	—	1.3587
Cape Verde	escudo	—	—	—	—	93.4579	—	—	—	—	—
Central African Republic	franc	—	50.00	—	—	—	—	—	—	—	—
Chad	franc	—	50.00	—	—	—	—	—	—	—	—
Chile	peso	—	—	—	—	—	—	—	168.99	—	—
China	renminbi	—	—	—	—	2.8779	—	—	—	—	—
Colombia	peso	—	—	—	—	—	—	—	142.90	—	—
Comoros	franc	—	50.00	—	—	—	—	—	—	—	—
Congo	franc	—	50.00	—	—	—	—	—	—	—	—
Costa Rica	colón	—	—	—	—	—	—	—	—	50.35	—
Cyprus	pound	—	—	—	—	0.623636	—	—	—	—	—
Denmark	krone	—	—	—	—	—	—	10.9525	—	—	—
Djibouti	franc	177.721	—	—	—	—	—	—	—	—	—
Dominica	Eastern Caribbean dollar	2.70	—	—	—	—	—	—	—	—	—
Dominican Republic	peso	—	—	—	—	—	—	—	—	—	3.21
Ecuador	sucre	—	—	—	—	—	—	—	—	67.715	—
Egypt	pound	0.70	—	—	—	—	—	—	—	—	—
El Salvador	colón	—	—	—	—	—	—	—	—	4.46	—
Equatorial Guinea	franc	—	50.00	—	—	—	—	—	—	—	—

Ethiopia	birr	2.07	—	—	—	—	—	—	—	—	—
Fiji	dollar	—	—	—	—	1.17467	—	—	—	—	—
Finland	markka	—	—	—	—	6.347	—	—	—	—	—
France	franc	—	—	—	—	—	—	9.317	—	—	—
Gabon	franc	—	50.00	—	—	—	—	—	—	—	—
Gambia, The	dalasi	—	—	5.00 [7]	—	—	—	—	—	—	—
Germany, Federal Republic of	deutsche mark	—	—	—	—	—	—	3.0607	—	—	—
Ghana	cedi	53.00	—	—	—	—	—	—	—	—	—
Greece	drachma	—	—	—	—	—	—	—	—	135.765	—
Grenada	Eastern Caribbean dollar	2.70	—	—	—	—	—	—	—	—	—
Guatemala	quetzal	1.00	—	—	—	—	—	—	—	—	—
Guinea	syli	—	—	—	24.6853	—	—	—	—	—	—
Guinea-Bissau	peso	—	—	—	—	—	—	—	—	163.641	—
Guyana	dollar	—	—	—	—	4.30	—	—	—	—	—
Haiti	gourde	5.00	—	—	—	—	—	—	—	—	—
Honduras	lempira	2.00	—	—	—	—	—	—	—	—	—
Hungary	forint	—	—	—	—	50.8583	—	—	—	—	—
Iceland	króna	—	—	—	—	—	—	—	—	41.85	—
India	rupee	—	—	—	—	—	—	—	—	12.431472	—
Indonesia	rupiah	—	—	—	—	—	—	—	—	1,118.00	—
Iran, Islamic Republic of	rial	—	—	—	92.30	—	—	—	—	—	—
Iraq	dinar	0.310857	—	—	—	—	—	—	—	—	—
Ireland	pound	—	—	—	—	—	—	0.976563	—	—	—
Israel	shekel	—	—	—	—	—	—	—	—	1,262.4	—
Italy	lira	—	—	—	—	—	—	1,949.95	—	—	—
Ivory Coast	franc	—	50.00	—	—	—	—	—	—	—	—
Jamaica	dollar	—	—	—	—	—	—	—	—	—	5.62
Japan	yen	—	—	—	—	—	—	—	—	—	248.95
Jordan	dinar	—	—	—	0.387747	—	—	—	—	—	—
Kampuchea, Democratic [8]	riel	—	—	—	—	—	—	—	—	—	—
Kenya	shilling	—	—	—	16.148906	—	—	—	—	—	—
Korea	won	—	—	—	—	—	—	—	—	873.80	—
Kuwait	dinar	—	—	—	—	0.3029	—	—	—	—	—
Lao People's Democratic Republic	kip	10.00	—	—	—	—	—	—	—	—	—
Lebanon	pound	—	—	—	—	—	—	—	—	—	15.65
Lesotho	loti	—	—	1.00 [9]	—	—	—	—	—	—	—
Liberia	dollar	1.00	—	—	—	—	—	—	—	—	—
Libyan Arab Jamahiriya	dinar	0.296053	—	—	—	—	—	—	—	—	—
Luxembourg	franc	—	—	—	—	—	—	61.5475	—	—	—
Madagascar	franc	—	—	—	—	677.01	—	—	—	—	—
Malawi	kwacha	—	—	—	—	1.7693	—	—	—	—	—
Malaysia	ringgit	—	—	—	—	2.4907	—	—	—	—	—
Maldives	rufiyaa	—	—	—	—	7.05	—	—	—	—	—
Mali	franc	—	50.00	—	—	—	—	—	—	—	—
Malta	lira	—	—	—	—	0.476644	—	—	—	—	—

Table I.1 (*concluded*).
Exchange Rates and Exchange Arrangements, June 28, 1985[1]

		Pegged to					Limited Flexibility		More Flexibility [3]		
Member	Currency	U.S. dollar [2]	French franc [2]	Other single currency [2]	SDR [2]	Currency composite other than SDR [3]	Vis-à-vis single currency [3, 4]	Under cooperative arrangements [3, 5]	Adjusted according to a set of indicators	Other managed floating	Floating independently
Mauritania	ouguiya	—	—	—	—	80.25	—	—	—	—	—
Mauritius	rupee	—	—	—	—	15.7667	—	—	—	—	—
Mexico	peso	—	—	—	—	—	—	—	—	227.59	—
Morocco	dirham	—	—	—	—	—	—	—	—	10.439	—
Mozambique	metical	—	—	—	—	43.6635	—	—	—	—	—
Nepal	rupee	—	—	—	—	18.10	—	—	—	—	—
Netherlands	guilder	—	—	—	—	—	—	3.4465	—	—	—
New Zealand	dollar	—	—	—	—	—	—	—	—	—	2.113271
Nicaragua	córdoba	10.00	—	—	—	—	—	—	—	—	—
Niger	franc	—	50.00	—	—	—	—	—	—	—	—
Nigeria	naira	—	—	—	—	—	—	—	—	0.895095	—
Norway	krone	—	—	—	—	8.799	—	—	—	—	—
Oman	rial Omani	0.345395	—	—	—	—	—	—	—	—	—
Pakistan	rupee	—	—	—	—	—	—	—	—	16.0078	—
Panama	balboa	1.00	—	—	—	—	—	—	—	—	—
Papua New Guinea	kina	—	—	—	—	1.0248	—	—	—	—	—
Paraguay	guaraní	240.00	—	—	—	—	—	—	—	—	—
Peru	sol	—	—	—	—	—	—	—	11,203.94	—	—
Philippines	peso	—	—	—	—	—	—	—	—	—	18.462
Portugal	escudo	—	—	—	—	—	—	—	174.543	—	—
Qatar	riyal	—	—	—	—	—	3.64	—	—	—	—
Romania	leu	—	—	—	—	12.47	—	—	—	—	—
Rwanda	franc	—	—	—	102.71	—	—	—	—	—	—
St. Christopher and Nevis	Eastern Caribbean dollar	2.70	—	—	—	—	—	—	—	—	—
St. Lucia	Eastern Caribbean dollar	2.70	—	—	—	—	—	—	—	—	—
St. Vincent	Eastern Caribbean dollar	2.70	—	—	—	—	—	—	—	—	—
São Tomé and Principe	dobra	—	—	—	45.25	—	—	—	—	—	—
Saudi Arabia	riyal	—	—	—	—	—	3.645	—	—	—	—
Senegal	franc	—	50.00	—	—	—	—	—	—	—	—
Seychelles	rupee	—	—	—	7.2345	—	—	—	—	—	—
Sierra Leone	leone	—	—	—	6.27042	—	—	—	—	—	—
Singapore	dollar	—	—	—	—	2.2335	—	—	—	—	—
Solomon Islands	dollar	—	—	—	—	1.50128	—	—	—	—	—
Somalia	shilling	—	—	—	—	—	—	—	40.6081	—	—
South Africa	rand	—	—	—	—	—	—	—	—	—	1.96078
Spain	peseta	—	—	—	—	—	—	—	—	174.697	—
Sri Lanka	rupee	—	—	—	—	—	—	—	—	27.42	—
Sudan	pound	2.50	—	—	—	—	—	—	—	—	—
Suriname	guilder	1.785	—	—	—	—	—	—	—	—	—
Swaziland	lilangeni	—	—	1.00 [9]	—	—	—	—	—	—	—

Sweden	krona	—	—	—	—	8.8035	—	—	—	—	—
Syrian Arab Republic	pound	3.925	—	—	—	—	—	—	—	—	—
Tanzania	shilling	—	—	—	—	17.5513	—	—	—	—	—
Thailand	baht	—	—	—	—	27.42	—	—	—	—	—
Togo	franc	—	50.00	—	—	—	—	—	—	—	—
Trinidad and Tobago	dollar	2.406	—	—	—	—	—	—	—	—	—
Tunisia	dinar	—	—	—	—	0.851387	—	—	—	—	—
Turkey	lira	—	—	—	—	—	—	—	—	536.72	—
Uganda	shilling	—	—	—	—	—	—	—	—	—	600.00
United Arab Emirates	dirham	—	—	—	—	—	3.671	—	—	—	—
United Kingdom	pound	—	—	—	—	—	—	—	—	—	0.772141
United States	dollar	—	—	—	—	—	—	—	—	—	1.00
Uruguay	new peso	—	—	—	—	—	—	—	—	—	96.125
Vanuatu	vatu	—	—	—	110.14	—	—	—	—	—	—
Venezuela	bolívar	7.50	—	—	—	—	—	—	—	—	—
Viet Nam	dong	—	—	—	10.37883	—	—	—	—	—	—
Western Samoa	tala	—	—	—	—	—	—	—	—	2.28363	—
Yemen Arab Republic	rial	6.485	—	—	—	—	—	—	—	—	—
Yemen, People's Democratic Republic of	dinar	0.345399	—	—	—	—	—	—	—	—	—
Yugoslavia	dinar	—	—	—	—	—	—	—	—	287.87	—
Zaïre	zaïre	—	—	—	—	—	—	—	—	—	50.7222
Zambia	kwacha	—	—	—	—	2.33951	—	—	—	—	—
Zimbabwe	dollar	—	—	—	—	1.56495	—	—	—	—	—

[1] For further explanation of the classification of exchange rate arrangements, in particular for members that maintain dual exchange markets involving multiple exchange rate arrangements, see Table 12. The exchange rate for the Dominican Republic is for the end of April.

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

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

[4] All exchange rates have shown limited flexibility against the U.S. dollar.

[5] 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 percent (for the Italian lira, 6 percent) for exchange rates in transactions in the official markets between their currencies and those of the other countries in this group.

[6] Per Indian rupee.

[7] Per pound sterling.

[8] Information not available.

[9] Per South African rand.

Table I.2.
Fund Stand-By Arrangements for Members, Financial Year Ended April 30, 1985
(In millions of SDRs)

Member	Total Number of Stand-Bys Approved for Member Since 1953	Current Arrangement: Date of inception	Current Arrangement: Date of expiration	Amount Approved in 1983/84: Total	Amount Approved in 1983/84: Of which: borrowed resources	Amount Approved in 1984/85: Total	Amount Approved in 1984/85: Of which: borrowed resources	Amount Not Purchased at Expiration or Cancellation	Amount Not Purchased as of April 30, 1985
Argentina	11	Dec. 28, 1984	Mar. 27 1986	—	—	1,419.00	709.50	—	1,182.50
Belize	1	Dec. 3, 1984	Mar. 31, 1986	—	—	7.13	—	—	4.75
Central African Republic	4	July 6, 1984	July 5, 1985	—	—	15.00	—	—	7.00
Costa Rica	9	Mar. 13, 1985	Apr. 12, 1986	—	—	54.00	27.00	—	30.00
Dominica	1	July 18, 1984	July 17, 1985	—	—	1.40	—	—	0.43
Dominican Republic	3	Apr. 15, 1985	Apr. 14, 1986	—	—	78.50	—	—	50.48
Ecuador	11	July 25, 1983	July 24, 1984	157.50	75.77	—	—	—	—
		Mar. 11, 1985	Mar. 10, 1986	—	—	105.50	52.75	—	84.40
Gambia, The	4	Apr. 23, 1984	July 22, 1985[1]	12.83	6.42	—	—	10.20	—
Ghana	7	Aug. 3, 1983	Aug. 2, 1984	238.50	121.80	—	—	—	—
		Aug. 27, 1984	Dec. 31, 1985	—	—	180.00	96.53	—	120.00
Guatemala	10	Aug. 31, 1983	Dec. 31, 1984	114.75	66.92	—	—	57.37	—
Haiti	20	Nov. 7, 1983	Sep. 30, 1985	60.00	45.23	—	—	—	39.00
Hungary	2	Jan. 13, 1984	Jan. 12, 1985	425.00	212.50	—	—	—	—
Ivory Coast	1	Aug. 3, 1984	May 2, 1985	—	—	82.75	—	—	20.69
Jamaica	4	June 22, 1984	June 21, 1985	—	—	64.00	—	—	36.00
Kenya	6	Feb. 8, 1985	Feb. 7, 1986	—	—	85.20	42.60	—	55.40
Korea	15	July 8, 1983	Mar. 31, 1985	575.77	575.77	—	—	—	—
Liberia	18	Sep. 14, 1983	Sep. 13, 1984	55.00	55.00	—	—	—	—
		Dec. 7, 1984	June 6, 1986	—	—	42.78	21.39	—	34.28
Madagascar	6	Apr. 10, 1984	Mar. 31, 1985	33.00	16.50	—	—	—	—
		Apr. 23, 1985	Apr. 22, 1986	—	—	29.50	14.75	—	26.00
Mali	7	Dec. 9, 1983	May 31, 1985	40.50	34.62	—	—	—	—
Mauritania	4	Apr. 12, 1985	Apr. 11, 1986	—	—	12.00	—	—	9.60
Mauritius	6	May 18, 1983	Aug. 17, 1984	49.50	46.87	—	—	—	—
		Mar. 1, 1985	Aug. 31, 1986	—	—	49.00	24.50	—	35.00
Morocco	9	Sep. 16, 1983	Mar. 15, 1985	300.00	246.33	—	—	—	—
Niger	2	Oct. 5, 1983	Dec. 4, 1984	18.00	—	—	—	—	—
		Dec. 5, 1984	Dec. 4, 1985	—	—	16.00	8.00	—	9.60
Panama	16	June 24, 1983	Dec. 31, 1984	150.00	120.27	—	—	—	—
Peru	17	Apr. 26, 1984	July 31, 1985[2]	250.00	—	—	—	220.00	—
Philippines	17	Dec. 14, 1984	June 13, 1986	—		615.00	307.50	—	530.00
Portugal	3	Oct. 7, 1983	Feb. 28, 1985	445.00	222.20	—	—	185.70	—
Senegal	5	Sep. 19, 1983	Sep. 18, 1984	63.00	38.32	—	—	—	—
		Jan. 16, 1985	July 15, 1986	—	—	76.60	50.42	—	54.00
Sierra Leone	6	Feb. 3, 1984	Feb. 2, 1985	50.20	24.06	—	—	31.20	—
Solomon Islands	2	June 22, 1983	June 21, 1984	2.40	—	—	—	1.44	—
Somalia	11	Feb. 22, 1985	Feb. 21, 1986	—	—	22.10	11.05	—	20.10
Sri Lanka	8	Sep. 14, 1983	July 31, 1984	100.00	57.00	—	—	50.00	—
Sudan	9	June 25, 1984	June 24, 1985	—	—	90.00	45.00	—	70.00
Togo	4	May 7, 1984	May 6, 1985	—	—	19.00	—	—	—
Turkey	15	June 24, 1983	June 23, 1984[3]	225.00	39.44	—	—	168.75	—
		Apr. 4, 1984	Apr. 3, 1985	225.00	—	—	—	56.25	—
Uganda	5	Sep. 16, 1983	Sep. 15, 1984	95.00	95.00	—	—	30.00	—
Uruguay	13	Apr. 22, 1983	Apr. 21, 1985[4]	(378.00)	(283.50)	—	—	226.80	—
Western Samoa	6	June 27, 1983	June 26, 1984	3.38	—	—	—	—	—
		July 9, 1984	July 8, 1985	—	—	3.37	1.69	—	0.84
Yugoslavia	9	Apr. 18, 1984	May 15, 1985[5]	370.00	185.00	—	—	—	90.00
Zaïre	6	Dec. 27, 1983	Mar. 26, 1985	228.00	135.17	—	—	30.00	—
		Apr. 24, 1985	Apr. 23, 1986	—	—	162.00	—	—	122.00
Zambia	5	July 26, 1984	Apr. 30, 1986	—	—	225.00	112.50	—	145.00
Zimbabwe	2	Mar. 23, 1983	Sep. 22, 1984[4]	(300.00)	(187.50)	—	—	125.00	—
Total				4,287.33	2,420.19	3,454.83	1,525.18	1,192.71	2,777.07

[1] Arrangement canceled on April 22, 1985.
[2] Arrangement canceled on April 24, 1985.
[3] Arrangement canceled on April 3, 1984.
[4] Arrangement approved in financial year 1982/83.
[5] Expiration date extended from April 17, 1985.

Table I.3. Summary of Members' Purchases and Repurchases, Financial Years Ended April 30, 1948–85

(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
1981	4,860.01	2,852.93
1982	8,040.62	2,009.88
1983	11,391.89	1,555.12
1984	11,517.73	2,017.65
1985	6,288.87	2,730.39[1]
Total	93,218.32[2]	43,501.69[3]

[1] Excludes sales of currency to discharge repurchases for SDR 115 million, and if this is included, the total is SDR 2,845 million, as mentioned in paragraph 5 of the Notes to the Financial Statements, Appendix VIII, page 154 below.

[2] Includes purchases that are not subject to repurchase.

[3] 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, 1953–85[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
1981	21	5,197.93
1982	19	3,106.21
1983	27	5,449.98
1984	25	4,287.33
1985	24	3,454.83
Total	570	52,773.16

[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.

Table I.5.
Purchases of Currencies and SDRs from the Fund, Financial Year Ended April 30, 1985

(In millions of SDRs)

	Under Tranche Policies				Under Decision on				Purchases Financed with		
			Under stand-by arrangements		Extended Fund facility				Ordinary resources		
Member Purchasing	Within reserve tranche	First credit tranche	Ordinary resources	Enlarged access resources	Ordinary resources	Enlarged access resources	Compensatory financing	Total Purchases	Currencies	SDRs	Enlarged access resources
Argentina	—	—	118.25	118.25	—	—	275.00	511.50	60.42	332.83	118.25
Bangladesh	—	—	—	—	—	—	54.95	54.95	10.00	44.95	—
Barbados	—	—	1.95	1.95	—	—	—	3.90	1.95	—	1.95
Belize	—	—	2.38	—	—	—	—	2.38	1.20	1.18	—
Brazil	—	—	—	—	561.13	561.13	247.90	1,370.15	333.00	476.03	561.13
Burma	6.88	—	—	—	—	—	—	6.88	6.88	—	—
Cameroon	7.00	—	—	—	—	—	—	7.00	—	7.00	—
Central African Republic	—	—	8.00	—	—	—	—	8.00	—	8.00	—
Chad	3.20	—	—	—	—	—	—	3.20	—	3.20	—
Chile	—	—	108.00	108.00	—	—	—	216.00	5.00	103.00	108.00
Comoros	0.25	—	—	—	—	—	—	0.25	—	0.25	—
Congo	2.50	—	—	—	—	—	—	2.50	—	2.50	—
Costa Rica	—	—	12.00	12.00	—	—	—	24.00	1.50	10.50	12.00
Dominica	—	—	0.97	—	—	—	—	0.97	—	0.97	—
Dominican Republic	—	—	28.03	—	—	—	—	28.03	—	28.03	—
Ecuador	11.43	—	30.24	30.24	—	—	—	71.90	—	41.66	30.24
Fiji	—	—	—	—	—	—	4.75	4.75	4.75	—	—
Gabon	7.00	—	—	—	—	—	—	7.00	—	7.00	—
Ghana	—	—	53.85	53.85	—	—	58.20	165.90	49.85	62.20	53.85
Guinea-Bissau	—	1.88	—	—	—	—	—	1.88	—	1.88	—
Hungary	38.93	—	148.75	148.75	—	—	—	336.43	—	187.68	148.75
Ivory Coast	—	—	62.06	—	—	—	—	62.06	—	62.06	—
Jamaica	—	—	28.00	—	—	—	72.60	100.60	86.76	13.84	—
Jordan	7.23	—	—	—	—	—	57.40	64.63	7.23	57.40	—
Kenya	—	—	14.90	61.05	—	—	—	75.95	—	14.90	61.05
Korea	—	—	—	319.78	—	—	279.70	599.48	279.70	—	319.78
Liberia	—	—	4.25	17.25	—	—	—	21.50	—	4.25	17.25
Madagascar	—	—	16.75	16.75	—	—	14.40	47.90	11.90	19.25	16.75
Malawi	—	—	—	—	7.44	11.56	13.80	32.80	3.94	17.30	11.56
Mali	—	—	12.25	12.25	—	—	—	24.50	—	12.25	12.25
Mauritania	—	—	2.40	—	—	—	—	2.40	0.40	2.00	—
Mauritius	—	—	7.00	23.50	—	—	7.50	38.00	—	14.50	23.50
Mexico	65.04	—	—	—	451.41	451.41	—	967.86	144.60	371.85	451.41
Morocco	—	—	—	170.00	—	—	—	170.00	—	—	170.00
Mozambique	13.24	—	—	—	—	—	—	13.24	—	13.24	—
New Zealand	28.47	—	—	—	—	—	—	28.47	—	28.47	—
Niger	—	—	11.60	3.20	—	—	—	14.80	1.00	10.60	3.20
Panama	—	—	—	75.00	—	—	—	75.00	—	—	75.00
Peru	21.23	—	30.00	—	—	—	74.70	125.93	—	125.93	—
Philippines	—	—	42.50	42.50	—	—	—	85.00	—	42.50	42.50
Portugal	—	—	46.45	46.45	—	—	54.60	147.50	—	101.05	46.45
St. Christopher and Nevis	0.98	—	—	—	—	—	—	0.98	—	0.98	—
St. Vincent	0.35	—	—	—	—	—	—	0.35	—	0.35	—
Senegal	—	—	13.79	24.56	—	—	—	38.35	6.30	7.49	24.56
Somalia	—	—	1.00	1.00	—	—	32.60	34.60	17.40	16.20	1.00

Sudan	—	—	10.00	10.00	—	—	—	20.00	9.90	0.10	10.00
Togo	—	—	19.00	—	—	—	—	19.00	1.50	17.50	—
Turkey	—	—	112.50	—	—	—	—	112.50	—	112.50	—
Uruguay	9.46	—	—	—	—	—	—	9.46	—	9.46	—
Western Samoa	—	—	1.27	1.27	—	—	—	2.53	0.42	0.84	1.27
Yemen Arab Republic	5.95	—	—	—	—	—	—	5.95	5.95	—	—
Yugoslavia	—	—	140.00	140.00	—	—	—	280.00	50.00	90.00	140.00
Zaïre	—	—	100.00	60.00	—	—	—	160.00	31.10	68.90	60.00
Zambia	—	—	40.00	40.00	—	—		80.00	—	40.00	40.00
Total	229.11	1.88	1,228.12	1,537.59	1,019.97	1,024.10	1,248.10	6,288.87	1,132.66	2,594.53	2,561.69

Table I.6.
Repurchases of Currencies from the Fund, Financial Year Ended April 30, 1985
(In millions of SDRs)

Member Repurchasing	Repurchases in Respect of Purchases of: Borrowed Resources: Supplementary financing facility	Borrowed Resources: Enlarged access resources	Ordinary Resources: Credit tranche	Ordinary Resources: Extended Fund facility	Ordinary Resources: Compen-satory financing	Ordinary Resources: Buffer stock	Ordinary Resources: Under guidelines for early repurchase	Total
Bangladesh	24.2	—	31.8	—	—	—	—	55.9
Bolivia	13.7	—	6.6	—	—	—	—	20.3
Brazil	—	—	—	—	—	64.5[1]	—	64.5
Burma	—	—	8.7	—	—	—	—	8.7
Burundi	—	—	—	—	2.8	—	—	2.8
Central African Republic	—	—	5.0	—	4.4	—	—	9.4
Chad	—	—	—	—	4.4	—	—	4.4
Costa Rica	2.7	—	5.1	—	19.0	—	—	26.8
Cyprus	—	—	2.1	—	—	—	—	2.1
Dominica	0.2	—	0.4	—	1.3	—	—	1.9
Dominican Republic	—	—	5.8	—	—	23.2[1]	—	29.0
Egypt	—	—	—	5.6	—	—	—	5.6
El Salvador	—	—	4.0	—	12.1	—	—	16.1
Equatorial Guinea	—	—	2.3	—	5.8	—	—	8.1
Ethiopia	—	1.7	7.1	—	15.8	—	—	24.5
Gabon	—	—	0.9	—	—	—	—	0.9
Gambia, The	—	—	0.6	—	3.4	—	—	4.0
Grenada	—	—	0.9	—	0.7	—	—	1.6
Guatemala	—	—	2.4	—	9.6	—	—	12.0
Guinea-Bissau	—	—	—	—	0.2	—	—	0.2
Guyana	—	—	—	—	2.0	—	—	2.0
Haiti	—	—	0.7	—	2.1	—	—	2.8
Honduras	—	—	4.8	—	2.9	—	—	7.7
India	—	—	—	—	133.0	—	—	133.0
Indonesia	—	—	—	—	—	3.6[2]	—	3.6
Ivory Coast	11.0	—	14.3	—	28.5	—	—	53.8
Jamaica	30.1	—	10.9	12.9	18.3	—	—	72.2
Kenya	12.5	—	23.9	1.3	17.3	—	—	55.0
Korea	86.5	—	135.5	—	93.3	—	—	315.2
Lao People's Democratic Republic	—	—	6.3	—	—	—	—	6.3
Liberia	2.8	—	5.3	—	6.3	—	—	14.4
Madagascar	4.4	—	10.2	—	14.6	—	—	29.1
Malawi	5.3	—	7.7	—	6.3	0.9[1]	—	20.3
Malaysia	—	—	—	—	3.2	8.0[2]	44.2	55.5
Mali	—	—	—	—	2.6	—	—	2.6
Mauritania	2.0	—	3.5	—	3.9	—	—	9.4
Mauritius	13.4	—	9.6	—	20.3	3.6[1]	—	46.8
Morocco	30.1	—	28.1	—	—	—	—	58.2
Nepal	—	—	—	—	5.2	—	—	5.2
Nicaragua	—	—	2.7	—	10.6	—	—	13.3
Pakistan	35.8	—	31.4	—	—	—	—	67.2
Panama	5.2	—	11.7	—	—	—	—	16.9
Papua New Guinea	—	—	—	—	—	—	34.9	34.9
Peru	48.8	—	27.1	—	—	—	—	75.9
Philippines	58.3	—	54.8	37.2	52.2	—	—	202.4
Romania	—	6.7	32.5	—	124.2	—	—	163.4
St. Lucia	—	—	0.5	—	0.5	—	—	0.9
St. Vincent	—	—	—	—	0.7	—	—	0.7
Senegal	5.6	—	5.3	0.7	10.5	—	—	22.1
Sierra Leone	2.2	—	6.6	—	—	—	—	8.8
Solomon Islands	—	—	0.3	—	—	—	—	0.3
Somalia	—	0.9	6.5	—	—	—	—	7.4
Sri Lanka	—	—	—	15.8	9.5	0.6[2]	—	25.9
Sudan	6.3	—	2.1	1.0	11.7	—	—	21.2
Swaziland	—	—	—	—	—	1.0[1]	—	1.0

Table I.6 (*concluded*).
Repurchases of Currencies from the Fund, Financial Year Ended April 30, 1985
(In millions of SDRs)

Member Repurchasing	Repurchases in Respect of Purchases of: Borrowed Resources: Supplementary financing facility	Borrowed Resources: Enlarged access resources	Ordinary Resources: Credit tranche	Ordinary Resources: Extended Fund facility	Ordinary Resources: Compensatory financing	Ordinary Resources: Buffer stock	Ordinary Resources: Under guidelines for early repurchase	Total
Tanzania	4.1	—	6.2	—	10.0	—	—	20.3
Thailand	—	9.1	39.9	—	69.8	2.1[2]	—	120.9
Togo	1.8	—	6.6	—	—	—	—	8.4
Turkey	145.0	—	55.0	—	35.8	—	—	235.8
Uganda	—	2.3	15.8	—	27.5	—	—	45.6
Western Samoa	—	—	0.4	—	1.0	—	—	1.4
Yugoslavia	65.1	—	143.7	—	86.6	—	—	295.4
Zaïre	—	8.8	54.0	—	—	—	—	62.8
Zambia	—	15.0	42.5	—	7.4	—	—	64.9
Zimbabwe	—	—	18.8	—	—	2.1[1]	—	20.8
Total	617.0	44.4	908.8	74.5	897.1	109.5	79.1	2,730.4

[1] Repurchase under the buffer stock financing facility (sugar) in accordance with paragraph 6(i) of Executive Board Decision No. 5597-(77/171), adopted December 16, 1977. (See *Selected Decisions of the International Monetary Fund and Selected Documents*, Tenth Issue (Washington, 1983), page 77.)
[2] Repurchase under the buffer stock financing facility (rubber) in accordance with paragraph 3(b)(i) of Executive Board Decision No. 7246-(82/147), adopted November 12, 1982. (See *Selected Decisions of the International Monetary Fund and Selected Documents*, Tenth Issue (Washington, 1983), pages 78–79.)

Table I.7.
Extended Fund Facility Arrangements for Members, July 7, 1975–April 30, 1985
(In millions of SDRs)

Member	Date of Inception	Date of Expiration	Total Amount of Arrangement	Of Which: Borrowed Resources	Amount Not Purchased at Expiration or Cancellation	Of Total Amount Approved, Amount Not Purchased as of April 30, 1985
Approved in previous financial years						
Bangladesh	12/8/80	12/7/83	800.00[1]	480.80	580.00	—
Brazil	3/1/83	2/28/86	4,239.38	2,842.88	—	1,496.25
Costa Rica	6/17/81	6/16/84	276.75[2]	190.65	254.25	—
Dominica	2/6/81	2/5/84	8.55	4.49	—	—
Dominican Republic	1/21/83	1/20/86	371.25[3]	255.75	247.50	—
Egypt	7/28/78	7/27/81	600.00	—	525.00	—
Gabon	6/27/80	12/31/82	34.00	—	34.00	—
Grenada	8/24/83	8/23/86	13.50[4]	8.98	12.37	—
Guyana	6/25/79	6/24/82	62.75[5]	35.00	52.75	—
	7/25/80	7/24/83	150.00[6]	116.37	98.27	—
Haiti	10/25/78	10/24/81	32.20	—	21.40	—
Honduras	6/28/79	6/27/82	47.60	—	23.70	—
India	11/9/81	11/8/84	5,000.00[7]	2,595.50	1,100.00	—
Ivory Coast	2/27/81	2/22/84	484.50	324.90	38.47	—
Jamaica	6/9/78	6/8/81	200.00[8]	—	130.00	—
	6/11/79	6/10/81	260.00[9]	227.10	175.00	—
	4/13/81	4/12/84	477.70[10]	390.55	74.90	—
Kenya	7/7/75	7/6/78	67.20	—	59.50	—
Malawi	9/19/83	9/18/86	100.00	81.47	—	66.00
Mexico	1/1/77	12/31/79	518.00[11]	—	518.00	—
	1/1/83	12/31/85	3,410.63	2,287.13	—	1,203.75
Morocco	10/8/80	10/7/83	810.00[12]	600.00	663.00	—
	3/9/81	10/7/83	817.05[13]	567.00	680.55	—
Pakistan	11/24/80	11/23/83	1,268.00[14]	869.00	919.00	—
	12/2/81	11/23/83	919.00	490.12	189.00	—
Peru	6/7/82	6/6/85	650.00[15]	311.56	385.00	—
Philippines	4/2/76	4/1/79	217.00[16]	—	—	—
Senegal	8/8/80	8/7/83	184.80[17]	126.00	143.70	—
Sierra Leone	3/30/81	2/22/84	186.00[18]	121.81	152.50	—
Sri Lanka	1/1/79	12/31/81	260.30	—	—	—
Sudan	5/4/79	5/3/82	427.00[19]	303.80	176.00	—
Zaïre	6/22/81	6/21/84	912.00[20]	632.94	737.00	—
Zambia	5/8/81	5/7/84	800.00[21]	674.00	500.00	—
Subtotal			24,605.16	14,537.80	8,490.86	2,766.00
Approved during financial year 1984/85	—	—	—	—	—	—
Total			24,605.16	14,537.80	8,490.86	2,766.00

[1] Arrangement canceled as of June 21, 1982.
[2] Canceled as of December 20, 1982 and replaced by a stand-by arrangement.
[3] Arrangement canceled as of January 17, 1985.
[4] Arrangement canceled as of January 23, 1984.
[5] Canceled as of June 24, 1980.
[6] Arrangement augmented by SDR 50.00 million in July 1981 to a total of SDR 150.00 million. Arrangement canceled as of July 22, 1982.
[7] Arrangement canceled as of May 1, 1984.
[8] Canceled as of June 10, 1979.
[9] Canceled as of April 12, 1981.
[10] Arrangement augmented by SDR 241.30 million in June 1981 to a total of SDR 477.70 million.
[11] Includes augmentation by repurchase equivalent to SDR 100.00 million.
[12] Canceled as of March 8, 1981.
[13] Arrangement canceled as of April 25, 1982 and replaced by a stand-by arrangement.
[14] Canceled as of December 1, 1981.
[15] Arrangement canceled as of April 25, 1984 and replaced by a stand-by arrangement.
[16] Includes augmentation by repurchase equivalent to SDR 38.75 million.
[17] Canceled as of September 10, 1981 and replaced by a stand-by arrangement.
[18] Arrangement augmented by SDR 22.30 million in June 1981 to a total of SDR 186.00 million. Arrangement canceled as of April 6, 1982.
[19] Arrangement augmented by SDR 227.00 million in November 1980, canceled on February 17, 1982, and replaced by a stand-by arrangement.
[20] Arrangement canceled as of June 22, 1982.
[21] Arrangement canceled as of July 3, 1982.

Table I.8.
Borrowing in Connection with Purchases Under the Supplementary Financing Facility and Repayments to Lenders, May 29, 1980–April 30, 1985

(In millions of SDRs)

Lender	Total Amount of Agreement	Amount Borrowed	Amount Undrawn at Expiration of Agreements[1]	Amount Repaid[2]	Borrowing Outstanding as of April 30, 1985
Abu Dhabi	150.00	105.22	44.78	14.42	90.80
Austrian National Bank	50.00	50.00	—	4.92	45.08
Banque Nationale de Belgique	150.00	12.34	137.66	6.17	6.17
Canada	200.00	173.61	26.39	12.68	160.93
Deutsche Bundesbank	1,050.00	1,050.00[3]	—	45.64	832.35
Banco de Guatemala	30.00	8.36[4]	21.64	8.36	—
Japan	900.00	886.69	13.31	115.25	771.44
Central Bank of Kuwait	400.00	400.00	—	46.10	353.90
De Nederlandsche Bank, N.V.	100.00	100.00	—	10.56	89.44
Central Bank of Nigeria	220.00	69.85[5]	150.15	69.85	—
Saudi Arabian Monetary Agency	1,934.00	1,906.74[3]	27.26	349.35	1,729.40
Swiss National Bank	650.00	650.00	—	75.01	574.99
United States	1,450.00	1,450.00	—	174.16	1,275.84
Central Bank of Venezuela	500.00	369.42	130.58	60.42	309.00
Total	7,784.00	7,232.22	551.78	992.89	6,239.33

[1] Agreements lapsed on February 22, 1984.
[2] Repayments began on November 24, 1982.
[3] Claims totaling SDR 172.011 million under the supplementary financing facility were transferred by the Deutsche Bundesbank to the Saudi Arabian Monetary Agency against U.S. dollars on November 13, 1980.
[4] Claims totaling SDR 8.356 million were repaid in advance to the Banco de Guatemala on February 8, 1982. This encashment was refinanced by a call on the Swiss National Bank.
[5] Claims totaling SDR 69.850 million were repaid in advance to the Central Bank of Nigeria on April 8 and 9, 1982. This encashment was financed by calls in equal amounts under the supplementary financing facility borrowing agreements with Japan and the United States, in agreement with these lenders.

Table I.9.
Schedule of Fund Charges

Charges in percent per annum [1] payable on holdings for the periods stated	
	PURCHASES IN THE CREDIT TRANCHES AND UNDER THE COMPENSATORY FINANCING, BUFFER STOCK FINANCING, AND EXTENDED FUND FACILITIES
	From May 1, 1984
Service charge	0.5
Periodic charge	7.0
	SUPPLEMENTARY FINANCING FACILITY
Service charge	0.5
Periodic charge	
Up to 3½ years	Rate of interest paid by the Fund plus 0.2 percent
Over 3½ years	Rate of interest paid by the Fund plus 0.325 percent
	ENLARGED ACCESS POLICY
Service charge	0.5
Periodic charge	Net cost of borrowing by the Fund plus 0.2 percent

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

Table I.10.
Summary of Transactions and Operations in SDRs, Financial Year Ended April 30, 1985
(In thousands of SDRs)

Holders	Total Holdings April 30, 1984	Receipts from Participants and Prescribed Holders: Designated	Receipts from Participants and Prescribed Holders: Other	Transfers to Participants and Prescribed Holders: Designated	Transfers to Participants and Prescribed Holders: Other	Receipts from the General Resources Account	Transfers to the General Resources Account	Interest, Charges, and Assessment (Net)	Positions as at April 30, 1985: Holdings	Positions as at April 30, 1985: Net cumulative allocations	Positions as at April 30, 1985: Holdings as percent of cumulative allocations
PARTICIPANTS											
Afghanistan	14,502	—	—	—	—	107	—	−1,387	13,222	26,703	49.5
Algeria	104,220	—	—	—	—	12,368	—	−1,320	115,268	128,640	89.6
Antigua and Barbuda	2	—	—	—	—	—	—	—	2	—	—
Argentina	27,626	—	85,274	290,361	41,244	377,468	95,710	−34,864	28,189	318,370	8.9
Australia	132,219	141,974	—	—	—	140	—	−36,669	237,665	470,545	50.5
Austria	155,517	23,207	48,000	—	86,635	37,571	—	+1,380	179,039	179,045	100.0
Bahamas	1,053	—	—	—	—	487	—	−937	604	10,230	5.9
Bahrain	12,402	—	—	—	—	—	—	+810	13,211	6,200	213.1
Bangladesh	7,124	—	31,700	39,000	—	44,950	33,409	−4,999	6,365	47,120	13.5
Barbados	1,687	—	2,176	—	—	1,091	3,486	−807	661	8,039	8.2
Belgium	363,801	76,400	—	—	81,347	65,149	—	−5,203	418,800	485,246	86.3
Belize	19	—	35	1,169	—	1,511	291	+3	107	—	—
Benin	925	—	—	—	—	250	—	−967	208	9,409	2.2
Bhutan	24	—	—	—	—	31	—	+4	59	—	—
Bolivia	1,573	—	4,154	—	—	3,508	6,271	−2,889	74	26,703	0.3
Botswana	7,487	—	—	—	—	937	—	+384	8,807	4,359	202.1
Brazil	48,510	—	175,456	473,154	—	582,588	286,767	−39,195	7,438	358,670	2.1
Burkina Faso	5,628	—	—	—	—	377	—	−378	5,627	9,409	59.8
Burma	3,439	—	6,964	—	—	2,206	5,607	−4,780	2,222	43,474	5.1
Burundi	707	—	660	—	—	411	123	−1,440	215	13,697	1.6
Cameroon	1,119	—	—	—	500	7,094	—	−2,363	5,350	24,463	21.9
Canada	53,560	304,033	—	—	245,274	21,311	—	−80,112	53,518	779,290	6.9
Cape Verde	105	—	—	—	—	48	—	−57	97	620	15.6
Central African Republic	746	—	4,650	—	—	8,020	11,385	−923	1,109	9,325	11.9
Chad	425	—	2,548	—	—	3,246	4,999	−992	228	9,409	2.4
Chile	12,872	—	54,450	57,820	33,500	103,540	54,117	−13,236	12,189	121,924	10.0
China	366,850	34,700	—	—	—	6,017	—	+11,966	419,533	236,800	177.2
Colombia	70,317	—	4,220	76,817	—	8,699	—	−4,028	2,391	114,271	2.1
Comoros	1	—	—	—	—	314	—	−76	239	716	33.4
Congo	434	—	—	—	—	2,501	—	−967	1,968	9,719	20.3
Costa Rica	8	—	2,512	8,450	—	25,487	16,776	−2,604	178	23,726	0.7
Cyprus	1,006	—	1,000	—	—	1,000	275	−2,126	605	19,438	3.1
Denmark	129,539	26,400	—	—	—	11,286	—	−3,549	163,676	178,864	91.5
Djibouti	424	—	—	—	—	50	—	−84	390	1,178	33.1
Dominica	51	—	117	966	—	1,982	1,007	−61	116	592	19.6
Dominican Republic	4,276	—	14,137	27,942	—	35,198	18,565	−3,437	3,666	31,585	11.6
Ecuador	345	—	17,582	33,861	—	42,002	18,419	−3,519	4,130	32,929	12.5
Egypt	7,014	—	15,050	—	—	—	3,404	−14,961	3,699	135,924	2.7
El Salvador	2,914	—	7,901	—	—	4,990	13,059	−2,740	6	24,985	—
Equatorial Guinea	6	—	3,240	—	—	1,171	3,755	−657	4	5,812	0.1

Ethiopia	1,932	—	10,801	—	—	—	10,472	−1,058	1,204	11,160	10.8
Fiji	6,817	—	2,700	—	—	393	958	−137	8,816	6,958	126.7
Finland	115,302	10,096	21,370	—	—	6,493	—	−3,640	149,622	142,690	104.9
France	415,980	278,618	—	—	88,633	80,183	—	−58,348	627,800	1,079,870	58.1
Gabon	681	—	—	—	888	7,085	938	−1,182	4,758	14,091	33.8
Gambia, The	538	—	—	—	—	2,421	2,395	−564	—	5,121	—
Germany, Federal Republic of	1,356,668	167,677	—	—	399,218	242,043	—	+33,740	1,400,909	1,210,760	115.7
Ghana	6,251	—	35,500	60,000	—	62,499	30,170	−6,796	7,283	62,983	11.6
Greece	4,499	—	2,395	—	—	6,556	—	−11,300	2,149	103,544	2.1
Grenada	18	—	100	—	—	406	397	−101	26	930	2.8
Guatemala	68	—	22,003	—	—	6,967	23,559	−3,031	2,449	27,678	8.8
Guinea	—	—	384	392	—	3,323	794	−1,962	559	17,604	3.2
Guinea-Bissau	25	—	—	1,699	—	2,007	196	−130	6	1,212	0.5
Guyana	—	—	—	—	—	13,125	11,509	−1,616	—	14,530	—
Haiti	4,004	—	1,295	—	—	2,990	6,793	−1,446	50	13,697	0.4
Honduras	2,578	—	10,535	—	—	—	11,041	−1,995	76	19,057	0.4
Hungary	29,511	—	25,083	187,625	—	210,533	69,606	+1,244	9,141	—	—
Iceland	1,111	—	3,000	—	—	—	1,484	−1,770	857	16,409	5.2
India	375,779	—	250,000	—	—	23,381	402,418	−50,375	196,368	681,170	28.8
Indonesia	42	10,900	53,647	—	—	577	28,838	−24,909	11,419	238,956	4.8
Iran, Islamic Republic of	310,947	—	1,445	—	—	2,185	—	+7,682	322,259	244,056	132.0
Iraq	3,504	—	5,162	—	—	—	—	−7,230	1,436	68,464	2.1
Ireland	70,616	14,622	—	—	—	7,692	—	−715	92,216	87,263	105.7
Israel	4,750	—	7,000	—	—	2,200	—	−11,704	2,246	106,360	2.1
Italy	595,989	141,767	50,000	—	110,149	66,380	—	−6,261	737,725	702,400	105.0
Ivory Coast	6,664	—	30,800	41,173	—	89,078	75,109	−3,997	6,263	37,828	16.6
Jamaica	—	—	—	—	6,075	75,770	65,228	−4,467	—	40,613	—
Japan	1,799,750	—	—	—	14,151	116,077	—	+114,690	2,016,365	891,690	226.1
Jordan	17,393	—	—	25,778	33,443	57,525	375	—	15,322	16,887	90.7
Kampuchea, Democratic	1,276	—	—	—	—	—	—	−1,276	—	15,417	—
Kenya	6,157	—	62,578	—	—	15,033	76,766	−3,163	3,839	36,990	10.4
Korea	14,728	—	466,000	—	—	883	464,470	−6,457	10,685	72,911	14.7
Kuwait	41,774	6,746	—	—	—	30,193	—	+4,372	83,086	26,744	310.7
Lao People's Democratic Republic	720	—	—	—	—	1,404	739	−1,035	351	9,409	3.7
Lebanon	89	—	—	—	—	1,359	—	−400	1,049	4,393	23.9
Lesotho	986	—	235	—	—	—	—	−308	914	3,739	24.4
Liberia	32	—	2,628	—	3,358	16,912	14,314	−1,900	—	21,007	—
Libyan Arab Jamahiriya	108,863	—	—	—	—	21,006	—	+8,530	138,400	58,771	235.5
Luxembourg	16,091	—	—	—	—	692	—	−79	16,703	16,955	98.5
Madagascar	1,596	—	—	6,080	1,500	25,484	15,676	−2,086	1,738	19,270	9.0
Malawi	2,704	—	10,280	18,000	—	17,353	9,752	−917	1,667	10,975	15.2
Malaysia	100,786	8,000	—	—	—	10,048	19,303	−3,915	95,616	139,048	68.8
Maldives	29	—	—	—	—	4	—	−26	7	282	2.4
Mali	76	—	1,000	6,218	4,400	16,690	4,301	−1,723	1,125	15,912	7.1
Malta	31,857	—	—	—	—	2,392	—	+2,398	36,647	11,288	324.7
Mauritania	—	—	7,292	—	5,228	4,274	3,746	−1,060	1,533	9,719	15.8
Mauritius	2,021	—	1,500	9,500	—	30,671	21,725	−1,692	1,275	15,744	8.1
Mexico	25,745	—	44,100	305,305	—	429,438	162,512	−31,394	73	290,020	—
Morocco	11,231	—	104,106	—	31,127	19,427	85,598	−9,095	8,944	85,689	10.4
Mozambique	—	—	13,237	—	13,237	13,237	13,237	—	—	—	—

Table I.10 (*concluded*).
Summary of Transactions and Operations in SDRs, Financial Year Ended April 30, 1985
(In thousands of SDRs)

Holders	Total Holdings April 30, 1984	Receipts from Participants and Prescribed Holders		Transfers to Participants and Prescribed Holders		Receipts from the General Resources Account	Transfers to the General Resources Account	Interest, Charges, and Assess-ment (Net)	Positions as at April 30, 1985		
		Designated	Other	Designated	Other				Holdings	Net cumulative allocations	Holdings as percent of cumulative allocations
Nepal	504	—	250	—	—	796	454	−871	225	8,105	2.8
Netherlands	484,098	62,500	—	—	83,905	61,404	—	+6,543	530,640	530,340	100.1
New Zealand	6,008	—	13,327	28,472	—	28,472	—	−15,305	4,030	141,322	2.9
Nicaragua	—	—	—	—	—	2,913	734	−2,179	—	19,483	—
Niger	4,063	—	—	10,000	600	11,101	2,553	−590	1,420	9,409	15.1
Nigeria	22,803	—	—	—	—	—	—	−15,315	7,488	157,155	4.8
Norway	271,112	585	1,832	—	61,060	33,940	—	+12,283	258,693	167,770	154.2
Oman	7,000	5,200	—	—	6,000	2,689	—	+330	9,218	6,262	147.2
Pakistan	20,814	—	67,900	—	—	67,417	119,720	−18,049	18,362	169,989	10.8
Panama	5,410	—	39,707	—	—	256	36,872	−2,504	5,997	26,322	22.8
Papua New Guinea	16,433	3,342	17,000	—	—	26	30,464	+277	6,614	9,300	71.1
Paraguay	31,283	—	—	—	—	2,578	—	+2,100	35,961	13,697	262.5
Peru	158	—	112,700	84,227	—	126,044	134,722	−9,148	10,805	91,319	11.8
Philippines	1,280	—	73,739	—	22,564	43,960	74,062	−12,445	9,908	116,595	8.5
Portugal	8,590	—	18,500	54,600	33,900	110,444	34,197	−5,645	9,191	53,320	17.2
Qatar	10,894	2,900	—	—	—	2,907	—	+159	16,859	12,822	131.5
Romania	1,780	—	81,970	—	—	12,974	87,830	−8,250	644	75,950	0.8
Rwanda	8,380	—	—	—	—	428	—	−542	8,266	13,697	60.3
St. Christopher and Nevis	—	—	977	—	977	977	977	—	—	—	—
St. Lucia	34	—	—	—	—	207	159	−81	—	742	—
St. Vincent	43	—	31	350	—	406	91	−38	—	354	0.1
São Tomé and Principe	109	—	—	—	—	12	—	−52	69	620	11.1
Saudi Arabia	529,457	14,000	—	—	666,137	505,853	—	+42,294	425,467	195,527	217.6
Senegal	2,965	—	7,300	5,000	—	18,747	18,747	−2,613	2,651	24,462	10.8
Seychelles	49	—	—	—	—	4	—	−38	14	406	3.5
Sierra Leone	1,700	—	—	—	—	5,798	5,583	−1,915	—	17,455	—
Singapore	54,708	—	—	—	5,000	5,702	—	+4,553	59,962	16,475	364.0
Solomon Islands	1,623	—	—	—	—	7	528	+95	1,196	654	182.8
Somalia	255	—	—	14,900	—	28,393	11,897	−1,506	345	13,697	2.5
South Africa	21,201	—	56,500	—	—	15,000	51,429	−22,512	18,760	220,360	8.5
Spain	64,649	121,610	—	—	—	19,639	—	−20,791	185,107	298,805	61.9
Sri Lanka	—	—	32,306	—	—	—	24,216	−7,761	330	70,868	0.5
Sudan	—	—	—	—	—	28,103	22,229	−5,873	—	52,192	—
Suriname	1,650	—	—	—	—	40	—	−539	1,151	7,750	14.9
Swaziland	3,456	—	2,019	—	2,500	—	1,664	−256	1,056	6,432	16.4
Sweden	126,714	57,720	—	—	—	14,113	—	−8,702	189,845	246,525	77.0
Syrian Arab Republic	7,972	—	4,856	—	4,899	—	—	−3,254	4,676	36,564	12.8
Tanzania	9	—	1,150	—	—	5,580	3,279	−3,460	—	31,372	—
Thailand	32,304	—	140,300	—	—	15,000	158,786	−8,142	20,676	84,652	24.4
Togo	820	—	1,100	8,500	3,300	18,198	3,952	−1,131	3,235	10,975	29.5

Trinidad and Tobago	98,567	—	—	—	—	—	—	+5,731	104,297	46,231	225.6
Tunisia	3,265	—	—	—	—	1,523	—	−3,240	1,548	34,243	4.5
Turkey	12,650	—	95,990	112,500	—	197,031	174,694	−11,844	6,633	112,307	5.9
Uganda	3,567	—	23,213	—	—	13,462	34,788	−3,166	2,288	29,396	7.8
United Arab Emirates	63,076	999	—	—	—	—	—	+2,517	66,593	38,737	171.9
United Kingdom	522,071	629,002	20,737	—	564,996	118,483	—	−145,725	579,572	1,913,070	30.3
United States	5,028,824	7,820	—	—	—	938,076	—	+49,931	6,024,652	4,899,530	123.0
Uruguay	4,993	—	14,750	—	9,458	17,858	19,168	−5,415	3,560	49,977	7.1
Vanuatu	34	—	—	—	—	61	—	+6	101	—	—
Venezuela	345,130	1,600	—	—	—	38,989	—	+6,542	392,441	316,890	123.8
Viet Nam	—	—	—	—	—	2,033	—	−2,033	—	47,658	—
Western Samoa	200	—	—	—	—	942	886	−109	147	1,142	12.9
Yemen Arab Republic	8,640	—	24,359	11,900	12,464	262	673	+508	8,733	6,160	141.8
Yemen, People's Democratic Republic of	17,529	—	11,042	—	15,244	—	1,061	−556	11,710	22,583	51.9
Yugoslavia	14,440	—	114,628	45,000	45,000	205,786	218,482	−16,743	9,629	155,161	6.2
Zaïre	43,367	—	13,764	74,000	—	104,351	68,989	−9,339	9,154	86,309	10.6
Zambia	—	—	94	31,660	—	99,273	60,055	−7,541	111	68,298	0.2
Zimbabwe	5,054	—	42,437	—	2,019	1,494	43,008	−616	3,341	10,200	32.8
Total Participants	14,960,568	2,152,419	2,762,477	2,152,419	2,739,927	6,089,244	3,658,791	−608,355	16,805,218	21,433,330	78.4
PRESCRIBED HOLDERS											
Arab Monetary Fund	19,138	—	87,336	—	104,043	—	—	+1,175	3,606	—	—
Bank of Central African States	1,042	—	8,950	—	9,050	—	—	+269	1,211	—	—
East African Development Bank	1,850	—	—	—	750	—	—	+133	1,233	—	—
Eastern Caribbean Central Bank	768	—	1,134	—	977	—	—	+93	1,018	—	—
Islamic Development Bank	1,044	—	—	—	—	—	—	+118	1,163	—	—
Nordic Investment Bank	97	—	7,105	—	7,202	—	—	+9	8	—	—
Swiss National Bank	13,131	—	—	—	5,054	—	—	+1,396	9,473	—	—
Total Prescribed Holders	37,070	—	104,525	—	127,076	—	—	+3,194	17,713	—	—
GENERAL RESOURCES ACCOUNT	6,436,730	—	3,658,791	—	6,089,244	—	—	+609,471	4,615,747	—	—
Total	21,434,368	2,152,419	6,525,793	2,152,419	8,956,247	6,089,244	3,658,791	+4,310	21,438,678	21,433,330	—

Table I.11.
Members That Have Accepted the Obligations of Article VIII, April 30, 1985

Member	Effective Date of Acceptance	Member	Effective Date of Acceptance
Antigua and Barbuda	November 22, 1983	Japan	April 1, 1964
Argentina	May 14, 1968	Kuwait	April 5, 1963
Australia	July 1, 1965	Luxembourg	February 15, 1961
Austria	August 1, 1962	Malaysia	November 11, 1968
Bahamas	December 5, 1973	Mexico	November 12, 1946
Bahrain	March 20, 1973	Netherlands	February 15, 1961
Belgium	February 15, 1961	New Zealand	August 5, 1982
Belize	June 14, 1983	Nicaragua	July 20, 1964
Bolivia	June 5, 1967	Norway	May 11, 1967
Canada	March 25, 1952	Oman	June 19, 1974
Chile	July 27, 1977	Panama	November 26, 1946
Costa Rica	February 1, 1965	Papua New Guinea	December 4, 1975
Denmark	May 1, 1967	Peru	February 15, 1961
Djibouti	September 19, 1980	Qatar	June 4, 1973
Dominica	December 13, 1979	St. Christopher and Nevis	December 3, 1984
Dominican Republic	August 1, 1953	St. Lucia	May 30, 1980
Ecuador	August 31, 1970	St. Vincent	August 24, 1981
El Salvador	November 6, 1946	Saudi Arabia	March 22, 1961
Fiji	August 4, 1972	Seychelles	January 3, 1978
Finland	September 25, 1979	Singapore	November 9, 1968
France	February 15, 1961	Solomon Islands	July 24, 1979
Germany, Fed. Rep. of	February 15, 1961	South Africa	September 15, 1973
Guatemala	January 27, 1947	Suriname	June 29, 1978
Guyana	December 27, 1966	Sweden	February 15, 1961
Haiti	December 22, 1953	United Arab Emirates	February 13, 1961
Honduras	July 1, 1950	United Kingdom	February 15, 1961
Iceland	September 19, 1983	United States	December 10, 1946
Ireland	February 15, 1961	Uruguay	May 2, 1980
Italy	February 15, 1961	Vanuatu	December 1, 1982
Jamaica	February 22, 1963	Venezuela	July 1, 1976

Table I.12.
Publications Issued, Financial Year Ended April 30, 1985

Reports and Other Documents

Annual Report of the Executive Board for the Financial Year Ended April 30, 1984
(English, French, German, and Spanish). Free

Annual Report on Exchange Arrangements and Exchange Restrictions, 1984
One copy free; additional copies US$12.00 each

By-Laws, Rules and Regulations
Forty-First Issue (English, French, and Spanish). Free

Selected Decisions of the International Monetary Fund and Selected Documents, Supplement to Tenth Issue Free

Summary Proceedings of the Thirty-Ninth Annual Meeting of the Board of Governors Free

World Economic Outlook, April 1985: A Survey by the Staff of the International Monetary Fund
US$12.00. US$8.00 to university libraries, faculty members, and students.

Subscription Publications

Balance of Payments Statistics
Vol. 36. A two-part yearbook and 12 monthly booklets. US$38.00 a year. US$19.00 to university libraries, faculty members, and students. US$12.00 for yearbook only.

Direction of Trade Statistics
Monthly, with yearbook.
US$36.00 a year. US$18.00 to university libraries, faculty members, and students. US$10.00 for yearbook only.

Government Finance Statistics Yearbook
Vol. VIII, 1984. (Introduction and title of lines in English, French, and Spanish). US$20.00. US$10.00 to university libraries, faculty members, and students.

International Financial Statistics
Monthly, with yearbook (English, French, and Spanish) and two supplements (English). US$100.00 a year. US$50.00 to university libraries, faculty members, and students. Yearbook, US$25.00. Supplements separately, US$10.00 each.

Staff Papers
Four times a year. US$15.00 a year. US$7.50 to university libraries, faculty members, and students.

University libraries, faculty members, and students may obtain the five publications listed above at a special rate of US$80.00 for all five publications.

For users of Fund publications that have access to a computer, tape subscriptions to *Balance of Payments Statistics, Direction of Trade Statistics, Government Finance Statistics Yearbook,* and *International Financial Statistics* are available at US$1,500.00 a year each for single users and US$7,000.00 a year for time-sharing companies. This price includes the book version. The price to universities is US$500.00 a year for each publication.

Occasional Papers

No. 27 *World Economic Outlook: A Survey by the Staff of the International Monetary Fund*

No. 28 *Exchange Rate Volatility and World Trade: A Study by the Research Department of the International Monetary Fund*

No. 29 *Issues in the Assessment of the Exchange Rates of Industrial Countries: A Study by the Research Department of the International Monetary Fund*

No. 30 *The Exchange Rate System—Lessons of the Past and Options for the Future: A Study by the Research Department of the International Monetary Fund*

No. 31 *International Capital Markets: Developments and Prospects, 1984*
By Maxwell Watson, Peter Keller, and Donald Mathieson

No. 32 *World Economic Outlook, September 1984: Revised Projections by the Staff of the International Monetary Fund*

No. 33 *Foreign Private Investment in Developing Countries: A Study by the Research Department of the International Monetary Fund*

No. 34 *Adjustment Programs in Africa: The Recent Experience*
By Justin B. Zulu and Saleh M. Nsouli

Occasional Paper No. 27, the *World Economic Outlook,* is available for US$12.00, with a special price of US$7.50 for university libraries, faculty members, and students. Occasional Papers Nos. 28–34 are available for US$7.50 each, with a special price of US$4.50 each for university libraries, faculty members, and students.

Books

Analyse et programmation financières: Application à la Côte d'Ivoire
Cloth, US$20.00 Paper, US$12.50

Geldwertstabilität und Wirtschaftswachstum
Edited by Hans Seidel. In German. DM 58.00

Legal and Institutional Aspects of the International Monetary System: Selected Essays, Vol. II
By Joseph Gold. US$40.00

Programación financiera aplicada: El caso de Colombia
Cloth, US$20.00 Paper, US$12.50

Public Enterprise in Mixed Economies: Some Macroeconomic Aspects
By Robert H. Floyd, Clive S. Gray, and R.P. Short. US$12.00

Taxation, Inflation, and Interest Rates
Edited by Vito Tanzi. Cloth, US$20.00 Paper, US$15.00

Pamphlet Series

No. 37 *The International Monetary Fund: Its Evolution, Organization, and Activities* (fourth edition)
(English and French) Free

No. 40 *SDRs, Currencies, and Gold: Sixth Survey of New Legal Developments*
By Joseph Gold (French and Spanish). Free

No. 41 *The General Arrangements to Borrow*
By Michael Ainley (English). Free

No. 42 *The International Monetary Fund: Its Financial Organization and Activities*
By Anand G. Chandavarkar (English). Free

No. 43 *The Technical Assistance and Training Services of the International Monetary Fund*
(English) Free

Other

Finance & Development
Issued jointly with World Bank; quarterly (English, Arabic, Chinese, French, German, Portuguese, and Spanish). Free

IMF Survey
Twice monthly but only once in December (English, French, and Spanish). Private firms and individuals are charged for delivery at an annual rate of US$30.00.

Appendix
II
Principal Policy Decisions of the Executive Board

A. Policy on Enlarged Access to the Fund's Resources: Charges on Holdings Outstanding, Amendment of Rule I-6(5)

Rule I-6(5) shall be amended as indicated below:

(5) The rate of charge on holdings of a member's currency acquired as a result of the member's purchases of borrowed currency under the policy on enlarged access to the Fund's resources (Executive Board Decision No. 6783-(81/40))[1] during a six-month period ending June 30 or December 31 shall be equal to the total, expressed as a percentage per annum, of:

(i) the net cost of borrowing by the Fund under that policy for the period, calculated in accordance with (a), (b), and (c) below and

(ii) the imputed borrowing cost of the amount of the ordinary resources being used to finance purchases of borrowed currency calculated in accordance with (d) below,

plus 0.2 percent per annum.

(a) The net cost of borrowing for a six-month period ending June 30 or December 31 shall consist of the actual gross cost of borrowing to finance purchases under the policy assignable to the period less net income during the period from the temporary employment of the borrowed funds.

(b) Actual gross costs of borrowing shall comprise:

(i) interest paid or accrued to lenders on the average daily amount of balances borrowed; and

(ii) fees, commissions, and any other primary costs directly payable to lenders or incurred in order to secure the borrowed funds, prorated for six-month periods ending June 30 and December 31 in proportion to the duration of the borrowing arrangements to which such costs relate, or to the period covered by these costs.

(c) Net income from temporary employment of borrowed funds pending disbursement shall be determined by taking into account:

(i) income received and income accrued from investments or other operations to secure a rate of return;

(ii) operational expenses (paid and accrued) incurred directly by the Fund in order to obtain this income, prorated over the period to maturity of the investment; and

[1] *Selected Decisions of the International Monetary Fund and Selected Documents*, Tenth Issue (Washington, 1983), pages 40–45.

(iii) any net gain or loss, calculated to the end of each six-month period ending June 30 or December 31, resulting from exchange valuation adjustments of currency balances and investments representing the undisbursed proceeds of borrowing in terms of the SDR.

(d) (i) The imputed borrowing cost of the use of ordinary resources being used to finance purchases of borrowed currency shall be the product of the daily amount of such resources as determined in accordance with (ii) below multiplied by the rate of interest for the weekly period commencing each Monday calculated in accordance with the method set forth in Rule T-1(b) and (c) for determining the rate of interest on holdings of SDRs except that, in place of the rates or yields for the preceding Friday on the instruments listed in Rule T-1(c), the yields for the preceding Wednesday on the instruments specified under paragraph 3(b) of Annex A to the letter referred to in Executive Board Decision No. 6843-(81/75),[2] adopted May 6, 1981, shall be used.

(ii) The amount of ordinary resources being used to finance purchases of borrowed currency is equal to the amount of the Fund's holdings of currency resulting from members' purchases of borrowed currency under the policy on enlarged access less the outstanding amount of currency borrowed by the Fund to finance such purchases after deducting the amounts of currency held in the Borrowed Resources Suspense Accounts.

Decision No. 7710-(84/84)
May 30, 1984

B. Policy on Enlarged Access to the Fund's Resources: Extension of Period, and Access Limits for 1985

The Fund, having reviewed the decisions on the policy on enlarged access and the limits on access to the Fund's resources under that policy and under the special facilities of the Fund (No. 6783-(81/40),[3] No. 7599-(84/3),[4] No. 7600-(84/3),[5] and No. 7602-(84/3)),[6] decides that:

1. In paragraph a. of Decision No. 7599-(84/3),[4] "1984" shall be replaced by "1985."
2. (a) The following sentence shall be added after the first sentence of paragraph a. of Decision No. 7600-(84/3):[5] "Access by members to the Fund's general resources under arrangements approved under Decision No. 6783-(81/40)[3] during 1985 shall be subject to annual limits of 95 or 115 percent of quota, three-year limits of 280 or 345 percent of quota, and cumulative limits of 408 or 450 percent of quota net of scheduled repurchases, depending on the seriousness of the member's balance of payments need and the strength of its adjustment effort."
   (b) In paragraph b. of Decision No. 7600-(84/3),[5] "1984" shall be replaced by "1985."

Decision No. 7841-(84/165)
November 16, 1984

C. Misreporting and Noncomplying Purchases Under Fund Arrangements: Guidelines on Corrective Action

In a few cases, it has been found that a member has made a purchase under a stand-by or extended arrangement which it was not entitled to make by the terms

[2] Ibid., pages 188–89.
[3] Ibid., pages 40–45.
[4] *Selected Decisions of the International Monetary Fund and Selected Documents*, Supplement to Tenth Issue (Washington, 1984), page 7.
[5] Ibid., pages 7–8.
[6] Ibid., pages 15–16 and 18.

of the arrangement (a "noncomplying purchase"). The purchase was permitted because, on the basis of the information available to it at the time, the Fund was satisfied that all performance criteria that were applicable to the purchase under the arrangement, or other conditions applicable to purchases under the terms of the decisions on the arrangement, had been observed, but this information later proved to be incorrect. When such a case arises in the future, the member will be called upon to take corrective action regarding a noncomplying purchase, to the extent that it is still outstanding, either by repurchase or by the use of its currency in transactions and operations of the Fund, unless the Fund decides that the circumstances justify the member's continued use of the purchased resources. Steps should also be taken to improve the accuracy and completeness of the information to be reported to the Fund by the member under the arrangement and to define performance criteria and other applicable conditions in a manner that would facilitate accurate reporting.

The Fund adopts the following guidelines, which shall apply to purchases made after the date of this decision:

1. Whenever evidence comes to the attention of the Fund indicating that a performance criterion or other condition applicable to an outstanding purchase made within the previous two years under a stand-by or extended arrangement may not have been observed, the Managing Director shall promptly inform the member concerned.

2. If, after consultation with the member, the Managing Director finds that, in fact, the criterion or condition was not observed, he shall promptly notify the member of his finding. At the same time, he shall submit a report to the Executive Board together with his recommendations, which may include a recommendation that the member be called upon to take corrective action pursuant to paragraph 3 or that the nonobservance be waived pursuant to paragraph 4. The recommendations of the Managing Director shall be submitted to the Executive Board on a lapse-of-time basis giving Executive Directors a period of at least 10 days during which they could ask that the matter be placed on the agenda of the Executive Board for consideration.

3. Unless the decision of the Executive Board is to grant a waiver pursuant to paragraph 4 or to take other action, the member shall be expected to repurchase from the Fund the outstanding amount of its currency resulting from the noncomplying purchase normally within a period of 30 days from the date of the Executive Board decision referred to in paragraph 2. Instead of repurchasing, the member may request the Fund to use an equivalent amount of its holdings of the member's currency in the Fund's transactions and operations, but if such use cannot be made within 20 days from the date of the Executive Board decision the member shall be expected to make a repurchase in accordance with this paragraph.

4. A waiver will normally be granted only if the deviation from the relevant performance criterion or other condition was minor or temporary, or if subsequent to the purchase the member had adopted additional policy measures appropriate to achieve the objectives of the program supported by the arrangement under which the purchase was made.

5. If a repurchase pursuant to the expectation under paragraph 3 has not been effected, the Managing Director shall submit promptly a report to the Executive Board accompanied by a proposal on how to deal with this matter, in which he may recommend that the Fund initiate action under Article V, Section 5 of the Articles.

6. Provision shall be made in Fund arrangements for the suspension of further purchases under an arrangement whenever a member fails to meet a repurchase expectation pursuant to these guidelines.

7. Nothing in these guidelines shall limit the power of the Fund to take, in cases of noncomplying purchases, other action that could be taken pursuant to the Fund's Articles and Rules.

Decision No. 7842-(84/165)
November 16, 1984

D. Extended Fund Facility and Guidelines on Conditionality: Review

The Executive Directors then took the following decision:

1. Pursuant to Decision No. 7558-(83/156),[7] adopted November 16, 1983, the Fund has reviewed the programs supported by stand-by and extended arrangements, as well as the appropriateness of the provisions of the extended Fund facility, and of the guidelines on conditionality, and decides that the provisions of the extended Fund facility and the guidelines on conditionality remain appropriate in the present circumstances.

2. The Fund will again review the programs supported by stand-by and extended arrangements, and the appropriateness of the provisions of the extended Fund facility, and of the guidelines on conditionality, not later than December 31, 1985.

Decision No. 7857-(84/175)
December 5, 1984

E. Overdue Payments to the Fund: Member's Right to Purchase Under Stand-By and Extended Arrangements

1. The following paragraph shall be included, as paragraph 5, in the form of the stand-by arrangement in Attachment A to Decision No. 6838-(81/70),[8] April 29, 1981, as amended, with an appropriate reference to this paragraph to be included in paragraph 1 and the subsequent paragraphs of the form to be renumbered accordingly: "(Member) will not make purchases under this stand-by arrangement during any period of the arrangement in which the member has an overdue financial obligation to the Fund or is failing to meet a repurchase expectation pursuant to the Guidelines on Corrective Action[9] in respect of a noncomplying purchase."

2. The following paragraph shall be included, as paragraph 5, in the form of the extended arrangement in Attachment B to Decision No. 6838-(81/70),[10] April 29, 1981, as amended, with an appropriate reference to this paragraph to be included in paragraph 1 and the subsequent paragraphs of the form to be renumbered accordingly: "(Member) will not make purchases under this extended arrangement during any period in which the member has an overdue financial obligation to the Fund or is failing to meet a repurchase expectation pursuant to the Guidelines on Corrective Action[8] with respect to a noncomplying purchase."

3. Other stand-by or extended arrangements granted by the Fund after the date of this decision shall include also the provision in 1 or 2 above.

4. The provision in 1 and 2 above shall be included also in an existing stand-by or an extended arrangement when the Fund and the member reach understandings regarding the circumstances in which further purchases may be made under the arrangement.

5. Decision No. 7678-(84/62),[11] April 20, 1984, shall cease to apply in respect of a stand-by or an extended arrangement that includes the provision in 1 or 2 above.

Decision No. 7908-(85/26)
February 20, 1985

At the same meeting the Executive Board agreed that, if a member were failing to meet a repurchase expectation pursuant to the Guidelines on Corrective Action[9] with respect to a noncomplying purchase, the Fund would not negotiate or approve either a stand-by or extended arrangement for the member or the use of the Fund's general resources outside an arrangement, as in the case of an overdue financial obligation to the Fund.

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[7] *Selected Decisions of the International Monetary Fund and Selected Documents,* Supplement to Tenth Issue (Washington, 1984), page 6.

[8] *Selected Decisions of the International Monetary Fund and Selected Documents,* Tenth Issue (Washington, 1983), pages 48–53.

[9] See item C, pages 111–12, above.

[10] *Selected Decisions of the International Monetary Fund and Selected Documents,* Tenth Issue (Washington, 1983), pages 53–57.

[11] See *Annual Report, 1984,* page 136.

F. Overdue Payments to the Fund: Amendment of Rule G-4

Rule G-4 shall be amended to include the following provision as paragraph (e):

"Instructions for the transfer of currency for any purchase, other than a reserve tranche purchase, shall be rescinded, to the extent that it is feasible, during the period between the issuance of the instructions and the value date for the purchase if, during that period, the member requesting the purchase has any overdue financial obligation to the Fund or is failing to meet a repurchase expectation pursuant to the Guidelines on Corrective Action[12] with respect to a noncomplying purchase."

Decision No. 7909-(85/26)
February 20, 1985

G. Relationship Between Performance Criteria and Phasing of Purchases Under Fund Arrangements: Operational Guidelines

(1) As a general rule, every effort should be made to limit the lag between the beginning of the annual program period and the date of discussion by the Executive Board of supporting annual arrangement (or the annual segment of a multiyear arrangement) to a minimum. This would facilitate the inclusion of quarterly performance criteria throughout the program period and of purchases throughout the period of the arrangement, thereby strengthening the link between Fund financing and adjustment.

(2) Particular attention should be given to minimizing lags in reporting of data relating to performance criteria without loss of reliability of data. It would be reasonable for the Fund to expect that all members seeking the Fund's support should be able to limit reporting lags to two months. In very exceptional cases where reporting lags exceed two months, the staff will explain the reasons for such lags as well as the steps being taken to reduce them.

(3) Every effort should be made to limit the period between the approval of an adjustment program by management and the date when the supporting arrangement is discussed by the Executive Board to no more than three months. Should the period be exceeded, the staff would confirm before the Board discussion of the arrangement that the program as originally proposed remains generally appropriate. In those exceptional cases where the delay indicates a significant slippage in the implementation of the agreed program, the staff would renegotiate the program, including the performance criteria and phasing of purchases.

(4) There would be no fewer than four purchases during a 12-month period of the arrangement, five being the preferred course of action. The purchase dates would also be distributed as evenly as possible throughout the arrangement. However, problems have often been experienced in this regard because of a bunching of the first two purchases under an arrangement and/or the last purchase occurring unduly early before the end of the arrangement. In order to avoid such problems, as a general rule, the date of the second purchase would not be earlier than two months from the initial purchase on approval of the arrangement and the date of the last purchase would not be earlier than two months before the end of the arrangement. One possible exception would be the case where initial Executive Board approval has been only in principle and final approval follows later by up to 30 days.

(5) The test dates for performance criteria would also be distributed as evenly as possible through the period of the arrangement. Normally the date of the first performance test would not be earlier than the date on which the arrangement becomes effective, and the date of the last performance test would not be earlier than three months from the end of the arrangement.

(6) Every effort should be made to include performance criteria initially for as much of the 12-month period of the Fund arrangement as possible. However, it may not be possible always to establish in advance one or more performance criteria

[12] See item C, pages 111–12, above.

for part of the period of the arrangement because of substantial uncertainties about major economic trends and normal time lags between the completion of negotiations on the arrangement and Board discussion of the arrangement. Taking into account both sets of factors, as well as the actual experience in recent years, it would be reasonable to expect that, as a normal rule, performance criteria would be included initially which would govern purchases over a period of at least six months of the arrangement. This would normally involve at least two sets of performance criteria. Where this minimum period is not met, the staff report would include a full explanation of the underlying reasons.

(7) As a general rule, indicative targets would be included at the outset for that part of the 12-month arrangement for which performance criteria are yet to be established. Provision will also be made for a review in order to replace these indicative targets later with performance criteria. Indicative targets will also be included for the last month of the arrangement period.

(8) In the case of segments within the framework of a multiyear arrangement, normally performance criteria would be set up to the end of each underlying annual program period. The purchase after the end of the underlying annual program (which may be the last purchase under the preceding segment of the arrangement or the first purchase under the subsequent segment) would be contingent both on understandings being reached with the Fund on the next year's underlying program and on observance of performance criteria for the end of the preceding program period or established in the context of the member's new program, or on a waiver being approved by the Board in the case of nonobservance of these performance criteria.

Decision No. 7925-(85/38)
March 8, 1985

H. Accounting for Charges from Members with Overdue Obligations

The Executive Board decides that henceforth charges on the use of Fund resources from members that are overdue in meeting financial obligations for six months or more will not be included in accrued income unless a member, though overdue in other obligations to the Fund, has remained current in settling charges as they fall due. Charges that are not included in accrued income will instead be reported as deferred income.

Decision No. 7930-(85/41)
March 13, 1985

I. Reporting by the Fund of Overdue Obligations

The Executive Board decides that overdue financial obligations to the Fund of members having obligations overdue for six months or more will be reported in aggregate by category of obligation but without identifying the members involved, in the Fund's *Annual Report,* quarterly *Financial Statements of the General Department and the SDR Department,* yearbook issue of *Balance of Payments Statistics,* and *International Financial Statistics.*

Declarations of ineligibility to use the Fund's general resources will be reported in the Fund's *Annual Report* and will identify the members concerned, beginning with the 1985 *Annual Report.*

Decision No. 7931-(85/41)
March 13, 1985

J. Developing Countries' Indebtedness to Commercial Banks and Official Creditors, and Export Credit Cover Policies

Chairman's Concluding Remarks at Executive Board Meeting

General Remarks

In their overall assessment of the present situation in indebted countries and of policy objectives for the period ahead, Executive Directors agreed that encouraging progress has been made in managing developing countries' debt-servicing difficulties. But they cautioned against complacency, noting that the debt problems in some countries have not yet been solved.

The clear progress over the past two and a half years has been due to major adjustments by debtor countries and to concerted action by debtors and creditors, and it has undoubtedly been helped considerably by the strength of the economic recovery, and particularly by the upturn in the U.S. economy. However, Directors noted that the progress of individual countries in restoring a viable payments position and real growth has been uneven. Directors stressed that balanced growth of the world economy, open trading systems, appropriate adjustment policies by the debtor countries, and continued collaboration between debtors and creditors are the keys to solving external debt problems.

Appropriate adjustment policies in debtor countries are clearly needed to foster what Directors called the normalization of debtor-creditor relationships, which in turn would encourage the restoration of debtors' creditworthiness, greater spontaneous bank lending, official credit flows, and official development assistance. In this connection, several Directors underscored the serious nature of the many problems facing sub-Saharan African countries. A number of Directors also stressed that adjustment policies could pave the way for a return of flight capital and for an increase in direct foreign investment and related non-debt-creating flows and transfers of technology.

Several Directors, however, expressed their concern about the social and human costs of the adjustment efforts in developing countries. In their view, the costs were not stressed sufficiently in the staff papers. They thought that greater emphasis should be placed on mobilizing additional financing, especially official development assistance, in order to strengthen the growth potential of debtor countries, especially low-income countries, which have very limited resources or access to bank credit. Those Directors noted in particular the low level of bank lending to debtor countries in the recent past and the additional debt-servicing burden due to high real international interest rates, the present trends in the exchange markets, and the effect of protectionism in a number of industrial countries.

Executive Directors generally observed that the progress in reducing debt-servicing difficulties could be endangered by adverse developments in the world economy, particularly developments in trade, interest rates, and exchange rates. Directors stressed that appropriate policies in major industrial countries could greatly reduce this danger. In this connection, a number of Directors, noting that policy responses to adverse developments would of course have to be made by both industrial and developing countries—in close collaboration with financial institutions—reiterated the importance they attach to effective and evenhanded Fund surveillance.

Directors commented favorably on commercial banks' readiness to enter into multiyear restructuring arrangements (MYRAs) for certain countries that have made significant progress in correcting the imbalances in their economies. They thought that MYRAs could play a useful role in facilitating a return to more normal capital market access by removing the "hump" in future amortization payments. The ability of the countries concerned to forgo concerted lending would help to set the stage for normalizing creditor-debtor relationships. A number of Directors urged official creditors also to agree to multiyear rescheduling.

Directors agreed that countries at an early stage in solving their payments problems needed to maintain comprehensive and convincing adjustment efforts, supported by Fund arrangements where appropriate. Financial flows, including debt relief and concerted lending, should be tailored to each country's prospects and adjustment effort. A number of Directors considered that smaller and medium-sized countries making strong adjustment efforts must be given the same close and active attention by creditor countries and institutions as countries having greater influence on international economic and financial developments. Some Directors emphasized the need to ensure that financial flows would be sufficient to finance not only immediate balance of payments gaps, but also growth and development. In that context, the roles of official development assistance and cofinancing through the World Bank were stressed. Directors observed that banks and official creditors might need to be flexible, perhaps within a longer-term framework, in dealing with the problems of countries experiencing severe and protracted debt-servicing difficulties, especially low-income countries, which generally have little or no access to commercial lending and depend heavily on development assistance. Several Directors emphasized that, as a monetary institution, the Fund should limit its role in those low-income countries to that of a catalyst, providing advice on adjustment that was perhaps as important, or more important, than financing.

Directors generally stressed the appropriateness of continuing the case-by-case approach of tailoring the mix between adjustment and financing to a country's circumstances and prospects, and they considered that the Fund would continue to have a major role to play in this field. In this regard, debt restructuring and concerted lending, where necessary, would appear to be a pragmatic and appropriate approach to securing additional financing, despite the sometimes admittedly arduous process of assembling financing packages. Developing countries were strongly encouraged actively to promote non-debt-creating capital inflows, particularly direct investment.

While some Directors believed that the problem of external indebtedness required a more integrated approach than the one suggested in the staff papers, I have not discerned today a trend in favor of what some Directors have called generalized debt relief.

Developing Countries' External Indebtedness to Commercial Banks

A large number of Directors agreed that enhancing Fund surveillance on a case-by-case basis could make an important contribution to supporting continuing adjustment by countries that were no longer using Fund resources. While noting that the provision of semiannual consultation reports reviewing countries' progress toward a more viable balance of payments position would assist banks in making the transition toward more market-based credit decisions, most Directors stressed that Fund reports should not take a position on the appropriateness of continuing restructuring or additional bank lending. Directors felt strongly that it was up to the banks to utilize the information given to them by the countries concerned; the banks should make their own judgments. Furthermore, Fund reports should be viewed as only one element of the banks' information and monitoring procedures. Directors encouraged the banks to develop their own risk assessment and monitoring capabilities, a process in which the Institute for International Finance might play a useful role. In addition, some Directors said, banks should not take enhancement of Fund surveillance as a signal that they could relax their own monitoring.

Many Directors commented on the need to reinforce the soundness of the international banking system in order to improve the medium-term prospects for lending. They observed that bank supervisors have generally sought improvement in banks' balance sheets in a judicious manner, weighing the need to move rapidly against the risk that an excessively stringent approach could be highly counterproductive. Directors also stressed that more forward-looking risk assessment by banks was an important factor in assisting developing countries to regain more normal market access. These Directors felt that improved risk assessment would be essential to ensure that, over time, the recurrence of cycles of overlending and underlending to individual countries would be avoided, and that financial innovations would be made in a sound manner. Close Fund surveillance of developing and developed countries' economic policies would also support the strengthening of the financial system.

Export Credit Cover Policies

Directors welcomed the opportunity to discuss export credit cover policies in the belief that official export credit agencies would have an important role to play in coming years. The role of official credit insurance agencies was particularly important in helping to maintain vital short-term trade credits, especially in periods in which debtor countries pursued adjustment efforts supported by Fund resources. The recent maintenance of short-term credit insurance by virtually all major agencies—when the appropriate conditions were met—was welcomed by Directors.

As to officially supported commercial credits of longer maturity, Directors believed that the activities of export credit agencies would be crucial in coming years, with the resumption of the growth of capital goods imports in developing countries. The efforts of those countries that make adjustments to restore balance of payments viability over the medium term should be supported by a timely resumption of official export credit and cover. In this way, official export credit agencies could help certain borrowers to gradually regain access to commercial credit. Directors stressed, however, the need to ensure that official export credits were used for productive purposes. In this context, they welcomed the efforts made by official export credit agencies to strengthen their country risk assessment and project appraisal procedures. They noted that lending by those agencies was likely to be most effective and secure when it was part of a well-designed and carefully appraised investment program. In this respect, the role of the World Bank was stressed.

Directors thought that debtors would gain the greatest possible benefit from financial assistance from export credit agencies by being fully aware of the variety of practices and procedures of these institutions. In particular, they should be aware of the linkages between rescheduling and new credit cover.

Developing Countries' Indebtedness to Official Creditors

Directors welcomed the efforts by official creditors to respond to the financing needs of countries that were undertaking adjustment programs. They noted in particular the flexibility that had been shown by the Paris Club creditors in reaching agreements that reflected the particular circumstances of individual countries. This case-by-case approach had enabled creditors to deal with each country's immediate financing difficulties while bearing in mind the impact of any rescheduling agreement on a country's access to new export credits and export credit insurance. Given the importance of maintaining or restoring such access, a number of Directors emphasized that rescheduling must continue to be viewed as a response to exceptionally difficult circumstances, and not as an alternative form of balance of payments financing or development assistance.

Some Directors said that, while the Paris Club's activities were welcome, official creditors had responded less flexibly than other creditors. A number of Directors stressed that it would be appropriate for official creditors to take a somewhat longer-term approach to a country's debt-servicing difficulties. A number of other Directors, while being receptive in principle to this suggestion, stressed that MYRAs by official creditors should remain the exception, and that MYRAs by banks and by official creditors should not necessarily go hand in hand and need not have identical terms. They also stressed the severe budgetary constraints in a number of creditor countries.

Although Directors differed in their views on when a longer-term approach to a country's debt-servicing difficulties would be appropriate, some of them felt that the key question was whether or not multiyear rescheduling by official agencies would facilitate access to new credits and the restoration of normal debtor-creditor relationships. There was agreement that multiyear rescheduling could be a useful response to countries that had made major progress in their domestic and external adjustment efforts but faced a hump in their amortization payments that could not be refinanced through normal market mechanisms. Even in those cases, however, care would have to be taken to ensure that the rescheduling exercise did in fact pave the way for the opening of new export credits and cover. The Fund and the Paris Club will be examining these matters further.

A number of Directors considered that a longer-term approach was also called for in the case of countries—particularly the low-income countries—experiencing prolonged debt-servicing difficulties. They believed that the year-by-year approach did not realistically address the situations in these countries, which obviously required very long-term debt restructuring on highly concessional terms. However, other Directors noted the generous terms the Paris Club had been granting such countries and emphasized that these countries' difficulties could only be addressed by strong adjustment efforts supported by appropriate development assistance, which, in their view, should be kept separate from rescheduling policies. Without a firm reorientation of economic and financial policies, even the most generous rescheduling terms were unlikely to generate an increased level of net lending to such countries.

Directors noted the importance attached by all creditor groups to comparability of treatment among creditors and nondiscrimination. For countries experiencing debt-servicing difficulties, careful coordination was necessary not only to achieve equitable burden sharing among creditors, but also to ensure an appropriate balance between financing and adjustment.

March 20, 1985

K. Surveillance over Members' Exchange Rate Policies: Review of Implementation of Procedures

The Executive Board has reviewed the general implementation of the Fund's surveillance over members' exchange rate policies, as required by paragraph VI of Procedures for Surveillance attached to Decision No. 5392-(77/63),[13] adopted April 29, 1977, including the procedures for the conduct of consultations under Article IV, which consultations shall comprehend the consultations under Article VIII and Article XIV, and approves the continuation of the procedures as described in SM/85/65, in the light of the Managing Director's summing up, until the next annual review, which shall be conducted not later than April 1, 1986.

Decision No. 7939-(85/49)
March 25, 1985

Attachment to Decision No. 7939-(85/49)
Managing Director's Summing Up

Directors once again emphasized the great importance that they attach to the role of the Fund in the area of surveillance. They welcomed the emphasis of this year's review on questions related to the effectiveness of surveillance, particularly in view of the current international economic environment. Directors stressed in particular the need for a continued evolution of surveillance procedures to enhance the ability of the Fund to carry out its responsibilities in this area in an effective and evenhanded way, and made a number of suggestions for improvements in the way surveillance is implemented.

1. *The Effectiveness and Evenhandedness of Surveillance*

The discussion of the question of the effectiveness of surveillance was wide-ranging and we have heard some very thoughtful comments on this subject. The views expressed on the extent to which surveillance can be considered to be evenhanded in its implementation were particularly noteworthy, and I shall begin with an attempt to draw together the common threads of that discussion.

Directors all agreed that evenhandedness was essential to the effectiveness of surveillance. They noted the widely held view that the Fund was much stricter in its oversight of the policies of deficit developing countries than of those of other countries. Several Directors indicated their support for this view, but most agreed with the staff paper that this interpretation resulted from an insufficient distinction

[13] *Selected Decisions of the International Monetary Fund and Selected Documents*, Tenth Issue (Washington, 1983), pages 10–14.

between the function of surveillance and other functions of the Fund, such as those involved in conditionality and jurisdiction over exchange restrictions. It was true that conditionality did involve particularly detailed attention to the policies of member countries engaged in Fund-supported adjustment programs. When countries faced financial crises, however, it was clear that policies needed to be corrected immediately, and, in any case, the Fund was obliged to see that appropriate use was made of its resources. Most Directors thus agreed that surveillance, as such, had been evenhanded in its application. They stressed, however, that surveillance also needed to appear to be evenhanded, and for that to be the case it must be seen to be effective with respect to the large industrial countries. Given the effects that developments in such countries had on the rest of the world economy, moreover, it was particularly important that it be effective for those countries.

Directors considered that surveillance in fact had been much less effective than it should have been. Directors did note the important role that surveillance had played in bringing key policy issues to the attention of the authorities and keeping them under active discussion. It was also possible to cite many instances where policy decisions in member countries clearly had taken account of the views expressed by the international community through the Fund's surveillance process.

More generally, however, it was clear that there remained substantial divergences between the policies actually pursued by some member countries and those advocated by the Fund membership collectively. A number of references were made by Directors to the fact that fiscal policy in the United States continues to diverge from what in the view of those Directors would be optimal in terms of its effects on the world economy, as well as on the U.S. economy itself. The continuing inadequacy of corrective policies in other industrial countries and in many developing countries was also stressed. Some Directors expressed the view that what was needed was more explicit guidance for members on the types of exchange rate and other policies that were consistent with the objectives of the Fund than was provided in the surveillance decision or, indeed, in the Articles themselves. Directors underlined the fact that while we must continually endeavor to sharpen our analysis and to improve our procedures, the basic issue was not procedural. Rather it was the willingness of member countries to adapt their policies in light of the views expressed by the international community.

Before turning to Directors' views on the major ideas for enhancing the effectiveness of surveillance in this area noted in Section VI of the staff paper, I will sum up the discussion of various issues emerging from the experience in 1984 with the implementation of surveillance.

2. *Issues Arising from the Implementation of Surveillance in 1984*

(i) *The analytical basis of surveillance*

Directors considered that the analytical framework provided by the world economic outlook exercise continued to be an extremely useful basis for evaluating the global impact of the economic policies of the major countries. They welcomed the increasing emphasis, both in the world economic outlook and in Article IV consultations, on the medium-term implications of members' policies. Directors also noted the desirability of further development of analytical techniques in the key policy areas. In this connection, they stressed the need for more comprehensive analysis of the international implications of country policies. They also noted the need for a better understanding of the ways in which financial policies and problems of structural adjustment interacted internationally to affect exchange rates.

(ii) *Article IV consultations*

Directors considered that Article IV consultations were the key element of the surveillance process. They welcomed the increased coverage in Article IV staff reports, both of important policy issues and of technical aspects, such as the quality of statistics and relations with the World Bank. They nonetheless encouraged the staff to be economical in reporting, to avoid blurring the focus of staff reports on the key issues. Many Directors felt that, given the heavy work load, the staff should be free to experiment with abbreviated reports on recent economic developments (REDs) in some cases.

Directors welcomed the improvement in consultation scheduling that has occurred since the implementation in 1983 of the system of advance specification of consultation cycles. In this connection, Directors considered it important that the Fund focus its efforts on those situations most in need of attention, and suggested that more differentiation in specification of cycles would be appropriate. In particular, all of the largest countries (several figures have been mentioned to define this group, and on that basis, I would say at least the 25 largest members) should be on the standard cycle. On the other hand, for small countries (other than countries with programs with the Fund or where there were questions about balance of payments viability), longer cycles up to two years would generally be appropriate, although where such members valued annual discussions with the Fund, they should be entitled to request the standard cycle. Some Directors suggested that informal staff visits for policy discussions midway between full consultations might be a useful way to accommodate the preferences of some members in such cases, while still keeping the work load within manageable proportions.

(iii) *Monitoring of exchange rates*

Directors considered that experience had been broadly satisfactory with the system of monitoring exchange rate developments through notifications to the Executive Board of changes in exchange arrangements and through information notices relating to large movements in real effective exchange rate indices, although some Directors cautioned against the temptation to rely too heavily on mechanical indicators of that sort. Many Directors felt that exchange rate developments in large industrial countries deserved perhaps more frequent attention, and a number of Directors supported a reduction in the threshold for information notices for such countries. But after having looked at the tally, I would conclude that the Board has not called at this point in time for a change in the information notice system.

3. *Suggestions for Improving the Effectiveness of Surveillance*

I turn now to the discussion of the major ideas described in Section VI of the staff paper. In general, Directors believe that we should explore every possible avenue for improving the effectiveness of surveillance.

First, while some Directors were quite negative with regard to the use of objective indicators, there was a broad-based interest in exploring the idea of making greater use of objective indicators as an instrument of Fund surveillance, particularly vis-à-vis major industrial countries. Most Directors stressed, however, that there would be considerable difficulty in establishing such indicators and agreeing with members on appropriate values for them. Directors therefore urged the staff to take an experimental approach in terms both of further development in the conceptual approach to be followed and of exploration of the concept with interested authorities. I conclude that, for the time being at least, the use of such indicators in particular cases where they might be appropriate and acceptable would be limited to providing a basis for reviewing, in the course of an Article IV consultation, developments against the background of the conclusion of the previous one.

Second, most Directors reacted negatively to the idea of a major move toward greater publicity in connection with Article IV consultations. They emphasized that the confidential relationship between the Fund and its members has been one of the most important elements of the consultation process, and they believed that publicity would involve a change in that practice that could have serious consequences for the candor and frankness of the policy discussions between the Fund and its members.

In the same vein, most Directors expressed reservations—although some of them were very interested in the idea—about the release of staff reports, and were concerned that such a practice could adversely affect the frankness and usefulness of these reports. For, I think, similar reasons, the reaction was negative at this point in time to the idea of the Managing Director making public statements following the conclusion of Article IV consultations. At the same time, I noted the Board's general support for the manner in which I have been expressing my views and positions on matters of Fund concern in my public addresses. I should also note that most Directors were open to the wider release, including publication, of REDs with the approval of the member concerned.

Third, Directors believed that there was considerable scope for expanded follow-up to consultations on the side of both the Fund and country authorities. They considered that the current practice in Article IV staff reports of including reviews of developments against the background of the previous consultation should be further developed as a means of assessing the effectiveness of the consultation process, by giving indications of the weight the authorities attached to the views of the Fund. Directors strongly supported more "internal publicity" among the authorities of member countries themselves for the findings of the Fund. It was noted approvingly that in many member countries authorities at the ministerial level participate in the final policy discussions with the mission. The staff will continue the practice of listing in its reports the principal representatives of the member country taking part in the discussions.

It was also considered desirable that management communicate directly with ministers of finance regarding the outcome of the Fund's review, but only in carefully selected cases where the Executive Board felt high-level consideration to be particularly important because of the urgency of the policy views expressed. In that context, it was noted that the Managing Director frequently has contacts with the highest authorities of member countries, in Washington or abroad, as well as through exchanges of communications and telephone conversations, which will of course continue.

Fourth, Directors encouraged the use of supplemental consultations with member countries in selected circumstances. A wide range of detailed views were expressed on this subject. Several Directors suggested that supplemental consultations might be appropriate for members in arrears to the Fund, members without current programs but with large financial obligations to the Fund, or members making prolonged use of Fund resources. Supplemental consultations could, in the view of several Directors, also be triggered as a result of major policy actions by members. At their discussion on March 18 on trade policies, Directors asked that the Board be notified of major new developments in that area, and such notifications, as with the current exchange rate information notices, could well lead to supplemental consultations if Directors so requested. They could also take place some time following the conclusion of an Article IV consultation that left serious doubts about the appropriateness of a member's policies.

Finally, there was a wide-ranging discussion of various issues involved in enhanced surveillance of the policies of member countries involved in multiyear rescheduling arrangements. Directors believed that the Fund should be selective in acceding to requests for enhanced surveillance, and some Directors cautioned against the involvement of the Fund in such arrangements for too long a period of time. A number of them considered that in practice the procedure would be appropriate mainly for countries where strong adjustment policies were well under way. Otherwise, the Fund would continue to consider the endorsement of the country's adjustment program in the context of a stand-by or an extended arrangement as the normal means of providing the necessary signal to commercial banks and other sources of finance. Most Directors considered that release of staff reports to banks in such cases would be acceptable if the country requested it and if it was necessary for the restructuring to take place. Directors emphasized that staff reports provided to commercial banks in cases of enhanced surveillance should not be, and should not be seen to be, of such a character as to provide on/off signals from the Fund. Directors, moreover, reiterated the view expressed during the Board's discussion on March 20 of external indebtedness that commercial banks should take full responsibility for their country-risk assessments. More generally, Directors cautioned that, under enhanced surveillance, the Fund should not be seen as either formally endorsing the member's policies or intervening too deeply in the relations between debtor countries and commercial banks. We have taken very careful note of the many issues raised by Directors regarding the access to and procedures for enhanced surveillance. The staff will reflect on them and we will return to these matters as experience is gained on a case-by-case basis.

In the course of their discussion, Directors indicated their awareness of the difficulties of embarking on new procedures at a time when Board, management, and staff all face very heavy work loads, and urged that ways be found to mitigate the burden. Some of the ideas supported by the Board today could be implemented without too much difficulty, but others would involve some considerable effort. What I would propose is that over the next few months management and staff consider Directors' ideas both to gain experience with how they could be implemented in practice and to explore their implications for the work load and for the budget.

The Executive Board will return to the matter of surveillance, taking stock of all the ideas that have been explored and of suggestions put forward by Directors, including the issue of publicity.

L. Level of Fund's SDR Holdings

In determining the amounts of SDRs to be transferred in purchases under the operational budgets, the Fund will be guided by the aim of reducing the Fund's SDR holdings to a level of approximately SDR 2.5 billion by May 31, 1986. Prior to April 30, 1986, the Fund will review the level of its SDR holdings to determine whether and to what extent they should be reduced further.

Decision No. 7941-(85/50) S
March 29, 1985

M. Compensatory Financing of Fluctuations in the Cost of Cereal Imports: Renewal of Decision

Decision No. 6860-(81/81),[14] adopted May 13, 1981, as amended by Decision No. 7602-(84/3),[15] adopted January 6, 1984, shall be further amended as follows:

1. In paragraph 1, the words "For an initial period of four years . . ." shall be replaced by the words "For a period of eight years . . ."
2. Paragraph 17 shall read: "The Executive Board will review this Decision not later than May 13, 1987."

Decision No. 7967-(85/69)
May 3, 1985

N. Suspension of Transfers to the Supplementary Financing Facility Subsidy Account and Retransfer of Surplus

In accordance with Section 4(b) of the Instrument establishing the Supplementary Financing Facility Subsidy Account ((Decision No. 6683-(80/185) G/TR)),[16] transfers from the Special Disbursement Account to the SFF Subsidy Account shall be suspended as soon as arrangements can be made for the investment of resources retained in the Special Disbursement Account. Any resources of the SFF Subsidy Account above the amounts necessary to meet its future liabilities shall be promptly retransferred to the Special Disbursement Account as soon after the date of this decision as possible and as they may be received in the future.

Decision No. 7989-(85/81) SBS
May 28, 1985

[14] *Selected Decisions of the International Monetary Fund and Selected Documents*, Tenth Issue (Washington, 1983), pages 65–70.

[15] *Selected Decisions of the International Monetary Fund and Selected Documents*, Supplement to Tenth Issue (Washington, 1984), page 18.

[16] *Selected Decisions of the International Monetary Fund and Selected Documents*, Tenth Issue (Washington, 1983), pages 321–28.

O. Special Disbursement Account—Investment

Pending their use, the Managing Director shall place in investments, denominated in SDRs, with the Bank for International Settlements, the currencies received by the Special Disbursement Account as a result of the termination of the Trust Fund, unless the Managing Director considers that the terms offered by the BIS on an intended deposit denominated in SDRs are not sufficiently attractive. In that event the Managing Director shall inform the Executive Board promptly and make other proposals to it for investment in SDR-denominated obligations in accordance with Article V, Section 12(*h*).

Decision No. 7990-(85/81)
May 28, 1985

P. Review of the Fund's Income Position for the Financial Years 1985 and 1986

(a) *Amendment of Rule I-6(4)(a)*

Rule I-6(4)(a) is amended, effective May 1, 1985, by replacing in the second sentence "3 percent" with "5 percent."

Decision No. 7997-(85/90)
June 5, 1985

(b) *Rate of Charge Effective May 1, 1985*

In accordance with Rule I-6(4)(a), the Fund determines that, effective May 1, 1985, the rate of charge on the Fund's holdings of currency covered by Rule I-6(4) shall be 7 percent per annum.

Decision No. 7998-(85/90)
June 5, 1985

Q. Publicity Upon Declaration of Ineligibility

Effective following the publication of the Annual Report for 1985, the Fund shall issue a press release upon the declaration of a member's ineligibility to use the general resources of the Fund and thereafter upon the restoration of the member's eligibility to use the Fund's general resources, and shall also include the information contained in such press releases, where pertinent, in the Annual Reports for the year concerned.

Decision No. 7999-(85/90)
June 5, 1985

Appendix III

Press Communiqués and Announcement of the Interim Committee and the Development Committee

Interim Committee of the Board of Governors on the International Monetary System

Press Communiqués

Twenty-Third Meeting, Washington, September 22, 1984

1. The Interim Committee of the Board of Governors of the International Monetary Fund held its twenty-third meeting in Washington, D.C., on September 22, 1984, under the chairmanship of Mr. Willy De Clercq, Vice Prime Minister and Minister of Finance and Foreign Trade of Belgium. Mr. Jacques de Larosière, Managing Director of the International Monetary Fund, participated in the meeting. The meeting was also attended by observers from a number of international and regional organizations and from Switzerland.

2. In their discussion of the world economic outlook, members of the Committee expressed satisfaction that economic growth in the industrial world had been proceeding during 1984 at a 5 percent rate—even more rapidly than expected. They noted that investment had displayed particular strength and that inflation had remained under control. Concern was voiced, however, that European countries had not yet participated fully in the recovery and that unemployment in these countries remained at very high levels. The Committee expressed concern that the position of many developing countries remained difficult. Nonetheless, in a number of the developing countries, the further reduction in current account deficits that was in prospect was viewed as encouraging, especially as it stemmed increasingly from export growth, and was being accompanied by a return to positive growth in per capita incomes.

The Committee agreed that continued pursuit of a medium-term strategy was appropriate to sustain recovery. Such a strategy would involve, in particular, a disinflationary monetary policy, further action to improve the structure of government budgets and reduce deficits, primarily through reduced spending, and a determined attack on structural rigidities, including protectionist measures, which impede the efficient functioning of markets.

3. While the external debt problems of many developing countries remain serious, the Committee felt that good progress had been made in the implementation of the coordinated strategy of debtors and creditors to tackle these problems within the framework of adjustment programs—a development that has been facilitated by the recovery in world trade. The Committee stressed that a satisfactory resolution of debt problems would continue to require close cooperation among all parties concerned. In this connection, it is important that reasonable economic growth be maintained in industrial countries, that real interest rates come down substantially from current levels, and that the indebted countries themselves pursue determined adjustment policies. The major industrial countries have a special responsibility to pursue policies that result in noninflationary growth and permit developing countries adequate access to markets. There is also a continuing need for adequate financing to encourage and facilitate effective adjustment. The borrowing countries themselves have to make the fundamental contribution by persevering with programs of economic adjustment that strengthen their external position, lay the basis for a more effective utilization of resources, and thereby restore creditworthiness and permit the resumption of growth at an early date. In this connection, the Committee welcomed the initiatives toward multiyear debt rescheduling arrangements in cases of effective adjustment. The Committee also stressed the importance of a continuing Fund role in the implementation of the coordinated strategy of external debt management.

4. The Committee expressed concern over the continued resort to protectionist measures. It noted that the drift toward protectionism, if unchecked, would undermine the prospects for world recovery and would impede the smooth functioning of the international trading and financing system. The Committee, therefore, welcomed the commitments to open trade policies undertaken at the London summit of major industrial countries which have a large weight in world trade, and in other international forums in the recent past. While welcoming some recent actions in some countries to resist protectionist pressures, it called on all members to translate general commitments into concrete actions to prevent new, and to roll back existing, protectionist measures.

The Committee called attention to the need for improved access to foreign markets for the exports of developing countries as an important element in supporting the adjustment efforts of these countries and in contributing to a long-term solution of the debt problem. The Committee also emphasized the importance of increased and effective international surveillance of trade policies. In this regard, it considered that the Fund should continue to give special attention to the problem of protectionism in the context of its surveillance function and in support of the efforts of the GATT and other institutions having responsibilities in this field.

5. It was agreed that at its next meeting the Interim Committee will discuss, in a medium-term framework and in the context of the global financial environment and the current approaches toward resolving debt problems, certain issues relating to the adjustment efforts and balance of payments prospects of member countries. These will include external indebtedness, international capital flows, trade policies, and the role of Fund surveillance in dealing with these issues. In this connection, it called on the Managing Director to prepare, in the framework of the Fund's competence, background papers for consideration by the Executive Board, and to report to the next meeting of the Committee in order to provide a basis for its discussion of these issues.

6. The Committee discussed the question of the Fund's policy on enlarged access and the limits on access to the Fund's resources in 1985. It was recalled that the Fund's policy on enlarged access is a facility of a temporary character, and that this policy and the access limits under it, as well as the access limits under the Fund's special facilities, were to be reviewed before the end of 1984.

The Committee recognized that, in spite of the improvement in the world economic situation, many member countries continued to face difficult payments problems and that serious uncertainties remained about the prospects in the medium term. In these circumstances, the Committee agreed that there was a need for the continuation of the enlarged access policy and it reached the following conclusions on the access limits for 1985:

(a) Access under the enlarged access policy in 1985 should be subject to annual limits of 95 or 115 percent of quota, three-year limits of 280 or 345 percent of quota, and cumulative limits of 408 or 450 percent of quota, depending on the seriousness of the balance of payments need and the strength of the adjustment effort. As at present, the Executive Board should retain the flexibility to approve stand-by or extended arrangements for amounts above these access limits in exceptional circumstances.

(b) The present access limits under the special facilities should be retained.

(c) As at present, access limits should not be regarded as targets. These limits, and the enlarged access policy itself, should be reviewed before the end of 1985 and yearly thereafter, in light of all relevant factors, including the magnitude of members' payments problems and developments in the Fund's liquidity position.

The Committee requested the Executive Board to complete, before the end of this year, the necessary action in order to implement the conclusions reached by the Committee.

7. The Committee considered again the question of an SDR allocation against the background of the state of international liquidity and the conditions of the world economy. In this connection, it noted the statement of the Managing Director on the discussions on the subject in the Executive Board.

Most members of the Committee expressed again their firm view that there was a long-term global need to supplement existing reserve assets and that an allocation of SDRs in present circumstances would be in full conformity with the requirements of the Fund's Articles and would strengthen the world economy and the international monetary system. Some members of the Committee, however, continued to feel that a global liquidity shortage had not been demonstrated. In their view, the problems faced by some countries with reserve inadequacies should be met through adjustment in economic policies and the provision of conditional financing.

While no conclusion was reached at this meeting, the Committee recognized that the matter should be kept under close and continuing consideration. Therefore, it urged the Executive Board to continue its examination of the issues involved. The majority of the members of the Committee agreed that efforts should continue toward the achievement of a broad consensus on an SDR allocation in the current basic period.

8. The Committee agreed to hold its next meeting in Washington, D.C., in April 1985.

Annex: Interim Committee Attendance, September 22, 1984

Chairman

Willy De Clercq, Vice Prime Minister and Minister of Finance and Foreign Trade of Belgium

Managing Director

J. de Larosière

Members or Alternates

Mohammad Abal-Khail, Minister of Finance and National Economy, Saudi Arabia
Hassan Tawfik Al-Najafi, Governor, Central Bank of Iraq
Pierre Beregovoy, Minister of Economy, Finance and Budget, France
Rachid Bouraoui, Governor, Banque Centrale d'Algérie
Abdulai O. Conteh, Minister of Finance, Sierra Leone
Jacques F. Poos, Vice President of the Government and Minister of Economy, Luxembourg (Alternate for Willy De Clercq, Vice Prime Minister and Minister of Finance and Foreign Trade, Belgium)
Ernane Galveas, Minister of Finance, Brazil
Giovanni Goria, Minister of the Treasury, Italy
Bernardo Grinspun, Minister of Economy, Argentina

Paul J. Keating, Treasurer, Australia
Nigel Lawson, Chancellor of the Exchequer, United Kingdom
LIU Hongru, Vice Governor, People's Bank of China
Benito Raul Losada, President, Banco Central de Venezuela
Pranab Kumar Mukherjee, Minister of Finance, India
Radius Prawiro, Minister of Finance, Indonesia
Kjell Storvik, State Secretary, Ministry of Finance, Norway (Alternate for Rolf Presthus, Minister of Finance, Norway)
Donald T. Regan, Secretary of the Treasury, United States
H.O. Ruding, Minister of Finance, Netherlands
SAMBWA Pida Nbagui, Governor, Banque du Zaïre
Gerhard Stoltenberg, Federal Minister of Finance, Germany
Noboru Takeshita, Minister of Finance, Japan
Michael Wilson, Minister of Finance, Canada

Observers
A.W. Clausen, President, World Bank
Arthur Dunkel, Director-General, GATT
David Henderson, Head, Economics and Statistics Department, OECD
Ali K. Hussain, International Money and Finance Analyst, Economics and Finance Department, OPEC
Ghulam Ishaq Khan, Chairman, Development Committee
F. Leutwiler, Chairman of the Governing Board, Swiss National Bank
François-Xavier Ortoli, Vice-President for Economic and Financial Affairs, CEC
J. Pronk, Assistant Secretary General, UNCTAD
Jean Ripert, Director-General, Development and International Economic Cooperation, UN
Günther Schleiminger, General Manager, BIS

Twenty-Fourth Meeting, Washington, April 17–19, 1985

1. The Interim Committee of the Board of Governors of the International Monetary Fund held its twenty-fourth meeting in Washington, D.C., on April 17 to 19, 1985, under the chairmanship of Mr. H. Onno Ruding, Minister of Finance of the Netherlands. Mr. Jacques de Larosière, Managing Director of the International Monetary Fund, participated in the meeting. The meeting was also attended by observers from a number of international and regional organizations and from Switzerland.

2. As agreed last September, the Committee focused its attention at this meeting primarily on certain issues relating to the adjustment efforts and balance of payments prospects of member countries, which it discussed in a medium-term framework. These issues included external indebtedness, international capital flows, trade policies, and the role of Fund surveillance in dealing with them. The Committee had a constructive exchange of views aimed at developing agreement on possible measures to strengthen international arrangements and understandings in all these areas.

3. The members of the Committee welcomed the continuing recovery in the world economy and the fact that inflation has generally continued to decline. Non-oil developing countries as a whole have significantly improved their exports and their current account position and have, on average, resumed per capita income growth. While noting that the recovery, though geographically uneven so far, was expected to be sustained, the Committee drew attention to the following facts: the momentum of growth in many developing countries has not yet achieved an acceptable pace; their commodity prices and terms of trade have not recovered; fiscal and current account imbalances in some industrial countries have continued and intensified; unemployment has remained very high in many countries; and exchange rate volatility has persisted. The Committee noted the continued plight of sub-Saharan Africa, which remains a major concern of the international community.

4. The Committee noted that world economic prospects in the medium term would be affected by developments in the fields of trade, capital flows, interest

rates, and exchange rates. In this connection, it stressed the special responsibility of the major industrial countries to pursue policies that would result in sustainable noninflationary growth and would permit developing countries growing access to markets. More particularly, the Committee drew attention to the need for action in the following areas:

(a) It is urgent that the trend toward protectionism be reversed, and that freer world trade be promoted.

(b) The magnitude of fiscal deficits in a number of countries continued to be a cause for concern. In these countries measures were needed to reduce public sector reliance on domestic and foreign savings, thereby easing pressures on financial resources, which could lower interest rates and foster growth. In this respect, the Committee welcomed the recent announcement by the U.S. Government of its initiative to reduce substantially its fiscal deficit.

(c) Measures are needed to improve the functioning of labor, financial, and goods markets by removing structural rigidities.

(d) It is equally important to seek greater exchange rate stability.

By creating a basis for durable growth of production and international trade, these actions would enhance the export growth of developing countries and facilitate the implementation of the necessary adjustment policies by the debtor countries.

5. The Committee agreed that many developing countries had made progress in dealing with their debt-servicing difficulties, a development that has undoubtedly been facilitated by the strength of the economic recovery, particularly by the upturn in the U.S. economy. The Committee noted, however, that the external debt problems of a number of countries remain serious and have been exacerbated by rates of interest, which, while they have declined, remain very high. A satisfactory resolution of these difficulties would require sustained, determined, and coordinated efforts by both creditor and debtor countries, and would continue to take into account the particular circumstances of each case. Several low-income developing countries continue to face severe debt-servicing problems even though much of their debt is to official creditors.

6. In debtor countries, adjustment is essential and, indeed, unavoidable. In the view of the Committee, appropriate policies to that effect, including measures to encourage domestic savings and investment and to promote realistic exchange rates and prices, are necessary for the restoration of growth and creditworthiness, and to encourage spontaneous lending by commercial banks and flows from official sources. They will also create a favorable climate for the return of flight capital and, together with greater receptivity to inward direct investment, for an increase in non-debt-creating flows and transfers of technology.

7. These adjustment efforts should be supported by the creditors through adequate flows of new lending on realistic terms, and by a readiness to restructure past maturities of loans extended by private and official creditors. The Committee welcomed recent examples of multiyear rescheduling arrangements for commercial debts of some countries and the contribution they should make to improved creditworthiness. As regards official debt reschedulings within the framework of the Paris Club, the Committee recognizes that these have been handled with flexibility. It welcomes the intention of the Paris Club to consider, in particular cases, multiyear reschedulings in close cooperation with the Fund, where debtor countries have a proven record and continuing prospects of sound adjustment. For those countries whose external debt has been rescheduled, whose prospects of economic progress are good, and which are undertaking satisfactory adjustment policies, the industrial countries should consider resuming export credit cover, subject to standard national policies.

8. The Committee underscored the importance it attached to the role of the Fund in support of adjustment programs and as a financial catalyst. The Committee also stressed the importance of close collaboration between the Fund and the World Bank.

In view of the many uncertainties remaining on the financial horizon, the Committee stressed the need for a strong International Monetary Fund that can appropriately assist members that are prepared to take needed adjustment measures in the event that severe payments problems arise.

9. The Committee stressed the importance of effective Fund surveillance as a means of promoting sound underlying economic policies and convergence of performance among member countries. It urged that steps be taken to strengthen surveillance over the policies of all Fund members. It also urged that consideration be given, within the context of the policy of uniform treatment of members, to means of increasing the effectiveness of surveillance over the policies of those industrial and developing countries which have a significant impact on the functioning of the world economy.

10. The members of the Committee had an exchange of views on the question of an SDR allocation in the current basic period. While the SDR constitutes an integral part of the structure of the Fund, it was not possible to reach the degree of support required for such an allocation. The Committee agreed to consider the matter again at its next meeting in the light of developments.

11. The Committee requested that the Executive Board, in the light of its 1980 decision, consider the use of the resources that will be available following repayment of loans that have been made by the Trust Fund, to help forward the adjustment process by providing assistance to low-income developing countries, and that the Managing Director report to the Committee on this matter by the time of the next meeting of the Committee in Seoul.

12. The Committee noted that improvements of the international monetary system were currently under study. It was agreed that the Committee would review these issues at its next meeting in Seoul.

13. The Committee agreed to have its next meeting in Seoul on October 6, 1985.

Annex: Interim Committee Attendance, April 17–19, 1985

Chairman

H. O. Ruding, Minister of Finance of Netherlands

Managing Director

J. de Larosière

Members or Alternates

Mohammad Abal-Khail, Minister of Finance and National Economy, Saudi Arabia

Hikmat M. Al-Azzawi, Governor, Central Bank of Iraq

James A. Baker III, Secretary of the Treasury, United States

Pierre Beregovoy, Minister of Economy, Finance and Budget, France

Rachid Bouraoui, Governor, Banque Centrale d'Algérie

Mariano Rubio, Governor, Banco de España (Alternate for Miguel Boyer, Minister of Economy and Finance, Spain)

Abdulai O. Conteh, Minister of Finance, Sierra Leone

Abdul Daim bin Haji Zainuddin, Minister of Finance, Malaysia

Giovanni Goria, Minister of the Treasury, Italy

Frans Grootjans, Vice Prime Minister, Minister of Finance, and Minister of Middle Classes, Belgium

Christopher Hurford, Minister for Immigration and Ethnic Affairs and Minister Assisting the Treasurer, Australia (Alternate for Paul J. Keating, Treasurer, Australia)

Nigel Lawson, Chancellor of the Exchequer, United Kingdom

LIU Hongru, Vice Chairman of the Council and Vice Governor, People's Bank of China

MAWAKANI Samba, Alternate Governor of the Fund for Zaïre

Hermod Skanland, Governor, Norges Bank (Alternate for Rolf Presthus, Minister of Finance, Norway)

W. F. Duisenberg, President, De Nederlandsche Bank N.V. (Alternate for H. O. Ruding, Minister of Finance, Netherlands)

Antonio Carlos Braga Lemgruber, President, Banco Central do Brasil (Alternate for Joao Sayad, Minister of Planning, Brazil)

Vishwanath Pratap Singh, Minister of Finance, India

Juan Vital Sourrouille, Minister of Economy, Argentina

Gerhard Stoltenberg, Federal Minister of Finance, Germany

Satoshi Sumita, Governor, The Bank of Japan (Alternate for Noboru Takeshita, Minister of Finance, Japan)

Michael H. Wilson, Minister of Finance, Canada

Observers

A.W. Clausen, President, World Bank

Antonio Costa, Special Counsellor to the Secretary General, OECD

M. G. Dealtry, Manager, Monetary and Economic Department, BIS

J. Dixon, Financial Counselor, Delegation in Washington, CEC

Arthur Dunkel, Director-General, GATT

Ali K. Hussain, International Money and Finance Analyst, Economics and Finance Department, OPEC

Ghulam Ishaq Khan, Chairman, Development Committee

Pierre Languetin, Chairman of the Governing Board, Swiss National Bank

Goran Ohlin, Assistant Secretary-General, Development Research and Policy Analysis, UN

J. Pronk, Deputy Secretary-General, UNCTAD

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 Communiqué

Twenty-Fourth Meeting, Washington, September 23, 1984

1. The Development Committee held its twenty-fourth meeting in Washington, D.C. on September 23, 1984 under the chairmanship of His Excellency Ghulam Ishaq Khan, Minister for Finance, Commerce and Economic Coordination of Pakistan. Mr. A.W. Clausen, President of the World Bank, Mr. J. de Larosière, Managing Director of the International Monetary Fund, and Mr. Fritz Fischer, Executive Secretary of the Development Committee, participated in the meeting. Representatives from a number of international and regional organizations and Switzerland also attended.

2. The Committee heard its Chairman, the Managing Director of the International Monetary Fund, the President of the World Bank, and the Chairman of the Group of Twenty-Four on the world economic outlook.

3. The Committee welcomed the successful completion of negotiations of a Selective Capital Increase of $8.4 billion for the World Bank and a capital increase of $650 million for the International Finance Corporation. It noted with concern that recent efforts by IDA management and donors to mobilize a supplementary funding arrangement for IDA 7 had not yet been successful and requested that in accordance with the Canadian proposal the situation should be reviewed.

4. The Committee discussed the report prepared for the meeting by the World Bank entitled "Toward Sustained Development: A Joint Program of Action for Sub-Saharan Africa." The members reiterated their concern at the severity of the sub-Saharan African economic situation and noted that many African governments were making serious efforts to rehabilitate and restructure their economies. The Committee concluded that there was an emerging consensus on the diagnosis of sub-Saharan Africa's economic problems and on measures needed to address them. Members further agreed that delay in taking action could not be justified. The Committee expressed strong support for the report's proposed action program, emphasizing that its implementation required the concerted and sustained efforts of African governments, bilateral donors, and international organizations. The Committee encouraged the donors to provide more flexible forms of development assistance in both their bilateral and multilateral aid best adapted to Africa's needs and urged the World Bank to take a leadership role in strengthening aid coordination efforts. In that connection, the Bank was also encouraged to explore with donors various approaches to mobilizing the resources required to implement the proposed program for sub-Saharan Africa. The Bank was asked to report to the next meeting of the Development Committee on the progress achieved in implementing the program.

5. In the discussion on linkages between trade and the promotion of development, a presentation was made to the Committee by the Director-General of GATT, Mr. Arthur Dunkel. The Committee agreed that progress in maintaining open access to markets for the exports of developing countries and in reinforcing the multilateral rules and disciplines for trade was an essential support to their current adjustment efforts and to the long-term solution to the debt problem. The Committee encouraged the immediate adoption of concrete measures to combat protectionism. It noted the progress being made in the implementation of the GATT's ongoing work program, and welcomed the consideration being given to the role that could be played in liberalizing and strengthening the trading system by a new GATT round of multilateral trade negotiations in which all countries—developed and developing alike—could participate and from which all could benefit. Members also emphasized the contribution private investment could make to trade and development.

6. The Committee noted the ongoing discussions in the World Bank on its future role and the contribution it could make to developing countries' structural adjustment efforts and to the successful resumption of investment and economic growth. The Committee looks forward at its next meeting to suggestions from World Bank management concerning the future role of the Bank and the implications for longer-term capital requirements, keeping in mind the need for a general capital increase. It urged that sufficient progress should be made in the next several months for the subject to be considered in depth at the spring 1985 meeting.

7. It was agreed that, at an extended meeting in spring 1985, the Development Committee will discuss, within the context of a medium- to long-term framework and the current approaches toward resolving debt problems, the structural and development aspects of the problems of developing countries in their efforts to achieve sound economic growth. These include, inter alia, external indebtedness, protectionism, commodity prices, interest rates, the structure of capital flows, and obstacles to direct investment and equity capital flows. In this connection, it called on the Managing Director of the Fund and the President of the World Bank to prepare in close collaboration, contributing from the perspective of their respective mandates and competences, background papers for submission, after consideration by their respective Executive Boards, to the next meeting of the Committee.

Press Announcement

Twenty-Fifth Meeting, Washington, September 26, 1984

At its twenty-fifth meeting on September 26, 1984, in Washington, D.C., the Development Committee selected His Excellency Ghulam Ishaq Khan, Minister for Finance, Commerce and Economic Coordination of Pakistan, as Chairman for another term.

Press Communiqué

Twenty-Sixth Meeting, Washington, April 18–19, 1985

1. The Development Committee held its twenty-sixth meeting in Washington, D.C. on April 18–19, 1985 under the chairmanship of His Excellency Ghulam Ishaq Khan. Mr. J. de Larosière, Managing Director of the International Monetary Fund, Mr. A.W. Clausen, President of the World Bank, and Mr. Fritz Fischer, Executive Secretary of the Development Committee, participated in the meeting. Observers from a number of international organizations and Switzerland also attended.

2. As decided at the previous meeting of the Committee in September 1984, the meeting was an extended one, designed to allow a constructive dialogue to take place between members on the structural and development aspects of the world economy. These discussions took place during sessions which were largely of an informal character. The Committee heard a report on the earlier discussion in the Interim Committee on the world economic outlook and the balance of payments prospects and adjustment efforts of industrial and developing countries. In this context, the Committee briefly reviewed the medium- and long-term setting for developing country growth.

3. The Committee was encouraged by the strengthening of the world economy over the last two years, with the recovery from recession in industrial countries and the resumption of growth in much of the developing world. The Committee stressed that continued adjustment was needed in both industrial and developing countries, within the limits of social and political tolerance, and that many problems remained to be tackled before the progress already achieved could be translated into sustained growth and improved living standards over the longer run. The steps required to achieve this goal formed the agenda for this meeting of the Development Committee.

4. Endorsing the conclusions reached and recommendations made in the Interim Committee, the Committee welcomed the progress made by many indebted developing countries in restoring normal relations with their creditors but noted that debt-servicing difficulties, exacerbated by high interest rates, remained for a significant number of countries. The restoration of creditworthiness and normalization of relations with creditors for these countries would require, in a manner adapted to the circumstances of each case, the continuation of adjustment efforts, supported by financial flows on appropriate terms, improved access to markets and, where appropriate, by multiyear rescheduling arrangements. The Committee agreed all parties concerned should cooperate toward this end.

5. The growth and adjustment prospects of developing countries are closely linked to the expansion of world trade. Trade liberalization is a part of a coordinated effort aimed at securing a better economic environment. In its discussion of trade policy developments and issues, the Committee benefited from a presentation by Mr. Arthur Dunkel, Director-General of the GATT. Mr. Dunkel also referred to a report by a study group commissioned by him entitled "Trade Policies for a Better Future—Proposals for Action." Members regretted that, in spite of some limited initiatives, the onset of world recovery had not yet led to an easing of protectionist pressures; indeed they seem to have increased. The proliferation and continuation of nontariff barriers, especially those applied in a discriminatory fashion, were harmful to the multilateral trading system and impeded the growth prospects of all countries.

6. The Committee called on all countries to promptly implement their undertakings to lift any measure inconsistent with GATT or not based on specific GATT disciplines, given the fact that these practices have in particular the effect of restricting exports of developing countries to trade markets. The Committee also stressed that the central role of the GATT in promoting an open trading system and ensuring the effective functioning of multilateral trade rules and disciplines should be strengthened. The Committee also called on governments to resist protectionism and, to the extent feasible, roll back existing barriers to trade. The Committee endorsed the idea, to engage as matters of priority, in serious efforts to carry forward the unfinished business from the 1982 GATT work program. This could lay the basis for a general participation of all countries in the trade negotiation round on which, it was noted, a number of countries have decided to embark under the auspices of the GATT. It was also noted that full participation would be encouraged by quick action to improve market access for developing countries. The Committee invited the GATT Director-General to continue to keep it informed about further developments. The respective competencies of the GATT and UNCTAD were reiterated.

7. The Committee agreed that developing countries' efforts to adjust and resume growth need to be supported by an increase in the overall volume of capital flows.

8. For the low-income countries, it was agreed that increasing official development assistance flows deserved the highest priority. The Committee reiterated its request to the management of the International Development Association to carry out a mid-term review of IDA 7. The Committee asked management and the Executive Board to start consideration of a broad array of possibilities for addressing the future needs of the poor countries for concessional resources, including IDA.

9. The Committee was gratified by the prompt action taken by the Bank to explore with donors various approaches to mobilizing resources for sub-Saharan Africa, as requested at the Committee's September meeting. The agreement reached by donors to establish the Special Facility for sub-Saharan Africa in support of domestic policy reform was welcomed as a significant achievement. The Committee noted with satisfaction the agreement reached regarding the implementation procedures of the facility. The Committee underlined the importance of quick disbursement of resources from the facility. The Committee expressed its appreciation for the efforts made by supporters of the facility and called on other donors, who had not yet done so, to contribute, directly or indirectly. The Committee noted, however, that the facility could only be a catalyst for the financing required to meet the immense needs of the region and encouraged donors to further increase their efforts to provide additional flows of concessional resources through bilateral

and multilateral channels. The Committee also welcomed the impressive response, both governmental and private, to the emergency needs of the region.

10. The Committee also reviewed the Bank's progress report on the "Implementation of the Joint Program of Action for Sub-Saharan Africa" and expressed appreciation for the progress made so far in strengthening aid coordination mechanisms and in enlarging technical assistance programs. The Committee noted that the balance of payments problems of sub-Saharan African countries, including severe difficulties with debt servicing, aggravated by a serious fall in commodity prices, required urgent attention. The Committee stressed that official creditors should take into account in their actions the long-term nature of these countries' problems and should encourage the pursuit of appropriate policies by debtors and adequate aid from donors. The Committee urged all parties concerned to explore steps to introduce this broader approach on a case-by-case basis.

11. The Committee agreed that private direct and portfolio investment could make useful contributions to development. Such flows can be promoted by improving the policy environment toward foreign investment in both developing and industrial countries. In this connection, the proposal being developed by the World Bank for the establishment of a Multilateral Investment Guarantee Agency (MIGA), which would seek to improve the investment environment in developing countries by issuing guarantees against noncommercial risks and providing promotional services, was noted. The Bank was encouraged to hold further discussions in order to reach an understanding among governments for the creation of MIGA on a voluntary basis.

12. The Committee also noted the importance of officially guaranteed export credits. It agreed that developing countries and export credit agencies, in cooperation with the World Bank and the Fund, should take steps to enhance the developmental impact of export credits.

13. In the light of the uncertainties in commercial flows to the developing countries and the changing world economic situation, the Committee discussed the future role of the World Bank. The Committee took note of discussions on this subject in the Executive Board of the Bank over the past year and endorsed the broad consensus that had emerged from these deliberations as summarized in a Bank background document prepared for the Committee. Bearing in mind the need to maintain lending standards and prudent financial policies, the Committee called for an expansion in the Bank's lending program in order for it to respond more effectively to the needs of its borrowing members and to stimulate the flow of capital from other sources. In that perspective, the Committee urged Bank management to present a report at its next meeting in Seoul which would provide projections of Bank lending over the next five years, and their implications in terms of resources, so as to seek an early consensus on the future financial requirements of the Bank, including the possibility of a General Capital Increase.

14. The Committee considered its deliberations to have been constructive, informative, and productive and thus agreed to continue the process begun at this session at future meetings of the Committee.

15. The Committee agreed to meet again on October 7 in Seoul.

Appendix IV

Executive Directors and Voting Power on April 30, 1985

Director *Alternate*	Casting Votes of	Votes by Country	Total Votes[1]	Percent of Fund Total[2]
APPOINTED				
Charles H. Dallara *Mary K. Bush*	United States	179,433	179,433	19.29
Nigel Wicks *T.A. Clark*	United Kingdom	62,190	62,190	6.69
Guenter Grosche *Bernd Goos*	Germany, Fed. Rep. of	54,287	54,287	5.84
Bruno de Maulde *Xavier Blandin*	France	45,078	45,078	4.85
Hirotake Fujino *Masahiro Sugita*	Japan	42,483	42,483	4.57
Yusuf A. Nimatallah *Jobarah E. Suraisry*	Saudi Arabia	32,274	32,274	3.47
ELECTED				
Pedro Pérez (Spain)	Costa Rica	1,091		
Guillermo Ortiz	El Salvador	1,140		
(Mexico)	Guatemala	1,330		
	Honduras	928		
	Mexico	11,905		
	Nicaragua	932		
	Spain	13,110		
	Venezuela	13,965	44,401	4.77
J. J. Polak (Netherlands)	Cyprus	947		
J. de Beaufort Wijnholds	Israel	4,716		
(Netherlands)	Netherlands	22,898		
	Romania	5,484		
	Yugoslavia	6,380	40,425	4.35
Jacques de Groote	Austria	8,006		
(Belgium)	Belgium	21,054		
Heinrich G. Schneider	Hungary	5,557		
(Austria)	Luxembourg	1,020		
	Turkey	4,541	40,178	4.32

Director *Alternate*	Casting Votes of	Votes by Country	Total Votes[1]	Percent of Fund Total[2]
ELECTED (continued)				
Robert K. Joyce	Antigua and Barbuda	300		
(Canada)	Bahamas	914		
Luke Leonard (Ireland)	Barbados	591		
	Belize	345		
	Canada	29,660		
	Dominica	290		
	Grenada	310		
	Ireland	3,684		
	Jamaica	1,705		
	St. Christopher and Nevis	295		
	St. Lucia	325		
	St. Vincent	290	38,709	4.16
Salvatore Zecchini	Greece	4,249		
(Italy)	Italy	29,341		
Nikolaos Coumbis	Malta	701		
(Greece)	Portugal	4,016	38,307	4.12
Mohamed Finaish	Bahrain	739		
(Libya)	Iraq	5,290		
Tariq Alhaimus (Iraq)	Jordan	989		
	Kuwait	6,603		
	Lebanon	1,037		
	Libya	5,407		
	Maldives	270		
	Oman	881		
	Pakistan	5,713		
	Qatar	1,399		
	Somalia	692		
	Syrian Arab Republic	1,641		
	United Arab Emirates	2,276		
	Yemen Arab Republic	683		
	Yemen, People's Dem. Rep. of	1,022	34,642	3.72
C.R. Rye (Australia)	Australia	16,442		
Antonio V. Romuáldez	Korea	4,878		
(Philippines)	New Zealand	4,866		
	Papua New Guinea	909		
	Philippines	4,654		
	Seychelles	280		
	Solomon Islands	300		
	Vanuatu	340		
	Western Samoa	310	32,979	3.55
Hans Lundström	Denmark	7,360		
(Sweden)	Finland	5,999		
Henrik Fugmann	Iceland	846		
(Denmark)	Norway	7,240		
	Sweden	10,893	32,338	3.48

Director *Alternate*	Casting Votes of	Votes by Country	Total Votes[1]	Percent of Fund Total[2]
ELECTED (continued)				
Arjun K. Sengupta	Bangladesh	3,125		
(India)	Bhutan	275		
A.S. Jayawardena	India	22,327		
(Sri Lanka)	Sri Lanka	2,481	28,208	3.03
Alexandre Kafka (Brazil)	Brazil	14,863		
Hernando Arias	Colombia	4,192		
(Panama)	Dominican Republic	1,371		
	Ecuador	1,757		
	Guyana	742		
	Haiti	691		
	Panama	1,272		
	Suriname	743		
	Trinidad and Tobago	1,951	27,582	2.97
E. I. M. Mtei (Tanzania)	Botswana	471		
Ahmed Abdallah	Burundi	677		
(Kenya)	Ethiopia	956		
	The Gambia	421		
	Guinea	829		
	Kenya	1,670		
	Lesotho	401		
	Liberia	963		
	Malawi	622		
	Mozambique, People's Republic of	860		
	Nigeria	8,745		
	Sierra Leone	829		
	Sudan	1,947		
	Swaziland	497		
	Tanzania	1,320		
	Uganda	1,246		
	Zambia	2,953		
	Zimbabwe	2,160	27,567	2.96
J.E. Ismael (Indonesia)	Burma	1,620		
JAAFAR Ahmad	Fiji	615		
(Malaysia)	Indonesia	10,347		
	Lao People's Democratic Republic	543		
	Malaysia	5,756		
	Nepal	623		
	Singapore	1,174		
	Thailand	4,116		
	Viet Nam	2,018	26,812	2.88
ZHANG Zicun (CHANG Tse Chun) (China)	China	24,159	24,159	2.60
WANG Enshao (China)				

Director *Alternate*	Casting Votes of	Votes by Country	Total Votes[1]	Percent of Fund Total[2]
ELECTED (concluded)				
Fernando L. Nebbia	Argentina	11,380		
(Argentina)	Bolivia	1,157		
Brian Jensen (Peru)	Chile	4,655		
	Paraguay	734		
	Peru	3,559		
	Uruguay	1,888	23,373	2.51
Ghassem Salehkhou	Afghanistan	1,117		
(Islamic Republic of	Algeria	6,481		
Iran)	Ghana	2,295		
Omar Kabbaj (Morocco)	Iran, Islamic Republic of	6,850		
	Morocco	3,316		
	Tunisia	1,632	21,691	2.33
Abderrahmane Alfidja	Benin	563		
(Niger)	Burkina Faso	566		
Vacant	Cameroon	1,177		
	Cape Verde	295		
	Central African Republic	554		
	Chad	556		
	Comoros	295		
	Congo	623		
	Djibouti	330		
	Equatorial Guinea	434		
	Gabon	981		
	Guinea-Bissau	325		
	Ivory Coast	1,905		
	Madagascar	914		
	Mali	758		
	Mauritania	589		
	Mauritius	786		
	Niger	587		
	Rwanda	688		
	São Tomé and Principe	290		
	Senegal	1,101		
	Togo	634		
	Zaïre	3,160	18,111	1.95
			915,227[3]	98.41[2]

[1]Voting power varies on certain matters pertaining to the General Department with use of the Fund's resources in that Department.

[2]Percentages of total votes in the General Department and the SDR Department (930,018).

[3]This total does not include the votes of Egypt, Democratic Kampuchea, and South Africa, which did not participate in the 1984 Regular Election of Executive Directors. The combined votes of those members total 14,791—1.59 percent of those in the General Department and SDR Department.

Appendix V

Changes in Membership of Executive Board

Changes in membership of the Executive Board between May 1, 1984 and April 30, 1985 were as follows:

Nikolaos Coumbis (Greece) was appointed Alternate Executive Director to Giovanni Lovato (Italy), effective May 1, 1984.

Richard D. Erb (United States) resigned as Executive Director for the United States, effective May 31, 1984.

Teruo Hirao (Japan) resigned as Executive Director for Japan, effective July 27, 1984.

Hirotake Fujino (Japan) was appointed Executive Director for Japan, effective July 28, 1984.

Tadaie Yamashita (Japan), formerly Alternate Executive Director to Teruo Hirao (Japan), was appointed Alternate Executive Director to Hirotake Fujino (Japan), effective July 28, 1984.

Gerhard Laske (Federal Republic of Germany) resigned as Executive Director for the Federal Republic of Germany, effective August 31, 1984.

Bernd Goos (Federal Republic of Germany) was appointed Alternate Executive Director to Guenter Grosche (Federal Republic of Germany), effective September 1, 1984.

Guenter Grosche (Federal Republic of Germany), formerly Alternate Executive Director to Gerhard Laske (Federal Republic of Germany), was appointed Executive Director for the Federal Republic of Germany, effective September 1, 1984.

Mary K. Bush (United States), formerly Alternate Executive Director to Richard D. Erb (United States), was appointed Alternate Executive Director to Charles H. Dallara (United States), effective October 5, 1984.

Charles H. Dallara (United States) was appointed Executive Director for the United States, effective October 5, 1984.

Alvaro Donoso (Chile) completed his term of service as Executive Director for Argentina, Bolivia, Chile, Paraguay, Peru, and Uruguay, effective October 31, 1984.

José L. Feito (Spain) completed his term of service as Alternate Executive Director to Miguel A. Senior (Venezuela), effective October 31, 1984.

Giovanni Lovato (Italy) completed his term of service as Executive Director for Greece, Italy, Malta, and Portugal, effective October 31, 1984.

Kerry G. Morrell (New Zealand) completed his term of service as Alternate Executive Director to A.R.G. Prowse (Australia), effective October 31, 1984.

N'Faly Sangare (Guinea) completed his term of service as Executive Director for Botswana, Burundi, Ethiopia, The Gambia, Guinea, Kenya, Lesotho, Liberia, Malawi, Nigeria, Sierra Leone, Sudan, Swaziland, Tanzania, Uganda, Zambia, and Zimbabwe, effective October 31, 1984.

Miguel A. Senior (Venezuela) completed his term of service as Executive Director for Costa Rica, El Salvador, Guatemala, Honduras, Mexico, Nicaragua, Spain, and Venezuela, effective October 31, 1984.

Mario Teijeiro (Argentina) completed his term of service as Alternate Executive Director to Alvaro Donoso (Chile), effective October 31, 1984.

Ahmed Abdallah (Kenya) was appointed Alternate Executive Director to E.I.M. Mtei (Tanzania), effective November 1, 1984.

Abderrahmane Alfidja (Niger) was re-elected Executive Director by Benin, Burkina Faso, Cameroon, Cape Verde, the Central African Republic, Chad, the Comoros, the Congo, Djibouti, Equatorial Guinea, Gabon, Guinea-Bissau, Ivory Coast, Madagascar, Mali, Mauritania, Mauritius, Niger, Rwanda, São Tomé and Principe, Senegal, Togo, and Zaïre, effective November 1, 1984.

Tariq Alhaimus (Iraq) was reappointed Alternate Executive Director to Mohamed Finaish (Libya), effective November 1, 1984.

Nikolaos Coumbis (Greece), formerly Alternate Executive Director to Giovanni Lovato (Italy), was appointed Alternate Executive Director to Salvatore Zecchini (Italy), effective November 1, 1984.

Jacques de Groote (Belgium) was re-elected Executive Director by Austria, Belgium, Hungary, Luxembourg, and Turkey, effective November 1, 1984.

Tom de Vries (Netherlands) was reappointed Alternate Executive Director to J.J. Polak (Netherlands), effective November 1, 1984.

Mohamed Finaish (Libya) was re-elected Executive Director by Bahrain, Iraq, Jordan, Kuwait, Lebanon, Libya, Maldives, Oman, Pakistan, Qatar, Somalia, the Syrian Arab Republic, the United Arab Emirates, the Yemen Arab Republic, and the People's Democratic Republic of Yemen, effective November 1, 1984.

J.E. Ismael (Indonesia) was re-elected Executive Director by Burma, Fiji, Indonesia, the Lao People's Democratic Republic, Malaysia, Nepal, Singapore, Thailand, and Viet Nam, effective November 1, 1984.

Jaafar Ahmad (Malaysia) was reappointed Alternate Executive Director to J.E. Ismael (Indonesia), effective November 1, 1984.

A.S. Jayawardena (Sri Lanka) was reappointed Alternate Executive Director to R.N. Malhotra (India), effective November 1, 1984.

Brian Jensen (Peru) was appointed Alternate Executive Director to Fernando L. Nebbia (Argentina), effective November 1, 1984.

Robert K. Joyce (Canada), formerly Executive Director for Antigua and Barbuda, the Bahamas, Barbados, Belize, Canada, Dominica, Grenada, Ireland, Jamaica, St. Lucia, and St. Vincent, was elected Executive Director by Antigua and Barbuda, the Bahamas, Barbados, Belize, Canada, Dominica, Grenada, Ireland, Jamaica, St. Christopher and Nevis, St. Lucia, and St. Vincent, effective November 1, 1984.

Omar Kabbaj (Morocco) was reappointed Alternate Executive Director to Ghassem Salehkhou (Islamic Republic of Iran), effective November 1, 1984.

Alexandre Kafka (Brazil) was re-elected Executive Director by Brazil, Colombia, the Dominican Republic, Ecuador, Guyana, Haiti, Panama, Suriname, and Trinidad and Tobago, effective November 1, 1984.

Luke Leonard (Ireland) was reappointed Alternate Executive Director to Robert K. Joyce (Canada), effective November 1, 1984.

Arne Lindå (Sweden) was reappointed Alternate Executive Director to John Tvedt (Norway), effective November 1, 1984.

R.N. Malhotra (India) was re-elected Executive Director by Bangladesh, Bhutan, India, and Sri Lanka, effective November 1, 1984.

E.I.M. Mtei (Tanzania), formerly Alternate Executive Director to N'Faly Sangare (Guinea), was elected Executive Director by Botswana, Burundi, Ethiopia, The Gambia, Guinea, Kenya, Lesotho, Liberia, Malawi, the People's Republic of Mozambique, Nigeria, Sierra Leone, Sudan, Swaziland, Tanzania, Uganda, Zambia, and Zimbabwe, effective November 1, 1984.

Fernando L. Nebbia (Argentina) was elected Executive Director by Argentina, Bolivia, Chile, Paraguay, Peru, and Uruguay, effective November 1, 1984.

Guillermo Ortiz (Mexico) was appointed Alternate Executive Director to Pedro Pérez (Spain), effective November 1, 1984.

Pedro Pérez (Spain) was elected Executive Director by Costa Rica, El Salvador, Guatemala, Honduras, Mexico, Nicaragua, Spain, and Venezuela, effective November 1, 1984.

J.J. Polak (Netherlands) was re-elected Executive Director by Cyprus, Israel, the Netherlands, Romania, and Yugoslavia, effective November 1, 1984.

A.R.G. Prowse (Australia) was re-elected Executive Director by Australia, Korea, New Zealand, Papua New Guinea, the Philippines, Seychelles, Solomon Islands, Vanuatu, and Western Samoa, effective November 1, 1984.

César Robalino (Ecuador) was reappointed Alternate Executive Director to Alexandre Kafka (Brazil), effective November 1, 1984.

Antonio V. Romuáldez (Philippines) was appointed Alternate Executive Director to A.R.G. Prowse (Australia), effective November 1, 1984.

Ghassem Salehkhou (Islamic Republic of Iran) was re-elected Executive Director by Afghanistan, Algeria, Ghana, the Islamic Republic of Iran, Morocco, and Tunisia, effective November 1, 1984.

Heinrich G. Schneider (Austria) was reappointed Alternate Executive Director to Jacques de Groote (Belgium), effective November 1, 1984.

wa Bilenga Tshishimbi (Zaïre) was reappointed Alternate Executive Director to Abderrahmane Alfidja (Niger), effective November 1, 1984.

John Tvedt (Norway) was re-elected Executive Director by Denmark, Finland, Iceland, Norway, and Sweden, effective November 1, 1984.

Wang Enshao (China) was reappointed Alternate Executive Director to Zhang Zicun (China), effective November 1, 1984.

Salvatore Zecchini (Italy) was elected Executive Director by Greece, Italy, Malta, and Portugal, effective November 1, 1984.

Zhang Zicun (China) was re-elected Executive Director by China, effective November 1, 1984.

Tadaie Yamashita (Japan) resigned as Alternate Executive Director to Hirotake Fujino (Japan), effective December 12, 1984.

Masahiro Sugita (Japan) was appointed Alternate Executive Director to Hirotake Fujino (Japan), effective December 13, 1984.

John Tvedt (Norway) resigned as Executive Director for Denmark, Finland, Iceland, Norway, and Sweden, effective December 31, 1984.

Arne Lindå (Sweden), formerly Alternate Executive Director to John Tvedt (Norway), was appointed Alternate Executive Director to Hans Lundström (Sweden), effective January 1, 1985.

Hans Lundström (Sweden) was elected Executive Director by Denmark, Finland, Iceland, Norway, and Sweden, effective January 1, 1985.

Tom de Vries (Netherlands) resigned as Alternate Executive Director to J.J. Polak (Netherlands), effective January 15, 1985.

J. de Beaufort Wijnholds (Netherlands) was appointed Alternate Executive Director to J.J. Polak (Netherlands), effective January 16, 1985.

R.N. Malhotra (India) resigned as Executive Director for Bangladesh, Bhutan, India, and Sri Lanka, effective February 3, 1985.

A.S. Jayawardena (Sri Lanka), formerly Alternate Executive Director to R.N. Malhotra (India), was appointed Alternate Executive Director to Arjun K. Sengupta (India), effective February 4, 1985.

Arjun K. Sengupta (India) was elected Executive Director by Bangladesh, Bhutan, India, and Sri Lanka, effective February 4, 1985.

A.R.G. Prowse (Australia) resigned as Executive Director for Australia, Korea, New Zealand, Papua New Guinea, the Philippines, Seychelles, Solomon Islands, Vanuatu, and Western Samoa, effective February 15, 1985.

Antonio V. Romuáldez (Philippines), formerly Alternate Executive Director to A.R.G. Prowse (Australia), was appointed Alternate Executive Director to C.R. Rye (Australia), effective February 16, 1985.

C.R. Rye (Australia) was elected Executive Director by Australia, Korea, New Zealand, Papua New Guinea, the Philippines, Seychelles, Solomon Islands, Vanuatu, and Western Samoa, effective February 16, 1985.

César Robalino (Ecuador) resigned as Alternate Executive Director to Alexandre Kafka (Brazil), effective February 28, 1985.

Hernando Arias (Panama) was appointed Alternate Executive Director to Alexandre Kafka (Brazil), effective March 1, 1985.

Arne Lindå (Sweden) resigned as Alternate Executive Director to Hans Lundström (Sweden), effective March 10, 1985.

Henrik Fugmann (Denmark) was appointed Alternate Executive Director to Hans Lundström (Sweden), effective March 11, 1985.

wa Bilenga Tshishimbi (Zaïre) resigned as Alternate Executive Director to Abderrahmane Alfidja (Niger), effective March 21, 1985.

The following served at certain times during 1984/85 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*)
Ali Asghar Agah (*Iran, Islamic Republic of*)	Ghassem Salehkhou (*Iran, Islamic Republic of*)
Eric Michael Ainley (*United Kingdom*)	Yusuf A. Nimatallah (*Saudi Arabia*)
E.A. Ajayi (*Nigeria*)	E.I.M. Mtei (*Tanzania*)
Hassan Alaoui-Abdallaoui (*Morocco*)	Ghassem Salehkou (*Iran, Islamic Republic of*)
José Roberto Novaes de Almeida (*Brazil*)	Alexandre Kafka (*Brazil*)
Ignazio Angeloni (*Italy*)	Giovanni Lovato (*Italy*) Salvatore Zecchini (*Italy*)
Hernando Arias Garcia (*Panama*)	Alexandre Kafka (*Brazil*)
Chandi J. Batliwalla (*India*)	R.N. Malhotra (*India*)
Wolf-Ruediger Bengs (*Germany, Federal Republic of*)	Guenter Grosche (*Germany, Federal Republic of*)
Romeo Lopez Bernardo (*Philippines*)	A.R.G. Prowse (*Australia*)
Janet Bulloch (*United Kingdom*)	Nigel Wicks (*United Kingdom*)
Mohamed Camara (*Guinea*)	N'Faly Sangare (*Guinea*) E.I.M. Mtei (*Tanzania*)
Gabriel R. Castellanos (*Guatemela*)	Pedro Pérez (*Spain*)
Kutsan Celebican (*Turkey*)	Jacques de Groote (*Belgium*)
Mohamed Bahaa Chatah (*Lebanon*)	Mohamed Finaish (*Libya*)
Chen Jian (*China*)	Zhang Zicun (*China*)
Luc E.J.M. Coene (*Belgium*)	Jacques de Groote (*Belgium*)
Silvio E. Conrado (*Nicaragua*)	Miguel A. Senior (*Venezuela*)
Joaquín de la Herrán (*Spain*)	Pedro Pérez (*Spain*)
Jaime Delgadillo (*Bolivia*)	Alvaro Donoso (*Chile*)
Alimata Koné Diaby (*Ivory Coast*)	Abderrahmane Alfidja (*Niger*)
Lubin Kobla Doe (*Togo*)	Abderrahmane Alfidja (*Niger*)
J. Julio Dreizzen (*Argentina*)	Fernando L. Nebbia (*Argentina*)
Samir Fouad El-Khouri (*Lebanon*)	Yusuf A. Nimatallah (*Saudi Arabia*)
Miriam Eran (*Israel*)	J.J. Polak (*Netherlands*)
Gazi Ercel (*Turkey*)	Jacques de Groote (*Belgium*)
Christian Flamant (*France*)	Bruno de Maulde (*France*)
Ingimundur Fridriksson (*Iceland*)	John Tvedt (*Norway*)
Giorgio Gomel (*Italy*)	Giovanni Lovato (*Italy*)
Vinjamuri Govindarajan (*India*)	R.N. Malhotra (*India*) Arjun K. Sengupta (*India*)
Detlev Hammann (*Germany, Federal Republic of*)	Gerhard Laske (*Germany, Federal Republic of*) Guenter Grosche (*Germany, Federal Republic of*)
Kai Aaen Hansen (*Denmark*)	John Tvedt (*Norway*) Hans Lundström (*Sweden*)
Nadeem Ul Haque (*Pakistan*)	Mohamed Finaish (*Libya*)
Sabir Mohamed Hassan (*Sudan*)	N'Faly Sangare (*Guinea*) E.I.M. Mtei (*Tanzania*)
Glen David Hodgson (*Canada*)	Robert K. Joyce (*Canada*)
Jerry Hospedales (*Trinidad and Tobago*)	Alexandre Kafka (*Brazil*)
Liviu Ionescu (*Romania*)	J.J. Polak (*Netherlands*)

Temporary Alternate Executive Director	Executive Director for whom Temporary Alternate Served
Abdel Rehman Ismael (*Mauritius*)	Abderrahmane Alfidja (*Niger*)
Joseph Mills Jones (*Liberia*)	N'Faly Sangare (*Guinea*)
	E.I.M. Mtei (*Tanzania*)
Antti Kalervo Juusela (*Finland*)	John Tvedt (*Norway*)
	Hans Lundström (*Sweden*)
Hirotaka Kobayashi (*Japan*)	Teruo Hirao (*Japan*)
	Hirotake Fujino (*Japan*)
Serge Kolb (*Luxembourg*)	Jacques de Groote (*Belgium*)
Hak-Sung Lee (*Korea*)	A.R.G. Prowse (*Australia*)
	C.R. Rye (*Australia*)
Meg Lundsager (*United States*)	Charles H. Dallara (*United States*)
Wolfgang Moerke (*Germany, Federal Republic of*)	Gerhard Laske (*Germany, Federal Republic of*)
Rachid Msadek (*Tunisia*)	Ghassem Salehkhou (*Iran, Islamic Republic of*)
James A.K. Munthali (*Malawi*)	E.I.M. Mtei (*Tanzania*)
Kazuya Murakami (*Japan*)	Hirotake Fujino (*Japan*)
Barry S. Newman (*United States*)	Charles H. Dallara (*United States*)
Georges E.L. Nguyen (*France*)	Bruno de Maulde (*France*)
Jean-Christian Obame (*Gabon*)	Abderrahmane Alfidja (*Niger*)
Yoshio Okubo (*Japan*)	Teruo Hirao (*Japan*)
Enok Olsen (*Norway*)	John Tvedt (*Norway*)
	Hans Lundström (*Sweden*)
John Kobina Orleans-Lindsay (*Ghana*)	Abderrahmane Alfidja (*Niger*)
Ishwari Raj Panday (*Nepal*)	J.E. Ismael (*Indonesia*)
Pál Péterfalvy (*Hungary*)	Jacques de Groote (*Belgium*)
George W.K. Pickering (*Canada*)	Robert K. Joyce (*Canada*)
Eduardo Portas (*Mexico*)	Miguel A. Senior (*Venezuela*)
Mohammed Zia Masoom Qureshi (*Pakistan*)	Mohamed Finaish (*Libya*)
Tawfik Ramtoolah (*Mauritius*)	Abderrahmane Alfidja (*Niger*)
Mukhlis Rasyid (*Indonesia*)	J.E. Ismael (*Indonesia*)
Janardana Reddy (*Fiji*)	J.E. Ismael (*Indonesia*)
David J. Robinson (*United Kingdom*)	Nigel Wicks (*United Kingdom*)
Jesús E. Rodríguez Núñez (*Venezuela*)	Miguel A. Senior (*Venezuela*)
	Pedro Pérez (*Spain*)
Cristian Alfonso Salinas Cerda (*Chile*)	Alvaro Donoso (*Chile*)
	Fernando L. Nebbia (*Argentina*)
A.A. Scholten (*Netherlands*)	J.J. Polak (*Netherlands*)
Shao Zhengkang (*China*)	Zhang Zicun (*China*)
Douglas I.S. Shaw (*Canada*)	Robert K. Joyce (*Canada*)
Tanya Sirivedhin (*Thailand*)	J.E. Ismael (*Indonesia*)
Sakorn Sornyanyontr (*Thailand*)	J.E. Ismael (*Indonesia*)
Avigdor Steinberg (*Israel*)	J.J. Polak (*Netherlands*)
Elwaleed M. Taha (*Sudan*)	Yusuf A. Nimatallah (*Saudi Arabia*)
Donald Charles Templeman (*United States*)	Richard D. Erb (*United States*)
	Charles H. Dallara (*United States*)
Norbert Toé (*Burkina Faso*)	Abderrahmane Alfidja (*Niger*)
Livio Tornetta (*Italy*)	Salvatore Zecchini (*Italy*)
Alan Jeffrey Tregilgas (*Australia*)	A.R.G. Prowse (*Australia*)
A. Vasudevan (*India*)	R.N. Malhotra (*India*)
	Arjun K. Sengupta (*India*)
Mario Alejandro Weitz (*Argentina*)	Alvaro Donoso (*Chile*)
	Fernando L. Nebbia (*Argentina*)
John Calvin Williams (*United States*)	Richard D. Erb (*United States*)
Ali Yasseri (*Iran, Islamic Republic of*)	Ghassem Salehkhou (*Iran, Islamic Republic of*)
Zakaria bin Ismail (*Malaysia*)	J.E. Ismael (*Indonesia*)

Appendix VI

Administrative Budget

Administrative Budget as Approved by the Executive Board for the Financial Year Ending April 30, 1986 Compared with Actual Expenses for the Financial Years Ended April 30, 1984 and 1985

(Values expressed in SDRs) [1]

Object of Expense	Financial Year Ended April 30, 1984	Financial Year Ended April 30, 1985		Financial Year Ending April 30, 1986
	Actual Expenses	Revised Budget	Actual Expenses	Budget
I. PERSONNEL EXPENSES				
Salaries	78,993,602	91,111,358	89,931,088	100,437,454
Other personnel expenses	53,554,860	60,434,147	59,651,824	66,312,653
Total	132,548,462	151,545,505	149,582,912	166,750,107
II. TRAVEL EXPENSES				
Business travel	12,986,925	14,517,864	13,748,780	17,376,775
Other travel	10,153,155	11,888,468	11,317,691	13,274,700
Total	23,140,080	26,406,332	25,066,471	30,651,475
III. OTHER ADMINISTRATIVE EXPENSES				
Communications	6,384,835	6,868,816	6,868,675	6,013,672
Building occupancy	8,621,476	13,305,623	10,356,057	15,941,809
Books and printing	1,657,064	2,031,440	1,862,282	2,139,772
Supplies and equipment	4,253,202	5,291,824	4,388,655	7,413,144
Data processing services	10,103,424	25,245,431	24,185,385	22,969,592
Miscellaneous	5,231,959	5,689,452	5,689,423	4,872,799
Total	36,251,960	58,432,586	53,350,477	59,350,788
TOTAL [2]	191,940,502	236,384,423	227,999,860	256,752,370

[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, 1984 totaled SDR 188,940,478 after a deduction of the amount reimbursed to the General Resources Account by assessments levied on the net cumulative allocations of participants in the SDR Department (SDR 3,000,024). For the year ended April 30, 1985, net administrative expenses amounted to SDR 224,399,859 after a deduction of SDR 3,600,001 reimbursed to the General Resources Account by assessments levied on the net cumulative allocations of participants in the SDR Department.

Appendix VII

Comparative Statement of Income and Expense

(Values expressed in SDRs)

	Financial Year Ended April 30		
	1983	1984	1985
OPERATIONAL INCOME[1]			
Periodic charges			
Received in SDRs	1,282,417,980	1,909,632,764	2,472,230,010
Amounts receivable	262,993,780	454,168,294	496,917,816[2]
Total	1,545,411,760	2,363,801,058	2,969,147,826
Interest on holdings of SDRs			
Received in SDRs	444,258,572	146,926,226	381,178,394
Amounts receivable	—	224,704,421	97,116,224
Total	444,258,572	371,630,647	478,294,618
Other operational charges			
Received in SDRs	55,627,079	56,564,842	34,616,178
Total Operational Income	2,045,297,411	2,791,996,547	3,482,058,622
OPERATIONAL EXPENSE[1]			
Remuneration			
Paid in SDRs	—	610,796,785	1,292,674,841
Paid in members' currencies	18,571,289	7,770,453	14,738,003
Amounts payable	962,550,264	667,752,311	413,788,828
Total	981,121,553	1,286,319,549	1,721,201,672
Interest on borrowing			
Paid in SDRs	156,910,948	129,059,065	385,524,449
Paid in members' currencies	417,316,875	792,541,653	793,340,648
Amounts payable	260,668,454	435,258,494	398,223,677
Total	834,896,277	1,356,859,212	1,577,088,774
Less: net income from temporary investments held in the Borrowed Resources Suspense Accounts	27,513,391	117,014,821	10,570,875
Other	—	11,216	2,351
Total Operational Expense	1,788,504,439	2,526,175,156	3,287,721,922
NET OPERATIONAL INCOME	256,792,972	265,821,391	194,336,700
NONOPERATIONAL EXPENSE			
Administrative budget expense	165,315,827[3]	188,940,478[3]	224,399,859[3]
Fixed property expense	15,480,167	3,869,486	535,014
Net valuation adjustment loss (gain)	(427,641)	(47,973)	(742,676)
Cumulative effect on prior years (to April 30, 1982) of changing the method of accounting for compensated absences and accumulated termination grants	11,029,770	—	—
TOTAL	191,398,123	192,761,991	224,192,197
NET INCOME (LOSS)	65,394,849	73,059,400	(29,855,497)

[1] Income and expense in the General Department are recorded on the accrual basis and some amounts recorded in a financial year may not be settled until the following financial year. Consequently, amounts will differ from those shown in the financial statements of the SDR Department (Appendix VIII) which are reported on the basis of payments actually made.

[2] Does not include SDR 56,417,013 of charges accounted for as deferred income in financial year 1985.

[3] After deduction of SDR 2,500,002 for financial year 1983, SDR 3,000,024 for financial year 1984, and SDR 3,600,001 for financial year 1985, reimbursed to the General Resources Account by assessments levied on the net cumulative allocations of participants in the SDR Department.

Appendix VIII

Financial Statements of the General Department, SDR Department, Supplementary Financing Facility Subsidy Account, Trust Fund, and Staff Retirement Plan

REPORT OF THE EXTERNAL AUDIT COMMITTEE

Washington, D.C.
June 28, 1985

AUTHORITY AND SCOPE OF THE AUDIT

In accordance with Section 20(b) of the By-Laws of the International Monetary Fund we have audited the financial statements of the Fund for the year ended April 30, 1985, covering the

—General Department (including the General Resources Account, Borrowed Resources Suspense Accounts, and Special Disbursement Account),
—SDR Department, and
—Accounts Administered by the Fund, which consist of the Supplementary Financing Facility Subsidy Account and the Trust Fund.

The audit was conducted in accordance with international auditing standards and, accordingly, included reviews of accounting and control systems, tests of accounting records, evaluation of the extent and results of work performed by the Internal Auditor, and other audit procedures.

AUDIT OPINION

In our opinion, the financial statements of the General Department (including the related supplemental schedules one through four), the SDR Department, and the Accounts Administered by the Fund have been prepared in accordance with generally accepted accounting principles applied on a basis consistent with that of the preceding year, and give a true and fair view of the respective financial positions and the allocations and holdings of SDRs as at April 30, 1985, and of the financial results of operations and transactions during that year.

EXTERNAL AUDIT COMMITTEE:

/s/ M. Ijadur Rahman, Chairman (Bangladesh)
/s/ Nicodemus Jordanides (Greece)
/s/ Jay M. Weinstein (United States)

INTERNATIONAL MONETARY FUND

GENERAL DEPARTMENT

BALANCE SHEET

as at April 30, 1985

(In thousands of SDRs)

(Note 1)

	1985	1984
ASSETS		
Currencies and Securities (Notes 2 and 5)	95,994,219	93,574,681
SDR Holdings (Note 3)	4,615,747	6,436,730
Gold Holdings (Note 4)	3,620,396	3,620,396
Borrowed Resources Held in Suspense	203,407	601,642
Charges Receivable and Accrued (Note 5)	932,071	786,931
Accrued Interest on SDR Holdings	97,116	224,704
Other Assets	23,489	20,873
Total Assets	105,486,445	105,265,957
QUOTAS, RESERVES, AND LIABILITIES		
Quotas		
Subscriptions of Members	89,301,800	89,236,300
Reserves (Note 6)	1,043,919	1,073,774
Liabilities		
Borrowing (Note 7)	14,202,990	13,791,229
Remuneration Payable (Note 5)	413,789	667,752
Accrued Interest Payable	397,076	435,258
Other Liabilities and Deferred Credits (Note 5)	126,871	61,644
Total Quotas, Reserves, and Liabilities	105,486,445	105,265,957

The accompanying notes and Schedules 1–4 are an integral part of the financial statements.

/s/ W. O. HABERMEIER
Treasurer

/s/ J. DE LAROSIÈRE
Managing Director

INTERNATIONAL MONETARY FUND

GENERAL DEPARTMENT

STATEMENT OF INCOME AND EXPENSE

for the year ended April 30, 1985

(In thousands of SDRs)

(Note 1)

	1985	1984
OPERATIONAL INCOME		
Periodic charges	3,025,565	2,364,552
Deduct: Income deferred	56,417	751
Net periodic charges (Note 5)	2,969,148	2,363,801
Interest on SDR holdings	478,295	371,631
Service charges	30,299	50,820
Other	4,317	5,744
	3,482,059	2,791,996
OPERATIONAL EXPENSE		
Remuneration (Note 5)	1,721,202	1,286,320
Interest on borrowing, net of income from temporary investments held in Borrowed Resources Suspense Accounts (SDR 10,571 in 1985 and SDR 117,015 in 1984)	1,566,518	1,239,845
Other operational expense	2	11
	3,287,722	2,526,176
Net Operational Income	194,337	265,820
ADMINISTRATIVE EXPENSE (Note 9)		
Personnel	149,583	132,549
Travel	25,066	23,140
Other, net	49,008	33,203
Fixed property (Note 1)	535	3,869
Total Administrative Expense	224,192	192,761
NET INCOME (LOSS)	**(29,855)**	**73,059**

The accompanying notes and Schedules 1–4 are an integral part of the financial statements.

INTERNATIONAL MONETARY FUND

General Department

Statement of Changes in Reserves

for the year ended April 30, 1985

(In thousands of SDRs)

(Note 1)

	1985	1984
SPECIAL RESERVE (Note 6)		
Balance at beginning of the year	708,194	635,135
Net income (loss)	(29,855)	73,059
Balance at end of the year	678,339	708,194
GENERAL RESERVE (Note 6)		
Balance at beginning and end of the year	365,580	365,580
TOTAL RESERVES	1,043,919	1,073,774

The accompanying notes and Schedules 1–4 are an integral part of the financial statements.

INTERNATIONAL MONETARY FUND

GENERAL DEPARTMENT

NOTES TO THE FINANCIAL STATEMENTS

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 Investment Account had not been activated at April 30, 1985. The General Department also includes Borrowed Resources Suspense Accounts, the establishment of which was authorized by the Executive Board in May 1981.

General Resources Account

Assets held in the General Resources Account comprise (i) currencies of the Fund's member countries (including securities), (ii) SDR holdings, and (iii) gold.

Each member is required to pay to the Fund the amount of its initial quota and subsequent increases partly in the member's own currency and the remainder in the form of reserve assets, except that for the increases proposed in 1978, members were permitted to pay the entire increase in their own currencies. A member's quota cannot be increased until it consents to the increase and pays the subscription in full.

The Fund makes its resources available to its members by selling SDRs or currencies to members in exchange for their own currency in accordance with Fund policies on the use of its resources. Use of the Fund's resources by a member is dependent on the member having a balance of payments need.

When members make purchases, they undertake to repurchase, within the period specified by the Fund, the Fund's holdings of their currencies against the payment to the Fund of SDRs or the currencies of other members specified by the Fund. The Fund's policies on the use of its resources, which indicate the time period for which purchases may be outstanding, are intended to assure that use of its resources is temporary and will be reversed within time periods specified by the Fund.

The composition of the Fund's holdings of members' currencies changes as a result of the Fund's operations and transactions, including purchase and repurchase transactions in currencies as noted above. The currency holdings reflect both the counterpart of purchases by those members that have a need to use the Fund's resources, and also the currencies of those members whose balance of payments and reserve positions are determined by the Fund on a quarterly basis to be sufficiently strong for their currencies to be used in all the Fund's operations and transactions in accordance with the policies of the Fund.

A member has a reserve tranche in the Fund to the extent that the Fund's holdings of its currency, excluding holdings which reflect the member's use of Fund credit, are less than the member's quota. A member's reserve tranche is regarded as a part of the member's external reserves and a member may purchase up to the amount of its full reserve tranche at any time. Reserve tranche purchases are not regarded as a use of Fund credit.

Members may make use of Fund resources under various policies and the amount of such use is related to a member's quota in the Fund. Under the credit tranche policy, the credit is at present made available to members in a range consisting of four tranches or segments, each equal to 25 percent of a member's quota. A first credit tranche purchase is defined as one that raises the Fund's holdings of a member's currency in the credit tranche from 0 to 25 percent of quota. Subsequent purchases are made in three successive tranches, each equal to 25 percent of quota, to a level of no more than 100 percent of quota. Purchases in these three tranches are referred to as upper credit tranche purchases. Higher conditionality accompanies the use of Fund credit in the upper tranches.

Members experiencing balance of payments difficulties may enter into stand-by arrangements with the Fund under which the Fund commits itself to provide resources to be made available over periods of up to three years from the date of the arrangements. Purchases under these arrangements in the upper credit tranches depend upon the member's meeting the performance criteria included in the arrangements.

In addition to purchases under the Fund's credit tranche policies, members may use the Fund's resources under decisions on:

- Compensatory financing—to assist members, particularly primary exporters, encountering payments difficulties produced by temporary export shortfalls attributable to circumstances beyond their control and in addition, at their option, to assist members encountering payments difficulties produced by an excess in the cost of their cereal imports.
- Buffer stock financing—to assist members in connection with the financing of international buffer stocks of primary products.
- Extended Fund facility—to provide, through extended arrangements of up to three years, medium-term assistance to members to make structural adjustments in their economies. Purchases under these arrangements depend upon the member's meeting the performance criteria included in the arrangements.
- Supplementary financing facility and the policy on enlarged access—to make resources available under stand-by and extended arrangements, in addition to those available in the credit tranches or under the extended Fund facility, to members facing serious payments imbalances that are large in relation to their quotas. These policies are temporary and may be utilized only in conjunction with the use of resources in the upper credit tranches.

Members that purchase resources from the Fund undertake to repurchase the Fund's holdings of their currencies against the payment to the Fund of SDRs or the currencies of other members specified by the Fund. Reserve tranche purchases made after April 1, 1978 are not subject to repurchase. Under the Fund's repurchase policies, purchases in the credit tranches, under the compensatory financing facility, and under the buffer stock facility, are to be repurchased in quarterly installments beginning three years, and ending not later than five years, after the date of purchase; repurchases of purchases financed with borrowed resources under the supplementary financing facility or the enlarged access policy are to be made in semiannual installments beginning three and one-half years, and ending not later than seven years, after the date of purchase; and repurchases under the extended Fund facility (other than purchases financed with borrowed resources under the supplementary financing facility or policy on enlarged access) are to be made in semiannual installments beginning four years, and ending not later than ten years, after the date of purchase. However, a member is entitled to repurchase at any time holdings of its currency on which the Fund levies charges, and is expected to make repurchases prior to the periods mentioned above as and when its balance of payments and reserve position improves.

Borrowed Resources Suspense Accounts

Borrowed Resources Suspense Accounts have been established in order to hold, transfer, convert, and invest (i) currencies borrowed by the Fund before they are transferred to the General Resources Account for use in transactions or operations; and (ii) currencies received by the Fund in repurchases financed with borrowed resources before repayments to lenders can be made. Members are not obligated to maintain the SDR value of their currencies held by the Fund in the Borrowed Resources Suspense Accounts, and as far as practicable, the currencies are invested in SDR-denominated obligations.

At April 30, 1985 borrowed resources held in suspense amounted to SDR 203.41 million (SDR 601.64 million at April 30, 1984) and included accrued income of SDR 0.87 million (SDR 5.01 million at April 30, 1984).

Special Disbursement Account

The Special Disbursement Account was activated on June 30, 1981. The Fund administers a Trust Fund, established in 1976 to provide balance of payments assistance on concessional terms to certain members. This Trust Fund is at present being wound up and resources received by the Trust Fund after April 30, 1981 are transferred to the Special Disbursement Account, of which up to SDR 750 million is to be placed to the Supplementary Financing Facility Subsidy Account. At April 30, 1985 SDR 401.19 million (SDR 174.92 million at April 30, 1984) had been received into the Special Disbursement Account from the Trust Fund and placed to the Supplementary Financing Facility Subsidy Account. There were no resources held in the Special Disbursement Account at April 30, 1985 and at April 30, 1984.

1. Accounting Practices

Unit of Account

The accounts of the General Department are expressed in terms of the SDR. At present, the currency value of the SDR is determined daily by the Fund by summing the values in U.S. dollars, based on market exchange rates, of a basket of five specified currencies, as follows:

Currencies	*Amount*
U.S. dollar	0.54
Deutsche mark	0.46
French franc	0.74
Japanese yen	34
Pound sterling	0.071

Members' currencies are valued in terms of the SDR on the basis of the representative rate of exchange determined in accordance with the Rules of the Fund. Gold with depositories is valued on the basis that one SDR is equivalent to 0.888671 gram of fine gold.

Basis of Accounting

The Fund maintains its books of accounts on an accrual basis and, accordingly, recognizes income as it is earned and records expenses as they are incurred except that income from charges from members that are overdue in their obligations to the Fund by six months or more is deferred and is recognized as income only when paid unless the member has remained current in the payment of charges when due (see Note 5). It is the practice of the Fund to make all calculations on the basis of the exact number of days in the accounting period.

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, 1985, the cost of property, furniture, and equipment charged as an expense amounted to SDR 17 million (SDR 7.05 million in 1984), of which SDR 16.5 million is included in other administrative expense (SDR 3.2 million in 1984).

2. Currencies and Securities

Each member has the option to substitute nonnegotiable and non-interest-bearing securities for the amount of its currency held by the Fund in the General Resources Account that is in excess of ¼ of 1 percent of the member's quota. These securities, which are part of the Fund's currency holdings, are encashable by the Fund on demand.

Changes in the Fund's holdings of members' currencies and securities for the year ended April 30, 1985 were as follows:

	In millions of SDRs		
	April 30, 1984	April 30, 1985	Net Change
Members' quotas	89,236	89,302	66
Members' use of Fund credit	31,742	34,973	3,231
Members' reserve tranches	(27,415)	(28,290)	(875)
Administrative currency balances	12	9	(3)
Currencies and securities	93,575	95,994	2,419

Each member is obligated to maintain the value of the Fund's holdings of its currency in terms of the SDR except for holdings which may be held in Borrowed Resources Suspense Accounts, the Special Disbursement Account, and the Investment Account. 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 Fund's holdings of the currency in terms of the SDR. The balances of the accounts receivable or payable are reflected in the Fund's total currency holdings. At April 30, 1985 accounts receivable to maintain SDR values of currency holdings amounted to SDR 16,990.80 million and accounts payable amounted to SDR 981.99 million (SDR 12,542.42 million and SDR 728.95 million at April 30, 1984). At June 24, 1985, the amounts receivable were SDR 4,195.16 million and amounts payable were SDR 330.74 million.

The Fund's holdings of members' currencies at April 30, 1985 are shown in Schedule 1.

3. SDR Holdings

SDRs are reserve assets created by the Fund and allocated to members participating in the SDR Department. Although SDRs are not allocated to the Fund, the Fund may acquire, hold, and dispose of them through the General Resources Account. SDRs held by the Fund are received from its members in the settlement of their financial obligations to the Fund (quota payments, repurchases, and charges) and may be used by the Fund in transactions and operations between the Fund and its members (sold to members in purchases or transferred to members in the settlement of remuneration and interest on Fund borrowing). The Fund earns interest on its SDR holdings at the same rate as all other holders of SDRs.

4. Gold Holdings

At April 30, 1985 the Fund held 3,217,341 kilograms of gold at designated depositories.

5. Fund Operations

For the year ended April 30, 1985, members' purchases amounted to SDR 6,289 million, of which SDR 229 million were reserve tranche purchases. Over the same period, repurchases by members and use of debtor currencies totaled SDR 2,845 million, including repurchases of SDR 16 million relating to purchases made prior to the Second Amendment and attributed to the reserve tranche. The members' purchases subject to repurchase are shown in Schedule 2.

Changes in the outstanding use of Fund credit under various facilities for the year ended April 30, 1985, were as follows:

	In millions of SDRs			
	April 30, 1984	Purchases	Repurchases	April 30, 1985
Regular facilities	5,197	1,230	916	5,511
Compensatory financing	7,304	1,248	1,062	7,490
Buffer stock financing	375	—	138	237
Extended Fund facility	5,568	1,020	59	6,529
Supplementary financing facility	6,920	—	610	6,310
Enlarged access	6,378	2,562	44	8,896
Total	31,742	6,060	2,829	34,973

Periodic Charges and Remuneration

The Fund levies charges, which are payable periodically, on its holdings of a member's currency that derive from the member's use of Fund credit. A service charge is levied by the Fund on each purchase involving use of Fund resources other than reserve tranche purchases.

The Fund also charges a stand-by fee payable at the beginning of each 12-month period, on the undrawn balance of a stand-by or extended arrangement. This fee is refunded proportional to purchases made under the arrangement. If the full amount of the arrangement is not drawn, the balance of the stand-by fee is taken into income by the Fund upon the expiration of the arrangement. Stand-by fees included in other income for the year ended April 30, 1985 amounted to SDR 4.3 million (SDR 5.7 million in 1984).

The Fund pays remuneration on a member's remunerated reserve tranche position. A remunerated reserve tranche position is the amount by which the Fund's holdings of a member's currency (excluding holdings that derive from the use of Fund credit) is below the "norm." The norm is an amount equal to 75 percent of the member's quota on April 1, 1978 plus the total of subsequent increases in the member's quota. For members that joined the Fund after April 1, 1978, the norm is determined by adding the proportion of the member's quota equal to the average of the norm of all other members on the date the member joined the Fund and the total of subsequent increases in the member's quota.

At April 30, 1985, the total holdings on which the Fund levied charges amounted to SDR 34,973 million (SDR 31,742 million in 1984) and total creditor positions on which the Fund paid remuneration amounted to SDR 22,211 million (SDR 21,200 million in 1984).

During the year ended April 30, 1985 the Fund extended the deferral of recognition as current income of amounts from members that are overdue in meeting payments to the Fund. Charges receivable from members that are late by six months or more in discharging financial obligations to the Fund and also are not current in paying charges when due are reported as deferred income until actually settled. At April 30, 1985, four members were more than six months late in discharging financial obligations to the Fund and also were not current in paying charges. At that date, the total amount of charges receivable from these members, reflected in the balance sheet as charges receivable and accrued and as deferred credits, amounted to SDR 62.8 million, of which SDR 56.4 million represented the addition to deferred income for the year then ended.

Amounts receivable by the General Department of the Fund from members overdue in payments to the Fund for six months or more were as follows:

	In millions of SDRs	
	April 30	
	1985	1984
Number of members	4	3
Use of Fund resources:		
Total	717.9	99.5
Repurchases overdue	111.0	31.9
Overdue six months or more	57.8	22.7
Charges:		
Total	62.8	12.8
Overdue	44.2	11.7
Overdue six months or more	13.4	8.3

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 Articles of Agreement do not limit the use that the Fund may make of the General Reserve, and permit the Fund to use the Special Reserve for any purpose for which it may use the General Reserve, except distribution. Any administrative deficit for any financial year must be written off first against the Special Reserve.

7. Borrowing

Outstanding borrowing by the Fund was as follows:

	In millions of SDRs			
	April 30, 1984	Borrowing	Repayment	April 30, 1985
Supplementary financing facility	6,915	—	676	6,239
Enlarged access	6,876	2,152	1,064	7,964
	13,791	2,152	1,740	14,203

Scheduled repayments of outstanding borrowing by the Fund are shown in Schedule 3.

Supplementary Financing Facility

The supplementary financing facility became operational in May 1979. The Fund entered into borrowing agreements with 14 members, or institutions within their territories, and with the Swiss National Bank, under which the lenders agreed to make resources available to the Fund, at call, up to SDR 7,784 million through February 1984 to finance purchases by members under this facility. Borrowing by the Fund under these agreements is to be repaid in installments between three and one-half to seven years after the date of borrowing. 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.

Enlarged Access

The policy on enlarged access became operational in May 1981. The Fund has entered into borrowing agreements with various members, or institutions within their territories, the Bank for International Settlements, and the Swiss National Bank, under which the lenders have agreed to make resources available to the Fund, up to SDR 15,305 million, to finance purchases by members under the policy. The maturities of borrowing by the Fund under these agreements vary from three months to seven years. Interest paid by the Fund on amounts borrowed under these agreements is at variable rates of interest which are established periodically, and are related to market interest rates, based on Eurocurrency deposit rates and weighted average yields of domestic instruments denominated in the five currencies in the SDR valuation basket.

General Arrangements to Borrow (GAB)

Under the General Arrangements to Borrow the Fund may borrow up to specified amounts from adherents when supplementary resources are needed to forestall or to cope with an impairment of the international monetary system. The GAB first became effective from October 24, 1962 and has been renewed until December 25, 1988.

In February 1983, the Fund approved an enlargement of the GAB to SDR 17 billion including provision for the adherence of the Swiss National Bank as a participant, and for associated arrangements with nonparticipants (SDR 1.5 billion). It also approved amendments that would allow the Fund to borrow under the GAB in certain circumstances in order to finance purchases by nonparticipants. These changes, including one associated agreement with the Saudi Arabian Monetary Agency (SDR 1.5 billion), became effective on December 26, 1983 when all ten participants had notified the Fund of their concurrence in the amendments and in the increased credit limits. The Swiss National Bank adhered to these arrangements in April 1984.

Borrowing Guidelines

The Fund has established guidelines for borrowing, which provide that the Fund will not allow the total of outstanding borrowing, plus unused credit lines, to exceed the range of 50 to 60 percent of the total of Fund quotas. Since all GAB lines of credit are unlikely to be called upon at the same time, the total of outstanding borrowing shall include either outstanding borrowing by the Fund under the GAB, or two thirds of the total credit lines under the GAB and associated agreements, whichever is the greater. The borrowing guidelines are subject to review by the Executive Board. Total outstanding borrowing and unused credit lines, calculated in accordance with these guidelines, at April 30, 1985 were equal to 36.6 percent of quotas (38.6 percent of quotas at April 30, 1984).

8. Commitments Under Stand-By and Extended Arrangements

At April 30, 1985, 30 arrangements were in effect and undrawn balances under these arrangements amounted to SDR 5,543.1 million. These arrangements are listed in Schedule 4.

9. Administrative Expenses

The Fund incurs administrative expenses primarily for salaries, travel, and other administrative needs, which are expended in accordance with an administrative budget approved by the Executive Board. Expenses for building are authorized outside of the annual administrative budget. The Fund is reimbursed for expenses incurred in administering the SDR Department.

The Fund has certain commercial deposits and receivables relating to its administrative activities. These deposits and receivables are not subject to the maintenance of value obligations.

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 outside of the General Department and can be used or incurred only for the benefit of the participants in the Plan and their beneficiaries. The employer contributes that part of the costs and expenses of the Plan not provided by the contributions of the participants. In addition, 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 April 30, 1985 amounted to SDR 56.3 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 71 million (at the April 30, 1985 SDR/US$ rate), of which SDR 7.9 million was paid on May 1, 1985.

Contributions by the employer to the Staff Retirement Fund for the year ended April 30, 1985 amounted to SDR 27.6 million (SDR 27.5 million in 1984), including SDR 7.7 million for the amortization of actuarial experience losses (SDR 6.9 million in 1984) and SDR 2.2 million to fund cost of living supplements to beneficiaries (SDR 4.5 million in 1984).

The Fund staff is entitled to accumulated annual leave, up to a maximum of 60 days, which may be commuted into a cash payment upon termination of employment. In addition, upon the completion of five years' service, each member of the staff is entitled to a termination grant, subject to maximum amounts based on years of service after July 1979. The Fund has elected to account for these amounts as an expense as they are earned.

Schedule 1

INTERNATIONAL MONETARY FUND

General Department

Quotas, Fund's Holdings of Currencies, Members' Use of Fund Resources, and Reserve Tranche Positions

as at April 30, 1985

(In thousands of SDRs)

	Quotas	Fund's Holdings of Currencies[1]		Use of Fund Resources	Reserve Tranche
		Total	Percent of Quota		
Afghanistan	86,700	81,885	94.4	—	4,817
Algeria	623,100	457,613	73.4	—	165,487
Antigua and Barbuda	5,000	4,999	100.0	—	1
Argentina	1,113,000	2,745,128	246.6	1,632,110	—
Australia	1,619,200	1,424,493	88.0	—	194,722
Austria	775,600	393,520	50.7	—	382,082
Bahamas	66,400	55,519	83.6	—	10,882
Bahrain	48,900	25,438	52.0	—	23,473
Bangladesh	287,500	676,563	235.3	411,458	22,403
Barbados	34,100	75,535	221.5	43,591	2,157
Belgium	2,080,400	1,586,926	76.3	—	493,523
Belize	9,500	13,582	143.0	5,975	1,896
Benin	31,300	29,281	93.6	—	2,024
Bhutan	2,500	1,931	77.2	—	570
Bolivia	90,700	149,945	165.3	59,223	4
Botswana	22,100	9,281	42.0	—	12,836
Brazil	1,461,300	5,666,802	387.8	4,205,400	—
Burkina Faso	31,600	24,067	76.2	—	7,535
Burma	137,000	211,003	154.0	74,000	—
Burundi	42,700	33,561	78.6	—	9,156
Cameroon	92,700	92,508	99.8	—	196
Canada	2,941,000	2,424,829	82.4	—	516,202
Cape Verde	4,500	3,550	78.9	—	950
Central African Republic	30,400	53,480	175.9	23,168	111
Chad	30,600	33,006	107.9	2,663	264
Chile	440,500	1,235,501	280.5	795,000	—
China	2,390,900	2,088,303	87.3	—	302,600
Colombia	394,200	394,203	100.0	—	—
Comoros	4,500	4,501	100.0	—	—
Congo	37,300	36,833	98.7	—	482
Costa Rica	84,100	261,441	310.9	177,319	—
Cyprus	69,700	67,144	96.3	2,111	4,675
Denmark	711,000	500,167	70.3	—	210,837
Djibouti	8,000	6,765	84.6	—	1,237
Dominica	4,000	14,323	358.1	10,329	9
Dominican Republic	112,100	342,627	305.6	230,525	—
Ecuador	150,700	414,729	275.2	264,000	—
Egypt	463,400	507,154	109.4	43,750	—
El Salvador	89,000	185,751	208.7	96,748	—
Equatorial Guinea	18,400	23,411	127.2	5,002	—
Ethiopia	70,600	140,594	199.1	69,980	—
Fiji	36,500	46,943	128.6	18,250	7,812
Finland	574,900	439,217	76.4	—	135,698
France	4,482,800	3,177,437	70.9	—	1,305,877
Gabon	73,100	73,075	100.0	—	28
Gambia, The	17,100	42,233	247.0	25,155	39
Germany, Federal Republic of	5,403,700	2,525,007	46.7	—	2,878,696
Ghana	204,500	681,703	333.4	477,200	1
Greece	399,900	318,503	79.6	—	81,399
Grenada	6,000	9,864	164.4	3,862	—

Schedule 1
(*continued*)

	Quotas	Fund's Holdings of Currencies[1] Total	Percent of Quota	Use of Fund Resources	Reserve Tranche
Guatemala	108,000	249,031	230.6	141,025	—
Guinea	57,900	69,410	119.9	11,500	—
Guinea-Bissau	7,500	10,994	146.6	3,494	[2]
Guyana	49,200	120,948	245.8	71,745	—
Haiti	44,100	127,362	288.8	83,307	70
Honduras	67,800	200,101	295.1	132,299	—
Hungary	530,700	1,502,705	283.2	972,000	—
Iceland	59,600	77,084	129.3	21,500	4,025
India	2,207,700	5,687,192	257.6	3,966,500	487,020
Indonesia	1,009,700	1,244,142	123.2	306,862	72,425
Iran, Islamic Republic of	660,000	589,238	89.3	—	70,765
Iraq	504,000	504,008	100.0	—	—
Ireland	343,300	220,440	64.2	—	122,985
Israel	446,600	446,606	100.0	—	—
Italy	2,909,100	1,808,946	62.2	—	1,100,160
Ivory Coast	165,500	763,255	461.2	597,754	2
Jamaica	145,500	756,920	520.2	611,354	—
Japan	4,223,300	2,767,764	65.5	—	1,455,551
Jordan	73,900	131,304	177.7	57,400	—
Kampuchea, Democratic	25,000	37,494	150.0	12,500	7
Kenya	142,000	533,090	375.4	402,618	11,550
Korea	462,800	2,034,773	439.7	1,571,972	—
Kuwait	635,300	289,146	45.5	—	346,154
Lao People's Democratic Republic	29,300	35,425	120.9	6,125	—
Lebanon	78,700	59,871	76.1	—	18,833
Lesotho	15,100	13,854	91.7	—	1,248
Liberia	71,300	282,447	396.1	211,153	10
Libyan Arab Jamahiriya	515,700	272,202	52.8	—	243,498
Luxembourg	77,000	64,793	84.1	—	12,208
Madagascar	66,400	213,332	321.3	146,931	—
Malawi	37,200	146,007	392.5	111,000	2,196
Malaysia	550,600	650,868	118.2	259,611	159,352
Maldives	2,000	1,998	99.9	—	3
Mali	50,800	112,994	222.4	70,875	8,683
Malta	45,100	14,637	32.5	—	30,494
Mauritania	33,900	63,111	186.2	29,199	—
Mauritius	53,600	212,226	395.9	158,644	23
Mexico	1,165,500	3,573,048	306.6	2,407,505	—
Morocco	306,600	1,397,180	455.7	1,090,581	18
Mozambique	61,000	61,000	100.0	—	1
Nepal	37,300	34,227	91.8	2,622	5,693
Netherlands	2,264,800	1,422,950	62.8	—	841,863
New Zealand	461,600	461,591	100.0	—	19
Nicaragua	68,200	68,217	100.0	7	—
Niger	33,700	73,540	218.2	48,400	8,560
Nigeria	849,500	849,496	100.0	—	12
Norway	699,000	233,672	33.4	—	465,329
Oman	63,100	31,352	49.7	—	31,797
Pakistan	546,300	1,707,676	312.6	1,249,938	88,568
Panama	102,200	369,410	361.5	267,208	14
Papua New Guinea	65,900	70,654	107.2	10,100	5,352
Paraguay	48,400	16,156	33.4	—	32,249
Peru	330,900	995,361	300.8	664,431	—
Philippines	440,400	1,154,489	262.1	730,361	16,326
Portugal	376,600	918,835	244.0	571,900	29,666

Schedule 1
(*concluded*)

	Quotas	Fund's Holdings of Currencies[1] Total	Percent of Quota	Use of Fund Resources	Reserve Tranche
Qatar	114,900	78,158	68.0	—	36,744
Romania	523,400	1,422,804	271.8	899,399	—
Rwanda	43,800	34,481	78.7	—	9,322
St. Christopher and Nevis	4,500	4,496	99.9	—	5
St. Lucia	7,500	9,149	122.0	1,649	[2]
St. Vincent	4,000	4,809	120.2	809	—
São Tomé and Principe	4,000	3,999	100.0	—	2
Saudi Arabia	3,202,400	1,168,104	36.5	—	2,034,306
Senegal	85,100	302,859	355.9	218,719	965
Seychelles	3,000	2,997	99.9	—	5
Sierra Leone	57,900	130,736	225.8	72,846	24
Singapore	92,400	22,883	24.8	—	69,522
Solomon Islands	5,000	7,566	151.3	3,060	497
Somalia	44,200	177,499	401.6	133,293	—
South Africa	915,700	1,590,737	173.7	745,000	69,966
Spain	1,286,000	927,532	72.1	—	358,469
Sri Lanka	223,100	538,977	241.6	321,849	5,981
Sudan	169,700	775,006	456.7	605,301	—
Suriname	49,300	49,300	100.0	—	—
Swaziland	24,700	31,968	129.4	9,000	1,742
Sweden	1,064,300	806,701	75.8	—	257,601
Syrian Arab Republic	139,100	139,103	100.0	—	—
Tanzania	107,000	128,087	119.7	21,070	—
Thailand	386,600	1,097,846	284.0	740,035	28,792
Togo	38,400	87,318	227.4	49,117	206
Trinidad and Tobago	170,100	42,595	25.0	—	127,507
Tunisia	138,200	110,088	79.7	—	28,114
Turkey	429,100	1,775,589	413.8	1,378,757	32,275
Uganda	99,600	402,395	404.0	306,306	3,522
United Arab Emirates	202,600	75,426	37.2	—	127,177
United Kingdom	6,194,000	4,258,555	68.8	—	1,935,480
United States	17,918,300	7,719,478	43.1	—	10,207,199
Uruguay	163,800	390,609	238.5	226,800	—
Vanuatu	9,000	7,420	82.4	—	1,581
Venezuela	1,371,500	871,581	63.5	—	499,926
Viet Nam	176,800	205,195	116.1	28,395	5
Western Samoa	6,000	14,428	240.5	8,427	—
Yemen Arab Republic	43,300	53,049	122.5	9,750	3
Yemen, People's Democratic Republic of	77,200	92,576	119.9	15,375	—
Yugoslavia	613,000	2,520,098	411.1	1,907,090	—
Zaïre	291,000	941,140	323.4	650,137	—
Zambia	270,300	963,621	356.5	693,331	13
Zimbabwe	191,000	440,815	230.8	249,845	31
Totals	89,301,800	95,994,219		34,972,600	28,290,392

[1] Includes nonnegotiable, non-interest-bearing notes which members are entitled to issue in substitution for currency.
[2] Less than SDR 500.

Schedule 2

INTERNATIONAL MONETARY FUND

GENERAL DEPARTMENT

MEMBERS' PURCHASES SUBJECT TO REPURCHASE BY YEAR OF SCHEDULED REPURCHASE[1]

as at April 30, 1985

(In thousands of SDRs)

	Ordinary Resources				Borrowed Resources		
Financial Year Ending April 30	Credit Tranches	Extended Fund Facility	Compensatory Financing	Buffer Stock Financing	Supplementary Financing	Enlarged Access	Total
1986	1,014,145	192,843	1,503,694	13,589	1,169,839	304,025	4,204,379[2]
1987	1,418,293	408,860	2,505,352	101,413	1,577,956	793,650	6,805,524
1988	1,679,614	637,491	2,270,096	118,901	1,583,259	1,756,026	8,045,387
1989	1,025,056	976,829	921,306	2,970	1,149,226	2,194,978	6,270,365
1990	373,592	1,060,531	289,706	—	653,453	1,927,213	4,304,495
1991	—	1,041,302	—	—	176,613	1,455,701	2,673,616
1992	—	930,378	—	—	—	464,074	1,394,452
1993	—	716,593	—	—	—	—	716,593
1994	—	473,900	—	—	—	—	473,900
1995	—	113,251	—	—	—	—	113,251
Totals	5,510,700	6,551,978[2,3]	7,490,154	236,873	6,310,346	8,895,667	35,001,962[2,3]

[1] A member is entitled to repurchase at any time holdings of its currency subject to charges and is expected to make repurchases as and when its balance of payments and reserve position improves.

[2] This total includes SDR 6.244 million reserve tranche purchases made prior to April 1, 1978 which are subject to repurchase.

[3] The total of members' purchases subject to repurchase exceeds the outstanding use of Fund credit by SDR 29.39 million because certain purchases made prior to the Second Amendment of the Articles of Agreement effective on April 1, 1978 which do not represent the extension of Fund credit must be repurchased in accordance with the repurchase terms then in effect.

Schedule 3

INTERNATIONAL MONETARY FUND

General Department

Scheduled Repayments Of Fund Borrowing

as at April 30, 1985

(In thousands of SDRs)

Periods of Repayment[1] Financial Years Ending April 30	Supplementary Financing Facility	Enlarged Access Resources	Total
1986	1,200,856	424,102[2]	1,624,958
1987	1,657,731	1,114,153[2]	2,771,884
1988	1,585,795	2,452,405[2]	4,038,200
1989	1,152,145	1,650,000	2,802,145
1990	519,015	1,338,000	1,857,015
1991	123,788	760,000	883,788
1992	—	225,000	225,000
Totals	6,239,330	7,963,660	14,202,990

[1] Dates of repayment are the dates provided in the borrowing agreements between the Fund and lenders, including maximum periods of renewals which are at the Fund's option. The borrowing agreements also permit earlier repayments in certain circumstances.

[2] Includes short-term borrowing with original maturities not exceeding three years.

Schedule 4

INTERNATIONAL MONETARY FUND

General Department

Status of Stand-By Arrangements and Extended Arrangements

as at April 30, 1985

(In thousands of SDRs)

Member	Date of Arrangement	Expiration	Total Amount Agreed	Undrawn Balance
STAND-BY ARRANGEMENTS				
Argentina	December 28, 1984	March 27, 1986	1,419,000	1,182,500
Belize	December 3, 1984	March 31, 1986	7,125	4,750
Central African Republic	July 6, 1984	July 5, 1985	15,000	7,000
Costa Rica	March 13, 1985	April 12, 1986	54,000	30,000
Dominica	July 18, 1984	July 17, 1985	1,400	430
Dominican Republic	April 15, 1985	April 14, 1986	78,500	50,475
Ecuador	March 11, 1985	March 10, 1986	105,500	84,400
Ghana	August 27, 1984	December 31, 1985	180,000	120,000
Haiti	November 7, 1983	September 30, 1985	60,000	39,000
Ivory Coast	August 3, 1984	May 2, 1985	82,750	20,690
Jamaica	June 22, 1984	June 21, 1985	64,000	36,000
Kenya	February 8, 1985	February 7, 1986	85,200	55,400
Liberia	December 7, 1984	June 6, 1986	42,780	34,280
Madagascar	April 23, 1985	April 22, 1986	29,500	26,000
Mali	December 9, 1983	May 31, 1985	40,500	—
Mauritania	April 12, 1985	April 11, 1986	12,000	9,600
Mauritius	March 1, 1985	August 31, 1986	49,000	35,000
Niger	December 5, 1984	December 4, 1985	16,000	9,600
Philippines	December 14, 1984	June 13, 1986	615,000	530,000
Senegal	January 16, 1985	July 15, 1986	76,600	54,000
Somalia	February 22, 1985	February 21, 1986	22,100	20,100
Sudan	June 25, 1984	June 24, 1985	90,000	70,000
Togo	May 7, 1984	May 6, 1985	19,000	—
Western Samoa	July 9, 1984	July 8, 1985	3,375	843
Yugoslavia	April 18, 1984	May 15, 1985	370,000	90,000
Zaïre	April 24, 1985	April 23, 1986	162,000	122,000
Zambia	July 26, 1984	April 30, 1986	225,000	145,000
			3,925,330	2,777,068
EXTENDED ARRANGEMENTS				
Brazil	March 1, 1983	February 28, 1986	4,239,375	1,496,250
Malawi	September 19, 1983	September 18, 1986	100,000	66,000
Mexico	January 1, 1983	December 31, 1985	3,410,625	1,203,745
			7,750,000	2,765,995
		Totals	11,675,330	5,543,063

INTERNATIONAL MONETARY FUND

SDR DEPARTMENT
STATEMENT OF ALLOCATIONS AND HOLDINGS

as at April 30, 1985

(In thousands of SDRs)

	1985	1984
ALLOCATIONS		
Net cumulative allocations of SDRs to participants	21,433,330	21,433,330
Charges due but not paid (Note)	5,348	1,038
	21,438,678	21,434,368
HOLDINGS		
Participants		
With holdings above allocations		
Allocations	9,881,074	8,424,789
Net receipt of SDRs	3,490,643	2,114,823
	13,371,717	10,539,612
With holdings below allocations		
Allocations	11,552,256	13,008,541
Net use of SDRs	8,118,755	8,587,585
	3,433,501	4,420,956
Total holdings by participants	16,805,218	14,960,568
General Resources Account	4,615,747	6,436,730
Prescribed holders	17,713	37,070
	21,438,678	21,434,368

The accompanying note is an integral part of the financial statements.

/s/ W. O. HABERMEIER
Treasurer

/s/ J. DE LAROSIÈRE
Managing Director

INTERNATIONAL MONETARY FUND

SDR Department
Statement of Receipt and Use of SDRs
as at April 30, 1985

(In thousands of SDRs)

	Participants	General Resources Account	Prescribed Holders	Total 1985	Total 1984
Total holdings at beginning of financial year	14,960,568	6,436,730	37,070	21,434,368	21,458,910
Receipt of SDRs					
Transfers among participants and prescribed holders:					
Transactions with designation	2,152,419			2,152,419	2,401,988
Transactions by agreement	2,671,817		34,213	2,706,030	3,175,159
Operations:					
Loans	66,757			66,757	628,934
Settlement of financial obligations	23,903		70,313	94,216	565,465
Net interest on SDRs	322,606		3,193	325,799	187,845
Transfers from participants to General Resources Account:					
Repurchases		717,223		717,223	391,706
Charges		2,927,354		2,927,354	2,159,231
Quota payments		14,213		14,213	6,194,759
Interest on SDRs		605,883		605,883	146,926
Assessment on SDR allocation		3,588		3,588	2,974
Transfers from General Resources Account to participants and prescribed holders:					
Purchases	2,594,549			2,594,549	3,875,794
Repayments of Fund borrowing	129,207			129,207	787,429
Interest on Fund borrowing	445,839			445,839	201,659
Refunds and adjustments	13,838			13,838	25,807
In exchange for currencies of other members					
Acquisitions to pay charges	953,358			953,358	329,739
Remuneration	1,952,454			1,952,454	1,573,347
Total receipts	11,326,747	4,268,261	107,719	15,702,727	22,648,762
Use of SDRs					
Transfers among participants and prescribed holders:					
Transactions with designation	2,152,419			2,152,419	2,401,989
Transactions by agreement	2,637,676		68,354	2,706,030	3,175,159
Operations:					
Loans	15,237		51,520	66,757	628,934
Settlement of financial obligations	87,014		7,202	94,216	565,464
Transfers from participants to General Resources Account:					
Repurchases	717,223			717,223	391,706
Charges	2,927,354			2,927,354	2,159,230
Quota payments	14,213			14,213	6,194,759
Assessment on SDR allocation	3,588			3,588	2,974
Transfers from General Resources Account to participants and prescribed holders:					
Purchases		2,594,549		2,594,549	3,875,794
Repayments of Fund borrowing		129,207		129,207	787,429
Interest on Fund borrowing		445,839		445,839	201,659
Refunds and adjustments		13,837		13,837	25, 807
In exchange for currencies of other members					
Acquisitions to pay charges		953,358		953,358	329,739
Remuneration		1,952,454		1,952,454	1,573,347
Charges in the SDR Department:					
Net charges due	931,683			931,683	334,772
Charges not paid when due	−38,505			−38,505	−12,709
Settlement of unpaid charges	34,195			34,195	37,251
Total uses	9,482,097	6,089,244	127,076	15,698,417	22,673,304
Total holdings at end of financial year	16,805,218	4,615,747	17,713	21,438,678	21,434,368

The accompanying note is an integral part of the financial statements.

INTERNATIONAL MONETARY FUND

SDR DEPARTMENT

NOTE TO THE FINANCIAL STATEMENTS

SDR Department

All transactions and operations involving SDRs are conducted through the SDR Department. SDRs do not constitute claims by holders against the Fund to provide currency, except in connection with the termination of participation or liquidation. SDRs are allocated by the Fund to members that are participants in the SDR Department in proportion to their quotas in the Fund. Three allocations were made in 1970, 1971, and 1972, totaling SDR 9.3 billion. Three further allocations were made, in 1979, 1980, and 1981, totaling SDR 12.1 billion. The Fund is empowered to prescribe certain official entities as holders of SDRs: to date, 14 institutions have been prescribed as holders. These prescribed holders do not receive allocations and cannot use or receive SDRs in designation.

Uses of SDRs

Participants and prescribed holders can use and receive SDRs in transactions and operations by agreement among themselves. Participants can also use SDRs in operations involving the General Resources Account, such as the payment of charges and repurchases. In addition, the Fund ensures, by designating participants to provide freely usable currency in exchange for SDRs, that a participant can use its SDRs to obtain such currency if it has need because of its balance of payments or its reserve position or development in its reserves. A participant is not obliged to provide currency for SDRs beyond the point at which its holdings of SDRs in excess of its net cumulative allocation are equal to twice its net cumulative allocation. A participant may, however, provide currency in excess of the obligatory limit or any agreed higher limit.

Interest, Charges, and Assessment

Interest is paid to each holder on its holdings of SDRs and charges are levied at the same rate on each participant's net cumulative allocation plus any negative balance of the participants or unpaid charges. The SDR interest rate is determined by reference to a combined market interest rate, which is a weighted average of yields or rates on short-term instruments in the capital markets of France, the Federal Republic of Germany, Japan, the United Kingdom, and the United States. Effective August 1, 1983, the SDR interest rate is determined on a weekly basis and interest on SDR holdings is paid and charges on net cumulative allocations are collected on a quarterly basis. Interest and charges are settled by crediting and debiting individual holdings accounts on the first day of the subsequent quarter. The Fund is required to pay interest to each holder, whether or not sufficient SDRs are received in payment of charges. At April 30, 1985 the amount of unpaid charges amounted to SDR 5.3 million from three members, of which SDR 2.3 million from one member was overdue for six months or more.

The combined market interest rate used to determine the SDR interest rate is calculated each Friday, using the yields or rates of that day. The SDR interest rate, which is set equal to the combined market interest rate, enters into effect on the following Monday and applies until the end of the following Sunday.

The expenses of conducting the business of the SDR Department are paid by the Fund from the General Resources Account, which is reimbursed in SDRs 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 allocation.

INTERNATIONAL MONETARY FUND

SUPPLEMENTARY FINANCING FACILITY

SUBSIDY ACCOUNT

BALANCE SHEET

as at April 30, 1985

(In thousands of SDRs)

(Note 1)

	1985	1984
ASSETS		
Currencies	50	12
Interest-earning deposits (Note 2)	241,992	98,372
Accrued income	10,015	2,250
Total	252,057	100,634
RESOURCES AND LIABILITIES		
Resources—Account balance	252,057	96,034
Borrowing (Note 3)	—	4,600
Total	252,057	100,634

The accompanying notes are an integral part of the financial statements.

/s/ W. O. HABERMEIER
Treasurer

/s/ J. DE LAROSIÈRE
Managing Director

INTERNATIONAL MONETARY FUND

SUPPLEMENTARY FINANCING FACILITY

SUBSIDY ACCOUNT

STATEMENT OF CHANGES IN RESOURCES

for the year ended April 30, 1985

(In thousands of SDRs)

(Note 1)

	1985	1984
Balance at beginning of year	96,034	28,075
Transfers from Special Disbursement Account	226,273	126,116
Contributions (Note 1)	5,559	5,880
Investment income	13,801	4,347
Exchange valuation gain	305	79
Balance before subsidy payments	341,972	164,497
Subsidy payments (Note 4)	89,915	68,463
Balance at end of year	252,057	96,034

The accompanying notes are an integral part of the financial statements.

INTERNATIONAL MONETARY FUND

SUPPLEMENTARY FINANCING FACILITY

SUBSIDY ACCOUNT

NOTES TO THE FINANCIAL STATEMENTS

Purpose

The Supplementary Financing Facility Subsidy Account, which is administered by the Fund, was established in December 1980 to assist low-income developing members to meet the cost of using resources made available through the Fund's supplementary financing facility and under the policy on exceptional use. The assets of the Supplementary Financing Facility Subsidy Account are separate from the assets of all other accounts of or administered by the Fund and are not used to discharge liabilities or to meet losses incurred in the administration of other accounts. The Supplementary Financing Facility Subsidy Account became operational in May 1981 and the first subsidy payments were made in December of that year. The resources of the Account arise from contributions and loans from members, interest income earned on investments, and transfers of amounts received in interest and loan repayments from the Trust Fund through the Special Disbursement Account.

1. Accounting Practices

Unit of Account

The accounts of the Supplementary Financing Facility Subsidy Account are expressed in terms of the SDR. At present, the currency value of the SDR is determined by the Fund by summing the values in U.S. dollars, based on market exchange rates, of a basket of five specified currencies, as follows:

Currencies	Amount
U.S. dollar	0.54
Deutsche mark	0.46
Japanese yen	34
French franc	0.74
Pound sterling	0.071

Basis of Accounting

The accounts are maintained on an accrual basis and, accordingly, income is recognized as it is earned and expenses are recorded 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.

Contributions

Contributions to the Supplementary Financing Facility Subsidy Account are made in currencies which are valued in terms of SDRs on the basis of exchange rates against the SDR at the time of receipt. Cumulative contributions to the Supplementary Financing Facility Subsidy Account at April 30, 1985 amounted to SDR 52.57 million.

2. Interest-Earning Deposits

To avoid exchange risks, the assets of the Account, pending their disbursement, are held in the form of interest-earning SDR-denominated time deposits.

3. Borrowing

Certain members made loans to the Fund in its capacity as trustee of the Supplementary Financing Facility Subsidy Account. These loans, which were without interest, were repaid in December 1984.

4. Subsidy Payments

The amount of the subsidy is calculated as a percentage 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 supplementary financing facility and the policy on exceptional use. The rate of subsidy to be paid is determined by the Fund in the light of the resources available and the subsidy may not exceed the equivalent of 3 percent per annum of the currency holdings to which the supplementary financing facility and exceptional use charges apply, nor reduce the effective charge on such holdings below the rate of charge which would have been applicable had they been acquired under the Fund's policies on the regular use of its resources.

INTERNATIONAL MONETARY FUND

TRUST FUND

BALANCE SHEET

as at April 30, 1985

(In thousands of SDRs)

(Note 1)

	1985	1984
ASSETS		
Loans (Note 2)	2,649,580	2,861,916
Accrued interest on loans (Note 4)	4,889	4,764
Investments, at cost (which approximates market value)	4,063	3,824
Accrued interest on investments	126	134
Total	2,658,658	2,870,638
TRUST RESOURCES AND LIABILITIES		
Trust resources	2,651,792	2,864,491
Liabilities—		
Undistributed profits from sale of gold (Note 3)	4,026	3,811
Deferred income (Note 4)	639	—
Borrowing (Note 5)	2,197	2,332
Accrued interest on borrowing	4	4
Total	2,658,658	2,870,638

The accompanying notes are an integral part of the financial statements.

/s/ W. O. HABERMEIER
Treasurer

/s/ J. DE LAROSIÈRE
Managing Director

INTERNATIONAL MONETARY FUND

TRUST FUND

STATEMENT OF INCOME AND EXPENSE

for the year ended April 30, 1985

(In thousands of SDRs)

(Note 1)

	1985	1984
Income:		
Interest income on loans (Note 2)	13,805	14,678
Deduct income deferred (Note 4)	639	—
	13,166	14,678
Investment income	411	367
Exchange valuation gain (loss)	8	(15)
	13,585	15,030
Less—Interest expense on borrowing (Note 5)	11	12
Net income	13,574	15,018

The accompanying notes are an integral part of the financial statements.

INTERNATIONAL MONETARY FUND

TRUST FUND

STATEMENT OF CHANGES IN TRUST RESOURCES

for the year ended April 30, 1985

(In thousands of SDRs)

(Note 1)

	1985	1984
Balance, beginning of year	2,864,491	2,975,589
Net income	13,574	15,018
Balance before transfers to the Special Disbursement Account	2,878,065	2,990,607
Transfers to the Special Disbursement Account (Note 6)	226,273	126,116
Balance, end of year	2,651,792	2,864,491

The accompanying notes are an integral part of the financial statements.

INTERNATIONAL MONETARY FUND

TRUST FUND

NOTES TO THE FINANCIAL STATEMENTS

Purpose

The Trust Fund, 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 Fund are separate from the assets of all other accounts of or administered by the Fund and are not used to discharge liabilities or to meet losses incurred in the administration of other accounts.

1. Accounting Practices

Unit of Account

The accounts of the Trust Fund are expressed in terms of the SDR. At present, the currency value of the SDR is determined daily by the Fund by summing the values in U.S. dollars, based on market exchange rates, of a basket of five specified currencies, as follows:

Currencies	Amount
U.S. dollar	0.54
Deutsche mark	0.46
French franc	0.74
Japanese yen	34
Pound sterling	0.071

Basis of Accounting

The accounts are maintained on an accrual basis and, accordingly, income is recognized as it is earned and expenses are recorded as they are incurred except that income from interest from members that are overdue in their obligations to the Fund by six months or more is deferred and is recognized as income only when paid unless the member has remained current in the payment of interest when due (see Note 4). The expenses of conducting the business of the Trust Fund that are paid from the General Department of the Fund are reimbursed by the Trust Fund on the basis of an estimate of these expenses. Following the termination of the Trust Fund on April 30, 1981, residual administrative costs have been absorbed by the Fund's General Department. It is the practice of the Fund to make all calculations on the basis of the exact number of days in the accounting period.

2. Loans

Loans were made from the Trust Fund to those eligible members that qualifed for assistance in accordance with the provisions of the Trust Fund Instrument. The final loan disbursements were made on March 31, 1981. 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, except that most of the final loan disbursements made to members on March 31, 1981 that amounted to about 0.4 percent of quotas are to be repaid in a single installment not later than ten years after the date of that disbursement. Interest on the outstanding loan balances is charged at the rate of ½ of 1 percent per annum.

3. Direct Distribution of Profits

The 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 was calculated on the basis of its share in total Fund quotas as at August 31, 1975 and on the basis of the actual profits realized in the gold auctions.

The direct distribution of profits has been completed, except that an amount of US$3,990,776, representing the share of Democratic Kampuchea, will continue to be held in the Trust Fund until relations with that member have been restored.

4. Deferred Income

At April 30, 1985, two members were late by six months or more in discharging their obligations to the Fund and were also not current in paying interest on Trust Fund loans when due. For these two members the recognition of income from interest on the outstanding loans is being deferred until such time as the overdue interest is actually paid. At April 30, 1985, the total amount of deferred income, reflected in the balance sheet as accrued interest on loans and as deferred income amounts to SDR 0.64 million. At April 30, 1985, total outstanding loans to these members amounted to SDR 128.0 million, of which SDR 15.9 million was overdue and SDR 8.1 million was overdue for six months or more.

5. Borrowing

One beneficiary of the direct distribution of profits from the Trust Fund has lent a part of its entitlements to the Trust Fund. The amounts borrowed by the Trust Fund are repayable in five equal annual installments beginning not later than the end of the sixth year after the date of borrowing. Interest on the amounts outstanding is paid at the same rate as interest is charged on Trust Fund loans, provided that the rate shall not be less than ½ of 1 percent per annum.

6. Termination and Transfer of Resources

The Fund, as Trustee, decided that upon the completion of the final loan disbursements, the Trust Fund shall be terminated as of April 30, 1981. After that date, the activities of the Trust Fund have been confined to the completion of any unfinished business of the Trust Fund and the winding up of its affairs.

The resources of the Trust Fund held on the termination date or subsequently received by the Trustee will be employed first to satisfy current administrative expenses, second to pay interest and principal as it falls due on loan obligations, and third to make transfers to the Special Disbursement Account, the first SDR 750 million of which will flow through to the Supplementary Financing Facility Subsidy Account. At April 30, 1985 SDR 401.19 million had been transferred through the Special Disbursement Account to the Supplementary Financing Facility Subsidy Account.

Report of the External Audit Committee

Staff Retirement Plan

Washington, D.C.
June 28, 1985

Authority and Scope of the Audit

In accordance with Section 20(b) of the By-Laws of the International Monetary Fund, we have audited the financial statements of the Staff Retirement Plan for the year ended April 30, 1985, which consist of statements of

—Accumulated Plan benefits and net assets available for benefits,
—Changes in accumulated Plan benefits, and
—Changes in net assets available for benefits.

The audit was conducted in accordance with international auditing guidelines and, accordingly, included reviews of accounting and control systems, tests of accounting records, evaluation of the extent and results of work performed by the Internal Auditor, and other audit procedures.

Audit Opinion

In our opinion, the financial statements have been prepared in accordance with generally accepted accounting principles, applied on a basis consistent with that of the preceding year, and give a true and fair view of the financial status of the Staff Retirement Plan as at April 30, 1985 and of the changes in financial status for the year then ended.

External Audit Committee:

/s/ M. Ijadur Rahman, Chairman (Bangladesh)
/s/ Nicodemus Jordanides (Greece)
/s/ Jay M. Weinstein (United States)

INTERNATIONAL MONETARY FUND

STAFF RETIREMENT PLAN

STATEMENT OF ACCUMULATED PLAN BENEFITS AND NET ASSETS AVAILABLE FOR BENEFITS

as at April 30, 1985

(In thousands of U.S. dollars)

(Note 1)

	1985	1984
Accumulated Plan benefits (Note 1):		
Actuarial present value of accumulated Plan benefits		
Vested benefits		
Retired participants	139,400	120,700
Other participants	117,500	104,500
Nonvested benefits	46,900	43,200
Total actuarial present value of accumulated Plan benefits	303,800	268,400
Net assets available for benefits:		
Investments, at current value (Notes 1 and 3)		
Portfolio denominated in U.S. dollars	425,338	346,057
Portfolio denominated in other currencies	81,051	68,676
	506,389	414,733
Receivables:		
Contributions	937	772
Accrued interest and dividends (Note 1)	5,123	3,672
Other	711	1,251
	6,771	5,695
Cash at banks	17	32
Total assets	513,177	420,460
Liabilities:		
Accounts payable	1,108	919
Net assets available for benefits	512,069	419,541
Excess of net assets available for benefits over actuarial present value of accumulated Plan benefits	208,269	151,141

The accompanying notes are an integral part of the financial statements.

/s/ W. O. HABERMEIER
Treasurer

/s/ J. DE LAROSIÈRE
Managing Director

INTERNATIONAL MONETARY FUND

STAFF RETIREMENT PLAN

STATEMENT OF CHANGES IN ACCUMULATED PLAN BENEFITS

for the year ended April 30, 1985

(In thousands of U.S. dollars)

(Note 1)

	1985	1984
Actuarial present value of accumulated Plan benefits at beginning of year	268,400	238,700
Increase (decrease) during the year attributable to:		
Benefits accumulated	23,483	17,748
Increase for interest due to decrease in discount period	26,100	23,300
Benefits paid	(14,183)	(11,348)
Net increase	35,400	29,700
Actuarial present value of accumulated Plan benefits at end of year (Note 1)	303,800	268,400

The accompanying notes are an integral part of the financial statements.

INTERNATIONAL MONETARY FUND

STAFF RETIREMENT PLAN

STATEMENT OF CHANGES IN NET ASSETS AVAILABLE FOR BENEFITS

for the year ended April 30, 1985

(In thousands of U.S. dollars)

(Note 1)

	1985	1984
Investment income (Note 1):		
Net gain in current value of investments (Note 3)	36,529	798
Interest	20,700	14,544
Dividends	11,917	9,539
	69,146	24,881
Contributions (Note 2):		
International Monetary Fund	28,294	28,860
Participants	9,057	8,357
Participants restored to service	46	74
Net transfers from retirement plans of other international organizations	168	170
	37,565	37,461
Total additions	106,711	62,342
Benefits:		
Pensions	11,484	10,038
Withdrawal benefits	1,060	784
Commutation benefits	1,606	172
Death benefits	33	354
Total payments	14,183	11,348
Net additions	92,528	50,994
Net assets available for benefits at:		
Beginning of year	419,541	368,547
End of year—April 30, 1985	512,069	419,541

The accompanying notes are an integral part of the financial statements.

INTERNATIONAL MONETARY FUND

STAFF RETIREMENT PLAN

NOTES TO THE FINANCIAL STATEMENTS

Description of Plan

General

The Staff Retirement Plan (Plan) is a defined benefit pension plan covering nearly all staff members of the International Monetary Fund (employer). All assets and income of the Plan are the property of the employer 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 account is valued in U.S. dollars.

Benefits

Participants are entitled to an annual pension beginning at normal retirement age (65). The amount of the pension is based on number of years of service and highest average gross remuneration. Participants who have reached the age of 55 may retire with a reduced pension (or with an unreduced pension if the sum of their age and years of service equals 90 or more). The Plan also provides for disability retirement and death benefits to a surviving spouse and minor children. Upon termination before age 55 a participant with at least three years of eligible service may elect to receive either a withdrawal benefit (accumulated contributions of the participant plus an amount equal to a percentage of such accumulated contributions, the percentage being based on number of months of eligible service) or a deferred pension to commence after the participant has reached the age of 55. A participant entitled to receive a normal, early retirement, or deferred pension may elect to commute up to one third of his or her pension, and receive a lump sum amount in lieu of the amount of pension commuted. A participant entitled to receive a disability pension may elect to commute one third of the early retirement pension that would otherwise have been applicable.

Contributions

As a condition of employment, regular staff members are required to participate in the Plan and to contribute 7 percent of their gross remuneration to the Plan. Certain other categories of staff members may elect to participate in the Plan. The 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 to pay costs and expenses of the Plan not otherwise covered. In financial year 1985, these administrative costs were approximately $2.9 million ($2.4 million in 1984).

1. Accounting Practices

Valuation of Investments

Investments in securities listed in stock exchanges are valued at the last reported sales price on the last business day of the accounting period. Over-the-counter securities are valued at their bid price on the last business day of the year. Purchases and sales made by U.S. investment managers are recorded on the settlement date basis, and transactions made by the international investment managers are recorded on the trade date basis.

Accumulated Benefits—Vested and Nonvested

The actuarial value of vested benefits is shown for two categories. For retired participants, the amount shown equals the present value of the benefits expected to be paid over the future lifetime of the pensioner, and, if applicable, the surviving spouse of the pensioner. For other participants, the amount shown equals the present value of the deferred pension earned to the valuation date for a participant, or, if greater, the value of the withdrawal benefit for that participant, summed over all participants. For the purpose of determining the actuarial value of the vested benefits at the end of the Plan year, it is assumed that the Plan will continue to exist but that participants will not earn pension benefits beyond the date of the calculation.

The amount of nonvested benefits represents the total of the withdrawal benefits for all participants with less than three years of eligible service.

Investment Income

Dividend and interest income from investments are recorded as earned.

2. Funding Policy

The employer makes normal contributions to the Plan equal to 14 percent of gross remuneration. Whenever the cost of living for a financial year increases, pensions shall be augmented by a pension supplement, which shall be the lesser of the increase in the cost of living for the financial year or 2 percent. If the increase in the cost of living for a year exceeds 2 percent, pensions shall be augmented by an additional supplement to be paid from contributions from the employer equal to the difference between 2 percent and the increase in the cost of living. The employer has the right for good cause to reduce the additional supplement to not less than 1 percent.

Plan Termination

In the event of the termination of the Plan by the employer, the assets of the Plan shall be used to satisfy all liabilities to participants, retired participants, and their beneficiaries and after payment of all liabilities of the Plan. Any remaining balance of the assets shall be returned to the employer.

3. Investments

A summary of investments showing book and market values is as follows (in thousands of U.S. dollars):

	1985		1984	
	Book Value	Market Value	Book Value	Market Value
Portfolio denominated in U.S. dollars:				
U.S. Government securities	127,601	131,092	66,179	64,581
Corporate bonds and debentures	23,106	24,495	22,617	22,064
Common and preferred stocks	204,640	240,648	166,913	185,623
Short-term investments	29,091	29,103	73,645	73,789
	384,438	425,338	329,354	346,057
Portfolio denominated in other currencies	74,857	81,051	55,344	68,676
	459,295	506,389	384,698	414,733

The net gain in the current value of investments represents the gain (loss) realized during the year from the sale of investments, the unrealized appreciation (depreciation) of the market value of investments, and, for investments denominated in currencies other than U.S. dollars, valuation differences arising from exchange rate changes of other currencies against the U.S. dollar. These net gains, in thousands of U.S. dollars, were as follows:

	1985	1984
Portfolio denominated in U.S. dollars	39,996	(11,522)
Portfolio denominated in other currencies		
Net market gain	2,102	12,493
Net exchange valuation loss	(5,569)	(173)
Net gain	36,529	798

The net exchange loss was calculated by converting the book value of securities in currencies other than U.S. dollars to U.S. dollars at the exchange rates in effect at both the beginning and the end of the accounting period (or at the time a security was purchased or sold if this occurs during the accounting period) and subtracting one from the other to determine the exchange gain or loss.

At April 30, 1985, 11.9 percent of the net assets available for benefits were held in the Grantham, Mayo, Van Otterloo Managed Market Trust, which has underlying investments in approximately 300 equity issues. There were no other investments which represented 5 percent or more of the net assets available for benefits.

4. Actuarial Valuation

The most recent valuation of the Plan by the actuary engaged by the Pension Committee was made as at April 30, 1984. 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 6 percent per annum. The purpose of the annual valuation is to determine, on the basis of the actuarial assumptions used, the level of additional employer contributions necessary to fund experience losses and cost of living increases beyond the first 2 percent. It is further assumed that the Plan will continue to exist and that participants will continue to earn pension benefits beyond the date of the valuation until the date of withdrawal, disability, death, or retirement. This valuation therefore differs from that in which the actuarial value of vested benefits is determined (Note 1).

Experience gains and losses of the Plan, as determined by the actuary, are amortized over a period of 15 years. The most recent valuation (at April 30, 1984) showed an experience gain of $2.4 million for the year then ended. Unamortized experience losses amounted to $55.8 million at April 30, 1985, of which $7.8 million was paid by the employer on May 1, 1985.

Appendix IX
Classification of Countries

The revised classification scheme adopted in the *World Economic Outlook, April 1985* was used in the preparation of this Report. The details of this classification scheme are given below.

Industrial countries comprise:

Australia	France	Luxembourg	Switzerland
Austria	Germany, Fed. Rep. of	Netherlands	United Kingdom
Belgium	Iceland	New Zealand	United States
Canada	Ireland	Norway	
Denmark	Italy	Spain	
Finland	Japan	Sweden	

The *developing countries* include all other Fund members (as of January 1, 1985) together with certain essentially autonomous dependent territories for which adequate statistics are available.[1] The regional breakdowns of data for "developing countries" conform to the regional classification used in the Fund's *International Financial Statistics,* with the oil exporting countries included in their respective regions. It should be noted that, in this classification, Egypt and the Libyan Arab Jamahiriya are part of the Middle East, not Africa.

The analytical groupings in this classification are (1) countries grouped by predominant export; (2) countries grouped by financial criteria; (3) countries grouped by other criteria; and (4) countries grouped by the former classification criteria. The accompanying table presents a breakdown of these analytical groupings according to the proportion of developing country gross domestic product (GDP), exports of goods and services, and level of indebtedness. These groupings are described below.

The first analytical criterion used to group developing countries is by predominant export category. Four categories are distinguished: fuel (Standard International Trade Classification—SITC 3); other primary commodities (SITC 0, 1, 2, 4, and diamonds and gemstones); manufactures (SITC 5 to 8 less diamonds and gemstones); and "services and remittances." On the basis of data for 1980, countries are assigned to that commodity grouping which accounts for 50 percent or more of their exports. Specifically, countries are assigned to the "services and remittances" category if their receipts on these transactions account for at least half of their exports of goods and services. If countries do not meet this criterion, they are assigned to that trade category (of the three listed above) which accounts for at least half of their total merchandise exports.[2]

[1] It should be noted that the term "country" used in this Report does not in all cases refer to a territorial entity that is a state as understood by international law and practice. The term also covers some territorial entities that are not states but for which data are maintained and provided internationally on a separate and independent basis.

[2] Two countries that did not meet any of the above criteria were assigned to that trade category which accounted for the largest share of their exports.

Given these definitions, the *fuel exporters* comprise:

Algeria	Iran, Islamic Rep. of	Oman	Tunisia
Bahrain	Iraq	Qatar	United Arab Emirates
Congo	Kuwait	Saudi Arabia	Venezuela
Ecuador	Libyan Arab Jamahiriya	Syrian Arab Rep.	
Gabon	Mexico	Trinidad and Tobago	
Indonesia	Nigeria		

The *primary product exporters,* that is, countries whose exports of agricultural and mineral primary products other than fuel accounted for over 50 percent of their total exports in 1980, comprise:

Afghanistan	Djibouti	Liberia	Sierra Leone
Argentina	Dominican Rep.	Madagascar	Solomon Islands
Bangladesh	El Salvador	Malawi	Somalia
Belize	Equatorial Guinea	Malaysia	South Africa
Benin	Ethiopia	Mali	Sri Lanka
Bhutan	Fiji	Mauritania	St. Christopher and Nevis
Bolivia	Gambia, The	Mauritius	Sudan
Botswana	Ghana	Morocco	Suriname
Brazil	Guatemala	Mozambique	Swaziland
Burma	Guinea	Nicaragua	Tanzania
Burundi	Guinea-Bissau	Niger	Thailand
Cameroon	Guyana	Papua New Guinea	Togo
Central African Rep.	Haiti	Paraguay	Turkey
Chad	Honduras	Peru	Uganda
Chile	Ivory Coast	Philippines	Uruguay
Colombia	Jamaica	Rwanda	Zaïre
Comoros	Kenya	São Tomé and Principe	Zambia
Costa Rica	Lao People's Dem. Rep.	Senegal	Zimbabwe

The *exporters of manufactures* (i.e., those countries or areas whose exports of manufactures accounted in 1980 for over 50 percent of total exports) include:

China	India	Romania	Yugoslavia
Hong Kong	Israel	Singapore	
Hungary	Korea	Viet Nam	

The *service and remittance* countries, that is, those countries whose receipts from services (such as tourism) and private transfers (such as workers' remittances) amount to at least 50 percent of their exports of goods and services, comprise:

Antigua and Barbuda	Egypt	Maldives	Seychelles
Bahamas	Greece	Malta	St. Lucia
Barbados	Grenada	Nepal	St. Vincent
Burkina Faso	Jordan	Netherlands Antilles	Vanuatu
Cape Verde	Kampuchea, Democratic	Pakistan	Western Samoa
Cyprus	Lebanon	Panama	Yemen Arab Rep.
Dominica	Lesotho	Portugal	Yemen, People's Dem. Rep. of

The last three categories taken together are referred to as the *"non-fuel exporters."*

A second set of analytical groupings of developing countries is based on financial criteria. These pertain to all developing countries except the eight Middle Eastern oil exporters for which external debt statistics are either not available or are small in relation to external assets. Because of these exclusions, disaggregations by predominant export category of this developing country subgroup do not include data for the fuel exporters. Moreover, coverage of the Middle Eastern region in these cases is limited to the "non-oil" countries of the region.

Within this subgroup of developing countries and areas, two types of distinctions are made. The first distinguishes among countries and areas on the basis of their *predominant type of creditor.* Those countries that obtained at least two thirds of their external borrowings from 1978 to 1982 from commercial creditors are defined as *market borrowers*. The group includes:

Algeria	Congo	Korea	Portugal
Antigua and Barbuda	Cyprus	Malaysia	Singapore
Argentina	Ecuador	Mexico	South Africa
Bahamas	Gabon	Nigeria	Suriname
Bolivia	Greece	Panama	Trinidad and Tobago
Brazil	Hong Kong	Papua New Guinea	Uruguay
Chile	Hungary	Paraguay	Venezuela
Colombia	Indonesia	Peru	Yugoslavia
	Ivory Coast	Philippines	

Among the market borrowers, a subgroup of *major borrowers* is distinguished. This group comprises those seven countries with the largest total outstanding external indebtedness. These countries are:

Argentina	Indonesia	Mexico	Venezuela
Brazil	Korea	Philippines	

Official borrowers comprise those countries, except China and India, that obtained two thirds or more of their external borrowings from 1978 to 1982 from official creditors. The countries are:

Afghanistan	Equatorial Guinea	Malawi	St. Lucia
Bahrain	Fiji	Maldives	St. Vincent
Bangladesh	Gambia, The	Mali	Sudan
Bhutan	Ghana	Malta	Swaziland
Burkina Faso	Grenada	Mauritania	Syrian Arab Rep.
Burma	Guatemala	Nepal	Tanzania
Burundi	Guinea	Netherlands Antilles	Togo
Cape Verde	Guinea-Bissau	Nicaragua	Uganda
Central African Rep.	Guyana	Pakistan	Viet Nam
Chad	Honduras	Rwanda	Western Samoa
Comoros	Jamaica	São Tomé and Principe	Yemen Arab Rep.
Djibouti	Jordan	Senegal	Yemen, People's Dem. Rep. of
Dominica	Lao People's Dem. Rep.	Seychelles	Zaïre
Dominican Republic	Liberia	Sierra Leone	Zambia
El Salvador	Madagascar	Somalia	

China and India, which satisfy the criterion for this grouping, have been excluded because of the twin circumstances that these two countries, first, are large enough to significantly affect the group composites and, second, have experienced developments that are at variance with those of most other countries in the group. China and India are, therefore, implicitly grouped with those developing countries whose external borrowing in 1978–82 was more or less evenly divided between official and commercial creditors.

A second financial distinction is based on whether countries have or have not experienced debt-servicing difficulties in the recent past. Countries that have experienced debt-servicing difficulties are defined as those countries which incurred external payments arrears during the period 1981 to 1983 or rescheduled their debt during the period from 1981 to mid-1984 as reported in the relevant issues of the Fund's *Annual Report on Exchange Arrangements and Exchange Restrictions*. Countries classified as not having experienced debt-servicing difficulties are defined as all other developing countries excluding the eight Middle Eastern oil exporters.

Several other analytical groups are also used in the Report. One of these is the group of *low-income countries*, which comprises 43 countries whose per capita GDP, as estimated by the World Bank, did not exceed the equivalent of $410 in 1980. The countries in this group are:

Afghanistan	Burundi	Comoros	Guinea-Bissau
Bangladesh	Cape Verde	Equatorial Guinea	Haiti
Benin	Central African Rep.	Ethiopia	India
Bhutan	Chad	Gambia, The	Kampuchea, Democratic
Burkina Faso	China	Ghana	Kenya
Burma		Guinea	

Lao People's Dem. Rep.	Mauritania	São Tomé and Principe	Tanzania
Madagascar	Mozambique	Sierra Leone	Togo
Malawi	Nepal	Somalia	Uganda
Maldives	Niger	Sri Lanka	Viet Nam
Mali	Pakistan	Sudan	Zaïre
	Rwanda		

References to the *small* or *smaller low-income countries* refer to the above group less China and India.

Reference is also made to subgroups that reflect a combination of regional and analytical criteria. The most common of these groups are: (1) *sub-Saharan Africa*, which comprises all African countries except Algeria, Morocco, Nigeria, South Africa, and Tunisia; (2) *Middle Eastern oil exporters*, which includes:

Iran, Islamic Rep. of	Kuwait	Oman	United Arab Emirates
Iraq	Libyan Arab Jamahiriya	Qatar	
		Saudi Arabia	

and (3) the group of *non-oil Middle Eastern countries*, which refers to all Middle Eastern countries except the eight oil exporters listed above, namely:

Bahrain	Jordan	Syrian Arab Rep.	Yemen, People's Dem. Rep. of
Egypt	Lebanon	Yemen Arab Rep.	
Israel			

In the classification used in Fund publications until recently, the *developing countries* were divided into two groups—"oil exporting countries" and "non-oil developing countries." The countries included under the heading *oil exporting countries* were:

Algeria	Iraq	Nigeria	United Arab Emirates
Indonesia	Kuwait	Oman	Venezuela
Iran, Islamic Rep. of	Libyan Arab Jamahiriya	Qatar	
		Saudi Arabia	

The remaining countries, grouped under the heading *non-oil developing countries*, were further disaggregated into subgroupings based primarily on the character of the countries' economic activity and on the predominant composition of their exports.

Except where otherwise specifically indicated, the Union of Soviet Socialist Republics and other nonmember countries of Eastern Europe, Cuba, and North Korea are excluded from the tables in this Report. Also, it has not been possible to include in the tables a number of small countries or territories for which trade and payments data are not available.

Developing Countries: Shares of Various Subgroups in Aggregate GDP, Exports of Goods and Services, and Debt Outstanding, 1980

(In percent)

	GDP	Exports of Goods and Services	Debt[1]	Memorandum: Number of Countries in Each Subgroup
Developing countries	100.0	100.0	. . .	131
By region				
Africa	13.7	14.2	16.6	48
Asia	31.4	25.1	23.8	26
Europe	10.5	7.5	11.9	8
Middle East	16.7	36.7	. . .	16
Western Hemisphere	27.7	16.4	40.3	33
By predominant export				
Fuel exporters	32.4	49.8	. . .	20
Non-fuel exporters	67.6	50.2	75.0	111
Primary product exporters	33.1	21.6	44.8	72
Exporters of manufactures	29.0	23.0	21.3	11
Service and remittance countries	5.5	5.6	8.9	28
By financial criteria				
Developing countries[2]	86.0	67.5	100.0	123
Market borrowers	51.4	49.1	67.7	35
Of which, Major borrowers	28.0	17.8	41.7	7
Official borrowers	7.2	5.1	10.8	59
Countries with recent debt-servicing difficulties	42.8	26.6	59.5	58
Countries without debt-servicing difficulties	43.3	41.0	40.5	65
By miscellaneous criteria				
Small low-income countries	5.6	2.8	8.3	41
Sub-Saharan Africa[3]	4.6	4.0	7.3	43
Middle Eastern oil exporters	14.0	32.5	. . .	8
Non-oil Middle Eastern countries	2.7	4.3	7.4	8
By alternative analytical categories				
Oil exporting countries	24.0	43.9	. . .	12
Non-oil developing countries	76.0	56.1	86.6	119

[1] In percent of outstanding debt of developing countries, excluding those listed in footnote 2.
[2] Excluding the Islamic Republic of Iran, Iraq, Kuwait, the Libyan Arab Jamahiriya, Oman, Qatar, Saudi Arabia, and the United Arab Emirates.
[3] Excluding Nigeria and South Africa.

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Letters are used as follows: c for chart, n for footnote, and t for table.

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