EB/CAR/07/5

July 24, 2007

To: Members of the Committee on the Annual Report
(Mr. Fried, Chairman; Mr. Guarnieri, Mr. Mozhin,
Mr. Rice, Mr. Brown)

From: Michael Da Costa, Committee Secretary

Subject: **Revised Draft of the 2007 Annual Report**

On behalf of the Chairman of the Committee, Mr. Fried

Attached for the information of Committee members and other Executive Directors is a revised draft of the *2007 Annual Report*, which consists of (i) revised chapters 1 through 5 of the 2007 Annual Report (redlined version); (ii) the clean version of the revised chapters with the Preface from the Chairman of the Committee, the Message from the Managing Director, and the transmittal cover letter under which the 2007 Annual Report will be distributed to the Board of Governors; and (iii) a list of materials to be included on the CD-ROM.

Revised chapters 1 through 5 take into account the comments and suggestions made by Committee members and other Executive Directors on the draft that was circulated on Tuesday, July 3, 2007 (EB/CAR/07/4).

In the absence of additional comments by **close of business on Friday, July 27, 2007,** a *Consolidated Draft 2007 Annual Report* will be transmitted to the Executive Board for its lapse-of-time approval.

Att: (3)

Other Distribution:
Members of the Executive Board
Department Heads

International Monetary Fund

Annual Report 2007

July 23, 2007

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

The unit of account of the IMF is the SDR; conversions of IMF financial data to U.S. dollars are approximate and provided for convenience. On April 30, 2007, the SDR/U.S. dollar exchange rate was US$1 = SDR 0.65609, and the U.S. dollar/SDR exchange rate was SDR 1 = US$1.52418. The year-earlier rates (April 30, 2006) were US$1 = SDR 0.67978 and SDR 1 = US$1.47106.

"Billion" means a thousand million; "trillion" means a thousand billion; minor discrepancies between constituent figures and totals are due to rounding.

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

Preface from the Executive Board

This Annual Report of the Executive Board of the IMF to the Board of Governors covers the financial year 2007, which began on May 1, 2006, and ended on April 30, 2007. Two events that occurred after the close of FY2007 are of such importance for the IMF, however, that they merit a mention in this preface.

The first is the Executive Board's decision in June 2007 to revise the Fund's framework for surveillance. In the three decades since the original framework was established by the Executive Board in 1977, the nature of the challenges faced by our members has changed. When the 1977 decision was adopted, the most serious threats to international financial and macroeconomic stability were the manipulation of exchange rates by countries seeking to correct their balance of payments problems, and short-term exchange rate volatility. Today, in our increasingly globalized world, as international trade and cross-border capital flows reach unprecedented levels, the most serious threats are fundamental exchange rate misalignments and capital account vulnerabilities. The new decision, which has broad support across the membership, reflects the current environment and provides our members with clear guidelines on the expectations of the international community regarding the potential spillover effects of exchange rate policies, and provides guidance to staff with a view to focusing the Fund's advice on macroeconomic policies that promote stability and growth.

The second event is Managing Director Rodrigo de Rato's announcement that he would step down in October 2007. On behalf of the Executive Board, I offer my gratitude to Mr. de Rato for his strong leadership and immense contributions to the Fund since he took up the reins in 2005. I would note, in particular, the Medium-Term Strategy launched in 2006, an ambitious program calling for reform of the distribution of quotas and voting power in the Fund to ensure that all members are fairly and adequately represented, and setting in motion important changes in Fund operations and policies that will enable us to better meet the evolving needs of our members. In the process of selecting Mr. de Rato's successor, Executive Directors have been invited to nominate candidates who have distinguished records as economic policymakers at senior levels and who are nationals of any of the Fund's 185 member countries. The Executive Board will consider these candidates in September.

Readers can find information about these and other developments after the close of the financial year at www.imf.org, the IMF's Web site.

The Executive Board is rightly proud of this new format of the IMF's Annual Report. To shape it into a more effective communications tool, the Executive Board decided to streamline the Report and to have it translated into seven languages—Arabic, Chinese, French, German, Japanese, Russian, and Spanish—three more than in the past. Readers will find all of the appendixes—including the financial statements—that used to be in the print Report on the CD-ROM in the pocket affixed to the inside back cover. On the CD-ROM, they will also find Public Information Notices, Press Releases, assorted reports, and tables and boxes offering more detail on the activities described in the print Report.

We trust that readers will welcome these changes and invite your feedback.

Jonathan T. Fried
Chairman
Executive Board Committee on the Annual Report

Message from the Managing Director

This is a time of transformation, in the global economy and in the International Monetary Fund. The sources of global growth have broadened: Europe, Japan, and the United States have all enjoyed solid economic performance over the past year, while middle-income emerging economies, including China and India, were also important contributors to global growth. Innovation in financial markets has continued, bringing with it many opportunities and some new risks. In the Fund, work on the reforms set out in the Medium-Term Strategy has proceeded, and we saw its first fruits in Financial Year 2007.

Some of the most important changes we have made in the past year have been in our economic oversight function, or surveillance, which is the Fund's core activity. The introduction of Multilateral Consultations gives the Fund—and the international community—an important new tool to forge consensus on approaches to common problems. The first Multilateral Consultation, which focused on reducing global imbalances while sustaining strong global growth, resulted in the five participants—China, the euro area, Japan, Saudi Arabia, and the United States—jointly setting out their policy plans in a document circulated at our Spring Meetings to ministers representing the Fund's 185 members. The participating countries putting forward these policies and discussing them collaboratively shows their commitment to multilateralism. As they are implemented, these policy plans will reduce global imbalances while helping to sustain growth.

The Fund also made important progress in deepening its work on financial markets and financial systems. We are better integrating our work on financial sectors with our work on macroeconomic issues. And through the merger of two Fund departments into the Monetary and Capital Markets Department in June 2006, we have established a center of excellence in financial market issues—an area of growing importance to the global economy and to the Fund's members.

In FY2007 we also began work on reforms of the legal framework for bilateral surveillance, which culminated in an Executive Board Decision on a New Framework for Surveillance early in FY2008. The new decision is the first major revision of the surveillance framework in some 30 years, and has broad support from our membership. It reflects current best practice in our work of monitoring members' exchange rate policies and domestic economic policies; reaffirms that surveillance should be focused on the Fund's core mandate—promoting countries' external stability; updates the principles for the guidance of members in the conduct of their exchange rate policies; and sets out clearly what is expected of surveillance, including candor and evenhandedness.

The Fund's work with low-income countries has remained intense. Ten new programs under the Poverty Reduction and Growth Facility were approved last year, and 24 countries have now benefited from debt relief under the Multilateral Debt Relief Initiative. We are also taking steps to ensure that we are focusing on critical macroeconomic and financial areas, which is where we can make the greatest contribution to stability, growth, and poverty reduction in low-income countries. We will continue to work in partnership with the World Bank and other development agencies, and in doing so can now draw on an important report on Bank-Fund collaboration by a committee of external experts headed by Pedro Malan. The Committee's report, delivered in February 2007, will help us clarify roles and work better with our World Bank colleagues.

Technical assistance and training remain important elements of our work, especially in low-income countries. FY2007 saw the opening of a regional technical assistance center in Libreville, Gabon, the third in Africa, as well as the opening of the Joint Indian-IMF Training Program in Pune, India, the seventh regional training center worldwide. Meanwhile, the consolidation of Anti–Money Laundering and Combating the Financing of Terrorism (AML/CFT) activities in the Fund's Legal Department has made it the largest multilateral provider of technical assistance on AML/CFT.

In January 2007, we received a report from a Committee of Eminent Persons chaired by Andrew Crockett. Arguing that the Fund needs a new income model and that it should not continue to rely almost entirely on lending to finance public goods such as surveillance and technical assistance, the Crockett Report recommended that the Fund broaden its sources of income. Establishing reliable income sources—together with effective management of expenditure—is important to give our members confidence that the Fund will be able to carry out its mandate in the future and to enable us to make reliable plans to implement agreed policies. We have already acted on expenditure: the medium-term budget for FY2008–10 implies a reduction in the IMF's real administrative resources in each of the next three years, to be achieved by increasing efficiency and by scaling back or eliminating lower-priority activities. Addressing the income side of the equation will be a major priority for FY2008.

The September 2006 Annual Meetings were held in Singapore. The meetings gave all of our members a chance to see how far Asia has come since the crisis a decade ago. They also saw the Fund take a major step forward with the completion of the first stage of reform of quotas and voice. On September 18, 2006, our Board of Governors approved ad hoc quota increases for four countries—China, Korea, Mexico, and Turkey—that were clearly underrepresented and agreed on more fundamental reforms to be delivered within two years. This was a historic agreement for the Fund. In January 2007, the Executive Board began work on a proposed amendment to the Articles of Agreement to increase basic votes, with the aim of protecting the voting share of low-income countries as a group. And at its meeting on April 14, 2007, the International Monetary and Financial Committee (IMFC) gave us guidance on a new formula for broader changes in quotas. The IMFC agreed that the new formula should be simple and transparent, and appropriately capture the relative positions of members in the global economy. The reform should also result in higher shares for dynamic economies, many of which are emerging market economies, whose weight and role in the global economy have increased. Our objective remains to complete these reforms by the 2007 Annual Meetings if possible, and by no later than the 2008 Annual Meetings. Meeting this target will require leadership from members, and compromises among them. But if we can continue to draw on the spirit of multilateral cooperation that we saw in Singapore then I am confident that we will succeed.

The past year has been a year of great change at the Fund, and there are many changes still to come. There have also been changes in staff and management. Anne Krueger, First Deputy Managing Director from 2001 to 2006, has been succeeded by John Lipsky. Agustín Carstens, Deputy Managing Director from 2003 to 2006, has become Secretary of Finance of Mexico and has been succeeded by Murilo Portugal. Among the changes to come will be my own departure. I will step down as Managing Director after the 2007 Annual Meetings.

However, there are also important continuities: in the commitment to the Fund of our members, represented by our excellent Executive Board; in the dedicated career staff of the Fund; in the work of the institution; and in our sense of vision and purpose. I am proud to be have been able to help guide the Fund during this time of change, and to have had the opportunity to serve all of the members of this great institution.

Letter of Transmittal to the Board of Governors

August [ ], 2007

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, 2007, in accordance with Article XII, Section 7*(a)* of the Articles of Agreement of the International Monetary Fund and Section 10 of the IMF's By-Laws. In accordance with Section 20 of the By-Laws, the administrative and capital budgets of the IMF approved by the Executive Board for the financial year ending April 30, 2008, are presented in Chapter 5. The audited financial statements for the year ended April 30, 2007, of the General Department, the SDR Department, and the accounts administered by the IMF, together with reports of the external audit firm thereon, are presented in Appendix VI. The external audit and financial reporting processes were overseen by the External Audit Committee, comprising Dr. Len Konar (Chairman), Mr. Satoshi Itoh, and Mr. Steve Anderson, as required under Section 20*(c)* of the Fund's By-Laws.

Rodrigo de Rato

Managing Director and

Chair of the Executive Board

1. Overview

During the financial year beginning on May 1, 2006, and ending on April 30, 2007, the Executive Board focused on adapting Fund policies and operations to better meet the evolving needs of the IMF's member countries, whose number increased to 185 in January 2007, when Montenegro joined. Although many of the IMF's members experienced another year of strong economic growth and favorable market conditions, the economic and financial environment was not without risk. Large global imbalances persisted, the U.S. economy slowed, prices for oil and nonfuel commodities remained high, and investors continued to show a large appetite for risky assets.

The IMF made considerable progress in implementing the objectives set out in the Medium-Term Strategy (MTS) launched by the Managing Director in FY2006 (Box 1.1). With capital flows to emerging market economies reaching unprecedented levels in recent years, and demand for Fund lending declining as a result, the IMF has been increasingly concentrating on surveillance,[1] policy advice, and technical assistance. During FY2007, it developed a new surveillance vehicle—the multilateral consultation—with which it sought to help its members address the problem of global imbalances. It also began a review of its framework for surveillance and moved to better integrate financial sector work into its surveillance activities to help members manage the risks associated with, and reap the benefits from, globalized financial markets.

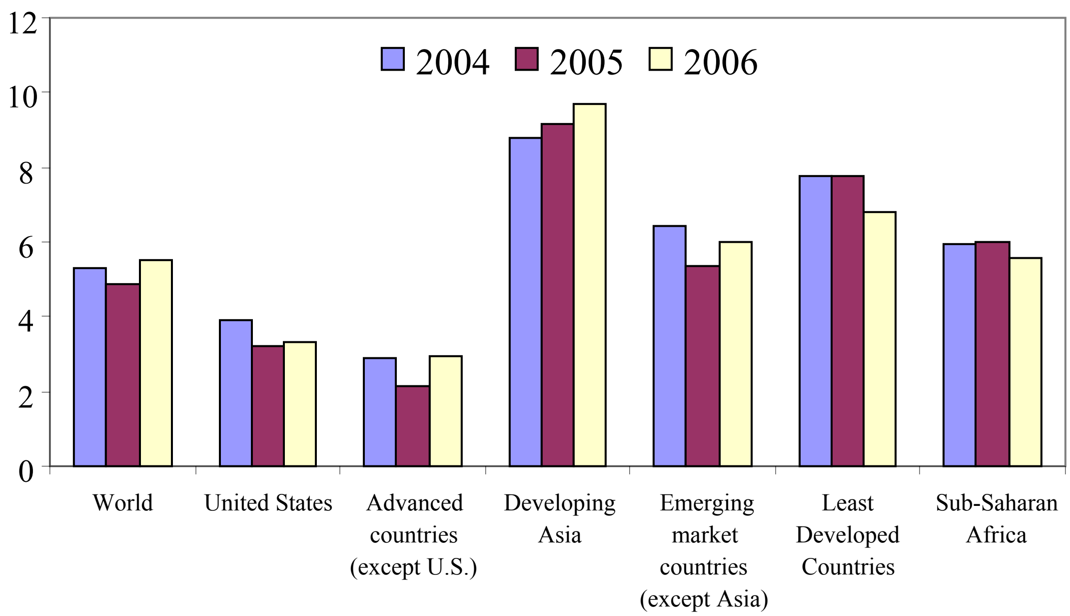
In recognition of the growing economic weight of some Fund members and the erosion of the smaller economies' voting power, the Executive Board undertook quota and governance-related reforms designed to ensure the fair distribution of quotas and adequate representation of all members. The Board also took steps to improve the Fund's internal governance, enhance the efficiency of Fund operations, and develop a new income model more closely aligned with the variety of functions the institution now performs.

[1]The monitoring of global, regional, and national economic policies; see Box 2.1.

KEY ECONOMIC AND FINANCIAL DEVELOPMENTS

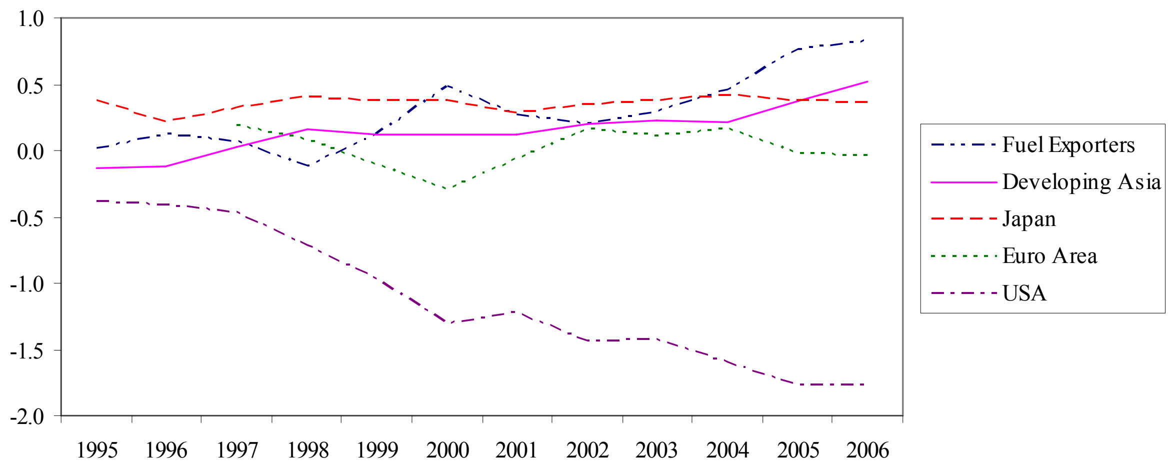
Global economic growth accelerated to 5.4 percent in 2006—up from 4.9 percent in 2005—marking the fourth successive year of a strong global expansion (Figure 1.1). Moreover, the expansion became better balanced, as a slowing in the U.S. economy was offset by firming of growth elsewhere. Emerging market countries grew particularly fast, supported by benign international financial conditions and, in many cases, high commodity prices. Inflation in the advanced economies declined in the second half of 2006 as oil prices fell from a peak in August.

Figure 1.1 Real GDP Growth
(In percent change from a year earlier)



Current account imbalances continued to be large (Figure 1.2). The external deficit of the United States stabilized at 6½ percent of GDP in 2006, with a marked narrowing toward the end of the year. The surpluses of the oil-exporting and East Asian countries continued to rise, while deficits grew in both western and emerging Europe[2] and in rapidly growing emerging market economies such as India.

Figure 1.2 Current Account Balance
(In percent of world GDP)



Growth in the *United States* slowed markedly, declining from an annual rate of 2½ percent in the second half of 2006 to 0.6 percent in the first quarter of 2007, primarily because of declines in net exports, inventories, and residential investment. Although export growth remained solid, faster import growth reversed some of the improvement that had been made in the trade balance after August 2006. Rising oil imports accounted for more than half of the increase in imports. Business investment also slowed. However, private consumption remained solid, supported by continued employment growth and rising equity prices.

Economic activity in the *euro area* gained momentum during the same period. GDP growth reached 2.5 percent (seasonally adjusted annual rate) in the first quarter of 2007, almost double the pace in 2005 and the highest rate since 2000, driven by strong investment and net exports, while consumption spending slowed significantly, reflecting in part the impact of the increase in the German value-added tax.

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[2]As used in Fund publications, this term includes Bulgaria, Croatia, the Czech Republic, Estonia, Hungary, Latvia, Lithuania, Malta, Poland, Romania, the Slovak Republic, and Turkey.

Japan's economic expansion hit a soft patch in the middle of 2006, mainly because of an unexpected decline in consumption, but growth rebounded strongly in the fourth quarter of 2006 as domestic demand regained momentum. The pace of activity moderated in early 2007, but growth remained above potential.

Activity in *emerging Asia* continued to expand briskly, led by strong growth in China and India. In China, real GDP grew by 10.7 percent in 2006. The pace of fixed-asset investment cooled in the second half of 2006 but gathered pace again in early 2007. India's growth of 9.7 percent in 2006 was supported by strong consumption and, especially, investment. In the newly industrialized economies (Korea, Taiwan Province of China, Hong Kong SAR, and Singapore), resilient external demand supported activity, notably in the electronics sector. GDP growth also increased in the ASEAN-4 economies (Indonesia, Malaysia, the Philippines, and Thailand).

Growth in *Latin America* accelerated to 5.5 percent in 2006 from 4.6 percent in 2005, bringing the average growth rate for the past three years to 5¼ percent, the best performance since the late 1970s. Growth picked up in Brazil and Mexico, although it remained below the regional average. As Latin America's recovery matured, domestic demand became the main engine of growth. Net exports exerted a downward pull on activity, partly as a consequence of weaker growth in the United States, the region's largest trading partner, although commodity exporters continued to benefit from buoyant world commodity prices.

In *emerging Europe,* growth accelerated to 6 percent in 2006. Domestic demand increased as consumption was boosted by rising employment and real wages. Current account deficits widened further but, in most cases, were financed without difficulty by bank inflows and foreign direct investment. However, concerns about large external deficits in Hungary and Turkey led to downward pressure on the exchange rates for those two countries, and policies were tightened. Activity in the *Commonwealth of Independent States,* the group formed by 12 of the former Soviet republics, also continued to expand briskly, supported by high prices for oil and non-oil commodities.

Middle Eastern oil exporters enjoyed another year of solid growth in 2006, accompanied by strong external and fiscal balances. Oil revenues continued to grow rapidly, the strong momentum of the non-oil sector continued, and governments planned large expenditures on social programs and investment in the oil and non-oil sectors.

Growth in *sub-Saharan Africa* moderated somewhat in 2006 but remained robust, driven increasingly by domestic investment, rising productivity, and, to a lesser degree, government consumption. Higher oil revenues and debt relief supported government spending in many countries. Inflation remained subdued for most, owing to prudent macroeconomic policies and another good harvest.

Oil prices continued to be high and volatile. After reaching a record high of $76 a barrel in August 2006, the average petroleum spot price declined in subsequent months, reflecting a combination of slowing demand in industrial countries, a recovery of non-OPEC supply, and some easing of geopolitical tensions. However, OPEC's production cuts after November and a recovery in demand in the first quarter of 2007 caused prices to rebound. Renewed geopolitical tensions in the Middle East pushed prices up even further in March and April of 2007, to $65 a barrel by the end of April. Prices of *nonfuel commodities,* led by metals, also rose sharply during the second half of 2006 and the first four months of 2007, as did prices of some agricultural commodities—notably corn—reflecting, in part, the prospect of growing demand for biofuels.

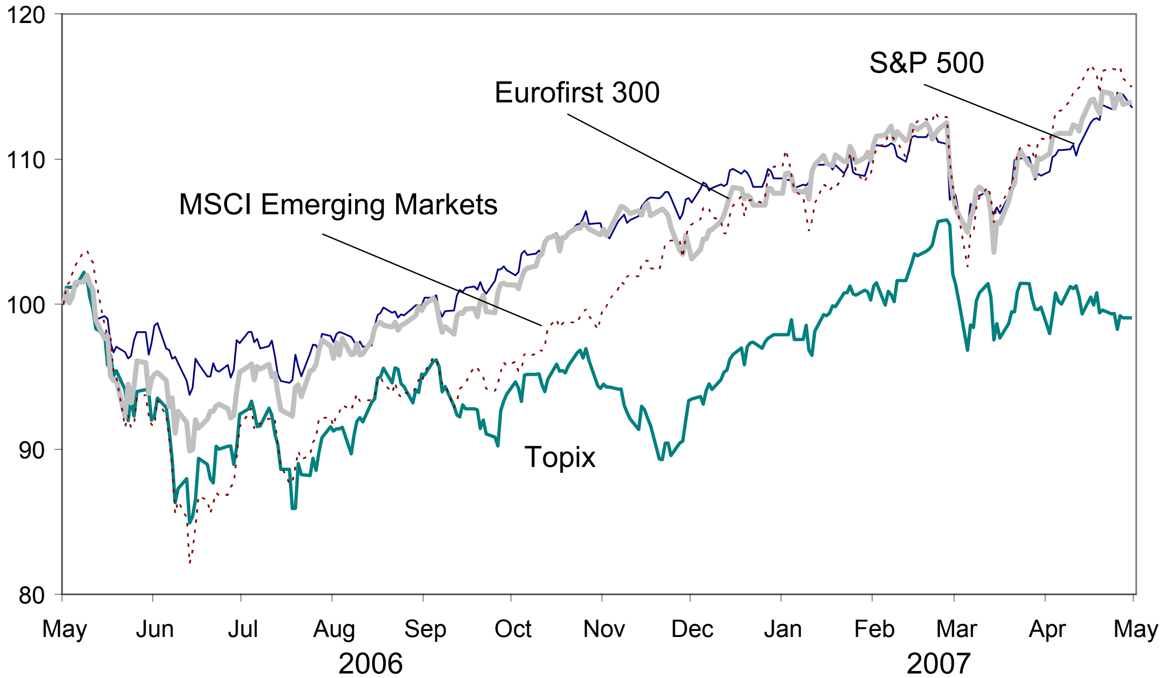
The *monetary policies* adopted by IMF member countries reflected different cyclical positions. The U.S. Federal Reserve kept the Fed funds rate on hold from June 2006 on, balancing the risks of a cooling economy against continued concerns about inflation. With inflation in Japan continuing to hover around zero, the Bank of Japan raised its policy rate to 0.5 percent in two quarter-point moves, after abandoning its zero interest rate policy in July 2006. By contrast, the European Central Bank and European national central banks steadily tightened monetary policy. Some emerging market countries—notably China, India, and Turkey—also tightened monetary conditions, China and Turkey because of concerns about overly rapid growth, India because of concerns about inflationary pressures. Turkey was also responding to external pressures. Regarding *fiscal policies*, industrial countries made some progress in reducing structural deficits, largely as a result of unusually strong revenue growth. Nonetheless, with their aging populations, these countries will need to make further substantial adjustments going forward to achieve fiscal sustainability.

In *foreign exchange markets*, slower growth in the United States contributed to a weakening of the U.S. dollar. Between May 2006 and the end of April 2007, the dollar depreciated 8.4 percent against the euro and 9.5 percent against the British pound. The yen also weakened further, as low interest rates continued to encourage capital outflows. The renminbi depreciated slightly in real effective terms, despite a mild acceleration in its rate of nominal appreciation against the U.S. dollar and a further rise in China's current account surplus to 9½ percent of GDP in 2006. Overall, currency market conditions remained orderly and volatility, low.

Financial market stability continued to be underpinned by favorable global economic prospects. Despite bouts of nervousness in May/June 2006 and again in February/March 2007, market volatility generally remained at low levels. The latter episode was triggered by a variety of factors against a backdrop of growing concern about the impact of the rapidly slowing U.S. housing market on housing-related securities, as mortgage delinquencies and default rates picked up, particularly in loans to lower-quality (subprime) borrowers. However, the impact of the credit deterioration on broader financial markets was limited.

Corporate bond spreads remained low. Strong corporate balance sheets, including ample cash cushions, supported a wave of mergers and acquisitions. This activity, combined with higher-than-expected corporate profits, contributed to double-digit returns in most *global equity markets*, Japan being a notable exception (Figure 1.3). During the IMF's financial year 2007, the S&P 500 gained 13.1 percent and the Eurofirst 300 gained 13.9 percent, while the Topix lost 0.9 percent.

Figure 1.3 Equity Market Performance
(May 1, 2006 = 100)



Source: Bloomberg L.P.

In *emerging markets,*[3] yield spreads declined to new historical lows (Figure 1.4). The market was supported by continued improvements in credit quality (with rating upgrades far exceeding downgrades), more sovereign debt buybacks (and, in the process, the continued reduction of the stock of Brady bonds), and reduced sovereign issuance. Global investors increased their portfolio allocations in local emerging markets. Net flows to emerging equity markets fluctuated. In particular, sharp outflows were recorded during the corrections of May/June 2006 and February/March 2007, with the largest outflows experienced in those markets that had run up the most. Nonetheless, emerging market equities produced strong returns, with the MSCI local currency emerging market equity index gaining 15.2 percent between May 1, 2006 and end-April 2007.

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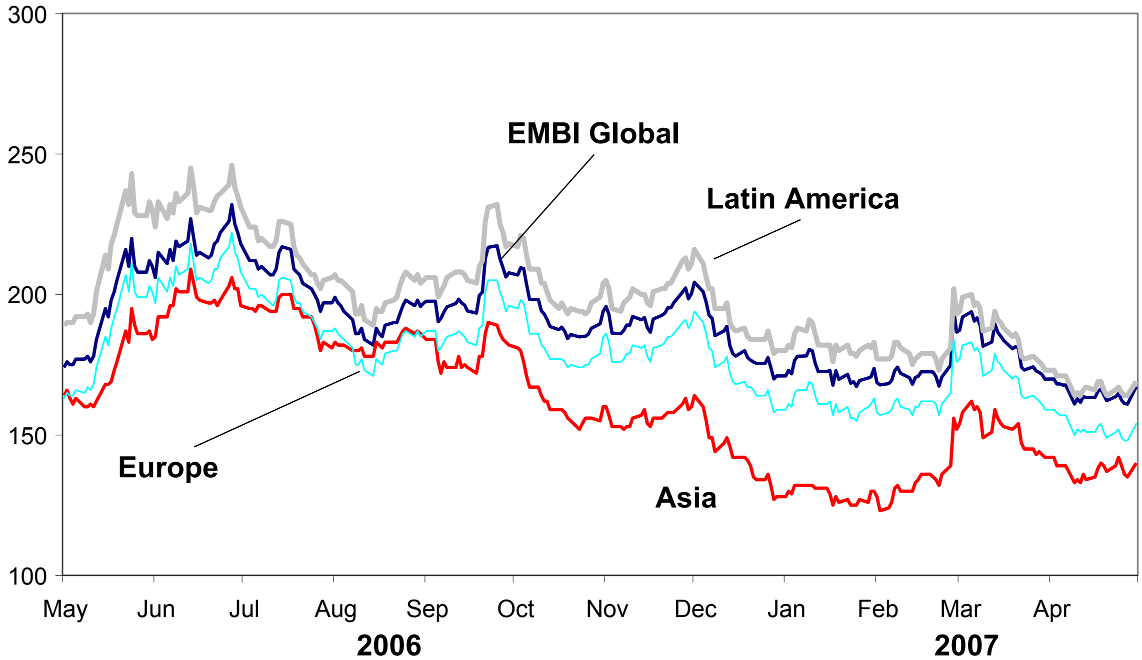
[3]Emerging market economies are mainly developing countries that have advanced far enough in capital market development to attract foreign portfolio investment and/or borrow significantly in international capital markets.

Figure 1.4 Sovereign Spreads
(In basis points)



Source: JPMorgan Emerging Markets Bond Index Global.

HIGHLIGHTS OF THE WORK OF THE EXECUTIVE BOARD

The common thread running through the IMF's activities in FY2007 was the continued acceleration of globalization, the greatest challenge facing both the IMF and its members in the early twenty-first century. With this challenge in mind, the Executive Board made considerable progress toward key objectives set forth in the Fund's MTS: strengthening and modernizing surveillance; seeking new ways to support emerging market countries; deepening Fund engagement with low-income countries; reforming governance and strengthening internal management to make the Fund a more efficient and effective institution; and placing the IMF's finances on a sustainable footing.[4]

[4] The Executive Board's calendar and work program can be found on the CD-ROM. General information on the Board's responsibilities and activities can be found in the *IMF Handbook*, also on the CD-ROM.

Box 1.1 Progress on implementing the Medium-Term Strategy

	Objective	**Action**
Surveillance	Modernizing the framework	Review of 1977 Decision on Surveillance over Exchange Rate Policies and work on a "remit" (statement of surveillance priorities)
	Taking a multilateral perspective and strengthening financial sector surveillance	First multilateral consultation; expansion of regional surveillance; greater analysis of cross-country spillovers; increased financial sector coverage; report of task force on integrating financial sector work into surveillance
	Making country surveillance sharper and more focused	Surveillance agendas; experimentation with streamlined consultations
Emerging markets and crisis prevention	Deepening financial sector and capital market surveillance	Development of a framework for addressing financial sector issues in country surveillance
	Reassessing the adequacy of existing instruments for crisis prevention	Board discussions and outreach on the development of a new contingent financing instrument for liquidity problems as part of the IMF's crisis-prevention toolkit
Low-income countries	Supporting the international community's effort to help low-income countries achieve the Millennium Development Goals	Policy advice, concessional lending, debt relief, and technical assistance to help low-income countries achieve macroeconomic stability and accelerate growth; tracking progress toward Millennium Development Goals jointly with the World Bank *(Global Monitoring Report)*
	Deepening involvement in dealing with aid flows	Policy advice on the effective use of increased aid; following up on the recommendations of the Independent Evaluation Office's report on the IMF's advice and actions with respect to aid flows to sub-Saharan Africa
	Helping countries that have received debt relief avoid reaccumulating unsustainable debt	Improvements in the Debt Sustainability Framework and greater outreach; technical assistance on improving public debt management practices and enhancing statistical capacity
Capacity building	Bolstering capacity building in developing countries; better integrating technical assistance and training with surveillance in accordance with country priorities	Implementing the MTS for capacity building; integrating country needs and technical assistance resources with the IMF's budget process; working closely with donor partners to leverage internal resources for capacity building; expanding regional technical assistance and training activities, including with the opening of

		the third regional technical assistance center in Africa (the sixth worldwide), and a new regional training center in India (the seventh worldwide)
Quota and voice reform	Reinforcing IMF effectiveness and legitimacy through progress on quota and voice reform	Ad hoc quota increases for four most underrepresented countries—China, Korea, Mexico, and Turkey; consideration of principles for new quota formula; discussion of the legal framework for increasing basic votes; increasing staff resources for Executive Directors elected by a large number of members
Governance and management	Strengthening communication and transparency Making the IMF more cost-effective and efficient Putting the IMF's finances on a sustainable footing	Began review of communication strategy; release of second transparency annual report Consideration of recommendations of external committee report on Bank-Fund collaboration; implementation of output-oriented budget framework with real reduction in resources over the medium term; improved risk-management framework; streamlining procedures Report on the IMF's income model by Committee of Eminent Persons

Strengthening and modernizing surveillance

To serve the purposes of the IMF's membership, surveillance must be focused, candid, transparent, evenhanded, and accountable, and devote careful attention to cross-country spillovers. In FY2007, the Executive Board took steps to strengthen and modernize the framework for surveillance. It began a review of the 1977 Decision on Surveillance over Exchange Rate Policies, the framework adopted by the Board in 1977 that guides the IMF's work in this area, to ensure that it reflects best practice and sets out a coherent vision of the IMF's core activity. In their review, Executive Directors found important areas of broad agreement, and, during the period covered by this report, worked to build common ground in other areas. They also examined possible ways to introduce more explicit priorities for surveillance and more rigor in the IMF's methodologies for assessing the effectiveness of its surveillance work.

The Board supported several innovations in the implementation of surveillance. Among these was the IMF's first multilateral consultation, which focused on fostering common understanding and cooperation on how to reduce global imbalances while sustaining strong global growth. In addition, the framework for surveillance of the financial sector and capital markets was strengthened, based in part on the recommendations of an internal task force on integrating the financial sector into the surveillance work of the IMF. The task force urged the IMF to make better use of the Financial Sector Assessment Program (a joint IMF–World Bank initiative described in detail in Chapter 2) in the context of country surveillance and to devote more attention to the links between the financial sector and the macroeconomy. As called for in the MTS, the IMF's analytical tools were increasingly applied to capturing cross-country spillovers and drawing policy lessons, while regional surveillance continued to be expanded, with a view to deepening understanding of the impact of regional developments on both the global economy and national economies. The Board advocated sharpening country surveillance, calling on staff to focus on the most important risks confronting members and on topics that are core to the IMF's mandate. The IMF also experimented with streamlined Article IV consultations for a small number of countries.

High oil prices complicated policymaking, and the Board provided advice to both exporters and importers of oil on appropriate policy responses, bearing in mind that rising demand, production constraints, and supply disruptions could pose a threat to global growth or fuel inflationary pressures. The Board continued to emphasize the need for more investment in the oil sector and encouraged member countries to pass international oil prices through to consumers in order to avoid a distortion of consumption patterns.

The Board's discussions of the *World Economic Outlook* and the *Global Financial Stability Report,* the IMF's primary vehicles for global surveillance, and other issues related to the IMF's surveillance activities in FY2007 are described in greater detail in Chapter 2.

Program support

Many *emerging market economies* have strengthened their policies, addressed vulnerabilities, and improved debt structures. Some—particularly in Asia—have accumulated large reserves and expanded regional reserve pooling arrangements. The prospects for emerging market economies remain positive, with favorable financial conditions and further robust growth expected to continue. As a result, most are now able to meet their financing needs for the coming year in the international financial markets, and their demand for IMF lending has declined dramatically. Nonetheless, macroeconomic fundamentals still vary widely among emerging market economies and vulnerabilities remain.

In FY2007, the Executive Board considered ways to strengthen the IMF's support for emerging market economies. Given their growing reliance on international capital flows, the deepening of financial sector and capital market surveillance would have particular relevance for these economies' crisis-prevention efforts. The Board also made progress toward developing an instrument that would make financing available to emerging market economies with sound policies in the event of a temporary loss of liquidity. Recognizing that a member's own policies are central to crisis prevention, the Board considered a staff paper on the sources and costs of shocks and the policy options that can best insulate members from crisis.

The Executive Board also explored ways to deepen the IMF's engagement with *low-income countries,* in collaboration with the World Bank, while focusing on helping them achieve macroeconomic stability and accelerate growth, the areas in which the IMF is best equipped to assist as they strive to reduce poverty and achieve the Millennium Development Goals.

Over the past few years, the IMF has broadened the array of financing and other instruments available to low-income countries. In FY2007 the Executive Board focused on finding ways to help countries that have received debt relief—through the Heavily Indebted Poor Countries (HIPC) Initiative and the Multilateral Debt Relief Initiative (MDRI)—avoid building up new unsustainable debt burdens. The Board provided advice on putting in place the kinds of macroeconomic policies that will allow low-income countries to use aid effectively, and reviewed a report by the Independent Evaluation Office (IEO; see Box 5.3) on the IMF's prior advice and actions with respect to aid flows to sub-Saharan Africa (the IEO's findings are discussed in Chapter 3). Given that the economic development of low-income countries depends crucially on trade, the Executive Board urged Fund members to work toward a successful conclusion to the Doha Round of multilateral trade negotiations. The IMF also continued to offer technical assistance in such areas as tax and customs reform to enable low-income countries to benefit fully from trade liberalization, and stood ready to provide financial assistance to countries that might be harmed in the short run by other countries' trade liberalization.

A table detailing the instruments through which the IMF provides financial and other assistance to member countries can be found in Chapter 3 (Table 3.1), along with more information about the IMF's lending activities and other program support in FY2007.

Capacity building

As country surveillance has become more focused, the close relationship between surveillance and capacity building has become increasingly apparent. The technical assistance and training provided by the IMF can help member countries implement the policy advice they receive during the course of surveillance. Work during FY2007 continued to focus on ensuring that technical assistance and training were more closely aligned with the priorities of both the IMF and recipient countries, and better coordinated with services provided by others.

In view of the critical need for additional capacity building in developing countries, the Central Africa Regional Technical Assistance Center (AFRITAC) was opened in Gabon to serve countries in that area and a new regional training program was established in India. The new AFRITAC—the third in Africa and the sixth regional technical assistance center worldwide—will complement the activities of the East AFRITAC and the West AFRITAC. The training center in India is the seventh such center worldwide, with other regional training centers located in Africa, East Asia, Europe, Latin America, and the Middle East. The IMF began to develop a strategy, in collaboration with the World Bank, to enhance capacity building in the design of medium-term debt strategies in both emerging market economies and low-income countries, to help them avoid the reaccumulation of unsustainable debt.

The process for allocating technical assistance resources has been improved with the introduction of medium-term regional plans that will be integrated with the IMF's budget process. The Board has also begun to explore ways to ensure adequate financing for capacity building amid growing demand, including by increasing external financing.

Quota and voice reform

If the IMF is to enhance its legitimacy, it must truly represent—and must be seen as truly representing—all of its member countries. Thus, in FY2007, the Executive Board embarked on far-reaching quota and voice reforms, a central goal of the MTS, to better align members' quotas with their economic weight in the global economy and to enhance the participation and voice of low-income members.

In its communiqué of April 22, 2006, the International Monetary and Financial Committee (IMFC) emphasized the importance of governance reform to safeguard and enhance the IMF's effectiveness and credibility as a cooperative institution, and called for concrete proposals from the IMF's Executive Board by the time of the September 2006 Annual Meetings. In response to the Executive Board's recommendations,[5] on September 18, 2006, the Board of Governors adopted a Resolution on Quota and Voice Reform granting ad hoc quota increases for China, Korea, Mexico, and Turkey, the four most clearly underrepresented countries, and setting out a package of more fundamental reforms to be completed, if possible, by the Annual Meetings of 2007 and no later than the Annual Meetings of 2008.[6]

A work program involving consultations with the membership and informal and formal Board discussions on various elements of the package was initiated after agreement was reached on the Resolution. In a preliminary discussion in January 2007, the Board generally endorsed the overall framework proposed by Fund staff for an amendment to the IMF's Articles of Agreement related to an increase in basic votes.[7] It also considered

[5]See Press Release 06/189, "IMF Executive Board Recommends Quota and Related Governance Reforms," on the CD-ROM or at www.imf.org/external/np/sec/pr/2006/pr06189.htm.

[6]See Press Release 06/205, "IMF Board of Governors Approves Quota and Related Governance Reforms," on the CD-ROM or at www.imf.org/external/np/sec/pr/2006/pr06205.htm, as well as the Board's Resolution, which can be found on the CD-ROM.

[7]As stipulated in the Articles of Agreement, each member country's voting power in the IMF is the sum of its 250 basic votes (the same for each member) and one vote per SDR 100,000 of its quota in the IMF.

(continued)

additional staffing for Executive Directors representing large constituencies—namely, the two chairs for sub-Saharan Africa (see Chapter 5, footnote 58). In addition, the Board held two informal discussions on principles for a new quota formula that will form the basis for a second round of ad hoc increases. In its April 14, 2007, communiqué, the IMFC welcomed the progress to date and called on the Executive Board to continue its work on the reform package as a matter of priority.

Communication and transparency

The MTS stresses the importance of communication and transparency in enhancing the effectiveness of surveillance and in building support for sound economic policies. The Executive Board plays a key role in the Fund's communication efforts, providing strategic guidance, conducting regular reviews of the IMF's communication strategy (the fifth review began during FY2007), and, more generally, approving the IMF's budget, which includes the resources allotted to communication and outreach. During FY2007, the Board identified concrete steps for strengthening the links between the IMF's operations and its communications, and for increasing the impact of communication and outreach—for example, by making key IMF documents more readily available in languages other than English, as described in greater detail in Chapter 5. The Executive Board's Committee on the Annual Report took steps to make the Report a more effective communication vehicle, not only for the IMF's official stakeholders but also for a broader audience.[8]

Executive Directors led the Fund's efforts to increase its transparency. In FY2006, they called on the staff to publish annual updates on the implementation of the Fund's transparency policy. The second annual update, released in February 2007, shows that the number of member countries choosing to publish—publication is voluntary—all reports on their economies and use of Fund resources increased to 142 in 2006, from 136 in 2005, and the percentage of such reports that were published increased for the third consecutive year.

Until the mid-1970s, each member's basic votes accounted for more than 10 percent of total votes; however, general increases in quotas have since reduced that share to about 2 percent.

[8]Although the print version of the current Annual Report is much shorter than past Reports, the Report remains a comprehensive document of record because much of the material previously included in the print version has been transferred to the CD-ROM accompanying the Report.

Improving internal governance

The IMF is committed to becoming a more cost-effective institution, without compromising its ability to deliver the key outputs called for in the MTS. Hence a collective effort by the whole institution—the Board, the management, and the staff—is in train to enhance efficiency.

As discussed in more detail in Chapter 5, during FY2007, the IMF continued to strictly limit administrative expenditures. The medium-term budget called for zero growth, in real terms, in FY2007, and real reductions in FY2008 and FY2009. A number of initiatives were undertaken to deliver the IMF's outputs more efficiently and at a lower cost, including increased outsourcing, offshoring of some support services, and a reexamination of travel expenditures.

The IMF took steps during the year to strengthen its risk-management framework. The Executive Board regularly reviews the IMF's risk-management policies, and, in 2006, it adopted measures to implement a comprehensive risk-assessment system based on the recommendations of a task force. These measures focus on four broad categories of risks—strategic, core mission, financial, and operational. In FY2007, the IMF conducted its first risk-assessment exercise, which identified the main risks facing the IMF and the measures in place to mitigate them. In their discussion, Executive Directors stressed their oversight role and critical fiduciary responsibility for the IMF's risk management.

The Executive Board also acted to streamline Fund procedures, lengthening the intervals between most policy reviews, consolidating some reports, and eliminating others. It considered a report on Bank-Fund collaboration, which was prepared by an external review committee commissioned by IMF and World Bank management, and sought possible improvements in the way the two institutions work together that would enable the IMF to deliver policy advice and capacity-building services to member countries more effectively and efficiently (see Chapter 5). In addition, the Board reviewed the report by the Independent Evaluation Office (IEO) on the IMF and aid to sub-Saharan Africa and endorsed a number of recommendations that in its view would enable the IMF to improve its policies and operations in this region (Chapter 3).

Reviewing the finances of the Fund

In May 2006, the Managing Director appointed a Committee of Eminent Persons to study the IMF's income model. The Committee's report, submitted to the Executive Board and issued in January 2007, concluded that the IMF's current income model, under which the main source of income is the interest charged on loans, is not appropriate given the wide range of the IMF's functions and responsibilities.[9] The committee recommended a new set of revenue measures, including expanded investment guidelines and operations, the creation of an endowment from limited IMF gold sales, and charges for services to member countries. In its April 2007 meeting, the IMFC indicated that the committee's report provided "a sound basis for further work on the development of a new income model." The Board's work on a model that can garner broad support across the IMF's membership is ongoing.

[9]The report can be found on the CD-ROM or on the IMF's Web site, at www.imf.org/external/np/oth/2007/013107.pdf.

2. Promoting financial and macroeconomic stability and growth through surveillance

The IMF monitors the international monetary and financial system to ensure that it is functioning smoothly and to identify vulnerabilities that could undermine its stability. To the same end, it oversees economic policies in its 185 member countries, offering members analysis and advice and encouraging them to adopt policies that promote financial and macroeconomic stability and sustained growth. The IMF's surveillance activities at the global and country levels are complemented by periodic assessments of regional developments, including the economic policies pursued under formal regional arrangements such as monetary unions. This combination of oversight and advice is known as surveillance (Box 2.1).

Box 2.1 Surveillance activities

The IMF's Executive Board conducts surveillance at the global, country, and regional levels. Global surveillance is carried out through the Board's reviews of world economic and financial market developments and prospects. The staff's *World Economic Outlook* (WEO) and *Global Financial Stability Report* (GFSR), which are usually prepared twice a year, provide major inputs to the Board's discussions and are subsequently published. The Board also holds informal discussions of world economic and financial market developments. Another important instrument of global surveillance is the *Annual Report on Exchange Arrangements and Exchange Restrictions* (AREAER), which the Fund has published since 1950.[1]

When a country joins the IMF, it makes a commitment under Article IV of the IMF's Articles of Agreement to seek to pursue policies conducive to orderly economic growth and price stability and to avoid manipulating exchange rates for unfair competitive advantage. It also commits to providing the IMF with data about its economy. The IMF is mandated by Article IV to conduct surveillance to oversee members' compliance with these obligations, and it does so through regular (usually yearly) staff visits—known as Article IV consultations—to member countries.[2] (Informal staff visits often take place between consultations.) The IMF staff team collects economic and financial data and discusses with government and central bank officials economic developments since the previous consultation, as well as the country's exchange rate and monetary, fiscal, financial sector, and structural policies. Often, the team also meets with other groups such as legislators, trade unions, academics, and financial market participants. It prepares a summary of its findings and policy advice, which it leaves with the national authorities, who have the option of publishing it. On return to IMF headquarters, the staff team prepares a report describing the economic situation and the talks with the authorities and evaluating the country's policies. The report is submitted to the Executive Board for review and discussion. A summary of the Board's views is transmitted to the country's government. Through this kind of peer review, the global community provides policy guidance and advice to each of its members, and the lessons of international experience are brought to bear on national policies. If the member country agrees, the full Article IV consultation report and a Public Information Notice (PIN), which summarizes the Board discussion, are published on the IMF's Web site, in line with the IMF's transparency policy (see Chapter 5).

Supplementing these systematic and regular Board reviews of individual member countries are Executive Board assessments of economic developments and policies in member countries borrowing from the IMF, as well as frequent informal sessions at which the Board discusses developments in individual countries. On a voluntary basis, countries may also choose to participate in the joint Fund-Bank Financial Sector Assessment Program (FSAP) or to request Reports on the Observance of Standards and Codes (ROSCs).

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[1] Appendix II, "Financial Operations and Transactions," to this Report contains a brief summary of members' exchange rate regimes in Table II.I3, "De facto classification of exchange rate regimes and monetary policy framework." The Appendix can be found on the CD-ROM and on the IMF's Web site, where the full text and appendixes of the Annual Report are posted.

[2] The IMF's Articles of Agreement can be found at www.imf.org/external/pubs/ft/aa/index.htm.

During FY2007, the IMF introduced several innovations in its surveillance work. It experimented with a new forum—multilateral consultations—where countries, or entities composed of groups of countries, can work together on common issues. The first multilateral consultation was set up by the IMF to help its members address the risks posed by current global imbalances. The IMF also devoted more attention to cross-country spillovers; increased its emphasis on regional developments in an effort to achieve a better understanding of how these affect individual countries as well as the global economy; sharpened the focus of its Article IV consultations, placing a greater emphasis on exchange rate and financial sector issues; and strengthened its outreach efforts, to promote good policies and build consensus around them (see Chapter 5 for more information on IMF outreach).

Going beyond changes in the day-to-day implementation of surveillance, the Executive Board worked to strengthen and modernize the IMF's surveillance framework. The Medium-Term Strategy (MTS) calls for more emphasis on the original goal of IMF surveillance—assessing the consistency of exchange rate and macroeconomic policies with national and international stability. In FY2007, the Executive Board reviewed the IMF's 1977 Decision on Surveillance over Exchange Rate Policies, which—together with Article IV of the Articles of Agreement—is the main statement guiding surveillance, and considered ways to clarify surveillance priorities.

The IMF also took steps to better integrate financial sector analysis into Article IV consultations and regional surveillance and to identify links between the financial sector and the macroeconomy. Supporting these efforts is the new Monetary and Capital Markets Department (MCM), which was created in early FY2007 (Box 2.2). As part of the reorganization of the IMF's financial sector work in FY2007, responsibility for work on issues related to anti–money laundering/combating the financing of terrorism (AML/CFT) was centralized in the IMF's Legal Department, which shares responsibility with MCM for policy and operational questions regarding the integration of AML/CFT into financial sector work.

Box 2.2 Monetary and Capital Markets Department

Following up on the recommendations in the November 2005 report of the External Review Group on the Organization of Financial Sector and Capital Markets Work at the Fund (experts commissioned by IMF management), the Monetary and Capital Markets Department (MCM) was created in early FY2007.[1] MCM, a merger of the International Capital Markets and the Monetary and Financial Systems departments, centralizes the responsibilities, functions, and expertise of those two departments within a new organizational structure and serves as a resource for other Fund departments.

MCM is responsible for policy, analytical, and technical work relating to financial sectors and capital markets, and monetary and foreign exchange systems, arrangements, and operations. Its principal tasks are to identify potential risks to global financial and macroeconomic stability and their implications for individual countries; assess the vulnerability or soundness of countries' monetary and financial systems and the effectiveness of member governments' oversight of these systems; promote safeguards for the prevention of financial crises and contribute to the operation of the international architecture of risk mitigation and management; and support capacity building in member countries. MCM's capacity-building activities are described in Chapter 4.

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[1]See Press Release No. 06/21, at www.imf.org/external/np/sec/pr/2006/pr0621.htm.

IMPLEMENTING SURVEILLANCE

Surveillance focused on several key issues in FY2007, including heightened volatility in financial markets; the potential spillovers and risks associated with a disorderly unwinding of global imbalances; the possible impact of the slowdown in the U.S. housing market on the global economy; and the effect of high prices for oil and other commodities on both importing and exporting countries. The analytical tools used in the preparation of the *World Economic Outlook* (WEO) and the *Global Financial Stability Report* (GFSR) were applied to capture cross-country spillovers and draw policy lessons.

Global surveillance

World Economic Outlook

In its August 2006 and March 2007 discussions of the *World Economic Outlook* (WEO), the Executive Board welcomed the continued strong, broad-based expansion of the global economy during calendar year 2006, noting that activity in most regions met or exceeded expectations. Executive Directors believed that the global expansion would slow only modestly in 2007 and 2008 and that inflationary pressures would remain contained. They were generally of the view that the market turbulence of February and March 2007 represented a correction after a period of asset price buoyancy that did not require a fundamental revision in the positive global economic outlook.

At the time of the March 2007 discussion, risks to the global economy—the ongoing correction in the U.S. housing market, persistently higher financial market volatility, the chance of a reversal of the decline in oil prices, and the possibility of a disorderly unwinding of large global imbalances—were still seen as tilted to the downside but appeared to be more evenly balanced than they had been six months earlier. The key question in assessing these risks is whether the world economy will remain on a sound growth trajectory even if the U.S. economy slows more sharply—that is, whether global prospects might decouple from the United States, especially in view of the limited impact of the recent cooling of U.S. activity.[10]

Global Financial Stability Report

At their March 2007 discussion of the *Global Financial Stability Report* (GFSR), Executive Directors agreed that global financial and macroeconomic stability continued to be underpinned by solid economic prospects, although downside risks had increased somewhat in a few areas. A number of market developments warranted increased attention, reflecting a shift in underlying financial risks and conditions since the Board's discussion of the previous GFSR in August 2006. While none of the identified short-term risks constituted, in and of itself, a threat to financial and macroeconomic stability, adverse events in one area could lead to a reappraisal of risks in other areas, with possible broader implications for the economy. The market turbulence of February and March 2007 validated this assessment and served to remind market participants that such reevaluations could occur quite rapidly. Macroeconomic risks as well as risks faced by emerging markets had eased marginally since the previous GFSR, but market and credit risks had risen, albeit from relatively low levels, and large capital inflows to a number of emerging market countries posed challenges to policymakers. The risks of a disorderly unwinding of global imbalances had also eased somewhat but remained a concern.

Hedge funds were playing a constructive role in improving market efficiency and stability, but the Board cautioned that their size and complex risk structure could lead to increased transmission or amplification of shocks. While observing that the increased diversity of assets, source countries, and investor types contributed to a globalized financial system that, by allowing capital to flow freely, should enable a more effective diversification of risks, enhance the efficiency of capital markets, and support financial and macroeconomic stability, the Board underscored the importance of gradual and carefully sequenced liberalization of financial markets. They welcomed the GFSR's contribution to financial

[10]The full summings up of the Board discussions on the WEO are on the CD-ROM.

sector surveillance, including in encouraging national legal, regulatory, and supervisory systems to adjust to the more globalized financial environment. Executive Directors favored improved mechanisms for multilateral collaboration, specifically for strengthening supervisory coordination, including through better application of well-established international standards and further work on crisis management and resolution arrangements.[11]

First multilateral consultation

In his April 2006 Report on Implementing the Fund's Medium-Term Strategy, the IMF's Managing Director proposed that existing IMF surveillance arrangements be complemented by a new vehicle—multilateral consultations—that would foster cooperation by appropriate groups of countries on policy actions to address challenges to the global economy and individual members. The proposal was endorsed by the International Monetary and Financial Committee (IMFC), the ministerial-level committee that provides the IMF with policy guidance (see Chapter 5, "How the IMF is run").

The IMF's first multilateral consultation has given its five participants—China, the euro area, Japan, Saudi Arabia, and the United States—a forum for discussing global imbalances and how best to reduce them while sustaining robust global growth. The Executive Board will review the experience with the first multilateral consultation in FY2008.

Commodity prices

Because fluctuations in both oil and nonfuel commodity prices have important policy implications, the IMF has been increasing its coverage of these markets in multilateral surveillance. The Board has consistently advised oil-importing countries, for example, on the importance of market-based pricing—that is, putting an end to subsidies and allowing the pass-through of oil prices to consumers. A chapter in the September 2006 WEO was devoted to nonfuel commodities—metals as well as food and other agricultural commodities—while considerable attention in both the September 2006 and the April 2007 WEO was given to the

[11] The full summings up of the Board discussion of the GFSR can be found on the CD-ROM.

analysis of the oil market and the effects of oil price changes on the global economy. In their discussions of the WEO, Executive Directors recognized the possibility that inflationary pressures could revive as resource utilization constraints start to bind. They observed that sharply rising prices of nonfuel commodities, particularly metals, had underpinned strong growth in many emerging market and developing countries and advised these countries to save or invest current revenue windfalls to support future growth in noncommodity sectors. They also stressed the risk of a reversal of the recent decline in oil prices given continuing geopolitical tensions and limited spare production capacity.

The international community is working to improve the quality and transparency of oil market data. In this context, the IMF is increasing the provision of metadata in the General Data Dissemination System and the Special Data Dissemination Standard (see "Standards and codes, including data dissemination" and Box 2.3 below). In responding to extensive demand for better data, the IMF is sharing its expertise in data-quality assessment with other international organizations and collaborating with major oil exporters in resolving oil-related data issues. The IMF has also participated in training on the Joint Oil Data Initiative.[12]

Box 2.3 ROSCs and Data Standards Initiatives

Reports on the Observance of Standards and Codes (ROSCs). Member countries can request ROSCs, assessments of their observance of standards and codes, in any of the following 12 areas: accounting; auditing; anti–money laundering and combating the financing of terrorism (AML/CFT); banking supervision; corporate governance; data dissemination; fiscal transparency; insolvency and creditor rights; insurance supervision; monetary and financial policy transparency; payments systems; and securities regulation. The reports—about 74 percent of which have been published—are used to help sharpen Fund and World Bank policy discussions with national authorities and to strengthen national capacity to participate in, and benefit from, the globalized economy. They are also used in

[12]Following a period of exceptional volatility in oil prices in the 1990s, in 2001 six international organizations—Asia-Pacific Economic Cooperation (APEC), Eurostat, the International Energy Agency (IEA), Organización Latinoamericana de Energia (OLADE), OPEC, and the United Nations Statistics Division (UNSD)—launched the initiative, originally called the Joint Oil Data Exercise, to raise awareness of the need for more data transparency in oil markets. More information can be found on JODI's Web site, at www.jodidata.org/FileZ/ODTmain.htm.

the private sector (including by rating agencies) for risk assessment. Participation in the Standards and Codes Initiative continues to grow. As of end-April 2006, 725 ROSC modules had been completed for 130 countries, or 71 percent of the Fund's membership, and most systemically important countries had volunteered for assessments. More than 340 of the ROSCs were on financial sector standards. Of these, about one-third were related to banking supervision, and the others were fairly evenly distributed across the other standards and codes.

Special Data Dissemination Standard (SDDS). Created in 1996 by the Executive Board, the SDDS is a voluntary standard whose subscribers—countries with access to international capital markets or seeking it—commit to meeting internationally accepted norms of data coverage, frequency, and timeliness. SDDS subscribers provide information about their data compilation and dissemination practices (metadata) for posting on the IMF's Dissemination Standards Bulletin Board (DSBB).[1] Each subscriber is also required to maintain a Web site that disseminates the actual data and that is electronically linked to the DSBB. SDDS subscribers began disseminating prescribed data on external debt in September 2003; data for 58 countries are published in the World Bank's *Quarterly External Debt Statistics* (QEDS). Moldova and Luxembourg became subscribers in FY2007, raising the number of SDDS subscribers to 64 as of April 30, 2007.

General Data Dissemination System (GDDS). The Executive Board established the GDDS in 1997 to help IMF member countries improve their statistical systems. The 88 participants in the GDDS at end-April 2007 provide metadata describing their data compilation and dissemination practices, as well as detailed plans for improvement, for posting on the IMF's DSBB. Between the Executive Board's sixth review of the Data Standards Initiatives in November 2005 and April 30, 2007, eight countries and territories began participating in the GDDS. Of the 94 countries and territories that have participated in the GDDS since it was introduced, 6 have graduated to the SDDS.

To complement the SDDS and GDDS, IMF staff have launched the **Statistical Data and Metadata Exchange (SDMX)** initiative and the **Data Quality Assessment Framework (DQAF**). The SDMX, which is being developed in collaboration with other international organizations, aims to make electronic exchange and management of statistical information among national and international entities more efficient by providing standard practices, coherent protocols, and other infrastructural blueprints for reporting, exchanging, and posting data on Web sites. The DQAF is an assessment methodology that was integrated into the structure of the data ROSCs following the fourth review of the Data Standards Initiatives in 2001.

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[1]The Web site address is dsbb.imf.org/Applications/web/dsbbhome.

Country surveillance

In FY2007, the Board completed 129 Article IV consultations (see CD-Table 2.1 on the CD-ROM). Country surveillance is becoming more focused on identifying the most important risks facing members and on topics that are core to the IMF's mandate. As an approach for cases in which it appeared useful to concentrate on a few key issues, and in keeping with the MTS's calls for enhancing the efficiency of Fund procedures, the IMF experimented with streamlined consultations with 10 countries during FY2007 to allow additional resources to be devoted to areas of priority work. The Board plans to review the IMF's experience with the streamlined consultations early in FY2008.

As discussed in detail below, considerable work was undertaken in FY2007 to modernize the framework for IMF surveillance and to integrate the analysis of developments in the financial sector and capital markets more fully into country surveillance. Recent efforts have also focused on a deeper examination of cross-country spillovers. As demonstrated by a stocktaking of the quality of exchange rate surveillance (see below), these efforts are gradually bearing fruit.

The IMF's Global Fiscal Model[13] has been used in the context of country surveillance, notably to evaluate the broader impacts of fiscal policy changes—including fiscal consolidation, tax reform, and social security reform—in a number of industrial and emerging market countries. The WEO's analysis of the impact of a slowdown in the U.S. economy on the rest of the world used a variety of econometric and modeling approaches to assess cross-country spillovers.

[13]The Global Fiscal Model (GFM) is a multicountry general equilibrium model developed at the Fund based on the New Open Economy Macroeconomics (NOEM) tradition, but designed to examine fiscal policy issues. It is particularly suitable for studying temporary or permanent changes in taxes or expenditures, whether occurring rapidly or gradually (as in the case of age-related expenditure pressures). The GFM extends the NOEM framework by introducing a number of non-Ricardian features to allow for thorough fiscal policy analysis. Moreover, fiscal policy can have short-term effects on production. The multicountry feature of the GFM allows the analysis of international spillover effects as changes in government debt influence world interest rates. The GFM also features a rich menu of taxes that permits practitioners to assess the macroeconomic effects of a number of alternative fiscal-consolidation strategies.

Regional surveillance and outreach

Since members of currency unions have devolved responsibilities over monetary and exchange rate policies—two central areas of Fund surveillance—to regional institutions, the IMF holds discussions with representatives of these institutions in addition to its Article IV consultations with the unions' individual members. In response to guidance by the Executive Board under the Medium-Term Strategy, IMF staff also conduct other regional surveillance activities, including the production of semiannual regional economic outlooks (REOs), dialogues with various regional forums, and research on issues in which countries in the same region share an interest; and more systematically apply relevant findings of regional surveillance in conducting Article IV consultations. Selected papers and reports increasingly focus on regional spillovers and cross-country experiences.

During FY2007, the IMF's Executive Board discussed developments in the Central African Monetary and Economic Union (CEMAC), the Eastern Caribbean Currency Union (ECCU), the euro area, and the West African Economic and Monetary Union (WAEMU).[14]

CEMAC. At their July 2006 discussion, Executive Directors commended CEMAC's positive macroeconomic performance in 2005, which was due in part to oil windfalls and improved implementation of macroeconomic policies. Per capita income in most CEMAC members remains low, however, and these countries face significant challenges in meeting the Millennium Development Goals. The Board urged the authorities to take advantage of improved macroeconomic and financial conditions to address long-standing structural issues that are critical for raising non-oil growth and employment and reducing poverty. They also noted the potential for regional integration to increase market size and foster growth and called for a renewed focus on the promotion of trade. CEMAC participated in an FSAP (see below), which found that financial sector soundness had improved but that important

[14]The summings up of these Board discussions can be found on the CD-ROM and on the IMF's Web site: PIN 06/90, "IMF Executive Board Concludes 2006 Discussion on Common Policies of Member Countries with CEMAC," www.imf.org/external/np/sec/pn/2006/pn0690.htm; PIN 07/13, "IMF Executive Board Concludes 2006 Regional Discussions with Eastern Caribbean Currency Union," www.imf.org/external/np/sec/pn/2007/pn0713.htm; PIN 06/86, "IMF Executive Board Discusses Euro Area Policies," www.imf.org/external/np/sec/pn/2006/pn0686.htm; and PIN 07/55, "IMF Executive Board Concludes 2007 Consultation with West African Economic and Monetary Union," www.imf.org/external/np/sec/pn/2007/pn0755.htm.

challenges remained. Executive Directors urged countries to further strengthen financial and macroeconomic stability and accelerate reforms, particularly as the financial sectors in the region are among the least developed in the world.

ECCU. The Board welcomed the resurgence in economic activity in recent years, driven by tourism, preparations for the Cricket World Cup, and a pickup in private investment. ECCU's quasi-currency-board arrangement has resulted in a long period of price stability, and the currency appears competitive. The challenge will be to sustain the growth momentum in 2007 and beyond. The ECCU countries, which are oil importers, continue to face significant obstacles, including elevated world energy prices and a heavy public debt burden, and exporters of sugar and bananas will need to adjust to the erosion of trade preferences. Further regulatory, administrative, and legal reforms are needed to remove impediments to private business activity. Executive Directors urged continued strengthening of the supervisory and regulatory environment that supports financial market development.

Euro area. Growth has picked up and broadened in the euro area, the reformed Stability and Growth Pact is regaining traction over fiscal policies, fiscal outcomes have been better than originally projected, and progress has been made in the reform of product and services markets and financial integration. However, the Board saw risks tilting to the downside for 2007 and beyond. Productivity growth continues to be sluggish, employment and consumption continue to lag, oil prices are volatile, and global imbalances remain unresolved. Executive Directors underscored the need for accelerated fiscal consolidation and further structural reforms that aim at strengthening incentives to work and invest.

WAEMU. The overall economic situation in WAEMU was challenging in 2006. Inflation fell sharply despite higher prices for fuel imports, and foreign reserve levels remained adequate, but average growth declined to 3.4 percent and the current account deficit widened. Progress on policy convergence, economic integration, and structural reforms has been slow, and growth and deeper regional integration are hampered by macroeconomic shocks, structural weaknesses, and, in some countries, sociopolitical problems. However, WAEMU is stepping up efforts to remove these obstacles. In 2006, it embarked on trade reform and instituted an ambitious reform program for 2006–10. Given that the region's financial sector is unintegrated and shallow, the Board welcomed the authorities' request for a regional FSAP.

Regional Economic Outlooks (REOs) are produced semiannually for sub-Saharan Africa, Asia and the Pacific, the Middle East and Central Asia, and the Western Hemisphere.[15] Upon publication of the REOs, the IMF organizes press conferences or seminars at headquarters or in the field. Area department staff often go on road shows to present REO findings at different venues to diverse audiences in the region in question. The Middle East and Central Asia Department, for example, organizes outreach activities in association with its REOs twice a year in Dubai, Central Asia, and North Africa.

Intensified outreach has contributed to wider dissemination of the findings of IMF studies and stimulated debate on regional issues. In addition to the activities undertaken in connection with the publication of the REOs, the Fund organizes regional conferences and seminars either on its own or in collaboration with regional entities. (For examples, see the section on outreach in Chapter 5.)

Financial sector surveillance and the Standards and Codes Initiative

For countries to reap the full benefit of cross-border capital flows, which have increased dramatically over the past two decades, their financial sectors must be resilient and well regulated. In 1999, the IMF and the World Bank introduced a joint initiative, the FSAP, to provide member countries, on a voluntary basis, with a comprehensive evaluation of their financial systems. The FSAP, a cornerstone of financial sector surveillance, provides the basis for the IMF's Financial System Stability Assessments (FSSAs)—assessments of risks to macroeconomic stability stemming from the financial sector, including the latter's ability to absorb macroeconomic shocks.

Regional FSAPs can be undertaken for currency unions, notably where significant regulatory and supervisory structures are at the regional level. As described above, a regional FSAP—for CEMAC—was completed in FY2007, and WAEMU requested an FSAP. In

[15]The full text of these reports can be found on the IMF's Web site, at www.imf.org. There are plans to publish a *Regional Economic Outlook* for Europe beginning in the fall of 2007.

addition, the IMF has undertaken regional financial sector projects in Central America, the Maghreb, and the Nordic-Baltic region.[16]

With a total of 123 initial assessments now completed or under way, the IMF and the World Bank are increasingly focusing on FSAP updates. The core elements of updates include financial stability analysis, factual updates of the observance of standards and codes included in the initial assessment,[17] and reexamination of key issues raised in the initial assessment. Updates usually require only a single visit by an IMF–World Bank team (initial assessments require two)—and a smaller team—and hence are typically less resource-intensive than initial assessments.

In FY2007, 18 FSAPs were completed, of which 6 were updates;[18] another 53 (of which 30 are updates) are either under way or agreed and being planned.

Work is progressing on incorporating a financial sector component into the IMF's Global Economy Model.[19] The IMF is also studying both the implications of growing international financial integration for national fiscal policies and the linkages between the financial sector and fiscal institutions and policy.

Standards and codes, including data dissemination

In the wake of the Asian crisis of 1997–98, during their discussions on strengthening the international financial architecture, Executive Directors stressed the need to develop and implement internationally recognized standards and codes of good practice that would foster financial and macroeconomic stability at both the domestic and the international levels. The

[16]See Box 3.4, "Regional financial integration in Central America," in the IMF's *Annual Report 2006,* at www.imf.org/external/pubs/ft/ar/2006/eng/index.htm.

[17]Factual updates describe developments that are relevant to compliance with standards and codes but do not reassess the ratings in the initial FSAP.

[18]These numbers refer to FSSAs discussed by the Board during FY2007.

[19]The Global Economy Model (GEM), which the IMF has been developing since 2002, is a large, multicountry macroeconomic model based on an explicit microeconomic framework in which consumers maximize utility and producers maximize profits. The integration of domestic supply, demand, trade, and international asset markets in a single theoretical structure allows transmission mechanisms to be fully articulated, providing new insights not obtainable from earlier models. A range of GEM simulations have been used in IMF work to assess issues such as the domestic and international consequences of policies to increase competition in markets, the impact of oil price increases, the effects on emerging market countries of exchange rate volatility across industrial countries, and appropriate monetary policy rules for emerging market countries. A detailed description of the model can be found at www.imf.org/external/np/res/gem/2004/eng/index.htm.

result was the launch of the Standards and Codes Initiative in 1999. The IMF and the World Bank evaluate member countries' policies against international benchmarks of good practice in three broad areas—transparent government operations and policymaking, financial sector standards, and market integrity standards for the corporate sector—and issue Reports on the Observance of Standards and Codes (ROSCs; see Box 2.3), which are intended to help countries strengthen their economic institutions, to inform the work of the IMF and the Bank, and to inform market participants. Following up on the Executive Board's review of the Standards and Codes Initiative in FY2006 and the recommendations of the MTS, the Initiative has been strengthened, with clearer country prioritization of ROSCs and updates, better integration of ROSCs with surveillance and technical assistance, and greater clarity of ROSCs. Several standards have been revised in recent years, and the revised standards are now being used as the basis for assessments. For example, in April 2007, the Board endorsed the new Basel Core Principles[20] standard and methodology released in October 2006.

Underpinning assessments of fiscal transparency in 86 countries under the Standards and Codes Initiative is the IMF's *Code of Good Practices on Fiscal Transparency,* which was revised during FY2007, after a broad public consultation process. The Code, launched in 1998, is a central element in the IMF's efforts to help members implement standards in the areas of transparency and good governance. Fiscal transparency leads to better-informed public debate about fiscal policy, makes governments more accountable for policy implementation, and strengthens government credibility, thereby strengthening countries' capacity for sound macroeconomic policymaking, public debt management, and budget preparation.[21] A major aim of the revised Code is to fully integrate issues related to resource-revenue transparency, drawing on experience gained from use of the IMF's 2005 *Guide on Resource Revenue Transparency,* which focuses on the problems of countries that derive a

[20]The Core Principles for Effective Banking Supervision, which the Basel Committee on Banking Supervision originally published in September 1997, were updated in 2006 to keep pace with changes in banking regulation. The Core Principles and the Core Principles Methodology are used by countries as a benchmark for assessing the quality of their supervisory systems and for identifying future work that needs to be done to overcome regulatory and supervisory shortcomings. The IMF and the World Bank also use the Core Principles in the context of the Financial Sector Assessment Program to assess countries' banking supervision systems and practices.

[21]The Code can be found at *www.imf.org/external/np/fad/trans/code.htm*.

significant share of their revenues from hydrocarbon and mineral resources. The revised Code also extends the coverage of good practice to address more explicitly some key fiscal transparency issues, such as fiscal risk management, the openness of budgets and policy decisions, external audit processes, and the publication of a citizens' guide to the budget. Extensive revisions have also been made to the *Manual on Fiscal Transparency,* which provides detailed guidance on good fiscal transparency practices, with examples from a range of developing, emerging, and advanced economies.[22]

In addition, in September 2006 the IMF began publishing *International Financial Statistics, Supplement on Monetary and Financial Statistics, Supplement Series No.17,* a quarterly compilation of monetary and financial statistics for 65 countries. These data are an important input for compiling the matrices of the IMF's balance sheet approach to assessing debt vulnerabilities. Since the Asian crisis, the analysis of balance sheet vulnerabilities has become an increasingly important part of country risk assessment at the IMF. Information about balance sheets in a country's key economic sectors (public, private financial and nonfinancial, and household and nonresident) facilitates assessments of maturity, currency, and capital structure mismatches as well as intersectoral linkages.

In view of the evolving economic environment and changing needs for economic analysis, the IMF is updating macroeconomic statistical standards in close collaboration with member countries and other international organizations. The IMF is contributing to the update of the System of National Accounts 1993, and it has drafted and posted on its Web site for worldwide consultation the sixth edition of the *Balance of Payments and International Investment Position Manual* and the *Export and Import Price Index Manual.* The update of the various statistical standards is being coordinated to ensure maximum harmonization of statistical methodologies. The methodological standards in statistics underpin the IMF's work on data ROSCs, technical assistance, and training, and promote the comparability of data and best practices in statistical methodology.

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[22]Available at www.imf.org/external/np/fad/trans/manual/index.htm.

MODERNIZING THE SURVEILLANCE FRAMEWORK AND INTEGRATING FINANCIAL SECTOR ANALYSIS

Over the past 30 years, the Executive Board has reviewed the IMF's surveillance work at regular intervals. From 1988 to 2004, reviews were conducted biennially. A decision was made in 2006 to move to triennial reviews in accordance with the MTS's call for streamlining IMF procedures. The most recent review, conducted in 2004, called for deeper treatment of exchange rate issues, including (1) clear identification of the de facto exchange rate regime in staff reports, (2) more systematic use of a broad set of indicators and analytical tools to assess external competitiveness, and (3) a thorough and balanced presentation of the policy dialogue between the staff and the authorities on exchange rate issues.[23] Following up on these recommendations, in August 2006, the Executive Board discussed a paper by IMF staff assessing the quality of recent work by the IMF on exchange rate issues in 30 large economies accounting for more than 90 percent of world GDP.[24] Executive Directors generally agreed that exchange rate surveillance had improved appreciably since the 2004 review and that the quality of the analysis was mostly adequate in three of the four dimensions reviewed—the description of the exchange rate regime, the assessment of the regime, and the consistency of exchange rate policies with external stability—but that there was room for better analysis in the fourth, the assessment of exchange rate levels and external competitiveness. The Board also called for a greater focus on the spillover effects of countries' exchange rate policies.

As part of the effort to strengthen the IMF's framework for assessing exchange rate issues, at an informal seminar in November 2006, the Executive Board discussed a staff report on revised and extended methodologies for exchange rate assessments by the IMF's Consultative Group on Exchange Rate Issues (CGER). The CGER, which has provided exchange rate assessments for a number of advanced economies since the mid-1990s, has

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[23]The Biennial Surveillance Review can be found on the IMF's Web site, at www.imf.org/external/np/sec/pn/2004/pn0495.htm.

[24]The paper, "Treatment of Exchange Rate Issues in Bilateral Fund Surveillance—A Stocktaking," can be found on the IMF's Web site, at www.imf.org/external/pp/longres.aspx?id=3951. The summing up of the Board discussion can be found on the CD-ROM and on the IMF's Web site: PIN No. 06/131, "IMF Executive Board Discusses Treatment of Exchange Rate Issues in Bilateral Surveillance—A Stocktaking," www.imf.org/external/np/sec/pn/2006/pn06131.htm.

extended its methodologies to cover about 20 emerging market countries. These methodologies can help gauge the consistency of current account balances and real effective exchange rates with their underlying fundamentals. Staff organized outreach events with officials, academics, and market participants in Europe, Asia, and Africa to discuss this extension and approaches to exchange rate modeling.[25]

Complementing the periodic efforts of the Executive Board and the Fund's management and staff to take stock of the effectiveness of surveillance, the IMF's Independent Evaluation Office (IEO; see Box 5.3) completed an evaluation in April 2007 of the IMF's exchange rate policy advice, for discussion by the Executive Board in early FY2008.[26] The IEO set out to answer three main questions: Is the role of the IMF clearly defined and understood? How good is the quality of the IMF's advice and its underlying analysis? And how effective is the IMF in its policy dialogue with country authorities? Its report acknowledges that the quality of the IMF's advice to its member countries had improved in some ways from 1999 to 2005, citing many examples of good analysis and dedicated staff teams. At the same time, it identifies a need to revalidate the fundamental purpose of IMF exchange rate surveillance and thus clarify the expected roles of the IMF and member countries, offering detailed recommendations for improving the management and conduct of the IMF's exchange rate policy advice and interactions with member countries.

The principles and procedures governing the scope and operational modalities of surveillance over exchange rate policies were adopted by the Executive Board in 1977, after the collapse of the Bretton Woods system of fixed exchange rate parities.[27] In FY2007, the Board held discussions on the possibility of revising the Decision to broaden it to cover surveillance more comprehensively, and to align it more closely with Article IV and current

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[25]See Press Release No. 06/266, "IMF Strengthening Framework for Exchange Rate Surveillance," on the CD-ROM or at www.imf.org/external/np/sec/pr/2006/pr06266.htm. The staff report can be found at www.imf.org/external/np/sec/pr/2006/pr06266.htm.

[26]The IEO's report can be found at www.ieo-imf.org/eval/complete/eval05172007.html.

[27]The 1977 Decision on Surveillance over Exchange Rate Policies can be found on the IMF's Web site, at www.imf.org/external/pubs/ft/sd/index.asp?decision=5392-(77/63).

best practice.[28] A revised decision would not only demonstrate the Fund's resolve to strengthen the effectiveness of surveillance, including over exchange rates, but also serve as a basis for the practice of surveillance, unifying guidance, clarifying issues and procedures, and providing a better foundation for surveillance to address priority issues. In their discussion, Executive Directors found important areas of broad agreement and subsequently worked to build common ground on other areas. At the spring meetings of the IMF and the World Bank, the IMFC agreed that the following principles should guide further work: (1) there should be no new obligations, and dialogue and persuasion should remain key pillars of effective surveillance; (2) surveillance should pay due regard to country circumstances and emphasize the need for evenhandedness; and (3) a revised decision should be flexible enough to allow surveillance to evolve as circumstances warrant.[29]

During FY2007, the Board also exchanged views on the possibility of introducing a clear statement of surveillance priorities to guide implementation and facilitate ex post monitoring of effectiveness (a "remit"), against the background of the existing accountability and independence framework. In doing so, it examined methods for assessing the effectiveness of IMF surveillance and agreed that a strengthened methodology should be introduced in the context of the next review of surveillance, scheduled to take place in FY2008.

Integrating financial sector and capital markets analysis into surveillance

A task force was established in FY2006 to study the issue of how to better integrate the IMF's financial sector work into its surveillance. The task force delivered its recommendations in FY2007, emphasizing the need for a broader multilateral perspective, more focus on the financial sector's impact on growth and the macroeconomy, and a thorough assessment of risks. Following up on these recommendations, the IMF has increased interdepartmental cooperation and prioritized its financial sector work, with

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[28]See "Article IV of the Fund's Articles of Agreement: An Overview of the Legal Framework," a paper prepared by IMF staff, at www.imf.org/external/np/pp/eng/2006/062806.pdf.

[29]On June 15, 2007, the Board adopted the 2007 Decision on Bilateral Surveillance over Members' Policies, which replaces the 1977 Decision. The summing up of the Board discussion can be found at www.imf.org/external/np/sec/pn/2007/pn0769.htm.

heightened monitoring of both systemically important countries and countries vulnerable to crisis.

The IMF also contributes to international efforts to combat money laundering and the financing of terrorism, in collaboration with the Financial Action Task Force on Money Laundering (FATF), the World Bank, the United Nations, and FATF-style regional bodies (FSRBs). As a collaborative institution with near universal membership, the IMF is a natural forum for sharing information, developing common approaches to issues, and promoting desirable policies and standards. In addition, the IMF's broad experience in conducting financial sector assessments, providing technical assistance in the financial sector, and exercising surveillance over members' economic systems is particularly valuable in evaluating country compliance with international AML/CFT standards and in developing programs to help them address shortcomings. In 2004, the Executive Board agreed to make AML/CFT assessments and technical assistance a regular part of Fund work and to expand this work to cover the full scope of the FATF's 40 recommendations designed to guide national policymakers in implementing effective anti–money laundering programs and 9 additional recommendations on combating the financing of terrorism.

In its June 2006 discussion of a paper jointly prepared by IMF and World Bank staff on the quality and consistency of assessments of national AML/CFT regimes,[30] which are carried out by the IMF, the World Bank, the FATF, or the FSRBs, using an agreed common methodology, the Executive Board reiterated the importance of AML/CFT in strengthening the integrity of financial systems and deterring financial abuse and confirmed the IMF's collaborative arrangements with the FATF and FSRBs for assessing AML/CFT regimes. As part of its review, the Executive Board examined the findings of an expert panel that had analyzed a sample of AML/CFT assessments prepared by different bodies and concluded that there was a high degree of variability in the quality and consistency of the reports. The Executive Board noted that a number of initiatives had been taken or were under way to

[30]The staff paper is available at www.imf.org/external/np/pp/eng/2006/041806r.pdf. The summing up of the Board's discussion can be found on the CD-ROM and on the IMF's Web site, at www.imf.org/external/np/sec/pn/2006/pn0672.htm.

improve the assessments and called on IMF staff to provide technical assistance to, and cooperate more closely with, the FSRBs.

The Board also agreed that every assessment or update under the FSAP or Offshore Financial Center (OFC) assessment program[31] should include a full AML/CFT assessment using the most recent methodology and that full AML/CFT assessments should be conducted approximately every five years. The Fund is expected to continue monitoring significant financial sector problems arising from money laundering or terrorism-financing activities through other vehicles, such as assessments of other financial sector standards, Article IV consultations, and participation in FATF and regional forums.

The Executive Board has consistently underscored the importance of financial soundness indicators (FSIs) in facilitating financial sector surveillance, increasing the transparency and stability of the international financial system, and strengthening market discipline. After developing a core set and an encouraged set of FSIs in consultation with the international community, the IMF launched the three-year pilot Coordinated Compilation Exercise (CCE), which was endorsed by the Board, in March 2004 to (1) build the capacity of the 62 participating countries to compile FSIs; (2) promote cross-country comparability of FSIs; (3) coordinate efforts by national authorities to compile FSIs; and (4) disseminate the FSI data compiled in the CCE, along with metadata, to increase transparency and strengthen market discipline. The methodology recommended by the IMF to ensure cross-country comparability is presented in *Financial Soundness Indicators: Compilation Guide.*[32] In accordance with the terms of reference of the CCE, the participants were to compile at least the 12 core FSIs as of the end-2005 reference date and provide the core FSI data and the underlying data series, along with detailed metadata, to the IMF in the second half of 2006. Countries were also encouraged to compile and submit data and metadata for any of 28 encouraged FSIs. FSI data and metadata for 52 of the 62 countries participating in the CCE

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[31]The OFC assessment program was initiated in 2000. The monitoring of OFCs, to ensure their compliance with supervisory and integrity standards, has become a standard component of the IMF's financial sector work.

[32]The Guide can be found at www.imf.org/external/pubs/ft/fsi/guide/2006/index.htm. The list of core and encouraged FSIs can be found at www.imf.org/external/np/sta/fsi/eng/fsi.htm.

were posted on the IMF's Web site before the end of FY2007.[33] Many countries also regularly compile and disseminate FSIs on their own, and these indicators are included in FSAP documents. Early in FY2008, IMF staff conducted two post-CCE meetings, to gather the views of participating countries and cooperating international agencies on the compilation and reporting of FSIs for a paper to be presented to the Executive Board.

[33]Another five countries posted their data and metadata in the first month of FY2008; see www.imf.org/external/np/sta/fsi/eng/cce/index.htm.

3. Program support

The IMF provides financial and other kinds of support to its member countries through a variety of instruments, including lending facilities, tailored to their different circumstances (Table 3.1). Review and approval of members' requests for financial assistance and program support are core responsibilities of the Board, alongside surveillance.

Under the Fund's lending facilities, the Board makes temporary financing available to members to help them address a variety of balance of payments problems, such as a lack of sufficient foreign exchange to purchase needed imports or make payments on external obligations. IMF loans give countries time to adjust their policies so as to overcome short-term balance of payments problems, stabilize their economies, and avoid similar problems in the future. IMF lending is not intended to cover all of a borrower's needs but, rather, to have a catalytic effect—enabling a country to restore confidence in its policies and attract financing from other sources. Loans are accompanied by economic reform programs developed by the borrowers in collaboration with the IMF. The Executive Board regularly reviews borrowers' performance under their programs, and, in most cases, funds are disbursed as program targets are met.

Regular financing activities. The bulk of the IMF's loans are provided through Stand-By Arrangements (SBAs), which address members' short-term balance of payments difficulties, and the Extended Fund Facility (EFF), which focuses on external payments difficulties caused by longer-term structural problems. For members experiencing a sudden and disruptive loss of access to capital markets, these loans can be supplemented with short-term resources from the IMF's Supplemental Reserve Facility (SRF). In addition, special Emergency Assistance is available to countries recovering from conflicts or natural disasters. All of these loans incur interest charges, and many may be subject to surcharges, depending on the type and duration of the loan and the amount of IMF credit outstanding. Repayment periods vary by type of loan. The IMF's regular lending activities are financed out of a revolving pool of funds held in the General Resources Account (GRA) and consisting mainly of members' quota subscriptions. In addition, the IMF has in place two formal borrowing arrangements with member countries and can borrow to supplement its quota resources.

Table 3.1 IMF lending facilities

Credit facility (year adopted)	Purpose	Conditions	Phasing and monitoring[1]	Access limits[1]	Charges[2]	Repurchase (repayment) terms[3]		
						Obligation schedule *(Years)*	Expectation schedule *(Years)*	Installments
Credit tranches and Extended Fund Facility[4]								
Stand-By Arrangements (1952)	Medium-term assistance for countries with balance of payments difficulties of a short-term character.	Adopt policies that provide confidence that the member's balance of payments difficulties will be resolved within a reasonable period.	Quarterly purchases (disbursements) contingent on observance of performance criteria and other conditions.	Annual: 100% of quota; cumulative: 300% of quota.	Rate of charge plus surcharge (100 basis points on amounts above 200% of quota; 200 basis points on amounts above 300% of quota).[5]	3 1/4–5	2 1/4–4	Quarterly
Extended Fund Facility (1974) (Extended Arrangements)	Longer-term assistance to support members' structural reforms to address balance of payments difficulties of a long-term character.	Adopt 3-year program, with structural agenda, with annual detailed statement of policies for the next 12 months.	Quarterly or semiannual purchases (disbursements) contingent on observance of performance criteria and other conditions.	Annual: 100% of quota; cumulative: 300% of quota.	Rate of charge plus surcharge (100 basis points on amounts above 200% of quota; 200 basis points on amounts above 300% of quota).	4 1/2–10	4 1/2–7	Semiannual

Table 3.1 *(continued)*

Credit facility (year adopted)	Purpose	Conditions	Phasing and monitoring[1]	Access limits[1]	Charges[2]	Repurchase (repayment) terms[3]		
						Obligation schedule *(Years)*	Expectation schedule *(Years)*	Installments
Special facilities								
Supplemental Reserve Facility (1997)	Short-term assistance for balance of payments difficulties related to crises of market confidence.	Available only in context of Stand-By or Extended Arrangements with associated program and with strengthened policies to address loss of market confidence.	Facility available for one year; frontloaded access with two or more purchases (disbursements).	No access limits; access under the facility only when access under associated regular arrangement would otherwise exceed either annual or cumulative limit.	Rate of charge plus surcharge (300 basis points, rising by 50 basis points a year after first disbursement and every 6 months thereafter to a maximum of 500 basis points).	2 1/2–3	2–2 1/2	Semiannual
Compensatory Financing Facility (1963)	Medium-term assistance for temporary export shortfalls or cereal import excesses.	Available only when the shortfall/excess is largely beyond the control of the authorities and a member has an arrangement with upper credit tranche conditionality, or when its balance of payments position excluding the shortfall/excess is satisfactory.	Typically disbursed over a minimum of six months in accordance with the phasing provisions of the arrangement.	45% of quota each for export and cereal components. Combined limit of 55% of quota for both components.	Rate of charge.	3 1/4–5	2 1/4–4	Quarterly

Table 3.1 *(continued)*

Credit facility (year adopted)	Purpose	Conditions	Phasing and monitoring[1]	Access limits[1]	Charges[2]	Repurchase (repayment) terms[3]		
						Obligation schedule *(Years)*	Expectation schedule *(Years)*	Installments
Emergency Assistance	Assistance for balance of payments difficulties related to the following:		None, although post-conflict assistance can be segmented into two or more purchases.	Generally limited to 25% of quota, though larger amounts can be made available in exceptional cases.	Rate of charge; however, the rate of charge may be subsidized to 0.5 percent a year, subject to resource availability.	3¼–5	Not applicable	Quarterly
(1) Natural disasters (1962)	Natural disasters	Reasonable efforts to overcome balance of payments difficulties.						
(2) Post-conflict (1995)	The aftermath of civil unrest, political turmoil, or international armed conflict	Focus on institutional and administrative capacity building to pave the way toward an upper credit tranche arrangement or PRGF.						

Table 3.1 ***(continued)***

Credit facility (year adopted)	Purpose	Conditions	Phasing and monitoring[1]	Access limits[1]	Charges[2]	Repurchase (repayment) terms[3]		
						Obligation schedule *(Years)*	Expectation schedule *(Years)*	Installments
Facilities for low-income members								
Poverty Reduction and Growth Facility (1999)	Longer-term assistance for deep-seated balance of payments difficulties of structural nature; aims at sustained poverty-reducing growth.	Adopt 3-year PRGF PRGF arrangements. PRGF-supported programs are based on a Poverty Reduction Strategy Paper (PRSP) prepared by the country in a participatory process and integrating macroeconomic, structural, and poverty reduction policies.	Semiannual (or occasionally quarterly) disbursements contingent on observance of performance criteria and reviews.	140% of quota; 185% of quota in exceptional circumstances.	0.5%	$5^1/2$–10	Not applicable	Semiannual
Exogenous Shocks Facility (2006)	Short-term assistance to address a temporary balance of payments need that is due to an exogenous shock.	Adopt a 1–2 year program involving macroeconomic adjustments allowing the member to adjust to the shock and structural reform considered important for adjustment to the shock, or for mitigating the impact of future shocks.	Semiannual or quarterly disbursements on observance of performance criteria and, in most cases, completion of a review.	Annual: 25% of quota; cumulative: 50% of quota except in exceptional circumstances.	0.5%	$5^1/2$–10	Not applicable	Semiannual

Table 3.1 ***(concluded)***

[1]Except for the PRGF, the IMF's lending is financed from the capital subscribed by member countries; each country is assigned a *quota* that represents its financial commitment. A member provides a portion of its quota in foreign currencies acceptable to the IMF—or SDRs (see Chapter 8)—and the remainder in its own currency. An IMF loan is disbursed or drawn by the borrower *purchasing* foreign currency assets from the IMF with its own currency. Repayment of the loan is achieved by the borrower *repurchasing* its currency from the IMF with foreign currency. See CD Box 3.1 on the IMF's Financing Mechanism. PRGF lending is financed by a separate PRGF Trust.

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

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

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

[5]Surcharge introduced in November 2000.

Box 3.1 Special Drawing Rights

The SDR is a reserve asset created by the IMF in 1969 in response to the threat of a shortage of international liquidity. SDRs are "allocated"—distributed—to members in proportion to their IMF quotas. Since the SDR's creation, a total of SDR 21.4 billion has been allocated to members—SDR 9.3 billion in 1970–72 and SDR 12.1 billion in 1978–81.Today, the SDR has only limited use as a reserve asset. Its main function is to serve as the unit of account of the IMF and some other international organizations and a means of payment for members in settling their IMF financial obligations. The SDR is neither a currency nor a claim on the IMF. Rather, it is a potential claim on the freely usable currencies of IMF members. Holders of SDRs can obtain these currencies in exchange for their SDRs in two ways: first, through the arrangement of voluntary exchanges between members; and second, by the IMF's designating members with strong external positions to purchase SDRs from members with weak external positions in exchange for freely usable currencies

The value of the SDR is based on the weighted average of the values of a basket of major international currencies, and the SDR interest rate is a weighted average of interest rates on short-term instruments in the markets for the currencies in the valuation basket. The method of valuation is reviewed every five years. The latest review was completed in November 2005, and the IMF Executive Board decided on changes in the valuation basket effective January 1, 2006. The SDR interest rate is calculated weekly and provides the basis for determining the interest charges on regular IMF financing and the interest rate paid to members that are creditors of the IMF.

Financing for low-income countries. The IMF provides support to its low-income members through a variety of instruments. These include highly subsidized lending through the Poverty Reduction and Growth Facility (PRGF) and the Exogenous Shocks Facility (ESF); subsidized Emergency Assistance for eligible post-conflict countries and countries hit by natural disasters; and debt relief under the Heavily Indebted Poor Countries (HIPC) Initiative[34] and the Multilateral Debt Relief Initiative (MDRI).[35] The PRGF, the main

[34]The HIPC Initiative was launched by the IMF and the World Bank in 1996 and enhanced in 1999 to provide faster, deeper, and broader debt relief and to strengthen the links between debt relief, poverty reduction, and social policies. CD-Table 3.1, which shows the delivery of debt relief as of April 30, 2007, can be found on the CD-ROM. More information about the HIPC Initiative can be found on the IMF's Web site, at www.imf.org/external/np/exr/facts/hipc.htm.

[35]CD-Table 3.1 and CD-Table 3.2, which show subsidy contributions as of April 30, 2007, for the ESF and for emergency assistance, respectively, can be found on the CD-ROM.

instrument for provision of IMF financial support to low-income countries, focuses on poverty reduction in the context of a growth-oriented economic strategy, while the ESF provides concessional assistance to low-income members that are facing sudden exogenous shocks but do not have a PRGF arrangement in place. A low-income country seeking a PRGF or ESF loan or debt relief must prepare a Poverty Reduction Strategy Paper (PRSP) in a participatory process involving civil society; the PRSP is considered by the Boards of the IMF and the World Bank, but the strategy is developed and owned by the country. The funds for PRGF loans come from trust funds administered by the IMF, and the subsidy resources are financed by contributions from the IMF and a broad spectrum of its member countries.

Special Drawing Rights. The IMF can create international reserve assets by allocating Special Drawing Rights (SDRs) to members (Box 3.1). Recipient countries can use SDRs to obtain foreign exchange from other members and to make payments to the IMF. SDRs are also the IMF's unit of account.

The Fund can also provide loans under its lending facilities through the Trade Integration Mechanism (TIM), which it introduced in FY2004. The TIM is not a lending facility itself, but, rather, a policy aimed at making Fund resources more predictably available to qualifying member countries under existing IMF facilities. It is designed to mitigate concerns among some developing countries that their balance of payments positions could suffer, albeit temporarily, as multilateral liberalization changes their competitive position in world markets.

Detailed information about the amounts of lending approved by the IMF, credit outstanding, and repayments, broken down by lending facility and financial year, can be found in the Appendix II tables. Appendix II is on the CD-ROM.

The IMF's Executive Board frequently reviews and refines the IMF's policies and instruments to ensure that they meet members' evolving needs. During FY2007, the IMF's Executive Board began work on the development of a new contingent financing instrument that emerging market countries active in international capital markets could draw on if they experience a sudden, temporary loss of liquidity. To help low-income countries avoid building up excessive debt after benefiting from debt relief, the Boards of the IMF and the

World Bank decided to strengthen the Debt Sustainability Framework (DSF) developed by the two institutions in 2005, and the IMF and the World Bank engaged in outreach on ways to use the DSF more effectively. The Board also reviewed the report of the Independent Evaluation Office (IEO; Box 5.3), "The IMF and Aid to Sub-Saharan Africa," concluded a review of "ex post assessments"—assessments of the successes and failures of IMF-supported programs with repeat or longer-term borrowers—and reviewed the IMF's experience over 1992–2005 with precautionary arrangements, which give countries not facing immediate balance of payments problems the right to draw on financial assistance from the IMF should the need arise, conditional on the implementation of specific policies.

EMERGING MARKET ECONOMIES

Many emerging market economies have moved from programs to a surveillance-only relationship with the IMF. As these countries have gained access to international capital markets, they have repaid their IMF loans ahead of schedule and their need for new IMF lending has decreased dramatically.

Lending

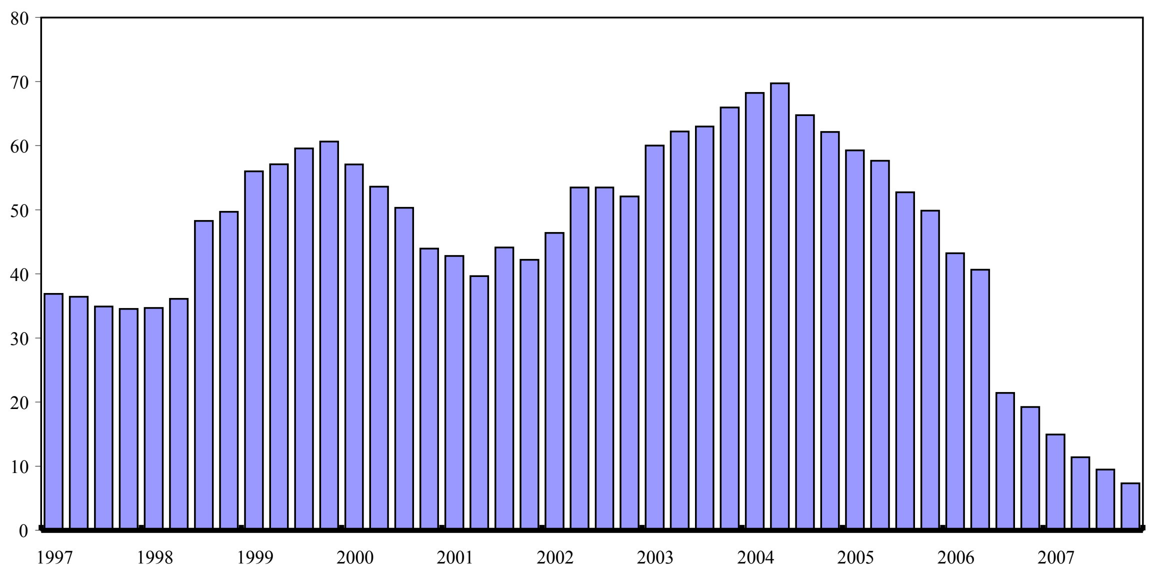
IMF credit outstanding at the end of FY2007 declined to SDR 7.3 billion from SDR 19.2 billion in April 2006, owing to continued early repayments of outstanding loans and a low level of new disbursements (Figure 3.1).[36] During FY2007, eight members—Bulgaria, the Central African Republic, Ecuador, Haiti, Indonesia, the Philippines, Serbia, and Uruguay—repaid their outstanding obligations to the IMF ahead of schedule, for a total of SDR 7.1 billion. IMF disbursements totaled SDR 2.3 billion, the bulk of which went to Turkey.

New IMF commitments fell sharply, from SDR 8.4 billion in FY2006 to SDR 237 million in FY2007, with two new Stand-By Arrangements approved for Paraguay and Peru. Seven Stand-By and Extended Arrangements were in effect as of the end of

[36]The IMF's liquidity, as measured by the Forward Commitment Capacity (FCC), rose to an all-time high of SDR 126.1 billion at the end of April 2007, from SDR 120.1 billion at the end of April 2006, largely because of the significant decline in lending.

FY2007, of which four are being treated as precautionary since borrowers have indicated their intention not to draw on them. At the end of April 2007, undrawn balances under all current Stand-By and Extended Arrangements amounted to SDR 3.9 billion.

Figure 3.1 Regular loans outstanding FY1997– FY2007
(In billions of SDRs)



Source: IMF Finance Department.

New financing instrument

A number of the IMF's members have called for consideration of a new financing instrument designed specifically to support crisis-prevention efforts by members active in international capital markets. As part of the analytical backdrop to the design of such an instrument, in May 2006 the Executive Board held an informal seminar to discuss a study on the role of IMF-supported programs in crisis prevention.[37] Based on theoretical and empirical work, that study found that the availability of IMF resources can have a significant impact on lowering

[37] "The Role of Fund Support in Crisis Prevention" (March 23, 2006), can be found on the IMF's Web site, www.imf.org.

the likelihood of a crisis. Moreover, the marginal impact of IMF support depends on the quality of the member's policies and economic fundamentals—accordingly, the availability of IMF financial resources can have a strong complementary effect to the member's own crisis-prevention efforts. Building on this analytical work, at a seminar in August 2006, the Executive Board discussed the objectives for a new financing instrument, taking into account the IMF's experience with an earlier instrument, the Contingent Credit Lines (CCL).[38]

A successful instrument would reduce the risk of a crisis by granting qualified members—that is, countries following sound policies—access to a credit line, thereby lowering the incentive for private investors to reduce their exposure early, at the first sign of trouble. It would also need to balance predictable access to IMF financing against adequate safeguards for IMF resources, and manage the tension between the provision of strong positive signals when conditions are good and the possibility that entry or exit from the instrument could generate negative signals when circumstances deteriorate.

At the September 2006 Annual Meetings, the IMFC requested that the IMF continue to work on designing a new instrument, tentatively called the Reserve Augmentation Line. Outreach by IMF management and staff with officials and market participants facilitated further work on the instrument's design, and in March 2007 Executive Directors discussed a paper that sought further convergence of views on key design issues, such as qualification, monitoring, access, terms, and a sunset clause.[39] The discussion clarified areas of emerging

[38]The summing up of the Board's discussion is contained in PIN 06/104, which can be found on the CD-ROM and on the IMF's Web site, at www.imf.org/external/np/sec/pn/2006/pn06104.htm. A fact sheet about the Contingent Credit Lines can be found at www.imf.org/external/np/exr/facts/ccl.htm. The IMF introduced the CCL in 1999 as part of its response to the rapid spread of turmoil through global financial markets during the Asian crisis of 1997–98. The instrument was intended to provide a precautionary line of defense for members that had sound policies and were not at risk of an external payments crisis of their own making, but that were vulnerable to contagion effects from capital account crises in other countries. Despite changes intended to make the CCL more attractive to members, it was never used, and the Board decided in 2003 to allow it to expire.

[39]The staff paper, "Further Consideration of a New Liquidity Instrument for Market Access Countries—Design Issues," February 13, 2007, can be found on the IMF's Web site, at www.imf.org/external/pp/longres.aspx?id=4044. The summing up of the Board's discussion, PIN 07/40, can be found on the CD-ROM as well as on the Fund's Web site, at www.imf.org/external/np/sec/pn/2007/pn0740.htm.

common ground and revealed areas where further progress is needed. The Executive Board called on IMF staff to prepare a follow-up paper refining the proposals.

LOW-INCOME COUNTRIES

The MTS identifies the need to make the IMF's engagement with low-income countries more flexible, as well as more focused on what is essential and on areas where the IMF has a comparative advantage and expertise. Over the past few years, the Board has approved a wide array of instruments to help the IMF's low-income members achieve macroeconomic stability and sustainable growth, which are critical to the achievement of the Millennium Development Goals (Box 3.2). In addition to the advice given to countries in the course of its surveillance activities, the IMF provides advice, financial assistance, and debt relief in connection with the facilities described above, and 90 percent of its technical assistance goes to low- and lower-middle-income countries (see Chapter 4). For low-income countries eligible for PRGF lending that do not want financial assistance from the IMF but do want support of their policies through counsel and advice, the IMF created the Policy Support Instrument (PSI) in FY2006. As of April 30, 2007, four countries had applied for and received PSIs. The Fund also continues to advocate a successful outcome to the Doha Round of trade negotiations (Box 3.3).

Box 3.2 Tracking progress toward the Millennium Development Goals

The IMF and the World Bank track the progress made by low-income countries toward the achievement of the Millennium Development Goals (MDGs), jointly publishing their findings annually in the *Global Monitoring Report* (GMR). The fourth GMR, issued in April 2007, found that progress on the first goal—halving poverty by 2015—was on track in all developing regions except sub-Saharan Africa, but that efforts to attain the goals of reducing child mortality and disease and achieving environmental sustainability were falling short. It called for greater attention to gender equality—not only because of equity considerations but also because empowering women is essential to economic well-being and the advancement of the other MDGs—and to fragile states, which account for 27 percent of the developing world's extreme poor (those living on less than $1 a day).[1] Fragile states—low-income countries and territories deemed to have especially weak institutions and governance that undermine economic performance and the delivery of basic social services—are, in general, the least likely to achieve the MDGs. Many are emerging from conflict.

A substantial increase in aid will be needed if developing countries are to accelerate their efforts to reach the MDGs. However, actual commitments of aid in 2005–06 as registered by the OECD-DAC (Organization for Economic Cooperation and Development–Development Assistance Committee)—excluding exceptional debt relief transactions—have declined, and projections through 2008 have aid volumes falling well short of the pledges made by the international community at the International Conference on Financing for Development that took place in Monterrey, Mexico, in 2002, and at the Group of 8's Gleneagles summit in 2005. The IMF continues to urge bilateral donors to increase aid levels and make aid more predictable. The Fund is also providing advice and technical assistance to aid recipients in its areas of expertise to ensure that they can use increased aid effectively without undermining macroeconomic stability, crowding out private investment, or falling back into situations of unsustainable external indebtedness.

The IMF works closely with the World Bank on many issues related to low-income countries in addition to the GMR, including the PRSP process, debt relief under the HIPC Initiative and the MDRI, the Debt Sustainability Framework, and the Financial Sector Assessment Program (the FSAP is described in Chapter 2). An External Committee carried out a study on Bank-Fund collaboration, which is discussed in Chapter 5, during FY2007.

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[1]The *Global Monitoring Report: Confronting the Challenges of Gender Equality and Fragile States* can be found on the IMF's Web site, at www.imf.org/external/pubs/cat/longres.cfm?sk=20364.0.

Box 3.3 Trade liberalization and low-income countries

In August 2006, the Executive Board discussed the "Doha Development Agenda and Aid for Trade," a paper jointly prepared by the staffs of the IMF and the World Bank.[1] Executive Directors stressed that work on Aid for Trade should proceed regardless of the status of the Doha Round. Although Aid for Trade cannot substitute for an ambitious outcome to the Doha Round, by helping developing countries address infrastructural and other supply constraints, it may enable them to take full advantage of trade opportunities arising from global market opening. The IMF should continue with selective interventions within its mandate and core areas of competence, including the macroeconomic implications of changes in trade policies and the global trade environment, and advice on tax and customs reform.

The Board took note of the proposals of the WTO Task Forces on an Enhanced Integrated Framework for Trade-Related Technical Assistance (IF) and on Aid for Trade. At present, trade-related priorities in many of the least-developed countries remain disconnected from the PRSP process. Against this background, Executive Directors observed that implementation of the recommendations of the IF Task Force could allow the IF to play a more effective role in helping to identify aid-for-trade needs and coordinating trade-related technical assistance. They welcomed the recommendations for strengthened capacity in IF beneficiary countries and improved IF governance, and recognized donor commitments for the financing of this effort.[2]

Although the benefits of trade liberalization outweigh the costs overall, certain low-income countries may be hurt in the short run by trade liberalization measures that expose their exports to greater competition, reduce their revenues as tariffs are lowered, or raise the cost of food imports as agricultural subsidies are abolished. In 2004, the IMF introduced the Trade Integration Mechanism (TIM), a vehicle that allows countries with IMF arrangements in place to increase their access to IMF resources if necessary to cope with the erosion of trade preferences and the effect of other countries' trade liberalization on their balance of payments. In FY2007, the Executive Board approved the activation of the TIM for Madagascar, in light of the possible impact on the country's textile exports of the expiration of textile quotas in 2005 as called for by the WTO's Agreement on Textiles and Clothing and the implementation of the U.S. African Growth and Opportunities Act in 2007. With the activation of the TIM, Madagascar became eligible for an augmentation of access to IMF resources under its PRGF arrangement. It is the third IMF member for which the TIM has been activated.

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[1] The paper is available on the IMF's Web site, at www.imf.org/external/pp/longres.aspx?id=3886; PIN 06/105, which contains the summing up of the Board's discussion, can be found on the CD-ROM or at www.imf.org/external/np/sec/pn/2006/pn06105.htm.

[2] The recommendations include the establishment of a new executive secretariat in the WTO Secretariat, measures to strengthen capacity in the least-developed countries, a funding target of $400 million over an initial five-year period, and a monitoring and evaluation framework.

Lending

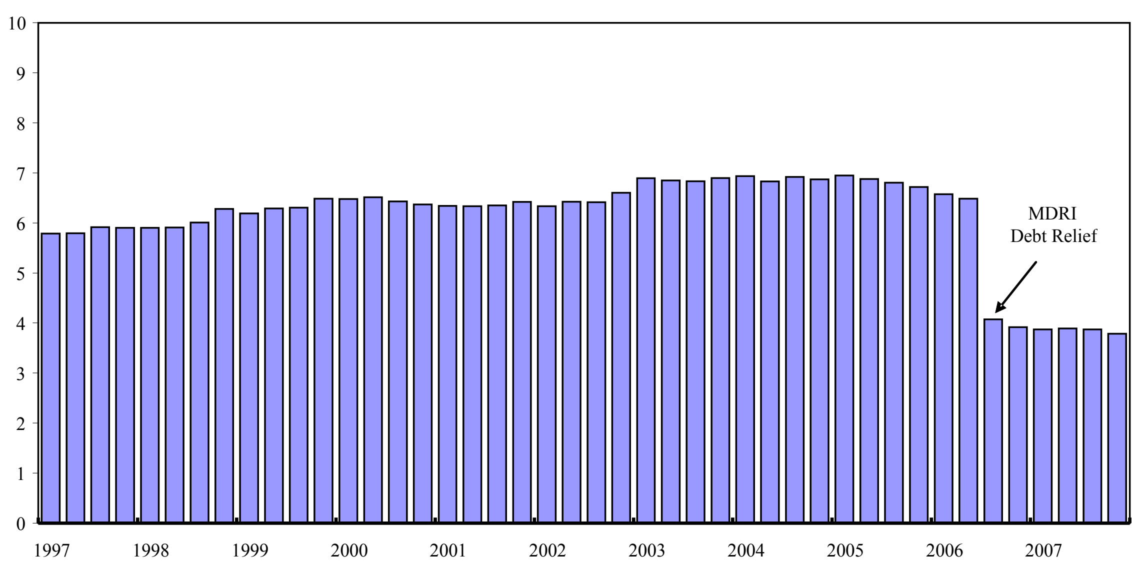
During FY2007, the Executive Board approved 10 new PRGF arrangements (Table 3.2), with commitments totaling SDR 401.2 million. The Board also approved the augmentation of two PRGF arrangements, for a combined total of SDR 36.8 million. In addition, the Board approved Kenya's request to reduce access under its PRGF arrangement by SDR 75 million, in light of its improved external position. As of April 30, 2007, the reform programs of 29 member countries were supported by PRGF arrangements. Total concessional loans outstanding amounted to SDR 3.9 billion (Figure 3.2). To date, no country has requested assistance under the ESF.

Table 3.2 PRGF arrangements approved in FY2007

Member	Effective date	Amount approved[1] (In millions of SDRs)
New arrangements		
Afghanistan	June 26, 2006	81.0
Burkina Faso	April 23, 2007	6.0
Central African Rep.	December 22, 2006	36.2
Gambia, The	February 21, 2007	14.0
Haiti	November 20, 2006	73.7
Madagascar	July 21, 2006	55.0
Mauritania	December 18, 2006	16.1
Moldova	May 5, 2006	80.1
Rwanda	June 12, 2006	8.0
Sierra Leone	May 10, 2006	31.1
Subtotal		**401.2**
Augmentations/reductions		
Burkina Faso	September 8, 2006	6.0
Moldova	December 15, 2006	30.8
Kenya	April 11, 2007	(75.0)
Subtotal		**(38.2)**
Total		**363.0**

Source: IMF Finance Department.
[1]For augmentations/reductions, only the amount of the increase/decrease is shown.

Figure 3.2 Concessional loans outstanding, FY1997–FY2007
(In billions of SDRs)



Source: IMF Finance Department.

Debt relief

Debt relief efforts under the enhanced HIPC Initiative and the MDRI continued during FY2007. A sunset clause was introduced at the start of the HIPC Initiative in 1996, restricting eligibility to countries that had embarked on programs supported by the IMF or the International Development Association (IDA)[40] within a two-year period to prevent the Initiative from becoming permanent, minimize potential moral hazard arising from excessive borrowing in anticipation of debt relief, and encourage early adoption of reforms. Following numerous extensions over the years, at a meeting in September 2006 the Executive Boards of the IMF and the World Bank acknowledged that letting the sunset clause take effect at end-2006 without any modification could leave several countries with debt burdens in excess of the Initiative's thresholds and no further possibility of benefiting from this comprehensive framework. Accordingly, agreement was reached to let the sunset clause take effect while grandfathering all countries assessed to have met the income and indebtedness criteria based on end-2004 data, including countries that might be assessed to have met these criteria at some point in the future.

Executive Directors called on the staff to conduct a stock-taking exercise in a few years' time to review the options for the remaining duration of the HIPC Initiative. They also urged staff to continue working with country authorities to develop and implement reform strategies and to assist these countries in qualifying for HIPC Initiative assistance promptly. At the same time, they encouraged the remaining countries to make every effort to establish a track record of policy performance and implement satisfactorily their poverty reduction strategies so that they can begin receiving debt relief.[41]

As of April 30, 2007, 30 countries had reached the decision point under the enhanced HIPC Initiative; of these, 22 had reached their completion points.[42] The IMF has committed

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[40]IDA is the World Bank agency that provides interest-free loans and grants to the poorest member countries.

[41] For the summing up of the Board's discussion, see "IMF Executive Board Discusses Issues Related to the Sunset Clause of the Initiative for Heavily Indebted Poor Countries," PIN 06/107, on the CD-ROM or at www.imf.org/external/np/sec/pn/2006/pn06107.htm

[42]To qualify for HIPC assistance, a country must pursue strong economic policies supported by the IMF and the World Bank. After establishing a track record of good performance and developing a PRSP or an

(continued)

SDR 1.9 billion under the HIPC Initiative and disbursed SDR 1.7 billion. During FY2007, one member (Haiti) reached its decision point, three others (Malawi, Sierra Leone, and São Tomé and Príncipe) reached their completion points, and Afghanistan was added to the list of countries eligible for assistance under the HIPC Initiative.

The MDRI was launched in 2005 to further reduce the debts of qualifying low-income countries and provide them with additional resources to help meet the MDGs. Proposed by the Group of 8 countries, the MDRI is a different mechanism from the HIPC Initiative but linked to it operationally. Under the MDRI, the IMF, IDA, the African Development Fund, and the Inter-American Development Bank provide 100 percent debt relief on eligible claims of countries reaching the completion point under the enhanced HIPC Initiative. In addition, the IMF provides MDRI debt relief to all its members with per capita incomes at or below $380 (including two non-HIPCs, Cambodia and Tajikistan).[43]

As of April 30, 2007, the IMF had delivered MDRI debt relief totaling [SDR 2.7 billion] to 24 countries. The debt relief was financed by a combination of resources from undisbursed HIPC accounts (SDR 0.4 billion), IMF resources (SDR 1.2 billion), and bilateral contributions (SDR 1.1 billion). During FY2007, four members (Malawi, Mauritania, Sierra Leone, and São Tomé and Príncipe) received full debt relief totaling SDR 189.2 million under the MDRI.[44]

Debt Sustainability Framework

The primary aim of the DSF is to help guide the borrowing decisions of low-income countries, balancing their need for funds against their ability to service debt. The Executive Board had a second discussion in FY2007 about how the DSF, which was endorsed by the

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interim PRSP, the country is said to have reached its decision point, at which time the IMF and the World Bank formally decide on the country's eligibility and the international community commits itself to reducing the country's debt to a sustainable level. The country must then continue its good track record with the support of the international community, implementing key policy reforms, maintaining macroeconomic stability, and adopting and implementing a PRSP. Paris Club and other bilateral and commercial creditors reschedule obligations coming due. A country reaches its completion point once it has met the objectives set at the decision point. It then receives the balance of the debt relief committed.

[43]For more information on the MDRI, see PIN 05/164, at www.imf.org/external/np/sec/pn/2005/pn05164.htm.

[44]Table CD-3.3 on the CD-ROM lists the countries covered by the MDRI.

Boards of the IMF and the World Bank in April 2005, could be used to help low-income countries that have received debt relief avoid reaccumulating excessive debt.[45] The November 2006 discussion, which was based on a paper prepared jointly by the staffs of the IMF and the World Bank, focused on how best to integrate into the DSF the policy challenges arising from the perceived increase in borrowing space created by debt relief in some low-income countries, the emergence of new creditors, and the rising weight of domestic debt. These developments, while welcome, create new risks that need to be addressed as countries make progress toward implementing prudent debt-management policies. The Board therefore called for improvements to the rigor and quality of debt sustainability analyses.

Executive Directors reiterated that concessional flows remain the most appropriate source of external finance for low-income countries and called for continued efforts by the international community to improve the availability and predictability of such financing. However, they recognized that consideration should be given, on a case-by-case basis, to nonconcessional finance, depending on its impact on debt sustainability, on the overall strength of a borrowing country's policies and institutions, and on the quality of both the investment to be financed and the overall public expenditure program.

Executive Directors underscored that the effectiveness of the DSF ultimately depends on its broader use by debtors and creditors and stressed the need for further outreach to official creditors. They also stressed the importance of timely, high-quality data on borrowing and lending operations and encouraged IMF staff, working with Bank staff, to disseminate more broadly and effectively the results of debt sustainability analyses.[46] The Board welcomed the creation of a dedicated Web page on the IMF's Web site where debt sustainability analyses can be easily located and supported the establishment of a similar

[45]The first discussion took place in April 2006; see PIN 06/61, at www.imf.org/external/np/sec/pn/2006/pn0661.htm.

[46]For the summing up of the Board's discussion, see PIN 06/136, "IMF Executive Board Discusses the Application of the Debt Sustainability Framework for Low-Income Countries Post Debt Relief" on the CD-ROM or at www.imf.org/external/np/sec/pn/2006/pn06136.htm. The staff report can be found on the IMF's Web site, at www.imf.org/external/pp/longres.aspx?id=3959; a staff guidance note on the application of the DSF is also posted on the IMF's Web site, at www.imf.org/external/np/pp/2007/eng/041607.pdf.

Web page on concessionality.[47] The IMF and the World Bank have stepped up their outreach on the DSF, including to non-OECD creditors, to foster responsible lending practices, and they stand ready to help design principles in this area. They are also increasing efforts to provide borrowing countries with training and technical assistance to strengthen their debt-management capacities.

Policy support instruments

In recent years, several low-income countries have made significant progress toward economic stability and no longer require IMF financial assistance. However, regardless of whether they seek the Fund's financial support, they may still seek IMF monitoring and support of, and advice and counsel on, their economic policies. Approved by the Executive Board in FY2006, PSIs are designed to address the needs of these members by providing policy support and "signaling.".[48] Signaling refers to the information Fund activities can indirectly provide about countries' performance and prospects. Such information can be used to inform the decisions of outsiders, including private creditors, official donors and creditors, and the public at large. In low-income countries, such signals have been sent mainly in the context of the PRGF and the related PRSP process. PSIs mirror the design and achieve many of the purposes of the PRGF, and like PRGF arrangements and debt relief, are based on development of a PRSP. They are also voluntary—members that want PSIs must request them—and thus demonstrate strong country ownership of policy programs, and programs are expected to meet the same high standards as programs supported by Fund financial assistance. In the event of a shock, an on-track PSI could provide the basis for rapid access to PRGF resources through the ESF. The publication of PSI documents, like that of PRGF documents, is voluntary but presumed.

In addition to promoting a close policy dialogue between the IMF and its low-income members, PSIs provide more frequent Fund assessments of members' economic and financial

[47] See www.imf.org/external/pubs/ft/dsa/lic.aspx for debt sustainability analyses included in country reports. The Web page on the IMF's concessionality was launched in January 2007; see www.imf.org/external/np/pdr/conc/index.htm.

[48] See PIN 05/145 at www.imf.org/external/np/sec/pn/2005/pn05145.htm for the summing up of the Board discussion at which the PSI was approved.

policies than is possible under the Article IV consultation process: while Article IV consultations usually take place yearly, the Board reviews performance under PSIs semiannually. Members with PSIs are expected to provide timely and accurate data to the Fund to ensure the integrity of these assessments.

In the past two years, the Board has approved PSIs for four countries: Nigeria and Uganda in FY2006, and Cape Verde and Tanzania in FY2007.[49] In FY2007, the Board reviewed Uganda's 16-month PSI and approved a new, 3-year PSI at Uganda's request.

EMERGENCY ASSISTANCE

The IMF provides emergency financial assistance to both emerging market economies and low-income countries recovering from conflicts (Emergency Post-Conflict Assistance, or EPCA) or natural disasters (Emergency Natural Disaster Assistance, or ENDA). The interest charged on Emergency Assistance provided to PRGF-eligible members is subsidized subject to the availability of subsidy resources contributed by member countries; the subsidized rate is 0.5 percent a year.

During FY2007, the Executive Board approved Emergency Assistance of SDR 50.8 million for Lebanon under EPCA, and the Central African Republic and Haiti repaid their EPCA loans, totaling SDR 33 million, earlier than scheduled. As of April 30, 2007, two countries, Iraq and Lebanon, had outstanding EPCA credit, which amounted to SDR 347.9 million. No new ENDA loans were made during FY2007. Three countries—

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[49]For details, see Press Releases 06/172, "IMF Executive Board Approves a Three-Year Policy Support Instrument for Cape Verde," and 07/13, "IMF Executive Board Completes the First Review Under the Policy Support Instrument for Cape Verde," at www.imf.org/external/np/sec/pr/2006/pr06172.htm and www.imf.org/external/np/sec/pr/2007/pr0713.htm, respectively; Press Releases 05/229, "IMF Executive Board Approves a Two-Year Policy Support Instrument for Nigeria," and 06/293, "IMF Executive Board Completes the Second Review Under the Policy Support Instrument for Nigeria," at www.imf.org/external/np/sec/pr/2005/pr05229.htm and www.imf.org/external/np/sec/pr/2006/pr06293.htm, respectively; Press Release 07/26, "IMF Executive Board Completes Sixth Review Under Tanzania's PRGF Arrangement and Approves a Three-Year Policy Support Instrument," at www.imf.org/external/np/sec/pr/2007/pr0726.htm; and Press Releases 06/14, "IMF Executive Board Completes Final Review of Uganda's PRGF Arrangement and Approves 16-month Policy Support Instrument," and 06/281, "IMF Executive Board Completes the First Review Under the Policy Support Instrument for Uganda and Approves a New Three-year Policy Support Instrument," at www.imf.org/external/np/sec/pr/2006/pr0614.htm and www.imf.org/external/np/sec/pr/2006/pr06281.htm, respectively.

Grenada, Maldives, and Sri Lanka—had outstanding ENDA credit, for a total of SDR 111.5 million, at end-April 2007.

REVIEW OF THE IMF'S ROLE AND INSTRUMENTS

In FY2007, the Executive Board reviewed the IMF's advice on the use of aid in sub-Saharan Africa, based on an IEO evaluation; considered the findings and value of ex post assessments; and compared the performance of countries under precautionary arrangements with that of countries that had arrangements on which they drew financial assistance. The Board also requested additional policy papers to define more clearly the IMF's role in low-income countries.

IMF and aid to sub-Saharan Africa

In March 2007, the Executive Board discussed the IEO evaluation of the IMF and aid to sub-Saharan Africa.[50] The report confirmed the steady improvement in the region's macroeconomic performance during 1999–2005 and attributed this improvement in part to the advice and actions of the IMF, including on debt relief , while also recognizing the contribution of the authorities' own efforts and exogenous factors. Nevertheless, the report identified areas where further improvements were needed, including the IMF's role in poverty reduction efforts, the mobilization of aid, the preparation of alternative scenarios for reaching the MDGs, and the application of poverty and social impact analysis. The IEO found that IMF staff did not receive clear directives on work in these areas because of differences in the views of Executive Directors on the IMF's role and policies in low-income countries, and that management and the Board should have done more to resolve these differences. The report also found a disconnect between the IMF's external communications on aid and poverty reduction and its practice in low-income countries.

The IEO made the following recommendations: (1) the Executive Board should clarify IMF policies on macroeconomic performance thresholds for the accommodation of additional aid, the mobilization of aid, alternative scenarios, poverty and social impact

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[50]The IEO's report and press release, as well as the summing up of the IMF Board's discussion, can be found at www.ieo-imf.org/eval/complete/eval_03122007.html.

analysis, and pro-poor and pro-growth budget frameworks; (2) IMF management should establish transparent mechanisms for monitoring and evaluating the implementation of the clarified policy guidance, including with respect to collaboration with the World Bank, and ensure that institutional communications are consistent with Fund policies and operations; and (3) management should clarify its expectations of, and the resources available to, the IMF's resident representatives and mission chiefs with respect to their interactions with local donor groups and civil society.

In their discussion of the IEO's report, Executive Directors were encouraged by the improvements in sub-Saharan Africa's macroeconomic performance. They noted that the HIPC Initiative and the MDRI had greatly reduced debt-related vulnerabilities and the costs of debt servicing. Executive Directors also noted the improvements in the IMF's assistance to low-income countries. They considered that the IMF's engagement in low-income countries should remain focused on its core mandate and that the IMF should not play a coordinating role in aid mobilization. They also confirmed that distributional policies lie outside the IMF's core mandate and emphasized the importance of improving IMF collaboration with development partners, in particular the World Bank, to take these issues into account when helping countries formulate their macroeconomic policies. Many Executive Directors thought staff should be prepared to design alternative scenarios related to the scaling-up of aid, but most thought that normative advice would fall outside the IMF's mandate: they considered that the IMF's role should be limited to assessing the consistency of additional aid flows with macroeconomic stability and the absorption capacity of the country. The Board supported the report's recommendation on the need for further clarification of IMF policy and asked staff to come back with specific proposals in this area. Early in FY2008, Fund management submitted its plan for implementing Board-endorsed recommendations to the Board.

Ex post assessments

Ex post assessments (EPAs) provide the IMF with an opportunity to step back from ongoing longer-term program engagement with a member country so that it can take a fresh look at its overall strategic approach and draw lessons for future programs. In May 2006, the Executive Board discussed the IMF staff's "Review of Ex Post Assessments and Issues Relating to the

Policy on Longer-Term Program Engagement."[51] Through May 15, 2006, 57 members had been identified as having longer-term program engagement, of which more than 80 percent were low-income countries, and 42 EPAs had been completed. The IMF introduced EPAs in 2003 in response to the IEO's report on prolonged use of Fund resources because of concerns that, in some cases, longer-term program engagement might indicate inadequate progress in dealing with members' economic problems and a lack of effectiveness of IMF-supported programs. There were also concerns that longer-term program engagement might hinder the development of domestic institutions, undermine the Fund's credibility, and decrease the resources available to other members in need of support.

In their May 2006 discussion, Executive Directors reviewed the findings of 32 EPA reports completed by end-August 2005.[52] In most cases, EPAs found that the design of policies in IMF-supported programs had been consistent with the multiple macroeconomic and structural challenges faced by members with longer-term program engagement, and that IMF involvement had not undermined members' institutional development. The Board noted, however, that several EPAs had been critical of the design of structural reforms, in terms of both the scope and the number of structural conditions, and that efforts to streamline conditionality should continue.

The Board considered that, by and large, EPAs have served their purpose and remain an important institutional mechanism for distilling lessons and enhancing the learning culture of the IMF. However, their value could be enhanced by greater selectivity and focus on a few critical issues. Executive Directors suggested that systematic discussions in EPAs of the reasons for program success or failure and of potential exit strategies would provide further useful lessons and generally agreed that, the IMF's budget situation permitting, the staff

[51]The paper can be found on the IMF's Web site, at www.imf.org/external/np/pp/eng/2006/032006R.pdf. The summing up of the Board discussion can be found in PIN 06/96, on the CD-ROM, as well as on the IMF's Web site, www.imf.org/external/np/sec/pn/2006/pn0696.htm.

[52]These EPAs were for the following countries: Albania, Armenia, Azerbaijan, Benin, Bolivia, Bulgaria, Cambodia, Cameroon, Chad, Ethiopia, The Gambia, Georgia, Guinea, Guinea-Bissau, Honduras, Kazakhstan, the Kyrgyz Republic, Lesotho, the former Yugoslav Republic of Macedonia, Madagascar, Malawi, Mali, Moldova, Mozambique, Niger, Peru, Romania, Sierra Leone, Uganda, Uruguay, Vietnam, Zambia.

should expand efforts to reach out and consult with donors, outside experts, and country authorities, while safeguarding the confidentiality of information.

Precautionary arrangements

Also in May 2006, the Board discussed a study by IMF staff comparing precautionary programs with lending programs on which borrowing countries intend to draw. The study was undertaken at the Board's request to determine whether there were systematic differences in terms of program policies, conditionality, or macroeconomic outcomes, and, if so, whether such differences were attributable to the nature of the program or to the circumstances that had led the member to seek the IMF's support. Executive Directors concurred that drawing programs were more likely to be requested by members with weaker macroeconomic performances, whereas precautionary programs tended to be requested by members that had stronger macroeconomic fundamentals but faced uncertainties.[53] It was also recognized that members used precautionary programs to signal policies to markets. The Board noted that, in the first program year, output growth was significantly higher, and inflation significantly lower, in members with precautionary programs than in those with drawing programs. However, these differences could be explained largely by the differences in initial conditions. Executive Directors welcomed the analysis of market reactions, as reflected in interest rate spreads, to IMF-supported programs. Spreads did not widen when members sought precautionary programs, suggesting that markets did not attach a stigma to such programs.

Executive Directors expressed a variety of views on the role of precautionary arrangements in supporting a successful exit for members from IMF-supported programs. They considered that all IMF-supported programs should aim to achieve an exit from IMF financing. Overall, Executive Directors agreed that precautionary programs are a most useful instrument in the IMF's toolkit, lending the IMF's credibility in support of the authorities' policies and enhancing policy discipline. Many Executive Directors also considered that these programs send a well-calibrated signal to markets of the authorities' commitment.

[53]PIN 06/94, which contains the full summing up of the Board discussion, can be found on the CD-ROM and on the IMF's Web site, at www.imf.org/external/np/sec/pn/2006/pn0694.htm.

Comparisons of policy objectives and conditionality between precautionary and non-precautionary programs suggested to most Executive Directors that IMF policies are being applied consistently.

4. Capacity building: technical assistance and training

The technical assistance and training offered by the IMF at the request of member countries are intended to help them fulfill the commitments they make when they join the IMF—to pursue policies that foster financial and macroeconomic stability, sustainable economic growth, and orderly exchange rate arrangements, and to provide the IMF with timely, accurate, and high-quality data about their economies. Equally important, technical assistance and training are also vehicles for helping member countries implement the recommendations that come out of the IMF's Article IV consultations (see Chapter 2). Hence, aligning and integrating capacity building with surveillance and program work have become key objectives of the IMF's Executive Board, which regularly reviews Fund technical assistance and training.

The IMF offers technical assistance and training mainly in its core areas of expertise, including macroeconomic policy, tax and revenue administration, public expenditure management, monetary policy, exchange systems, financial sector reforms, and macroeconomic and financial statistics. In recent years, member countries have also increasingly requested assistance in addressing issues related to monitoring offshore financial centers, preventing money laundering and the financing of terrorism, strengthening public investment, managing fiscal risks from public-private partnerships, adopting international standards and codes for data, and financial and fiscal management, correcting weaknesses identified under the joint IMF–World Bank Financial Sector Assessment Program, and carrying out debt sustainability analyses.

The amount of technical assistance and training delivered directly to member countries by the IMF has increased over the past five years with the expansion of the regional technical assistance and training centers. Taking management and administration into account, technical assistance now represents about 24 percent of the IMF's operating budget. Still, demand for technical assistance and training exceeds the IMF's ability to supply it, especially in light of constraints stemming from growing pressures on the IMF's finances. Priority is therefore given to initiatives that support the IMF's core objectives.

IMF technical assistance is delivered mainly by the Monetary and Capital Markets Department (MCM), Fiscal Affairs Department (FAD), Statistics Department (STA), and Legal Department (LEG). Overall institutional policy on, and coordination of, technical assistance are the responsibility of the Committee on Capacity Building, assisted by the Office of Technical Assistance Management (OTM), in consultation with other IMF departments. Following up on the IMF's Medium-Term Strategy, the Committee on Capacity Building is charged with ensuring that the IMF's initiatives in this area respond to country needs, are coordinated with other providers, and are guided by appropriate policies, while OTM is responsible for raising and managing external financing for technical assistance activities and policy support. Training activities are handled primarily by the IMF Institute, which conducts seminars, workshops, and other training events for country officials, often in collaboration with other IMF departments.

Recognizing the critical capacity-building needs of developing countries, the IMF in FY2007 opened a regional technical assistance center (RTAC) in Gabon to support countries in Central Africa—the third such center in Africa and the sixth worldwide (Box 4.1)—as well as a seventh Regional Training Center (RTC) program, in India.

Box 4.1 Regional Technical Assistance Centers

The RTACs are collaborative ventures between the IMF, the recipient countries, and bilateral and multilateral donors. Financial support for them comes from the donors, and, in many instances, the recipient countries themselves, as well as from the IMF. Host governments frequently provide in-kind contributions.

The RTACs were originally conceived to provide technical assistance to small island economies, because individual assistance providers, including the IMF, were hard pressed to meet these countries' requests. The Pacific RTAC, the first, was established in 1993 to serve 15 island nations. Building on its success, other RTACs soon followed, and today there are six RTACs worldwide, serving a total of 67 countries.

The Caribbean RTAC, established in 2003, serves 20 countries. The East AFRITAC, established in Dar-es-Salaam, Tanzania, in 2002, and the West AFRITAC, established in Bamako, Mali, in 2003, together serve 16 countries. The new Central AFRITAC, which opened in Libreville, Gabon, in FY2007, serves the six countries of the Central African Economic and Monetary Community (CEMAC)—Cameroon, Chad, the Central African Republic, Equatorial Guinea, Gabon, and the

Republic of Congo—as well as Burundi and the Democratic Republic of the Congo. The Middle East RTAC, established in 2004, serves 10 countries and territories in that region, primarily with technical assistance related to rebuilding their economies as they emerge from conflict.

The growing focus on the regional dimensions of IMF technical assistance is in line with the expansion of the IMF's regional surveillance activities as trade and financial integration—and the possibility of spillovers—increase. In addition, the RTACs facilitate coordination with other technical assistance providers, encourage the sharing of regional experiences, and foster the development of regional networks of experts. In its review of the RTACs in FY2006, the IMF's Executive Board concluded that they were a useful addition to the Fund's technical assistance program and that their presence in the field had notable advantages—in particular, the strengthening of countries' ownership of their technical assistance programs and the provision of rapid and flexible technical assistance.

The volume of technical assistance, measured in person-years, delivered through the RTACs has risen every year since FY2002, both in absolute terms and as a proportion of total IMF technical assistance (see CD-Table 4.1, on the CD-ROM). Since the establishment of the East and West AFRITACs, the annual volume of IMF technical assistance and training provided in sub-Saharan Africa has increased by almost 30 percent.

The RTACs are staffed by teams of resident experts, supplemented by short-term specialists, who provide capacity-building assistance through advisory services and training in the core areas of the IMF's expertise, including debt management, financial sector policy, revenue administration, public financial management, and macroeconomic statistics. The Steering Committees that govern the RTACs set the centers' strategic direction and review rolling work plans, promoting strong country ownership of the centers themselves and the technical assistance delivered through them. CARTAC is a United Nations Development Program project in which the IMF is a signatory; the others are IMF operations for which the IMF has sought funding from donors.

Details on the countries served by the RTACs, the donors for the different RTACs, and the fields of expertise of resident advisors can be found on the CD-ROM, in CD-Table 4.2.

TECHNICAL ASSISTANCE

While the IMF may help identify areas of need, it is the member country that decides to request technical assistance. Most technical assistance is provided free of charge. Whether technical assistance is delivered through missions from headquarters, short-term expert assignments, long-term resident advisors, or regional centers, the recipient country is always fully involved in selecting, implementing, monitoring, and evaluating the assistance it receives. This collaborative approach strengthens country ownership of reforms.

Ninety percent of IMF technical assistance is provided to low- and lower-middle-income countries (Table 4.1), to help them build the institutions and capacity needed to implement growth-enhancing policies. Technical assistance delivery trends in FY2007 are summarized in Table 4.2.

Table 4.1 Technical assistance by country income group, FY2007
(Field delivery in person-years)[1]

Country income group	Total person-years	Percent of total
Low-income	64.2	33.4
Lower-middle-income	114.8	59.8
Upper-middle-income[2]	8.8	4.6
High-income[2]	4.2	2.2
Total	192.1	100.0

[1]An effective person-year of technical assistance is 260 days.
[2]Pertains mostly to regional seminars and workshops delivered in upper-middle- and high-income countries but attended by officials from low- and lower-middle-income countries.

Direct financing for technical assistance delivery, supervision, and administrative and other costs comes from the Fund's administrative budget. Bilateral and multilateral donors have provided generous financial assistance as well, covering about 26 percent of the direct cost. This cooperation with external donors both leverages the internal resources available for technical assistance and heads off duplication of effort.

Following on the Board's endorsement in FY2006 of proposals made by the Task Force on Technical Assistance on how to implement the recommendations in the Independent Evaluation Office's FY2005 report on Fund technical assistance,[54]the IMF has developed a strategic medium-term approach that closely integrates and prioritizes country needs and technical assistance resources with the IMF's budget process. In addition, the IMF's technical assistance strategy is being increasingly viewed from a regional perspective,

[54]The Task Force's report is available at www.imf.org/external/np/pp/eng/2005/071205.htm; the summary of the Board discussion can be found at www.imf.org/external/np/sec/pn/2005/pn05114.htm.

in recognition of the synergies and benefits that a regional approach can bring to technical assistance. Regional strategies also help the IMF prioritize and shift its resources between neighboring countries, in response to developing needs and changing circumstances.

Table 4.2 IMF technical assistance resources and delivery, FY2001–07
(In effective person-years)[1]

	FY2005	FY2006	FY2007
IMF administrative budget	**283.4**	**337.6**	**325.1**
External resources	**97.1**	**87.3**	**113.3**
Total resources	**380.6**	**424.9**	**438.4**
Regional delivery[2]	**301.4**	**288.4**	**308.3**
Africa	86.9	82.4	90.4
Asia and Pacific	68.2	58.5	62.7
Europe	34.5	37.1	34.6
Middle East and Central Asia	45.1	61.0	54.2
Western Hemisphere	32.7	37.5	48.2
Regional and interregional	33.9	11.9	18.2
Management and administration[3]	**79.2**	**136.5**	**130.1**
Total delivery	**380.6**	**424.9**	**438.4**
Total delivery by department	**380.6**	**424.9**	**438.4**
Fiscal Affairs Department	99.5	100.2	116.9
Monetary and Capital Markets Department	127.0	125.7	117.0
Statistics Department	53.1	54.3	56.3
IMF Institute	57.0	76.4	78.4
Legal Department	23.5	20.0	26.0
Other Departments[4]	20.4	48.3	43.8

Source: IMF Office of Technical Assistance Management.
[1]An effective person-year of technical assistance is 260 days.
[2]In FY2004, the former European II Department was dissolved, and its countries were absorbed by the new European Department and the Middle East and Central Asia Department.
[3]Indirect technical assistance, including technical assistance policy, management, evaluation, and other related activities.
[4]Includes the Policy Development and Review Department, the Technology and General Services Department, the Office of Technical Assistance Management, the Finance Department, the Human Resources Department, and all area departments.

As called for by the Executive Board, the IMF will continue to make improvements to its technical assistance program in the year ahead, including further strengthening the monitoring and evaluation of technical assistance to ensure its effectiveness and efficiency (CD-Table 4.3). Other aspects of technical assistance management and governance emphasized by the Board are also being studied, including improving cost information on technical assistance activities, reinforcing relationships with donors to the IMF's technical assistance program (Table 4.3), and enlisting support from new donors.

Table 4.3 Donors to the IMF's technical assistance program

Individual donors[1]

Australia	Italy	Spain
Belgium	Japan	Sweden
Canada	Luxembourg	Switzerland
Denmark	The Netherlands	United Kingdom
France	Norway	

Multidonor pooled arrangements

Africa Technical Assistance Centers (East and West)
Donors: African Development Bank, Canada, China, Denmark, Finland, France, Germany, Italy, Japan, Luxembourg, Norway, Russia, Sweden, Switzerland, the Netherlands, United Kingdom

Caribbean Regional Technical Assistance Center
Donors: Canada, Ireland, United Kingdom, United States, European Union, Inter-American Development Bank, UNDP, World Bank

Central Africa Technical Assistance Center
Donors: African Development Bank, Burundi, Cameroon, Central African Republic, Chad, Democratic Republic of the Congo, Equatorial Guinea, France, Gabon, Germany, Republic of Congo

Financial Sector Reform and Strengthening Initiative
Donors: Canada, Switzerland, the Netherlands, United Kingdom, World Bank

Iraq Technical Assistance
Donors: Australia, Canada, India, Italy, Sweden, United Kingdom

Middle East Technical Assistance Center
Donors: Egypt, European Union, European Investment Bank, France, Japan,[2] Jordan, Kuwait, Lebanon, Libya, Oman, Qatar, Saudi Arabia, Sudan, Syrian Arab Republic, United Arab Emirates, Republic of Yemen

Pacific Financial Technical Assistance Centre
Donors: Asian Development Bank, Australia, Japan, Korea, New Zealand

[1]Some donors contribute individually and through multidonor pooled agreements.

The IMF's Monetary and Capital Markets Department (MCM) provides technical assistance related to the implementation of monetary and foreign exchange policies and other aspects of central banking, financial sector oversight and regulation, the development of capital and other financial markets, and public sector debt and asset management. This assistance generally involves advising central banks and financial supervisory agencies on strengthening institutions and policies and improving consistency with international standards, codes, and good practices, and is typically delivered by staff from IMF headquarters and short-term experts, who in many cases are financed with the assistance of donors. MCM's advice is also delivered by long-term experts located in the IMF's regional technical assistance centers, and may take the form of regional seminars and hands-on workshops. Examples of MCM's technical assistance activities in FY2007 include supporting Nigeria's financial sector reform program and helping the Philippines' central bank strengthen its ability to identify the risks associated with complex domestic conglomerates, based on Financial Sector Assessment Programs in both countries; and advising Costa Rica, the Dominican Republic, El Salvador, Guatemala, Honduras, Nicaragua, and Panama on improving public debt management and carrying out a diagnostic study of Central American markets for private equity, debt, and asset-backed securities.[55]

The Fiscal Affairs Department (FAD) provides a range of technical assistance and training to help countries strengthen their fiscal policies and institutions, enhance implementation capacity, and support IMF surveillance. For example, during FY2007, FAD staff provided advice on modernizing tax and customs administration in China, Mexico, and Turkey; continued advising the Central American countries on improving the coordination of their tax policies and tax administration and preparing the legislative framework for a regional customs union; assisted a number of post-conflict countries, including Afghanistan, Lebanon, Liberia, and Sudan, seeking to rebuild their revenue-administration capacity; conducted, with the support of the East AFRITAC and private sector involvement, a seminar on improving taxpayer services and appeals as a means of increasing taxpayer compliance;

[55] Although capacity building still constitutes a substantial part of MCM's technical assistance, there is a growing emphasis on assistance in more complex and specialized fields, such as inflation targeting, empirically based stress-testing models, and portfolio management for the public sector.

conducted tax policy reviews in several countries, including the IMF's newest member, Montenegro; met a significant increase in demand for advice on resource taxation from a number of resource-rich countries in Africa, Asia, and South America; and supplied advisory services in public financial management, pension reform, fiscal responsibility frameworks, and expenditure rationalization. FAD both organizes and participates in conferences, seminars, and workshops targeting particular countries and in conjunction with specific institutions. For example, a major regional outreach event for European countries on strengthening public investment and managing risks from public-private partnerships was held in Budapest in March 2007.

The Statistics Department's (STA) technical assistance program promotes internationally accepted data standards, with an emphasis on regional projects and collaboration with other donors and providers. During FY2007, STA provided technical assistance and training to a wide range of member countries to support lasting improvements in national statistical systems. The statistical work of the RTACs has been fully integrated into STA's capacity-building program, and as a result STA fielded 431 technical assistance missions during the year, of which 157 benefited African countries. The department also conducted 42 training courses in macroeconomic statistics through the IMF Institute and the IMF Regional Training Centers, in collaboration with various organizations.

The IMF's Legal Department maintained an active technical assistance program during the year directed toward helping member countries strengthen their legal frameworks, particularly in terms of the financial system, taxation and budget management, and anti–money laundering and combating the financing of terrorism (AML/CFT). While demand from member countries for advice in core legal areas (commercial banking, central banking, and taxation) has continued to be high, new areas of focus have also emerged, such as insurance, deposit insurance, nonbank financial institutions, and Islamic banking. The consolidation of AML/CFT activities in the Legal Department has made the department the largest multilateral provider of AML/CFT technical assistance. Support in this area has included policy advice, drafting of legislation, and guidance in establishing or strengthening Financial Intelligence Units (FIUs) and other institutions and supervisory mechanisms. Also, training has been provided to FIU staff, financial supervisors, and ministries of finance and justice officials, as well as to Financial Action Task Force–style regional bodies to improve their capacity to conduct high-level mutual assessments. (See Chapter 2 for more information on AML/CFT.)

TRAINING BY THE IMF INSTITUTE

The IMF Institute, in collaboration with other IMF departments, trains officials from member countries in four core areas: macroeconomic management, financial sector policies, government budgeting, and the balance of payments, including how to strengthen the statistical, legal, and administrative framework in these areas. Over three-fourths of the training benefits low- and lower-middle-income countries. The Institute's programs account for about three-fourths of training for officials delivered by the IMF, including training at the regional technical assistance centers.

In FY2007, the IMF Institute delivered 288 course-weeks, producing more than 9,400 participant-weeks of training (CD-Table 4.4, on the CD-ROM). Relative to FY2006, the number of course-weeks rose by about 1 percent, while the number of participant-weeks fell slightly, reflecting normal year-to-year variation in the average class size.

FY2007 saw the opening of the Joint India-IMF Training Program (ITP), the seventh in the IMF Institute network of regional training centers (CD-Table 4.5, on the CD-ROM). The ITP is dedicated principally to training Indian officials but also admits officials from other countries in South Asia and East Africa.

With substantial cofinancing from local cosponsors and other donors, the development of the regional training centers has facilitated a 50 percent increase in IMF Institute training over the past decade and now account for half of all training under the Institute's program. Training at the RTCs has other advantages: courses can be better attuned to regional needs and foster collaboration within regions.

Training at IMF headquarters continues to play an important role, accounting for about one-third of participant-weeks in FY2007. The headquarters program focuses mainly on longer courses, which are less amenable to regional delivery because of the number of IMF staff involved, but also includes some shorter courses that the IMF Institute is unable to deliver widely through the RTCs. The remainder of the training took place at overseas locations outside the regional network, largely as part of ongoing collaboration between the IMF Institute and regional institutions, and also through distance learning.

The tight IMF budget environment has made it more challenging to meet the training needs of member countries and ensure an up-to-date curriculum. The IMF Institute has responded by increasing workloads and cutting costs, and cofinancing from training partners and other donors has been playing an increasingly critical role.

The IMF Institute training program is reviewed regularly to ensure that it responds to the evolving needs of member countries and supports new IMF initiatives.

5. Governance, organization, and finances

The Fund's Medium-Term Strategy (MTS) calls for a number of reforms in the governance and management of the IMF, including adjusting members' quotas to reflect their role in the world economy more accurately; strengthening communication and transparency; embedding MTS priorities in an output-oriented medium-term budget framework; taking other steps to make the IMF a more cost-effective and efficient institution; and adopting a new income model to place the IMF on a sound financial footing for the long term. Substantial progress was made on all of these fronts during FY2007.

QUOTA AND VOICE REFORM

The funds for most of the IMF's lending come out of its quota resources—the amounts countries deposit when they join the IMF.[56] Each member's quota is based, in principle, on the relative size of its economy and determines the amount it can borrow from the IMF and its voting power. (As set out in the IMF's Articles of Agreement, each member is allotted 250 basic votes plus one vote per SDR 100,000 of its quota.) Although quotas are reviewed periodically and can be increased when deemed necessary by the Board of Governors (Box 5.1), the distribution of quotas and voting power in the IMF has ceased to reflect countries' relative weight in the global economy. Moreover, the share of each member's basic votes in total votes has been diluted by quota increases, from more than 10 percent until the mid-1970s to about 2 percent in recent years.

Box. 5.1 Initiation of the Thirteenth General Review of Quotas

The IMF normally conducts general reviews of members' quotas every five years to assess the adequacy of its resource base and to adjust the quotas of individual members to reflect changes in their relative positions in the world economy. The Executive Board completed the Twelfth General Review of Quotas on January 30, 2003, without proposing an increase or any adjustments. The Thirteenth General Review of Quotas was initiated in January 2007 and will need to be completed by January 2008. The IMF's total quotas now stand at SDR 217.3 billion.

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[56] Not all of the paid-in capital is readily available to finance new lending because of the IMF's previous commitments and its policy of lending only in the currencies of members considered financially strong. See the box on the IMF's financing mechanism on the CD-ROM (CD-Box 5.1).

In its communiqué of April 22, 2006, the International Monetary and Financial Committee (IMFC) recognized the need for fundamental reform of quota and voice in the Fund. It called upon the Managing Director to work with the IMFC and the Executive Board to develop concrete proposals by the time of the IMF–World Bank Annual Meetings in September 2006 for improving the distribution of quotas and voting power to reflect changes in the weight and role of countries in the world economy and ensure that all members—even the smallest—have a voice in the IMF's decision-making process.

An intensive work program followed, involving IMF management and staff, consultations with a broad spectrum of the membership, and discussions in the Executive Board. On August 31, 2006, the Executive Board reached agreement on a comprehensive program of quota and voice reforms and recommended that the Board of Governors adopt a Resolution providing for a two-year plan to implement these reforms. This proposal was transmitted to the Governors by the Managing Director on September 14, 2006, and the Board of Governors adopted the Resolution on September 18, 2006.[57]

In its report to the Board of Governors, the Executive Board emphasized the two main goals of quota and voice reforms: (1) to make significant progress in realigning quota shares with economic weight in the global economy and make quota and voting shares in the Fund more responsive to changes in global economic realities in the future; and (2) to enhance the participation and voice of low-income countries whose weight in the global economy may be small but for which the IMF plays an important advisory and financing role.

The Resolution provided for an initial round of ad hoc quota increases for four countries—China, Korea, Mexico, and Turkey—that were clearly underrepresented, and a set of more fundamental reforms to be delivered by the 2007 Annual Meetings, if possible, or by the 2008 Spring Meetings, at the latest. The reforms are to include (1) agreement on a simple

[57]The Resolution can be found on the CD-ROM, as can Press Releases 06/189, "IMF Executive Board Recommends Quota and Related Governance Reforms," and 06/205, "IMF Board of Governors Approves Quota and Related Governance Reforms." Press releases 06/189 and 06/205 can also be found at www.imf.org/external/np/sec/pr/2006/pr06189.htm and www.imf.org/external/np/sec/pr/2006/pr06205.htm, respectively.

and transparent new quota formula; (2) a second round of ad hoc quota increases based on the new formula; (3) a commitment to ensuring that quota shares continue to evolve in line with countries' changing positions in the world economy; (4) an increase in basic votes of at least 100 percent to protect the voting share of low-income countries as a group, together with adoption of a means to keep the proportion of basic votes in total voting power constant in the future; and (5) measures to increase the administrative resources of the chairs with the largest constituencies.[58]

In its September 17, 2006, communiqué, the IMFC urged the Executive Board to work constructively and expeditiously on all elements of the reform so as to garner the broadest possible support, underlined the importance of timely implementation, and called on the Managing Director to provide a status report at its next meeting.

Following the 2006 Annual Meetings, the Executive Board began to work on the second stage of reform. In January 2007, it had a preliminary discussion on a proposed amendment to the Articles of Agreement regarding basic votes. Directors found the proposed amendment to be responsive to the Board of Governors' request and generally endorsed the framework proposed by IMF staff. They noted that the number by which basic votes will be increased will need to be discussed and agreed at a later stage, when work on the new quota formula is more advanced. A comprehensive work program involving consultations with the membership and two informal discussions by the Executive Board before the 2007 Spring Meetings of the IMFC was initiated on a new quota formula that would guide the second round of quota increases.

In its communiqué of April 14, 2007, the IMFC welcomed the broad consensus reached in the Executive Board on the legal framework for an amendment of the Articles of Agreement regarding basic votes and the initial work on a new quota formula. It

[58]On May 9, 2007, shortly after the end of the financial year, the Executive Board agreed to increase by one Advisor the staffing for the Executive Directors representing 20 or more countries (the two sub-Saharan African constituencies). However, a few Directors expressed concern that the decision was not in the spirit of the Governors' Resolution adopted in Singapore in September 2006 and underscored that further steps were needed to strengthen the capacity of the Executive Directors' Offices representing the largest constituencies.

stressed the importance of agreeing on a new formula that is simple and transparent and that captures members' relative positions in the world economy while enhancing the voice and participation of low-income countries. The IMFC also called on the Executive Board to continue its work on the reform package as a matter of priority.

COMMUNICATION AND TRANSPARENCY

Through its communication strategy and transparency policy, the IMF seeks to increase its accountability to stakeholders and build understanding of sound economic policies. With the guidance and support of the Executive Board, which regularly reviews the IMF's communication strategy and transparency policy, the IMF's efforts in these areas have increased significantly since the mid-1990s.

Communication

While acknowledging that the IMF has made great strides in increasing transparency and communication, the MTS calls for an increase in outreach, emphasizing that bringing about policy change requires active engagement not only with country officials but also with the broader public. During FY2007, IMF staff intensified their efforts in this area and presented a new draft communication strategy for formal Board discussion in early FY2008.

Outreach. The IMF continues to strengthen its outreach to its official stakeholders, while also broadening outreach to other groups, including civil society, legislators, and the private sector. Outreach to these groups has been useful not only in terms of explaining the IMF's positions but also in receiving feedback that can lead to improvements in operations, as has already happened in several areas—for example, the streamlining of conditionality, and the IMF's early support for the Multilateral Debt Relief Initiative and participation in the Extractive Industries Transparency Initiative.

As part of its outreach efforts with civil society and legislators, in recent years the IMF launched a newsletter on its Web site for civil society, and in FY2007 it launched a Web page for legislators that invites the latter to send in their comments and questions.[59] In December 2006, IMF and World Bank officials had a two-day meeting with 55 labor union leaders from around the world on managing globalization and enhancing job opportunities. Outreach events for parliamentarians included a macroeconomic policy seminar for parliamentarians in the Kyrgyz Republic in May 2006, and participation in two conferences in March 2007—a two-day conference in Washington, D.C., for Caribbean parliamentarians and officials of the Inter-American Development Bank (IDB) and the IMF; and the Annual Conference of the Parliamentary Network of the World Bank, which was held in Cape Town, South Africa.[60]

Continuing efforts were made in FY2007 to reach out to the private sector. In February 2007, the Managing Director delivered a speech at the Latin American Business Association Conference, held at Columbia University in New York, and participated in a high-level conference on investment in Central America attended by senior policymakers, major international investors, and business association leaders from Central America and the Dominican Republic.[61] The IMF and the World Bank helped organize the conference, which was held in Costa Rica.

The IMF has been making greater use of seminars and conferences to bring officials and other stakeholders from countries in the same region together to discuss key regional economic policy issues. For example, in December 2006 the IMF and the Arab Monetary Fund jointly sponsored a high-level seminar in Abu Dhabi, United Arab Emirates, on institutions and economic growth in the Arab countries. The IMF also participated in the Fifth Annual Regional Conference on Central America, Panama, and the Dominican Republic, which was hosted by the Central Bank of the Dominican Republic in Punta Cana,

[59]The civil society newsletter is posted at www.imf.org/external/np/exr/cs/eng/index.asp, and the legislators Web page is at www.imf.org/external/np/legislators/index.htm.

[60]For more information on these events, see Press Release 06/108, "IMF Macroeconomic Policy Seminar for Parliamentarians from the Kyrgyz Republic," at www.imf.org/external/np/sec/pr/2006/pr06108.htm; a speech delivered at the conference by the Director of the IMF's African Department, Abdoulaye Bio-Tchané, at www.imf.org/external/np/speeches/2007/031707.htm; and Press Release 07/44, "Caribbean Parliamentarians Meet with the IDB, IMF and World Bank for the first time in Washington, D.C." at www.imf.org/external/np/sec/pr/2007/pr0744.htm.

[61]The communiqué of the conference is available at www.imf.org/external/np/cm/2007/020207.htm.

in June 2006.[62] The IMF and the Monetary Authority of Singapore co-hosted their second seminar on regional financial integration, in May 2006 (the first seminar took place in September 2005), and the IMF and the government of Singapore jointly organized a high-level seminar for policymakers and economists around the world on crisis prevention in emerging market countries in July 2006 as a run-up to the 2006 Annual Meetings.[63] The Japan Bank for International Cooperation and the IMF cosponsored a conference in Tokyo in April 2007 on policy options and challenges for developing Asia; speakers and participants included government officials and academics from low-income countries in Asia. And the IMF and Bruegel, a Brussels-based think tank, organized a joint two-day conference, "Putting Europe's Money to Work: Financial Integration, Financial Development, and Growth in the European Union," in March 2007 for researchers, policymakers, and practitioners from Europe and around the world.

Other examples of outreach activities can be found in Chapters 2 and 4.

Languages other than English. Building on the Report of a Task Force on Publication of Fund Documents and Information in Languages Other than English, which recommended translation of documents for which demand is high into languages heavily used in the IMF's work, a working group of IMF staff was set up to further consider this issue and make concrete proposals. The findings of the Working Group on Publication of Fund Materials in Languages Other than English were presented to the Executive Board in an informal briefing in April 2007, and the IMF has begun translating selected documents—including press releases and WEO summaries—more systematically into relevant languages and posting them on its Web site. The Executive Board also approved the translation of the 2007 Annual Report into a greater number of languages than in the past, using savings on production costs to achieve this goal.

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[62] For more information on the seminars on institutions and growth in Arab countries, and the fifth annual conference on Central America, Panama, and the Dominican Republic, see www.imf.org/external/np/seminars/eng/2006/arabco/index.htm and www.imf.org/external/np/seminars/eng/2006/centram/index.htm, respectively.

[63]See www.imf.org/external/np/seminars/eng/2006/cpem/index.htm.

Publications and the IMF's Web site. An interdepartmental working group reviewed the effectiveness of the IMF's publications program during FY2007.[64] While the review found that the fundamental goals of the program remain valid—sharing IMF research and knowledge in a cost-effective manner—it also found scope for improvement, notably by proposing a more strategic approach to selecting what to publish and how best to deliver it (in print or online or both); increasing marketing efforts (including by entering into partnerships with commercial publishers when appropriate); enhancing the online visibility of the Fund's research publications; establishing an e-commerce site; making greater use of technologies such as print-on-demand; and introducing a differential pricing policy for publications, which will give readers in developing countries greater access to Fund publications.

The IMF's Web site is the public's primary source of information about the IMF. During FY2007, the site was redesigned to make it a more effective communication tool, the *IMF Survey* increasingly became a Web-based product, and there was a shift to greater reliance on the Web for dissemination of information and messages to enable faster, more frequent, and more flexible communication between the IMF and its stakeholders.

Engagement with media. A biweekly media briefing by EXR, instituted in late 1999 and initially intended for media based in Washington, D.C., has since developed into a webcast for journalists around the world. The Online Media Briefing Center, a password-protected multimedia site set up in FY2004, allows journalists to access documents under embargo, participate in press briefings, and receive information and data tailored to their needs. The IMF's operational staff have also increased their contacts with the media.

Transparency policy

The IMF's transparency policy stems from an Executive Board decision in January 2001 establishing the presumption that country documents and policy papers and associated Public Information Notices (PINs) would systematically be published, although publication remains

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[64]See CD-Box 5.2, "Disseminating information: the IMF's publishing operations and Web site," on the CD-ROM.

voluntary. The decision followed steps that had been taken since 1994 to enhance the transparency of the IMF and to increase the availability of information about its members' policies, while including safeguards to maintain the frankness of the IMF's policy discussions with members by striking the right balance between transparency and confidentiality. Members may request deletion of information not yet in the public domain that constitutes either highly market-sensitive material or premature disclosure of policy intentions.

Following their discussion in FY2006 of an IMF staff review of the transparency policy, Executive Directors called on the staff to produce annual updates on the policy's implementation for posting on the IMF's Web site. The second annual report on the implementation of the transparency policy, published in February 2007, presents information on documents considered by the Board between November 1, 2005, and October 31, 2006, and published by December 31, 2006, including publication rates for each type of document, lags between Executive Board discussions of documents and publication, deletion of material from documents, and the publication behavior of member countries.[65]

In FY2007, publication of reports on Article IV consultations and use of Fund resources rose for the third year in a row, increasing from 82 percent of total reports in 2005 to 85 percent in 2006. The number of member countries that published all reports on their Article IV consultations and use of IMF resources increased from 136 in 2005 to 142 in 2006. The share of Financial System Stability Assessments (reports produced under the Financial System Assessment Program) released climbed to 82 percent, and the publication rates both of documents announcing the policy intentions of countries entering into arrangements with the IMF and of PINs increased to 94 percent.[66]

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[65]The report, "Key Trends in the Implementation of the Transparency Policy," can be found at www.imf.org/external/pp/longres.aspx?id=4040.

[66]The increased transparency of the IMF is widely recognized. In its *2006 Global Accountability Report*, One World Trust ranked the IMF third out of 10 intergovernmental organizations and fourth out of 30 intergovernmental and private transnational companies in terms of transparency. The report can be read at www.oneworldtrust.org/?display=index_2006.

MANAGEMENT AND ORGANIZATION

During FY2007, the IMF reassessed its risk-management framework, curbed its administrative expenditures, and streamlined its procedures by consolidating or shortening reports, modifying misreporting procedures, and lengthening the intervals between policy reviews. It also sought to enhance its effectiveness through improved collaboration in a range of areas with other international and regional bodies (Box 5.2) and by taking account of the recommendations made by the Independent Evaluation Office (IEO) on Fund policies (Box 5.3).

Box 5.2 Liaison with intergovernmental, international, and regional organizations

The IMF has a long history of collaboration with numerous international and regional organizations. The IMF's collaboration with the World Bank is especially close. Areas in which the IMF and the World Bank collaborate include the Financial Sector Assessment Program, development of standards and codes, the Poverty Reduction Strategy Paper process, the HIPC and Multilateral Debt Relief Initiatives, and debt sustainability analysis. In March 2006, the IMF's Managing Director and the World Bank's President created the External Review Committee on Bank-Fund Collaboration. The Committee solicited views from member countries on the nature and practice of Bank-Fund collaboration, which has been guided since 1989 by a formal Concordat. The Committee released its report in February 2007.[1]

The IMF also collaborates with the regional multilateral banks—the African Development Bank, the Asian Development Bank, the Inter-American Development, and the European Bank for Reconstruction and Development—including in country mission work and the provision of technical assistance, and attends meetings of the heads of the regional multilateral banks. The Inter-American Development Bank and the African Development Fund participate in the Multilateral Debt Relief Initiative.

The IMF is a member of the Financial Stability Forum, which brings together government officials responsible for financial stability in the major international financial centers, international regulatory and supervisory bodies, and committees of central bank experts. It also works with standard-setting bodies such as the Basel Committee on Banking Supervision and the International Association of Insurance Supervisors. In 2000, Horst Köhler, then IMF Managing Director, established the Capital Markets Consultative Group to provide a forum for informal dialogue between participants in international capital markets and the IMF; the Group is chaired by the IMF's Managing Director.

The IMF, through its Special Representative to the United Nations, communicates and cooperates with the United Nations and a number of UN agencies. Over the past year, particular emphasis has been placed on supporting the work of the United Nations' new Peacebuilding Commission while the IMF continues to be engaged in the Financing for Development process and to participate in the activities of the UN Economic and Social Council (ECOSOC). Collaboration between the IMF and the WTO takes place formally as well as informally, as outlined in their Cooperation Agreement of 1996. The IMF has observer status at WTO meetings, and IMF staff contribute to the WTO Working Group on Trade, Debt, and Finance, and the Committee on Balance of Payments Restrictions. IMF staff participate in the Integrated Framework for Trade-Related Technical Assistance and the Aid for Trade Task Force (see Box 3.2).

IMF staff also liaise with the Organization for Economic Cooperation and Development (OECD), the Bank for International Settlements (BIS), the European Commission, the Asia-Pacific Economic Cooperation (APEC), and several regional groups in Asia, including the Association of South East Asian nations (ASEAN). The ASEAN Secretariat, the IMF, and the Royal Government of Cambodia co-hosted a high-level seminar in June 2006 on how regional integration could accelerate the development of Cambodia, Lao People's Democratic Republic, and Vietnam.[2]

The IMF is also an active participant in the meetings and activities of the major intergovernmental groups, including the Group of Seven (G-7), Group of Eight (G-8), Group of Ten (G-10), Group of Twenty (G-20), and Group of Twenty-Four (G-24). The G-10 countries participate in the IMF's General Arrangements to Borrow, an arrangement established in 1962 that can be invoked if the IMF's resources are estimated to be insufficient to meet members' needs.

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[1] See Press Release 07/32, "IMF Managing Director and World Bank President Paul Wolfowitz Welcome Report on Enhancing IMF–World Bank Cooperation," and the Report itself. Both are on the CD-ROM and also on the IMF's Web site, at www.imf.org/external/np/sec/pr/2007/pr0732.htm.

[2] See Press Release 06/145, at www.imf.org/external/np/sec/pr/2006/pr06145.htm.

Box 5.3 Activities of the IEO in FY2007

The Independent Evaluation Office (IEO) was established in 2001 to conduct independent and objective evaluations of IMF policies and activities with a view to increasing the IMF's transparency and accountability and strengthening its learning culture. Under its Terms of Reference, the IEO is fully independent of IMF management and operates at arm's length from the IMF's Executive Board, to which it reports its findings. In January 2007, the Board agreed on a more systematic approach to, and stronger monitoring of, the implementation of Board-endorsed IEO recommendations.

During FY2007, the IEO focused its efforts on the completion of two evaluations: “The IMF and Aid to Sub-Saharan Africa,” and “The IMF’s Advice on Exchange Rate Policy.” The Executive Board discussed the former in March 2007 (see Chapter 3). Following the Board discussion, the IEO presented the report’s findings at several international outreach events, starting with a seminar at the African Development Bank in late March. The report has been translated into French and Portuguese. The evaluation of the IMF’s advice on exchange rate policy was sent to the Executive Board in March 2007 and was scheduled for discussion in early FY2008. The evaluation explores whether the role of the IMF in exchange rate policy advice is clearly defined and understood, assesses the quality of that advice, and examines the quality of the dialogue with country authorities. While acknowledging that the quality of the IMF’s advice to its member countries has improved, the IEO identifies a need to revalidate the fundamental purpose of IMF exchange rate surveillance, thereby clarifying the expected roles of the IMF and member countries, and offers detailed recommendations for improving the management and conduct of the IMF’s exchange rate policy advice and interactions with member countries (see Chapter 2).

Work on a third evaluation, “Structural Conditionality in IMF-Supported Programs,” continued during FY2007. The report is expected to be finalized and sent to the Executive Board before the Annual Meetings in October 2007.

Four topics were added to the IEO’s work program for evaluation over the next two years: (1) aspects of IMF corporate governance—including the role of the Board; (2) the IMF’s interactions with its member countries; (3) the IMF’s research agenda; and (4) the IMF’s approach to international trade issues.

How the IMF is run

The highest decision-making body of the IMF is the Board of Governors, which is appointed by the IMF’s member countries. As set out in the Fund’s Articles of Agreement, the Executive Board is responsible for conducting the business of the Fund, and for this purpose exercises all the powers delegated to it by the Board of Governors. The Executive Board is composed of 24 Executive Directors and their Alternates appointed or elected by member countries and has responsibility for the day-to-day oversight of the IMF’s work at Fund headquarters, located in Washington, D.C.[67] The Managing Director of the IMF serves as the Chair of the Executive Board.

The Board of Governors consists of one governor and one alternate governor from each of the IMF's 185 member countries. The governor is usually the member country's minister of finance or the head of its central bank. All governors meet once a year at the IMF–World Bank Annual Meetings. There are two committees of governors that represent the whole membership. The International Monetary and Financial Committee (IMFC) is an advisory body of 24 IMF governors (or their alternates) representing the same countries or constituencies (groups of countries) as the 24 Executive Directors.

The IMFC advises, and reports to, the Board of Governors on matters relating to the latter's functions in supervising the management and adaptation of the international monetary and financial system, and in this connection reviewing developments in global liquidity and the transfer of resources to developing countries; considering proposals by the Executive Board to amend the Articles of Agreement; and dealing with disturbances that might threaten the system. It has no decision-making powers. The IMFC normally meets twice a year, in March or April and in September or October, at the time of the Spring and Annual Meetings.

The Development Committee (formally, the joint Ministerial Committee of the Boards of Governors of the World Bank and the IMF on the Transfer of Real Resources to Developing Countries) is a joint World Bank–IMF body composed of 24 World Bank or IMF governors or their alternates; it advises the Boards of Governors of the IMF and World Bank on critical development issues and on the financial resources required to promote economic development in developing countries. Like the IMFC, it also normally meets twice a year.

Under the Articles of Agreement, the IMF's Executive Board is responsible for the selection of the Managing Director of the Fund. Any Executive Director may submit a

[67]The Executive Board's calendar for FY2007 and a description of its main activities can be found on the CD-ROM. General information on the governance of the IMF can also be found on the CD-ROM, in the *IMF Handbook.*

nomination, regardless of nationality, for the position.[68] The Managing Director is appointed for a five-year, renewable term. He/she, in turn, with the concurrence of the Executive Board, appoints a First Deputy Managing Director and two Deputy Managing Directors to provide managerial support, one of whom chairs the Board in the Managing Director's absence. The Managing Director is chief of the operating staff of the IMF and conducts the ordinary business of the IMF under the direction of the Executive Board. He/she is ultimately responsible for all aspects of the internal management and working of the institution and its relations and communications with the outside world. The three Deputy Managing Directors share oversight of the IMF's relationship with individual member countries, chair selected Executive Board meetings, and oversee staff work in specific areas.

The IMF's staff is appointed by the Managing Director, and its sole responsibility is to the IMF. At April 30, 2007, the IMF had 2,005 professional and managerial staff and 673 staff at other levels. Eighty-two members of the professional and mangerial staff were resident representatives stationed in Africa, Asia and the Pacific, Europe, the Middle East, and Latin America and the Caribbean, covering a total of 92 member countries. Resident representatives, through their professional expertise and familiarity with local conditions, contribute to the formulation of IMF policy advice, monitor countries' economic performance, and coordinate technical assistance; those in low-income countries take part in discussions on poverty reduction strategies. Resident representatives also alert the IMF and the host country to potential policy slippages, provide on-site program support, and play an active role in IMF outreach, working with different branches of government, civil society organizations, donors, and other stakeholders.

The framework for human resource management in the Fund reflects evolving best practices that are consistent with the mission of the institution and the objective of maintaining the quality and diversity of its staff. The Articles of Agreement state that the efficiency and technical competence of Fund staff are expected to be of the "highest standards," and that, in appointing the staff, the Managing Director "shall . . . pay due regard

[68]On July, 12, 2007, the Executive Board adopted a decision setting out procedures for the nomination and selection of the Managing Director; see www.imf.org/external/np/sec/pr/2007/pr07159.htm.

to the importance of recruiting personnel on as wide a geographical basis as possible." In addition, all staff members observe the highest standards of ethical conduct, consistent with the values of integrity, impartiality, and discretion, as set out in the IMF Code of Conduct and its Rules and Regulations.

Recognizing that the membership must have at its service individuals who understand, through their professional experience and training, a wide range of policymaking challenges that confront country officials and who can offer policy advice appropriate to the circumstances of each of the 185 member countries, the Executive Board has long emphasized and expressed concern about diversity, and has repeatedly called for improvements in the diversity of the staff. The Fund thus makes every effort to ensure that staff diversity reflects the institution's membership, actively seeking candidates from all over the world. It recently established a Diversity Council to further its diversity agenda, building on the creation in 1995 of the position of Diversity Advisor. Progress is monitored and problems are reported in a transparent manner in various formats—including the *Diversity Annual Report*—on the IMF Web site. Of the IMF's 185 member countries, 142 were represented on the staff at the end of 2006. Tables showing the distribution of the IMF's staff by nationality, gender, and developing and industrial countries are on the CD-ROM (CD-Tables 5.1, 5.2, and 5.3), as is a table showing the staff salary structure (CD-Table 5.4).

The IMF organization chart and the list of the IMF's senior officers are on pages [00] and [00], respectively, of this Report. The organization of the IMF and the functions of its different departments are described in the *IMF Handbook,* which can be found on the CD-ROM.

Administrative and capital budgets

The administrative budget provides for the personnel and travel costs and other recurrent administrative expenditures incurred by the IMF in providing services to member countries and the international community. The annual budget covers the period May 1 through April 30, the IMF's financial year, and is approved by the Executive Board on a net basis (defined as gross expenditures less receipts).[69] The Executive Board also approves a limit on gross expenditures, based on an upper range of the estimate for receipts. The IMF's net administrative expenditures are funded from operational income, which includes charges on the use of IMF resources, and from reserves.

The IMF's capital budget provides funds for capital projects starting in the forthcoming financial year; the projects approved form part of the three-year capital plan that covers all new capital projects. Capital appropriations can be accessed for three years; funds unused at the end of the three-year period lapse.

Budgets and actual expenditures in FY2007

The IMF's administrative budget for the financial year that ended April 30, 2007, authorized total net expenditures of $911.9 million, a limit on gross expenditures of $987.1 million, and appropriations of $48.1 million for capital projects beginning in FY2007. The Executive Board also took note of indicative net administrative budgets of $929.6 million and $952.8 million for FY2008 and FY2009, respectively, and the three-year capital plan of $141 million.

The development of the MTS, the review of the IMF's employment, compensation, and benefits framework, and the IMF's deteriorating income position have changed the institutional and financial environment in which the IMF operates. Accordingly, the FY2007–09 budgets approved by the Executive Board reflected a planned reduction in the overall size of the IMF's real administrative resource envelope and marked the beginning of a downward trend in planned capital expenditures. FY2007 net expenditures were to be held constant in real terms, while the planned FY2008 and FY2009 administrative budgets required real reductions. Notwithstanding the proposed declining real resource envelope, the FY2007–09 medium-term budget (MTB) provided the resources necessary for the IMF to deliver its key outputs—including new MTS initiatives—accommodated by increases in the IMF's internal administrative efficiency and reductions in support-related costs.

[69]Just over half of the receipts consist of external donor contributions for technical assistance to, and training of officials from, member countries; the remainder includes proceeds from publications.

The outturn on the net administrative budget for FY2007 was $897.2 million, $14.7 million (1.6 percent) less than budgeted. Receipts were $0.2 million above the central estimate on which the net administrative budget was based. Gross administrative expenditures were $14.4 million (1.5 percent) below the $980.2 million central estimate.

Actual administrative expenditures were a little below budget because of slightly lower-than-planned use of resources in the delivery of IMF outputs and a shortfall on certain planned outputs: a small number of projects were delayed, so that the associated expenditures will now be incurred in the current financial year. The resources allocated to the delivery of the IMF's outputs in FY2007 reflected the new priorities identified under the medium-term strategy (Figure 5.1). The new multilateral consultation and the extension of the work of the Consultative Group on Exchange Rate Issues to a larger number of countries led to an increased share of gross administrative resources being devoted to multilateral surveillance in FY2007 relative to past years.[70] Relative to FY2006, additional resources were devoted to regional and financial sector surveillance (both MTS priorities), while a smaller share of resources was devoted to work on country programs and financial assistance. The share of resources devoted to capacity building (technical assistance and training) was about the same as in previous years.

In terms of inputs, the gap between budget and outturn reflected a number of factors (Table 5.1). Underlying travel expenditures were about 4 percent ($3.8 million) under budget, and buildings and other expenditures were almost 9 percent ($15.2 million) under budget, the latter reflecting lower building-occupancy costs and less use of contractual services than expected. Personnel-related expenses were about 1 percent ($7.3 million) over budget.[71]

[70]Both the multilateral consultation and the CGER's work are discussed in Chapter 2.

[71] This was more than accounted for by a special one-off transaction of $19 million, approved by the Executive Board, to accelerate payments into the Staff Retirement Plan (SRP) under a program to provide retirement benefits to staff who were formerly employed on a contractual basis.

Figure 5.1 Estimated gross administrative expenditures by key output areas, FY2007

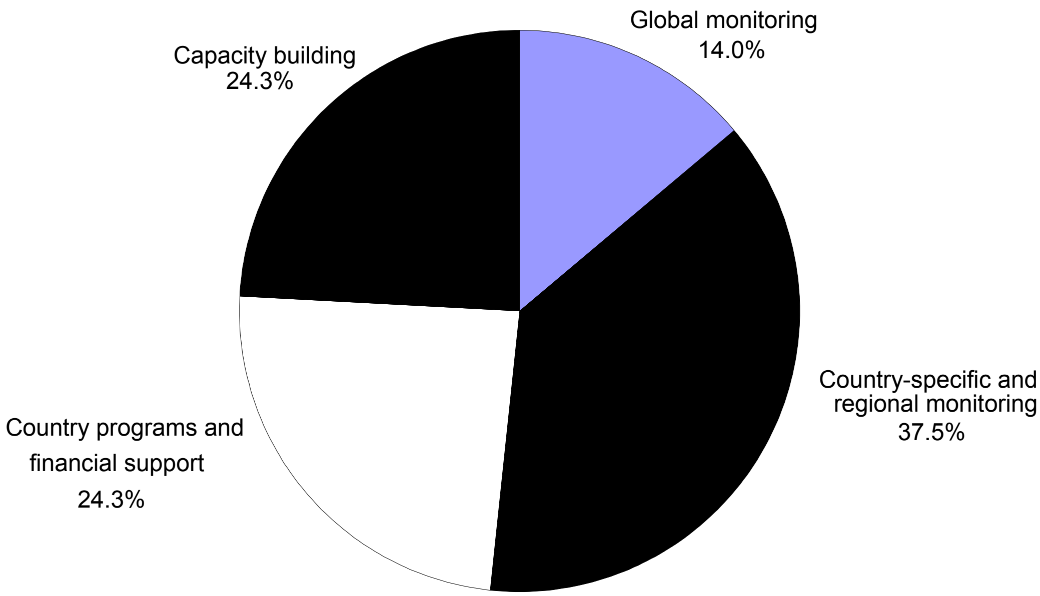

Table 5.1 Administrative budgets, FY2005–08[1]
(In millions of U.S. dollars)

	FY2005 Actual expenditures	FY2006 Actual expenditures	FY2007 Budget	FY2007 Actual expenditures	FY2008 Budget
Administrative expenditures					
Personnel					
Salaries	375.2	392.6	407.5	404.1	424.6
Benefits and other personnel	259.5	273.9	292.7	303.4	298.5
Subtotal	**634.7**	**666.5**	**700.2**	**707.5**	**723.1**
Other					
Travel	90.2	94.2	102.0[2]	93.2	100.5
Buildings and other	167.3	169.6	177.9	159.7	170.2
Subtotal	**257.5**	**263.8**	**279.9**	**258.3**	**270.7**
Gross expenditures	**892.2**	**930.3**	**980.2**	**965.8**	**993.8**
Receipts	(66.1)	(56.0)	(68.3)	(68.5)	(71.4)
Net administrative expenditures	**826.1**	**874.4**	**911.9**	**897.2**	**922.3**

Note: Figures may not add because of rounding.
[1]Administrative budgets as approved by the Board for the financial years ending April 30, 2007, and April 30, 2008, compared with actual expenditures for the financial years ended April 30, 2005, April 30, 2006, and April 30, 2007.
[2]Includes $5.0 million as a contribution to the costs of holding the Annual Meetings in Singapore.

Total capital spending in FY2007 was within the budget for projects approved during FY2005–06. Of the $45.6 million in total capital expenditures, $16.1 million was for building facilities, $5.3 million for the IMF's Headquarters 2, and $24.1 million for information technology projects.

Medium-term budget, FY2008–10

The FY2008–10 medium-term budget approved by the Executive Board on April 25, 2007, allows for an underlying 1.7 percent increase each year, thus implying a real reduction in the Fund's administrative resources for the next three years. Executive Directors agreed that, although a new income model—building on the recommendations of the Committee of Eminent Persons (see "Financial operations and policies" below)—must play the major role in putting the IMF's finances on a sustainable footing, expenditure restraint is also necessary. To ensure continued delivery of the IMF's outputs in line with the MTS, the additional resources allocated to meet new needs and priorities of member countries are to be more than offset by savings generated through the increased efficiency of existing operations and by scaling back or eliminating lower-priority activities.

For FY2008, the Executive Board approved a net administrative budget of $922.3 million, with an upper limit on gross expenditures of $998.2 million, and took note of the indicative net administrative budgets of $938.0 million and $959.4 million for FY2009 and FY2010, respectively.[72] The Board also approved appropriations of $46.6 million for capital projects and took note of the medium-term capital plan, totaling $138.0 million.

Continuing the budget reforms that began six years ago, in FY2008 the IMF will begin implementing a full medium-term administrative budget supported by three-year business plans for its departments and offices. In addition, as discussed in Box 5.4, the IMF is introducing performance indicators to assist in monitoring the delivery of departments' business plans. It is also taking measures to improve the accuracy of the systems for allocating costs to specific outputs.

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[72] The nominal figures for both FY2008 and FY2009 are below the indicative figures provided last year, principally because of a reduction in inflation.

Box 5.4 Performance indicators

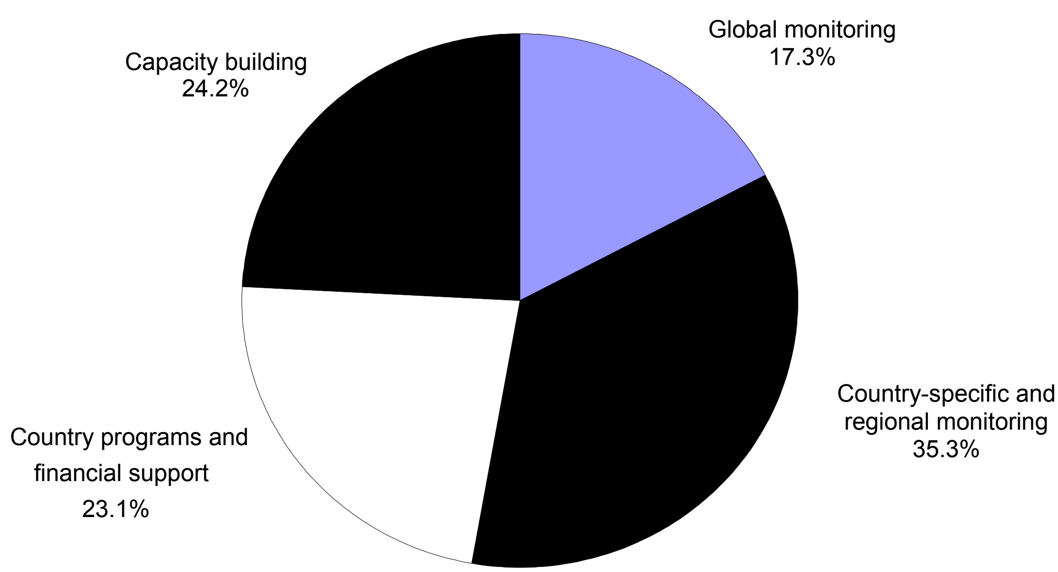
The IMF plans to introduce several types of performance indicators (PIs) progressively, including the following:

- Quantity indicators for all final outputs, and quantity and quality indicators for support and governance activities, along with quality indicators for selected final and intermediate outputs, will be introduced beginning in FY2008.
- Timeliness indicators and other PIs designed to capture the IMF's responsiveness will be phased in over a longer period.
- Further analytical work will be undertaken to examine the feasibility of introducing selected outcome indicators—in particular, intermediate-outcome indicators (regarded as operationally more relevant than final-outcome indicators)—and the need for improved cost-monitoring techniques, to facilitate the use of cost indicators in the budget and business-planning processes.

Work is also under way to introduce supportive information technology applications and to establish a continuous review process for the PIs to help ensure their continued relevance to the IMF's strategy and business model.

Departmental plans indicate that the reallocation of resources in line with MTS objectives is set to continue under the FY2008–10 medium-term budget. Figure 5.2 shows each output's share of total resources for FY2008.

Figure 5.2 Estimated gross administrative expenditures by key output areas, FY2008



In terms of inputs, the FY2008 administrative budget allows for a 3.3 percent structural salary adjustment (the salary structure as of May 1, 2007, can be found on the CD-ROM). Changes to travel policies and practices are expected to hold down travel costs. Expenditures on buildings and other items are budgeted to decline, reflecting targeted reductions in support costs.

Modernizing the risk-management framework

During FY2007, the Advisory Committee on Risk Management (ACRM), established in October 2006 and chaired by Fund management, prepared the IMF's first annual report on risk management based on a Fund-wide survey on operational risks. The report, accompanied by reports on the strategic, core-mission, and financial risks faced by the IMF, was reviewed by the Executive Board and discussed in March and April 2007. Executive Directors considered the report and the underlying work to be an important step in the IMF's efforts to integrate and strengthen various aspects of risk management. They stressed the oversight and critical fiduciary responsibility of the Executive Board for risk management, noting that the day-to-day operational aspects of the IMF's risk-management processes are the purview of Fund management.

The reports presented to the Board constituted a comprehensive assessment of the main risks facing the IMF and the measures in place to mitigate them. The findings were that (1) strategic risks were generally well covered with the Medium-Term Strategy in place; (2) core-mission risks were well covered by the Fund's financial policies and strong oversight and review functions (Box 5.5); (3) financial risks—in particular income risk—are being addressed by shareholders; and (4) measures in place to address the key remaining operational risks (defined as those with a high probability of occurrence or a potentially significant impact) are generally adequate.

Notwithstanding the progress achieved thus far, developing a risk-management framework for the IMF remains a work in progress, to allow the Fund to learn from experience and adapt in a timely way to changing circumstances and any new risks future changes may engender. Such a dynamic approach should help the framework evolve in line with emerging international best practices while continuing to give due consideration to the special character of the IMF as a cooperative global institution and provider of public goods.

Box 5.5 Safeguard assessments

The IMF's safeguards assessments policy mitigates the risk that loans made to member countries will be misused. Safeguard assessments aim to provide reasonable assurance to the IMF that a central bank's framework of financial reporting, audit, and controls is adequate to manage its resources, including IMF loans (see CD-Box 5.3 on the CD-ROM). In FY2007, the Fund conducted assessments of 12 central banks in member countries, bringing the total number of completed assessments as of April 30, 2007, to 136. Ongoing monitoring of the safeguards frameworks at central banks continues for as long as members have an arrangement with the IMF ([57] central banks at end-April 2007). Central banks have generally embraced the findings of safeguards assessments, and the safeguards assessments policy has enhanced the IMF's reputation and credibility as a prudent lender while helping to improve the operations and control systems of central banks.

Streamlining

In a cost-conscious environment, the MTS proposes streamlining IMF operations and reviewing the allocation of resources to refocus them on more strategic issues while strengthening the quality and effectiveness of surveillance. In FY2007, the Executive Board lengthened the cycle for most IMF policy reviews, consolidated some reports, and eliminated others. To enhance the timeliness of surveillance, the Board shortened the interval between the conclusion of Article IV missions and Board discussions. The IMF experimented with streamlined Article IV consultations (see Chapter 2), and procedures in cases of minor misreporting of data by member countries were modified to make them less onerous for both the IMF and the member.[73] The IMF also reviewed certain support services to identify opportunities for delivering outputs more efficiently and at a lower cost.

[73]See PIN 06/95, "IMF Executive Board Modifies Procedures in De Minimis Cases of Misreporting," on the CD-ROM or at www.imf.org/external/np/sec/pn/2006/pn0695.htm.

FINANCIAL OPERATIONS AND POLICIES

Income, charges, remuneration, and burden sharing

The IMF, like other financial institutions, earns income from interest charges and fees levied on its loans and uses the income to meet funding costs, pay for administrative expenses, and build up precautionary balances. The current framework relies heavily on income from lending. A priority for the IMF in the period ahead is to establish a new model that generates steady, diversified, and reliable long-term sources of income better adapted than the current model to the broad range of the IMF's activities.

Under the current income model, the basic rate of charge (the interest rate) on regular lending is determined at the beginning of the financial year as a margin in basis points above the SDR interest rate (see Box 3.1). These charges are intended to cover the cost of funds and administrative expenses and to achieve an agreed net income target for the year. For FY2007, however, the Board agreed to (1) keep the margin for the rate of charge unchanged from FY2006, at 108 basis points above the SDR interest rate, and (2) temporarily suspend reserve accumulation.

Since November 2000, the IMF has imposed surcharges on credit extended to discourage unduly large use of credit in the credit tranches and under Extended Arrangements and to preserve the revolving nature of IMF financial resources. The IMF also imposes surcharges on shorter-term loans under the Supplemental Reserve Facility that vary according to the length of time credit is outstanding. Income derived from surcharges can be placed in the IMF's reserves or used for other purposes as decided by the Executive Board.

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

IMF also levies special charges on overdue principal payments and on charges that are overdue by less than six months.

The IMF pays interest (remuneration) to member country creditors on their reserves held by the IMF (known as reserve tranche positions) based on the SDR interest rate. The basic rate of remuneration is currently set at 100 percent of the SDR interest rate (the upper limit permitted under the Articles of Agreement), but it may be set as low as 80 percent of that rate (the lower limit).

Since 1986, the rates of charge and remuneration have been adjusted under a burden-sharing mechanism that distributes the cost of overdue financial obligations between creditor and debtor members. Loss of income from unpaid interest charges overdue for six months or more is recovered by increasing the rate of charge and reducing the rate of remuneration. The amounts thus collected are refunded when the overdue charges are settled. Additional adjustments to the basic rates of charge and remuneration are made to generate resources for a Special Contingent Account (SCA-1), which was established specifically to protect the IMF against the risk of loss resulting from arrears. Effective November 1, 2006, the Board decided to suspend contributions to the SCA-1. In FY2007, the adjustments for unpaid interest charges and the allocation to the SCA-1 resulted in an increase to the basic rate of charge and a reduction in the rate of remuneration of [23] basis points, respectively. The adjusted rates of charge and remuneration averaged [5.28] percent and [3.74] percent, respectively, for the financial year.

Income in FY2007 fell SDR [108 million] short of expenditures. The net income shortfall largely reflects a substantial decline in IMF credit outstanding, from a peak of SDR 70 billion in September 2003 to SDR [7.3] billion at the end of FY2007, owing to low demand for new IMF credit and advance repayments by some members in recent years. The income shortfall will be offset against the Fund’s reserves (retained earnings), which amounted to some SDR 6 billion at end-FY2007. The IMF has taken a number of steps to strengthen its income position. The Board’s establishment of the Investment Account in April 2006 and its funding with SDR 5.9 billion in June 2006 was the first step in diversifying the IMF’s sources of income (Box 5.6).

Box 5.6 Investment Account

The IMF's Articles of Agreement provide for the establishment of an Investment Account (IA) to generate income to help the IMF meet its operating costs. As part of the review of the IMF's finances and financial structure that began in 2004, the IMF's Executive Board supported the need to broaden the IMF's income base given the decline in demand for IMF lending, until then the main source of income.

The IA was established by an Executive Board decision in April 2006 and funded in June 2006 through a transfer of currencies equal to SDR 5.96 billion from the General Resources Account (GRA). The Articles limit the amount that may be transferred to the IA to the equivalent of the Fund's general and special reserves at the time of the decision to make the transfer. The June 2006 transfer was equivalent to the Fund's total reserves at that time.

Before the funding of the IA, reserves formed part of the currency balances kept with creditor members. The transfer of currencies to the IA therefore increased the reserve tranche positions of creditor members. Reserve tranche positions are remunerated at the 3-month SDR interest rate, the implicit return on the Fund's reserves prior to the IA.

The IMF's objective is for the return on the IA to exceed the return on the SDR interest rate over time while minimizing the frequency and extent of negative returns and underperformance over a 12-month horizon. To achieve this objective, the duration of the IA portfolio is maintained beyond 3-month instruments through investments in eligible longer-term government bonds and other fixed-income securities. External asset managers—including the World Bank, the Bank for International Settlements, and private managers—are entrusted with buying and selling individual securities in accordance with the IA's investment authority, guidelines, and benchmark.

A one- to three-year benchmark index was adopted for the IA. Historical performance suggests that the resulting extension of investment maturities beyond the three-month SDR rate will generate additional income over time.

The IMFC recognized the need for more predictable and stable sources of IMF income and called on the Managing Director to develop proposals expeditiously. In May 2006, the Managing Director established the Committee of Eminent Persons to Study

Sustainable Long-Term Financing of the IMF.[74] The Committee presented its recommendations to management and the Executive Board in early 2007. At its April 2007 meeting, the IMFC endorsed the report as a sound basis for further work on the development of a new income model for the IMF and looked forward to proposals from the Managing Director for consideration by the Executive Board. Work on the development of the new model is a priority for FY08.

Arrears to the IMF

Overdue financial obligations to the IMF totaled SDR 1.88 billion at end-April 2007 (Table 5.2), 83 percent of which was accounted for by Sudan and Liberia; Somalia and Zimbabwe accounted for the balance. At end-April 2007, all arrears to the IMF were protracted (outstanding for more than six months); 39 percent represented overdue principal, and the rest, overdue charges and interest. More than four-fifths represented arrears to the GRA, while the remainder represented arrears to the SDR Department Trust Fund and the PRGF-ESF Trust. Zimbabwe is the only country with protracted arrears to the PRGF-ESF Trust.

Table 5.2 Arrears to the IMF of countries with obligations overdue by six months or more and by type
(In millions of SDRs; as of April 30, 2007

		By type			
	Total	General Department (incl. SAF[1])	SDR Department	Trust Fund	PRGF-ESF
Liberia	530.8	472.1	28.1	30.6	0.0
Somalia	233.5	213.0	12.4	8.0	0.0
Sudan	1,033.1	953.4	0.0	79.8	0.0
Zimbabwe	84.7	0.0	0.0	0.0	84.7
Total	1,882.1	1,638.5	40.5	118.4	84.7

Source: IMF Finance Department.
[1]Structural Adjustment Facility.

[74]The Committee's final report was released in January 2007 and is available on the CD-ROM and on the IMF's Web site, at www.imf.org/external/np/oth/2007/013107.pdf. The IMF's press release announcing the release of the report can also be found on the CD-ROM, as well as at www.imf.org/external/np/sec/pr/2007/pr0718.htm.

Under the IMF's strengthened cooperative strategy on arrears, remedial measures have been applied against countries with protracted arrears. As of the end of the financial year, Liberia, Somalia, Sudan, and Zimbabwe remained ineligible to use GRA resources. Zimbabwe continued to be excluded from the list of PRGF-eligible countries and is subject to a declaration of noncooperation. In view of Liberia's strengthened cooperation with the Fund, on October 2, 2006, the Executive Board decided to initiate the de-escalation of the remedial measures that had been applied against Liberia and lifted the declaration of noncooperation.

IMF audit mechanisms

The IMF's audit mechanisms consist of an external audit firm, an internal audit function, and an independent External Audit Committee (EAC) that oversees the work of both. The EAC, which also oversees the IMF's accounting, financial reporting, internal control, and risk-management functions, is composed of three members selected by the Executive Board and appointed by the Managing Director. The members serve for three-year terms on a staggered basis and are independent of the IMF. EAC members are nationals of different IMF member countries at the time of their appointment and must possess the expertise and qualifications required to carry out the oversight of the annual audit. Typically, candidates for the EAC come from international public accounting firms, the public sector, or academia.

The EAC selects one of its members as chairman, determines its own procedures, and is independent of the IMF's management in overseeing the annual audit. However, any changes to the EAC's terms of reference are subject to Board approval. The EAC typically meets in person in early January, in late June after the completion of the audit, and in July to report to the Board. IMF staff and the external auditors consult with EAC members throughout the year.

The 2007 EAC members are Dr. Len Konar (Chair), Board Member, South African Reserve Bank; Mr. Satoshi Itoh, former Professor, Chuo University, Japan; and Mr. Steve Anderson, Head of Risk Assessment and Assurance, Reserve Bank of New Zealand.

The external audit firm, which is elected by the Executive Board in consultation with the EAC and appointed by the Managing Director, is responsible for performing the external audit and expressing an opinion on the IMF's financial statements based on the audit. At the conclusion of the annual audit, the EAC transmits the report issued by the external audit firm, through the Managing Director and the Executive Board, to the Board of Governors and briefs the Executive Board on the results of the audit. The external audit firm is normally appointed for five years. Deloitte and Touche LLP is the IMF's external auditor.

The internal audit function is performed by the Office of Internal Audit and Inspection (OIA), which provides independent examinations of the effectiveness of controls, governance processes, and risk management. To meet this objective, OIA conducts about 25 audits and reviews a year. OIA reports to IMF management and to the EAC, thus assuring its independence. In addition, the Executive Board is briefed regularly on OIA's work program and the major findings of its audits and reviews.

The IMF's financial statements for FY2007 form Appendix VI of this Annual Report and can be found on the CD-ROM as well as on the Fund's Web site, at www.imf.org/external/pubs/ft/quart/index.htm. Readers who wish to receive a print copy of the financial statements for FY2007 may request one from IMF Publication Services, 700 19th Street, N.W., Washington, DC 20431.

Executive Directors and Alternates on April 30, 2007[1]

Appointed

Meg Lundsager *Vacant*	United States
Shigeo Kashiwagi *Michio Kitahara*	Japan
Klaus D. Stein *Stephan von Stenglin*	Germany
Pierre Duquesne *Bertrand Dumont*	France
Tom Scholar *Jens Larsen*	United Kingdom

Elected

Willy Kiekens (Belgium) *Johann Prader* *(Austria)*	Austria Belarus Belgium Czech Republic Hungary Kazakhstan Luxembourg Slovak Republic Slovenia Turkey
Jeroen Kremers (Netherlands) *Yuriy G. Yakusha* *(Ukraine)*	Armenia Bosnia and Herzegovina Bulgaria Croatia Cyprus Georgia Israel Macedonia, former Yugoslav Republic of Moldova Netherlands Romania Ukraine

[1]The voting power of each chair can be found in Appendix IV on the CD-ROM; changes in the Executive Board during FY2007 are listed in Appendix V on the CD-ROM.

***Elected** (continued)*

Roberto Guarnieri (Venezuela) *Ramón Guzmán (Spain)*	Costa Rica El Salvador Guatemala Honduras Mexico Nicaragua Spain Venezuela, República Bolivariana de
Arrigo Sadun (Italy) *Miranda Xafa (Greece)*	Albania Greece Italy Malta Portugal San Marino Timor-Leste
Richard Murray (Australia) *Wilhemina C. Mañalac (Philippines)*	Australia Kiribati Korea Marshall Islands Micronesia, Federated States of Mongolia New Zealand Palau Papua New Guinea Philippines Samoa Seychelles Solomon Islands Vanuatu
GE Huayong (China) *HE Jianxiong (China)*	China
Jonathan Fried (Canada) *Peter Charleton (Ireland)*	Antigua and Barbuda Bahamas, The Barbados Belize Canada Dominica Grenada Ireland Jamaica St. Kitts and Nevis St. Lucia St. Vincent and the Grenadines

Elected *(continued)*

Tuomas Saarenheimo (Finland) *Jon Thorvardur Sigurgeirsson (Iceland)*	Denmark Estonia Finland Iceland Latvia Lithuania Norway Sweden
A. Shakour Shaalan (Egypt) *Samir El-Khouri (Lebanon)*	Bahrain Egypt Iraq Jordan Kuwait Lebanon Libyan Arab Jamahiriya Maldives Oman Qatar Syrian Arab Republic United Arab Emirates Yemen, Republic of
Abdallah S. Alazzaz (Saudi Arabia) *Ahmed Al Nassar (Saudi Arabia)*	Saudi Arabia
Hooi Eng Phang (Malaysia) *Chantavam Sucharitakul (Thailand)*	Brunei Darussalam Cambodia Fiji Indonesia Lao People's Democratic Republic Malaysia Myanmar Nepal Singapore Thailand Tonga Vietnam
Peter Gakunu (Kenya) *Samura Kamara (Sierra Leone)*	Angola Botswana Burundi Eritrea Ethiopia Gambia, The Kenya Lesotho Malawi Mozambique

Elected *(continued)*

	Namibia Nigeria Sierra Leone South Africa Sudan Swaziland Tanzania Uganda Zambia
Thomas Moser (Switzerland) *Andrzej Raczko* *(Poland)*	Azerbaijan Kyrgyz Republic Poland Serbia Switzerland Tajikistan Turkmenistan Uzbekistan
Aleksei V. Mozhin (Russian Federation) *Andrei Lushin* *(Russian Federation)*	Russian Federation
Abbas Mirakhor (Islamic Republic of Iran) *Mohammed Daïri* *(Morocco)*	Afghanistan, Islamic Republic of Algeria Ghana Iran, Islamic Republic of Morocco Pakistan Tunisia
Paulo Nogueira Batista, Jr. (Brazil) *María Ines Agudelo* *(Colombia)*	Brazil Colombia Dominican Republic Ecuador Guyana Haiti Panama Suriname Trinidad and Tobago
Adarsh Kishore (India) *Amal Uthum Herat* *(Sri Lanka)*	Bangladesh Bhutan India Sri Lanka

Elected *(continued)*

Javier Silva-Ruete (Peru) *Héctor R. Torres* *(Argentina)*	Argentina Bolivia Chile Paraguay Peru Uruguay
Laurean W. Rutayisire (Rwanda) *Kossi Assimaidou* *(Togo)*	Benin Burkina Faso Cameroon Cape Verde Central African Republic Chad Comoros Congo, Democratic Republic of the Congo, Republic of Côte d'Ivoire Djibouti Equatorial Guinea Gabon Guinea Guinea-Bissau Madagascar Mali Mauritania Mauritius Niger Rwanda São Tomé and Príncipe Senegal Togo

Senior officers on April 30, 2007

Jaime Caruana, Counsellor

Simon Johnson, Economic Counsellor

Area departments

Abdoulaye Bio-Tchané
Director, African Department

David Burton
Director, Asia and Pacific Department

Michael C. Deppler
Director, European Department

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

Anoop Singh
Director, Western Hemisphere Department

Functional and special services departments

Michael G. Kuhn
Director, Finance Department

Teresa M. Ter-Minassian
Director, Fiscal Affairs Department

Leslie J. Lipschitz
Director, IMF Institute

Sean Hagan
General Counsel and Director, Legal Department

Jaime Caruana
Director, Monetary and Capital Markets Department

Mark Allen
Director, Policy Development and Review Department

Simon Johnson
Director, Research Department

Robert Edwards
Director, Statistics Department

Information and liaison

Masood Ahmed
Director, External Relations Department

Akira Ariyoshi
Director, Regional Office for Asia and the Pacific

Saleh M. Nsouli
Director, Offices in Europe

Vacant
Director and Special Representative to the UN Office at the United Nations

Support services

Liam P. Ebrill
Director, Human Resources Department

Shailendra J. Anjaria
Secretary, Secretary's Department

Frank Harnischfeger
Director, Technology and General Services Department

Jonathan Palmer
Chief Information Officer, Technology and General Services Department

Offices

Barry H. Potter[1]
Director, Office of Budget and Planning

Bert Keuppens
Director, Office of Internal Audit and Inspection

Vacant
Director, Office of Technical Assistance Management

Thomas Bernes
Director, Independent Evaluation Office

[1] Barry Potter will assume the position of Director and Special Representative to the UN Office at the United Nations, following completion of the selection process for a new Director, Office of Budget and Planning.

Organization chart

[forthcoming]

Acronyms and abbreviations

AFRITAC	Africa Regional Technical Assistance Center
AML/CFT	Anti–money laundering/combating the financing of terrorism
APEC	Asia-Pacific Economic Cooperation
ASEAN	Association of South East Asian Nations
BIS	Bank for International Settlements
CCE	Coordinated Compilation Exercise
CCL	Contingent Credit Lines
CEMAC	Central African Monetary and Economic Community
CFF	Compensatory Financing Facility
CGER	Consultative Group on Exchange Rate Issues
DfID	U.K. Department for International Development
DQAF	Data Quality Assessment Framework
DSBB	Dissemination Standards Bulletin Board
DSF	Debt sustainability framework
ECCU	Eastern Caribbean Currency Union
ECU	European Currency Unit
EFF	Extended Fund Facility
EMBI	JPMorgan Emerging Markets Bond Index
ENDA	Emergency Natural Disaster Assistance
EPA	Ex post assessment
EPCA	Emergency Post-Conflict Assistance
ESAF	Enhanced Structural Adjustment Facility
ESF	Exogenous Shocks Facility
EU	European Union
EXR	External Relations Department
FAD	Fiscal Affairs Department
FATF	Financial Action Task Force
FCC	Forward commitment capacity
FRSB	FATF-style regional bodies
FSAP	Financial Sector Assessment Program
FSF	Financial Stability Forum
FSI	Financial soundness indicator
FSSA	Financial System Stability Assessment
FY	Financial year
GDDS	General Data Dissemination System
GDP	Gross domestic product
GFSR	Global Financial Stability Report
GMR	Global Monitoring Report
GRA	General Resources Account
HIPC	Heavily Indebted Poor Countries
IA	Investment Account

IDA	International Development Association (World Bank Group)
IEO	Independent Evaluation Office
IF	Integrated Framework for Trade-Related Technical Assistance
IFRS	International Financial Reporting Standards
IFS	International Financial Statistics
IMFC	International Monetary and Financial Committee
MCM	Monetary and Capital Markets Department
MDG	Millennium Development Goal
MDRI	Multilateral Debt Relief Initiative
METAC	Middle East Technical Assistance Center
MTS	Medium-Term Strategy
OAP	IMF’s Regional Office for Asia and the Pacific
OECD	Organization for Economic Cooperation and Development
OFC	Offshore financial center
OIA	Office of Internal Audit and Inspection
OTM	Office of Technical Assistance Management
PDR	Policy Development and Review Department
PIN	Public Information Notice
PRGF	Poverty Reduction and Growth Facility
PRSP	Poverty Reduction Strategy Paper
PSI	Policy Support Instrument
PSIA	Poverty and Social Impact Analysis
QEDS	Quarterly External Debt Statistics
REO	Regional Economic Outlook
ROSC	Report on the Observance of Standards and Codes
RTAC	Regional technical assistance center
SAF	Structural Adjustment Facility
SBA	Stand-By Arrangement
SCA-1	First Special Contingent Account
SDA	Special Disbursement Account
SDDS	Special Data Dissemination Standard
SDMX	Statistical Data and Metadata Exchange
SDR	Special drawing right
SRF	Supplemental Reserve Facility
STA	Statistics Department
S&P	Standard and Poor’s
TIM	Trade Integration Mechanism
UN	United Nations
WAEMU	West African Economic and Monetary Union
WEO	World Economic Outlook
WTO	World Trade Organization

1. Overview

During the financial year beginning on May 1, 2006, and ending on April 30, 2007, the Executive Board focused on adapting Fund policies and operations to better meet the evolving needs of the IMF's member countries, whose number increased to 185 in January 2007, when Montenegro joined. Although many of the IMF's members experienced another year of strong economic growth and favorable market conditions, the economic and financial environment was not without risk. Large global imbalances persisted, the U.S. economy slowed, prices for oil and nonfuel commodities remained high, and investors continued to show a large appetite for risky assets.

The IMF made considerable progress in implementing the objectives set out in the Medium-Term Strategy (MTS) launched by the Managing Director in FY2006 (Box 1.1). With capital flows to emerging market economies reaching unprecedented levels in recent years, and demand for Fund lending declining as a result, the IMF has been increasingly concentrating on surveillance,[1] policy advice, and technical assistance. During FY2007, it developed a new surveillance vehicle—the multilateral consultation—with which it sought to help its members address the problem of global imbalances. It also began a review of its framework for surveillance and moved to better integrate financial sector work into its surveillance activities to help members manage the risks associated with, and reap the benefits from, globalized financial markets.

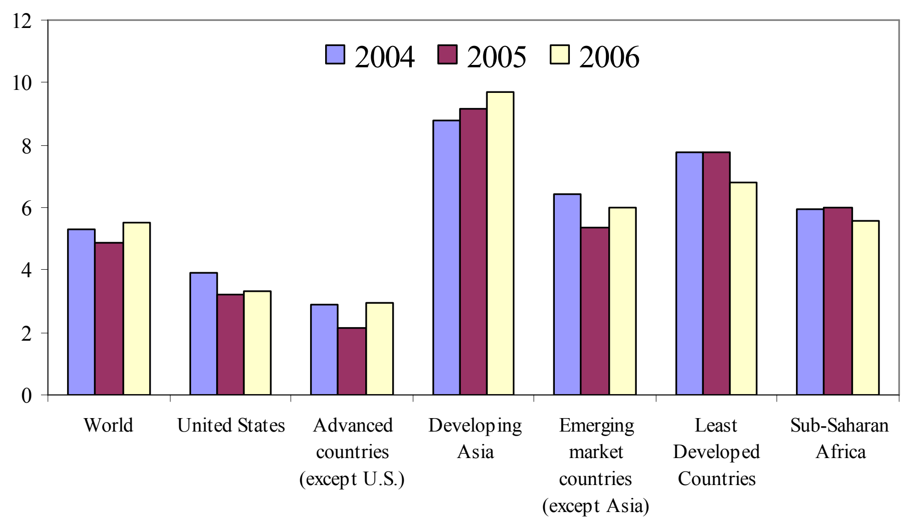
In recognition of the growing economic weight of some Fund members and the erosion of the smaller economies' voting power, the Executive Board undertook quota and governance-related reforms designed to ensure the fair distribution of quotas and adequate representation of all members. The Board also took steps to improve the Fund's internal governance, enhance the efficiency of Fund operations, and develop a new income model more closely aligned with the variety of functions the institution now performs.

[1]The monitoring of global, regional, and national economic policies; see Box 2.1.

KEY ECONOMIC AND FINANCIAL DEVELOPMENTS

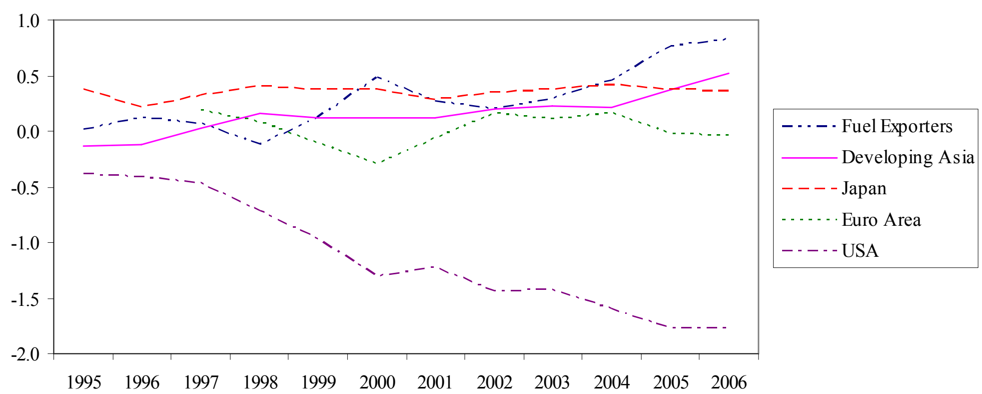
Global economic growth accelerated to 5.4 percent in 2006—up from 4.9 percent in 2005—marking the fourth successive year of a strong global expansion (Figure 1.1). Moreover, the expansion became better balanced, as a slowing in the U.S. economy was offset by firming of growth elsewhere. Emerging market countries grew particularly fast, supported by benign international financial conditions and, in many cases, high commodity prices. Inflation in the advanced economies declined in the second half of 2006 as oil prices fell from a peak in August.

Figure 1.1 Real GDP Growth
(in percent change from a year earlier)



Current account imbalances continued to be large (Figure 1.2). The external deficit of the United States stabilized at 6½ percent of GDP in 2006, with a marked narrowing toward the end of the year. The surpluses of the oil-exporting and East Asian countries continued to rise, while deficits grew in both western and emerging Europe[2] and in rapidly growing emerging market economies such as India.

Figure 1.2 Current Account Balance
(In percent of world GDP)



Growth in the *United States* slowed markedly, declining from an annual rate of 2½ percent in the second half of 2006 to 0.6 percent in the first quarter of 2007, primarily because of declines in net exports, inventories, and residential investment. Although export growth remained solid, faster import growth reversed some of the improvement that had been made in the trade balance after August 2006. Rising oil imports accounted for more than half of the increase in imports. Business investment also slowed. However, private consumption remained solid, supported by continued employment growth and rising equity prices.

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Economic activity in the *euro area* gained momentum during the same period. GDP growth reached 2.5 percent (seasonally adjusted annual rate) in the first quarter of 2007, almost double the pace in 2005 and the highest rate since 2000, driven by strong investment and net exports, while consumption spending slowed significantly, reflecting in part the impact of the increase in the German value-added tax.

[2]As used in Fund publications, this term includes Bulgaria, Croatia, the Czech Republic, Estonia, Hungary, Latvia, Lithuania, Malta, Poland, Romania, the Slovak Republic, and Turkey.

Japan's economic expansion hit a soft patch in the middle of 2006, mainly because of an unexpected decline in consumption, but growth rebounded strongly in the fourth quarter of 2006 as domestic demand regained momentum. The pace of activity moderated in early 2007, but growth remained above potential.

Activity in *emerging Asia* continued to expand briskly, led by strong growth in China and India. In China, real GDP grew by 10.7 percent in 2006. The pace of fixed-asset investment cooled in the second half of 2006 but gathered pace again in early 2007. India's growth of 9.7 percent in 2006 was supported by strong consumption and, especially, investment. In the newly industrialized economies (Korea, Taiwan Province of China, Hong Kong SAR, and Singapore), resilient external demand supported activity, notably in the electronics sector. GDP growth also increased in the ASEAN-4 economies (Indonesia, Malaysia, the Philippines, and Thailand).

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Growth in *Latin America* accelerated to 5.5 percent in 2006 from 4.6 percent in 2005, bringing the average growth rate for the past three years to 5¼ percent, the best performance since the late 1970s. Growth picked up in Brazil and Mexico, although it remained below the regional average. As Latin America's recovery matured, domestic demand became the main engine of growth. Net exports exerted a downward pull on activity, partly as a consequence of weaker growth in the United States, the region's largest trading partner, although commodity exporters continued to benefit from buoyant world commodity prices.

In *emerging Europe,* growth accelerated to 6 percent in 2006. Domestic demand increased as consumption was boosted by rising employment and real wages. Current account deficits widened further but, in most cases, were financed without difficulty by bank inflows and foreign direct investment. However, concerns about large external deficits in Hungary and Turkey led to downward pressure on the exchange rates for those two countries, and policies were tightened. Activity in the *Commonwealth of Independent States,* the group formed by 12 of the former Soviet republics, also continued to expand briskly, supported by high prices for oil and non-oil commodities.

Middle Eastern oil exporters enjoyed another year of solid growth in 2006, accompanied by strong external and fiscal balances. Oil revenues continued to grow rapidly, the strong momentum of the non-oil sector continued, and governments planned large expenditures on social programs and investment in the oil and non-oil sectors.

Growth in *sub-Saharan Africa* moderated somewhat in 2006 but remained robust, driven increasingly by domestic investment, rising productivity, and, to a lesser degree, government consumption. Higher oil revenues and debt relief supported government spending in many countries. Inflation remained subdued for most, owing to prudent macroeconomic policies and another good harvest.

Oil prices continued to be high and volatile. After reaching a record high of $76 a barrel in August 2006, the average petroleum spot price declined in subsequent months, reflecting a combination of slowing demand in industrial countries, a recovery of non-OPEC supply, and some easing of geopolitical tensions. However, OPEC's production cuts after November and a recovery in demand in the first quarter of 2007 caused prices to rebound. Renewed geopolitical tensions in the Middle East pushed prices up even further in March and April of 2007, to $65 a barrel by the end of April. Prices of *nonfuel commodities,* led by metals, also rose sharply during the second half of 2006 and the first four months of 2007, as did prices of some agricultural commodities—notably corn—reflecting, in part, the prospect of growing demand for biofuels.

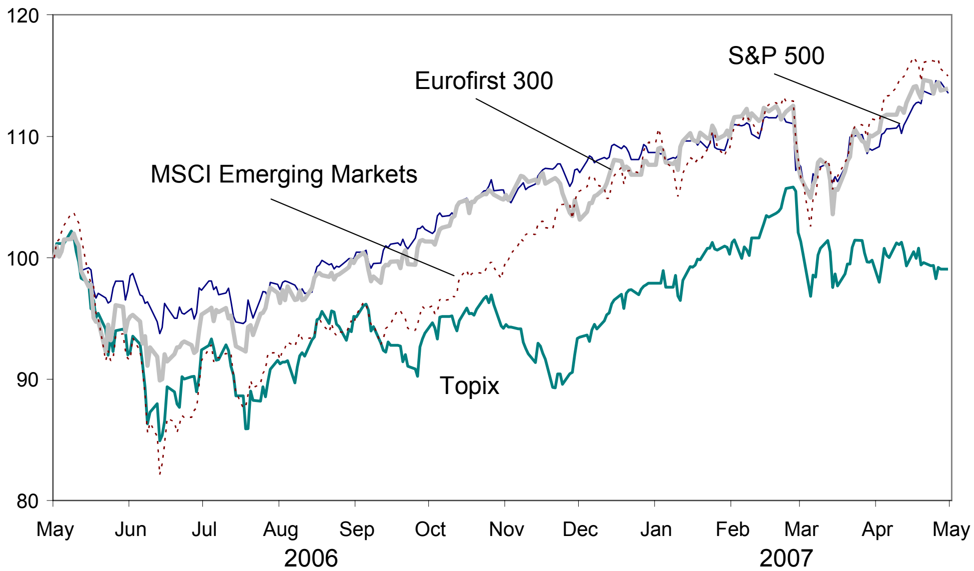
The *monetary policies* adopted by IMF member countries reflected different cyclical positions. The U.S. Federal Reserve kept the Fed funds rate on hold from June 2006 on, balancing the risks of a cooling economy against continued concerns about inflation. With inflation in Japan continuing to hover around zero, the Bank of Japan raised its policy rate to 0.5 percent in two quarter-point moves, after abandoning its zero interest rate policy in July 2006. By contrast, the European Central Bank and European national central banks steadily tightened monetary policy. Some emerging market countries—notably China, India, and Turkey—also tightened monetary conditions, China and Turkey because of concerns about overly rapid growth, India because of concerns about inflationary pressures. Turkey was also responding to external pressures. Regarding *fiscal policies*, industrial countries made some progress in reducing structural deficits, largely as a result of unusually strong revenue growth. Nonetheless, with their aging populations, these countries will need to make further substantial adjustments going forward to achieve fiscal sustainability.

In *foreign exchange markets*, slower growth in the United States contributed to a weakening of the U.S. dollar. Between May 2006 and the end of April 2007, the dollar depreciated 8.4 percent against the euro and 9.5 percent against the British pound. The yen also weakened further, as low interest rates continued to encourage capital outflows. The renminbi depreciated slightly in real effective terms, despite a mild acceleration in its rate of nominal appreciation against the U.S. dollar and a further rise in China's current account surplus to 9½ percent of GDP in 2006. Overall, currency market conditions remained orderly and volatility, low.

Financial market stability continued to be underpinned by favorable global economic prospects. Despite bouts of nervousness in May/June 2006 and again in February/March 2007, market volatility generally remained at low levels. The latter episode was triggered by a variety of factors against a backdrop of growing concern about the impact of the rapidly slowing U.S. housing market on housing-related securities, as mortgage delinquencies and default rates picked up, particularly in loans to lower-quality (subprime) borrowers. However, the impact of the credit deterioration on broader financial markets was limited.

Corporate bond spreads remained low. Strong corporate balance sheets, including ample cash cushions, supported a wave of mergers and acquisitions. This activity, combined with higher-than-expected corporate profits, contributed to double-digit returns in most *global equity markets*, Japan being a notable exception (Figure 1.3). During the IMF's financial year 2007, the S&P 500 gained 13.1 percent and the Eurofirst 300 gained 13.9 percent, while the Topix lost 0.9 percent.

Figure 1.3 Equity Market Performance
(May 1, 2006 = 100)

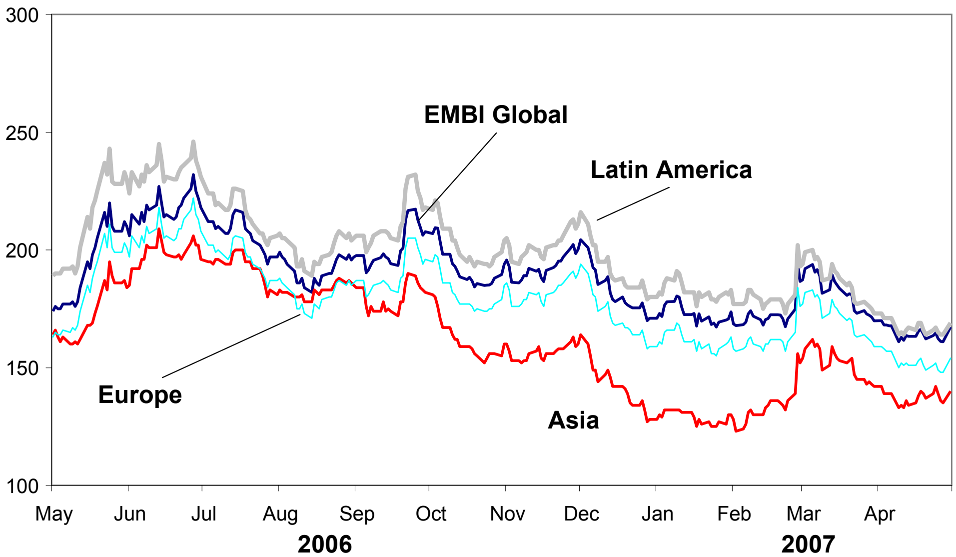


Source: Bloomberg L.P.

In *emerging markets,*[3] yield spreads declined to new historical lows (Figure 1.4). The market was supported by continued improvements in credit quality (with rating upgrades far exceeding downgrades), more sovereign debt buybacks (and, in the process, the continued reduction of the stock of Brady bonds), and reduced sovereign issuance. Global investors increased their portfolio allocations in local emerging markets. Net flows to emerging equity markets fluctuated. In particular, sharp outflows were recorded during the corrections of May/June 2006 and February/March 2007, with the largest outflows experienced in those markets that had run up the most. Nonetheless, emerging market equities produced strong returns, with the MSCI local currency emerging market equity index gaining 15.2 percent between May 1, 2006 and end-April 2007.

[3]Emerging market economies are mainly developing countries that have advanced far enough in capital market development to attract foreign portfolio investment and/or borrow significantly in international capital markets.

Figure 1.4 Sovereign Spreads
(In basis points)



Source: JPMorgan Emerging Markets Bond Index Global.

HIGHLIGHTS OF THE WORK OF THE EXECUTIVE BOARD

The common thread running through the IMF's activities in FY2007 was the continued acceleration of globalization, the greatest challenge facing both the IMF and its members in the early twenty-first century. With this challenge in mind, the Executive Board made considerable progress toward key objectives set forth in the Fund's MTS: strengthening and modernizing surveillance; seeking new ways to support emerging market countries; deepening Fund engagement with low-income countries; reforming governance and strengthening internal management to make the Fund a more efficient and effective institution; and placing the IMF's finances on a sustainable footing.[4]

[4] The Executive Board's calendar and work program can be found on the CD-ROM. General information on the Board's responsibilities and activities can be found in the *IMF Handbook*, also on the CD-ROM.

Box 1.1 Progress on implementing the Medium-Term Strategy

	Objective	Action
Surveillance	Modernizing the framework	Review of 1977 Decision on Surveillance over Exchange Rate Policies and work on a "remit" (statement of surveillance priorities)
	Taking a multilateral perspective and strengthening financial sector surveillance	First multilateral consultation; expansion of regional surveillance; greater analysis of cross-country spillovers; increased financial sector coverage; report of task force on integrating financial sector work into surveillance
	Making country surveillance sharper and more focused	Surveillance agendas; experimentation with streamlined consultations
Emerging markets and crisis prevention	Deepening financial sector and capital market surveillance	Development of a framework for addressing financial sector issues in country surveillance
	Reassessing the adequacy of existing instruments for crisis prevention	Board discussions and outreach on the development of a new contingent financing instrument for liquidity problems as part of the IMF's crisis-prevention toolkit
Low-income countries	Supporting the international community's effort to help low-income countries achieve the Millennium Development Goals	Policy advice, concessional lending, debt relief, and technical assistance to help low-income countries achieve macroeconomic stability and accelerate growth; tracking progress toward Millennium Development Goals jointly with the World Bank *(Global Monitoring Report)*
	Deepening involvement in dealing with aid flows	Policy advice on the effective use of increased aid; following up on the recommendations of the Independent Evaluation Office's report on the IMF's advice and actions with respect to aid flows to sub-Saharan Africa
	Helping countries that have received debt relief avoid reaccumulating unsustainable debt	Improvements in the Debt Sustainability Framework and greater outreach; technical assistance on improving public debt management practices and enhancing statistical capacity
Capacity building	Bolstering capacity building in developing countries; better integrating technical assistance and training with surveillance in accordance with country priorities	Implementing the MTS for capacity building; integrating country needs and technical assistance resources with the IMF's budget process; working closely with donor partners to leverage internal resources for capacity building; expanding regional technical assistance and training activities, including with the opening of

		the third regional technical assistance center in Africa (the sixth worldwide), and a new regional training center in India (the seventh worldwide)
Quota and voice reform	Reinforcing IMF effectiveness and legitimacy through progress on quota and voice reform	Ad hoc quota increases for four most underrepresented countries—China, Korea, Mexico, and Turkey; consideration of principles for new quota formula; discussion of the legal framework for increasing basic votes; increasing staff resources for Executive Directors elected by a large number of members
Governance and management	Strengthening communication and transparency	Began review of communication strategy; release of second transparency annual report
	Making the IMF more cost-effective and efficient	Consideration of recommendations of external committee report on Bank-Fund collaboration; implementation of output-oriented budget framework with real reduction in resources over the medium term; improved risk-management framework; streamlining procedures
	Putting the IMF's finances on a sustainable footing	Report on the IMF's income model by Committee of Eminent Persons

Strengthening and modernizing surveillance

To serve the purposes of the IMF's membership, surveillance must be focused, candid, transparent, evenhanded, and accountable, and devote careful attention to cross-country spillovers. In FY2007, the Executive Board took steps to strengthen and modernize the framework for surveillance. It began a review of the 1977 Decision on Surveillance over Exchange Rate Policies, the framework adopted by the Board in 1977 that guides the IMF's work in this area, to ensure that it reflects best practice and sets out a coherent vision of the IMF's core activity. In their review, Executive Directors found important areas of broad agreement, and, during the period covered by this report, worked to build common ground in other areas. They also examined possible ways to introduce more explicit priorities for surveillance and more rigor in the IMF's methodologies for assessing the effectiveness of its surveillance work.

The Board supported several innovations in the implementation of surveillance. Among these was the IMF's first multilateral consultation, which focused on fostering common understanding and cooperation on how to reduce global imbalances while sustaining strong global growth. In addition, the framework for surveillance of the financial sector and capital markets was strengthened, based in part on the recommendations of an internal task force on integrating the financial sector into the surveillance work of the IMF. The task force urged the IMF to make better use of the Financial Sector Assessment Program (a joint IMF–World Bank initiative described in detail in Chapter 2) in the context of country surveillance and to devote more attention to the links between the financial sector and the macroeconomy. As called for in the MTS, the IMF's analytical tools were increasingly applied to capturing cross-country spillovers and drawing policy lessons, while regional surveillance continued to be expanded, with a view to deepening understanding of the impact of regional developments on both the global economy and national economies. The Board advocated sharpening country surveillance, calling on staff to focus on the most important risks confronting members and on topics that are core to the IMF's mandate. The IMF also experimented with streamlined Article IV consultations for a small number of countries.

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High oil prices complicated policymaking, and the Board provided advice to both exporters and importers of oil on appropriate policy responses, bearing in mind that rising demand, production constraints, and supply disruptions could pose a threat to global growth or fuel inflationary pressures. The Board continued to emphasize the need for more investment in the oil sector and encouraged member countries to pass international oil prices through to consumers in order to avoid a distortion of consumption patterns.

The Board's discussions of the *World Economic Outlook* and the *Global Financial Stability Report,* the IMF's primary vehicles for global surveillance, and other issues related to the IMF's surveillance activities in FY2007 are described in greater detail in Chapter 2.

Program support

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Many *emerging market economies* have strengthened their policies, addressed vulnerabilities, and improved debt structures. Some—particularly in Asia—have accumulated large reserves and expanded regional reserve pooling arrangements. The prospects for emerging market economies remain positive, with favorable financial conditions and further robust growth expected to continue. As a result, most are now able to meet their financing needs for the coming year in the international financial markets, and their demand for IMF lending has declined dramatically. Nonetheless, macroeconomic fundamentals still vary widely among emerging market economies and vulnerabilities remain.

In FY2007, the Executive Board considered ways to strengthen the IMF's support for emerging market economies. Given their growing reliance on international capital flows, the deepening of financial sector and capital market surveillance would have particular relevance for these economies' crisis-prevention efforts. The Board also made progress toward developing an instrument that would make financing available to emerging market economies with sound policies in the event of a temporary loss of liquidity. Recognizing that a member's own policies are central to crisis prevention, the Board considered a staff paper on the sources and costs of shocks and the policy options that can best insulate members from crisis.

The Executive Board also explored ways to deepen the IMF's engagement with *low-income countries,* in collaboration with the World Bank, while focusing on helping them achieve macroeconomic stability and accelerate growth, the areas in which the IMF is best equipped to assist as they strive to reduce poverty and achieve the Millennium Development Goals.

Over the past few years, the IMF has broadened the array of financing and other instruments available to low-income countries. In FY2007 the Executive Board focused on finding ways to help countries that have received debt relief—through the Heavily Indebted Poor Countries (HIPC) Initiative and the Multilateral Debt Relief Initiative (MDRI)—avoid building up new unsustainable debt burdens. The Board provided advice on putting in place the kinds of macroeconomic policies that will allow low-income countries to use aid effectively, and reviewed a report by the Independent Evaluation Office (IEO; see Box 5.3) on the IMF's prior advice and actions with respect to aid flows to sub-Saharan Africa (the IEO's findings are discussed in Chapter 3). Given that the economic development of low-income countries depends crucially on trade, the Executive Board urged Fund members to work toward a successful conclusion to the Doha Round of multilateral trade negotiations. The IMF also continued to offer technical assistance in such areas as tax and customs reform to enable low-income countries to benefit fully from trade liberalization, and stood ready to provide financial assistance to countries that might be harmed in the short run by other countries' trade liberalization.

A table detailing the instruments through which the IMF provides financial and other assistance to member countries can be found in Chapter 3 (Table 3.1), along with more information about the IMF's lending activities and other program support in FY2007.

Capacity building

As country surveillance has become more focused, the close relationship between surveillance and capacity building has become increasingly apparent. The technical assistance and training provided by the IMF can help member countries implement the policy advice they receive during the course of surveillance. Work during FY2007 continued to focus on ensuring that technical assistance and training were more closely aligned with the priorities of both the IMF and recipient countries, and better coordinated with services provided by others.

In view of the critical need for additional capacity building in developing countries, the Central Africa Regional Technical Assistance Center (AFRITAC) was opened in Gabon to serve countries in that area and a new regional training program was established in India. The new AFRITAC—the third in Africa and the sixth regional technical assistance center worldwide—will complement the activities of the East AFRITAC and the West AFRITAC. The training center in India is the seventh such center worldwide, with other regional training centers located in Africa, East Asia, Europe, Latin America, and the Middle East. The IMF began to develop a strategy, in collaboration with the World Bank, to enhance capacity building in the design of medium-term debt strategies in both emerging market economies and low-income countries, to help them avoid the reaccumulation of unsustainable debt.

The process for allocating technical assistance resources has been improved with the introduction of medium-term regional plans that will be integrated with the IMF's budget process. The Board has also begun to explore ways to ensure adequate financing for capacity building amid growing demand, including by increasing external financing.

Quota and voice reform

If the IMF is to enhance its legitimacy, it must truly represent—and must be seen as truly representing—all of its member countries. Thus, in FY2007, the Executive Board embarked on far-reaching quota and voice reforms, a central goal of the MTS, to better align members' quotas with their economic weight in the global economy and to enhance the participation and voice of low-income members.

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In its communiqué of April 22, 2006, the International Monetary and Financial Committee (IMFC) emphasized the importance of governance reform to safeguard and enhance the IMF's effectiveness and credibility as a cooperative institution, and called for concrete proposals from the IMF's Executive Board by the time of the September 2006 Annual Meetings. In response to the Executive Board's recommendations,[5] on September 18, 2006, the Board of Governors adopted a Resolution on Quota and Voice Reform granting ad hoc quota increases for China, Korea, Mexico, and Turkey, the four most clearly underrepresented countries, and setting out a package of more fundamental reforms to be completed, if possible, by the Annual Meetings of 2007 and no later than the Annual Meetings of 2008.[6]

A work program involving consultations with the membership and informal and formal Board discussions on various elements of the package was initiated after agreement was reached on the Resolution. In a preliminary discussion in January 2007, the Board generally endorsed the overall framework proposed by Fund staff for an amendment to the IMF's Articles of Agreement related to an increase in basic votes.[7] It also considered

[5]See Press Release 06/189, "IMF Executive Board Recommends Quota and Related Governance Reforms," on the CD-ROM or at www.imf.org/external/np/sec/pr/2006/pr06189.htm.

[6]See Press Release 06/205, "IMF Board of Governors Approves Quota and Related Governance Reforms," on the CD-ROM or at www.imf.org/external/np/sec/pr/2006/pr06205.htm, as well as the Board's Resolution, which can be found on the CD-ROM.

[7]As stipulated in the Articles of Agreement, each member country's voting power in the IMF is the sum of its 250 basic votes (the same for each member) and one vote per SDR 100,000 of its quota in the IMF.

(continued)

additional staffing for Executive Directors representing large constituencies—namely, the two chairs for sub-Saharan Africa (see Chapter 5, footnote 58). In addition, the Board held two informal discussions on principles for a new quota formula that will form the basis for a second round of ad hoc increases. In its April 14, 2007, communiqué, the IMFC welcomed the progress to date and called on the Executive Board to continue its work on the reform package as a matter of priority.

Communication and transparency

The MTS stresses the importance of communication and transparency in enhancing the effectiveness of surveillance and in building support for sound economic policies. The Executive Board plays a key role in the Fund's communication efforts, providing strategic guidance, conducting regular reviews of the IMF's communication strategy (the fifth review began during FY2007), and, more generally, approving the IMF's budget, which includes the resources allotted to communication and outreach. During FY2007, the Board identified concrete steps for strengthening the links between the IMF's operations and its communications, and for increasing the impact of communication and outreach—for example, by making key IMF documents more readily available in languages other than English, as described in greater detail in Chapter 5. The Executive Board's Committee on the Annual Report took steps to make the Report a more effective communication vehicle, not only for the IMF's official stakeholders but also for a broader audience.[8]

Executive Directors led the Fund's efforts to increase its transparency. In FY2006, they called on the staff to publish annual updates on the implementation of the Fund's transparency policy. The second annual update, released in February 2007, shows that the number of member countries choosing to publish—publication is voluntary—all reports on their economies and use of Fund resources increased to 142 in 2006, from 136 in 2005, and the percentage of such reports that were published increased for the third consecutive year.

Until the mid-1970s, each member's basic votes accounted for more than 10 percent of total votes; however, general increases in quotas have since reduced that share to about 2 percent.

[8]Although the print version of the current Annual Report is much shorter than past Reports, the Report remains a comprehensive document of record because much of the material previously included in the print version has been transferred to the CD-ROM accompanying the Report.

Improving internal governance

The IMF is committed to becoming a more cost-effective institution, without compromising its ability to deliver the key outputs called for in the MTS. Hence a collective effort by the whole institution—the Board, the management, and the staff—is in train to enhance efficiency.

As discussed in more detail in Chapter 5, during FY2007, the IMF continued to strictly limit administrative expenditures. The medium-term budget called for zero growth, in real terms, in FY2007, and real reductions in FY2008 and FY2009. A number of initiatives were undertaken to deliver the IMF's outputs more efficiently and at a lower cost, including increased outsourcing, offshoring of some support services, and a reexamination of travel expenditures.

The IMF took steps during the year to strengthen its risk-management framework. The Executive Board regularly reviews the IMF's risk-management policies, and, in 2006, it adopted measures to implement a comprehensive risk-assessment system based on the recommendations of a task force. These measures focus on four broad categories of risks—strategic, core mission, financial, and operational. In FY2007, the IMF conducted its first risk-assessment exercise, which identified the main risks facing the IMF and the measures in place to mitigate them. In their discussion, Executive Directors stressed their oversight role and critical fiduciary responsibility for the IMF's risk management.

The Executive Board also acted to streamline Fund procedures, lengthening the intervals between most policy reviews, consolidating some reports, and eliminating others. It considered a report on Bank-Fund collaboration, which was prepared by an external review committee commissioned by IMF and World Bank management, and sought possible improvements in the way the two institutions work together that would enable the IMF to deliver policy advice and capacity-building services to member countries more effectively and efficiently (see Chapter 5). In addition, the Board reviewed the report by the Independent Evaluation Office (IEO) on the IMF and aid to sub-Saharan Africa and endorsed a number of recommendations that in its view would enable the IMF to improve its policies and operations in this region (Chapter 3).

Reviewing the finances of the Fund

In May 2006, the Managing Director appointed a Committee of Eminent Persons to study the IMF's income model. The Committee's report, submitted to the Executive Board and issued in January 2007, concluded that the IMF's current income model, under which the main source of income is the interest charged on loans, is not appropriate given the wide range of the IMF's functions and responsibilities.[9] The committee recommended a new set of revenue measures, including expanded investment guidelines and operations, the creation of an endowment from limited IMF gold sales, and charges for services to member countries. In its April 2007 meeting, the IMFC indicated that the committee's report provided "a sound basis for further work on the development of a new income model." The Board's work on a model that can garner broad support across the IMF's membership is ongoing.

[9]The report can be found on the CD-ROM or on the IMF's Web site, at www.imf.org/external/np/oth/2007/013107.pdf.

2. Promoting financial and macroeconomic stability and growth through surveillance

The IMF monitors the international monetary and financial system to ensure that it is functioning smoothly and to identify vulnerabilities that could undermine its stability. To the same end, it oversees economic policies in its 185 member countries, offering members analysis and advice and encouraging them to adopt policies that promote financial and macroeconomic stability and sustained growth. The IMF's surveillance activities at the global and country levels are complemented by periodic assessments of regional developments, including the economic policies pursued under formal regional arrangements such as monetary unions. This combination of oversight and advice is known as surveillance (Box 2.1).

Box 2.1 Surveillance activities

The IMF's Executive Board conducts surveillance at the global, country, and regional levels. Global surveillance is carried out through the Board's reviews of world economic and financial market developments and prospects. The staff's *World Economic Outlook* (WEO) and *Global Financial Stability Report* (GFSR), which are usually prepared twice a year, provide major inputs to the Board's discussions and are subsequently published. The Board also holds informal discussions of world economic and financial market developments. Another important instrument of global surveillance is the *Annual Report on Exchange Arrangements and Exchange Restrictions* (AREAER), which the Fund has published since 1950.[1]

When a country joins the IMF, it makes a commitment under Article IV of the IMF's Articles of Agreement to seek to pursue policies conducive to orderly economic growth and price stability and to avoid manipulating exchange rates for unfair competitive advantage. It also commits to providing the IMF with data about its economy. The IMF is mandated by Article IV to conduct surveillance to oversee members' compliance with these obligations, and it does so through regular (usually yearly) staff visits—known as Article IV consultations—to member countries.[2] (Informal staff visits often take place between consultations.) The IMF staff team collects economic and financial data and discusses with government and central bank officials economic developments since the previous consultation, as well as the country's exchange rate and monetary, fiscal, financial sector, and structural policies. Often, the team also meets with other groups such as legislators, trade unions, academics, and financial market participants. It prepares a summary of its findings and policy advice, which it leaves with the national authorities, who have the option of publishing it. On return to IMF headquarters, the

Deleted: The WEO presents the staff's analysis of global economic prospects and the policies appropriate in different countries, while the GFSR focuses on developments in, and risks confronting, the international capital markets.

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Deleted: and IMF staff continuously monitor developments in mature and emerging financial markets as well as economic developments globally.¶

Deleted: Prepared in consultation with member country authorities, the AREAER provides a comprehensive description of the exchange rate arrangements, exchange restrictions, controls on capital flows, and other foreign exchange measures of all IMF members. The AREAER's classification system supports evenhandedness and cross-country comparability in the surveillance of members' exchange rate policies.

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staff team prepares a report describing the economic situation and the talks with the authorities and evaluating the country's policies. The report is submitted to the Executive Board for review and discussion. A summary of the Board's views is transmitted to the country's government. Through this kind of peer review, the global community provides policy guidance and advice to each of its members, and the lessons of international experience are brought to bear on national policies. If the member country agrees, the full Article IV consultation report and a Public Information Notice (PIN), which summarizes the Board discussion, are published on the IMF's Web site, in line with the IMF's transparency policy (see Chapter 5).

Supplementing these systematic and regular Board reviews of individual member countries are Executive Board assessments of economic developments and policies in member countries borrowing from the IMF, as well as frequent informal sessions at which the Board discusses developments in individual countries. On a voluntary basis, countries may also choose to participate in the joint Fund-Bank Financial Sector Assessment Program (FSAP) or to request Reports on the Observance of Standards and Codes (ROSCs).

Deleted: Through Article IV consultations, the IMF seeks to identify policy strengths and weaknesses, as well as potential vulnerabilities, and advises countries on appropriate corrective actions if needed. Observance of good practices identified in the Standards and Codes Initiative (Box 2.3) is an important aspect of these assessments. Article IV consultations with systemically or regionally important member countries examine the cross-border impact of their economic conditions and policies.

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[1] Appendix II, "Financial Operations and Transactions," to this Report contains a brief summary of members' exchange rate regimes in Table II.I3, "De facto classification of exchange rate regimes and monetary policy framework." The Appendix can be found on the CD-ROM and on the IMF's Web site, where the full text and appendixes of the Annual Report are posted.

[2] The IMF's Articles of Agreement can be found at www.imf.org/external/pubs/ft/aa/index.htm.

During FY2007, the IMF introduced several innovations in its surveillance work. It experimented with a new forum—multilateral consultations—where countries, or entities composed of groups of countries, can work together on common issues. The first multilateral consultation was set up by the IMF to help its members address the risks posed by current global imbalances. The IMF also devoted more attention to cross-country spillovers; increased its emphasis on regional developments in an effort to achieve a better understanding of how these affect individual countries as well as the global economy; sharpened the focus of its Article IV consultations, placing a greater emphasis on exchange rate and financial sector issues; and strengthened its outreach efforts, to promote good policies and build consensus around them (see Chapter 5 for more information on IMF outreach).

Going beyond changes in the day-to-day implementation of surveillance, the Executive Board worked to strengthen and modernize the IMF's surveillance framework. The Medium-Term Strategy (MTS) calls for more emphasis on the original goal of IMF surveillance—assessing the consistency of exchange rate and macroeconomic policies with national and international stability. In FY2007, the Executive Board reviewed the IMF's 1977 Decision on Surveillance over Exchange Rate Policies, which—together with Article IV of the Articles of Agreement—is the main statement guiding surveillance, and considered ways to clarify surveillance priorities.

The IMF also took steps to better integrate financial sector analysis into Article IV consultations and regional surveillance and to identify links between the financial sector and the macroeconomy. Supporting these efforts is the new Monetary and Capital Markets Department (MCM), which was created in early FY2007 (Box 2.2). As part of the reorganization of the IMF's financial sector work in FY2007, responsibility for work on issues related to anti–money laundering/combating the financing of terrorism (AML/CFT) was centralized in the IMF's Legal Department, which shares responsibility with MCM for policy and operational questions regarding the integration of AML/CFT into financial sector work.

Box 2.2 Monetary and Capital Markets Department

Following up on the recommendations in the November 2005 report of the External Review Group on the Organization of Financial Sector and Capital Markets Work at the Fund (experts commissioned by IMF management), the Monetary and Capital Markets Department (MCM) was created in early FY2007.[1] MCM, a merger of the International Capital Markets and the Monetary and Financial Systems departments, centralizes the responsibilities, functions, and expertise of those two departments within a new organizational structure and serves as a resource for other Fund departments.

MCM is responsible for policy, analytical, and technical work relating to financial sectors and capital markets, and monetary and foreign exchange systems, arrangements, and operations. Its principal tasks are to identify potential risks to global financial and macroeconomic stability and their implications for individual countries; assess the vulnerability or soundness of countries' monetary and financial systems and the effectiveness of member governments' oversight of these systems; promote safeguards for the prevention of financial crises and contribute to the operation of the international architecture of risk mitigation and management; and support capacity building in member countries. MCM's capacity-building activities are described in Chapter 4.

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[1]See Press Release No. 06/21, at www.imf.org/external/np/sec/pr/2006/pr0621.htm.

IMPLEMENTING SURVEILLANCE

Surveillance focused on several key issues in FY2007, including heightened volatility in financial markets; the potential spillovers and risks associated with a disorderly unwinding of global imbalances; the possible impact of the slowdown in the U.S. housing market on the global economy; and the effect of high prices for oil and other commodities on both importing and exporting countries. The analytical tools used in the preparation of the *World Economic Outlook* (WEO) and the *Global Financial Stability Report* (GFSR) were applied to capture cross-country spillovers and draw policy lessons.

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Global surveillance

World Economic Outlook

In its August 2006 and March 2007 discussions of the *World Economic Outlook* (WEO), the Executive Board welcomed the continued strong, broad-based expansion of the global economy during calendar year 2006, noting that activity in most regions met or exceeded expectations. Executive Directors believed that the global expansion would slow only modestly in 2007 and 2008 and that inflationary pressures would remain contained. They were generally of the view that the market turbulence of February and March 2007 represented a correction after a period of asset price buoyancy that did not require a fundamental revision in the positive global economic outlook.

At the time of the March 2007 discussion, risks to the global economy—the ongoing correction in the U.S. housing market, persistently higher financial market volatility, the chance of a reversal of the decline in oil prices, and the possibility of a disorderly unwinding of large global imbalances—were still seen as tilted to the downside but appeared to be more evenly balanced than they had been six months earlier. The key question in assessing these risks is whether the world economy will remain on a sound growth trajectory even if the U.S. economy slows more sharply—that is, whether global prospects might decouple from the United States, especially in view of the limited impact of the recent cooling of U.S. activity.[10]

Global Financial Stability Report

At their March 2007 discussion of the *Global Financial Stability Report* (GFSR), Executive Directors agreed that global financial and macroeconomic stability continued to be underpinned by solid economic prospects, although downside risks had increased somewhat in a few areas. A number of market developments warranted increased attention, reflecting a shift in underlying financial risks and conditions since the Board's discussion of the previous GFSR in August 2006. While none of the identified short-term risks constituted, in and of itself, a threat to financial and macroeconomic stability, adverse events in one area could lead to a reappraisal of risks in other areas, with possible broader implications for the economy. The market turbulence of February and March 2007 validated this assessment and served to remind market participants that such reevaluations could occur quite rapidly. Macroeconomic risks as well as risks faced by emerging markets had eased marginally since the previous GFSR, but market and credit risks had risen, albeit from relatively low levels, and large capital inflows to a number of emerging market countries posed challenges to policymakers. The risks of a disorderly unwinding of global imbalances had also eased somewhat but remained a concern.

Hedge funds were playing a constructive role in improving market efficiency and stability, but the Board cautioned that their size and complex risk structure could lead to increased transmission or amplification of shocks. While observing that the increased diversity of assets, source countries, and investor types contributed to a globalized financial system that, by allowing capital to flow freely, should enable a more effective diversification of risks, enhance the efficiency of capital markets, and support financial and macroeconomic stability, the Board underscored the importance of gradual and carefully sequenced liberalization of financial markets. They welcomed the GFSR's contribution to financial

[10]The full summings up of the Board discussions on the WEO are on the CD-ROM.

sector surveillance, including in encouraging national legal, regulatory, and supervisory systems to adjust to the more globalized financial environment. Executive Directors favored improved mechanisms for multilateral collaboration, specifically for strengthening supervisory coordination, including through better application of well-established international standards and further work on crisis management and resolution arrangements.[11]

First multilateral consultation

In his April 2006 Report on Implementing the Fund's Medium-Term Strategy, the IMF's Managing Director proposed that existing IMF surveillance arrangements be complemented by a new vehicle—multilateral consultations—that would foster cooperation by appropriate groups of countries on policy actions to address challenges to the global economy and individual members. The proposal was endorsed by the International Monetary and Financial Committee (IMFC), the ministerial-level committee that provides the IMF with policy guidance (see Chapter 5, "How the IMF is run").

The IMF's first multilateral consultation has given its five participants—China, the euro area, Japan, Saudi Arabia, and the United States—a forum for discussing global imbalances and how best to reduce them while sustaining robust global growth. The Executive Board will review the experience with the first multilateral consultation in FY2008.

Deleted: Interest has also been expressed in a second consultation, which could focus on how financial globalization and innovation influence growth and stability.

Commodity prices

Because fluctuations in both oil and nonfuel commodity prices have important policy implications, the IMF has been increasing its coverage of these markets in multilateral surveillance. The Board has consistently advised oil-importing countries, for example, on the importance of market-based pricing—that is, putting an end to subsidies and allowing the pass-through of oil prices to consumers. A chapter in the September 2006 WEO was devoted to nonfuel commodities—metals as well as food and other agricultural commodities—while considerable attention in both the September 2006 and the April 2007 WEO was given to the

[11] The full summings up of the Board discussion of the GFSR can be found on the CD-ROM.

analysis of the oil market and the effects of oil price changes on the global economy. In their discussions of the WEO, Executive Directors recognized the possibility that inflationary pressures could revive as resource utilization constraints start to bind. They observed that sharply rising prices of nonfuel commodities, particularly metals, had underpinned strong growth in many emerging market and developing countries and advised these countries to save or invest current revenue windfalls to support future growth in noncommodity sectors. They also stressed the risk of a reversal of the recent decline in oil prices given continuing geopolitical tensions and limited spare production capacity.

The international community is working to improve the quality and transparency of oil market data. In this context, the IMF is increasing the provision of metadata in the General Data Dissemination System and the Special Data Dissemination Standard (see "Standards and codes, including data dissemination" and Box 2.3 below). In responding to extensive demand for better data, the IMF is sharing its expertise in data-quality assessment with other international organizations and collaborating with major oil exporters in resolving oil-related data issues. The IMF has also participated in training on the Joint Oil Data Initiative.[12]

Box 2.3 ROSCs and Data Standards Initiatives

Reports on the Observance of Standards and Codes (ROSCs). Member countries can request ROSCs, assessments of their observance of standards and codes, in any of the following 12 areas: accounting; auditing; anti–money laundering and combating the financing of terrorism (AML/CFT); banking supervision; corporate governance; data dissemination; fiscal transparency; insolvency and creditor rights; insurance supervision; monetary and financial policy transparency; payments systems; and securities regulation. The reports—about 74 percent of which have been published—are used to help sharpen Fund and World Bank policy discussions with national authorities and to strengthen national capacity to participate in, and benefit from, the globalized economy. They are also used in

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[12]Following a period of exceptional volatility in oil prices in the 1990s, in 2001 six international organizations—Asia-Pacific Economic Cooperation (APEC), Eurostat, the International Energy Agency (IEA), Organización Latinoamericana de Energia (OLADE), OPEC, and the United Nations Statistics Division (UNSD)—launched the initiative, originally called the Joint Oil Data Exercise, to raise awareness of the need for more data transparency in oil markets. More information can be found on JODI's Web site, at www.jodidata.org/FileZ/ODTmain.htm.

the private sector (including by rating agencies) for risk assessment. Participation in the Standards and Codes Initiative continues to grow. As of end-April 2006, 725 ROSC modules had been completed for 130 countries, or 71 percent of the Fund's membership, and most systemically important countries had volunteered for assessments. More than 340 of the ROSCs were on financial sector standards. Of these, about one-third were related to banking supervision, and the others were fairly evenly distributed across the other standards and codes.

Special Data Dissemination Standard (SDDS). Created in 1996 by the Executive Board, the SDDS is a voluntary standard whose subscribers—countries with access to international capital markets or seeking it—commit to meeting internationally accepted norms of data coverage, frequency, and timeliness. SDDS subscribers provide information about their data compilation and dissemination practices (metadata) for posting on the IMF's Dissemination Standards Bulletin Board (DSBB).[1] Each subscriber is also required to maintain a Web site that disseminates the actual data and that is electronically linked to the DSBB. SDDS subscribers began disseminating prescribed data on external debt in September 2003; data for 58 countries are published in the World Bank's *Quarterly External Debt Statistics* (QEDS). Moldova and Luxembourg became subscribers in FY2007, raising the number of SDDS subscribers to 64 as of April 30, 2007.

Deleted: Subscribers also agree to issue calendars on data releases and follow good practice with respect to the integrity and quality of the data and access by the public.

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General Data Dissemination System (GDDS). The Executive Board established the GDDS in 1997 to help IMF member countries improve their statistical systems. The 88 participants in the GDDS at end-April 2007 provide metadata describing their data compilation and dissemination practices, as well as detailed plans for improvement, for posting on the IMF's DSBB. Between the Executive Board's sixth review of the Data Standards Initiatives in November 2005 and April 30, 2007, eight countries and territories began participating in the GDDS. Of the 94 countries and territories that have participated in the GDDS since it was introduced, 6 have graduated to the SDDS.

Deleted: Voluntary participation allows countries to set their own pace but provides a detailed framework that promotes the use of internationally accepted methodological principles, the adoption of rigorous compilation practices, and ways to enhance the professionalism of national statistical agencies.

To complement the SDDS and GDDS, IMF staff have launched the **Statistical Data and Metadata Exchange (SDMX)** initiative and the **Data Quality Assessment Framework (DQAF**). The SDMX, which is being developed in collaboration with other international organizations, aims to make electronic exchange and management of statistical information among national and international entities more efficient by providing standard practices, coherent protocols, and other infrastructural blueprints for reporting, exchanging, and posting data on Web sites. The DQAF is an assessment methodology that was integrated into the structure of the data ROSCs following the fourth review of the Data Standards Initiatives in 2001.

Deleted: The DQAF's broader application in providing guidance for improving data quality has been integrated into the Data Quality Program and more prominently into Article IV consultations.

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[1] The Web site address is dsbb.imf.org/Applications/web/dsbbhome.

Country surveillance

In FY2007, the Board completed 129 Article IV consultations (see CD-Table 2.1 on the CD-ROM). Country surveillance is becoming more focused on identifying the most important risks facing members and on topics that are core to the IMF's mandate. As an approach for cases in which it appeared useful to concentrate on a few key issues, and in keeping with the MTS's calls for enhancing the efficiency of Fund procedures, the IMF experimented with streamlined consultations with 10 countries during FY2007 to allow additional resources to be devoted to areas of priority work. The Board plans to review the IMF's experience with the streamlined consultations early in FY2008.

As discussed in detail below, considerable work was undertaken in FY2007 to modernize the framework for IMF surveillance and to integrate the analysis of developments in the financial sector and capital markets more fully into country surveillance. Recent efforts have also focused on a deeper examination of cross-country spillovers. As demonstrated by a stocktaking of the quality of exchange rate surveillance (see below), these efforts are gradually bearing fruit.

The IMF's Global Fiscal Model[13] has been used in the context of country surveillance, notably to evaluate the broader impacts of fiscal policy changes—including fiscal consolidation, tax reform, and social security reform—in a number of industrial and emerging market countries. The WEO's analysis of the impact of a slowdown in the U.S. economy on the rest of the world used a variety of econometric and modeling approaches to assess cross-country spillovers.

[13]The Global Fiscal Model (GFM) is a multicountry general equilibrium model developed at the Fund based on the New Open Economy Macroeconomics (NOEM) tradition, but designed to examine fiscal policy issues. It is particularly suitable for studying temporary or permanent changes in taxes or expenditures, whether occurring rapidly or gradually (as in the case of age-related expenditure pressures). The GFM extends the NOEM framework by introducing a number of non-Ricardian features to allow for thorough fiscal policy analysis. Moreover, fiscal policy can have short-term effects on production. The multicountry feature of the GFM allows the analysis of international spillover effects as changes in government debt influence world interest rates. The GFM also features a rich menu of taxes that permits practitioners to assess the macroeconomic effects of a number of alternative fiscal-consolidation strategies.

Regional surveillance and outreach

Since members of currency unions have devolved responsibilities over monetary and exchange rate policies—two central areas of Fund surveillance—to regional institutions, the IMF holds discussions with representatives of these institutions in addition to its Article IV consultations with the unions' individual members. In response to guidance by the Executive Board under the Medium-Term Strategy, IMF staff also conduct other regional surveillance activities, including the production of semiannual regional economic outlooks (REOs), dialogues with various regional forums, and research on issues in which countries in the same region share an interest; and more systematically apply relevant findings of regional surveillance in conducting Article IV consultations. Selected papers and reports increasingly focus on regional spillovers and cross-country experiences.

During FY2007, the IMF's Executive Board discussed developments in the Central African Monetary and Economic Union (CEMAC), the Eastern Caribbean Currency Union (ECCU), the euro area, and the West African Economic and Monetary Union (WAEMU).[14]

CEMAC. At their July 2006 discussion, Executive Directors commended CEMAC's positive macroeconomic performance in 2005, which was due in part to oil windfalls and improved implementation of macroeconomic policies. Per capita income in most CEMAC members remains low, however, and these countries face significant challenges in meeting the Millennium Development Goals. The Board urged the authorities to take advantage of improved macroeconomic and financial conditions to address long-standing structural issues that are critical for raising non-oil growth and employment and reducing poverty. They also noted the potential for regional integration to increase market size and foster growth and called for a renewed focus on the promotion of trade. CEMAC participated in an FSAP (see below), which found that financial sector soundness had improved but that important

[14]The summings up of these Board discussions can be found on the CD-ROM and on the IMF's Web site: PIN 06/90, "IMF Executive Board Concludes 2006 Discussion on Common Policies of Member Countries with CEMAC," www.imf.org/external/np/sec/pn/2006/pn0690.htm; PIN 07/13, "IMF Executive Board Concludes 2006 Regional Discussions with Eastern Caribbean Currency Union," www.imf.org/external/np/sec/pn/2007/pn0713.htm; PIN 06/86, "IMF Executive Board Discusses Euro Area Policies," www.imf.org/external/np/sec/pn/2006/pn0686.htm; and PIN 07/55, "IMF Executive Board Concludes 2007 Consultation with West African Economic and Monetary Union," www.imf.org/external/np/sec/pn/2007/pn0755.htm.

challenges remained. Executive Directors urged countries to further strengthen financial and macroeconomic stability and accelerate reforms, particularly as the financial sectors in the region are among the least developed in the world.

ECCU. The Board welcomed the resurgence in economic activity in recent years, driven by tourism, preparations for the Cricket World Cup, and a pickup in private investment. ECCU's quasi-currency-board arrangement has resulted in a long period of price stability, and the currency appears competitive. The challenge will be to sustain the growth momentum in 2007 and beyond. The ECCU countries, which are oil importers, continue to face significant obstacles, including elevated world energy prices and a heavy public debt burden, and exporters of sugar and bananas will need to adjust to the erosion of trade preferences. Further regulatory, administrative, and legal reforms are needed to remove impediments to private business activity. Executive Directors urged continued strengthening of the supervisory and regulatory environment that supports financial market development.

Euro area. Growth has picked up and broadened in the euro area, the reformed Stability and Growth Pact is regaining traction over fiscal policies, fiscal outcomes have been better than originally projected, and progress has been made in the reform of product and services markets and financial integration. However, the Board saw risks tilting to the downside for 2007 and beyond. Productivity growth continues to be sluggish, employment and consumption continue to lag, oil prices are volatile, and global imbalances remain unresolved. Executive Directors underscored the need for accelerated fiscal consolidation and further structural reforms that aim at strengthening incentives to work and invest.

WAEMU. The overall economic situation in WAEMU was challenging in 2006. Inflation fell sharply despite higher prices for fuel imports, and foreign reserve levels remained adequate, but average growth declined to 3.4 percent and the current account deficit widened. Progress on policy convergence, economic integration, and structural reforms has been slow, and growth and deeper regional integration are hampered by macroeconomic shocks, structural weaknesses, and, in some countries, sociopolitical problems. However, WAEMU is stepping up efforts to remove these obstacles. In 2006, it embarked on trade reform and instituted an ambitious reform program for 2006–10. Given that the region's financial sector is unintegrated and shallow, the Board welcomed the authorities' request for a regional FSAP.

Regional Economic Outlooks (REOs) are produced semiannually for sub-Saharan Africa, Asia and the Pacific, the Middle East and Central Asia, and the Western Hemisphere.[15] Upon publication of the REOs, the IMF organizes press conferences or seminars at headquarters or in the field. Area department staff often go on road shows to present REO findings at different venues to diverse audiences in the region in question. The Middle East and Central Asia Department, for example, organizes outreach activities in association with its REOs twice a year in Dubai, Central Asia, and North Africa.

Intensified outreach has contributed to wider dissemination of the findings of IMF studies and stimulated debate on regional issues. In addition to the activities undertaken in connection with the publication of the REOs, the Fund organizes regional conferences and seminars either on its own or in collaboration with regional entities. (For examples, see the section on outreach in Chapter 5.)

Financial sector surveillance and the Standards and Codes Initiative

For countries to reap the full benefit of cross-border capital flows, which have increased dramatically over the past two decades, their financial sectors must be resilient and well regulated. In 1999, the IMF and the World Bank introduced a joint initiative, the FSAP, to provide member countries, on a voluntary basis, with a comprehensive evaluation of their financial systems. The FSAP, a cornerstone of financial sector surveillance, provides the basis for the IMF's Financial System Stability Assessments (FSSAs)—assessments of risks to macroeconomic stability stemming from the financial sector, including the latter's ability to absorb macroeconomic shocks.

Regional FSAPs can be undertaken for currency unions, notably where significant regulatory and supervisory structures are at the regional level. As described above, a regional FSAP—for CEMAC—was completed in FY2007, and WAEMU requested an FSAP. In

[15]The full text of these reports can be found on the IMF's Web site, at www.imf.org. There are plans to publish a *Regional Economic Outlook* for Europe beginning in the fall of 2007.

addition, the IMF has undertaken regional financial sector projects in Central America, the Maghreb, and the Nordic-Baltic region.[16]

With a total of 123 initial assessments now completed or under way, the IMF and the World Bank are increasingly focusing on FSAP updates. The core elements of updates include financial stability analysis, factual updates of the observance of standards and codes included in the initial assessment,[17] and reexamination of key issues raised in the initial assessment. Updates usually require only a single visit by an IMF–World Bank team (initial assessments require two)—and a smaller team—and hence are typically less resource-intensive than initial assessments.

In FY2007, 18 FSAPs were completed, of which 6 were updates;[18] another 53 (of which 30 are updates) are either under way or agreed and being planned.

Work is progressing on incorporating a financial sector component into the IMF's Global Economy Model.[19] The IMF is also studying both the implications of growing international financial integration for national fiscal policies and the linkages between the financial sector and fiscal institutions and policy.

Standards and codes, including data dissemination

In the wake of the Asian crisis of 1997–98, during their discussions on strengthening the international financial architecture, Executive Directors stressed the need to develop and implement internationally recognized standards and codes of good practice that would foster financial and macroeconomic stability at both the domestic and the international levels. The

[16]See Box 3.4, "Regional financial integration in Central America," in the IMF's *Annual Report 2006,* at www.imf.org/external/pubs/ft/ar/2006/eng/index.htm.

[17]Factual updates describe developments that are relevant to compliance with standards and codes but do not reassess the ratings in the initial FSAP.

[18]These numbers refer to FSSAs discussed by the Board during FY2007.

[19]The Global Economy Model (GEM), which the IMF has been developing since 2002, is a large, multicountry macroeconomic model based on an explicit microeconomic framework in which consumers maximize utility and producers maximize profits. The integration of domestic supply, demand, trade, and international asset markets in a single theoretical structure allows transmission mechanisms to be fully articulated, providing new insights not obtainable from earlier models. A range of GEM simulations have been used in IMF work to assess issues such as the domestic and international consequences of policies to increase competition in markets, the impact of oil price increases, the effects on emerging market countries of exchange rate volatility across industrial countries, and appropriate monetary policy rules for emerging market countries. A detailed description of the model can be found at www.imf.org/external/np/res/gem/2004/eng/index.htm.

result was the launch of the Standards and Codes Initiative in 1999. The IMF and the World Bank evaluate member countries' policies against international benchmarks of good practice in three broad areas—transparent government operations and policymaking, financial sector standards, and market integrity standards for the corporate sector—and issue Reports on the Observance of Standards and Codes (ROSCs; see Box 2.3), which are intended to help countries strengthen their economic institutions, to inform the work of the IMF and the Bank, and to inform market participants. Following up on the Executive Board's review of the Standards and Codes Initiative in FY2006 and the recommendations of the MTS, the Initiative has been strengthened, with clearer country prioritization of ROSCs and updates, better integration of ROSCs with surveillance and technical assistance, and greater clarity of ROSCs. Several standards have been revised in recent years, and the revised standards are now being used as the basis for assessments. For example, in April 2007, the Board endorsed the new Basel Core Principles[20] standard and methodology released in October 2006.

Underpinning assessments of fiscal transparency in 86 countries under the Standards and Codes Initiative is the IMF's *Code of Good Practices on Fiscal Transparency,* which was revised during FY2007, after a broad public consultation process. The Code, launched in 1998, is a central element in the IMF's efforts to help members implement standards in the areas of transparency and good governance. Fiscal transparency leads to better-informed public debate about fiscal policy, makes governments more accountable for policy implementation, and strengthens government credibility, thereby strengthening countries' capacity for sound macroeconomic policymaking, public debt management, and budget preparation.[21] A major aim of the revised Code is to fully integrate issues related to resource-revenue transparency, drawing on experience gained from use of the IMF's 2005 *Guide on Resource Revenue Transparency,* which focuses on the problems of countries that derive a

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[20]The Core Principles for Effective Banking Supervision, which the Basel Committee on Banking Supervision originally published in September 1997, were updated in 2006 to keep pace with changes in banking regulation. The Core Principles and the Core Principles Methodology are used by countries as a benchmark for assessing the quality of their supervisory systems and for identifying future work that needs to be done to overcome regulatory and supervisory shortcomings. The IMF and the World Bank also use the Core Principles in the context of the Financial Sector Assessment Program to assess countries' banking supervision systems and practices.

[21]The Code can be found at *www.imf.org/external/np/fad/trans/code.htm*.

significant share of their revenues from hydrocarbon and mineral resources. The revised Code also extends the coverage of good practice to address more explicitly some key fiscal transparency issues, such as fiscal risk management, the openness of budgets and policy decisions, external audit processes, and the publication of a citizens' guide to the budget. Extensive revisions have also been made to the *Manual on Fiscal Transparency,* which provides detailed guidance on good fiscal transparency practices, with examples from a range of developing, emerging, and advanced economies.[22]

In addition, in September 2006 the IMF began publishing *International Financial Statistics, Supplement on Monetary and Financial Statistics, Supplement Series No.17,* a quarterly compilation of monetary and financial statistics for 65 countries. These data are an important input for compiling the matrices of the IMF's balance sheet approach to assessing debt vulnerabilities. Since the Asian crisis, the analysis of balance sheet vulnerabilities has become an increasingly important part of country risk assessment at the IMF. Information about balance sheets in a country's key economic sectors (public, private financial and nonfinancial, and household and nonresident) facilitates assessments of maturity, currency, and capital structure mismatches as well as intersectoral linkages.

In view of the evolving economic environment and changing needs for economic analysis, the IMF is updating macroeconomic statistical standards in close collaboration with member countries and other international organizations. The IMF is contributing to the update of the System of National Accounts 1993, and it has drafted and posted on its Web site for worldwide consultation the sixth edition of the *Balance of Payments and International Investment Position Manual* and the *Export and Import Price Index Manual.* The update of the various statistical standards is being coordinated to ensure maximum harmonization of statistical methodologies. The methodological standards in statistics underpin the IMF's work on data ROSCs, technical assistance, and training, and promote the comparability of data and best practices in statistical methodology.

[22]Available at www.imf.org/external/np/fad/trans/manual/index.htm.

MODERNIZING THE SURVEILLANCE FRAMEWORK AND INTEGRATING FINANCIAL SECTOR ANALYSIS

Over the past 30 years, the Executive Board has reviewed the IMF's surveillance work at regular intervals. From 1988 to 2004, reviews were conducted biennially. A decision was made in 2006 to move to triennial reviews in accordance with the MTS's call for streamlining IMF procedures. The most recent review, conducted in 2004, called for deeper treatment of exchange rate issues, including (1) clear identification of the de facto exchange rate regime in staff reports, (2) more systematic use of a broad set of indicators and analytical tools to assess external competitiveness, and (3) a thorough and balanced presentation of the policy dialogue between the staff and the authorities on exchange rate issues.[24] Following up on these recommendations, in August 2006, the Executive Board discussed a paper by IMF staff assessing the quality of recent work by the IMF on exchange rate issues in 30 large economies accounting for more than 90 percent of world GDP.[25] Executive Directors generally agreed that exchange rate surveillance had improved appreciably since the 2004 review and that the quality of the analysis was mostly adequate in three of the four dimensions reviewed—the description of the exchange rate regime, the assessment of the regime, and the consistency of exchange rate policies with external stability—but that there was room for better analysis in the fourth, the assessment of exchange rate levels and external competitiveness. The Board also called for a greater focus on the spillover effects of countries' exchange rate policies.

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As part of the effort to strengthen the IMF's framework for assessing exchange rate issues, at an informal seminar in November 2006, the Executive Board discussed a staff report on revised and extended methodologies for exchange rate assessments by the IMF's Consultative Group on Exchange Rate Issues (CGER). The CGER, which has provided

[24]The Biennial Surveillance Review can be found on the IMF's Web site, at www.imf.org/external/np/sec/pn/2004/pn0495.htm.

[25]The paper, "Treatment of Exchange Rate Issues in Bilateral Fund Surveillance—A Stocktaking," can be found on the IMF's Web site, at www.imf.org/external/pp/longres.aspx?id=3951. The summing up of the Board discussion can be found on the CD-ROM and on the IMF's Web site: PIN No. 06/131, "IMF Executive Board Discusses Treatment of Exchange Rate Issues in Bilateral Surveillance—A Stocktaking," www.imf.org/external/np/sec/pn/2006/pn06131.htm.

exchange rate assessments for a number of advanced economies since the mid-1990s, has extended its methodologies to cover about 20 emerging market countries. These methodologies can help gauge the consistency of current account balances and real effective exchange rates with their underlying fundamentals. Staff organized outreach events with officials, academics, and market participants in Europe, Asia, and Africa to discuss this extension and approaches to exchange rate modeling.[26]

Complementing the periodic efforts of the Executive Board and the Fund's management and staff to take stock of the effectiveness of surveillance, the IMF's Independent Evaluation Office (IEO; see Box 5.3) completed an evaluation in April 2007 of the IMF's exchange rate policy advice, for discussion by the Executive Board in early FY2008.[27] The IEO set out to answer three main questions: Is the role of the IMF clearly defined and understood? How good is the quality of the IMF's advice and its underlying analysis? And how effective is the IMF in its policy dialogue with country authorities? Its report acknowledges that the quality of the IMF's advice to its member countries had improved in some ways from 1999 to 2005, citing many examples of good analysis and dedicated staff teams. At the same time, it identifies a need to revalidate the fundamental purpose of IMF exchange rate surveillance and thus clarify the expected roles of the IMF and member countries, offering detailed recommendations for improving the management and conduct of the IMF's exchange rate policy advice and interactions with member countries.

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The principles and procedures governing the scope and operational modalities of surveillance over exchange rate policies were adopted by the Executive Board in 1977, after the collapse of the Bretton Woods system of fixed exchange rate parities.[28] In FY2007, the Board held discussions on the possibility of revising the Decision to broaden it to cover surveillance more comprehensively, and to align it more closely with Article IV and current

[26] See Press Release No. 06/266, "IMF Strengthening Framework for Exchange Rate Surveillance," on the CD-ROM or at www.imf.org/external/np/sec/pr/2006/pr06266.htm. The staff report can be found at www.imf.org/external/np/sec/pr/2006/pr06266.htm.

[27] The IEO's report can be found at www.ieo-imf.org/eval/complete/eval05172007.html.

[28] The 1977 Decision on Surveillance over Exchange Rate Policies can be found on the IMF's Web site, at www.imf.org/external/pubs/ft/sd/index.asp?decision=5392-(77/63).

best practice.[29] A revised decision would not only demonstrate the Fund's resolve to strengthen the effectiveness of surveillance, including over exchange rates, but also serve as a basis for the practice of surveillance, unifying guidance, clarifying issues and procedures, and providing a better foundation for surveillance to address priority issues. In their discussion, Executive Directors found important areas of broad agreement and subsequently worked to build common ground on other areas. At the spring meetings of the IMF and the World Bank, the IMFC agreed that the following principles should guide further work: (1) there should be no new obligations, and dialogue and persuasion should remain key pillars of effective surveillance; (2) surveillance should pay due regard to country circumstances and emphasize the need for evenhandedness; and (3) a revised decision should be flexible enough to allow surveillance to evolve as circumstances warrant.[30]

During FY2007, the Board also exchanged views on the possibility of introducing a clear statement of surveillance priorities to guide implementation and facilitate ex post monitoring of effectiveness (a "remit"), against the background of the existing accountability and independence framework. In doing so, it examined methods for assessing the effectiveness of IMF surveillance and agreed that a strengthened methodology should be introduced in the context of the next review of surveillance, scheduled to take place in FY2008.

Integrating financial sector and capital markets analysis into surveillance

A task force was established in FY2006 to study the issue of how to better integrate the IMF's financial sector work into its surveillance. The task force delivered its recommendations in FY2007, emphasizing the need for a broader multilateral perspective, more focus on the financial sector's impact on growth and the macroeconomy, and a thorough assessment of risks. Following up on these recommendations, the IMF has increased interdepartmental cooperation and prioritized its financial sector work, with

[29]See "Article IV of the Fund's Articles of Agreement: An Overview of the Legal Framework," a paper prepared by IMF staff, at www.imf.org/external/np/pp/eng/2006/062806.pdf.

[30]On June 15, 2007, the Board adopted the 2007 Decision on Bilateral Surveillance over Members' Policies, which replaces the 1977 Decision. The summing up of the Board discussion can be found at www.imf.org/external/np/sec/pn/2007/pn0769.htm.

heightened monitoring of both systemically important countries and countries vulnerable to crisis.

The IMF also contributes to international efforts to combat money laundering and the financing of terrorism, in collaboration with the Financial Action Task Force on Money Laundering (FATF), the World Bank, the United Nations, and FATF-style regional bodies (FSRBs). As a collaborative institution with near universal membership, the IMF is a natural forum for sharing information, developing common approaches to issues, and promoting desirable policies and standards. In addition, the IMF's broad experience in conducting financial sector assessments, providing technical assistance in the financial sector, and exercising surveillance over members' economic systems is particularly valuable in evaluating country compliance with international AML/CFT standards and in developing programs to help them address shortcomings. In 2004, the Executive Board agreed to make AML/CFT assessments and technical assistance a regular part of Fund work and to expand this work to cover the full scope of the FATF's 40 recommendations designed to guide national policymakers in implementing effective anti–money laundering programs and 9 additional recommendations on combating the financing of terrorism.

In its June 2006 discussion of a paper jointly prepared by IMF and World Bank staff on the quality and consistency of assessments of national AML/CFT regimes,[31] which are carried out by the IMF, the World Bank, the FATF, or the FSRBs, using an agreed common methodology, the Executive Board reiterated the importance of AML/CFT in strengthening the integrity of financial systems and deterring financial abuse and confirmed the IMF's collaborative arrangements with the FATF and FSRBs for assessing AML/CFT regimes. As part of its review, the Executive Board examined the findings of an expert panel that had analyzed a sample of AML/CFT assessments prepared by different bodies and concluded that there was a high degree of variability in the quality and consistency of the reports. The Executive Board noted that a number of initiatives had been taken or were under way to

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[31]The staff paper is available at www.imf.org/external/np/pp/eng/2006/041806r.pdf. The summing up of the Board's discussion can be found on the CD-ROM and on the IMF's Web site, at www.imf.org/external/np/sec/pn/2006/pn0672.htm.

improve the assessments and called on IMF staff to provide technical assistance to, and cooperate more closely with, the FSRBs.

The Board also agreed that every assessment or update under the FSAP or Offshore Financial Center (OFC) assessment program[32] should include a full AML/CFT assessment using the most recent methodology and that full AML/CFT assessments should be conducted approximately every five years. The Fund is expected to continue monitoring significant financial sector problems arising from money laundering or terrorism-financing activities through other vehicles, such as assessments of other financial sector standards, Article IV consultations, and participation in FATF and regional forums.

The Executive Board has consistently underscored the importance of financial soundness indicators (FSIs) in facilitating financial sector surveillance, increasing the transparency and stability of the international financial system, and strengthening market discipline. After developing a core set and an encouraged set of FSIs in consultation with the international community, the IMF launched the three-year pilot Coordinated Compilation Exercise (CCE), which was endorsed by the Board, in March 2004 to (1) build the capacity of the 62 participating countries to compile FSIs; (2) promote cross-country comparability of FSIs; (3) coordinate efforts by national authorities to compile FSIs; and (4) disseminate the FSI data compiled in the CCE, along with metadata, to increase transparency and strengthen market discipline. The methodology recommended by the IMF to ensure cross-country comparability is presented in *Financial Soundness Indicators: Compilation Guide.*[33] In accordance with the terms of reference of the CCE, the participants were to compile at least the 12 core FSIs as of the end-2005 reference date and provide the core FSI data and the underlying data series, along with detailed metadata, to the IMF in the second half of 2006. Countries were also encouraged to compile and submit data and metadata for any of 28 encouraged FSIs. FSI data and metadata for 52 of the 62 countries participating in the CCE

[32]The OFC assessment program was initiated in 2000. The monitoring of OFCs, to ensure their compliance with supervisory and integrity standards, has become a standard component of the IMF's financial sector work.

[33]The Guide can be found at www.imf.org/external/pubs/ft/fsi/guide/2006/index.htm. The list of core and encouraged FSIs can be found at www.imf.org/external/np/sta/fsi/eng/fsi.htm.

were posted on the IMF's Web site before the end of FY2007.[34] Many countries also regularly compile and disseminate FSIs on their own, and these indicators are included in FSAP documents. Early in FY2008, IMF staff conducted two post-CCE meetings, to gather the views of participating countries and cooperating international agencies on the compilation and reporting of FSIs for a paper to be presented to the Executive Board.

[34]Another five countries posted their data and metadata in the first month of FY2008; see www.imf.org/external/np/sta/fsi/eng/cce/index.htm.

3. Program support

The IMF provides financial and other kinds of support to its member countries through a variety of instruments, including lending facilities, tailored to their different circumstances (Table 3.1). Review and approval of members' requests for financial assistance and program support are core responsibilities of the Board, alongside surveillance.

Under the Fund's lending facilities, the Board makes temporary financing available to members to help them address a variety of balance of payments problems, such as a lack of sufficient foreign exchange to purchase needed imports or make payments on external obligations. IMF loans give countries time to adjust their policies so as to overcome short-term balance of payments problems, stabilize their economies, and avoid similar problems in the future. IMF lending is not intended to cover all of a borrower's needs but, rather, to have a catalytic effect—enabling a country to restore confidence in its policies and attract financing from other sources. Loans are accompanied by economic reform programs developed by the borrowers in collaboration with the IMF. The Executive Board regularly reviews borrowers' performance under their programs, and, in most cases, funds are disbursed as program targets are met.

Regular financing activities. The bulk of the IMF's loans are provided through Stand-By Arrangements (SBAs), which address members' short-term balance of payments difficulties, and the Extended Fund Facility (EFF), which focuses on external payments difficulties caused by longer-term structural problems. For members experiencing a sudden and disruptive loss of access to capital markets, these loans can be supplemented with short-term resources from the IMF's Supplemental Reserve Facility (SRF). In addition, special Emergency Assistance is available to countries recovering from conflicts or natural disasters. All of these loans incur interest charges, and many may be subject to surcharges, depending on the type and duration of the loan and the amount of IMF credit outstanding. Repayment periods vary by type of loan. The IMF's regular lending activities are financed out of a revolving pool of funds held in the General Resources Account (GRA) and consisting mainly of members' quota subscriptions. In addition, the IMF has in place two formal borrowing arrangements with member countries and can borrow to supplement its quota resources.

Table 3.1 IMF lending facilities

Credit facility (year adopted)	Purpose	Conditions	Phasing and monitoring[1]	Access limits[1]	Charges[2]	Repurchase (repayment) terms[3]: Obligation schedule *(Years)*	Repurchase (repayment) terms[3]: Expectation schedule *(Years)*	Repurchase (repayment) terms[3]: Installments
Credit tranches and Extended Fund Facility[4]								
Stand-By Arrangements (1952)	Medium-term assistance for countries with balance of payments difficulties of a short-term character.	Adopt policies that provide confidence that the member's balance of payments difficulties will be resolved within a reasonable period.	Quarterly purchases (disbursements) contingent on observance of performance criteria and other conditions.	Annual: 100% of quota; cumulative: 300% of quota.	Rate of charge plus surcharge (100 basis points on amounts above 200% of quota; 200 basis points on amounts above 300% of quota).[5]	$3\frac{1}{4}$–5	$2\frac{1}{4}$–4	Quarterly
Extended Fund Facility (1974) (Extended Arrangements)	Longer-term assistance to support members' structural reforms to address balance of payments difficulties of a long-term character.	Adopt 3-year program, with structural agenda, with annual detailed statement of policies for the next 12 months.	Quarterly or semiannual purchases (disbursements) contingent on observance of performance criteria and other conditions.	Annual: 100% of quota; cumulative: 300% of quota.	Rate of charge plus surcharge (100 basis points on amounts above 200% of quota; 200 basis points on amounts above 300% of quota).	$4\frac{1}{2}$–10	$4\frac{1}{2}$–7	Semiannual

Table 3.1 *(continued)*

Credit facility (year adopted)	Purpose	Conditions	Phasing and monitoring[1]	Access limits[1]	Charges[2]	Repurchase (repayment) terms[3]: Obligation schedule *(Years)*	Expectation schedule *(Years)*	Installments
Special facilities								
Supplemental Reserve Facility (1997)	Short-term assistance for balance of payments difficulties related to crises of market confidence.	Available only in context of Stand-By or Extended Arrangements with associated program and with strengthened policies to address loss of market confidence.	Facility available for one year; frontloaded access with two or more purchases (disbursements).	No access limits; access under the facility only when access under associated regular arrangement would otherwise exceed either annual or cumulative limit.	Rate of charge plus surcharge (300 basis points, rising by 50 basis points a year after first disbursement and every 6 months thereafter to a maximum of 500 basis points).	$2\frac{1}{2}$–3	2–$2\frac{1}{2}$	Semiannual
Compensatory Financing Facility (1963)	Medium-term assistance for temporary export shortfalls or cereal import excesses.	Available only when the shortfall/excess is largely beyond the control of the authorities and a member has an arrangement with upper credit tranche conditionality, or when its balance of payments position excluding the shortfall/excess is satisfactory.	Typically disbursed over a minimum of six months in accordance with the phasing provisions of the arrangement.	45% of quota each for export and cereal components. Combined limit of 55% of quota for both components.	Rate of charge.	$3\frac{1}{4}$–5	$2\frac{1}{4}$–4	Quarterly

Table 3.1 ***(continued)***

Credit facility (year adopted)	Purpose	Conditions	Phasing and monitoring[1]	Access limits[1]	Charges[2]	Repurchase (repayment) terms[3]		
						Obligation schedule *(Years)*	Expectation schedule *(Years)*	Installments
Emergency Assistance	Assistance for balance of payments difficulties related to the following:		None, although post-conflict assistance can be segmented into two or more purchases.	Generally limited to 25% of quota, though larger amounts can be made available in exceptional cases.	Rate of charge; however, the rate of charge may be subsidized to 0.5 percent a year, subject to resource availability.	$3\frac{1}{4}$–5	Not applicable	Quarterly
(1) Natural disasters (1962)	Natural disasters	Reasonable efforts to overcome balance of payments difficulties.						
(2) Post-conflict (1995)	The aftermath of civil unrest, political turmoil, or international armed conflict	Focus on institutional and administrative capacity building to pave the way toward an upper credit tranche arrangement or PRGF.						

Table 3.1 *(continued)*

Credit facility (year adopted)	Purpose	Conditions	Phasing and monitoring[1]	Access limits[1]	Charges[2]	Repurchase (repayment) terms[3]		
						Obligation schedule *(Years)*	Expectation schedule *(Years)*	Installments
Facilities for low-income members								
Poverty Reduction and Growth Facility (1999)	Longer-term assistance for deep-seated balance of payments difficulties of structural nature; aims at sustained poverty-reducing growth.	Adopt 3-year PRGF PRGF arrangements. PRGF-supported programs are based on a Poverty Reduction Strategy Paper (PRSP) prepared by the country in a participatory process and integrating macroeconomic, structural, and poverty reduction policies.	Semiannual (or occasionally quarterly) disbursements contingent on observance of performance criteria and reviews.	140% of quota; 185% of quota in exceptional circumstances.	0.5%	5 1/2–10	Not applicable	Semiannual
Exogenous Shocks Facility (2006)	Short-term assistance to address a temporary balance of payments need that is due to an exogenous shock.	Adopt a 1–2 year program involving macroeconomic adjustments allowing the member to adjust to the shock and structural reform considered important for adjustment to the shock, or for mitigating the impact of future shocks.	Semiannual or quarterly disbursements on observance of performance criteria and, in most cases, completion of a review.	Annual: 25% of quota; cumulative: 50% of quota except in exceptional circumstances.	0.5%	5 1/2–10	Not applicable	Semiannual

Table 3.1 ***(concluded)***

[1]Except for the PRGF, the IMF's lending is financed from the capital subscribed by member countries; each country is assigned a *quota* that represents its financial commitment. A member provides a portion of its quota in foreign currencies acceptable to the IMF—or SDRs (see Chapter 8)—and the remainder in its own currency. An IMF loan is disbursed or drawn by the borrower *purchasing* foreign currency assets from the IMF with its own currency. Repayment of the loan is achieved by the borrower *repurchasing* its currency from the IMF with foreign currency. See CD Box 3.1 on the IMF's Financing Mechanism. PRGF lending is financed by a separate PRGF Trust.

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

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

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

[5]Surcharge introduced in November 2000.

Box 3.1 Special Drawing Rights

The SDR is a reserve asset created by the IMF in 1969 in response to the threat of a shortage of international liquidity. SDRs are "allocated"—distributed—to members in proportion to their IMF quotas. Since the SDR's creation, a total of SDR 21.4 billion has been allocated to members—SDR 9.3 billion in 1970–72 and SDR 12.1 billion in 1978–81.Today, the SDR has only limited use as a reserve asset. Its main function is to serve as the unit of account of the IMF and some other international organizations and a means of payment for members in settling their IMF financial obligations. The SDR is neither a currency nor a claim on the IMF. Rather, it is a potential claim on the freely usable currencies of IMF members. Holders of SDRs can obtain these currencies in exchange for their SDRs in two ways: first, through the arrangement of voluntary exchanges between members; and second, by the IMF's designating members with strong external positions to purchase SDRs from members with weak external positions in exchange for freely usable currencies.

The value of the SDR is based on the weighted average of the values of a basket of major international currencies, and the SDR interest rate is a weighted average of interest rates on short-term instruments in the markets for the currencies in the valuation basket. The method of valuation is reviewed every five years. The latest review was completed in November 2005, and the IMF Executive Board decided on changes in the valuation basket effective January 1, 2006. The SDR interest rate is calculated weekly and provides the basis for determining the interest charges on regular IMF financing and the interest rate paid to members that are creditors of the IMF.

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Deleted: , thereby providing needed foreign exchange to members with balance of payments problems. Since the SDR's creation, a total of SDR 21.4 billion has been allocated to members—SDR 9.3 billion in 1970–72 and SDR 12.1 billion in 1978–81—increasing the amount of foreign exchange members can "purchase" from each other.

Financing for low-income countries. The IMF provides support to its low-income members through a variety of instruments. These include highly subsidized lending through the Poverty Reduction and Growth Facility (PRGF) and the Exogenous Shocks Facility (ESF); subsidized Emergency Assistance for eligible post-conflict countries and countries hit by natural disasters; and debt relief under the Heavily Indebted Poor Countries (HIPC) Initiative[35] and the Multilateral Debt Relief Initiative (MDRI).[36] The PRGF, the main

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[35]The HIPC Initiative was launched by the IMF and the World Bank in 1996 and enhanced in 1999 to provide faster, deeper, and broader debt relief and to strengthen the links between debt relief, poverty reduction, and social policies. CD-Table 3.1, which shows the delivery of debt relief as of April 30, 2007, can be found on the CD-ROM. More information about the HIPC Initiative can be found on the IMF's Web site, at www.imf.org/external/np/exr/facts/hipc.htm.

[36]CD-Table 3.1 and CD-Table 3.2, which show subsidy contributions as of April 30, 2007, for the ESF and for emergency assistance, respectively, can be found on the CD-ROM.

instrument for provision of IMF financial support to low-income countries, focuses on poverty reduction in the context of a growth-oriented economic strategy, while the ESF provides concessional assistance to low-income members that are facing sudden exogenous shocks but do not have a PRGF arrangement in place. A low-income country seeking a PRGF or ESF loan or debt relief must prepare a Poverty Reduction Strategy Paper (PRSP) in a participatory process involving civil society; the PRSP is considered by the Boards of the IMF and the World Bank, but the strategy is developed and owned by the country. The funds for PRGF loans come from trust funds administered by the IMF, and the subsidy resources are financed by contributions from the IMF and a broad spectrum of its member countries.

Special Drawing Rights. The IMF can create international reserve assets by allocating Special Drawing Rights (SDRs) to members (Box 3.1). Recipient countries can use SDRs to obtain foreign exchange from other members and to make payments to the IMF. SDRs are also the IMF's unit of account.

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The Fund can also provide loans under its lending facilities through the Trade Integration Mechanism (TIM), which it introduced in FY2004. The TIM is not a lending facility itself, but, rather, a policy aimed at making Fund resources more predictably available to qualifying member countries under existing IMF facilities. It is designed to mitigate concerns among some developing countries that their balance of payments positions could suffer, albeit temporarily, as multilateral liberalization changes their competitive position in world markets.

Detailed information about the amounts of lending approved by the IMF, credit outstanding, and repayments, broken down by lending facility and financial year, can be found in the Appendix II tables. Appendix II is on the CD-ROM.

The IMF's Executive Board frequently reviews and refines the IMF's policies and instruments to ensure that they meet members' evolving needs. During FY2007, the IMF's Executive Board began work on the development of a new contingent financing instrument that emerging market countries active in international capital markets could draw on if they experience a sudden, temporary loss of liquidity. To help low-income countries avoid building up excessive debt after benefiting from debt relief, the Boards of the IMF and the

World Bank decided to strengthen the Debt Sustainability Framework (DSF) developed by the two institutions in 2005, and the IMF and the World Bank engaged in outreach on ways to use the DSF more effectively. The Board also reviewed the report of the Independent Evaluation Office (IEO; Box 5.3), "The IMF and Aid to Sub-Saharan Africa," concluded a review of "ex post assessments"—assessments of the successes and failures of IMF-supported programs with repeat or longer-term borrowers—and reviewed the IMF's experience over 1992–2005 with precautionary arrangements, which give countries not facing immediate balance of payments problems the right to draw on financial assistance from the IMF should the need arise, conditional on the implementation of specific policies.

EMERGING MARKET ECONOMIES

Many emerging market economies have moved from programs to a surveillance-only relationship with the IMF. As these countries have gained access to international capital markets, they have repaid their IMF loans ahead of schedule and their need for new IMF lending has decreased dramatically.

Lending

IMF credit outstanding at the end of FY2007 declined to SDR 7.3 billion from SDR 19.2 billion in April 2006, owing to continued early repayments of outstanding loans and a low level of new disbursements (Figure 3.1).[37] During FY2007, eight members—Bulgaria, the Central African Republic, Ecuador, Haiti, Indonesia, the Philippines, Serbia, and Uruguay—repaid their outstanding obligations to the IMF ahead of schedule, for a total of SDR 7.1 billion. IMF disbursements totaled SDR 2.3 billion, the bulk of which went to Turkey.

New IMF commitments fell sharply, from SDR 8.4 billion in FY2006 to SDR 237 million in FY2007, with two new Stand-By Arrangements approved for Paraguay and Peru. Seven Stand-By and Extended Arrangements were in effect as of the end of

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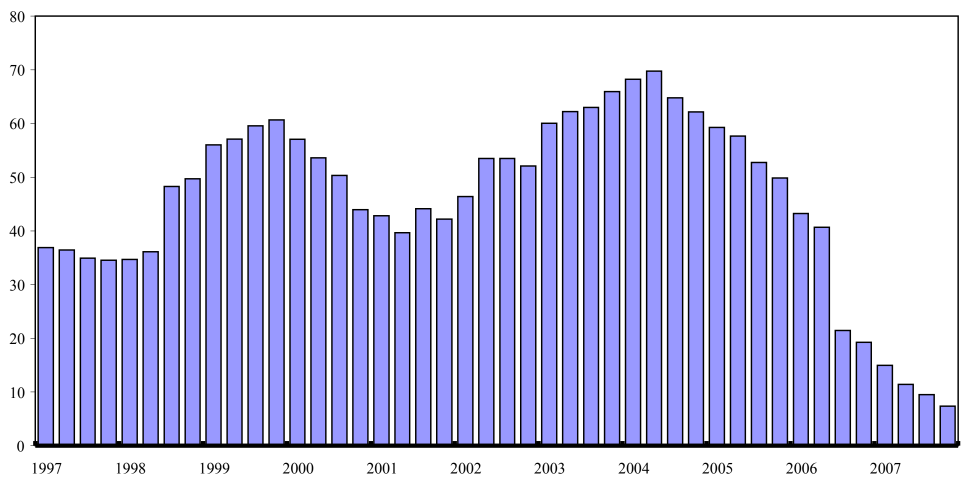
[37] The IMF's liquidity, as measured by the Forward Commitment Capacity (FCC), rose to an all-time high of SDR 126.1 billion at the end of April 2007, from SDR 120.1 billion at the end of April 2006, largely because of the significant decline in lending.

FY2007, of which four are being treated as precautionary since borrowers have indicated their intention not to draw on them. At the end of April 2007, undrawn balances under all current Stand-By and Extended Arrangements amounted to SDR 3.9 billion.

Figure 3.1 Regular loans outstanding FY1997– FY2007
(In billions of SDRs)



Source: IMF Finance Department.

New financing instrument

A number of the IMF's members have called for consideration of a new financing instrument designed specifically to support crisis-prevention efforts by members active in international capital markets. As part of the analytical backdrop to the design of such an instrument, in May 2006 the Executive Board held an informal seminar to discuss a study on the role of IMF-supported programs in crisis prevention.[38] Based on theoretical and empirical work, that study found that the availability of IMF resources can have a significant impact on lowering

[38]"The Role of Fund Support in Crisis Prevention" (March 23, 2006), can be found on the IMF's Web site, www.imf.org.

the likelihood of a crisis. Moreover, the marginal impact of IMF support depends on the quality of the member's policies and economic fundamentals—accordingly, the availability of IMF financial resources can have a strong complementary effect to the member's own crisis-prevention efforts. Building on this analytical work, at a seminar in August 2006, the Executive Board discussed the objectives for a new financing instrument, taking into account the IMF's experience with an earlier instrument, the Contingent Credit Lines (CCL).[39]

A successful instrument would reduce the risk of a crisis by granting qualified members—that is, countries following sound policies—access to a credit line, thereby lowering the incentive for private investors to reduce their exposure early, at the first sign of trouble. It would also need to balance predictable access to IMF financing against adequate safeguards for IMF resources, and manage the tension between the provision of strong positive signals when conditions are good and the possibility that entry or exit from the instrument could generate negative signals when circumstances deteriorate.

At the September 2006 Annual Meetings, the IMFC requested that the IMF continue to work on designing a new instrument, tentatively called the Reserve Augmentation Line. Outreach by IMF management and staff with officials and market participants facilitated further work on the instrument's design, and in March 2007 Executive Directors discussed a paper that sought further convergence of views on key design issues, such as qualification, monitoring, access, terms, and a sunset clause.[40] The discussion clarified areas of emerging

[39]The summing up of the Board's discussion is contained in PIN 06/104, which can be found on the CD-ROM and on the IMF's Web site, at www.imf.org/external/np/sec/pn/2006/pn06104.htm. A fact sheet about the Contingent Credit Lines can be found at www.imf.org/external/np/exr/facts/ccl.htm. The IMF introduced the CCL in 1999 as part of its response to the rapid spread of turmoil through global financial markets during the Asian crisis of 1997–98. The instrument was intended to provide a precautionary line of defense for members that had sound policies and were not at risk of an external payments crisis of their own making, but that were vulnerable to contagion effects from capital account crises in other countries. Despite changes intended to make the CCL more attractive to members, it was never used, and the Board decided in 2003 to allow it to expire.

[40]The staff paper, "Further Consideration of a New Liquidity Instrument for Market Access Countries—Design Issues," February 13, 2007, can be found on the IMF's Web site, at www.imf.org/external/pp/longres.aspx?id=4044. The summing up of the Board's discussion, PIN 07/40, can be found on the CD-ROM as well as on the Fund's Web site, at www.imf.org/external/np/sec/pn/2007/pn0740.htm.

common ground and revealed areas where further progress is needed. The Executive Board called on IMF staff to prepare a follow-up paper refining the proposals.

LOW-INCOME COUNTRIES

The MTS identifies the need to make the IMF's engagement with low-income countries more flexible, as well as more focused on what is essential and on areas where the IMF has a comparative advantage and expertise. Over the past few years, the Board has approved a wide array of instruments to help the IMF's low-income members achieve macroeconomic stability and sustainable growth, which are critical to the achievement of the Millennium Development Goals (Box 3.2). In addition to the advice given to countries in the course of its surveillance activities, the IMF provides advice, financial assistance, and debt relief in connection with the facilities described above, and 90 percent of its technical assistance goes to low- and lower-middle-income countries (see Chapter 4). For low-income countries eligible for PRGF lending that do not want financial assistance from the IMF but do want support of their policies through counsel and advice, the IMF created the Policy Support Instrument (PSI) in FY2006. As of April 30, 2007, four countries had applied for and received PSIs. The Fund also continues to advocate a successful outcome to the Doha Round of trade negotiations (Box 3.3).

Box 3.2 Tracking progress toward the Millennium Development Goals

The IMF and the World Bank track the progress made by low-income countries toward the achievement of the Millennium Development Goals (MDGs), jointly publishing their findings annually in the *Global Monitoring Report* (GMR). The fourth GMR, issued in April 2007, found that progress on the first goal—halving poverty by 2015—was on track in all developing regions except sub-Saharan Africa, but that efforts to attain the goals of reducing child mortality and disease and achieving environmental sustainability were falling short. It called for greater attention to gender equality—not only because of equity considerations but also because empowering women is essential to economic well-being and the advancement of the other MDGs—and to fragile states, which account for 27 percent of the developing world's extreme poor (those living on less than $1 a day).[1] Fragile states—low-income countries and territories deemed to have especially weak institutions and governance that undermine economic performance and the delivery of basic social services—are, in general, the least likely to achieve the MDGs. Many are emerging from conflict.

A substantial increase in aid will be needed if developing countries are to accelerate their efforts to reach the MDGs. However, actual commitments of aid in 2005–06 as registered by the OECD-DAC (Organization for Economic Cooperation and Development–Development Assistance Committee)—excluding exceptional debt relief transactions—have declined, and projections through 2008 have aid volumes falling well short of the pledges made by the international community at the International Conference on Financing for Development that took place in Monterrey, Mexico, in 2002, and at the Group of 8's Gleneagles summit in 2005. The IMF continues to urge bilateral donors to increase aid levels and make aid more predictable. The Fund is also providing advice and technical assistance to aid recipients in its areas of expertise to ensure that they can use increased aid effectively without undermining macroeconomic stability, crowding out private investment, or falling back into situations of unsustainable external indebtedness.

The IMF works closely with the World Bank on many issues related to low-income countries in addition to the GMR, including the PRSP process, debt relief under the HIPC Initiative and the MDRI, the Debt Sustainability Framework, and the Financial Sector Assessment Program (the FSAP is described in Chapter 2). An External Committee carried out a study on Bank-Fund collaboration, which is discussed in Chapter 5, during FY2007.

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[1]The *Global Monitoring Report: Confronting the Challenges of Gender Equality and Fragile States* can be found on the IMF's Web site, at www.imf.org/external/pubs/cat/longres.cfm?sk=20364.0.

Deleted: The IMF continues to urge bilateral donors to increase aid levels and make aid more predictable, at the same time providing advice and technical assistance to aid recipients to ensure that increased aid can be used effectively, without undermining macroeconomic stability or crowding out private investment. It also continues to advocate a successful outcome to the Doha Round of trade negotiations (Box 3.3).¶

Box 3.3 Trade liberalization and low-income countries

In August 2006, the Executive Board discussed the "Doha Development Agenda and Aid for Trade," a paper jointly prepared by the staffs of the IMF and the World Bank.[1] Executive Directors stressed that work on Aid for Trade should proceed regardless of the status of the Doha Round. Although Aid for Trade cannot substitute for an ambitious outcome to the Doha Round, by helping developing countries address infrastructural and other supply constraints, it may enable them to take full advantage of trade opportunities arising from global market opening. The IMF should continue with selective interventions within its mandate and core areas of competence, including the macroeconomic implications of changes in trade policies and the global trade environment, and advice on tax and customs reform.

The Board took note of the proposals of the WTO Task Forces on an Enhanced Integrated Framework for Trade-Related Technical Assistance (IF) and on Aid for Trade. At present, trade-related priorities in many of the least-developed countries remain disconnected from the PRSP process. Against this background, Executive Directors observed that implementation of the recommendations of the IF Task Force could allow the IF to play a more effective role in helping to identify aid-for-trade needs and coordinating trade-related technical assistance. They welcomed the recommendations for strengthened capacity in IF beneficiary countries and improved IF governance, and recognized donor commitments for the financing of this effort.[2]

Although the benefits of trade liberalization outweigh the costs overall, certain low-income countries may be hurt in the short run by trade liberalization measures that expose their exports to greater competition, reduce their revenues as tariffs are lowered, or raise the cost of food imports as agricultural subsidies are abolished. In 2004, the IMF introduced the Trade Integration Mechanism (TIM), a vehicle that allows countries with IMF arrangements in place to increase their access to IMF resources if necessary to cope with the erosion of trade preferences and the effect of other countries' trade liberalization on their balance of payments. In FY2007, the Executive Board approved the activation of the TIM for Madagascar, in light of the possible impact on the country's textile exports of the expiration of textile quotas in 2005 as called for by the WTO's Agreement on Textiles and Clothing and the implementation of the U.S. African Growth and Opportunities Act in 2007. With the activation of the TIM, Madagascar became eligible for an augmentation of access to IMF resources under its PRGF arrangement. It is the third IMF member for which the TIM has been activated.

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[1]The paper is available on the IMF's Web site, at www.imf.org/external/pp/longres.aspx?id=3886; PIN 06/105, which contains the summing up of the Board's discussion, can be found on the CD-ROM or at www.imf.org/external/np/sec/pn/2006/pn06105.htm.

[2]The recommendations include the establishment of a new executive secretariat in the WTO Secretariat, measures to strengthen capacity in the least-developed countries, a funding target of $400 million over an initial five-year period, and a monitoring and evaluation framework.

Lending

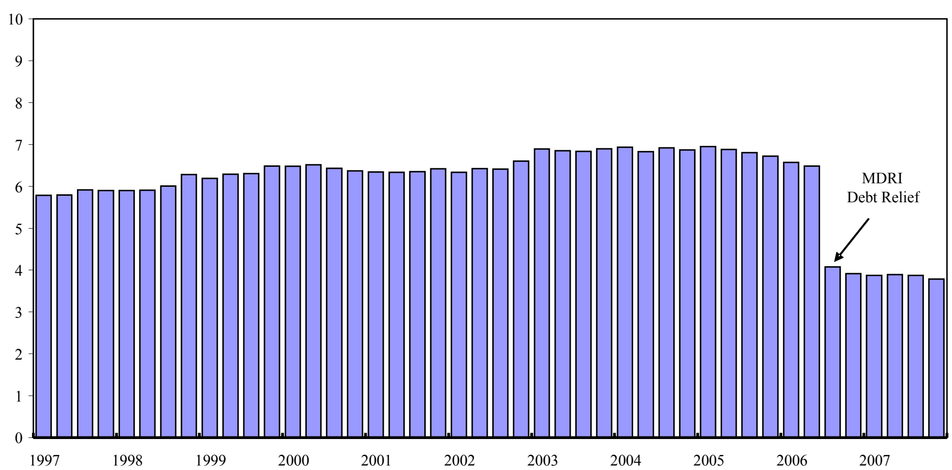
During FY2007, the Executive Board approved 10 new PRGF arrangements (Table 3.2), with commitments totaling SDR 401.2 million. The Board also approved the augmentation of two PRGF arrangements, for a combined total of SDR 36.8 million. In addition, the Board approved Kenya's request to reduce access under its PRGF arrangement by SDR 75 million, in light of its improved external position. As of April 30, 2007, the reform programs of 29 member countries were supported by PRGF arrangements. Total concessional loans outstanding amounted to SDR 3.9 billion (Figure 3.2). To date, no country has requested assistance under the ESF.

Table 3.2 PRGF arrangements approved in FY2007

Member	Effective date	Amount approved[1] (In millions of SDRs)
New arrangements		
Afghanistan	June 26, 2006	81.0
Burkina Faso	April 23, 2007	6.0
Central African Rep.	December 22, 2006	36.2
Gambia, The	February 21, 2007	14.0
Haiti	November 20, 2006	73.7
Madagascar	July 21, 2006	55.0
Mauritania	December 18, 2006	16.1
Moldova	May 5, 2006	80.1
Rwanda	June 12, 2006	8.0
Sierra Leone	May 10, 2006	31.1
Subtotal		**401.2**
Augmentations/reductions		
Burkina Faso	September 8, 2006	6.0
Moldova	December 15, 2006	30.8
Kenya	April 11, 2007	(75.0)
Subtotal		**(38.2)**
Total		**363.0**

Source: IMF Finance Department.
[1]For augmentations/reductions, only the amount of the increase/decrease is shown.

Figure 3.2 Concessional loans outstanding, FY1997–FY2007
(In billions of SDRs)



Source: IMF Finance Department.

Debt relief

Debt relief efforts under the enhanced HIPC Initiative and the MDRI continued during FY2007. A sunset clause was introduced at the start of the HIPC Initiative in 1996, restricting eligibility to countries that had embarked on programs supported by the IMF or the International Development Association (IDA)[41] within a two-year period to prevent the Initiative from becoming permanent, minimize potential moral hazard arising from excessive borrowing in anticipation of debt relief, and encourage early adoption of reforms. Following numerous extensions over the years, at a meeting in September 2006 the Executive Boards of the IMF and the World Bank acknowledged that letting the sunset clause take effect at end-2006 without any modification could leave several countries with debt burdens in excess of the Initiative's thresholds and no further possibility of benefiting from this comprehensive framework. Accordingly, agreement was reached to let the sunset clause take effect while grandfathering all countries assessed to have met the income and indebtedness criteria based on end-2004 data, including countries that might be assessed to have met these criteria at some point in the future.

Executive Directors called on the staff to conduct a stock-taking exercise in a few years' time to review the options for the remaining duration of the HIPC Initiative. They also urged staff to continue working with country authorities to develop and implement reform strategies and to assist these countries in qualifying for HIPC Initiative assistance promptly. At the same time, they encouraged the remaining countries to make every effort to establish a track record of policy performance and implement satisfactorily their poverty reduction strategies so that they can begin receiving debt relief.[42]

As of April 30, 2007, 30 countries had reached the decision point under the enhanced HIPC Initiative; of these, 22 had reached their completion points.[43] The IMF has committed

[41] IDA is the World Bank agency that provides interest-free loans and grants to the poorest member countries.

[42] For the summing up of the Board's discussion, see "IMF Executive Board Discusses Issues Related to the Sunset Clause of the Initiative for Heavily Indebted Poor Countries," PIN 06/107, on the CD-ROM or at www.imf.org/external/np/sec/pn/2006/pn06107.htm

[43] To qualify for HIPC assistance, a country must pursue strong economic policies supported by the IMF and the World Bank. After establishing a track record of good performance and developing a PRSP or an

(continued)

SDR 1.9 billion under the HIPC Initiative and disbursed SDR 1.7 billion. During FY2007, one member (Haiti) reached its decision point, three others (Malawi, Sierra Leone, and São Tomé and Príncipe) reached their completion points, and Afghanistan was added to the list of countries eligible for assistance under the HIPC Initiative.

The MDRI was launched in 2005 to further reduce the debts of qualifying low-income countries and provide them with additional resources to help meet the MDGs. Proposed by the Group of 8 countries, the MDRI is a different mechanism from the HIPC Initiative but linked to it operationally. Under the MDRI, the IMF, IDA, the African Development Fund, and the Inter-American Development Bank provide 100 percent debt relief on eligible claims of countries reaching the completion point under the enhanced HIPC Initiative. In addition, the IMF provides MDRI debt relief to all its members with per capita incomes at or below $380 (including two non-HIPCs, Cambodia and Tajikistan).[44]

As of April 30, 2007, the IMF had delivered MDRI debt relief totaling [SDR 2.7 billion] to 24 countries. The debt relief was financed by a combination of resources from undisbursed HIPC accounts (SDR 0.4 billion), IMF resources (SDR 1.2 billion), and bilateral contributions (SDR 1.1 billion). During FY2007, four members (Malawi, Mauritania, Sierra Leone, and São Tomé and Príncipe) received full debt relief totaling SDR 189.2 million under the MDRI.[45]

Debt Sustainability Framework

The primary aim of the DSF is to help guide the borrowing decisions of low-income countries, balancing their need for funds against their ability to service debt. The Executive Board had a second discussion in FY2007 about how the DSF, which was endorsed by the

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interim PRSP, the country is said to have reached its decision point, at which time the IMF and the World Bank formally decide on the country's eligibility and the international community commits itself to reducing the country's debt to a sustainable level. The country must then continue its good track record with the support of the international community, implementing key policy reforms, maintaining macroeconomic stability, and adopting and implementing a PRSP. Paris Club and other bilateral and commercial creditors reschedule obligations coming due. A country reaches its completion point once it has met the objectives set at the decision point. It then receives the balance of the debt relief committed.

[44]For more information on the MDRI, see PIN 05/164, at www.imf.org/external/np/sec/pn/2005/pn05164.htm.

[45]Table CD-3.3 on the CD-ROM lists the countries covered by the MDRI.

Boards of the IMF and the World Bank in April 2005, could be used to help low-income countries that have received debt relief avoid reaccumulating excessive debt.[46] The November 2006 discussion, which was based on a paper prepared jointly by the staffs of the IMF and the World Bank, focused on how best to integrate into the DSF the policy challenges arising from the perceived increase in borrowing space created by debt relief in some low-income countries, the emergence of new creditors, and the rising weight of domestic debt. These developments, while welcome, create new risks that need to be addressed as countries make progress toward implementing prudent debt-management policies. The Board therefore called for improvements to the rigor and quality of debt sustainability analyses.

Executive Directors reiterated that concessional flows remain the most appropriate source of external finance for low-income countries and called for continued efforts by the international community to improve the availability and predictability of such financing. However, they recognized that consideration should be given, on a case-by-case basis, to nonconcessional finance, depending on its impact on debt sustainability, on the overall strength of a borrowing country's policies and institutions, and on the quality of both the investment to be financed and the overall public expenditure program.

Executive Directors underscored that the effectiveness of the DSF ultimately depends on its broader use by debtors and creditors and stressed the need for further outreach to official creditors. They also stressed the importance of timely, high-quality data on borrowing and lending operations and encouraged IMF staff, working with Bank staff, to disseminate more broadly and effectively the results of debt sustainability analyses.[47] The Board welcomed the creation of a dedicated Web page on the IMF's Web site where debt sustainability analyses can be easily located and supported the establishment of a similar

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[46]The first discussion took place in April 2006; see PIN 06/61, at www.imf.org/external/np/sec/pn/2006/pn0661.htm.

[47]For the summing up of the Board's discussion, see PIN 06/136, "IMF Executive Board Discusses the Application of the Debt Sustainability Framework for Low-Income Countries Post Debt Relief" on the CD-ROM or at www.imf.org/external/np/sec/pn/2006/pn06136.htm. The staff report can be found on the IMF's Web site, at www.imf.org/external/pp/longres.aspx?id=3959; a staff guidance note on the application of the DSF is also posted on the IMF's Web site, at www.imf.org/external/np/pp/2007/eng/041607.pdf.

Web page on concessionality.[48] The IMF and the World Bank have stepped up their outreach on the DSF, including to non-OECD creditors, to foster responsible lending practices, and they stand ready to help design principles in this area. They are also increasing efforts to provide borrowing countries with training and technical assistance to strengthen their debt-management capacities.

Policy support instruments

In recent years, several low-income countries have made significant progress toward economic stability and no longer require IMF financial assistance. However, regardless of whether they seek the Fund's financial support, they may still seek IMF monitoring and support of, and advice and counsel on, their economic policies. Approved by the Executive Board in FY2006, PSIs are designed to address the needs of these members by providing policy support and "signaling."[49] Signaling refers to the information Fund activities can indirectly provide about countries' performance and prospects. Such information can be used to inform the decisions of outsiders, including private creditors, official donors and creditors, and the public at large. In low-income countries, such signals have been sent mainly in the context of the PRGF and the related PRSP process. PSIs mirror the design and achieve many of the purposes of the PRGF, and like PRGF arrangements and debt relief, are based on development of a PRSP. They are also voluntary—members that want PSIs must request them—and thus demonstrate strong country ownership of policy programs, and programs are expected to meet the same high standards as programs supported by Fund financial assistance. In the event of a shock, an on-track PSI could provide the basis for rapid access to PRGF resources through the ESF. The publication of PSI documents, like that of PRGF documents, is voluntary but presumed.

In addition to promoting a close policy dialogue between the IMF and its low-income members, PSIs provide more frequent Fund assessments of members' economic and financial

[48]See www.imf.org/external/pubs/ft/dsa/lic.aspx for debt sustainability analyses included in country reports. The Web page on the IMF's concessionality was launched in January 2007; see www.imf.org/external/np/pdr/conc/index.htm.

[49]See PIN 05/145 at www.imf.org/external/np/sec/pn/2005/pn05145.htm for the summing up of the Board discussion at which the PSI was approved.

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policies than is possible under the Article IV consultation process: while Article IV consultations usually take place yearly, the Board reviews performance under PSIs semiannually. Members with PSIs are expected to provide timely and accurate data to the Fund to ensure the integrity of these assessments.

In the past two years, the Board has approved PSIs for four countries: Nigeria and Uganda in FY2006, and Cape Verde and Tanzania in FY2007.[50] In FY2007, the Board reviewed Uganda's 16-month PSI and approved a new, 3-year PSI at Uganda's request.

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EMERGENCY ASSISTANCE

The IMF provides emergency financial assistance to both emerging market economies and low-income countries recovering from conflicts (Emergency Post-Conflict Assistance, or EPCA) or natural disasters (Emergency Natural Disaster Assistance, or ENDA). The interest charged on Emergency Assistance provided to PRGF-eligible members is subsidized subject to the availability of subsidy resources contributed by member countries; the subsidized rate is 0.5 percent a year.

During FY2007, the Executive Board approved Emergency Assistance of SDR 50.8 million for Lebanon under EPCA, and the Central African Republic and Haiti repaid their EPCA loans, totaling SDR 33 million, earlier than scheduled. As of April 30, 2007, two countries, Iraq and Lebanon, had outstanding EPCA credit, which amounted to SDR 347.9 million. No new ENDA loans were made during FY2007. Three countries—

[50]For details, see Press Releases 06/172, "IMF Executive Board Approves a Three-Year Policy Support Instrument for Cape Verde," and 07/13, "IMF Executive Board Completes the First Review Under the Policy Support Instrument for Cape Verde," at www.imf.org/external/np/sec/pr/2006/pr06172.htm and www.imf.org/external/np/sec/pr/2007/pr0713.htm, respectively; Press Releases 05/229, "IMF Executive Board Approves a Two-Year Policy Support Instrument for Nigeria," and 06/293, "IMF Executive Board Completes the Second Review Under the Policy Support Instrument for Nigeria," at www.imf.org/external/np/sec/pr/2005/pr05229.htm and www.imf.org/external/np/sec/pr/2006/pr06293.htm, respectively; Press Release 07/26, "IMF Executive Board Completes Sixth Review Under Tanzania's PRGF Arrangement and Approves a Three-Year Policy Support Instrument," at www.imf.org/external/np/sec/pr/2007/pr0726.htm; and Press Releases 06/14, "IMF Executive Board Completes Final Review of Uganda's PRGF Arrangement and Approves 16-month Policy Support Instrument," and 06/281, "IMF Executive Board Completes the First Review Under the Policy Support Instrument for Uganda and Approves a New Three-year Policy Support Instrument," at www.imf.org/external/np/sec/pr/2006/pr0614.htm and www.imf.org/external/np/sec/pr/2006/pr06281.htm, respectively.

Grenada, Maldives, and Sri Lanka—had outstanding ENDA credit, for a total of SDR 111.5 million, at end-April 2007.

Review of the IMF's role and instruments

In FY2007, the Executive Board reviewed the IMF's advice on the use of aid in sub-Saharan Africa, based on an IEO evaluation; considered the findings and value of ex post assessments; and compared the performance of countries under precautionary arrangements with that of countries that had arrangements on which they drew financial assistance. The Board also requested additional policy papers to define more clearly the IMF's role in low-income countries.

IMF and aid to sub-Saharan Africa

In March 2007, the Executive Board discussed the IEO evaluation of the IMF and aid to sub-Saharan Africa.[51] The report confirmed the steady improvement in the region's macroeconomic performance during 1999–2005 and attributed this improvement in part to the advice and actions of the IMF, including on debt relief, while also recognizing the contribution of the authorities' own efforts and exogenous factors. Nevertheless, the report identified areas where further improvements were needed, including the IMF's role in poverty reduction efforts, the mobilization of aid, the preparation of alternative scenarios for reaching the MDGs, and the application of poverty and social impact analysis. The IEO found that IMF staff did not receive clear directives on work in these areas because of differences in the views of Executive Directors on the IMF's role and policies in low-income countries, and that management and the Board should have done more to resolve these differences. The report also found a disconnect between the IMF's external communications on aid and poverty reduction and its practice in low-income countries.

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The IEO made the following recommendations: (1) the Executive Board should clarify IMF policies on macroeconomic performance thresholds for the accommodation of additional aid, the mobilization of aid, alternative scenarios, poverty and social impact

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[51]The IEO's report and press release, as well as the summing up of the IMF Board's discussion, can be found at www.ieo-imf.org/eval/complete/eval_03122007.html.

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analysis, and pro-poor and pro-growth budget frameworks; (2) IMF management should establish transparent mechanisms for monitoring and evaluating the implementation of the clarified policy guidance, including with respect to collaboration with the World Bank, and ensure that institutional communications are consistent with Fund policies and operations; and (3) management should clarify its expectations of, and the resources available to, the IMF's resident representatives and mission chiefs with respect to their interactions with local donor groups and civil society.

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In their discussion of the IEO's report, Executive Directors were encouraged by the improvements in sub-Saharan Africa's macroeconomic performance. They noted that the HIPC Initiative and the MDRI had greatly reduced debt-related vulnerabilities and the costs of debt servicing. Executive Directors also noted the improvements in the IMF's assistance to low-income countries. They considered that the IMF's engagement in low-income countries should remain focused on its core mandate and that the IMF should not play a coordinating role in aid mobilization. They also confirmed that distributional policies lie outside the IMF's core mandate and emphasized the importance of improving IMF collaboration with development partners, in particular the World Bank, to take these issues into account when helping countries formulate their macroeconomic policies. Many Executive Directors thought staff should be prepared to design alternative scenarios related to the scaling-up of aid, but most thought that normative advice would fall outside the IMF's mandate: they considered that the IMF's role should be limited to assessing the consistency of additional aid flows with macroeconomic stability and the absorption capacity of the country. The Board supported the report's recommendation on the need for further clarification of IMF policy and asked staff to come back with specific proposals in this area. Early in FY2008, Fund management submitted its plan for implementing Board-endorsed recommendations to the Board.

Ex post assessments

Ex post assessments (EPAs) provide the IMF with an opportunity to step back from ongoing longer-term program engagement with a member country so that it can take a fresh look at its overall strategic approach and draw lessons for future programs. In May 2006, the Executive Board discussed the IMF staff's "Review of Ex Post Assessments and Issues Relating to the

Policy on Longer-Term Program Engagement."[52] Through May 15, 2006, 57 members had been identified as having longer-term program engagement, of which more than 80 percent were low-income countries, and 42 EPAs had been completed. The IMF introduced EPAs in 2003 in response to the IEO's report on prolonged use of Fund resources because of concerns that, in some cases, longer-term program engagement might indicate inadequate progress in dealing with members' economic problems and a lack of effectiveness of IMF-supported programs. There were also concerns that longer-term program engagement might hinder the development of domestic institutions, undermine the Fund's credibility, and decrease the resources available to other members in need of support.

In their May 2006 discussion, Executive Directors reviewed the findings of 32 EPA reports completed by end-August 2005.[53] In most cases, EPAs found that the design of policies in IMF-supported programs had been consistent with the multiple macroeconomic and structural challenges faced by members with longer-term program engagement, and that IMF involvement had not undermined members' institutional development. The Board noted, however, that several EPAs had been critical of the design of structural reforms, in terms of both the scope and the number of structural conditions, and that efforts to streamline conditionality should continue.

The Board considered that, by and large, EPAs have served their purpose and remain an important institutional mechanism for distilling lessons and enhancing the learning culture of the IMF. However, their value could be enhanced by greater selectivity and focus on a few critical issues. Executive Directors suggested that systematic discussions in EPAs of the reasons for program success or failure and of potential exit strategies would provide further useful lessons and generally agreed that, the IMF's budget situation permitting, the staff

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[52]The paper can be found on the IMF's Web site, at www.imf.org/external/np/pp/eng/2006/032006R.pdf. The summing up of the Board discussion can be found in PIN 06/96, on the CD-ROM, as well as on the IMF's Web site, www.imf.org/external/np/sec/pn/2006/pn0696.htm.

[53]These EPAs were for the following countries: Albania, Armenia, Azerbaijan, Benin, Bolivia, Bulgaria, Cambodia, Cameroon, Chad, Ethiopia, The Gambia, Georgia, Guinea, Guinea-Bissau, Honduras, Kazakhstan, the Kyrgyz Republic, Lesotho, the former Yugoslav Republic of Macedonia, Madagascar, Malawi, Mali, Moldova, Mozambique, Niger, Peru, Romania, Sierra Leone, Uganda, Uruguay, Vietnam, Zambia.

should expand efforts to reach out and consult with donors, outside experts, and country authorities, while safeguarding the confidentiality of information.

Precautionary arrangements

Also in May 2006, the Board discussed a study by IMF staff comparing precautionary programs with lending programs on which borrowing countries intend to draw. The study was undertaken at the Board's request to determine whether there were systematic differences in terms of program policies, conditionality, or macroeconomic outcomes, and, if so, whether such differences were attributable to the nature of the program or to the circumstances that had led the member to seek the IMF's support. Executive Directors concurred that drawing programs were more likely to be requested by members with weaker macroeconomic performances, whereas precautionary programs tended to be requested by members that had stronger macroeconomic fundamentals but faced uncertainties.[54] It was also recognized that members used precautionary programs to signal policies to markets. The Board noted that, in the first program year, output growth was significantly higher, and inflation significantly lower, in members with precautionary programs than in those with drawing programs. However, these differences could be explained largely by the differences in initial conditions. Executive Directors welcomed the analysis of market reactions, as reflected in interest rate spreads, to IMF-supported programs. Spreads did not widen when members sought precautionary programs, suggesting that markets did not attach a stigma to such programs.

Executive Directors expressed a variety of views on the role of precautionary arrangements in supporting a successful exit for members from IMF-supported programs. They considered that all IMF-supported programs should aim to achieve an exit from IMF financing. Overall, Executive Directors agreed that precautionary programs are a most useful instrument in the IMF's toolkit, lending the IMF's credibility in support of the authorities' policies and enhancing policy discipline. Many Executive Directors also considered that these programs send a well-calibrated signal to markets of the authorities' commitment.

[54]PIN 06/94, which contains the full summing up of the Board discussion, can be found on the CD-ROM and on the IMF's Web site, at www.imf.org/external/np/sec/pn/2006/pn0694.htm.

Comparisons of policy objectives and conditionality between precautionary and non-precautionary programs suggested to most Executive Directors that IMF policies are being applied consistently.

4. Capacity building: technical assistance and training

The technical assistance and training offered by the IMF at the request of member countries are intended to help them fulfill the commitments they make when they join the IMF—to pursue policies that foster financial and macroeconomic stability, sustainable economic growth, and orderly exchange rate arrangements, and to provide the IMF with timely, accurate, and high-quality data about their economies. Equally important, technical assistance and training are also vehicles for helping member countries implement the recommendations that come out of the IMF's Article IV consultations (see Chapter 2). Hence, aligning and integrating capacity building with surveillance and program work have become key objectives of the IMF's Executive Board, which regularly reviews Fund technical assistance and training.

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The IMF offers technical assistance and training mainly in its core areas of expertise, including macroeconomic policy, tax and revenue administration, public expenditure management, monetary policy, exchange systems, financial sector reforms, and macroeconomic and financial statistics. In recent years, member countries have also increasingly requested assistance in addressing issues related to monitoring offshore financial centers, preventing money laundering and the financing of terrorism, strengthening public investment, managing fiscal risks from public-private partnerships, adopting international standards and codes for data, and financial and fiscal management, correcting weaknesses identified under the joint IMF–World Bank Financial Sector Assessment Program, and carrying out debt sustainability analyses.

The amount of technical assistance and training delivered directly to member countries by the IMF has increased over the past five years with the expansion of the regional technical assistance and training centers. Taking management and administration into account, technical assistance now represents about 24 percent of the IMF's operating budget. Still, demand for technical assistance and training exceeds the IMF's ability to supply it, especially in light of constraints stemming from growing pressures on the IMF's finances. Priority is therefore given to initiatives that support the IMF's core objectives.

IMF technical assistance is delivered mainly by the Monetary and Capital Markets Department (MCM), Fiscal Affairs Department (FAD), Statistics Department (STA), and Legal Department (LEG). Overall institutional policy on, and coordination of, technical assistance are the responsibility of the Committee on Capacity Building, assisted by the Office of Technical Assistance Management (OTM), in consultation with other IMF departments. Following up on the IMF's Medium-Term Strategy, the Committee on Capacity Building is charged with ensuring that the IMF's initiatives in this area respond to country needs, are coordinated with other providers, and are guided by appropriate policies, while OTM is responsible for raising and managing external financing for technical assistance activities and policy support. Training activities are handled primarily by the IMF Institute, which conducts seminars, workshops, and other training events for country officials, often in collaboration with other IMF departments.

Recognizing the critical capacity-building needs of developing countries, the IMF in FY2007 opened a regional technical assistance center (RTAC) in Gabon to support countries in Central Africa—the third such center in Africa and the sixth worldwide (Box 4.1)—as well as a seventh Regional Training Center (RTC) program, in India.

Box 4.1 Regional Technical Assistance Centers

The RTACs are collaborative ventures between the IMF, the recipient countries, and bilateral and multilateral donors. Financial support for them comes from the donors, and, in many instances, the recipient countries themselves, as well as from the IMF. Host governments frequently provide in-kind contributions.

The RTACs were originally conceived to provide technical assistance to small island economies, because individual assistance providers, including the IMF, were hard pressed to meet these countries' requests. The Pacific RTAC, the first, was established in 1993 to serve 15 island nations. Building on its success, other RTACs soon followed, and today there are six RTACs worldwide, serving a total of 67 countries.

The Caribbean RTAC, established in 2003, serves 20 countries. The East AFRITAC, established in Dar-es-Salaam, Tanzania, in 2002, and the West AFRITAC, established in Bamako, Mali, in 2003, together serve 16 countries. The new Central AFRITAC, which opened in Libreville, Gabon, in FY2007, serves the six countries of the Central African Economic and Monetary Community (CEMAC)—Cameroon, Chad, the Central African Republic, Equatorial Guinea, Gabon, and the

Republic of Congo—as well as Burundi and the Democratic Republic of the Congo. The Middle East RTAC, established in 2004, serves 10 countries and territories in that region, primarily with technical assistance related to rebuilding their economies as they emerge from conflict.

The growing focus on the regional dimensions of IMF technical assistance is in line with the expansion of the IMF's regional surveillance activities as trade and financial integration—and the possibility of spillovers—increase. In addition, the RTACs facilitate coordination with other technical assistance providers, encourage the sharing of regional experiences, and foster the development of regional networks of experts. In its review of the RTACs in FY2006, the IMF's Executive Board concluded that they were a useful addition to the Fund's technical assistance program and that their presence in the field had notable advantages—in particular, the strengthening of countries' ownership of their technical assistance programs and the provision of rapid and flexible technical assistance.

The volume of technical assistance, measured in person-years, delivered through the RTACs has risen every year since FY2002, both in absolute terms and as a proportion of total IMF technical assistance (see CD-Table 4.1, on the CD-ROM). Since the establishment of the East and West AFRITACs, the annual volume of IMF technical assistance and training provided in sub-Saharan Africa has increased by almost 30 percent.

The RTACs are staffed by teams of resident experts, supplemented by short-term specialists, who provide capacity-building assistance through advisory services and training in the core areas of the IMF's expertise, including debt management, financial sector policy, revenue administration, public financial management, and macroeconomic statistics. The Steering Committees that govern the RTACs set the centers' strategic direction and review rolling work plans, promoting strong country ownership of the centers themselves and the technical assistance delivered through them. CARTAC is a United Nations Development Program project in which the IMF is a signatory; the others are IMF operations for which the IMF has sought funding from donors.

Details on the countries served by the RTACs, the donors for the different RTACs, and the fields of expertise of resident advisors can be found on the CD-ROM, in CD-Table 4.2.

TECHNICAL ASSISTANCE

While the IMF may help identify areas of need, it is the member country that decides to request technical assistance. Most technical assistance is provided free of charge. Whether technical assistance is delivered through missions from headquarters, short-term expert assignments, long-term resident advisors, or regional centers, the recipient country is always fully involved in selecting, implementing, monitoring, and evaluating the assistance it receives. This collaborative approach strengthens country ownership of reforms.

Ninety percent of IMF technical assistance is provided to low- and lower-middle-income countries (Table 4.1), to help them build the institutions and capacity needed to implement growth-enhancing policies. Technical assistance delivery trends in FY2007 are summarized in Table 4.2.

Table 4.1 Technical assistance by country income group, FY2007
(Field delivery in person-years)[1]

Country income group	Total person-years	Percent of total
Low-income	64.2	33.4
Lower-middle-income	114.8	59.8
Upper-middle-income[2]	8.8	4.6
High-income[2]	4.2	2.2
Total	192.1	100.0

[1]An effective person-year of technical assistance is 260 days.
[2]Pertains mostly to regional seminars and workshops delivered in upper-middle- and high-income countries but attended by officials from low- and lower-middle-income countries.

Direct financing for technical assistance delivery, supervision, and administrative and other costs comes from the Fund's administrative budget. Bilateral and multilateral donors have provided generous financial assistance as well, covering about 26 percent of the direct cost. This cooperation with external donors both leverages the internal resources available for technical assistance and heads off duplication of effort.

Following on the Board's endorsement in FY2006 of proposals made by the Task Force on Technical Assistance on how to implement the recommendations in the Independent Evaluation Office's FY2005 report on Fund technical assistance,[55]the IMF has developed a strategic medium-term approach that closely integrates and prioritizes country needs and technical assistance resources with the IMF's budget process. In addition, the IMF's technical assistance strategy is being increasingly viewed from a regional perspective,

[55]The Task Force's report is available at www.imf.org/external/np/pp/eng/2005/071205.htm; the summary of the Board discussion can be found at www.imf.org/external/np/sec/pn/2005/pn05114.htm.

in recognition of the synergies and benefits that a regional approach can bring to technical assistance. Regional strategies also help the IMF prioritize and shift its resources between neighboring countries, in response to developing needs and changing circumstances.

Table 4.2 IMF technical assistance resources and delivery, FY2001–07
(In effective person-years)[1]

	FY2005	FY2006	FY2007
IMF administrative budget	**283.4**	**337.6**	**325.1**
External resources	**97.1**	**87.3**	**113.3**
Total resources	**380.6**	**424.9**	**438.4**
Regional delivery[2]	**301.4**	**288.4**	**308.3**
Africa	86.9	82.4	90.4
Asia and Pacific	68.2	58.5	62.7
Europe	34.5	37.1	34.6
Middle East and Central Asia	45.1	61.0	54.2
Western Hemisphere	32.7	37.5	48.2
Regional and interregional	33.9	11.9	18.2
Management and administration[3]	**79.2**	**136.5**	**130.1**
Total delivery	**380.6**	**424.9**	**438.4**
Total delivery by department	**380.6**	**424.9**	**438.4**
Fiscal Affairs Department	99.5	100.2	116.9
Monetary and Capital Markets Department	127.0	125.7	117.0
Statistics Department	53.1	54.3	56.3
IMF Institute	57.0	76.4	78.4
Legal Department	23.5	20.0	26.0
Other Departments[4]	20.4	48.3	43.8

Source: IMF Office of Technical Assistance Management.
[1]An effective person-year of technical assistance is 260 days.
[2]In FY2004, the former European II Department was dissolved, and its countries were absorbed by the new European Department and the Middle East and Central Asia Department.
[3]Indirect technical assistance, including technical assistance policy, management, evaluation, and other related activities.
[4]Includes the Policy Development and Review Department, the Technology and General Services Department, the Office of Technical Assistance Management, the Finance Department, the Human Resources Department, and all area departments.

As called for by the Executive Board, the IMF will continue to make improvements to its technical assistance program in the year ahead, including further strengthening the monitoring and evaluation of technical assistance to ensure its effectiveness and efficiency (CD-Table 4.3). Other aspects of technical assistance management and governance

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emphasized by the Board are also being studied, including improving cost information on technical assistance activities, reinforcing relationships with donors to the IMF's technical assistance program (Table 4.3), and enlisting support from new donors.

Table 4.3 Donors to the IMF's technical assistance program

Individual donors[1]

Australia	Italy	Spain
Belgium	Japan	Sweden
Canada	Luxembourg	Switzerland
Denmark	The Netherlands	United Kingdom
France	Norway	

Multidonor pooled arrangements

Africa Technical Assistance Centers (East and West)
Donors: African Development Bank, Canada, China, Denmark, Finland, France, Germany, Italy, Japan, Luxembourg, Norway, Russia, Sweden, Switzerland, the Netherlands, United Kingdom

Caribbean Regional Technical Assistance Center
Donors: Canada, Ireland, United Kingdom, United States, European Union, Inter-American Development Bank, UNDP, World Bank

Central Africa Technical Assistance Center
Donors: African Development Bank, Burundi, Cameroon, Central African Republic, Chad, Democratic Republic of the Congo, Equatorial Guinea, France, Gabon, Germany, Republic of Congo

Financial Sector Reform and Strengthening Initiative
Donors: Canada, Switzerland, the Netherlands, United Kingdom, World Bank

Iraq Technical Assistance
Donors: Australia, Canada, India, Italy, Sweden, United Kingdom

Middle East Technical Assistance Center
Donors: Egypt, European Union, European Investment Bank, France, Japan,[2] Jordan, Kuwait, Lebanon, Libya, Oman, Qatar, Saudi Arabia, Sudan, Syrian Arab Republic, United Arab Emirates, Republic of Yemen

Pacific Financial Technical Assistance Centre
Donors: Asian Development Bank, Australia, Japan, Korea, New Zealand

[1]Some donors contribute individually and through multidonor pooled agreements.

The IMF's Monetary and Capital Markets Department (MCM) provides technical assistance related to the implementation of monetary and foreign exchange policies and other aspects of central banking, financial sector oversight and regulation, the development of capital and other financial markets, and public sector debt and asset management. This assistance generally involves advising central banks and financial supervisory agencies on strengthening institutions and policies and improving consistency with international standards, codes, and good practices, and is typically delivered by staff from IMF headquarters and short-term experts, who in many cases are financed with the assistance of donors. MCM's advice is also delivered by long-term experts located in the IMF's regional technical assistance centers, and may take the form of regional seminars and hands-on workshops. Examples of MCM's technical assistance activities in FY2007 include supporting Nigeria's financial sector reform program and helping the Philippines' central bank strengthen its ability to identify the risks associated with complex domestic conglomerates, based on Financial Sector Assessment Programs in both countries; and advising Costa Rica, the Dominican Republic, El Salvador, Guatemala, Honduras, Nicaragua, and Panama on improving public debt management and carrying out a diagnostic study of Central American markets for private equity, debt, and asset-backed securities.[56]

The Fiscal Affairs Department (FAD) provides a range of technical assistance and training to help countries strengthen their fiscal policies and institutions, enhance implementation capacity, and support IMF surveillance. For example, during FY2007, FAD staff provided advice on modernizing tax and customs administration in China, Mexico, and Turkey; continued advising the Central American countries on improving the coordination of their tax policies and tax administration and preparing the legislative framework for a regional customs union; assisted a number of post-conflict countries, including Afghanistan, Lebanon, Liberia, and Sudan, seeking to rebuild their revenue-administration capacity; conducted, with the support of the East AFRITAC and private sector involvement, a seminar on improving taxpayer services and appeals as a means of increasing taxpayer compliance;

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[56] Although capacity building still constitutes a substantial part of MCM's technical assistance, there is a growing emphasis on assistance in more complex and specialized fields, such as inflation targeting, empirically based stress-testing models, and portfolio management for the public sector.

conducted tax policy reviews in several countries, including the IMF's newest member, Montenegro; met a significant increase in demand for advice on resource taxation from a number of resource-rich countries in Africa, Asia, and South America; and supplied advisory services in public financial management, pension reform, fiscal responsibility frameworks, and expenditure rationalization. FAD both organizes and participates in conferences, seminars, and workshops targeting particular countries and in conjunction with specific institutions. For example, a major regional outreach event for European countries on strengthening public investment and managing risks from public-private partnerships was held in Budapest in March 2007.

The Statistics Department's (STA) technical assistance program promotes internationally accepted data standards, with an emphasis on regional projects and collaboration with other donors and providers. During FY2007, STA provided technical assistance and training to a wide range of member countries to support lasting improvements in national statistical systems. The statistical work of the RTACs has been fully integrated into STA's capacity-building program, and as a result STA fielded 431 technical assistance missions during the year, of which 157 benefited African countries. The department also conducted 42 training courses in macroeconomic statistics through the IMF Institute and the IMF Regional Training Centers, in collaboration with various organizations.

The IMF's Legal Department maintained an active technical assistance program during the year directed toward helping member countries strengthen their legal frameworks, particularly in terms of the financial system, taxation and budget management, and anti–money laundering and combating the financing of terrorism (AML/CFT). While demand from member countries for advice in core legal areas (commercial banking, central banking, and taxation) has continued to be high, new areas of focus have also emerged, such as insurance, deposit insurance, nonbank financial institutions, and Islamic banking. The consolidation of AML/CFT activities in the Legal Department has made the department the largest multilateral provider of AML/CFT technical assistance. Support in this area has included policy advice, drafting of legislation, and guidance in establishing or strengthening Financial Intelligence Units (FIUs) and other institutions and supervisory mechanisms. Also, training has been provided to FIU staff, financial supervisors, and ministries of finance and justice officials, as well as to Financial Action Task Force–style regional bodies to improve their capacity to conduct high-level mutual assessments. (See Chapter 2 for more information on AML/CFT.)

TRAINING BY THE IMF INSTITUTE

The IMF Institute, in collaboration with other IMF departments, trains officials from member countries in four core areas: macroeconomic management, financial sector policies, government budgeting, and the balance of payments, including how to strengthen the statistical, legal, and administrative framework in these areas. Over three-fourths of the training benefits low- and lower-middle-income countries. The Institute's programs account for about three-fourths of training for officials delivered by the IMF, including training at the regional technical assistance centers.

In FY2007, the IMF Institute delivered 288 course-weeks, producing more than 9,400 participant-weeks of training (CD-Table 4.4, on the CD-ROM). Relative to FY2006, the number of course-weeks rose by about 1 percent, while the number of participant-weeks fell slightly, reflecting normal year-to-year variation in the average class size.

FY2007 saw the opening of the Joint India-IMF Training Program (ITP), the seventh in the IMF Institute network of regional training centers (CD-Table 4.5, on the CD-ROM). The ITP is dedicated principally to training Indian officials but also admits officials from other countries in South Asia and East Africa.

With substantial cofinancing from local cosponsors and other donors, the development of the regional training centers has facilitated a 50 percent increase in IMF Institute training over the past decade and now account for half of all training under the Institute's program. Training at the RTCs has other advantages: courses can be better attuned to regional needs and foster collaboration within regions.

Training at IMF headquarters continues to play an important role, accounting for about one-third of participant-weeks in FY2007. The headquarters program focuses mainly on longer courses, which are less amenable to regional delivery because of the number of IMF staff involved, but also includes some shorter courses that the IMF Institute is unable to deliver widely through the RTCs. The remainder of the training took place at overseas locations outside the regional network, largely as part of ongoing collaboration between the IMF Institute and regional institutions, and also through distance learning.

The tight IMF budget environment has made it more challenging to meet the training needs of member countries and ensure an up-to-date curriculum. The IMF Institute has responded by increasing workloads and cutting costs, and cofinancing from training partners and other donors has been playing an increasingly critical role.

The IMF Institute training program is reviewed regularly to ensure that it responds to the evolving needs of member countries and supports new IMF initiatives.

5. Governance, organization, and finances

The Fund's Medium-Term Strategy (MTS) calls for a number of reforms in the governance and management of the IMF, including adjusting members' quotas to reflect their role in the world economy more accurately; strengthening communication and transparency; embedding MTS priorities in an output-oriented medium-term budget framework; taking other steps to make the IMF a more cost-effective and efficient institution; and adopting a new income model to place the IMF on a sound financial footing for the long term. Substantial progress was made on all of these fronts during FY2007.

QUOTA AND VOICE REFORM

The funds for most of the IMF's lending come out of its quota resources—the amounts countries deposit when they join the IMF.[57] Each member's quota is based, in principle, on the relative size of its economy and determines the amount it can borrow from the IMF and its voting power. (As set out in the IMF's Articles of Agreement, each member is allotted 250 basic votes plus one vote per SDR 100,000 of its quota.) Although quotas are reviewed periodically and can be increased when deemed necessary by the Board of Governors (Box 5.1), the distribution of quotas and voting power in the IMF has ceased to reflect countries' relative weight in the global economy. Moreover, the share of each member's basic votes in total votes has been diluted by quota increases, from more than 10 percent until the mid-1970s to about 2 percent in recent years.

Box. 5.1 Initiation of the Thirteenth General Review of Quotas

The IMF normally conducts general reviews of members' quotas every five years to assess the adequacy of its resource base and to adjust the quotas of individual members to reflect changes in their relative positions in the world economy. The Executive Board completed the Twelfth General Review of Quotas on January 30, 2003, without proposing an increase or any adjustments. The Thirteenth General Review of Quotas was initiated in January 2007 and will need to be completed by January 2008. The IMF's total quotas now stand at SDR 217.3 billion.

[57]Not all of the paid-in capital is readily available to finance new lending because of the IMF's previous commitments and its policy of lending only in the currencies of members considered financially strong. See the box on the IMF's financing mechanism on the CD-ROM (CD-Box 5.1).

In its communiqué of April 22, 2006, the International Monetary and Financial Committee (IMFC) recognized the need for fundamental reform of quota and voice in the Fund. It called upon the Managing Director to work with the IMFC and the Executive Board to develop concrete proposals by the time of the IMF–World Bank Annual Meetings in September 2006 for improving the distribution of quotas and voting power to reflect changes in the weight and role of countries in the world economy and ensure that all members—even the smallest—have a voice in the IMF's decision-making process.

An intensive work program followed, involving IMF management and staff, consultations with a broad spectrum of the membership, and discussions in the Executive Board. On August 31, 2006, the Executive Board reached agreement on a comprehensive program of quota and voice reforms and recommended that the Board of Governors adopt a Resolution providing for a two-year plan to implement these reforms. This proposal was transmitted to the Governors by the Managing Director on September 14, 2006, and the Board of Governors adopted the Resolution on September 18, 2006.[58]

In its report to the Board of Governors, the Executive Board emphasized the two main goals of quota and voice reforms: (1) to make significant progress in realigning quota shares with economic weight in the global economy and make quota and voting shares in the Fund more responsive to changes in global economic realities in the future; and (2) to enhance the participation and voice of low-income countries whose weight in the global economy may be small but for which the IMF plays an important advisory and financing role.

The Resolution provided for an initial round of ad hoc quota increases for four countries—China, Korea, Mexico, and Turkey—that were clearly underrepresented, and a set of more fundamental reforms to be delivered by the 2007 Annual Meetings, if possible, or by the 2008 Spring Meetings, at the latest. The reforms are to include (1) agreement on a simple

[58]The Resolution can be found on the CD-ROM, as can Press Releases 06/189, "IMF Executive Board Recommends Quota and Related Governance Reforms," and 06/205, "IMF Board of Governors Approves Quota and Related Governance Reforms." Press releases 06/189 and 06/205 can also be found at www.imf.org/external/np/sec/pr/2006/pr06189.htm and www.imf.org/external/np/sec/pr/2006/pr06205.htm, respectively.

and transparent new quota formula; (2) a second round of ad hoc quota increases based on the new formula; (3) a commitment to ensuring that quota shares continue to evolve in line with countries' changing positions in the world economy; (4) an increase in basic votes of at least 100 percent to protect the voting share of low-income countries as a group, together with adoption of a means to keep the proportion of basic votes in total voting power constant in the future; and (5) measures to increase the administrative resources of the chairs with the largest constituencies.[59]

In its September 17, 2006, communiqué, the IMFC urged the Executive Board to work constructively and expeditiously on all elements of the reform so as to garner the broadest possible support, underlined the importance of timely implementation, and called on the Managing Director to provide a status report at its next meeting.

Following the 2006 Annual Meetings, the Executive Board began to work on the second stage of reform. In January 2007, it had a preliminary discussion on a proposed amendment to the Articles of Agreement regarding basic votes. Directors found the proposed amendment to be responsive to the Board of Governors' request and generally endorsed the framework proposed by IMF staff. They noted that the number by which basic votes will be increased will need to be discussed and agreed at a later stage, when work on the new quota formula is more advanced. A comprehensive work program involving consultations with the membership and two informal discussions by the Executive Board before the 2007 Spring Meetings of the IMFC was initiated on a new quota formula that would guide the second round of quota increases.

In its communiqué of April 14, 2007, the IMFC welcomed the broad consensus reached in the Executive Board on the legal framework for an amendment of the Articles of Agreement regarding basic votes and the initial work on a new quota formula. It

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[59]On May 9, 2007, shortly after the end of the financial year, the Executive Board agreed to increase by one Advisor the staffing for the Executive Directors representing 20 or more countries (the two sub-Saharan African constituencies). However, a few Directors expressed concern that the decision was not in the spirit of the Governors' Resolution adopted in Singapore in September 2006 and underscored that further steps were needed to strengthen the capacity of the Executive Directors' Offices representing the largest constituencies.

stressed the importance of agreeing on a new formula that is simple and transparent and that captures members' relative positions in the world economy while enhancing the voice and participation of low-income countries. The IMFC also called on the Executive Board to continue its work on the reform package as a matter of priority.

COMMUNICATION AND TRANSPARENCY

Through its communication strategy and transparency policy, the IMF seeks to increase its accountability to stakeholders and build understanding of sound economic policies. With the guidance and support of the Executive Board, which regularly reviews the IMF's communication strategy and transparency policy, the IMF's efforts in these areas have increased significantly since the mid-1990s.

Communication

While acknowledging that the IMF has made great strides in increasing transparency and communication, the MTS calls for an increase in outreach, emphasizing that bringing about policy change requires active engagement not only with country officials but also with the broader public. During FY2007, IMF staff intensified their efforts in this area and presented a new draft communication strategy for formal Board discussion in early FY2008.

Outreach. The IMF continues to strengthen its outreach to its official stakeholders, while also broadening outreach to other groups, including civil society, legislators, and the private sector. Outreach to these groups has been useful not only in terms of explaining the IMF's positions but also in receiving feedback that can lead to improvements in operations, as has already happened in several areas—for example, the streamlining of conditionality, and the IMF's early support for the Multilateral Debt Relief Initiative and participation in the Extractive Industries Transparency Initiative.

As part of its outreach efforts with civil society and legislators, in recent years the IMF launched a newsletter on its Web site for civil society, and in FY2007 it launched a Web page for legislators that invites the latter to send in their comments and questions.[60] In December 2006, IMF and World Bank officials had a two-day meeting with 55 labor union leaders from around the world on managing globalization and enhancing job opportunities. Outreach events for parliamentarians included a macroeconomic policy seminar for parliamentarians in the Kyrgyz Republic in May 2006, and participation in two conferences in March 2007—a two-day conference in Washington, D.C., for Caribbean parliamentarians and officials of the Inter-American Development Bank (IDB) and the IMF; and the Annual Conference of the Parliamentary Network of the World Bank, which was held in Cape Town, South Africa.[61]

Continuing efforts were made in FY2007 to reach out to the private sector. In February 2007, the Managing Director delivered a speech at the Latin American Business Association Conference, held at Columbia University in New York, and participated in a high-level conference on investment in Central America attended by senior policymakers, major international investors, and business association leaders from Central America and the Dominican Republic.[62] The IMF and the World Bank helped organize the conference, which was held in Costa Rica.

The IMF has been making greater use of seminars and conferences to bring officials and other stakeholders from countries in the same region together to discuss key regional economic policy issues. For example, in December 2006 the IMF and the Arab Monetary Fund jointly sponsored a high-level seminar in Abu Dhabi, United Arab Emirates, on institutions and economic growth in the Arab countries. The IMF also participated in the Fifth Annual Regional Conference on Central America, Panama, and the Dominican Republic, which was hosted by the Central Bank of the Dominican Republic in Punta Cana,

[60]The civil society newsletter is posted at www.imf.org/external/np/exr/cs/eng/index.asp, and the legislators Web page is at www.imf.org/external/np/legislators/index.htm.

[61]For more information on these events, see Press Release 06/108, "IMF Macroeconomic Policy Seminar for Parliamentarians from the Kyrgyz Republic," at www.imf.org/external/np/sec/pr/2006/pr06108.htm; a speech delivered at the conference by the Director of the IMF's African Department, Abdoulaye Bio-Tchané, at www.imf.org/external/np/speeches/2007/031707.htm; and Press Release 07/44, "Caribbean Parliamentarians Meet with the IDB, IMF and World Bank for the first time in Washington, D.C." at www.imf.org/external/np/sec/pr/2007/pr0744.htm.

[62]The communiqué of the conference is available at www.imf.org/external/np/cm/2007/020207.htm.

in June 2006.[63] The IMF and the Monetary Authority of Singapore co-hosted their second seminar on regional financial integration, in May 2006 (the first seminar took place in September 2005), and the IMF and the government of Singapore jointly organized a high-level seminar for policymakers and economists around the world on crisis prevention in emerging market countries in July 2006 as a run-up to the 2006 Annual Meetings.[64] The Japan Bank for International Cooperation and the IMF cosponsored a conference in Tokyo in April 2007 on policy options and challenges for developing Asia; speakers and participants included government officials and academics from low-income countries in Asia. And the IMF and Bruegel, a Brussels-based think tank, organized a joint two-day conference, "Putting Europe's Money to Work: Financial Integration, Financial Development, and Growth in the European Union," in March 2007 for researchers, policymakers, and practitioners from Europe and around the world.

Other examples of outreach activities can be found in Chapters 2 and 4.

Languages other than English. Building on the Report of a Task Force on Publication of Fund Documents and Information in Languages Other than English, which recommended translation of documents for which demand is high into languages heavily used in the IMF's work, a working group of IMF staff was set up to further consider this issue and make concrete proposals. The findings of the Working Group on Publication of Fund Materials in Languages Other than English were presented to the Executive Board in an informal briefing in April 2007, and the IMF has begun translating selected documents—including press releases and WEO summaries—more systematically into relevant languages and posting them on its Web site. The Executive Board also approved the translation of the 2007 Annual Report into a greater number of languages than in the past, using savings on production costs to achieve this goal.

[63] For more information on the seminars on institutions and growth in Arab countries, and the fifth annual conference on Central America, Panama, and the Dominican Republic, see www.imf.org/external/np/seminars/eng/2006/arabco/index.htm and www.imf.org/external/np/seminars/eng/2006/centram/index.htm, respectively.

[64] See www.imf.org/external/np/seminars/eng/2006/cpem/index.htm.

Publications and the IMF's Web site. An interdepartmental working group reviewed the effectiveness of the IMF's publications program during FY2007.[65] While the review found that the fundamental goals of the program remain valid—sharing IMF research and knowledge in a cost-effective manner—it also found scope for improvement, notably by proposing a more strategic approach to selecting what to publish and how best to deliver it (in print or online or both); increasing marketing efforts (including by entering into partnerships with commercial publishers when appropriate); enhancing the online visibility of the Fund's research publications; establishing an e-commerce site; making greater use of technologies such as print-on-demand; and introducing a differential pricing policy for publications, which will give readers in developing countries greater access to Fund publications.

The IMF's Web site is the public's primary source of information about the IMF. During FY2007, the site was redesigned to make it a more effective communication tool, the *IMF Survey* increasingly became a Web-based product, and there was a shift to greater reliance on the Web for dissemination of information and messages to enable faster, more frequent, and more flexible communication between the IMF and its stakeholders.

Engagement with media. A biweekly media briefing by EXR, instituted in late 1999 and initially intended for media based in Washington, D.C., has since developed into a webcast for journalists around the world. The Online Media Briefing Center, a password-protected multimedia site set up in FY2004, allows journalists to access documents under embargo, participate in press briefings, and receive information and data tailored to their needs. The IMF's operational staff have also increased their contacts with the media.

Transparency policy

The IMF's transparency policy stems from an Executive Board decision in January 2001 establishing the presumption that country documents and policy papers and associated Public Information Notices (PINs) would systematically be published, although publication remains

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[65]See CD-Box 5.2, "Disseminating information: the IMF's publishing operations and Web site," on the CD-ROM.

voluntary. The decision followed steps that had been taken since 1994 to enhance the transparency of the IMF and to increase the availability of information about its members' policies, while including safeguards to maintain the frankness of the IMF's policy discussions with members by striking the right balance between transparency and confidentiality. Members may request deletion of information not yet in the public domain that constitutes either highly market-sensitive material or premature disclosure of policy intentions.

Following their discussion in FY2006 of an IMF staff review of the transparency policy, Executive Directors called on the staff to produce annual updates on the policy's implementation for posting on the IMF's Web site. The second annual report on the implementation of the transparency policy, published in February 2007, presents information on documents considered by the Board between November 1, 2005, and October 31, 2006, and published by December 31, 2006, including publication rates for each type of document, lags between Executive Board discussions of documents and publication, deletion of material from documents, and the publication behavior of member countries.[66]

In FY2007, publication of reports on Article IV consultations and use of Fund resources rose for the third year in a row, increasing from 82 percent of total reports in 2005 to 85 percent in 2006. The number of member countries that published all reports on their Article IV consultations and use of IMF resources increased from 136 in 2005 to 142 in 2006. The share of Financial System Stability Assessments (reports produced under the Financial System Assessment Program) released climbed to 82 percent, and the publication rates both of documents announcing the policy intentions of countries entering into arrangements with the IMF and of PINs increased to 94 percent.[67]

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[66]The report, "Key Trends in the Implementation of the Transparency Policy," can be found at www.imf.org/external/pp/longres.aspx?id=4040.

[67]The increased transparency of the IMF is widely recognized. In its *2006 Global Accountability Report*, One World Trust ranked the IMF third out of 10 intergovernmental organizations and fourth out of 30 intergovernmental and private transnational companies in terms of transparency. The report can be read at www.oneworldtrust.org/?display=index_2006.

MANAGEMENT AND ORGANIZATION

During FY2007, the IMF reassessed its risk-management framework, curbed its administrative expenditures, and streamlined its procedures by consolidating or shortening reports, modifying misreporting procedures, and lengthening the intervals between policy reviews. It also sought to enhance its effectiveness through improved collaboration in a range of areas with other international and regional bodies (Box 5.2) and by taking account of the recommendations made by the Independent Evaluation Office (IEO) on Fund policies (Box 5.3).

Box 5.2 Liaison with intergovernmental, international, and regional organizations

The IMF has a long history of collaboration with numerous international and regional organizations. The IMF's collaboration with the World Bank is especially close. Areas in which the IMF and the World Bank collaborate include the Financial Sector Assessment Program, development of standards and codes, the Poverty Reduction Strategy Paper process, the HIPC and Multilateral Debt Relief Initiatives, and debt sustainability analysis. In March 2006, the IMF's Managing Director and the World Bank's President created the External Review Committee on Bank-Fund Collaboration. The Committee solicited views from member countries on the nature and practice of Bank-Fund collaboration, which has been guided since 1989 by a formal Concordat. The Committee released its report in February 2007.[1]

The IMF also collaborates with the regional multilateral banks—the African Development Bank, the Asian Development Bank, the Inter-American Development, and the European Bank for Reconstruction and Development—including in country mission work and the provision of technical assistance, and attends meetings of the heads of the regional multilateral banks. The Inter-American Development Bank and the African Development Fund participate in the Multilateral Debt Relief Initiative.

The IMF is a member of the Financial Stability Forum, which brings together government officials responsible for financial stability in the major international financial centers, international regulatory and supervisory bodies, and committees of central bank experts. It also works with standard-setting bodies such as the Basel Committee on Banking Supervision and the International Association of Insurance Supervisors. In 2000, Horst Köhler, then IMF Managing Director, established the Capital Markets Consultative Group to provide a forum for informal dialogue between participants in international capital markets and the IMF; the Group is chaired by the IMF's Managing Director.

The IMF, through its Special Representative to the United Nations, communicates and cooperates with the United Nations and a number of UN agencies. Over the past year, particular emphasis has been placed on supporting the work of the United Nations' new Peacebuilding Commission while the IMF continues to be engaged in the Financing for Development process and to participate in the activities of the UN Economic and Social Council (ECOSOC). Collaboration between the IMF and the WTO takes place formally as well as informally, as outlined in their Cooperation Agreement of 1996. The IMF has observer status at WTO meetings, and IMF staff contribute to the WTO Working Group on Trade, Debt, and Finance, and the Committee on Balance of Payments Restrictions. IMF staff participate in the Integrated Framework for Trade-Related Technical Assistance and the Aid for Trade Task Force (see Box 3.2).

IMF staff also liaise with the Organization for Economic Cooperation and Development (OECD), the Bank for International Settlements (BIS), the European Commission, the Asia-Pacific Economic Cooperation (APEC), and several regional groups in Asia, including the Association of South East Asian nations (ASEAN). The ASEAN Secretariat, the IMF, and the Royal Government of Cambodia co-hosted a high-level seminar in June 2006 on how regional integration could accelerate the development of Cambodia, Lao People's Democratic Republic, and Vietnam.[2]

The IMF is also an active participant in the meetings and activities of the major intergovernmental groups, including the Group of Seven (G-7), Group of Eight (G-8), Group of Ten (G-10), Group of Twenty (G-20), and Group of Twenty-Four (G-24). The G-10 countries participate in the IMF's General Arrangements to Borrow, an arrangement established in 1962 that can be invoked if the IMF's resources are estimated to be insufficient to meet members' needs.

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[1] See Press Release 07/32, "IMF Managing Director and World Bank President Paul Wolfowitz Welcome Report on Enhancing IMF–World Bank Cooperation," and the Report itself. Both are on the CD-ROM and also on the IMF's Web site, at www.imf.org/external/np/sec/pr/2007/pr0732.htm.

[2] See Press Release 06/145, at www.imf.org/external/np/sec/pr/2006/pr06145.htm.

Box 5.3 Activities of the IEO in FY2007

The Independent Evaluation Office (IEO) was established in 2001 to conduct independent and objective evaluations of IMF policies and activities with a view to increasing the IMF's transparency and accountability and strengthening its learning culture. Under its Terms of Reference, the IEO is fully independent of IMF management and operates at arm's length from the IMF's Executive Board, to which it reports its findings. In January 2007, the Board agreed on a more systematic approach to, and stronger monitoring of, the implementation of Board-endorsed IEO recommendations.

During FY2007, the IEO focused its efforts on the completion of two evaluations: "The IMF and Aid to Sub-Saharan Africa," and "The IMF's Advice on Exchange Rate Policy." The Executive Board discussed the former in March 2007 (see Chapter 3). Following the Board discussion, the IEO presented the report's findings at several international outreach events, starting with a seminar at the African Development Bank in late March. The report has been translated into French and Portuguese. The evaluation of the IMF's advice on exchange rate policy was sent to the Executive Board in March 2007 and was scheduled for discussion in early FY2008. The evaluation explores whether the role of the IMF in exchange rate policy advice is clearly defined and understood, assesses the quality of that advice, and examines the quality of the dialogue with country authorities. While acknowledging that the quality of the IMF's advice to its member countries has improved, the IEO identifies a need to revalidate the fundamental purpose of IMF exchange rate surveillance, thereby clarifying the expected roles of the IMF and member countries, and offers detailed recommendations for improving the management and conduct of the IMF's exchange rate policy advice and interactions with member countries (see Chapter 2).

Work on a third evaluation, "Structural Conditionality in IMF-Supported Programs," continued during FY2007. The report is expected to be finalized and sent to the Executive Board before the Annual Meetings in October 2007.

Four topics were added to the IEO's work program for evaluation over the next two years: (1) aspects of IMF corporate governance—including the role of the Board; (2) the IMF's interactions with its member countries; (3) the IMF's research agenda; and (4) the IMF's approach to international trade issues.

How the IMF is run

The highest decision-making body of the IMF is the Board of Governors, which is appointed by the IMF's member countries. As set out in the Fund's Articles of Agreement, the Executive Board is responsible for conducting the business of the Fund, and for this purpose exercises all the powers delegated to it by the Board of Governors. The Executive Board is composed of 24 Executive Directors and their Alternates appointed or elected by member countries and has responsibility for the day-to-day oversight of the IMF's work at Fund headquarters, located in Washington, D.C.[68] The Managing Director of the IMF serves as the Chair of the Executive Board.

The Board of Governors consists of one governor and one alternate governor from each of the IMF's 185 member countries. The governor is usually the member country's minister of finance or the head of its central bank. All governors meet once a year at the IMF–World Bank Annual Meetings. There are two committees of governors that represent the whole membership. The International Monetary and Financial Committee (IMFC) is an advisory body of 24 IMF governors (or their alternates) representing the same countries or constituencies (groups of countries) as the 24 Executive Directors.

The IMFC advises, and reports to, the Board of Governors on matters relating to the latter's functions in supervising the management and adaptation of the international monetary and financial system, and in this connection reviewing developments in global liquidity and the transfer of resources to developing countries; considering proposals by the Executive Board to amend the Articles of Agreement; and dealing with disturbances that might threaten the system. It has no decision-making powers. The IMFC normally meets twice a year, in March or April and in September or October, at the time of the Spring and Annual Meetings.

The Development Committee (formally, the joint Ministerial Committee of the Boards of Governors of the World Bank and the IMF on the Transfer of Real Resources to Developing Countries) is a joint World Bank–IMF body composed of 24 World Bank or IMF governors or their alternates; it advises the Boards of Governors of the IMF and World Bank on critical development issues and on the financial resources required to promote economic development in developing countries. Like the IMFC, it also normally meets twice a year.

Under the Articles of Agreement, the IMF's Executive Board is responsible for the selection of the Managing Director of the Fund. Any Executive Director may submit a

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[68] The Executive Board's calendar for FY2007 and a description of its main activities can be found on the CD-ROM. General information on the governance of the IMF can also be found on the CD-ROM, in the *IMF Handbook*.

nomination, regardless of nationality, for the position.[69] The Managing Director is appointed for a five-year, renewable term. He/she, in turn, with the concurrence of the Executive Board, appoints a First Deputy Managing Director and two Deputy Managing Directors to provide managerial support, one of whom chairs the Board in the Managing Director's absence. The Managing Director is chief of the operating staff of the IMF and conducts the ordinary business of the IMF under the direction of the Executive Board. He/she is ultimately responsible for all aspects of the internal management and working of the institution and its relations and communications with the outside world. The three Deputy Managing Directors share oversight of the IMF's relationship with individual member countries, chair selected Executive Board meetings, and oversee staff work in specific areas.

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The IMF's staff is appointed by the Managing Director, and its sole responsibility is to the IMF. At April 30, 2007, the IMF had 2,005 professional and managerial staff and 673 staff at other levels. Eighty-two members of the professional and mangerial staff were resident representatives stationed in Africa, Asia and the Pacific, Europe, the Middle East, and Latin America and the Caribbean, covering a total of 92 member countries. Resident representatives, through their professional expertise and familiarity with local conditions, contribute to the formulation of IMF policy advice, monitor countries' economic performance, and coordinate technical assistance; those in low-income countries take part in discussions on poverty reduction strategies. Resident representatives also alert the IMF and the host country to potential policy slippages, provide on-site program support, and play an active role in IMF outreach, working with different branches of government, civil society organizations, donors, and other stakeholders.

The framework for human resource management in the Fund reflects evolving best practices that are consistent with the mission of the institution and the objective of maintaining the quality and diversity of its staff. The Articles of Agreement state that the efficiency and technical competence of Fund staff are expected to be of the "highest standards," and that, in appointing the staff, the Managing Director "shall . . . pay due regard

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[69] On July, 12, 2007, the Executive Board adopted a decision setting out procedures for the nomination and selection of the Managing Director; see www.imf.org/external/np/sec/pr/2007/pr07159.htm.

to the importance of recruiting personnel on as wide a geographical basis as possible." In addition, all staff members observe the highest standards of ethical conduct, consistent with the values of integrity, impartiality, and discretion, as set out in the IMF Code of Conduct and its Rules and Regulations.

Recognizing that the membership must have at its service individuals who understand, through their professional experience and training, a wide range of policymaking challenges that confront country officials and who can offer policy advice appropriate to the circumstances of each of the 185 member countries, the Executive Board has long emphasized and expressed concern about diversity, and has repeatedly called for improvements in the diversity of the staff. The Fund thus makes every effort to ensure that staff diversity reflects the institution's membership, actively seeking candidates from all over the world. It recently established a Diversity Council to further its diversity agenda, building on the creation in 1995 of the position of Diversity Advisor. Progress is monitored and problems are reported in a transparent manner in various formats—including the *Diversity Annual Report*—on the IMF Web site. Of the IMF's 185 member countries, 142 were represented on the staff at the end of 2006. Tables showing the distribution of the IMF's staff by nationality, gender, and developing and industrial countries are on the CD-ROM (CD-Tables 5.1, 5.2, and 5.3), as is a table showing the staff salary structure (CD-Table 5.4).

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The IMF organization chart and the list of the IMF's senior officers are on pages [00] and [00], respectively, of this Report. The organization of the IMF and the functions of its different departments are described in the *IMF Handbook,* which can be found on the CD-ROM.

Deleted: Also on the CD-ROM are tables showing the distribution of the IMF's staff by nationality, gender, and developing and industrial countries, and the staff salary structure.

Administrative and capital budgets

The administrative budget provides for the personnel and travel costs and other recurrent administrative expenditures incurred by the IMF in providing services to member countries and the international community. The annual budget covers the period May 1 through April 30, the IMF's financial year, and is approved by the Executive Board on a net basis (defined as gross expenditures less receipts).[70] The Executive Board also approves a limit on gross expenditures, based on an upper range of the estimate for receipts. The IMF's net administrative expenditures are funded from operational income, which includes charges on the use of IMF resources, and from reserves.

The IMF's capital budget provides funds for capital projects starting in the forthcoming financial year; the projects approved form part of the three-year capital plan that covers all new capital projects. Capital appropriations can be accessed for three years; funds unused at the end of the three-year period lapse.

Budgets and actual expenditures in FY2007

The IMF's administrative budget for the financial year that ended April 30, 2007, authorized total net expenditures of $911.9 million, a limit on gross expenditures of $987.1 million, and appropriations of $48.1 million for capital projects beginning in FY2007. The Executive Board also took note of indicative net administrative budgets of $929.6 million and $952.8 million for FY2008 and FY2009, respectively, and the three-year capital plan of $141 million.

The development of the MTS, the review of the IMF's employment, compensation, and benefits framework, and the IMF's deteriorating income position have changed the institutional and financial environment in which the IMF operates. Accordingly, the FY2007–09 budgets approved by the Executive Board reflected a planned reduction in the overall size of the IMF's real administrative resource envelope and marked the beginning of a downward trend in planned capital expenditures. FY2007 net expenditures were to be held constant in real terms, while the planned FY2008 and FY2009 administrative budgets required real reductions. Notwithstanding the proposed declining real resource envelope, the FY2007–09 medium-term budget (MTB) provided the resources necessary for the IMF to deliver its key outputs—including new MTS initiatives—accommodated by increases in the IMF's internal administrative efficiency and reductions in support-related costs.

[70]Just over half of the receipts consist of external donor contributions for technical assistance to, and training of officials from, member countries; the remainder includes proceeds from publications.

The outturn on the net administrative budget for FY2007 was $897.2 million, $14.7 million (1.6 percent) less than budgeted. Receipts were $0.2 million above the central estimate on which the net administrative budget was based. Gross administrative expenditures were $14.4 million (1.5 percent) below the $980.2 million central estimate.

Actual administrative expenditures were a little below budget because of slightly lower-than-planned use of resources in the delivery of IMF outputs and a shortfall on certain planned outputs: a small number of projects were delayed, so that the associated expenditures will now be incurred in the current financial year. The resources allocated to the delivery of the IMF's outputs in FY2007 reflected the new priorities identified under the medium-term strategy (Figure 5.1). The new multilateral consultation and the extension of the work of the Consultative Group on Exchange Rate Issues to a larger number of countries led to an increased share of gross administrative resources being devoted to multilateral surveillance in FY2007 relative to past years.[71] Relative to FY2006, additional resources were devoted to regional and financial sector surveillance (both MTS priorities), while a smaller share of resources was devoted to work on country programs and financial assistance. The share of resources devoted to capacity building (technical assistance and training) was about the same as in previous years.

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In terms of inputs, the gap between budget and outturn reflected a number of factors (Table 5.1). Underlying travel expenditures were about 4 percent ($3.8 million) under budget, and buildings and other expenditures were almost 9 percent ($15.2 million) under budget, the latter reflecting lower building-occupancy costs and less use of contractual services than expected. Personnel-related expenses were about 1 percent ($7.3 million) over budget.[72]

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[71] Both the multilateral consultation and the CGER's work are discussed in Chapter 2.

[72] This was more than accounted for by a special one-off transaction of $19 million, approved by the Executive Board, to accelerate payments into the Staff Retirement Plan (SRP) under a program to provide retirement benefits to staff who were formerly employed on a contractual basis.

Figure 5.1 Estimated gross administrative expenditures by key output areas, FY2007

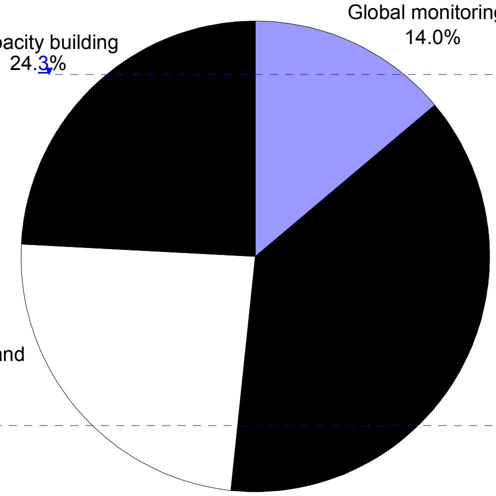

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Table 5.1 Administrative budgets, FY2005–08[1]
(In millions of U.S. dollars)

	FY2005 Actual expenditures	FY2006 Actual expenditures	FY2007 Budget	FY2007 Actual expenditures	FY2008 Budget
Administrative expenditures					
Personnel					
Salaries	375.2	392.6	407.5	404.1	424.6
Benefits and other personnel	259.5	273.9	292.7	303.4	298.5
Subtotal	**634.7**	**666.5**	**700.2**	**707.5**	**723.1**
Other					
Travel	90.2	94.2	102.0[2]	93.2	100.5
Buildings and other	167.3	169.6	177.9	159.7	170.2
Subtotal	**257.5**	**263.8**	**279.9**	**258.3**	**270.7**
Gross expenditures	**892.2**	**930.3**	**980.2**	**965.8**	**993.8**
Receipts	(66.1)	(56.0)	(68.3)	(68.5)	(71.4)
Net administrative expenditures	**826.1**	**874.4**	**911.9**	**897.2**	**922.3**

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Note: Figures may not add because of rounding.
[1]Administrative budgets as approved by the Board for the financial years ending April 30, 2007, and April 30, 2008, compared with actual expenditures for the financial years ended April 30, 2005, April 30, 2006, and April 30, 2007.
[2]Includes $5.0 million as a contribution to the costs of holding the Annual Meetings in Singapore.

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Total capital spending in FY2007 was within the budget for projects approved during FY2005–06. Of the $45.6 million in total capital expenditures, $16.1 million was for building facilities, $5.3 million for the IMF's Headquarters 2, and $24.1 million for information technology projects.

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Medium-term budget, FY2008–10

The FY2008–10 medium-term budget approved by the Executive Board on April 25, 2007, allows for an underlying 1.7 percent increase each year, thus implying a real reduction in the Fund's administrative resources for the next three years. Executive Directors agreed that, although a new income model—building on the recommendations of the Committee of Eminent Persons (see "Financial operations and policies" below)—must play the major role in putting the IMF's finances on a sustainable footing, expenditure restraint is also necessary. To ensure continued delivery of the IMF's outputs in line with the MTS, the additional resources allocated to meet new needs and priorities of member countries are to be more than offset by savings generated through the increased efficiency of existing operations and by scaling back or eliminating lower-priority activities.

For FY2008, the Executive Board approved a net administrative budget of $922.3 million, with an upper limit on gross expenditures of $998.2 million, and took note of the indicative net administrative budgets of $938.0 million and $959.4 million for FY2009 and FY2010, respectively.[73] The Board also approved appropriations of $46.6 million for capital projects and took note of the medium-term capital plan, totaling $138.0 million.

Continuing the budget reforms that began six years ago, in FY2008 the IMF will begin implementing a full medium-term administrative budget supported by three-year business plans for its departments and offices. In addition, as discussed in Box 5.4, the IMF is introducing performance indicators to assist in monitoring the delivery of departments' business plans. It is also taking measures to improve the accuracy of the systems for allocating costs to specific outputs.

[73] The nominal figures for both FY2008 and FY2009 are below the indicative figures provided last year, principally because of a reduction in inflation.

Box 5.4 Performance indicators

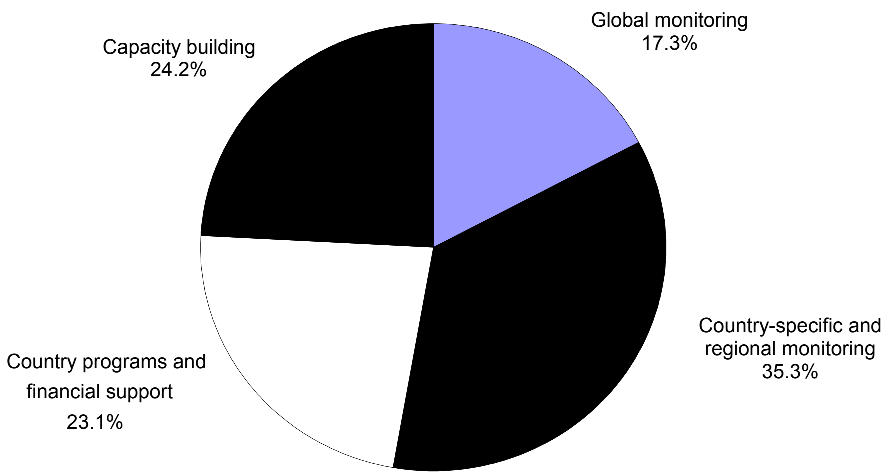
The IMF plans to introduce several types of performance indicators (PIs) progressively, including the following:

- Quantity indicators for all final outputs, and quantity and quality indicators for support and governance activities, along with quality indicators for selected final and intermediate outputs, will be introduced beginning in FY2008.
- Timeliness indicators and other PIs designed to capture the IMF's responsiveness will be phased in over a longer period.
- Further analytical work will be undertaken to examine the feasibility of introducing selected outcome indicators—in particular, intermediate-outcome indicators (regarded as operationally more relevant than final-outcome indicators)—and the need for improved cost-monitoring techniques, to facilitate the use of cost indicators in the budget and business-planning processes.

Work is also under way to introduce supportive information technology applications and to establish a continuous review process for the PIs to help ensure their continued relevance to the IMF's strategy and business model.

Departmental plans indicate that the reallocation of resources in line with MTS objectives is set to continue under the FY2008–10 medium-term budget. Figure 5.2 shows each output's share of total resources for FY2008.

Figure 5.2 Estimated gross administrative expenditures by key output areas, FY2008



In terms of inputs, the FY2008 administrative budget allows for a 3.3 percent structural salary adjustment (the salary structure as of May 1, 2007, can be found on the CD-ROM). Changes to travel policies and practices are expected to hold down travel costs. Expenditures on buildings and other items are budgeted to decline, reflecting targeted reductions in support costs.

Modernizing the risk-management framework

During FY2007, the Advisory Committee on Risk Management (ACRM), established in October 2006 and chaired by Fund management, prepared the IMF's first annual report on risk management based on a Fund-wide survey on operational risks. The report, accompanied by reports on the strategic, core-mission, and financial risks faced by the IMF, was reviewed by the Executive Board and discussed in March and April 2007. Executive Directors considered the report and the underlying work to be an important step in the IMF's efforts to integrate and strengthen various aspects of risk management. They stressed the oversight and critical fiduciary responsibility of the Executive Board for risk management, noting that the day-to-day operational aspects of the IMF's risk-management processes are the purview of Fund management.

The reports presented to the Board constituted a comprehensive assessment of the main risks facing the IMF and the measures in place to mitigate them. The findings were that (1) strategic risks were generally well covered with the Medium-Term Strategy in place; (2) core-mission risks were well covered by the Fund's financial policies and strong oversight and review functions (Box 5.5); (3) financial risks—in particular income risk—are being addressed by shareholders; and (4) measures in place to address the key remaining operational risks (defined as those with a high probability of occurrence or a potentially significant impact) are generally adequate.

Notwithstanding the progress achieved thus far, developing a risk-management framework for the IMF remains a work in progress, to allow the Fund to learn from experience and adapt in a timely way to changing circumstances and any new risks future changes may engender. Such a dynamic approach should help the framework evolve in line with emerging international best practices while continuing to give due consideration to the special character of the IMF as a cooperative global institution and provider of public goods.

Box 5.5 Safeguard assessments

The IMF's safeguards assessments policy mitigates the risk that loans made to member countries will be misused. Safeguard assessments aim to provide reasonable assurance to the IMF that a central bank's framework of financial reporting, audit, and controls is adequate to manage its resources, including IMF loans (see CD-Box 5.3 on the CD-ROM). In FY2007, the Fund conducted assessments of 12 central banks in member countries, bringing the total number of completed assessments as of April 30, 2007, to 136. Ongoing monitoring of the safeguards frameworks at central banks continues for as long as members have an arrangement with the IMF ([57] central banks at end-April 2007). Central banks have generally embraced the findings of safeguards assessments, and the safeguards assessments policy has enhanced the IMF's reputation and credibility as a prudent lender while helping to improve the operations and control systems of central banks.

Streamlining

In a cost-conscious environment, the MTS proposes streamlining IMF operations and reviewing the allocation of resources to refocus them on more strategic issues while strengthening the quality and effectiveness of surveillance. In FY2007, the Executive Board lengthened the cycle for most IMF policy reviews, consolidated some reports, and eliminated others. To enhance the timeliness of surveillance, the Board shortened the interval between the conclusion of Article IV missions and Board discussions. The IMF experimented with streamlined Article IV consultations (see Chapter 2), and procedures in cases of minor misreporting of data by member countries were modified to make them less onerous for both the IMF and the member.[74] The IMF also reviewed certain support services to identify opportunities for delivering outputs more efficiently and at a lower cost.

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[74]See PIN 06/95, "IMF Executive Board Modifies Procedures in De Minimis Cases of Misreporting," on the CD-ROM or at www.imf.org/external/np/sec/pn/2006/pn0695.htm.

Financial operations and policies

Income, charges, remuneration, and burden sharing

The IMF, like other financial institutions, earns income from interest charges and fees levied on its loans and uses the income to meet funding costs, pay for administrative expenses, and build up precautionary balances. The current framework relies heavily on income from lending. A priority for the IMF in the period ahead is to establish a new model that generates steady, diversified, and reliable long-term sources of income better adapted than the current model to the broad range of the IMF's activities.

Under the current income model, the basic rate of charge (the interest rate) on regular lending is determined at the beginning of the financial year as a margin in basis points above the SDR interest rate (see Box 3.1). These charges are intended to cover the cost of funds and administrative expenses and to achieve an agreed net income target for the year. For FY2007, however, the Board agreed to (1) keep the margin for the rate of charge unchanged from FY2006, at 108 basis points above the SDR interest rate, and (2) temporarily suspend reserve accumulation.

Since November 2000, the IMF has imposed surcharges on credit extended to discourage unduly large use of credit in the credit tranches and under Extended Arrangements and to preserve the revolving nature of IMF financial resources. The IMF also imposes surcharges on shorter-term loans under the Supplemental Reserve Facility that vary according to the length of time credit is outstanding. Income derived from surcharges can be placed in the IMF's reserves or used for other purposes as decided by the Executive Board.

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

IMF also levies special charges on overdue principal payments and on charges that are overdue by less than six months.

The IMF pays interest (remuneration) to member country creditors on their reserves held by the IMF (known as reserve tranche positions) based on the SDR interest rate. The basic rate of remuneration is currently set at 100 percent of the SDR interest rate (the upper limit permitted under the Articles of Agreement), but it may be set as low as 80 percent of that rate (the lower limit).

Since 1986, the rates of charge and remuneration have been adjusted under a burden-sharing mechanism that distributes the cost of overdue financial obligations between creditor and debtor members. Loss of income from unpaid interest charges overdue for six months or more is recovered by increasing the rate of charge and reducing the rate of remuneration. The amounts thus collected are refunded when the overdue charges are settled. Additional adjustments to the basic rates of charge and remuneration are made to generate resources for a Special Contingent Account (SCA-1), which was established specifically to protect the IMF against the risk of loss resulting from arrears. Effective November 1, 2006, the Board decided to suspend contributions to the SCA-1. In FY2007, the adjustments for unpaid interest charges and the allocation to the SCA-1 resulted in an increase to the basic rate of charge and a reduction in the rate of remuneration of [23] basis points, respectively. The adjusted rates of charge and remuneration averaged [5.28] percent and [3.74] percent, respectively, for the financial year.

Income in FY2007 fell SDR [108 million] short of expenditures. The net income shortfall largely reflects a substantial decline in IMF credit outstanding, from a peak of SDR 70 billion in September 2003 to SDR [7.3] billion at the end of FY2007, owing to low demand for new IMF credit and advance repayments by some members in recent years. The income shortfall will be offset against the Fund's reserves (retained earnings), which amounted to some SDR 6 billion at end-FY2007. The IMF has taken a number of steps to strengthen its income position. The Board's establishment of the Investment Account in April 2006 and its funding with SDR 5.9 billion in June 2006 was the first step in diversifying the IMF's sources of income (Box 5.6).

Box 5.6 Investment Account

The IMF's Articles of Agreement provide for the establishment of an Investment Account (IA) to generate income to help the IMF meet its operating costs. As part of the review of the IMF's finances and financial structure that began in 2004, the IMF's Executive Board supported the need to broaden the IMF's income base given the decline in demand for IMF lending, until then the main source of income.

The IA was established by an Executive Board decision in April 2006 and funded in June 2006 through a transfer of currencies equal to SDR 5.96 billion from the General Resources Account (GRA). The Articles limit the amount that may be transferred to the IA to the equivalent of the Fund's general and special reserves at the time of the decision to make the transfer. The June 2006 transfer was equivalent to the Fund's total reserves at that time.

Before the funding of the IA, reserves formed part of the currency balances kept with creditor members. The transfer of currencies to the IA therefore increased the reserve tranche positions of creditor members. Reserve tranche positions are remunerated at the 3-month SDR interest rate, the implicit return on the Fund's reserves prior to the IA.

The IMF's objective is for the return on the IA to exceed the return on the SDR interest rate over time while minimizing the frequency and extent of negative returns and underperformance over a 12-month horizon. To achieve this objective, the duration of the IA portfolio is maintained beyond 3-month instruments through investments in eligible longer-term government bonds and other fixed-income securities. External asset managers—including the World Bank, the Bank for International Settlements, and private managers—are entrusted with buying and selling individual securities in accordance with the IA's investment authority, guidelines, and benchmark.

A one- to three-year benchmark index was adopted for the IA. Historical performance suggests that the resulting extension of investment maturities beyond the three-month SDR rate will generate additional income over time.

The IMFC recognized the need for more predictable and stable sources of IMF income and called on the Managing Director to develop proposals expeditiously. In May 2006, the Managing Director established the Committee of Eminent Persons to Study

Sustainable Long-Term Financing of the IMF.[75] The Committee presented its recommendations to management and the Executive Board in early 2007. At its April 2007 meeting, the IMFC endorsed the report as a sound basis for further work on the development of a new income model for the IMF and looked forward to proposals from the Managing Director for consideration by the Executive Board. Work on the development of the new model is a priority for FY08.

Arrears to the IMF

Overdue financial obligations to the IMF totaled SDR 1.88 billion at end-April 2007 (Table 5.2), 83 percent of which was accounted for by Sudan and Liberia; Somalia and Zimbabwe accounted for the balance. At end-April 2007, all arrears to the IMF were protracted (outstanding for more than six months); 39 percent represented overdue principal, and the rest, overdue charges and interest. More than four-fifths represented arrears to the GRA, while the remainder represented arrears to the SDR Department Trust Fund and the PRGF-ESF Trust. Zimbabwe is the only country with protracted arrears to the PRGF-ESF Trust.

Table 5.2 Arrears to the IMF of countries with obligations overdue by six months or more and by type
(In millions of SDRs; as of April 30, 2007)

		By type			
	Total	General Department (incl. SAF[1])	SDR Department	Trust Fund	PRGF-ESF
Liberia	530.8	472.1	28.1	30.6	0.0
Somalia	233.5	213.0	12.4	8.0	0.0
Sudan	1,033.1	953.4	0.0	79.8	0.0
Zimbabwe	84.7	0.0	0.0	0.0	84.7
Total	1,882.1	1,638.5	40.5	118.4	84.7

Source: IMF Finance Department.
[1]Structural Adjustment Facility.

[75]The Committee's final report was released in January 2007 and is available on the CD-ROM and on the IMF's Web site, at www.imf.org/external/np/oth/2007/013107.pdf. The IMF's press release announcing the release of the report can also be found on the CD-ROM, as well as at www.imf.org/external/np/sec/pr/2007/pr0718.htm.

Under the IMF's strengthened cooperative strategy on arrears, remedial measures have been applied against countries with protracted arrears. As of the end of the financial year, Liberia, Somalia, Sudan, and Zimbabwe remained ineligible to use GRA resources. Zimbabwe continued to be excluded from the list of PRGF-eligible countries and is subject to a declaration of noncooperation. In view of Liberia's strengthened cooperation with the Fund, on October 2, 2006, the Executive Board decided to initiate the de-escalation of the remedial measures that had been applied against Liberia and lifted the declaration of noncooperation.

IMF audit mechanisms

The IMF's audit mechanisms consist of an external audit firm, an internal audit function, and an independent External Audit Committee (EAC) that oversees the work of both. The EAC, which also oversees the IMF's accounting, financial reporting, internal control, and risk-management functions, is composed of three members selected by the Executive Board and appointed by the Managing Director. The members serve for three-year terms on a staggered basis and are independent of the IMF. EAC members are nationals of different IMF member countries at the time of their appointment and must possess the expertise and qualifications required to carry out the oversight of the annual audit. Typically, candidates for the EAC come from international public accounting firms, the public sector, or academia.

The EAC selects one of its members as chairman, determines its own procedures, and is independent of the IMF's management in overseeing the annual audit. However, any changes to the EAC's terms of reference are subject to Board approval. The EAC typically meets in person in early January, in late June after the completion of the audit, and in July to report to the Board. IMF staff and the external auditors consult with EAC members throughout the year.

The 2007 EAC members are Dr. Len Konar (Chair), Board Member, South African Reserve Bank; Mr. Satoshi Itoh, former Professor, Chuo University, Japan; and Mr. Steve Anderson, Head of Risk Assessment and Assurance, Reserve Bank of New Zealand.

The external audit firm, which is elected by the Executive Board in consultation with the EAC and appointed by the Managing Director, is responsible for performing the external audit and expressing an opinion on the IMF's financial statements based on the audit. At the conclusion of the annual audit, the EAC transmits the report issued by the external audit firm, through the Managing Director and the Executive Board, to the Board of Governors and briefs the Executive Board on the results of the audit. The external audit firm is normally appointed for five years. Deloitte and Touche LLP is the IMF's external auditor.

The internal audit function is performed by the Office of Internal Audit and Inspection (OIA), which provides independent examinations of the effectiveness of controls, governance processes, and risk management. To meet this objective, OIA conducts about 25 audits and reviews a year. OIA reports to IMF management and to the EAC, thus assuring its independence. In addition, the Executive Board is briefed regularly on OIA's work program and the major findings of its audits and reviews.

The IMF's financial statements for FY2007 form Appendix VI of this Annual Report and can be found on the CD-ROM as well as on the Fund's Web site, at www.imf.org/external/pubs/ft/quart/index.htm. Readers who wish to receive a print copy of the financial statements for FY2007 may request one from IMF Publication Services, 700 19th Street, N.W., Washington, DC 20431.

ANNUAL REPORT 2007

CD-ROM OUTLINE

July 23, 2007

The CD-ROM will include the full text of the print report (in PDF format), with additional material as listed below. The text will have links to the relevant PINs, reports, etc., that are on the CD-ROM.

Chapter 1. Overview

- Board calendar for FY2007: www.imf.org/external/np/sec/bc/eng/prev.asp.
- Board's work program: www.imf.org/external/np/sec/pr/2006/pr06267.htm; www.imf.org/external/np/sec/pr/2006/pr06138.htm
- Reports of the Managing Director to the IMFC on the IMF's Policy Agenda
  - April 11, 2007: www.imf.org/external/np/pp/2007/eng/041107.pdf
  - September 15, 2006: www.imf.org/external/np/pp/2006/eng/091506.pdf

Chapter 2. Promoting financial and macroeconomic stability and growth through surveillance

Implementing surveillance

- Summings up of Board discussion on *World Economic Outlook*
  - March 26, 2007: www.imf.org/external/pubs/ft/weo/2007/01/pdf/annex.pdf
  - August 23, 2006: www.imf.org/external/pubs/ft/we/2006/02/pdf/annex.pdf
- Summings up of Board discussions on *Global Financial Stability Report:*
  - March 19, 2007: www.imf.org/external/pubs/ft/gfsr/2007/01/pdf/annex.pdf
  - August 23, 2006: www.imf.org/external/pubs/ft/gfsr/2006/02/pdf/annex.pdf
- IMF's International Monetary and Financial Committee Reviews Multilateral Consultation, PR 07/72, www.imf.org/external/np/sec/pr/2007/pr0772.htm
- CD-Table 2.1, Article IV consultations completed during FY2007 (attached)
- IMF Executive Board Concludes 2006 Discussion on Common Policies of Member Countries with CEMAC, PIN 06/90: www.imf.org/external/np/sec/pn/2006/pn0690.htm
- IMF Executive Board Concludes 2006 Regional Discussions with Eastern Caribbean Currency Union, PIN 07/13: www.imf.org/external/np/sec/pn/2007/pn0713.htm
- IMF Executive Board Discusses Euro Area Policies, PIN 06/86: www.imf.org/external/np/sec/pn/2006/pn0686.htm;
- IMF Executive Board Concludes 2007 Consultation with West African Economic and Monetary Union," PIN 07/55: www.imf.org/external/np/sec/pn/2007/pn0755.htm

Modernizing the surveillance framework and integrating financial sector analysis

- IMF Executive Board Discusses Treatment of Exchange Rate Issues in Bilateral Surveillance—A Stocktaking, PIN No. 06/131: www.imf.org/external/np/sec/pn/2006/pn06131.htm
- IMF Strengthening Framework for Exchange Rate Surveillance, Press Release No. 06/266: www.imf.org/external/np/sec/pr/2006/pr06266.htm.
- IMF Executive Board Reviews the Quality and Consistency of Assessment Reports for Anti–Money Laundering and Combating the Financing of Terrorism and the Effectiveness of Coordination, PIN 06/72: www.imf.org/external/np/sec/pn/2006/pn0672.htm

Chapter 3. Program support

- CD-Table 3.1, Exogenous Shocks Facility subsidy contributions (attached)
- CD-Table 3.2, Subsidy contributions for emergency assistance (attached)

Emerging market economies

- IMF Board Holds Seminar on Consideration of a New Liquidity Instrument for Market Access Countries, PIN 06/104: www.imf.org/external/np/sec/pn/2006/pn06104.htm
- IMF Executive Board Discusses Design Issues for a New Liquidity Instrument for Market Access Countries, PIN 07/40: www.imf.org/external/np/sec/pn/2007/pn0740.htm

Low-income countries

- IMF Executive Board Discusses Doha Development Agenda and Aid for Trade, PIN 06/105: www.imf.org/external/np/sec/pn/2006/pn06105.htm
- IMF Executive Board Discusses Issues Related to the Sunset Clause of the Initiative for Heavily Indebted Poor Countries, PIN 06/107: www.imf.org/external/np/sec/pn/2006/pn06107.htm
- CD-Table 3.3, Countries covered by the Multilateral Debt Relief Initiative (attached)
- IMF Executive Board Discusses the Application of the Debt Sustainability Framework for Low-Income Countries Post Debt Relief, PIN 06/136: www.imf.org/external/np/sec/pn/2006/pn06136.htm

Review of the IMF's role and instruments

- IMF Executive Board Concludes Review of Ex Post Assessments, PIN 06/96: www.imf.org/external/np/sec/pn/2006/pn0696.htm
- IMF Executive Board Discusses Precautionary Arrangements—Purposes and Performance, PIN 06/94: www.imf.org/external/np/sec/pn/2006/pn0694.htm

Chapter 4. Capacity building: technical assistance and training

- CD-Table 4.1. Technical assistance delivery by Regional Technical Assistance Center (RTAC), FY2005–07 (attached)
- CD-Table 4.2. Regional Technical Assistance Centers (attached)
- CD-Table 4.3. Technical assistance evaluation program, FY2007–09 (attached)
- CD-Table 4.4. IMF Institute regional training programs (attached)
- CD-Table 4.5. IMF Institute training programs, FY2005–07 (attached)

Chapter 5. Governance, organization, and finances

Quota and voice reform

- CD-Box 5.1. The IMF's financing mechanism (attached)
- Resolution on Quota and Voice Reform (attached)
- IMF Executive Board Recommends Quota and Related Governance Reforms, Press Release 06/189, www.imf.org/external/np/sec/pr/2006/pr06189.htm
- IMF Board of Governors Approves Quota and Related Governance Reforms, Press Release 06/205, www.imf.org/external/np/sec/pr/2006/pr06205.htm

Communication and transparency

- CD-Box 5.2. Disseminating information: the IMF's publishing operations and Web site (attached)

Management and organization

- IMF Managing Director Rodrigo de Rato and World Bank President Paul Wolfowitz Welcome Report on Enhancing IMF–World Bank Cooperation, Press Release 07/32: www.imf.org/external/np/sec/pr/2007/pr0732.htm
- Report of the External Review Committee on IMF–World Bank Collaboration, www.imf.org/external/pp/longres.aspx?id=4041
- IMF Handbook: Its Functions, Policies, and Operations [to be posted on Web]
- CD-Box 5.3. Safeguards Assessment Policy (attached)
- IMF Executive Board Modifies Procedures in De Minimis Cases of Misreporting, PIN 06/95: www.imf.org/external/np/sec/pn/2006/pn0695.htm
- CD-Table 5.1. Distribution of professional and managerial staff by nationality (attached)
- CD-Table 5.2. Distribution of staff by gender (attached)
- CD-Table 5.3. Distribution of staff by developing and industrial countries (attached)

- CD-Table 5.4. IMF staff salary structure (attached)

Financial operations and policies

- Final Report of the Committee to Study Sustainable Long-term Financing of the IMF, www.imf.org/external/np/oth/2007/013107.pdf
- Eminent Persons Group Outlines Long-Term Revenue Plan to Finance IMF Activities, Press Release 07/18: www.imf.org/external/np/sec/pr/2007/pr0718.htm

Appendixes

I. International reserves (attached)

II. Financial operations and transactions (attached)

III. Press communiqués of the IMFC and the Development Committee

- IMFC, September 2006: www.imf.org/external/np/cm/2006/091706.htm
- IMFC, April 2007: www.imf.org/external/np/cm/2007/041407.htm
- Development Committee, September 2006: www.imf.org/external/np/cm/2006/091806.htm
- Development Committee, April 2007: www.imf.org/external/np/cm/2007/041507.htm

IV. Executive Directors and voting power (attached)

V. Changes in membership of the Executive Board (attached)

VI. Financial Statements, www.imf.org/external/pubs/ft/quart/index.htm

CD-Table 2.1 Article IV consultations completed during FY2007

Country	Board discussion date	PIN issued	Staff report published
Albania	July 24, 2006	July 26, 2006	August 1, 2006
Algeria	January 10, 2007	February 7, 2007	February 22, 2007
Angola	July 19, 2006	November 15, 2006	
Antigua and Barbuda	January 17, 2007	January 25, 2007	
Argentina	July 28, 2006	August 9, 2006	
Armenia	November 22, 2006	December 7, 2006	December 11, 2006
Australia	October 11, 2006	October 23, 2006	October 23, 2006
Austria	April 23, 2007		
Barbados	August 4, 2006	September 13, 2006	September 13, 2006
Belarus	August 4, 2006	August 25, 2006	August 25, 2006
Belgium	February 16, 2007	March 5, 2007	March 5, 2007
Belize	October 20, 2006	October 20, 2006	October 20, 2006
Benin	November 27, 2006	December 12, 2006	January 4, 2007
Bolivia	July 17, 2006	July 19, 2006	July 26, 2006
Bosnia and Herzegovina	October 13, 2006	October 19, 2006	October 23, 2006
Botswana	December 13, 2006		
Brazil	May 31, 2006	June 19, 2006	
Brunei Darussalam	October 16, 2006	December 7, 2006	
Bulgaria	August 2, 2006	August 4, 2006	August 8, 2006
Burundi	July 14, 2006	July 25, 2006	August 21, 2006
Cambodia	July 7, 2006	July 20, 2006	July 20, 2006
Canada	January 12, 2007	February 13, 2007	February 13, 2007
Canada	May 22, 2006	June 16, 2006	June 16, 2006
Cape Verde	July 31, 2006	August 24, 2006	September 25, 2006
Chad	December 18, 2006	December 21, 2006	
Chile	August 2, 2006	August 11, 2006	September 22, 2006
China	July 31, 2006	September 11, 2006	October 31, 2006
Colombia	October 30, 2006	November 7, 2006	November 16, 2006
Comoros	October 13, 2006	October 30, 2006	October 30, 2006
Congo, Republic of	April 25, 2007	April 27, 2007	
Costa Rica	October 30, 2006	November 29, 2006	November 29, 2006
Croatia	February 16, 2007	February 27, 2007	February 27, 2007
Cyprus	January 26, 2007	February 21, 2007	February 21, 2007
Czech Republic	February 21, 2007	February 28, 2007	February 28, 2007
Denmark	September 29, 2006	October 5, 2006	October 5, 2006
Djibouti	April 27, 2007		
Egypt	July 5, 2006	July 11, 2006	July 11, 2006
El Salvador	July 24, 2006	July 31, 2006	November 22, 2006
Equatorial Guinea	May 10, 2006	June 14, 2006	June 20, 2006
Estonia	November 17, 2006	November 22, 2006	November 29, 2006
France	October 25, 2006	November 1, 2006	November 1, 2006
Gabon	June 5, 2006	June 13, 2006	June 23, 2006
Gambia, The	October 13, 2006	October 20, 2006	December 19, 2006
Germany	December 8, 2006	December 14, 2006	December 14, 2006
Greece	January 22, 2007	January 25, 2007	January 25, 2007
Guatemala	February 14, 2007	March 27, 2007	
Guinea-Bissau	July 31, 2006	August 17, 2006	August 21, 2006
Guyana	March 21, 2007		
Honduras	February 21, 2007	March 8, 2007	
Hong Kong	December 15, 2006	January 8, 2007	January 8, 2007
Hungary	October 11, 2006	October 20, 2006	October 25, 2006
Iceland	August 4, 2006	August 8, 2006	August 8, 2006
India	December 20, 2006	January 25, 2007	February 14, 2007
Indonesia	July 31, 2006	August 7, 2006	August 23, 2006
Iran, Islamic Republic of	February 23, 2007	March 5, 2007	March 8, 2007
Ireland	July 26, 2006	August 7, 2006	August 7, 2006
Israel	January 19, 2007	January 23, 2007	January 23, 2007
Italy	February 7, 2007	February 15, 2007	February 15, 2007
Jamaica	April 30, 2007		
Japan	July 21, 2006	July 27, 2006	July 28, 2006
Jordan	March 5, 2007	March 22, 2007	March 27, 2007
Kazakhstan	June 14, 2006	June 27, 2006	July 5, 2006
Kenya	April 11, 2007		
Kiribati	April 27, 2007		
Korea	September 29, 2006	October 12, 2006	October 24, 2006

Kuwait	April 6, 2007		
Kyrgyz Republic	November 3, 2006	January 8, 2007	March 29, 2007
Latvia	October 4, 2006	October 12, 2006	October 12, 2006
Lebanon	May 3, 2006	May 30, 2006	June 9, 2006
Lesotho	October 6, 2006	October 12, 2006	November 14, 2006
Libya	April 20, 2007	April 25, 2007	
Lithuania	March 26, 2007	April 3, 2007	April 3, 2007
Lithuania	May 1, 2006	May 5, 2006	May 4, 2006
Macedonia, former Yugoslav Republic of	July 28, 2006	August 11, 2006	October 5, 2006
Malawi	March 14, 2007		
Malaysia	February 26, 2007	March 16, 2007	
Mauritania	June 21, 2006	July 6, 2006	July 26, 2006
Mexico	September 6, 2006	October 11, 2006	October 11, 2006
Micronesia	February 28, 2007	March 8, 2007	March 9, 2007
Moldova	May 5, 2006	May 15, 2006	May 25, 2006
Mongolia	January 10, 2007	January 29, 2007	January 31, 2007
Morocco	October 11, 2006	October 13, 2006	November 21, 2006
Myanmar	October 6, 2006		
Namibia	January 5, 2007	January 11, 2007	January 12, 2007
Netherlands	July 26, 2006	July 31, 2006	July 31, 2006
New Zealand	April 27, 2007		
Niger	December 20, 2006	January 5, 2007	January 16, 2007
Oman	January 31, 2007	March 20, 2007	
Pakistan	November 22, 2006	December 7, 2006	December 7, 2006
Panama	February 16, 2007	March 15, 2007	
Papua New Guinea	March 7, 2007	March 21, 2007	March 21, 2007
Peru	January 26, 2007	January 29, 2007	February 6, 2007
Philippines	January 19, 2007	February 7, 2007	February 13, 2007
Poland	October 4, 2006	October 13, 2006	October 31, 2006
Portugal	October 18, 2006	October 24, 2006	October 24, 2006
Russian Federation	October 18, 2006	November 6, 2006	December 6, 2006
Rwanda	January 29, 2007	February 9, 2007	February 23, 2007
San Marino	February 23, 2007	March 2, 2007	March 5, 2007
Saudi Arabia	August 28, 2006	September 27, 2006	
Senegal	January 29, 2007	April 12, 2007	
Serbia	October 18, 2006	October 20, 2006	October 27, 2006
Seychelles	March 23, 2007		
Sierra Leone	December 15, 2006	February 13, 2007	February 16, 2007
Slovenia	June 30, 2006	July 6, 2006	July 10, 2006
Solomon Islands	October 4, 2006	October 23, 2006	October 23, 2006
South Africa	August 2, 2006	September 7, 2006	September 15, 2006
Spain	June 12, 2006	June 14, 2006	June 14, 2006
Sri Lanka	October 25, 2006	November 13, 2006	December 21, 2006
St. Kitts and Nevis	January 17, 2007	March 27, 2007	April 20, 2007
St. Vincent and the Grenadines	January 17, 2007		
Sudan	May 3, 2006	May 25, 2006	May 24, 2006
Suriname	March 21, 2007		
Swaziland	January 31, 2007	March 13, 2007	March 28, 2007
Sweden	January 26, 2007	February 7, 2007	February 7, 2007
Switzerland	June 2, 2006	June 12, 2006	June 12, 2006
Syrian Arab Republic	July 31, 2006	August 8, 2006	August 9, 2006
Tajikistan	March 28, 2007	April 10, 2007	April 27, 2007
Thailand	February 26, 2007	March 23, 2007	
Timor Leste	January 29, 2007	February 28, 2007	February 28, 2007
Togo	May 8, 2006		
Tonga	June 2, 2006	June 28, 2006	June 28, 2006
Trinidad and Tobago	October 11, 2006	October 26, 2006	January 8, 2007
Tunisia	May 24, 2006	June 8, 2006	June 12, 2006
United Arab Emirates	June 12, 2006	July 12, 2006	July 14, 2006
Uganda	December 15, 2006	January 25, 2007	January 30, 2007
Ukraine	January 12, 2007	January 22, 2007	February 5, 2007
United Kingdom	February 28, 2007	March 5, 2007	March 5, 2007
United States	July 24, 2006	July 28, 2006	July 28, 2006
Uruguay	June 28, 2006	July 31, 2006	December 6, 2006
Uzbekistan	February 12, 2007	March 29, 2007	March 29, 2007
Vanuatu	February 26, 2007	March 2, 2007	March 5, 2007
Vietnam	October 25, 2006	November 7, 2006	November 29, 2006
Yemen, Republic of	June 2, 2006		
Zimbabwe	February 23, 2007		

PIN=Public Information Notice

CD-Table 3.1 Exogenous Shocks Facility subsidy contributions
(In millions; as of end-April 2007)

Contributors	Date of pledge	Form of contribution	Contribution pledge		SDR equivalent [1]
Canada	Nov. 2005	Grant	CAN$	25.0	14.8
France	Dec. 2005	Concessional loan	US$	30.0 [2]	19.7
Japan	Nov. 2005	Grant	SDR	20.0	20.0
Oman	Mar. 2006	Grant	SDR	3.0	3.0
Norway	Feb. 2006	Grant	SDR	24.7	24.7
Russian Federation	Jan. 2006	Grant	SDR	30.0	30.0
Saudi Arabia	Mar. 2006	Investment agreement	SDR	40.0 [3]	40.0 [3]
Spain	Apr. 2006	Grant	SDR	5.3	5.3
Trinidad and Tobago	Aug. 2006	Deposit agreement	SDR	0.8 [3]	0.8 [3]
United Kingdom	Nov. 2005	Grant	£	50.0	65.4
Total					**223.7**

[1]Calculated using the exchange rate of end-April 2007.
[2]Subject to finalization of commitment.
[3]Reflecting net investment income (in end-2005 net-present-value terms) to be generated from investment/deposit agreements.

CD-Table 3.2 Subsidy contributions for Emergency Assistance
(In millions; as of end-April 2007)

Contributors	Date of pledge	Contribution pledged	SDR equivalent[1]
Subaccount1: EPCA subsidization only			
Belgium	Mar. 2002	SDR 0.6	0.6
Canada	Oct. 2002	Can$ 3.3	1.7
Norway	Jun. 2002	SDR 3.0	3.0
Sweden	Jan. 2002	SDR 0.8	0.8
Switzerland	Mar. 2002	US$ 1.0	0.8
United Kingdom	Oct. 2002	£ 2.5	2.9
Subtotal			**9.7**
Subaccount 2: ENDA subsidization only			
Australia	Jun. 2005	Aus$ 2.0	1.1
Austria[2]	Apr. 2005	SDR 1.3	1.3
Canada	Feb. 2005	Can$ 5.0	2.9
China	May 2005	US$ 2.0	1.4
Germany[3]	Nov. 2005	Euro 1.7	1.4
India	Feb. 2005	SDR 1.5	1.5
Ireland	Nov. 2006	Euro 0.5	0.4
Japan	Apr. 2005	US$ 2.5	1.7
Luxembourg	Feb. 2005	Euro 1.3	1.1
Russia	Feb. 2005	US$ 1.5	1.0
Saudi Arabia	Apr. 2005	US$ 4.0	2.6
Switzerland	Feb. 2005	US$ 2.0	1.4
Subtotal			**17.8**
Subaccount 3: Subsidization of EPCA and ENDA			
France	Jan. 2005	Euro 1.5	1.2
Netherlands[4]	Mar. 2005	US$ 2.0	1.5
Netherlands	Mar. 2005	US$ 2.0	1.4
Norway	Feb. 2005	NKr 10.0	1.1
Sweden	Feb. 2005	US$ 10.0	6.6
United Kingdom	Feb. 2005	£ 1.0	1.2
Subtotal			**13.0**
Total			**40.5**

Note: EPCA=Emergency Post-Conflict Assistance
ENDA= Emergency Natural Disaster Assistance

[1]For contributions that have been fully received, the SDR equivalent is the actual SDR amount received using the exchange rate on the value date. For contributions that are not yet disbursed, the SDR equivalent is calculated using the exchange rate on April 30, 2007.

[2]Reflecting investment income to be generated on a deposit agreement, effective May 2006. All other pledges are in the form of grant contributions.

[3]To subsidize the rate of charge on purchases by Sri Lanka and Maldives under ENDA following the 2004 tsunami.

[4]Existing contribution, previously earmarked for EPCA.

CD-Table 3.3 Countries covered by the Multilateral Debt Relief Initiative (MDRI)

	Eligible under the MDRI-I Trust (per capita income at or below $380)[1]	Eligible under the MDRI-II Trust (per capita income above $380)[2]
Countries that have benefited from MDRI as of April 30, 2007		
22 countries that have reached the completion point under the enhanced Heavily Indebted Poor Countries (HIPC) Initiative	Burkina Faso, Ethiopia, Ghana, Madagascar, Malawi, Mali, Mozambique, Niger, Rwanda, São Tomé and Príncipe, Sierra Leone, Tanzania, Uganda	Benin, Bolivia, Cameroon Guyana, Honduras, Mauritania, Nicaragua, Senegal, Zambia
Non-HIPC countries with per capita income below $380 and outstanding debt to the IMF	Cambodia, Tajikistan	
Countries that will be eligible once they reach the completion point under the enhanced HIPC Initiative		
8 countries that have reached the decision point under the enhanced HIPC Initiative	Burundi, Chad, Democratic Republic of the Congo, The Gambia, Guinea-Bissau	Guinea, Haiti, Republic of Congo
11 additional countries that met the income and indebtedness criteria based on end-2004 data may be considered for HIPC Initiative debt relief if they so wish	Central African Republic, Eritrea, Liberia, Nepal, Togo	Comoros, Côte d'Ivoire, Kyrgyz Republic, Sudan
	Afghanistan and Somalia are in this group, but precise data on their per capita incomes are not available at this time	

1/ The MDRI-I Trust consists of the IMF's own resources.
2/ The MDRI-II Trust consists of bilateral contributions administered by the Fund.

CD-Table 4.1 Technical assistance delivery by Regional Technical Assistance Center, FY2005–07

(In person-years)[1]

	Amount of technical assistance delivered			As a percent of total IMF technical assistance		
	2005	2006	2007[2]	2005	2006	2007
East AFRITAC	9.16	6.71	7.07	4.56	3.49	3.41
West AFRITAC	8.16	8.04	9.14	4.07	4.18	4.42
Central AFRITAC	—	—	1.47	—	—	0.71
Caribbean RTAC	10.72	10.11	14.59	5.34	5.27	7.04
Middle East RTAC	3.17	8.02	8.97	1.58	4.18	4.33
Pacific RTAC	5.07	4.82	5.94	2.53	2.51	2.87
RTACs total	**36.28**	**37.70**	**47.17**	**18.08**	**19.63**	**22.78**
Non-RTAC technical assistance	164.36	154.36	159.90	81.92	80.37	77.22
Total technical assistance	**200.64**	**192.05**	**207.07**	**100.00**	**100.00**	**100.00**

Source: IMF Office of Technical Assistance Management.

Note: Figures may not add up to totals because of rounding.

[1] One person-year equals 260 working days.

[2] Estimates.

CD-Table 4.2 Regional Technical Assistance Centers

Center name	Pacific RTAC (Suva, Fiji)	Caribbean RTAC (Bridgetown, Barbados)	East AFRITAC (Dar-es-Salaam, Tanzania)	West AFRITAC (Bamako, Mali)	Middle East RTAC (Beirut, Lebanon)	Central AFRITAC (Libreville, Gabon)
Year opened	1993	2001	2002	2003	2004	2007
Number of countries served	15	20	7	10	10	8
Beneficiary countries/territories	Cook Islands Fiji Kiribati Marshall Islands Micronesia Nauru Niue Palau Papua New Guinea Samoa Solomon Islands Tokelau Tonga Tuvalu Vanuatu	Anguilla Antigua and Barbuda The Bahamas Barbados Belize Cayman Islands Dominica Dominican Republic Grenada Guyana Haiti Jamaica Montserrat St. Kitts and Nevis St. Lucia St. Vincent and the Grenadines Suriname Trinidad and Tobago Turks and Caicos Virgin Islands	Eritrea Ethiopia Kenya Malawi Rwanda Tanzania Uganda	Benin Burkina Faso Côte d'Ivoire Guinea Guinea-Bissau Mali Mauritania Niger Senegal Togo	Islamic Rep. of Afghanistan Egypt Iraq Jordan Lebanon Libya Sudan Syrian Arab Republic West Bank and Gaza Rep. of Yemen	Burundi Cameroon Central African Republic Chad Dem. Rep. of the Congo Republic of Congo Equatorial Guinea Gabon
Of which low-income countries[1]	Solomon Islands Papua New Guinea	Haiti	All	All	Islamic Rep. of Afghanistan Republic of Yemen Sudan	Burundi Central African Republic Chad Dem. Rep. of the Congo
IMF-supported programs[2]	None	PRGF: Grenada and Haiti Stand-By Arrangement: Dominican Republic	PRGF: Kenya, Malawi, Rwanda, and Tanzania	PRGF: Benin, Mali, Mauritania, and Niger	Stand-By Arrangement: Iraq PRGF: Islamic Rep. of Afghanistan	PRGF: Burundi, Cameroon Central African Republic, Chad, and Republic of Congo

Donors	Australia Asian Development Bank Japan Korea New Zealand	Canada Caribbean Development Bank[3] European Commission Ireland United Kingdom Department for International Development (DFID) United Nations Development Program World Bank	African Development Bank Canada China Denmark Finland France Germany Italy Japan Luxembourg Netherlands Norway Russian Federation Sweden Switzerland United Kingdom Department for International Development (DFID)		Egypt European Investment Bank European Commission France Japan Jordan Kuwait Lebanon Libya Oman Syrian Arab Republic Rep. of Yemen	African Development Bank Burundi Cameroon Central African Republic Chad Dem. Rep. of the Congo Republic of Congo Equatorial Guinea France Gabon Germany
Number and specialties of resident advisors[4]	2 fiscal 1 financial 1 statistics	3 fiscal 2 financial sector 1 statistics 1 macroeconomist[3]	East 3 fiscal 2 financial sector 1 statistics	West 4 fiscal 1 debt management 1 financial sector 1 statistics	2 fiscal 2 financial sector 2 statistics	3 fiscal 2 financial sector 1 statistics

Note: PRGF = Poverty Reduction and Growth Facility.
[1]2005 per capita gross national income of less than $875, according to the World Bank Development Indicators database (calculated using the World Bank Atlas method).
[2]As of February 28, 2007. See Table 3.1 for description of programs.
[3]In-kind contribution: one macroeconomist on secondment from the Caribbean Development Bank.
[4]As of April 15, 2007.

CD-Table 4.3 Technical assistance evaluation program, FY2007–09

Subject of evaluation report	Financial year
Experience with implementation of the "upstream" approach for delivery of technical assistance in revenue administration	2007
Tax policy: technical assistance on revenue aspects of trade reform	
Lessons from the performance of selected heavily indebted poor countries (HIPCs) for the development of strategies for public financial management reforms under the Multilateral Debt Relief Initiative	2008
Technical assistance provided to Guatemala as a follow-up to the Financial Sector Assessment Program	
General Data Dissemination System project in countries in Anglophone Africa	
Statistical capacity building in selected post-conflict countries	2009
Mid-term review of the Middle East Regional Technical Assistance Center	
Assessment of the effectiveness of the Poverty Reduction Strategy Paper process for capacity building in macroeconomic statistics	

CD-Table 4.4 IMF Institute regional training programs

Regional program	Date established	Location	Cosponsors[1]	Targeted participant countries
Joint Vienna Institute[2]	1992	Austria	Austrian authorities	Transition countries in Europe and Asia
IMF-Singapore Regional Training Institute	1998	Singapore	Government of Singapore	Developing and transition countries in Asia and the Pacific
IMF-Arab Monetary Fund Regional Training Program	1999	United Arab Emirates	Arab Monetary Fund	Member countries of the Arab Monetary Fund
Joint Africa Institute	1999	Tunisia	African Development Bank, World Bank	African countries
Joint China-IMF Training Program	2000	China	People's Bank of China	China
Joint Regional Training Center for Latin America	2001	Brazil	Government of Brazil	Latin American countries
Joint India-IMF Training Program	2006	India	Reserve Bank of India	India, other countries in South Asia, countries in East Africa

[1]The IMF receives substantial financial contributions from Australia and Japan that help defray the IMF's share of the costs of some of these programs.

[2] Austria and the IMF are the primary members. The European Bank for Reconstruction and Development, the Organization for Economic Cooperation and Development, the World Bank, and the World Trade Organization are "contributing members," making financial contributions that help defray the cost of their own courses. A few European countries that are not members of the Joint Vienna Institute provide additional financial support.

CD-Table 4.5 IMF Institute training programs, FY2005–07

	FY2005	FY2006	FY2007[1]
Headquarters training			
Course-weeks	80	79	87
Participant-weeks[2]	2,991	2,946	3,182
Regional training institutes and programs[3]			
Course-weeks	147	152	152
Participant-weeks	4,564	4,866	4,590
Other overseas training			
Course-weeks	27	38	33
Participant-weeks	818	1,125	983
Distance learning [4]			
Course-weeks	16	16	16
Participant-weeks	579	569	627
Total course-weeks	**270**	**285**	**288**
Total participant-weeks	**8,952**	**9,506**	**9,381**

Source: IMF Institute.

[1]Figures for FY2007 are estimates.

[2]Includes participation by member country officials in economics training courses for IMF staff.

[3]Includes the Joint Vienna Institute (JVI), the IMF-Singapore Regional Training Institute (STI), the IMF–Arab Monetary Fund Regional Training Program, the Joint Africa Institute (JAI), the Joint China-IMF Training Program, the Joint India-IMF Training Program, and the Joint Regional Training Center for Latin America. (See CD-Table 4.4.)

[4]Participation in the residential component of distance-learning courses is counted under distance learning.

CD-Box 5.1. The IMF's financing mechanism

The IMF's regular lending is financed from the capital (quotas) subscribed by member countries. Each country is assigned a quota—based largely on the country's relative economic size and external trade volume—which determines its maximum financial commitment to the IMF.

The IMF extends financing by providing reserve assets to borrowers from the reserve asset subscriptions of members or by calling on countries that are considered financially strong. A country that provides reserve assets to the IMF as part of its quota subscription or through the use of its currency receives a liquid claim on the IMF (reserve tranche position). The amounts of the IMF's holdings of reserve assets and the currencies of financially strong countries determine the IMF's lending capacity.

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

INTERNATIONAL MONETARY FUND

SIXTY-FIRST ANNUAL MEETING, 2006

Resolution No. 61-5
Quota and Voice Reform in the International Monetary Fund

In accordance with Section 13 of the By-Laws, the following Resolution was submitted to the Governors on August 31, 2006 for a vote without meeting:

WHEREAS, the Executive Board has submitted to the Board of Governors a report entitled "Quota and Voice Reform in the International Monetary Fund" (hereinafter the "Report");

WHEREAS, the Executive Board has recommended a two-year reform program to enhance the credibility and effectiveness of the Fund, as described in the Report; and

WHEREAS, China, Korea, Mexico, and Turkey have requested increases in their quotas to better reflect their positions in the world economy and the Executive Board has recommended increases in the quotas of these members as a first step in the two-year reform program referred to above;

NOW THEREFORE, the Board of Governors hereby RESOLVES that:

1. The quotas of China, Korea, Mexico, and Turkey shall be increased to the amounts shown against their names in the Annex to this Resolution, provided that a member's increase in quota shall not become effective unless the member in question has consented in writing to the increase and has paid to the Fund the full amount of such increase. Each member shall pay 25 percent of its increase either in special drawing rights or in the currencies of other members specified, with their concurrence, by the Fund, or in any combination of special drawing rights and such currencies. The balance of the increase shall be paid by each member in its own currency. Both the written consent and the payment of the increase shall be made not later than 30 days after the date of this Resolution; provided that the Executive Board may extend the period within which the consent and the payment may be made as it may determine.

2. The Executive Board is requested to reach agreement on a new quota formula to guide the assessment of the adequacy of members' quotas in the Fund. Such a formula should provide a simpler and more transparent means of capturing members' relative positions in the world economy. As a means of achieving this objective, consideration should be given to placing significantly higher weight on members' gross domestic product, together with ensuring that other variables, in particular the openness of members' economies, also play an important role. The Executive Board is requested to start discussions on a new quota formula that can command broad

support soon after the Annual Meetings in Singapore, and to complete its work before the Annual Meetings in 2007, and not later than by the Spring 2008 meeting of the International Monetary and Financial Committee.

3. The Executive Board is requested, following the completion of its work as provided in paragraph 2 above, to recommend to the Board of Governors by the Annual Meetings in 2007 and no later than by the Annual Meetings of 2008 further increases in the quotas of those members that have requested that their quotas be increased, with a view to achieving a significant further alignment of members' quotas with their relative positions in the world economy, based on the new quota formula; any such increases in quotas shall not become effective until the amendment of the Fund's Articles of Agreement that is requested to be proposed under paragraph 4 has entered into force.

4. As an integral part of the reform program, and together with its recommendation for increases in quotas under paragraph 3, the Executive Board is requested to propose to the Board of Governors an amendment of the Fund's Articles of Agreement that would: (a) provide for at least a doubling of the "basic" votes that each member possesses pursuant to Article XII, Section 5(a) of the Fund's Articles of Agreement, and thereby at a minimum protect the existing voting share of low income countries as a group and (b) ensure that the ratio of the sum of the "basic" votes of all members to the sum of members' total voting power remains constant following the increase under (a) above in the event of any subsequent changes in the total voting power of members. The Executive Board is requested to put forward a specific proposal by the Annual Meetings in 2007, and no later than the Annual Meetings in 2008.

5. In the context of general reviews of quotas conducted after the completion of the steps identified in paragraphs 2 and 3 above, the Board of Governors will consider distributing any increase in quotas with a view to achieving better alignment of members' quotas with their relative positions in the world economy, while ensuring that the Fund has adequate liquidity to achieve its purposes.

6. The Executive Board is requested to act expeditiously to increase the staffing resources available to those Executive Directors elected by a large number of members whose workload is particularly heavy. The Executive Board is also

requested to give consideration to the merits of an amendment of the Articles that would enable each Executive Director elected by a large number of members to appoint more than one Alternate Executive Director.

7. The Managing Director is invited to work closely with the Executive Board in developing the proposals pertaining to the reform package, and to have the staff complete the necessary technical work as expeditiously as possible. The Executive Board is requested to report to the Board of Governors on progress with the reform package by the time of the 2007 Annual Meetings.

ANNEX

	Proposed Quota (In millions of SDRs)
China	8090.1
Korea	2927.3
Mexico	3152.8
Turkey	1191.3

The Board of Governors adopted the foregoing Resolution, effective September 18, 2006.

CD-Box 5.2 Disseminating information: the IMF's publishing operations and Web site

The IMF publishes a wide variety of material targeted at a broad range of readerships. Many of the Fund's publications are available both in print and on its Web site (www.imf.org); selected publications are also available in languages other than English.

- The *World Economic Outlook* (WEO) and the *Global Financial Stability Report* (GFSR) are the main vehicles through which the IMF publicizes its global surveillance findings and some of its most significant analytical work.
- The IMF releases a large number of reports and other documents covering economic and financial developments and trends in member countries, including Article IV Reports, Reports Related to Use of IMF Resources, Selected Issues papers, and Statistical Appendixes. Each report, based on the staff's analytical work and meetings with country officials, is prepared independently by a staff team and published at the option of the member. In almost all cases, Executive Board discussions of these papers are summarized in Public Information Notices (PINs), which are available on the IMF's Web site.
- The IMF's *Annual Report* provides a comprehensive look at the IMF's activities in each financial year and is designed to be used as a reference tool.
- The *Annual Report on Exchange Arrangements and Exchange Restrictions* presents information on the exchange and trade systems of the IMF's member countries.
- Research on the international monetary system and other topical subjects by IMF staff, as well as by academics and practitioners outside the IMF, is published in *IMF Staff Papers*, a quarterly journal. The quarterly newsletter *IMF Research Bulletin,* IMF Working Papers series, Occasional Papers series, books, and various other publications disseminate a wide array of IMF staff research on the international monetary system.
- The Fund's *Dissemination Standards Bulletin Board* (*dsbb.imf.org/Applications/web/dsbbhome/*) provides links to the data and statistical Web sites of subscribers to the Special Data Dissemination Standard (SDDS) and participants in the General Data Dissemination System (GDDS) and presents comprehensive information on the methods and practices behind the compilation and dissemination of such data in a user-friendly format comparable across countries.
- *International Financial Statistics (IFS)*, produced monthly, provides updated financial information from countries around the world; the IMF's Statistics Department also produces a yearbook containing annual data over 12 years for the countries covered in the monthly publication. Other statistical publications include the *Balance of Payments (BOP) Statistics Yearbook, Government Finance Statistics Yearbook,* and *Direction of Trade (DOT) Statistics*. The IFS, BOP, and DOT databases are available online to subscribers.

- Guides and manuals published by the Fund cover a variety of subjects, such as balance of payments statistics and compilation, external debt statistics, foreign direct investment trends, monetary and financial statistics, the producer price index, and financial soundness indicators.
- The online *IMF Survey Magazine* reports on current IMF policies and activities *(www.imf.org)*. A print edition is mailed monthly to subscribers.
- The quarterly magazine *Finance and Development (F&D)* and the Economic Issues series (pamphlets on broad economic subjects related to the Fund's areas of expertise) are written in nontechnical language and aimed at disseminating information on topical subjects to nonspecialists.
- Pamphlets such as *What Is the IMF?* and *IMF Technical Assistance* are written for the nonspecialist, as are the factsheets posted on the IMF's Web site, which explain key aspects of IMF operations and policies.
- *Issues Briefs,* available online, provide nontechnical descriptions of, and contribute to the debate on, policy issues of topical interest.
- Op-eds in publications worldwide and speeches published on the external Web site offer broad overviews of the IMF and its policies.
- An online, quarterly *Civil Society Newsletter* (*www.imf.org/external/np/exr/cs/eng/index.asp*) covers IMF activities and issues of particular interest to civil society organizations.
- A Web page for legislators *(www.imf.org/external/np/legislators/index.htm)* provides a forum for interactive discussions on issues relevant to the IMF and features IMF activities and information of particular interest to legislators.
- Videos about the work of the IMF are available to interested media, educational institutions, and social organizations, and are also used in recruitment activities.
- Educational material is available from the IMF Center and at *www.imf.org/econed*. The bookstore and gift shop in the IMF Center are open to the general public.
- The quarterly electronic newsletter, *New and Noteworthy,* is e-mailed worldwide to inform external audiences of new and upcoming IMF publications and information products.

CD-Box 5.3 Safeguards assessment policy

The safeguards policy was initiated in 2000 against the background of several instances of misreporting to the IMF and allegations of misuse of IMF resources. It aims at supplementing conditionality, technical assistance, and other means that have traditionally helped assure the proper use of IMF resources.

Objectives of safeguards assessments

- To provide reasonable assurance to the IMF that a central bank's auditing, financial reporting, control systems, and legal structure and independence are adequate to ensure the integrity of operations and minimize the risk of misuse of resources or misreporting of data

Applicability of safeguards assessments

- Central banks of (1) member countries with new arrangements for use of IMF resources approved after June 30, 2000, or existing arrangements that are augmented, (2) member countries following a Rights Accumulation Program (RAP) under which resources are being committed, and (3) member countries receiving Emergency Post-Conflict Assistance;
- Central banks of member countries with a Policy Support Instrument (PSI) are encouraged to undertake a safeguards assessment, which would become a requirement in the event of a need for access to IMF resources;
- Voluntary for central banks of members with staff-monitored programs; and
- Not applicable to first-credit-tranche purchases, stand-alone Compensatory Financing Facility arrangements, or Emergency Natural Disaster Assistance (ENDA).

Methodology

- Safeguards assessments follow an established set of procedures to ensure consistency in application. All central banks subject to an assessment provide a standard set of documents to IMF staff, who review the information and communicate as needed with central bank officials and external auditors. The review may be supplemented by an on-site visit.
- The assessment covers five key areas (ELRIC): the **E**xternal audit mechanism, the **L**egal structure and independence, the financial **R**eporting framework, the **I**nternal audit mechanism, and the internal **C**ontrols system.
- The outcome of a safeguards assessment is a confidential report that identifies vulnerabilities and makes recommendations to mitigate the identified risk. Central bank authorities have the opportunity to comment on all safeguards assessment reports. The conclusions and agreed-upon remedial measures are reported in summary form to the IMF Executive Board at the time of arrangement approval or, at the latest, by the first review under the arrangement, but the safeguards report itself is not made available to the Board or the general public.

- Central banks provide IMF staff with their financial statements and related audit reports for as long as IMF credit is outstanding. This information is used to monitor new developments in a central bank's safeguards framework. IMF staff also monitor the implementation of previous safeguards recommendations.

Findings of Safeguards Assessments

The findings of safeguards assessments to date indicate that significant, but avoidable, risks to IMF resources may have existed in certain cases, although identified vulnerabilities have generally declined in significance and frequency over time. Typical recommendations of an assessment include the following:

- independent external audits in accordance with international audit standards;
- regular reconciliation of the economic monetary data reported to the IMF with the underlying accounting records of the central bank;
- enhancement of the financial reporting framework, through the adoption of International Financial Reporting Standards (IFRS); and
- publication of the audited financial statements.

Safeguards Outreach

- IMF staff conduct annual seminars on safeguards assessments for central bank officials at IMF headquarters and regional training centers in Singapore and Vienna. As of April 30, 2007, some 304 officials from 105 countries had attended these seminars.
- Broader outreach involves publication of the staff's papers and other background information concerning the safeguards policy on the IMF Web site, at www.imf.org/external/fin.htm.

CD-Table 5.1 Distribution of professional and managerial staff by nationality[1]
(In percent)

Region[2]	**1980**	**1990**	**2006**
Africa	**3.8**	**5.8**	**5.7**
Asia	**12.3**	**12.7**	**15.0**
Japan	1.4	1.9	1.6
Other Asia	10.9	10.8	13.4
Europe	**39.5**	**35.1**	**35.7**
France	6.9	5.5	4.5
Germany	3.7	4.3	5.2
Italy	1.7	1.4	2.8
United Kingdom	8.2	8.0	5.3
Transition economies	—	—	5.6
Other Europe	19.0	15.9	12.3
Middle East	**5.4**	**5.5**	**4.7**
Western Hemisphere	**39.1**	**41.0**	**39.0**
Canada	2.6	2.8	3.5
United States	25.9	25.9	23.4
Other Western Hemisphere	10.6	12.3	12.1
Total	**100.1**	**100.1**	**100.1**

Note: Percentages may not add up to 100 because of rounding.

[1]Includes staff in Grades A9–B5.
[2]Regions are defined broadly on the basis of the country distribution of the IMF's area departments; beginning in 2004, regions are defined according to the country groupings in the *2004 Diversity Annual Report*. The European region includes Russia and countries of the former Soviet Union. The Middle East region includes countries in North Africa.

CD-Table 5.2 Distribution of staff by gender

	1980		1990		2006[1]	
	Number	Percent	Number	Percent	Number	Percent
All staff	**1,444**	**100**	**1,774**	**100**	**2678**	**100**
Women	676	46.8	827	46.6	1232	46.0
Men	768	53.2	947	53.4	1446	54.0
Total support staff[2]	**613**	**100**	**642**	**100**	**673**	**100**
Women	492	80.3	540	84.1	584	86.8
Men	121	19.7	102	15.9	89	13.2
Total professional staff[3]	**646**	**100**	**897**	**100**	**1650**	**100**
Women	173	26.8	274	30.6	590	35.8
Men	473	73.2	623	69.5	1060	64.3
Total economists	***362***	***100***	***529***	***100***	**1027**	**100**
Women	42	11.6	70	13.2	262	25.5
Men	320	88.4	459	86.8	765	74.5
Total specialized career streams	***284***	***100***	***368***	***100***	**623**	**100**
Women	131	46.1	204	55.4	328	52.7
Men	153	53.9	164	44.6	295	47.4
Total managerial staff[4]	**185**	**100**	**235**	**100**	**355**	**100**
Women	11	6.0	13	5.5	58	16.3
Men	174	94.1	222	94.5	297	83.7
Total economists	***99***	***100***	***184***	***100***	**284**	**100**
Women	4	4.0	9	4.9	33	11.6
Men	95	96.0	175	95.1	251	88.4
Total specialized career streams	***86***	***100***	***51***	***100***	**71**	**100**
Women	7	8.1	4.0	7.9	25	35.2
Men	79	91.9	47.0	92.2	46	64.8

Note: Percentages may not add up to 100 percent because of rounding.

[1]Includes only staff on duty; differs from the number of approved positions.
[2]Staff in Grades A1–A8.
[3]Staff in Grades A9–A15.
[4]Staff in Grades B1–B5.

CD-Table 5.3 Distribution of staff by developing and industrial countries

	1990		2006[1]	
Staff	**Number**	**Percent**	**Number**	**Percent**
All staff	**1,774**	**100**	**2678**	**100.0**
Developing countries	731	41.2	1178	44.0
Industrial countries	1,043	58.8	1500	56.0
Total support staff[2]	**642**	**100**	**673**	**100.0**
Developing countries	328	51.1	369	54.8
Industrial countries	314	48.9	304	45.2
Total professional staff[3]	**897**	**100**	**1650**	**100.0**
Developing countries	343	38.2	704	42.7
Industrial countries	554	61.8	946	57.3
Total economists	***529***	***100***	**1027**	**100.0**
Developing countries	220	41.6	463	45.1
Industrial countries	309	58.4	564	54.9
Total specialized career streams	***368***	***100***	**623**	**100.0**
Developing countries	123	33.4	241	38.7
Industrial countries	245	66.6	382	61.3
Total managerial staff[4]	**235**	**100**	**355**	**100.0**
Developing countries	60	25.5	105	29.6
Industrial countries	175	74.5	250	70.4
Total economists	***184***	***100***	**284**	**100.0**
Developing countries	54	29.4	86	30.3
Industrial countries	130	70.7	198	69.7
Total specialized career streams	***51***	***100***	**71**	**100.0**
Developing countries	6	11.8	19	26.8
Industrial countries	45	88.2	52	73.2

Note: Percentages may not add up to 100 because of rounding.

[1]ncludes only staff on duty; differs from the number of approved positions.
[2]Staff in Grades A1–A8.
[3]Staff in Grades A9–A15.
[4]Staff in Grades B1–B5.

CD-Table 5.4 IMF staff salary structure
(In U.S. dollars, effective May 1, 2007)

Grade[1]	Range minimum	Range maximum	Illustrative position titles
A1	25,940	38,920	Not applicable (activities at this level have been outsourced)
A2	29,040	43,560	Driver
A3	32,510	48,770	Staff Assistant (clerical)
A4	36,420	54,640	Staff Assistant (beginning secretarial)
A5	40,830	61,250	Staff Assistant (experienced secretarial)
A6	45,660	68,500	Administrative Assistant, other Assistants (for example, Editorial, Computer Systems, Human Resources, External Relations)
A7	51,180	76,780	Research Assistant, Senior Administrative Assistant, other Senior Assistants (for example, Accounting, Human Resources, Editorial, External Relations)
A8	57,340	86,020	Senior Administrative Assistant
A9	58,340	87,520	Librarian, Translator, Research Officer, Human Resources Officer, External Relations Officer
A10	66,940	100,400	Accountant, Research Officer, Administrative Officer
A11	76,380	114,580	Economist (Ph.D. entry level), Attorney, Specialist (for example, Accounting, Computer Systems, Human Resources, External Relations)
A12	87,680	131,520	Economist, Attorney, Specialist (for example, Accounting, Computer Systems, Human Resources, External Relations)
A13	99,910	149,870	Economist, Attorney, Specialist (for example, Accounting, Computer Systems, Human Resources, External Relations)
A14	116,190	174,290	Deputy Division Chief, Senior Economist
A15/B1	132,300	198,460	Division Chief, Deputy Division Chief
B2	154,570	224,130	Division Chief, Advisor
B3	183,630	238,730	Assistant Department Director
B4	211,470	270,050	Deputy Department Director, Senior Advisor
B5	246,020	308,520	Department Director

[1]Grades A1–A8 are support staff; grades A9–A15 are professional staff; grades B1–B5 are managerial staff.

Appendix I

International reserves

Total international reserves, including gold, increased by 14 percent during 2006 and stood at SDR 3.8 trillion[1] at the end of the year (Table I.1). Foreign exchange reserves, the largest component of official reserve holdings, grew by 15 percent, to SDR 3.3 trillion. IMF-related assets (that is, reserve positions in the IMF and SDRs), which account for the balance of nongold reserves, declined by 27 percent to SDR 36 billion, reflecting the recent decline in outstanding credit to member countries. The market value of gold held by monetary authorities increased by 16 percent to SDR 367 billion in 2006.[2]

Foreign exchange reserves

Foreign exchange reserves accounted for 99 percent of nongold international reserves at the end of 2006. Developing countries held 72 percent of all foreign exchange reserves (SDR 2.4 trillion), an increase of 20 percent since the end of 2005, and the holdings of oil-exporting developing countries—which amounted to 10 percent of all developing countries' foreign exchange reserves—increased by 26 percent to SDR 228 billion. During 2006, the foreign exchange holdings of industrial countries rose by 2 percent to SDR 927 billion.

IMF-related assets

During 2006, members' reserve positions in the IMF—which consist of members' reserve tranche and creditor positions—declined by 39 percent to SDR 18 billion, while the SDR holdings of IMF members declined 9 percent to SDR 18 billion. The decline in the reserve positions was attributable mostly to the industrial countries, which account for two-thirds of the reserve positions and SDR holdings.

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[1] At April 30, 2007, SDR 1=US$1.52418.

[2] Official monetary authorities include central banks as well as currency boards, exchange stabilization funds, and treasuries, to the extent that the latter group of entities perform monetary authorities' functions.

Gold reserves

The market value of gold reserves increased by 16 percent to SDR 367 billion in 2006, as higher gold prices more than offset the 1 percent decline in the physical stock of official gold. However, the share of gold in official reserves in 2006 (10 percent) is much lower than in the early 1980s, when gold accounted for about half of all official reserves. At the end of 2006, gold constituted 24 percent of the total reserves of industrial countries, which hold 82 percent of the world's gold reserves, and 3 percent of the total reserves of developing countries.

Developments during the first quarter of 2007

During the first quarter of 2007, total reserve assets rose by SDR 171 billion, foreign exchange reserves, by SDR 160 billion. Reflecting the robust gold price in the first quarter, the market value of gold reserves increased by SDR 12 billion, while holdings of IMF-related assets declined by SDR 2 billion.

Currency composition of foreign exchange reserves

The currency composition of foreign exchange reserves has changed gradually over the past decade. The share of U.S. dollar holdings in foreign exchange reserves peaked at 71 percent during 1999–2001 (Table I.2) and declined to 67 percent in 2002, driven by both the fall in the value of U.S. dollar holdings and the reduced share of U.S. dollar assets in net purchases of reserves (Table I.3). In 2006, the share of dollar holdings dropped below 65 percent, as the euro and the pound gained share owing both to their appreciation vis-à-vis the dollar and to an increase in reserves denominated in those two currencies (see the last paragraph for details).

The share of the euro, which replaced 11 European currencies and the European currency unit (ECU) on January 1, 1999, increased sharply between 1999 and 2003. It increased again in 2006, to nearly 26 percent of total foreign exchange reserves at year-end. However, the share of the euro in total foreign exchange reserves in 1999–2006 is not directly comparable with the combined share in previous years of the deutsche mark, French franc, Netherlands guilder, and private ECU, since the reserves formerly denominated in euro-legacy currencies[3] became domestic assets of the euro area when the euro was introduced (Table I.2).

The share of Japanese yen in total foreign exchange reserves declined from 6 percent in the late 1990s to 3 percent at the end of 2006. The share of pound sterling rose above 4 percent at end-2006, while that of the Swiss franc remained well below 1 percent. The share of other currencies has been less than 2 percent since 1999. No information is available on the currency composition of unallocated reserves, whose share of global reserves rose to more than 34 percent in 2006.

The share of U.S. dollar holdings by industrial countries moderated to 72 percent at the end of 2006, from the high of the previous year that reflected the relative strength of the dollar at end-2005. In 2006, the share of the euro in industrial countries' foreign exchange reserves recovered, reaching 20 percent, while the share of the yen remained below 4 percent. The shares of pound sterling and Swiss franc have remained broadly stable.

The share of the U.S. dollar in developing countries' foreign exchange reserves remained close to 60 percent in 2006, lower than the average in preceding years.[4] Euro holdings rose to nearly 30 percent of those countries' foreign exchange reserves, 10 percentage points higher than the euro's share in 1999 and 2000. Over the past decade, the share of the yen gradually decreased by about 3 percentage points, to 3 percent at the end of 2006, while the share of pound sterling increased by more than 2 percentage points, to 6 percent in 2006. The share of the Swiss franc has remained below 1 percent over the same period.

Changes in the SDR value of foreign exchange reserves can be decomposed into quantity and valuation (price) changes (Table I.3). Official reserves held in U.S. dollars increased by SDR 120 billion in 2006, reflecting a quantity increase in U.S. dollar holdings of SDR 190 billion and a valuation decrease of SDR 70 billion. Euro holdings increased by SDR 93 billion, as a quantity increase of SDR 63 billion was boosted by a valuation increase

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

[4] This calculation does not include unallocated reserves, which account for nearly half of all official foreign exchange reserves held by developing countries.

of SDR 30 billion. Japanese yen holdings declined by SDR 0.5 billion as a quantity increase of SDR 3.5 billion was offset by a valuation decrease of SDR 4 billion. Pound sterling holdings increased by SDR 27 billion, and Swiss franc holdings, by SDR 1 billion.

Appendix-Table I.1
Official holdings of reserve assets
(In billions of SDRs; end-of-year figures except for 2007)

	2001	2002	2003	2004	2005	2006	Mar. 2007
All countries							
Total reserves excluding gold							
IMF-related assets[1]							
Reserve positions in the IMF	56.9	66.1	66.5	55.8	28.6	17.5	15.6
SDRs	19.6	19.7	19.9	20.3	20.1	18.2	18.3
Subtotal, IMF-related assets	76.4	85.7	86.4	76.1	48.6	35.7	34.0
Foreign exchange	1,631.3	1,771.7	2,036.2	2,413.8	2,921.0	3,348.0	3,508.4
Total reserves excluding gold	1,707.7	1,857.5	2,122.8	2,490.1	2,969.7	3,384.2	3,542.7
Gold[2]							
Quantity (*millions of ounces*)	943.6	931.7	914.0	897.0	878.4	867.9	864.8
Value at London market price	207.6	234.9	256.7	253.0	315.3	366.7	378.9
Total reserves including gold	1,915.3	2,092.4	2,379.4	2,743.1	3,285.0	3,750.9	3,921.7
Industrial countries							
Total reserves excluding gold							
IMF-related assets[1]							
Reserve positions in the Fund	47.0	53.7	52.6	43.6	21.0	11.9	10.4
SDRs	16.0	15.8	15.3	15.3	12.4	13.5	13.5
Subtotal, IMF-related assets	62.9	69.5	67.9	58.9	33.4	25.4	23.9
Foreign exchange	628.2	666.1	754.4	848.9	906.1	927.2	940.4
Total reserves excluding gold	691.2	735.8	822.6	908.0	939.7	953.0	964.7
Gold[2]							
Quantity (*millions of ounces*)	783.8	770.1	754.5	740.8	723.9	712.9	710.6
Value at London market price	172.4	194.1	211.9	208.9	259.8	301.2	311.4
Total reserves including gold	863.7	930.0	1,034.5	1,116.9	1,199.6	1,254.2	1,276.1
Developing countries							
Total reserves excluding gold							
IMF-related assets							
Reserve positions in the Fund	9.9	12.3	13.9	12.2	7.6	5.6	5.2
SDRs	3.6	3.9	4.6	5.0	7.6	4.8	4.8
Subtotal, IMF-related assets	13.5	16.2	18.5	17.2	15.2	10.4	10.1
Foreign exchange	1,003.1	1,105.6	1,281.7	1,564.9	2,014.9	2,420.8	2,568.0
Total reserves excluding gold	1,016.5	1,121.7	1,300.2	1,582.1	2,030.0	2,431.2	2,578.0
Gold[2]							
Quantity (*millions of ounces*)	159.8	161.7	159.5	156.1	154.5	155.0	154.2
Value at London market price	35.2	40.8	44.8	44.0	55.4	65.5	67.6
Total reserves including gold	1,051.7	1,162.5	1,345.0	1,626.1	2,085.4	2,496.7	2,645.6

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

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

[1]IMF-related assets comprise reserve positions in the IMF and SDR holdings of all IMF members. Foreign exchange and gold figures represent official holdings of IMF members for which data are available and certain countries or areas.

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

Appendix-Table I.2
Share of currencies in total identified official holdings of foreign exchange, end of year[1]
(In percent)

	1997	1998	1999	2000	2001	2002	2003	2004	2005	2006
All countries										
U.S. dollar	65.2	69.4	71.0	71.1	71.5	67.0	65.9	65.8	66.7	64.7
Japanese yen	5.8	6.2	6.4	6.1	5.1	4.4	3.9	3.9	3.6	3.2
Pound sterling	2.6	2.7	2.9	2.8	2.7	2.8	2.8	3.4	3.6	4.4
Swiss franc	0.3	0.3	0.2	0.3	0.3	0.4	0.2	0.2	0.1	0.2
Euro[2]	—	—	17.9	18.3	19.2	23.8	25.2	24.9	24.2	25.8
Deutsche mark	14.5	13.8	—	—	—	—	—	—	—	—
French franc	1.4	1.6	—	—	—	—	—	—	—	—
Netherlands guilder	0.4	0.3	—	—	—	—	—	—	—	—
ECUs[3]	6.0	1.2	—	—	—	—	—	—	—	—
Other currencies[4]	3.8	4.5	1.6	1.5	1.3	1.6	2.0	1.9	1.7	1.7
Industrial countries										
U.S. dollar	59.1	67.6	73.5	72.7	72.7	68.9	70.5	71.5	73.6	71.9
Japanese yen	5.9	6.9	6.7	6.3	5.5	4.3	3.8	3.6	3.4	3.5
Pound sterling	2.0	2.1	2.2	2.0	1.9	2.1	1.5	1.9	2.1	2.5
Swiss franc	0.1	0.2	0.1	0.2	0.3	0.6	0.2	0.1	0.1	0.2
Euro[2]	—	—	16.1	17.0	17.9	22.3	21.9	20.8	19.0	20.4
Deutsche mark	16.2	13.4	—	—	—	—	—	—	—	—
French franc	0.9	1.2	—	—	—	—	—	—	—	—
Netherlands guilder	0.2	0.2	—	—	—	—	—	—	—	—
ECUs[3]	11.2	2.3	—	—	—	—	—	—	—	—
Other currencies[4]	4.4	6.2	1.5	1.7	1.6	1.8	2.0	2.1	1.6	1.4
Developing countries										
U.S. dollar	72.4	71.2	68.3	69.4	70.2	65.2	61.3	60.2	61.0	59.7
Japanese yen	5.7	5.6	6.1	5.8	4.6	4.4	4.0	4.1	3.7	2.9
Pound sterling	3.3	3.3	3.7	3.5	3.5	3.5	4.0	4.9	4.9	5.8
Swiss franc	0.6	0.5	0.4	0.3	0.2	0.2	0.2	0.2	0.2	0.1
Euro	—	—	19.9	19.7	20.5	25.3	28.5	29.0	28.5	29.6
Deutsche mark	12.5	14.3	—	—	—	—	—	—	—	—
French franc	2.1	2.1	—	—	—	—	—	—	—	—
Netherlands guilder	0.5	0.4	—	—	—	—	—	—	—	—
ECUs[3]	0.0	0.0	—	—	—	—	—	—	—	—
Other currencies[4]	3.0	2.7	1.7	1.3	1.0	1.3	2.0	1.6	1.7	1.9
Memorandum items:										
Unallocated reserves[5]										
All countries	21.3	22.1	22.6	21.7	23.6	25.5	26.6	29.5	32.4	33.9
Industrial countries	2.1	1.1	0.7	0.4	0.1	0.3	0.2	0.2	0.3	0.3
Developing countries	36.2	36.5	37.6	36.1	38.1	40.6	41.9	45.3	46.7	46.6

Note: Components may not sum to total because of rounding. Country coverage changes slightly every year.

[1]Currency shares are calculated for the reserves of member countries that report the currency composition of their foreign exchange reserves. The data include minimal estimation undertaken mainly for late reporters. Reserves for which currency composition is not reported are shown under "Unallocated reserves."
[2] Not comparable with the combined share of euro-legacy currencies in previous years because it excludes the euros received by euro area members when their previous holdings of other euro area members' legacy currencies were converted into euros on January 1, 1999.
[3] In the calculation of currency shares, the ECU is treated as a separate currency. ECU reserves held by the monetary authorities existed in the form of claims on both the private sector and the European Monetary Institute (EMI), which issued official ECUs to European Union central banks through revolving swaps against the contribution of 20 percent of their gross gold holdings and U.S. dollar reserves. On December 31, 1998, the official ECUs were unwound into gold and U.S. dollars; hence, the share of ECUs at the end of 1998 was sharply lower than a year earlier. The remaining ECU holdings reported for 1998 consisted of ECUs issued by the private sector, usually in the form of ECU deposits and bonds. On January 1, 1999, these holdings were automatically converted into euros.
[4]Foreign exchange reserves of IMF member countries and the sum of reserves reported to be held in currencies other than those listed in the table.
[5]Foreign exchange reserves whose currency composition is not submitted to the IMF, in percent of total official holdings of foreign exchange reserves.

Appendix-Table I.3
Currency composition of official holdings of foreign exchange, end of year[1]
(In millions of SDRs)

	1998	1999	2000	2001	2002	2003	2004	2005	2006
U.S. dollar									
Change in holdings	16,854	81,786	114,437	63,779	–6,614	100,191	134,565	198,696	115,348
Quantity change	43,129	65,927	74,684	33,108	63,318	184,717	184,681	99,524	185,608
Price change	–26,275	15,859	39,753	30,671	–69,932	–84,525	–50,115	99,173	–70,260
Year-end value	631,185	712,971	827,407	891,186	884,573	984,764	1,119,329	1,318,025	1,433,373
Japanese yen									
Change in holdings	2,373	7,233	6,598	–7,658	–5,534	1,476	6,585	5,663	–529
Quantity change	–1,947	–1,453	11,247	–963	–6,411	205	7,637	8,656	3,494
Price change	4,319	8,686	–4,649	–6,694	877	1,271	–1,052	–2,993	–4,023
Year-end value	56,838	64,072	70,670	63,012	57,478	58,954	65,539	71,202	70,673
Pound sterling									
Change in holdings	–103	4769	3,060	1,659	3,432	4,289	16,108	13,960	26,606
Quantity change	851	4867	3,886	1,409	2464	3,775	14,487	16,098	19,487
Price change	–954	–97	–826	249	968	513	1,620	–2,137	7,119
Year-end value	24,248	29,018	32,078	33,737	37,169	41,458	57,565	71,526	98,132
Swiss franc									
Change in holdings	–278	–698	825	342	1,901	–2,005	–530	54	1,015
Quantity change	–313	–385	732	308	1,400	–2,106	–661	243	938
Price change	35	–313	94	34	502	102	131	–189	77
Year-end value	3,009	2,311	3,136	3,479	5,380	3,375	2,845	2,899	3,914
Euro									
Change in holdings	—	44,304 [2]	33,139	26,423	74,819	62,014	47,411	54,327	93,079
Quantity change	—	64,818	36,903	30,133	48,525	28,355	33,956	81,628	62,561
Price change	—	–20,514	–3,764	–3,710	26,294	33,659	13,456	–27,300	30,517
Year-end value	—	179,926	213,064	239,487	314,306	376,320	423,731	478,058	571,137
Deutsche mark									
Change in holdings	–10958	—	—	—	—	—	—	—	—
Quantity change	–14619	—	—	—	—	—	—	—	—
Price change	3,661	—	—	—	—	—	—	—	—
Year-end value	125,673	—	—	—	—	—	—	—	—
French franc									
Change in holdings	1,209	—	—	—	—	—	—	—	—
Quantity change	881	—	—	—	—	—	—	—	—
Price change	327	—	—	—	—	—	—	—	—
Year-end value	14,782	—	—	—	—	—	—	—	—

Appendix-Table I.3 ***(concluded)***

	1998	1999	2000	2001	2002	2003	2004	2005	2006
Netherlands guilder									
Change in holdings	–828	—	—	—	—	—	—	—	—
Quantity change	–944	—	—	—	—	—	—	—	—
Price change	115	—	—	—	—	—	—	—	—
Year-end value	2,478	—	—	—	—	—	—	—	—
European currency unit									
Change in holdings	–46,128	—	—	—	—	—	—	—	—
Quantity change	–47,599	—	—	—	—	—	—	—	—
Price change	1,472	—	—	—	—	—	—	—	—
Year-end value	10,890	—	—	—	—	—	—	—	—
Sum of the above[3]									
Change in holdings	–37,859	137,395	158,060	84,545	68,005	165,965	204,139	272,701	235,518
Quantity change	–20,560	133,774	127,451	63,995	109,296	214,945	240,099	206,147	272,088
Price change	–17,300	3,621	30,608	20,550	–41,292	–48,980	–35,960	66,553	–36,570
Year-end value	869,104	988,297	1,146,356	1,230,901	1,298,906	1,464,871	1,669,010	1,941,711	2,177,228
Other currencies									
Change in holdings	5,275	–24,602	1,287	–1,489	4,570	8,964	2,472	1,025	3,611
Year-end value	40,754	16,152	17,438	15,949	20,519	29,483	31,955	32,980	36,591
Total official holdings[4]									
Change in holdings	–30,328	130,540	188,244	144,926	140,400	264,501	377,670	507,111	427,063
Year-end value	1,167,558	1,298,098	1,486,342	1,631,268	1,771,669	2,036,169	2,413,839	2,920,950	3,348,013

Note: Components may not sum to totals because of rounding. Country coverage changes slightly every year.

[1]The currency composition of official foreign exchange reserves as reported by countries, including minimal estimation undertaken mainly for late reporters. Reserves for which currency compostion is not reported are shown under "Unallocated reserves." Quantity changes are derived by multiplying the changes in official holdings of each currency from the end of one quarter to the next by the average of the two SDR prices of that currency prevailing at the corresponding dates. This procedure converts the change in the quantity of national currency from own units to SDR units of account. Subtracting the SDR value of the quantity change so derived from the quarterly change in the SDR value of foreign exchange held at the end of two successive quarters and cumulating these differences yields the effect of price changes over the years shown.
[2]Represents the change from end-1998 holdings of euro-legacy currencies by official institutions outside the euro area.
[3]Each item represents the sum of the currencies above.
[4]Includes "Unallocated reserves" whose currency composition could not be ascertained.

Appendix II Financial operations and transactions

Appendix-Table II.1
Arrangements approved during financial years ended April 30, 1998–2007

Financial year	Number of arrangements				Amounts committed under arrangements[1] (In millions of SDRs)			
	Stand-By	EFF	PRGF	Total	Stand-By	EFF	PRGF	Total
1998	9	4	8	21	27,336	3,078	1,738	32,152
1999	5	4	10	19	14,325	14,090	998	29,413
2000	11	4	10	25	15,706	6,582	641	22,929
2001	11	1	14	26	13,093	-9	1,249	14,333
2002	9		9	18	39,439		1,848	41,287
2003	10	2	10	22	28,597	794	1,180	30,571
2004	5	—	10	15	14,519	—	967	15,486
2005	6	—	8	14	1,188	—	525	1,713
2006	5	1	7	13	8,337	9	128	8,474
2007	2	—	10	12	237	—	363	600

EFF = Extended Fund Facility

PRGF = Poverty Reduction and Growth Facility

[1]Includes augmentations and reductions.

Appendix-Table II.2
Arrangements in effect as of April 30, 1998–2007

Financial year	Number of arrangements				Amounts committed under arrangements (In millions of SDRs)			
	Stand-By	EFF	PRGF	Total	Stand-By	EFF	PRGF	Total
1998	14	13	33	60	28,323	12,336	4,410	45,069
1999	9	12	35	56	32,747	11,401	4,186	48,334
2000	16	11	31	58	45,606	9,798	3,516	58,920
2001	17	8	37	62	34,906	8,697	3,298	46,901
2002	13	4	35	52	44,095	7,643	4,201	55,939
2003	15	3	36	54	42,807	4,432	4,450	51,689
2004	11	2	36	49	53,944	794	4,356	59,094
2005	10	2	31	43	11,992	794	2,878	15,664
2006	10	1	27	38	9,534	9	1,770	11,313
2007	6	1	29	36	7,864	9	1,664	9,537

EFF = Extended Fund Facility

PRGF = Poverty Reduction and Growth Facility

Appendix-Table II.3
Summary of disbursements, repurchases, and repayments, financial years ended April 30
(In millions of SDRs)

Financial year	Disbursements: Purchases[1]	Trust Fund loans	SAF loans	PRGF loans	Total	Repurchases and repayments: Repurchases	Trust Fund repayments	SAF/PRGF Repayments	Total	Total Fund credit putstanding [2]
1948	606				606					133
1949	119				119					193
1950	52				52	24			24	204
1951	28				28	19			19	176
1952	46				46	37			37	214
1953	66				66	185			185	178
1954	231				231	145			145	132
1955	49				49	276			276	55
1956	39				39	272			276	72
1957	1,114				1,114	75			75	611
1958	666				666	87			87	1,027
1959	264				264	537			537	898
1960	166				166	522			522	330
1961	577				577	659			659	552
1962	2,243				2,243	1,260			1,260	1,023
1963	580				580	807			807	1,059
1964	626				626	380			380	952
1965	1,897				1,897	517			517	1,480
1966	2,817				2,817	406			406	3,039
1967	1,061				1,061	340			340	2,945
1968	1,348				1,348	1,116			1,116	2,463
1969	2,839				2,839	1,542			1,542	3,299
1970	2,996				2,996	1,671			1,671	4,020
1971	1,167				1,167	1,657			1,657	2,556
1972	2,028				2,028	3,122			3,122	840
1973	1,175				1,175	540			540	998
1974	1,058				1,058	672			672	1,085
1975	5,102				5,102	518			518	4,869
1976	6,591				6,591	960			960	9,760
1977	4,910	32			4,942	868			868	13,687
1978	2,503	268			2,771	4,485			4,485	12,366
1979	3,720	670			4,390	4,859			4,859	9,843
1980	2,433	962			3,395	3,776			3,776	9,967
1981	4,860	1,060			5,920	2,853			2,853	12,536
1982	8,041				8,041	2,010			2,010	17,793
1983	11,392				11,392	1,555	18		1,574	26,563
1984	11,518				11,518	2,018	111		2,129	34,603
1985	6,289				6,289	2,730	212		2,943	37,622
1986	4,101				4,101	4,289	413		4,702	36,877
1987	3,685		139		3,824	6,169	579		6,749	33,443
1988	4,153		445		4,597	7,935	528		8,463	29,543
1989	2,541		290	264	3,095	6,258	447		6,705	25,520
1990	4,503		419	408	5,329	6,042	356		6,398	24,388
1991	6,955		84	491	7,530	5,440	168		5,608	25,603
1992	5,308		125	483	5,916	4,768		1	4,770	26,736
1993	8,465		20	573	9,058	4,083		36	4,119	28,496
1994	5,325		50	612	5,987	4,348	52	112	4,513	29,889
1995	10,615		14	573	11,202	3,984	4	244	4,231	36,837
1996	10,870		182	1,295	12,347	6,698	7	395	7,100	42,040
1997	4,939			705	5,644	6,668	5	524	7,196	40,488
1998	20,000			973	20,973	3,789	1	595	4,385	56,026
1999	24,071			826	24,897	10,465		627	11,092	67,175
2000	6,377			513	6,890	22,993		634	23,627	50,370
2001	9,599			630	10,229	11,243		588	11,831	48,691
2002	29,194			952	30,146	19,207		769	19,976	58,699
2003	21,784			1,218	23,002	7,784		928	8,712	72,879
2004	17,830			865	18,695	21,638		890	22,528	69,031
2005	1,608			771	2,379	13,907		923	14,830	56,576
2006	2,156			403	2,559	32,782		3,208	35,990	23,144
2007	2,329			477	2,806	14,166		512	14,678	11,216

SAF = Structural Adjustment Facility
PRGF = Poverty Reduction and Growth Facility

[1]Includes reserve tranche purchases.
[2]Excludes reserve tranche purchases; includes outstanding associated loans from the Saudi Fund for Development.

Appendix-Table II.4
Purchases and loans from the IMF, financial year ended April 30, 2007
(In millions of SDRs)

Member	Reserve tranche	Emergency assistance	Stand-By/credit tranche	Extended Fund Facility	Total purchases	PRGF loans	Total purchases and loans
Afghanistan, Islamic Republic of	—	—	—	—	—	25	25
Albania	—	—	—	2	2	2	5
Armenia	—	—	—	—	—	7	7
Bangladesh	—	—	—	—	—	34	34
Benin	—	—	—	—	—	1	1
Burkina Faso	—	—	—	—	—	10	10
Burundi	—	—	—	—	—	21	21
Cameroon		—	—		—	5	5
Central African Republic	—	—	—	—	—	18	18
Congo, Republic of	—	—	—	—	—	8	8
Dominica	—	—	—	—	—	2	2
Dominican Republic	—	—	135	—	135	—	135
Gambia, The	—	—	—	—	—	2	2
Georgia	—	—	—	—	—	28	28
Ghana	—	—	—	—	—	79	79
Guyana	—	—	—	—	—	9	9
Haiti	—	—	—	—	—	28	28
Kenya	—	—	—	—	—	38	38
Kyrgyz Republic	—	—	—	—	—	3	3
Lebanon	—	51	—	—	51		51
Madagascar	—	—	—	—	—	16	16
Malawi	—	—	—	—	—	12	12
Mali	—	—	—	—	—	3	3
Mauritania	—	—	—	—	—	6	6
Moldova	—	—	—	—	—	43	43
Mozambique	—	—	—	—	—	3	3
Nepal	—	—	—	—	—	14	14
Nicaragua	—	—	—	—	—	28	28
Niger	—	—	—	—	—	12	12
Rwanda	—	—	—	—	—	3	3
São Tomé and Príncipe	—	—	—	—	—	1	1
Sierra Leone	—	—	—	—	—	9	9
Tanzania	—	—	—	—	—	3	3
Turkey	57	—	1,999	—	2,055	—	2,055
Uruguay	—	—	86	—	86	—	86
Zambia	—	—	—	—	—	6	6
Total	**57**	**51**	**2,219**	**2**	**2,329**	**477**	**2,806**

Appendix-Table II.5
Repurchases and repayments to the IMF, financial year ended April 30, 2007
(In millions of SDRs)

Member	Stand-By/credit tranche	Extended Fund Facility	Other[1]	Total repurchases	PRGF repayments[2]	Total repurchases and repayments
Albania	—	—	—	—	9	9
Armenia	—	—	—	—	18	18
Azerbaijan	—	9	—	9	17	26
Bosnia and Herzegovina	27	—	—	27	—	27
Bulgaria	10	283	—	293	—	293
Central African Republic	—	—	13	13	5	17
Chad	—	—	—	—	10	10
Congo, Republic of	—	—	—	—	1	1
Côte d'Ivoire	—	—	—	—	39	39
Djibouti	—	—	—	—	1	1
Dominica	1	—	—	1	—	1
Dominican Republic	77	—	—	77	—	77
Ecuador	38	—	—	38	—	38
Gabon	10	5	—	15	—	15
Gambia, The	—	—	—	-	3	3
Georgia	—	—	—	—	30	30
Grenada	—	—	1	1		1
Guinea	—	—	—	—	14	14
Guinea-Bissau	—	—	—	—	3	3
Haiti	—	—	20	20	3	24
Indonesia	—	5,189	—	5,189		5,189
Jordan	1	61	—	62		62
Kenya	—	—	—	—	9	9
Kyrgyz Republic	—	—	—	—	17	17
Lao P.D.R.	—	—	—	—	3	3
Liberia	0	—	—	0	—	0
Macedonia, FYR	5	0	-	5	6	10
Malawi	—	—	13	13	33	46
Mauritania	—	—	—	—	44	44
Moldova	—	13	—	13	4	16
Mongolia	—	—	—	—	4	4
Pakistan	—	19	—	19	53	72
Panama	—	7	—	7	—	7
Peru	—	27	—	27	—	27
Philippines	—	209	—	209	—	209
Romania	103	—	—	103	—	103
São Tomé and Príncipe	—	—	—	—	1	1
Serbia	6	650	—	656	—	656
Sierra Leone	—	—	—	—	119	119
Sri Lanka	42	—	—	42	—	42
Sudan	17	11	5	33	—	33
Togo	—	—	—	—	4	4
Turkey	5,659	—	—	5,659	—	5,659
Ukraine	—	279	—	279	—	279
Uruguay	1,347	—	—	1,347	—	1,347
Vietnam	—	—	—	—	20	20
Yemen, Republic of	—	9	—	9	41	50
Zimbabwe	—	—	—	—	0	0
Total	**7,345**	**6,769**	**52**	**14,166**	**511**	**14,677**

[1]Includes Compensatory Financing Facility, Emergency Natural Disaster Assistance, and Emergency Post-Conflict Assistance.
[2]Includes MDRI debt relief for Malawi, Mauritania, São Tomé and Príncipe, and Sierra Leone.

Appendix-Table II.6
Outstanding IMF credit by facility and policy, financial years ended April 30, 1998–2007
(*In millions of SDRs and percent of total*)

	1998	1999	2000	2001	2002	2003	2004	2005	2006	2007
					(In Millions of SDRs)					
Stand-By Arrangements[1]	25,526	25,213	21,410	17,101	28,612	34,241	42,100	35,818	11,666	6,522
Extended Arrangements	12,521	16,574	16,808	16,108	15,538	14,981	13,751	9,365	7,477	734
Supplemental Reserve Facility	7,100	12,655	-	4,085	5,875	15,700	6,028	4,569	--	--
Compensatory and Financing Facility	685	2,845	3,032	2,992	745	413	120	84	84	78
Systemic Transformation Facility	3,869	3,364	2,718	1,933	1,311	644	154	18	--	--
Subtotal (GRA)	**49,701**	**60,651**	**43,968**	**42,219**	**52,081**	**65,978**	**62,153**	**49,854**	**19,227**	**7,334**
SAF Arrangements	730	565	456	432	341	137	86	45	9	9
PRGF Arrangements[2]	5,505	5,870	5,857	5,951	6,188	6,676	6,703	6,588	3,819	3,785
Trust Fund	90	89	89	89	89	89	89	89	89	89
Total	**56,026**	**67,175**	**50,370**	**48,691**	**58,699**	**72,879**	**69,031**	**56,576**	**23,144**	**11,216**
					(In Percent of total)					
Stand-By Arrangements[1]	46	38	43	35	49	47	61	63	50	58
Extended Arrangements	22	25	33	33	26	21	20	17	33	7
Supplemental Reserve Facility	13	19	-	9	10	21	9	8	--	--
Compensatory and Financing Facility	1	4	6	6	1	1	—[3]	—[3]	—[3]	1
Systemic Transformation Facility	7	5	5	4	2	1	—[3]	—[3]	—[3]	--
Subtotal (GRA)	**89**	**90**	**87**	**87**	**88**	**91**	**90**	**88**	**83**	**65**
SAF Arrangements	1	1	1	1	1	—[3]	—[3]	—[3]	—[3]	—[3]
PRGF Arrangements[2]	10	9	12	12	11	9	10	12	17	34
Trust Fund	—[3]	—[3]	—[3]	—[3]	—[3]	—[3]	—[3]	—[3]	—[3]	1
Total	**100**	**100**	**100**	**100**	**100**	**100**	**100**	**100**	**100**	**100**

GRA = General Resources Account; SAF = Structural Adjustment Facility; PRGF = Poverty Reduction and Growth Facility.

[1]Includes outstanding credit tranche and emergency purchases.

[2]Includes outstanding associated loans from the Saudi Fund for Development.

[3]Less than ½ of one percent of total.

Appendix-Table II.7
Holdings of SDRs by all participants and by groups of countries as percent of their cumulative allocations of SDRs, at end of financial years ended April 30, 1997–2007

			Nonindustrial countries[2]			
					Net debtor countries	
	All participants[1]	Industrial countries[2]	All nonindustrial countries	Net creditor countries[3]	All net debtor countries[3]	Heavily indebted poor countries
1997	87.2	99.8	60.5	303.6	47.8	17.3
1998	95.0	107.0	69.4	323.7	56.1	24.1
1999	81.1	94.6	52.5	170.7	46.3	26.3
2000	84.6	95.0	62.5	174.1	56.6	20.6
2001	86.6	101.6	54.6	204.2	46.5	12.4
2002	91.5	107.7	56.9	227.9	44.7	14.6
2003	93.0	102.4	72.0	173.7	57.7	17.1
2004	96.3	105.6	76.3	230.5	23.5	20.9
2005	96.2	96.3	96.0	178.7	33.0	17.7
2006	81.8	85.3	74.3	233.7	20.2	10.4
2007	86.0	92.3	72.4	198.7	11.4	14.7

[1]Member countries that are participants in the SDR Department. At the end of FY2007, of the total SDRs allocated to participants in the SDR Department (SDR 21.4 billion), SDR 3.0 billion was not held by participants, but instead by the IMF and prescribed holders.
[2]Based on IFS classification (International Monetary Fund, *International Financial Statistics*, various years).
[3]Net creditor countries' holdings of SDRs are more than their cumulative allocations of SDRs. Net debtor countries' holdings of SDRs are less than their cumulative allocations of SDRs.

Appendix-Table II.8

Members that have accepted the obligations of Article VIII, Sections 2, 3, and 4, of the Articles of Agreement

Member	Effective date of acceptance	Member	Effective date of acceptance
Algeria	September 15, 1997	India	August 20, 1994
Antigua and Barbuda	November 22, 1983	Indonesia	May 7, 1988
Argentina	May 14, 1968	Iran, Islamic Republic of	September 6, 2004
Armenia	May 29, 1997	Ireland	February 15, 1961
Australia	July 1, 1965	Israel	September 21, 1993
Austria	August 1, 1962	Italy	February 15, 1961
Azerbaijan	November 30, 2004	Jamaica	February 22, 1963
Bahamas, The	December 5, 1973	Japan	April 1, 1964
Bahrain	March 20, 1973	Jordan	February 20, 1995
Bangladesh	April 11, 1994	Kazakhstan	July 16, 1996
Barbados	November 3, 1993	Kenya	June 30, 1994
Belarus	November 5, 2001	Kiribati	August 22, 1986
Belgium	February 15, 1961	Korea, Republic of	November 1, 1988
Belize	June 14, 1983	Kuwait	April 5, 1963
Benin	June 1, 1996	Kyrgyz Republic	March 29, 1995
Bolivia	June 5, 1967	Latvia	June 10, 1994
Botswana	November 17, 1995	Lebanon	July 1, 1993
Brazil	November 30, 1999	Lesotho	March 5, 1997
Brunei Darussalam	October 10, 1995	Libya	June 21, 2003
Bulgaria	September 24, 1998	Lithuania	May 3, 1994
Burkina Faso	June 1, 1996	Luxembourg	February 15, 1961
Cambodia	January 1, 2002	Macedonia, former Yugoslav Republic of	June 19, 1998
Cameroon	June 1, 1996	Madagascar	September 18, 1996
Canada	March 25, 1952	Malawi	December 7, 1995
Cape Verde	July 1, 2004	Malaysia	November 11, 1968
Central African Republic	June 1, 1996	Mali	June 1, 1996
Chad	June 1, 1996	Malta	November 30, 1994
Chile	July 27, 1977	Marshall Islands	May 21, 1992
China	December 1, 1996	Mauritania	July 19, 1999
Colombia	August 1, 2004	Mauritius	September 29, 1993
Comoros	June 1, 1996	Mexico	November 12, 1946
Congo, Dem. Rep. of the	February 10, 2003	Micronesia, Federated States of	June 24, 1993
Congo, Rep. of	June 1, 1996	Moldova	June 30, 1995
Costa Rica	February 1, 1965	Mongolia	February 1, 1996
Côte d'Ivoire	June 1, 1996	Montenegro	January 18, 2007
Croatia	May 29, 1995	Morocco	January 21, 1993
Cyprus	January 9, 1991	Namibia	September 20, 1996
Czech Republic	October 1, 1995	Nepal	May 30, 1994
Denmark	May 1, 1967	Netherlands	February 15, 1961
Djibouti	September 19, 1980	New Zealand	August 5, 1982
Dominica	December 13, 1979	Nicaragua	July 20, 1964
Dominican Republic	August 1, 1953	Niger	June 1, 1996
Ecuador	August 31, 1970	Norway	May 11, 1967
Egypt	January 2, 2005	Oman	June 19, 1974
El Salvador	November 6, 1946	Pakistan	July 1, 1994
Equatorial Guinea	June 1, 1996	Palau	December 16, 1997
Estonia	August 15, 1994	Panama	November 26, 1946
Fiji	August 4, 1972	Papua New Guinea	December 4, 1975
Finland	September 25, 1979	Paraguay	August 22, 1994
France	February 15, 1961	Peru	February 15, 1961
Gabon	June 1, 1996	Philippines	September 8, 1995
Gambia, The	January 21, 1993	Poland	June 1, 1995
Georgia	December 20, 1996	Portugal	September 12, 1988
Germany	February 15, 1961	Qatar	June 4, 1973
Ghana	February 21, 1994	Romania	March 25, 1998
Greece	July 7, 1992	Russian Federation	June 1, 1996
Grenada	January 24, 1994	Rwanda	December 10, 1998
Guatemala	January 27, 1947	St. Kitts and Nevis	December 3, 1984
Guinea	November 17, 1995	St. Lucia	May 30, 1980
Guinea-Bissau	January 1, 1997	St. Vincent and the Grenadines	August 24, 1981
Guyana	December 27, 1966	Samoa	October 6, 1994
Haiti	December 22, 1953	San Marino	September 23, 1992
Honduras	July 1, 1950		
Hungary	January 1, 1996		
Iceland	September 19, 1983		

Appendix-Table II.8 ***(concluded)***

Member	Effective date of acceptance	Member	Effective date of acceptance
Saudi Arabia	March 22, 1961	Timor-Leste	July 23, 2002
Senegal	June 1, 1996	Togo	June 1, 1996
Serbia	May 15, 2002	Tonga	March 22, 1991
Seychelles	January 3, 1978	Trinidad and Tobago	December 13, 1993
Sierra Leone	December 14, 1995	Tunisia	January 6, 1993
Singapore	November 9, 1968	Turkey	March 22, 1990
Slovak Republic	October 1, 1995	Uganda	April 5, 1994
Slovenia	September 1, 1995	Ukraine	September 24, 1996
Solomon Islands	July 24, 1979	United Arab Emirates	February 13, 1974
South Africa	September 15, 1973	United Kingdom	February 15, 1961
Spain	July 15, 1986	United States	December 10, 1946
Sri Lanka	March 15, 1994	Uruguay	May 2, 1980
Sudan	October 29, 2003	Uzbekistan	October 15, 2003
Suriname	June 29, 1978	Vanuatu	December 1, 1982
Swaziland	December 11, 1989	República Bolivariana	
Sweden	February 15, 1961	de Venezuela	July 1, 1976
Switzerland	May 29, 1992	Vietnam	November 8, 2005
Tajikistan	December 9, 2004	Yemen, Republic of	December 10, 1996
Tanzania	July 15, 1996	Zambia	April 19, 2002
Thailand	May 4, 1990	Zimbabwe	February 3, 1995

Appendix-Table II.9

De facto classification of exchange rate regimes and monetary policy framework

Exchange Rate Regime (Number of countries)	**Monetary Policy Framework**				
	Exchange rate anchor	**Monetary aggregate target**	**Inflation targeting framework**	**IMF-supported or other monetary program**	**Other[2]**
Exchange arrangements with no separate legal tender (10)	**Another currency as legal tender** Ecuador El Salvador[4] Kiribati Marshall Islands Micronesia, Fed. States of Montenegro, Rep. of Palau Panama San Marino Timor-Leste, Dem. Rep. of				
Currency board arrangements (13)	Bosnia and Herzegovina Brunei Darussalam Bulgaria* Hong Kong SAR Djibouti Estonia[5] Lithuania[5] **ECCU (6)** Antigua and Barbuda Dominica* Grenada* St. Kitts and Nevis St. Lucia St. Vincent and the Grenadines				
Other conventional fixed peg arrangements (74)	**<u>Against a single currency (68)</u>** Afghanistan, I.R. of* Angola 7/ Argentina Aruba Bahamas, The[9] Bahrain, Kingdom of Barbados Belarus[7] Belize Bhutan Bolivia[7, 10] Cape Verde Comoros[11] Costa Rica Egypt[7] Eritrea Ethiopia[7] Ghana*[7] Guyana*[7, 8] Honduras*†[7] Iran, I.R. of[7, 13] Jordan[7] Kuwait Latvia[5] Lebanon[7] Lesotho Macedonia, FYR*[7] Maldives Malta[5] Mauritania[7] Mongolia Namibia Nepal* Netherlands Antilles Nigeria[7] Oman Pakistan†[7] Qatar Rwanda* Saudi Arabia Sierra Leone*[7] Solomon Islands[7] Suriname[7, 9] Swaziland Syrian Arab Rep.[9] Trinidad and Tobago[7] Turkmenistan[7] Ukraine[7] United Arab Emirates Uzbekistan[7, 9] Venezuela, Rep. Bolivariana de Vietnam[7] Yemen, Rep. of[7] Zimbabwe[9] **<u>CFA franc zone (14)</u>** **WAEMU** Benin* Burkina Faso* Côte d'Ivoire Guinea-Bissau Mali* Niger* Senegal Togo **CAEMC** Cameroon* Central African Rep. Chad* Congo, Rep. of* Equatorial Guinea Gabon **<u>Against a composite (6)</u>**	Ghana*[7] Guyana*[7, 8] Suriname[7, 8, 9]			Pakistan†[7]

Exchange Rate Regime **(Number of countries)**	**Monetary Policy Framework**				
	Exchange rate anchor	**Monetary aggregate target**	**Inflation targeting framework**	**IMF-supported or other monetary program**	**Other[2]**
	Fiji Libyan Arab Jamahiriya Morocco Samoa Vanuatu Tunisia	Tunisia			
Pegged exchange rates within horizontal Bands (5)[12]	**Within a cooperative arrangement (3)** Cyprus[5] Denmark[5] Slovak Rep.†[5] **Other band arrangements (2)** Hungary† Tonga		Hungary† Slovak Rep.†[5]		
Crawling pegs (5)	Azerbaijan[7] Botswana[9] Iraq*[7] Nicaragua* [China†][6]				

Exchange Rate Regime (Number of countries)	Monetary Policy Framework				
	Exchange rate anchor	**Monetary aggregate target**	**Inflation targeting framework**	**IMF-supported or other monetary program**	**Other[2]**
Crawling bands (0)					
Managed floating with no pre-determined path for the exchange rate (47)	Seychelles	Bangladesh* Cambodia Gambia, The[7] Haiti[7] Indonesia Jamaica[7] Lao P.D.R.[9] Madagascar*[7] Malawi* Mauritius Moldova* Papua New Guinea[7] Serbia, Rep. of Sri Lanka[7] Sudan Tajikistan Uganda Uruguay*[7] Zambia*	Colombia* Czech Rep. Guatemala[7] Peru* [Philippines] Romania Thailand	Armenia*[7] Georgia* Kenya* Kyrgyz Rep.* Mozambique*[7] Tanzania*[7]	Algeria Burundi* Croatia* Dominican Rep.* Guinea[7] India Kazakhstan Liberia[7] Malaysia Myanmar[9] Paraguay* Russian Federation São Tomé and Príncipe* Singapore
Independently floating (34)		Albania* Congo, Dem. Rep. of	Australia Brazil Canada Chile Iceland Israel Korea Mexico New Zealand Norway Poland South Africa Sweden Turkey* United Kingdom		Japan Somalia[9, 14] Switzerland United States **Euro area** Austria Belgium Finland France Germany Greece Ireland Italy Luxembourg Netherlands Portugal Slovenia Spain

[…] The classification is not final yet

Sources: IMF staff reports; IMF *Recent Economic Developments*; and IMF staff estimates.

1 An asterisk (*) indicates that the country has an IMF-supported or other monetary program. A dagger (†) indicates that the country adopts more than one nominal anchor in conducting monetary policy (it should be noted, however, that it would not be possible, for practical reasons, to include in this table which nominal anchor plays the principal role in conducting monetary policy).

2 Includes countries that have no explicitly stated nominal anchor, but rather monitor various indicators in conducting monetary policy.

3 The ECCU has a currency board arrangement.

4 The printing of new colones, the domestic currency, is prohibited, but the existing stock of colones will continue to circulate along with the U.S. dollar as legal tender until all colón notes wear out physically.

5 The member participates in the ERM II.

6 On July 21, 2005, China announced a 2.1% revaluation of the renminbi–U.S. dollar exchange rate and a change in its exchange rate arrangement to allow the value of the renminbi to fluctuate based on market supply and demand with reference to an undisclosed basket of currencies. To permit a greater role for market forces in determining the renminbi exchange rate, steps have been taken since July 2005 to liberalize and develop China's foreign exchange markets, including the establishment of an over-the-counter spot foreign exchange market and markets for currency swaps and futures. From end-July 2005, the renminbi exchange rate was more flexible, but the fluctuation in the renminbi–U.S dollar exchange rate was less than the 2% range (for a three-month period) used in the IMF's de facto exchange rate classification system as an indicator for a conventional fixed peg exchange rate arrangement.

[7] The regime operating de facto in the country is different from its de jure regime.
[8] There is no evidence of direct intervention by the authorities in the foreign exchange market.
[9] The member maintains an exchange arrangement involving more than one foreign exchange market. The arrangement shown is that maintained in the major market.
[10] This is a de facto classification resulting from the methodology described in Appendix II of this document. The Bolivian authorities consider their regime as a crawling peg and have not committed to the current level of the exchange rate.
[11] Comoros has the same arrangement with the French Treasury as the CFA franc zone countries.
[12] The bands for these countries are as follows: Cyprus ±15%, Denmark ±2.25%, Hungary ±15%, Slovak Republic ±15%, Slovenia (undisclosed), and Tonga ±5%.
[13] The rial crawls vis-à-vis an unannounced basket of currencies.
[14] Insufficient information on the country is available to confirm this classification, and so the classification of the last official consultation is used.

APPENDIX IV

EXECUTIVE DIRECTORS AND VOTING POWER ON APRIL 30, 2007

Director *Alternate*	Casting Votes of	Votes by Country	Total Votes[1]	Percent of Fund Total[2]
APPOINTED				
Meg Lundsager	United States	371,743	371,743	16.83
Vacant				
Shigeo Kashiwagi	Japan	133,378	133,378	6.04
Michio Kitahara				
Klaus D. Stein	Germany	130,332	130,332	5.90
Stephan von Stenglin				
Pierre Duquesne	France	107,635	107,635	4.87
Bertrand Dumont				
Tom Scholar	United Kingdom	107,635	107,635	4.87
Jens Larsen				
ELECTED				
Willy Kiekens	Austria	18,973		
(Belgium)	Belarus	4,114		
Johann Prader	Belgium	46,302		
(Austria)	Czech Republic	8,443		
	Hungary	10,634		
	Kazakhstan	3,907		
	Luxembourg	3,041		
	Slovak Republic	3,825		
	Slovenia	2,567		
	Turkey	12,163	113,969	5.16
Jeroen Kremers	Armenia	1,170		
(Netherlands)	Bosnia and Herzegovina	1,941		
Yuriy G. Yakusha	Bulgaria	6,652		
(Ukraine)	Croatia	3,901		
	Cyprus	1,646		
	Georgia	1,753		
	Israel	9,532		
	Macedonia, former Yugoslav Republic of	939		
	Moldova	1,482		
	Netherlands	51,874		
	Romania	10,552		
	Ukraine	13,970	105,412	4.77

Appendix IV *(continued)*

Roberto Guarnieri (Venezuela) *Ramón Guzmán (Spain)*	Costa Rica	1,891		
	El Salvador	1,963		
	Guatemala	2,352		
	Honduras	1,545		
	Mexico	26,108		
	Nicaragua	1,550		
	Spain	30,739		
	Venezuela, República Bolivariana de	26,841	92,989	4.21
Arrigo Sadun (Italy) *Miranda Xafa (Greece)*	Albania	737		
	Greece	8,480		
	Italy	70,805		
	Malta	1,270		
	Portugal	8,924		
	San Marino	420		
	Timor-Leste	332	90,968	4.12
Richard Murray (Australia) *Wilhemina C. Mañalac (Philippines)*	Australia	32,614		
	Kiribati	306		
	Korea	29,523		
	Marshall Islands	285		
	Micronesia, Federated States of	301		
	Mongolia	761		
	New Zealand	9,196		
	Palau	281		
	Papua New Guinea	1,566		
	Philippines	9,049		
	Samoa	366		
	Seychelles	338		
	Solomon Islands	354		
	Vanuatu	420	85,360	3.86
GE Huayong (China) *HE Jianxiong (China)*	China	81,151	81,151	3.67
Jonathan Fried (Canada) *Peter Charleton (Ireland)*	Antigua and Barbuda	385		
	Bahamas, The	1,553		
	Barbados	925		
	Belize	438		
	Canada	63,942		
	Dominica	332		
	Grenada	367		
	Ireland	8,634		
	Jamaica	2,985		
	St. Kitts and Nevis	339		
	St. Lucia	403		
	St. Vincent and the Grenadines	333	80,636	3.65

Appendix IV *(continued)*

Tuomas Saarenheimo	Denmark	16,678		
(Finland)	Estonia	902		
Jon Thorvardur Sigurgeirsson	Finland	12,888		
(Iceland)	Iceland	1,426		
	Latvia	1,518		
	Lithuania	1,692		
	Norway	16,967		
	Sweden	24,205	76,276	3.45
A. Shakour Shaalan	Bahrain	1,600		
(Egypt)	Egypt	9,687		
Samir El-Khouri	Iraq	12,134		
(Lebanon)	Jordan	1,955		
	Kuwait	14,061		
	Lebanon	2,280		
	Libyan Arab Jamahiriya	11,487		
	Maldives	332		
	Oman	2,190		
	Qatar	2,888		
	Syrian Arab Republic	3,186		
	United Arab Emirates	6,367		
	Yemen, Republic of	2,685	70,852	3.21
Abdallah S. Alazzaz	Saudi Arabia	70,105	70,105	3.17
(Saudi Arabia)				
Ahmed Al Nassar				
(Saudi Arabia)				
Hooi Eng Phang	Brunei Darussalam	2,402		
(Malaysia)	Cambodia	1,125		
Chantavam Sucharitakul	Fiji	953		
(Thailand)	Indonesia	21,043		
	Lao People's Democratic Republic	779		
	Malaysia	15,116		
	Myanmar	2,834		
	Nepal	963		
	Singapore	8,875		
	Thailand	11,069		
	Tonga	319		
	Vietnam	3,541	69,019	3.12
Peter Gakunu	Angola	3,113		
(Kenya)	Botswana	880		
Samura Kamara	Burundi	1,020		
(Sierra Leone)	Eritrea	409		
	Ethiopia	1,587		
	Gambia, The	561		
	Kenya	2,964		
	Lesotho	599		
	Malawi	944		
	Mozambique	1,386		

Appendix IV *(continued)*

	Namibia	1,615		
	Nigeria	17,782		
	Sierra Leone	1,287		
	South Africa	18,935		
	Sudan	1,947		
	Swaziland	757		
	Tanzania	2,239		
	Uganda	2,055		
	Zambia	5,141	65,221	2.95
Thomas Moser	Azerbaijan	1,859		
(Switzerland)	Kyrgyz Republic	1,138		
Andrzej Raczko	Poland	13,940		
(Poland)	Serbia	4,927		
	Switzerland	34,835		
	Tajikistan	1,120		
	Turkmenistan	1,002		
	Uzbekistan	3,006	61,827	2.80
Aleksei V. Mozhin	Russian Federation	59,704	59,704	2.70
(Russian Federation)				
Andrei Lushin				
(Russian Federation)				
Abbas Mirakhor	Afghanistan, Islamic Republic of	1,869		
(Islamic Republic of Iran)	Algeria	12,797		
Mohammed Daïri	Ghana	3,940		
(Morocco)	Iran, Islamic Republic of	15,222		
	Morocco	6,132		
	Pakistan	10,587		
	Tunisia	3,115	53,662	2.43
Paulo Nogueira Batista, Jr.	Brazil	30,611		
(Brazil)	Colombia	7,990		
María Ines Agudelo	Dominican Republic	2,439		
(Colombia)	Ecuador	3,273		
	Guyana	1,159		
	Haiti	1,069		
	Panama	2,316		
	Suriname	1,171		
	Trinidad and Tobago	3,606	53,634	2.43
Adarsh Kishore	Bangladesh	5,583		
(India)	Bhutan	313		
Amal Uthum Herat	India	41,832		
(Sri Lanka)	Sri Lanka	4,384	52,112	2.36
Javier Silva-Ruete	Argentina	21,421		
(Peru)	Bolivia	1,965		
Héctor R. Torres	Chile	8,811		
(Argentina)	Paraguay	1,249		
	Peru	6,634		
	Uruguay	3,315	43,395	1.96
Laurean W. Rutayisire	Benin	869		
(Rwanda)	Burkina Faso	852		

Appendix IV *(concluded)*

Kossi Assimaidou (Togo)	Cameroon	2,107		
	Cape Verde	346		
	Central African Republic	807		
	Chad	810		
	Comoros	339		
	Congo, Democratic Republic of the	5,580		
	Congo, Republic of	1,096		
	Côte d'Ivoire	3,502		
	Djibouti	409		
	Equatorial Guinea	576		
	Gabon	1,793		
	Guinea	1,321		
	Guinea-Bissau	392		
	Madagascar	1,472		
	Mali	1,183		
	Mauritania	894		
	Mauritius	1,266		
	Niger	908		
	Rwanda	1,051		
	São Tomé and Príncipe	324		
	Senegal	1,868		
	Togo	984	30,749	1.39
			2,207,764[3,4,5,6]	99.94[7]

[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 2,208,981 in the General Department and the Special Drawing Rights Department.
[3] This total does not include the votes of Somalia, which did not participate in the 2006 Regular Election of Executive Directors. The total votes of this member is 692 - 0.03 percent of those in the General Department and Special Drawing Rights Department.
[4] Liberia's voting rights were suspended effective March 5, 2003, pursuant to Article XXVI, Section 2*(b)* of the Articles of Agreement.
[5] Zimbabwe's voting rights were suspended effective June 6, 2003, pursuant to Article XXVI, Section 2*(b)* of the Articles of Agreement.
[6] This total vote does not include the votes of Montenegro, which joined the Fund effective January 18, 2007. The total votes of this member is 525- 0.02 percent of those in the General Department and Special Drawing Rights Department.
[7] This figure may differ from the sum of the percentages shown for individual Directors because of rounding.

APPENDIX V

CHANGES IN MEMBERSHIP OF THE EXECUTIVE BOARD

Changes in the membership of the Executive Board between May 1, 2006, and April 30, 2007, were as follows:

Thomas Moser (Switzerland) was elected Executive Director by Azerbaijan, the Kyrgyz Republic, Poland, Serbia and Montenegro, Switzerland, Tajikistan, Turkmenistan, and Uzbekistan, effective May 1, 2006.

Nancy P. Jacklin (United States) relinquished her duties as Executive Director for the United States, effective May 31, 2006.

Andrew Hauser (United Kingdom) relinquished his duties as Alternate Executive Director to Tom Scholar (United Kingdom), effective June 16, 2006.

Karlheinz Bischofberger (Germany) relinquished his duties as Executive Director for Germany, effective July 17, 2006.

Klaus D. Stein (Germany) was appointed Executive Director by Germany, effective July 18, 2006.

Jens Larsen (United Kingdom) was appointed Alternate Executive Director to Tom Scholar (United Kingdom), effective July 24, 2006.

Gert Meissner (Germany) relinquished his duties as Alternate Executive Director to Klaus D. Stein (Germany), effective August 3, 2006.

Stephan von Stenglin (Germany) was appointed Alternate Executive Director to Klaus D. Stein (Germany), effective August 4, 2006.

Olivier Cuny (France) relinquished his duties as Alternate Executive Director to Pierre Duquesne (France), effective September 19, 2006.

Bertrand Dumont (France) was appointed Alternate Executive Director to Pierre Duquesne (France), effective September 20, 2006.

B.P. Misra (India) completed his term of service as Executive Director for Bangladesh, Bhutan, India, and Sri Lanka, effective October 31, 2006.

Appendix V *(continued)*

Peter J. Ngumbullu (Tanzania) completed his term of service as Executive Director for Angola, Botswana, Burundi, Eritrea, Ethiopia, The Gambia, Kenya, Lesotho, Malawi, Mozambique, Namibia, Nigeria, Sierra Leone, South Africa, Sudan, Swaziland, Tanzania, Uganda, and Zambia, effective October 31, 2006.

Damian Ondo Mañe (Equatorial Guinea) completed his term of service as Executive Director for Benin, Burkina Faso, Cameroon, Cape Verde, the Central African Republic, Chad, Comoros, the Democratic Republic of the Congo, the Republic of Congo, Côte d'Ivoire, Djibouti, Equatorial Guinea, Gabon, Guinea, Guinea-Bissau, Madagascar, Mali, Mauritania, Mauritius, Niger, Rwanda, São Tomé and Príncipe, Senegal, and Togo, effective October 31, 2006.

Jong Nam Oh (Korea) completed his term of service as Executive Director for Australia, Kiribati, Korea, Marshall Islands, the Federated States of Micronesia, Mongolia, New Zealand, Palau, Papua New Guinea, the Philippines, Samoa, Seychelles, the Solomon Islands, and Vanuatu, effective October 31, 2006.

Moisés Schwartz (Mexico) completed his term of service as Executive Director for Costa Rica, El Salvador, Guatemala, Honduras, Mexico, Nicaragua, Spain, and República Bolivariana de Venezuela, effective October 31, 2006.

Sulaiman M. Al-Turki (Saudi Arabia) was reelected Executive Director by Saudi Arabia, effective November 1, 2006.

Kossi Assimaidou (Togo) was appointed Alternate Executive Director to Laurean W. Rutayisire (Rwanda), effective November 1, 2006.

Jonathan T. Fried (Canada) was reelected Executive Director by Antigua and Barbuda, The Bahamas, Barbados, Belize, Canada, Dominica, Grenada, Ireland, Jamaica, St. Kitts and Nevis, St. Lucia, and St. Vincent and the Grenadines, effective November 1, 2006.

Peter Gakunu (Kenya), formerly Alternate Executive Director to Peter J. Ngumbullu (Tanzania), was elected Executive Director by Angola, Botswana, Burundi, Eritrea, Ethiopia, The Gambia, Kenya, Lesotho, Malawi, Mozambique, Namibia, Nigeria, Sierra Leone, South Africa, Sudan, Swaziland, Tanzania, Uganda, and Zambia, effective November 1, 2006.

Roberto Guarnieri (Venezuela) was elected Executive Director by Costa Rica, El Salvador, Guatemala, Honduras, Mexico, Nicaragua, Spain, and República Bolivariana de Venezuela, effective November 1, 2006.

Appendix V *(continued)*

Ramón Guzmán (Spain) was appointed Alternate Executive Director to Roberto Guarnieri (Venezuela), effective November 1, 2006.

Samura Kamara (Sierra Leone) was appointed Alternate Executive Director to Peter Gakunu (Kenya), effective November 1, 2006.

Willy Kiekens (Belgium) was reelected Executive Director by Austria, Belarus, Belgium, the Czech Republic, Hungary, Kazakhstan, Luxembourg, the Slovak Republic, Slovenia, and Turkey, effective November 1, 2006.

Adarsh Kishore (India) was elected Executive Director by Bangladesh, Bhutan, India, and Sri Lanka, effective November 1, 2006.

Jeroen Kremers (Netherlands) was reelected Executive Director by Armenia, Bosnia and Herzegovina, Bulgaria, Croatia, Cyprus, Georgia, Israel, the former Yugoslav Republic of Macedonia, Moldova, the Netherlands, Romania, and Ukraine, effective November 1, 2006.

Eduardo Loyo (Brazil) was reelected Executive Director by Brazil, Colombia, the Dominican Republic, Ecuador, Guyana, Haiti, Panama, Suriname, and Trinidad and Tobago, effective November 1, 2006.

Wilhelmina C. Mañalac (Philippines) was appointed Alternate Executive Director to Richard Murray (Australia), effective November 1, 2006.

Abbas Mirakhor (Islamic Republic of Iran) was reelected Executive Director by the Islamic Republic of Afghanistan, Algeria, Ghana, the Islamic Republic of Iran, Morocco, Pakistan, and Tunisia, effective November 1, 2006.

Thomas Moser (Switzerland) was reelected Executive Director by Azerbaijan, the Kyrgyz Republic, Poland, Republic of Serbia, Switzerland, Tajikistan, Turkmenistan, and Uzbekistan, effective November 1, 2006.

Aleksei V. Mozhin (Russia) was reelected Executive Director by Russia, effective November 1, 2006.

Richard Murray (Australia), formerly Alternate Executive Director to Jong Nam Oh (Korea), was elected Executive Director by Australia, Kiribati, Korea, Marshall Islands, the Federated States of Micronesia, Mongolia, New Zealand, Palau, Papua New Guinea, the

Appendix V *(continued)*

Philippines, Samoa, Seychelles, the Solomon Islands, and Vanuatu, effective November 1, 2006.

Hooi Eng Phang (Malaysia) was reelected Executive Director by Brunei Darussalam, Cambodia, Fiji, Indonesia, the Lao People's Democratic Republic, Malaysia, Myanmar, Nepal, Singapore, Thailand, Tonga, and Vietnam, effective November 1, 2006.

Laurean W. Rutayisire (Rwanda), formerly Alternate Executive Director to Damian Ondo Mañe (Equatorial Guinea), was elected Executive Director by Benin, Burkina Faso, Cameroon, Cape Verde, the Central African Republic, Chad, Comoros, the Democratic Republic of the Congo, the Republic of Congo, Côte d'Ivoire, Djibouti, Equatorial Guinea, Gabon, Guinea, Guinea-Bissau, Madagascar, Mali, Mauritania, Mauritius, Niger, Rwanda, São Tomé and Príncipe, Senegal, and Togo, effective November 1, 2006.

Tuomas Saarenheimo (Finland) was reelected Executive Director by Denmark, Estonia, Finland, Iceland, Latvia, Lithuania, Norway, and Sweden, effective November 1, 2006.

Arrigo Sadun (Italy) was reelected Executive Director by Albania, Greece, Italy, Malta, Portugal, San Marino, and Timor-Leste, effective November 1, 2006.

A. Shakour Shaalan (Egypt) was reelected Executive Director by Bahrain, Egypt, Iraq, Jordan, Kuwait, Lebanon, Libya, Maldives, Oman, Qatar, the Syrian Arab Republic, the United Arab Emirates, and the Republic of Yemen, effective November 1, 2006.

Javier Silva-Ruete (Peru), formerly Alternate Executive Director to Héctor Torres (Argentina), was elected Executive Director by Argentina, Bolivia, Chile, Paraguay, Peru, and Uruguay, effective November 1, 2006.

Chantavarn Sucharitakul (Thailand) was appointed Alternate Executive Director to Hooi Eng Phang (Malaysia), effective November 1, 2006.

Héctor Torres (Argentina), formerly Executive Director, was appointed Alternate Executive Director to Javier Silva-Ruete (Peru), effective November 1, 2006.

WANG Xiaoyi (China) was reelected Executive Director by China, effective November 1, 2006.

WANG Xiaoyi (China) relinquished his duties as Executive Director for China, effective November 6, 2006.

Appendix V *(continued)*

GE Huayong (China), formerly Alternate Executive Director to WANG Xiaoyi (China), was elected Executive Director by China, effective November 7, 2006.

HE Jianxiong (China) was appointed Alternate Executive Director to GE Huayong (China), effective November 7, 2006.

Sulaiman M. Al-Turki (Saudi Arabia) relinquished his duties as Executive Director for Saudi Arabia, effective February 22, 2007.

Abdallah S. Alazzaz (Saudi Arabia), formerly Alternate Executive Director to Sulaiman M. Al-Turki (Saudi Arabia), was elected Executive Director by Saudi Arabia, effective February 23, 2007.

Ahmed A. Al Nassar (Saudi Arabia) was appointed Alternate Executive Director to Abdallah S. Alazzaz (Saudi Arabia), effective February 23, 2007.

Roberto Steiner (Colombia) relinquished his duties as Alternate Executive Director to Eduardo Loyo (Brazil), effective February 28, 2007.

Maria Ines Agudelo (Colombia) was appointed Alternate Executive Director to Eduardo Loyo (Brazil), effective March 1, 2007.

Meg Lundsager (United States), formerly Alternate Executive Director to Nancy P. Jacklin (United States), was appointed Executive Director by the United States, effective April 4, 2007.

Eduardo Loyo (Brazil) relinquished his duties as Executive Director for Brazil, Colombia, the Dominican Republic, Ecuador, Guyana, Haiti, Panama, Suriname, and Trinidad and Tobago, effective April 16, 2007.

Paulo Nogueira Batista, Jr. (Brazil) was elected Executive Director by Brazil, Colombia, the Dominican Republic, Ecuador, Guyana, Haiti, Panama, Suriname, and Trinidad and Tobago, effective April 17, 2007.

Jeroen Kremers (Netherlands) relinquished his duties as Executive Director for Armenia, Bosnia and Herzegovina, Bulgaria, Croatia, Cyprus, Georgia, Israel, the former Yugoslav Republic of Macedonia, Moldova, the Netherlands, Romania, and Ukraine, effective April 30, 2007.

Appendix V *(concluded)*

Hooi Eng Phang (Malaysia) relinquished her duties as Executive Director for Brunei Darussalam, Cambodia, Fiji, Indonesia, the Lao People's Democratic Republic, Malaysia, Myanmar, Nepal, Singapore, Thailand, Tonga, and Vietnam, effective April 30, 2007.