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To: Members of the Executive Board

From: The Secretary

Subject: Budgetary Outlook in the Medium Term -
Areas of Fund Technical Assistance

The attached appendix to the memorandum of the Acting Managing Director on the budgetary outlook in the medium term provides background information on areas of Fund technical assistance.

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Department Heads

11

Areas of Fund Technical Assistance

The following paragraphs describe the main areas in which technical assistance has been provided by the Fund.

Central Banking Department

The Central Banking Department has provided technical assistance in areas related to monetary policy and instruments, economic research, financial system structure, bank supervision, foreign exchange management, external debt management, central bank accounting, and financial system legislation and organization and methods. This assistance is provided by Fund staff, and short- and long-term consultants, which in some cases involves arrangements with cooperating institutions in member countries. This technical assistance is designed to strengthen the role and use of monetary policy in a market-based economy.

The assistance on monetary policy and instruments has aimed at providing the monetary authorities with a set of techniques and instruments to implement monetary policy in an efficient, market-oriented way. This has included assistance in improving the framework for monetary analysis and programming, designing monetary instruments, developing money markets, and designing management techniques for the domestic public debt. A substantial effort has been made in assisting countries in shifting from direct monetary instruments and administrative controls to indirect, market-based instruments. The Department has also assisted central banks in developing their capabilities in economic research to provide adequate analytical support to policy making. Assistance in monetary policy frequently takes the form of a high level advisor to the Governor or President of a central bank.

In the area of financial system structure, the Department's work has focused on strengthening domestic financial systems and increasing their efficiency. This has included recommendations on such issues as entry and exit policies, bank supervision, development of new financial instruments, and analysis of bank spreads. On occasion, in conjunction with the bank supervision work, advisory missions have made suggestions on the restructuring of troubled financial systems. The Department has assisted monetary authorities in formulating policies to expand as well as deepen money markets. In some cases, this assistance has involved promoting interbank markets in both local currency and foreign exchange and addressing the payments and settlement systems which are also closely related to monetary policy implementation.

The Department has helped supervisory authorities in addressing various prudential and regulatory issues in banking supervision, such as drafting

prudential regulations, and on-sight and off-sight procedures, organizing the banking supervision departments, identifying training needs for bank supervisors, drafting bank supervision manuals, and developing accounting standards.

In foreign exchange and foreign exchange management, and in close collaboration with ETR, increasing attention is being paid to assistance in the establishment or modernization of foreign exchange market operations, setting up foreign exchange departments, providing guidelines for foreign exchange reserves management, and identifying technical and operational aspects of policy implementation related to the shift from exchange controls to market allocation of foreign exchange, and in procedures to register and monitor the evolution of foreign debt.

A key objective of the work in central bank accounting and internal auditing has been to ensure that central bank accounts and financial statements provide an accurate picture of the bank's operations and of their economic implications. In particular, efforts have been made to restructure the departments to make them more responsive to new demands and develop methodologies to assess the magnitude and identify the sources of central bank losses, and to devise solutions to this problem.

Fiscal Affairs Department

The Fiscal Affairs Department traditionally has provided technical assistance in three broad areas:

1. Budget formulation and execution, including expenditure control systems, fiscal reporting, Treasury operations and financial management, accounting and auditing of fiscal operations, and the operations of nonfinancial public enterprises.
2. The design of tax systems to improve revenue performance and help achieve macroeconomic targets in a way consistent with efficiency, distributional, and other goals and with countries' administrative capacities and social and political context.
3. The organization and operations of tax and customs administrations, i.e., procedures for assessing and auditing taxpayers, collecting taxes, and data processing.

In addition to the above, technical assistance has also been provided on other topics, including issues related to social security systems and the design of social safety nets. Further requests for assistance can be expected on these and other nontraditional issues, including those arising in the process of transition from central planning to market mechanisms.

Bureau of Statistics

The provision of technical assistance in statistics constitutes a major part of the work of the Fund's Bureau of Statistics. The Fund makes such assistance available through missions to member countries, training courses in statistics at the IMF Institute and in the field, and visits to Fund headquarters by national technicians. Beginning in 1990 the Bureau of Statistics of the Fund commenced a new and as yet limited program of longer-term technical assistance through the assignment of experts for extended periods at the request of member countries, for the development of the statistical infrastructure in its areas of work.

The primary objective of the technical cooperation program is to assist member countries in close cooperation with the Fund's area departments, in developing national statistical capabilities and in improving the currentness, coverage, and quality of national data bases used for policy making and analysis. Technical assistance is provided for the most part through missions undertaken in response to requests from member countries. It is concentrated in the major fields of statistics which are of particular analytical and operational significance to the Fund, namely, money and banking, balance of payments and external debt, government finance, and general economic data. During 1990, staff of the Bureau of Statistics provided advice and assistance to 44 countries and participated in four regional training courses. Officials from member countries are also given special on-the-job training by the Bureau on a selective basis in various fields of statistics.

In addition, regular training courses are given at the IMF Institute in money and banking, fiscal, and balance of payments statistics for officials from many member countries. The courses follow the statistical methodologies of the Fund contained in the fourth edition of the Balance of Payments Manual, a manual on Government Finance Statistics, and the draft Guide to Money and Banking Statistics in International Finance Statistics.

Exchange and Trade Relations Department

Over the years the Exchange and Trade Relations Department has provided technical assistance in the areas of exchange rate policy, the organization of exchange markets, and exchange controls/restrictions and liberalization. Advice on exchange rate policy covers the level of the exchange rate and the choice of exchange arrangement in the context of countries' overall macroeconomic policy frameworks, external positions, and exchange restriction and payments regimes. Assistance covers the choice between fixed and flexible exchange rates, the design of optimal currency pegs, the merits of auction and interbank exchange markets, the transition from a multiple to unified exchange rate system, approaches to adjusting the exchange rate, and policy on intervention in foreign exchange markets. Advice on the organization of the exchange market focuses on various institutional, regulatory and operational aspects that are integral to any

exchange system. In many cases, the technical assistance is provided in collaboration with CBD and involves CBD panel experts. In the areas of exchange controls/restrictions and liberalization, assistance consists of advice on the consistency of exchange arrangements and the design and sequencing of exchange system reforms in programs of macroeconomic and structural adjustment, and the transition towards currency convertibility.

Legal Department

The Legal Department's technical assistance program involves the following four areas:

1. Banking legislation. The Legal Department drafts banking, central banking and related statutes and regulations, and provides legal advice, technical analysis and commentary on banking and central banking legislation, and on implementing regulations. In addition, the Department contributes to regional arrangements, such as treaties creating common central banks. The Legal Department also organizes seminars for legal advisers of central banks on current legal issues in the banking areas and on the harmonization of banking legislation.

2. Fiscal legislation. The Legal Department undertakes the drafting of legislation and regulations for the areas of income tax (including corporate taxation), sales tax (including VAT), excise, customs, and local taxation. Advice is also given (in the form of reports and commentaries) on fiscal legislation and regulations drafted by country authorities, and technical analysis is provided of legal fiscal issues, including: relation between fiscal and other laws; international taxation and double tax treaties; corporate taxation; financial transactions and foreign exchange; inflation adjustments; and tax avoidance and evasion.

3. Exchange systems. The Legal Department drafts exchange laws and regulations, and advises on legislation and regulations pertaining to the exchange system. In the context of exchange market reforms carried out under a member's economic program supported by the Fund, advice is given on the legal modalities of reform and the consistency of proposed exchange measures with the member's obligations under the Articles of Agreement.

4. Advice to international organizations. Advice is rendered to international organizations in connection with the drafting or interpretation of clauses in the charters of these organizations, or other relevant texts, including: (i) those involving the use of the SDR as a unit of account, and (ii) those concerning international payments, particularly international negotiable instruments, bank guarantees, and international electronic fund transfers.

Bureau of Computing Services

The Bureau of Computing Services has on occasion provided EDP technical assistance to member countries. Typically, these projects have been of short duration, and the Fund has limited its assistance to data processing activities in which the Fund has developed particular expertise and which are of concern to the Fund.

