

**IMMEDIATE
ATTENTION**

EB/CAR/A/05/2

May 3, 2005

To: Members of the Committee on the Annual Report
(Mr. Padoan, Chairman; Mr. Misra, Mr. Portugal,
Mr. Hacche, Ms. van der Willigen)

From: Michael DaCosta, Committee Secretary

Subject: **Meeting of the Committee on the Annual Report**

On behalf of the Chairman of the Committee, Mr. Padoan:

The next meeting of the committee will be held at **2:30 p.m. on Tuesday, May 10, 2005, in the Board Committee Room, 12-120B.**

The Agenda for the meeting will be as follows:

- Discussion of the Draft Outline and the Overview Chapter of the Annual Report.

A draft outline of the 2005 Annual Report is attached. Written comments on the draft are welcome and may be sent to Mr. Hacche (ext. 37409) and Ms. Morrison (ext. 37070) in EXR ahead of the meeting.

Att: (1)

Other Distribution:
Members of the Executive Board

Draft Outline for
Annual Report 2005
April 29, 2005

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Message from the Chairman of the Executive Board

Overview

1. Surveillance Activities During FY2005
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5. Financial Operations and Policies
6. Technical Assistance and Training
7. Governance and Management of the IMF
8. Communications and Outreach

Appendixes

Five or six boxes on selected countries will be sprinkled throughout the *Report*. Countries to be decided after consultation with area departments.

April 29, 2005

**IMF Annual Report, 2005
Draft Outline****Message from the Chairman of the Executive Board****Overview**

The IMF's work in FY2005 was conducted in a global economic environment that was relatively benign, but in which significant risks, underlying vulnerabilities, and longer-term challenges were also evident, including global payments imbalances, a tight oil market, longer-term fiscal weaknesses, and the continuing challenge of reducing global poverty. Against this background, the Fund's activities in FY2005 included not only its policy advice, lending operations, and further steps in a continuing process of reform, but also the beginning of a comprehensive review and assessment of the Fund's policies and instruments, through an examination of its strategic direction. This is to include consideration of longer-term issues facing the Fund as well as its medium-term strategy.

This new chapter will be drafted partly on the basis of the Managing Director's reports to the IMFC in October 2004 and April 2005 on the IMF's policy agenda (the "umbrella" papers), and with guidance from the Executive Board's Committee on the Annual Report. Its aim is to draw together the main themes of the IMF's work during the year, as described in the following chapters, and relate them to the Fund's objectives and to the guidance provided by the IMFC. Current plans are that the chapter will feature highlights of the Fund's operational work during FY2005, including global surveillance (particularly its focus on policies to address global imbalances and on oil market developments) and lending operations, including IMF support for low-income countries' efforts to reduce poverty and reach the MDGs, and response to the tsunami and other natural disasters. It will also summarize current reforms of policies and operations—in particular, efforts to enhance the effectiveness of surveillance, in the context of the Biennial Surveillance Review; the review of the design and monitoring of Fund-supported programs; consideration of signaling and precautionary arrangements; the strengthening of IMF support for low-income countries; and voice and participation. The chapter will, in addition, include a section on the current state of discussions on the Fund's strategic review on the basis of the April 2005 umbrella paper's discussion of the Fund's medium-term strategy.

Sources: October 2004 and April 2005 umbrella papers; Board discussion on the Fund's Medium-Term Strategy, 3/28/05 (BUFF/05/60, unpublished)

1. Surveillance Activities During FY2005

As described in Chapter 2, the Fund made further efforts in FY2005 to strengthen its surveillance operations. This chapter will summarize the Fund's surveillance operations during the year, at the global, regional, and country levels.

A. Global Surveillance

World Economic Outlook—short summaries of Board discussions on 9/1/04 and 9/3/04 (SUR/04/96) and 3/21/05 and 3/23/05 (SUR/05/39), with references to published material

Global Financial Stability Report—short summaries of Board discussions on 8/30/04 (BUFF/04/165) and 3/18/05 (BUFF/05/54)

Oil Market Developments—Concluding Remarks, Board seminar, 3/11/05 (PIN/05/48)

B. Regional Surveillance—short summaries, with references to published material

Initiation of *Regional Economic Outlook: Sub-Saharan Africa*, April 2005 (PR/05/86)

Eastern Caribbean Currency Union—Board discussion, 5/5/04 (PIN/04/101)

Euro Area Policies—Board discussion, 7/26/04 (PIN/04/79)

West African Economic and Monetary Union—Board discussion, 10/6/04 (BUFF/04/192; BUFF/04/196)

C. Country Surveillance (text based on AR 2004)

Table: Article IV Consultations Completed in FY2005 (PDR)

Possible boxes:

Main Economic and Financial Developments in FY2005 (from RES and ICM)

Forms of IMF Surveillance (from AR 2004)

Preliminary assessment of macroeconomic impact of the tsunami (February 4, 2005; website)

2. Strengthening Surveillance and Crisis Prevention

This chapter will cover what the Fund did in FY2005 to reexamine the performance of its surveillance operations and to strengthen further the quality and effectiveness of surveillance, so that it can more effectively help member countries improve the resilience and performance of their economies, minimize adverse international spillovers from difficulties at the country level, and identify and address potential vulnerabilities in the international financial system.

A. Biennial Surveillance Review

Board discussion, 7/23/04 (PIN/04/95) and follow-up (based on April umbrella paper)

B. Financial Sector Surveillance

In addition to the following, this section will draw on the Biennial Surveillance Review and the discussion in the April umbrella paper of the Medium-Term Strategy.

Financial Sector Regulation: Issues and Gaps—Board discussion, 10/27/04 (PIN/04/131)

Monetary Policy Implementation at Different Stages of Market Development—Board discussion, 11/17/04 (PIN/05/15)

FSAP—Review, Lessons, and Issues Going Forward—Board discussion, 3/18/05 (PIN/05/47)

C. Debt and Liquidity

Debt-Related Vulnerabilities and Financial Crises—An Application of the Balance Sheet Approach to Emerging Market Countries—Concluding Remarks—Board seminar, 10/20/04 (PIN/05/36, 3/22/05)

Liquidity Management—Concluding Remarks, Board seminar, 5/24/04 (BUFF/04/93)

D. Standards and Codes, and Data Provision to the Fund

Revision of Guide to GDDS (10/26/04, PR/04/226)

List of new subscribers to SDDS and GDDS

Draft Guide on Resource Transparency (PR/04/274)

Establishment with World Bank of Quarterly Online External Debt Database (PR/04/241)

Entry into force on 1/1/05 of Board decision on Article VIII, Section 5, and steps taken to implement decision

Possible boxes:

Review of IMF's Role in Trade—Board discussion, 2/28/05 (PIN/05/49) (with cross-reference to Chapter 3)

Sovereign Debt Structure for Crisis Prevention (SM/04/140) (from RES, based on informal Board seminar, 5/10/2004)

From Fixed to Float: Operational Aspects of Moving to Exchange Rate Flexibility—Board discussion, 12/13/04 (PIN/04/141)

Financial Soundness Indicators, publication of Compilation Guide, 7/30/04; launch of pilot project, Coordinated Compilation Exercise, involving 60 countries—meeting convened by Statistics Dept. in Washington, November 18–19, 2004, to give participants in project opportunity to discuss and finalize terms of reference for exercise

OFC and AML/CFT (update on Fund's activities in this area, based on "Offshore Financial Centers—The Assessment Program—A Progress Report," SM/05/70)

Approaches to a Regulatory Framework for Formal and Informal Remittance Systems—Experiences and Lessons—informal Board seminar, 3/16/05 (SM/05/64)

Investor Relations Programs: Recent Developments and Issues (SM/04/364)

Data standards initiatives and ROSCs (based on AR 2004)

Increased Participation in GDDS (from STA)

Assessing Corporate Sector Vulnerabilities: the Contingent Claims Approach (from ICM, based on informal Board seminar, 11/1/2004)

New data on portfolio investment and metadata on foreign direct investment (from STA)

3. Strengthening IMF Program Support, Signaling, and Crisis Resolution

This chapter will cover the IMF's efforts during FY2005 to ensure that the policy programs it supports through financing are well designed; to review the rules determining the amounts that member countries can borrow from the Fund; to review the ways in which the Fund, without providing financial assistance, can signal its support for the policies being implemented by a member country or indicate that financial assistance would be available if needed; and to review progress with crisis resolution initiatives and proposals.

A. Design of Programs Supported by IMF Financing

Design of Fund-Supported Programs—Board discussion, 12/17/04 (PIN/05/16)

Review of 2002 Conditionality Guidelines—Board discussion, 3/25/05 (PIN/05/52)

Ex post assessments (describe and update number conducted so far; material to come from PDR)

B. Financing Facilities and Policies

Brief introduction describing facilities (AR 2004), referring to continuing review of facilities (April umbrella paper, Section VI.B), and noting Fund's readiness to assist in context of tsunami and oil price increases (from PDR)

Access Policy—Concluding Remarks, Board discussion, 4/1/05 (BUFF/05/68)

Activation of Trade Integration Mechanism (TIM) (with cross-reference to box on trade in Chapter 2)

C. IMF Policy Monitoring Without Financing

Policy Monitoring Arrangement and Signaling by the Fund: A Historical Review—Board discussion, 9/22/04 (PIN/04/114)

Crisis Prevention and Precautionary Arrangements: Status Report—Board discussion, 9/24/04 (PIN/04/117)

D. Crisis Resolution

Progress Reports on Crisis Resolution (October 2004 and April 2005 reports to IMFC; IMFC/Doc/10/04/6, Rev. 1; SM/05/107)

Possible boxes:

IMF Financial Facilities (AR 2004; to be updated by FIN)

Staff-monitored programs and post-program monitoring (background material from PDR)

Emergency post-conflict assistance: Iraq (PR/04/206; BUFF/04/189), Haiti (BUFF/05/9), Central African Republic (BUFF/04/147), Liberia (PIN/04/135, BUFF/04/202)

IEO Report on Argentina—Board discussion, 7/26/04 (BUFF/04/141)

Signaling Under Surveillance (Ecuador, Jamaica, Lebanon, Nigeria) (from PDR)

IMF's Role in Recent Debt Restructuring in Countries of ECCU (from WHD)

4. The IMF's Role in Low-Income Countries

During FY2005, the Fund continued to support the efforts of low-income members to enhance growth, reduce poverty, and make progress toward the Millennium Development Goals. It also continued to review, and to seek to strengthen, the instruments it has available for this purpose. This chapter will cover not only the broad review of the Fund's role in this area but also the reviews of the PRSP process and the HIPC initiative, and alternative proposals for increasing resource mobilization for low-income countries.

A. Review of Fund's Role and Operations in Low-Income Countries

Role of the Fund in Low-Income Member Countries—Board discussion, 8/30/04 (PIN/04/110)

Lessons on Policy Advice from Conditionality Review (cross-reference to Chapter 3)

B. Strengthening Instruments for Supporting Low-Income Countries

PRSPs—Progress in Implementation (IMF & WB)—Board discussion of paper, 9/3/04 (PIN/04/113, corrected 12/8/04)

Access (April umbrella paper; Operational Guidance Note on Access under PRGF, 11/9/04)

Subsidization of Emergency Assistance for Natural Disasters for PRGF-Eligible Members—Board discussion, 1/21/05 (PIN/05/8); mention Grenada, tsunami, and Sri Lanka, Maldives (BUFFS); pledges of grant contributions (PR/05/90)

Extension of Post-Program Monitoring to Cover the Use of PRGF Resources, SM/05/86, 3/7/05

Mention Board's upcoming discussion of IMF's Role in Signaling, Donor Coordination, and PRSP Process; policy monitoring arrangement

Mention activation of trade integration mechanism—Dominican Republic, BUFF/05/18; Bangladesh, BUFF/04/148

C. Debt Relief and Sustainability

Further Debt Relief for Low-Income Countries: Key Issues and Preliminary Considerations—Concluding Remarks, Board seminar, 3/30/05 (BUFF/05/61)

Financing Further Debt Relief for Low-Income Countries: Preliminary Considerations—Concluding Remarks, Board seminar, 3/30/05 (BUFF/05/62)

Statement by Management on Enhanced HIPC Initiative—Change in the Fund's Practice Regarding Proposed Decisions on Completion Point and Additional Assistance, 6/17/2004 (BUFF/04/109)

Enhanced HIPC Initiative: Possible Options Regarding the Sunset Clause—Board discussion, 7/30/04 (BUFF/04/157)

Status of Implementation of Enhanced HIPC—Board discussion, 9/3/04 (PIN/04/111); update number of countries having reached completion point by 4/30/05 (PDR)

Debt Sustainability in Low-Income Countries—Further Considerations on an Operational Framework and Policy Implications—Board discussion,

9/24/04 (PIN/04/119); Operational Framework for Debt Sustainability Assessment in Low-Income Countries: Further Considerations—Concluding remarks, Board discussion, 4/11/05 (BUFF/05/69)

D. Mobilizing International Support

Aid Effectiveness and Financing Modalities—Concluding Remarks, Board seminar, 9/24/04 (BUFF/04/184)

Second Global Monitoring Report on MDGs—Board discussion, 4/1/05 (PR/05/83)

Possible boxes:

IEO Evaluation of PRSPs and PRGF—Board discussion, 7/21/04 (BUFF/04/142)

Alignment of PRSPs and GDDS (from STA)

Seminars and Conferences: Macroeconomic Policy Challenges in Low-Income Countries, 2/2005; Foreign Aid and Macroeconomic Management in Africa, 3/2005 (PR/05/59)

5. Financial Operations and Policies (to be drafted by Finance Department)

This chapter will provide the usual account of the Fund's financial situation, operations, and policies during the year. In addition it will cover the Review of Fund Finances and Financial Structure: Preliminary Considerations (Board seminar, 3/9/05, BUFF/05/49); and Review of Fund's Safeguards Policy (Board discussion, 4/25/05, BUFF/05/73).

6. Technical Assistance and Training

This chapter will review not only the Fund's technical assistance and training operations during FY2005 but also efforts made during the year to review and enhance the delivery of technical assistance, to leverage the Fund's limited resources through better cooperation with other providers of technical assistance and the mobilization of external funding, and to expand other capacity-building efforts in priority areas.

A. Technical Assistance

Table or box summarizing volume and kinds of TA (from OTM)

IEO Evaluation of Technical Assistance—Board discussion, 2/18/05 (BUFF/05/37)

Independent Mid-Term Evaluation Report on AFRITACs (from OTM)

Mention opening of METAC, Beirut (PR/04/224) and extension of CARTAC

MFD and FAD Technical Assistance to Post-Conflict Countries—Board discussion, 2/14/05 (PIN/05/45)

New technical assistance subaccounts (from OTM)

B. Training

INS courses

Box: Trade-related technical assistance and institution building
(SM/05/47, Cor.1, Box 5)

7. Governance and Management of the IMF

In addition to the usual review of the Fund's budget and resources during FY2005, this chapter will include an account of efforts made during the year to enhance the Fund's effectiveness in fulfilling its mandate both by moving toward a strategically oriented budget process that will facilitate the prioritization of its activities, and through the continued evaluation of its programs, policy advice, and financing by its Independent Evaluation Office. The chapter will also cover the initiation of the staff compensation review.

Budgets and Budget Reform (from OBP)

Human Resources; Comprehensive Review of Fund's Employment Framework, Compensation and Benefits—Board discussion, 1/26/05 (BUFF/05/10) (from HRD)

Organization (from HRD)

OIA (from OIA)

IEO (AR 2004; IEO work program for FY2005)

HQ2 (from TGS)

Security issues (from TGS)

Possible boxes

Quotas, voice, and participation (April umbrella paper, Box 1)

8. Communications and Outreach

External communication by the Fund remains crucial to increasing public understanding of the Fund's work. Apart from reviewing major outreach efforts and other communications activities conducted during the year, this chapter will cover the review of Fund communications, which focused on the need for their fuller integration into Fund operations.

A. Integrating IMF Communications and Operations

Board discussion, 3/9/05 (PIN/05/34)

B. Outreach Activities During the FY

Parliamentary outreach by EXR

Management travel

AML/CFT outreach (from MFD)

Labor unions (PR/04/212)

World Council of Churches (PR/04/220)

World Social Forum (1/2005)

FAD workshop on IMF programs and HIV/AIDS, 1/2005

Seminar on trade and regional integration in Africa, sponsored by IMF and BCEAO, 12/2004

C. Cooperation with Other International Organizations

Will contain shorter version of former Appendix IV (SEC)

MFD's work with international standard setters (from MFD)

Possible box:

Selected Conferences and Seminars

Annual Research Conference, 9/2004

Financial Sector Issues in Emerging Markets in Asia (PR/04/215)

FSAP seminar to familiarize country officials with FSAP methodologies and tools, 6/2004

Global Financial Integration, Stability, and Business Cycles (ECB/IMF), 11/2004

Macroeconomic policy seminar in Tanzania for legislators, 10/2004

Outreach by Executive Directors (to be drafted by SEC)

Fund civic and community relations program

Appendixes